

Improving on Buy and Hold: When is the Best Time to Sell?

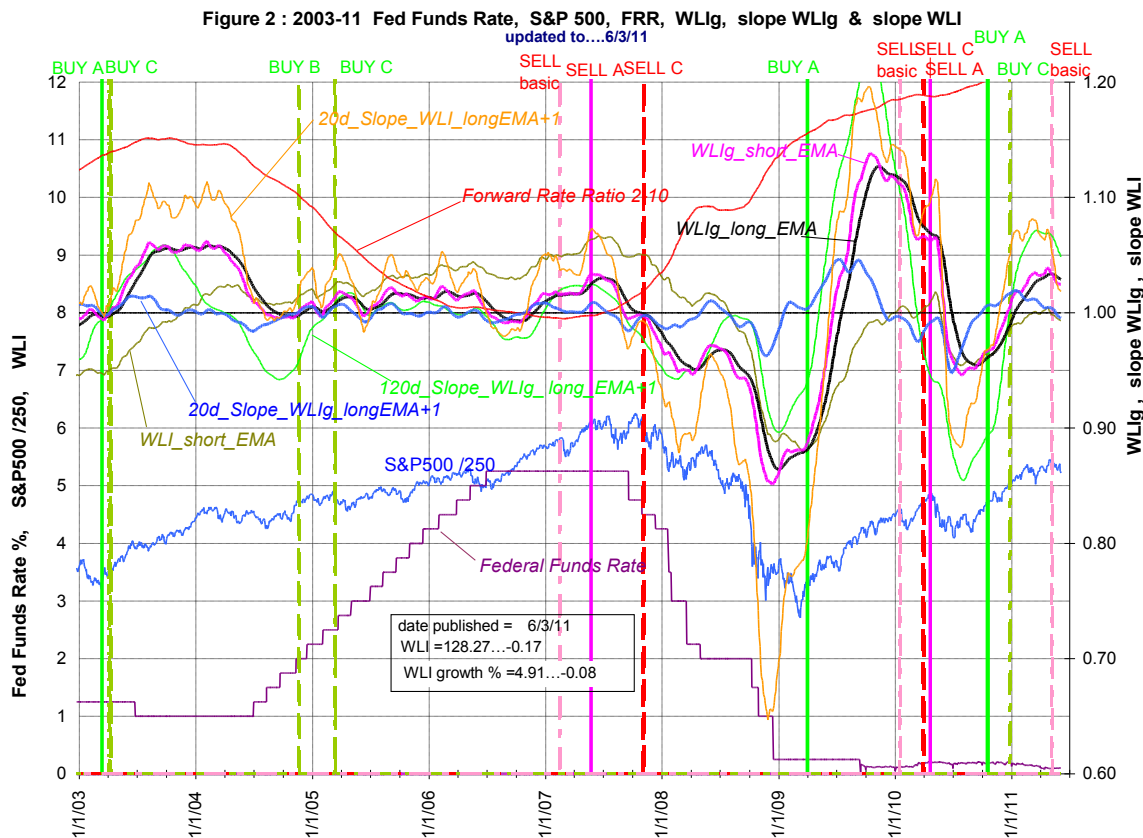
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My model, [Improving on Buy and Hold: Asset Allocation using Economic Indicators](#), has been updated with the ECRI U.S. Weekly Leading Index and its annualized growth rate published on June 3, 2011, and with the most recent values of the other indicators.

The figure below shows the buy and sell signals obtained from the model for the time period 2003 to 2011. A *basic sell signal* was generated during the week ending on May 13, 2011 as reported on May 17, 2011 in [Improving on Buy and Hold: An Initial Sell Signal](#).



A Sell-A type signal will be generated by the model in the second week of August and I advise reducing one's stock market investments then. Historically, the S&P 500 has on



average been 3.60% higher at the Sell-A date then what it was on the Sell-basic date, as shown in Table 1 below. During the 65-trading-day period from the Sell-basic to the Sell-A date the average maximum increase in the index was 5.33% and the average minimum decrease was -5.06%.

Table 1

SELL-basic Date	S&P500 on SELL-basic Date	S&P500 on SELL-A Date	% change at SELL-A date 65 after SELL-basic	max S&P500 within 65 days after SELL-basic	max % higher within 65 days after SELL-basic	min S&P500 within 65 days after SELL-basic	min % lower within 65 days after SELL basic
6/19/69	97.24	95.63	-1.66	99.61	2.44	89.48	-7.98
7/16/73	105.67	110.19	4.28	111.44	5.46	100.53	-4.86
11/7/78	93.85	97.87	4.28	101.86	8.53	92.49	-1.45
12/26/80	136.57	136.00	-0.42	138.12	1.13	126.58	-7.31
5/26/89	321.59	352.09	9.48	352.09	9.48	317.98	-1.12
5/5/00	1432.63	1479.32	3.26	1510.49	5.43	1373.86	-4.10
2/15/07	1456.81	1522.28	4.49	1525.1	4.69	1374.12	-5.68
1/14/10	1148.46	1207.17	5.11	1211.67	5.50	1056.74	-7.99
5/12/11	1348.65	N.A.		N.A.	N.A.	N.A.	N.A.
			3.60%		5.33%		-5.06%
			average		average		average

Historically, as shown in Table 2 below, after a Sell-basic signal the market usually declines a few percent over the next 35 trading days (seven weeks). The most recent decline to June 3, 2011 of -3.60% is approximately equal to the average decline over the 15 trading days since the Sell-basic signal dates of the model.

The best time to sell is 65 trading days after the date of a Sell-basic signal, when the S&P500 has been on average been 3.60% higher than on the Sell-basic date. The worst case after 65 days was a decline of -1.45% which occurred after the June 19, 1969 signal.



If history repeats itself, then the market will improve over the next four weeks and there should be many opportunities to reduce one's equity allocation from then onwards at a better price than what one would obtain now.

The average performance of the S&P 500 after Sell-basic signals which the model generated is shown in the chart at the end of this article.

Table 2

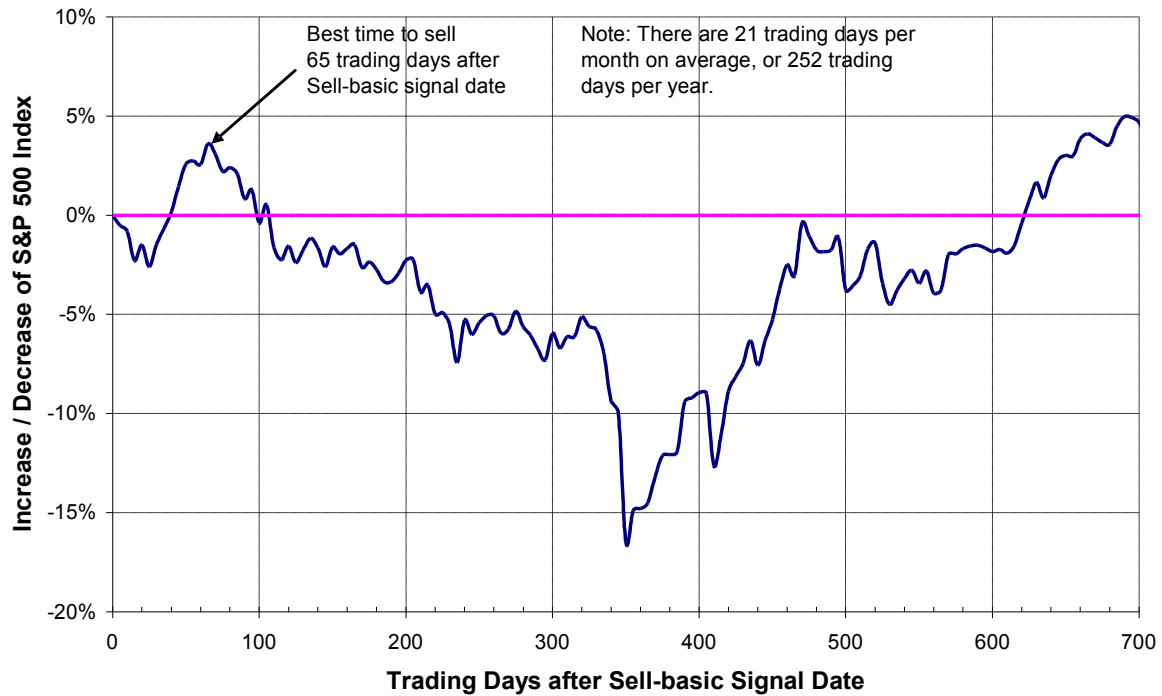
SELL-basic Date	S&P500 on SELL-basic Date	% change 5 days after SELL-basic	% change 15 days after SELL-basic	% change 25 days after SELL-basic	% change 35 days after SELL-basic	% change 45 days after SELL-basic	% change 55 days after SELL-basic
6/19/69	97.24	0.01	-1.51	-7.23	-3.99	-2.38	-3.97
7/16/73	105.67	1.75	1.00	-3.84	-1.10	-1.80	2.95
11/7/78	93.85	-1.45	-0.11	2.35	2.59	6.48	8.53
12/26/80	136.57	1.03	-1.61	-7.07	-6.41	-4.40	-1.94
5/26/89	321.59	0.14	0.09	-0.73	3.37	7.62	6.68
5/5/00	1432.63	-0.81	-3.81	0.93	1.58	3.00	2.21
2/15/07	1456.81	-0.03	-3.77	-1.53	-0.58	1.62	3.83
1/14/10	1148.46	-4.94	-7.16	-3.52	-0.87	1.51	3.57
5/12/11	1348.65	-0.37	-3.60	N.A.	N.A.	N.A.	N.A.
		-0.54%	-2.11%	-2.58%	-0.68%	1.46%	2.73%
		average	average	average	average	average	average



SELL-basic Date	S&P500 on SELL-basic Date	% change 65 days after SELL-basic	% change 75 days after SELL-basic	% change 85 days after SELL-basic	% change 95 days after SELL-basic	% change 105 days after SELL-basic	% change 115 days after SELL-basic
6/19/69	97.24	-1.66	-4.27	-0.04	-0.03	-0.87	-5.75
7/16/73	105.67	4.28	3.46	-1.24	-7.59	-11.45	-7.50
11/7/78	93.85	4.28	4.07	6.20	7.66	9.61	8.90
12/26/80	136.57	-0.42	-2.85	-2.58	-4.41	-2.28	-2.06
5/26/89	321.59	9.48	8.11	7.04	11.88	7.23	3.43
5/5/00	1432.63	3.26	4.67	5.20	1.90	-0.43	-5.77
2/15/07	1456.81	4.49	2.33	4.49	5.05	5.31	1.06
1/14/10	1148.46	5.11	2.19	-2.41	-4.36	-2.95	-10.25
5/12/11	1348.65	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
		3.60%	2.21%	2.08%	1.26%	0.52%	-2.25%
		average	average	average	average	average	average



Average Performance of S&P 500 Index after Sell-basic signals



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