Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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Market Update

On August 31st, I tweeted "The S&P 500 is NOT on Sale" @BrookeThackray. My tweet was born out of frustration as I watched investor commentator after investment commentator discuss how lucky investors were to have this opportunity to buy stocks on sale.

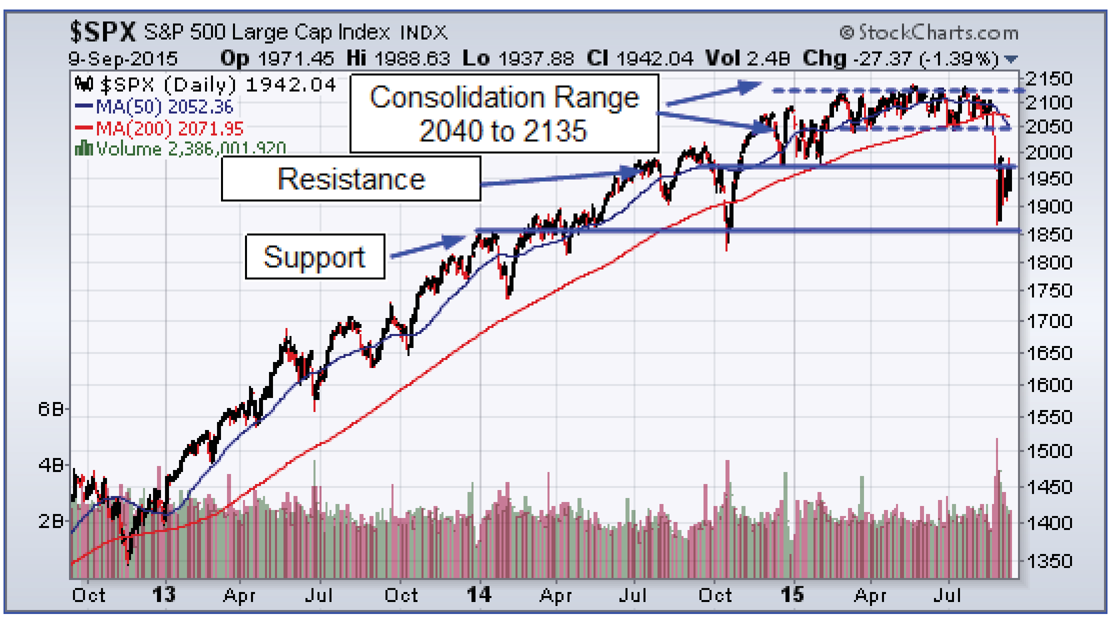
It seems that every time that the stock market corrects 10% (which is not too often), the overwhelming message is that it is a good time to buy. This advice has worked well in recent bull markets (it did not work well in 2008). The question remains, is this time different….will the market go down further, or is this a buying opportunity?

The best way to answer these questions is to look at what

S&P 500 Technical Status

For months I have been writing about the S&P 500 consolidating between 2040 and 2135. I called it the battle of 2100. I also stated that once it broke out of its unusually long consolidation stage it would break strongly up or down, but the more likely scenario was down. The S&P 500 broke strongly down.

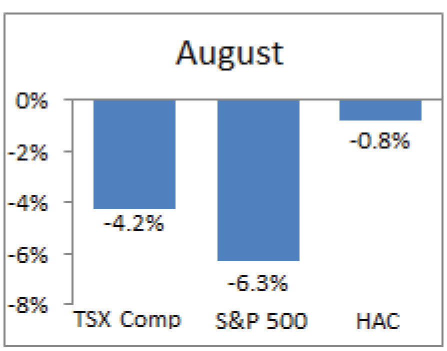
Where do we go from here? At the current time, there is very little to drive the stock markets higher. Strong earnings in October may help, but it will be difficult for the S&P 500 to push to new highs. Last October's strong push took the S&P 500 up to the 2100 level and started the consolidation phase. Given the duration of the consolidation, the 2135 level provides very strong resistance. To get to this level, the S&P 500 has to break above 2000, which will be difficult in itself. The most likely scenario is for the S&P 500 to trade between 1868 (August low) and 2000. We are still in the unfavorable six month period for stocks in what is on average one of the worst months of the year and it would not be surprising to see the S&P 500 test the 1867 level. October often provides good opportunities to enter the market and investors should be patient at this time.

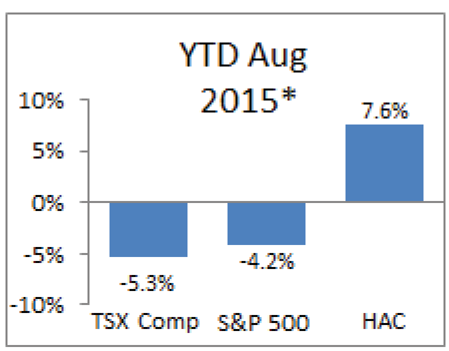


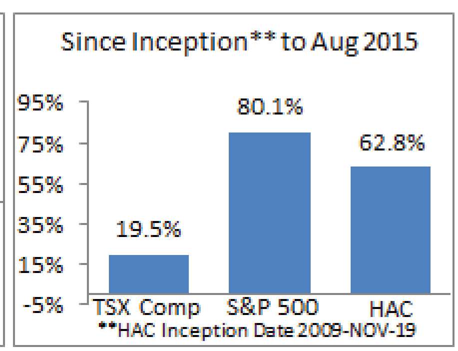
Horizons Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of **August 31st**, 2015

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Fixed Income	
HFR	Horizons Active Floating Rate Bond ETF	20.9%
HTB	Horizons US 7-10 Year Treasury Bond ETF	16.8%
HBB	Horizons Cdn Select Universe Bond ETF	16.5%
	Equities	
HUG	Horizons COMEX Gold ETF	9.2%
	United States Dollar Exposed Assets	
	Equities	
GDX	Market Vectors Gold Miners ETF	5.1%
	US Dollar Forwards (September 2015) - Currency Hedge **	-0.2%
	Cash, Cash Equivalents, Margin & Other	31.5%
	Total (NAV $133,717,269)	100.0%

*** Reflects gain / loss on currency hedge (Notional exposure equals 26.1% 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.

has caused the stock market correction. It seems that a lot of investment gurus are scratching their heads and pointing their fingers at different possible causes. Some have blamed hedge funds using trading algorithms. Although there may be some truth to this in respect to the flash crash on Monday August 24th, where the Dow plummeted over 1000 points, it does not account for the broad market weakness that has carried on.

Others have blamed the gyrations in the Chinese economy and stock market. Although this would have an impact, Asia accounts for approximately 15% of S&P 500 earnings: hardly, an amount that would "crater" the U.S. stock market. Yes, this would have a knock on effect spilling over into countries with a large production of commodities, such as Canada, which in turn would indirectly affect S&P 500 earnings. But still the full extent of the S&P 500 correction cannot be accounted.

No one has a definitive answer, but there is no question that the market was in a fragile state and poised for a correction before it all took place. The S&P 500 was in an uncharacteristically tight range around the 2100 (2040 to 2135) level for over eight months. Unable to break higher, it just traded sideways. It is true that it could have broken to the upside instead of the downside, but the historical odds called for a downside break. In the summer months, particularly after mid-July, it is very difficult for the stock market to have a large sustained rally. It happens, but it is usually the result of a bounce coming off a recession or monetary stimulus or rumors of monetary stimulus.

Since the beginning of the year, investors have been very complacent as the stock market has been moving sideways. More recently, many investment commentators in the media have been proclaiming that it does not matter if the Federal Reserve raises rates on September 17th or in December and that a quarter point is no big deal and will not hurt. Investors, believe that all is not quite as it seems and have a gut feeling that a quarter point raise is not good. Investors are not so complacent anymore. The situation is akin to a Doctor telling a patient that a needle will not hurt. The patient plays along to get it over with, and ignores the fact that the doctor is not telling the truth. Get ready for the needle from Dr. Yellen. It doesn't hurt. No, really.

So what caused the correction? There is no single factor, but the stock market was setup for a correction after consolidating around 2100 (2040 to 2135) since the beginning of the year. When Chinese data from their stock market and economy was worse than expected, investors became spooked and sold the market down. To make matters worse, and adding to the uncertainty was the concern that we were soon to embark in a new era of tightening monetary supply. So in the end, the stock market correction was probably caused by investor complacency in a fragile market, with investors becoming spooked by weak Chinese data, just when investors were starting to worry about a possible rate rise.

Although the global economy is slowing, the U.S. economy is still plodding along. Despite some tepid economic numbers, the unemployment rate is very low and the U.S. is not in a recession. This is not the typical recipe for the start of a bear market. I am not saying that we are not heading into a bear market, but the typical conditions are not present.

At this time, a 20% plus correction is not on the horizon, although it could happen. Much more damaging data needs to be brought forward. Nevertheless, investors should expect more volatility as the bull and bear camps battle for the remainder of September and into October.

Is now a good time to enter the market? No one can call the bottom of the market. Maybe today is the ideal time to enter the market, or maybe it is tomorrow. In using a seasonal discipline to invest, the goal is to reduce risk in times when the market tends to underperform and vice versa. Given that September tends to be the weakest month of the year it makes sense to wait at least until the end of the month before entering large new equity positions.

Opportunity on the Horizon

Despite the market having some negative headwinds and the possibility of further downside, all is not cloudy on the horizon. First of all, we are coming up on the six month favorable period for stocks, starting on October 28th. Yes, bad things can happen in this period, but the stock market is less susceptible to corrections in the last few months of the year compared to August and September. Reducing risk in August and September makes sense as the market is more likely to have large corrections at this time of the year. Once we slip into the favorable six month period for stocks (starts October 28th), the market is less likely to correct, even with the continuance of the current fragile conditions.

October has the reputation of being one of the worst months of the year, but the reputation is not deserved. From 1950 to 2014, the S&P 500 has produced an average gain of 0.8% and has been positive 60% of the time. October's reputation is really the by-product of the heightened volatility that tends to take place in the month. October is one of the most volatile months of the year.

Slicing & Dicing October

I do not like to typically slice and dice intramonth trends in the stock market, but in some cases it makes sense. The two big exceptions are, end of month trades and earnings months. The first eighteen calendar days of earnings months tend to be positive (see Thackray's 2015 Investor's Guide, page 43). The positive trend in the market for the first part of earnings months is the result of investors getting into the stock market before earnings season gets into full-swing, typically the third week in January, April, July and October. Investors tend to take this position in order to benefit from a possible uptick in the stock market as the result of better than expected earnings. October, an earnings month, despite its reputation for volatility, tends to perform well for the first eighteen calendar days of the month.

The Danger Zone

On average, in October, after the earnings month effect has had a positive impact on the returns for the first eighteen days of October, the stock markets slip into a period I call the Danger Zone (October 19th to October 27th). In this time period from 1950 to 2014, the S&P 500 has lost 0.8% and has only been positive 45% of the time. October can very volatile, but it can also provide opportunities. Investors should be particularly cautious at this time.

Although the Danger Zone may provide a buying opportunity, it is typically best to enter the stock market by October 28th (October 27th buy date). The last few days of October are on average some of the strongest days of the year. This is caused by investors increasing their risk appetite for the Halloween trade. I am not the only one that writes about the favorable six month trade. Many academics have written about the trade in the past. The difference is that they start the trade on November 1st, just to keep it tidy for a full month. Anticipating the Halloween Effect, investors start to pile into the stock market a few days early, especially if there has been a major correction in the stock market. By entering the stock market before month end, buying into the S&P 500 at the end of the day on October 27th (to be in the market for October 28th), has up until month end produced an average gain of 0.8% and has been positive 62% of the time, from 1950 to 2014.

What the HAC is going on?

HAC lost a bit of ground in August, but strongly outperformed the TSX Composite and the S&P 500. HAC held only a small amount of equities, given that there was the downside risk was greater than upside potential as the stock market was fully valued in the six month unfavorable period for stocks.

Positions with negative influences:

♦ ***Canadian bonds (HBB) were pulled down in the month of August and fell as the stock market corrected. A concerning trend.***

♦ ***Biotech (IBB) lost ground. HAC sold the position before the stock market corrected sharply on August 24th***

♦ ***Consumer Staples (XLP) lost ground. HAC sold the position before the stock market corrected sharply on August 24th***

Positions with positive influences:

♦ ***Gold bullion (HUG) put in a solid month helping to boost returns***

♦ ***U.S. government bonds (HTB) produced a small gain***

♦ ***Gold miners (GDX) produced a small gain in the month***

♦ ***The long USD position produced a small gain***

Sector Updates and Opportunities

Biotech– Ran out of steam before the end of its seasonal period - HAC sold in mid-August

The biotech sector had been outperforming the S&P 500 for over a year. In August, the sector started to show signs of weakness and underperforming the S&P 500. Given that the sector was close to the end of its strong seasonal period, HAC sold the position. HAC benefited on an absolute basis as the position was sold before August 24th when the stock market corrected sharply.

Consumer Staples– HAC sold mid-August– Signs of underperformance, but still might be good in October

The consumer staples sector started to show signs of weakness in August and signs of underperforming the S&P 500. HAC exited the position before the August 24th stock market correction. Investors should note that since 1990, the consumer staples sector has been the top performing major sector in October. Despite exiting the sector in August, it is still a candidate for a position in HAC in October.

Gold Bullion– Strong August, but fading in September

Down but not out. After a positive August, gold started to underperform in September. Gold benefited from money rotating out of stocks when the stock market started to correct on August 24th, but as the stock market has stabilized gold pulled back. Gold bullion finishes its seasonal period on October 9th. Investors should be prepared to exit earlier as gold can finish its seasonal run in September. This is especially true since gold tends to perform poorly for the remainder of October.

Gold Miners– Underperforming and at support

The downdraft in the stock market has had a large negative impact on the gold miners. Gold miners are sitting at support. If gold miners continue to perform poorly, investors should exit the position before the end of the seasonal period (September 25th).

U.S. Government Bonds– Retreating but still in its trading channel

U.S. government bonds managed to rally when the stock market corrected but the sector has pulled back when money rotated back into stocks as the market stabilized.

IEF is still in its trading channel and can still perform well, but as we move closer to the end of the seasonal period (October 3rd), investors should be prepared to exit the sector.

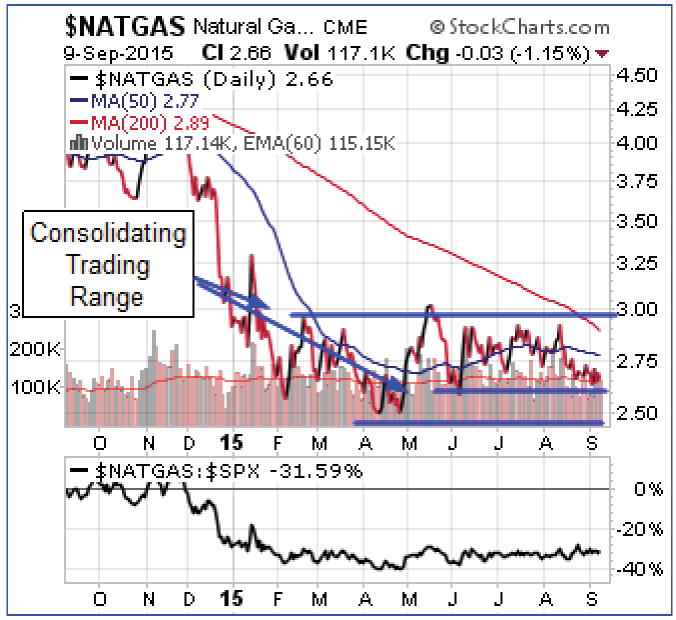
Canadian Bonds

Canadian bonds corrected as the stock market corrected. HBB has broken below support, if it continues to stay below this level, investors should be more inclined to exit the position before the end of the seasonal period (October 3rd).

Natural Gas– Simmering for now....but a good chance of firing up

Recently I wrote a one page piece on the natural gas seasonal trade. It is posted on my website (www.alphamountain.com), http://bit.ly/1hUeCys.

The seasonal period for natural gas starts on September 5th and ends on December 21st. Since the beginning of the year, natural gas has been in a trading range, consolidating after correcting at the end of 2014. Although natural gas could drop below the trading range, the bottom end at $2.50 MMbtus should provide support. Given the seasonal tendencies of natural gas at this time, $3.00 is a short-term target and if natural gas performs well, then $4.00 is a possible next target.



Last Minute Thoughts

What happened, did I miss something? The Nikkei 225 was up 7.7% on Wednesday morning, but I could not see anything on the wire other than Prime Minister Shinzo Abe's announcement that he would try to lower the corporate tax rate by 3.3%. Japan's fight against deflation seems to be losing so badly that it is good, at least in the sense that Japan will have to take action to stimulate the economy. Rumors of the BoJ adding more stimulus have been persistent over the last few months.

Previously, Japan has added massive stimulus, with the results showing up more in the stock market than the economy. Sound familiar. In the later stages of the U.S.' QE regime the marginal effects became minimized. Evidently, Japan is not at that stage yet. In time they will get there.

As I have said before, ultimately Japan is a train wreck. You can't have a country with a debt to GDP ratio of over 250%, with a population that has an average age of 46 and does not believe in immigration. It will not work.

To fight deflation and get the economy going, Japan has launched on a massive stimulus program that dwarfs the

U.S. program. It seems that it is so big that everyone believes that it has to work. So far it has nominal benefits, at least in fighting deflation.

The root of the problem is not just in Japan, but also many other western countries. There is underlying belief that spending money (sometimes called investments, by government) will help to grow the country out of its problems. Even more so, countries have embarked on printing large amounts of money to help stimulate their economies.

The theory is that government spending/stimulus will somehow stimulate private spending, the economy will grow and everyone will be better off. This classic textbook theory doesn't seem to work that well anymore. In the period just after WWII, government spending was largely spent on increasing infrastructure that helped to boost productivity so that everyone benefited. In addition, western countries had a large competitive advantage over second and third world countries which was a net benefit to western countries.

Today, government spending/stimulus has not produced the same results. There has not been a dramatic increase in startup companies or companies expanding their operations.

In the past, growth from infrastructure investments produced huge rewards. Japan, was able to achieve market leadership in the production of electronics and auto production in a relatively short amount of time in the 1970's and 1980's. Today this feat would be much harder, given the ultra competitive global trade.

In some ways, China is the new Japan of the 80's. At some point, their advantage will fade and other emerging countries will lead.

The point is that Japan is living in yesteryear, the returns from its spending/stimulus program will not produce the same results that it would have thirty years ago. As Japan continues to grow its debt with marginal results, the situation will only get worse over time. This is especially true if and when Japan has to raise its interest rates. The long-term outlook for Japan remains: "train wreck."

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