Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

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Market Update

Enjoy the stock market rally while it lasts !

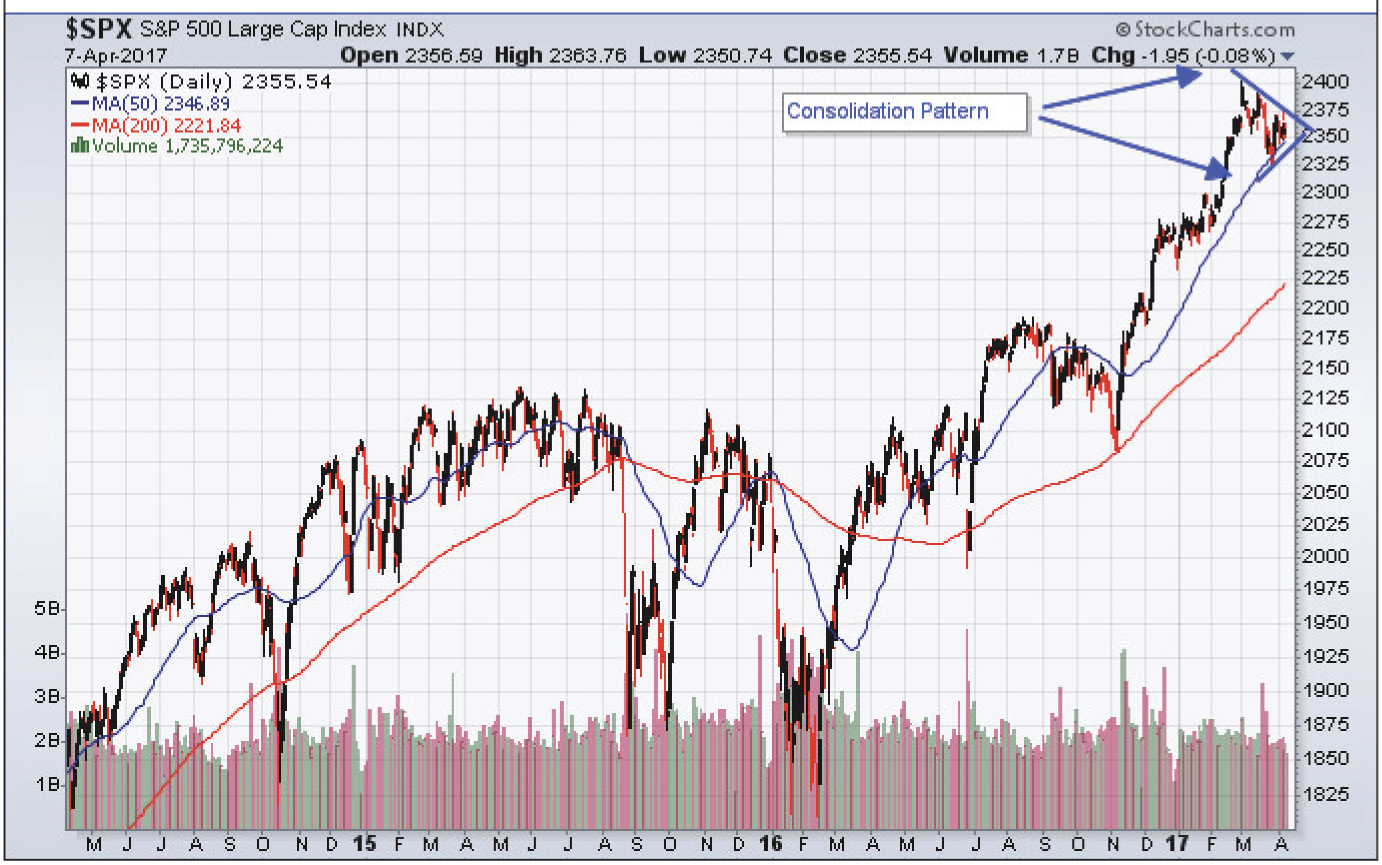
The stock markets have enjoyed a "Trump bump." Despite a recent "Trump fade," North American stock markets are positive for the year and economic numbers have been fairly solid. Stock market volatility is low and recently the S&P 500® experienced a 110-day run without a 1% correction. Everything just feels good. Enjoy it while it lasts.

It is not that there are ominous clouds on the horizon. There is nothing out there pointing to a sudden correction, but that does not mean that the stock market cannot correct. It can correct at any time. When everything seems just right, it is the surprises that can re-direct the stock market downwards. A healthy stock market tends

S&P 500 Technical Status

The S&P 500 is currently in a consolidation pattern with a "high" set at the beginning of March. Although the S&P 500 has had a series of lower highs, we have not established a pattern of lower lows. This pattern is neither bullish nor bearish, but it does show that the S&P 500 is looking to establish direction. A solid break above 2400 would show that the stock market is decidedly bullish. A break below 2325 would be bearish.

Unfortunately, we are only weeks away from the period when the stock market often starts to fade as it enters into the six-month unfavorable period at the beginning of May. From a seasonal point of view, there is not a lot of time and the stock market may provide some muted gains, but the risk remains to the downside. Positive reaction from investors to strong earnings may provide some support to the market, but investors should start to become cautious at this point.



Horizons Seasonal Rotation ETF (HAC : TSX)
Portfolio Exposure as of **March 31st,** 2016

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Equities	
HXE	Horizons S&P/TSX Capped Energy Index ETF	10.4%
HXH	Horizons Cdn High Dividend Index ETF	9.9%
HXT	Horizons S&P/TSX 60™ Index ETF	5.8%
HSU	BetaPro S&P 500® 2x Daily Bull ETF	0.8%
	Commodities	
UNG	United States Natural Gas Fund LP	3.3%
	United States Dollar Exposed Assets	
	Equities	
HXS	Horizons S&P® 500 Index ETF	48.6%
XLB	Materials Select Sector SPDR Trust	9.7%
XLI	Industrial Select Sector SPDR Fund	5.9%
XLY	Consumer Discretionary Select Sector SPDR Fund	5.2%
	US Dollar Forwards (April 2017) - Currency Hedge **	0.9%
	Cash, Cash Equivalents, Margin & Other	-0.5%
	Total (NAV $219,158,335)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 86.3% 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.

to absorb the negative surprises well, with only a minor correction before heading higher once again. Or even, interpreting a typically negative event, with a positive spin. This is the type of market that we have been experiencing.

So, if we have been in a good market, what is the worry? There are signs that the winds are shifting. Investors are starting to fade the "Trump sectors." In other words, the sectors that outperformed after the U.S. election, are starting to show signs of fatigue and even underperforming.

One of the major beneficiaries of Trump being elected was the financial sector. Since mid-December, it has had lumpy performance, but overall it has underperformed the S&P 500®. This is key. If a major sector, such as the financial sector that is often considered a barometer of the stock market, underperforms in its seasonal period, investors should start to get concerned. If the financial sector underperforms heading into their earnings releases in mid-April and continues to underperform after the bank earnings start to be released, then this will be a significant sign that the market is at least looking to pause or even correct.

If the bank earnings are better than expected, watch the sector's relative performance compared to the S&P 500®. As long as the financial sector is outperforming the S&P 500®, it will probably indicate that stock market is healthy. If it starts to underperform, then this will once again be a significant sign that the stock market is at least looking to pause or even correct.

The financial sector is a bellwether of the overall stock market. Generally, if the financial sector is outperforming the S&P 500® and is one of the top sectors, the stock market tends to have a sustainable rally. The inverse is not necessarily true, but from a seasonal basis, if a major sector such as the financial sector cannot lead the market higher in its seasonal period, then this is not a good thing.

Other "Trump sectors" such as the industrials and small caps have also not been outperforming the S&P 500®. It is possible that the sectors could once again lead, but the small cap sector is no longer in its seasonal period and the industrial sector has a few weeks left in its seasonal period. The point is that what was once leading is no longer leading. The winds are shifting and when the wind shifts change occurs.

The bigger implication for the change that is taking place is that we are less than one month away from the six-month favorable exit date. Typically, in early May, from a seasonal basis it is best to start to become more conservative.

Traditionally, most market analysts and academics, consider the start of the six-month seasonal period to begin May 1st. Academics love to start and end trading cycles at month end. This calendar straight jacket can miss intra month trends, such as the average difference in performance between the first half of April and the second half. The first half of April has traditional been strong. The main factor causing the first half of April to be stronger than the second half is that April is an earnings month. All of the earnings months, January, April, July and October, historically have had strong first halves, as investors anticipate a positive benefit leading in to earnings season. In my *Thackray's 2017 Investor's Guide*, page 43, I outline this phenomenon and title the strategy, *18 Day Earnings Month Effect*. Although I refer to the first half of earnings months being seasonally, to put it more accurately, on average it is the first eighteen calendar days that are seasonally strong. On average, the last part of April (19th to the 30th) tends to be much weaker than the first part of the month.

So, where does that leave us at this time. The stock market is once again showing some weakness, when it typically tends to be positive and the upcoming last part of April tends to be less than stellar. In other words, maybe the stock market doesn't make it to May 5th, before correcting. Of course, the stock market can correct before May 5th or after May 5th, or even continue to rally for many months. On a seasonal basis, May 5th has been a good average date to exit the stock market, but in the past the stock market has also corrected earlier. It is possible that this could be one of those years. Investors should be cautious in the stock market at this time and be prepared to adjust their portfolios accordingly, especially since the six-month unfavorable period for stocks is just around the corner. Enjoy the stock market rally while it lasts!

What the HAC is going on?

HAC has not over-committed to the sectors that were supposed to benefit from Trump's proposed policy initiatives. The U.S. election occurred at the beginning of November. This created a situation where most of the "Trump-sectors" rallied outside of their seasonal window. On the other side of the coin, HAC has not been affected in a large way as the "Trump sectors" have faded in performance.

Recently, HAC has been performing approximately at market, as different sectors of the stock market have taken turns leading. Also, HAC has shifted some of its broad market assets from Canada to the U.S. Although the trade has so far not provided a net benefit, generally, the U.S. stock market is seasonally stronger than the Canadian market in the month of April.

On a seasonal basis, the Canadian dollar has historically outperformed the U.S. dollar in April. In fact, the Canadian dollar has outperformed the U.S. dollar the last eleven years in a row in April. This positive April seasonal trend has been successful even in years where the Canadian dollar has declined significantly versus the U.S. A cautionary note to the positive April trend is that the Canadian dollar tends to underperform the U.S. dollar starting in early May.

Seasonal Opportunities

CAD/USD– In a trading range

The Canadian dollar has been positive since late December, although it has been a lumpy ride as it is tracing out a trading range between 73.75 and 77.

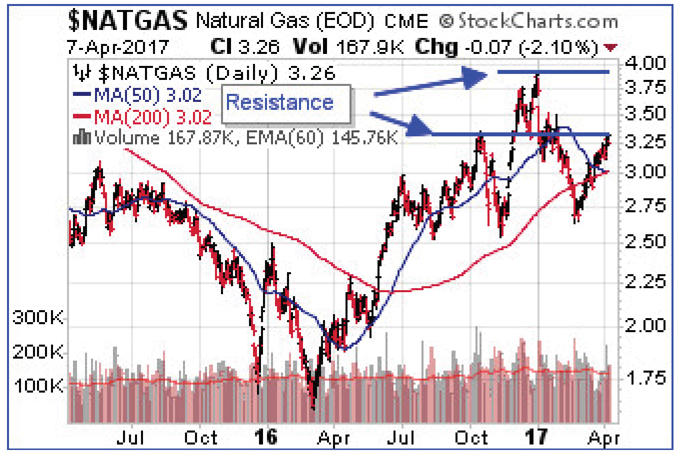
The Canadian dollar started its most recent rally in March and has pulled back slightly in April. Although there are a lot of factors at play affecting the Canadian dollar including the price of oil, the Canadian economy relative to the U.S. economy, interest rates and geopolitical risk, it is still wise to respect the positive April seasonal trend.

My Call: CAD/USD will probably be positive for the rest of April, but then correct in May.

Natural Gas- Still burning higher

The natural gas seasonal trade has so far worked out well in its spring cycle. Natural gas is currently at resistance in the $3.30 range and may pause at this level. The next level of resistance is $4.00

A lot of investors focus on the natural gas inventory levels in order to justify a position. At any one time, the natural gas price incorporates the current inventory level and the future expectations. So, although the inventory level may be high compared to an average level from previous years, natural gas can still increase in price. In other words, just because the inventory level is high does not mean that natural gas cannot increase in price. This is the current situation, as natural gas inventory levels in the United States are higher than the five year average.



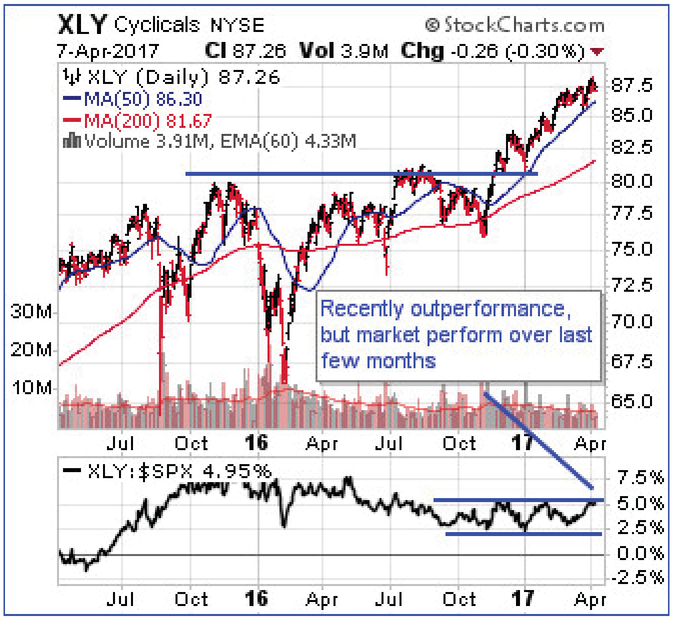
My Call: Natural gas will probably pause at current levels or even correct slightly, especially if we get warmer weather than expected. If it breaks below $3.00 for several days, the upwards trend could be finishing. $3.00 is a support level and currently hosts the 50 and 200 day moving averages. Nevertheless, until proven otherwise, the seasonal trend is still supportive of a move higher.

Consumer Discretionary- performing well in the sweet spot of its seasonal period....which unfortunately ends soon.

The consumer discretionary sector was a brief beneficiary of Trump being elected, as the sector outperformed the S&P 500.

Once investors latched onto the idea that the proposed tax policies would affect some parts of the consumer discretionary sector negatively, the sector fell out of favor. Recently, the sector has been outperforming the S&P 500 as have some of the other sectors of the stock market that are not classified as "Trump sectors."

The sweet spot for the Consumer Discretionary sector is the first half of April, up until April 22nd when the seasonal period for the consumer discretionary sector ends. Seasonal investors should be prepared to exit this sector when it starts to underperform.



My Call: The consumer discretionary sector will probably continue to outperform in its seasonal period in April.

Industrials- Performing at market

After the initial "Trump bump" in November and then a slight pullback, the industrial sector has been performing at market. The industrial sector is still in an up trend. The industrial sector typically performs well in April.

My Call: The industrial sector will probably outperform until the end of its seasonal period at the beginning of May and then start to underperform.

Materials- Recent outperformance may not last long

The materials sector has been performing at market since early 2016. At the start of its seasonal period, the materials sector turned down relative to the S&P 500. Recently, the materials sector has been outperforming the market. The seasonal period for the materials sector ends on May 5th and seasonal investors should get ready to exit the sector when it starts to underperform.

My Call: The materials sector will probably slightly outperform the S&P 500 in the remainder of its seasonal period.

Energy- Late in the game but showing a bit of strength

After a solid 2016, the energy sector pulled back in 2017 and underperformed the TSX Composite. The seasonal period for the energy sector started February 25th on a weak note. More recently, the sector has been picking up its performance and outperforming the TSX Composite. The fact that the sector has broken its downtrend line, should help provide support for the sector and protect it from a sharp downside move in the short-term. Recently, the sector has been helped by the tensions in the Middle East. The seasonal period for the sector ends on May 9th. It is possible that the sector rallies past this point, especially given that it is making the current move from an oversold position.

My Call: The energy sector will probably outperform the TSX Composite past its seasonal period given that it has started its recent rally late in its seasonal period.

Canadian Banks - Is the party over?

Canadian banks have been performing well since early 2016 and outperforming the TSX Composite since the summer of 2016. In the process, bank valuations became stretched compared to historical norms, but the banks kept plodding higher until late February. Recently, the banks have started to show signs of underperformance and even possibly breaking down relative to the TSX Composite.

Canadian banks are solid companies that are widely owned. Nevertheless, this does not mean that their valuations can grow to the sky. Given that we are ending the strong seasonal period for Canadian banks (April 13th), seasonal investors should consider reducing exposure to this sector.

My Call: The Canadian bank's performance will probably start to fade at this point relative to the TSX Composite.

Brooke's Rant

This summer…get ready…for buy the dips pundits

It always happens. Every time the stock market starts to correct, investment pundits proclaim that investors should "buy the dips." I agree that in bull markets it is a good strategy, but the statement is disingenuous. If investors were already 100% invested, how are they supposed to "buy the dips." What the pundits are really saying is that everything will be okay, hang on and the stock market will move higher.

Retrospectively, by definition, buying the dips in a bull market works well because the stock market inevitably moves higher. The key word is retrospectively. Looking backwards, after the fact, buying at lower prices is a good investment strategy. Unfortunately, investors do not have the luxury of being able to look back and make investment decisions.

On the flip side, buying the dips in a bear market is a terrible strategy. Buying a dip and watching an investment erode constantly over time is a painful process. How do you know the market has bottomed? Some pundits suggest buying after the stock market has dropped 5% and others 10%. In a bear market, neither strategy works. The stock market just grinds lower.

We have been in a bull market for so long that the pain of grinding lower after buying on a dip has all but been forgotten. Over the last few years, the dips have been bought extremely fast, uncharacteristically fast compared to historical standards. A lot of analysts believe that this is the result of program algorithms that have been designed to buy after the market has declined. This sounds like a good basis of support until you realize that the same programs have also traditionally been coded to sell aggressively if the stock market falls sharply.

I am neither a bear nor a bull. I believe that the stock market has a seasonal rhythm at the broad index level and the sector level. Buying the dips in the favorable six-month period for stocks (October 28th to May 5th), if you have asset allocation room, makes sense. Buying the dips blindly in the unfavorable six-month period for stocks (May 6th to October 27th), can lead to a higher level of stress as stocks are more likely to decline in this time period. There are a few times in the unfavorable period that it makes sense to buy the dips, but generally speaking it is best to be conservative in this time period.

So, this summer, in the unfavorable six month period for stocks, when and if the market starts to decline, do not necessarily hail the siren of the pundits to buy the dips.