Michael S. (Mickey) Fulp
M.Sc., C.P.G.

MercenaryGeologist.com
contact@mercenarygeologist.com

Tax-Loss Seasonality of the Toronto Venture Exchange

A Monday Morning Musing from Mickey the Mercenary Geologist

Contact@MercenaryGeologist.com

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In mid-June, I documented the intra-year seasonality of the Toronto Venture Exchange (TSXV) over its plus 14-year history (**Mercenary Musing, June 13, 2016**).

This venture capital market is dominated by nano-cap resource exploration companies with a few small miners in the mix. Of 1682 current listings, 985 (59%) are classified as "mining" companies. In actuality, the vast majority are mineral *explorers*; few actually mine anything other than the stock market. Energy companies comprise 10% of the listings. Minor sectors include diversified industries, technology, life sciences, real estate, clean technology, and "capital pool companies", i.e., shells with no project.

The Toronto Venture Exchange Index is a weighted average of about 400 of the largest companies and serves as a proxy for performance of the overall market.

In a series of normalized charts, we will show there are predictable patterns for the TSXV Index from mid Q4 of any given year thru January of the following year. Then I will illustrate how these patterns can be used to trading advantage before and after the new year.

Here is the record of the TSXV Index from 2002 to present:

Over a history approaching 15 years, the Venture Index has exhibited significant volatility. Its rises and falls broadly correspond to bull and bear markets for gold but are much more pronounced:

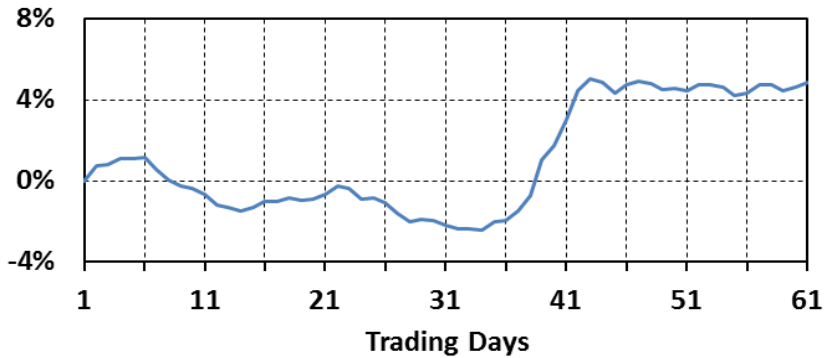**London Gold Spot Price: 2002 - Present**
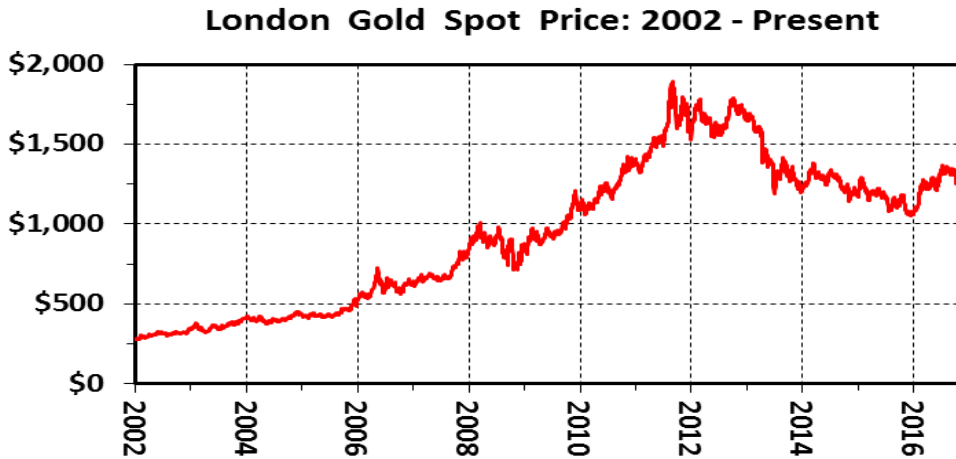
The following series of four charts shows the percentage change in the daily value of the TSXV Index normalized from November 1 to January 31 for each year:
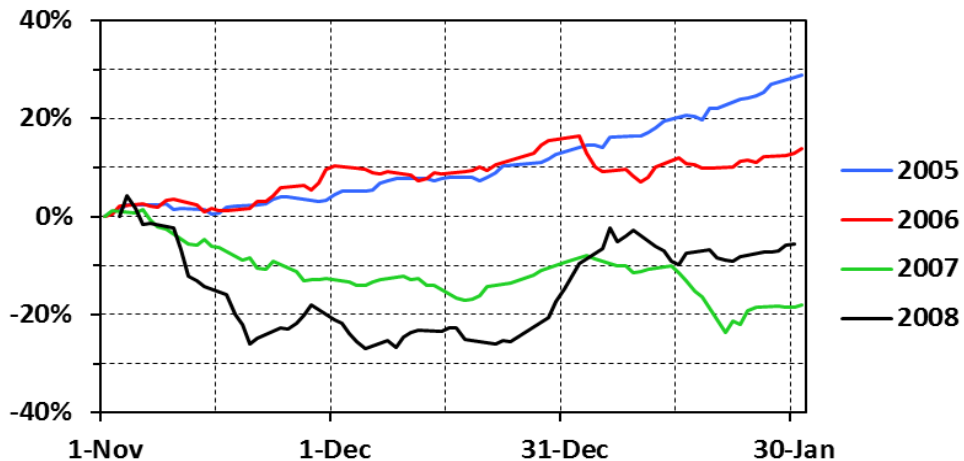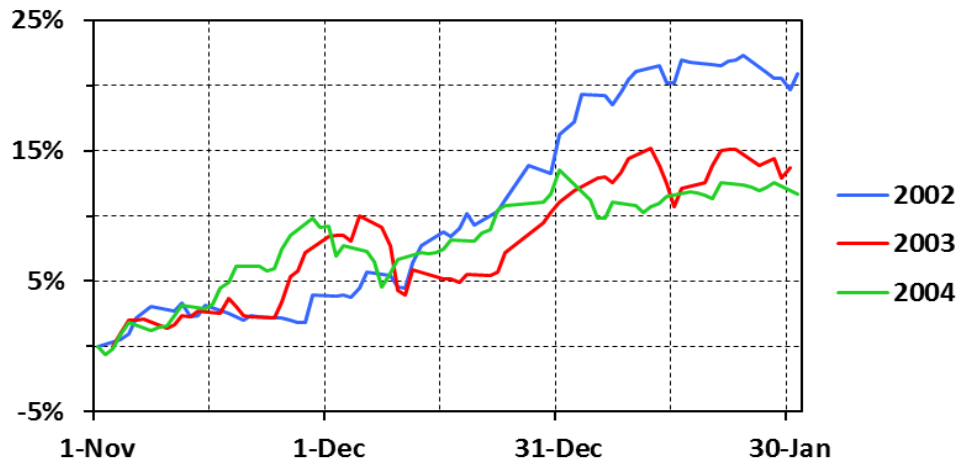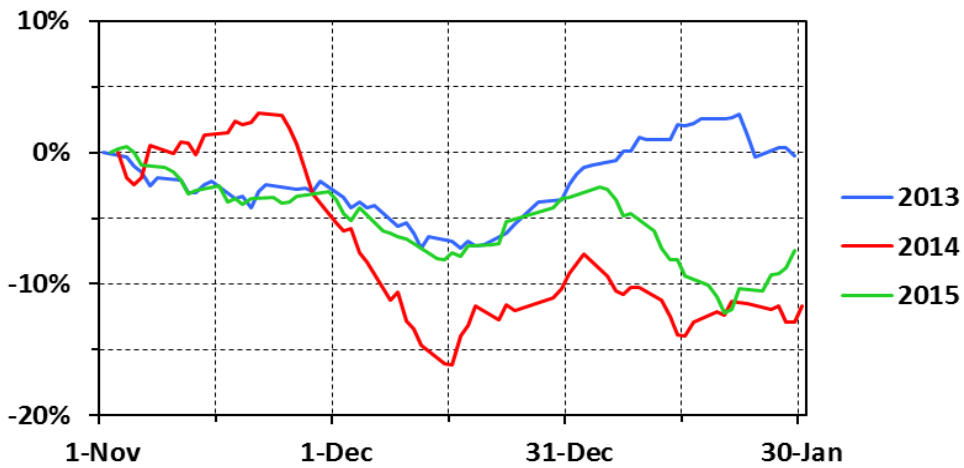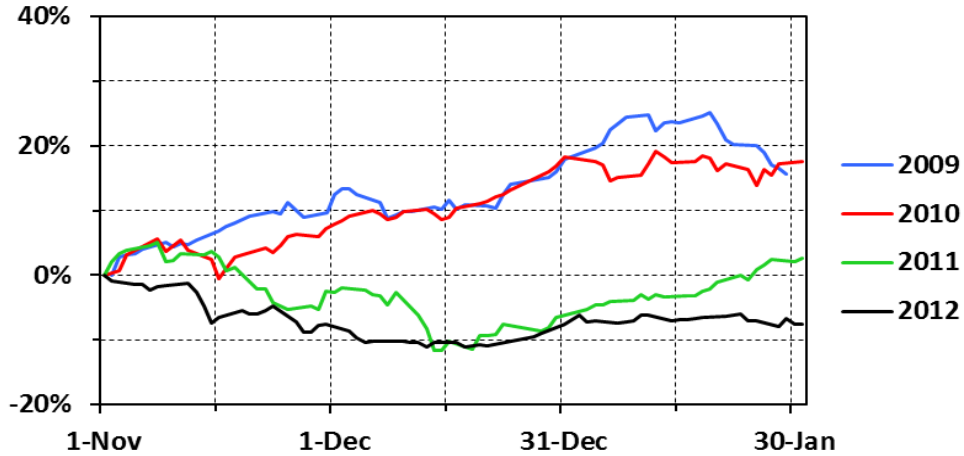
This composite TSXV Index chart shows the percentage change from November 1 to January 31 over 14 years:

In the next two charts, we have separated the November 1 to January 31 composites into bull and bear markets based upon overall TSXV performance for that year. Note the significant increase in data ranges at +18% and -13% versus the composite case presented above at about 8%:

November 1 to January 31
Trading Day Bull Composite
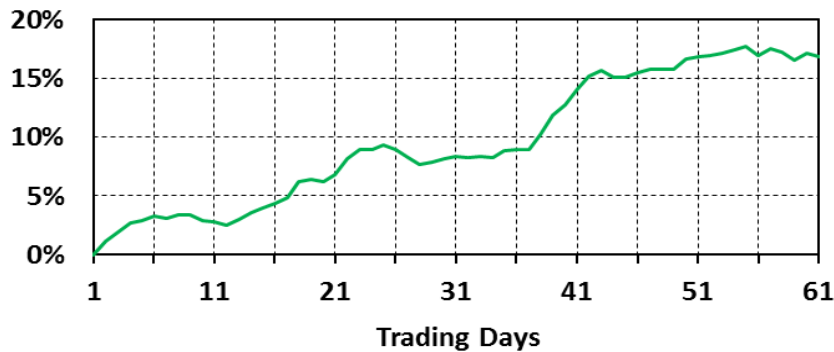
November 1 to January 31
Trading Day Bear Composite
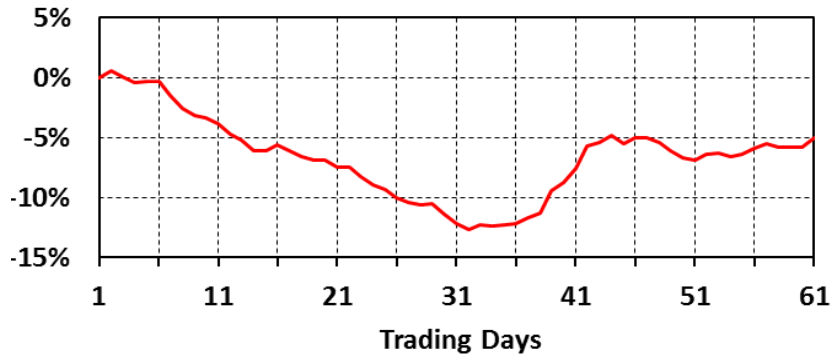
These composite charts illustrate prominent mid Q4 to early Q1 seasonal trends for the Toronto Venture Exchange Index. Note that each month has 20-21 trading days in any given year.

- The composite Index chart shows a slight uptick during the first week in November then a downturn until mid-month followed by an uptick until month's end. There is no net gain or loss for the month.

- Overall, there is a downtrend from early to mid-December when the Index hits its seasonal low.

- The bull and bear Index composites are diametrically opposed over this period. In bull years, the Index ticks upward thru the first week of December then falls off during mid-month. In bear years, it falls unabated from the beginning of November thru mid-December.

- In all three cases, there is a very strong uptick from the middle of December that continues thru the opening sessions of the new year.

- The Index is then flat until the end of January for the 14-year composite and the bear market years. It exhibits a slight rise in bull years.

Let's explore some factors that can account for the well-defined seasonal trends from November 1 to January 31 for the Toronto Venture Exchange Index:

- In all cases there is a dip in mid-November that I attribute to front-running by savvy speculators generating tax-loss sales.

- The peak of tax-loss selling is evident in all cases with significant market downturns and seasonal lows during the third week of December.

- Regardless of overall, bull, or bear market conditions, there is a strong uptick thru beginning of the new year as speculators bargain hunt for oversold but fundamentally-strong stocks.

- After the opening market days in early January, the TSXV market remains directionless for the remainder of the month despite generally stronger gold prices that I documented in a previous effort (**Mercenary Musing, November 23, 2015**).

  In addition, many nano-cap resource juniors are raising money for the coming year's activities and promoting at the Vancouver Resource Investment Conference in late January. However, it appears there is little reaction to these efforts.

I established in an early summer musing that junior resource companies trade in well-defined cycles and therefore, present periodic entry and exit points that can be exploited for profit.

Our research indicates there is pronounced tax-loss seasonality in the Toronto Venture Exchange Index over the past 14 years regardless of market conditions.

Tax-loss sales peak and the market reaches a seasonal low in mid-December. For contrarian speculators, this is the ideal time to accumulate low-priced positions in good companies or to average down for existing holdings.

The patterns also indicate that savvy traders can generate incremental profits by buying oversold companies in mid-December and selling them in early January.

I trust this provides insight into the timing of trades in the junior resource sector during tax-loss season.

The above trends present short-term opportunities for speculative trading, accumulating positions, or averaging down of core holdings. That said, caution is always advised and this is especially so in bear markets. Institutional newsletter guru Bill King's comments during the global economic crisis of 2008-2009 merit consideration:

More money is lost by investors averaging down in bear markets than at any other time.

With this caveat, may all your tax-loss season buys be to the upside.

Ciao for now,

Mickey Fulp
Mercenary Geologist

Acknowledgment: Troy McIntyre is the new research assistant for **MercenaryGeologist.com**.

The **Mercenary Geologist Michael S. "Mickey" Fulp** is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

Contact: **Contact@MercenaryGeologist.com**