**Philequity Corner (April 30, 2012)**
**By Valentino Sy**

## Sell in May and Go Away?

Tomorrow is the start of May already. Instead of trading though, we will be having a holiday to commemorate Labor Day. Some traders have actually taken this opportunity to take an extended vacation. Given the low volume the past week, they did not expect to miss much action. Moreover, many believe that they should sell most, if not all, of their positions come May, hence the title of this article.

### Come again another day

"Sell in May and go away" is a popular adage that some market participants adhere to. Traders who believe in this saying sell their positions in May. They then start bottom fishing in the "-ber months" in preparation for the Santa Claus rally and January effect. They start buying during this period since markets are normally stronger in December and January. After window dressing, fund flows in the beginning of the year tend to push the market higher.

### Summer heat and other issues

Below, we enumerate some of the reasons why some funds sell in May in preparation for a correction.

1. It has not escaped anyone's notice that this year's summer has been particularly hot. In fact, many traders have hit the beaches to relax and cool off. Even in Europe, many foreign fund managers take a vacation during the summer months of July and August. This reverses the strong fund inflows that we experienced in the previous month and may cause the market to correct.
2. Many technical analysts are saying that the market is overbought and we may experience a deep correction. With the market up 18% YTD, a pullback may not be surprising.
3. The BRICs (Brazil, Russia, India and China) are all slowing down. All eyes are on China, where 7.5% GDP growth, although high relative to the rest of the world, may have a drastic impact on countries with tepid economic growth. The hard landing that some economists are forecasting may lead to a stock market stock sell-off.
4. Europe has its own problems as well. The sovereign credit crisis which seemed to have been contained last year has shown signs of a resurgence. The contagion has spread, with yields on Spanish bonds close to 6%.

### Mayday Philippines!

Once trading resumes on Wednesday, locals also have a host of reasons to sell their stocks as well.

1. There is always the risk that the standoff in the Scarborough shoal between China and the Philippines can escalate into armed hostility. This can cause the stock market to drop severely.
2. May is so hot people take a vacation, either abroad or in the beach. This is also the time that students take their summer vacation. Fund managers and traders also go on leave during this month.
3. June is tuition time, and retail investors may want to take some money off the market for their expenses.

4. By August, it would be the Chinese ghost month. During this time, they avoid unnecessary risk, thus many Asian funds lower their trading activity, which can cause the stock market to consolidate or even dip.
5. Trading in excess of 16x forward P/E, the PSEi's valuation is the 2nd highest in the region, behind only Indonesia. Thus, many believe that the index is ripe for profit-taking.
6. Many big ticket IPOs are sucking up liquidity. GT Capital was listed just recently, while Bloomberry Resorts and EastWest Bank are having their capital-raising activities in May. This will divert flows away from the general market, possibly leading to temporarily weaker index performance.
7. Philippine growth is slowing down. From more than 7% in 2010, we are forecasted to have GDP growth just above 4% in 2012.

**April showers bring May flowers**

In spite of the plethora of reasons to follow the "Sell in May" maxim, there are also arguments against this.

1. Remember that central banks in the US and Europe are continuously providing liquidity. The Fed is ready to launch QE3 if there are indications that there will be a prolonged economic slowdown. As for the ECB, they will probably maintain the LTRO in order to thwart any recession threats. As a popular stock market saying goes, don't fight the Fed.
2. Corporate earnings in the US have been quite good, with most companies exceeding expectations.
3. While the US housing market has not fully recovered, there are signs that it is bottoming.

In the domestic front, we believe that the following conditions may be conducive to a continuing uptrend in our market.

1. PPP can be a catalyst for the market to move higher. With projects to be bidded out in the coming months, the PPP is starting to gain traction and has elicited much excitement from many investors.
2. Listed companies are increasing their dividends since earnings are strong and above forecast.
3. The BPO segment has continued to grow by leaps and bounds. This has a big multiplier effect on the economy.
4. Domestic consumption and remittances have likewise remained robust.
5. While IPOs may suck up liquidity temporarily, it makes the market deeper, giving foreign funds a wider menu of stocks to buy in the country.
6. Interest rates continue to be low.
7. Equities both here in the US are still more attractive compared to bonds.

**Fundamentals vs. Technicals**

For the past two weeks, we have seen the charts of the US indices become uglier. Apple (AAPL:Nasdaq) was not spared from this, and it has been correcting because it had a lousy technical picture. Thus, traders who follow technicals, especially pure chartists, would have sold. But, after the market closed last Wednesday, Apple came out with earnings that blew away all expectations. This reversed the chart formation. Whereas the chart and technical analysts were pointing towards a sell signal, fundamentals can totally change the technical picture.

**Buy in May and stay okay**

It is very difficult to time the market. This is the waterloo of many expert technicians since they often get it wrong. Short term traders may want to sell in anticipation of corrections, yet it has never been possible to accurately predict the magnitude and duration of corrections. Even full-time day traders have a difficult time achieving this. If you want to trade short term, you have to watch the market for the whole day, do all your technical charts, and revise them depending on the price movement that day. Then again, it may be a futile exercise because, in the end, you might just get whipsawed.

Hence, it is better to stick to companies with good business models and sustainable earnings growth. Once you spot these companies, just ride with them and stay the course. If you have a longer term horizon for stocks, then you can still buy in May and stay okay.