

Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

Published the 10th Calendar Day of Every Month

Volume 4, Number 3, March 2010

Written by Brooke Thackray

Market Comment

After a negative January in which pessimistic economic reports brought down the stock market indexes, February bounced back with better than expected company earnings and an increase in economic growth. Towards the end of the month some negative economic reports hit the markets, but they were easily “digested” and the market continued its upwards ascent.

As of March 1st, S&P 500 earnings were up 154% from a year ago, an average of 5.5% better than analysts had expected. Despite the weak economy, revenue for the S&P 500 rose 9.5%. Analysts had expected an increase of 8.2% (Business Week, March 1st).

The economy is showing signs of recovery as the U.S. fourth quarter GDP growth was revised upwards from 5.7% to 5.9%. Although this is a strong number investors should remember that large numbers can be a result of comparisons to poor past performance. In addition a lot of analysts did not get too excited about the level of growth as 3.9% of the growth was “inventory driven.”

In addition, expectations for the future were tempered with a report from the Commerce Department stating that new-home sales dropped 11.2% since December, a report from the Conference Board that reported that consumer confidence had dropped to its lowest level since 1983,

and a report that jobless claims shot up 22,000 when they were expected to decline by 20,000 (Washington Post February 28, 2010).

Despite the month ending with negative economic reports February still made solid gains in the stock market as the S&P 500 produced a gain of 2.9% and the TSX Composite a gain of 4.8%. So far the beginning of March has been started off strong and the month is expected to remain in positive territory. Since 1950 the S&P 500 has been positive 65% in March, which is typically one of the better months of the year.

Currently, the market has broken through resistance at the 1100 which now should provide support. We are now bumping up against the resistance that was developed at the beginning of the year. Although the market is having trouble breaching this point, given the strength of the recent earnings numbers and economic reports it will probably advance. The next level of resistance is at the 1200 mark.

Last month I stated that the market was due for bounce and it bounced from a bottom in early February. March will probably produce more volatility but the seasonal odds are that it will end in positive territory once again.

S&P 500 - Last 3 Years



Horizons AlphaPro Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of February 26, 2010

Symbol	Holdings	% of NAV
Canadian Dollar Exposure		
XIU	iShares CDN S&P/TSX 60 Index Fund	26.3 %
XEG	iShares CDN S&P/TSX Cappd Energy Indx Fnd	9.9
		36.2
United States Dollar Exposure		
RTH	Retail Holders	4.5
XLB	SELECT SECTOR SPDR FUND	9.8
XLY	Consumer Discretionary Select Sector SPDR Fund	9.9
XME	SPDR METALS & MINING	10.2
OIH	OIL SVC HOLDERS TR OIL	9.6
IWM	iShares Russell 2000 Index Fund	14.9
		58.8
Canadian Dollar Futures (March 2010) Currency Hedge **		0.0
Cash and Equivalents & Other		4.9
Total (NAV \$11,957,314)		100.0 %

** Actual exposure reflects gain / loss on hedge (Notional exposure equal 59.4% of NAV)

HAC – February BUYS

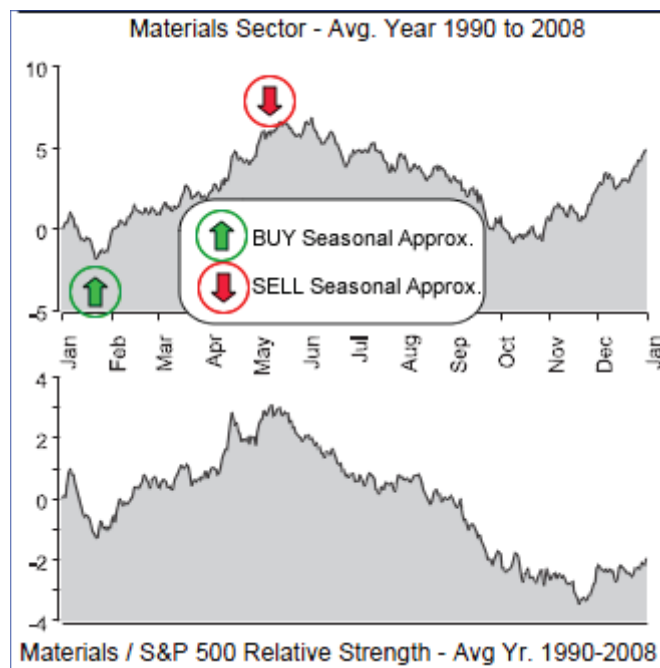
Materials Select Sector SPDR (XLB) Added to Position Established in Late January

At the beginning of February HAC added to the original position of XLB that was purchased at the end of January, bringing the total allocation to approximately 10% of the portfolio at the time.



Recently, the US Materials sector corrected in January. It came down to just above the 200 day moving average, and set up very well for an ideal start to a strong seasonal period. Since that time the sector has had a strong move-

ment upwards. The next level of resistance is \$35 and the next level after that is \$42.



The Materials Sector - Avg.. Year 1990-2008 charts from Thackray's 2010 Investor's Guide illustrate the strength of the seasonal trend for the US Materials sector. In the top chart the average seasonal buy and sell dates are illus-

trated showing the strength of the trend. The sector is still well positioned for seasonal strength until the beginning of May.

Materials Sector vs. S&P500 1990 to 2009			
Jan 29 to May 6	Materials	S&P 500	Diff
1990 %	-1.4 %	3.9 %	-5.3 %
1991	12.2	13.1	-0.9
1992	4.7	0.4	4.2
1993	2.4	1.0	1.3
1994	-6.2	-6.5	0.2
1995	10.7	10.6	0.1
1996	10.5	3.1	7.4
1997	5.0	8.2	-3.2
1998	15.5	13.0	2.4
1999	33.4	5.3	28.1
2000	-2.3	5.3	-7.6
2001	14.7	-6.5	21.2
2002	7.4	-7.1	14.5
2003	6.4	8.8	-2.5
2004	-2.1	-1.3	-0.8
2005	0.6	0.0	0.6
2006	9.4	3.3	6.1
2007	8.6	5.9	2.7
2008	11.3	4.7	6.5
2009	19.2	5.2	14.0
Avg.	8.0 %	3.5 %	4.5 %

The Materials sector (S&P GIC) vs. S&P 500 1990 to 2009 table illustrates the strength of the trade from January 29th to May 6th. The Materials sector has outperformed the S&P 500, 14 out of 20 times and has produced an average gain of 8.0% compared with a gain of only 3.5% for the S&P 500. The worst drawdown of the period was 6.2% in 1994, but even then the sector managed to outperform the S&P 500.

The seasonal trend for this sector ends on approximately May 6th.

Spyders Metals and Mining (XME)
Added to Position Established in Late January

The current scenario for XME is very similar to XLB.

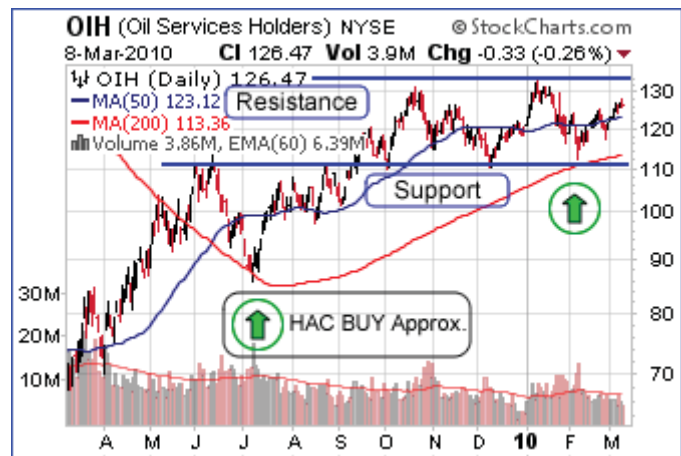
At the beginning of February HAC added to the original position of XME that was purchased at the end of January, bringing the total allocation to approximately 10% of the portfolio at the time.



The Metals and Mining sector corrected in January. It came down to just above the 200 day moving average, and set up very well for an ideal start to a strong seasonal period. Since that time the sector has had a strong movement upwards. XME is still in its trading channel and the next level of resistance is \$60 and the next level after that is \$70. The seasonal trend for this sector ends on approximately May 5th.

Oil Svc Holdrs TR Oil (OIH)
Added to Position Established in Late January

At the beginning of February HAC added to the original position of OIH that was purchased at the end of January, bringing the total allocation to approximately 10% of the portfolio at the time.



Like the two previous sectors mentioned above, the Oil Services Sector corrected in January. It touched its 200 day moving average in early February and has been on an upward move since. The next resistance level is \$133 to \$140. If this sector is able to break this level on good volume, the next resistance level is \$150.

iShares CDN S&P/TSX Cappd Energy Indx Fnd (XEG)

The classic seasonal time period for the energy sector starts on February 25th and lasts until May 9th. In last month's newsletter I outlined this trend with a graph and a table from *Thackray's 2010 Investor's Guide*. Based upon technicals HAC picked up XEG for approximately 5% of the portfolio during mid-month and added another 5% towards the end of the month. So far the trade has been performing at market.



XEG has currently bounced off the \$17 support line and is half way up the trading channel. There is resistance at \$19.50, but given that we are still at the beginning of the seasonal cycle, XEG could potentially breakthrough to a higher price target.

Recently the fundamentals for oil have been improving. The EIA is now expecting oil (WTI) to rise to an average price of \$81 per barrel over the second half of the year and \$84 in 2011. Similarly JP Morgan has raised its 2010 forecast for crude. OPEC is expected to place a floor price for crude @ \$75 a barrel when they meet on March 17th. In addition, floating storage, oil stored in oil tankers, has been dropping over the last couple of months, creating a more bullish inventory level. All of these fundamentals are pointing to higher oil prices in the near future.

It is possible that this sector will start its relative outperformance compared with the S&P/TSX and S&P 500, once again at the beginning of March as it has done a few times in the last few years (mentioned in last month's newsletter). On average the seasonal time period for this sector ends on May 9th.

Retail HOLDRS (RTH)

HAC took a position in the Retail sector in early February as the sector had just started its seasonally strong period and the was outperforming the market. Recently the sector has broken through its trading range and is performing

very well.

From a seasonal perspective the Retail sector has its best period from Jan. 21st to April 12th. During this time period from 1990 to 2009, the sector has produced an average gain of 8.5% and has been positive 80% of the time. Most investors think that the period before the shopping season in autumn is the best time. Although the Retail sector does well from October 28th to November 29, on average the best period has started in late January.



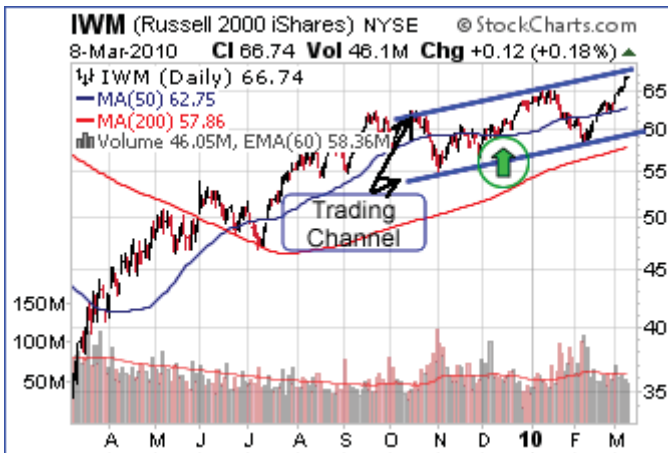
HAC – February SELLS/SWITCHES

Towards the end of the month HAC switched its core holding from a focus on the S&P 500 to a focus on the S&P/TSX. Starting in March and lasting to the end of April the S&P/TSX tends to outperform the S&P 500. This trend is primarily based upon the outperformance of commodities and the Canadian dollar. The preferred core holding is XIU at this time.

Sectors on the Horizon

iShares Russell 2000 Index (IWM)

On a seasonal basis the U.S. Small cap sector tends to outperform from mid-December to March 7th. HAC bought IWM in mid-December and it has done very well since, producing a strong positive performance and outperforming the S&P 500 and the S&P/TSX.



The seasonally strong period for the small cap sector finishes at approximately this time. In addition, IWM is currently at the top of its trading channel.

Below is relative strength chart measuring the strength of the small cap sector relative to the S&P 500. When the line is rising the small cap sector is outperforming, when it is falling, the small cap sector is underperforming.



I have included the above chart to illustrate the technique of using seasonal trends with technical analysis. Although the average seasonal trend for the small cap sector ends on March 7th, this is an average date – some years the

trend ends before and some years it ends after.

Using the average entry and exit dates has historically proven to be a very good strategy that has outperformed the markets. To “turbo-charge” the returns, overlaying seasonal trends with technical analysis can produce extra returns.

IWM has been providing positive performance and has been outperforming the market. For a technical exit date, investors can look to different indicators for guidance. Two indicators are the relative strength between a sector and the broad market and the use of stochastics.

For an exit signal on IWM, investors should look for the relative strength line to start to roll over. The first indication of this is the sector underperforming the broad market over a day or two. Even if the broad market and the sector increases, but by less, then this is an indication that the sector might be reaching the point of weakening strength.

For those investors that follow momentum indicators, a good tool to use is the full stochastic indicator. A reading above 80 indicates an overbought sector. Even though an overbought condition exists, a sector or the market can remain overbought for an extended period of time. The classic sell signal for this indicator is when the stochastic line turns down and crosses the 80 level.

At this time, investors should be looking to exit the sector based upon technical signals.

Canadian Dollar

In January I wrote extensively about how the seasonal trend of the U.S. dollar outperforms during the month of January. During the month of January the U.S. dollar outperformed the Canadian substantially.

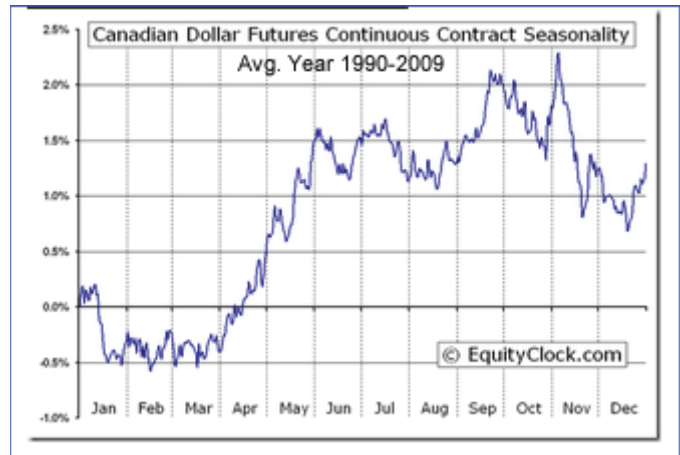
Recently the Canadian dollar has been improving against the U.S. dollar. This is part of the seasonal trend that provides another opportunity. On average the Canadian dollar starts to outperform the U.S. in the last half of March and into the month of April.

April has been a strong month for the Canadian dollar relative to the U.S. dollar. All of the largest losses occurred in years when the Fed Reserve was aggressively hiking their target rate. At some point during the years 1987, 2000, 2004 and 2005, the Fed increased their target rate by a total of at least 1%. Since 1971 these years were the four biggest losers for the Canadian dollar in the month of April. The Canadian dollar has been strong in April regardless of the long-term trend of the dollar. It started at approximately par in 1971 and reached a low in 2002 of \$0.62 and a high of \$1.09 in 2007. In both the ups

and the downs in the economy, the Canadian dollar has outperformed the U.S. dollar in April.

Below is a table from *Thackray's 2010 Investor's Guide* that illustrates the strength of the Canadian dollar in April. The Canadian dollar strategy is a new addition to the Investor's Guide series.

CAD vs USD April % Gain 1971 -2009				Positive					
	1980	0.29%		1990	0.44%		2000	-1.93%	
1971	-0.10%		1981	-0.75%		1991	0.65%	2001	2.69%
1972	0.53%		1982	0.88%		1992	-0.49%	2002	1.74%
1973	-0.41%		1983	0.64%		1993	-1.03%	2003	2.44%
1974	1.25%		1984	-0.62%		1994	0.14%	2004	-4.66%
1975	-1.58%		1985	0.04%		1995	2.83%	2005	-3.92%
1976	0.55%		1986	1.66%		1996	0.15%	2006	4.00%
1977	0.90%		1987	-2.44%		1997	-0.98%	2007	4.01%
1978	0.09%		1988	0.41%		1998	-0.86%	2008	1.78%
1979	1.59%		1989	0.59%		1999	3.41%	2009	5.29%
Avg.		0.31%	0.05%		0.42%		1.48%		



Historically the Canadian dollar has strengthened in March for a rally in April and May.

The strength of the Canadian dollar is largely dependent on the strength of the commodity complex, including oil. Investors should pay attention to the trend of commodities to help judge the relative strength of the Canadian dollar. Nevertheless, the odds once again favour that Canadian investors will be rewarded — eh !

The graph below, provided by www.equityclock.com, illustrates the average seasonal trend of the Canadian dollar from 1990 to 2009. [Equityclock.com](http://equityclock.com) is a new web site on the market that provides valuable research and charts on seasonal trends for sectors of the market and individual stocks. It is definitely worth a visit.

Disclaimer: Brooke Thackray is a research analyst for JovInvestment Management Inc. All of the views expressed herein are the personal views of the author and are not necessarily the views of JovInvestment Management Inc., although any of the recommendations found herein may be reflected in positions or transactions in the various client portfolios managed by JovInvestment Management Inc. HAC buys and sells of securities listed in this newsletter are meant to highlight investment strategies for educational purposes only. The list of buys and sells does not include all the transactions undertaken by the fund.

While the writer of this newsletter has used his best efforts in preparing this publication, no warranty with respect to the accuracy or completeness is given. The information presented is for educational purposes and is not investment advice. Historical results do not guarantee future results

Mailing List Policy: We do not give or rent out subscriber's email addresses.

Subscribe to the Thackray Market Letter: To subscribe send an email to subscribe@alphamountain.com with SUBSCRIBE in the subject line. Also state your first and last name, city and country.

Unsubscribe: If you wish to unsubscribe from the Thackray Market Letter send an email with UNSUBSCRIBE in the subject line to: unsubscribe@alphamountain.com.

Contact: For further information send an email to brooke.thackray@alphamountain.com