

Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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Thackray's 2015 Investor's Guide

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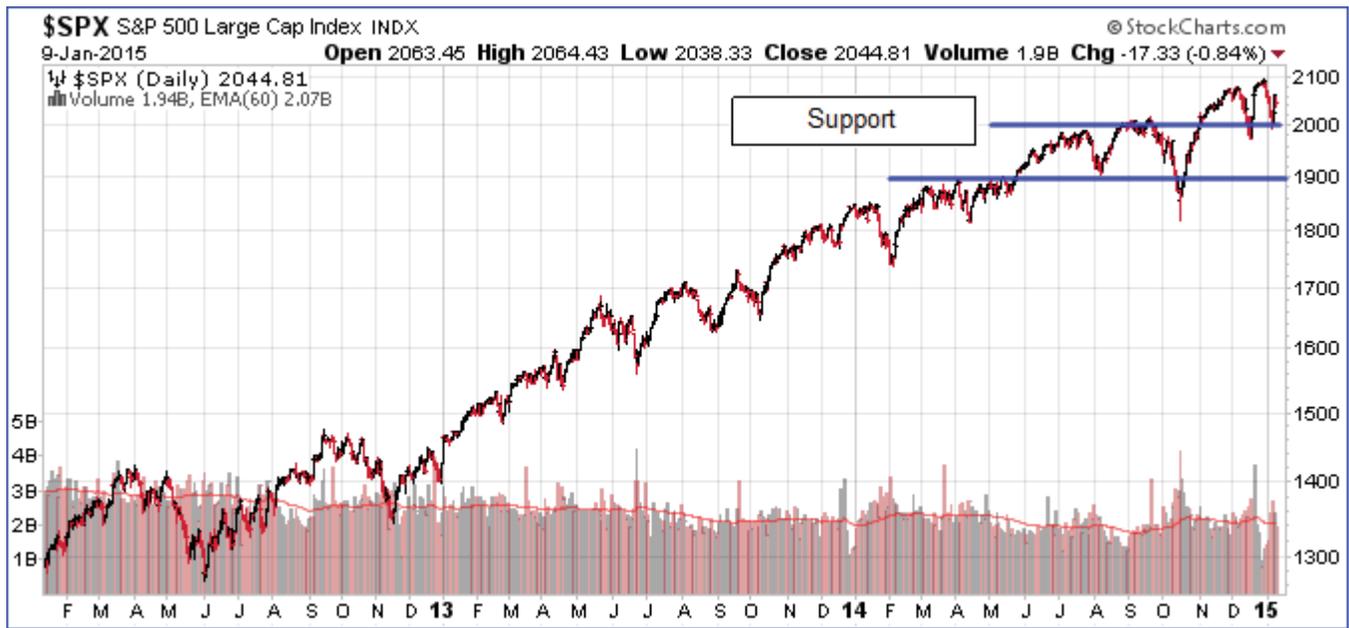
Market Update

At this time of the year it seems that so many analysts are making stock market forecasts for the upcoming year. If you are a bearish analyst, your forecast is typically for an 8% return. If you are a bullish analyst, your forecast is for a 12% return. Outside of this range, analysts are taking

S&P 500 Technical Status

After a sharp correction in the month of December to just below 2000, and a sharp bounce in the second half of December, into January, the S&P 500 has once again corrected and rallied again. As investors rotate sectors at the beginning of the year, trying to figure out the market direction, the result has been a volatile ride. Today, the S&P 500 sits in tenuous territory, just above 2000. From a technical perspective, if the stock market were to break below 2000 the next level of support is 1900–ouch.

On average, February is one of the weaker months of the year and it is possible that we encounter some weakness ahead. Nevertheless, the good news is that we are in the favorable six month period for stocks where corrections are typically buying opportunities. Also, the longer that the S&P 500 remains above 2000 the greater the support for a future rally.



An ETF for all seasons

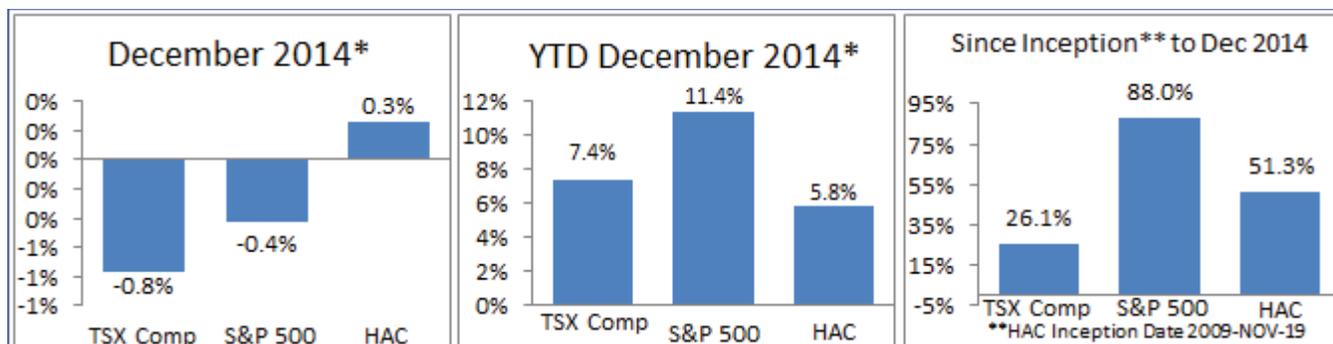
The **Horizons Seasonal Rotation ETF (HAC)**

Visit: HorizonsETFs.com for more information

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

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HXT	Horizon S&P/TSX 60™ Index ETF	28.7%
HXU	Horizons BetaPro S&P/TSX 60™ Bull Plus ETF	5.0%
	United States Dollar Exposed Assets	
	Equities	
IWM	iShares Russell 2000 ETF	20.0%
QQQ	Powershares QQQ Trust Series 1	19.2%
XLF	Financial Select Sector SPDR Fund	10.0%
XHB	SPDR S&P Homebuilders ETF	5.3%
XLY	Consumer Discretionary Select Sector SPDR Fund	4.8%
	Commodity	
HUZ	Horizons COMEX® Silver ETF	5.1%
	US Dollar Forwards (January 2015) - Currency Hedge **	-0.3%
	Cash, Cash Equivalents, Margin & Other	2.1%
	Total (NAV \$112,991,147)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 60.9% 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.

on career risk. Of course, there are the few analysts that are willing to stick their neck out. If you have a big name in the financial industry and you make a very bullish call, outside of the normal range, the media will flock to you.

Today, I am not going to make a prognostication about the stock market level at the end of 2015. Even if I believe that the market is overvalued, and I do, the market can stay overvalued for an extended period of time...years. In some ways, trying to make a exact call on the market a year out from now is pointless.

The stock market has been on an extended bull run from 2009. So what now? If the U.S. market really is on solid ground and is now under its own power, then it is possible that the upcoming year or two may produce good returns in the stock market. On the other hand, if the economy has been artificially supported by Fed policy, then a slow deterioration is more likely to occur.

Right now, the U.S. economic numbers appear to be acceptable, at least through the U.S. kaleidoscope. Some numbers are good, some not so good, but overall they are acceptable. The problem is that the global backdrop is weak. Back in the 1990's the financial industry used to propagate an analogy, comparing the world economic balance to an airplane flying on three engines: the U.S. one engine, Europe another and China the third. If one economy was suffering, the other two would support world economic growth. Today, as China slows and Europe fights deflation, the world is flying on the power of one engine: the U.S.

If the U.S. starts to slow down, the plane can only glide for so long before the situation becomes ugly. As much as the U.S. is a superpower, it can only sustain world growth for so long. Right now North American investors are very myopic and are focused on the U.S., not realizing the deterioration that has taken place in other major economies and stock markets. The fear is that if the U.S. economy does start to sputter, investors will look outside the U.S. and realize that everything is not as good as it once seemed. At that point, the euphoria will wear off and the stock market will suffer not just a quick drop and then rally, but a more sustained correction.

I apologize for being so depressing and I am not stating that the U.S. economy will indeed suffer a long contraction. I am just pointing out a possible route to demise. Unfortunately, with the market richly valued at a forward P/E ration of 17 (Thomson Reuters, January 2, 2015). and low profit growth expectations of 8% for 2015, there does not appear to be much upside in the market. Are we going to get a repeat of the S&P 500's performance in 2013, with a 30% gain? Probably not. At this point the best

we can hope for is moderate returns in the stock market. Does this mean investors should exit the stock market? No, but it does mean that caution should be used and expectations should be tempered. In this environment broad market seasonal trends tend to be more predominate, with end of month gains and the six month favorable/unfavorable cycle more likely to result.

The world of investing is always interesting and 2015 is not expected to be the exception.

What the HAC is going on?

HAC performed well in December, largely the result of:

- ◆ Holding a large position in Canadian equities.
- ◆ Maintaining an overall long exposure to the USD. At the start of the December, HAC was long USD. In mid-December, HAC reduced its position, as the last two weeks of the month can favor CAD. In the end the last half of December was flat for CAD.
- ◆ Maintaining positions in the consumer discretionary and homebuilders sectors.

Sector Trends

Energy— How low can oil go?

No one really knows how low oil can go. There have been a lot of very smart people espousing all sorts of different theories. A large number of the theories point to increasing prices, very often based upon the marginal cost of producing oil (Economics 101). Although they are probably right in the long-term, it really does not help with the answer to the important question of price in the next six months.

The price of oil has been trying to stabilize, but so far every time it has started to stabilize, the Saudis have produced another statement of how low the price of oil could go, or they have dropped the price of their oil. It almost seems tactical on the part of the Saudis as they time their actions to do the most damage. The good news is that as the Saudis attempt to talk the price of oil down, their efforts will eventually have little impact as investors as they will have heard the message too many times before.

As the price of oil has been dropping, it has had a series of consolidations. In crude oil's consolidation phases, oil stocks have shot up briefly, despite very little movement in the price of oil. This indicates that investors are looking to pick the bottom price and do not want to miss an opportunity to buy oil stocks cheap. When the price of oil has once again declined, investors have once again

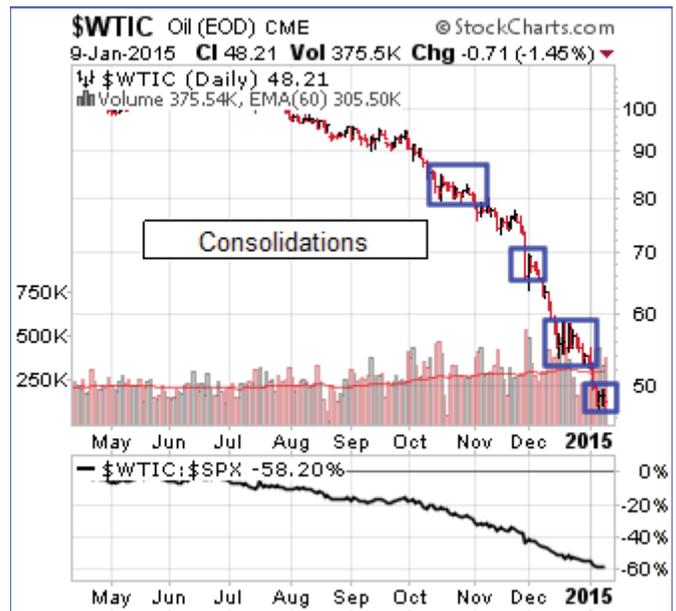
succumbed to the fear of loss and sold their oil stock positions, causing another correction in oil stocks.

The point is that when the price of oil does stabilize and an impetus to drive price lower does not exist, oil stocks could perform very well.

If there is one time of the year that oil has a chance to move upward in price, it is in its seasonal period from February 25th to May 9th. The energy complex tends to perform well at this time because of the supply/demand imbalance for oil and investors anticipating the upcoming driving season in spring. In a favorable environment, the energy sector can start its relative outperformance to the broad stock market early.

Some seasonal trends have very defined start dates as the result of a certain event that occurs at the same time of the year, every year. Other seasonal trends have an average gradual start relative to the broad market, as the sector starts its strong movement early some years and late other years. The energy sector has an average slow start of outperformance. Investors should note that there are two aspects from this phenomenon of importance. First, outperformance can start earlier or later than February 25th. Second, the start of outperformance can be very strong. The average trend masks both of these phenomena.

This year, investors should be prepared to enter the energy sector before the start of its seasonal period. With oil being so oversold, unless more negative announcements are forthwith, oil will start to consolidate and energy stocks react positively.



Timing entry into the sector is difficult as the price action of oil does not provide any clues. Other than brief consolidation periods, the price has been down substantially since summer.



Looking at The Energy Select Sector SPDR ETF (XLE), an interesting story is unfolding. Although XLE is still in a downtrend with lower highs and lower lows, the ETF is higher today than it was back in mid-December. This is important because the price of oil is much lower today than mid-December. In other words, investors are starting to get more bullish on the sector. If XLE were to move above \$79, breaking its absolute downtrend line and its relative performance to the S&P 500 downtrend line, this would be a bullish sign for the sector. Operating within a seasonal mandate and using a four week window to enter

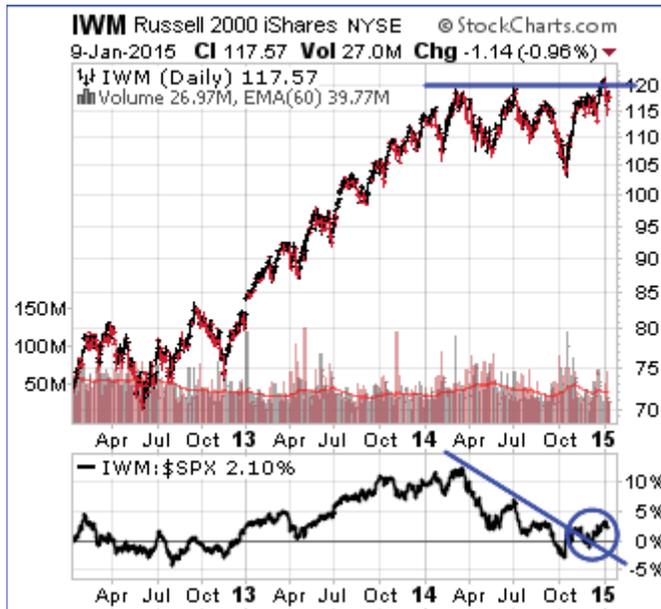
the trade early... we are getting close.

At the end of December, HAC did not hold a position in the energy sector.

Small Caps– Outperforming...but still waiting for breakout

The small cap seasonal trade runs from December 19th to March 7th. So far the trade is working as the sector has been outperforming the S&P 500.

Fundamentally, the trade is well supported as small caps derive most of their revenue domestically in U.S. currency and the U.S. economy is performing adequately.



Looking at iShares Russell 2000 ETF (IWM), technically, on a relative basis compared to the S&P 500, the sector is well positioned as it has broken through its downtrend line. On an absolute performance basis, the sector is below its major resistance level of \$120. It briefly broke above this level at the end of December, but has since fallen. If this sector is able to break above \$120 on strong volume, the technical picture would be bullish. At this point we are in the middle of the seasonal trade and typically it is best to give the trade some room to work. Overall, the trend is still favorable for this trade.

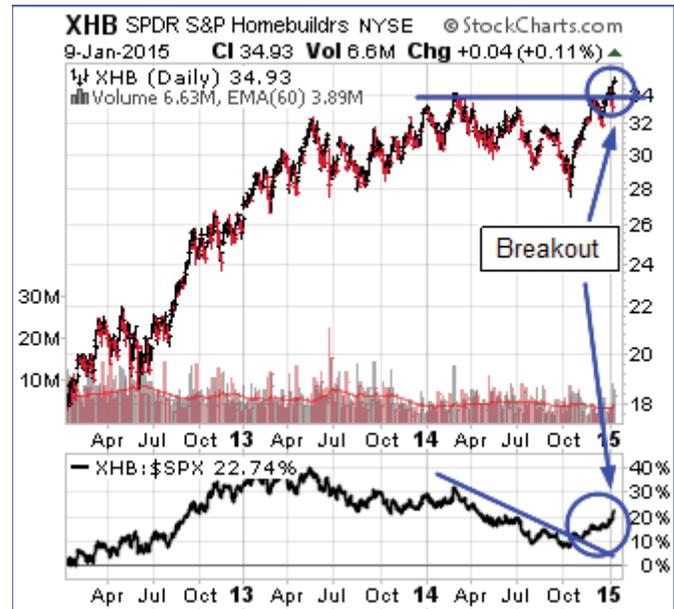
At the end of December, HAC held a position in IWM.

On my BNN- Market Call appearance on December 23rd, IWM was one of my top picks.

Homebuilders– Building a better future... but not for long

The homebuilders sector has a very strong seasonal pattern of positive performance from October 28th to February 3rd. The sector has been positive twenty-two times

out of twenty-four, since 1990 (see Thackray's Investor's Guide, page 123). So far this year, the sector has been performing according to seasonal plan as it is once again outperforming the S&P 500. Investors should note that the trade finishes on February 3rd and the sector starts to underperform the S&P 500 at that time. Given that the trade can finish abruptly, it is best if investors at least put a tight trailing stop on the position.



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

Nasdaq– Starting to underperform...trade ends soon



The Nasdaq typically outperforms the S&P 500 starting in mid-December until late January. The main sector that boosts that Nasdaq at this time is the technology sector.

So far the trade has been positive but the Nasdaq has been underperforming the S&P 500. As the trade ends on January 23rd, investors should be looking to exit this trade shortly, especially since the Nasdaq is underperforming.

At the end of December, HAC held a position in QQQ.

Technology– Is the trade fading?

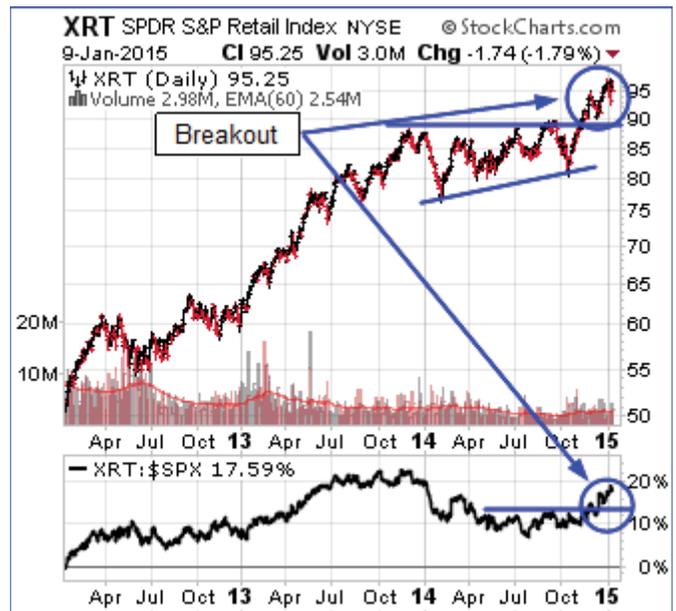
The technology sector typically outperforms the S&P 500 from October 10th to January 17th. Overall the trade has worked, but the technology sector has recently been underperforming the S&P 500. Investors should be looking to exit the trade on further weakness.



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

Retail– Breakout and strong performance

The retail sector performed well in its first seasonal trade from October 28th to November 29th. The sector has continued to outperform the S&P 500. The backdrop for the next seasonal trade from January 23rd to April 12th is positive as recent retail numbers have been strong. As the sector is overbought at this time it is probably best if investors wait for the seasonal start date of January 23rd.



At the end of December, HAC did not hold a position in XRT.

Consumer Discretionary– Still performing well

The consumer discretionary sector has been outperforming the S&P 500 since its start date in October. The American consumer is still spending money. The sector is expected to continue to perform well at this time.



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

U.S. Financials– Not performing as well as it should be at this time

The U.S. Financial sector has been recently underperforming the S&P 500. This is a concern. If the sector is not able to start outperforming the S&P 500 in the next

couple of weeks, as the U.S. banks release their yearend financial statements, the likelihood of the sector underperforming for the rest of its seasonal period increases.



At the end of December, HAC held a position in XLF.

On my BNN- Market Call appearance on December 23rd, XLF was one of my top picks.

Canadian Banks– Continued weak performance

The Canadian banks have recently been performing poorly. The next seasonal period for Canadian on January 23rd. Technically, the sector is not strong as the sector has been underperforming both the TSX Composite and the S&P 500.



Investors should be waiting for the relative performance

of the sector to improve, breaking its downward trendline relative to the S&P 500, before entering the sector.

At the end of December, HAC did not hold a position in the Canadian financial sector.

Industrials– Performing at market before next seasonal period

The industrial sector outperformed the S&P 500 in its first seasonal period from October 28th to December 31st. Since the end of the seasonal period, the sector has underperformed the S&P 500, as is typically the case. The next seasonal period for the sector starts on January 23rd. Investors should be looking to enter the sector once again.



At the end of December, HAC did not hold a position in XLI.

Materials (U.S.)– Consolidating just before its seasonal period

The materials sector has held its own since the end of its seasonal period at the beginning of January. The sector has been consolidating in a symmetrical triangle. At this time, conditions are still favorable for entry into the sector at the beginning of its seasonal period. Pure technical analysts would take the position that investors should wait until the sector breaks out of its consolidation pattern. On the other hand, seasonal investors have a more lenient position on the entry point, and would still enter the trade on the seasonal date in order to not miss the large gains that can be made on the breakout. If the trade fails, the trade can always be exited.



through December.



Canadian Dollar– CAD/USD– Still trending down

Other than the two week seasonal reprieve of the CAD performance relative to the USD in the last two weeks of December, CAD has continued its downward plunge. Seasonally, CAD underperforms in January. The month of February can be mixed for CAD, but towards the end of the month CAD starts to improve its performance relative to USD. The seasonal trade for CAD starts in late March and the month of April is the sweet spot for CAD. Seasonal investors should start looking to reduce their USD exposure later this month and should seriously consider flipping the trade to be long CAD in late March.

At the end of December, HAC did not hold a position in platinum

Silver– Getting Ready to Shine

Like platinum, silver is just below its breakout point. It has been consolidating since late October and well poised to perform well in its seasonal period.

At the end of December, HAC was long USD, relative to a neutral portfolio.



At the end of December, HAC held a position in SLV.

Platinum– Setting up well

The seasonal period for platinum starts January 1st. The platinum ETF (PPLT) is well positioned, just below its breakout point of \$120 that was established in October

SHORT SELL SPOT

Consumer Staples (SHORT SELL)– Consumers still spending

The consumer staples sector has been performing since the beginning of August. The sector has continued to outperform the S&P 500 in the last two months, at the same time the discretionary sector has also been outperforming. Overall, the combined discretionary and staples sectors have been performing well. Even so, the discretionary sector has been outperforming the staples sector. Typically, the consumer staples sector underperforms the S&P 500 in the month of January. This year, so far the trade has lagged as the staples sector has benefited from the overall performance of the consumer sector. The short sell trade ends on January 22nd.



At the end of December, HAC did not hold a position in XLP

Utilities (SHORT SELL)– The lights are still on

In 2014, the utilities sector outperformed the S&P 500 as investors were looking for yield and at the same time bond yields were going down. The trend has continued into 2015, but typically at this time of the year, the utility sector and bonds underperform. The utilities sector typically underperforms the S&P 500 from January 1st to March 13th. So far, bonds have not shown weakness and the utilities sector has not broken down, but shorting utilities is still a trade worth considering.



At the end of December, HAC did not hold a position in XLU

Stock Spot

Dupont



Dupont is a perennial seasonal stock pick for many investors. It has a strong track record of performing well from January 28th to May 5th. Since 1990, the Dupont seasonal trade has been positive every year except in the year 2000.

Over the last few years, Dupont has been in transition, becoming less of a chemicals company and more of an agriculture company. Nevertheless the seasonal trend is still holding up.

Currently, the Dupont seasonal trade is well set up, as Du-

point is outperforming the S&P 500, and it is just below its longer-term trendline.

At the end of December, HAC did not hold a position in Dupont.

Clorox— A new trade in my 2015 book

For years, investment gurus have gone on TV telling viewers that they preferred certain U.S. companies because of the high percentage of revenues that are derived offshore. With the high USD, this chant is not uttered as frequently.

Clorox is an interesting company in the consumer staples sector as it only generates 21% of its revenues from outside of America. As the USD tends to outperform in January, Clorox tends to outperform, and at a time when the consumer staples sector typically underperforms.

Clorox has been performing well since the summer months when the USD started its upward trek.

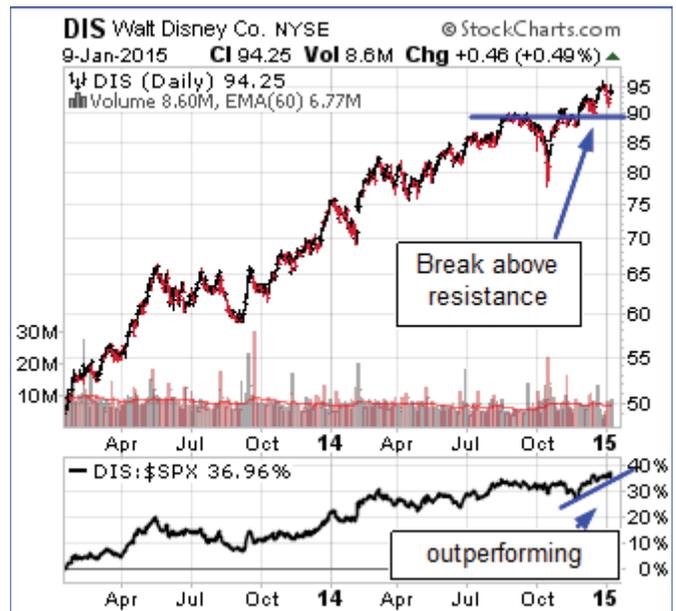


The Clorox seasonal trade lasts until March 2nd.

At the end of December, HAC did not have a position in CLX.

Disney— Enjoying the spotlight

Disney outperformed the S&P 500 in 2014 and is continuing to perform well in its seasonal period. Investors should note that the seasonal period for Disney ends on February 15th.



At the end of December, HAC did not hold a position in DIS.

On my BNN- Market Call appearance on December 23rd, Disney was one of my top picks.

TJX— Still selling at a discount?

TJX is another perennial favorite for seasonal stock investors, due to its strong success during its seasonal period.



TJX has been performing outperforming the S&P 500 since July. It has had a nice breakout on strong earnings. Part of TJX's outperformance can be explained by strength in the USD. Why? TJX generates 76% of its

revenues from domestic operations (2013 annual report). As the USD has increased, large cap companies such as TJX that derive most of their revenues domestically have outperformed. At this point, TJX is still expected to outperform, but investors should also be monitoring the strength of the USD, and if it starts to fade, TJX's relative performance to the S&P 500 may also fade.

At the end of December, HAC did not hold a position in TJX.

Brooke's Rant

Brought to you by the number "5."

I have been an advocate for seasonal analysis for many years... a long time before it became popular. Back in the 1990's, in the technology era, it was "eyeballs" on screens that counted in measuring the value of technology and media companies. In the 2000's, fundamental analysis once again increased in importance. As investors became frustrated with using fundamental analysis, they looked for more active investment disciplines including seasonal analysis.

I have worked hard to highlight seasonal trends that investors can implement. Seasonal investing is a long-term discipline that takes advantage of using a diversified portfolio of seasonal strategies that have historically outperformed. Obviously, not every seasonal trend is going to work every year. The objective is to invest in a number of seasonal trends, to increase the probability that the winners will offset the losers.

The seasonal trends that I have published have some sort of rationale with an annual event occurring at the same time every year that tends to cause the market or sector of the market to outperform at a certain time of the year. At times, it can be difficult to prove that a certain factor statistically is the cause of outperformance, but there should be a reasonable rationale.

At the beginning of every year the media puts forward all sorts different investment ideas that forecast the likely success of the stock market. One of the more ridiculous

ideas is that the stock market tends to perform above average in years that end with the number "5".

The Dow Jones Index is typically used to show the success of the strategy. Not only is there very limited data to evaluate the strategy (one data point for every ten years), but there is not a conceivable reason why the number "5" has any seasonal significance.

Why not the number "6", or "7", or "8". If numbers could talk, the number "9" would certainly argue that the whole idea is a discriminatory "numberist" concept and that the strategy should not be allowed to be published. How much more can the number "9" suffer. After all, as young children know; "7" ate "9". Enough is enough. Sesame Street's Big Bird says that it is time to move on to seasonal strategies that make sense.

To end on a shameless "plug," a book that makes sense is Thackray's 2015 Investor's Guide. It is available at all major bookstores and online.

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