

[Trading Skills]

The Opportunity Following an S&P 500 All-Time High in May

If the S&P 500 (\$SPX) achieves a new all-time high in May, what happens to the market from the end of May through the end of the year? Additionally, how does the market fare during the traditional "Sell in May..." period from the end of April to the end of October?

The S&P 500, in its current form since 1957, has backdated data available from 1950. Although Standard & Poor's first stock index dates to 1923, this analysis focuses on post-1949 data.

Historically, \$SPX has reached a new all-time intraday high in May on 20 occasions, including the recent instance on Tuesday, May 13th. In 17 of the 19 previous years (excluding the current year), the market has risen during the seven-month period from June through December. This observation suggests a new seasonal trend:

Indicator: When \$SPX hits a new all-time intraday high in May, buying the market at the close of the last day of May and holding until the end of the year has historically been profitable.

Performance: The average gain over these 19 years was 8.0% for the seven-month period. In the 17 winning years, the average gain increased to 9.6%.

Best Year: 1954 saw the highest gain of 23.4% during this period. Other notable years include 1995, 1996, 1997, and 1999, all of which experienced double-digit gains.

Losing Years: The two years with losses were 1990, with an 8.6% drop due to geopolitical tensions, and 1986, with a modest loss of 2.1%.

Drawdowns: Understanding potential drawdowns provides a fuller picture. The average drawdown across all 19 years was -4.8%, with the worst being -18.4% in 1990. The median drawdown was -3.4%.

Winning Years: The average drawdown in winning years was -3.8%, with a median of -3.4%.

Smallest Drawdown: The least significant drawdown occurred in 1967, at -0.7%.

“Buy at the month end following an S&P 500 all-time high in May” Analysis

The “Sell in May and go away” strategy, developed by Yale Hirsch, traditionally advises selling at the end of April and repurchasing at the end of October.

For the 19 years where a new all-time intraday high was reached in May, the average return from May to October was 5.0%, with 15 winning years and 3 losing years (one year was flat). The best performance was a 14.1% gain in 1997, while the worst was an 8.1% loss in 1990.

Year-by-Year Breakdown

Year	Drawdown	Sell in May...
1950	-11.2%	8.9%
1951	-2.8%	2.2%
1954	-3.4%	12.1%
1959	-6.0%	0.0%
1961	-3.2%	5.1%
1964	-2.1%	6.8%
1965	-7.8%	3.7%
1967	-0.7%	-0.7%
1968	-2.0%	6.2%
1972	-3.4%	3.6%
1983	-2.0%	-0.5%
1985	-4.7%	5.6%
1986	-7.0%	3.6%
1990	-18.2%	-8.1%
1995	-1.0%	13.0%
1996	-6.4%	7.8%
1997	-1.0%	14.1%
1999	-4.2%	2.1%
2013	-3.5%	10.0%

Summary: The May-October period in these 19 years consistently outperformed the overall average (5.0% gain vs. 0.3% gain).

Conclusion

If you follow the “Sell in May and go away” strategy but observe a new all-time high in May, consider re-entering the market at the end of May. Historically, this has led to positive outcomes for the rest of the year.

This data provides a compelling argument for higher market prices later this year.