Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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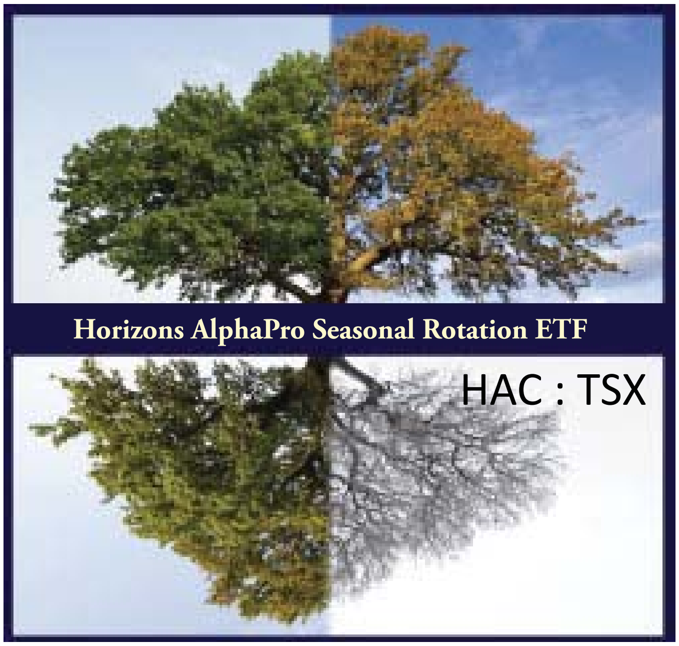


HAC : TSX

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:

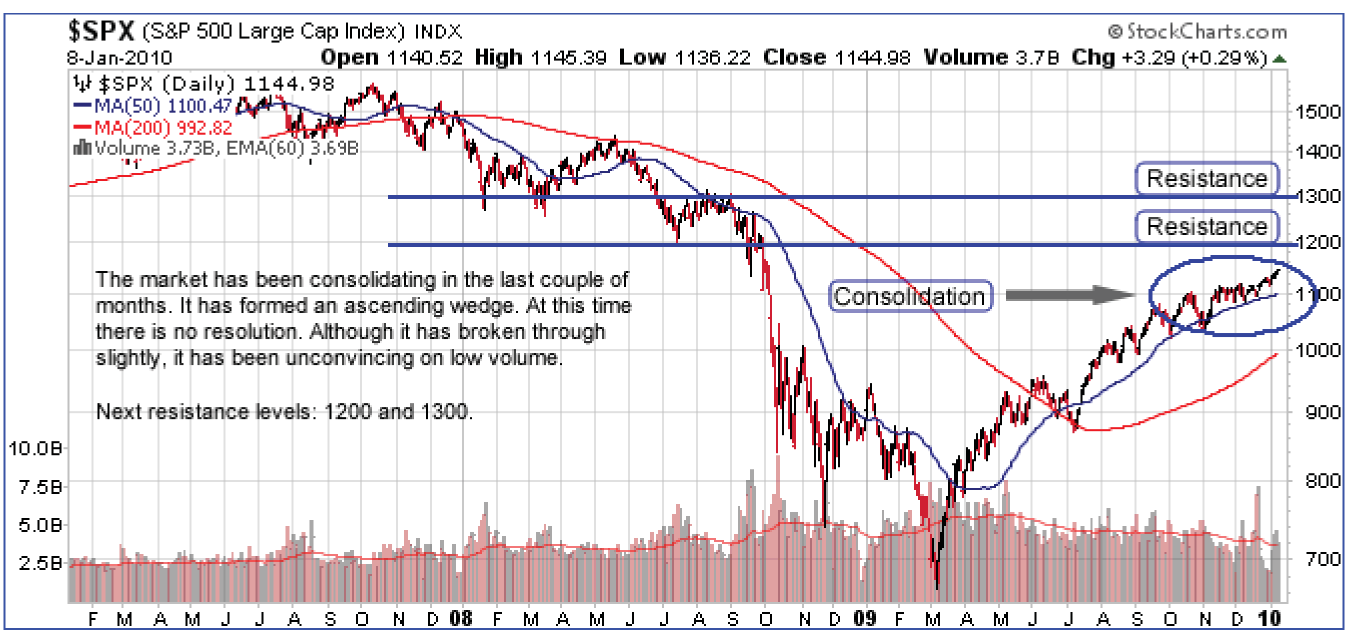
http://www.hapetfs.com/hac.asp.

Market Comment

Back in March, who would have thought that the TSX would close up 55% from its low and 31% for the year, and the S&P 500, 65% from its March low and 23% for the year. In March many investors got scared, sold out, and are still out. Seasonal investors did not suffer the same fate as they missed the major decline the previous summer of 40% in the S&P 500 (May 5th to October 27th). In addition they had made some strong gains from end of October to cushion the effects of the decline in the early months of 2009. Looking back now, it seems that everyone has come to the realization that the markets were dramatically oversold and provided some excellent opportunities (hindsight always works well).

What should we expect in 2010? At the risk of stating the obvious, it will be different than 2009. I say this because investors have become lulled into believing that the markets will continue their upward march with little disruption. As the markets digest their gains of 2009, it is much more likely that we will see a volatile market with different sectors of the market having a large difference

S&P 500 - Last 3 Years



Horizons AlphaPro Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of December 31, 2009

Symbol	Holdings	% of NAV
Canadian Dollar Exposure		
XIU	iShares CDN S&P /TSX 60 Index Fund	3.8
XFN	iShares CDN S&P /TSX Capped Financials Index Fund	4.7
XSP	iShares CDN S&P 500 Hedged to Canadian Dollars Index Fund	32.3
		40.8
United States Dollar Exposure		
MOO	Market Vectors - Agribusiness ETF	9.5
XLY	Consumer Discretionary Select Sector SPDR Fund	9.5
XLK	Technology Select Sector SPDR Fund	14.6
SMH	Semiconductor HOLDRs Trust	5.1
IWM	iShares Russell 2000 Index Fund	14.6
		53.4
Canadian Dollar Futures (March 2010) Currency Hedge **		0.5
Cash and Equivalents & Other		5.3
Total (NAV $10,231,356)		100.0 %

** Actual exposure reflects gain / loss on hedge (Notional exposure equal 54.7% of NAV)

in gains. Being in the right sector at the right time should strongly outperform a buy and hold strategy. The year 2010 should be an ideal market for seasonal investing to perform very well.

Over the last couple of months the market has been consolidating within a narrow range. It originally rallied from the end of October (its seasonal time to start a rally) and has since been forming an ascending wedge. Although it has broken through this formation, the market direction is still not conclusive at this time, as the breakthrough has been on light volume. A positive sign would be for the market to rally at this point on strong volume. The next resistance point in the S&P 500 is 1200 and then stronger resistance is at the 1300 level. The market will probably have difficulty getting through this barrier later this year.

We are at the beginning stages of earnings season, with Alcoa kicking off the season on Monday January 11th. After a bad year last year, the expectation is that earnings this year are going to be substantially better. So far corporate America has improved its bottom line by cost cutting. This year investors will scrutinizing the top line revenue to see how much of an improvement really has taken place.

In addition a lot of focus will be on the "jobs numbers." If economic growth is truly taking place and businesses are confident that it is going to last, then more full time workers will be hired. After losing huge amounts of jobs over the last couple of years and unemployment standing at 10%, the U.S. economy gained 4,000 jobs in November. Unfortunately the economy lost 85,000 jobs in December, more than what was expected. If the economy is improving, look for the jobs numbers to be getting better over the year. Also, the market might develop a case of positive sentiment when the unemployment drops below the psychological 10% and rally when this level is broken.

Portfolio Comments and Highlights

All securities in HAC, except XMA contributed to the portfolio's positive performance for the month of December. The biggest contributors to HAC's positive performance were positions in the technology sector (XLK), semiconductor sector (SMH), and the agriculture sector (MOO). After a strong run in November, XMA turned down at the beginning of December. As gold stocks make up more than half of the value of the holdings in XMA and gold was reaching the end of its extended seasonal period, it was sold in December.

The portfolio was also successfully overweight the S&P 500 versus the TSX, with its holdings in XSP and XIU. In addition HAC was successfully hedged 100% against a decline of the U.S. dollar. Although the U.S. dollar gained against other major world currencies in December, the Canadian dollar benefited from worldwide interest.

The big addition to the Seasonal Rotation Portfolio was the iShares Russell 2000 Index Fund (IWM). At the end of December it was 14.6% of the portfolio. Typically, small company shares (small caps) do well from mid-December to the beginning of March. Some investors still make portfolio adjustments on the basis of the "January Effect," which has the buy date at the beginning of January. Any investors following this old strategy missed out on strong returns from the small cap sector.

Small caps tend to do well from mid-December because of tax loss selling. At the start of the new year small caps tend to continue their outperformance as fund managers use the sector as a vehicle to increase the beta in their portfolios in order to get ahead of the market.

Market Sectors

Small Caps

The small cap sector is shaping up to be a good trade. It has been rising in its period of seasonal strength and has recently crossed the resistance line of $63 (IWM). This is a good sign and if the market continues to be positive the small cap ETF (IWM) should be able to reach its target of $75 before the seasonal period ends at the beginning of March.

The Russell 2000 is the venerable index for small caps. The iShares Russell 2000 Index Fund (IWM) has been designed to track the index and represents a broad based approach to investing in the small cap sector.

Platinum

The period of seasonal strength for platinum is from January 1st to May 31st. The primary driver for this period of seasonal strength is the auto industry ordering platinum for catalytic converters and investors optimistically anticipating increased car sales at the beginning of the year.

Platinum has been very strong since the beginning of the year. Since July it has been in an upwards trading channel that has been very tight and the 50 day moving average has been providing support. We are currently at the top of the trading channel and if platinum is able to breakthrough this it will be very positive. If Platinum does correct at this point, there is a strong likelihood that platinum will bounce of the bottom of its trading channel once again.

Up until recently, investors really only had one ETF to use as a vehicle to invest in platinum (iPath ETN DJ-AIG Plat A, Symbol PGM). At the end of last week ETF Securities launched a platinum ETF (PPLT) that holds platinum (metal) in a vault.

Metals and Mining

The metals and mining sector typically outperforms from November 19th to May 5th.

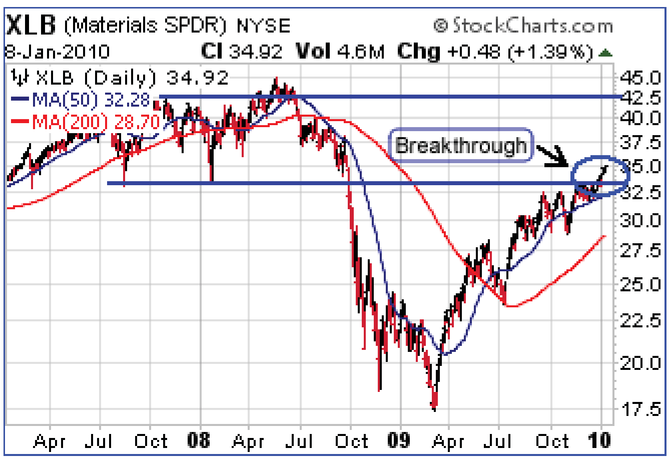
The metals and mining sector broke resistance just before yearend and has developed a positive technical profile. The sector can soften in the middle weeks of January. Look for a pullback to the resistance line, which is now the support line, at $50 on XME, and then for the sector to do well into May.

Canadian traded ETF alternatives in the metals and mining sector are: Claymore's S&P/TSX Global Mining ETF (Symbol CMW) and BMO's S&P/TSX Equal Weight Global Base Metals Hedged to CAD Index ETF (Symbol ZMT) and BetaPro's S&P/TSX Global Base Metals Index Leveraged Bull Fund (HMU). Please see prospectuses for more information.

Materials (USA)

The materials (U.S.) sector typically does well from January 29th to May 6th. From 1990 to 2008 the materials sector has produced an average gain of 8.0% and has been positive fourteen out of twenty times.

Currently the technical pattern on the U.S. materials sector, as represented by the ETF, XLB, is positive - the sector has recently broken through resistance.



The U.S. materials sector is substantially different than the Canadian materials sector as the U.S. sector has very little gold and approximately 60% chemical companies.

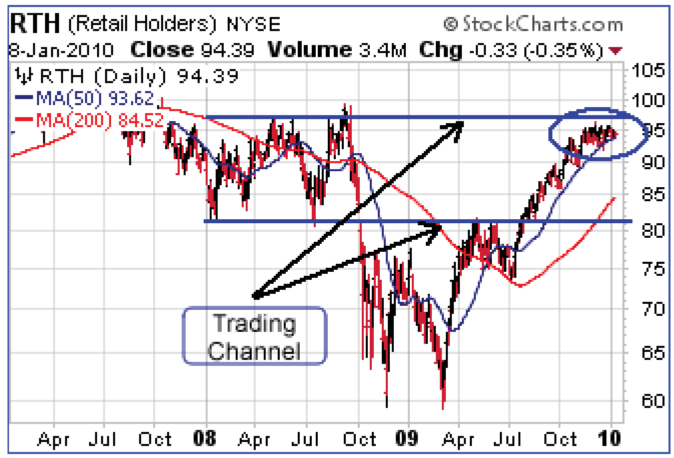
One of the major reasons that the sector has had an early seasonal start is that some of the brokerage houses in the U.S. have just upgraded the chemical companies in their recommendations. As a result many investors have been entering the sector. Look for XLB to pullback on market weakness to $33 before the typical buy date on January 29th.

Consumer Discretionary

The consumer discretionary sector has been performing as expected as it is outperforming the consumer staples sector. During the favourable six months from the end of October to the beginning of May the discretionary sector is the preferred sector. This year the consumer discretionary sector has been outperforming the consumer staples sector, as expected.

Retail

On a seasonal basis, the retail sector typically does well from January 21st to April 12th. Currently the technical profile for the sector is weak. The retail sector, as represented by (RTH), is just below resistance and the price seems to be rolling over. If this sector is able to breakthrough $97.50 on strong volume later this month, the technical profile will become positive.



Technology

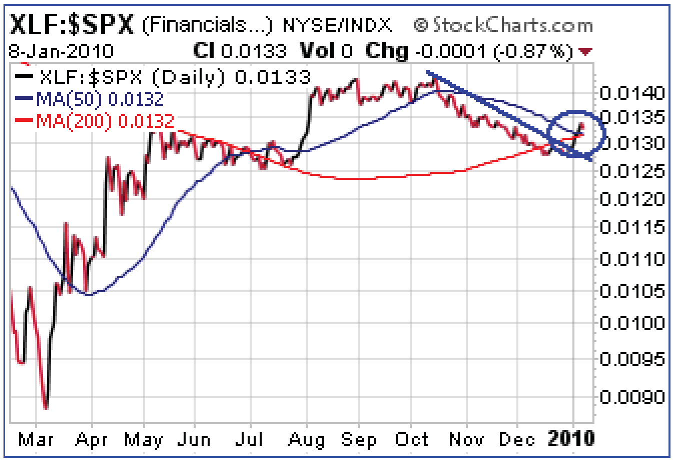
In the December Thackray Market Letter I wrote about how the technology sector does well from the starting in October and typically outperforms the market into January. Up until now the sector has outperformed the S&P 500. I also stated that on average the period of seasonal strength ends anywhere from the start of the Consumer Electronics Show in Las Vegas to January 17th. We are now in the sell date range for the technology sector.

Agriculture

The agriculture sector, represented in the fund by the holding MOO, Market Vectors - Agribusiness ETF, has performed extremely well. On a seasonal basis the agriculture sector usually outperforms from August to December. It is possible for the sector to continue to do well, but we have moved past the seasonal sell date for the sector.

Financials

Canadian financial stocks typically start their outperformance towards the end of October. This year the sector's performance has been substandard. It is possible for Canadian banks to do well if the American banks "prove" themselves with strong earnings.



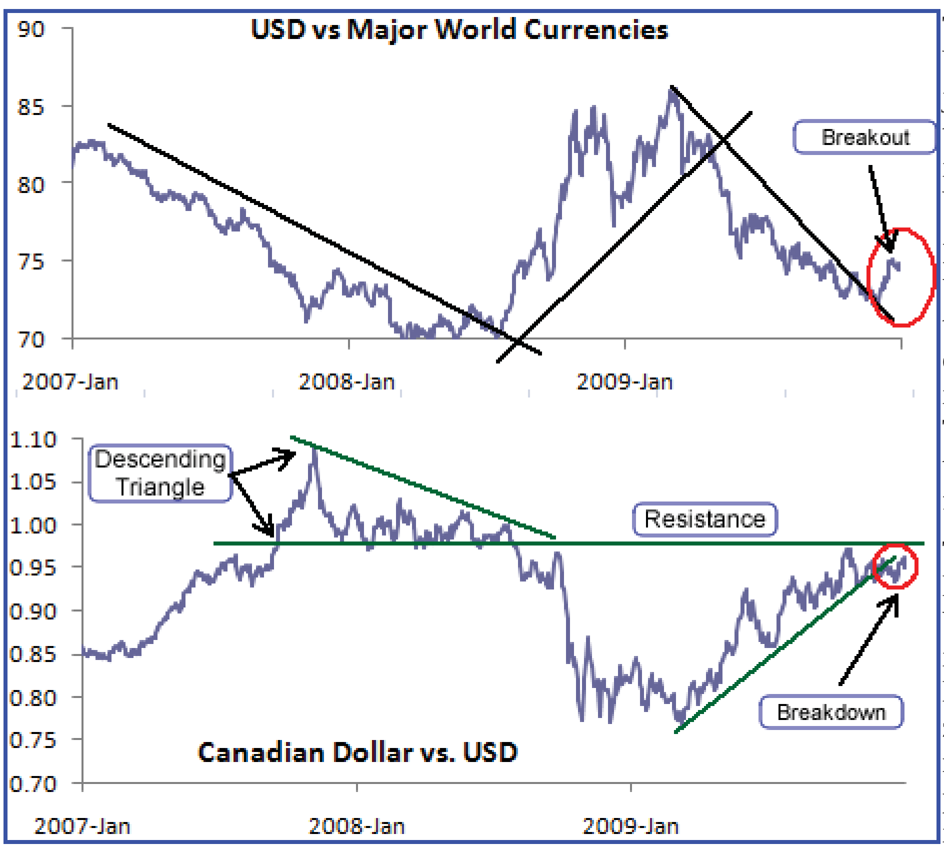
On the other hand, it is extremely difficult to determine how the U.S. banks are doing because of the amount of government involvement. Leading into the earnings season, the U.S. financial sector has been performing below the market. At the start of the New Year the financial sector picked up as investors started to get interested in the sector. The above graph plots the U.S. financial sector relative to the S&P 500. The reversal at yearend shows a break in trend. Citigroup is reporting its earnings on January 19th and this should help set the pace for the sector.

In 2009 the U.S. dollar was strongly, inversely correlated to the global equity markets. When the market was increasing because of an increase in appetite for risk, the U.S. dollar declined. When investors were concerned with global economics or the state of the market, investors rushed back into the U.S. dollar as a safe-haven. This is evident in the second half of 2008 when the U.S. dollar shot up as the markets plummeted and then the exact opposite occurred in 2009. When the markets rallied off the bottom in March the U.S. dollar declined.

The U.S. dollar has recently been gaining strength against other world currencies. This can be seen in the graph of the *USD vs. Major World Currencies*. In late 2009 the U.S. dollar broke its downward pattern and is currently on an up trend. Interestingly, the global stock markets have not been declining at the same time. From a technical perspective these events are signaling that the U.S. might be in for a bounce.

Last year one of the major hot topics was deflation versus inflation (we will have a redux on this debate soon enough). More recently the debate has switched to the fate of the U.S. dollar. Many investors are looking at the large U.S. debt and the vast amounts of money that have been printed and believe that the dollar is in for a long-term slide. Others believe that being the reserve currency of the world offers special benefits that will help protect the dollar or at least make its descent tolerable.

U.S. Dollar vs. Canadian Dollar



The debate is going to continue and both camps are probably right, it is just a matter of the timing of when the events are going to occur. There is another consideration in the debate.

Many investors are not aware that the U.S. dollar is being used for carry-trades, where investors borrow U.S. dollars at low interest rates and then invest in other higher yielding assets. This strategy is in essence a short on the dollar. Hedge funds are notorious for using this strategy.

Their favourite carry-trade over the last decade or longer has been the Yen carry-trade. After the collapse of its economy and stock market, Japan lowered its interest rates to.....almost zero (umm...sounds familiar). International investors saw this as an opportunity and borrowed Yen and then invested elsewhere.

The trade works just fine until the currency that you are borrowing increases in value. At this point investors have to cover their positions by selling their assets and repurchasing the currency that they used for their loan. The result is that the currency is forced up in value and its rise can be very rapid. I mention this because if the U.S. dollar does start to increase in value there is a possibility that the strength of its run can surprise a lot of investors.

Currently the U.S. dollar is in a time period where it tends to do well seasonally. This is usually the result of international businesses starting to implement their plans for the year using the reserve currency of the world, the U.S. dollar.

I have included a graph of the Canadian dollar versus the U.S. dollar directly below the graph of the U.S. dollar versus international currencies. The Canadian dollar has recently bucked the trend. As the U.S. dollar has been increasing relative to other currencies, the Canadian dollar has been increasing against he U.S. dollar. This is in large part because countries and investors are trying to diversify their holdings of foreign currencies and are favouring Canada.

On the international stage Canada is seen as a well managed country, with a low debt level and lots of natural resources — all very positive. In December Russia announced that it was purchasing Canadian dollars for its foreign reserve in order to diversify away from the U.S. dollar. Watch for other countries to follow their lead.

Although this is a positive for the Canadian dollar, investors should note that the Canadian dollar in recent times has not diverged away from the inverse relationship between the U.S. dollar and world currencies, or at least not for long. At this time there is a divergence, but it probably cannot last for long.

The Canadian dollar is just short of a strong resistance level. It is possible the dollar can run through parity on strong sentiment, but it is going to be difficult for the dollar to breach the $0.98 resistance level.

Investors should be continue to also look at the strength of the U.S. dollar relative to world currencies. If the U.S. dollar continues to strengthen against world currencies, then the Canadian dollar has a much higher likelihood of correcting.

The long and the short of it is that although the Canadian dollar is the preferred currency over the long-term there are times when the U.S. currency will outperform and we are probably at the doorstep of one of those time periods.

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