Money
CREATING FINANCIAL FREEDOM

Does 'sell in May and go away' hold true during the coronavirus crisis?

By David Thornton
May 13, 2020

0

The old adage to 'sell in May and go away' is well-worn in the investment community, but experts are divided over its value during the current pandemic and in general.

"We're on the sell side," says Damien Klassen from Nucleus Wealth.

Klassen believes the weak consumer demand currently seen in post-lockdown China portends what will happen here in Australia.

"There's a situation of weak demand, supply shocks, and rising unemployment."

"You combine this with Australia's debt levels, the second highest in world, and you have the perfect conditions for a debt crisis."

Klassen also believes stocks are overvalued.

"Stocks have only been this expensive a handful of times over the past few years."

Other experts warn of the pitfalls from exiting the market.

Tom Rachcoff from Cor Capital cautions that leaving the market for six months at a time has historically cost 4.1% annually, before transactions costs and taxes.

"For many long term investors, the tax due from selling would be similar to the marker falling substantially. Therefore, it would be wise to take into account all costs before exiting the market," he says.

"There are too many unanswered questions with regard to COVID-19 which will likely continue to be the driver of market expectations, ahead of seasonal factors."

Investing is rarely an all or nothing situation, so rather than 'sell and go away', you may be better served by refining your portfolio.

"I would be further cleaning up portfolios in May, rather than selling out completely," says Drew Meredith from Wattle Partners.

"Removing any 'zombie' companies carrying substantial amounts of debt and who have historically struggled with cash flow, cutting discretionary retailers with bricks and mortar premises and avoiding travel altogether.

"Replace these with resilient names that have look through into the other-side of this environment and the continuation of monetary and fiscal policy. Think capital markets, investment banks, infrastructure, telecommunication, hospitals and even commodities."

Kanish Chugh from ETF Securities echoes this sentiment.

"If you're selling year to date, you're crystallising a relative loss.

"It's better to remove single stock risk and diversify."

The core-satellite approach can help you organise your portfolio.

"By building a diversified core you'll generally cushion out volatility, whereas the satellite portion can be more tactical, higher risk plays."

Chugh points to the example of Warren Buffett. While he's maintaining his diversified core investments for the long term, he's responded to the pandemic by removing his satellite investments in airlines.

https://www.moneymag.com.au/coronavirus-sell-in-may-go-away?q=David+Thornton