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SUMMARY

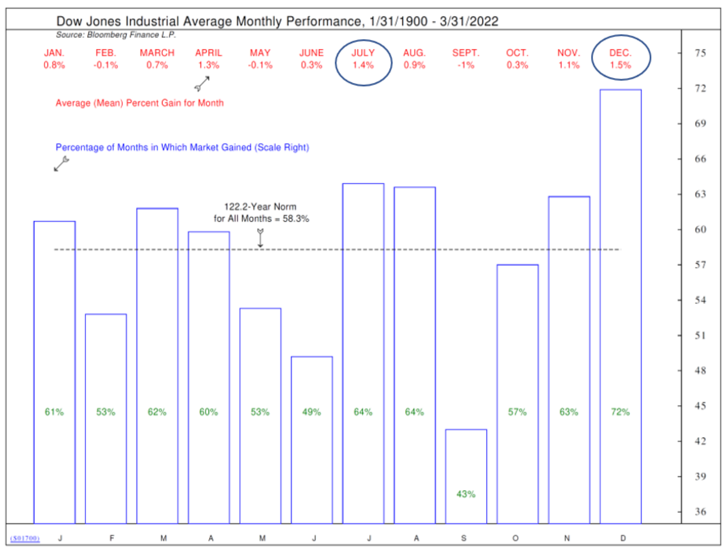
- Individual investor goals and needs should trump a Wall Street adage.
- Market timing can negatively impact an investor's long-term plan.
- We believe that stocks will provide better protection against inflation than cash.

4.25.2022

Don't Be Tempted by 'Sell in May and Go Away'

As we turn the calendar to May, chances are the adage "Sell in May and Go Away" will make its way into the headlines. Every year there is debate around whether this seasonal concept is wise investment advice. With uncertainties around central bank policy changes, inflationary pressures, and geopolitical tensions plaguing markets, it is understandable that there may be more interest this year than last when the world looked much brighter. While it is difficult to pinpoint the precise origins of this saying, it is said to have originated in London many years ago and was attributed to patterns of low trading volume due to summer holidays. Pretty scientific, right?

We accept there is evidence (see chart, below) to support that stocks, on average, have had lower relative returns in the period from May to October since 1900. But remember, using an average means there could be a wide range of both positive or negative returns over long periods of time. In 2022, we believe there are three factors that make the concept particularly problematic: **a lack of specificity, the perils of market timing, and the negative impact of inflation.**



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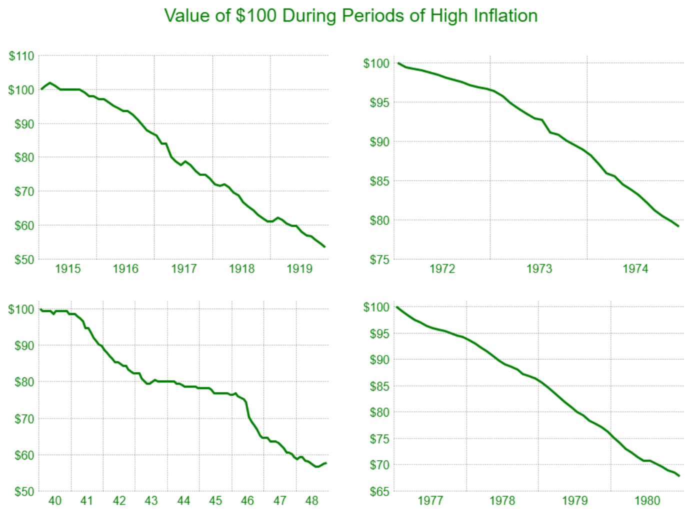
One Size Does Not Fit All In Investing:

We believe advice such as "Sell in May and Go Away" is not appropriate for long-term investors. Everyone has seen articles with headlines such as *Top 3 Stocks to Buy Now* or *This Fund Could Be a Winner* suggesting these recommendations are suitable for everyone. Most "one size fits all" advice does not come with important specifications necessary for each individual investor because the advice fails to take into consideration individual investment objectives, risk tolerance, investment time horizon, or potential tax ramifications associated with selling.

Timing Is Everything But Not For Everyone: Another consideration regarding this seasonal advice is when exactly *to* sell in May and when is the right time to repurchase? These are important questions because returns will vary as the dates change. Since 2021 is the most recent calendar year, we will consider the returns from May 2021 as an example. Last May, the S&P 500 rose approximately 0.6% during the month. However, within that one month, worries around valuation and inflation caused a downturn in the period from May 7th to May 12th and the index declined approximately 4%. With no specific guidance as to timing, an investor choosing to exit the market at the beginning of May would have experienced different results than one who waited to sell later during the month. The lack of specificity with the adage is compounded by the fact that there is no advice given as to when to *return* from being 'away'. Our example is not meant to dispel the data; it is intended to caution that market timing can result in meaningfully different outcomes and leave investors frustrated.

Inflationary Pressures In 2022 Will Erode The Value Of Cash:

The advice to sell in May does not suggest what investors should do with the proceeds, but a natural assumption is that the money will remain in cash because it is "safe" relative to equity markets. If an investor holds cash for a significant length of time, then the inflation environment becomes increasingly important. Unfortunately, in 2022, inflation (as measured by the Consumer Price Index) is rising at 8.5% annually, a level not seen in 40 years, which leaves an investor's cash holdings vulnerable to eroding worth over time. In the digital age, we are able to see the value of cash in our accounts holding steady every day, but we cannot see how our purchasing power erodes the longer we hold it. While no one knows how long the inflationary pressures will last nor how high inflation will go, the speed and magnitude of the Federal Reserve's hawkish pivot suggests to us that it will persist throughout the rest of 2022 or longer. We believe that remaining invested in equities can help investors navigate through inflationary periods better than cash given the potential for upside appreciation.

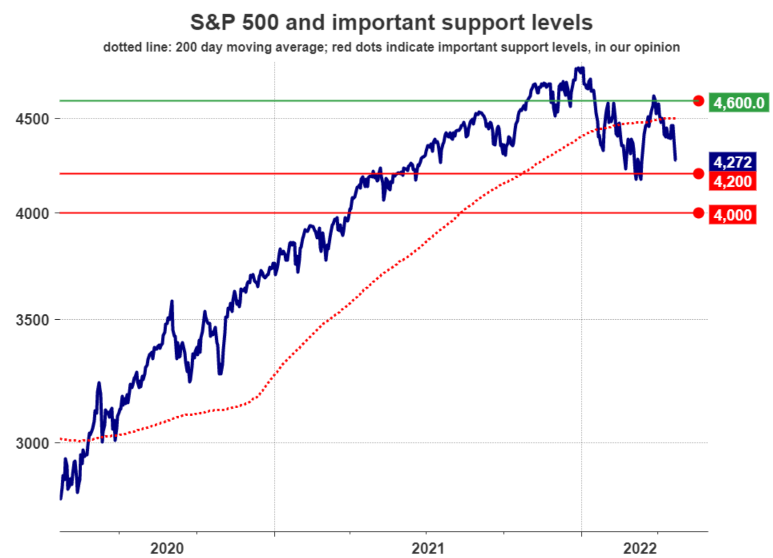


Source: Refinitiv Data Stream/RiverFront. Chart shown for illustrative purposes only.

"Sell in May and Go Away" is No Substitute for Process:

At RiverFront, changes to our portfolio allocations are made based on our investment process, not by following an investment adage. In practical terms, this means that every month should be evaluated on its merits. As the facts on the ground change, our views change, and our positioning is reevaluated.

Since the beginning of 2022, we have maintained our belief that markets will remain volatile throughout this year. Our strategies are positioned to reflect our constructive view on full year US economic fundamentals which means we have a full allocation to equities and only slightly elevated levels of cash in our balanced strategies. Given ongoing issues surrounding inflation and interest rate policy at the Fed – two of the key market drivers highlighted recently ([April 2022 Chart Pack Summary](#)), our risk management processes are on alert; this is particularly relevant for our shorter-time horizon, lower-risk tolerance portfolios.



Source: Refinitiv Data Stream/RiverFront. Data daily as of 4/25/2022. Chart shown for illustrative purposes only.

In terms of the message of markets themselves, the S&P 500's primary trend, as defined by the 200-day moving average (the red dotted line in the chart, right) is still positive but flattening. We have been impressed that the S&P 500 has been able to hold above what we view as important technical support around ~4,200 since the start of the Ukrainian war on February 24, and that the market was able to make an incrementally higher high above 4,600 (green line on the chart) at the end of March.

However, as we are now back close to the low end of that box, we will be watching for important support to hold here. If 4,200 breaks decisively, we would note that the next major important level in our opinion exists around the psychologically important 4,000 level. We believe this underscores the need to remain flexible and be able to adjust tactically where appropriate.

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The comments above refer generally to financial markets and not RiverFront portfolios or any related performance. Opinions expressed are current as of the date shown and are subject to change. Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.

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Standard & Poor's (S&P) 500 Index TR USD (Large Cap) measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

In a rising interest rate environment, the value of fixed-income securities generally declines.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

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