Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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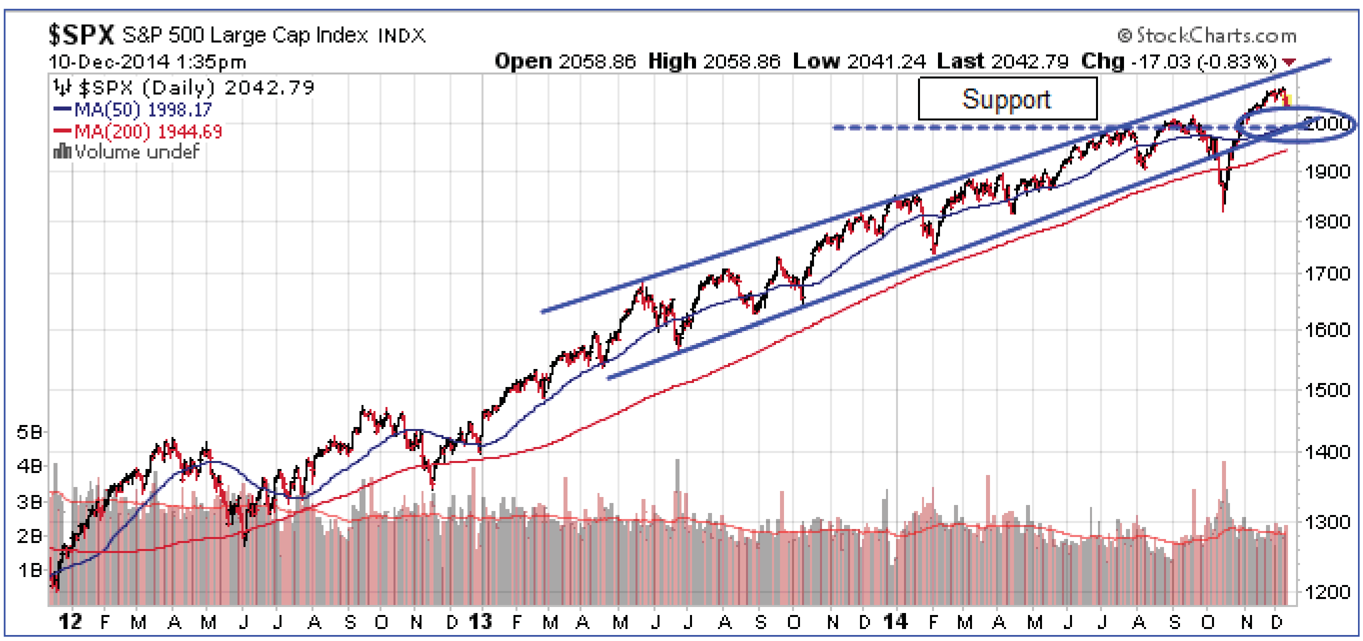
Market Update

The stock market performed well in November, particularly the U.S. stock market. As investors questioned the economic growth of many countries, they were attracted to the U.S. with a rising dollar and positive economic reports. A fairly strong earnings season also helped to push

S&P 500 Technical Status

After a rough patch in October, the S&P 500 is back in its upward trading channel. The S&P 500 is rounding over and it is possible that we might see a bit of weakness, but from a seasonal perspective, the last two weeks in December tend to be positive. The key support level for the S&P 500 is 2000. This is both support and the bottom of its trading channel. If the S&P 500 were to break this level, it would indicate further weakness.

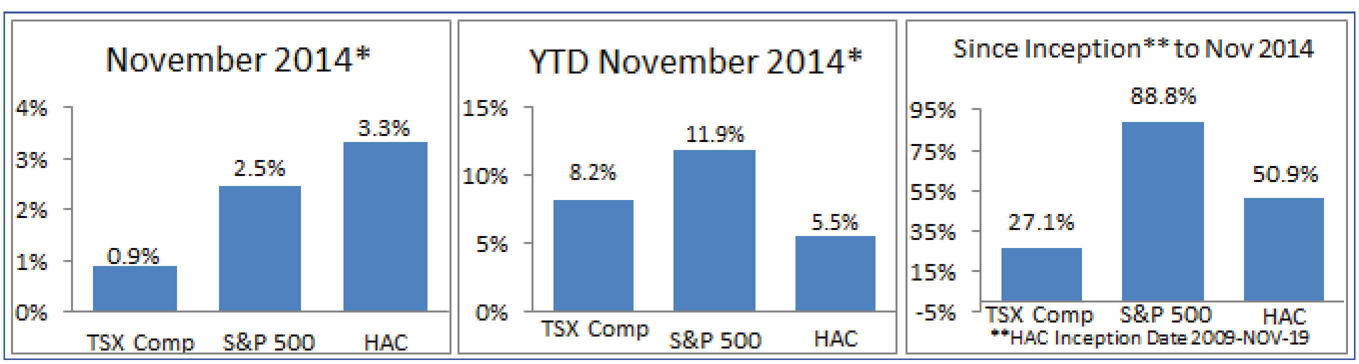
Seasonal tendencies for the S&P 500 and the Nasdaq are positive starting mid-December. Given the few days of weak performance recently, a bounce is likely. Strong performance tends to carry over for the first few days of the New Year. January tends to be a positive month, but most of the gains on average occur in the first few days of the month and the last week of the month. The middle part of January very often sees a lot of sector rotation as the market looks for direction.



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

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HSU	Horizons BetaPro S&P 500® Bull Plus ETF	25.9%
HXF	Horizons S&P/TSX Capped Financials Index ETF	9.9%
HXT	Horizons S&P/TSX 60™ Index ETF	6.1%
	Fixed Income	
HBB	Horizons Cdn Select Universe Bond ETF	12.7%
	United States Dollar Exposed Assets	
	Equities	
XLI	Industrial Select Sector SPDR Fund	15.3%
	NASDAQ 100 E-Mini Index Future (December)*	10.1%
XLK	Technology Select Sector SPDR Fund	5.4%
XHB	SPDR S&P Homebuilders ETF	5.0%
XLY	Consumer Discretionary Select Sector SPDR Fund	4.6%
MOO	Market Vectors Agribusiness ETF	4.3%
XLB	Materials Select Sector SPDR Trust	3.9%
	Commodity	
HUN	Horizons NYMEX® Natural Gas ETF	3.8%
	US Dollar Forwards (December 2014) - Currency Hedge **	-0.4%
	Cash, Cash Equivalents, Margin & Other	2.8%
	Total (NAV $114,968,722)	109.4%

* Reflects Notional Exposure of futures contracts. Marked-to-Market of futures contracts equals 0.7% of NAV
*** Reflects gain / loss on currency hedge (Notional exposure equals 22.8% 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.

the stock market up. On a seasonal basis, the U.S. stock market tends to perform well relative to the Canadian stock market from October until mid-December. Currency trends, commodity trends and the sector weights of the different markets have an impact on the relative performances.

It is not uncommon for the investment winds to change and the Canadian stock market to start improving relative to the U.S. stock market beginning in mid-December. This is not to say that the Canadian stock market has a strong seasonal tendency to outperform the U.S. market, but rather, its relative performance improves and it can outperform the U.S. stock market at different times over the next few months. That being said, the Canadian market could have a turning point of outperformance starting at some point in the last two weeks in December.

Currently, the energy sector has been hit hard and the Canadian banks are suffering. Tax loss selling could help to push the energy and gold companies down further over the next week or a bit longer, but it is possible that a relief rally could occur as bargain hunters step in. Last year, gold stocks got pummeled for most of December and then turned up strongly towards the end of the month and performed strongly in January. There really was not much reason for gold stocks to rally, other than bargain hunters stepping in at the end of the year and driving prices higher. It is possible that we could same the same phenomenon this year.

Energy stocks could also bounce as bargain hunters step in towards yearend. Especially since the energy sector tends to improve its performance in the last two weeks of December. The seasonally strong period for energy stocks starts in February, but it can start in January under favorable conditions. Given that the energy sector is dramatically oversold, if oil starts to find a bottom, the energy sector could start an upward move before its seasonally strong period, even in late December. It is worth monitoring.

As more and more investment writers are commenting on seasonal trends, there is an increase in the number of articles regarding the Santa Claus rally. The Santa Claus rally is loosely defined, but generally includes the few days before Christmas and a few days after. The problem is that the stock market tends to perform well even earlier and lasts longer and investors focusing on the short period of a few days before and after Christmas often miss out on returns. In addition, the main beneficiary of the Santa Claus rally is the Nasdaq. In the past, I have written about the Santa Claus rally strategy, *Santa Claus Arrives Early and Stays Late*. In more recent years, I have written about the strategy, *Santa does the Naz* (included in *Thackray's 2015 Investor's Guide*), which focuses on the Nasdaq's performance from mid-December to late January. Any way you look at it, the market has a tendency to rise in the last half of December and at least into early January. This year, unless there are any naughty unexpected surprises the stock market has a good chance of finishing the year on a positive note.

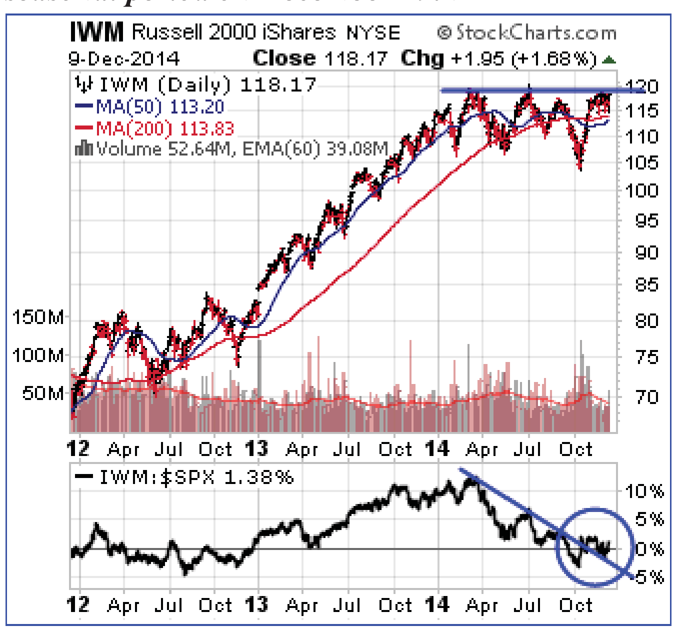
What the HAC is going on?

HAC performed well in November, largely the result of:

- ♦ Favoring the U.S. market over the TSX Composite
- ♦ The positive returns of the pair trade which consisted of a long position in natural gas and short position in oil. This pair trade has a strong seasonal trend. HAC has implemented this pair trade in the last two years.
- ♦ Maintaining its fixed income position in the market past its seasonal period because of strong momentum.
- ♦ Maintaining a long position in the US dollar relative to a neutral position for the portfolio
- ♦ Maintaining positions in outperforming sectors.
- ♦ Executing a positive retail seasonal trade.

Sector Trends

Small Caps - setting up well for the start of their seasonal period on December 19th



After a strong year in 2013, the small cap sector faded right at the end of its last seasonal period at the beginning of March 2014. Recently, the sector has been consolidating and starting to show signs of strength.

On an absolute basis the small cap sector has turned back from its earlier highs of the year. A lot of market pundits are pointing to the sector's failure to reach new highs as a warning sign that the market is heading lower and that small caps are expected to underperform. In reality, small caps have been performing at market for the last few months and have been consolidating after underperforming the S&P 500 from March until July. On average Small Caps tend to start performing well on a seasonal basis on December 19th. If the overall market starts to move upwards, investors should expect the small caps to start outperforming. It is something that investors should be watching for over the next two weeks.

At the end of November, HAC did not hold a position in the small cap sector.

Industrials - Performing well but could be time to take some profits shortly

After outperforming the S&P 500 in October, the industrial sector has been performing at market for the last few weeks and has started to show some signs of weakness. On a seasonal basis, the industrial sector can perform well into yearend, but investors should consider reducing their position temporarily for the first three weeks in January. Although this may seem strange, in January, the stock market tries to find its footing and there is often a lot of sector rotation as money managers try to figure out the new themes for the year.

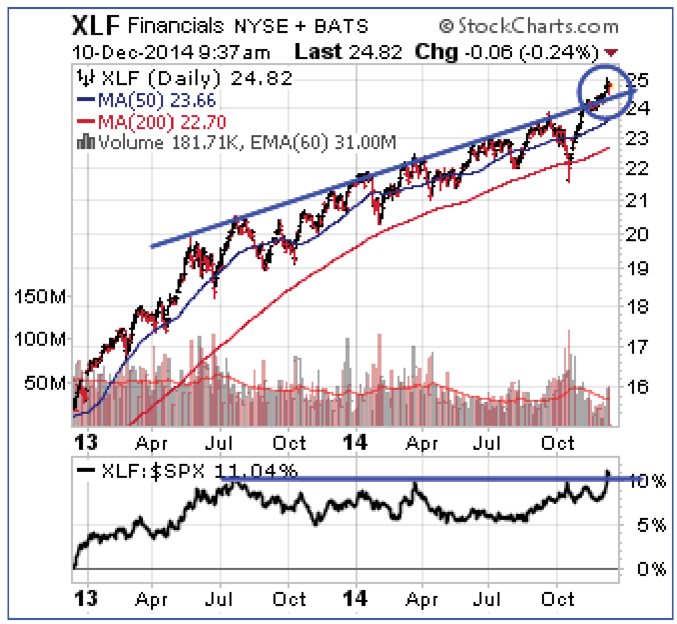
The collateral damage from this process is that the cyclical sectors can suffer with poor performance for the first three weeks in January. Unless the industrial sector is outperforming the S&P 500, it is best to step aside and re-enter later in January when industrials tend to outperform once again.

At the end of November, HAC held a position in XLI.

U.S. Financials - Starting their seasonal run early

On a relative basis, compared to the S&P 500, the U.S. financial sector started to outperform in August. For most of October and November, the U.S. financial sector performed at market. Recently, the U.S. financial sector has once again started to outperform the S&P 500.

Many investors look to the financial sector for clues about the overall markets strength. If the financial sector is one of the leading sectors, then it puts the overall market in good standing. If it is one of the trailing sectors a rally is less likely to be successful. Currently, the financial sector is helping to lead the way, which is a good thing.



At the end of November, HAC did not hold a position in XLF.

Consumer Discretionary - Continued solid performance

The consumer discretionary sector benefited from the rally in the retail sector in November. Overall, the consumer discretionary sector is still performing slightly better than market.

At the end of November, HAC held a position in XLY.

Agriculture - Slow growing

The seasonal trade for the agriculture sector is running out of time- its seasonal period finishes at the end of the month, but under the right circumstances, the sector can perform well in January and most of February. After an initial spurt of outperformance at the beginning of November, the agriculture sector has been fading and the sector trade has been losing its attractiveness.

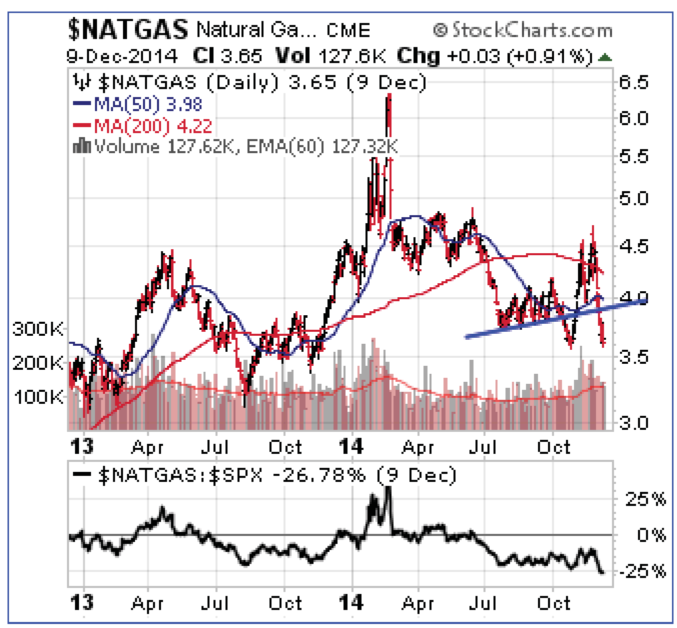
At the end of November, HAC held a position in MOO.

U.S. Materials - Consolidating at market

The U.S. materials sector (which is mostly chemical companies) has been performing at market. Similar to the industrial sector, the materials sector has a weak spot in January. From January 7th to January 22nd, during the period of 1990 to 2013, the sector has only been positive 36% of the time. More nimble investors should consider exiting the materials sector at this time and re-entering later in January when the sector performs well from January 23rd to May 5th. In this time period, from 1990 to 2013, the sector has produced an average gain of 7.4% and has been positive 76% of the time.

At the end of November, HAC held a position in XLB.

NatGas - Being sucked down with the rest of the commodities



Natural gas has shown how volatile it can be in its latest seasonal period. It has oscillated from a winning trade to a losing trade to a winning trade and now it is a losing trade. The end of the seasonal period for natural gas is December 21st. It is totally possible that natural gas could bounce and finish strongly, but time is running out. The last part of the year, from December 22nd to December 31st tends to be weak as energy companies adjust their inventories, typically by selling stock, to reduce their taxes. Investors should consider avoiding holding natural gas in this period (see *Thackray's 2015 Investor's Guide*, page 47).

At the end of November, HAC held a position in HUN.

Oil - How do you catch a falling barrel of oil?

The price of oil has been falling sharply as demand has been getting weaker and supply increasing. If there is a recipe for a price drop...this is it. See my "rant" at the end of the newsletter for more information on this sector.

HAC held a position in HOD in November to represent a short oil position. HAC sold its position in late November.

Nasdaq- Outperforming now and expected to continue to outperform

The Nasdaq has been outperforming the S&P 500, but its period of seasonal strength is just starting. The Nasdaq typically outperforms the S&P 500 from December 15th to January 23rd. Currently, the Nasdaq is outperforming and it is expected to continue to outperform.

At the end of November, HAC held a position to represent an investment in the Nasdaq.

Canadian banks – Started to sell off on Earnings

In last month's newsletter, I included a caution symbol in an insert box when I discussed the Canadian banks. As I warned last year and this year: when Canadian banks have been outperforming coming into the yearend earnings, they can start to underperform when they start releasing their earnings– and underperform they did when they released weak earnings reports.

The severity of the Canadian bank's poor performance has been the result of weak earnings and declining commodity prices. Yes, declining commodity prices can translate into weak prices for Canadian banks. It will not be the first time that this has happened. Firstly, Canadian banks do lend money to the energy companies in the oil patch and a lot of small energy companies are going to have trouble surviving as they were not in strong financial shape with a high price of oil.

Secondly, when commodities have a drastic downturn "anything and everything Canadian" gets sold. For those that can remember the Russian financial crisis in 1998, which lead to a large drop in commodity prices, Canadian banks sold off and underperformed. Many investors were confused because Canadian banks were in good financial shape. One of the main causes of the banks poor performance was that international investors were selling "Canadian stocks regardless of the sector of the market." From a Canadian perspective it did not make sense, but if the Nikkei starts to sell-off, the average Canadian investor is not going to hold on to a certain sector in the Japanese stock market....they are going to sell anything and everything Japanese.

So, can you blame foreign investors doing the same and selling "anything and everything Canadian?"

I have not seen the current statistics of international money flows into the Canadian market, but if commodities continue to perform poorly, it would be expected that foreign investors would shy away from Canada.

At the end of November, HAC held a position HXF.

CAD/USD - Temporary reprieve around the corner?

The Canadian dollar has been in a free fall relative to the U.S. dollar. Seasonally, the Canadian dollar is weak relative to the U.S. dollar at this time of the year, at least up until the last two weeks in December.

The Canadian dollar has a fairly strong correlation to the price of oil and as the price of oil has dropped so has the Canadian dollar. Both the price of oil and the Canadian dollar can have a reprieve in the last two weeks before yearend. Of course the Saudi's may have something to say about this, but it is something to monitor. Watch for bargain hunters stepping in and buying oil stocks, which generally would help the Canadian dollar.

At the end of November, HAC held a short position in the Canadian dollar relative to a currency neutral position for the portfolio.

Retail– A good seasonal period, but all shopped out

Once again the retail sector performed well in its seasonal period for the one month period leading up to Black Friday. Once again the sector started to underperform the S&P 500 at the end of its seasonal period. The sector may pick up its performance at this point, but the next seasonal period for the retail sector starts on January 23rd.

At the end of November HAC did not hold a position in XRT. It sold its position in late November.

Silver– There may be a lining in the cloud ahead

Silver has been hit hard this year, but its seasonal period is just ahead. Silver tends to perform well from January into March. When it has been badly beaten up towards yearend, bargain hunters can step in and drive up the price in the last few days of the year.

Silver is a "hybrid" metal having both the properties of a precious metal and an industrial metal. If the base metals start to rebound, silver could get an added extra boost.

At the end of November, HAC did not hold a position in Silver

Platinum– Getting ready to shine?

A large part of platinum's demand is driven by automotive production as platinum is used in catalytic converters. Platinum typically starts to perform well at the beginning of January as investors anticipate increased auto sales in the upcoming months. There is one caveat, platinum is typically used as a catalytic element with diesel engines. In gasoline engines, manufacturers have the choice of using alternatives, such as palladium.

The European car market is very different than the North American market. Autos with diesel engines are a very small part of the North American market, whereas in Europe the majority of autos are powered by diesel. Given the continued slowdown of the European economy, auto production may slow and reduce platinum demand. At this time, it is not a strong enough reason to stay out of platinum in the New Year, but it is something to monitor.

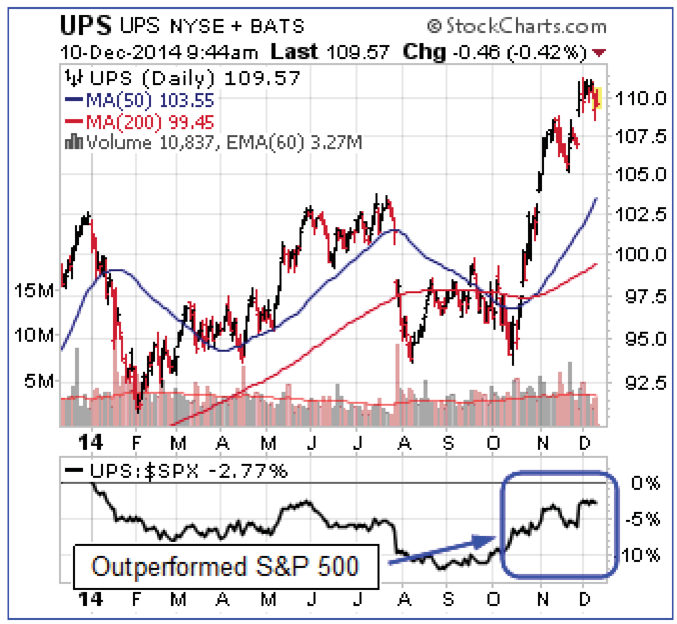
Also, watch for a bounce in platinum in the last few days of December as bargain hunters may lock in their positions ahead of the New Year.

At the end of November, HAC did not hold a position in Platinum.

Stock Follow Up

UPS - Delivered good Christmas gains

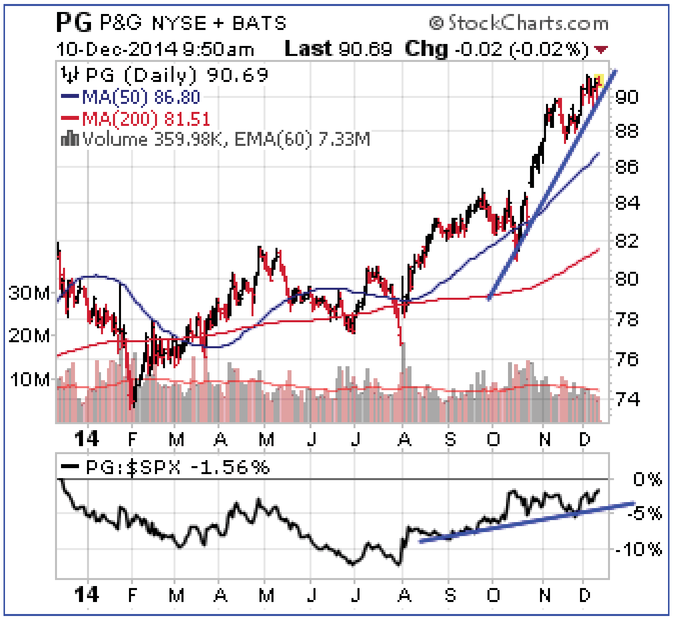
UPS was a new strategy in the 2015 book. Since the year 2000, the strategy has been successful in every year except one. The trade worked again in 2104. It is time to move on.



At the end of November, HAC did not hold UPS.

Procter and Gamble- Outperformed in its seasonal period - time to exit

Procter and Gamble performed well in its seasonal period, it is time to exit. From a seasonal perspective, the risk in staying in the trade is that the consumer staples sector typically does not perform well in January and if the market starts to rally, Procter and Gamble will be left behind. It is a good time to move on.



At the end of November, HAC did not hold PG.

Altria- Get ready to put it out

Altria has performed very well in its seasonal period, which ends December 19th. It has helped to smooth out the rough patches in September and October. It has produced a large gain and outperformed the S&P 500. At the very least, seasonal investors should be putting a stop loss on the position, or consider exiting.

At the end of November, HAC did not hold a position in Altria.

Brooke's Rant

I typically end my newsletter with a quick reflection on the economy or some prognostications, but instead this time I put my thoughts to paper on the what is happening with oil. It seems that everyone else is doing the same, so I thought I would give my interpretation.

It's all about game theory.

The recent "oil crisis" has been caused by both falling demand and increasing supply. The comments below focus on the supply side of the equation.

Historically, OPEC has been instrumental in influencing the price of oil by controlling supply. As the demand curve for oil is inelastic, reducing the supply of oil increases revenues (first year economics). Saudi Arabia is a swing producer and has historically influenced oil production within OPEC. In the past, when Saudi Arabia has cut production and other OPEC nations have not followed, Saudi Arabia has lost revenue and market share. For example, in the early 1980's Saudi Arabia cut production and other OPEC members did not follow suit. As a result, the price of oil continued to drift downwards and Saudi Arabia lost money.

Many years ago, OPEC was responsible for the majority of the world's production and when OPEC reduced supply, prices increased. Today, OPEC produces less than one-third of the world's yearly output and has a lot less of an impact on oil prices than it did at one time.

Saudi Arabia has learnt from the lessons of the past. It is all about what others will do in response to your actions that counts. Back in the days of my undergraduate degree, I remember studying game theory, which is partly based upon possible outcomes dependent on different actions. In the case of multi-party participants with their own vested interests, game theory would try and predict the participants actions based upon certain events. It gets interesting when all participants in the group would benefit if everyone did not maximize their own self interests. The problem is that any individual participant would benefit even more if they agreed to the terms of the group and then acted in their self-interest. This is essentially the situation with oil producing countries. If all countries agreed to cut production, their overall revenue would increase, but if one country cheated and produced more oil, they would increase their revenues substantially.

In the past, OPEC countries have cheated on each other despite their agreements to cut production. Today, there is a higher likelihood of cheating as many of the OPEC countries are dependent on their oil revenue to support their social programs and other expenditures. In addition, there are many countries outside of OPEC that are dependent on their oil revenues to pay their debts and have no intention of reducing production. Given that so many participants are in the game and the reduced impact of Saudi Arabia to control prices, it does not make sense for Saudi Arabia to lead the way with production cuts.

There is another dimension to the game that did not exist in past decades to the same extent as it does today: a higher percentage of high cost producers. As oil is getting harder and harder to find, it is getting more and more expensive to produce. Although fracking has had a huge impact on increasing oil production, it is generally more expensive to get out of the ground. Fracking has led to an incredible growth in U.S. oil production and Saudi Arabia needs to slow down this growth. If the fracking oil business is left unchecked, it will continue to grow and oil prices will decline. Saudi Arabia is making the decision to give up some revenue now in order to benefit later. If it can knock out high cost fracker's expansion plans and start shutting wells down – they win. In the long-term, marginal energy companies will be reticent to resume production. In fact, many smaller oil companies will not have the luxury of coming back to the market. A large number of junior oil companies are leveraged and have a poor quality debt rating. The energy sector makes up a large percentage of the junk bond market. If oil prices remain suppressed for long– a large number of junior oil companies will go bankrupt.

When is it all going to end? To answer this question, sometimes it is best to look at other models for some clues. The fluctuation of gas prices at retail stations provides insight into the possible future trend in oil prices. Independent gas stations typically try to price gas slightly below the major branded stations, in order to target cost conscious drivers. Inevitably, they try and attract more drivers by shaving a bit more off their price. The major brands then reduce their price to close the gap. Over time, the independents will try and shave a bit more off their price and the branded stations will once again close the gap. At this point, everyone is not making much money and the majors jack up their price with a fairly big jump and the independents follow suit. The independents are happy to be making money once again and know if they do not raise their prices, the branded companies will lower their prices aggressively and try to put them out of business. In essence, the branded companies bring discipline to business. It is only after feeling pain that the independents are willing to comply with the prices set by the major branded companies.

Saudi Arabia is like the major branded oil companies and its role is to bring discipline to the markets. As oil production has been increasing, Saudi Arabia is not cutting their production as they typically have done in the past. Saudi Arabia will step in and argue for production cuts only when enough damage has been done to the fracking oil business and enough pain has been felt by other OPEC countries so that they will truly buy into reducing their output. It is difficult to say when this will happen. The next OPEC meeting is in June 2015, but a resolution could come before this date, or even after. Saudi Arabia is not in a rush to solve this problem at the current time.

For those of you that are interested in what happened in the early 1980's when the OPEC nations did not follow Saudi Arabia's lead in cutting production, Saudi Arabia changed its tact and decided to flood the market with oil to drive the prices down. Shortly afterwards, the other OPEC nations enthusiastically agreed to cut their production.

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