Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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Volume 9, Number 2, February 2015 Written by Brooke Thackray

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Market Update

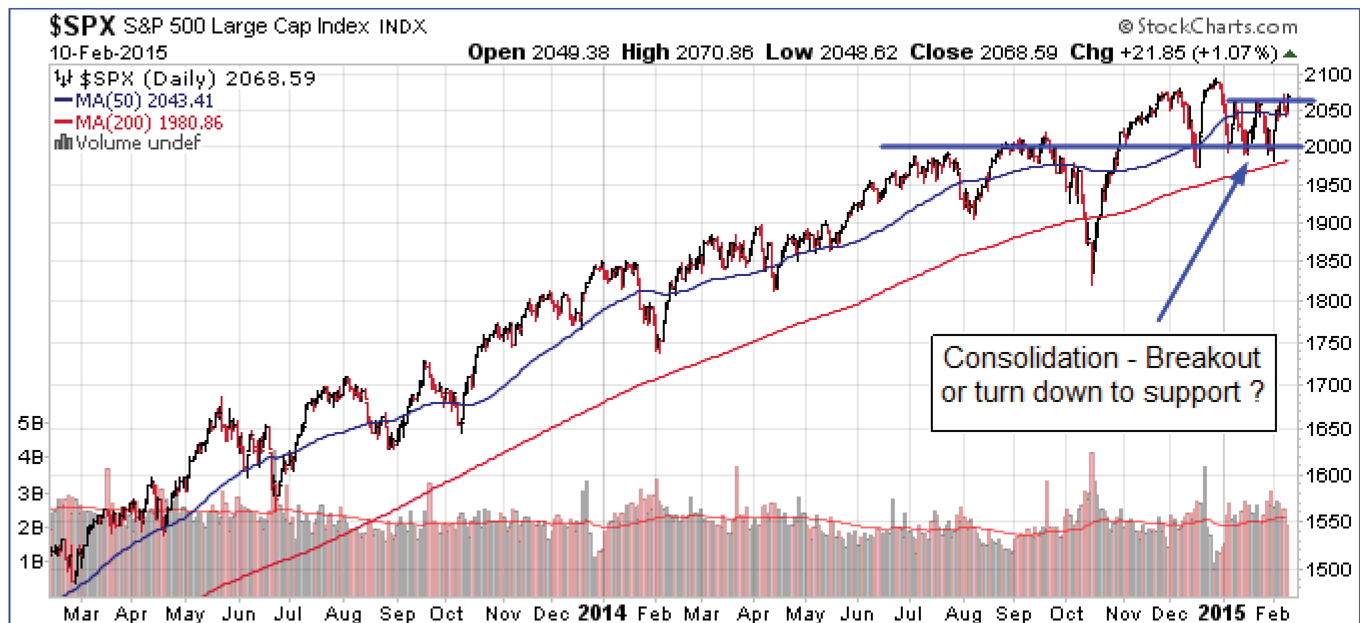
Canada or U.S. stock market? At the risk of sounding flippant… it depends on oil.

Seasonal tendencies favor the TSX Composite, but investors should be ready to fade back to the S&P 500 if the energy trade falters.

S&P 500 Technical Status

Currently the S&P 500 is technically sound as it is above its major support level of 2000. Since November of last year, the S&P 500 has been in a consolidation pattern. The S&P 500 is currently at the top of its trading channel and above its 50 day moving average. It is going to be difficult for the S&P 500 to break above its all time high set in late December. If the S&P 500 is able to achieve its all time high, it would not be unexpected to see several attempts at breaking to higher ground.

February tends to be one of the weaker months of the year, so it would not be a surprise to see the S&P 500 pull-back. Given that we are still in the favorable six month period for the stock market a pull-back would be seen as a buying opportunity.



An ETF for all seasons

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

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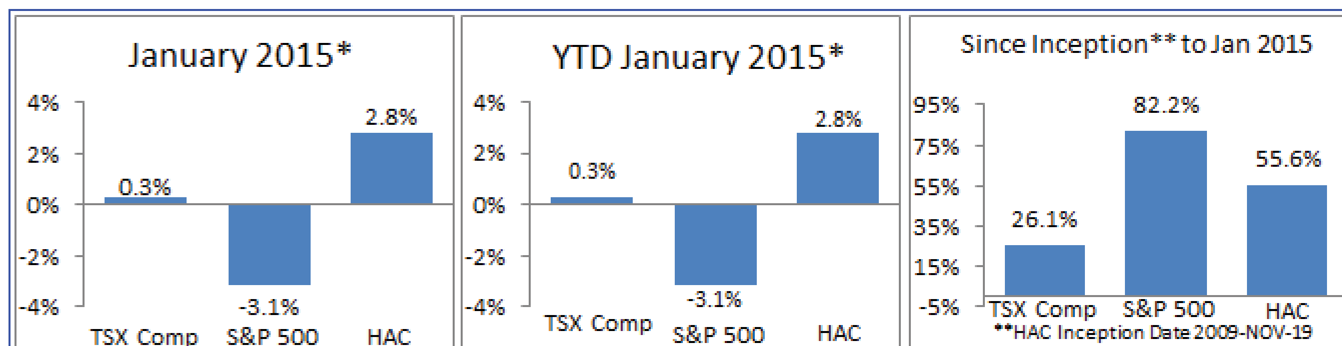
Horizons Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of **January 31st**, 2015

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HXT	Horizon S&P/TSX 60™ Index ETF	19.6%
HXE	Horizons S&P/TSX Capped Energy Index ETF	5.0%
	United States Dollar Exposed Assets	
	Equities	
IWM	iShares Russell 2000 ETF	20.9%
HXS	Horizons S&P 500® Index ETF	9.9%
XHB	SPDR S&P Homebuilders ETF	5.7%
EFA	iShares MSCI EAFE ETF	5.2%
XRT	SPDR S&P Retail ETF	5.1%
XLI	Industrial Select Sector SPDR Fund	5.0%
XLB	Materials Select Sector SPDR Trust	5.0%
XLY	Consumer Discretionary Select Sector SPDR Fund	5.0%
XLF	Financial Select Sector SPDR Fund	4.9%
	Commodity	
SLV	Horizons COMEX® Silver ETF	8.0%
	US Dollar Forwards (February 2015) - Currency Hedge **	-0.2%
	Cash, Cash Equivalents, Margin & Other	0.8%
	Total (NAV $116,580,210)	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.

The U.S. stock market has been one of the top performing markets in the world, but will this trend persist? Investors have crowded into the U.S. stock market as worldwide growth has slowed while the U.S. economy has shown resilience. Although the U.S. stock market is expected to perform satisfactorily in the future, there could be some reprieve for other stock markets such as the TSX Composite. Along the way there have been brief periods of non-U.S. markets outperforming. It is possible that we are currently in such a period and investors should be taking note.

Despite possible outperformance of the TSX Composite, investors should not expect an extended period of outsized gains. Any period of outperformance should be considered more of a counter trend. Although investments can be made around the trend, investors should not be married to their positions. Commodities are still in a longer-term secular downtrend and until it is shown otherwise, it is going to be difficult for the TSX Composite to consistently outperform the S&P 500.

In the last two months, the TSX Composite has started to show signs of strength relative to the U.S. market. It has been a fortunate mix of energy, precious metals, Canadian banks and a strengthening Canadian dollar which has helped the TSX. The TSX has a history of outperforming the S&P 500 in the month of February. Although it is not an overwhelming track record, it is noteworthy, especially when the major Canadian sectors are performing well. In addition, the current seasonal backdrop is positive for the Canadian market as the Canadian banks, and the energy sector historically perform well at this time of the year.

The energy sector has been a large driver of the TSX Composite. With a volatile oil price and calls for both a much higher and much lower price and given the large component of energy in the TSX Composite, it should be expected that the performance differential between the TSX Composite and the S&P 500 will not be small.

If the TSX Composite continues to outperform, do not expect the trend to last forever as the S&P 500 tends to be favored in the later part of April. The transition back to the S&P 500 at this time of the year is largely dependent on the strength of oil. For the moment, it makes sense to have increased exposure to the TSX Composite, with the anticipation of fading back to the S&P 500 if the TSX Composite starts to underperform.

What the HAC is going on?

In January, once again, HAC outperformed both the U.S. and Canadian stock markets. The key driving forces were:

- ***a long position in USD***
- ***emphasis on the TSX Composite***
- ***an initial position in the energy sector***

Sector Trends

Energy – Are we at the bottom...no one knows, but there are positive signs

In last month's newsletter I stated that, "With oil being so oversold, unless more negative announcements are forthwith, oil will start to consolidate and energy stocks react positively." Since that time, there have not been any major political announcements effecting oil and as a result, oil has started to build a base and oil stocks have reacted positively. Given that we at the doorstep to the start of the seasonal period for oil stocks, it makes sense to take a position in this sector.

Positive developments in the energy complex are:

- Rising oil stock prices at the same time as oil has been consolidating.
- Lack of negative "political news" regarding the price of oil
- Seasonal period for energy starting
- West Texas Intermediate breaking above $50

Last month in my newsletter, I mentioned that if the Energy Select Sector SPDR (XLE) broke above $79, this would be a positive development for oil stocks. Recently XLE has broken above $79.

I want to be clear that I am NOT a long-term oil bull and it is totally possible for oil to go down to $30 a barrel. The current situation is best described as a strong seasonal opportunity, supported by improving technicals.

The price of West Texas Intermediate is key in determining the future strength of the energy sector. The key level at the current time is $50. In January, WTI dropped into the mid-forties and has since broken above resistance at $50. WTI's move above $50 has not followed through. The longer WTI sits above $50 the better, but it is not out of the woods yet. If it does break below $50 again, look for WTI to consolidate between $45 and $50. If it is able to move convincingly above $55, this would be very bullish for oil, as this was a fairly substantial consolidation point in December.

If there is one time of the year when energy stocks can outperform, it is the current time. There is a lot of discussion that although the rig count has been receding, oil production has not dropped. This is to be expected as it is not a matter of just turning off taps. It is going to take approximately four months before oil production in North America will start to decline. This has prompted some investment firms to call for much lower prices. Citi is now calling for $20 oil, a substantial decrease from today's level. It is possible that they could be right.

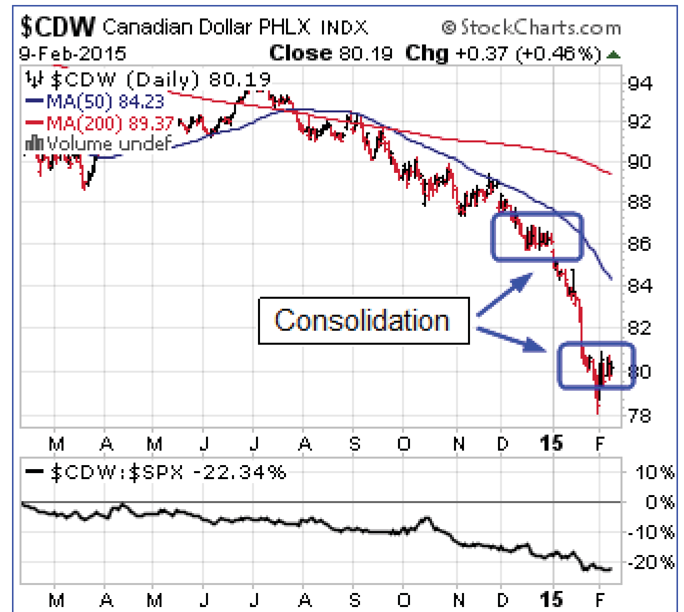
From a seasonal perspective, it is often best to take a position at the onset of a sector's seasonal period, especially if the sector has suffered a dramatic correction. If the sector is unable to outperform the market at the beginning of its seasonal period, it is a sign of longer-term structural weakness and it is best to exit the sector.

At the end of January, HAC held a position in HXE.

CAD– Finding a base

After being pummeled for so long, it looks like the Canadian dollar is getting some reprieve. The Canadian dollar typically underperforms USD for most of January – a trend which has been followed this year. The Canadian dollar, on average is flat USD for February into March. Towards the end of March, the Canadian dollar tends to start outperforming USD, leading into April which is the strongest month of the year for CAD. A lot of the recent uptick in CAD can be explained by seasonal price movement of oil. On average, April tends to be the best month of the year for oil and energy stocks, helping to give CAD a boost. Interestingly, on average, CAD still manages to outperform USD even when oil is not on an upward trend.

At some time, before the end of March, seasonal investors should be looking to take a long position in CAD. The catch is that the positive CAD trend does not last long and investors should consider reducing/exiting long CAD positions at the end of April.



Industrials– Building Strength

The industrial sector is following its seasonal trend of outperforming the S&P 500 at this time of the year. The expectation is that it will continue to outperform. The strong recent economic numbers in the U.S. have been supportive of this trend.

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

Materials– Outperforming

The materials sector has had a nice breakout of a symmetrical triangle. The sector is performing as expected, outperforming the S&P 500. If Materials Select Sector

SPDR (XLB) is able to break above its resistance level of $50.50, this would be very positive for the sector.

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

Small Caps– Seasonal period ends soon

The small cap sector has been outperforming the S&P 500 once again during its seasonal period that started in mid-December. Recently iShares Russell 2000 Index (IWM) has been performing at market and has had trouble breaking above its resistance level of $120. The seasonal period for this sector ends March 7th. If IWM has not broken above its resistance level and is outperforming the S&P 500 at the end of its seasonal period, investors should consider exiting the sector at the time. If IWM is outperforming, seasonal investors have the choice of placing a tight stop on the position. If the sector starts to underperform the S&P 500 before the end of its seasonal period, investors should consider exiting. Currently, the expectation is to hold IWM until the end of its seasonal period.

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

Silver– Starting to lose its shine?

Silver performed very well in January, but has recently pulled back. Is its run over? Not so fast. Typically, silver can perform well until the end of March, but at times it can finish its seasonal run earlier (at the end of February). Silver is now at support. If it breaks below support, investors should consider exiting the position, especially since we are approaching the end of February.

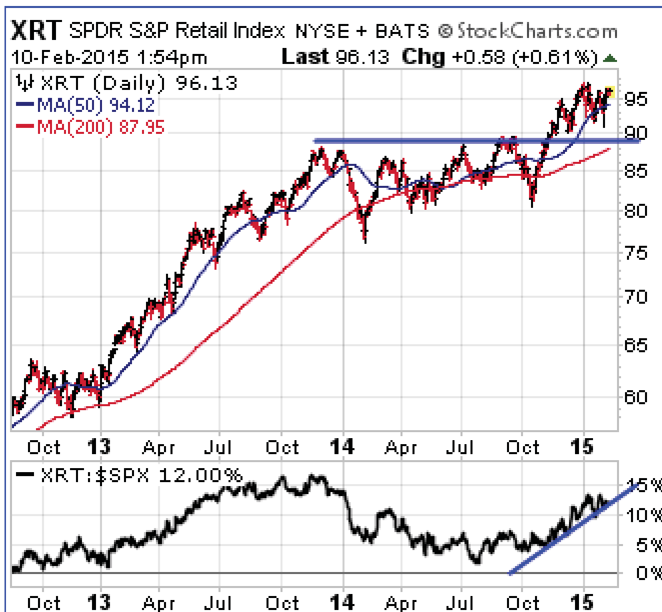
At the end of January, HAC held a position in SLV.

Consumer Discretionary– Still performing well

The consumer discretionary sector has once again been outperforming the S&P 500 during its strong seasonal period. The positive trend is expected to continue as consumers have maintained a strong spending pattern. If Consumer Discretionary SPDR (XLY) is able to break above $73, this would be positive for the sector.

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

Retail– Consumers spending the sector higher



The retail sector, a constituent of the discretionary sector, has been performing positively since mid-January. Although the sector has not been outperforming the consumer discretionary sector it has still been putting in an acceptable performance.

At the end of January, HAC held a position XRT.

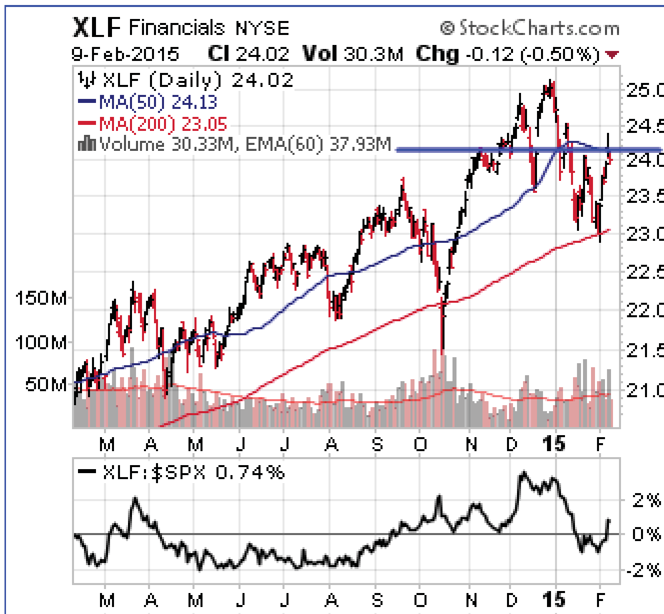
Canadian Banks / Financials– loosely tied to the performance of oil

After underperforming in autumn mainly because the price of oil was declining rapidly, the Canadian banks have responded well to the recent uptick in oil stocks. As long as oil is performing well, it is expected that the Canadian banks will perform well. The big question remains: what happens to Canadian banks if the price of oil resumes its slide? The Canadian economic numbers have been less than impressive when compared to the U.S., which has not helped the Canadian bank's performance. The other leg supporting Canadian banks is the real estate market, which has so far held up relatively well. Recently, the new housing starts number was particularly strong. Given the high dividend yield of Canadian banks, they are expected have an acceptable performance during their seasonal period which ends mid-April. Investors should be looking for this sector to start to underperform the broad market before the end of its seasonal period and be prepared to act accordingly. Currently, the environment for Canadian banks and financial institutions is favorable.

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

U.S. Financials– Bouncing higher

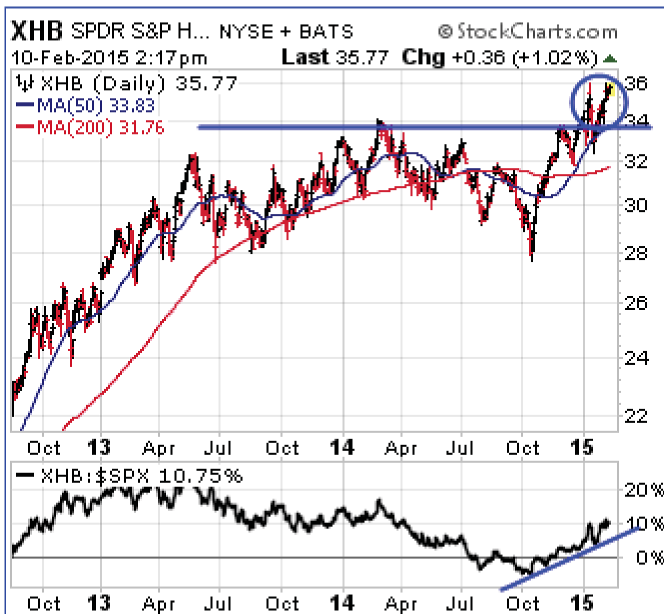
U.S. Financials underperformed the S&P 500 in January, but has shown recent strength. The sweet spot for this seasonal trade starts in late March and lasts until mid-April. The current outlook for U.S. financials is favorable.



It is possible that an increasing likelihood of a Greek exit from the euro zone, will have an impact on European banks and a halo effect for worldwide financial institutions. This is a dramatic step, but a possibility if investors become concerned that other countries will follow in the Greece's footsteps. The battle taking place between Greece and the EU is not really about the wellbeing of Greece, but rather the implications for other bigger countries in trouble that may follow in Greece's footsteps.

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

Homebuilders– Strong outperformance, but the seasonal period has ended



The homebuilders sector once again outperformed during its seasonal period. It is still maintaining strong performance past the end of its seasonal period. For seasonal investors that currently have a position in the sector, a tight stop on the position makes sense, as the sector's performance can deteriorate at this time of the year.

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

Stock Spot

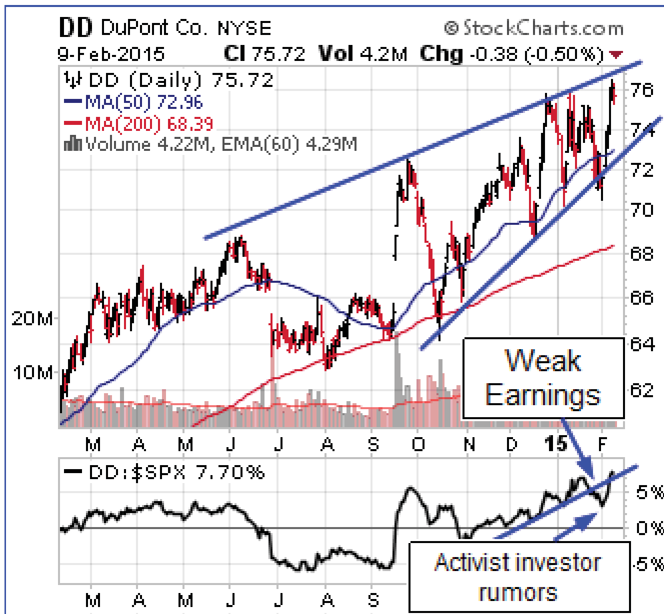
CAT– Clawing its way higher

Caterpillar has suffered from a weakening Chinese economy. Recently, CAT has shown positive signs of starting to outperform the S&P 500 and it has filled the gap that occurred in January. We are at the beginning of the seasonal period for CAT. After suffering a major decline since mid-year, last year, the stock is starting its seasonal period off on the right foot.

At the end of January, HAC did not hold CAT.

Dupont– Can it perform well after the rumors die down?

Dupont has been a perennial favorite for seasonal stock investors. It has a strong track record of positive performance and outperforming the S&P 500.



So far, the stock has outperformed during its seasonal period. This has mainly been the result of increased rumors of the Dupont board meeting with activist investor Peltz whom is trying to split the company in two, with one company holding the growth companies and the other holding the more mature cash generating businesses. The result of the rumors has been to push up the price of Dupont. Investors should never invest in a company based solely on the likelihood of a merger/acquisition or split.. Although the results of these actions are generally positive, if the rumor fades the stock can get hit hard.

At the end of January, HAC did not hold DD.

Disney– Nothing Mickey Mouse about its performance, but be prepared to leave the park

After producing strong earnings recently, Disney has shot up in price. This is good, but the seasonal period for Disney ends on February 15th. Investors should be prepared to exit the stock shortly or at least put a tight trailing stop in place.

At the end of January, HAC did not hold DIS.

TJX– Hanging In

At this time TJX is hanging in and performing at market. There is still quite a long time before the end of its seasonal period. TJX is still expected to outperform during its seasonal period.

Clorox– All washed up?

Clorox has outperformed the S&P 500 since December, and it is starting to fade relative to the S&P 500. As the seasonally strong period ends on March 3rd, seasonal investors should consider exiting this position shortly.

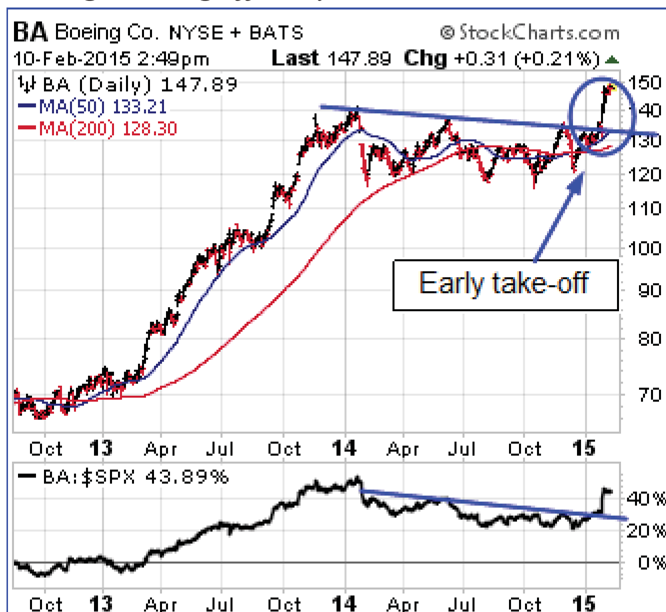
At the end of January, HAC did not hold CLX.

Waste Management– Starting its seasonal period

Waste Management starts its seasonal period on February 24th. Given WM's recent strong performance ahead of its seasonal period, investors should wait until the start of its seasonal period before considering a position in the stock.

At the end of January, HAC did not hold WM.

Boeing– Taking off early – Be Patient



Boeing has recently put in a solid performance ahead of its seasonal period, which starts on March 13th. At this time, investors should wait until the start of Boeing's seasonal period before entering into a position.

At the end of January, HAC did not hold Boeing.

Brooke's Rant – Greece – Nothing to Lose by Bargaining Hard

Greek irony – Greece is pretending to want to stay in the euro zone, when it does not care if it leaves; and the euro zone is pretending that it does not care if Greece leaves, when it wants Greece to stay.

The new left-wing Greek government Syriza has made many bold promises to its electorate of reducing taxes, forgiving debts and taking an aggressive stance on leaving the euro zone if it cannot achieve favorable terms. The Greek finance minister has made some strong demands on Europe to reduce Greece's debt. When the demands were not well received by European Commission President Jean-Claude Juncker et al., the Greek Finance Minister decided to ask for more debt. As Greece keeps firing away with different solutions, Junker has remained firm that the EU still expects Greece to carry forward the promises of austerity made from the previous government.

It is impossible for the new Greek government to maintain the austerity program that has been causing havoc on the economy. The Syriza party ran against the austerity program in order to be elected. There has to be a major concession from the EU, or Greece has to leave the euro zone.

It seems inevitable that Greece will leave the Eurozone. Greece currently has a debt to GDP ratio of 175% and 25% unemployment. Short of wiping out most of the country's debt, this is nearly an impossible situation to eradicate. Many critics claim that the austerity program has to be removed and Greece allowed to spend more money in order to stimulate the economy. The problem with this solution is that it will not work. Adding debt to debt does not solve the situation. The pundits argue that this debt is an investment to help stimulate the economy. If only this were true, we could spend our way out of every problem.

It seems that in the last decade, politicians have realized that they can sell their increased spending by stating that it is an investment into the future. When you pull back the curtains, very often nothing can be further from the truth as the government is wasting its money on their day to day operations. Greece is no different. Left to its own vices, it will squander away any unfettered money that it has received. This is the reason why the euro zone made certain demands on Greece in the first place.

The problem is that Greece feels that it has done its time. I am not being disingenuous, as I feel badly for the Greeks. At the rate of progress, the Greek situation will not subside for over a decade. This reality is setting in and the Greeks are willing to look for other solutions. The Greeks would like to remain in the euro zone under the right circumstances, but they are starting to understand that the price is too high.

The bargaining that is taking place right now has a very low probability of producing an acceptable outcome for either side. It is possible that some temporary agreement is reached, but there is little chance for a long-term meaningful solution. Greece is currently going through the motions. In the end, it wants to say, "we tried our best to reach a reasonable deal, but it did not work and we had no choice but to leave the Eurozone."

If Greece reneged on all of its debts and went back to the drachma, they would be in far better shape than where they are today. With a cheaper currency, their businesses would thrive and Greek tourism would expand. Like all the major countries that have defaulted on their debt, down the road after showing fiscal responsibility, Greece would once again be able to borrow in the world markets.

On the other hand, if Greece broke away from the euro zone, then the EU would run the risk of other countries leaving in the future. This is something that the EU definitely does not want to happen. In the world of game theory, Greece has the upper hand in negotiations. If it maintains the status quo, then it has a poor future. If the EU bends to its Greece's demand for concessions, then Greece will be better off (at least for a while). Finally, if it leaves the Euro zone, it will better off. Given the outcomes, the strategy is simple: Greece should bargain hard with Europe and if they do not get major concessions, they should leave the euro zone.

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