Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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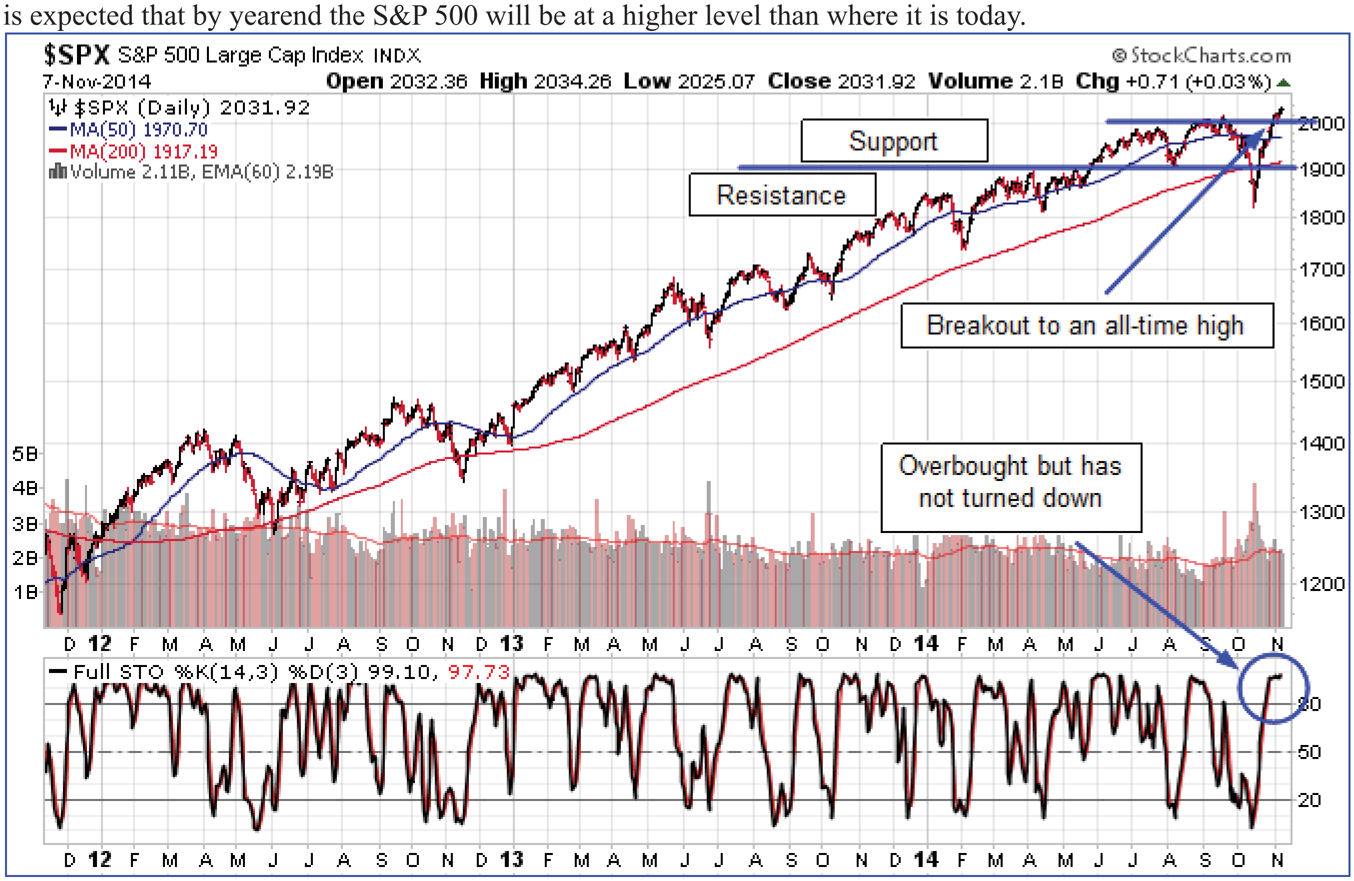
Market Update

October provided a wild ride for the stock markets – living up to its reputation as the most volatile month of the year. After months of complacency, the S&P 500 struggled for direction, moving up and down in large increments. There were twenty-three trading days in October,

S&P 500 Technical Status

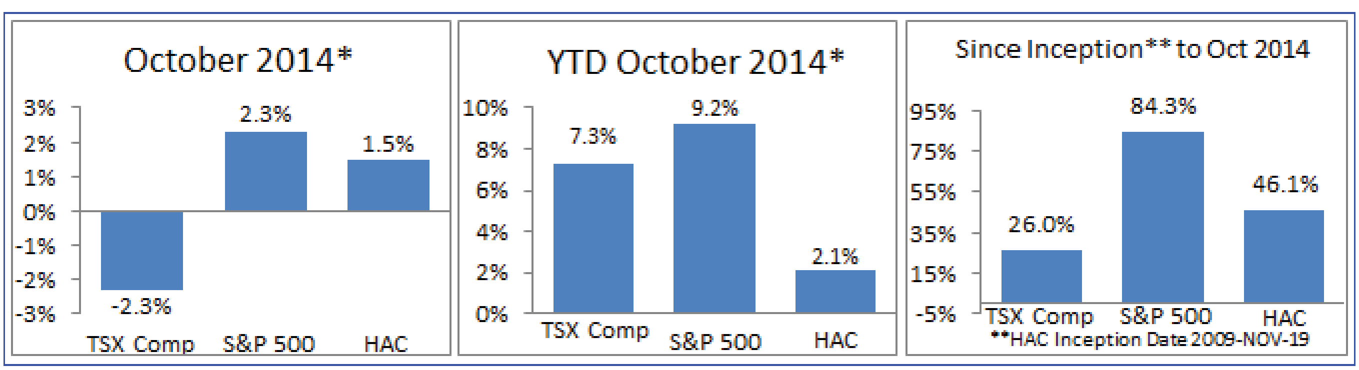
In October, the S&P 500 broke down below a critical support level of 1900. In mid-month, the S&P 500 rallied strongly and broke above the 1900 level just as easily as it went below. Since then it has continued on to all-time highs. The S&P 500 is currently overbought according to the Full Stochastic Oscillator, but has not shown any signs of turning down. After a strong rally to all-time highs, and given that the bulk of the earnings season is past, the S&P 500 will probably go through a digestion period and it would not be surprising to see it trade around its current level over the next few weeks looking for direction. Given that we are in the seasonally strong period of the year, it is expected that by yearend the S&P 500 will be at a higher level than where it is today.



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

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Fixed Income	
HXS	Horizons S&P 500® Index ETF	37.0%
HXF	Horizons S&P/TSX Capped Financials Index ETF	5.0%
	Fixed Income	
HBB	Horizons Cdn Select Universe Bond ETF	15.1%
	United States Dollar Exposed Assets	
	Equities	
XLI	Industrial Select Sector SPDR Fund	10.0%
XLY	Consumer Discretionary Select Sector SPDR Fund	9.9%
XRT	SPDR S&P Retail ETF	5.0%
XHB	SPDR S&P Homebuilders ETF	4.8%
MOO	Market Vectors Agribusiness ETF	4.3%
SMH	Market Vectors Semiconductor ETF Trust	2.0%
	S&P 500 E-Mini Index Future (December)*	12.1%
	NASDAQ 100 E-Mini Index Future (December)*	10.0%
	Commodity	
HUN	Horizons NYMEX® Natural Gas ETF	3.6%
HOD	Horizons NYMEX® Crude Oil ETF	1.7%
	US Dollar Forwards (November 2014) - Currency Hedge **	-0.8%
	Cash, Cash Equivalents, Margin & Other	2.4%
	Total (NAV $109,082,835)	122.1%

* Reflects Notional Exposure of futures contracts. Marked-to-Market of futures contracts equals 0.3% each of NAV
*** Reflects gain / loss on currency hedge (Notional exposure equals 51.79% 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.

and twelve of those days had movements up or down by greater than 1%. This is an extraordinarily large number. The VIX peaked in mid-month, reaching a high of 31.06 on October 15th. On the same day, the S&P 500 reached its closing low of 1862. The stock market has rallied strongly since, and now sits at 2032 as of November 7th. The first half of October was characterized by investor fear, as investors were concerned with the "lone wolf" terrorism in both Canada and the U.S. and the possibility of Ebola spreading in the U.S. Mid-month, the concerns died down at the same time better than expected earnings were hitting the markets, resulting in a "V-shaped" rally.

The S&P 500 is currently touching on all-time highs once again. Now that the earnings season is largely out of the way, and we are past the non-farm payroll numbers, the S&P 500 will probably try and find direction at this point. Do not be surprised if the stock market moves higher and then returns back to current levels, or moves lower and drifts back to current levels. After a strong run of approximately 9%, and with a lack of drivers to push the market higher, a strong move higher from this point is probably going to take some time to develop. The good news is that the last part of November and the December are seasonally strong for the stock market.

What the HAC is going on?

Given the conditions of the stock market in October and the fact that the stock market often bottoms towards the end of the month, HAC held some equity positions, but was largely in cash for most of the month. On October 27th, HAC entered the market with a dramatic increase in equities.

HAC avoided much of the volatility in October and entering before the end of the month proved to be profitable. Despite many academics starting their favourable six month seasonal period on November 1st, I have always maintained that it is best to capture the last four days of October which have on average been one of the strongest four day periods of the market. From October 28th to October 31st, during the period of 1950 to 2013, the S&P 500 has produced an average gain of 0.8% and has been positive 61% of the time. This year, the S&P 500 produced a gain of 2.9% in the last four days of October.

HAC entered a number of seasonally significant sectors and still maintained a core position in the S&P 500. As sectors demonstrate their seasonal strength, it is expected that HAC will adjust the portfolio to take advantage of the trends.

On a seasonal basis the Canadian dollar tends to be weak at this time of the year and it has obviously followed its trend with help from a number of influences. HAC has taken advantage of the seasonal trend by increasing its exposure to the U.S. dollar. The seasonal strength of the U.S. dollar relative to the Canadian dollar finishes mid-December. Given that either the U.S. dollar could weaken from its overbought state and the price of oil could bounce from its oversold lows, consideration should be given to ending the U.S. dollar trade early if the Canadian dollar starts to show strength.

On a seasonal basis, oil tends to perform poorly starting in mid-October. In October HAC entered into a small ETF position to capture oil's negative trend. HAC paired the short exposure in oil with a long position in natural gas. The pair has performed well as oil has lost ground and natural gas has increased.

Although the sweet spot for the bond seasonal period ends at the beginning of October, the positive trend continues into December. Bonds spiked in October and have pulled back, but overall for the month were positive. At the end of October HAC still maintained an ETF position in bonds to capture the positive trend.

Sector Trends

Industrials - Starting with outperformance

The industrial sector is a core seasonal trade at this time of the year. If the trade is performing well, it usually indicates a healthy stock market. So far, the industrial sector is performing well. In fact, it is interesting to note that the sector started to outperform the S&P 500 in October before the market bottomed. This is also a sign of strength for the sector.

On average, during its seasonal period, the sector only outperforms the S&P 500 by a small amount, but the frequency of outperformance is strong. The industrial sector has currently broken above its resistance level and is outperforming the S&P 500.

At the end of October HAC held a position in XLI.

Discretionary - Performing at market

After performing very well for 2013, the consumer discretionary sector started to fade relative to the S&P 500 at yearend. The ice-storm and extreme weather kept shoppers indoors and investors out of discretionary stocks. By the end of April, the sector started to perform at market and since that time it has continued its market performance. Although the seasonal trade has started the sector is still waiting to prove itself.

At the end of October, HAC held a position in XLY

Retail - Short, sweet and working

The retail sector typically performs well from October 28th to November 29th. The average investor wants to take advantage of strong seasonal sales in the holiday season. Seasonal investors enter into the sector ahead of the average investors and exit at the peak of interest in the sector as the holiday season kicks off on Black Friday.

So far the trade is working well. The retail sector has broken through a bullish ascending triangle and is outperforming the S&P 500.

Caution: the retail sector typically starts to underperform the S&P 500 at the end of its seasonal period. It is typically best to exit the trade at this time, rather than delaying. At the very least, investors should use a tight trailing stop.

At the end of October, HAC held a position in XRT.

Technology - Started early, will it finish early?

The technology sector tends to start outperforming on October 10th. The technology sector has been outperforming the S&P 500 since May and has recently had an uptick in relative performance at the start of its seasonal period. It has also broken above resistance. The sector is expected to continue to perform well.

Caution: Despite the technology sector's seasonal period ending on January 17th, the interim period in first half of December can be weak. Investors should consider reducing the technology sector's weight on a temporary basis if the sector is not performing well.

At the end of October, HAC did not hold a position in XLK.

Semiconductors - Short, sweet and successful

The semiconductor sector has two periods of seasonal strength: October 28th to November 6th and January 1st to February 15th. Due to the demand cycle for chips and the earnings releases for semiconductor companies, the sector performs well at the end of October and the beginning of November. From 1994 to 2013, the period from October 28th to November 6th period has produced an average gain of 6.1% and has been positive 90% of the time. The frequency of success is extremely strong for such a short period of time. Once again, the trade was successful in 2014.

At the end of October, HAC held a position in SMH.

Agriculture - Better late than never

The agriculture sector has a seasonal period that starts in August and lasts until the end of the year. Since the beginning of 2013, the agriculture sector has underperformed following the overall trend of commodities. In October, the agriculture sector finally rallied strongly and has started to show signs that it is breaking above its downtrend line. The sector still needs to prove that its current move is more than a “head fake,” but the initial indications are encouraging.

At the end of October, HAC held a position in MOO.

Materials - Not yet

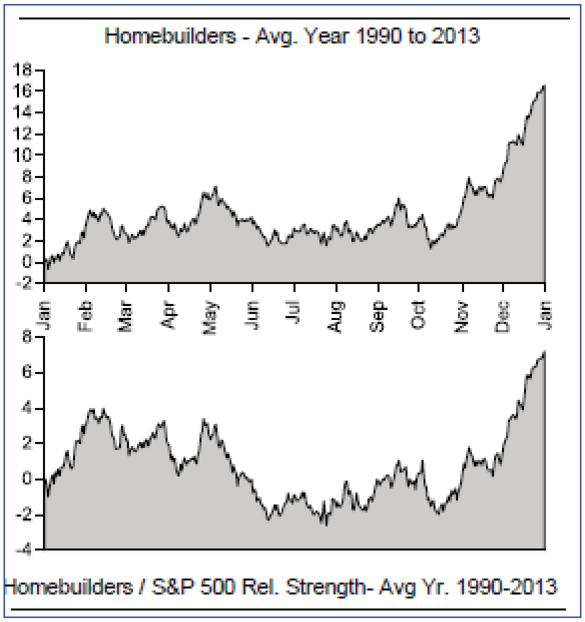
Although the materials sector seasonal period starts on October 28th, the sector’s sweet spot does not start until mid-November. The sector is underperforming and investors should wait better relative strength is shown before entering a position.

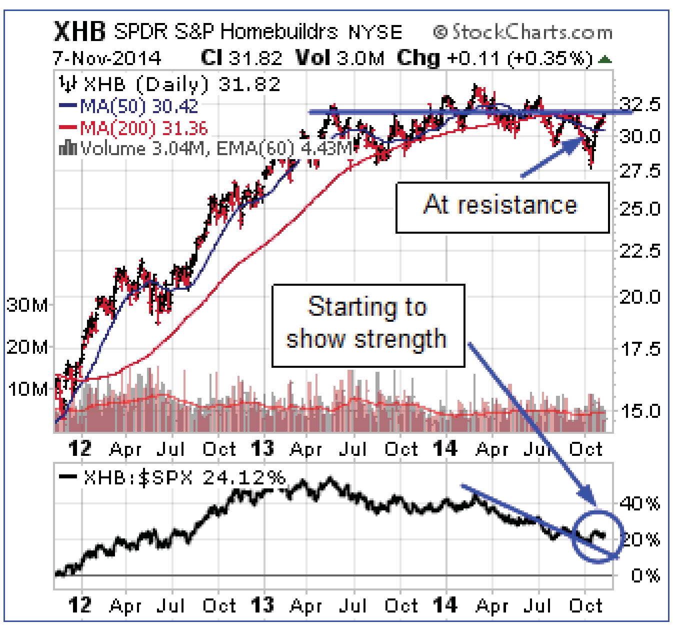
At the end of October, HAC did not hold XLB.

Homebuilders - Showing signs of promise

The homebuilders sector typically performs well from October 28th to February 3rd. In this period, from 1990 to 2013, the sector has produced an average gain of 18.1%

and has been successful 92% of the time. Looking at the long-term seasonal graph for the homebuilders sector below, on average the "off-season" starting in April has performed very poorly. There are times where the sector has performed well in its "off-season" but it definitely has been beneficial to focus investments in this sector during its seasonal period.





Currently, the homebuilders sector is pushing up against resistance and has broken its downtrend line. If the XHB is able to break above resistance, it will be well setup to move higher.

At the end of October, HAC held a position in XHB.

Metals and Mining - Seasonal period starting soon, but still underperforming

The metals and mining sector does not start its seasonal period until November 19th. So far, the sector has not shown signs of gaining strength. Investors should wait for the sector to show better relative strength before entering into a position.

Natural Gas - flickered at the beginning of its seasonal trade, but is firing now

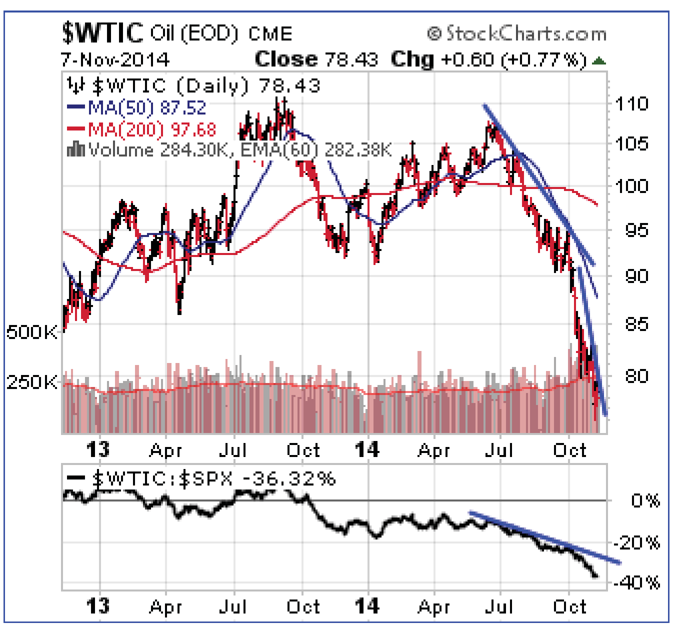
Natural gas started its seasonal trend on September 5th. For the next month it oscillated back and forth in a fairly tight trading range of \$3.75 to \$4.00. After breaking to the downside, it has managed to climb back up to just under \$4.50. As part of risk management, HAC trimmed back its natural gas position in October as it broke below its trading range. HAC wisely held onto a core position which has performed strongly since. If natural gas continues to perform well, look for it to run into resistance at \$4.80. It is possible for natural gas to continue higher, especially considering the sweet spot for the trade starts mid-November and lasts until December 21st.

Caution: Natural gas has a strong seasonal tendency to perform poorly from December 22nd to December 31st. This is caused by refiners reducing their inventory at yearend in order to reduce their taxes (see *Thackray's 2015 Investor's Guide*, page 47 for details). It is typically better for investors to exit the trade at the end of the seasonal period, rather than waiting for natural gas to show signs of weakness.

Oil (Short) - Has worked well but trade ends soon

Oil tends to perform poorly at this time of the year up until December 7th. This year, oil has fallen through the floor as the Saudi's have indicated that they are interested in protecting their market share, even as demand has been weakening and supply increasing.

Caution: the oil sector is within four weeks of the end of its seasonal short sell period. When a sector has corrected strongly, it will often rally before the end of its short sell seasonal period.



At the end of October, HAC held a position in HOD.

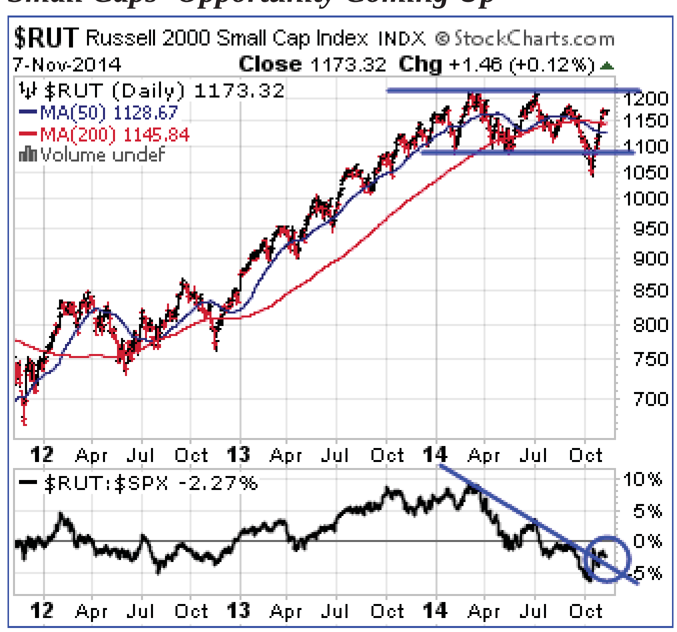
Canadian Banks - Will they perform well into their earnings?

Canadian banks have been outperforming the S&P 500 since July. The seasonally strong period for Canadian banks is from October 10th, until the end of the year. Recently, the sector has been performing at market.

Caution: Canadian banks start to release their earnings at the end of November. Given that Canadian banks have outperformed since July, it is going to be difficult for Canadian banks to keep performing well unless earnings are very strong. Investors should be looking to exit the sector towards the end of November if the sector starts to underperform.

At the end of October, HAC held a position in HXF.

Small Caps- Opportunity Coming Up



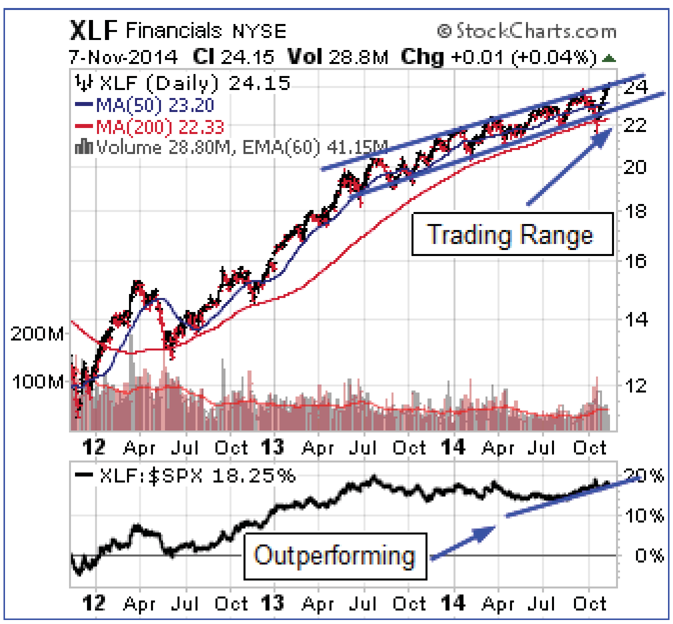
The small cap sector has been underperforming the S&P

500 since April. In October the sector broke its downtrend line, but only slightly. Nevertheless, this is a positive sign. The small cap sector has a period of seasonal strength from December 19th to March 7th. In this period, from 1979 to 2013, the Russell 2000 has produced an average gain of 5.8% and has been positive 77% of the time. The trade has worked for the last five years in a row. As we approach the four week window before the seasonal start date, investors should be looking to enter the sector if it starts to show continued strength relative to the S&P 500.

At the end of October, HAC did not hold an investment that focused on the small cap sector.

U.S. Financials - Outperforming since August

U.S. financials have been outperforming the S&P 500 since July. When this occurs, it is positive for the stock market as it is often difficult for the market to have a sustained run without the financial sector participating. The sector is currently at the top of its trading range. The seasonal period for U.S. financials starts in mid-December, and if the sector were to pull back to the bottom of its trading range and then turn up, this would represent a good entry position in the sector.



At the end of October, HAC did not hold an investment that focused on U.S. Financials

Thanksgiving trade - Best two days in the market

The best two contiguous days on average for the stock market over long-term, are the day before and the day after Thanksgiving. From 1950 to 2013, the two days combined have produced an average cumulative gain of 0.7% and has been positive 84% of the time. In addition, the TSX Composite also has a very strong track record of producing a gain on the Thanksgiving holiday (see *Thackray's 2015 Investor's Guide*, page 141).

Canadian Bonds - Performed well but ending seasonal period soon

Bonds started their seasonal period in May and have since been performing well, despite their volatility. Although the stock market tends to produce better returns at this time of the year compared with government bonds, government bonds have still produced an average positive return. Government bonds tend to finish their period of positive performance at the end of the year. Investors should be looking for an exit point over the next few weeks.

At the end of October, HAC held a position in HBB.

Canadian dollar - Still in downtrend but rally possible as negative seasonal period ends in December

The Canadian dollar has been on a "ski-slope" downwards trajectory since July. The Canadian dollar has been hit hard on two fronts. First, the strength of the U.S. dollar relative to most currencies around the world. Second, the dramatic fall in oil prices. If the U.S. dollar were to weaken relative to world currencies, or the price of oil were to rise, the Canadian dollar could break its downward trend against the U.S. dollar.

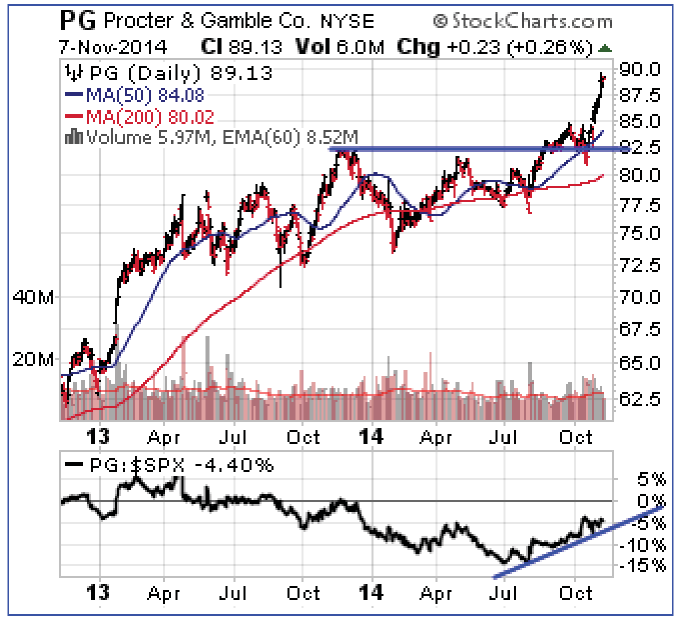
Stocks

ADM - Strong recent action bodes well

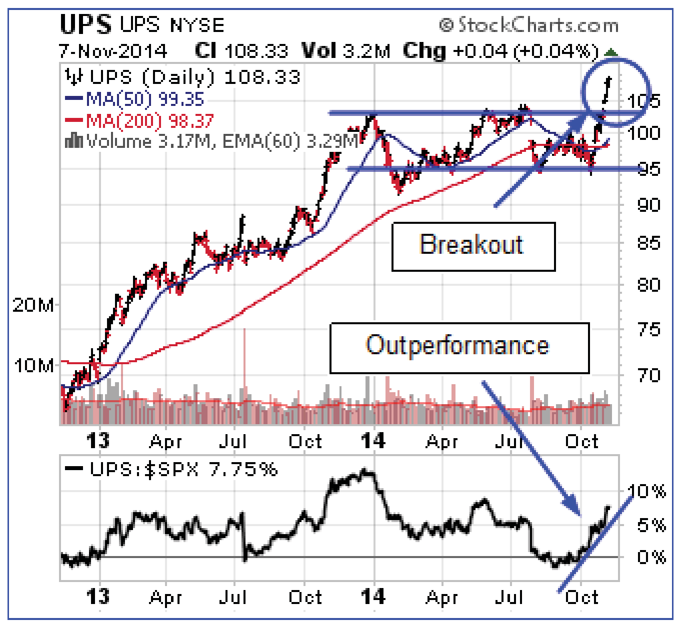
ADM has been outperforming the S&P 500 since 2013. Recently, it has had another uptick in outperformance. The seasonal trades ends on December 31st. ADM is well positioned to move higher as it is above its uptrend line and its relative outperformance line compared with the S&P 500.

PG - Solid performer in its seasonal period

Procter and Gamble (PG) has been performing well recently, with a solid breakout in October above resistance. PG continues to perform well, but its seasonal period ends on November 19th. Investors should be looking to exit the stock upon weakness.



UPS - New Seasonal Trade in Thackray's 2015 Investor's Guide - Seasonal period from October 8th to December 8th



The UPS trade is a new seasonal trade for the Thackray's 2015 Investor's Guide. From 1990 to 2013, during the period of October 10th to December 8th, UPS has produced an average gain of 8.1% and has been positive 93% of the time. Incredibly, it has also beaten the S&P 500 93% of the time in the same period. This year, UPS has had a strong breakout, and has also produced a strong gain and outperformed the S&P 500. At the end of October, HAC did not hold a position in UPS.

Altria - Smoking hot - but get ready to get exit

Altria has been gaining ground impressively during its seasonal period, which ends on December 19th. Currently, the stock is overbought and investors should be looking to exit the position as we move closer to the exit date. An indicator that the price trend is probably reversing down would occur if the full stochastic oscillator were to move below 80.

Last Minute Thoughts

On October 31st, Japan unleashed an unexpected very large stimulus package to try and stimulate their economy and stave off deflation. Of course the large stimulus package rallied the stock markets. But is that how success should be measured? In the short run the extra liquidity is beneficial helping to prime the pumps for business as the yen falls in price, boosting exports. The question remains, is this a good policy for the long-term? At the risk of sounding disingenuous: it will be a good policy if it works. The theory is that the stimulus should prime the economy and companies should be able to take over and grow on their own. Expansionary monetary and fiscal policy have worked well in the past helping countries escape a recession. Unfortunately, Japan is not in a typical inventory recession. As their economy has struggled year after year, Japan has been slow to initiate structural reforms to solve their problems. To use a tired phrase from two years ago, Japan has only managed to "kick the can down the road." Yes, there is a chance that another stimulus policy may work, but the real problem is if it does not.

If the latest stimulus policy only manages to artificially and temporarily get the economy going, then not much will have been accomplished other than creating more debt. Japan currently has an overall debt to GDP ratio of 220%. It has only been able to sustain its economy with an astronomically high ratio because its population is willing to lend the government money at very low interest rates. Eventually this will come to an end as the population lacks the resources to finance their government and investors move money to other currencies as the yen continues to depreciate. On top of everything else, Japan has demographics working against it. As of 2010, Japan had a median age of 45. With a low birth ratio, the average age is only going to climb. If Japan does not manage to stimulate its economy this time around, they will have no choice but to introduce another stimulus package. Once you start implementing stimulus packages, generally each one has to be bigger than the last to have any effect. Currently, Japan is running out of ammunition. Let's hope that this recent stimulus package works.

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