Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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Market Update

In July 2012, Mario Draghi the President of the European of the European Central Bank, caught the stock market off guard with his famous speech where he stated that the Central Bank will do “whatever it takes” to fix the situation in Europe. Ironically, the Central Bank did nothing, but just knowing that the bank had their backs, made investors feel secure and they piled into the stock market not wanting to miss the rally. The stock market roared upwards.

In April of this year, Draghi hinted that the European Central Bank would take action to stave off the threat of deflation in the euro zone, and as a result investors were

S&P 500 Technical Status

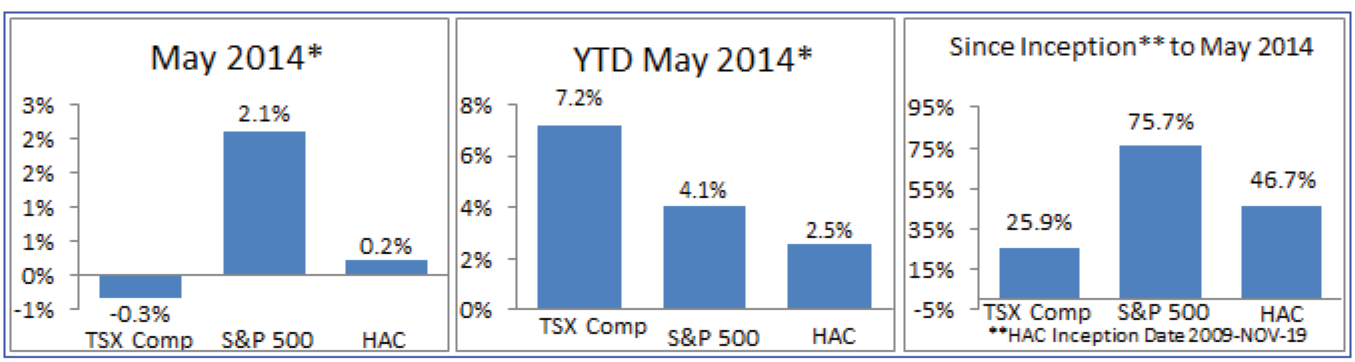
When new highs are reached, there have not been any previous buyers or sellers at this level; therefore, a resistance level does not exist. A resistance level is a point where previous buyers are often anxious to exit their positions and as a result the continued selling at the resistance level contains the rising upward movement of the price. A new high is a new high, and without resistance the market can continue to set new highs.

From a technical standpoint, it is hard to argue against the strong picture of the S&P 500 breaking out in late May. Of course the S&P 500 had positive support from the Memorial Day Trade. Nevertheless, the breakout is impressive: Except that the breakout was on weak volume, which shows a lack of conviction. When this occurs, the support line is often tested. Do not be surprised if the S&P 500 pulls back to test support at 1900.

Horizons Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of **May 31st**, 2014

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HXT	Horizons S&P/TSX 60™ Index ETF	19.8%
	Fixed Income	
HBB	Horizons Cdn Select Universe Bond ETF	10.0%
	United States Dollar Exposed Assets	
	Equities	
HXS	Horizons S&P 500® Index ETF	49.5%
XLP	Consumer Staples Select Sector SPDR Fund	10.2%
	Fixed Income	
IEF	iShares 7-10 Year Treasury Bond ETF	10.1%
	US Dollar Forwards (April 2014) - Currency Hedge **	0.3%
	Cash, Cash Equivalents, Margin & Other	0.1%
	Total (NAV $122,721,095)	100.0%

*** Reflects gain / loss on currency hedge (Notional exposure equals 64.3% of current NAV)*



* Source: Bloomberg, HAC based upon NAV

The objective of HAC is long-term capital appreciation in all market cycles by tactically allocating its exposure amongst equities, fixed income, commodities and currencies during periods that have historically demonstrated seasonal trends. The Thackray Market Letter is for educational purposes and is meant to demonstrate the advantages of seasonal investing by describing many of the trades and strategies in HAC.

largely expecting Draghi's announcements on Thursday June 5th. Draghi lived up to his "hints" and announced that the European Central Bank was lowering its interest rate from 0.25% to 0.15%, implementing a negative interest rate on bank deposits with the Central Bank and initiating more long term refinancing operations (LTRO). Although it was the first time a major central bank has implemented a negative interest rate, the actions were largely anticipated. Investors on both sides of the ocean reacted positively, as Draghi left the door open for more support in the future.

The big question remains, can this market action be sustained? Most likely not. In the past, the U.S. Federal Reserve has acted outside of its two official mandates of low unemployment and stable prices, to help prop up the stock markets when it got into trouble. The Federal Reserve does not like to see the stock market crash as the wealth effect spills over into the economy, deceasing demand.

The flip side is also true, the Federal Reserve does not want to unnecessarily support a frothy market. They are trying to manage tapering government bond purchases in an orderly fashion. When the economy is improving, or the stock market is performing well, the Federal Reserve is committed to the tapering program. If the economy or stock market is suffering, the Federal Reserve is more likely to change its tone to become more dovish.

The next meeting for the Federal Reserve is on June 17th-18th. Given the stock market's recent positive action, investors should expect that the Federal Reserve will not come out with market boosting actions or statements. Although Yellen is extremely dovish, and will step up to the plate with "dovish" talk when needed, she will also take advantage of a positive stock market to "talk tough," by committing herself to more restrictive action in the future. The end result is that the stock market will become more tempered in its viewpoint and anticipating her actions will likely put a cap on a stock market rally in mid-month.

What the HAC is Going On?

In May, the S&P 500 was relatively flat until the second half of the month. Based upon good economic numbers, the S&P 500 was able to break above resistance. The market reacted positively as it entered the Memorial Day Trade. HAC was able to capture a part of these gains, by being mostly in the equity market for the last few days of May. In this time period, HAC underperformed the S&P 500 due to an allocation to the TSX Composite. The TSX Composite underperformed the S&P 500 at the end of May.

It is important to note that in the six month unfavorable period for stocks from May to October, there are time periods where the market has traditionally performed well. In the past, HAC has temporarily allocated back to the stock market during these periods to capture the benefit of the seasonal trends. This can been seen in the May month-end portfolio holdings of HAC (page 2). Before the Memorial Day trade, HAC had a very small equity position, but altered the portfolio to hold mostly equities for the Memorial Day Trade. The expectation is that the portfolio would be altered once again to hold a smaller position in equities, some time around the end of the Memorial Day Trade. Although the holiday/month-end trades do not work all of the time, historically, taking advantage of these trades has added value to an investment portfolio.

There is another period of strong seasonal performance that starts towards the end of June and runs into earnings season. This seasonal period is a combination of two seasonal trades, the Independence Day Trade and The First 18 Calendar Days of Earnings Month Trade. The Independence Day Trade starts two market days before the end of June and last until five market days after Independence Day. This trade is based upon the strong tendency of the market to perform well before and after the holiday, and at month end. The earnings month trade is based upon the tendency of the market to perform well in the time period leading up to when the earnings season gets underway.

These trades have a high degree of success and have performed well over the last few years. At this time, HAC is expecting to participate in the trades.

Sector Trends

Biotech- Back from the Dead?

The biotech sector has been in the news, having a stellar performance at the beginning of the year, largely based upon mergers in the sector, and then correcting sharply starting in March. When this sector performs well in the early part of the year, it tends to correct in March (as it did this year). Recently, the sector has broken its downward trend line and has been consolidating. This is a good setup to the trade that starts later this month.

The biotech sector trade lasts from June 23rd to September 13th, and benefits from investor's attraction to the health care sector at this time and investors taking a position in the sector before the autumn conferences. In this time period, from 1992 to 2013, the S&P GIC Biotech sector has produced an average rate of return of 11.9% and has been positive 86% of the time.

The sweet-spot for this trade is the end of June into the first half of July. Most of the gains for the trade are made at this time. After this time period, if the sector shows continued weakness, then investors should consider removing some of their position off the table.

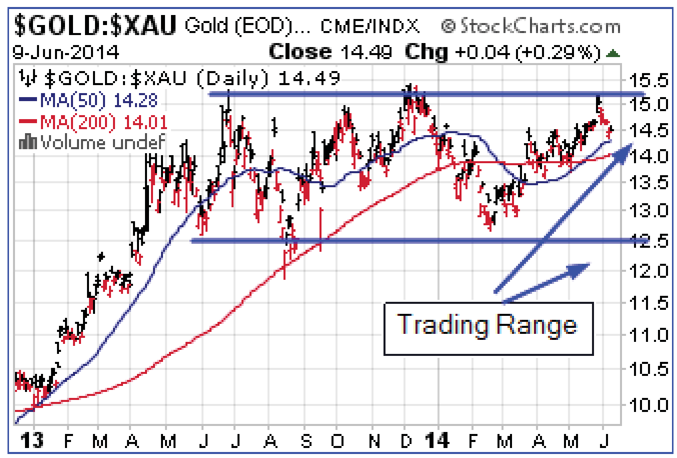
Gold– Ready to Shine?

I have written a fair bit about gold's performance in the last number of months, despite the metal not being in its seasonally strong period. As the metal has underperformed, it is starting to setup well for its seasonal period. On a seasonal basis, gold bullion performs well starting on July 12th until October 9th.

Gold has support at approximately $1180. If gold corrected to this level, and then started to turn upwards, this would be a good point to establish an early entry position. It is possible that gold does not make it down to this level. Nevertheless, as we approach the entry date, if gold starts to show upward momentum, it would make sense to start to take an entry position.

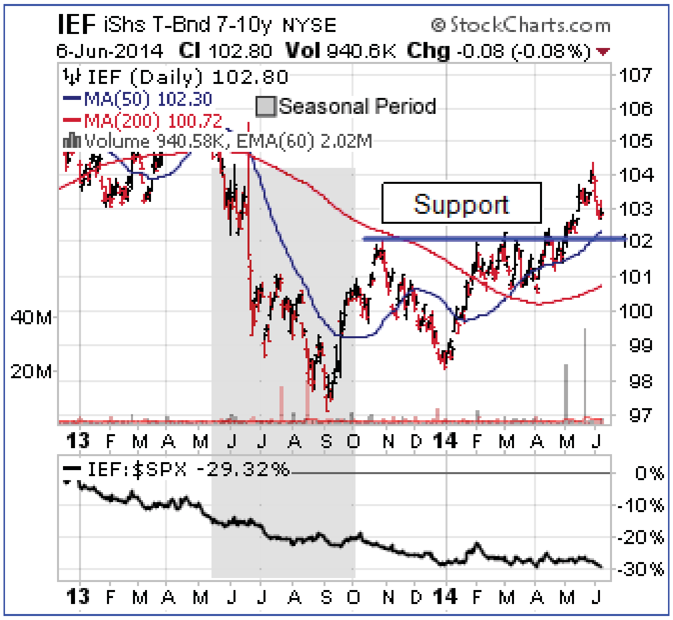
If gold stocks start to outperform gold bullion, this will be a positive sign for both gold bullion and stocks. The seasonal period for gold stocks occurs from July 27th to September 25th. It is similar to gold bullion, but starts later and ends earlier. Being the higher leverage play, if gold stocks start to take off early, and outperform the metal, it indicates that investors have a positive outlook on the sector.

The gold bullion to XAU (PHLX Gold/Silver Sector) ratio, over the long term since 1984, has traded in a range of 4 to 6, at least up until the 2000's. With the advent of gold ETFs in the 2000's the ratio has climbed with investors favoring the purchase of gold bullion ETFs versus gold stocks. Recently the ratio has tracked a path between 13 and 15. The ratio is currently on the high side, just below 15. This leaves room for gold stocks to outperform gold bullion. Both gold and gold stocks are setting up well for their seasonal periods.



Bonds– Still time to Go

Government bonds have performed well since the start of the year. Typically they perform well from May until the beginning of October, with the sweet-spot of the trade in August and September. U.S. Government Bonds, using the iShares 7-10 Year Treasury Bond (IEF), have recently pulled back, but has support at $102. It is still early in the trade with more opportunity for bonds to outperform.



Stock Section

Boeing– Set to Land

Boeing typically performs well from March 13th to June 15th. In this time period, from 1990 to 2013, Boeing has produced an average gain of 11.6% and has been positive 79% of the time. Boeing tends to perform well at this time of the year, as investors are attracted to the stock ahead of the Paris Air Show, where large deals are often announced.

Once again, Boeing has performed well in its seasonal period. Investors should be looking to exit this position shortly, as its seasonal period ends and its stock price is close to resistance. The other option for investors is to maintain a position in the stock, but exit when Boeing starts to underperform the S&P 500.

Sysco– Boring but Solid

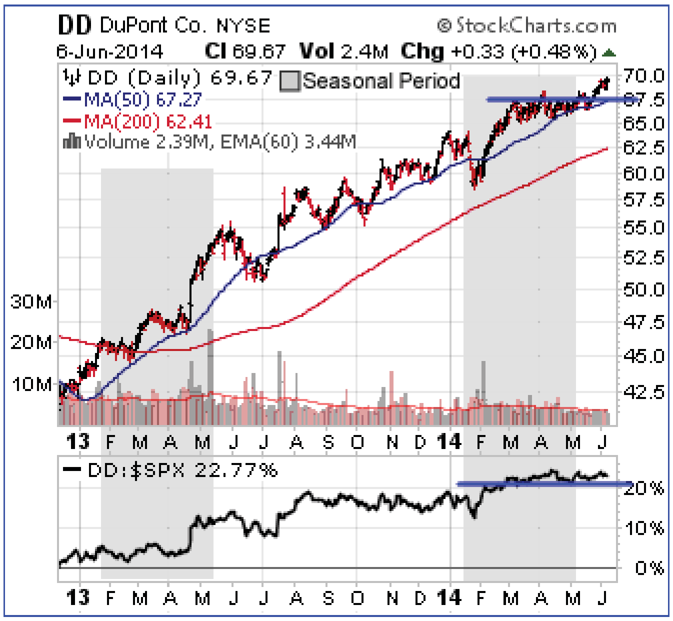
Sysco tends to perform well from April 23rd to May 30th. Sysco typically reports towards the end of the first week in May. Given its defensive properties, it is typically a good position to hold until the end of May. On an absolute basis, the stock has broken above resistance, which is positive. On a relative basis to the S&P 500, the stock is performing at market. Although this stock has hit the end of its seasonal period, investors might want to consider a trailing stop on the position and exit when the stock starts to underperform.

Costco– Setting up for an Autumn Run

Costco tends to perform well at this time of the year, from May 26th to June 30th. Costco typically reports its earnings at the end of May. Investors tend to hold Costco in June, due to the stability of its earnings, during a weaker time of the year. Costco tends to also perform well from October 4th to December 1st. After a correction at the end of 2013 and the beginning of 2014, the stock is performing at market and looks to be setting well for a trade in the autumn.

Dupont– Trade Finished

Dupont once again performed well in its seasonal period which ended on May 5th. Seasonal investors should be out of the trade, as Dupont tends to perform poorly at this time. The other option is to place a tight stop on the stock and exit if it starts to underperform.



Disney– Not all fun and games

On a seasonal basis, Disney has performed very well. It has outperformed and underperformed the market during its seasonal periods to be long and short the market respectively. More recently, Disney has outperformed the market in its seasonally long period from October 1st to February 15th. From the middle of February, it has performed at market. Typically, Disney does not perform well from June 5th to September 30th, which makes it a good short sell opportunity. In this time period, from 1990 to 2012, Disney has produced an average loss of 9.0% and has only been positive 26% of the time. Even though Disney is a solid company, this negative period is quite strong and a long position should be avoided.

Harley Davidson– Setting Up for July Run

Harley Davidson performed well in its last seasonal period from March 9th to April 18th. Right at the end of its seasonal period, Harley Davidson started to underperform the S&P 500. The next seasonal period starts on June 22nd and lasts until July 18th, just before its next earnings announcement. With the recent pullback, Harley Davidson could once again provide a good short-term seasonal opportunity.

Waste Management

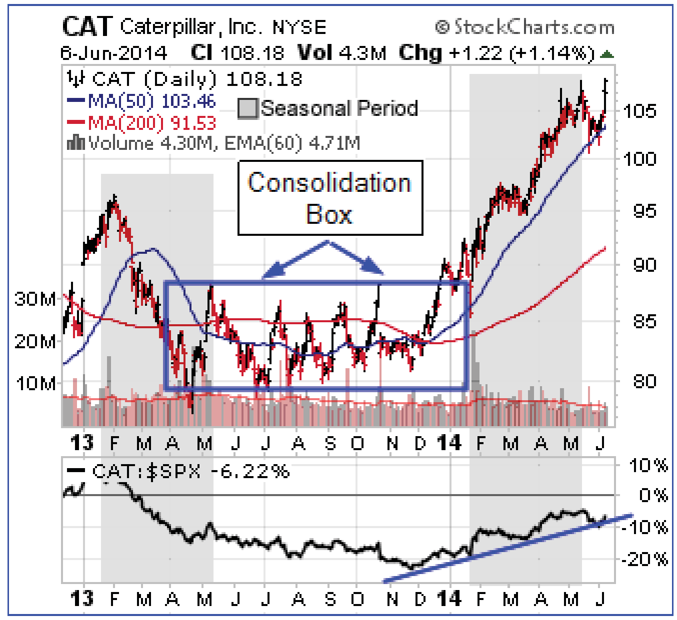
Waste Management performed well during its seasonal period. Just before the end of its seasonal period, it started to underperform the S&P 500. At this point, seasonal investors should have already exited their positions.

IBM– Setting up for July Run

IBM tends to perform well around its earnings announcements. It is interesting to note that IBM tends to perform well for the two weeks after its earnings. Typically, IBM announces its earnings mid-month of the earnings months. It is possible that investors rotate into IBM once the earnings season gets underway as investors seek the security of a lower beta technology position.

Caterpillar– Trade Finished

After a long period of consolidation, Caterpillar brokeout of its consolidation box at the beginning of its seasonal trade. This is almost always a good sign. Caterpillar performed extremely well in its seasonal period, which has ended and as a result, investors should consider exiting the position.



Last Minute Thoughts

Every time the market makes a new high, it makes the news and an increasing number of market experts call for a correction. For some analysts, it seems that the rationale for the correction is that market does not deserve to be at new highs and therefore should correct. For others, it is the overbought market internals that show an increased propensity for the market to correct.

For seasonal investors, it is a bit different. During the favorable season for stocks, the market is more likely to increase when it is reaching all-time highs, compared to the unfavorable season for stocks from the beginning of May to the end of October. A lot of the indicators that analysts look at, including myself, are useful but are not good timing tools. They only point to the market's susceptibility to corrections. If the indicators are showing that the market is overbought and the internals are getting weaker, then there is a greater chance for a correction. This is especially true if we are in the unfavorable season for stocks and vice versa.

If the stock market is able to move higher, watch out for the roller coaster in news. As the stock market moves higher, there will be less articles on the possibility of a stock market correction, until the stock market starts to correct and at which time the "correction" articles will increase once again. And if the stock market is able to recover and push higher, the bearish articles will once again wane….and so on. It can make for an emotional roller coaster for investors. For investors, it is a painful experience to change your discipline and then watch the market go against you. It is important to stick to your investment discipline.

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