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Sell in May and walk away? Not so fast

With the Dow at a record high, does the old Wall Street saw still make sense for investors in 2007?

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April 30 2007: 6:56 AM EDT

NEW YORK (CNNMoney.com) -- With the Dow at a record high and the Nasdaq and S&P 500 at six-year highs, it seems like a good time to cut and run. Wouldn't you agree?

No?

Well, according to the old Wall Street adage "Sell in May and go away," one who invests in stocks during the colder months and sits it out during the beach months can do quite nicely, more or less.

That's because stocks gains in November through April have typically been stronger than May through October for a wide variety of reasons.

The *Stock Trader's Almanac* has demonstrated this by tracking what would happen to a $10,000 investment in the stocks that make up the Dow Jones industrial average.

Money invested in the Dow stocks in the "best six months" and then switched to fixed income in the "worst six months" over 56 years grew to $544,323. But money invested in the Dow in the "worst six" and then switched to fixed income in the "best six" compounded to a loss of $272.

With just one trading day left in April, the Dow is up 8.6 percent in the most recent "best" period, just above the historic average of 7.9 percent - suggesting the winter months have been keeping their part of the bargain. Will the summer months follow suit?

"The history speaks for itself," said Jeffrey Hirsch, editor of the *Almanac*, who noted the recent record highs have been in April - the best month for the Dow in terms of percentage gains since 1999.

Hirsch said that he doesn't think the new market highs do anything but reinforce the trend.

Typically stocks see a strong start to the year, tend to flatten out or fall in summer and then rally again near year-end, said Ron Kiddoo, chief investment officer at Cozad Asset Management. "That's basically what happened last year and I'm looking for something similar this year," Kiddoo said.

The fact that investor sentiment is so strong right now is another reason stocks could be gearing up for a pullback, said Alan Lancz, president and money manager at Alan B. Lancz and Associates.

"The quarterly earnings have been pretty good and the market is at new highs and no one is really talking about the possibility (of a big decline)," Lancz said. "And when no one is talking about it, that's when you can see it happen."

The Dow industrials ended at a record high for the third session running Friday, continuing the market's recent rally, which has been sparked by better-than-expected first-quarter earnings and a sense the economy is slowing but not headed for a recession.

The sentiment right now is upbeat enough that stocks managed to rise on Friday, despite a report showing the economy grew at a 1.3 percent rate, the slowest pace in 4 years.

And investors have been celebrating that earnings haven't been as weak as expected, although they haven't been particularly strong, either. Earnings are on track to grow 6.8 percent from a year ago according to the latest Thomson Financial estimates. That's better than the 3.3 percent growth expected just a month or so ago, but still the slowest pace in 3-1/2 years.

Why does "sell in May" tend to work so well?

May itself is not really that bad, the *Almanac*'s Hirsch said, and sometimes the traditional end of year rally can start in mid-October. It's the Memorial Day to Labor Day period that's the worst, and that tends to give the whole six months a bad name.

By late May, tax refunds are over, so the flow of fresh funds into stocks ebbs, and analysts and investors who have been patient with companies struggling with weaker earnings or other issues tend to become less patient.

Then it's summer, a period that's been weaker for U.S. stocks and stocks around the globe, the *Almanac* shows, with people spending more time on the beach than in the boardroom or on the trading floor. Lower trading volume tends to limit stock gains.

By the time fall kicks in, the psychology has switched to a back-to-school, back-to-work mentality and from a stock standpoint, to house cleaning. In addition, big mutual funds tend to dump losers in anticipation of the end of their fiscal year in October.

September is the worst month of the year for the Dow, Nasdaq and S&P 500.

With 2007 being a pre-election year, that's normally a good thing for stocks. As the *Almanac* and Standard & Poor's have shown, if the market is seen to move in relation to the 4-year presidential election cycle, the year before an election and the year of the election tend to be the best, as the party in power does what it can to juice the economy, and stay in power.

So are stocks bracing for a fall? Lancz said he doesn't think so because of the substantial amount of liquidity out there, with money having come out of real estate and other assets. That money needs to go somewhere and it's likely to go into stocks. Deals and mergers are also keeping the market afloat, along with the increase in company stock buyback plans of late.

"There will be pockets of strength," he said. "It's just going to be more difficult to find opportunities over the next few months, because the rally has been so broad."