

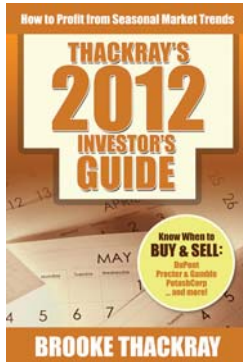
Thackray Market Letter

— Know Your Buy & Sells a Month in Advance —

Published the 10th Calendar Day of Every Month

Volume 5, Number 11, November 2011

Written by Brooke Thackray



- ◆ New Strategies
- ◆ Updated Charts and Tables
- ◆ Stock Seasonal Strategies
 - ◇ DuPont, Procter and Gamble, PotashCorp....and more

Thackray's 2012 Investor's Guide can be ordered from:

Chapters, Amazon, Books on Business, Barnes and Noble. The bookstores should be receiving inventory shortly.

It is also available from my www.alphamountain.com website. We currently have inventory that can be shipped in two days.

Market Update

Greek Tragedy ~~ACT IV~~ – ACT III

Cont....page 3

S&P 500 Technical Status

After a rally starting in early October, the S&P 500 has currently stalled at the 1250-1275 resistance level. It is also having difficulty making it through the 200 Day Moving Average which currently sits at 1273. After a pullback on November 9th, the S&P 500 sits just above the support line at 1220. In the short-term, if we see the market bounce off the 1220 level on strong volume, then this will be a positive sign. If the market corrects below the 50 Day Moving Average, there will be a good chance that the market will correct to 1125. The current upside target is 1370 that was established in late April.

A lot of the price action recently has been on low volume, showing a lack of conviction in either direction. Although it is possible for the market to settle down for a couple of days, given the macro-economic events taking place in Europe, investors should expect increased volatility.

Given that we are in the favourable six month period for the markets, it is likely that we will see the 1370 level in the during the favourable season for equities. If we do see 1370, it will be very difficult for the market to make it past this level.



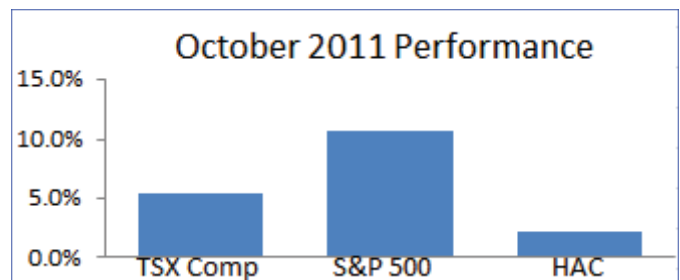
Horizons AlphaPro Seasonal Rotation ETF (HAC :TSX)
Portfolio Exposure as of **October 31st, 2011**

Symbol	Holdings	% of NAV
	United States Dollar Exposure	
	Equities	
XLY	Consumer Discretionary Select Sector SPDR Fund	4.3%
XLI	Industrial Select Sector SPDR Fund	2.2%
IYT	iShares Dow Jones Transportation Average Index Fund	2.2%
MOO	Market Vectors Agribusiness ETF	4.5%
ORCL	Oracle Corporation	1.7%
SMH	Semiconductor HOLDRs Trust	2.7%
SPY	SPDR S&P 500 ETF Trust	19.1%
XLK	Technology Select Sector SPDR Fund	1.7%
EWC	iShares MSCI Canada ETF	-5.7%
XLU	Utilities Select Sector SPDR Fund	-8.8%
	Commodities	
JJG	iPath Dow Jones-UBS Grains Subindex Total Return ETN	2.0%
SLV	iShares Silver Trust	4.0%
DBA	PowerShares DB Agriculture Fund	4.0%
GLD	SPDR Gold Shares	9.8%
	Currency	
UUP	PowerShares DB US Dollar Index Bullish Fund	4.4%
	US Dollar Forwards (November 2011) - Currency Hedge **	-0.1%
	Cash, Cash Equivalents, Margin & Other	51.9%
Total (NAV \$64,973,282)		100.0 %

** Actual exposure reflects gain / loss on hedge (Notional exposure equals 52.0% of current NAV)

Performance Comments:

For the month of October, HAC produced a gain of 2.1%. This compares to the S&P 500 which had a gain of 10.7% and the TSX Composite which had a gain of 5.4%. The end result: HAC underperformed the S&P 500 and the TSX Composite. The S&P 500 strongly outperformed the TSX Composite.



Source: Bloomberg, HAC performance based upon Net Asset Value

Brooke Thackray is a Research Analyst along with Don Vialoux and Jon 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.

It is hard to tell if Europe is making progress in solving its debt crisis. They take two steps forward and one step backward. Is Greece in ACT IV or ACT III of its drama— it is hard to tell? Amongst all of the political turmoil with resignations and referendums, it appears that there is a political will of the PIIG countries to “progress forward” with austerity reforms in order to accept northern European support. With the potential double resignation of Papandreou and Berlusconi, potential interim governments are stepping up to the plate and stating that they will support needed reforms. Of course, this is Europe and as we have seen, anything can happen. In the short-term, if Greece and Italy are able to meet their European austerity targets, the stock market will rally. Do not mistake progress at this point with the situation being solved— far from it. Even under the current proposal, a “haircut” of 50% on Greek debt will still have the Greek debt to GDP ratio over 100% at the end of the decade. This is under positive growth assumptions that will probably prove to be too optimistic. When is all said and done, the haircut will probably be in the neighbourhood of 80% to 90%.

Greek Math. The European banks are in trouble and they are going to have to take substantial write-downs. They are then required to go to the market and try and raise capital (good luck), and if they are unable to raise capital, they will tap the ESFS which has been quadrupled in order to support the banks. With Italy and Spain looking more and more likely that they are going to need financial help over the next few years, the current rescue package does not look like it is enough. The Greek equation is not adding up, and although the market may rally in the short-term over the few months, more problems lie ahead.

UPDATE - I wrote the above section on Tuesday November 8th and the situation has gotten dramatically worse on Wednesday. Italian bond yields spiked above the magic 7% level. The concern is that this is the same level that forced Greece, Ireland and Portugal to require financial assistance. Within a month of the Greek 10 year bonds hitting 7%, the country needed assistance. Likewise, within a month, Ireland needed assistance. On a positive note, it took Portugal a bit longer, six months. The problem is that once bond investors start the process of taking away support for sovereign bonds, yields can climb very fast, much faster than most people anticipate.

The EU is looking for a solution, but it is difficult to predict if they are going to be able to implement one. Greece and Italy are currently without strong official leadership. Europe wants a commitment that the countries will implement more austerity programs before they commit any more money, but there is no one to make the commitment.

The big concern with Italy is that they have a lot of debt to roll over in the next two years: €200 billion in 2012 and €150 billion in 2013. Europe will step into to help, but the latest rescue package is looking more and more inadequate, given the scope of the problems.

U.S. Drama

Not to be outdone, the U.S. is going to start its own drama later this month. The Super-Committee that has been charged with developing an action plan to reduce the U.S. debt is reporting later this month. So far, the word on the street is that there has been very little progress in this partisan committee. With automatic budget cuts supposed to be enacted if there is no agreement, political shenanigans will once again be used to kick the can down the road. When this political situation starts to make the headlines, there is potential for the market to have a negative focus, creating a dampening effect on stock prices.

Thank Goodness – We are Now in the 6 Month Favourable Season

Over the last six months, HAC has been increasing its value in a negative market. This was done by strategically allocating money to cash at the right times and by establishing successful pair trades. HAC made a profit by investing in sectors that did well in the summer, such as, gold; and shorting other sectors, such as, metals and mining that performed poorly.

At last, we are in the best period of the year for equities. Okay- I am not jumping up and down like I usually do at this time of the year. I prefer markets that don't always have large macro-economic events hanging over their heads. When large macro-economic events occur, they can overwhelm the fundamental, technical and seasonal influences. We have to take what we are given. There is still money to be made in this market and lots of seasonal opportunities.

In September, I wrote about three opportunities to enter the stock market during the month of October – the beginning of October, the 9th of October and the 28th of October. I also stated that the most favourable time to enter market would probably be towards the end of the month.

At the end of September, HAC was net 100% in cash. When the market started to rally in the beginning of October, HAC started to add equity positions. HAC continued to add small positions during the month and ended up with a conservative 48% net long position in the market at month end.

HAC is anxiously looking to allocate a substantial portion of its cash into favourable equity positions that tend

to do well at this time of year. The market has become overbought and HAC is looking to deploy its cash at favourable times.

Performance & Positions & Opportunities

Because of its conservative position during the month of October, HAC under performed the broad stock market indexes. It should not be expected that HAC captures every rally, especially when they occur outside of the strong six month seasonal period from the end of October to the beginning of May. Since inception, HAC has been able to outperform the stock market with less volatility by side-stepping most of the large corrections and catching most of the rallies, .

Most of the positions in the portfolio have outperformed the market over the last month and still have favourable seasonal tendencies. HAC under performed the market in October because of its conservative position in holding a substantial portion of cash. In the near-term, HAC will be looking to add to a lot of the equity positions that we currently hold in the portfolio.

Gold

HAC benefited strongly from holding gold stocks and bullion ETFs in the summer and selling them in late August. In late October, HAC stepped back into the gold bullion market, investing in GLD. As previously mentioned, in previous newsletters, the month of October tends to be a weak month for gold. As the sector corrected down to support during the month of October, and November tends to be seasonally strong for gold, HAC entered the sector once again late in October. Although gold can perform well in November, December can be a weak month for the metal and as a result, investors should be looking to exit the sector at the end of November.



GLD is currently at the top of its trading channel, having risen since early December. Investors should be watching

for signs of gold weakening relative to the market, particularly around the end of November.

Many investors are under the perception that gold will perform well if the markets get pummeled. This is not the case. I have written about this before, and all that investors have to do is go back to September of this year to see the evidence. When the markets get hit hard, margin calls are made and gold tends to take it on the chin. Gold will probably do well in the current environment unless the stock market corrects severely.

Silver

There has been a lot of interest in silver over the last year and as a result I decided to add this sector to my 2012 Investor's Guide. Silver tends to outperform during the months of September, November and from January to March. Although, in a strong bull market, silver can bridge the gap from November to the New Year, it is often better to decrease holdings during the month of December.

HAC entered into a position in the silver bullion ETF (SLV) late in October.



Silver is currently trading under its trading channel. It gapped down out of this channel in September. A lot of investors follow the adage that all gaps get filled, which would mean that silver would trade back to the \$40 range. Although I do not follow this belief, if the market is able to get back on its feet, silver should do well at this time. Investors should remember that silver is more volatile than gold and if the markets correct strongly, silver will probably go down more than gold. Investors should consider exiting this position at the end of November, depending on technicals.

Agriculture

After taking a hiatus from the agriculture sector in the month of September, HAC added back agriculture po-

sitions during the month of October. The real seasonal sweet spot for this sector is from late October to the end of the year, and with favourable technicals, HAC once again entered the sector late last month.



MOO has been outperforming the market since the beginning of October. It currently has several layers of resistance overhead. Investors should note that although the agriculture sector tends to do well at this time of the year, if the market corrects severely, the sector will underperform the market.

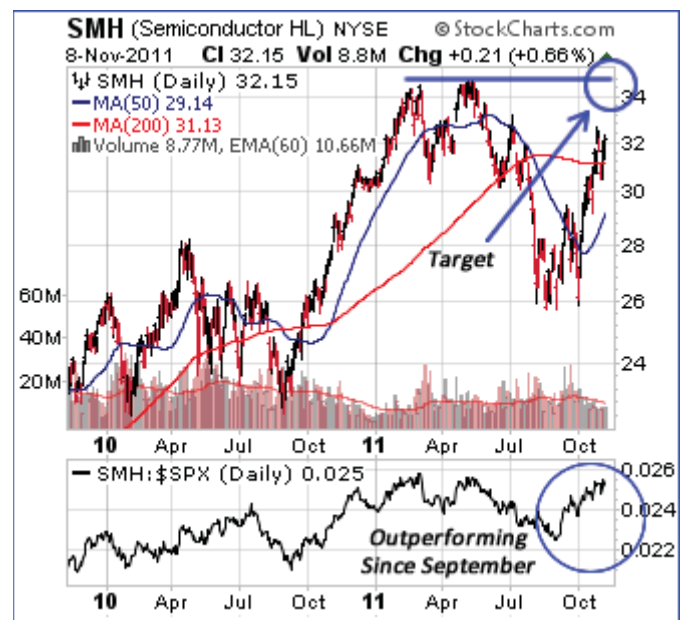
Technology

The technology sector usually starts its outperformance in the second week in October, but this year it started its outperformance in late June. In October it looked like the sector was running out of steam, at least relative to the market. Not only was the sector looking a little soft, Apple, the largest company in the sector was also showing mediocre performance based upon the market's reaction to Steve Jobs death and the launch of a weaker iPhone than expected. As a result, HAC decided to only take a small position in the sector. Instead, HAC established a bigger position in the semiconductor sector which also has a strong seasonal trend at this time of year. It proved to be a wise choice as the semiconductor sector has outperformed both the S&P 500 and the technology sector.

From a technical perspective, XLK is flattening out relative to the market and is bumping up against resistance. The sector is losing some of its attractiveness. This could all change if XLK is able to break through resistance on strong volume. It is something worth watching.

The semiconductor sector has been performing very well and is still maintaining its outperformance relative to the

market. The target for SMH is \$35, up against the previous resistance level that was established in April.



Oracle (graph on next page)

Oracle has performed extremely well relative to the market, but is starting to show some signs of weakening. It is also bumping up against a resistance level at \$34. Investors should consider selling this position if the stock weakens further relative to the market.



Consumer Discretionary

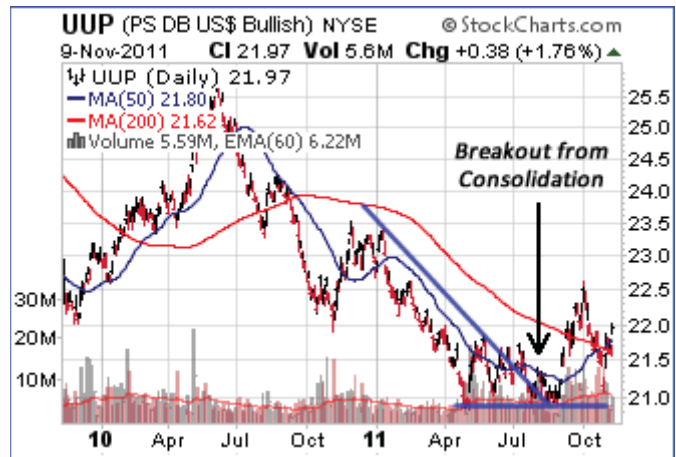
The consumer discretionary sector is a “staple” of the best six month period in the market from October to May – excuse the pun.

In the summertime, both the staples and discretionary sectors outperformed the market. The discretionary sector has maintained a long period of outperformance, but looks like it might be starting to weaken. This sector typically does well at this time of the year, and on average outperforms the market over the next six months. Despite this trend, the sector has stretched itself and investors should be cautious at this time.



UUP

The U.S. dollar has broken a long-term downtrend relative to the world wide currency basket. Given the situation in Europe, investors have been flocking back to the U.S. dollar. Although this trade has worked, investors should be careful as the U.S. dollar typically weakens at this time of the year. Foreign companies tend to repatriate their currency holdings back to their home countries at yearend, putting downward pressure on the U.S. dollar. If Europe continues to fall apart, UUP will more than likely perform well, but nevertheless, given the weaker seasonal period approaching, investors should consider exiting this position when the U.S. dollar starts to underperform.



Industrials



The industrial sector has been outperforming the S&P 500 since the start of October. It is currently up at resistance and the 200 day moving average. It may stall at this point, but if the market is able to get back on its feet, it will once again have a strong seasonal tendency to outperform the S&P 500.

Transportation

The transportation sector typically outperforms the S&P 500 up until mid-November. Given that the sector is at resistance and its seasonally strong period ends shortly, investors should consider exiting this position. Currently, oil is performing better than expected, as China is showing strong demand for oil and Iran is causing geopolitical problems. Higher oil prices tend to put a dampening effect on the transportation sector, giving another reason to look at exiting the position.



Utilities (Short-Sell)



Utilities tend to underperform the market during the month of November. Generally, the market rotates out of

the defensive sectors at this time of year, causing the sectors to underperform.

From 1990 to 2010, the utilities sector has been the worst performing major S&P GIC sector during the month of November. On average, it has produced a gain of 0% and has only beaten the S&P 500, 33% of the time.

Given that the sector has performed very well up until recently, is currently over-owned and at the top of the trading channel, shorting the sector is a good counter balance to longer positions in the market.

Canadian Banks



I would love to say that I was excited about Canadian banks, but they are just not showing themselves to be strong performers. Even though they recently have had a minor breakout from their downtrend, they are still underperforming the TSX Composite.

Canadian banks may perform well later this month when they release their earnings. They are more likely to perform well in the New Year if the U.S. banks start to perform well after they release their yearend earnings, starting in mid-January.

Other Possible Trades of Note

The metals and mining sector tends to perform well, starting on average, November 19th. Please see Thackray's 2012 Investor's Guide, page 139.

For short-term traders, the days around Thanksgiving provide a strong seasonal profile for a short-term investment. Please see Thackray's 2012 Investor's Guide, page 141.

Final Thoughts

This is a difficult market in which to invest, as there are potential macro-economic events that could influence the market in both directions. Trying to figure out what is going to happen in the short-term over in Europe is next to impossible. There are too many political interests at stake.

The European problem is more than likely going to be with us for quite a while. If the financial system in Europe crumbles, then the fallout would be severe and the consequences would be felt over the next several years. If Europe is able to “kick the can down the road” one more time, the problems will still remain and come to a boil later on. Either way, the problem is going to be with us for quite some time.

The big problem is how do you invest in this climate. From a seasonal basis, we are now in the favourable six month period for equities, and the onus for HAC is to be substantially in the stock market.

The opportunities for HAC are going to take place through actively managing the risk of the portfolio. Firstly, equity allocations can be changed on an intra-month basis. During certain times of the month, typically near month end, equities tend to perform very well. By increasing the beta in HAC during these times, value can be added to the fund. On the other hand, decreasing beta during the typically softer times of the month will help manage risk on a seasonal basis.

Secondly, HAC can focus on the sectors of the market that tend to outperform at this time of the year. The problem here is that a lot of the sectors are cyclical sectors. As a result they increase the beta of the portfolio, proportionally more than the broad stock market.

Thirdly, HAC can actively managed the different sectors on an intra-month basis to reduce the overall amount of risk during the month. For example, a higher beta sector can be added to the portfolio when it has a seasonal tendency to outperform within the month, and then reduced during the times of the month where the seasonal trends are weak. Using this active approach can provide a portfolio that reduces the amount of beta risk when calculated on an average weighted basis during the month.

Forthly, HAC has the opportunity to hedge the portfolio by shorting sectors that typically have a negative seasonal performance. This will help provide some downward protection.

Fifthly, HAC also has the opportunity to diversify its holdings across different investment types that have strong seasonal tendencies. By investing in different asset classes, such as, commodities, currencies and fixed income, the risk of the portfolio can be reduced.

In the upcoming newsletters, I will write further about how HAC is mitigating risk in a difficult market.

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