MLP Seasonals

Seasonal patterns to the returns of most asset classes rarely seem to last beyond their discovery. “Sell in May and Go Away” has been shown to either work or not work depending on precisely when you close the trade out. Rather than the Summer being a bad time for stocks it’s just that September is poor. Whether that’s for some reason or just random is unclear. As so often in statistics, correlation doesn’t mean causality. One month of the year has to be the worst one during which to be invested in stocks. Since 1960 it’s been September. In 2014 September was poor but January was, unusually, worse. There was no January effect this year. September’s poor record could just be random, absent any compelling explanation.

Master Limited Partnerships (MLPs) have a more pronounced seasonal effect, and it’s likely for good reason (i.e. correlation *with* causation). It turns out that December and January together have generated 36% of the return on the Alerian MLP Index since 1996 (whereas if monthly returns didn’t vary you’d expect only 17%, or 2/12). The reason is probably that retail investors, who tend to predominate among MLP investors, apply long term consideration to their portfolios around year-end. This can be because year-end bonuses alter their net worth and asset allocation, because it’s the end of the tax year or simply because doing the analysis provides a break from all that family time that comes with the holidays.

In any event, we’re heading into a period of time where the seasonals would suggest that, if you’re considering making an MLP investment over the next six months, committing capital in November may well produce a better result than waiting until February. Naturally, there are always the non-seasonal factors to consider and the volatility in energy-related stocks could understandably give anyone pause. The most recent Saudi news that they’ve cut prices for U.S. buyers so as to protect market share looks like a direct aim at North American unconventional production, and is likely to send another wave of worry through related equities.

Midstream MLP companies that have reported earnings in recent days appear sanguine about current oil prices and their effect on their businesses. If you own a pipeline, storage facilities or a gathering and processing network you care most about volumes rather than the value of the product you're handling. It'll take some time to see how that plays out in reported profits for the sector. In the meantime, news reports may continue to pressure everything energy related. If the recent pressure on MLPs turns out to be due to misplaced concern that their profits will suffer along with E&P names who have direct commodity price exposure, then returns over the next few months could be good.