Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

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Written by Brooke Thackray

Market Update

I just finished releasing a separate report, *Stock Markets are in for a Rough Summer*. It posits the position that the stock market is priced for perfection as it is richly valued in an environment of weak economic growth, poor earnings, high and declining profit margins and entering the weaker six months of the year for stocks. For a copy of the report: http://bit.ly/1oSL0En, or visit www.alphamountain.com.

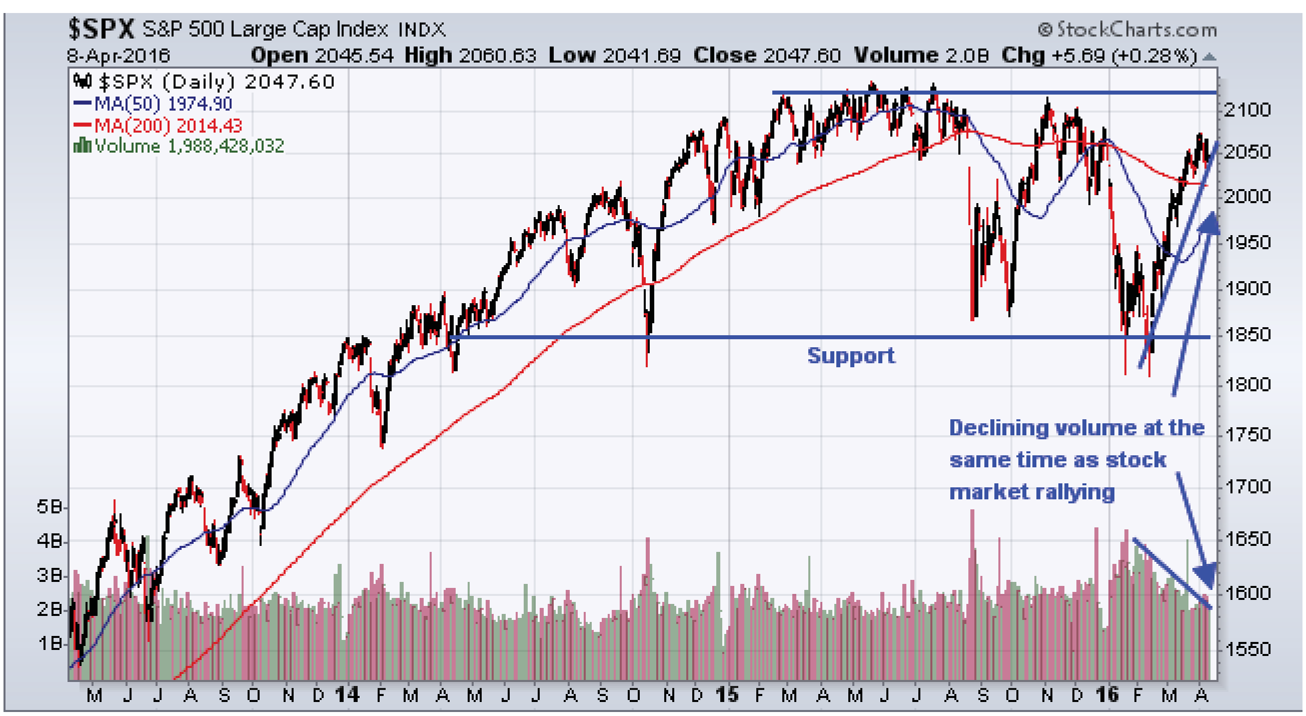
We are entering the time period when investors should consider being more conservative with their equity allocations. In my March newsletter, I wrote about the return profile of the favorable six month period of the year for stocks (May 6th to October 27th), compared to favorable six month period (October 28th to May 5th).

The April earnings season could help provide a bit of support for the stock market to move higher, but after the earnings season gets underway, in the second or third week of the month, it is going to be difficult for stocks to move higher. After a long consolidation starting in 2014, a strong catalyst is needed to move the S&P 500 past is all

S&P 500 Technical Status

The S&P 500 is still stuck in a trading range that was established back in 2014. After touching the low end of the trading range in January 2016, the S&P 500 has rallied strongly, to close at the upper end of the trading range. As the S&P 500 has been rallying, volume has been declining. This is a sign of a weak rally that does not have a lot of support. Investors are not convinced that this rally has "legs."

Earnings season may provide some support and help the S&P 500 move higher, but it is going to have difficulty advancing substantially past its May 2015 high of 2135.



Horizons Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of **March 31st** 2016

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HXT	Horizons S&P/TSX 60™ Index ETF	39.4%
HXE	Horizons S&P/TSX Capped Energy Index ETF	10.3%
HXF	Horizons S&P/TSX Capped Financials Index ETF	9.8%
HSU	Horizons BetaPro S&P 500® Bull Plus ETF	1.1%
	United States Dollar Exposed Assets	
	Equities	
HXS	Horizons S&P 500® Index ETF	19.7%
XLB	Materials Select Sector SPDR Trust	4.7%
XLI	Industrial Select Sector SPDR Fund	4.7%
	Commodities	
HUN	Horizons NYMEX® Natural Gas ETF	5.0%
	US Dollar Forwards (April 2016) - Currency Hedge **	0.7%
	Cash, Cash Equivalents, Margin & Other	4.5%
	Total (NAV $153,477,356)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 36.9% of current 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.

time high of 2135 set in May 2015. It would be unusual for the S&P 500 to move substantially above its all-time highs without a strong catalyst.

The stock market rallied strongly in March….but investors do not trust it.

The defensive sectors of the stock market have been outperforming or performing at market when the S&P 500 has been rising over the last two months. When this phenomenon occurs, it indicates that investors are skeptical of the broad stock market rally. This is particularly true during the six month favorable period for stocks. In addition, volume has been declining as the recent rally has progressed.

Consumer Staples - Outperforming again recently

The consumer staples sector outperformed the S&P 500 strongly in January and into the beginning of February as investors were attracted to the sector for its defensive properties during the stock market correction. In the last three weeks, consumer staples have been outperforming once again.

Utilities - Performed at market in March

The utility sector had exceptionally strong performance in January, as the risk-off trade environment evolved. It was interesting to see the utilities sector perform at market when the S&P 500 was advancing rapidly in March. Typically, when the S&P 500 advances rapidly, the utilities sector underperforms, especially in the favorable six month period for stocks from October 27th to May 6th. The utilities sector received some help from declining interest rates over the last three months, but nevertheless it is still remarkable that the utilities sector has managed to hold its own against the S&P 500.

Health Care - Signs of life

I have included the health care sector as a defensive with which to measure investor sentiment, but in this case the sector has been underperforming since last August. At this time Martin Shkreli, CEO of Turing Pharmaceuticals, brought unnecessary attention to the health care sector with his "price gouging" tactics. The response was for Congress to investigate drug price policies with possible future reforms to lower prices. As a result, the sector has been underperforming the S&P 500. It is important to note that the health care sector has always been a political football in election year, just not so many months away from the election.

The health care sector has been rising recently, as the merger deal between Alergan and Pfizer fell apart based on new legislation being introduced aimed at stopping inversion deals so that corporations can pay less tax. The result has been an increase in speculation that companies may merge domestically now that inversion deals are not as attractive. The end result is that health care stocks have rallied.

Junk Bonds vs. High Quality Corporate Bonds

Junk bonds tend to outperform high quality corporate bonds in risk-on markets and vice versa. Recently, there has been a divergence between the performance of the junk bond, corporate bond ratio and the performance of the S&P 500. Junk bonds have been underperforming corporate bonds at the same time as the S&P 500 has been rising.

It is also interesting that junk bonds have been underperforming corporate bonds at the same time crude oil has been rising. Over the last year, one of the arguments for a weaker junk bond sector has been the poor performance of energy companies. It is possible that junk bonds are riskier than they are being given "credit."

When there is a divergence between bonds and stocks, more often than naught, bonds are correct and stocks are wrong. The divergence is definitely a warning sign.

What the HAC is Going On?

In March, HAC participated in the strong stock market rally. HAC held positions in both the U.S. market and the Canadian market. HAC rode the rails between the Canadian and U.S. stock markets. When the U.S. stock market outperformed the Canadian stock market, HAC generally outperformed the Canadian stock market, but not the U.S. stock market and vice versa. HAC's energy position outperformed both the U.S. and Canadian markets, despite a large rally for the first half of the month and a decline in the second half of the month.

Seasonal Opportunities

Energy– Getting close to the end of its seasonal period

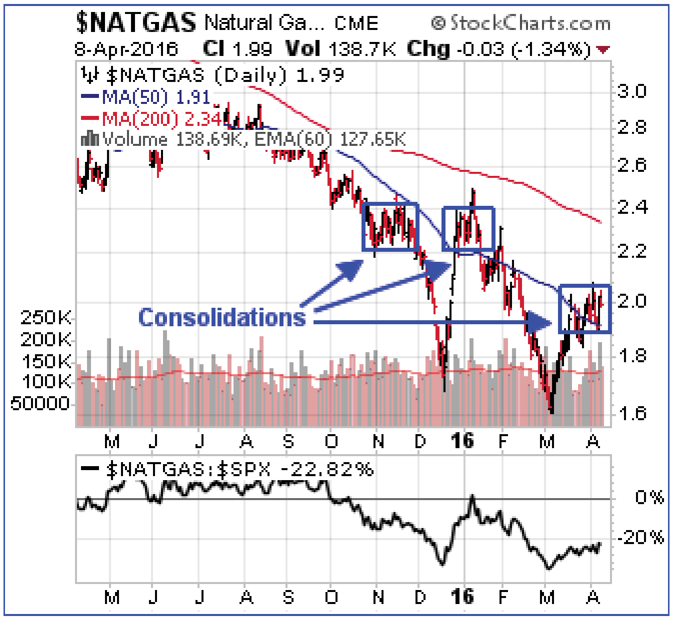
On average, the energy sector performs well until May 9th on a seasonal basis. Some years, the sector finishes its run earlier and other years later. We are currently getting closer to the end date of the seasonal period and investors should be prepared to exit the sector if it starts to underperform the stock market.

April 17th is going to be moving day for the energy as OPEC and Non-OPEC countries discuss a possible production freeze. Obviously, oil is going to respond up or down based upon the outcome of the meeting when the markets open on the following Monday. With so many countries pumping oil flat out as fast as they can, I am not sure how much progress is going to be made. This meeting will probably be more of a let's plan to plan meeting. The more important meeting will take place on June 2nd. Nevertheless, the April 17th meeting will have an impact on the energy sector.

My Call: The energy sector will probably continue to outperform in the near term, but will start to underperform before the May 9th seasonal end date.

Natural Gas – Consolidating again, looking for direction

Natural gas has been unusually quite over the last few weeks. It has gone through these consolidation periods before and recently it has turned down when it finished consolidating. At this point, the direction of natural gas prices are indeterminate. The seasonal period for natural gas finishes mid-June, but if natural gas resumes its downward trend from this point, investors should consider exiting.



My Call: Natural gas will probably continue to perform positively, but will finish its seasonal trend early, sometime in early May. Nevertheless, investors should still be prepared to exit early if natural gas starts to break down earlier.

Canadian dollar - still holding above $0.75

After bottoming in January, the Canadian dollar has been performing well versus the U.S. dollar. It has broken above its trend line and is holding above support at $0.75. The Canadian dollar finishes its seasonal period at the end of April. It is possible that the Canadian dollar will finish its seasonal period early this year given the strength of its current run, particularly if the energy sector starts to correct.

My Call: The Canadian dollar will probably continue to perform positively until late April.

Materials

The materials sector is at resistance and starting to show signs of weakness. Investors should consider exiting the sector.

My Call: HAC has recently exited its position in materials. The expectation is that the materials sector will continue to underperform.

Industrials

The industrials sector is at resistance and starting to show signs of weakness. Investors should consider exiting the sector.

My Call: *HAC has recently exited its position in the industrials sector. The expectation is that the industrials sector will continue to underperform.*

Emerging Markets - Strong performance, but will it last?

In my recent travels, I have heard much about the strength of emerging markets. All of a sudden, almost everyone seems to believe that emerging markets are the best place to be.

Not so fast!

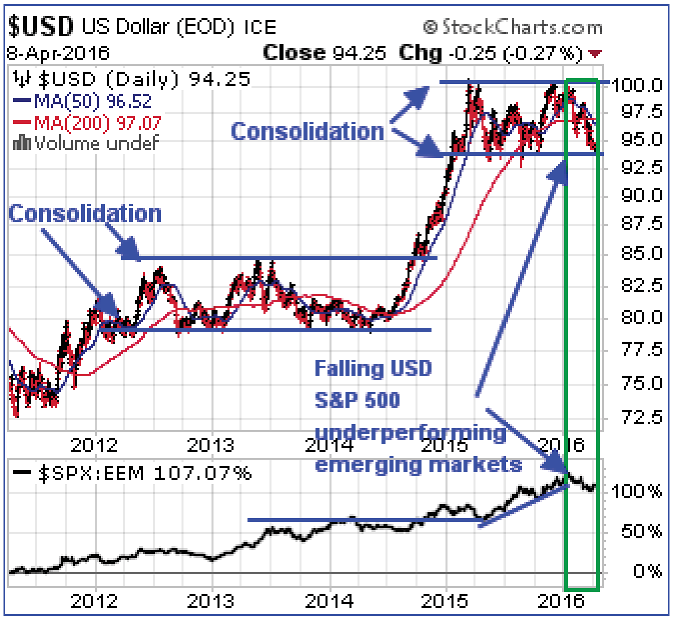
The emerging markets sector has been crushed for so long, it had to bounce at some time. The big question on the table: are emerging markets on a sustained bull run?

The backdrop for emerging markets has been very positive. A falling, U.S. dollar and rising commodity prices. The outlook for the emerging markets depends mainly on the outlook for commodities, the U.S. dollar and the S&P 500. The above graph shows the risk-on relationship between emerging markets and the S&P 500. When the S&P 500 is rising, emerging markets are also rising. What is different in recent months is that emerging markets have been outperforming the S&P 500. Nevertheless, investors should still respect the fact that if the S&P 500 does correct, emerging markets will probably correct (2 roll-over arrows in the graph above). If the correction is substantial, then emerging markets will likely underperform as investors perceive the U.S. market as a safer market. In addition, if commodities start to underperform, watch for emerging markets to follow suit.

Investors favoring emerging markets often state their case baed upon the possibility of the U.S. dollar declining. The USD (U.S. dollar vs. world currencies) shows the positive relationship of the U.S. dollar's upward trend and the performance of S&P 500 relative to emerging markets. It also shows two consolidation phases for USD. The first consolidation phase from 2012 to 2014. The second consolidation phase from 2015 to date. The current decline in the USD from late January to now has been concurrent with the outperformance of the emerging markets relative to the S&P 500.

If the U.S. dollar breaks below its current trading range, this could fuel emerging markets to continue to outperform.

Putting it altogether. There are a number of crosscurrents determining the relative price of assets, including emerging markets. Given that the weaker six month period for the stock market (May 6th to October 27th) is approaching, and it is the time period when the stock market is more susceptible to a correction, emerging markets are susceptible to a correction and undeperforming the S&P 500.



Brooke's Rant–

Investors have been distracted, and have not really contemplated the possibility of upcoming events this summer and their impact on the stock market.

Firstly, the possibility of the Britain exiting the EU (Brexit), has not really been debated in the stock market. Poll numbers vary. The current polls are showing that approximately 45 to 50% of Britons are likely to vote "Leave" versus "Remain." Although there is a good chance that Britain will remain as part of the EU, there is still a good chance that Britain could vote to leave. Outside events, such as a terrorist attack on British soil ahead of the vote, may push undecided voters to opt to leave the EU.

If the status quo holds, and Britain votes in June to remain as part of the EU, the stock market could get a bit of a boost, but not much. The reason for the lack of a strong boost is that the negative side of the equation, a vote to leave has not put any downward pressure on the stock market.

If a vote to leave the EU comes about, the impact on the stock market will be strongly negative. This outcome would substantially increase the uncertainty in the market place. Investors would debate the consequences, but there is no question that the level of uncertainty would increase. The stock market does not like uncertainty, and would probably correct sharply.

Although it is looking less likely that either Trump or Sanders will be nominated, a Trump-Sanders election battle would probably have a large impact on the stock market. Neither candidate would be good for the stock market. Sanders' anti-business stance would hurt corporations and his increase in taxes would reduce the incentive to work. Overall, economic growth would decline and correspondingly hurt the stock market.

A lot of people think that Trump is a right wing fascist. The one thing is certain is that he is not right wing. The right wing of the political spectrum believes that everyone benefits from a small government that does not slow down the wheels of capitalism. Trump does not believe in this stance as he keeps talking tariffs and the right to force companies to produce in the U.S.

There is also the another unaccounted for risk. There is more than slight chance that Hillary Clinton could be indicted for sending and receiving top secret and confidential material via her own email server. If Hillary Clinton had to step out of the race, this would have a negative impact on the stock market.

I am not taking political sides, but merely pointing out the mess in the U.S. election. The large amount of uncertainty has not been absorbed and reflected in the stock market. This could be the summer of "creeping risk." Investors have been lulled into a false sense of security that everything will work itself out. The risk is that investors will suddenly realize that they should start to price in the uncertainty of the events taking place this summer. Pricing in uncertainty tends to cause markets to correct sharply.