Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

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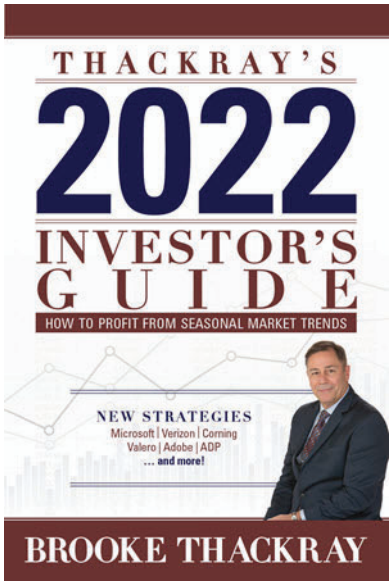
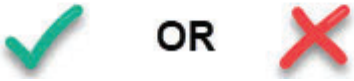


Available in bookstores

New Strategies - Microsoft, Verison, Corning, Valero, Adobe, ADP and others

Market Update



The year 2021 so far has been a good year in the stock markets. Will Santa come before the end of the year for a yearend stock market rally?

S&P 500 Technical Status

There is not a lot to complain about with the S&P 500 close to an all time high. Currently, the S&P 500 is just below the mid-point of its trading channel and is just below its 50 day moving average. Key support is at 4,250, a fair ways below today's value. From just a price perspective, the S&P 500 is technically in good shape.

There is a concern that the stock market breadth has been deteriorating since May. The bottom panel of the graph shows the percentage of stocks trading above their 200 day moving average. In a healthy stock market close to an all time high, it would be expected that the number of companies above their 200 day moving average would be increasing, or would be at a value higher than 80%. Today we have a trend that has been decreasing since May, which is not a healthy trend and shows fewer and fewer stocks are participating in the upwards move of the stock market. Although market breadth is not a good timing indicator, it would not be surprising to see the stock market stumble in the near future.

Horizons Seasonal Rotation ETF (HAC : TSX)
Portfolio Exposure as of **November 30, 2021**

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Commodities	
HURA	Horizons Global Uranium Index ETF	4.4%
HUG	Horizons Gold ETF	5.0%
	Equities	
HEWB	Horizons Equal Weight Canada Banks Index ETF	9.8%
	United States Dollar Exposed Assets	
	Equities	
HXS	Horizons S&P 500 Index ETF	49.4%
CHPS	Horizons Global Semiconductor Index ETF	5.6%
FOUR	Horizons Industry 4.0 Index ETF	3.1%
XLB	Materials Select Sector SPDR Fund	5.0%
FHQ	First Trust AlphaDEX US Technology Sector Index ETF	2.6%
XLI	Industrial Select Sector SPDR Fund	4.7%
XLK	Technology Select Sector SPDR Fund	4.3%
XHB	SPDR S&P Homebuilders ETF	3.2%
XLF	Financial Select Sector SPDR Fund	4.0%
	US Dollar Forwards (December 2021) - Currency Hedge **	-1.4%
	Cash, Cash Equivalents, Margin & Other	0.2%
	Total (NAV $227,873,624)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 49.35% 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.

On average, the stock market tends to put in a rally around the Christmas period that starts mid-month December and lasts until mid-January. Typically, the best way to take advantage of this seasonal trend has been to invest in the Nasdaq from December 15 to January 23. Years ago, I developed a trade called "Do the Naz with Santa" and it has worked well over time. Using updated results, from 1972 to 2021, in the period from December 15 to January 23, the Nasdaq has produced an average gain of 4.1% and has been positive 74% of the time. It has also outperformed the S&P 500 82% of the time. Given that market breadth in the Nasdaq has deteriorated faster than the S&P 500 this year, it is possible that we could see the S&P 500 favored this time around.

So what should we expect this year? Is Santa going to avoid the markets because they have performed well already? Historically, there is not a pattern of the Santa Claus rally being dependent on the market performing well during the year leading up to the last part of December. If the market has performed well (as it has), or performed poorly, Santa can still visit the stock market.

Currently, the stock market is moving higher as investors continue to enter the stock market. They fear missing out on the remaining returns for the year (FOMO - fear of missing out). Despite a seasonal tailwind for the stock market at this time, if the narrative changes, an inflection point in the stock market could be reached and the stock market could head lower.

The end of the year and the start of the new year is the period when investors are trying to figure out their positioning in the markets for the next year. Do they increase their risk and try to get ahead of the markets early in the year, or do they reduce their risk and wait for the market to sort itself out in January?

Historically, it has made sense to bet on Santa arriving and boosting the stock markets. It is possible that investors try and capture profits mid-month and Santa comes a bit late this year? Overall, "I believe in Santa."

Inflation bifurcation (the hot new term for 2022)

The term "inflation bifurcation" will probably not catch on, but the concept probably will.

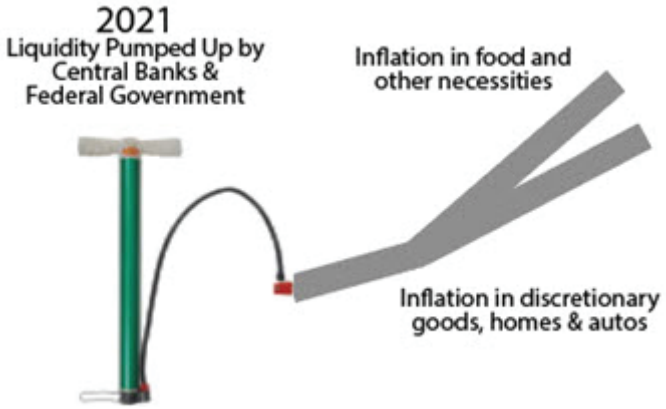
In 2022, inflation will probably head higher for some goods and lower for others. It sounds like a cop-out answer, but it is not.

You might have heard that the saying that "the cure for high prices is high prices." This is true if the money supply is not increasing or wages are not keeping pace with the inflation rate. At some point, consumers cannot afford to purchase goods with a decreasing money supply.

It is important to realize that different items and services have been increasing in price at different rates. With low interest rates and an increasing money supply, consumers have been using credit for their purchases. Two of the assets that have benefited from increased credit usage have been houses and cars. Both of these assets are typically bought on credit, particularly houses. When credit costs are low and easy to get, house prices generally rise and demand for cars tends to increase. The prices of both of these assets have skyrocketed over the last year.

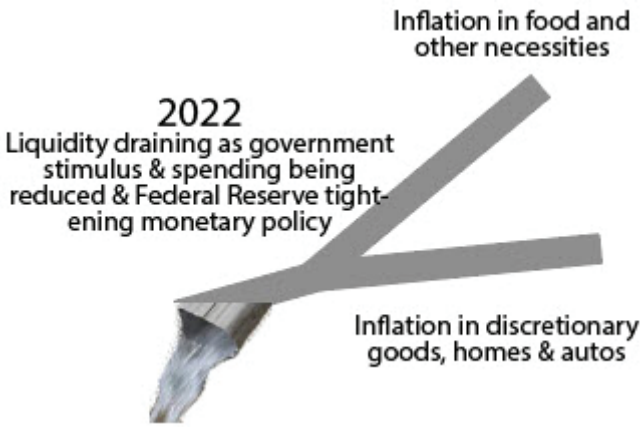
The price of soft commodities, ingredients that go into food production, have skyrocketed. The result is that food prices have increased dramatically.

The prices of almost everything went up in 2021. Some things rose more than others, but the general trend was much higher for products and services. The diagram below shows the effect of liquidity being pumped into the system, driving up prices of goods and services.



The year 2022 will still suffer from inflation, but the rate of change in inflation will start to become differentiated to a much larger degree between asset classes. Liquidity is being taken out of the system as the government has stopped/reduced their stimulus programs and the Federal Reserve is tapering their quantitative easing program. The result will be that consumers will start to be more discriminate in their purchases. They will not have a choice as their available funds will be greatly diminished. They will buy the things that they need and not necessarily want they want.

The diagram below shows the effect of less liquidity being pumped into the system. Some prices will rise a lot, mainly the necessities that are "price inelastic." Other prices will rise by a small amount, mainly discretionary goods. And some prices of discretionary goods will probably decline as demand decreases.



There are many people in society that do not understand the difference between wants and needs, but 2022 is probably the year that they will find out. Food is more than likely going to keep increasing in price, leaving little money left over for discretionary purposes. The result will be less demand for houses, cars, boats, recreation vehicles and luxury goods.

I find it interesting that despite high gas prices that consumers are still favoring pickup trucks over cars which consume less gas. The reason for this is that consumers are flush with cash and do not feel the need to curtail their spending, despite higher gas prices. This is in contrast to the GFC. Heading into the GFC, gas prices were rising sharply and consumers reduced their pickup truck purchases in favor of cars in order to save money. If the economy starts to slow and inflation carries on at unsustainable rates, watch for consumers to start switching from truck to car purchases (less truck purchases and more car purchases on a relative basis).

In the upcoming year, "inflation bifurcation" will have an impact on asset allocation. Sectors and stocks that are discretionary based will probably underperform and vice versa. Investors will probably still be given the opportunity to profit from seasonal trends in discretionary sectors and stocks within their strong seasonal periods, but their period of outperformance will probably be more muted.

Seasonal warning - January "Sorting Hat Month"

Despite being in the six-month favorable period for stocks which lasts from late October to early May, the stock market tends to go through a period of heavy sector rotation in January as investors try to figure out which sectors are set to perform well in the new year. The fact that certain sectors performed well in late 2022, does not mean that they will perform well at the beginning of the next year. In fact, investors will often switch to "new horses" in the new year.

There is one seasonal tendency that investors should note and that is that some of the cyclical sectors of the stock market including the industrial and materials sectors tend to underperform the S&P 500 for the first part of January. On a seasonal basis, it is often best to remain diversified in January and wait for the seasonal trends to develop. In essence, January is the "sorting hat month" for the stock market.

Seasonal Opportunities

Materials–

The materials sector has a strong seasonal period from October 28 to January 6 and then from January 23 to May 5.

The materials sector struggled from May into July and has been performing at market since. In recent months, the sector has only had brief periods of outperformance. The lagging relative performance reflects investors adjusting their perspective to include a slowing economy. As the Federal Reserve tapers its quantitative easing program, investors are becoming nervous that the Federal Reserve will be taking away the punch bowl from the party.

Investors are still trying to evaluate the severity of the Omicron virus on the economy. If it is much milder than originally expected, it is possible that the cyclical sectors could perform well ahead of governments scaling back their restrictions. The stock market is a forward looking mechanism. If this narrative gathers momentum, then the cyclical sectors will probably benefit.

My Call: The materials sector will probably continue to consolidate relative to the S&P 500 into the beginning of January. It could start its outperformance later in January when its next seasonal leg starts.

Industrials –

The industrial sector has a strong seasonal period from October 28 to December 31 and then from January 23 to May 5.

The industrials sector has been struggling relative to the S&P 500 since May of this year. The difference between the materials sector and the industrials sector is that the drop in the materials sector was swift in May and June relative to the S&P 500. The drop for the industrials sector was more gradual relative to the S&P 500. The industrials sector continues to struggle to put in a sustained outperformance relative to the S&P 500. Stronger economic growth forecasts are probably needed to take hold before this sector outperforms the S&P 500 in a significant manner.

My Call: The industrials sector will probably perform at market into early January and then start to outperform later in the month.

Technology–

The technology sector has a strong seasonal period from October 10 to December 6 and then from December 15 to January 17.

The technology sector has been the darling sector of the stock market. It consolidated relative to the S&P 500 for over a year and at the end of October, it broke out of its consolidation box relative to the S&P 500. In the month of November it was one of only two major sectors that were positive for the month.

Investors are concerned about the market valuation, but still want to remain invested. In this scenario, they tend to gravitate to the technology sector. It is a relatively few large company stocks that are driving this sector higher. The performance of the technology sector tends to pause from early December to mid-December. So far, this has not happened. This speaks to the strength of the technology sector at this time.

My Call: The technology sector will probably perform at market into the new year.

Financials –

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

The financial sector has been performing at market since March. It has had a series of ups and downs relative to the S&P 500, largely dependent on interest rate movement. Recently, since October, it has pulled back to the bottom of its trading channel relative to the S&P 500. If the stock market does rally, and interest rates tick higher, the financial sector could stage a rally.

My Call: The financial sector will probably perform at market until early January.

Uranium –

The uranium sector has a strong seasonal period from October 4 to January 24

The uranium sector has been extremely volatile as it has traded in an upwards trading band. There is a strong fundamental case for uranium to move higher as the world starts to wake up to the potential of nuclear power as part of a green solution. However, it is expected that the sector will remain volatile and it is possible to see further weakness in its strong seasonal period.

My Call: The uranium sector will probably remain volatile and could continue to move lower in the short-term.

Precious metals

Get ready for the start of the strong seasonal period for gold bullion, gold miners and silver. In my last newsletter, I suggested that gold and silver could be darkhorses. The precious metals sector still remains a darkhorse.

Gold Bullion –

Gold bullion has a strong seasonal period from December 27 to January 26

Gold has been "going nowhere" for quite a while and has not been able break above $2000 in 2021. It looked like gold was going to start its seasonal rally in October, ahead of schedule. The sector has been forming a consolidating wedge pattern and has pulled back to its trend line.

The strong seasonal period starts very shortly, before the end of the month. It would not be a surprise to see gold start a rally very soon.

Gold has been performing relatively well given that the US dollar has been improving relative to world currencies. Recent falling interest rates have helped to support the prices of gold. If the US dollar follows its seasonal period of weakness in mid to late December, it would be a good setup for gold to start its seasonal bounce.

My Call: Gold bullion will probably start to perform well in the near future, before the end of December.

Gold Miners –

Gold miners have a strong seasonal period from December 23 to February 14

Gold miners have been in a downward trend since August 2020. Recently, the sector has shown some support around the $30 level of support. If gold performs well and the stock market is positive, gold miners should perform well in their seasonal period.

My Call: Gold miners will probably start to outperform in late December.

Silver –

Silver have a strong seasonal period from December 27 to February 22

For a while in early 2021, silver attracted a lot of attention as some investors thought they could force a short-squeeze with silver bullion. It seemed to work for a while, but the Comex (futures market) was just too large. Forcing a short squeeze on the Comex is a much more formidable task compared to taking on Game-Stop. Investors might try once again sometime in the new year as Basel III regulations are implemented in London, making the futures market more expensive to operate in. Investors may bring back the "short-squeeze" strategy if silver starts to rally sharply. Something to monitor.

Silver has gone nowhere for over a year. It has also underperformed gold. For silver to perform well, the ideal conditions are a rising gold price and the metals and mining sector performing well. Recently, gold has been sputtering and the metals and mining sector has been underper-

forming. A strong performance in gold can make up for an underperforming metals and mining sector.

My Call: Silver will probably find a bottom in the very near future (before the end of December, or earlier), before starting to perform well.

Homebuilders –

Homebuilders have a strong seasonal period from October 28 to February 3

The homebuilders sector has been strongly outperforming the S&P 500. The sector has benefited from low interest rates, a reasonably strong economy and rising house prices.

My Call: The homebuilders sector will probably continue to outperform the S&P 500 into early January before starting to moderate its performance and then underperforming. The sector is susceptible to a risks-off move in the markets and could start to correct in December if interest rates increase and the market moves to a risk-off mode.

Canadian Banks –

The Canadian banking sector has a strong seasonal period from October 10 to December 31 and then from January 23 to April 13.

The Canadian banks started to consolidate relative to the S&P/TSX Composite in June. In October, the sector started to break out of its consolidation box and has been showing signs of improving relative performance. The recent Q4 earnings announcements were positive with buybacks and dividend increases. This has helped to support the sector. On the other hand, the Federal government is planning on introducing a special bank tax in 2022. This could weigh on the banking sector in 2022.

My Call: The Canadian banks will probably continue to moderately outperform the S&P/TSX Composite in the near term into January.

Consumer Discretionary

The consumer discretionary sector performed very well in October into November. It strongly outperformed the S&P 500. What happened? First of all, Tesla had a strong run in this time period. In addition, Amazon also had a rally relative to the S&P 500 in late October. Amazon and Tesla make up approximately 40% of the Consumer Discretionary sector in the SPDR Consumer Discretionary Sector ETF (XLY). The performance of these two stocks has a large impact on the ETF representing the sector.

On an absolute basis, the sector started to pull back in November and sits just above its upper trend line. If the sector moves into its previous trading channel, look for continued moderate performance, or even underperformance.

My Call: The consumer discretionary sector will probably continue to underperform in the near term.

Metals and Mining –

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

The metals and mining sector has been consolidating relative to the S&P 500 since July. Given the strength of the overall stock market and expectations of economic growth, it would be expected that the metals and mining sector would be outperforming, but it is not.

Currently, the sector is at the bottom of the trading range relative to the S&P 500, but so far the bounces have not been sustained. Investors continue to gravitate to very few stocks, which do not substantially include the metals and mining sector.

It is important to note that the metals and mining sector tends to perform poorly, like many of the cyclical sectors, from early January to late January. As a result, it could be wise to wait for the next leg of the seasonal cycle in late January.

My Call: The metals and mining sector will probably perform at market until late January, before starting to moderately outperform.

Rants

Disclaimer:

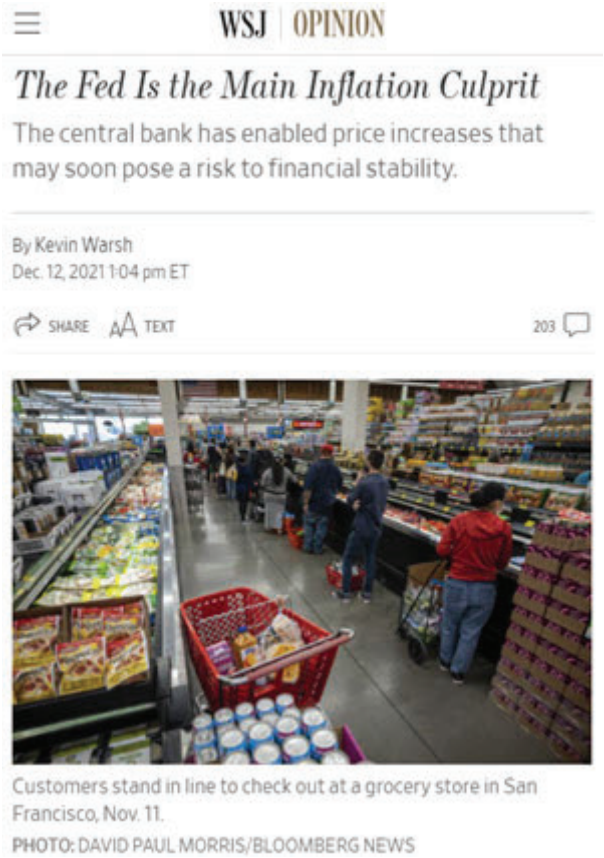
I endeavor not to be political in my writings. I might occasionally pick on politicians across the spectrum. I try and stay away from political leaders when I can and refer to their policies or their minions. Lately their seems to be a large amount of politicians saying really stupid stuff in the media regarding economics. I am sure that in another party were in power, they would also be saying stupid stuff. Today, there is a dearth of investigative journalists. As a result, politicians more than ever can say some really stupid stuff and not be challenged. The stupid stuff messages are meant for sound bites in order to create the appropriate optics. When I rant about a politicians statement, it is not a personal statement, but rather a comment on their statement or position.

Rant #1
Did the media collude on a "false message?"

Did anyone else notice that the media came out with a bunch of false articles on inflation in a very short period of time? It was really weird. It seemed to be coordinated?

The articles were all filled with nonsense like how inflation is good for the population or inflation only hurts the rich. I just clipped a few of the many article titles below.

Ok. To give credit where it is due, there is a part of the media that is not willing to go along with the charade that inflation is good.



To set the record straight, the best inflation rate is zero. Sure maybe you can argue for an inflation rate of 1-2%, but arguing for an inflation rate of 5% or greater is just plain stupid. Everyone gets hurt with higher inflation. The rich get hurt, the middle class gets hurt and the poor get hurt. Oh, there is one group that does not get hurt: the government. Yes, the government wins with higher inflation as it devalues its debt. I could spend pages outlining how high inflation is the worst thing for an economy, but it is so fundamental.

It scares me that the media can somehow collectively produce such a false narrative. What has happened to journalism?

Rant #2

Blame it on someone else

When problems occur, governments blame everyone else but themselves (applies to both Democrats and Republicans). This is not a political statement. It is no surprise that Elizabeth Warren is blaming rising food costs on "greedy corporations." Warren is not stupid. She knows what she is saying as a lie, but she says it anyway.

If inflation remains a problem, look for governments to start spreading the narrative that price controls are needed. Price controls never work.

Okay, it is not just the government that falsely claims that "greedy corporations" are causing inflation. For some reason the media has taken on the mantle. This is shameful.

Below are tweets from Ruhle (MSNBC).

Let's be clear, Dollar Tree does not NEED to raise prices," Ruhle tweeted Wednesday. "Their biz isKILLIN it- $1,230,000,000 in profits CEO pay $10MM."

"DollarTree is raising prices because they CAN- not bc they need to. It is a choice of how to share the benefits of their scale To customers? To employees? To shareholders? To mgmt?" she added.

Rant #3

If you get a lump of coal this year for Christmas, blame the California and Federal Governments

California used to be one of my favorite states, but things sure have changed.

By now everyone is familiar with the supply chain crisis and the cargo ships waiting off the California coast for weeks in order to unload cargo. This problem has been going on for months. There has been a lot of finger pointing on who is to blame. Part of the problem has been the lack of workers both at the California docks and the number of available truckers. During the pandemic, a lot of workers quit their jobs on the docks and driving trucks.

Demand for goods coming from China has been rising for many months and there has not been enough workers to unload the containers or move the containers out of the yards. Many truckers will not go to the docks to pick up a load because it can take up to an eight hour wait just to get a load.

In 2020, California brought in new environmental regulations, which meant that a lot of older trucks could no longer travel in the state. You have a crazy situation where an environmentally acceptable truck is used to pick up the goods at the dock in LA and then transport the container to the California border, drop the container at the state line for another truck to pick it up and deliver it to another state.

The docks are jammed with containers, making it difficult for the containers to be picked up. A lot of the unloading cranes sit idle due to the lack of room to place the containers.

To their credit, the White House administration has re-

cently tried to get the docks to work on a 24 hour shift to unload the cargo ships. They have also worked with some of the larger companies such as Walmart to accept shipments in non-regular hours. Unfortunately, it has been too little too late. Only a few of the cranes are working 24 hours and only from Monday to Thursday.

What has California done. So far they have accomplished very little. They are trying to fast track truck driving licenses. They are also working to establish a secondary yard for containers. Once again, too little too late. These actions should have been taken months and months ago.

The ports are trying to hire more workers and they have announced that they will collect a holding fee of $100 a day for each container if it is not picked up within a certain period.

What should have happened many months ago so that the bottle neck could have been solved well before the Christmas rush? First of all, this should have been done well before November.

Both the Federal government and the California government should:

♦ *Provide incentives for the ports to hire more dock workers.*

♦ *Temporarily put the environment regulations that limited the number of trucks on hold.*

♦ *Temporarily lift the number of hours that truckers could work.*

♦ *Create a 10,000 acre off-site premises to hold containers.*

♦ *Bring in the National Guard to transport containers to the off-site premises. Given that I believe in free markets, I have mixed feelings about the National Guard helping businesses. Although this could have been a one-time affair, it would not have been necessary if the other proactive steps were taken in time.*

California had a chance to look like Santa and save Christmas deliveries, unfortunately they missed it. The problem is much more than just people getting Christmas presents. Small businesses are struggling because they cannot get parts for their machines or products to sell.

California has lowered the number of cargo ships sitting off the coast almost overnight. How? They have asked almost half of the cargo ships to move into international waters. As a result, they are not counted as waiting to dock. LOL.

Has anyone thought about the workers on the cargo ship that have been stuck for a month or two just off the LA coast. They have families and I am sure that they would like to be home for Christmas. It is not going to happen.

Come on California take some action for the sake of the environment. Yup, you heard my accusation. California is thought of as one of the more environmentally friendly states, but they are failing with the cargo ships.

Most people do not know that ships account for approximately 6% of CO2 gases. That is a huge number. Although some of the regulations have changed, ships are generally heavy polluters, burning dirty bunker fuel. New laws are being slowly implemented, but marine transport is a huge polluter.

The cargo ships sitting off California for weeks on end, have to keep their engines running. It it causing a huge pollution issue adding to all the smog that sits in the LA basin.

According to RawNews: Southern California is getting more dirtier air from cargo-ship congestion

"Rising pollution from the area's ports will make it harder for Southern California to comply with federal clean air rules, including a 2023 deadline to cut smog-forming emissions, according to CARB. This will ensure that residents living near the ports are exposed to harmful contaminants. Thomas explained that East Yard residents are already more likely to develop heart and lung disease, cancer, and reproductive health issues in communities where they organize. This is due to smog from highways and ports."

California and the Federal government have a chance to take some real productive steps and show some leadership to solve this problem for the good of the nation. Please step forward.

Rant #4

Powell does not believe that money printing causes inflation. LOL.

In a recent testimony before the Senate, Powell stated that he did not believe that money printing was the cause of inflation. When Mr. Taylor referred to Milton Friedman's quote, "inflation is always and everywhere a monetary phenomenon," Powell said that money printing causes inflation used to be true up until forty years ago. Now the economy operates under a different set of rules. Inflation is now caused by supply and demand imbalances.

I will give Powell the fact that imbalances can produce inflation while equilibrium is being established, but to say that money printing does not cause inflation is insanity.

Let's take it to an extreme to test out Powell's claim. If everyone in the country was given a million dollars, what do you think would happen. The answer is easy. Inflation. The same amount of goods and services would be produced, but more money would be chasing the goods and services. This is just common sense. To say that money printing does not cause inflation is like saying the laws of physics have changed. Sorry, just as apples still fall from trees, money printing debases currency and causes inflation.