Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

Published the 10th Calendar Day of Every Month

Volume 10, Number 10, October 2016

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Market Update

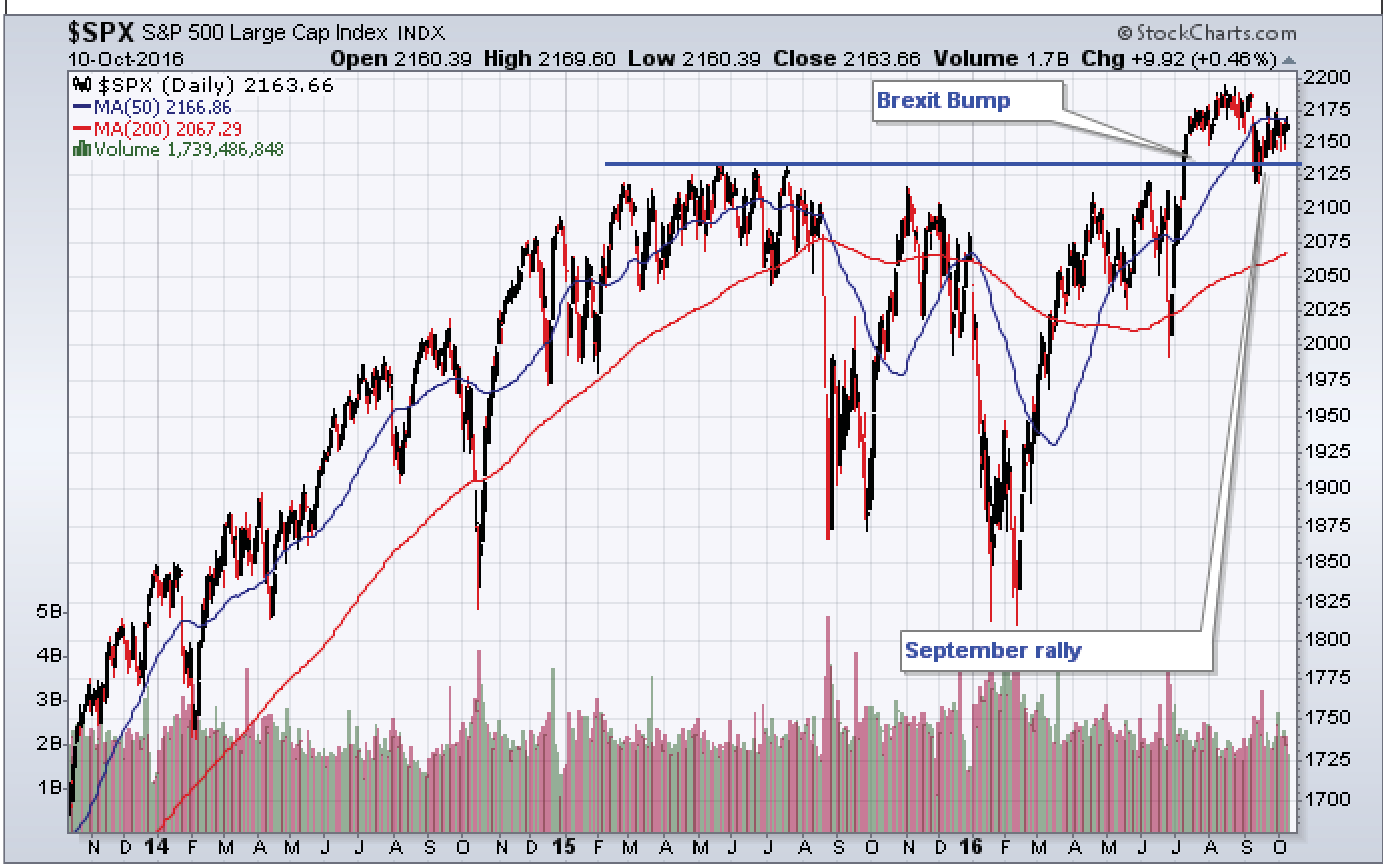
Over the last month the market has been virtually flat, despite some ups and downs. A lot has happened economically and politically. The U.S. Federal Reserve held rates at the FOMC meeting, the Nonfarm payroll numbers disappointed, investors briefly questioned the viability of Deutsche Bank, the British Pound plummeted in daily trading only to largely recover later in the day and the U.S. has had two presidential debates with a lot of fanfare and mudslinging. Nevertheless, the market has taken it all in stride. Nothing seems to phase the markets. It is at times like this that market is susceptible to a sudden correction, when something unexpected happens.

The S&P 500 is close to the top of its trading range and has gained ground in the summer months, when it often produces losses.

Many investors are wondering what to do? Enter the market for the favorable period for stocks (October 28th to May 5th), or wait? Arbitrarily waiting because the stock market is higher now than six months ago is an emotional decision. Investing is about probabilities, nothing is for sure...ever. Seasonal investing is about seasonal probabilities. If risk avoidance measures have been used and the action did not provide value, it is always easy to look back in retrospect and judge that the action should not have been taken. If moving to a more conservative portfolio forgoes returns, the action should be judged on wheth-

S&P 500 Technical Status

The S&P 500 bounced in September from its short-term break below the support level of 2132. Until the S&P 500 is able to break above its August highs, the S&P 500 should be considered to be range bound. Although the S&P 500 has had a positive start in October, the stock market tends to be volatile at this time. Seasonal investors should be patient, looking for correction opportunities to increase equities before the end of the month.



Horizons Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of **September 30th** 2016

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Bonds	
HBB	Horizons CDN Select Universe Bond ETF	11.2%
HFR	Horizons Active Floating Rate Bond ETF	5.5%
	Commodities	
HUN	Horizons NYMEX® Natural Gas ETF	2.8%
	United States Dollar Exposed Assets	
	Equities	
HXS	Horizons S&P 500® Index ETF	10.0%
RWM	ProShares Short Russell 2000 ETF	9.7%
	US Dollar Forwards (October 2016) - Currency Hedge **	-0.5%
	Cash, Cash Equivalents, Margin & Other	61.2%
	Total (NAV $182,208,094)	100.0%

*** Reflects gain / loss on currency hedge (Notional exposure equals 39.7% 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.

er it was appropriate to take the action, not necessarily on whether it was successful or not. When the same circumstance arises in the future, deciding what to do should not be influenced by whether it worked last time or not. The decision should be made on the estimated probabilities of possible outcomes, based upon the long-term results.

The fact that being more conservative in the six month unfavorable period has lagged the market this year, so far, should not be the pretext for judging the overall six month strategy.

On the flip side, just because the S&P 500 has had a small increase during the unfavorable six month period, does not mean that the upcoming six month favorable period is going to perform poorly. One period's performance is not necessarily related to the other period's performance.

In previous newsletters, I have stated that I am not a bear or a bull. I do not get trapped into a hardened position and only see the market from one side.

It is about seasonal probabilities. Over time, the six month period from October 28th to May 5th, tends to perform better than the other six month period, with larger average gains and fewer big losses.

From my perspective, despite the market having rich valuations and having gone up slightly over the last six months, it is still best to follow the long-term seasonal discipline and prepare to increase equities for the six month favorable period for stocks from October 28th to May 5th.

What the HAC is going on?

Again, the stock market has been flat in the last month, alongside HAC which has had a similar result. It is not that HAC has been all in cash, but rather the various positions have been moving up and down, offsetting each other.

The stock market did not have a substantial correction in August or September. Very often a correction at this time sets up for an early entry in October. Given the relatively high levels of the stock market, HAC has decided to take a cautious stance on its entry into the stock market, using patience and looking for opportunities before the end of October.

In my last newsletter, I mentioned that gold was starting to lose its shine and warned investors that the seasonal backdrop was not strong for gold in October. HAC followed through and sold its position in gold bullion in late September. Although gold can be positive in November and December, it typically does not perform as well as the S&P 500 at this time.

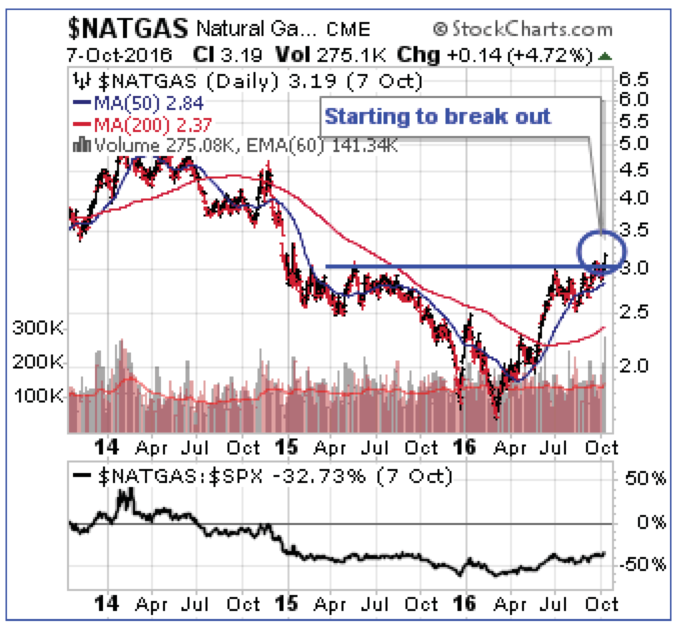
In my last newsletter, I mentioned that natural gas was setting up well for its seasonal trade. In September, it broke above $3.00 MMbtu and has started to perform well. HAC took a position in natural gas in September. The trade still has "legs" as the seasonal period ends on December 21st.

In my last newsletter I mentioned that U.S. government bonds were losing momentum and investors should look to exit the position ahead of the end of the seasonal period at the beginning of October. HAC sold its U.S. government bond position in September.

Seasonal Opportunities

Natural Gas - still has room to grow

Natural gas typically performs well from September 6th to December 21st. Recently, natural gas has broken above a key $3.00 MMbtu resistance level. The main reason that natural gas has risen is that supply has been reduced with less drilling at the same time that a warmer late summer has kept demand high.



My Call: Natural gas will probably continue to perform well until the end of its seasonal period. The price may be volatile but the trend is expected to be positive.

Canadian banks - performing well, but might end its seasonal period early...Q4 earnings

Canadian banks had strong Q3 earnings and the stock prices responded well. Investors should monitor the sector and look to exit the sector at the beginning of the bank earnings releases in the last week of November and the first week of December.

Homebuilders- having a slow start

The homebuilders sector has recently been underperforming the S&P 500, despite performing at market since the beginning of the year. The caution with this sector is the possible impact from a U.S. Federal Reserve rate rise. At this time last year the sector started to underperform at this time as investors anticipated the negative consequences of the Federal Reserve raising rates.

My Call: The home builders sector will perform at market until after the December FOMC meeting. Nevertheless, if investors fully anticipate the rate rise and the sector starts to perform well, the sector could increase before yearend.

Agriculture - building a base to grow

The agriculture sector has been building a solid base and moderately outperforming the S&P 500. It is also at a resistance point. If it as able to break above this level, the sector will be well positioned to perform positively until the end of its seasonal period at the end of December.

My Call: The agriculture sector will probably continue to outperform the S&P 500 over the next two months.

Transportation - Looking good technically

The transportation sector has been outperforming the S&P 500 and has now reached a resistance level. If it is able to break above this level, the sector will be well setup to perform.

My Call: The transportation sector will probably perform well in its seasonal period. Investors should realize that the seasonal period ends on November 13th.

Technology - Looking good technically - seasonal period starts October 9th

The technology sector has been outperforming the S&P 500 over the last few months. Technically, there is no resistance for the sector ahead. Investors should realize that the sector can have a weak spot at the beginning of December, especially if the sector has had substantial outperformance.

My Call: The technology sector will probably continue to outperform until the beginning of December.

Industrials- building a strong base

The industrial sector tends to outperform from October 28th to December 31st. Currently the sector has been building a base against the S&P 500.

My Call: The industrial sector will outperform in its seasonal period.

Brooke's Rant

Hold your nose !

Sometimes you just have to hold your nose.

U.S. citizens are currently experiencing this unpleasant act. Both the Democratic and Republican parties have presidential nominees that they wish they could replace with someone more acceptable for the job. As long as I can recall, there has never been two candidates hated so much not only by the "other" side, but also by their own party members. Nevertheless, the vote must go on! In early November, Americans will have to hold their noses and vote.

Seasonal investors are going through a similar process (except for all the hate and mud-slinging). The stock market is richly valued: economic growth is anemic, corporate profit margins are high and turning down and corporate earnings have been negative for the last five quarters. Nevertheless, we are coming up to the six month favorable period when the stock market tends to perform well.

Although, there may be corrections in the favorable period for stocks (October 28th to May 5th), the stock market tends not to have large corrections at this time. In this time period, from 1950 to 2015, the S&P 500 has only had two corrections of 10% or greater.

Yes, a large decline can happen in this time period, but staying out of the market just because the stock market is richly valued can keep you out of the stock market for a long time. In addition, the favorable six month period for stocks tends to produce large gains. From 1950 to 2015, there have been twenty-seven instances when the S&P 500 has gained 10% or greater in the favorable period for stocks (October 28th to May 5th).

It is still possible that we could have an opportunity or two to increase broad equity positions ahead of October 27th (to be in the stock market for October 28th). Although it has not happened yet, October tends to be a volatile month. At this time, seasonal investors should be holding their noses and looking for opportunities.