



## **IQS Commentary for May 2010**

### **IQS**

- The IQS model was up 2.39% for the 5 weeks ending May 29, while the sector-neutral model was up 2.12%. Year-to-Date, the IQS model is down 3.38%. IQS top decile of stocks has returned 4.2% YTD, while (according to the WSJ) the DJIA has returned -2.8% YTD, S&P 500 has returned -2.3% YTD, and The Total Stock Market has returned -.8% YTD.
- Factor categories that added to performance were led by Improving Financials, then Sentiment and Value. Balance Sheet slightly underperformed along with Momentum.
- All categories had positive Decile 1-10 spreads in at least 3 of the 5 weeks of May.

### **IQS 1000**

- The IQS 1000 model was up 2.31% for the 5 weeks ending May 27, and up .73% YTD. IQS top decile of stocks has returned .54% YTD.

### **Random Insights**

- YTD, the IQS models are performing well in the top decile, but underperforming in the bottom decile. In fact, the top decile has outperformed deciles 2 through 9.
- Since the 4<sup>th</sup> quarter in 2008 when the VIX peaked above 80, the VIX has been trending downwards breaking through the 20 barrier to below 16 for a short while. Recently, the VIX has climbed back to above 40 and is currently trending down towards 30 at the time of this writing. We expect the VIX to keep experiencing this “jumpiness” where it responds to financial/political uncertainty with a short-time spike in the VIX. Don’t expect the VIX to stay below 20 for a sustained period anytime soon.
- Small caps performance continues to dominate large caps. This will end, and large caps will have their turn.

### **Factor Weights**

The IQS Weighting Scheme:

- Momentum weight has been increasing, after dropping to 0% in 2009, and is now in the moderate range.
- The MEI’s that have affected the factor weights this month include the movements in the VIX and the run up in the market (until the recent sell-off).

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

## Summary of IQS Results for 5 Weeks Ending 5/29/2010

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

Week Ending	IQS Universe		Net
	Top Decile	Bottom Decile	
1-May	-2.30%	-2.97%	0.67%
8-May	-8.52%	-9.03%	0.51%
15-May	5.08%	5.22%	-0.14%
22-May	-5.85%	-5.68%	-0.17%
29-May	2.24%	0.47%	1.77%
MTD	-9.60%	-11.99%	2.39%
YTD	4.22%	7.61%	-3.38%

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

Week Ending	Sector Neutral		Net
	Top Decile	Bottom Decile	
1-May	-2.43%	-3.02%	0.59%
8-May	-8.90%	-8.87%	-0.03%
15-May	5.12%	4.98%	0.14%
22-May	-5.98%	-5.81%	-0.17%
29-May	2.61%	0.73%	1.88%
MTD	-9.86%	-11.97%	2.12%
YTD	2.37%	6.24%	-3.88%

### Weekly IC for IQS Composite Model and Components

Week Ending	IQS	BAL	VAL	MOM	IMP	SEN
1-May	0.011	-0.063	0.061	-0.014	0.050	-0.053
8-May	-0.009	0.004	0.114	-0.142	0.050	-0.034
15-May	0.032	0.012	-0.140	0.157	-0.048	0.104
22-May	0.001	0.044	0.152	-0.197	0.050	-0.033
29-May	0.125	-0.040	-0.007	0.201	0.057	0.066
MTD	0.032	-0.009	0.036	0.001	0.032	0.010
YTD	-0.003	-0.007	0.009	-0.001	-0.005	0.000

### Weekly Top and Bottom Decile Returns for IQS Component Models

Week Ending	BALANCE SHEET			VALUE		
	Top Decile	Bottom Decile	Net	Top Decile	Bottom Decile	Net
1-May	-2.85%	-1.87%	-0.98%	-2.79%	-2.84%	0.05%
8-May	-8.41%	-8.52%	0.11%	-7.89%	-8.86%	0.97%
15-May	5.02%	4.88%	0.14%	3.87%	5.62%	-1.75%
22-May	-5.72%	-6.61%	0.89%	-4.81%	-6.32%	1.51%
29-May	1.48%	2.11%	-0.63%	1.58%	1.60%	-0.02%
MTD	-10.59%	-10.22%	-0.38%	-10.07%	-10.98%	0.91%
YTD	2.60%	7.09%	-4.49%	2.37%	2.54%	-0.17%

Week Ending	MOMENTUM			IMPROVING FINANCIALS		
	Top Decile	Bottom Decile	Net	Top Decile	Bottom Decile	Net
1-May	-1.86%	-2.22%	0.36%	-2.30%	-3.71%	1.41%
8-May	-10.16%	-7.67%	-2.49%	-7.74%	-9.25%	1.51%
15-May	5.87%	3.95%	1.92%	4.46%	5.18%	-0.72%
22-May	-7.90%	-4.63%	-3.27%	-5.17%	-5.85%	0.68%
29-May	3.63%	0.09%	3.54%	2.17%	0.76%	1.41%
MTD	-10.91%	-10.42%	-0.49%	-8.77%	-12.81%	4.04%
YTD	4.27%	5.62%	-1.35%	5.87%	6.02%	-0.15%

Week Ending	SENTIMENT		
	Top Decile	Bottom Decile	Net
1-May	-3.38%	-2.33%	-1.05%
8-May	-9.23%	-9.51%	0.28%
15-May	6.74%	5.11%	1.63%
22-May	-6.96%	-7.27%	0.31%
29-May	2.32%	1.41%	0.91%
MTD	-10.88%	-12.64%	1.76%
YTD	7.72%	6.66%	1.07%

#### Notes:

IQS represents the IQS composite model.  
IC or Information Coefficient 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

**Summary of IQS Results (Top 1000 Stocks) for 5 Weeks Ending 5/29/2010**

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**

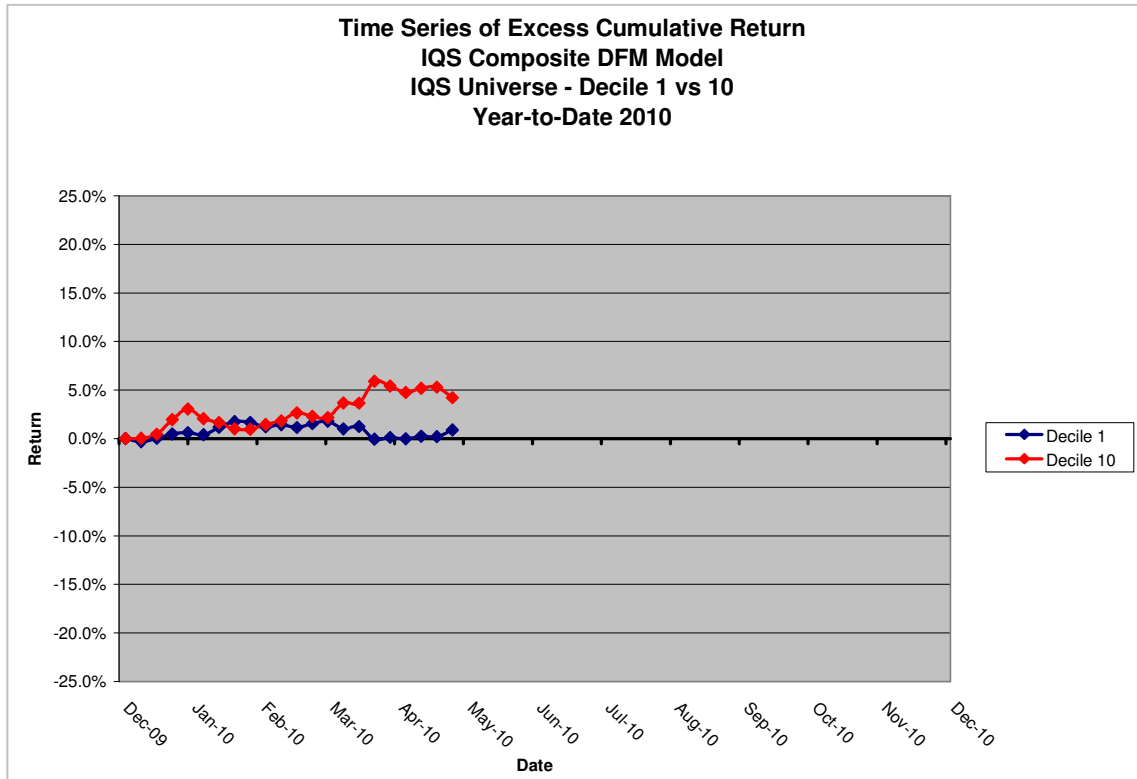
<u>Week Ending</u>	<u>IQS Universe</u>		<u>Net</u>
	<u>Top Decile</u>	<u>Bottom Decile</u>	
1-May	-2.51%	-3.50%	0.99%
8-May	-7.66%	-9.15%	1.49%
15-May	2.42%	3.47%	-1.05%
22-May	-4.29%	-4.37%	0.08%
29-May	1.37%	0.46%	0.91%
MTD	-10.55%	-12.85%	2.31%
YTD	0.54%	-0.19%	0.73%

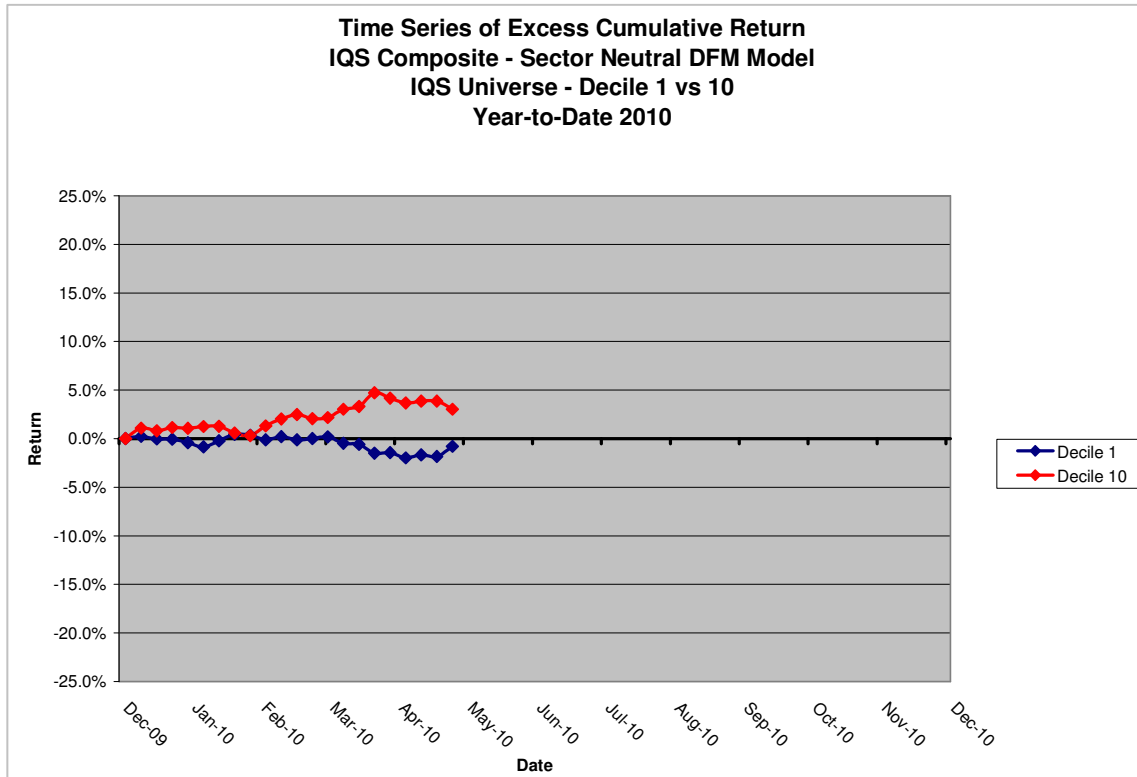
**Weekly IC for IQS Composite Model**

<u>Week Ending</u>	<u>IQS</u>
1-May	0.049
8-May	0.079
15-May	-0.009
22-May	0.022
29-May	0.089
MTD	0.046
YTD	0.016

**Notes:**

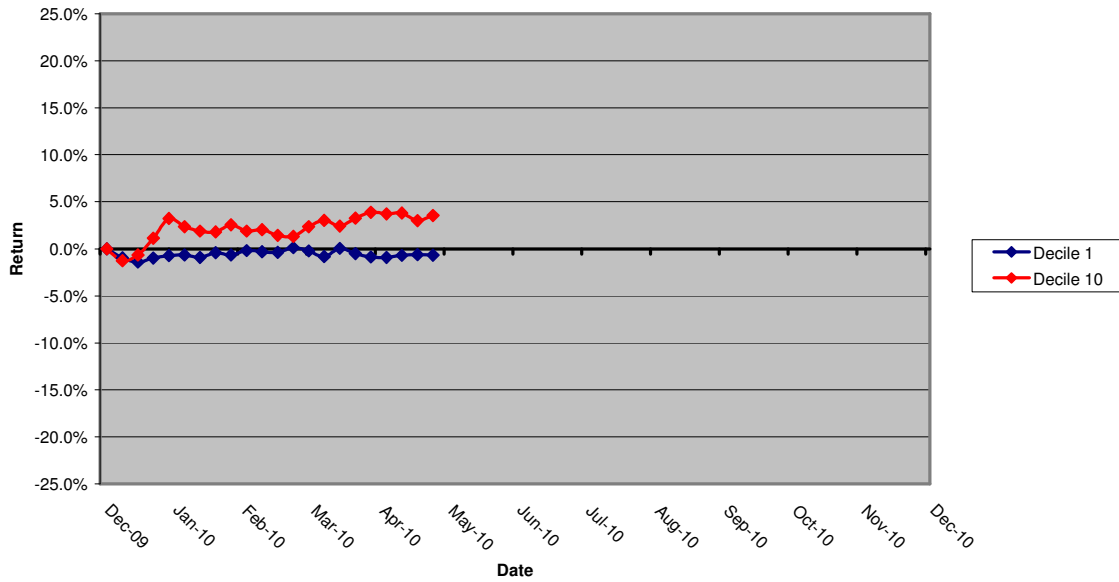
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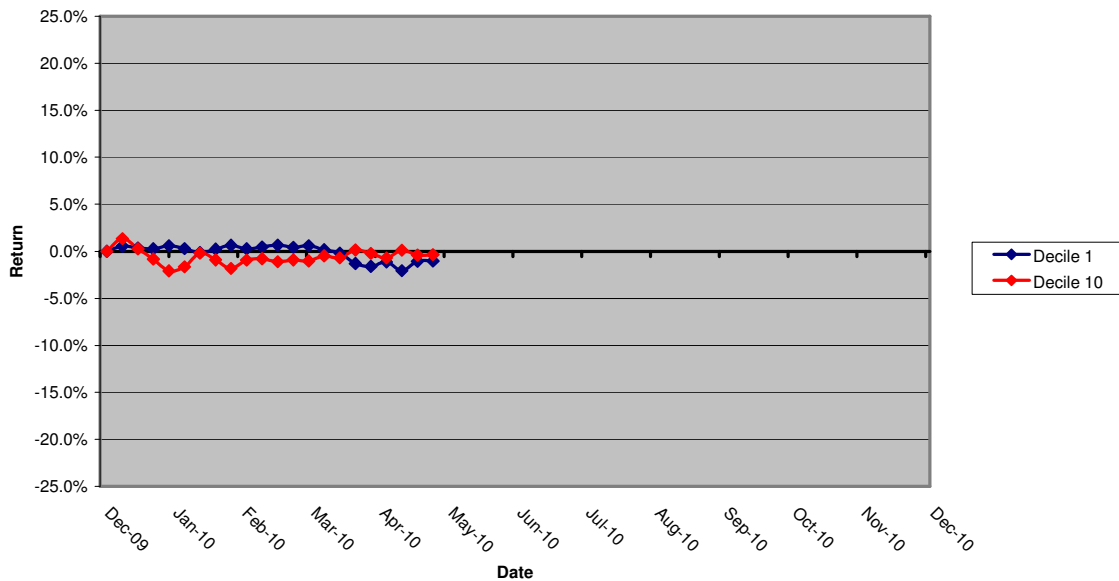




**Time Series of Excess Cumulative Return  
IQS Component - Balance Sheet  
IQS Universe - Decile 1 vs 10  
Year-to-Date 2010**

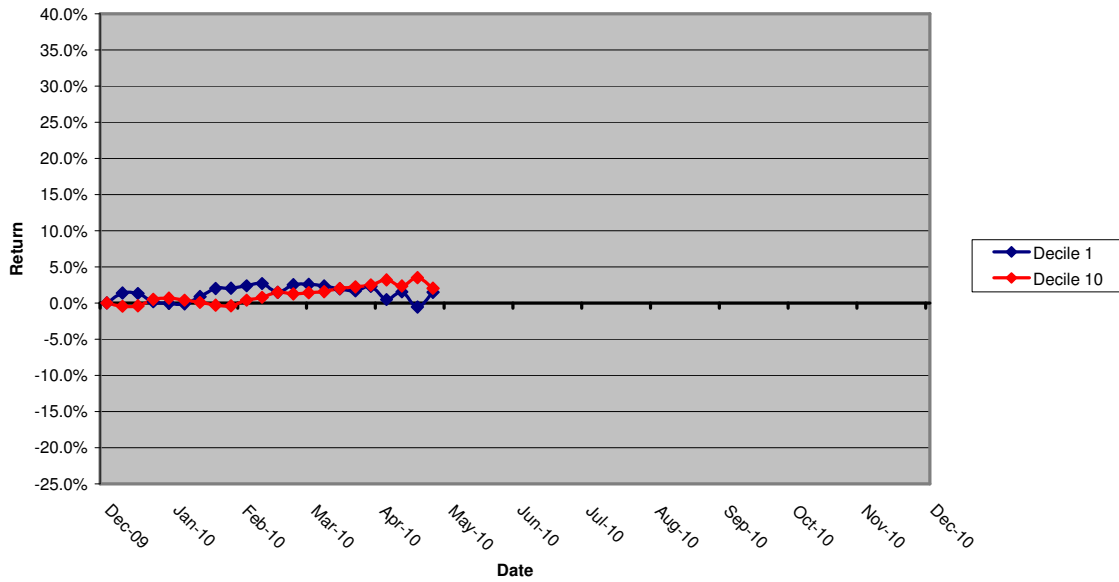


**Time Series of Excess Cumulative Return  
IQS Component - Value  
IQS Universe - Decile 1 vs 10  
Year-to-Date 2010**

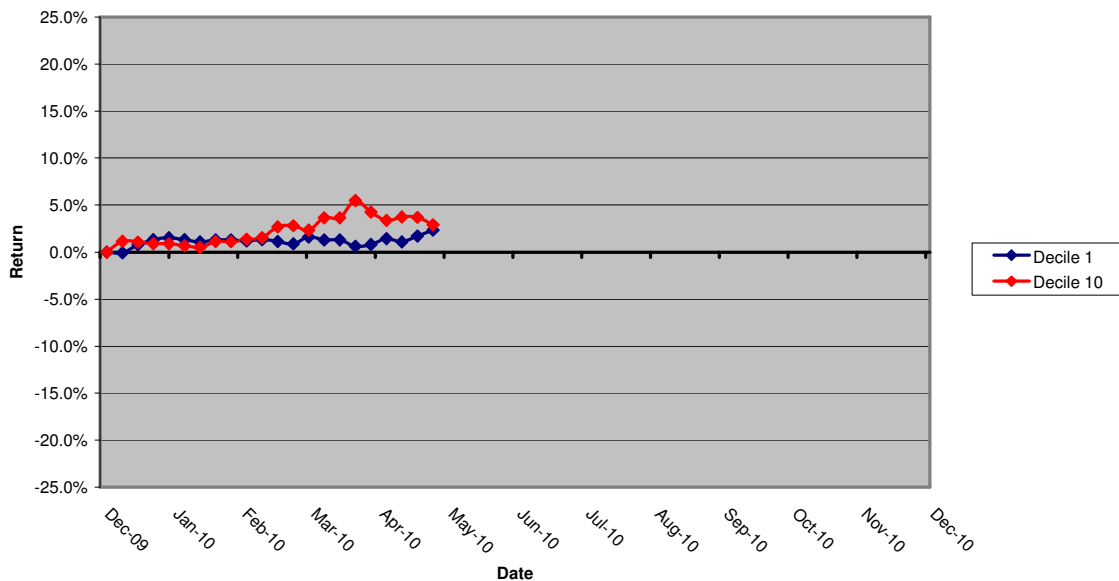




**Time Series of Excess Cumulative Return  
IQS Component - Momentum  
IQS Universe - Decile 1 vs 10  
Year-to-Date 2010**



**Time Series of Excess Cumulative Return  
IQS Component - Improving Financials  
IQS Universe - Decile 1 vs 10  
Year-to-Date 2010**





**Time Series of Excess Cumulative Return  
IQS Component - Sentiment  
IQS Universe - Decile 1 vs 10  
Year-to-Date 2010**

