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IQS Commentary for October 2009

Summary

- The IQS model was up .82% for the 4 weeks ending October 31, while the sector-neutral model was up .05%.
- Value, Improving Financials and Balance Sheet added to performance. Momentum and Sentiment both underperformed.

Random Market Thoughts

- Volatility is spiking back up to 30 after a slow but steady descent since March from 50 to 20. Does this forecast a correction is about to happen?
- Price momentum is relevant again, as long as you ignore prices before March 2009
- S&P 500 is up approximately 14.7% YTD, but 53% since March 9, 2009.

Weights

For November, the IQS Weighting Scheme continues to add some weight to Momentum (price momentum), while reducing Sentiment (earnings momentum).

Current Weights

Balance Sheet weight is moderate/high.
Improving Financials weight is moderate/high.
Value weight is moderate.
Momentum weight is low/moderate, but increasing.
Sentiment weight is low.

Sectors

IQS Model most attractive sectors:

- Retail
- Consumer Staples
- Oils/Energy

IQS Model least attractive sectors:

- Construction
- Basic Materials
- Finance

Note: Results are specific to the IQS analysis. Real time results will vary depending on universe, frequency of trading, and other manager specific strategies.

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Chart of the Month for October 2009
The harder they fall, the faster they come back!

This month we look at the S&P 500 Return by sector during 2009. We break the return into 2 time periods:

- **the beginning of the year until March 6 (around the market low)**
- **And, since March 9th**

The cap-weighted S&P 500 has a return of approximately 15% before March 9th, and 53% YTD.

If you calculate the correlation between the S&P 500 sector return before and after that date, you find a correlation of nearly -.9!!!

Plotting sector return for 2009 on the same scale as the before/after March 9th chart shows the year-to-date returns have much less disparity than either time period.

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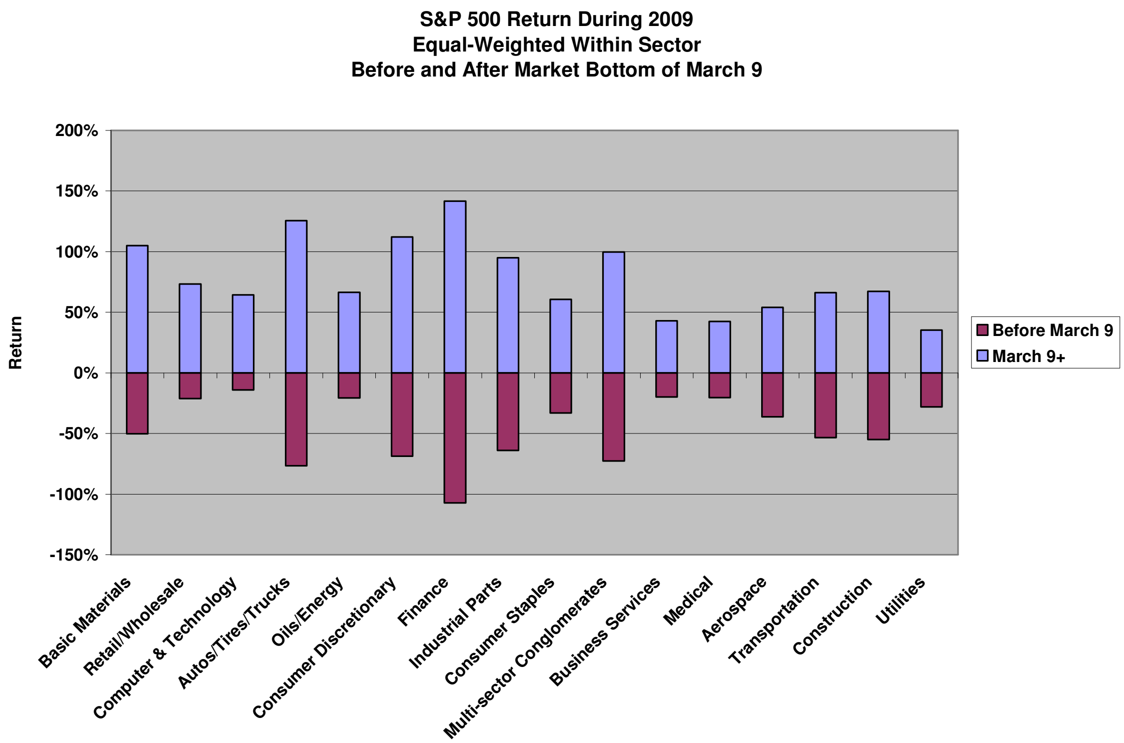

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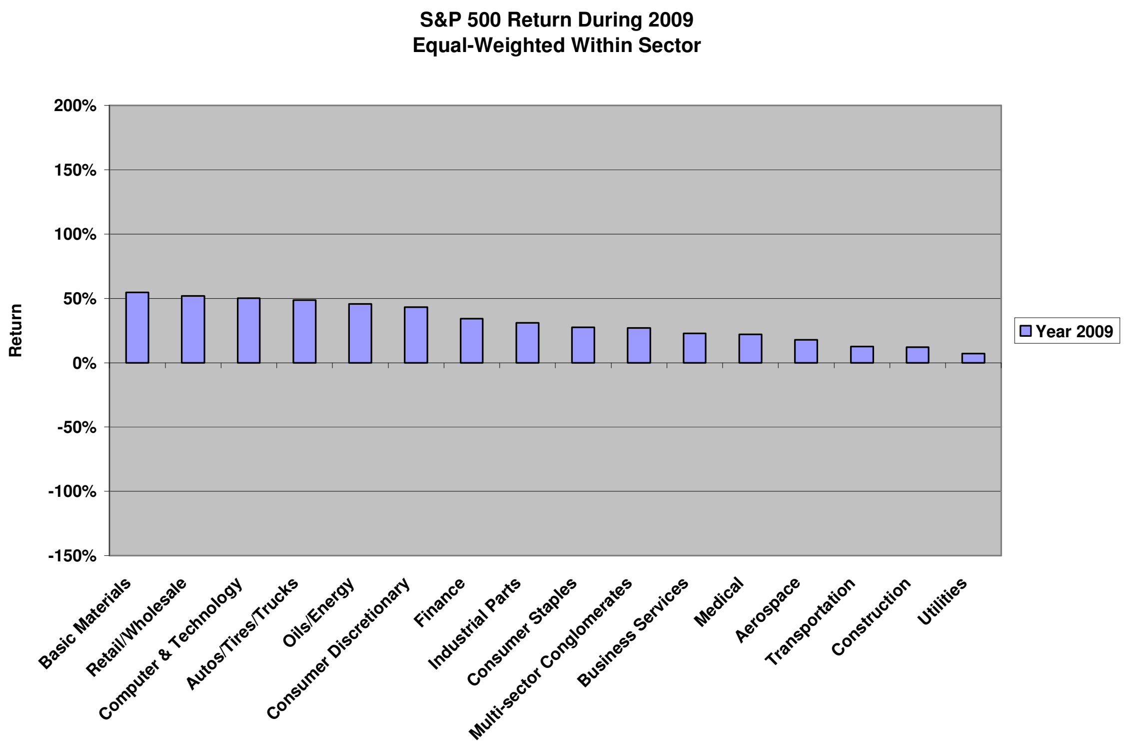
S&P 500 Return During 2009
Equal-Weighted Within Sector
200%
150%
100%
50%
0%
-50%
-100%
-150%
Return
Year 2009
Basic Materials
Retail/Wholesale
Computer & Technology
Autos/Tires/Trucks
Oils/Energy
Consumer Discretionary
Finance
Industrial Parts
Consumer Staples
Multi-sector Conglomerates
Business Services
Medical
Aerospace
Transportation
Construction
Utilities

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Summary of IQS Results for 4 Weeks Ending 10/31/2009

All returns are equal-weighted
The results below are from paper portfolios, and are not based on actual trading.
No transaction costs are included.

Weekly Top and Bottom Decile Returns for IQS Composite Model

	IQS Universe		
Week Ending	Top Decile	Bottom Decile	Net
10-Oct	6.46%	4.11%	2.35%
17-Oct	1.21%	0.09%	1.12%
24-Oct	-2.01%	-1.95%	-0.06%
31-Oct	-6.78%	-4.47%	-2.31%
MTD	-1.58%	-2.40%	0.82%
YTD	25.27%	14.75%	10.52%

Weekly Top and Bottom Decile Returns for IQS Composite Model, Sector Neutral

	Sector Neutral		
Week Ending	Top Decile	Bottom Decile	Net
10-Oct	6.40%	4.59%	1.81%
17-Oct	0.58%	1.02%	-0.44%
24-Oct	-1.92%	-2.12%	0.20%
31-Oct	-7.15%	-5.81%	-1.34%
MTD	-2.54%	-2.59%	0.05%
YTD	22.84%	29.91%	-7.07%

Weekly IC for IQS Composite Model and Components

Week Ending	IQS	BAL	VAL	MOM	IMP	SEN
10-Oct	0.137	0.090	-0.107	0.332	-0.023	0.061
17-Oct	0.045	0.014	0.018	0.062	0.035	-0.007
24-Oct	0.003	-0.048	0.105	-0.047	0.036	0.007
31-Oct	-0.099	-0.112	0.188	-0.336	0.083	-0.071
MTD	0.022	-0.014	0.051	0.003	0.033	-0.003
YTD	0.012	0.024	0.036	-0.043	0.030	-0.013

Weekly Top and Bottom Decile Returns for IQS Component Models

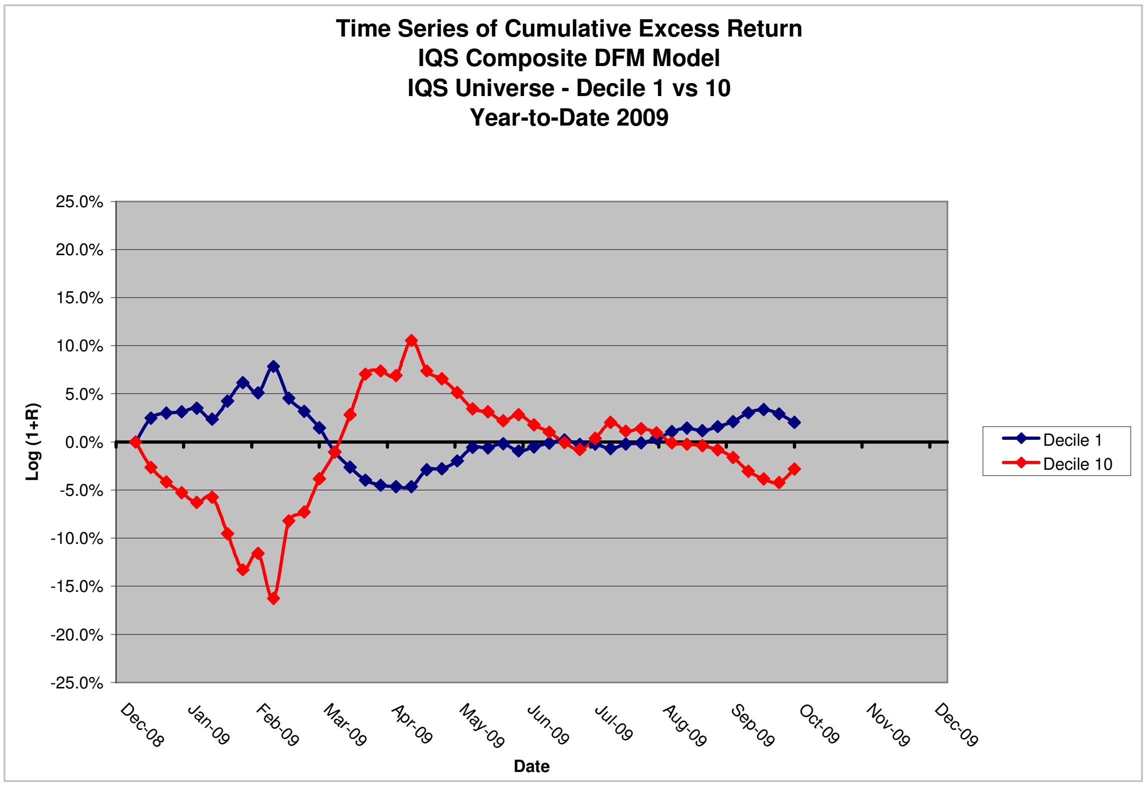
	BALANCE SHEET			VALUE		
Week Ending	Top Decile	Bottom Decile	Net	Top Decile	Bottom Decile	Net
10-Oct	6.23%	3.89%	2.34%	5.68%	6.78%	-1.10%
17-Oct	0.89%	0.19%	0.70%	1.04%	0.95%	0.09%
24-Oct	-1.73%	-1.73%	0.00%	-1.32%	-2.96%	1.64%
31-Oct	-6.24%	-4.42%	-1.82%	-5.09%	-8.33%	3.24%
MTD	-1.25%	-2.23%	0.98%	0.01%	-4.11%	4.12%
YTD	25.87%	1.29%	24.58%	39.56%	22.65%	16.91%

	MOMENTUM			IMPROVING FINANCIALS		
Week Ending	Top Decile	Bottom Decile	Net	Top Decile	Bottom Decile	Net
10-Oct	8.83%	3.06%	5.77%	5.29%	5.89%	-0.60%
17-Oct	1.21%	-0.10%	1.31%	1.27%	0.78%	0.49%
24-Oct	-3.10%	-2.42%	-0.68%	-1.16%	-2.06%	0.90%
31-Oct	-10.35%	-3.60%	-6.75%	-5.09%	-7.34%	2.25%
MTD	-4.31%	-3.15%	-1.16%	0.03%	-3.15%	3.18%
YTD	-2.28%	57.61%	-59.90%	32.98%	3.54%	29.43%

	SENTIMENT		
Week Ending	Top Decile	Bottom Decile	Net
10-Oct	6.82%	6.11%	0.71%
17-Oct	0.52%	1.17%	-0.65%
24-Oct	-2.17%	-2.40%	0.23%
31-Oct	-8.35%	-7.18%	-1.17%
MTD	-3.73%	-2.75%	-0.98%
YTD	12.74%	24.52%	-11.78%

Notes:
IQS represents the IQS composite model.
IC or Information Coeffficient is calculated as the Spearman rank correlation between the forecasted returns and actual returns.
IQS Universe includes approximately the largest 4000 stocks by market capitalization
Sector definition is determined by Zacks Information Research

IQS INNOVATIVE QUANT SOLUTIONS, LLC



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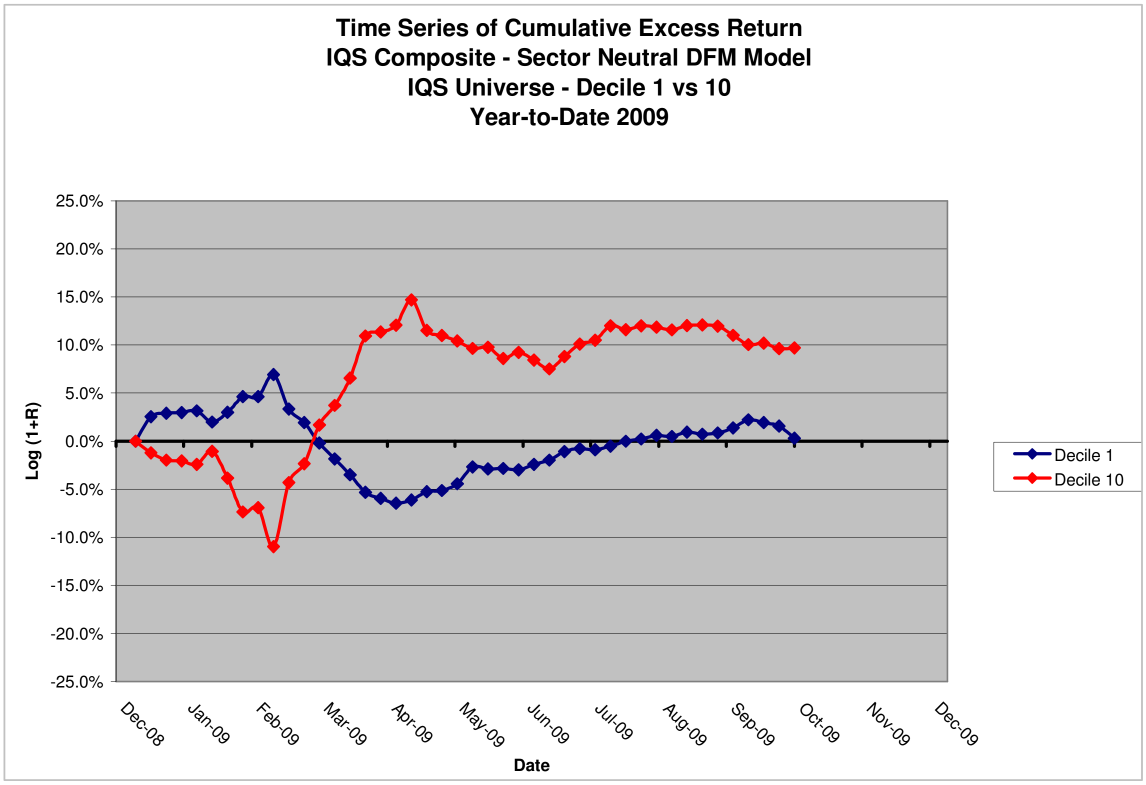

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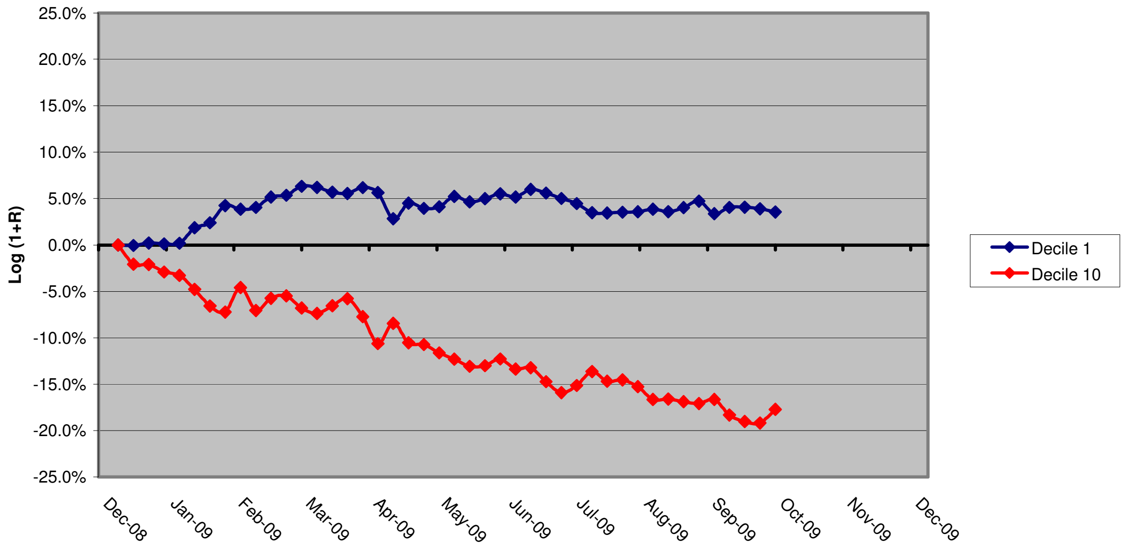
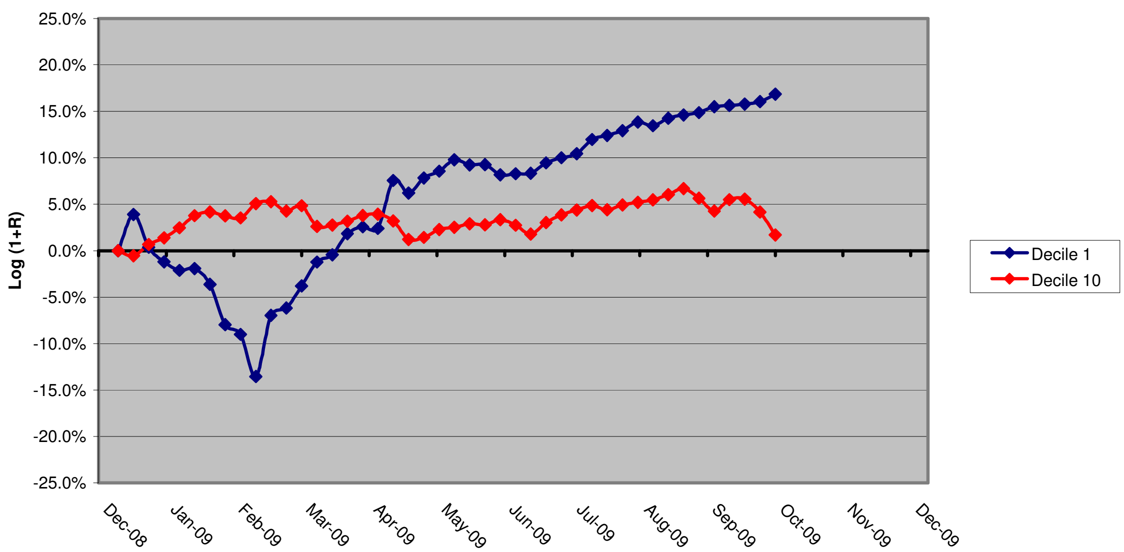
Time Series of Cumulative Excess Return
IQS Component - Balance Sheet
IQS Universe - Decile 1 vs 10
Year-to-Date 2009



Time Series of Cumulative Excess Return
IQS Component - Value
IQS Universe - Decile 1 vs 10
Year-to-Date 2009



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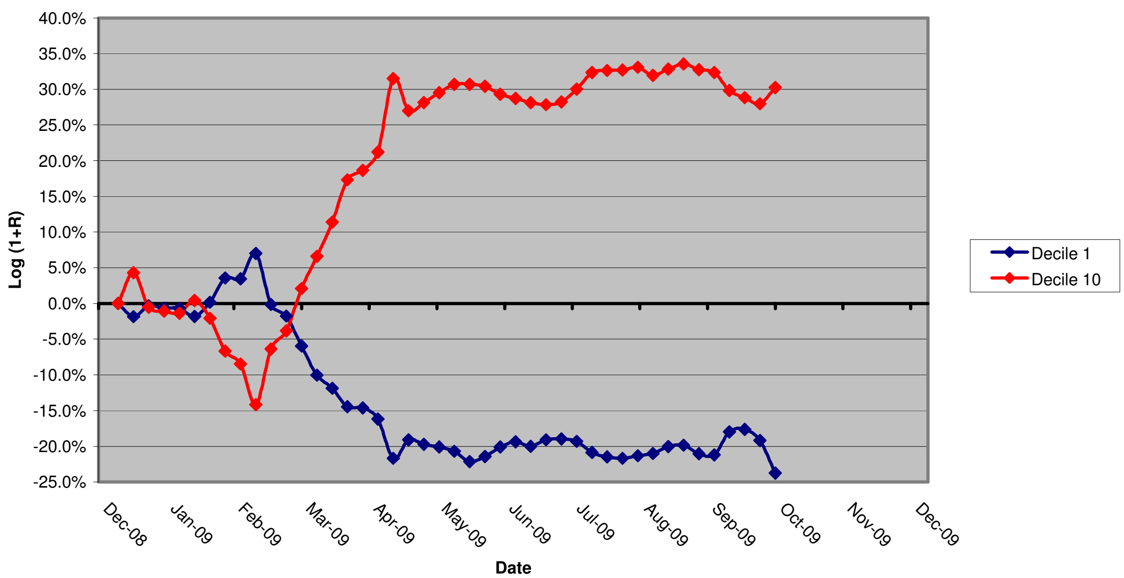
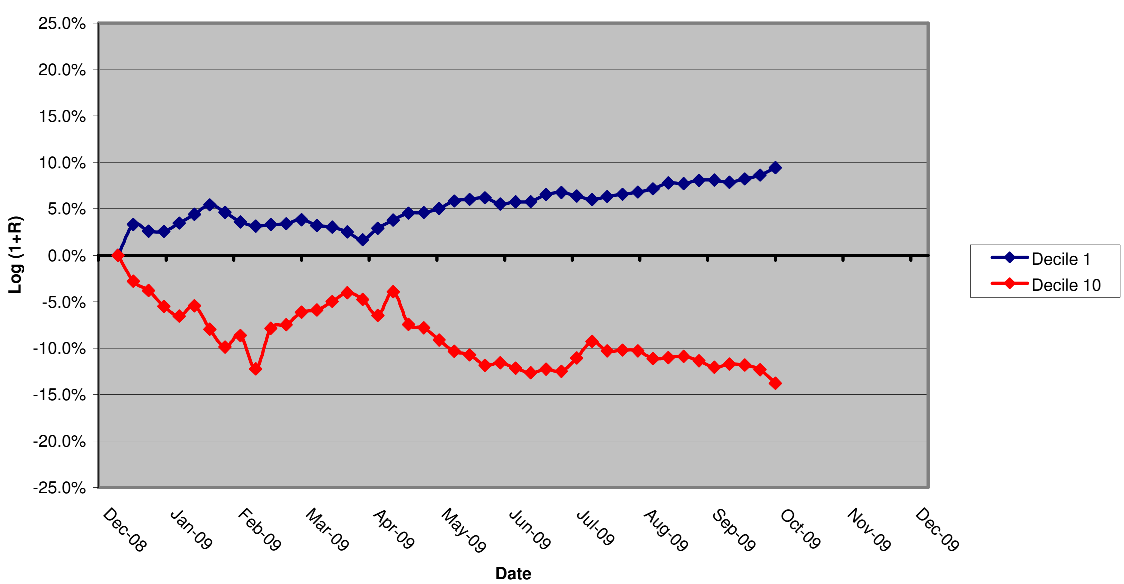
Time Series of Cumulative Excess Return
IQS Component - Momentum
IQS Universe - Decile 1 vs 10
Year-to-Date 2009



Time Series of Cumulative Excess Return
IQS Component - Improving Financials
IQS Universe - Decile 1 vs 10
Year-to-Date 2009



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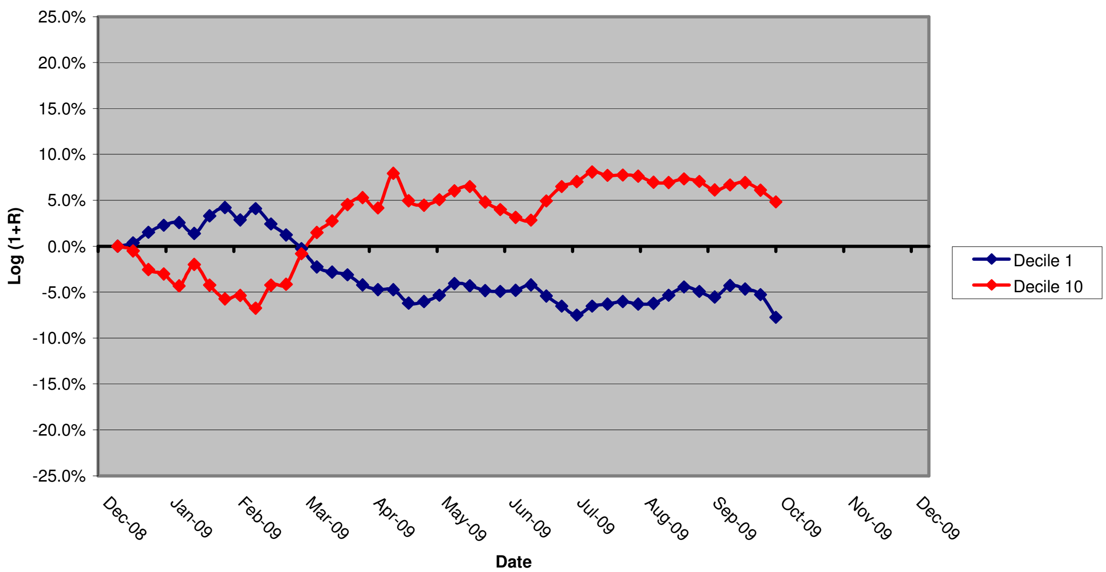
Time Series of Cumulative Excess Return
IQS Component - Sentiment
IQS Universe - Decile 1 vs 10
Year-to-Date 2009



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