Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

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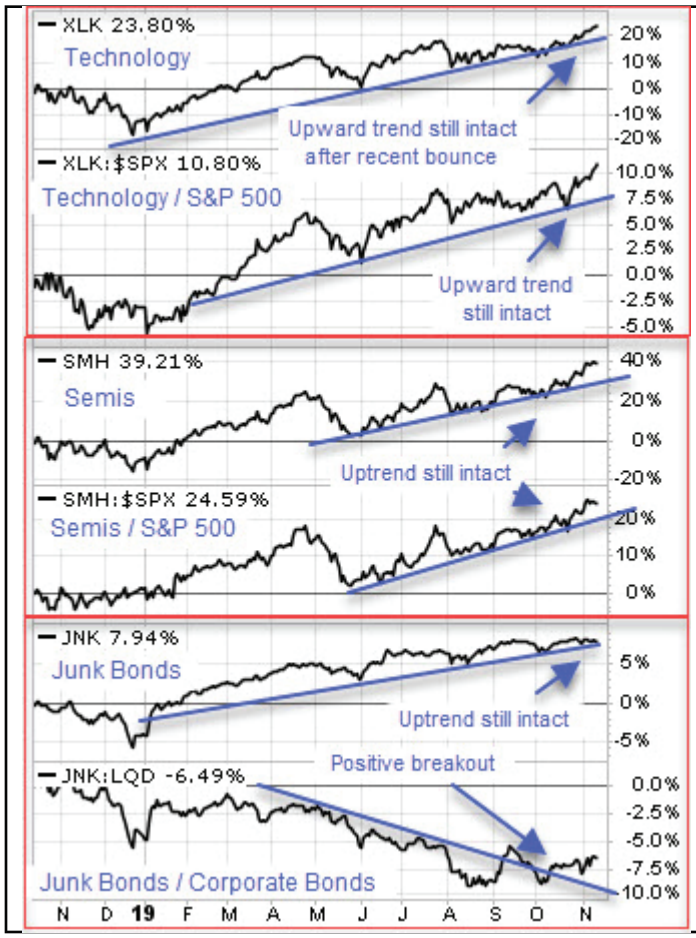
Market Update

Hold Your Nose - Follow your investment discipline!

You may not like economic background or stock market fundamentals. They may not "smell" right. Sometimes you have to hold your nose and follow your investment discipline.

Recently, the S&P 500 was making all-time highs as the six-month favorable period for stocks started. Despite high stock market valuations and weak economic conditions, from a seasonal perspective, it is time to reallocate to a more equity based portfolio that is the base of the six-month favorable period that lasts from October 28th to May 5th.

Not much has changed in the economy over the last six months. There has been little progress in the US-China trade war. Lots of bluster, but not much action. There may be a phase one deal, but its impact could be short lived. The global economy has struggled and has not shown any significant signs of improving. What has changed is that the major North American stock markets are a bit higher



Canaries Technical Update

The canaries for stock market health (technology, semiconductors and junk bonds relative to corporate bonds) are currently in good shape indicating positive stock market conditions. Previously (early October) it looked like the technology sector was breaking down on an absolute and relative basis (top red box). Recently the sector has bounced and is no longer poised for an imminent break down.

The semiconductor sector (middle red box) continues to perform well despite poor fundamentals in the sector, indicating that speculation money is alive and well.

Junk bonds (bottom red box) have flattened recently on an absolute basis, but the overall up trend is still intact. Junk bonds relative to corporate bonds have stabilized their downtrend. Previously, junk bonds were underperforming, indicating that investors were concerned about the possibility of an economic slowdown.

Despite these three canaries currently not indicating any imminent warning signals, the situation could change fairly quickly. As long as the semiconductor sector outperforms the S&P 500, speculative money is still flowing into the market, indicating a higher probability that S&P 500 will continue on an upward path.

Horizons Seasonal Rotation ETF (HAC : TSX)
Portfolio Exposure as of **October 31st,** 2019

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HXT	Horizons S&P/TSX 60™ Index ETF	19.7%
HEWB	Horizons Equal Weight Canada Banks Index ETF	15.8%
	Commodities	
HUN	Horizons Natural Gas ETF	2.0%
HURA	Horizons Global Uranium Index ETF	0.8%
	United States Dollar Exposed Assets	
	Short Term & Bond	
DLR	Horizons US Dollar Currency ETF	15.5%
	Equities	
FHM	First Trust AlphaDEX U.S. Materials Sector Index ETF	10.0%
XLY	Consumer Discretionary Select Sector SPDR Fund	9.9%
HXS	Horizons S&P 500® Index ETF	9.8%
XLI	Industrial Select Sector SPDR ETF	4.9%
FHG	First Trust AlphaDEX U.S. Industrials Sector Index ETF	4.8%
XRT	SPDR S&P Retal ETF	2.9%
	US Dollar Forwards (Nov 2019) - Currency Hedge **	0.4%
	Cash, Cash Equivalents, Margin & Other	3.6%
	Total (NAV $314,554,812)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 59.1% 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.

over the last six months.

The stock market was volatile over the summer months, but managed to produce a 2.6% gain for the S&P 500 from May 6th to October 27th and a nominal loss for the S&P/TSX Composite Index of 0.5%.

Despite not much changing over the six-month unfavorable period for stocks, from a seasonal perspective it does not mean that the relatively defensive portfolio, suitable for the unfavorable period, is appropriate for the next six months, the favorable period from October 28th to May 5th.

No one knows what is going to happen over the next six-months. The seasonal reallocation to more equities in late October is based upon seasonal trends of the stock market of performing much better in the six month favorable period compared to the unfavorable period. From a risk-reward basis, the six-month favorable period is on average a much better time to be invested in the stock market compared to the other six-months. The table below shows the gains and losses greater than 10% for the S&P 500 from 1950 to 2018. The favorable period has produced few large losses and a lot more large gains than the unfavorable period.

	Frequency 10 % Gains & Losses S&P 500 - 1950-2018	
	Unfavorable Period (May 6-Oct 27)	Favorable Period (Oct 28-May 5)
Gains > 10%	8	28
Losses >0%	8	2

Of course, it could be different this time, maybe this favorable period will be the third time that the S&P 500 will lose more than 10%. There is no guarantee, but seasonal probability skews the odds in favor of the stock market performing better in the favorable six month period compared to the unfavorable period.

If the stock market was overvalued six-months ago, it is still overvalued. In fact, a lot of investors have believed that the stock market has been overvalued for quite a few years. Market valuation is not a good timing tool. There are a number of poor macro signals such as weak PMI's and many of them have existed for a long time as the stock market has moved higher. From a seasonal perspective the stock market is more likely to suffer a decline due to poor macro economic signals in the six-month unfavorable period rather than the favorable period.

Even if the stock market has a smell of high valuations, from a seasonal perspective, this is the time of the year to apply the olfactory plug (clothes pin) and adjust the seasonal portfolio to have a greater percentage of equities for the six-month favorable period.

What the HAC?

For most of October, HAC held a large position in cash and cash equivalents, after transitioning out of a large US government bond position. Towards the end of the month, HAC moved to be substantially invested in equities, including cyclical sectors of the stock market.

Seasonal Opportunities

Gold– Golden Opportunity Coming Up?

Gold tends to perform well on a seasonal basis from December 27th to January 26th.

Note: Typically, December is one of the weaker months for gold over the long-term, but given the recent decline in gold and becoming oversold, there is a possibility that gold could start its seasonal period early. This also applies to gold miners and silver.

In its first seasonal period from July 12th to October 9th, gold performed well. Up until very recently, gold has been sliding in price. This is not out of line with the long-term seasonal pattern for gold, which tends to perform poorly for the last half of October. The recent uptick in interest rates have been the main driver for the decline in gold prices.

The good news is that gold has a second seasonal period just around the corner. This seasonal trend has worked well over the last few years. This seasonal phenomenon is largely caused by Chinese buying gold into the Chinese New Year. This trade works particularly well if the sector has corrected sharply into year end and creates a buying

opportunity in the last few days of December.

Below is a graph over the last few years for the price of gold. The green arrows represent a bottom in gold price, close to the end of the year. All of the arrows point to bottoms in the last part of December, except 2018. Last year, gold started its seasonal run early, largely because the broad stock market was in a corrective cycle and as interest rates decreased, investors preferred to move to gold.

On a shorter-term technical basis, gold has become oversold (Full Stochastic Oscillator below 20) and has started to turn higher. Within one month prior to the start of a seasonal cycle, this is often an indication of an early entry opportunity.

On a Relative Strength Index (RSI) basis, the classic timing signal occurs when the RSI drops below 30 and crosses back over 30. It should be noted that prior to the May rally for gold, the RSI dropped below 50, but did not make it to 30. Currently, the RSI fell short of 30 once again, but is turning higher. Overall, from a price momentum perspective, gold is starting to show signs of improving performance.

My Call: Gold will probably start to bottom in the near term, increase in price and then start to strongly outperform in mid-to-late December.

Gold Miners– Could be Better than Gold

Gold miners tend to perform well on a seasonal basis from December 27th to February 22nd.

When the stock market is rallying and gold bullion is increasing in price, gold miners can rally strongly.

Recently, gold miners have been in a downtrend on an absolute basis and have broken to the downside on a relative basis. Look for gold miners to bounce off support for an ideal entry opportunity. Also, a move lower into mid-to-late December would be a good setup, but not a necessary condition for the seasonal trade to work. It is possible that gold miners could start their seasonal trend early this year given that the sector has corrected and become oversold.

My Call: Like gold bullion, gold miners will probably start to bottom in the near term and then start to strongly outperform in mid-to-late December.

Silver - A good combination of precious and industrial metals

Silver has a strong seasonal period from December 27th to February 22nd. Strong momentum can help to support the sector into March.

After a strong run from May to September, silver has been pulling back on an absolute basis and relative to the S&P 500. Like gold, silver has benefited from falling interest rates. In is strong seasonal period, silver tends to perform well because it is both a precious metal and an industrial metal.

If silver were to decline into year end, this would help set up a positive seasonal trade. This has occurred over the last few years. Late December bounces have occurred over the last few years, except in 2018, when silver started to outperform the S&P 500 before the start of its seasonal period.

My Call: Silver will probably flatten out at this point and then start to strongly outperform in mid-to-late December.

Industrials– Waiting for a trade deal

The industrials sector has a strong seasonal period from October 28th to December 31st

The industrial sector is largely affected by the economy and also the US-China trade war. Through all of the progress, no-progress announcements on the trade war, the industrial sector has been underperforming the S&P 500.

Recently, the industrial sector has been showing improving performance relative to the S&P 500. This is partly based upon increasing signs of optimism in the US-China trade talks. Nevertheless, the sector is performing well in its seasonal period.

If some sort of trade deal were to be signed, the industrials sector could perform very well compared to the S&P 500 and quickly. The industrials sector tends to "re-rate" fairly quickly on good news.

My Call: The industrials sector will probably continue to moderately outperform the S&P 500 until the end of the year.

Materials– Breaking out– Like so many other sectors

The materials sector has a strong seasonal period from October 28th to January 6th

The materials sector has been in a trend of performing slightly below market in 2019. On an absolute basis, the sector has just broken above resistance, which is a positive sign. Right now, with the S&P 500 at all-time highs, there are more than a few sectors that are breaking out. A breakout above resistance is always good, but is more valuable if the other sectors of the stock market are struggling.

Consumer Discretionary–

The consumer discretionary sector has a strong seasonal period from October 28th to mid-April

Technically, the consumer discretionary sector has recently been showing signs of fatigue. The sector has just broken below its upward trendline relative to the S&P 500, indicating possible further weakness. On an absolute basis, the sector has been forming a rising wedge. Consideration should be given to exiting the sector if further weakness ensues.

My Call: The consumer discretionary sector will probably perform at market over the next month and consideration should be given to exiting the sector on further weakness.

Retail–

The retail sector has a strong seasonal period from October 28th to November 29th

The retail sector has underperformed the S&P 500 for most of 2019. It started to improve its relative performance in September. The retail sector's seasonal period finishes soon, November 27th this year (the day before Black Friday). On a seasonal basis, the retail sector tends to have a period of underperformance after Black Friday and it is usually best to exit the day before Black Friday.

My Call: The retail sector will probably continue to perform well until the trading day before Black Friday and then perform poorly.

Technology– Making a comeback for a short time?

Initially, at the beginning of its seasonal period, the technology sector was poised to break its up trend on an absolute and relative basis. After a few technology companies, including Intel, came out with strong earnings, the technology sector bounced and started to outperform the S&P 500. Please note that the technology sector tends to perform poorly at the beginning of December (December 6th to December 15th), before once again trending to outperform the S&P 500 into late December.

My Call: The technology sector will probably outperform the S&P 500 for the remainder of November and then pull back and underperform the S&P 500 at the beginning of December, before starting to outperform once again in late December.

Natural Gas–

Natural gas has a seasonal period from September 6th to December 21st. November tends to be one of the stronger months of the year.

Recently, natural gas has been showing strength as it has been rallying through resistance of $2.50. The rally has been largely been based on favorable weather patterns of different places in North America experiencing either very cold or very hot weather, with both increasing the demand for natural gas.

Natural gas tends to be very volatile.

My Call: Natural gas will probably perform well until early December.

Canadian Banks– Earnings Coming Up

Canadian banks have a seasonal period from October 10th to December 31st, and then from January 23rd to April 13th

Canadian banks started to outperform the S&P/TSX Composite Index in the late summer, well ahead of its seasonal period that starts on October 10th.

The relatively strong performance of the Canadian banking sector has been a good thing, but be careful, when the Canadian banking sector outperforms starting in the summer, the sector often peaks in late November/ early

December. If the outperformance has been strong, the sector can roll over on a relative basis even with strong earnings. Canadian banks had their year-ends on October 31st this year and start to report earnings in the last week in November.

My Call: Canadian banks will probably start to roll over relative to the S&P/TSX Composite and start to underperform before the end of its seasonal period, and even before the end of November.

Metals and Mining–

The metals and mining sector has a seasonal period from November 19th until January 5th

The metals and mining sector has underperformed the S&P 500 for most of 2018 and 2019 as the possibility of recession has increased with slowing global growth. Recently, the sector has started to show some strength on an absolute and relative basis to the S&P 500.

My Call: The metals and mining sector will probably outperform the S&P 500 in the month December.

Emerging Markets –

Emerging markets have a seasonal period from November 19th to January 5th

Emerging markets have recently started to show signs of outperforming the S&P 500. Last year, as the S&P 500 was declining emerging markets was following suit, but managed to outperform the S&P 500. It is possible that the emerging markets sector could follow last year's trend and outperform until the end of the year.

My Call: The emerging markets sector will probably start to outperform in early December.

Small Caps–

Small caps have a seasonal period from December 19th to March 7th.

Small caps have underperformed the S&P 500 since March last year, on a fairly steady basis. Recently, small caps have started to show a leveling out relative to the S&P 500. This has lead to a consolidation breakout, which is a positive thing. The ideal setup for this trade would be continuation of underperformance up until the trade date. Nevertheless, if small caps were start to outperform large caps, before hand this could represent a good early entry opportunity.

My Call: The small cap sector will probably start to outperform the S&P 500 in early December.

Stocks

Cameco– Starting to show strength

Cameco has a seasonal period from October 4th to January 24th

Cameco has been in a downtrend since early 2019 and has been underperforming the S&P 500 over the same time period.

Cameco typically starts its seasonal period of strength after the World Nuclear Conference takes place in September. Recently, Cameco has started to show improving relative strength compared to the S&P /TSX Composite. It is also starting to breakout on an absolute basis.

My Call: Cameco will continue to perform well for the remainder of the year.

Currency

USDCAD – One month left in seasonal period

In my last newsletter, I discussed the possibility that USDCAD might break through the topside of its descending triangle. The US dollar promptly headed south to its support level and has since bounced back close to its trend line at the top of the descending triangle. The US dollar is not overbought yet.

USDCAD is still in its strong seasonal period, but investors should be aware that the strong period for the US dollar ends in mid-December. The Canadian dollar tends to outperform the US dollar until early January, and then the US dollar once again tends to outperform the Canadian dollar. Although this short hiatus from the US dollar may not seem like much, over the long-term, it has paid to reduce a position to the US dollar in mid-December, or exit the trade.

My Call: The US dollar will probably perform well until mid-December.

Brooke's Rant

Due to time requirements to finish the Thackray's 2020 Investor's Guide.....

Brooke's rant will be back next month!