

Weekly Trend Watch

January 8, 2010



Inflation/Deflation Timer - Current Indication:

Inflation

The Inflation-Deflation Timer is a trend-following model, and this class of model is incapable of calling tops or bottoms, and therefore its value is in the ability to spot trends. The trends we are looking for are: inflation, deflation and neutral.

This is an ongoing monitor of the Inflation-Deflation Timer model, for more information on the model, see http://www.qwestfunds.com/publications/newsletters_pdf/newsletter_november_2009.pdf

Cam Hui, Board of Advisors, Qwest Investment Management Corp.

Qwest Commentary

Still an Inflation Reading

The Inflation-Deflation Timer model remains at an "inflation" reading and has been at this reading since July 2009.

2009 Report Card

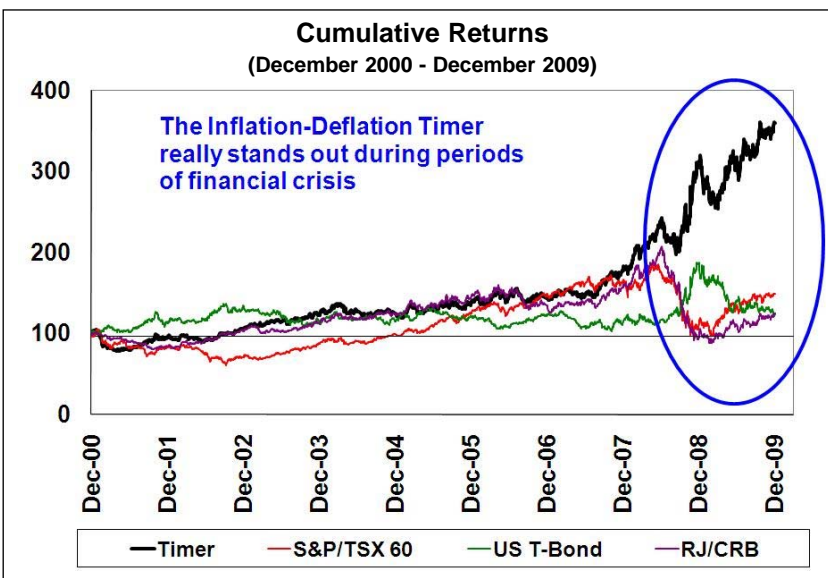
The table to the right shows the returns of the Inflation-Deflation Timer model compared to other asset classes (note: all returns are denominated in Canadian Dollars).

The returns for the Inflation-Deflation Timer model was a very respectable 18.1% in 2009, which is slightly behind the 60/40 balanced fund benchmark. However, when it mattered the most, the Inflation-Deflation Timer model shone with a return of 71.2% in 2008. That performance was far ahead of any asset class during that difficult asset deflation period. Moreover, its long-term returns have beaten any other asset class by 10% or more, for the period from December 2000.

Attractive Long-Term Returns

The accompanying chart shows the returns of the Inflation-Deflation Timer model from December 2000. Returns were roughly in line with a 60/40 balanced fund benchmark during normal periods but, as stated earlier, it performed best during recent deflationary crisis periods.

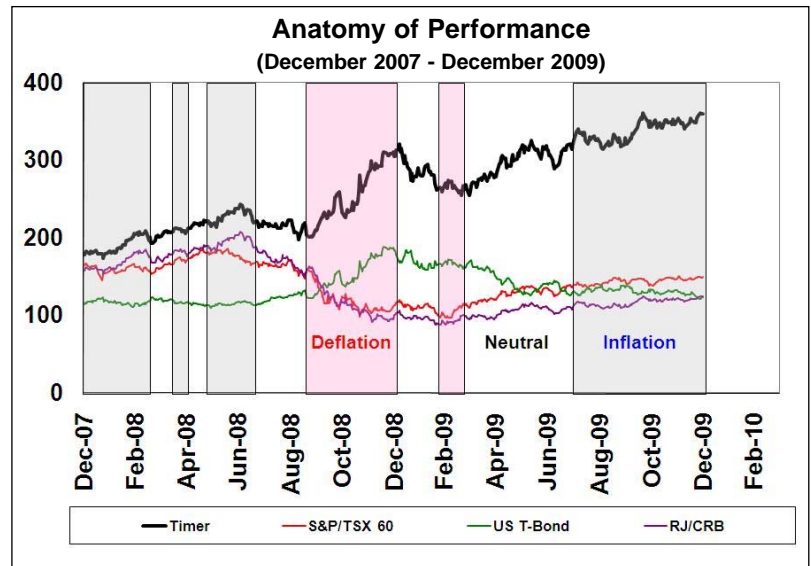
	2009	2008	From Inception (Dec 2000)
Inflation-Deflation Timer model	18.1%	71.2%	15.3%
60% stocks/40% bonds	21.4	-16.5	4.9
S&P/TSX 60	31.4%	-31.1%	4.6%
DEX Bond Universe	5.2	6.2	3.9
Reuters/CRB Index	23.5	-36.0	2.5



The Anatomy of Performance

The chart to the right shows the returns and "signals" of the Inflation-Deflation Timer model of the last couple of years. The grey zones show periods when an "inflation" signal was in flashing, the pink zones indicate a "deflation" signal and the white zones indicate a neutral signal.

As the chart indicates, the Inflation-Deflation Timer model was able to successfully navigate through difficult asset deflation periods. The model protected earlier gains by switching to the default-free U.S. Treasury long bonds during the asset deflation periods. In 2009, when the model indicated inflation, the model moved to riskier assets, namely equities and commodities further advancing the model's performance.



DEFINITIONS (as defined in the American Heritage Dictionary)

Inflation

A persistent increase in the level of consumer prices or a persistent decline in the purchasing power of money, caused by an increase in available currency and credit beyond the proportion of available goods and services.

Deflation

A persistent decrease in the level of consumer prices or a persistent increase in the purchasing power of money because of a reduction in available currency and credit.

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