

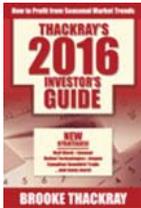
Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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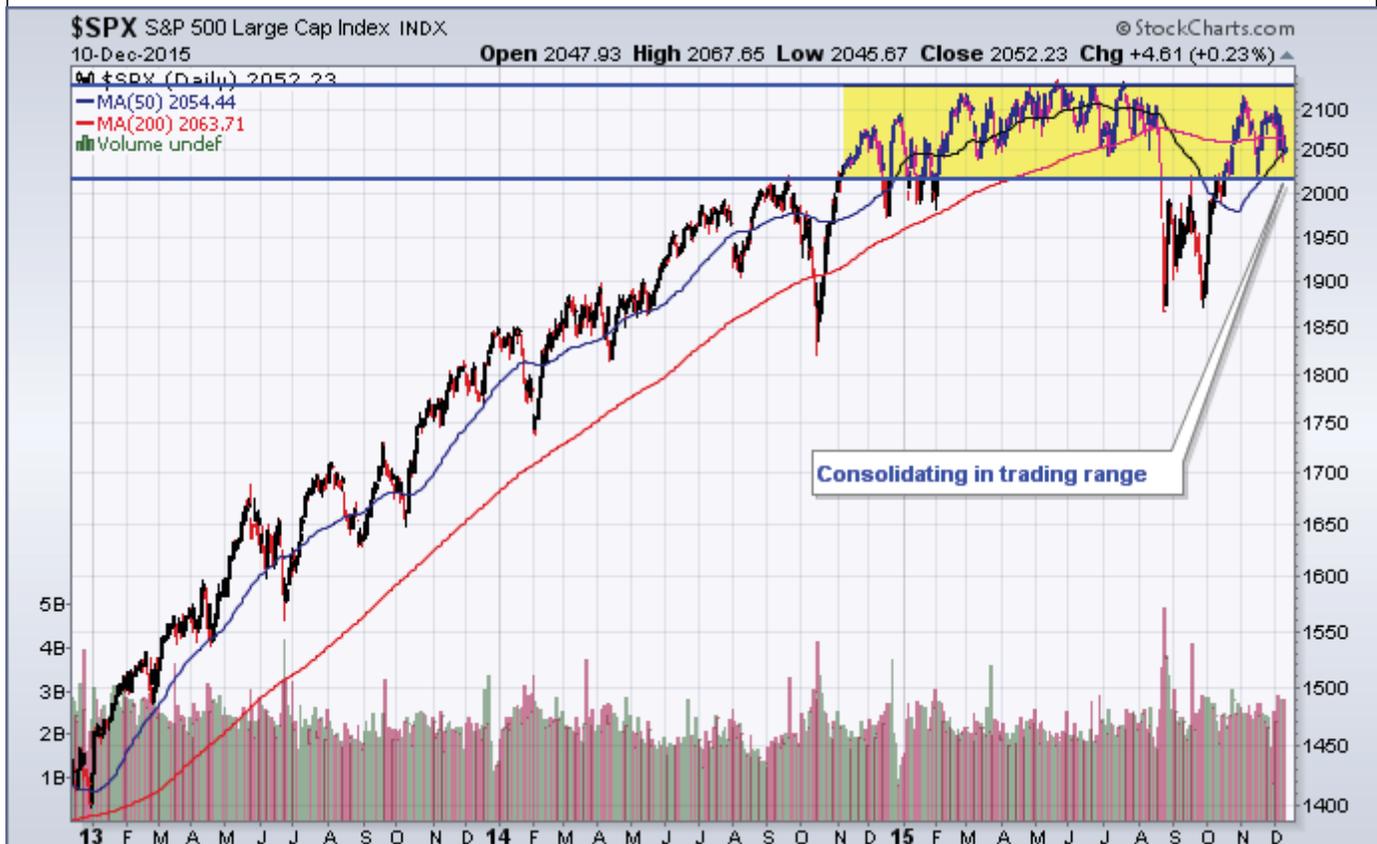
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Market Update

Deja vu...we have been here more than a few times in the last year. In 2015, in every month except September, during some part of the month the S&P 500® closed in between 2000 and 2100. In other words, we have spent most of 2015 consolidating or going nowhere. For Ca-

S&P 500 Technical Status

The S&P 500 is back in its consolidation trading range from 2040 to 2135. Recently, it has had trouble breaching 2100 and is now trading around its 50 and 200 day moving averages. Currently, there is not a strong catalyst to drive the stock market either higher or lower. Volatility has increased as the date that the Federal Reserve could raise its target rate approaches. The announcement of an increase will have a short-term impact on the stock market either on the upside or downside, depending on the Federal Reserve's outlook for the path of future interest rate increases. As the Federal Reserve is not out to rock the boat, any initial move may be transitory. Given the dovishness of the Federal Reserve and the possible gradual outlook of future rate increases, it is conceivable that a Federal Reserve rate hike could push the stock market higher. The cyclical sectors of the stock market could benefit from end-of-the-year bargain hunting and rally strongly in the last few days of December.



Horizons Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of **November 30th 2015**

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HXS	Horizons S&P 500® Index ETF	26.2%
HQU	Horizons BetaPro NASDAQ 100® Bull Plus ETF	10.0%
HSU	Horizons BetaPro S&P 500® Bull Plus ETF	9.9%
COW	iShares Global Agriculture Index ETF	4.7%
	United States Dollar Exposed Assets	
	Equities	
XLI	Industrial Select Sector SPDR Fund	14.6%
IWM	iShares Russell 2000 ETF	10.2%
XLK	Technology Select Sector SPDR Fund	9.4%
XLY	Consumer Discretionary Select Sector SPDR Fund	9.4%
ITB	iShares U.S. Home Construction ETF	5.0%
	Cash, Cash Equivalents, Margin & Other	0.5%
	Total (NAV \$155,518,534)	100.0%

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.

nadian investors the results have been bleak as the S&P/TSX Composite is substantially underwater (negative) for the year. Investors hugging the indices have been disappointed. Active investors in the right sectors of the stock market have been rewarded.

Obviously, at some point the S&P 500® is going to break this consolidation trend either on the upside or the downside. This happened to the downside in August and September, but the market very shortly snapped back into its old trading range.

Although there is currently not a strong catalyst to drive the stock markets higher, there is currently not a strong catalyst for a major correction. It is entirely possible that the S&P 500® continues to trade sideways for a while longer, except for brief forays outside of its trading range.

The good news is that from a seasonal perspective, the S&P 500® is in the middle of its six month favorable seasonal period. This should help provide some support and even push it above its 2040-2135 trading range. Given that the S&P 500® is currently flat for the year, look for investors to push the stock market higher in a year-end rally.

What the HAC is going on

In November, HAC actively and successfully changed its portfolio to take advantage of seasonal opportunities. It started the month in an overweight equity position to capture the seasonal gains that are often realized in the last few days of October and the beginning of November. After the first few days of November, it reduced its equity position to market weight.

The key sector trades during the month were exiting the semiconductor sector early in the month after a short-term seasonal opportunity. Increasing exposure to the industrial sector and taking a position in the U.S. home construction sector. HAC also increased its equity position towards the end of November to take advantage of the U.S. Thanksgiving and end of month seasonal opportunity. In addition, HAC also benefited from exposure to the U.S. dollar.

Sector Updates and Opportunities

U.S. Homebuilders sector – Building into a strong month

The U.S. homebuilders sector typically performs well from October 28th to February 3rd. From 1990/91 to 2014/15 the sector has produced an average gain of 18.0% and has been positive 92% of the time. In the same

yearly period, the homebuilders sector has performed particularly well relative to the S&P 500®. On average, in December, 88% of the time the homebuilders sector has outperformed the S&P 500.

This year, HAC chose to invest in the U.S. home construction sector, which has similar characteristics to the homebuilders sector but does not have the same exposure to the retail sector. In addition, HAC entered the sector past its seasonal start date (in November), as HAC waited for the homebuilders sector to show improving relative strength compared to the S&P 500®.



My Call: Despite weakness so far in December, the homebuilders sector will likely increase its relative performance compared with S&P 500, particularly in the second half of the month if the S&P 500 rallies.

Technology – strong but a possible pause

The technology sector typically performs well from October 9th to January 17th. In this time period, from 1989/90 to 2014/15 the sector has produced an average gain of 10.5% and has been positive 76% of the time. Despite the sector performing well into January, the sector can take a pause from seasonal outperformance in December.

HAC exited its position in the technology sector in the first part of December as the sector was overbought, up against resistance and starting to show weakness.

The technology sector remains of interest for later in the month.



My Call: The technology sector is expected to improve its performance in late December and into early January. The sector could fade in performance once the Consumer Electronics Show in Las Vegas gets underway on January 6th 2016.

Canadian Banks– is that the best they can do

Canadian banks tend to perform well from October 10th to December 31st. From 1989/90 to 2014/15 Canadian banks have produced an average gain of 5.4% and have been positive 81% of the time. The performance at this time is largely driven by the expectation of positive fiscal year-end results and a positive outlook for the following year.



Canadian banks came out with mixed results on their earnings and performance is starting to fade. Given that their earnings are already out and there is a lack of positive catalysts to drive the sector higher, consideration should be given to decreasing the weight in this sector.

Canadian banks have been outperforming the TSX/S&P 500 Composite, but that does not say much as the S&P/TSX Composite has been performing poorly.

My Call: Canadian banks are expected to perform at market and even underperform for the first part of January. The second seasonal period for Canadian banks starts in late January and an increased allocation should be considered at that time.

Industrials– underperforming in December so far but the best could be ahead

The industrial sector has been underperforming the S&P 500 so far in December, but the sector has become oversold and is at support just before the sweet spot of its seasonal outperformance in December. Given the sector's seasonal tendency to perform well in the second half of December, the sector is still a hold at this time.



My Call: The industrial sector is expected to improve its relative performance compared to the S&P 500 over the next few weeks.

Consumer Discretionary– moderate outperformance

The consumer discretionary sector has been performing with moderate outperformance. Technically, the sector has been forming a pattern of rising bottoms which is bullish.



My Call: The consumer discretionary sector is expected to continue with moderate outperformance for the remainder of December.

Agriculture— positive performance but seasonal period ends soon

The agriculture sector has recently had a positive breakout relative to the S&P 500. The relative performance has been lumpy, but positive. The second half of December tends to be positive for the agriculture sector, but the seasonal period for the sector finishes at the end of the month. The sector can still perform well at the beginning of January. Using a tight trailing stop loss on the position can take advantage of any residual momentum.



My Call: The agriculture sector is expected to continue to outperform until the end of December.

U.S. Financials— outperforming and setting up for seasonal period

The seasonal period for the U.S. financial sector starts mid-December. The sector has been outperforming the S&P 500 since October as investors have been anticipating an increase in the Fed rate, which benefits the banks.

Investors are largely expecting the Fed to raise rates, if for nothing else but to “save face.” With high expectations that the Fed will raise rates, the positive impact of rising rates is largely built into the current price of the U.S. banks. The performance of the U.S. financial sector will partly be based upon the Federal Reserve’s outlook for the path of future rate hikes.



My Call: U.S. financials are expected to have moderate outperformance if a Federal Reserve rate hike is announced mid-December.

Small Caps— underperforming but setting up well for seasonal period

The small cap sector has been underperforming the S&P 500 since July. Although it has had a recent breakout above its negative trend line, the sector has not managed to get enough traction to outperform. Part of the reason that small caps have underperformed is that they are more susceptible to tax loss selling in December. On average, once the tax loss selling abates in mid-December, small caps have seasonally outperformed the S&P 500 (see *Thackray’s 2016 Investor’s Guide*, page 153)



My Call: The small cap sector is expected to start to outperform the S&P 500 sometime after mid-December. Successive outperformance of a couple days in a row will aid in determining the trigger point for the start of the seasonal trade.

Metals and Mining– beaten up but showing signs of life

The metals and mining sector has been badly beaten up over the last year. In the second week of December it is starting to show signs of life and has outperformed the S&P 500. Investors are starting to buy into the sector as they go bargain hunting. Although these few days of outperformance may be a bounce, they are pointing to the possibility of the sector outperforming later in the month.



My Call: The metals and mining sector is expected to rally towards the end of December as bargain hunting buyers take on positions in the last few days of the month. Although the rally can last into the first few days of January, the middle part of January can present some challenges for the sector.

Silver– getting ready to shine

Silver has a seasonally strong period from January 1st to March 31st. Silver can be looked at as a hybrid investment, part industrial metal and part precious metal. Similarly to the metals and mining sector, silver can start to rally in the last few days of December as bargain hunters buy before the start of the new year to lock in prices.

The graph below shows silver in a multi-year decline since 2011 and yet, every year since, silver has rallied either before the end of the year or at the start of the year. Although the rallies may not have lasted long, they were still profitable trades (see blue arrows on graph below for year-end rallies).



My Call: Silver has been in a multi-year and multi-month downtrend. It is expected to outperform either in the last part of December or the beginning of January.

Last Minute Thoughts— Yellen Draghi Roller Coaster

Up and down we go. Chairperson of the U.S. Federal Reserve Janet Yellen is taking investors for a roller coaster ride as the S&P 500® has recently raced up to 2100, turned back down and headed back up to 2100 once again. Mixed signals have not helped the markets, as investors keep trying to recalibrate their future expectations based upon the latest piece of news.



Investors seem to be confused and who can blame them, as the U.S. Federal Reserve has been clear that nothing is certain. With their emphasis their actions being data dependent, they are “lawyering” their right to change their mind on any rate increases or the path of future interest rate increases.

It is interesting to see the reaction of investors in this murky world. On one day a strong economic report rallies the stock market in the morning and then it pulls back later in the day. On another day, the opposite happens. Investor’s reactions are largely dependent on their fickle

interpretation of whether or not the stock market is strong enough to handle a central bank rate increase. One day it is and the next it is not.

Central bankers are not helping the matter either as EU stock markets have also been on a roller coaster ride. Investors were not impressed with ECB President Draghi’s monetary policy announcement on December 3rd, consequently the stock market sold off sharply. The next day, Draghi felt compelled to make a follow up announcement basically stating that the ECB has unlimited monetary tools and is prepared to use them to accomplish its goals, mainly an inflation rate of 2%. Investor’s cheered this news and the S&P 500® rallied over 2%.

Lest we forget, initially, the ECB’s reaction to the 2007-2008 financial crisis was largely hot-air: a lot of promises and very little action. The U.S. Federal Reserve was doing all of the heavy lifting with its robust quantitative easing programs, driving the world stock markets higher. The Eurozone benefited as the general belief was that what is good for the U.S. is good for the world. Eventually, Draghi converted his rhetoric into action, but the ECB waited to implement real reform as long as they could.

The situation is not the same today, as the U.S. Federal Reserve is on the verge of tightening. The Eurozone will not be able to ride the coattails of the U.S. It is totally conceivable that Draghi is a creature of habit and will try the same jaw-boning tactic as before, delaying action until the last possible moment. If Dhragi follows this route again, he will not be able to get away with it as long as before and the EU markets will become more volatile.

At the current time, the U.S. Federal Reserve is talking about tightening its target rate and the ECB is talking about loosening its monetary policy. The diverging policy initiatives are going to create cross currents in both the currency and stock markets...it is going to be an interesting 2016.

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