Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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Thackray's 2010 Investor's Guide

The Thackray's Investor's Guide is better than ever. In addition to the added new strategies, updated tables and graphs, each strategy has a 2008/2009 performance summary and the Thackray Sector Thermometer has been revamped to show the cumulative gains of investing in the top three sectors every month. Looking for a book to help guide you through next year, *Thackray's 2010 Investor's Guide* provides a unique and winning perspective.

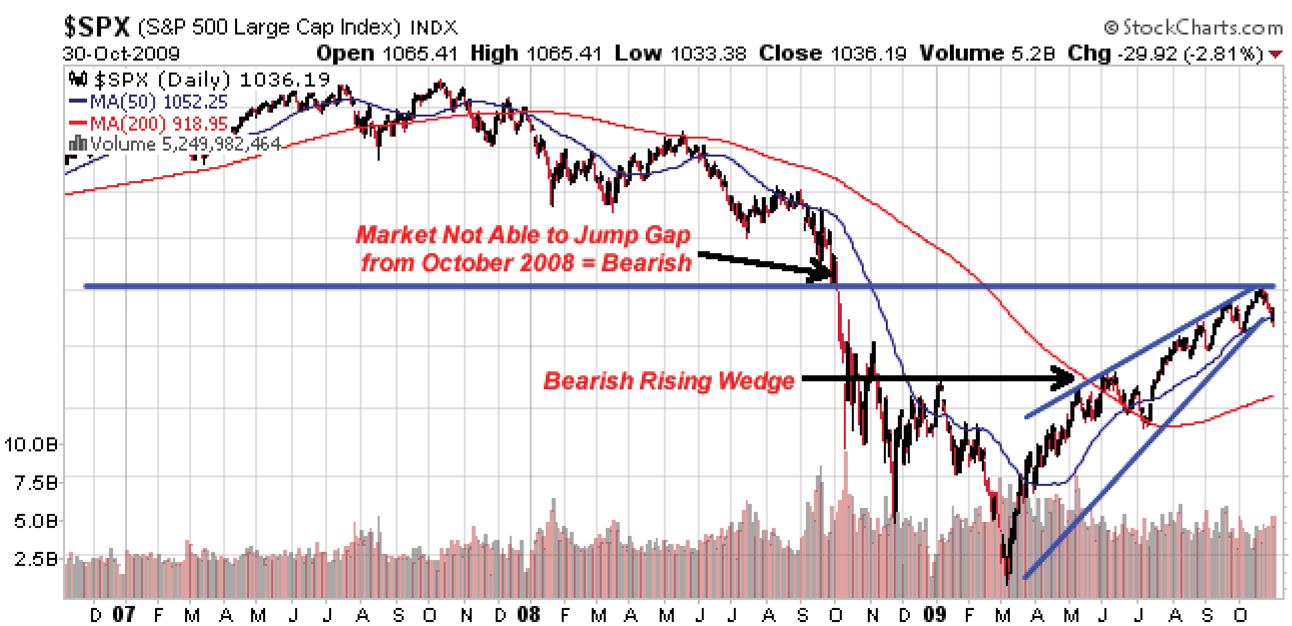
Market Conditions

Earlier last week I sent out an email stating that I would be sending out the Thackray Market Letter on the first Monday of November as scheduled. This newsletter was sent out because the Six'n'Six strategy starts on October 28th and is generally a good time to get into the market.

Last year I sent out a "Special Edition" newsletter telling subscribers to buy-buy-buy on October 27th. To draw attention to this "Special Edition" I even changed the colour of the banner to green. It ended up being a well-time decision and a good time to get into the market.

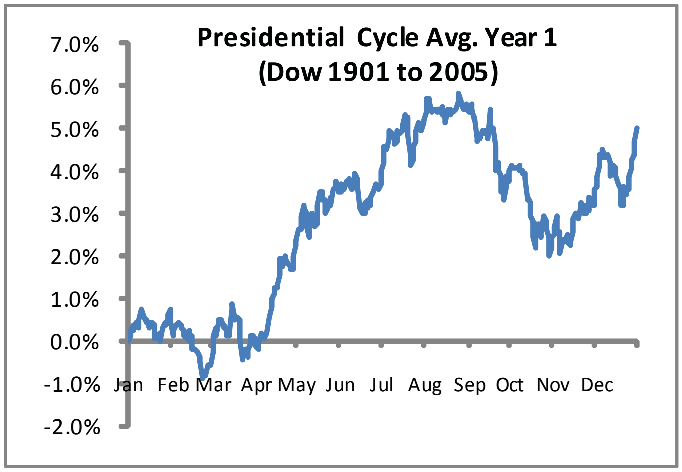
This year, towards the end of October, the stock market (S&P 500) had risen 60% of the March lows and the technical signals were showing signs of a possible correction.

S&P 500 - Last 3 Years



Although October 28th has over the long-term been a good entry point into the market, it is an average date. Some years the best entry point is earlier and other years later. On a seasonal basis getting into the markets on October 28th has proven to be a prudent strategy to capitalize on the average trend and it still is today.

My position in my email last week was that although October 28th is still a good entry date, there may be value in delaying an entry into the market. As November, December and January have on average been the best three contiguous months of the year, investors should make sure that they do not sit on the sidelines too long. A good seasonal strategy is to start entering the market as of November 2nd and finish allocating funds to the market by November 13th.



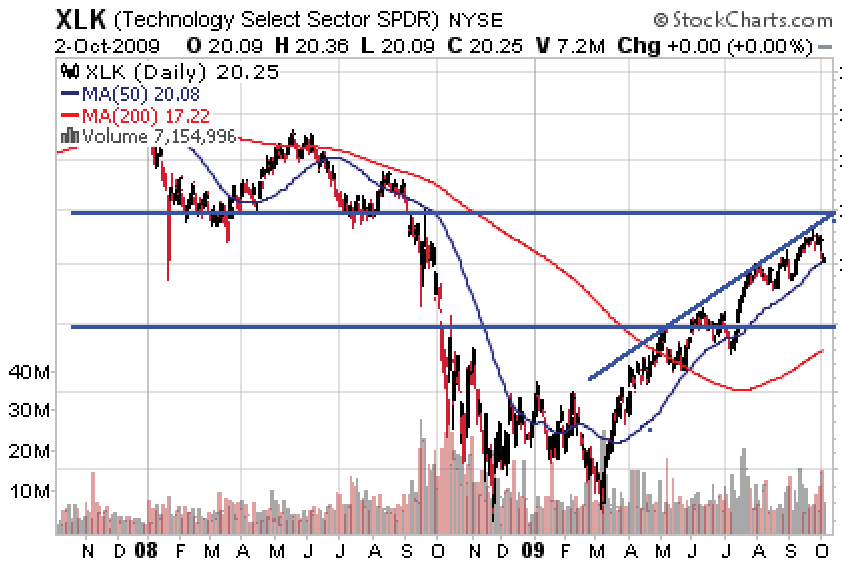
The mid-November date is consistent with the end of the bottoming process that tends to occur during the first year of the Presidential Cycle. This is Obama's first year in power and coincidentally the stock market's performance is very similar in trend, but not magnitude, compared with the average of all first years of the Presidential since 1901. Like the average, this year's performance had the market bottom in early March and peak in September.

This year, in the unfavourable season the S&P 500 has gained 15%. This compares to last year when the market (S&P 500) lost 40% from May 6th to October 27th. On average the unfavourable season from the beginning of May (May 5) to the end of October (October 27) has produced a loss of 1.1% from 1950 to 2008, versus the other six months which has produced an average gain of 7.6% (S&P 500). An average negative loss does not necessarily mean that every year from the beginning of May to the end of October was negative. The best way to think of this period is that it is more random than the other six months and it has been a poor period to hold the broad market. Despite this, there were some periods from the beginning of May to the end of October that have produced some large gains. What does it mean when the market advances in the unfavourable season? Historically, when the market has had a gain above 10% in the unfavourable period this has portended to a strong period in the following six months from the end of October to the beginning of May.

S&P 500 Unfavourable vs. Favourable Returns

	S&P 500 % May 6th to Oct 27th	$10,000 to Start	S&P 500 % Oct. 28th to May 5th	$10,000 to Start
1950/51	8.5 %	10,851	14.8 %	11,477
1951/52	-1.1	10,736	5.4	12,096
1952/53	1.8	10,931	3.9	12,568
1953/54	-3.1	10,595	16.6	14,655
1954/55	13.2	11,992	18.1	17,310
1955/56	12.0	13,425	14.6	19,832
1956/57	-4.6	12,805	0.2	19,862
1957/58	-12.4	11,216	7.9	21,428
1958/59	15.1	12,914	14.5	24,543
1959/60	-0.6	12,840	-4.5	23,449
1960/61	-2.3	12,550	24.1	29,091
1961/62	2.7	12,894	-3.1	28,197
1962/63	-17.7	10,616	28.4	36,205
1963/64	5.7	11,220	9.3	39,566
1964/65	5.1	11,791	5.5	41,758
1965/66	3.1	12,159	-5.0	39,691
1966/67	-8.8	11,094	17.7	46,720
1967/68	0.6	11,155	3.9	48,541
1968/69	5.6	11,782	0.2	48,620
1969/70	-6.1	11,059	-19.8	39,007
1970/71	5.8	11,695	24.9	48,703
1971/72	-9.6	10,570	13.7	55,370
1972/73	3.7	10,965	0.3	55,560
1973/74	0.3	11,003	-18.0	45,539
1974/75	-23.2	8,451	28.5	58,502
1975/76	-0.4	8,418	12.4	65,771
1976/77	0.9	8,492	-1.6	64,705
1977/78	-7.8	7,833	4.5	67,641
1978/79	-2.0	7,675	6.4	72,003
1979/80	-0.1	7,666	5.8	76,162
1980/81	20.2	9,215	1.9	77,616
1981/82	-8.5	8,435	-1.4	76,562
1982/83	15.0	9,699	21.4	92,967
1983/84	0.3	9,732	-3.5	89,736
1984/85	3.9	10,110	8.9	97,765
1985/86	4.1	10,527	26.8	123,942
1986/87	0.4	10,573	23.7	153,307
1987/88	-21.0	8,348	11.0	170,138
1988/89	7.1	8,945	10.9	188,748
1989/90	8.9	9,743	1.0	190,624
1990/91	-10.0	8,773	25.0	238,225
1991/92	0.9	8,852	8.5	258,463
1992/93	0.4	8,887	6.2	274,540
1993/94	4.5	9,288	-2.8	266,722
1994/95	3.2	9,586	11.6	297,794
1995/96	11.5	10,684	10.7	329,608
1996/97	9.2	11,671	18.5	390,445
1997/98	5.6	12,328	27.2	496,632
1998/99	-4.5	11,773	26.5	628,078
1999/00	-3.8	11,331	10.5	693,913
2000/01	-3.7	10,912	-8.2	637,090
2001/02	-12.8	9,516	-2.8	619,107
2002/03	-16.4	7,958	3.2	639,039
2003/04	11.3	8,856	8.8	695,064
2004/05	0.3	8,887	4.2	724,234
2005/06	0.5	8,934	12.5	814,455
2006/07	3.9	9,282	9.3	890,310
2007/08	2.0	9,465	-8.3	816,204
2008/09	-39.7	5,750	6.5	862,619
Total Gain (Loss)		($-4,250)		$852,619

In the table comparing the returns for the favourable season versus the unfavourable season, the highlighted cells in the unfavourable season are periods of returns greater than 10%. In the last sixty-nine years the unfavourable season has produced returns greater than 10% only seven times, compared with the favourable season's twenty-five times. The story here is not how much better the favourable season is compared to unfavourable season, but the strong returns that tend to happen after a strong performance in the unfavourable season. All of the returns in the subsequent favourable period have been positive and they have produced an average 8.8% gain.



Does this mean that the returns in the next six months will necessarily be positive; no, but do not be surprised to see the market perform well. Essentially, a strong performance in the unfavourable season reflects strong positive investor sentiment. Although investors are "checking" their reality at this time, if the past pattern of positive results in the favourable season hold true, it will not be long until investors help propel the market up over the coming months.

Sector Strategies

Sector investing is always important and over the next six months it is expected that once again it will pay-off to overweight sectors of the market when they tend to outperform on a seasonal basis. In the past, even in markets that have bounced around, or frothy markets, a seasonal sector investment strategy has outperformed a buy and hold strategy.

In my last newsletter I presented some up and coming sector strategies that represented attractive buying opportunities in October. Below is a list of seasonally attractive sectors that are ripe for investment as they are currently starting their seasonally strong period.

Technology XLK (ETF)

In the October Newsletter I stated that the technology sector was an attractive October purchase, either in the second week or last week of October and given current market conditions I would favour the last week of October. The second week of October proved to be at least a short-term bottom as the sector is currently higher. Two of the bellwethers in this sector, Microsoft and Apple, came out with results that "pleased" investors and moved the sector higher. In the last newsletter I also stated that investors should watch the relative performance of technology stocks compared with the broad market. Strong performance would indicate positive strength in the market. Even though the technology sector has been outperforming, there is still a long way to go in this seasonal trade. As I mention in my latest book, Thackray's 2010 Investor's Guide, the technology sector usually does well until January 17th, but investors should consider reducing positions at the start of the Consumer Electronics Show in Las Vegas (January 7th to January 10th). This is the world's largest electronics trade show and investors often take positions in the sector shortly before the trade show in order to catch a positive movement that is a result of any major technology product announcements. In essence, seasonal investors take advantage of this phenomenon by entering the sector before the other investors and exit after the sector has been pushed up and is over-crowded.

The sector as represented by the ETF (XLK) is currently just below resistance @$22. It is possible that the sector will have some short-term trials at this level, but once it gets through, look for a movement to $24 or $25.

Retail (RTH) ETF

The American consumer never seems to give up. Responsible for approximately two-thirds of the country's GDP, they keep spending money. Although the retail sector's strongest seasonal period is from January 21st to April 12th, the seasonal trade from October 28th to November 29th is still favourable. This one month trade ends just after the start of the U.S. holiday season on Black Friday. Once again, the seasonal trade ends when the event that is driving the outperformance, starts. In other words, seasonal investors take advantage of other investors who enter the sector before American Thanksgiving trying to benefit from expected positive retail sales during the holiday period.

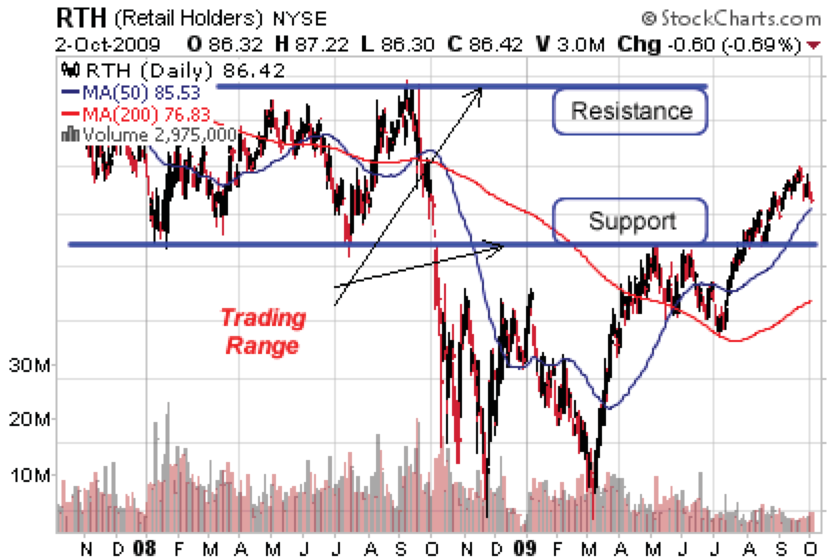
Gold

In the October newsletter I recommended that investors should consider selling gold for the month of October and reentering the position at the beginning of November. The seasonal trade from July to September had produced a good profit and October is typically the worst month of the year for gold. As the U.S. dollar weakened in October gold remained firmly above the $1,000 mark. The fact that gold did not decline in the month that it typically has negative performance does not take away from a positive seasonal trend from the end of October to December. Gold typically performs poorly from the beginning of January into the early summer and is not a good seasonal trade. Remember to consider exiting the position in December.

Currently gold is trading at $1,046 with $1,000 acting as support. There is a possibility that the support line will be tested, but the expectation is that it will hold over the next few months and gold will be higher by the end of the year.

Materials (Canadian) XMA.TO (ETF)

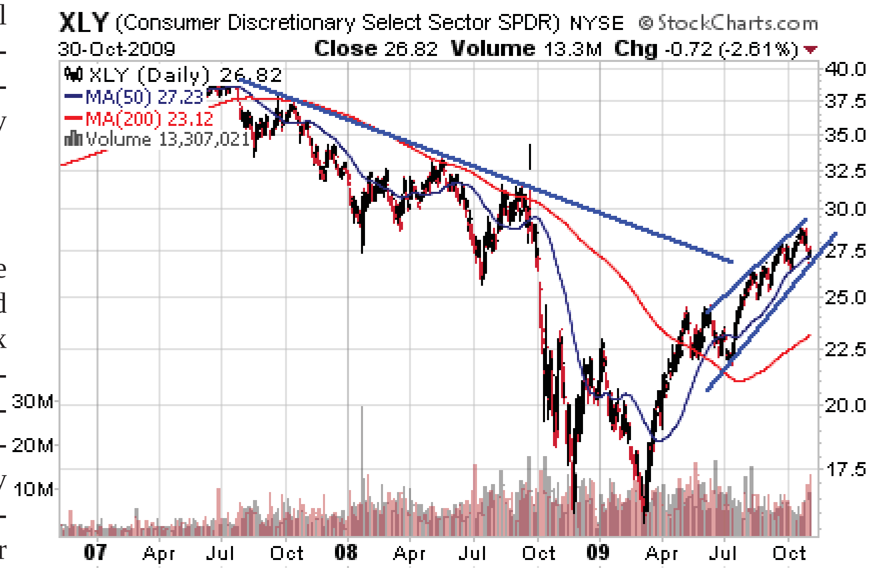
In the Thackray's 2010 Investor's Guide I include an analysis on the seasonal trade for the materials sector in the U.S. market. The period of seasonal strength for this sector is from January 29th to May 6th. The sector also does well from November to the beginning of May. One of the questions that I get asked a lot is, "does the U.S. seasonal period for the materials sector apply to the Canadian sector?" The Canadian sector has a different composition and as a result its entry date is earlier. The U.S. materials sector has a large percentage of its holdings in chemical stocks: the Canadian materials sector has a large percentage of its holdings in gold stocks and fertil-



izer stocks. As a result the sector's seasonal trade is more akin to the Metal and Mining sector as compared with the U.S. sector. This trade is setting up for a good entry mid-November.

Consumer Discretionary (XLY)

This sector trade is part of the pair trade with the consumer sector, rotating back and forth from one sector to another every six months. The favourable season tends to favour higher beta and therefore rewards discretionary over staples. We have just entered the time of the year when this strategy shifts from the staples sector to the discretionary sector. Investors should consider switching their consumer staples ETF for a discretionary ETF.



Banks (Canadian) XFN.TO (ETF)

In the past I have written about the U.S. financials having their seasonally strong period from December/January to April 13th.

The Canadian bank sector is different than the U.S. bank sector in many ways. From a seasonal standpoint, Canadian banks have their yearend at the end of October and release their results in late November. In comparison, the U.S. banks have their yearend at the end of December and release their results mid-January. As a result, the seasonal period for Canadian banks tends to start earlier – October 28th.

The risk of entering the bank sector earlier is if the U.S. banks come out with disastrous news before their yearend, banking sectors around the world will be questioned and will perform poorly. Compared with banking sectors in other countries the Canadian sector is very healthy and should be able to weather U.S. negative news.

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