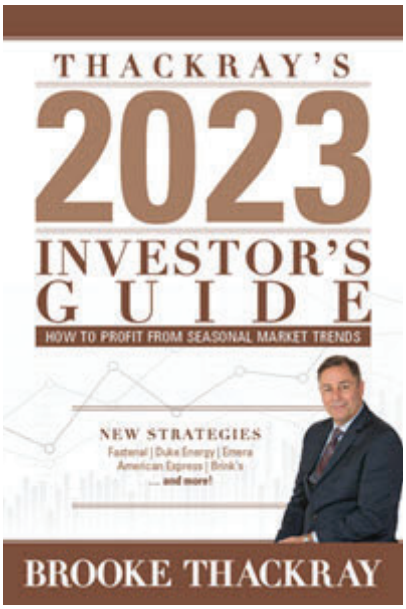
Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

Published the 10th Calendar Day of Every Month

Volume 17, Number 1, January 2023

Written by Brooke Thackray



Thackray's 2023 Investor's Guide is now out in books stores and available online. New strategies include Fastenal, Duke Energy, Emera, American Express, Brink's .... and more!

Market Update

Looking in the 2022 mirror – Trying to figure out 2023

S&P 500 Technical Status

The S&P 500 has formed a distinctive pattern of rising up to its trend line and faltering. Patterns break, so it cannot be assumed that just because the pattern worked in the past, it will again. However, a lot of investors seem to be following this pattern and if the S&P 500 does start to turn lower around the 4000 level, especially on higher volume, it could become a self-fulfilling prophecy and the S&P 500 could move lower (at least for a bit).

Overall, there is not much positive to say about the technical picture for the S&P 500 at this time. The S&P 500 really needs to break above its upward sloping trend line for a strong price pattern development.

The good news is that the S&P 500 is currently in its strong six-month seasonal period which increases the probability of a breakout. However, it should be noted that a breakout is not guaranteed.

Horizons Seasonal Rotation ETF (HAC : TSX)
Portfolio Exposure as of **December 31, 2022**

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Commodities	
HUG	Horizons Gold ETF	8.5%
HUZ	Horizons Silver ETF	3.6%
	Equities	
HXT	Horizons S&P/TSX 60 Index ETF	22.6%
	United States Dollar Exposed Assets	
	Equities	
XLI	Industrial Select Sector SPDR Fund	12.9%
XLB	Materials Select Sector SPDR Fund	10.6%
XLU	Utilities Select Sector SPDR Fund	5.2%
XLK	Technology Select Sector SPDR Fund	7.7%
XME	SPDR S&P Metals and Mining ETF	2.0%
IWM	iShares Russell 2000 ETF	8.1%
EWJ	iShares MSCI Japan ETF	2.0%
EEM	iShares MSCI Emerging Markets ETF	5.1%
HXQ	Horizons NASDAQ-100® Index ETF	4.8%
HXS	Horizons S&P 500® Index ETF	5.5%
	*US Dollar Forwards (January) - Currency Hedge ***	*0.5%*
	Cash, Cash Equivalents, Margin & Other	*0.8%*
	Total (NAV $188,007,326)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 63.53% of current NAV)

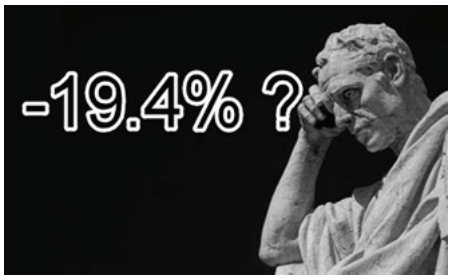
The objective of HAC is long-term capital appreciation in all market cycles by tactically allocating its exposure amongst equities, fixed income, commodities and currencies during periods that have historically demonstrated seasonal trends. The Thackray Market Letter is for educational purposes and is meant to demonstrate the advantages of seasonal investing by describing many of the trades and strategies in HAC.

The year 2022 was not a good year for most investors. There was a lack of spots to hide in the markets and most asset classes were down. A typical balanced portfolio of 60% stocks and 40% bonds got decimated as stock and bond prices were highly correlated.

Stocks and bonds are not always correlated. Often high interest rates are an expression of a stronger economy and stock prices can rise into increasing interest rates. In the world we are in right now, the Federal Reserve is driving the markets with its fight against inflation.

Investors are confused and sceptical of market rallies. This can be seen in the "one day wonder" rallies that we have had recently. Investors have latched on to one piece of good news, driven the stock market higher for the day and rethought their hypothesis the next day and the stock market has faded quickly. In other words, there is a lack of conviction.

To state the philosophical obvious position: either the stock market action will be similar to last year or it will be different. I say it this way because in the past when the stock market was rising, investors took the position that there would be more of the same.



After a negative year of 19.4% for the S&P 500, investors do not want the same, but they are not sure that it will be different. When almost all asset classes lose money, it is difficult for investors to see a positive path forward.

My position is that we will probably see more of the same. I am not stating that the stock market will be negative, but rather that sectors of the stock market that outperformed last year will probably continue to outperform this year.

When the technology sector was outperforming year after year, post 2009, investors expected that the technology sector would outperform the S&P 500 in the following year after it had outperformed in the previous year.

In 2022, the technology sector underperformed the S&P 500. Most investors would probably not take the position that the technology sector would underperform again in 2023. On the other hand, investors are not convinced that the technology sector will outperform. As a result, investors have become frozen, like a deer in the headlights.

After a year of buying the dips not working, investors are not sure what to do.

In 2022, a lot of money has flowed into short-term bonds and money market instruments. With almost nothing working in 2022 and a high nominal reward (interest) in money markets, investor money in short-term money market instruments has become sticky. Investors can make 4% in the short-term, or invest in the stock market.

Money will come off the "sidelines" at some point, once investors feel that there is some positive direction in the market and once they start to see some sector domination.

The year 2023 could be a stealth year for the markets. Rising, with some ups and downs, but ending the year on a positive note. Investors could look back and say: "when did that happen?" This would be particularly true if the growth sectors of the stock market, including technology, continued to lag the overall market.

Some of the relatively successful themes that worked in 2022 will probably work again in 2023.

(1) The energy sector will probably outperform

The energy sector is still under supplied with oil, despite a lot of people thinking that the world is switching to EV cars in a year or so (not going to happen).

The energy sector could get a boost from China re-opening. Evidently, if the news is to believed, China has dropped almost all of its COVID-19 mandates (finally). As a result we could see demand for energy and metals increase after the Chinese New Year's Holiday.

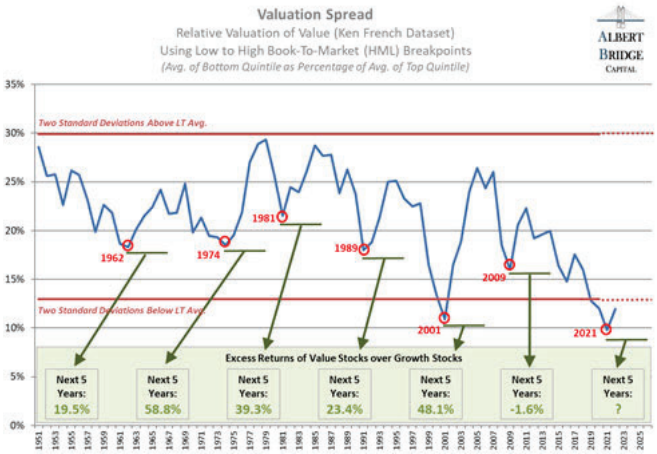
The US government made a decision in late 2022 to tap into its Strategic Petroleum Reserve (SPR) in order to lower the price of oil. The reserve is very low and the administration has promised to fill it back up in the near future. So far, they have not taken any action. At some point, they are going to be forced to fill up their reserves, which should help boost the price of oil.

The good news is that the strong seasonal period for the energy sector starts shortly in February.

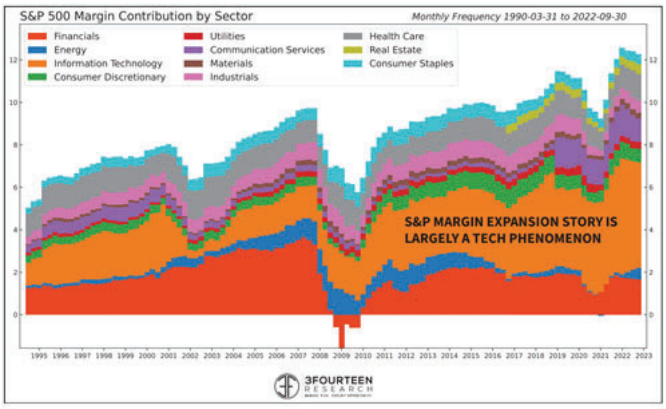
(2) Value will probably outperform Growth

We are so used to growth stocks outperforming value, many investors take the phenomenon as de facto. It has not always been this way. There are times when value outperforms growth. This happened in 2022 and caught many investors off guard.

There could be more to go. The graph below shows that after bottoming on a relative basis, value tends to outperform over the next five years. We saw this happen after the tech wreck in 2000. It is possible that 2022 was another bottom.



Technology margin expansion over time.



In recent years, the technology sector margin expansion has been greater than other sectors of the stock market, leaving room for the sector to correct at the margin level.

(3) Canada will probably outperform (once again)

Last year, I wrote that the Canadian stock market would probably outperform the US stock market. I am going to make the same call this year. The Canadian stock market is cheaper and more value oriented compared to the US stock market. If value outperforms, then there is a decent probability that the Canadian stock market will outperform.

It should be noted, that if house prices were to decline substantially from the current levels and defaults increased accordingly, the Canadian banking sector could underperform, dragging down the Canadian stock market. Canadian banks will always tell you that they have very little direct mortgage exposure, but given the housing market makes up approximately 9% of GDP in Canada, they are affected one way or another.

The good news is that it typically takes time for real estate to go down with the effects rolling through the economy. We are not there yet.

Some trends from 2022 will probably change in 2023

(1) The US dollar will probably loose strength

The US dollar had a stellar year as the Federal Reserve was more aggressive than other central banks around the world. Rising rates sucked up US dollars from countries around the world. Yes, the Federal Reserve continues to talk tough and will probably be more hawkish than most central banks, but the relative rate of change of the Fed being hawkish relative to other central banks is slowing. The ECB is finally admitting that they have an inflation problem and are squawking a more hawkish tone.

If and when, the Federal Reserve does pause, the US dollar will probably underperform other major currencies, even if the other central banks are on a path to pause.

(2) Bonds will probably perform well later in the year

Bonds were a disaster in 2022 as investors sold the asset class in anticipation of higher interest rates. There are very few calls for interest rates to rise into 2024. As we move through 2023, investors are going to anticipate the terminal rate for the Federal Reserve getting closer. This should help bonds to perform well.

On a seasonal basis, government bonds tend to perform well from early May to early October. It is possible that we could see the best opportunity for government bonds in a few months.

(3) Emerging Markets will probably outperform the S&P 500

In 2022, emerging markets performed “at market” compared to the S&P 500. This price action was despite the US dollar strength, which typically puts downward pressure on emerging markets.

If value outperforms (emerging markets are value skewed) and the US dollar declines (helps emerging markets), emerging markets could outperform in 2023. Investors

should note that the strong seasonal period for the emerging markets sectors ends in mid-April.

Good News – Opportunity ahead

January - Santa Coming Late?

Recently, I released a video, "What's Hot & What's Not in January- Santa Coming Late . Check it out

https://youtu.be/eqLP-n9InKk

The video can also be found on alphamountain.com.

Seasonal Opportunities

Canadian Banks

The Canadian banking sector has a strong seasonal period from January 23 to April 13

The Canadian banking sector has been performing at market since early 2021. At the beginning of 2022 the Canadian banking sector had a strong rally (in its strong seasonal period) and then pulled back. Since April 2022, Canadian banks have returned back performing at market.

The Canadian banking sector tends to perform well when investors start to be concerned about market valuations. When a downturn does start, investors want to stay invested and are attracted to Canadian banks which have a higher dividend payout compared to the market and are in an oligopolistic industry.

At the current time, Canadian banks are in a good position as their strong seasonal period starts. The risk with Canadian banks is that if the Canadian economy starts to slow down substantially, the trend will be reflected in the Canadian bank performance.

My Call: The Canadian banking sector will probably outperform the TSX Composite over the next three months.

Technology

The technology sector has a strong seasonal period from December 15 to January 17

The technology sector has been underperforming the S&P 500 since late 2021. The work-from-home (WFH) premium has been erased. The narrative has shifted. For the longest time, the technology sector was the go-to sector for investors. If the stock market corrected, investors rushed into the technology sector to catch the maximum bounce as the market moved higher. In 2022, buy-the-dip did not work and the technology sector lost its allure.

It is not surprising to see that the technology sector trying to make a run at the beginning of 2023. It has yet to be determined if the sector is going to be a market leader. I have my doubts.

The technology sector has not preformed well in its strong seasonal period that started in mid-December. When this phenomenon occurs, it is an indication of sector or market health. In the case of the technology sector, the fact that it underperformed when it should have outperformed, shows the underlying weakness of the sector. In addition, when the stock market has performed well on a daily basis, the technology sector has not outperformed on a consistent basis. It is possible that the technology sector could start an outperforming trend. Nevertheless, it is becoming less likely that the technology sector will outperform for an extended period of time.

My Call: The technology sector will probably underperform the S&P 500 over the next few months.

Industrials

The industrial sector has a strong seasonal period from January 23 to May 5.

The industrials sector outperformed the S&P 500 in 2022. The outperformance accelerated in October 2022. The industrial sector continues to outperform.

On a technical basis, the sector has had a double bottom breakout, which is a favorable pattern.

As long as the economy does not fall "apart," it would be expected that the industrial sector could perform well.

My Call: The industrial sector will probably outperform the S&P 500 into the end of April.

Materials

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

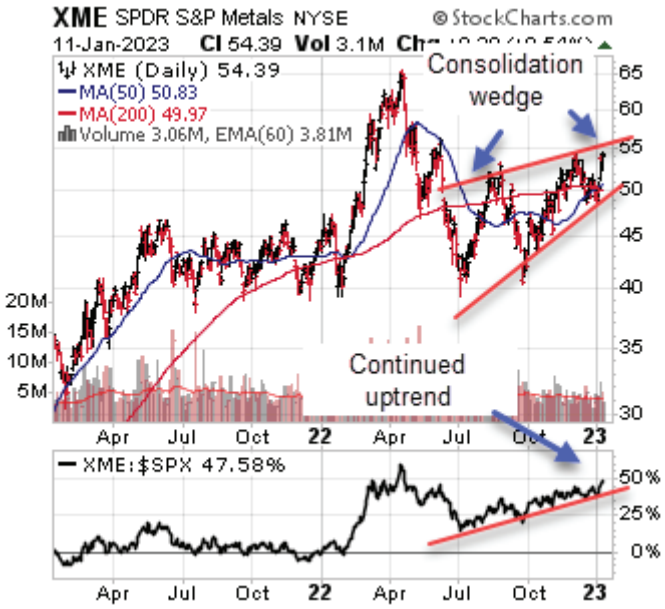
Although the materials sector has a similar profile to the industrials sector, the materials sector could outperform the industrial sector if the metals and mining stocks outperform.

My Call: The materials sector will probably outperform the S&P 500 over the next three months.

Metals & Mining

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

The metals and mining sector has been in an upward trend and outperforming the S&P 500 since last July. Currently, the sector is in a consolidation wedge, which could break out to the upside, or lower. If it breaks down out of the bottom of the pattern, the sector could struggle relative to the S&P 500.



My Call: The metals & mining sector will probably continue to outperform the S&P 500 until late April.

Uranium

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

The uranium sector has recently shown strength relative to the S&P 500. Nevertheless, the sector has formed a pattern of lower highs. A break above the upper trend line would be a positive development. If the metals and mining sector outperforms the S&P 500 in the near future, this would help the probability of the uranium sector outperforming the S&P 500

My Call: Uranium will probably perform at market in the near future.

US Financials

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

As interest rates have increased, this has benefited the US financial sector, which has outperformed since August of last year.

Although the financial sector is still in its strong seasonal period, if interest rates continue to head lower, the outperformance of the sector could moderate, particularly if the economy slows.

My Call: The financials sector will probably outperform into mid-April.

Small Caps

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

The small cap sector has recently been moderately outperforming the S&P 500. A rising US dollar has helped to support the sector. In addition, investors shying away from the technology sector has also benefitted the sector.

It has been surprising that the small cap sector has not outperformed the S&P 500 by a wider margin. If investors were committed to a strong rally in the market, it would be expected to have performed better than it has.

My Call: The small cap sector will probably outperform the S&P 500 into early March.

Consumer Discretionary

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

The consumer discretionary sector started to underperform the S&P 500 in October 2021. After a substantial underperformance for an extended period of time, the sector could be primed to outperform in the sweet spot of its strong seasonal period, from late January to mid-April.

My Call: The consumer discretionary sector will probably outperform into mid-April.

Emerging Markets

The emerging markets have a seasonal period from mid-November to mid-April.

As the US dollar has weakened relative to world currencies, the performance of the emerging markets has improved. If the US dollar continues to underperform world currencies in the near future, this could put upward pressure on emerging markets.

My Call: The emerging markets sector will probably outperform the S&P 500 into early April.

Retail

The retail sector has a strong seasonal from January 21 to April 12.

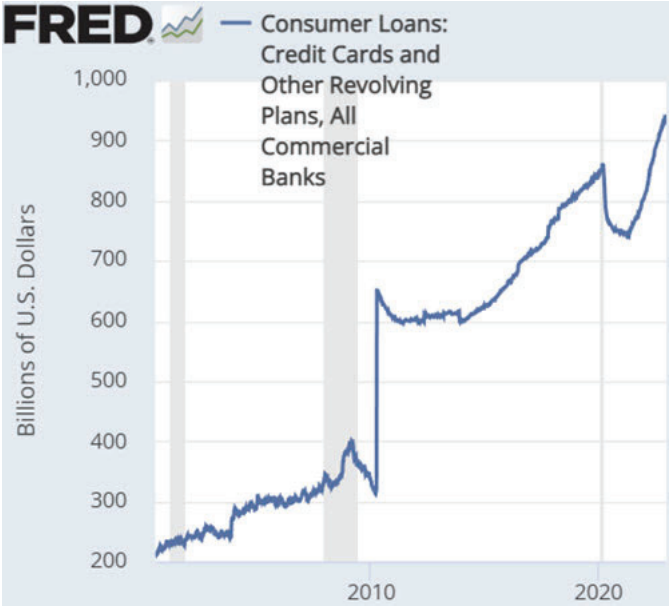
The retail sector has recently been showing an uptick in relative performance compared to the S&P 500.

This has been surprising to a lot of investors, including me. We have seen some fraying around the edges of retail sales, but nothing significant so far. Intuitively, it is going to be hard for consumers to maintain a high level spending with high interest rates. Most spending is funded by credit.

Follow the money flow. During the pandemic, governments erred by giving away too much money for way too long. The average person had excess cash compared to

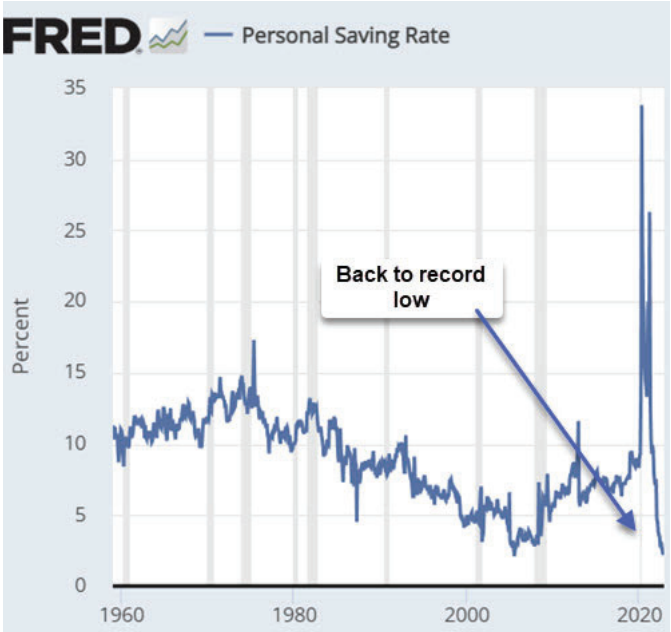
normal times. Obviously, and unfortunately some people and small businesses suffered, but on average excess cash flooded the system. People reacted as you would expect, paying down debts and increasing their savings in case the pandemic stretched out further than expected. As people realized that the end of the pandemic was insight, they ramped up their spending and decreased their savings.

Credit card and other short-term loans



Savings are now at an extremely low level and credit card debt is high. BTW....the cost of paying the interest on the credit card debt has increased.

Savings rate back to record low



Spending has momentum. Consumers will keep spending as long as they can until they are totally tapped out or they fear that they are going to lose the source of their funds. So far, that has not happened.

On a seasonal basis, the retail sector has a strong seasonal period from late January to early April. This trend is caused by increased economic growth expectations that occur at the beginning of the year and which coincides with the retail sector increasing its sales after a January slump.

Will it work this time, despite possible cash flow issues for consumers? Absolutely, it can work. It is difficult to call the inflection point on peak spending. Nevertheless, investors should be cognizant of the macro backdrop for retail and be prepared to exit the trade if it falters.

My Call: The retail sector will probably end its strong seasonal period in late March.

Transportation

The transportation sector has strong seasonal period from January 23 to April 16.

After correcting in 2021 relative to the S&P 500, the transportation sector has been consolidating relative to the S&P 500.

There has been some signs that the sector could stumble. The Baltic Freight Index et al prices have been correcting sharply, indicating that shipments of products coming in to the US have fallen. Nevertheless, the sector is on the verge of a breakout on an absolute basis and relative to the S&P 500. Investors should be careful with this sector, especially if the economy starts to show further weakness.

My Call: The transportation sector will probably perform at market over next month or so, before finishing its strong seasonal period early.

Gold

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

In previous newsletters I wrote about how gold tends to bottom in Q4. The bottom tends to take place on average in late December, but can take place in November and December and even October. It looks like gold bottomed in October of 2022.

Since October, gold has been positive and has been outperforming the S&P 500.

Unfortunately, the current strong seasonal period ends very shortly. Gold can continue to outperform into February and even March with strong momentum.

On a technical basis, gold is poised to breakout and possibly reach $2000 in the short-term.

My Call: Gold will probably continue to perform well past the end of its average strong seasonal period. Look for gold to perform well into March.

Gold Miners

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

Gold miners have been outperforming the S&P 500 and gold bullion. This is a positive for not only the miners, but also gold. It is often a sign that the precious metals complex has "legs."

Like gold bullion, gold miners can perform well past the end of its strong seasonal period. It is possible that we could see this happen in 2023.

My Call: Gold miners will probably continue to outperform the S&P 500 into March.

Silver

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

Silver has been performing well since September of 2022. Recently, silver has faltered a bit, but is still in an upward trend relative to the S&P 500 and on an absolute basis, silver is still in its consolidation channel.

Look for silver to start to outperform once again, especially if the metals and mining sector performs well.

My Call: Silver will probably outperform the S&P 500 into March.

Rants

Rant #1

How to keep your job as a lead financial journalist

Write "Puff" books on the Federal Reserve and Treasury department

It has long been rumored that Hilsenrath and Timiraos, both the WSJ reporters, receive inside information from the Federal Reserve of a possible change in position. Their comments have moved the markets many times.

In order to keep their "overlords" happy, Hilsenrath and Timiraos have decided to write that books that idolize the Yellen and Powell.

I must confess, that I have not read the books in their entirety. I had trouble getting through the early part of "Yellen." Not only was it non-stop, over-the-top, worship, it is factually incorrect. Hilsenrath claimed that Yellen when she was president of the San Francisco Fed, predicted the Great Financial Crisis. This is incorrect. As I have written before, she totally missed the GFC.

I could go on and discuss how Yellen increased the moral hazard of the economy by leaving interest rates too low for too long (another topic for another day).

Sometimes you have to do what you have to do to keep your job, but Yellen and Trillion Dollar Triage are not recommended reading.

I will leave you with one of Yellen's famous quotes:

"I don't see a financial crisis in our lifetimes" (2017).

Yup, Yellen actually said this.

Rant #2

The "false allure" of 2% inflation

2%

First of all, let's set the record straight. The ideal inflation rate is "0" percent, NOT 2%. The Federal Reserve loosely mentioned a 2% target in the 1990's, but it was Bernanke in 2012 that brought it forward as a policy.

The reason for the 2% target is that the Federal Reserve wants a buffer. There is a big fear on their part of deflation which causes people to save for the future, anticipating lower prices.

Federal Reserve website:

Why does the Federal Reserve aim for inflation of 2 percent over the longer run?

https://www.federalreserve.gov/faqs/economy_14400.htm

According to the Federal Reserve's website, the reason for a 2% target is that if inflation was "too low," interest rates would be too low and that would not let the Federal Reserve cut interest rates when it is needed to stimulate the economy.

I have a novel idea. How about the Federal Reserve NOT artificially manipulate interest rates and let the market decide according to the price of money.

It is hard to take the position that the Federal Reserve has done a good job over time. Sure, there were moments where they provided value by being the lender of last resort and kept liquidity in the system going. However, the crises that they took action against, was the result of previous mismanagement by the Federal Reserve.

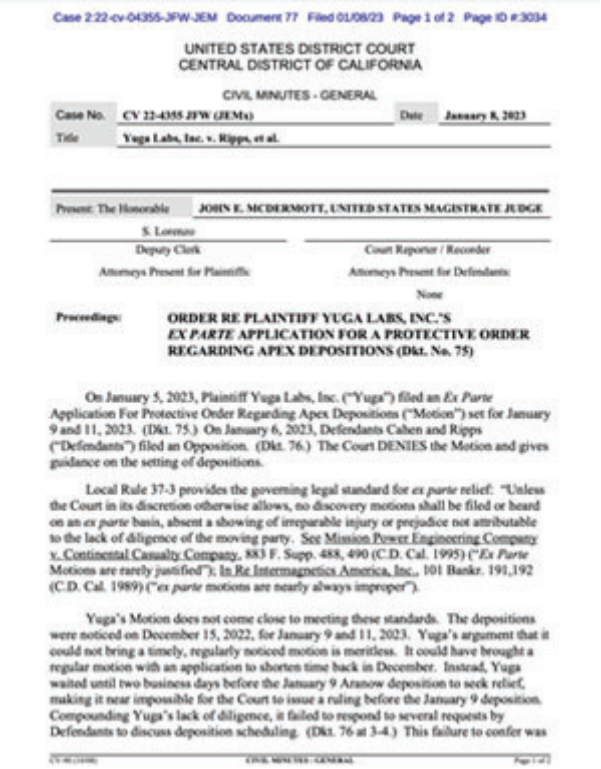
Rant #3

Bored Ape Owner, sued the Copycat apes because "they are racist"

Bored apes are JPEGs (computer pictures) authenticated by the NFT (Non-fungible-token) process.

At the height of stupidity in 2022, these simple pics sold for hundreds of thousands of dollars. Now that people realize that their children could draw the pictures in a few minutes, the prices have come crashing back to earth.

Of course, when people lose money they start fighting. One group of "ape owners" is suing another group because they are racist.



Case 2:22-cv-04355-JFW-JEM Document 77 Filed 01/06/23 Page 1 of 2 Page ID #:3034

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	CV 22-4355 JFW (JEMx)	Date	January 6, 2023
Title	Yuga Labs, Inc. v. Ripps, et al.		

Present: The Honorable	JOHN E. MCDERMOTT, UNITED STATES MAGISTRATE JUDGE
S. Lorenzo	
Deputy Clerk	Court Reporter / Recorder
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:
	None

Proceedings: **ORDER RE PLAINTIFF YUGA LABS, INC.'S *EX PARTE* APPLICATION FOR A PROTECTIVE ORDER REGARDING APEX DEPOSITIONS (Dkt. No. 75)**

On January 5, 2023, Plaintiff Yuga Labs, Inc. ("Yuga") filed an *Ex Parte* Application For Protective Order Regarding Apex Depositions ("Motion") set for January 9 and 11, 2023. (Dkt. 75.) On January 6, 2023, Defendants Cahen and Ripps ("Defendants") filed an Opposition. (Dkt. 76.) The Court DENIES the Motion and gives guidance on the setting of depositions.

Local Rule 37-3 provides the governing legal standard for *ex parte* relief: "Unless the Court in its discretion otherwise allows, no discovery motions shall be filed or heard on an *ex parte* basis, absent a showing of irreparable injury or prejudice not attributable to the lack of diligence of the moving party. See Mission Power Engineering Company v. Continental Casualty Company, 883 F. Supp. 488, 490 (C.D. Cal. 1995) ("*Ex Parte* Motions are rarely justified"); In Re Intermagnetics America, Inc., 101 Bankr. 191,192 (C.D. Cal. 1989) ("*ex parte* motions are nearly always improper").

Yuga's Motion does not come close to meeting these standards. The depositions were noticed on December 15, 2022, for January 9 and 11, 2023. Yuga's argument that it could not bring a timely, regularly noticed motion is meritless. It could have brought a regular motion with an application to shorten time back in December. Instead, Yuga waited until two business days before the January 9 Aranow deposition to seek relief, making it near impossible for the Court to issue a ruling before the January 9 deposition. Compounding Yuga's lack of diligence, it failed to respond to several requests by Defendants to discuss deposition scheduling. (Dkt. 76 at 3-4.) This failure to confer was

This world has truly gone to the apes!

Rant #4

China - Re-opening its economy fast

It is getting even harder to trust numbers coming out of China

In early 2020, we all saw the COVID pandemic videos of people falling dead in the streets and people being locked in their apartments with their doors welded shut. For the most part, the videos were fake. Recently, we have seen videos of entire cities being shut-down, protests etc. It really is hard to determine the truth of what is happening. The Chinese government is a huge misinformation spreader.

To make matters worse, the main stream media in the west, continues to spread misinformation of their own. With so much misinformation from "official sources," it is hard to figure out what is happening on the ground. Nevertheless, it does look like China has done a quick "180" and removed almost all Covid mandates.

I am surprised by speed of China's turnaround in its Covid policies. The policies did not make any sense. It was hard for the Chinese people to be locked down, watching everyone crowded into a soccer field, not wearing masks and enjoying themselves at the World Cup in Qatar.

I am hoping that the above pic accurately reflects the situation in Wuhan as the Chinese party in their 2023 New Year.

I wish the Chinese people a Happy New Year and a speedy economic recovery.