Generations ETFs episode 10: Brooke Thackray
interview transcript
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Introduction

Welcome to Generation ETFs, brought to you by Horizons ETFs Management Canada Inc. This is a podcast series dedicated to the next generation of investing. I'm your host Donna Papacosta, and in this series, Generation ETFs will aim to educate and inspire investors to understand and be active in their portfolios by discussing market trends and investment strategies with the leading experts in the industry.

In this episode of Generation ETFs, you'll hear from Brooke Thackray. Brooke is a research analyst at Horizons ETFs Management Canada Inc. and Canada's leading expert on seasonality. In fact, he has written nine books on seasonal investing, including *Thackray's 2015 Investor's Guide*. He is also a frequent guest on BNN.

In this conversation, Brooke discusses seasonality and what it means for investors today.

Interview

Interviewer: Brooke, it's 2016. You've got your latest investor book out and we're continuing on this topic of seasonality. What are the big trades for each quarter in 2016?

Brooke Thackray: In the 2016 book there's lots of excellent seasonal trades in the book. But if we wanted to take a look at one trade per quarter that investors can focus on in 2016, in the first quarter, the materials sector represents an excellent seasonal opportunity, particularly because this sector's been beaten down so much in 2015 relative to the market. If you see the economy start to produce stronger numbers, the materials sector should respond well. From 1990 to 2015, from January 23rd to May 5th, you've seen this sector give an average performance of 7.3% and be positive 77% of the time.

If you look at the second quarter, fixed income, which is a totally different asset class altogether, provides an excellent opportunity. Fixed income tends to do well when the stock market goes into a more conservative mode. Very often the market will peak in May and investors still want to be invested in something, so they tend to rotate into the fixed income market. Fixed income tends to do well from May 9th to October 3rd.

When we look at the third quarter, gold is usually a good seasonal opportunity in this quarter. From July 12th to October 9th from 1984 to 2015, it produced an average rate of return of 23.8%, and it's been positive 68% of the time. The seasonal impetus for that, what's driving that sector at that time, is that there's just an imbalance between supply and demand where demand in the fall time, because of larger purchases that take place in the fourth quarter – whether it's our culture or the Asian culture or the Indian culture – we see a lot of purchases take place. This drives back where gold has to be bought to make gold jewellery in the summer months driving up the price at that time. It hasn't worked all the time. It can be a very volatile trade, but if you want to buy gold, that's the one time of the year you should be focusing on it.

For the fourth quarter, one of the things that I want to emphasize as well as far as the seasonal trade goes, is that in my book I talk about the Canadian snowbird trade. That is that investors should focus on the U.S. market from October 28th until December 13th. In that time period you see the S&P 500 tends to outperform the S&P TSX composite. It's a good place to be in the fourth quarter of the year.

Interviewer: One of the major seasonal trades in your book is the small cap effect as you call it. What is this trade and when can investors watch out for it?

Brooke Thackray: The small cap sector trade really is ... The genesis was the January effect. A lot of people have heard of the January effect where stocks tend to do well in January because they can be beaten down at some point in December from tax loss selling. Really, that's one of the trades that's actually shifted because investors really want to be in the market for the new year. It's best to actually enter into the small cap sector a little bit earlier. Don't wait until the end of the year from a seasonal perspective, but actually get in in mid-month. So from December 19th until March the 7th, the small cap sector from 1979 to 2014 has actually produced a 5.7% average rate of return. If you compare it to the large cap sector, it's outperformed it 69% of the time, so more than 2/3rds of the time. You want to be in before January, so mid-December, and you want to extend that out until the beginning of March.

Interviewer: As we all know, many Canadians are heavily invested in our big five banks. When is the favourable period for financial stocks, Brooke?

Brooke Thackray: The favourable seasonable period for banks is actually two periods in the year. One is from October 10th until December 31st and the other seasonal period is from January 23rd to April 13th. From 1990 to 2015, Canadian banks have produced an average rate of return of 5.6% and it's been positive 73% of the time from January 23rd to April 13th. Now, Canadian banks are always, typically in the Canadian portfolio, a good core position, but this is when they tend to outperform the TSX composite.

Interviewer: Oil had a tough year in 2015. During what periods do you think energy is likely to have a rally?

Brooke Thackray: There's no question that oil and oil stocks have had a tough time in 2015, and even in 2014, the last half of the year. Ironically, the seasonal period for the energy sector including oil stocks has actually worked in 2015. The best time to be in oil stocks is from February 25th until May 9th. If we go back and look at the NYSE ARCA Oil Index, XOI, and the average gain from February 25th to May 9th from 1984 to 2015, has been 7.1% and it's been positive 84% of the time. Despite oil going down last year for most of the year in 2015, it did manage to be successful in its seasonal period and it's definitely a period of time in 2016 when investors should be looking at to invest in oil because if you want to invest in oil, or oil stocks, this is the one time of the year where you should be looking at that sector.

Interviewer: Brooke, what are the advantages of using an ETF like HAC to capture these seasonal trends that you've been talking about, or are investors better off trying to capture the trades on their own?

Brooke Thackray: The beauty about seasonal investing is that the strategies can be used by individuals in their own portfolios. They can take advantage of a lot of the principles of seasonal investing. If you're looking at a comprehensive approach, a complete strategy to take advantage and get the full benefit of seasonal investing, HAC, that's what HAC provides. It's a very active strategy and it's a very disciplined strategy. It requires an extreme amount of work to put it all together. That's something that an average investor doesn't have the time or the expertise to take advantage of that. Yes, there is a value of adding and investing into HAC.

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