

Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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Market Update

Special Note: Thackray's 2015 Investor's Guide will be available at the time the November newsletter is published. Details will be in the next newsletter.

Up and down we go! October is living up to its reputation as the most volatile month of the year with large gains and losses in the stock market. On Wednesday October 8th,

the S&P 500 gained 1.75%, the largest in a year. The rally was the result of Janet Yellen showing her dovish wings. The Federal Reserve released their September 16-17th meeting minutes showing their dovish bias by stating that the Fed would not raise rates for a "considerable time." The minutes went on to state that this could be interpreted as a "commitment," indicating that the Fed is less focused on taking action based upon data showing an improv-

S&P 500 Technical Status

The S&P 500 flirted with 1900 for a while when it was ascending and then moved up to flirt with 2000 for a while. Now it looks like it might be coming back to revisit 1900 again. The problem is that 1900 is a major support level which currently sits just above the 200 day moving average. If 1900 is broken decisively, then the S&P 500 could be in trouble. Many traders will be watching this level. Expect more volatility over the next few weeks.

Despite gut-wrenching drops in the market recently, interspersed with increases, we are approaching the entry point to the six month favorable season for stocks. It is often hard to get into the market as it is correcting, which is a possibility at the end of this month. On average, historically it has been beneficial to increase equity positions on October 27th (to be in the market for October 28th), even when the market is correcting at the time.



An ETF for all seasons

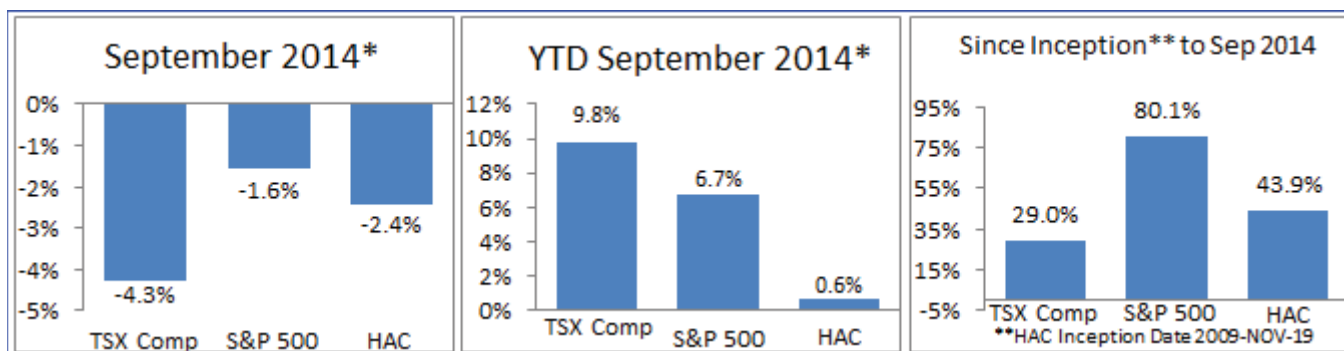
The **Horizons Seasonal Rotation ETF (HAC)**

Visit: HorizonsETFs.com for more information

Horizons Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of **September 30th, 2014**

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Fixed Income	
HFR	Horizons Active Floating Rate Bond ETF	21.7%
HBB	Horizons Cdn Select Universe Bond ETF	20.8%
	United States Dollar Exposed Assets	
	Fixed Income	
IEF	iShares 7-10 Year Treasury Bond ETF	5.3%
	Equities	
XLP	Consumer Staples Select Sector SPDR Fund	5.6%
XLV	Health Care Select Sector SPDR Fund	5.5%
XLB	Materials Select Sector SPDR Fund	-5.1%
	Commodity	
HUN	Horizons NYMEX® Natural Gas ETF	5.2%
	US Dollar Forwards (October 2014) - Currency Hedge **	-0.6%
	Cash, Cash Equivalents, Margin & Other	41.8%
	Total (NAV \$112,559,107)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 62.1% 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.

ing economy. One day later, Draghi brought confusion to the markets when the world expected follow through from Europe's recently announced monetary expansion. The markets did not get what they expected, as Draghi indirectly stated that the ECB's monetary committee had done what it could and that it was up to the countries to reform. It was hardly the message that the market wanted to hear and the market reacted accordingly, producing the first 2% drop since April of this year. We are only one-third the way through the month of October and investors should expect more market volatility as we move closer towards Halloween.

In my newsletter last month, I pointed out that although September is considered to be the worst month of the year, on average the losses tend to occur in the last part of the month, after options expiry (third Friday of the month). To seasonal cue, the S&P 500 had a slight gain in September up until options expiry day (Friday September 19th), and then corrected. In the newsletter I also went on to point out that October often has a similar pattern of providing positive performance up until October 18th and provided the supporting graphs (please refer to the September newsletter).

There are a couple of differences between the average seasonal trends for September and October. First, October can be a more volatile month as it is an earnings season month. The earnings season months of January, April, July and October, tend to all have positive performances for the first eighteen calendar days (see *Thackray's 2014 Investor's Guide*, page 43). Investors tend to push up the stock prices in earnings months, until the earnings releases get well underway.

Second, unlike September which tends to finish with a negative trend in the last few days, October tends to be positive. In my newsletter last month I stated "on average, the best date to start the favorable six month period has been October 28th. From 1950 to 2013, investing in the S&P 500 for the last four days of October has produced an average gain of 1.0% with a positive frequency of 58%" (see September newsletter for details).

Although October 28th is an average date, over time it has proven to be a good date for seasonal investors to be substantially invested. Yes, the market can take a further dip in November, and it has done so in previous years, but it in the past it has also made large gains in the last few days of October and into the beginning of November. Note: A start date of October 28th implies a market position by the close of October 27th (October 28th is the first full day in the market).

What the HAC is Going On?

In September, the S&P 500, TSX Composite and HAC all produced a loss. HAC underperformed the S&P 500, but outperformed the TSX Composite. HAC's loss was largely caused by its positions in gold and fixed income—both of these sectors are typically strong in September.

After successfully managing the gold trade over the last few years even when gold was in a decline, the poor performance of gold and gold stocks in this past September hurt HAC's bottom line. In last month's newsletter I stated that the strength of the U.S. dollar was hurting gold investments and investors should be ready to exit their gold positions early. HAC setup stop losses on its gold and gold stock positions and then vacated its positions early. Nevertheless gold's poor performance in September had an impact on the portfolio.

Currently gold is trading back at its lows from the beginning of the year. It is possible that a bounce could take place at this point. From a seasonal point of view, there is no justification to enter a gold position as October is typically a weak month for gold.



HAC also held a positions fixed income in Canada and the U.S. Typically, the sweet spot for the fixed income trade is in the month of September. Concerns about the effects of the Fed ending its quantitative easing program and that the Fed may raise interest rates soon, scared bond investors. HAC trimmed its fixed income position in September, as the position had a negative impact. Government bonds have risen in value since the end of September and into October, and have now erased the losses of September. Overall the bond trade has been successful since the beginning of its seasonal period in May.



ing their dividends and splitting their stocks at the end of their fiscal years. This helped to continue to push Canadian bank stocks higher. Once they started releasing their earnings in November, there was nothing to drive their prices higher and they faltered.

Technology - Starting its seasonal period - Outperforming with room to go - Seasonal period from October 9th to January 17th.



Sector Trends

Canadian Banks - Starting their seasonal period - Good performance but watch out after the earnings reports - Seasonal period from October 10th to December 31st



The technology sector is typically one of the top performing sectors in October. It starts its seasonal period on October 10th. If the stock market corrects, it would be expected that the technology sector would also correct.



Canadian banks have performed well so far in 2014 and from a seasonal basis they are expected to continue the trend. Typically Canadian banks perform well from October 10th to the end of the year, but investors should be careful after the banks start releasing their earnings towards the end of November.

Last year the Canadian banks released strong earnings reports in August and investors responded positively. In addition, there was a lot of talk about the banks increas-

Natural Gas - Volatile consolidation still waiting for the upside - Seasonal period from September 5th to December 21st

Natural gas has already started its primary seasonal trend on September 5th. It is still tracing out a consolidation pattern. The sweet spot for the trade comes in the second half of November.



continue to perform well in November. Investors should be looking for an exit strategy shortly.

Health Care - Healthy performance but watch out for a degenerative condition and time to exit



Consumer Staples - Boring outperformance but get ready to exit soon

The consumer staples sector is typically one of the top performing sectors in October. Investors tend to favor the stability of earnings from the sector in October which has historically been the most volatile month of the year.



For most of 2013 and 2014, the health care sector has been outperforming the S&P 500, except for a small dip in February. On a seasonal basis, the health care sector finishes its seasonal period on October 18th. There are three types of finishes to seasonal trades: a hard exit, when a sector typically performs negatively when the trade is finished; a soft exit, when a sector tends to slowly underperform; and lastly, a rolling exit, when a sector tends to transition from outperformance to market performance.

All three different types of exits require different strategies. The health care sector has a rolling exit and starts to perform at market mid-October. In this case, an exit from the health care sector can be delayed if it is performing well and exited if it starts to underperform, or it can be exited if the objective is to reduce beta. In other words, it can be held as a proxy for the market, at least from a seasonal basis.

Industrials - Underperforming but seasonal period coming up shortly - October 28th to December 31st

In 2013, the industrial sector outperformed the S&P 500 starting in May, up until the end of the year. At the beginning of 2014 the sector started by trading flat to the market until the end of May and then started to underperform the market. The fact that the sector is underperforming before its seasonal entry point is not a large concern as this can change very quickly. Using other

After a slow start in its seasonal period, compared to the S&P 500, the consumer staples sector has been performing well over the last two months. The consumer staples sector ends its seasonal period on October 27th, but can

technical indicators can help with determining the best entry opportunity. From 1989 to 2012, during the period of October 28th to December 31st, the industrial sector has produced an average gain of 6.0% and has been positive 83% of the time. From a seasonal perspective, it has paid to enter into an industrial sector position at the end of October.



Consumer Discretionary - Base Building Since May



After outperforming the S&P 500 for all of 2013, the consumer discretionary sector’s relative performance turned down at the start of 2014 when the harsh winter weather kept shoppers indoors. As a result, the sector underperformed for the next four months. Since May, the sector has performed at market. The consumer discretionary sector starts its seasonal period on October 28th and inves-

tors should be looking to enter into a position at that time.

Retail - Buy soon and do NOT wait too long to sell- Retail sector has a seasonal period from October 28th to November 29th



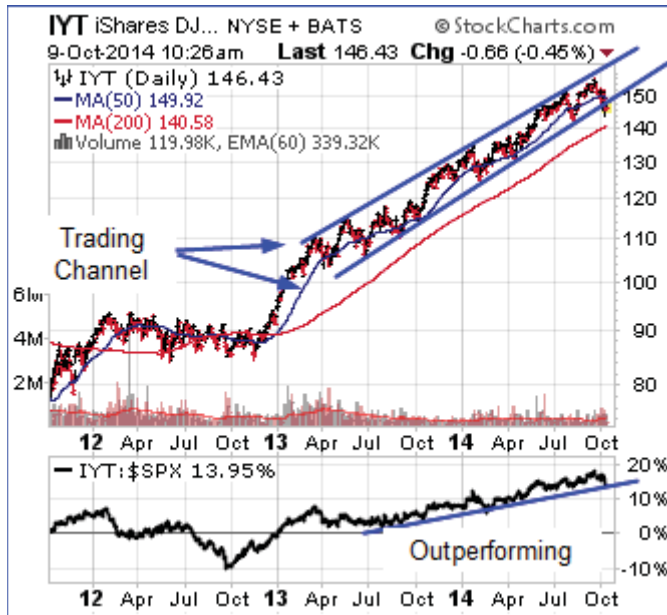
The retail trend is very similar to the trend of the consumer discretionary sector.

The retail sector has a seasonal opportunity from October 28th to November 29th. In other words for the one month period leading up to the start of the “shopping season.” This trade epitomizes how seasonal investing works. Seasonal investors get into an investment before other investors get interested and get out as other investors’ interests have peaked which tends to occur when the anticipated event takes place. With the retail sector, the maximum interest is reached on Black Friday. Some investors might get into the sector a few weeks before hand, anticipating good results to be released, others a week, others a few days. Generally, seasonal investors get in before the interest builds. Shortly after Black Friday, the retail sales results are released. At this time the seasonal investors are out of the trade having benefited from the rising interest over time. Once the results are released, there are three possible scenarios. First, the results are better than expected. If this occurs, the sector will typically continue to outperform, but depending on the strength of the outperformance, will often regress to market performance over time. Second, the results are as expected. In this scenario, typically the best that can be hoped for is market performance, but more often than naught, the sector turns down because investors start to leave as they realize that there is a lack of catalysts to move the sector higher. Third, the results are less than expected. When this situation occurs,

the sector tends to start underperforming, especially when investors flood the exit gates as they want to rotate into another more exciting opportunity.

Note: this retail seasonal trade has a hard exit. From a seasonal perspective, it is best to exit the trade on the seasonal exit date, regardless of technical conditions as the retail sector tends to underperform after its seasonal exit date on a regular basis.

Transportation - Moving along, how long can it go on? - Seasonal period from October 10th to November 13th



The transportation sector has been on a roll in 2013 and 2014, strongly outperforming the S&P 500. The question is how long can it go on. The sector has a short period of seasonal strength from October 10th to November 13th. In a situation where the sector has a prolonged streak of outperformance, it does not necessarily negate an investment in a seasonal period. Over time, the sector will have a tendency to have sharper corrections on “bad news.” The difficulty with this transportation trade is that the first part of the trade takes place when the market is in a volatile period and can correct sharply, which could have an even greater impact on the transportation sector. If a seasonal investment is made in the transportation sector, investors should be conservative and be prepared to exit the trade if it starts underperforming.

Agriculture - All downhill this year so far, but if market rallies it could perform well - Seasonal period from August to December

The agriculture sector has underperformed the S&P 500 since the beginning of 2014. Seasonal investors have

missed the large underperformance for the first seven months of the year. This sector would have to show an improved relative performance to the S&P 500 to be of interest. So far this has not happened.



Stock Spot

Altria - Smoking Hot - Seasonal period from July 19th to December 19th



Conservative investors have been buying Altria, looking for a good dividend in uncertain markets. This trade is extended but has not shown any signs of turning down. If Altria continues its outperformance track record, investors should become more cautious as the seasonal exit

date is approaching as it becomes more prone to a correction.

Procter and Gamble - Finally showing strength but get ready to exit - Seasonal period from August 7th to November 19th



Procter and Gamble has produced boring outperformance recently.....boring is good sometimes. As investors have been increasingly concerned about market volatility they have been attracted to consumer staples companies, such as Procter and Gamble. As I mention in *Thackray's 2014 Investor's Guide*, page 101, Procter and Gamble tends to outperform up until it releases its first quarter earnings in mid-November. If the market is on stable footing at this point, investors should be looking to exit Procter and Gamble.

Last Minute Thoughts

After the European financial crisis was no longer of interest for media, I continued to highlight the continuing problems that existed and stated that the crisis was not over and that one day it would return. It is always difficult to state when macro problems will surface. No one knows the tipping point.

Up until now, many thought that Germany's economic growth would pull the other countries out of their problems. With Germany's slowing growth rate, the big engine that could - is having problems and reducing Europe's overall growth rate.

The eurozone is caught in a corner. Large countries such as France that continue to run deficits are not as easy to push around as smaller countries, such as Greece or Cyprus. France keeps asking for extensions on its deficit targets and so far the ECB has accommodated. France is too big to fail and the back and forth between France and the ECB will be going on for quite a few years yet.

Up until recently, many pundits have been stating that Europe is growing its way out of its problems. It takes a long time to get out of a debt leveraged situation— not just one or two years. The economic backdrop is not supportive to solving the problems: high unemployment in many European countries, massive debts, deficits out of control, slowing growth in China, sanctions with Russia and a lack of political willpower to make the necessary structural changes. Although Europe's problems have been moved to the back burner for now, the problems will be with us for many years yet.

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