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Wealth Advisers, LLC

Polaris Educational Series

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June Gloom

This time of year often invokes investors to question their allocation to stocks. One of the most common sayings in the financial industry is "Sell in May and Go Away." It often gives them reason to question the conviction of their investment selections, especially when they read one of the numerous articles floating around pointing out that the majority of the market's positive returns have occurred from October through April. And while there is some truth in these articles, no professional would ever manage money purely using a calendar to make investment decisions.

Keep in mind the following facts:

- In the past thirty years, the markets have performed negatively only nine times from May through October.
- Only four of these negative periods were greater than ten percent.
- May through October 2013 & 2014, the S&P 500 had 9.95% and 7.12% returns respectively.
- According to Ned Davis Research, there is only one month that has averaged a negative return since 1900: October has averaged -0.30% (not a surprise since the stock market crashes in 1929 and 1987 both happened in October and the Great Recession's worst month was October).
- July and August have been the 2nd and 3rd best month to invest, respectively, from 1900 to present.
- June has had almost as many negative years as positive over the past 65 years, 33 positive versus 32 negative.

There is nothing in our research that indicates risk of a major correction in the stock market. Risks and sentiment can quickly change but rarely overnight. If we started to see the probabilities shift towards the markets correcting, we would immediately start to shift your portfolio from stocks to bonds or cash – depending on our research and your investment strategy. As I've always tried to describe, we act like a dimmer switch not an on/off switch. We increase and decrease our stock exposure incrementally. We'd rather be partially correct rather than completely wrong. As we gain more clarity that we are correct with our research, we continue to move in that direction. For example, if our research indicated that the markets were overvalued and set to correct we might lower our exposure to the markets by 10%. If the markets started to drop some, we might lower our exposure by another 10%. As the markets continued to drop, we'd continue to lower our stock market exposure incrementally until we felt that the markets had found their bottom and were starting to move back up. At that time, we'd begin adding stock market exposure incrementally.

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Timing the markets is impossible. We'll never sell 100% of your portfolio at the top of the market or buy back everything at exactly the bottom. At Polaris, we avoid this high-risk approach. Our investing strategy is designed for the long-term and moves incrementally in order to manage risk. If the markets experience a pull back, we're prepared to take defensive measures to protect your portfolio. Our job is to remain disciplined and diligent – all summer long, all year long – as we analyze of a range of factors that affect that the markets, not just seasonality.

As always, I welcome your comments and questions.

Sincerely,

Jeffrey J. Powell
Managing Partner

The following are the sources for the widely-cited studies on illusory superiority: Svenson, O. (February 1981). "Are we all less risky and more skillful than our fellow drivers?" Acta Psychologica 47 (2): 143–148; Cross, P. (1977). "Not can but will college teachers be improved?" New Directions for Higher Education 17: 1–15; Zuckerman, Ezra W.; John T. Jost (2001). "What Makes You Think You're So Popular? Self Evaluation Maintenance and the Subjective Side of the "Friendship Paradox." Social Psychology Quarterly 64 (3): 207–223.

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