5 Must-Buy Stocks for Summer 2021
Schaeffer’s Investment Research

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Putting "Sell in May and Go Away" Under the Microscope

By Rocky White

For those familiar with stock seasonality trends, “Sell in May and Go Away” is a popular saying, and one we often explore in this space. The tables below explain where the saying comes from. The six-month period from May through October has been the worst six-month time frame for the S&P 500 Index (SPX). Over the past 50 years the SPX has averaged a return of just 1.61% from May through October, but 6.93% from November through April. The trend is the same over the more recent time frame of the last 20 years, too. This week, I will break these historical returns down a couple more ways to fit them with the current environment.
SOME CONTEXT FOR THIS BULLISH SENTIMENT

Given the stocks market’s performance over the past year, it's unsurprising that investors are currently bullish. A popular gauge of sentiment I look at is the weekly Investors Intelligence (II) poll. The survey considers more than 100 published investor newsletters and determines whether they are bullish, bearish, or expecting a correction (short-term bearish but longer term bullish). In the last report, a lofty 64% of newsletters were in the bullish category.

Bullish sentiment has led to even worse returns than usual when it comes to the May-October timeframe. The table below shows when the bulls register in above 50% at the end of April, the S&P 500 averages a loss of 0.42% over the next six months, with barely over half the returns positive.

<table>
<thead>
<tr>
<th>S&amp;P 500 (May - October)</th>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>II Bulls 50% +</td>
</tr>
<tr>
<td>No. of Returns</td>
</tr>
<tr>
<td>Average Return</td>
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<tr>
<td>Median Return</td>
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<tr>
<td>Percent Positive</td>
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<tr>
<td>Avg. Positive</td>
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<tr>
<td>Avg. Negative</td>
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NEAR ALL-TIME HIGHS OFFERS SOME ENCOURAGEMENT

This data is a lot more encouraging. The SPX is very close to its all-time high. When the index has ended April within 3% of its all-time high, the next six months have tended to be strong. In that case, the S&P 500 gained an average of 5.19% and was positive 80% of the time. Otherwise, the returns have been weak, averaging right around breakeven.
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BULLISH SENTIMENT AT ALL-TIME HIGHS

So, we have one study that suggests the bullish sentiment tends to have bearish implications. A second study looking at the returns after being near an all-time high suggests bullish implications. Naturally, let us look at what has happened when both occur at the same time.

As you might expect, the returns ended up somewhere between bullish and bearish. Over the past 50 years, there were eight instances when April ended with the S&P 500 near all-time highs, and at least half of the newsletters in the Investors Intelligence survey expecting bullish returns. Stocks performed reasonably well averaging a return of 3.62% and 75% of the returns positive. Compare this to the other years in which the average return was 1.2%.
Finally, here are the eight years in which this occurred. This has been rather common lately, happening four times since 2014. The last time was two years ago, in 2019, in which the SPX gained 3.11% over the next six months. The time before that, the index gained over 8% in the next six months.

<table>
<thead>
<tr>
<th>Year</th>
<th>May - Oct Return</th>
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<tbody>
<tr>
<td>2019</td>
<td>3.11%</td>
</tr>
<tr>
<td>2017</td>
<td>8.01%</td>
</tr>
<tr>
<td>2015</td>
<td>-0.30%</td>
</tr>
<tr>
<td>2014</td>
<td>7.12%</td>
</tr>
<tr>
<td>2007</td>
<td>4.52%</td>
</tr>
<tr>
<td>1999</td>
<td>2.08%</td>
</tr>
<tr>
<td>1998</td>
<td>-1.18%</td>
</tr>
<tr>
<td>1985</td>
<td>5.56%</td>
</tr>
</tbody>
</table>

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Chegg (NYSE:CHGG)

Education technology platform Chegg (CHGG) has regained major support at the $90 mark, after a double-dip fake-out. Now breaking out of a large bullish wedge formation, CHGG also has a dual layer of support at its 200-day moving average, as well as the $10 billion market cap level.

What’s more, shares reconquered the ascending 20-day moving average earlier in April, a trendline that has been significant in previous rallies. Now, Chegg stock is taking aim at its 80-day moving average, a move that has historically produced massive gains. There's also seasonality to consider – the security has been positive over the last seven summers, averaging a sizable return of 37.1%.

![Daily Chart of CHGG Since April 2020 With 20-Day, 80-Day, and 200-Day Moving Averages](chart.png)

Chart courtesy of Thomson Reuters

Short sellers have been in covering mode, yet a healthy 10.4% of CHGG's total available float is sold short. This means a continued short squeeze could keep the wind at the equity's back.

Short-term options are attractively priced right now, from a historical volatility perspective. This is according to the security's Schaeffer's Volatility Index (SVI) of 58%, which sits in the 27th percentile of its annual range. In other words, muted volatility expectations are being priced into short-term contracts. What’s more, CHGG's Schaeffer's Volatility Scorecard (SVS) ranks at 91 out of a possible 100, implying the stock has tended to exceed these volatility expectations in the past year -- a boon for option buyers.
Expedia (NASDAQ:EXPE)

Travel booking agency Expedia (EXPE) has been an outperformer on a six-month, year-to-date, and year-over-year basis. In fact, the latter-most year-over-year level has seen consolidation around the 200% mark. Expedia also broke above the $20 billion market-cap level for the first time this year.

The equity is also experiencing a bull-flag pattern, as its 40-day moving ascends and has captured pullbacks as recently as April 20. The 80-day trendline has been a significant source of support in the past as well, with both moving averages guiding EXPE to its latest round of fresh record highs, just shy of $190. Historically, the travel giant is an outperformer between the months of April and October, with data from the past 12 years showing an average growth of 20.4%, with an 89% win rate.

Digging deeper, in the options pits there looks to be plenty of room for improvement. This is per the stock’s 50-day put/call volume ratio at the International Securities Exchange (ISE), Chicago Board Options Exchange (CBOE), and NASDAQ OMX PHLX (PHLX), which ranks in the 86th percentile of its annual range. Should these bearish bets begin to unwind, it could catapult the equity to another round of all-time highs.

Meanwhile, short interest has been on the rise, up nearly 10% during the past two reporting periods. The nearly 14 million shares sold short account for 10.2% of the stock’s total available float, or just over four days’ worth of pent-up buying power. Even further, a fresh round of upgrades is well overdue, as 12 of the 22 analysts in coverage sport a tepid "hold" recommendation on the security.

![Daily Chart of EXPE Since January 2020 With 40-Day and 80-Day Moving Averages]

*Chart courtesy of Thomson Reuters*
Molson Coors Beverage (NYSE:TAP)

Alcohol behemoth Molson Coors Beverage (TAP) suffered a prolonged downtrend from mid-2016 until last September, when the equity hit an 11-year low of $32.11. Since, TAP has been in rapid recovery mode, now up 15.3% in 2021, recently experiencing a series of higher highs and lows, with potential for a trend change. For even more peace of mind, Molson is an established brand that is fundamentally sound, trading at 13 times its forward earnings and 1.2 times its sales.

It’s no surprise breweries had taken the food and beverage industry by storm pre-pandemic, but outside businesses have managed to mostly adapt to the new environment. For Molson Coors Beverage, the company doubled its market share in the seltzer category last year and revealed a new partnership with Coca-Cola (KO) to produce and distribute sparkling water product Topo Chico. With restaurants and the wider economy opening up amid a raising vaccine rate in the U.S., the summertime will more than likely bring a fresh surge in product consumption.

![Daily Chart of TAP Since January 2020](image)

In terms of analyst outlook, TAP looks ripe for upgrades. Specifically, six of the nine brokerage firms in coverage sport a tepid "hold," "sell," or "strong sell" rating on the security. Meanwhile, short interest looks to be building, up nearly 60% year-to-date, rising alongside the shares of TAP. This accounts for 9.4% of the stock’s total available float, and would take short sellers over one week to buy back their bearish bets, at the stock’s average pace of daily trading.
Speaker company Sonos (SONO) reports earnings on May 5 and has scored a post-earnings bull gap after its last two corporate reports. Around this time last year, Sonos was the subject of merger & acquisition rumors. Sitting just under the $5 billion market cap, if a larger player such as Apple (AAPL) comes calling for a partnership or purchase, this level could create a floor and keep pullbacks at bay.

In the last month, SONO pulled back to its 50-day moving average and the round $40 level. This is the second pullback to this area in as many months, while the $44 level above coincides with the stock’s 12-month consensus price target. Meanwhile, $45 is three times SONO's initial public offering (IPO) price. Another trip into this area could make SONO ripe for a breakout, as sellers at these levels are potentially fewer.

Speaking of short sellers, SONO is up 82% year-to-date, while shorts have increased their positions by 55%. Not only does this underscore the stock’s technical tenacity, but a healthy 8% of SONO's total available float is sold short. With many of these shorts underwater, they are more prone to covering and at the very least, will become less aggressive.

Keep an eye out for a shift in analyst sentiment as well. Of the seven brokerages covering SONO, three maintain a tepid "hold" rating. A round of upgrades could keep the wind at the equity's back.
United States Steel (NYSE: X)

U.S. Steel (X) has a climbed since Goldman Sachs initiated coverage of the security with a "neutral" rating on April 9, with the shares' ascending 40-day moving average guiding X higher. This trendline also happens to coincide with the stock’s $6 billion market cap.

A shift in sentiment from the analyst community could keep the tailwinds blowing for the equity. Of the eight analysts in coverage, seven maintain a "hold" or worse rating. Plus, X’s 12-month consensus price target of $20.42 is a 14.1% discount to the stock’s current perch.

Meanwhile, the ranks of short sellers keep getting bigger, with short interest up 16.3% in the two most recent reporting periods. The 33.87 million shares sold short now account for nearly 20% of X’s total available float, making the stock ripe for a short squeeze.

One parting thought on a potential macro tailwind: U.S. President Joe Biden’s sweeping $2 trillion infrastructure bill has earned 59% approval nationwide, from Democrats and Republicans alike. With that bipartisan support, it seems the bill could make its way through Washington D.C. rather expediently. Steel stocks such as X could be the summer winners if such legislation – or a compromised version of Biden’s initial proposal – is passed.
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