Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

Published the 10th Calendar Day of Every Month

Volume 9, Number 6, June 2015 Written by Brooke Thackray

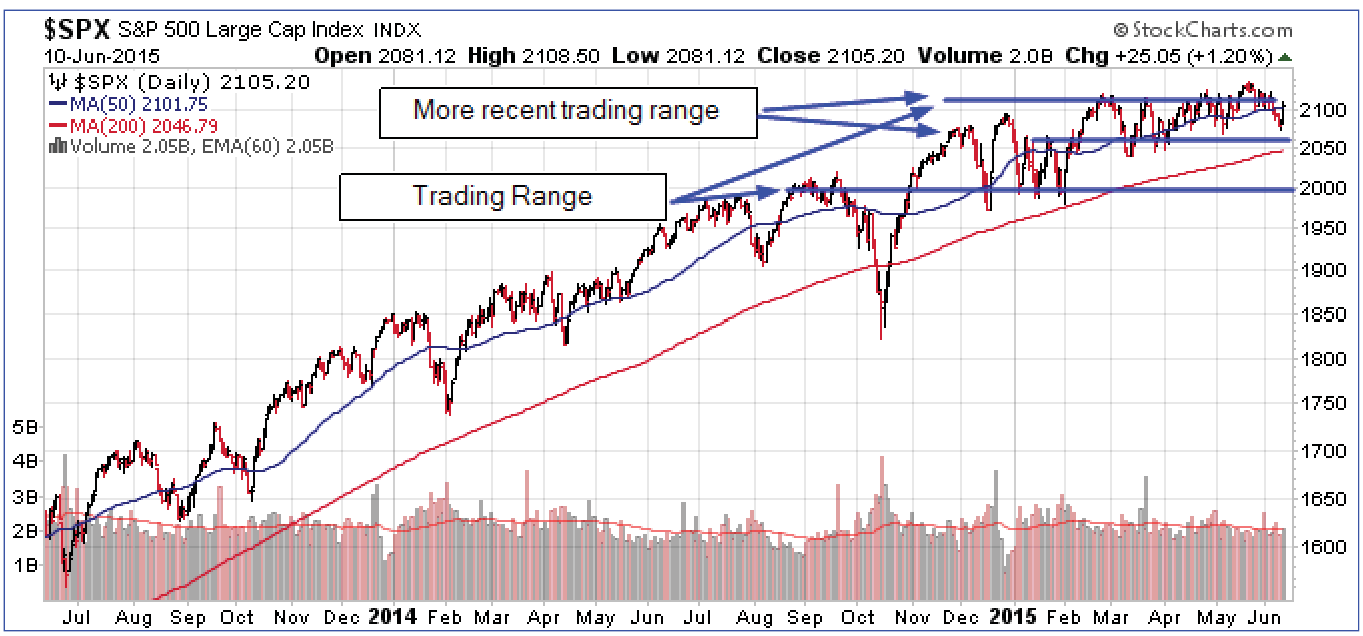
Market Update

As of the end of May, the S&P 500 is up 1.0% for the year. The stock market really is looking for direction. Investors need to be careful at this time. Good news is starting to be interpreted bearishly, which is typically not a good sign. If the economic numbers come in too strong, it is interpreted that the Fed is going to have to raise rates, which is hitting the stock market negatively. Last Friday the Non-Farm Payroll number was much higher than expected (good news), the stock market decreased because of the possible impact of higher rates. If we start to get economic numbers that do not met their expectations, pointing to a slower economy, and the stock market reacts

S&P 500 Technical Status

The S&P 500 has been trading in a very tight range since the beginning of the year, in between 2000 and approximately 2125. More recently, it has been trading in a range of 2050 and 2125. This is an unusually tight trading range. At some point it will break above or below this range. It would be positive if it were able to break resistance on strong volume. The market can climb a wall of worry, and might perform this act in the near future, but it is going to be difficult.

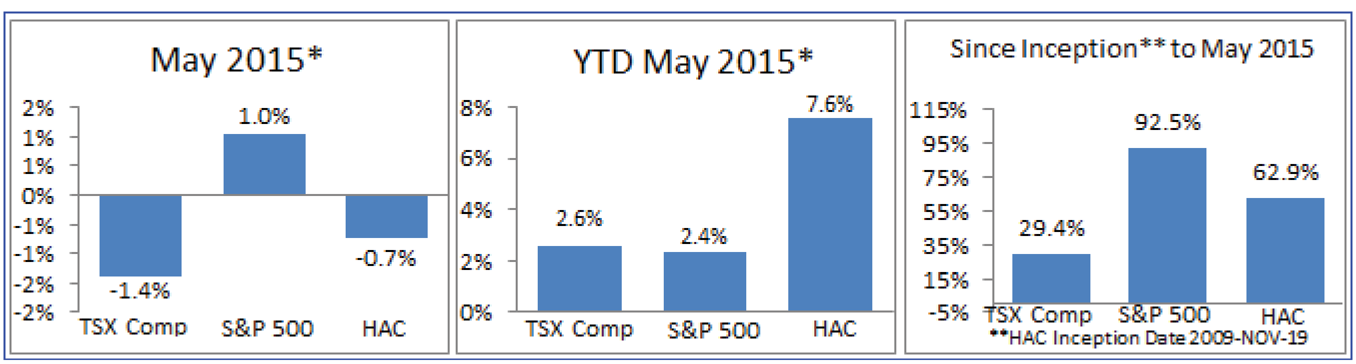
The more likely outcome is for the stock market to struggle to set new highs. Yes it is possible for the stock market to set new highs in the summer, but there has to be a strong catalyst. The S&P 500 will have large up days and even rallies once in a while, but it is the outcome over the next five months that counts. Given that we are in the six month unfavorable period for the stock market, the S&P 500 is not expected to be higher in five months time.



Horizons Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of **May 31st**, 2015

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Fixed Income	
HFR	Horizons Floating Rate Bond ETF	19.1%
HTB	Horizons US 7-10 Year Treasury Bond ETF	13.2%
HBB	Horizons Cdn Select Universe Bond ETF	13.1%
	Equities	
HUN	Horizons NYMEX® Natural Gas ETF	4.5%
	United States Dollar Exposed Assets	
	Equities	
HXS	Horizons S&P 500® Index ETF	59.4%
XLP	Consumer Staples Select Sector SPDR Fund	9.9%
IYT	iShares Transportation Average ETF	-9.7%
XHB	SPDR S&P Homebuilders ETF	-10.4%
	US Dollar Forwards (June 2015) - Currency Hedge **	-1.5%
	Cash, Cash Equivalents, Margin & Other	2.2%
	Total (NAV $122,789,053)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 39.4% of current NAV)



* Source: Bloomberg, HAC based upon 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.

bearishly or only gets a mild lift, this will be very troublesome.

At this point, it will take much stronger Q2 earnings to lift the market. Otherwise, what is going to drive the market higher, more stimulus, from whom and when? Is it going to come from the United States…not likely; Japan…not due for another stimulus round for a couple of months from now; Europe…they have just announced they may speed up their bond buying rate as part of their stimulus, they are running out of tricks; China…investors seem to have an unbridled faith in the countries ability to initiate stimulus if needed, but that will come to an end at some point.

The next real catalyst for the stock market is the next quarter's earnings to be released in July. The expectations for Q1 earnings was initially negative, but as the tailing companies reporting are finishing the Q1 earnings season, earnings growth is expected to come in at 2.2%. Hardly an earth shattering number, but as the earnings were better than expected, the S&P 500 responded positively. It is possible that Q2 earnings will also give a lift to the market. In fact, the S&P 500 has a fairly strong seasonal trend of moving higher at the end of June, heading into Independence Day and the start of the July's earnings period. This trend may be particularly attractive this year if the S&P 500 corrects before the end of the month. For traders that want to take advantage of these seasonal phenomena, refer to my latest book, Thackray's 2015 Investor's Guide, pages 73 and 43, respectively. This year it is possible that the Greek situation may initially cause some volatility (see Brooke's Rant at the end of this newsletter).

What the HAC is going on?

In the month of May, HAC had a loss of 0.7%, although it underperformed the S&P 500, it outperformed the TSX Composite. The loss was mainly the result of:

♦ ***The position in U.S. and Canadian bonds. Government bonds tends to perform well in the summer months, but they have been under pressure as investors are trying to anticipate the Federal Reserve raising rates.***

♦ ***The position in Consumer Staples. So far the staples sector has not performed well in its seasonal period, especially after the recent Canadian court announcement against tobacco companies. Given the large weight of tobacco companies in the consumer staples sector, the sector was hit hard.***

On a positive note:

♦ ***HAC has profited from its pairs trades that include shorts in the transportation and home builders sector. Additionally, HAC also benefitted from favoring exposure to the U.S. dollar.***

Sector Trends

Gold – everyone's favorite subject – almost

The seasonal trade for gold (bullion) starts on July 12th and lasts until October 9th. The gold seasonal trade is one of the better known seasonal trades as many investors are familiar with the increase in demand for gold jewelry driven largely by the Indian celebrations of Dwali. Although the gold trade does have a seasonal pattern, the results can be volatile from year to year and the success rate is on the moderate side (for details, see Thackray's 2015 Investor's Guide, page 83). Nevertheless, it is still a seasonal trade that is worthy of consideration. If there is one time of the year when gold tends to rise it is in its seasonal period.

After a sharp correction in 2013, gold has oscillated back and forth on a gradual downward sloping trajectory. Currently gold is getting close to support ($1150) that was created from bottoms in November 2014 and March 2015. If gold does make it back down to support, given that it is starting its seasonally strong period soon, this would be a good entry level into the sector.

On the short-term basis, gold has become oversold and may rally at this point. Although it is possible that gold may start it seasonal run early, gold can be very volatile in

June and investors should be cautious.

At the end of May, HAC did not hold a gold position.

Gold Stocks - similar picture to gold, but the seasonal period for gold stocks starts a bit later

Like gold, gold stocks have also been hit hard over the last couple of years. The seasonal period for gold stocks starts on July 27th and lasts until September 25th. It is typically best to wait for gold bullion to start to show signs of strength before entering into gold stocks.

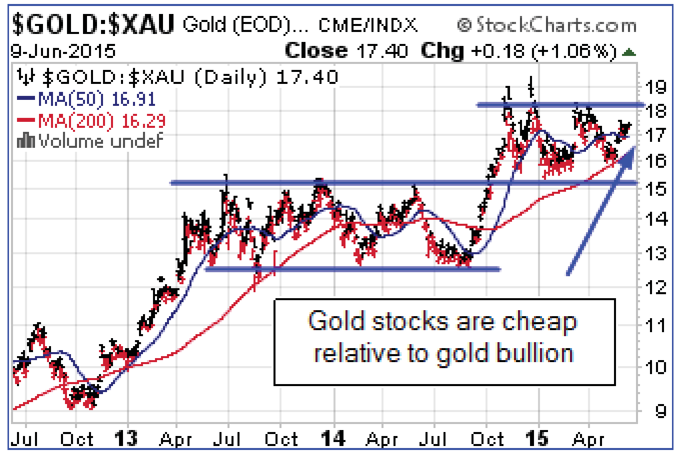
At the end of May, HAC did not hold gold stocks.

Gold Bullion to Gold Stocks Ratio

One of the questions that I get asked frequently is, "when will gold stocks outperform gold?" My answer; gold stocks have the highest probability of outperforming gold bullion during the seasonal period for gold stocks.

A ratio that I find to be useful in helping to determine if gold stocks are undervalued relative to gold bullion is the Gold:XAU ratio. I have written about this ratio in past newsletters. Over the long-term from 1984 to 2007 the ratio traded in the range of 4 to 6. With the advent of gold bullion ETFs in 2007, making it more convenient for investors to buy gold bullion, the ratio moved higher. Most recently, the ratio has been trading in a range between 16 and 18, indicating that investors favor gold bullion over gold stocks for their gold exposure.

If gold is able to start to show some strength, gold stocks should perform particularly well. Investors should be watching for gold and gold stocks to perform well as their seasonal periods approach.

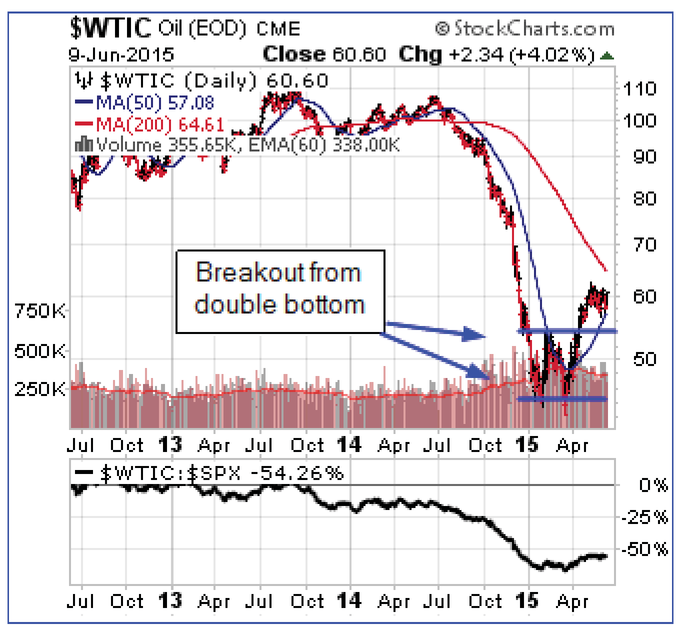


Oil - Nice double bottom...but will oil pull back?

Earlier in the spring, oil broke above a double bottom pattern which is considered bullish. Since the end of its seasonal period in May, oil has had trouble rallying. Look for oil to possibly pull back to support before its next seasonal period in late July.

The potential nuclear agreement between Iran and the P5+1 countries scheduled for the end of June will have an impact on the price of oil. Iran has boat loads full of oil ready to sell, and if an agreement is reached, the price of oil is expected to fall. Of course, if a possible agreement is delayed then the price of oil will probably rise, but just not by as much.

The autumn seasonal period for oil is not nearly as strong as the winter/spring seasonal period and investors should use caution.



At the end of May, HAC did not an oil position.

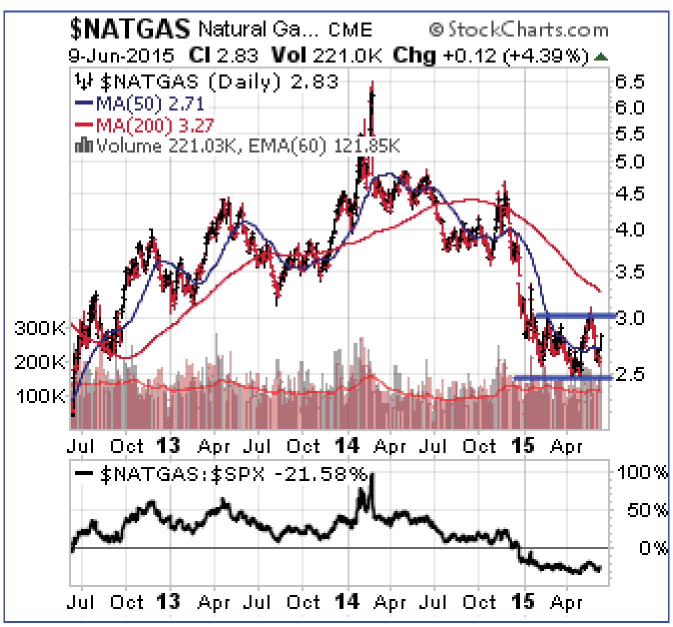
Oil Stocks- navigating the mine-field

Oil stocks have suffered with a declining oil price. Investors have been trying to anticipate higher oil prices. The XLE ETF has been forming an upwards trading channel. See notes above for oil comments regarding timing. Oil stocks tend to perform well from July 24th to October 3rd.

At the end of May, HAC did not hold XLE.

Natural Gas- Seasonal period ending

The spring seasonal period for natural gas ends on June 19th. Investors should be taking advantage of the recent uptick to exit their positions.



At the end of May, HAC held a position in HUN.

Utilities- hit hard

Utilities have been hit hard since the beginning of the year. They have mainly been affected by investor's concern for rising rates.

The seasonal period for utilities starts on July 27th, the same time as the seasonal sweet spot for bonds. Investors should be waiting until closer to the start of the seasonal time period before making an investment decision with this sector.

At the end of May, HAC did not hold XLU.

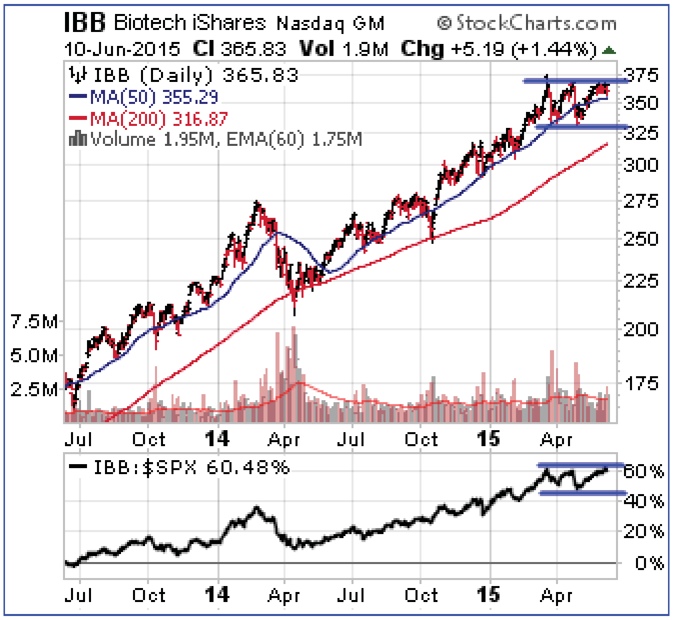
Biotech– seasonal period approaching

The biotech sector typically performs well from June 23rd to September 13th (for more details, see Thackray's 2015 Investor's Guide).

Over the last few months, the sector has performed at market and is currently at resistance. If the S&P 500 is able to rally at the end of June and the first part of July, the sector should get a positive start to its seasonal period.

The biotech sector is correlated to the S&P 500, but has a difference in magnitude. If the S&P 500 is able to produce a positive return, then it would be expected that the biotech would do the same, but given past history, the return would be expected to be greater. On the other hand, if the S&P 500 corrects, the biotech sector would also be expected to correct. The benefit of investing in the biotech sector during its seasonal period is the expected greater uplift during positive market conditions, outweighing the impact of the downdrafts.

At the end of May, HAC did not hold IBB.



At the end of May, HAC was long USD.

Pair Trades

Homebuilders - seasonal period ending

The homebuilders sector makes a good short sell position against the broad market from April 27th to June 13th. The homebuilders short sell position has performed well in its seasonal period. The homebuilders sector has recently started to show improving positive performance and investors should consider closing the trade.

At the end of May, HAC held a short position in XHB, paired against HXS.

Agriculture- hold your horses

The agriculture sector starts its seasonal period in August, it has been correcting down to support....a sector to start watching in July.

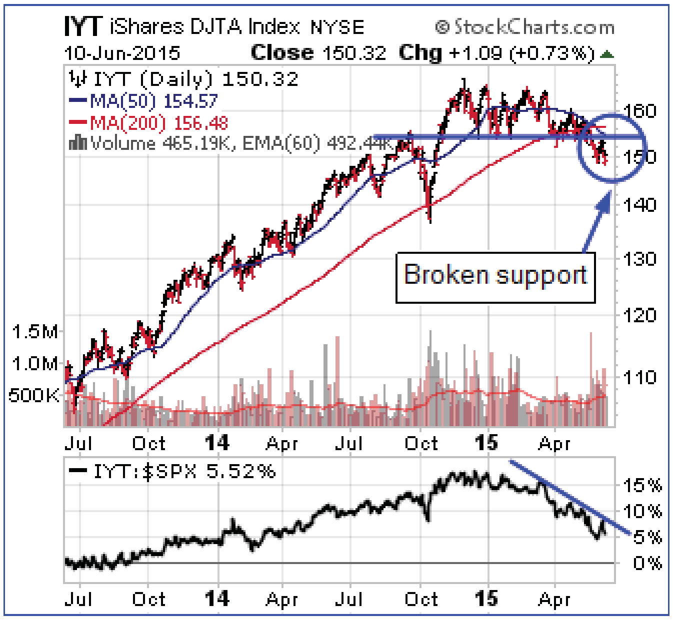
At the end of May, HAC did not hold MOO.

Canadian Dollar - at the mercy of oil

Now that the USD dollar is no longer rising at a meteoric rate, the Canadian dollar value will be effected largely by the price of oil. From a seasonal basis, the sweet spot for USD strength starts in October.

Transportation- Wheels have fallen of the sector

The transportation sector typically underperforms the market from May 6th to June 26th and makes a good short position relative to the market during this time period. The sector started its downward ascent early this year and has fallen relative to the markets fairly substantially (positive for a short position) and has recently broken support. The trade ends shortly and investors should be prepared to exit the trade if a reactive bounce were to occur.



At the end of May, HAC held a short position in IYT paired against HXS.

Consumer Discretionary

Over the last few years the consumer discretionary sector has performed well and once again the American consumer supported the sector in its seasonal period. June tends to be one of the weaker months of the year for the sector, making it a candidate for a short position.

At the end of May, HAC did not hold a position in XLY.

Independence Day Trade

There are different variations on the Independence Day trade. Generally speaking, the U.S. stock markets and the Canadian stock market, tend to perform well around major U.S. holidays as institutional investors are largely not participating in the markets at the time and the retail investors get to push the markets higher with their holiday optimism. Over the long-term, the best investment period around the holiday has been to enter the market for the last two trading days of June and hold until five trading days into July. This year the Greek negotiations could provide complications as Greece has an IMF payment that may or may not be deferred. Investors should be cautious at this time.

Earnings Month Trade

Stock markets have a tendency to perform well for the first eighteen calendar days of earnings month. This is primarily caused by investors wanting to be in the stock market for the start of the earnings season and not miss any possible returns. As seasonal investors, the strategy is to be in the stock market ahead of the average investor and exit/reduce positions as the "effect" is realized. In the case of July earnings, the strategy is to be in the stock market at the beginning of the month and exit in the third week as the earning's benefit is being realized.

A practical strategy for this trade is to be prepared to exit early if the stock market starts to show weakness in July, before the earnings month effect finishes.

Brooke's Rant–

In May and the beginning of June, the Greek Prime Minister Tsipras kept repeating that Greece would make the June 4th payment.....

Surprise! Somehow on the last day, Greece discovered a 1970's precedent that allowed IMF member countries to bundle all of their debt payments into one payment at the end of the month. Do you really think that on June 3rd late at night, some bureaucrat burning the midnight oil stumbled across this option? No. Greece played the IMF, knowing all along they were going bundle.

BTW… I have recently started a twitter account @BrookeThackray. I am trying to keep my tweets focused on investing, but I could not help myself when I heard that Greece was bundling its payments and tweeted on June 4th…

"Today Greece invoked right to bundle all June IMF payments to month end. I thought telcos were only ones that bundled. Greek drama continues."

Originally, when I heard that Greece "bundled," I snickered a bit and had to share the humor. This is not meant to demean in any way shape or form, the hardship that Greece has gone through and will inevitably continue to go through for many years.

My view has not changed and I still believe that Greece will inevitably default and leave the Eurozone, and if they are somehow propped up, the same drama that we see now will continue until they eventually leave. The Greek bureaucratic system and work culture including paying taxes has to change. This is a very difficult act and unfortunately a leader with a strong political will is needed. The current Greek government is far too left wing to implement the changes that are needed. Failing a political change, the other catalyst is a catastrophe, such as leaving the euro. This is the more likely scenario.

The big question is what is going to happen next. Greece has a large payment at the end of June. Greek citizens are expatriating their money at a rate that is not sustainable. Who can blame them? There are three possible scenarios. First, Greece can bend to the ECB and IMF, which is looking more unlikely as time progresses. Second, Greece can once again try to delay the inevitable and negotiate to face the crisis at a later time. This is fast becoming an unlikely outcome. At some point, the ECB and IMF is going to be done negotiating. They cannot keep tying up resources while Greece tries to wear them down. The citizens of the Eurozone have to believe that the ECB and IMF has taken every reasonable action to keep Greece in the Eurozone before allowing Greece to exit. They cannot be seen to be the bully in this situation. If we are not already at this point….we are very close. Third, Greece could leave the Eurozone, either on its own free will or by being forced out by the ECB or IMF.

This week I heard rumors that the ECB and IMF might put off the bailout decision until March 2016. What is the point? How would the negotiations be any different? I cannot see these rumors as being realistic.

The IMF has always been in an awkward spot, as it is the one that has financed most of the bailout packages for Greece, while the ECB has been doing most of the negotiating. Back a few years ago, it was the IMF wanted Greece's creditors to take a haircut (loss), but relented to the ECB. The current negotiations are with the IMF, who have just sent Greece's Alexis Tsipras home from the negotiations for not presenting serious proposals.

At this point, it is 50/50 on what will happen at the end of the month. Either Greece will agree to ECB and IMF requests, or something close to them, or Greece will exit the Eurozone. Meeting the ECB and IMF requests will only delay the inevitable as the agreement will probably have to be put forward to a referendum. And I still do not expect Greece to implement the requests.

I have not heard anyone discussing the possibility of what a Greek exit (Grexit) will look like.

Watch for a Monday morning mess.

If Greece is going to leave the Eurozone, it will more than likely happen on a weekend and end up having the banks shut down for Monday…..this is usually the way that it happens…and it is usually out of the blue.

Of course, my skeptical view might be too cynical and everyone will find a way to make this bad situation work. In fact, I hope this happens. Unfortunately, I have difficulty in believing this Pollyanna scenario.

One last rant…. brought to you by Sesame Street and the letter "X"

Has anyone noticed the increase in pithy acronyms and portmanteaus. Most recently we have Grexit, Graccident, Brexit…. I consider myself a neologist (not officially a word in most dictionaries), mainly for convenience. But I am having trouble keeping up with litany of pithy expressions, mostly involving the letter "X." It seems there is a game going on.

Officially, the game started a few years ago with acronyms. The first acronym with the most traction was PIIGS which represented the European countries that were in financial trouble (Portugal, Ireland, Italy, Greece and Spain). It wasn't long until people found this term offensive, so the letters were rearranged to come up with GIIPS. This term was also found to be offensive as it slighted the Gypsies.

The game has to keep moving and needs new material. This current round of the game has to have a term that is a portmanteau, have some sort of breaking up action and preferably involve the letter "X". This round started with Grexit and commentators have moved on to different variations for Greece and other countries.

The referendum for Britain leaving the EU is a long way off, but the term for Britain leaving the EU has already been coined "Brexit." So, trying to get the jump on everyone.... I am coming up with my own term and turning this game into a crossword puzzle…7 down…. Clue: the term for an island member of the EU negotiating a deal with the EU that is modeled after the country of fine chocolates and snow capped mountains. (Answer: Brixerland)

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