Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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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 and strategies in HAC.

Market Comment

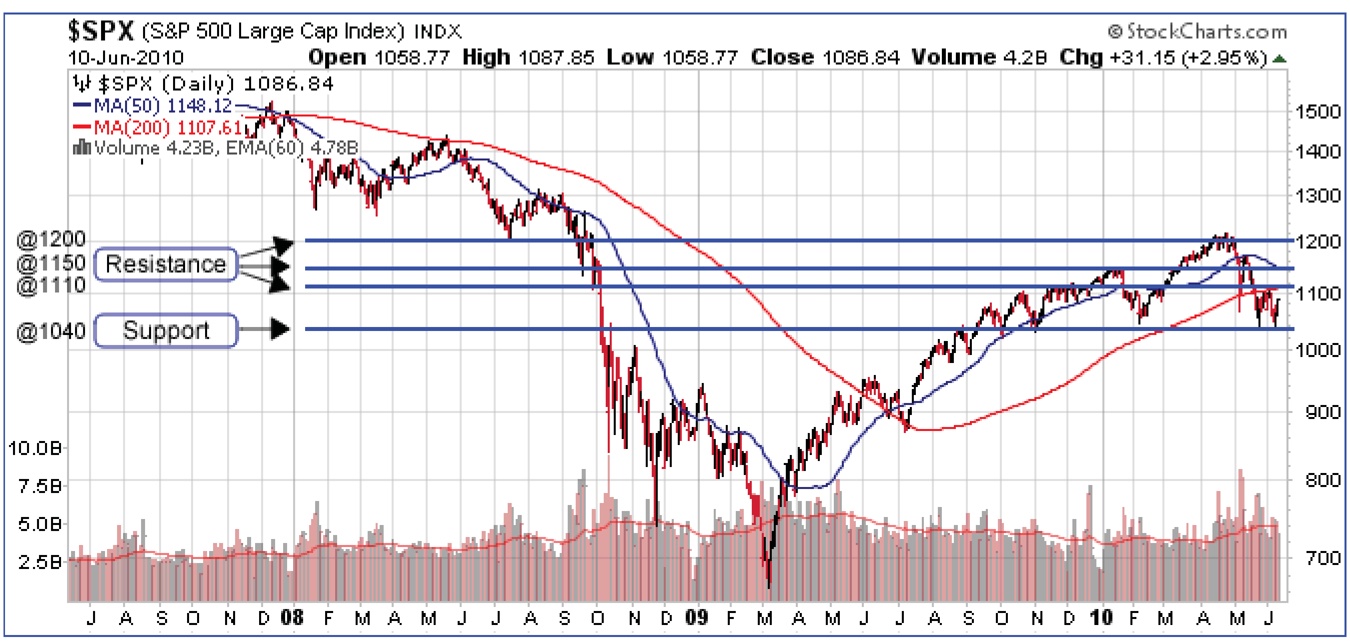
As the stock market earnings season petered out in April, investors returned their focus, once again to domestic and international economic numbers, particularly the sovereign debt issues of the Eurozone countries.

As I was writing my last newsletter on May 9th, the market had recently "fallen off a cliff" and the Eurozone countries were just announcing their "shock and awe trillion dollar" package to help their troubled countries. This package was designed to bring confidence back to market, but was only able to muster a meager 4% rally in the stock market the next day. In my last newsletter I mentioned that this type of package would not solve the situation, but rather delay the outcome. It seems that a lot of investors are catching on that bailout packages do not solve debt problems, but rather shuffle debt from one party to another. Investors voiced their opinion by collectively pressuring the stock market to a loss of 8.2% in the month of May.

This is worst month for May since 1962. The end of May produced a mini-rally as the stock market had become oversold and investors had not heard any "bad news" coming from Europe in a few weeks. The rally came to a screeching halt on Friday June 4th, when the Employment numbers came out for the U.S. Although 431,000 jobs were created, almost all of them were Census 2010 jobs. Only 41,000 new private sector jobs were created (source

S&P 500 Technical Status

The S&P 500 is currently oversold and could have a bounce up to 1150 (major resistance sits at 1200). It currently sits @ 1087 and is below the 200 day moving average of 1107. Support is @ 1040 and if this level is broken the market will target 1000. Further weakness is expected over the next few months. Investors should be very cautious if the market does break through the 1,000 level on strong volume.



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

Symbol	Holdings	% of NAV
Canadian Dollar Exposure		
XEG	iShares CDN S&P/TSX Cappd Energy Indx Fnd	14.1 %
HXU	S&P/TSX 60 Bull Plus ETF	5.0
		19.1
United States Dollar Exposure		
XLP	Consumer Staples Select Sector SPDR Fund	9.9
SPY	SPDR S&P 500 ETF	62.4
IHI	iShares Dow Jones US Medical Devices	5.0
		77.3
Canadian Dollar Futures (June 2010) Currency Hedge **		-0.2
Cash and Equivalents & Other		3.8
Total (NAV $12,164,762)		100.0 %

** Actual exposure reflects gain / loss on hedge

BLS). The day ended closing down 3.4%. With the focus on Europe, it seems everyone had forgotten about the problems back home. With more and more articles being written about the potential debt defaults of more countries, U.S. municipalities and counties and the necessary homegrown austerity measures to stave off bankruptcy, investors are starting to question the economic growth that everyone had taken for granted.

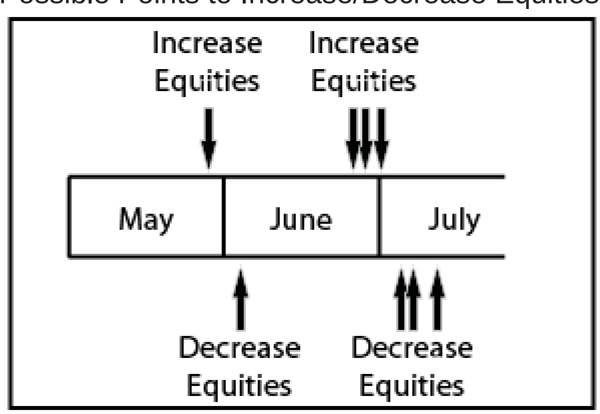
What should we expect for June? In my April newsletter I discussed the economic-earnings cycle. Basically, this cycle describes how investors alternate their focus of attention from corporate earnings to economic numbers depending on the month of the year. When it is earnings season, the focus is on earnings. After the earnings season finishes, the focus shifts to economic numbers. Of course, if the economic numbers are either really good or bad during the earnings season, then they would have impact on investor expectations.

Why am I discussing this cycle in the June newsletter? Currently the focus is on economic numbers which recently have been negative and point to a volatile June and negative performance over the next few weeks. The good news is that June precedes the earnings month of July. Towards the end of June investors will start to once again focus on corporate earnings, which have the potential to lift the markets. The last earnings season in April-May, produced great results, with almost 80% of companies beating expectations. Earnings this time around should be good providing a positive seasonal boost at the end of June and into July. Currently, the last few days in June appear to be a good time to enter the market.

The possible dates to increase and then decrease equities for the period from the end of June and into the start of July is a conflation of three different strategies:

- End of the Month Strategy
- Independence Day Strategy
- 18 Calendar Day Strategy

Possible Points to Increase/Decrease Equities



The End of the Month Strategy focuses on the last four trading days of the month and the first three of the next month. The Independence Day Strategy focuses on the last two trading days of June and five trading days of July. The 18 Calendar Day Strategy is the trend for the market to be positive during earnings months for the first eighteen days. For more details on all three strategies, please refer to *Thackray's 2010 Investor's Guide*.

All three trading strategies are valid strategies, but in a negative market environment, where the trend has been down, it is usually best to tighten up the trading range. In other words, it is usually better to get into a position a bit later and exit a position a bit earlier. It is better to capture some profits by selling early, rather than being greedy. Investors can also use technical analysis to help fine tune the exit date to either get out earlier or later. In addition, if the markets are providing positive momentum, investors have the alternative of using increasing stop-losses.

Summer Rally – Myth (An Introduction)

Every summer newspaper articles are published discussing the benefits of being in the market for the "Summer Rally." The summer rally is a myth! If there is a rally in the summer it typically occurs up until mid July. The subsequent period from July 19th to October 27th tends to be negative and provides a poor risk-reward profile for the broad markets. Of course there are sectors that do well in the summer months, but investors have to be selective.

In future newsletters I will discuss both the summer rally myth and potential sector investments for the summer months.

In summary, if the markets perform well at the end of June and the beginning of July, do not fall in love - markets can be fickle and easily betray.

HAC : TSX UPDATE - "Lucky" Again ?

"It is always luck when someone else does it, and skill when you do it."

That being said, the market has been following its seasonal rhythms and HAC has done a good job taking advantage of the trends.

In my last newsletter I stated that HAC decreased its equity position in April approximately at the top of the market and went heavily to cash at the beginning of May side stepping the market correction. I also wrote about the potential for the market to do well at the end of May into the beginning of June. HAC took advantage of the Memorial Day Strategy by moving from a position of mostly cash to almost all equities towards the end of May, catching the mini-rally that took place.

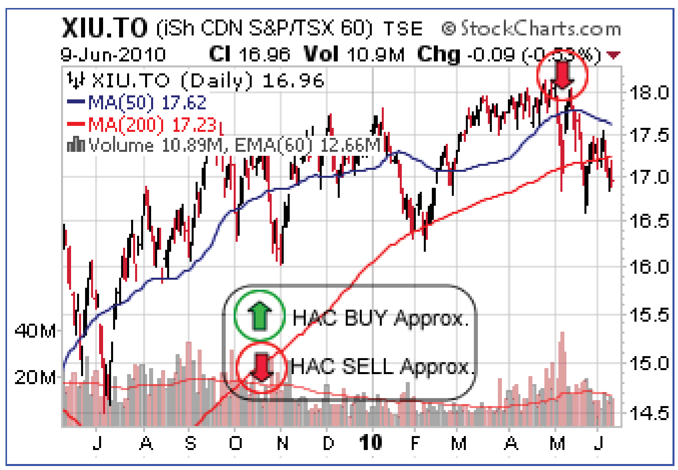
As mentioned in the May newsletter, investors should note that the month end HAC portfolio will often not represent the portfolio during the middle of the month. At May month end, the portfolio was invested heavily in equities which was not the position during the middle of the month when the market was correcting.

HAC : TSX – Buys and Sells in May

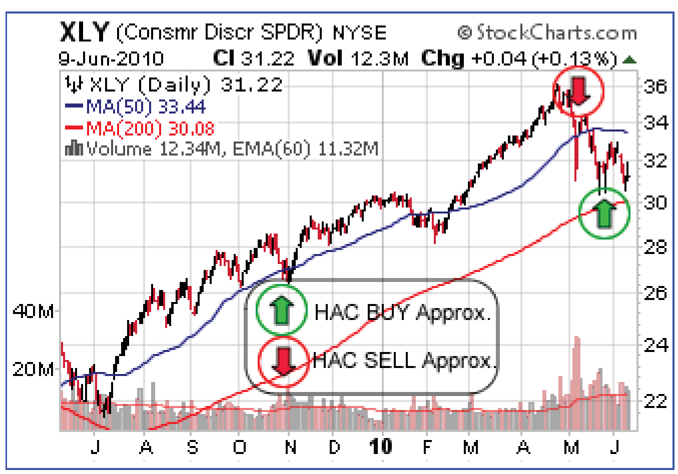
SELL - iShares Canadian S&P 500/TSX 60 (XIU)

At the beginning of May, before the market really started its slide, HAC sold its position in iShares Canadian S&P/TSX 60 (XIU).

This holding was a core position in the portfolio. Since November 19th when the portfolio was started, HAC has typically held either a core position in an S&P 500 ETF or the TSX Composite. The chart below does not include a BUY arrow as this position has been added to, or switched into S&P 500 ETFs since the start of the portfolio in November. Selling the position in XIU represented the end of the six month favourable seasonal cycle and the start of the time to reduce equities.



SELL SHORT - Consumer Discretionary SPDR (XLY)
BUY - Consumer Discretionary SPDR (XLY)



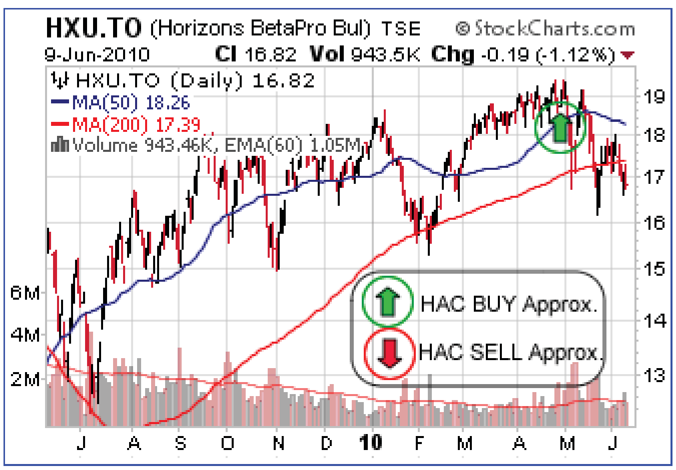
In last month's newsletter I described a strategy that HAC would embark on at different times during the summer - selling short a sector during times when the market is expected to be negative and buying it back when the market is expected to be positive.

HAC successfully used this strategy, selling short XLY at the beginning of May and buying it back just before the end of the month, before the market started to rally. In the typical buy-sell diagram, the green arrow is first representing the purchase of an ETF and then red arrow is placed later when the ETF is sold. In the case of the XLY trade, the order of the arrows is reversed. The difference in the price level of the arrows represents the profit from the trade.

HAC is expecting to continue to use the short - and then cover strategy during the summer months as opportunities present themselves.

BUY - S&P/TSX 60 Bull Plus (HXU)

HAC purchased a small position in HXU very close to month end to capture the gains from the Memorial Day strategy (Canadian Style - see Thackray's 2010 Investor's Guide). The intention of this trade was not a long-term hold. Regulations do not allow disclosure of any sells that may have occurred in the month of June.



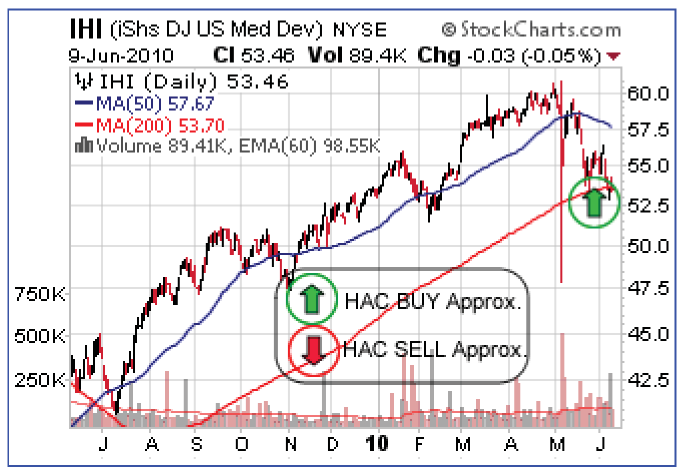
BUY - SPDR S&P 500 (SPY)

HAC purchased a large position in SPY close to month end to capture the gains for positive tendencies of the market at month end and the days around Memorial Day. The intention of this trade was not a long-term hold. Regulations do not allow disclosure of any sells that may have occurred in the month of June.

BUY - iShares Dow Jones Medical Devices (IHI)

HAC purchased a small position, towards the end of May, in the medical devices sector of the market with the purchase of iShares Dow Jones Medical Devices (IHI). The sector has a seasonal "sweet spot" from April 17th to July 31st. Average return per period during the past 20 years is 6.2% versus a gain of only 2.8% for the S&P 500 Index. The trade has been profitable in 7 of the last 10 periods.

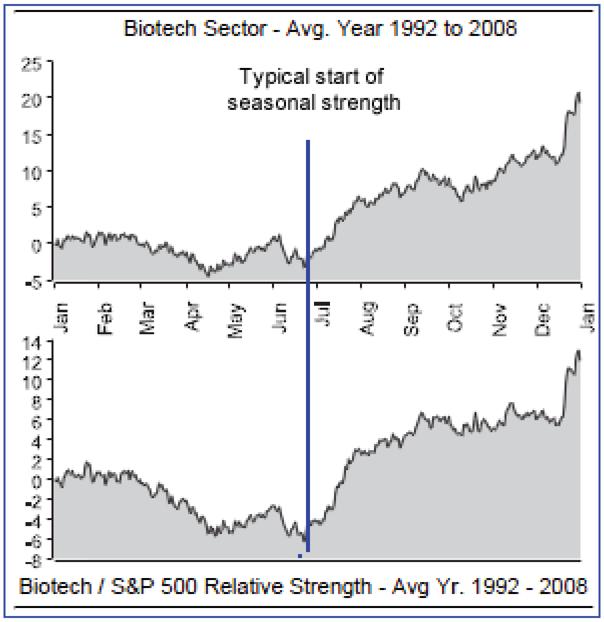
For more information on this seasonal trade see - Financial Post, May 29 2010, Don And Jon Vialoux.



Future Strategies for HAC : TSX

Biotech Summer Solstice

The Biotech sector tends to do well from June 23rd to September 13th. The sector tends to be a good substitute for the technology sector in the summer months when investors are trying to be more conservative, even in the higher beta sectors. In addition, the biotech sector benefits from the autumn conferences which help provide positive support.



Biotech vs. S&P 500 1992 to 2008

Performance > S&P 500

Jun 23 to Sep 13	Biotech	S&P 500	Diff
1992	17.9 %	4.0 %	13.8 %
1993	3.6	3.6	0.0
1994	24.2	3.2	21.0
1995	31.5	5.0	26.5
1996	7.0	2.1	4.9
1997	-18.9	2.8	-21.7
1998	20.6	-8.5	29.1
1999	64.3	0.6	63.7
2000	7.6	2.3	5.4
2001	-3.6	-10.8	7.2
2002	8.1	-10.0	18.2
2003	6.4	2.3	4.1
2004	8.9	-0.8	9.6
2005	26.0	1.4	24.5
2006	7.4	5.8	1.6
2007	6.0	-1.2	7.2
2008	11.4	-5.0	16.5
Avg	13.4 %	-0.2 %	13.6 %

There are several ETFs representing the Biotech sector. Investors should be aware that there are large differences in the holdings of these ETFs. The more diversified choices for investors to use are either the SPDR Biotech ETF (XBI), or the IShares NASDAQ Biotechnology (IBB).

Independence Day - The Full Trade - Profit Before and After the Fireworks

The time period at the end of June into the beginning of July benefits from the seasonal strength that takes place at the end of the month and the positive influences of the days around Independence Day.

The trade starts two market days before the end of June to five market days after Independence Day. From 1950 to 2009 the trade has been positive 70% of the time and has produced an average return of 0.8%. It is important to note that the drawdowns have been larger than those of the Memorial Day strategy.

S&P 500, 2 Market Days Before June Month End To 5 Market Days after Independence Day % Gain 1950 to 2009

1950	-4.4 %	1960	-0.1 %	1970	1.5 %	1980	1.4 %
1951	1.5	1961	1.7	1971	3.2	1981	-2.4
1952	0.9	1962	9.8	1972	0.3	1982	-0.6
1953	0.8	1963	0.5	1973	2.1	1983	1.5
1954	2.9	1964	2.3	1974	-8.8	1984	-0.7
1955	4.9	1965	5.0	1975	-0.2	1985	1.5
1956	3.4	1966	2.1	1976	2.4	1986	-2.6
1957	3.8	1967	1.3	1977	-0.6	1987	0.4
1958	2.0	1968	2.3	1978	0.6	1988	-0.6
1959	3.3	1969	-1.5	1979	1.3	1989	0.9
Average	1.9 %		2.3 %		0.2 %		-0.1 %

1990	1.7 %	2000	1.8 %
1991	1.4	2001	-2.6
1992	2.8	2002	-4.7
1993	-0.6	2003	1.2
1994	0.4	2004	-1.7
1995	1.8	2005	1.5
1996	-2.8	2006	2.1
1997	3.7	2007	0.8
1998	2.7	2008	-3.4
1999	5.1	2009	-4.3
	1.8 %		-0.9 %

In addition, as discussed earlier in this newsletter, July is an earnings month, so it is possible for any positive momentum in the early part of July to carry on until mid-July.

Regardless, investors should favour tighter dates on entering and exiting the market and use technical indicators for selecting the best dates.

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