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What's Behind: "Sell in May and Go Away"

There is considerable history behind the gem of stock market lore to *"Sell in May"*.

The real explanation is readily provided by the record of Great Bubbles as they occurred in the London financial markets. There were five to the 1929 example. Four climaxed in May. And one, the infamous 1720 South Sea Bubble climaxed in June. Other Bubbles completed in May of 1772, 1825 and 1873.

First was the irresistible climax as the excited crowd bought in May, then the market corrected during the summer months. Followed by a crash beginning in late September. Horrendous liquidity problems were usually cleared by November. One distinction was that the 1825 Crash did not clear until January 1826.

By the late 1600s there were enough participants and companies trading to consider it as a stock market. John Houghton began his market news and advisory letter in 1692. By way of instruction he outlined the workings of "Puts and Refusals". And to the delight of market historians published: *The Mystery of Buying More Than All.* Which explains a mighty short squeeze as one set of option speculators bought more than what was outstanding.

The competing the move to modernity, the Bank of England was formed in 1694, which quickly evolved into the first intrusive central bank. One of its goals became to prevent the liquidity crises that often roiled the markets.

But it suffered its own disaster with its suspension of payments in the Panic of 1797. In so many words the BoE went broke. The boom was global and the trigger was various land schemes failing in the US. The North American Land Company failure was one participant in the wild land speculation.

It has been around for ages that experienced financiers and bankers knew that a severe credit crisis precedes a recession. And that a central bank with timely injections of liquidity can prevent the crisis and therefore the recession.

Indeed, in 1873 the esteemed editor of the *The Economist*, Walter Bagehot published that a recession was a form of financial "neuralgia". Moreover, recessions could be prevented by judicial easing of credit – Presto no more recessions. Thanks to the central bank

The following excerpt is from the *New York Herald* in the fateful summer of 1873 boasted that the US would do better because it did not have a central bank. America was between central banks then and the editors believed that the Secretary of the Treasury could prevent recessions.

> ***"True, some great event may prick the commercial bubble of the hour, and create convulsions; but while the Secretary of the Treasury plays the role of banker for the entire United States it is difficult to conceive of any condition of circumstances which he cannot control. Power has been centralized in him to an extent not enjoyed by the Governor of the Bank of England. He can***

> ***issue the paper representatives of gold, and count it as much as the yellow metal itself. [He has] a greater influence than is possessed by all the banking institutions of New York."***
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> – The New York Herald, 1873.

England with the senior economy suffered the "Great Depression" that endured to 1895. It was suffered virtually around the world. And it could not prevent recessions.

For the Fed the concept was that the central bank with an "elastic currency" could prevent recessions.

The record of the Fed's efforts make the point.

There has been 18 cyclical recessions since the Fed was formed in December 1913.

In most disciplines it takes only one failure to condemn a hypothesis.

It is human nature that there will always be booms and recessions. As well, there will always be those who believe the busts can be prevented.