

Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

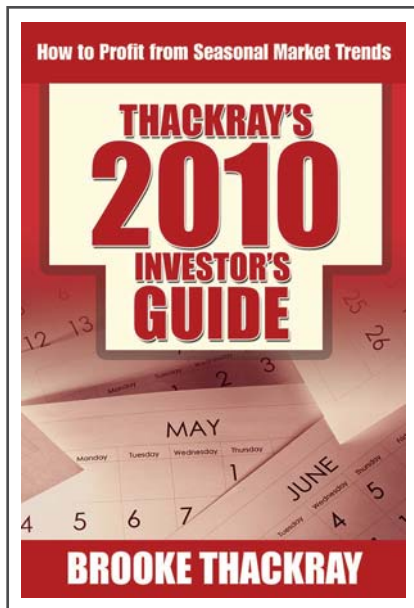
Published the First Monday of Every Month

Volume 3, Number 10, October 2009

Written by Brooke Thackray

Special Announcement !!!!

Available
October
25th !



- ◆ *New Strategies*
- ◆ *Updated Charts and Tables*
- ◆ *New - TST Portfolio*
- ◆ *2008/2009 Strategy Performance Reports*

Thackray's 2010 Investor's Guide

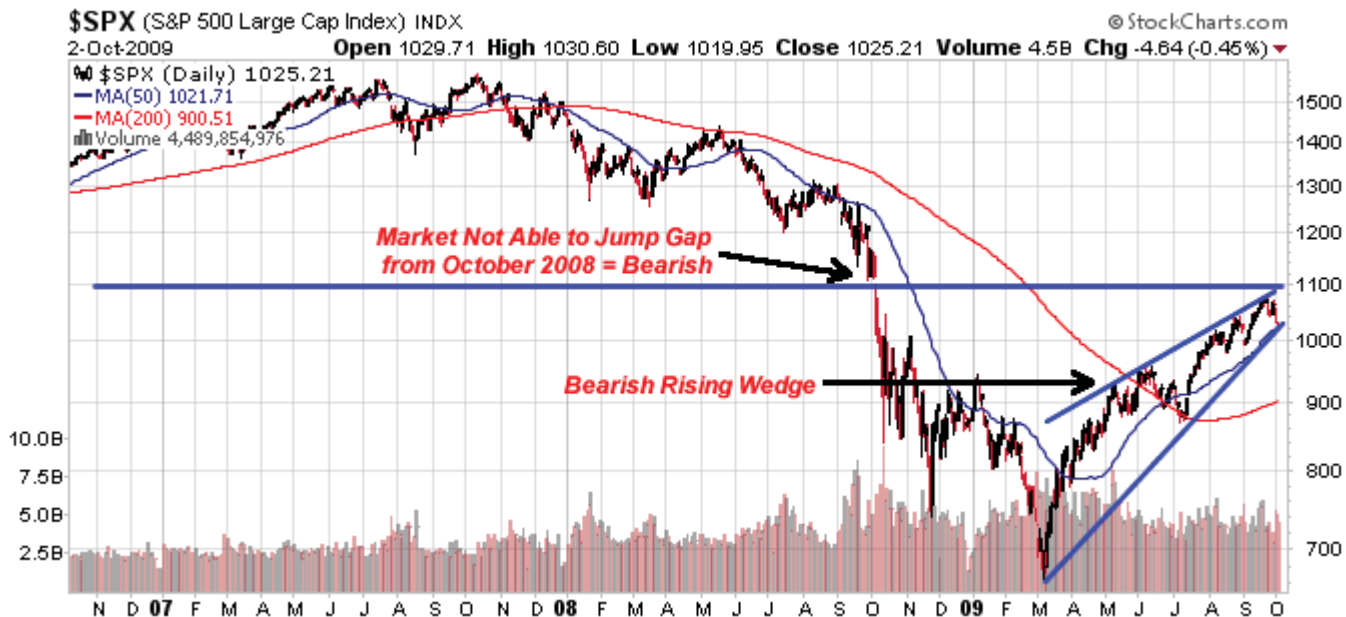
The Thackray's Investor's Guide is better than ever. In addition to the added new strategies, updated tables and graphs, each strategy has a 2008/2009 performance summary and the Thackray Sector Thermometer has been revamped to show the cumulative gains of investing in the top three sectors every month.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

Economy and Market Musings

The economy is showing signs of faltering and investors are starting to wonder if the market is in for a "reality check." We have come a long way from March 9th. The S&P 500 has risen 51% and the TSX Composite 45%. The market was oversold in March and priced for disaster. When corporate earnings started to show signs of improvement and the economic numbers stopped their fall, investors started to celebrate. The party has gone on a long time and investors should expect some volatility ahead.

Recently the S&P 500 has started to show signs that a correction could be close at hand. First it has failed to jump the gap that was left behind in the free fall last October. Not being able to get past this point indicates a lack of strength in the market. Second, the S&P 500 has been

S&P 500 - Last 3 Years

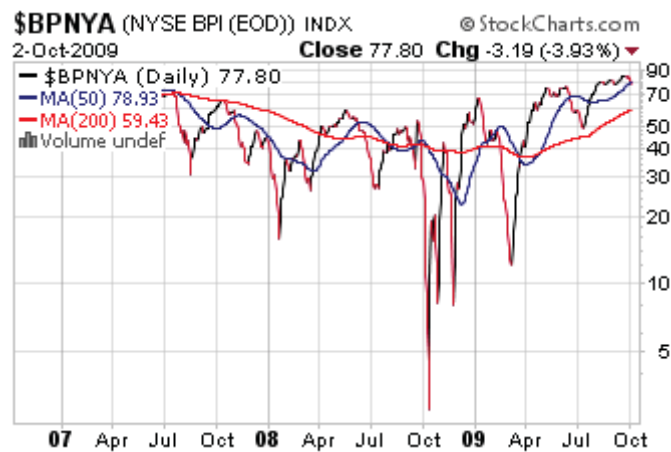


forming a bearish rising wedge. This formation shows a lack of conviction in the market and if the price action falls below the supporting channel, a correction could be at hand, providing a buying opportunity.

The economic backdrop is also looking glum. It is the recent economic reports that are troublesome. Last week the Chicago Purchasing Managers Index fell to 46.1 (a number below 50 indicates a contraction). After rising in the early summer, the Durable Goods Orders declined 2.4%. In September 263,000 jobs were lost, which was significantly more than the expected number of 175,000. The unemployment rate currently sits at 9.8%, the highest since 1983. After rising from May to July, existing home sales declined 2.7%. Although these numbers are a small snapshot in time, they could portend future reports that are not as good as everyone expects.

It seems that almost everyone agrees that the recession has ended and the argument is about the shape of the recovery curve. With the recent wave of economic reports it is possible that we will start to hear the term “double-dip” recession bantered about in the media. Double dipping in the economy is as bad as double dipping in the salsa bowl at a party – it is best if we do not. If we start to slide into another recession the effectiveness of the stimulus packages and all of the government spending will be heavily scrutinized and questioned.

If we compare the current “bullishness” in the stock market against the backdrop of the economic numbers, it is evident that there is a disconnect. The NYSE Bullish Percent Index is currently showing the market has bullish expectations and is sitting at 77. A number above 70 indicates that the market is overbought.



What are the implications of the disconnect? Volatility.

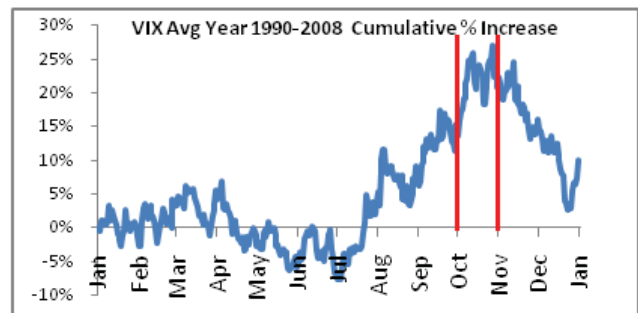
It used to be that October had the reputation for being the worst month of the year. After all, some of the biggest drops in the market have occurred in October. The Dow Jones dropped over 20% in October in both 1929 and

1987. The negative stigma lingers even today as the press often reflects on the scary drops of yesteryear. Despite its “bad” reputation October has produced an average gain 0.9% in the S&P 500 from 1950 to 2008 and is ranked as the sixth best month of the year. There is one market measure in which October reigns supreme over all of the other months – volatility.

When the average investor hears the word “volatility,” they immediately think of market corrections or sell-offs, but volatility has two sides of the coin. Essentially volatility is the variation in price of a security relative to its average over a period of time. Therefore, volatility is affected by both downward and upward moves in price. As a result, an increase in volatility does necessarily mean that the price of a security is headed down and often provides a buying opportunity.

The market generally measures volatility with the VIX, which is the ticker symbol for the Chicago Board Options Exchange Volatility Index. The index measures the implied volatility of the S&P 500 options. A high value represents a more volatile market and is generated by more expensive options. It is often referred to as the “fear index” as higher values represent expectations of a volatile market in the short-term.

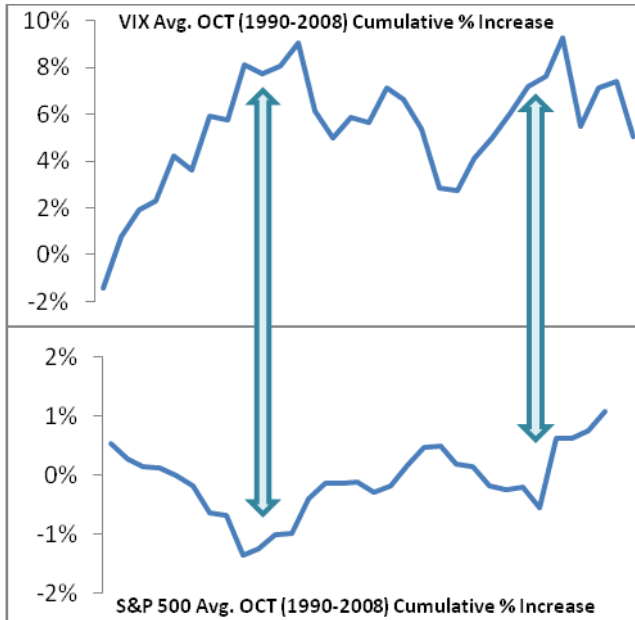
The VIX from 1990 (start of data set) to 2008 has on average started to rise in July, increased through the summer months and peaked in October. The graph VIX Avg... Year 1990-2008 Cumulative % Increase illustrates the changing volatility throughout the year by plotting the percent change in the VIX. As volatility reaches a peak in October investors tend to freeze, stop investing or sell some of their holdings. Historically, this has not been the time to sell, but to buy.



Most investors find it hard to buy into the market as volatility spikes. The spikes in volatility that occur in October often coincide with a bottom in the stock market and a good entry point to increase equities for the next six months.

Two possible Buying Opportunities in October, but Favour the Later

Examining the percentage change in the VIX over the month of October, it can be seen that there are two peaks, one in the second week of October (approximately October 9th) and the other in the last week of October (approximately October 28th). These two peaks have coincided with buying opportunities in the stock market.



The peak in volatility that occurs approximately in the second week of October, tends to take place in bull markets and typically coincides with a correction in the market. The sector that often starts its seasonally strong period at this time is technology. For an indication of the strength of the market, pay attention to the strength of the technology sector relative to the S&P 500. If the market does have a major correction in the second week of October, investors should consider starting to increase their equity positions (within their risk tolerances).

The second peak in volatility often occurs in the last week of October, coinciding with a large correction in the market and a major buying opportunity. I have often written about the best six months of the year, starting on October 28th (buy into the market at the end of the day on October 27th) and finishing on May 5th. These six months have on average produced bigger gains and been positive more often, than the other six months of the year.

Over the long-term, the biggest opportunity in October typically presents itself towards the end of October, as the market is often negative for the month at this point. Entering before the last few days of the month can produce large gains. Many market pundits write about the virtues

of investing in the best six months of the year – from November to April, inclusive, but miss out on the gains that can be made by entering the market in the last few days of the October. From 1950 to 2008 the S&P 500 has produced an average gain of 1% in the last four market days of October. Last year these days produced a huge gain of 14%. It would be unrealistic to expect a similar performance, but nevertheless investors should prepare for an opportunity to enter the market at this time.

If the market is once again plummeting in October and volatility skyrocketing, investors should remind themselves that October has historically been the most volatile month of the year. It is always hard to enter the market when volatility is increasing, but investors who have relied upon the seasonal trend of an increasing market at the end of October have been rewarded.

Selection of Sectors - Ending or Have Recently Ended Seasonal Strength

Disclaimer: This section of the newsletter is not meant to be an exhaustive list of all of the sectors that have recently ended or are expected to end their seasonally strong periods.

Utilities

The seasonal for this sector just ended. Although it provided a positive return it underperformed the S&P 500 over the same time period. From a technical perspective the sector was not able to break resistance and turned back. Although the 10-year yield on U.S. Treasuries has turned down recently, utilities has shown relative weakness by not responding positively.

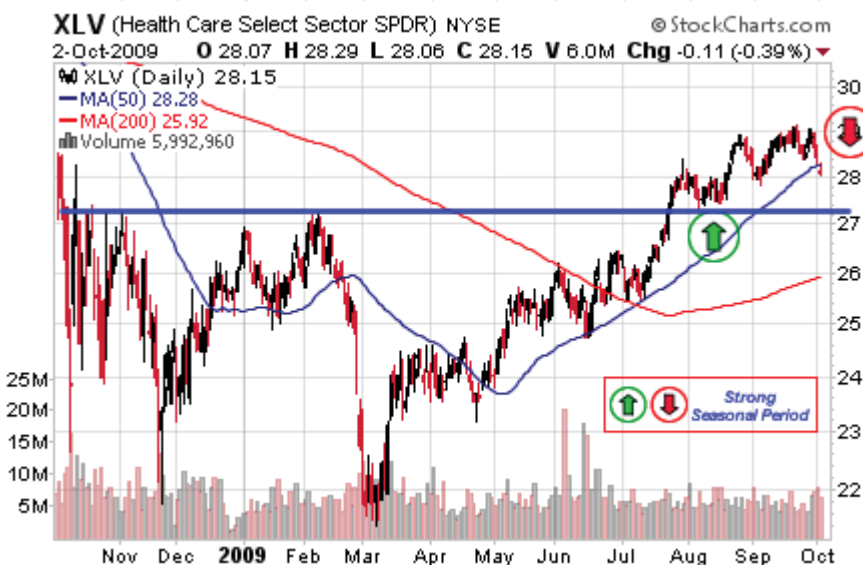
The next seasonal opportunity for this sector is the very short period in the second half of December.



Health Care

When the health care sector entered its seasonal period in mid-August it was in a good position just sitting above support. The sector has since produced a positive return.

Although the seasonal sell date is October 18th for health care, the sector still does relatively well until the end of the year. Investors may want to consider taking partial profits and holding the rest unless support is broken on strong volume @ \$27.



Gold

This sector has done well since its buy date in July. At the time the sector was sitting well below support and I set a possible target of \$1,000. At this point we are just over \$1,000 mark, but the strong seasonal period is ending for gold. There is bad news and good news. The bad news is that October is the worst month for gold. The good news is that gold tends to do well again for November and December. For more details on why gold has historically performed poorly, see Thackray's 2010 Investor's Guide.

Consider reducing gold for the October.



Oil

We have just finished the second seasonal period for oil. Although the summer seasonal period is typically weaker than the winter seasonal, oil has produced a good profit. Technically, oil has broken down just as the seasonal period has ended.

If investors have not reduced their weighting in the oil sector, investors should reconsider. The next seasonal period for oil comes soon enough in January/February and provides one more opportunity to make money in the sector.



Consumer Staples

The consumer staples sector has produced a profit since the entry into the position in April. It currently sits just under resistance. The official sell date for this sector is October 28th and is part of the Consumer Switch Strategy - rotating between the discretionary and staples sectors.

The consumer staples sector has historically been one of the top sectors in October. Investors should wait until the end of the month to switch into the discretionary sector.



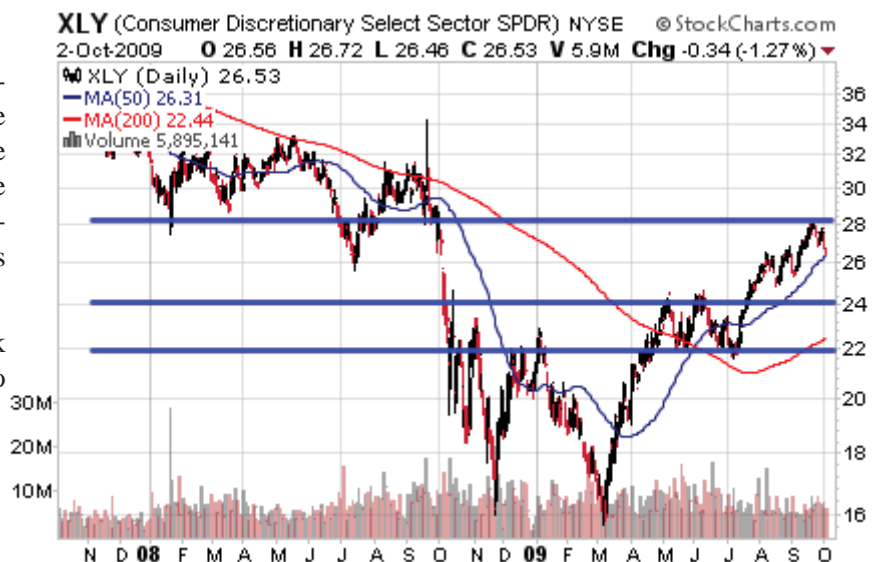
Selection of Sectors - Soon To Be Starting Seasonal Strength

Disclaimer: This section of the newsletter is not meant to be an exhaustive list of all of the sectors that have recently ended or are expected to end their seasonally strong periods.

Consumer Discretionary

The consumer discretionary sector typically starts its outperformance towards the end of October (October 28th). Given the volatility that can occur in October and the relative strength of the best candidate sector to receive the proceeds from a sale, it is best not to enter this sector too early.

Given that this sector has been turned back at resistance, it is possible for this sector to hit the support line at \$24. Be patient.



Retail

The American consumer is still alive and kicking. Although the best retail seasonal period occurs in January (see Thackray's 2010 Investor's Guide for details), the pre-Thanksgiving trade still works relatively well. The trade is only one month long and lasts from October 28th to November 29th. The rationale for this trade is to be in the market before everyone else and get out when everyone else is getting in for the duration of the holiday season.

Look for this sector to hit support at \$82 for an attractive entry point.



Gold

Yes, I know I put gold in both the sell section and the upcoming seasonals. The negative period for gold is the month of October, so investors should be prepared to take another position shortly after they sell. A common question that I get asked is, "why not hold onto a sector during its negative time period?"

The reason is simple- historically you have made more money selling and buying back again. Investors always have the choice of using a stop loss, or a momentum indicator to help bridge the gap when the negative season for a sector is short.



Technology

The seasonal trade for the technology sector is fast upon us. The technology sector has usually lead the way after a corrective bounce in October. In a bull market this can occur in the second week in October. Given the current market conditions investors should favour entering sectors later in the month and look for large drops to provide opportunities along the way.

Because the technology sector often is a leader when the market bounces in October, investors should pay attention to the performance of the sector relative to S&P 500. Weak performance will indicate weaker times ahead.



Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

Disclaimer: While the writer of this newsletter has used his best efforts in preparing this publication, no warranty with respect to the accuracy or completeness is given. The information presented is for educational purposes and is not investment advice. Historical results do not guarantee future results

Portfolio Management Information: For more information on historical performance and portfolio policies, refer to www.alphamountain.com reference and archives page.

Mailing List Policy: We do not give or rent out subscriber's email addresses.

Subscribe to the Thackray Market Letter: To subscribe send an email to subscribe@alphamountain.com with SUBSCRIBE in the subject line. Also state your first and last name, city and country.

Unsubscribe: If you wish to unsubscribe from the Thackray Market Letter send an email with UNSUBSCRIBE in the subject line to: unsubscribe@alphamountain.com.

Contact: For further information send an email to brooke.thackray@alphamountain.com