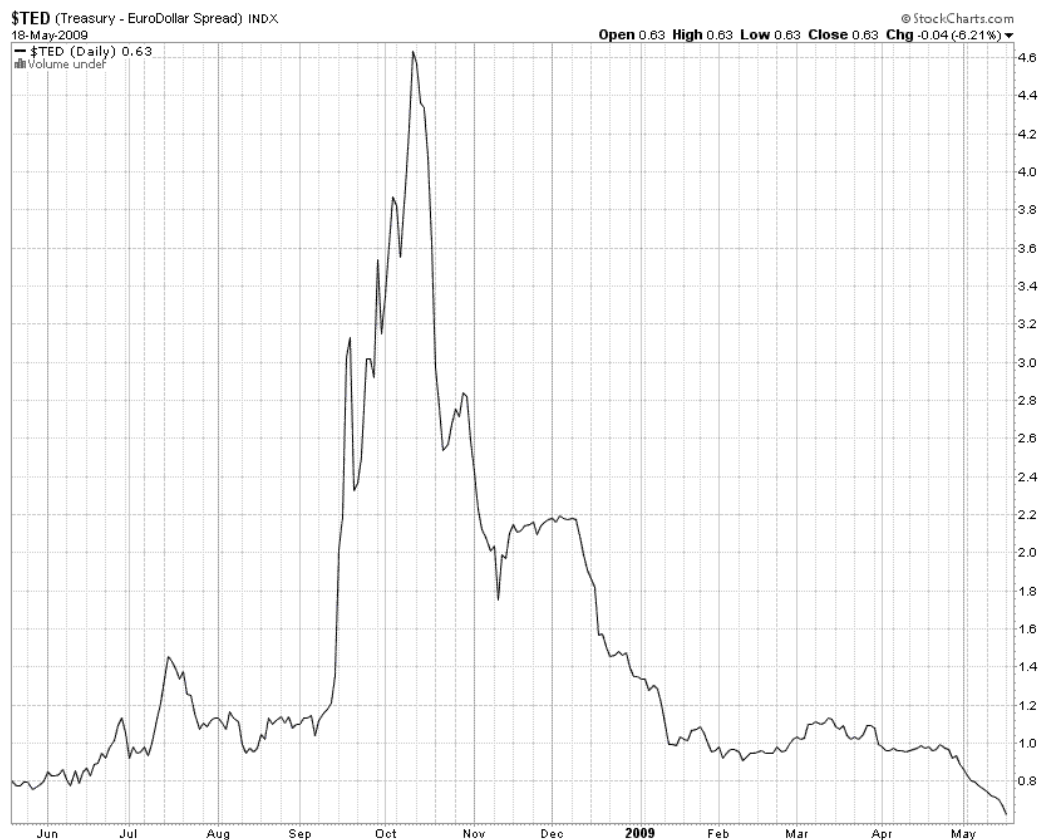


Hello,

In light of the market's recent strength, today we revisit our four favourite forward-looking indicators that we discussed in our last Quarterly Update.

Our Favourite Four: TED, VIX, Baltic Dry and Dr. Copper

It is often said that all stock market corrections have their roots in problems in the credit markets. On that note, we first look at a credit-markets indicator known as the "TED spread". This is an index of the difference in yield between interbank loans and government debt. Basically, it is a measure of how much more the private-sector interest rate is compared to what the government must pay to borrow money. In times of financial stress (such as last October), the index will rise (since the interest rate on private sector loans rises, as everyone believes that no businesses will be able to repay their loans). When we wrote our Quarterly Update at the end of March, this index was at 0.96, but now it has fallen to a low of 0.63, indicating that fear of private sector loan defaults has abated.



Speaking of fear, our next indicator that we follow closely is often nicknamed the "fear index", and is formally known as the Volatility Index, abbreviated as "VIX". At the time of our last Update, the VIX was already on a downtrend and had just broken below 40 to about 38. But now we see that VIX has continued along its downtrend to just below

30. While this is still above its historical average, the trend is in the right direction, indicating a heightened appetite for risk.



Another world economic bellwether that we find instructive is the Baltic Dry Index. This index tracks the cost of shipping (by freighter) dry raw materials used in manufacturing processes, and has proven itself to be a good leading indicator. As manufacturing activity picks up, the demand for the raw inputs used in producing things increases, and so does the cost of shipping these materials. Below we can see that after collapsing last year, this index has bottomed and is setting a new high for this year:



"Dr. Copper" is the last indicator we follow, as it is used to some extent in nearly all manufacturing and construction processes. The "Doctor" nickname comes from its use as a measure of the health of the world economy. Below we can clearly see a bottom formed at the end of last year. A decisive break beyond resistance at US\$2.20 per pound would be very positive for copper and would suggest increased economic activity going forward.



There are still some headwinds in the economy to be overcome (rising unemployment and falling housing prices, for example), but markets tend to be forward looking, and are looking beyond the trough to an eventual recovery. With these indicators we are seeing that expectations of better times ahead are beginning to show themselves. The recent rally in the stock markets bears this out, and we have begun to deploy some cash into the markets (at the end of last quarter our model Balanced Portfolio was at its lowest level of cash in two years).

All the best!

Andrew Johns