Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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Volume 4, Number 4, April 2010 Written by Brooke Thackray

Brooke Thackray is a Research Analyst along wth Don Vialoux for the Horizons AlphaPro Seasonal Rotation ETF that trades under the symbol HAC on the Toronto Stock Exchange. 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 descibing many of the trades in HAC.

Market Comment

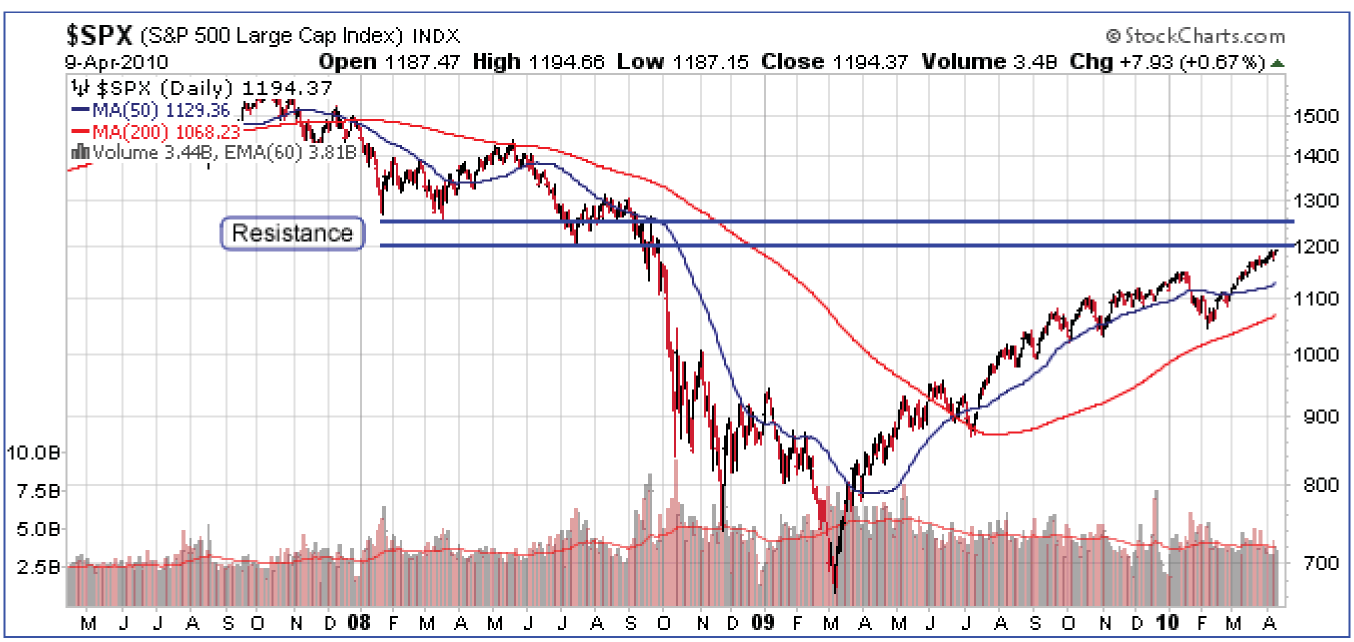
In the Thackray Market Letter on February 10th, I stated that the stock market was due for a bounce….it bounced and has since performed very well. The market is expected to continue rallying in the month of April. March was a good month except for two economic concerns that weakened the market along the way: rising interest rates in India and the Greek debt issue. Both of these issues were not a surprise. In January, India raised its cash reserve requirements for banks to 5.75% and stated that it was concerned about increasing inflation. Concerns over the Greek debt to GDP ratio have been lingering for some time as Greece had difficulty convincing the other European countries that it was committed to resolving its predicament.

In March, India raised its benchmark repurchase rate to 3.5%. Investors were concerned with this action because it signaled that inflation might start being a global problem, and as a result concern was raised whether other countries would follow suit. With Greece and the EU dragging their feet to get a deal done, investors returned to pondering the debt mess that a few European countries have placed themselves in.

In the end Greece was able to get a deal done with the Eurozone and IMF, but they are by no means out of the woods yet. This deal requires that Greece institute aus-

S&P 500 Technical Status

The S&P 500 has broken through its last resistance level as illustrated in the last Thackray Market Letter. It currently sits just below the next resistance level of 1200 with further resistance at 1250. With current strong seasonal trends in place the S&P 500 has a good chance of breaking through 1200. Caution should be exercised if there is a breakthrough and the market pulls back down below 1200 as the strong six month cycle finishes at the beginning of May.



Horizons AlphaPro Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of March 31, 2010

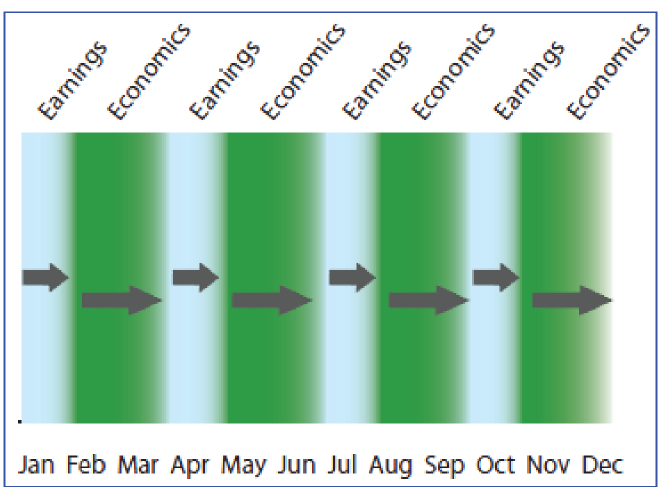
Symbol	Holdings	% of NAV
Canadian Dollar Exposure		
XIU	iShares CDN S&P /TSX 60 Index Fund	40.3 %
XEG	iShares CDN S&P/TSX Cappd Energy Indx Fnd	14.6
		54.9
United States Dollar Exposure		
XLB	SELECT SECTOR SPDR FUND	9.7
XLY	Consumer Discretionary Select Sector SPDR Fund	9.8
XME	SPDR METALS & MINING	10.4
OIH	OIL SVC HOLDRS TR OIL	8.9
		38.9
Canadian Dollar Futures (June 2010) Currency Hedge **		0.6
Cash and Equivalents & Other		5.7
Total (NAV $10,627,781)		100.0 %

** Actual exposure reflects gain / loss on hedge

terity programs to control their deficit and states that the Eurozone countries would only step in as a last resort if Greece was not able to raise the funds themselves.

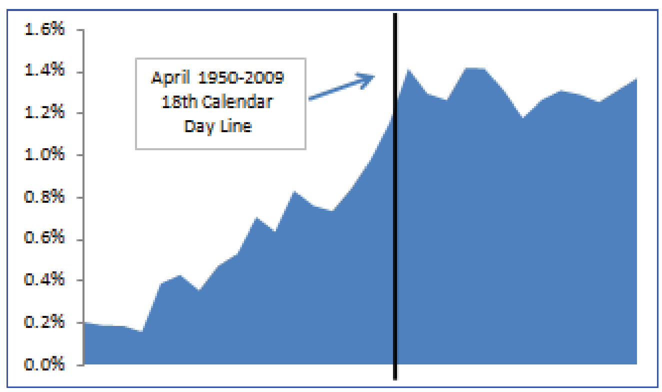
For now, investors seem content with the economic situation and all eyes are about to turn to the earnings numbers that will be coming this month. Alcoa kicks off the earnings season after the bell on Monday April 12th. As a group, investors generally focus on either economic issues or earnings reports. They focus on earnings numbers from just before the start of the quarterly earnings season until earnings season gets underway. They then turn their focus to the economic numbers until the next earnings season. The cycle keeps repeating.

Investor Focus Economics-Earnings Cycle



The result of this cycle has created the 18 Day Earnings Month Effect, as described in *Thackray's 2010 Investor's Guide* (page 39).

April is typically a good month for the stock market. Since 1950 for the S&P 500 it has been the third best month, producing an average of gain of 1.4% and has been positive 68% of the time.



Most of the gains for April have come in the first 18 calendar days of the month as investors anticipate positive earnings being released and want to get in before everyone else.

Expectations on the street this April call for S&P 500 earnings to increase 38% year over year. This is mainly a result of 2009 Q1 earnings being the low of the cycle, allowing for very positive comparisons. In other words, last year the earnings were so bad that it is easy to look good. Coming out of the recession a lot of the gains in the earnings were made by cost cutting. More recently the top line numbers, or revenues, have been improving. A very positive increase of over 6% on a year over year basis is expected.

I am not getting "Pollyanna" syndrome: I am only stating that we should see a good start to April at the beginning of the earnings season. In fact, there is a risk that once the earnings season gets under way that the market might correct.

HAC – BUYS

iShares Cdn Capped S&P/TSX Energy (XEG)

On the proceeds of its sells in the month of March, HAC has been favouring the Canadian market, including the energy sector. Earlier in March an additional allocation to XEG was made. Although the XEG has produced positive results, overall it has been lagging the market.

Recently, the energy sector has been showing more strength. In 2008 the energy sector bottomed in the beginning of March, as did it in 2009. It is possible that this year the sector's strong performance might be a bit delayed. There is overhead resistance at $19.50 for XEG.

We are still in the strong seasonal period for the energy sector, and as such, the sector is expected to reach the resistance level. Caution must be used if XEG breaks through resistance and then falls back below at the time when seasonal strength ends for the energy sector.

Investors also have the option of extending the seasonal trade for the energy sector if XEG rises above resistance with strong momentum. The resistance line can be used as a support line and the position sold if the sector comes back down to the resistance or loses its momentum.

Keep in mind that the average date for the energy sector's seasonal strength to end is May 9th. Over the long-term this has proven to be a very successful date.

iShares Cdn S&P/TSX Energy 60 Fund (XIU)

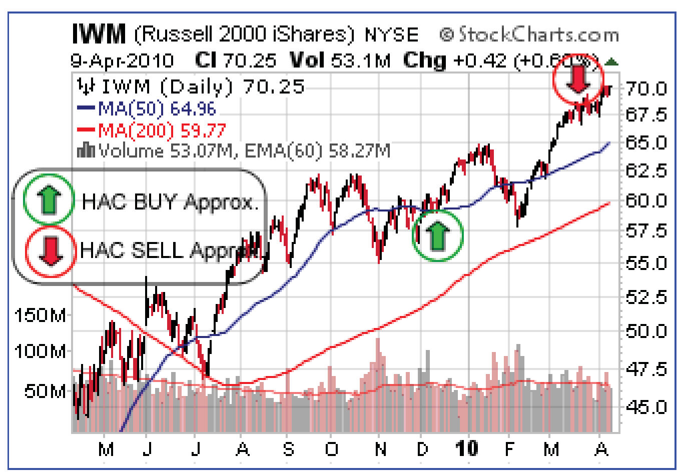
The Canadian market has been favoured over the U.S. market as it typically outperforms the U.S. market at this time of year. Some of the proceeds of the sells of HAC have been added to XIU. Recently, XIU has been bumping up against its resistance level at $18. If XIU breaks through its resistance level towards the end of the strong seasonal period and then falls back through resistance, caution should be used.

The average long-term sell date for the Canadian market has been May 5th.

HAC – February SELLS

iShares Russell 2000 Index (IWM)

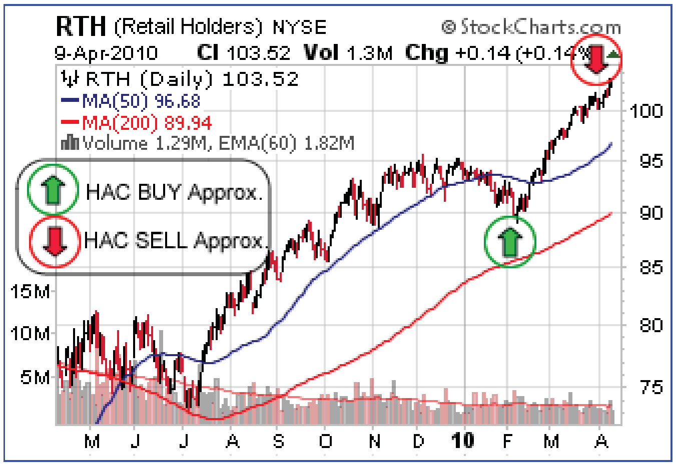
HAC entered the small cap sector using IWM on the U.S. market, mid-December, just when the small caps typically start to outperform. Despite a pull-back in January, the sector performed very well and outperformed the S&P 500 and the TSX Composite.



Based on momentum indicators, IWM was sold slightly after the average March 7th exit date. This trade proved to be very successful for HAC.

Retail HOLDRs (RTH)

HAC entered the retail at the beginning of February, slightly after the average January 21st entry date, based upon technical indicators. The trade has done extremely well and the sector was sold towards the end of March, slightly ahead of its average seasonal exit date, April 12th.

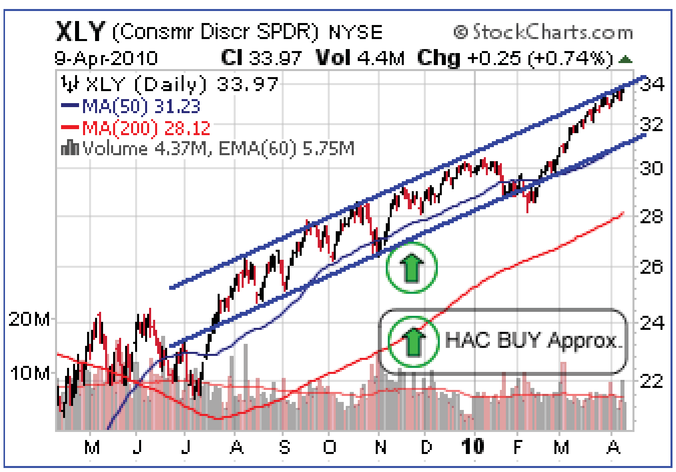


We are now at the average seasonal exit date and investors should consider exiting, especially on weakness.

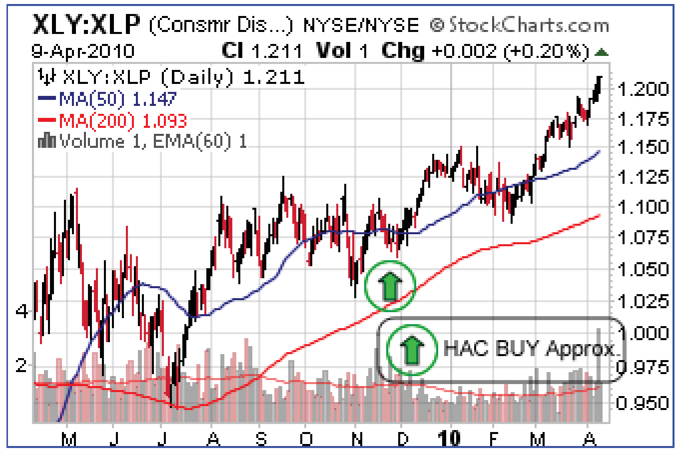
Sectors on the Horizon

Consumer Discretionary (XLY) SELL/SWITCH

The consumer discretionary sector was purchased at the inception of HAC in November. It has performed very well and has outperformed the S&P 500 and the TSX.



It is currently bumping up against the top of its trading channel as it approaches its April 23rd sell/switch date. The position in XLY is part of a consumer switch strategy in which the consumer discretionary sector is held from October 28th to April 23rd (approximately) and then it is switched into the consumer staples sector. Towards the end of October the consumers staples sector is switched back to the discretionary sector. Since 1990 switching back and forth between the two consumer sectors has more than tripled the performance of investing in either of the consumer sectors, or the S&P 500. The chart below shows the recent relative strength of the discretionary sector compared with the staples sector.



The average seasonal sell/switch date for the consumer discretionary sector has been April 23rd. HAC is looking to sell/switch its consumer discretionary position (XLY) position later this month and enter the consumer staples sector (XLP).

Time to Reduce Equity Positions - Fast Approaching

For investors there is a time for everything. There is a time to be aggressive and a time to be conservative. We are approaching the time to be conservative.

The stock market on average tends to perform very well for six months of the year, October 28th to May 5th (favourable six months), and produce negligible gains for the six months from May 6th to October 27th (unfavourable six months). On average, the favourable six months from 1950 to 2009 have produced an geometric average gain of 7.6%, and the unfavourable period has produced an geometric average loss of 1.1% over the same period. If $10,000 was invested in only the favourable six months every year, the gain would have been $852,619. On the other hand $10,000 were invested in only the unfavourable six months every year, a loss of $4,250 would have occurred. A big difference.

The reason that this cycle exists is that investors start the year with a strong optimistic tail wind. Stock market analysts produce a rosy forecast for the year to support their price targets, year-end bonuses are paid and often put into the stock market, and money managers try to capture quick gains ahead of the market to make their job easier for the rest of the year.

The tail wind reverses during the summer. Analysts revise their optimistic forecasts downwards, investors become more interested in spending money, rather than investing it and money managers hide behind their gains with defensive positions. Generally, in the summer, enthusiasm in the stock market wanes, and often prices follow.

Gain > 10% (shaded) Gain < -10% (boxed)

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

Does the market ever go up in the summer - absolutely! But it still makes sense to reduce equity exposure during the summer months. In strong bull markets such as the 1990's the market tends to rally until the middle of July - the start of the next earnings season. Today, it would be very difficult to find a quorum that would agree that we are in a strong bull market.

The big difference in the results of the favourable versus unfavourable six months, has not been so much in the frequency of positive returns, but rather the frequency of large losses and gains.

S&P 500 Gains & Losses (1950 to 2009)*

	Gains>10%	Losses>10%
Unfavourable 6 Months	8 out of 60	8 out of 60
Favourable 6 Months	24 out of 60	2 out of 60

* Includes the 2009/2010 cycle with an estimate that October 28th to May 5th 2010 will produce a gain between -10% and 10%.

In the table above, I have included a gain greater than 10% that occurred last summer and estimated that the current return for the period ending on May 5th to be less than 10%. Even so, the unfavourable season dramatically underperformed the favourable season when the frequency of gains and loss greater than 10% are considered. If you take a look at the years that had gains greater than 10% in the unfavourable six months, most occurred as a bounce off a bear market bottom where the market had become undervalued. The last two occurrences of this phenomenon took place in 2003 and 2009.

The bear market that started in 2000 finally ended in the summer of 2003, producing a "V" shaped rally. In 2009 the positive results in the market were compliments of "Helicopter" Ben (Ben Bernanke's nickname because of his strategy in the financial crisis to increase liquidity dramatically and indiscriminately as if from a helicopter). Liquidity trumps all. If enough liquidity is thrown at a problem, prices rise - even though there may be other problems further down the road.

Given that the Fed has stopped its quantitative easing program and is withdrawing liquidity and that the market is in overbought - there is very little to drive the market up during the coming summer months. This year the unfavourable six month period is are expected to live up to its name.

The bottom line is that the favourable six months from October 28th to May 5th produces bigger gains more frequently and smaller losses less frequently. If you had to choose only one or the other, favourable or unfavourable six months to invest, which one would you choose? The answer is obvious.

Does that mean that you should avoid the equity markets entirely? Not necessarily. Although the broad market tends to underperform, there are sectors of the market that do perform well in the summer months- oil, gold, utilities, biotech, health care, agriculture and others. For more details on the success of these strategies and entry and exit dates, please read my latest book, *Thackray's 2010 Investor's Guide*.

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