ENGINEERING THE MARKETS:

PRECISION, PATTERNS, & PROFITABILITY

"Sell in May and Go Away"
- Why That's Not a Good Strategy

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by TERRY LONG

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“Sell in May and Go Away” - Why That’s Not a Good Strategy

Code	Last	%Chg
SPX	5,958.38	5.27%
NDY	21,427.94	6.81%
IWM	209.85	4.50%

Code	Last	%Chg
XLK	234.89	7.95%
XLY	217.67	7.54%
XLI	143.78	5.64%
XLC	101.78	4.73%
XLE	85.48	3.70%
XLF	51.59	3.47%
XLB	87.05	2.94%
XLU	82.18	2.42%
XLP	82.07	1.43%
XLRE	42.01	0.96%
XLV	133.09	0.31%

It was a huge score for the Bulls last week, with the **SPX** gaining 5.27%, the **NDX** adding 6.81%, and the Small Caps rising 4.50%.

Every Sector of the market saw net positive gains last week, though the clear winners were the **Technology (XLK)** and **Consumer Discretionary (XLY)** Sectors. **Industrials (XLI)** also put in quite a significant upside move, rising 5.64% for the week.

Although net positive for the week, Value Sectors significantly underperformed the benchmark **SPX** with **Real Estate (XLRE)**, and **Healthcare (XLV)** finding only meager gains of less than 1%.

The stock market adage “Sell in May and go away” suggests investors should avoid equities during the summer to evade volatility. However, the S&P 500’s ten-year total return of 179.0% demonstrates the ineffectiveness of such seasonal timing strategies. Historical data and current market conditions indicate that a buy-and-hold approach is significantly more successful for long-term wealth creation than attempting to time market exits and entries.

S&P 500: May-to-September Reality Check

Over the last ten years, adhering to the "Sell in May and Go Away" strategy would have resulted in significant lost profits. Despite potential summer volatility in the **S&P 500,** avoiding the market during these months almost consistently underperforms simply maintaining investments.

Insights

- 10-Year **S&P 500** Total Return: 179.0%
- 5-Year Total Return: 103.1%
- 1-Year Total Return: 12.0%
- Short-Term Dip: The index is down -3.4% over the past 3 months, but up 12.4% in the last month.
- Current Level: 5,937.22 (as of May 19, 2025)

The take-away? Despite seasonal fluctuations, consistent market compounding outperforms remaining out of the market. Missing key growth periods, such as summer rallies, can significantly harm long-term investment returns

Why "Sell in May" Falls Flat

****Historical Performance:****

The "**Sell in May and Go Away**" strategy incorrectly assumes that significant market gains occur primarily in the winter and spring, with summer and early fall being stagnant periods. Contrary to this belief, substantial S&P 500 movements happen unpredictably throughout the year. For instance, following early-year volatility in 2024 and 2025, the index experienced sharp recoveries, including a 14% rebound due to tariff relief and a two-month closing high in May 2025. Implementing the "Sell in May" strategy would have meant missing out on such gains and the subsequent compounding effect on future investment returns.

****Short-Term vs. Long-Term:****

- **Short-Term:** Volatility spikes (like a recent three-month -3.4% dip) can rattle nerves and tempt hasty exits.
- **Long-Term:** Staying invested through downturns captured the index's massive 179.0% gain over ten years.

The Power of Compounding

Time in the Market, Not Timing the Market:

Missing key trading days can significantly reduce returns. Analysis of the last decade reveals that substantial gains were concentrated in a few high-performing days, many of which fell outside typical peak trading months. Attempting to avoid potential downturns by being out of the market can lead to missing these crucial rallies that fuel long-term portfolio growth.

Table: S&P 500 Returns (Annualized)

Period	Total Return	WarrenAI's Take
1 Year	12.0 %	Strong rebound, despite volatility
5 Years	103.1 %	More than doubled, compounding wins
10 Years	179.0 %	Long-term investing pays off

Taking a four-month break from the market annually would significantly diminish investment gains by interrupting the compounding effect crucial for successful equity investing. rallies that fuel long-term portfolio growth.

Recent Market Moves:

Even when volatility hits, top analysts urge caution before exiting. Morgan Stanley's Michael Wilson views the latest selloff as a "buying opportunity," not a cue to flee. UBS recommends phased entries, while Stifel suggests rotating into defensive names, not leaving the market altogether.

Why Staying Invested Matters:

- ✔ **Unpredictable Upside:** Major gains often cluster unexpectedly—missing them can ruin annual returns
- ✔ **Compounding Effect:** Returns on returns make the magic happen, and every missed month reduces this snowball
- ✔ **Market Timing is Tough:** Even professionals rarely nail the "out and in" calls, and transaction costs or taxes can eat further into returns

Global Perspective

The adage "Sell in May and Go Away" suggests investors should liquidate their stock holdings in May and return in November to avoid anticipated summer market stagnation. While this strategy is often discussed in the context of U.S. equities, its perceived applicability extends to numerous global markets. However, historical analysis reveals the fallacy of this blanket approach. Although U.S. stocks have demonstrated strong overall performance, focusing solely on this market neglects instances where other regions, such as European equities, have exhibited superior returns during the May-to-October period. These periods of European outperformance directly contradict the "Sell in May" premise.

More broadly, the evidence increasingly supports a long-term investment strategy centered on holding high-quality assets. Attempting to time market fluctuations, including adhering to seasonal strategies like "Sell in May," has proven to be a less effective approach than maintaining consistent exposure to the market. The inherent unpredictability of market movements makes accurately predicting short-term downturns exceedingly difficult. Consequently, investors who liquidate their holdings based on the "Sell in May" theory risk missing out on potential gains and incurring transaction costs.

A more prudent strategy involves a disciplined, long-term perspective, allowing investors to benefit from the compounding returns of quality assets regardless of seasonal market narratives. This approach recognizes that consistent participation in the market, through both favorable and challenging periods, is more likely to yield positive investment outcomes over the long run.

Bottom Line: Stay the Course

Market adages, while catchy, don't hold up to mathematical scrutiny. Missing the summer months in the market can be more detrimental than enduring potential volatility. The historical performance of the S&P 500 demonstrates that long-term investors who remain invested, allowing compounding to work, are rewarded, making calendar-based investment folklore an unreliable strategy.

Economic Calendar

This week's economic calendar is very light on data. Don't expect to see any major headlines being driven by this list

Time	Cur.	Imp.	Event	Actual	Forecast	Previous
			Wednesday, May 21, 2025			
09:30	USD	★★★	Crude Oil Inventories			3.454M
			Thursday, May 22, 2025			
07:30	USD	★★★	Initial Jobless Claims		227K	229K
08:45	USD	★★★	S&P Global Manufacturing PMI (May) P		49.9	50.2
08:45	USD	★★★	S&P Global Services PMI (May) P		50.7	50.8
09:00	USD	★★★	Existing Home Sales (Apr)		4.15M	4.02M
			Friday, May 23, 2025			
09:00	USD	★★★	New Home Sales (Apr)		696K	724K

Earnings Calendar

Earnings Season continues, but light on market cap. Earnings of interest to me this week include:

- Before the Open on Tuesday: **HD**
- After the Close on Tuesday: **PANW, TOL**
- Before the Open on Wednesday: **TGT, TJX**
- After the Close on Wednesday: **SNOW, URBN**
- Before the Open on Thursday: **BJ, AAP, RL**
- After the Close on Thursday: **DECK, INTU, ROST**

Source: https://earningswhispers.com/calendar

HD

Home Depot Missed Expectations

Tuesday, May 20, 2025 at 6:00 AM ET

Home Depot (HD) reported earnings of $3.56 per share on revenue of $39.86 billion for the fiscal first quarter ended April 2025. The consensus earnings estimate was $3.59 per share on revenue of $39.33 billion. The Earnings Whisper number was $3.64 per share. The company missed expectations by 2.20% while revenue grew 9.44% on a year-over-year basis.

The company said it continues to expect fiscal 2026 earnings of approximately $14.94 per share on revenue of approximately $163.98 billion. The current consensus earnings estimate is $14.99 per share on revenue of $163.75 billion for the year ending January 31, 2026.

Home Depot, Inc., is a home improvement retailer. Its stores sell an assortment of building materials, home improvement and lawn and garden products and provide a number of services.

Earnings Whisper Grade

Power Rating

Reported Earnings
$3.56
Earnings Whisper®
$3.64
Consensus Estimate
$3.59

Earnings Surprise: -2.2%

Earnings Growth: -1.9%

Reported Revenue
$39.86 Bil
Revenue Estimate
$39.33 Bil

Revenue Surprise: 1.3%

Revenue Growth: 9.4%

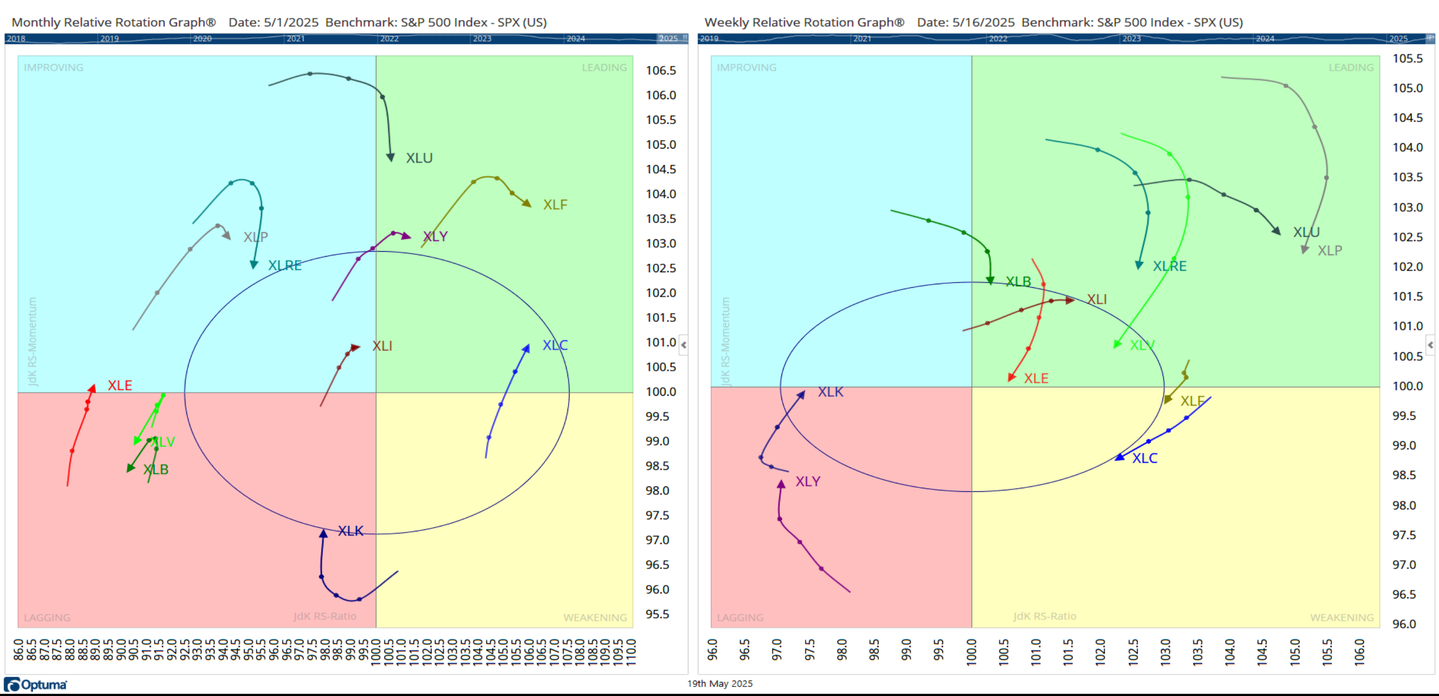
Sector Rotation

The Weekly Relative Rotation Graph (RRG) suggests a weakening of near-term relative momentum for **Value Sectors.** Specifically, both **Healthcare (XLV)** and **Energy (XLE)** are exhibiting declining relative strength. Despite this, the majority of sectors (nine out of eleven) maintain stronger relative strength compared to the **SPX,** with seven positioned in the Leading Quadrant and two in the Weakening Quadrant.

Conversely, **Technology (XLK)** and **Consumer Discretionary (XLY)** are situated in the Lagging Quadrant. However, the **XLK** is on the move with a new northeasterly hook, indicating a resurgence in relative strength gains. The **XLY** is gaining relative momentum, and now we are seeing its relative strength declines come to a stop as a hook-reversal pattern is rapidly forming. Expect to start seeing Relative Strength gains return to the **Discretionary** Sector.

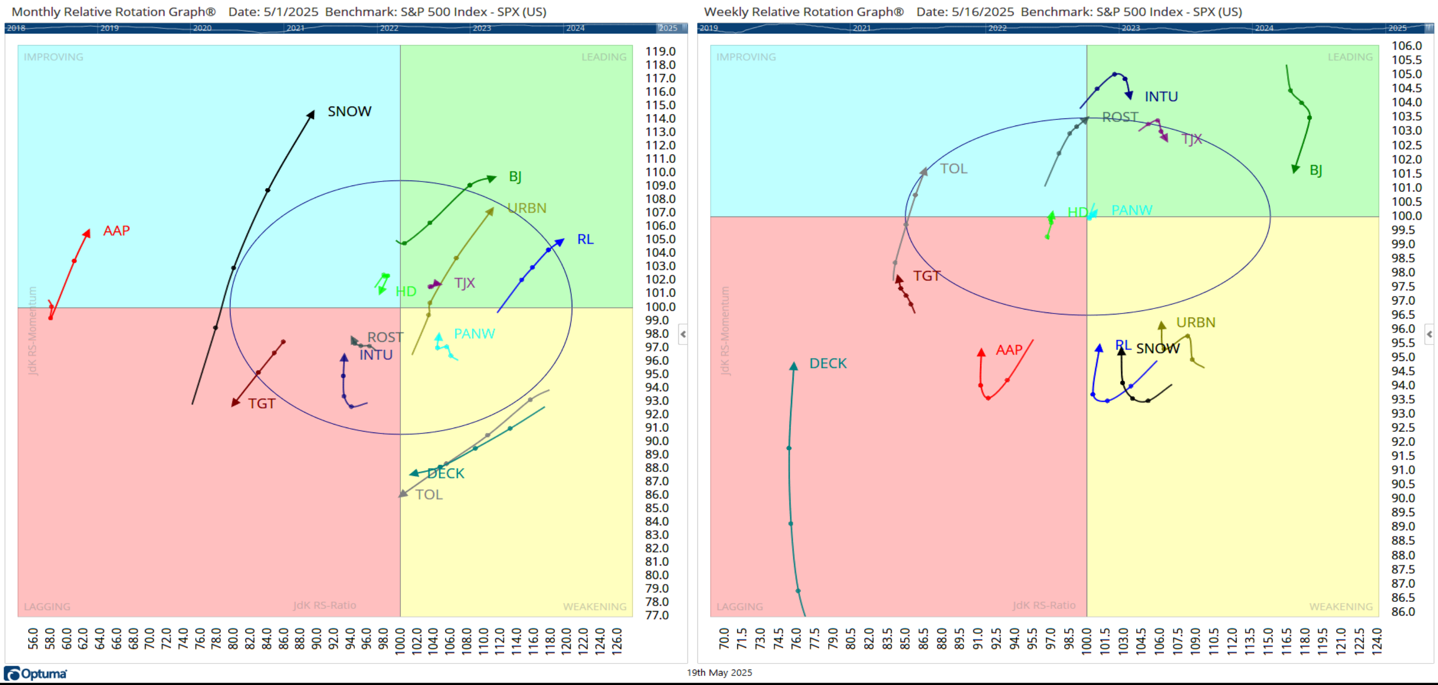
By next week, I fully expect to see the **XLK** locating its vector inside the Improving Quadrant and continue with a northeasterly move, indicating continued gains in both Relative Strength and Relative Momentum.

The Monthly RRG, which is relevant for long-term investing, shows **Financials**, **Communications, Consumer Discretionary**, and **Utilities** in the Leading Quadrant. **Technology (XLK)** resides in the Lagging Quadrant but is definitely showing increasing Relative Momentum. Also in the Lagging Quadrant, **Healthcare (XLV)** and **Materials (XLB)** are experiencing rapid declines in both relative strength and momentum. The **Energy (XLE)** sector has moved into the Improving Quadrant, but the relative velocity of the move is quite insignificant.



Monthly and Weekly RRG for the selected stocks with Earnings Reports this week

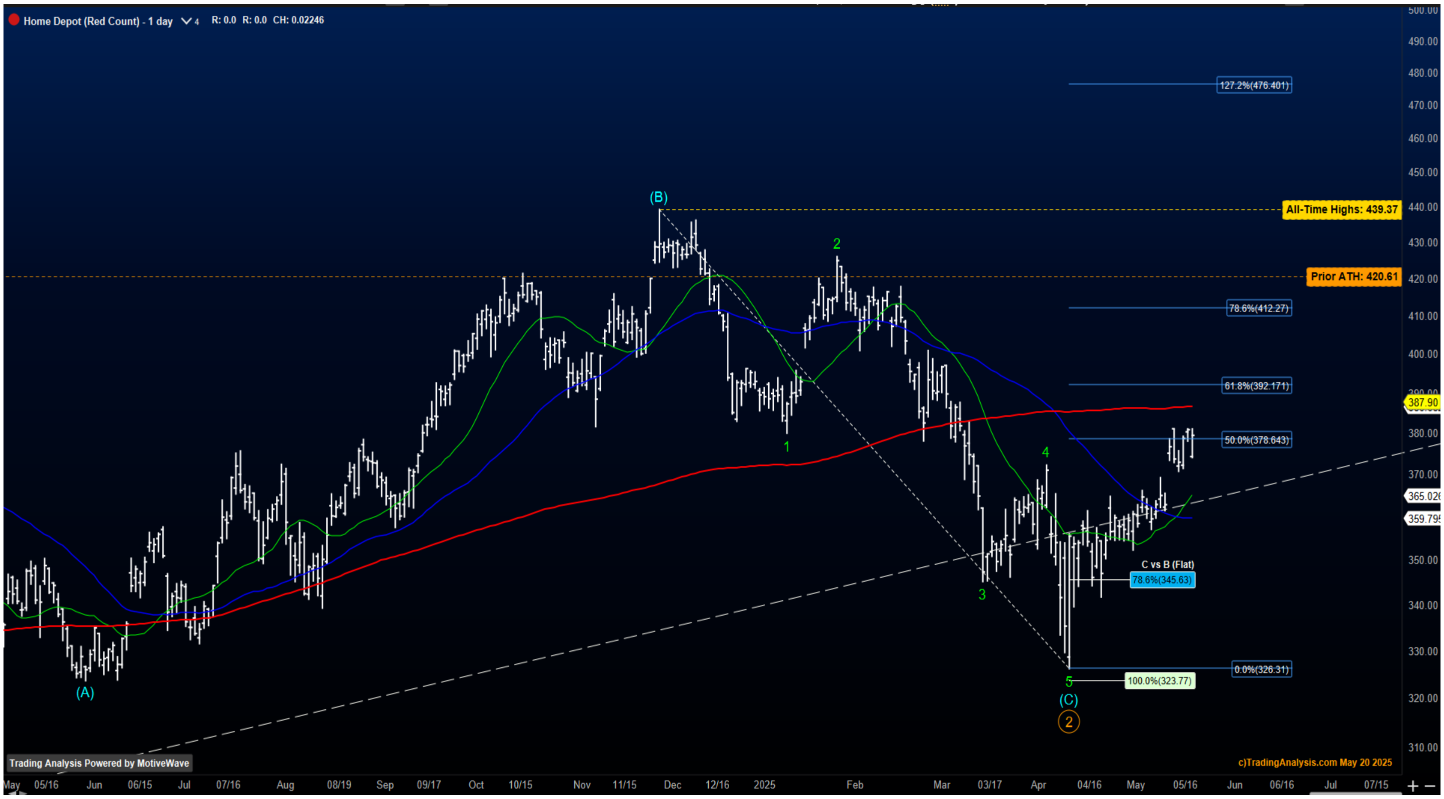
- ✔ HD
- ✔ PANW
- ✔ TOL
- ✔ TGT
- ✔ TJX
- ✔ SNOW
- ✔ URBN
- ✔ BJ
- ✔ AAP
- ✔ RL
- ✔ DECK
- ✔ INTU
- ✔ ROST



On the Weekly RRG, there are some very apparent hook-reversal patterns in URBN, SNOW, RL, and AAP with all showing a return of rising Relative Momentum.

On the longer-term Monthly RRG chart, RL, URBY, BJ, and TJX continue to occupy the Leading Quadrant, all but TJX showing northeasterly movement meaning continued rising Relative Momentum and Relative Strength versus the benchmark SPX.

HD


Home Depot (Red Count) - 1 day
All-Time Highs: 439.37
Prior ATH: 420.61
127.2%(476.401)
78.6%(412.27)
61.8%(392.171)
50.0%(378.643)
C vs B (Flat)
78.6%(345.63)
0.0%(326.31)
100.0%(323.77)
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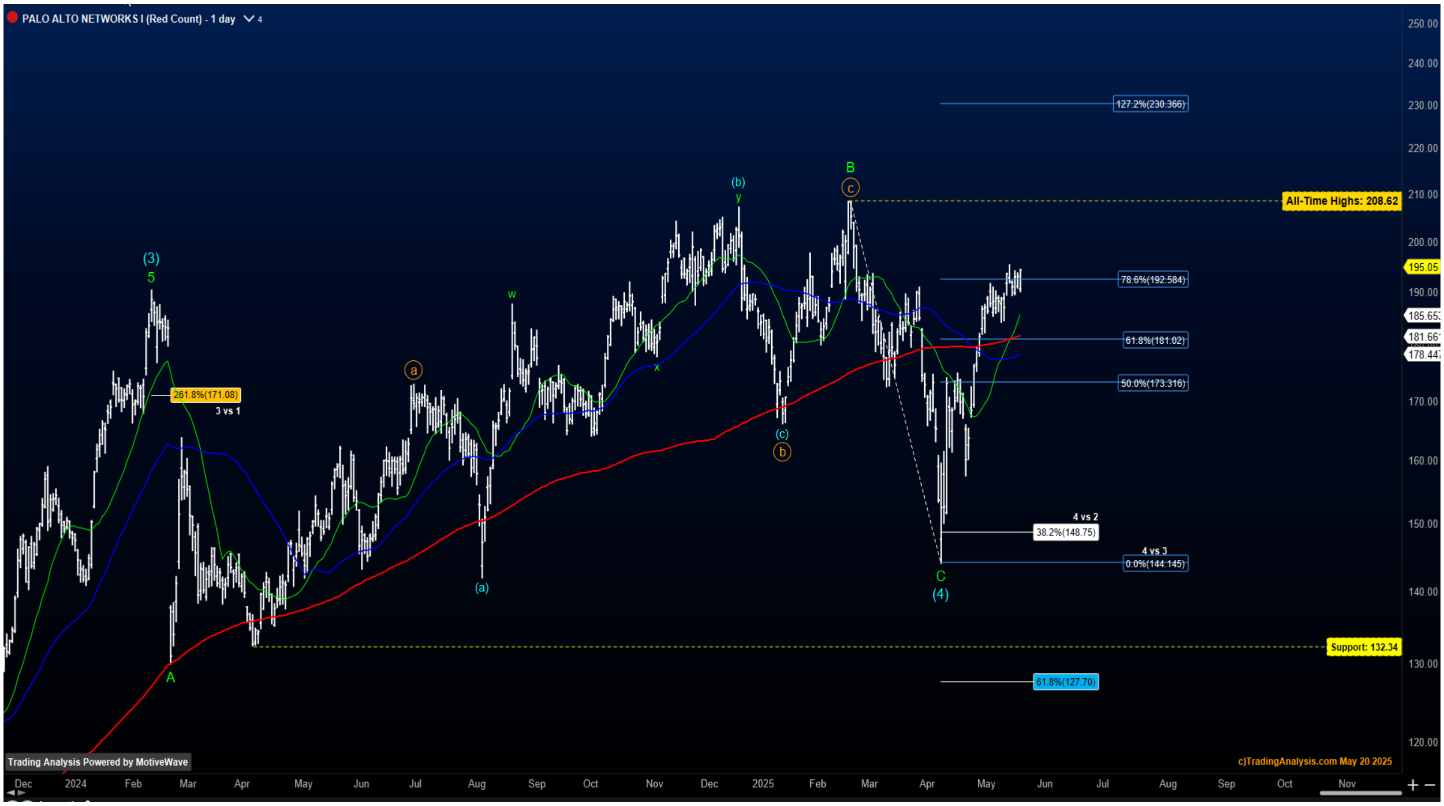
PANW


PALO ALTO NETWORKS I (Red Count) - 1 day
All-Time Highs: 208.62
127.2%(230.366)
78.6%(192.584)
61.8%(181.02)
50.0%(173.316)
261.8%(171.08)
3 vs 1
4 vs 2
38.2%(148.75)
4 vs 3
0.0%(144.145)
Support: 132.34
61.8%(127.70)
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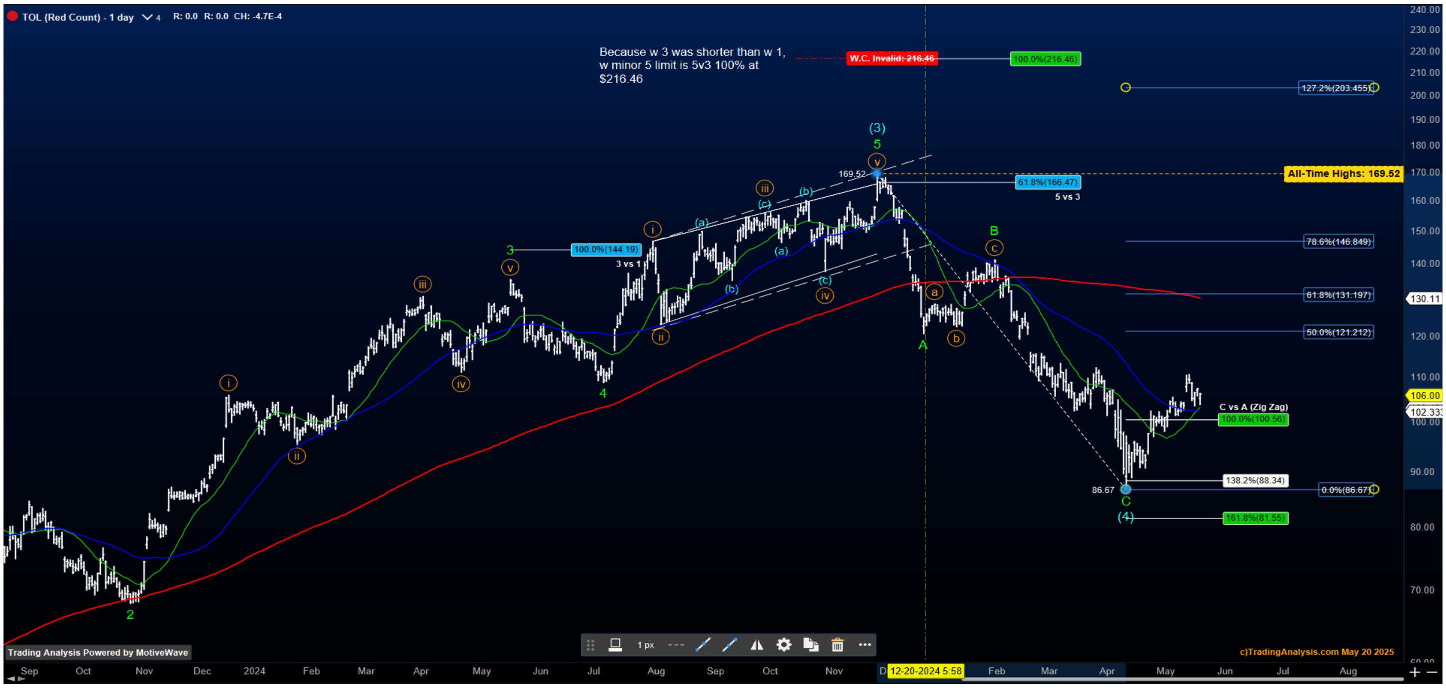
TOL


TOL (Red Count) - 1 day
Because w 3 was shorter than w 1, w minor 5 limit is 5v3 100% at $216.46
W.C. Invalid: 216.46
100.0%(216.46)
127.2%(203.455)
All-Time Highs: 169.52
61.8%(166.47)
5 vs 3
78.6%(146.849)
61.8%(131.197)
50.0%(121.212)
C vs A (Zig Zag)
100.0%(100.56)
138.2%(88.34)
0.0%(86.67)
161.8%(81.55)
100.0%(144.19)
3 vs 1
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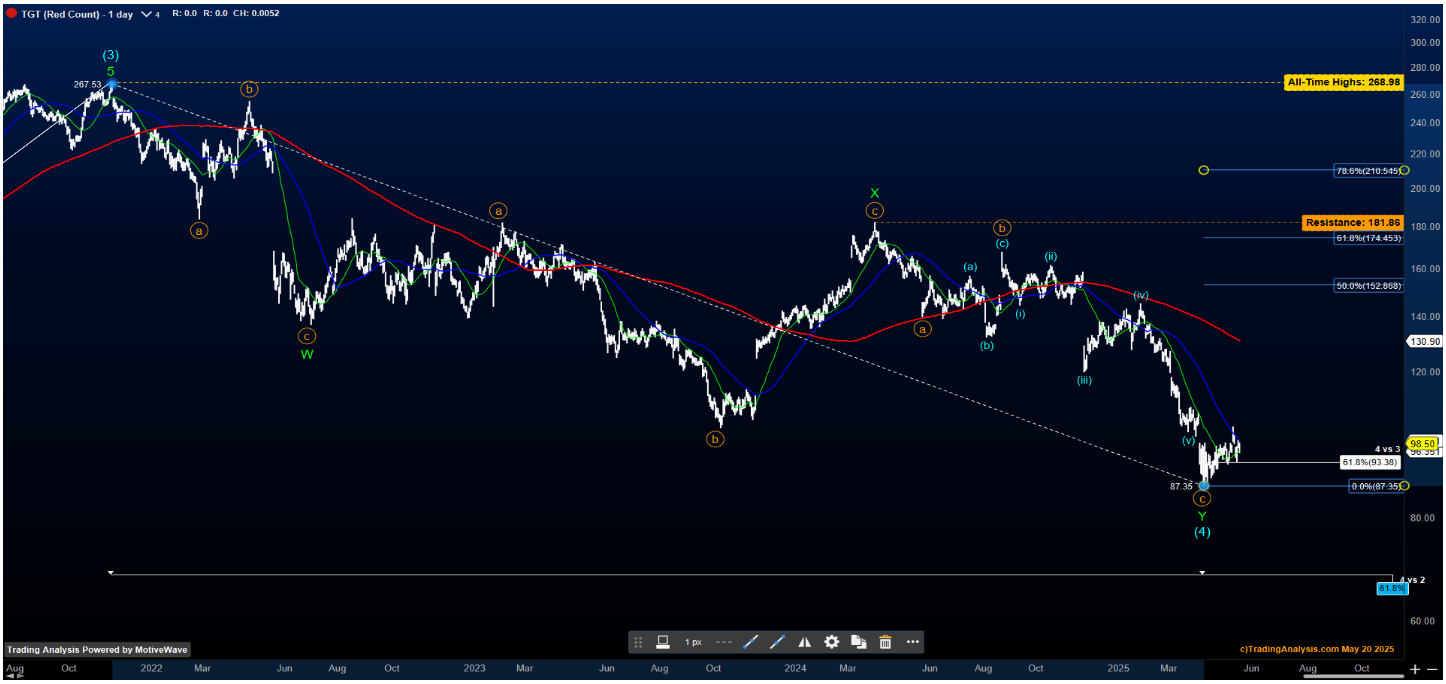
TGT


TGT (Red Count) - 1 day
All-Time Highs: 268.98
78.6%(210.545)
Resistance: 181.86
61.8%(174.453)
50.0%(152.868)
4 vs 3
61.8%(93.38)
0.0%(87.35)
4 vs 2
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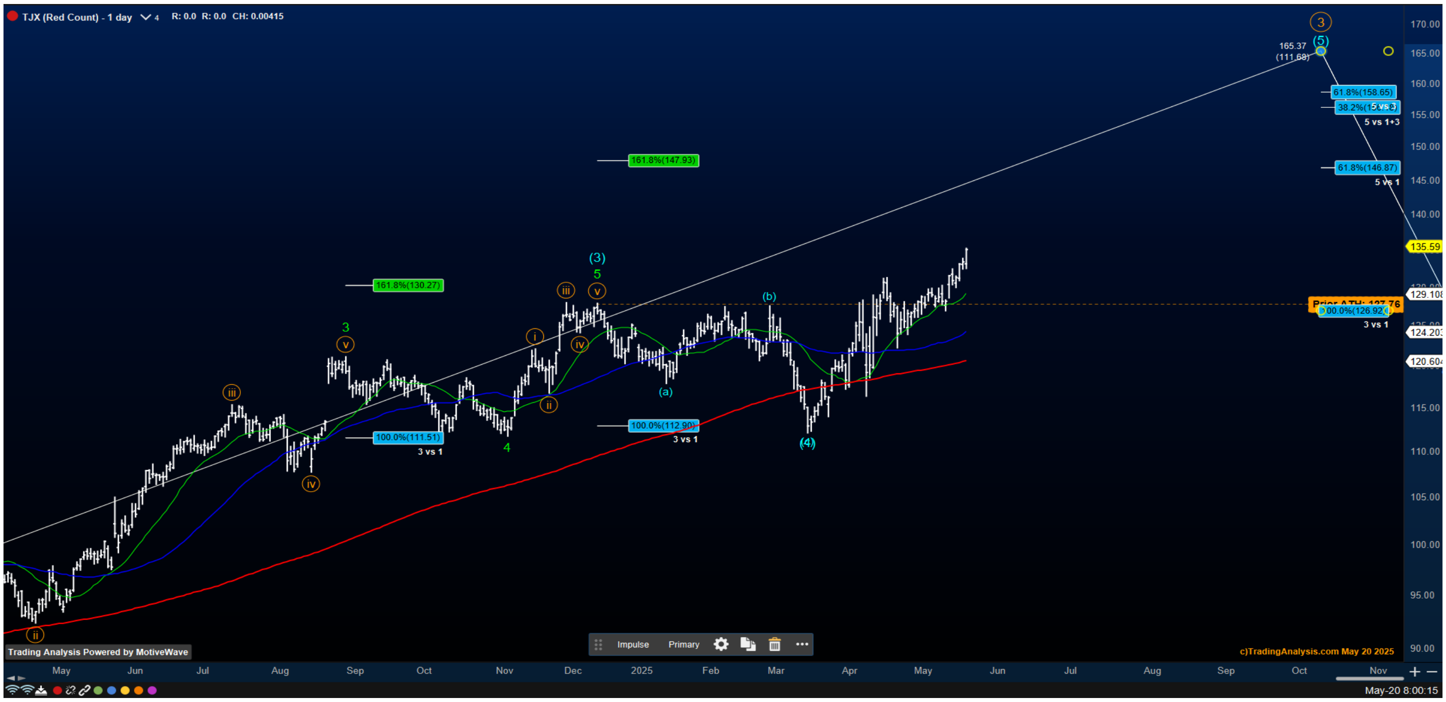
TJX


TJX (Red Count) - 1 day
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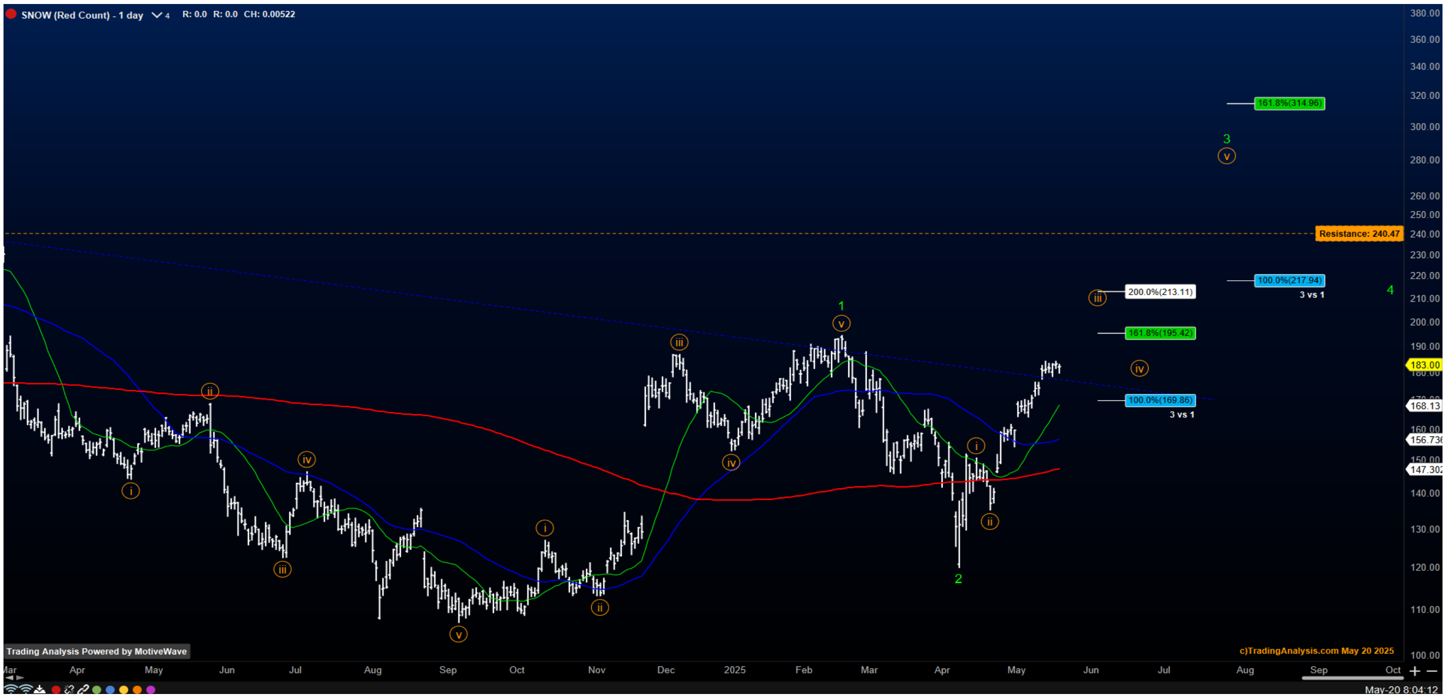
SNOW


SNOW (Red Count) - 1 day
Resistance: 240.47
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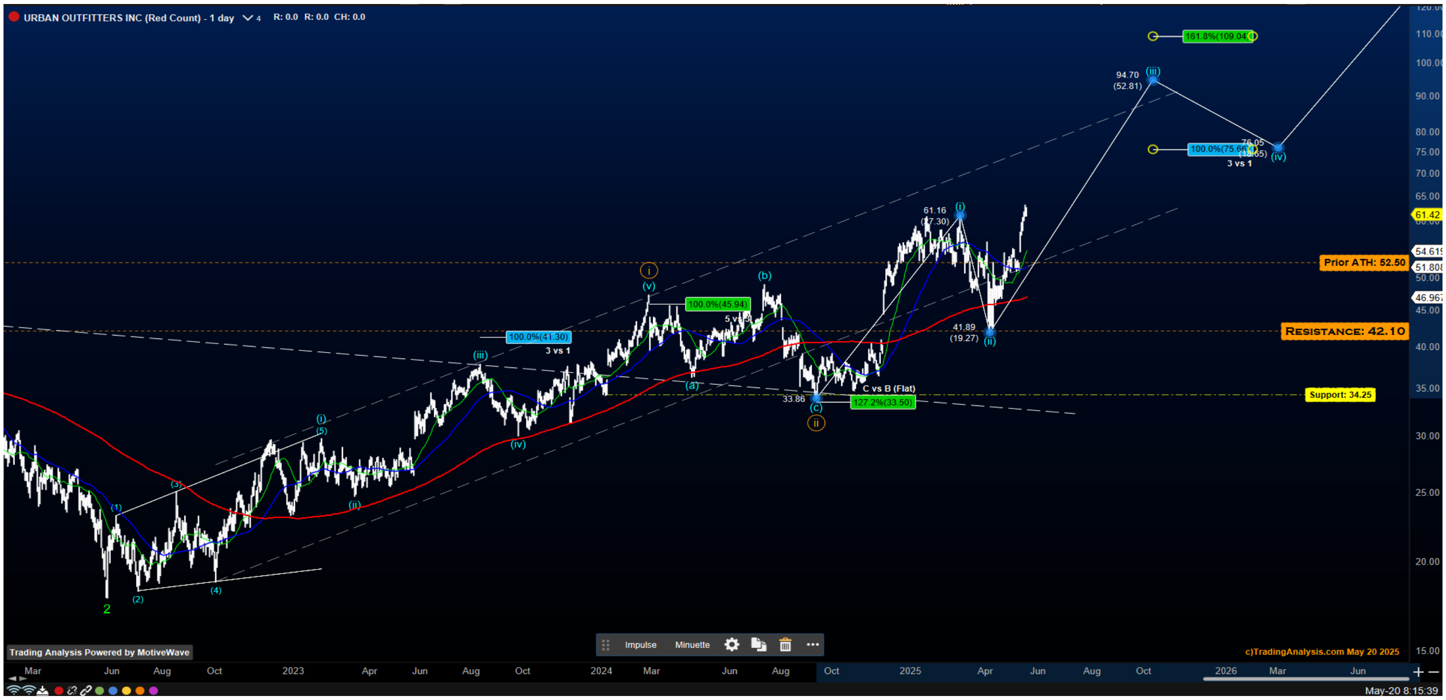
URBN


URBAN OUTFITTERS INC (Red Count) - 1 day
Prior ATH: 52.50
RESISTANCE: 42.10
Support: 34.25
C vs B (Flat)
3 vs 1
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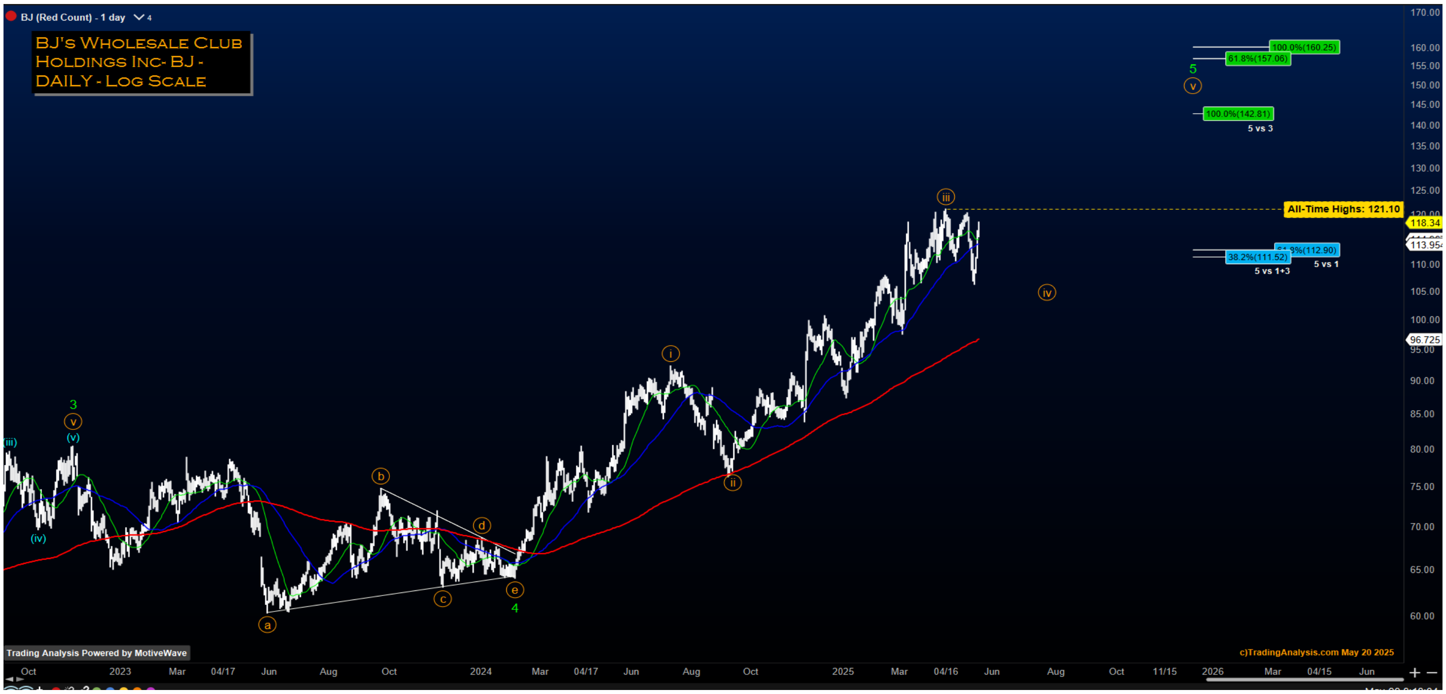
BJ


BJ (Red Count) - 1 day
BJ's Wholesale Club Holdings Inc- BJ - DAILY - Log Scale
All-Time Highs: 121.10
5 vs 3
5 vs 1
5 vs 1+3
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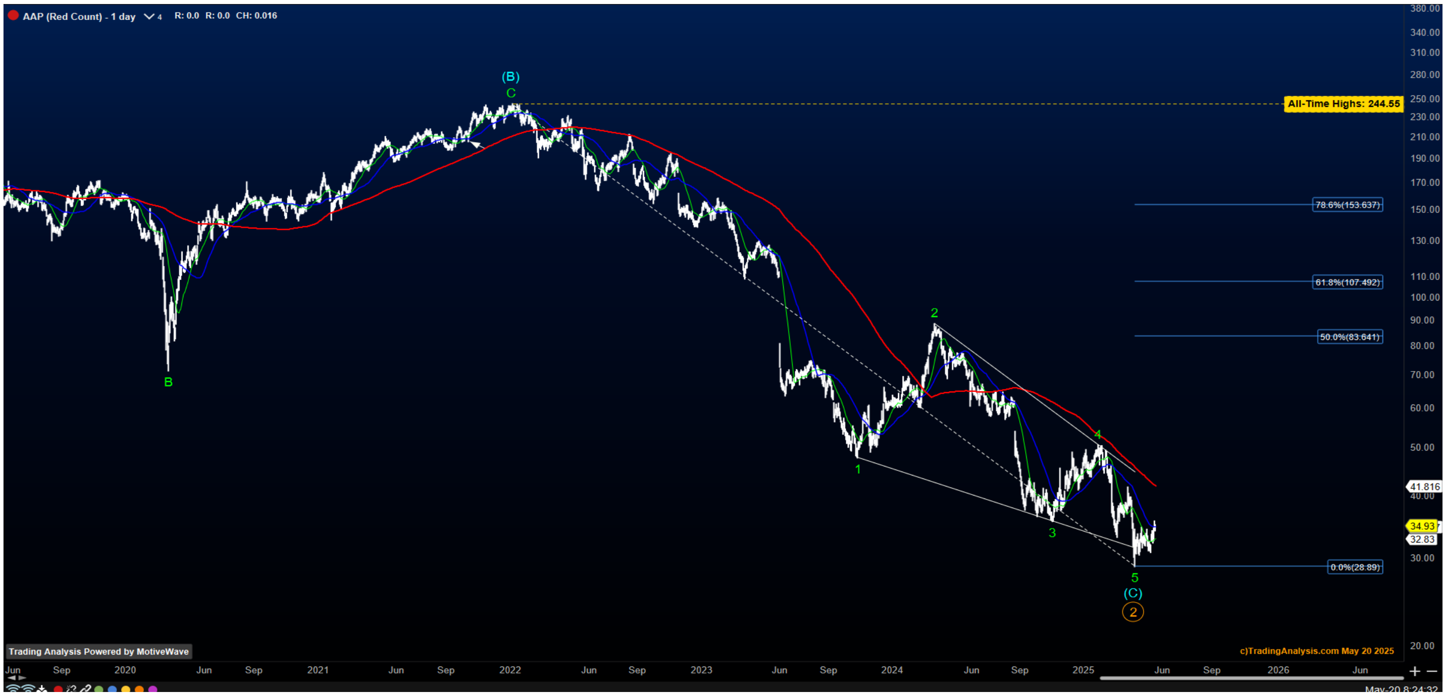
AAP


AAP (Red Count) - 1 day
R: 0.0 R: 0.0 CH: 0.016
All-Time Highs: 244.55
78.6%(153.637)
61.8%(107.492)
50.0%(83.641)
0.0%(28.89)
(B)
C
B
1
2
3
4
5
(C)
2
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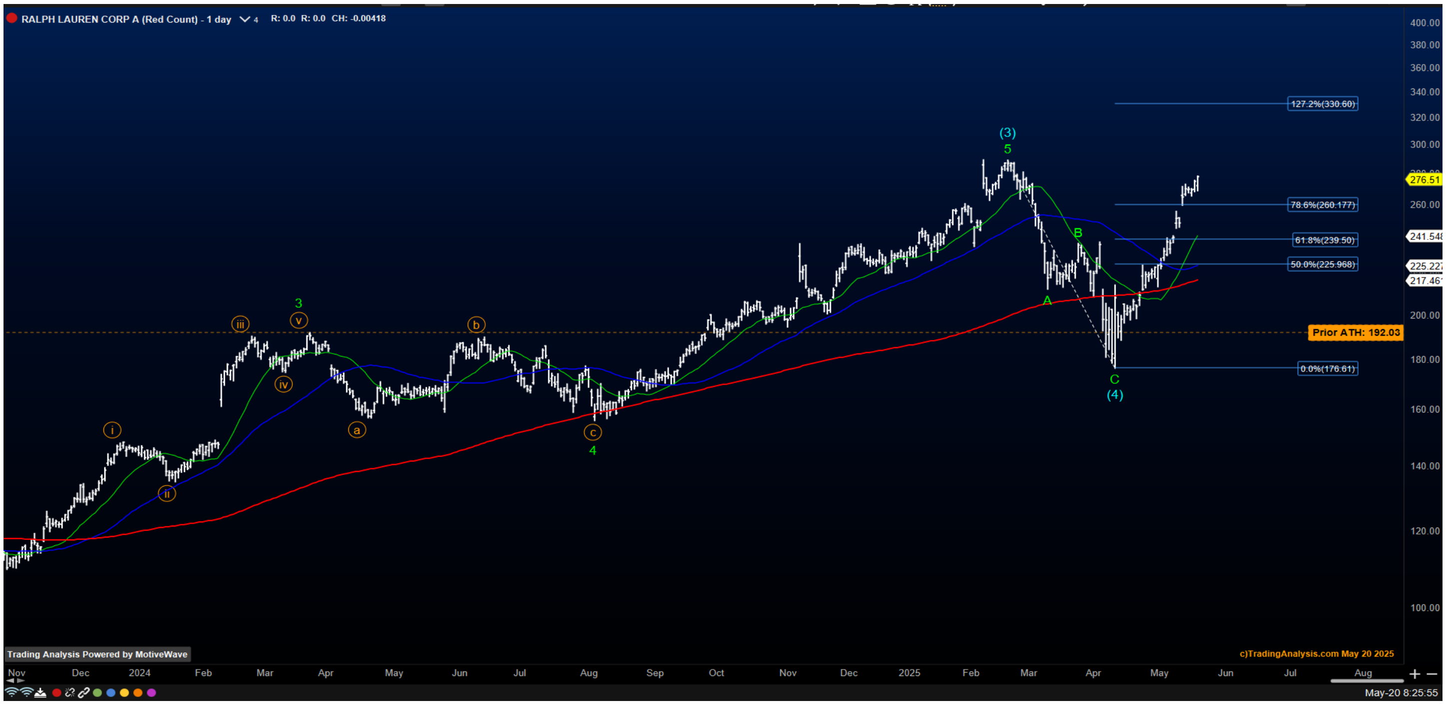
RL


RALPH LAUREN CORP A (Red Count) - 1 day
R: 0.0 R: 0.0 CH: -0.00418
127.2%(330.60)
78.6%(260.177)
61.8%(239.50)
50.0%(225.968)
Prior ATH: 192.03
0.0%(176.61)
(3)
5
3
4
A
B
C
(4)
i
ii
iii
iv
v
a
b
c
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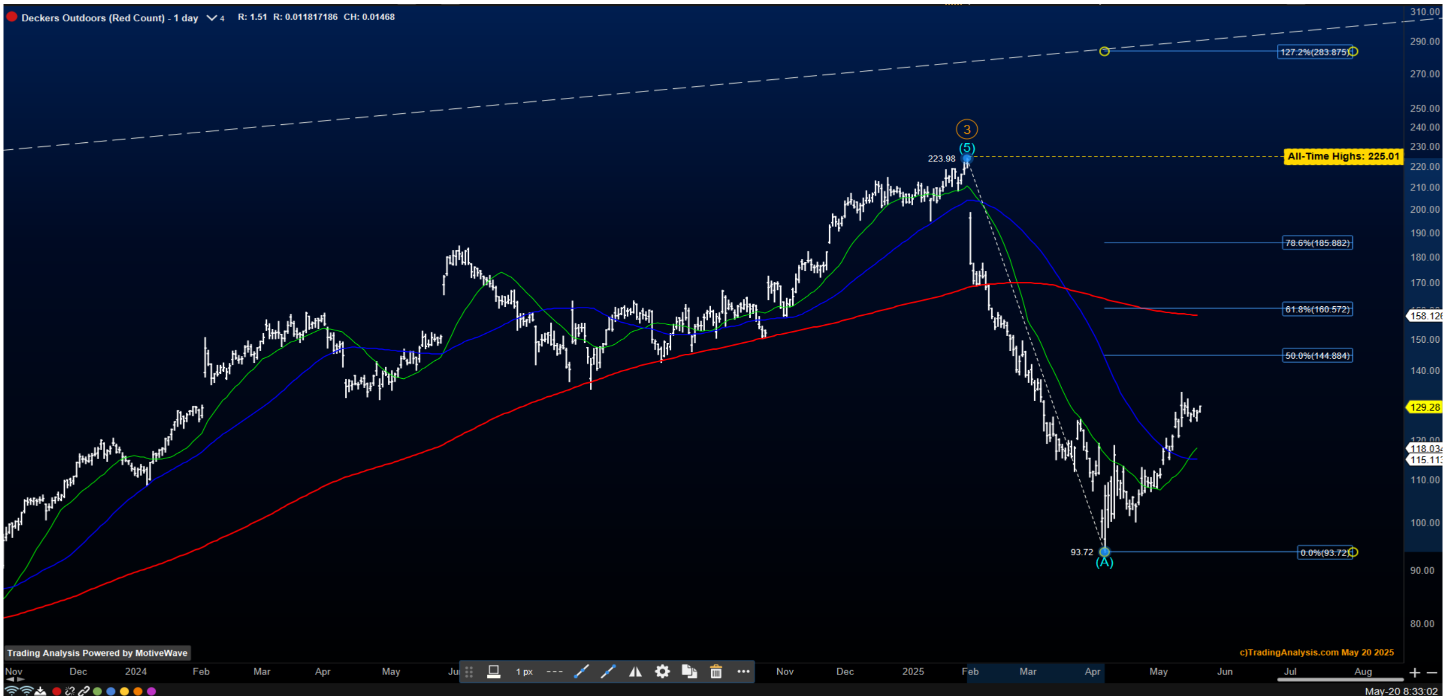
DECK



Deckers Outdoors (Red Count) - 1 day
R: 1.51 R: 0.011817186 CH: 0.01468
127.2%(283.875)
All-Time Highs: 225.01
223.98
3
(5)
78.6%(185.882)
61.8%(160.572)
50.0%(144.884)
0.0%(93.72)
93.72
(A)
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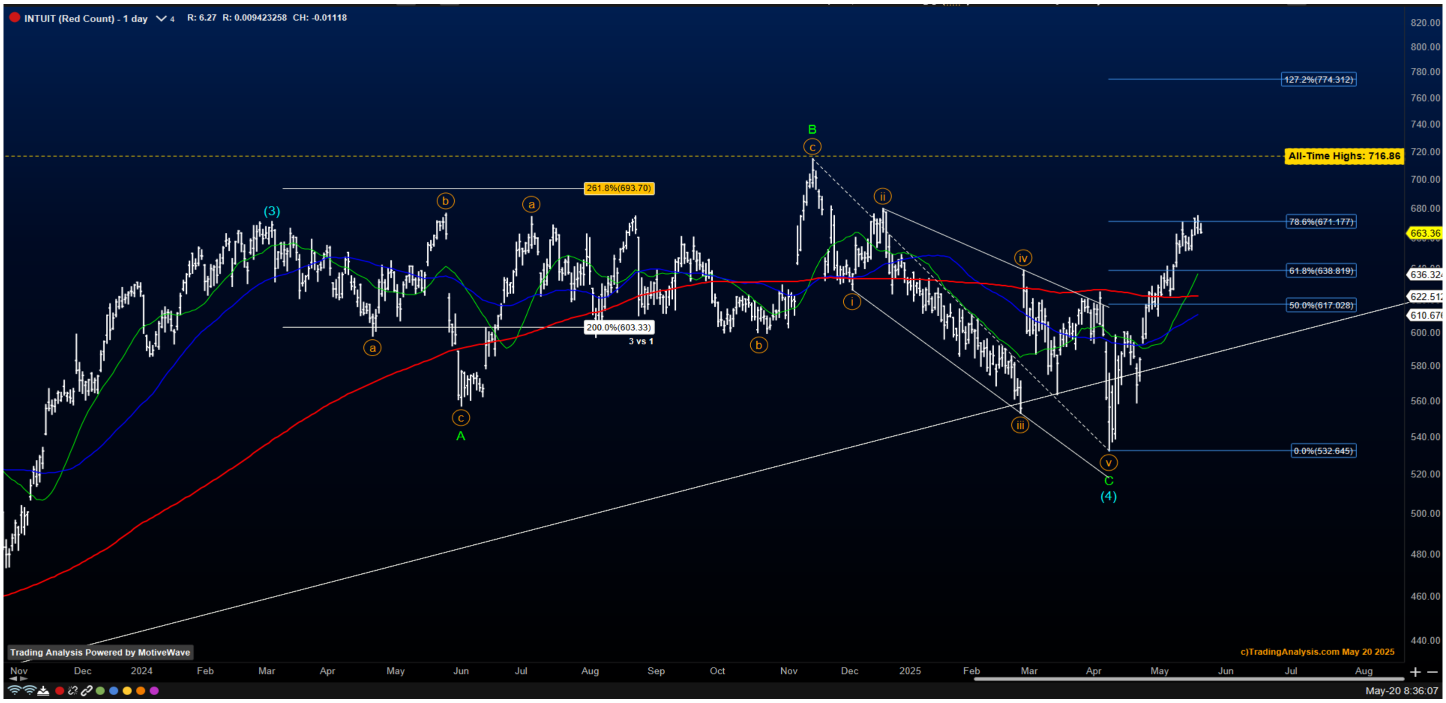
INTU



INTUIT (Red Count) - 1 day
R: 6.27 R: 0.009423258 CH: -0.01118
127.2%(774.312)
All-Time Highs: 716.86
261.8%(693.70)
200.0%(603.33)
3 vs 1
78.6%(671.177)
61.8%(638.819)
50.0%(617.028)
0.0%(532.645)
B
A
C
(3)
(4)
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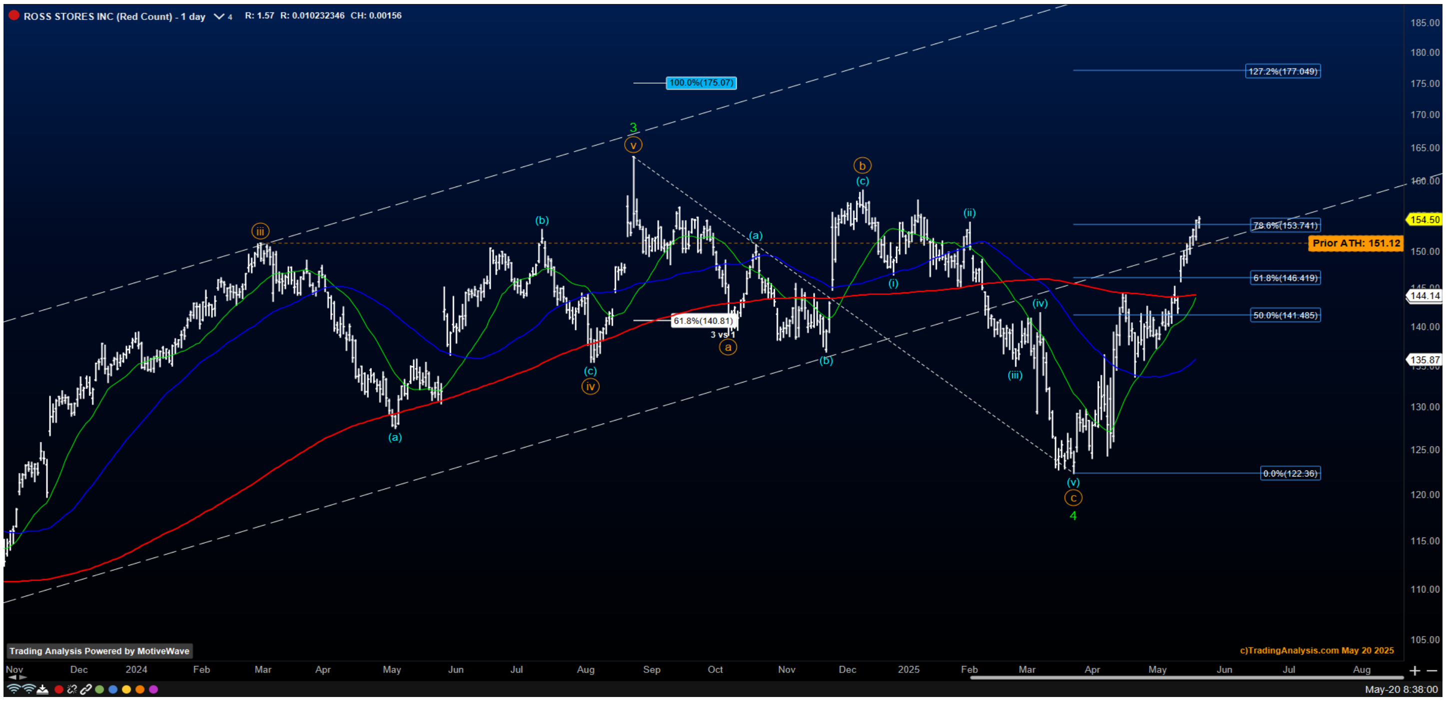
ROST



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