Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

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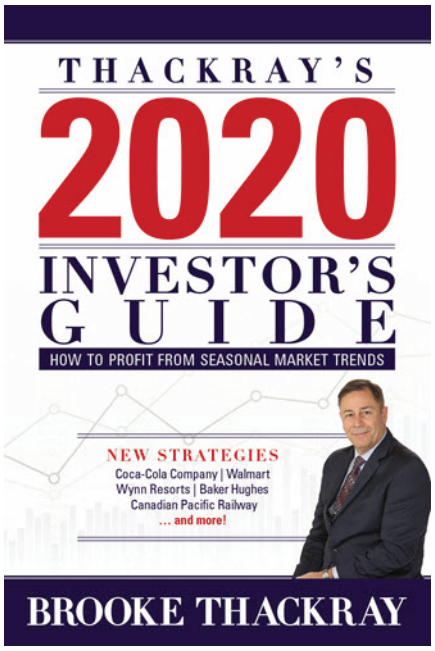


Market Update

Recession....what recession? It seems that not too long ago, in media interviews, almost every analyst was asked for their expected probability of a recession in the near future. A recession did not develop and the global PMI numbers have recently shown an uptick. Now, recession fears have abated. I have always said that trying to predict a recession is like driving in the fog: you can only see the trouble at the last moment, and then it is too late. Maybe there is a recession just around the corner, maybe it is two years out, but trying to make investment decisions based upon an unpredictable event is typically not a good strategy.

The November JPM Global PMI for manufacturing, service and composite indexes all ticked up higher. The global manufacturing PMI increased above 50, which indicates expansion. A one month data point does not indicate a trend, but it does help to put recession talk on hold for now.

Many investors believe that the stock market is overvalued at this time and they have strong supporting arguments. Even if this is true, the stock market can continue

Technically - Possible Softness Ahead

The S&P 500 has rallied strongly since the beginning of October and has now breached the top of its upward channel that started in 2018. It is possible that the S&P 500 has gotten ahead of itself and could produce muted gains, trade sideways or even pull back into its trading band. Using PPO, which is a normalized MACD with which most investors are familiar, the recent crossover below 1 indicates that the stock market could be "soft" in the near future. Looking back over the last three years, most occurrences of the PPO crossing below 1 have been followed by softness in the price action of the S&P 500. In early 2018, the S&P 500 corrected sharply on the PPO crossover. In early 2019, the signal did not work as the S&P 500 continued its rally. In late July of this year, when the PPO once again crossed below 1, the stock market corrected before once again rallying. In no way I am implying that the stock market is set to crash, but it would not be surprising to see the stock market produce muted gains or a mild loss in the near future, despite being in its strong seasonal period.

Horizons Seasonal Rotation ETF (HAC : TSX)
Portfolio Exposure as of **November 30th,** 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	5.5%
	Commodities	
HUG	Horizons Gold ETF	2.5%
HUN	Horizons Natural Gas ETF	1.8%
HURA	Horizons Global Uranium Index ETF	0.8%
	United States Dollar Exposed Assets	
	Equities	
IWD	iShares Russell 1000 Value ETF	18.1%
HXS	Horizons S&P 500® Index ETF	13.7%
FHM	First Trust AlphaDEX U.S. Materials Sector Index ETF	10.2%
HSU	BetaPro S&P 500® 2x Daily Bull ETF	9.9%
XLY	Consumer Discretionary Select Sector SPDR Fund	5.0%
FHG	First Trust AlphaDEX U.S. Industrials Sector Index ETF	4.9%
XLI	Industrial Select Sector SPDR ETF	4.3%
XME	SPDR S&P Metals & Mining ETF	3.0%
MDY	SPDR S&P MidCap 400 ETF Trust	0.3%
	US Dollar Forwards (Dec 2019) - Currency Hedge **	-0.1%
	Cash, Cash Equivalents, Margin & Other	0.4%
	Total (NAV $325,172,319)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 49.5% 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.

to move higher. Stock market valuation is not a timing indicator.

Investors should not underestimate the power of liquidity in the market. The Federal Reserve has been pumping liquidity into the market in its latest round of QE (that is not QE), adding $500 billion to its balance sheet. It recently stated that it is adding even more liquidity into the market over the year end to meet market demands. Liquidity helps to drive stock markets higher.

Tax-loss selling- limited pickings this year

Towards the end of the year, investors tend to harvest tax losses in order to offset any capital gains. This year has been good for capital gains due to the rapid rise in the stock markets. On the other hand, there is limited opportunities for tax-loss selling. One of the biggest opportunities for tax-loss selling is in the energy sector. Year to date, the sector is underwater (negative) for the year. Despite any tax loss selling going on in the energy sector, the sector has been increasing since October. Even though it has been positive recently, it does not mean the effects of tax loss selling are not taking place. It is possible that the sector could be higher at this time if it were not for tax loss selling. As a result, the energy sector could start its seasonal rally early this year. Please see the energy sector in the *Seasonal Opportunities* section of this newsletter.

Santa Claus rally - will it happen?

Investors should not get greedy as the stock markets have performed well this year. Nevertheless, a Santa Claus rally could occur this year. Last year, Santa Claus arrived late with the stock market bottoming on December 24th. A Santa Claus rally is defined differently by different market pundits. But generally the seasonal rally is characterized as the stock market being positive a few days before Christmas and into the new year. Of course the rally could take place as it has often done.

Over the last few years, the stock market has had several reversals around yearend. Last year the stock market reversed its direction just prior to year end. At the time, the Federal Reserve was trying to convince investors that they had changed course from being ultra hawkish to ultra dovish. The bond market had been convinced for a while, but equity investors initially did not believe that the Federal Reserve was making such a dramatic U-turn. The stock market only bottomed after Steven Mnchin, the Treasury Secretary revealed that he had contacted the CEO's of the major banks and they had assured him that they had enough liquidity to help with market stability.

The other big reversal took place at the end of 2015. At the time, there was really not a strong catalyst for the stock market to correct, but investors collectively decided that perhaps the stock market was overvalued. In the last few days of the year, the stock market corrected sharply. The correction lasted until mid-February. At the time, it was concerning that there was not a specific catalyst that caused the reversal. It is possible that the same event could take place once again. Nevertheless, with the Federal Reserve promising to increase liquidity into the markets over yearend this should help stabilize the markets.

Will the Santa Claus rally take place....I believe in ~~Santa Claus~~ [the] Federal Reserve.

What the HAC?

At the start of November, HAC was mostly invested in equities with investments in both Canada and the US. In Canada, the biggest investment outside of the S&P/TSX 60 Index, was the Canadian banks. Approximately, half way through the month, approximately two-thirds of the Canadian bank position was exited as banks started to show relative weakness compared to the Canadian stock market. In the US, HAC exited its technology position towards the end of November as the sector started to show relative weakness compared to the US stock market. During November, HAC entered into a position in the value sector of the stock market. HAC increased its allocation in equities at the end of the month in order to take advantage of the Thanksgiving trade.

Seasonal Opportunities

Gold– Time to shine?

The seasonal period for gold is from December 27th to January 26th and can extend into late February with strong momentum. Gold's primary seasonal period is from July 12th to October 9th. The discussion below focusses on the upcoming seasonal period.

Last month, in my November newsletter, I wrote about how gold and silver have put in strong reversals on corrections in December (please see alphamountain.com for my November newsletter).

In the last few years, gold has rallied sometime around yearend. In most cases the rally has happened after declining in December. Last year, gold started its rally in October, as the market started to correct sharply. It finished its rally on an absolute basis in late February.

Gold typically rallies at yearend due to increased demand from Chinese consumers heading into the Chinese New

Year. This year, it is possible that the Chinese consumers may not buy as much gold this year because of a slowing economy, but there are other potential positive influences on gold to help.

On a technical basis, gold bullion is still in a downtrend on an absolute basis and relative to the S&P 500. A break above $1485 would represent a break out of the trading trend channel on an absolute basis.

Gold longer-term

On a technical basis longer-term, gold has been forming a long consolidation phase in the shape of a saucer. This year it broke above the resistance line of the saucer at $1360. It is possible that gold could test this level, but with a strong seasonal period coming up shortly, gold is probably more likely to move higher.

Gold Miners - Poised to perform well

Gold miners have two seasonal periods. The main seasonal period is from July 27th to September 25th and a secondary seasonal period from December 23rd to February 14th.

Currently, gold miners are approaching their late December to mid-February seasonal period. Since early September, gold miners have been underperforming the S&P 500. On an absolute basis, gold miners have been showing improving absolute performance ahead of its seasonal period, which is a positive sign.

As a ratio, gold to XAU (PHLX Gold and Silver Index), traded in a fairly tight ratio from 4 to 7 prior to 2008. In other words, gold traded in a range of 4 times to 7 times the value of XAU. In the graph below, this stage is labelled (1). The graph below only shows a relationship back to 2000, but the relationship exists back to the 1980's when the XAU index was launched.

In 2008, the ratio of gold to gold miners (XAU), started to increase above its historical band, breaking above 7. This was partly due to the stock market correction at the time, affecting the equity prices, including gold stocks. In addition, gold mining companies went into a period of continually "making mistakes." At this time, gold miners were increasing their acquisitions of other gold mining companies at inflated rates, overspending on mines and generally mismanaging their operations. Investors became frustrated with gold mining companies and started to move to gold bullion. A few years before (2004), SPDR Gold Shares (GLD) was launched, allowing investors to conveniently invest in gold bullion through an ETF. As a result, the gold to XAU ratio marched higher over the next

few years, breaching 25 in 2016 (stage 2) in the graph below. In 2016, gold started another move higher and gold miners started to outperform gold bullion.

At the time, gold miners started to show some responsibility in managing their finances and collectively pushed their "new" image out to investors. The result was gold miners starting to outperform gold bullion. This was supported by a strong rally in the stock market. Since that time the gold miners to gold bullion ratio has traded in a range of 12 to 20 (stage 3 in the graph below). At this time, it appears that relationship between gold miners and gold bullion has settled down somewhat. In this environment, it would be expected that gold miners will outperform gold bullion if gold bullion is moving higher, unless the stock market is correcting sharply.

My Call: Gold will probably start to outperform before the start of its seasonal period and continue its outperformance into mid-February.

Silver- Best of both worlds

Silver has a strong seasonal period from December 27th to February 22nd

Silver has a similar seasonal pattern to gold. Silver is considered a precious metal and generally follows the trend of gold. One of the big differences between gold and silver is that silver is much more of an industrial metal. As such, if the metals complex is rising, it helps to support the price of silver.

Technically, silver is in a similar situation to gold, as it is in downward trends on an absolute basis and relative to the S&P 500. Given that the metals and mining sector is starting to show signs of improvement, silver could start to follow suit and show improvement. Generally, over the last few years, a decline in the price of silver in December has lead to a good buying opportunity. This year the price of silver has been declining and could be setting up for a good seasonal rally once again.

A lot of precious metals investors follow the gold to silver ratio. The objective is to track the relative value of the two precious metals. When the ratio is at the lower bound of the trading range, gold is generally underpriced. When it is at the top end of the trading range, silver is generally underpriced.

Since 2012, the gold to silver ratio has steadily been climbing higher and is now at its highest level since 2000. The main cause for weak relative performance since 2012 has been the falling price of gold and the falling price of industrial metals. As a result, silver has fallen on an absolute basis and relative to gold.

If a reversal were to take place, with both gold and industrial metals started to perform well, it would be expected that silver would also perform well and potentially outperform gold.

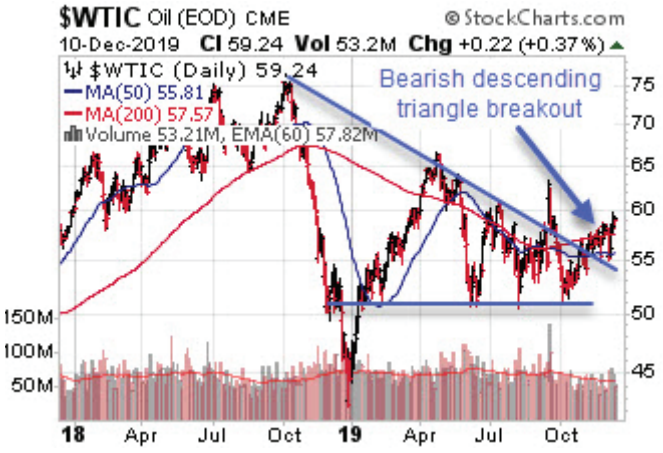
My Call: Silver will probably start to outperform in late December and continue its run into the beginning of March.

Oil - WTIC -Did Saudi Aramco put a floor on the price of oil?

Oil has a seasonal period from February 25th to May 9th. January is often a volatile month and can produce an early buying opportunity. Given the decline in the price since late 2018, it is possible that oil and energy stocks could bottom early.

OPEC+ had a meeting just before the launch of the Saudi Aramco IPO and surprised the market with a bigger than expected cut of 500,000 bbl/day. This was probably planned from the Saudi side to help support their IPO, Saudi Aramco, which ended up being extremely successful as it was priced at the top end of its range, valuing the company at over $1.8 trillion US dollars.

It is often the practice in the financial world that listing brokers of an IPO help support the price of a newly launched stock. There is a good probability that there is an agreement with the Saudi's not to take any action in the near future that would damage the price of oil. The price of oil may still go down due to a number of factors, but it will probably not be caused the Saudis.



Energy sector- Beaten up but could start seasonal rally early

The energy sector has a seasonal period from February 25th to May 9th. Like oil, it can start its seasonal rally earlier, especially if the sector been strongly underperforming.

The energy sector has been consolidating in a wedge formation. This formation typically leads to a new short-term direction on a breakout of this pattern. Given that the strong seasonal period for the sector is approaching, there is a greater probability that the sector will break out to the upside.

Technically, the energy sector is poised to break out of its consolidation pattern to the upside on an absolute basis. Relative to the S&P 500, the sector is still in a downtrend

but could easily break higher.

The energy sector is one of the few sectors that is negative year-to-date, which makes it a good candidate for tax loss selling. Tax loss selling typically pushes prices lower of stocks being sold in order to generate tax losses. This year, energy stocks have been rising since October, masking any tax loss selling taking place.

My Call: The energy sector will probably start to outperform in early January and continue its strong performance into late April.

Canadian Energy Sector- Poised for a breakout

The Canadian energy sector has a strong seasonal period from February 25th to May 9th. Like the US energy sector, the rally can start before the beginning of its seasonal period.

The Canadian energy sector is poised to breakout to the upside of its consolidation pattern on an absolute basis and relative to its downtrend compared to the S&P/TSX Composite.

My Call: The Canadian energy sector will probably start to outperform in early January and continue its strong performance into late April.

Natural Gas

Natural Gas has a seasonal period from September 5th to December 20th.

This year the spot price of natural gas has been fairly volatile in its seasonal period. It is currently at the bottom of its trading channel. The problem is that natural gas has a strong negative seasonal trend from December 21st to December 31st. The next strong seasonal period starts in mid-March. Even though the spot price of natural gas is lower than at the start of its seasonal period in September, it is best to consider exiting the sector.

My Call: Natural gas will probably perform either flat or poorly until early March.

Mid-caps

Mid-caps have a strong seasonal period from November 23rd to December 31st and then from January 9th to March 7th. The brief time between the seasonal periods can be forgone when the sector has strong momentum.

Mid-caps have recently broken out to the upside on an absolute basis. Relative to the S&P 500, the sector has broken its downtrend and is consolidating. So far, the sector has not shown strong signs of outperformance. The sweet spot for the trade starts in mid-January.

My Call: The mid-cap sector will probably outperform until early March.

Small Caps

The small cap sector has a strong seasonal period from December 19th to March 7th.

The small cap sector has been underperforming the S&P 500 since July 2018, except for its strong seasonal period from mid-December to early March. It is interesting to note that the sector has underperformed despite the US dollar strengthening at this time. Typically, a stronger US dollar helps to support stronger performance from small caps as the sector generates most of its revenue domestically, which is not subject to reduced buying from foreign countries because of their weaker relative currency.

The main reason that small caps have been underperforming has been that large multi-nationals have been able to take advantage of funding operations from low cost (negative interest rates) in Europe.

So far, the recent breakout for the small cap sector has failed to break above its September high. On a relative basis, the sector has just broken its downward trend line. Despite the structural advantage of lower interest rates for large multi-nationals, small companies are poised to perform well in their seasonal period after breaking their downward trend line just before the start of their seasonal period.

My Call: The small cap sector will probably outperform until early March.

Canadian banks- Fading

Canadian banks have a strong seasonal period from October 10th to December 31st. Canadian banks also have a strong seasonal period from January 23rd to April 13th.

In my November newsletter, I mentioned that if Canadian banks strongly outperformed the broad stock market after their Q3 earnings, they often faded when their Q4 earnings were released towards the end of November. This scenario played out with Canadian banks starting to underperform relative to the broad market in late October (a bit before their Q4 earnings release).

Unfortunately, Canadian bank Q4 earnings were weak as a group. The exception was National Bank. After the earnings were released, Canadian banks continued to underperform. Although Canadian banks may find some stability at the current price levels, consideration should be given to exiting/reducing the sector prior to yearend.

My Call: Canadian banks will probably perform at market until late January.

Technology- Still in uptrend

Technology has a strong seasonal period from December 15th to January 17th

This current bull market has been largely powered by the technology sector. Recently, it looked like the technology sector was starting to roll over and start underperforming the S&P 500. The sector managed to get back on track and is still in and uptrend on both an absolute and relative basis compared to the S&P 500. On an absolute basis, the sector is currently above its trading range band and could work its way back into the trading band. It is something to monitor, but currently the sector is still in a positive trend.

My Call: The technology sector will be probably outperform until late January.

Nasdaq- The other Santa trade

The Nasdaq has a strong seasonal period from December 15th to January 23rd

The Nasdaq has a similar technical profile to the technology sector. Although it is largely influenced by the price action of technology stocks, it does have other influential constituents such as the biotech and financials sectors. Currently, the Nasdaq has a similar technical picture as the technology sector.

My Call: The Nasdaq will probably outperform until late January.

Metals & Mining

The metals and mining sector has a strong seasonal period from November 19th to January 5th and then a second seasonal period from January 23rd to May 5th

The metals and mining sector has underperformed the S&P 500 since early 2018. Recently, the sector has started to show some signs of life. On an absolute basis the sector broke above its downward sloping trend line in October and has more recently broken above its downward sloping trend line relative to the S&P 500.

My Call: The metals and mining sector will probably outperform until late April. At that time, the sector will probably start to mildly underperform the market.

Financials

The financial sector has a strong seasonal period from December 15th to April 13th

In September, the sector broke above its absolute trading range and in October it broke above its relative strength trendline compared to the S&P 500. The reason that the financial sector started to outperform before the start of its seasonal period is largely because of rising interest rates, which translates into greater profits for the banks.

Investors have been supporting a rally in the "reflation sectors," including financials. The rally in the 2019 stock market was largely supported by lower interest rates. Recently an increasing number of investors have postulated that increasing inflation is on the horizon which would

push interest rates higher. At this time, the jury is not out on this reflationary trade. Nevertheless, the financial sector is showing strength at the beginning of its seasonal period and as a result, consideration should be given to taking on a position.

My Call: The financial sector will probably outperform until mid-April and then start to underperform the stock market as interest rates soften on a seasonal basis in May.

Consumer Discretionary

The consumer discretionary sector has a strong seasonal period from October 28th to April 22nd

The consumer discretionary sector on an absolute basis has been forming a bullish ascending triangle. Nevertheless, on a relative basis compared to the S&P 500, the sector has been underperforming. In late November and early December the consumer discretionary sector started to show improving relative strength compared to the S&P 500. Despite the overall underperformance since October, given the bullish ascending triangle on an absolute basis, the sector could improve and break out above resistance. This would be a bullish resolution to the current situation.

My Call: The consumer discretionary sector will probably slightly outperform the stock market until mid-April before underperforming as investors adjust their expectations of GDP growth on a seasonal basis.

Retail

The retail sector has a strong seasonal period from October 28th to November 29th and then a second seasonal period from January 1st to April 12th

The retail sector performed well in August based upon strong earnings results. As a result, the sector outperformed the S&P 500 in September and October. Unfortunately, the sector got ahead of itself and as a result underperformed in its strong seasonal period.

The next seasonal period that starts in late January, tends to be a stronger seasonal period for the retail sector.

My Call: The retail sector will probably underperform the S&P 500 until late January and then start to moderately outperform until late March.

Transportation

The transportation sector has a strong seasonal period from January 23rd to April 16th

The transportation sector is largely affected by the expectations for economic growth. The sector underperformed the S&P 500 starting in May of this year. After a brief spurt of outperformance in October, the sector is pulling back relative to the S&P 500. The sector has also moved back into the trading range on an absolute basis.

It is interesting that the sector has been underperforming the S&P 500 at a time when Global PMIs are showing improvement. It is possible that the cause is weak raw data from the transportation industry including the Cass Freight Index.

My Call: The transportation sector will probably underperform until early March, starting its seasonal period late this year.

Homebuilders

The homebuilders sector has a strong seasonal period from October 28th to February 3rd

The homebuilders sector outperformed the S&P 500 from August to late October, mainly as a result of falling interest rates. As interest rates started to increase, making mortgages more expensive, the homebuilders sector started to underperform. On an absolute basis, the homebuilders sector flat lined in the month of November and early December.

Given that homebuilders sector is underperforming the S&P 500 and is sensitive to rising rates, it is probably best to wait until interest rates start to decline (and homebuilders start to outperform) before considering to enter into the sector.

My Call: The homebuilders sector will probably continue to underperform the S&P 500 at this time due to increasing expectations of moderately rising interest rates.

Value Sector

The value sector has a strong seasonal period from November 29th to January 6th and then another strong seasonal period from February 26th to April 19th

After a relative breakout compared to the S&P 500, the value sector has been consolidating. The sector has been showing bursts of improving relative performance compared to the S&P 500, particularly when the overall stock market has become volatile or declined.

My Call: The value sector will probably moderately outperform the S&P 500 into mid-January.

Emerging markets- watch US dollar

Emerging markets have a seasonal period that lasts from November 24th to April 18th

In 2019, the emerging markets sector has underperformed the S&P 500. One of the major causes for this trend has been a stronger US dollar, which is generally negative for emerging markets. At this time emerging markets has broken its downward trend relative to the S&P 500 and is starting to consolidate. Consideration should be given to this sector if the US dollar starts to fade and emerging markets starts to show improving relative performance compared to the S&P 500.

My Call: Emerging markets will probably perform at market until February and when the US dollar starts to come under pressure on a seasonal basis in March, the emerging markets sector will probably start to outperform.

Brooke's Rant

Saying Goodbye

Mario Dhragi from Hero to "Monetary Fool"

Mario Dhragi has now retired from his position as ECB President and passed the mantel on to Christine Lagarde who was previously the President of the IMF.

In a speech in London on July 26, 2012 when the European stock markets were in trouble, Mario Dhragi helped to spur a strong rally over the next few years with his what has now become known as his "whatever it takes" speech. The full sentence that rallied the stock markets was: "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough."

Dhraghi essentially said that the ECB would run interference in the open markets to make sure that nothing bad would happen to investors. It is ironic that the words were enough to bolster a strong run, as the ECB did virtually nothing over the next two to three years to boost the economy. Just the promise that the central bank was providing a put option on the stock market was enough to create stronger investor confidence.

It was not until 2015 that Draghi started a bond buying program in earnest in reaction to the economy starting to sputter. This lead to the huge experiment of "negative interest rates." The insane logic behind "negative interest rates" was that if lower interest rates are stimulative for the economy, negative interest rates would be even better.

Somehow, investors bought into this logic. There is nothing natural about negative interest rates. Without central bank interference, interest rates would never be negative. Negative interest rates have caused huge problems, including up-to $17 trillion in global debt in a negative interest rate situation which has decreased bank profitability and hurt savers.

In another turn of irony, there has been very little evidence that negative interest rates have helped the economy. Investors are increasingly realizing that negative interest rates have much bigger negative (excuse the pun) consequences for the economy than previously thought. Although there has been some nominal benefit in supporting the economy, the damage to the banking system, the exasperation of the wealth divide in the population and the destruction of wealth for savers has had a much larger effect than previously anticipated.

In his last public announcement, Mario Draghi once again extended the ECB QE program, introducing more liquidity into the system. Many of the ECB central bank governors publicly revolted against Draghi saying that initiating QE once again was not necessary and even counterproductive.

Richard Fischer, the former head of the Federal Bank of Dallas in an interview on BNN Bloomberg last month stated that Draghi "will probably go down as one of the great monetary fools in history." Not the legacy Draghi wanted to leave behind.

Bank of Canada Governor Stephen Poloz announced that he was leaving his position in June 2020

Poloz has done a reasonable job, but has lacked communication skills, as he has jolted the markets with abrupt calls that seemed to come out of nowhere. The communications released from the Bank of Canada are much less manicured than communications coming from the Federal Reserve. Sometimes, I have the feeling that Poloz sat down the night before and penned the releases on the fly.

It is going to be interesting to read the releases and hear Poloz's comments in his final public comments next year. I would not be surprised to hear positive comments as Poloz tries to paint a rosy picture of the future; in an attempt to write his legacy. There is still a lot of time between now and June and I hope that Poloz will be able to pen a favorable legacy.