

# Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

Published the 10th Calendar Day of Every Month

Volume 4, Number 2, February 2010

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Horizons AlphaPro Seasonal Rotation ETF



HAC : TSX

## HAC : TSX

The Horizons AlphaPro Seasonal Rotation ETF was launched on November 20th under the symbol HAC on the TSX. The fund is the first of its kind in North America, if not the world. It has been designed to capture seasonal outperformances in both the broad market and the different sectors of the market. Both Don Vialoux and myself are the research analysts for the fund. For information on

Horizons AlphaPro Seasonal Rotation ETF refer to:

<http://www.hapetfs.com/hac.asp>

## Market Comment

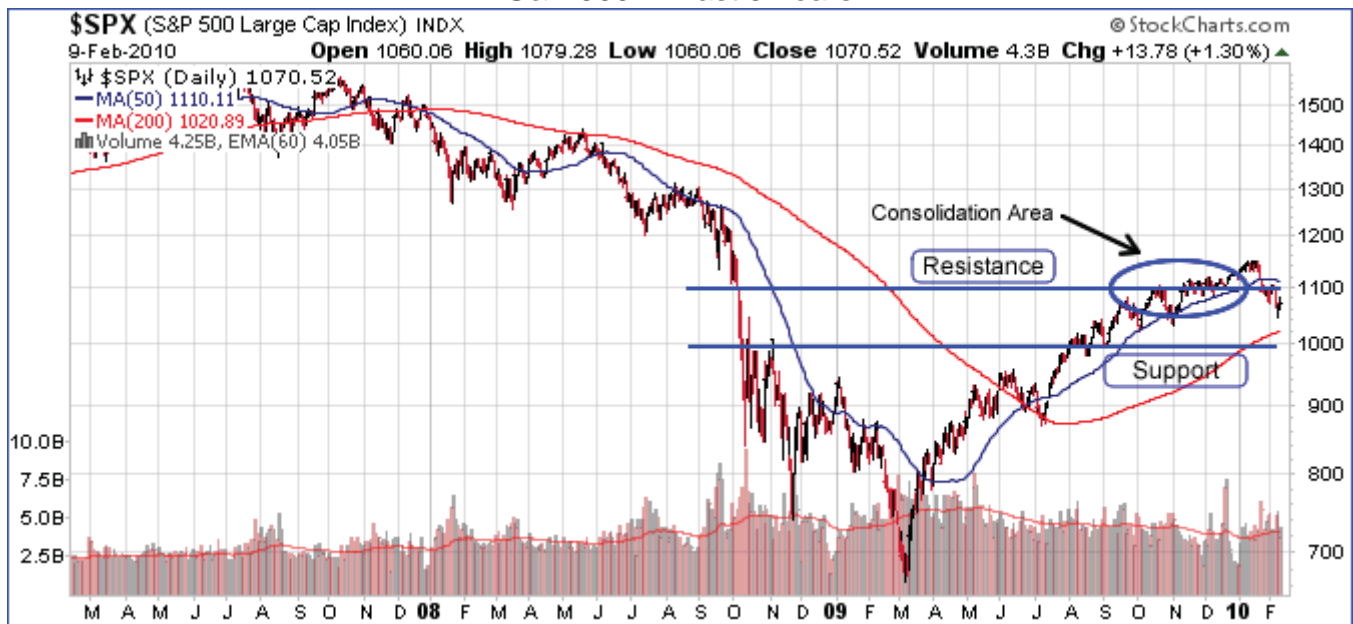
For the month of January, the S&P 500 ended up with a loss of 3.7% and S&P/TSX with a loss of 5.5%. January is typically positive and often used to gauge the mood of investors. The mood was anything but positive as the market suffered a one-two-three-four punch combination.

The first punch occurred on January 12th when the People's Bank of China (PBoC) instituted a tightening monetary policy by raising banks' required reserve ratio by a half-point. This was PBoC's first meaningful move to tighten monetary policy in eighteen months. This was an attempt to cool the country's 10.7% growth rate and to try to put a damper on rising commodity prices of which China is a large consumer.

The second punch was Obama introducing regulation to control bank operations and to separate banking and financial divisions with banks. Although most agree that there needs to be some reform in the banking sector, the regulations introduced were reminiscent of the controlling Glass-Steagall laws of the 1930s.

The third punch was India tightening its monetary policy on January 29th, raising its cash reserve requirement for

## S&P 500 - Last 3 Years



Horizons AlphaPro Seasonal Rotation ETF (HAC :TSX)  
Portfolio Exposure as of January 29, 2009

Symbol	Holdings	% of NAV
Canadian Dollar Exposure		
XIU	iShares CDN S&P /TSX 60 Index Fund	3.7 %
XSP	iShares CDN S&P 500 Hedged to Canadian Dollars Index Fund	32.5
		36.2
United States Dollar Exposure		
RSP	RYDEX ETF S&P 500 EQUAL	19.5
XLB	SELECT SECTOR SPDR FUND	5.0
XLY	Consumer Discretionary Select Sector SPDR Fund	9.9
XME	SPDR METALS & MINING	4.8
OIH	OIL SVC HOLDERS TR OIL	4.9
IWM	iShares Russell 2000 Index Fund	15.0
		59.1
Canadian Dollar Futures (March 2010) Currency Hedge **		-1.0
Cash and Equivalents & Other		5.7
Total (NAV \$11,252,027)		100.0 %

\*\* Actual exposure reflects gain / loss on hedge (Notional exposure equal 62.1% of NAV)

banks by 75 basis points to 5.75%. This increase was put in place to try and calm rising inflation in the country. India also warned that its next move will be an increase in interest rates.

The fourth punch has the rising risk of a possible default by the Greek government on its debt obligations. Although an imminent default is not likely, expect the Euro to come under pressure as more Euro countries face their high debt problems, such as Spain and Portugal.

There is currently a divergence between the North American economy and the sovereign debt issues of Europe. Earnings have been improving, employment has been increasing, the economy has been growing and at the same time the world has been focusing on the quagmire of the sovereign debt issues. If and when Europe is able to satisfactorily address the debt issues the market will swing back to looking at the positives and will respond by moving upwards.

### **Market Expectations**

No wonder the mood of investors is one of caution. Investors are still trying to digest the large gains that have occurred from last March and they are suffering indigestion. The current perception in the market is: “we have come a long way, show me something that justifies the market

moving higher. “ While this attitude prevails, a runaway bull market should not be expected.

At this time the market has become oversold and a bounce is likely to happen in the near future. Earnings, the main driver of the market have been topping expectations. Of the 314 S&P 500 companies that have reported results thus far, 74% had earnings above analysts’ expectations, 9% had in-line results and 17% fell short. In a typical quarter, 61% beat, 18% meet and 21% miss. So far for the fourth quarter, companies are coming in 13% above estimates, six times the long-term average; the rate was 17% through last week (Dow Jones Newswire, Feb 5).

Recently, the S&P 500 has fallen 7.3% from its peak on January 19th to February 5th and the S&P/TSX Composite 6.1% from its peak on January 8th to February 5th. We are still shy of the classic 10% drop in the market where investors consider buying the “bounce.”

From a seasonal perspective, it is rare for large drops to take place without a major impetus during the favourable six months from October 28th to May 5th. The large drop that occurred last year in January and February was the aftershock from the financial system almost coming to a complete halt last autumn. Even then the market bottomed in March and rallied strongly. For the record, last year the favourable six months still produced a 6.5% return in the

S&P 500.

Last month I stated that the S&P 500 had been consolidating, and had broken through an ascending wedge, but on unconvincing volume. Very shortly afterwards the market corrected and pulled back to lower levels. We are now in a trading range between 1,000 and 1,100 and above the 200 Day Moving Average. Given that we are in the six month favourable season it is expected that the S&P 500 will challenge the 1,100 mark and although it may have difficulty breaking through, the expectation is that it will succeed.

At the current time the market is oversold and we are due for a bounce.

### HAC - Portfolio Comments

#### What has been working

The sector trades that have been completed (bought and sold) have been working well (MOO, XLK, SMH). The exception to this is the Canadian Financial sector (XFN) which had relatively “flat” performance. The next section of the newsletter gives more detail on each of the sector trades. The sectors still held in the portfolio (XLY and IWM) have been slightly outperforming the market.

#### What hasn't been working

There is not a lot to report here except the market has been going through a correction, bringing down the holdings related to the broad market XSP and RSP. In addition the Canadian dollar fell abruptly and did not provide a technical entry point to overweight the U.S. dollar, and as a result provided a negative affect on the portfolio.

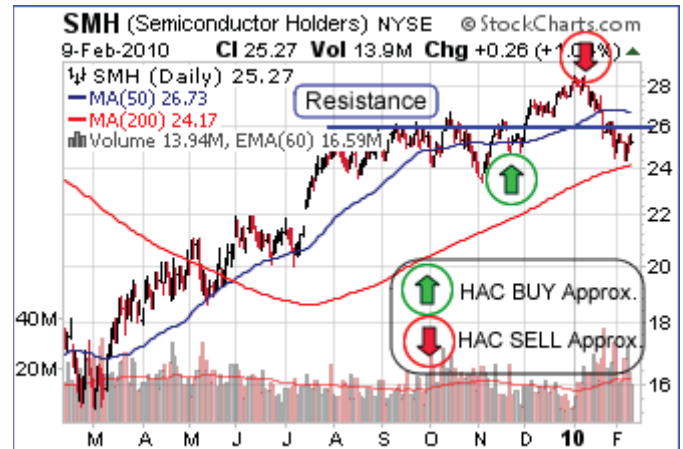
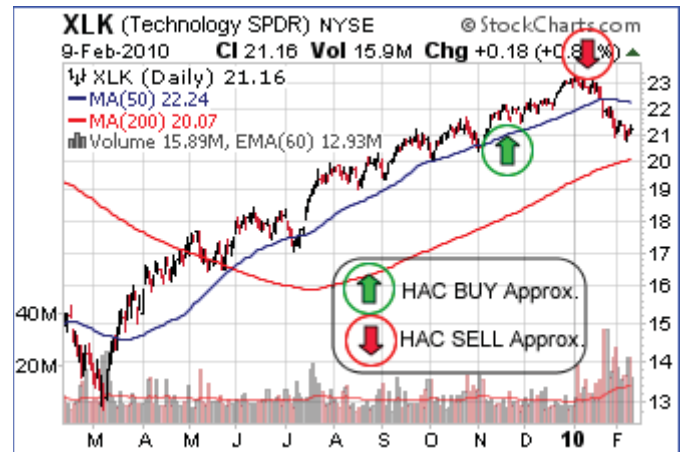
### HAC – January SELLS

#### Market Vectors Agribusiness ETF (MOO)



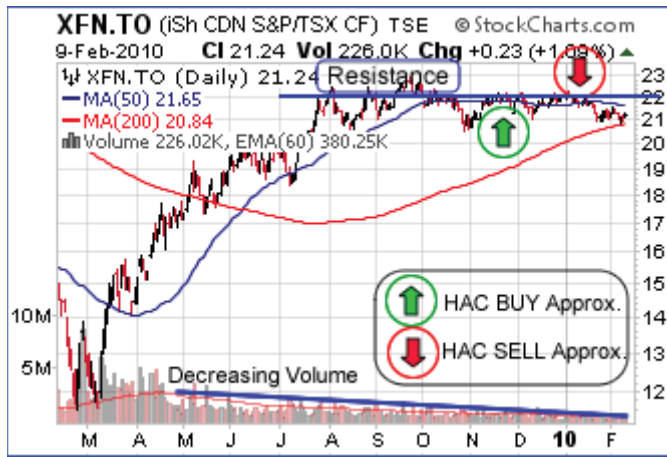
At the beginning part of the month, the Market Vectors Agribusiness ETF (MOO) was sold. This ETF had performed very well for HAC with positive performance and outperforming the market, but as the end seasonal date for this sector was at the end of the year it was sold out of HAC. The sector has since corrected sharply. The next seasonal time to reenter this sector is in the summer.

#### Technology Select Sector SPDR (XLK) & Semiconductor HOLDERS (SMH)



At the beginning part of the month, both the Technology Select Sector SPDR (XLK) & Semiconductor HOLDRs (SMH) ETFs were sold. Both of these sectors performed well for HAC providing positive performance and outperforming the market. In my December newsletter I wrote "The seasonal sector trade for these sectors ends on January 17th, but it is usually prudent to start lightening up on the sector before the Consumer Electronics Show in Las Vegas which takes place in the first week in January 2010." HAC sold the positions in XLK and SMH in early January. The sector has since corrected sharply. The next seasonal time to reenter this sector is in October.

**ISHARES CDN S&P/TSX CAPD FIN (XFN.TO)**



The U.S. financial sector typically starts to do well mid-January approximately at the time that the companies come out with their yearend results. The Canadian banking sector has its yearend earlier than the U.S. and as a result tends to do well earlier than the U.S. Financial sector. Although the Canadian sector is in much better shape than the U.S. sector, the Canadian sector is not going to rocket ahead until the U.S. gets its act in gear. At the current time there is too much uncertainty in the U.S. Financial sector, especially given Obama's new regulations. As a result, the Canadian sector was performing with the market and XFN was removed from HAC.

**HAC – January BUYS**

**Rydex ETF S&P 500 Equal Weight (RSP)**

One of the strategies for HAC was to purchase the Rydex S&P Equal Weight (RSP) instead of SPY on the U.S. market or XSP on the Canadian market. RSP is an equally weighted ETF version of the S&P 500 rather than capitalization weighted. In an equally weighted version of an index all stocks are weighted the same. In a capitalization weighted index, larger companies have a larger weight.

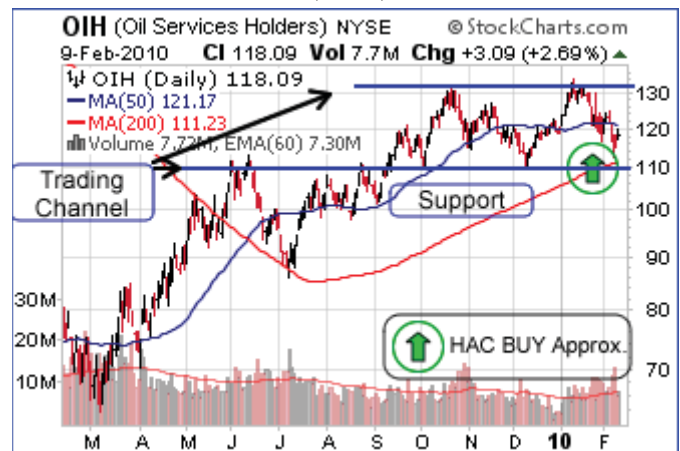
From a seasonal perspective, RSP is preferred because smaller caps and sectors such as materials are given more weight. These sectors have a very small weight in the S&P 500 index.

**Materials Select Sector SPDR (XLB)**



HAC purchased a position in Materials Select Sector SPDR (XLB) towards the end of January as this is the typical time that materials sector tends to outperform from a seasonal basis. This sector has a large percentage of chemical companies of which the brokerage houses have been upgrading recently. The end of this seasonal period is at the beginning of May. Recently this sector has been coming under pressure because of the European debt concerns having the potential to slow global growth. From a technical perspective the sector is just above the 200 Day Moving Average and a bit further below is the support line.

**Oil Svc Holdrs TR Oil (OIH)**

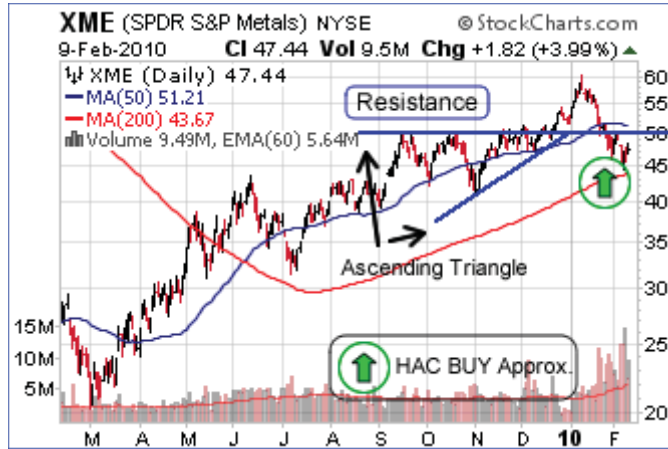


The broad oil sector typically does well on a seasonal basis starting on February 25th (based upon long-term XOJ Amex Oil Index from 1984 to 2009). In more recent years the oil services sector has started its seasonal period in late January. HAC purchased a small position of Oil

Services Sector (OIH) in late January to position itself in the oil sector to take advantage of the potential developing seasonal trade. The oil sector typically does well until May. Currently the Oil Services Sector is just above support and the 200 Day Moving Average.

the S&P 500, 23 times. Equally impressive is the very small drawdowns that have occurred. Over the last 26 years, there have only been two negative years, 1990 and 2005. These years produced very small negative returns of 0.6% and 1.0% respectively.

### Spyders Metals and Mining (XME)

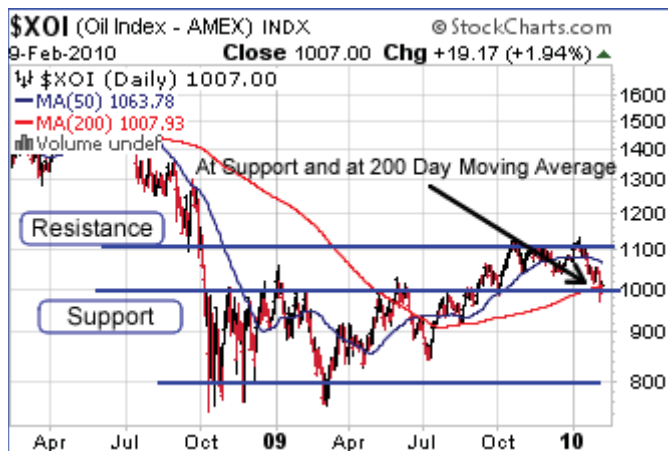


The metals and mining sector usually does well seasonally from mid-November to the beginning of May. Even within this period the sector can correct in the month of January, presenting a buying opportunity at the end of the month. HAC purchased a small position in XME towards the end of January to position itself for the last leg of the typical period for metals and mining stocks. This sector usually does well until the beginning of May.

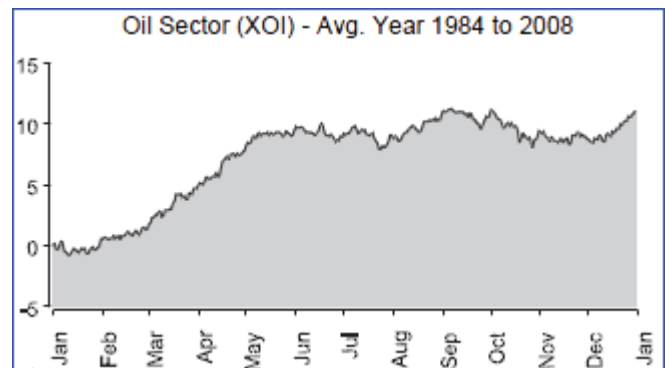
Year	XOI	S&P 500	Diff
1984	5.6 %	1.7 %	3.9 %
1985	4.9	1.4	3.5
1986	7.7	6.0	1.7
1987	25.5	3.7	21.8
1988	5.6	-3.0	8.6
1989	8.1	6.3	1.8
1990	-0.6	5.8	-6.3
1991	6.8	4.8	2.0
1992	5.8	0.9	4.9
1993	6.3	0.3	6.0
1994	3.2	-4.7	7.9
1995	10.3	7.3	3.1
1996	2.2	-2.1	4.3
1997	4.7	1.8	2.9
1998	9.8	7.5	2.3
1999	35.4	7.3	28.1
2000	22.2	4.3	17.9
2001	10.2	0.8	9.4
2002	5.3	-1.5	6.9
2003	5.7	12.1	-6.4
2004	4.0	-3.5	7.5
2005	-1.0	-1.8	0.8
2006	9.4	2.8	6.6
2007	10.1	4.2	5.8
2008	7.6	2.6	5.0
2009	15.8	20.2	-4.4
<b>Avg</b>	<b>8.9 %</b>	<b>3.3 %</b>	<b>5.6 %</b>

### Sectors on the Horizon

#### Oil Sector



The big seasonal story in February is typically the oil sector. The track record for the XOI Amex Oil Index from February 25th to May 9th is very good. From 1984 to 2009 the XOI was positive 24 out of 26 times and beat



The above graph illustrates the strength of the seasonal trend for oil stocks from February 25th to May 9th. In fact, on average the oil sector has had most of its gains for the year in this two and a half month period.

Although the results will be different than the XOI index, investors should consider investing later in the month, in the Energy Select Sector Spyder (XLE) in the U.S. and iShares CDN S&P/TSX Cappd Enrgy Indx Fnd (XEG) in Canada.

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