

Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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Please Note – The September Thackray Market Letter is being published late due to technical difficulties. The October Market Letter is due to be published on October 5th.

The markets have had a good summer. They have built on a base off the March 9th lows. The market has climbed over 50% and has increased 14% since May 5th. In the May newsletter I was recommending investors use the 3 R's - Reduce equities, Redeploy equities to less riskier assets and Readjust the overall risk in the portfolio. Does the fact that the market has gone up in the summer mean that the six month favourable-unfavourable cycle of investing is dead? No! Aside from the two R's of redeploying assets and readjusting the risk in a portfolio, Investors have to remember that seasonal investing is a long-term discipline.

The six month cycle is built upon the premise that the markets perform better from October 28th (buy at the end of the day October 27th) to May 5th, than they perform from May 6th (buy at the end of day May 5th) to October 28th. It does not state that the market will be negative in the unfavourable months. In fact it is positive approximately 56% of the time from 1950 to 2008. When gains occur in the summer months they tend to

be small and when corrections occur, they can be large. From a risk-reward relationship the favourable months are a much better deal than the unfavourable months. In addition, from a short-term perspective it must be remembered that the unfavourable months in 2008 produced a loss of 40% in the S&P 500. I don't mind giving up a 14% gain and saving myself a 40% loss.

Despite the run in the market at this time, investors should be cautious. From a technical perspective the market is showing both bullish and bearish signs. It has been able to stay over 1,000 (bullish). At the same time the market has been forming a rising wedge (bearish). Given that we are in the worst performing month of the year it makes sense to be defensive until the last week in October. October is typically the most volatile month and there may be earlier opportunities to enter the market on large downdrafts (topic to be covered in the next newsletter – October 5th).

In this newsletter I will discuss the merits of investing in the oil, gold, health care and consumer staples. I will also discuss the merits of investing in a sector that has recently done well, but typically does poorly at this time - materials.

S&P 500 - Last 3 Years



Gold

Gold has been in the newspapers recently as it breached the \$1,000 level. Every time gold reaches an important milestone the gold bugs come and the newspapers report how gold may one day hit an astronomical amount. Although I believe has more upside, I still believe that it is better to focus purchases in the seasonal zone. Currently gold is flirting with the \$1,000 level. It is up in its seasonal time but is bumping into resistance. Because October has traditionally been a very weak month for gold (see Thackray's 2009 Investor's Guide) investors need to be very careful at this time. If gold is able to breach \$1,000 before the end of September, then investors can use this level as a stop-loss. If gold is under \$1,000 then investors should consider taking profits. It is better to err on the side of caution during the typical negative month for gold.



Oil

The oil sector has positive performances during its seasonal performance. It is currently in the second of its seasonals, which is typically weaker than the other seasonal period from February 25th to May 9th. Currently the oil sector is up and XOJ is pushing up against the resistance level of 1,000. Given that the seasonal strength ends for oil later this month, investors should be cautious. It is possible for investors to use the 1,000 level as a stop loss when oil exits its seasonal strong time. If the XOJ is less than 1,000, then the sector should be sold. Once again it is much better for investors to err on the side of caution given the typical upcoming time for oil.



Consumer Staples

The consumer staples sector is a defensive sector that typically outperforms in the summer months. This summer, although it is positive, it has underperformed the consumer discretionary sector as the market has pulled ahead. Although the sector only has a short distance to its resistance of \$26, it is still a solid sector that does well in October. If the market creeps up in October watch for this sector to hit \$29.

It is also a good sector to rotate with the discretionary sector as both sectors are consumer based. The time to rotate into the discretionary sector is October 28th.

As a bonus, this sector benefits from a falling U.S. dollar, and recently the dollar has been on a slide.



Biotech

In an earlier newsletter I wrote about how the biotech sector would be a good speculative play for the summer. The sector has done well and is currently at the top of a trading channel. If the market does well and it breaks over the top of its channel line, the sector could run for a bit more. If it turns down, the sector has probably hit its peak.

Investors should be cautious with this sector and should consider taking profits as we are at the end of its seasonal cycle (September 13th). This is especially true as the sector is just short of resistance @ \$56.



Health Care

Health Care has come off a nice double bottom and looks like it is on the way to \$30. Although this is not a big gain, this sector could punch through the resistance level and go to \$33. There is a lot of resistance and this level and it will be difficult to get through.

Health Care, a defensive sector, typically does well in the late summer early autumn. It is a good sector to own if times if the market suffers a correction.

The Obama administration has been raising a lot of health care issues recently. Although this can have an adverse effect the defensive qualities still make this an attractive sector at this time.



Materials

Although the materials sector has done well recently, caution should be used investing in the materials sector during the month of September. From 1990 to 2008 this sector has produced an average loss of 2.7% and has only beaten the S&P500 16% of the time.

It should be noted that the Canadian materials sector is substantially different than the U.S. materials sector that is used in this analysis. The U.S. materials sector is composed of Rocks, Paper, Trees, Steel and Chemicals, with a very small holding of gold. In Canada the sector has a very small percentage of chemical companies and gold is a much larger percentage of the sector. Canadian investors tend to use the Barclays ETF, XMA as a proxy for the materials sector. Most of this fund is gold stocks.

With softer earnings from the summer months and slowing GDP year-end expectations for the economy the metals and mining sector tends to produce a loss in the month of September. In August and the beginning of September the metals and mining sector has been doing well, but the downside risk with this sector outweighs the upside potential.



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