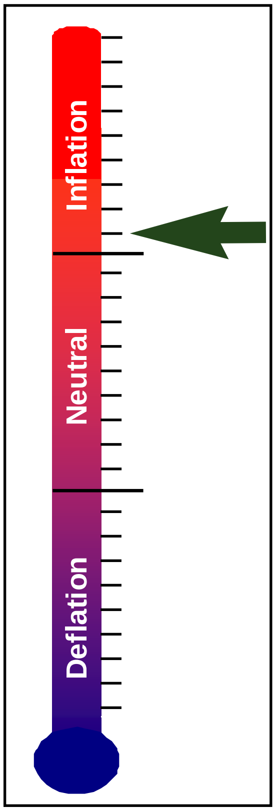
Qwest Investment Management

Weekly Trend Watch

November 26, 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

Qwest Commentary

An "Inflation" reading

The Inflation-Deflation Timer Model remains at an "inflation" reading, but markets remain at risk of a pullback. Any further minor weakness in commodity prices would move the Timer Model to a "neutral" reading.

All eyes on China

Generally our own opinions have been in agreement with our Inflation-Deflation Timer model. Under the current circumstances, we are in agreement with the commodity and equity bullish signals of the Timer Model. The main risk to our forecast is a major slowdown in China leading to a hard landing that sends shock waves around the world.

Gluskin Sheff's chief economist, David Rosenberg, agrees with our commodity bullish assessment. He wrote on November 22, 2010:

> So long as China does not overdo it on its tightening moves - raising reserve requirements is indeed preferable to interest rate hikes - then commodity prices in general should remain on an uptrend even if a corrective phase should be expected after the QE2-related surge of the past few months. There is enough evidence supporting the notion that the Asian economy has decoupled from the U.S. consumer, and therefore, basic materials should still be a core holding in any given investment portfolio.

Most recently, Bloomberg reported that, according to their sources:

> China's biggest banks are poised to hit government-set caps on lending and plan to stop expanding their loan books to avoid exceeding the annual quotas.

With news like that, we will no doubt see a China growth scare in the weeks to come. The key driver to the global economic outlook is China's plans for next year. Will they continue to tighten their monetary policy or with growth slowing, which heightens the risk of economic pressures and unrest from rising unemployment, will the Chinese authorities step on the accelerator again?

We believe that the latest round of quantitative easing by the Federal Reserve will have the effect of exporting asset price inflation to China and are unavoidable as long as China maintains a managed USD-RMB peg. Any administrative effects, such as restricting bank loans or raising reserve requirements, are therefore likely to have a minor effect on China.

Cam Hui, CFA
Portfolio Manager,
Qwest Investment Funds Management Ltd.

For more information on the Inflation-Deflation Timer Model, see:

http://www.qwestfunds.com/publications/newsletters_pdf/newsletter_november_2009.pdf; and
http://www.qwestfunds.com/publications/newsletters_pdf/newsletter_february_2010.pdf

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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.

For More Information Please Contact:

Maurice Levesque
Managing Director , President
Phone: 604-601-5802 or Email: mlevesque@qwestfunds.com

www.qwestfunds.com