Qwest Investment Management

Trend Watch

December 31, 2010

Inflation-Deflation Timer

Current Indication: Inflation

Our proprietary Inflation-Deflation Timer Model (the "Timer Model") is a trend-following model and as this class of model does not call tops or bottoms the value is in its ability to spot trends!

The marco-trends our Timer Model is looking for are:

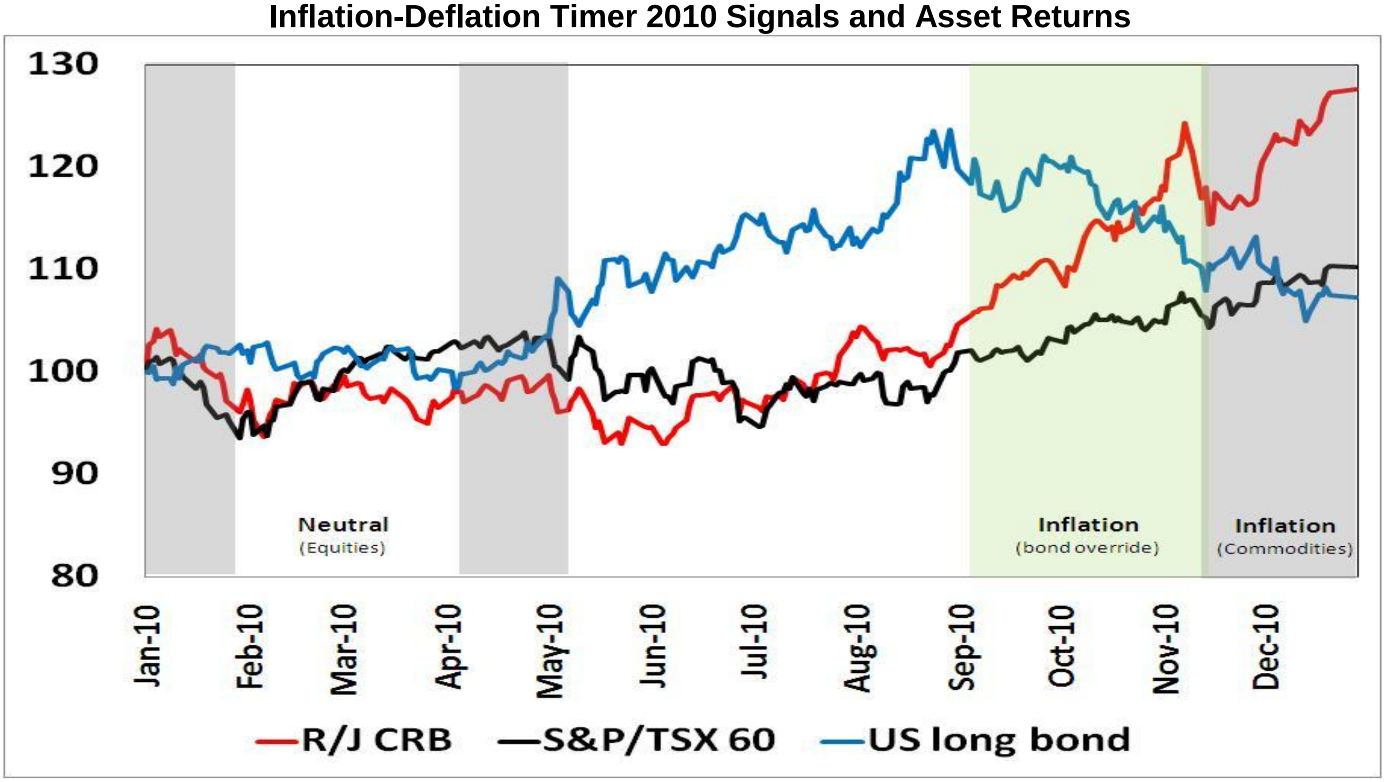
Inflation, Deflation and Neutral Signals

2010 Report Card

Our Inflation-Deflation Timer Model remains firmly at an "inflation" reading.

As 2010 draws to a close, we would like to review the record of the Inflation-Deflation Timer Model for 2010. The chart below shows the cumulative returns of different asset classes, with December 31, 2009 indexed at 100. The red line represents commodity returns, as measured by the Reuters/Jeffries CRB Index, the black line equities, the S&P/TSX 60, and the blue line the US long Treasury bond. The shaded areas are the signals of the Inflation-Deflation Timer Model, as disseminated in previous *Trend Watch* publications.

Inflation-Deflation Timer 2010 Signals and Asset Returns



Source: Qwest Investment Fund Management

Correctly long risky assets in 2010

For all of 2010, the Model correctly remained long risky assets, either in the form of equities or the higher beta commodities, and those assets had positive returns for 2010. The grey areas were “inflation” signal periods, which would have moved the model portfolio into commodities, and the white areas were “neutral” signal periods, which would have moved the model portfolio into equities. The green shaded area represented a period when the Inflation-Deflation Timer Model gave off an “inflation” signal, in which we would have normally bought commodities.

Model override turned out to be incorrect

However, we overrode that signal and stayed in “neutral” because of the anomalous condition of rising commodity prices and falling bond yields. It wasn’t until mid-November when bond yields began to rise again that we moved to an “inflation” reading. As it turned out, our model override was incorrect as the Model correctly forecast the outperformance of commodities relative to equities. In retrospect, we would still have made the decision to override the Model for risk control reasons as commodity and bond markets were giving highly divergent market signals of inflation expectations.

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IMPORTANT DISCLOSURES