

Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

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Brooke Thackray is a Research Analyst along with 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 describing many of the trades and strategies in HAC.

Market Comment

The S&P 500 has had a spectacular run of 78% (trough to peak) from last March and investors were becoming extremely complacent and perhaps overly bullish. Investors Intelligence publishes a report measuring the bullishness of investment advisors. Recently the index registered a bullish level of 56% which is extremely high by historical standards— sounds good, except that this index is known to be a contrarian index. When the index is extremely bullish it often means that bearish times are ahead.

The latest earnings round has been great, beating the year over year comparables strongly. In fact, with the earnings season three-quarters behind us, earnings ran well ahead

of the analyst's expectations with almost 80% of companies surprising on the upside. Nobody can deny that these are good numbers, but it can be argued that a lot of the bullishness has already been baked into the tail end of the market's rise.

The VIX, which measures the implied volatility of stock options, is often called the fear index. A high number translates into high volatility and means that the market is suffering some angst. A low number is a reflection of a complacent market where investors are expecting the market to slowly climb onwards and upwards. The long-term average from 1990 to the current date is 20.3. In 2008 when the market was in deep peril the VIX registered an unprecedented 80. The average since the begin-

S&P 500 Technical Status

The S&P 500 managed to get through 1200 on a short-term basis and then turned down. The 1200 is now resistance. The next level of support is 1050, with major support at 1,000. The market is currently oversold and could have a bounce, depending on developing Eurozone problems. Regardless 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 **April 30, 2010**

Symbol	Holdings	% of NAV
Canadian Dollar Exposure		
XIU	iShares CDN S&P /TSX 60 Index Fund	40.1 %
XEG	iShares CDN S&P/TSX Cappd Energy Indx Fnd	14.8
		54.9
United States Dollar Exposure		
XLP	Consumer Staples Select Sector SPDR Fund	10.0
OIH	OIL SVC HOLDERS TR OIL	8.8
		18.8
Canadian Dollar Futures (June 2010) Currency Hedge **		0.2
Cash and Equivalents & Other		26.6
Total (NAV \$10,286,375)		100.0 %

** Actual exposure reflects gain / loss on hedge

ning of 2010 is a shade under 20, slightly below the average. Overall, investors have been fairly bullish on the markets and have been expecting positive returns. The “Club Med” effect has barely had an impact on the markets until the very recent days.

Originally investors were anticipating a quick fix to the problem in Greece, but are now realizing that it is more complicated and may not really be fixable. The standard solution of devaluing a currency, developing exports and attracting tourists does not apply as Greece uses the Euro and has no control over the currency. At this time, other than excommunicating Greece from the EU, there is no other solution other than to provide financial aid so that Greece can make their upcoming bond payments. The price will be an austerity program to cut expenses which is expected to reduce the standard of living for Greeks for the next seven to ten years. Obviously the Greek citizens are not happy with the outcome.

Most investors have now read that besides Greece, Portugal, Spain, Ireland, Italy and the United Kingdom are also in perilous shape (in varying degrees). An obvious difficulty occurs if these countries need to tap into EU support. All of these countries need money in the future, including Greece. In the past, countries counted on pulling out of a recession with future growth helping to alleviate the pain. The situation that we are currently in is not a standard inventory recession, but rather we are experiencing a credit recession where the affects felt for a

much longer time as deleveraging takes place. It is going to be very hard for the Club Med countries, and others to work their way out of this situation. This is particularly so as investors have started to catch on to the gravity of the situation are demanding higher and higher bond yields. The yield on Portuguese two year debt has very recently climbed to 8.8%, more than 8% above German debt for the same period. As bond yields climb to reflect true risk, countries are going to be spending a higher and higher percentage of the GDP on paying the interest payments. It is a vicious circle that if it gets out of hand can lead to a “death spiral,” where it becomes impossible for the deeply indebted country to pay off their debts. The large Greek debt obligation which comes up on May 19th will be met with the help of the EU and the IMF. This does not mean that we are out of the woods as Greece still has other debt obligations coming due and both Spain and Portugal have very large debt obligations coming up a bit later this year.

Over the weekend the EU leaders have been in meetings to try and control the situation. They are in the process of developing a plan to commit more money to the problem and create a structure that somehow guarantees the debt of other EU countries in trouble. Their goal is to try and stop the wolf-pack of investors at the door that are waiting to tear apart the at risk countries. The EU has been very slow in responding to the situation, exacerbating fears in the markets. They have now come to the realization that they need to step up to the plate and address the situation with bigger commitments.

Whatever plan they produce will only cure the symptoms, not the problem. Even under the current projected scenario with the IMF and EU, Greece is still expected to run a deficit for over the next three years. Collectively, the countries of the world have come to expect real global growth to help solve their problems with time. In a credit deleveraging cycle this is not so easy.

Expect any strong commitment from the EU to rally the world wide stock markets in the short-term. Regardless investors should expect more sovereign debt problems on a go forward basis. It is possible that the EU will delay their problems for one, two or even three years, but the problems will only be delayed.

Earnings-Economics Cycle

In my previous April newsletter I stated that the markets would more than likely do well until at least April 18th because of the Earnings Month Effect (page 39 Thackray's 2010 Investor's Guide). Okay, I missed by a few days, as the S&P 500 printed a high of 1217 on April 23rd. In my analysis I stated that the markets would do well for the first part of April because investors and money managers tend to focus on earnings during earnings months and once the bulk of the earnings get out of the way, the focus turns to economic reports. Please refer to analysis and diagram in the April newsletter.

Well, we are past the bulk of earnings season and the focus has shifted to economic reports and international affairs. Over the next few weeks expect the market to be volatile as the market tries to forecast the outcome of any EU solutions to their countries debt problems.

Looking out a bit further, if the Euro zone has settled down, expect the market to once again start to focus on earnings towards the end of June and into July. This could present some positive trading opportunities. If this situation does arise then investors should be nimble enough to capture profits in the broad market by July 18th. Despite market conditions there are some excellent seasonal trades present themselves in the summer.

HAC : TSX UPDATE - Lucky? Maybe a Bit

With HAC's recent strong performance, I am getting more and more questions asking if it is just luck when the market movements line up with the best seasonal dates to get into or out of the broad markets.

It is uncanny how often the market prints a low in October or a high in May. With the current Euro zone situation the threat of Greece defaulting could have come at any time of the year and had a negative impact on the market. Occurring at the time when it is seasonally optimal to reduce

beta and /or equities is a coincidence. Nevertheless, the seasonal trends that occur in the broad markets bottoming in October and peaking in May, tend to increase sensitivity to influences that can make the markets rise or fall.

HAC : TSX – Doing it Right

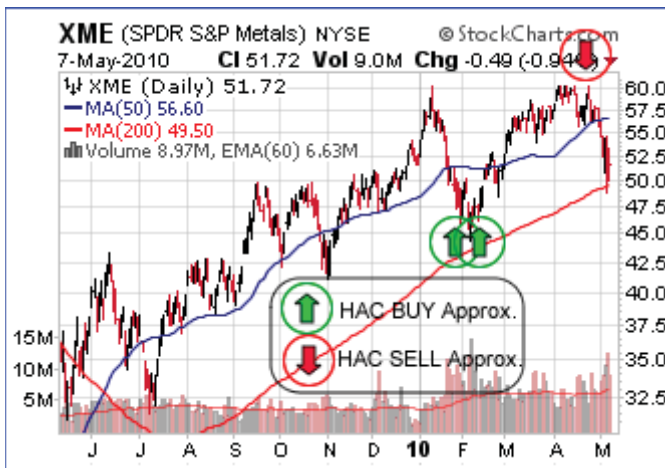
Using seasonal analysis as a trade methodology allows for the approximate entry and exit dates based upon historical trends. Although seasonal dates have produced superior returns, using technical analysis to fine tune the entry and exit dates can turbo-charge the returns. Although the average historical exit date for the broad market has been May 5th, the market showed signs in the latter part of April of turning down as the MACD had a bearish crossover.



At approximately the same time, it was the seasonal time to follow-through on the Consumer Switch strategy which calls for a switch from the Consumer Discretionary sector to the Consumer Staples sector. This strategy is premised on the historical trend of the Consumer Discretionary sector outperforming from October 28th to April 23rd and the Consumer Staples sector outperforming for the other six months (see page 45 of Thackray's 2010 Investor's Guide for performance results). HAC made the switch to the Consumer Staples sector which defensively positioned the portfolio.



At the same time as the Consumer Switch, HAC decided to start collecting cash and sold the Metals and Mining sector (XME) and the Materials sector (XLB). Both of these trades were profitable for HAC and it was time to reduce beta in the portfolio.



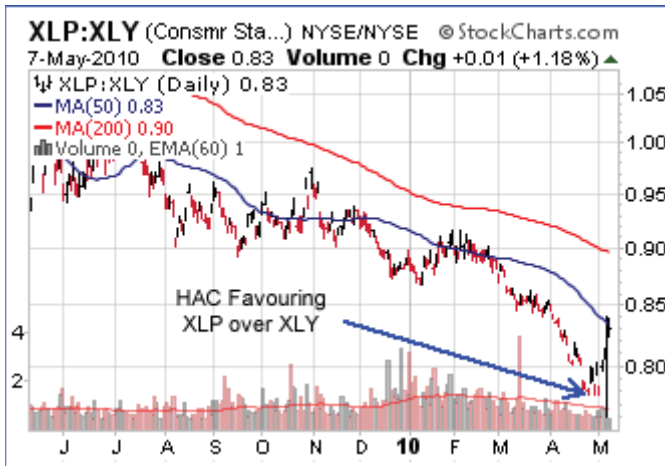
In the first few days of May it was decided that HAC should sell the Oil Services sector (OIH) to reduce energy exposure. The energy sector has been a drag on the portfolio as it has underperformed the broad market and it was decided that since the sector was reaching its exit date, given market conditions that exposure to the sector should be reduced (please note: normally it is not possible, due to regulations, to comment on trades at the beginning of the month, but since the topic was covered on BNN TV (Market Call) and available to the public, it is possible comment).



Also in the first few days of May it was decided to sell the exposure to iShares CDN S&P/TSX 60 (XIU). This represents moving the core position in the broad stock market index to cash as we approached the unfavourable season. HAC has held either XIU or an ETF representing the U.S. market at different times from the inception of the portfolio on November 19th.

To add further protection to the portfolio we decided to pair up the long position in the Consumer Staples sector with a short position in the Consumer Discretionary sector. This was done to reduce the risk in the portfolio of being caught in a downwards market.

The Consumer Discretionary sector (XLY) sector has performed extremely well for HAC as it has outperformed the market since it was added to the portfolio at inception in November. It has also outperformed the Consumer Staples sector (XLP) over the same time period. The relative strength of XLY to XLP has recently been rolling over making a short on XLY an excellent candidate to pair with a long position on XLP.



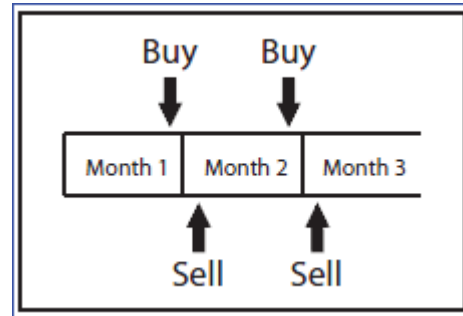
Future Strategies for HAC : TSX

HAC still holds exposure to the energy sector with iShares Energy Fund (XEG), but is planning on removing this position at an opportune time supported by the right technical indicators.

At this time HAC is looking to continue holding the short position in XLY, but plans to cover the position (remove it) during time periods when the market is expected to increase in a material way. If this strategy is used, given that the end of the month tends to be a positive time, it is possible that investors will not see this holding in month end portfolio statements because of the possibility of the position being temporarily removed.

egy is used, it is possible that investors will see a portfolio which appears to be substantially “in the market” but in reality only reflects a shorter term position.

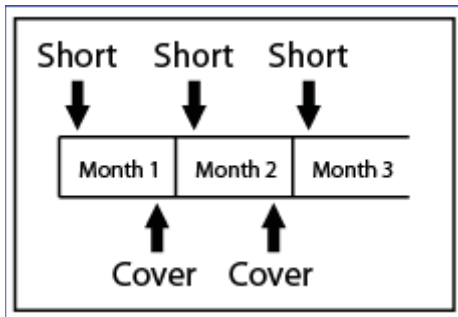
Potential End of Month Strategy



The end of the month tends to be the best days to invest in the market (see Thackray’s 2010 Investor’s Guide page 35). If seasonal and technical conditions warrant the execution of entering the market for a short period, then HAC may take advantage of the opportunity. If the end of the month strategy is used, from an optics point of view, the end of the month portfolio will appear to largely be committed to equities. In practical terms these investments will typically only represent shorter term strategies. It is possible that the commitment may be extended based upon holiday or earnings affects.

Even when the market is expected to be “flat” or negative, there are still seasonal opportunities. Despite adjusting the portfolio for expected risk during the next few months, HAC is looking forward to taking advantage of upcoming seasonal opportunities.

Potential Short-Cover Strategy



The above chart illustrates the potential strategy. If XLY is paired as a short with a long position in XLP at the end of the month, the strategy will not be visible in month end reports. It is anticipated that the pair strategy, teaming XLY and XLP together will be used when technical and seasonal circumstances warrant the strategy.

In addition, it is possible for HAC to take advantage of seasonal strength at the end of the month by temporarily taking a long position in equities. Once again, if this strat-

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