Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

Published the 10th Calendar Day of Every Month

Volume 9, Number 4, April 2015 Written by Brooke Thackray

Special Note:

The transition into the unfavorable six month period for the stock market is not discussed in this newsletter. A *Thackray Seasonal Trade* report will be released later in April that discusses the stock market valuation, strength of the “Sell in May” trade and the stock market outlook.

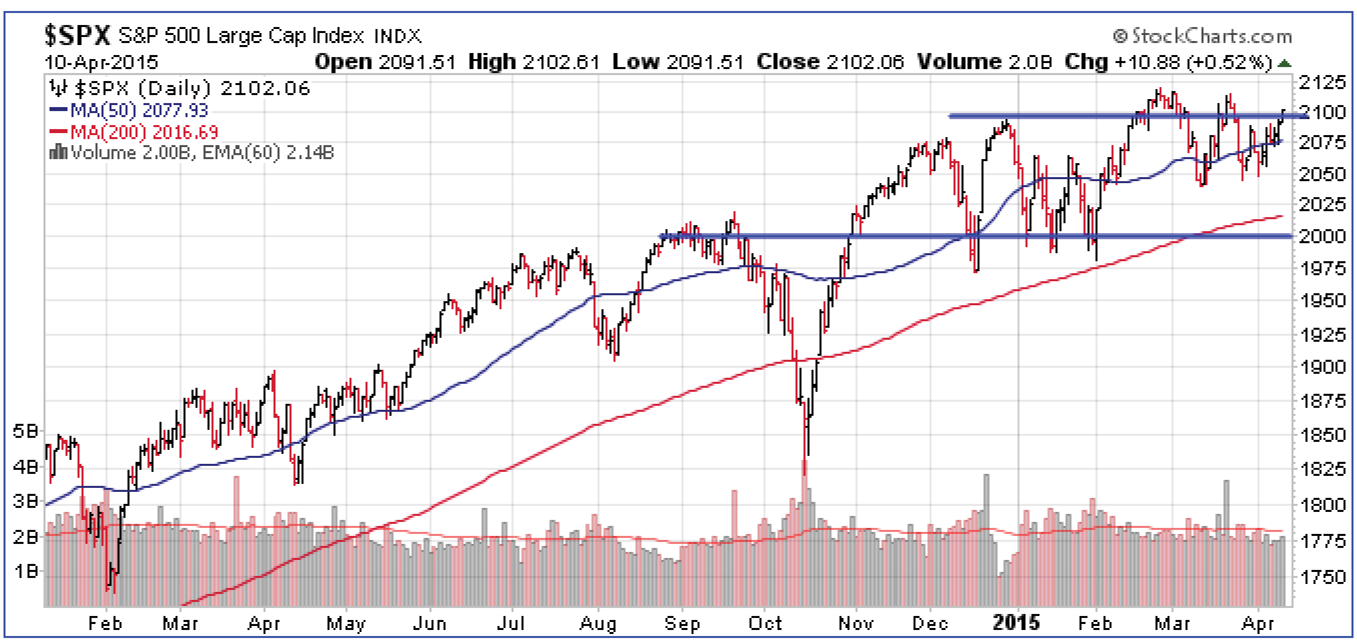
Market Update

Initially, the stock market was expected to respond negatively to the April 3rd weak Non-Farm Payroll numbers which came in at 146k jobs versus the expected 245k. On the first trading day after the report was released the stock markets in North America ended up strongly in the

S&P 500 Technical Status

Currently, the S&P 500 is not significantly higher than it was at this time last month. It sits just above 2100, which is the upper trading band for the trading channel that was formed last November. It is totally possible for the S&P 500 to move higher from this point, but the seasonal investment climate is changing. We are approaching the end of the six month favorable period for stocks and moving into the unfavorable six month period. This is the time period when it is difficult for the stock market to move substantially higher without a strong catalyst.

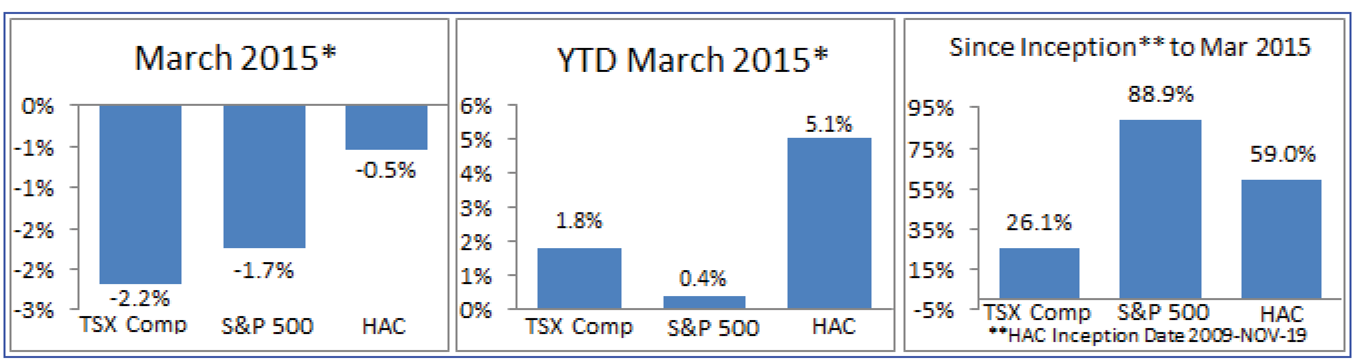
Although, we may have more upside at this point, there is a strong liklihood that the S&P 500 will correct and test the 2100 level once again.



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

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HXE	Horizons S&P/TSX Capped Energy Index ETF	9.3%
HXF	Horizons S&P/TSX Capped Financials Index ETF	7.6%
HUN	Horizons NYMEX® Natural Gas ETF	4.9%
	United States Dollar Exposed Assets	
	Equities	
HXS	Horizons S&P 500® Index ETF	36.2%
XLY	Consumer Discretionary Select Sector SPDR Fund	10.5%
EFA	iShares MSCI EAFE ETF	9.9%
XLB	Materials Select Sector SPDR Trust	8.9%
XLF	Financial Select Sector SPDR Fund	7.0%
XLI	Industrial Select Sector SPDR Fund	5.1%
	US Dollar Forwards (April 2015) - Currency Hedge **	0.2%
	Cash, Cash Equivalents, Margin & Other	0.4%
	Total (NAV $115,911,351)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 84.3% 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.

black. Investors are battling back and forth between the ramifications of weak economic numbers on the economy and the stock market, and the possible counter effect of the Federal Reserve putting off its first rate hike to a date further out than currently expected.

There are many different ways to measure investment sentiment, including gauging investors' reactions to bullish or bearish news. The fact that investors responded positively to the weak March Non-Farm Payroll report was a bullish signal for the stock market. Normally, a weak employment report is bearish by itself as it indicates a weakening economy and ultimately lower corporate profits. When investors respond positively to a bearish report, this is bullish for the stock market. It indicates that investors are expecting a counter party to take a bullish action that outweighs the original bearish report. In the case of the recent bearish Nonfarm Payroll report, investors are anticipating that the Federal Reserve will push out the date that it is planning to raise interest rates which will in turn provide a better environment for the stock market to rally.

In my last month's newsletter I discussed how investors responded negatively to the stronger than expected February Non-Farm Payroll report. In this case the reaction was bearish as investors were once again playing the anticipated action of the Federal Reserve rather than the report itself. If stronger than expected economic reports continued to be released, this would have pushed the investor sentiment into a bearish bias as investors would have feared that the Federal Reserve would have no choice but to raise rates in the short-term horizon.

This weighing process of bearish and bullish actions goes on all of the time. When the bullish case scenario wins out, it is evidence that investors have a bullish bias which is positive for the stock markets. It can be argued that since the Greenspan era, the Federal Reserve has created a moral hazard scenario, where investors anticipate that the Federal Reserve will bail them out after a major economic or stock market problem; consequently, investors have adjusted their behavior to take on more risk than they would have otherwise. This phenomenon has had a spill-over effect into the realm of smaller decisions by the Federal Reserve and as a result, investors tend to believe that the Federal Reserve will err on the side of loose monetary policy and when a weaker than expected economic number is reported, the expectation is that the Federal Reserve will take an offsetting action. Please note that it is not the Federal Reserve's action, but rather the expectation of their action that is important. There is a difference.

At some point, investors will make the decision that the Federal Reserve action will not be able to offset a weak economic report and start to push the stock market down.

In addition, investors realize that the Federal Reserve does not have too many loose monetary tools left to use at this economic juncture. The Federal Reserve cannot delay raising interest rates forever, at some point their hand will be forced.

When investors start to establish a trend of responding bearishly to economic releases the shift in investor sentiment will carry momentum and could result in a substantial correction.

This may take place in three weeks, or six months, or even a year. It is always difficult to determine when investor sentiment is going to shift. One or two data points of bearish reaction to bearish economic news does not indicate a shift in sentiment trend. It is not a golden rule, but three data points will often signify that a shift is taking place.

Will earnings rescue the stock market? Probably not. This quarter earnings are expected to contract. As of April 2nd, Q1 2015 earnings are expected to contract by 2.8% (Thomson Reuters). With an expected contraction, the bar is set very low for companies to beat expectations. Nevertheless, collectively, companies will have to beat the expectations by more than just a bit to move the stock market substantially higher.

What the HAC is going on?

HAC outperformed both the S&P 500 and the TSX Composite in the month of March. The outperformance was mainly attributed to:

♦ ***Long position in the U.S. dollar for most of March.***

♦ ***Position in IWM past the end of the seasonal period for small caps, based on positive momentum (the position was sold in the second half of March)***

♦ ***Position in energy stocks, that despite volatile performance in March, still managed to outperform the broad market.***

♦ ***Position in XLY which continued to outperform the S&P 500.***

Sector Trends

Consumer Discretionary – Starting to show signs of fatigue

The consumer discretionary sector has strongly outperformed the S&P 500 in its seasonally strong period which finishes on April 22nd. The sector is starting to show signs of fatigue as it has been performing at market lately.

Investors should be looking to exit this sector upon weakness. The seasonal period for the consumer discretionary sector ends at the same time as the consumer staples sector starts its seasonal period (see the Consumer Switch strategy, *Thackray's 2015 Investor's Guide*, page 45).

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

Retail– Strong outperformance but seasonal period is over

The retail sector has outperformed the S&P 500 in its seasonal period, which has just finished. Investors should be looking to exit the sector on weakness.

Small Caps – Nothing small about the returns, but the seasonal period is over.

The small cap sector ends its seasonal period on March 7th. HAC maintained a large position in IWM past the seasonal end date based upon the price momentum of the sector. HAC exited its IWM position in the last half of March. It is possible that the sector will outperform once again, but risk-reward benefit has become diminished.

At the end of March, HAC did not hold a position in IWM.

Materials – Taking a dive

The U.S. materials sector (XLB) took a dive in March as the chemical companies weakened. The sector has still not broken down and is still outperforming the S&P 500 in its seasonal period that started on January 23rd. Nevertheless, investors should be monitoring the sector for weakness and a break below its upward trendline. Investors should consider exiting at $48.00, just below XLB's 200 day moving average.

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

Industrials– Hanging in

Recently, the industrial sector has been performing very slightly below market. This performance is not yet concerning as we have not had a breakdown. If the sector continues to underperform, investors should consider exiting the sector.

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

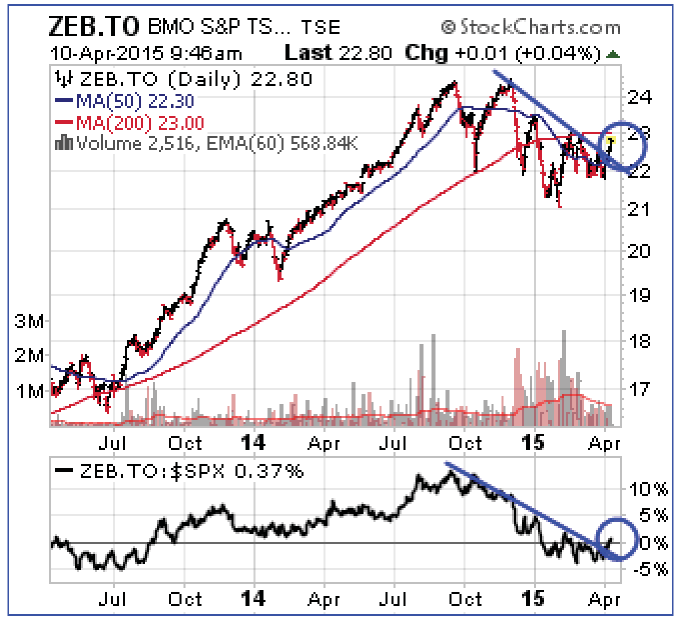
U.S. Financials– Seasonal Period ends April 13th

Since January the financial sector has been performing at market, but has recently shown signs of underperformance relative to the S&P 500. Given that the sector ends its seasonal period on April 13th, investors should be looking to exit.

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

Canadian Banks– Seasonal Period ends April 13th

Canadian banks have been performing at market (relative to the TSX Composite). Given that the sector ends its seasonal period on April 13th, it is best to consider exiting/ reducing this position.



At the end of March, HAC held a position in the Canadian financial sector with HXF.

Energy– Not liked but doing alright for now

It seems that everyone wants to beat up on the energy sector. The media keeps putting out headlines of possible $20 or $30 oil. Although, this is possibly true, it is also possible that the energy sector may increase, especially given that the energy sector is in its seasonal period. The energy sector ends its seasonal period on May 9th.

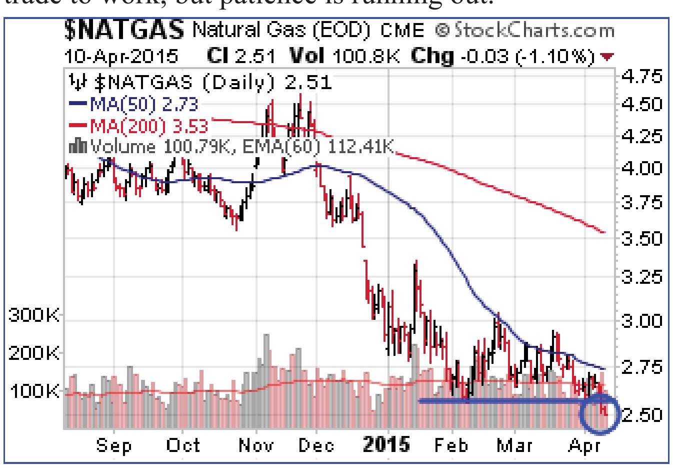
With larger than normal exogenous factors influencing the price of oil, such as global reduced demand and a supply battle, seasonal influences have a reduced impact. It is not that the seasonal trend does not exist, but rather that it can overwhelmed by other events. If Saudia Arabia announced that they were going to double their production, obviously seasonal influences would not be enough to stop the slide in the price of oil.

At this time, investors should be conscious of the seasonal exit date for energy. As we move closer to the end of the seasonal period for energy, investors should be more inclined to exit their energy positions upon weakness.

At the end of March, HAC held a position in the energy sector with HXE.

Natural Gas - not firing up

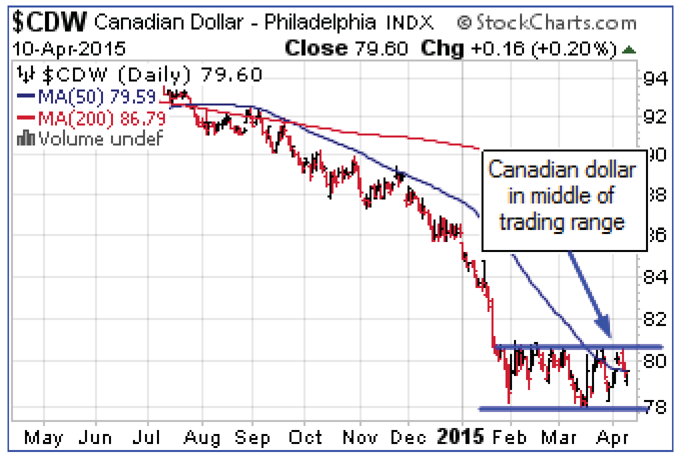
I recently released a report discussing the natural gas seasonal period from March 22nd to June 19th. The report can be accessed from my website www.alphamountain.com. So far, the spot price of natural gas has not rallied as it tends to do seasonally. This does not mean that the trade will not work. It still might take time for the supply and demand to battle it out. Natural gas is currently trading down just below its February low. If the downward trend continues, this will be bearish for the sector. Given that natural gas has just started its seasonal period, it should be given a bit of room for the seasonal trade to work, but patience is running out.



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

Canadian dollar– Reprieve from the downward trend?

The Canadian dollar tends to perform well in April see *Thackray Seasonal Trade - Canadian Dollar* on my website, www.alphamountain.com. So far the trade is approximately flat and the Canadian dollar is at the mid-point in tis trading range that was started in February. The Canadian dollar seasonal trade is still good, at least until the end of April. Investors should reassess the trade at the end of April, as seasonally, the trend relative to the U.S. for the following couple of months is neutral.



Stock Spot

Sysco–

Sysco has been underperforming the S&P 500 since January and is currently down to its support level. The upcoming trial regarding the Federal Trade Commission's antitrust lawsuit against the possible merger with the U.S. Foods has weighed on the stock price, pushing it back to its relative performance line with the S&P 500 in October. The stock price received a lift from the possible merger and has pulled off on the anti-trust suit.

Sysco, typically performs well at this time of the year, like many other consumer staples companies as investors tend to increase their holdings in the consumer staples sector during the transition time from the favourable six month period for stocks, into the unfavorable period for stocks. This year, Sysco has an added advantage relative to the consumer staples sector with only a small number of locations outside of the U.S., reducing its earnings from foreign exposure risk.

At the end of March, HAC did not hold a position in SYY.

Boeing– still waiting to take off again

After a strong run in 2013, flat performance in 2014, Boeing picked up its performance at the beginning of 2015. Since the end of January, Boeing's performance has been flat to the market as it consolidates. At this point look for the stock to break above $157 for a positive breakout.

At the end of March, HAC did not hold a position in BA.

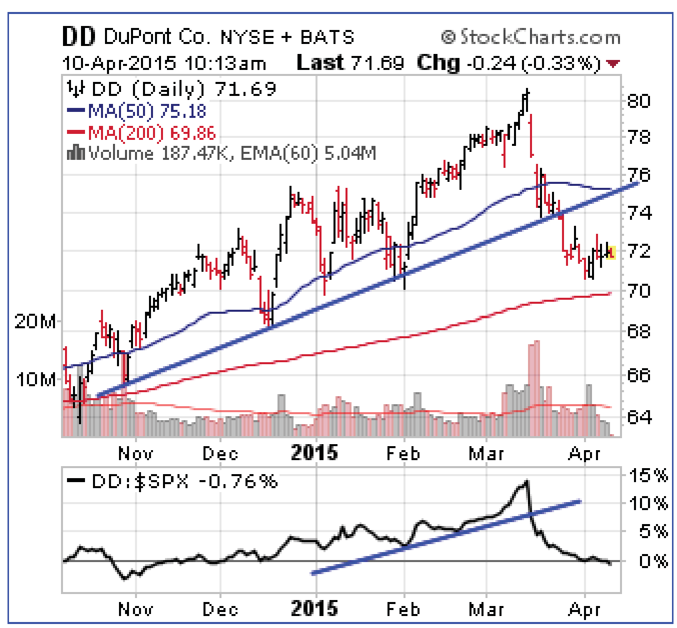
Caterpillar– Bargain at support?

Caterpillar has been on a downward spiral since mid-2014. It is currently back down to its October 2014 levels. Although Caterpillar has still not broken out of its downward trend, it is at its support level and it is possible that the stock will bounce at this point, especially if the price of oil improves. The bounce could be ephemeral as the seasonal period for Caterpillar ends on May 5th.

At the end of March, HAC did not hold a position in CAT.

Dupont– Pulled back to reality

After a weaker than expect earnings report in January, Dupont continued to outperform in February. Dupont has corrected sharply since March as investors watch the drama unfold with activist investor Trian Fund Management trying to split the company in two. Dupont has broken its upward trendline, but is currently at support. It is possible for Dupont to pull up at this point, but it is going to be difficult to outperform the S&P 500 before the end of its seasonal period on May 5th.



Waste Management– Outperforming the market slightly

Waste Management is currently outperforming the S&P 500 at this time, not by much, but still outperforming. The seasonal period for Waste Management ends on May 14th. Investors should look to exit the position upon weakness.

TJX– Wins at the end of its seasonal period

TJX has a strong track record of outperforming the S&P 500 in its seasonal period from January 22nd to March 30th. This year, TJX managed to outperform the stock market, by a small margin. Nevertheless it outperformed. The seasonal period is over and given that the seasonal period for the retail sector just ended, seasonal investors that still hold a position in TJX, should be looking to exit.

Brooke's Rant– Is Greece Really Giving In?

As Greece is scraping the bottom of the barrel trying to make its payments to the IMF and others, the Greek Prime Minister has been reasserting his position that Greece wants to stay in the Eurozone and that Greece will meet the necessary conditions to remain in the Eurozone. Umm…really…I don't think so, and a lot Greeks do not believe it either. According to a Wall Street Journal article, "Greek Bank Deposits Plunge to 10-Year Low (WSJ, March 26th, 2015). Unless you are making a bet that Greece will survive in the Eurozone and seek higher interest rates, the risk-reward relationship of leaving cash in the Greek banking system for the average citizen does not make sense. If you keep your euros in a German bank, at least you know you are going to get them back. If you keep them in Greece, you may loose your euros and get a greatly devalued Greek currency. There is no upside to leaving cash in the Greek bank system and a lot of downside. Who can blame the Greeks for placing their Euros outside of their country.

In the end it is going to be impossible for Greece to please Germany and company, they will never make all of the necessary changes. What is going on is a charade. The ECB has to ask for austerity measures and Greece has to promise them. Greece will keep coming back and push the limits of how few austerity measures it is willing to take on and still remain in the Eurozone. The ECB will keep asking for more than Greece is willing to give. Even if Greece promises to implement austerity measures, do not expect Greece to comply. The ECB and Greece will argue about time lines, what has been done and what should be done. At some point, the charade will be exposed and confidence will be lost and panic will set in. That is, unless Greece does what almost every other country has done in the past whose currency was in trouble: pretend that everything is okay and then without making an announcement, suddenly close the banks on a weekend and reorganize (declare bankruptcy).

If the Greek situation continues to get worse (I do not see how it can get better), Greece cannot wait too long to declare that they are leaving the Eurozone, otherwise there will be little money left in Greek banks to force a conversion into the drachma or some other named Greek currency.

I could be wrong on my prognostication that Greece will leave the Eurozone. I know that I stand in a small minority in my viewpoint. If I am wrong, then negotiations between the ECB and Greece will go on for years. If Greece leaves the Eurozone or it does not, they still have a tough few years ahead of them. Ultimately they will not heal until structural reforms are made, such as collecting taxes, reducing the bloated bureaucracy, reducing red tape and setting the framework for businesses to succeed. These changes are not going to be made until a charismatic leader is elected that is able to force the necessary changes…Prime Minister Alexis Tsipras it is not the right person for this task.

If Greece does in fact announce that they are leaving the Eurozone, the media will paint the picture that it is not be a big deal; after all, Greece represents a very small portion of Europe's GDP. There will also be stories of how Greece is a special case and how it is not advantageous for other countries like Portugal to exit. Do not believe it: this painful Eurozone experiment is going to drag on for many years. It may take a few more years, but there is a high likelihood that other weak countries will leave, just not for a while. Ultimately, the only way that the Eurozone will stay in-tact is with common monetary and fiscal policies.

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