



IQS Commentary for September 2010

Random Insights

- September was a fantastic month, with a monthly return around 9% for the large cap S&P 500, and over 11% for the small cap S&P 600!
- Volatility continues to hang around the 20-25 range with no recent spikes.
- Despite last month Small Caps outperforming Large Caps, we forecast Small Caps outperforming in the near future. We also lean towards Growth over Value, but not a large bias.

IQS

- The IQS model was up 1.52% for the 4 weeks ending October 2, while the sector-neutral model was down 1.40%. Year-to-Date, the IQS model is up 1.46%. IQS top decile of stocks has returned +9.2% YTD, while (according to the WSJ) the DJIA has returned +3.9% YTD, S&P 500 has returned 2.8% YTD, S&P 600 has returned 8.3% and The Total Stock Market has returned 4.4% YTD.
- Factor categories that added to performance were led by Balance Sheet Strength, Improving Financials and Sentiment. Momentum and Value detracted from performance.

IQS 1000

- The IQS 1000 model was up 1.25% for the 4 weeks ending October 2, and down .63% YTD. IQS 1000 top decile of stocks has returned 6.8% YTD.

IQS Financial Sustainability Model

- The IQS Financial Sustainability (FS) model was up 1.43% for the 4 weeks ending October 2, and up 4.80% YTD. IQS FS top decile of stocks has returned 7.7% YTD.

Factor Weights

The IQS Weighting Scheme:

- We see a change in the allocation of weights this month. Weight in Momentum has declined, as has Sentiment, with Improving Financials gaining the most.

Notes:

- IQS model includes the IQS top 3000 stocks by capitalization
- IQS 1000 includes the IQS top 1000 stocks by capitalization
- IQS Financial Sustainability model includes IQS Value and Financial Statement models only – no earnings or price momentum is included. The results for this model are based on the IQS 3000 stock universe.

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 4 Weeks Ending 10/2/2010

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	
11-Sep	-0.17%	-0.32%	0.15%
18-Sep	2.18%	1.35%	0.83%
25-Sep	2.52%	2.47%	0.05%
2-Oct	1.21%	0.77%	0.44%
MTD	5.84%	4.32%	1.52%
YTD	9.17%	7.71%	1.46%

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

Week Ending	Sector Neutral		Net
	Top Decile	Bottom Decile	
11-Sep	-0.06%	-0.04%	-0.02%
18-Sep	1.98%	2.22%	-0.24%
25-Sep	2.37%	3.16%	-0.79%
2-Oct	1.07%	1.37%	-0.30%
MTD	5.45%	6.85%	-1.40%
YTD	7.98%	10.11%	-2.12%

Weekly IC for IQS Composite Model and Components

Week Ending	IQS	BAL	VAL	MOM	IMP	SEN
11-Sep	0.047	0.015	0.016	0.059	0.063	-0.054
18-Sep	0.054	0.110	-0.040	-0.017	0.012	0.079
25-Sep	-0.011	0.054	-0.070	-0.078	0.026	-0.002
2-Oct	0.020	0.075	0.014	-0.010	0.015	-0.025
MTD	0.028	0.064	-0.020	-0.012	0.029	-0.001
YTD	0.009	0.006	0.021	-0.009	0.007	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
11-Sep	-0.48%	-0.54%	0.06%	-0.62%	0.11%	-0.73%
18-Sep	2.41%	1.26%	1.15%	1.47%	1.61%	-0.14%
25-Sep	2.48%	1.57%	0.91%	2.00%	2.85%	-0.85%
2-Oct	1.53%	0.75%	0.78%	1.70%	1.34%	0.36%
MTD	6.04%	3.06%	2.98%	4.61%	6.02%	-1.42%
YTD	7.46%	4.90%	2.56%	10.41%	4.44%	5.98%

Week Ending	MOMENTUM			IMPROVING FINANCIALS		
	Top Decile	Bottom Decile	Net	Top Decile	Bottom Decile	Net
11-Sep	-0.14%	-0.15%	0.01%	-0.31%	-0.33%	0.02%
18-Sep	2.13%	2.41%	-0.28%	1.93%	1.58%	0.35%
25-Sep	2.45%	3.00%	-0.55%	2.44%	2.35%	0.09%
2-Oct	1.32%	1.59%	-0.27%	1.12%	1.10%	0.02%
MTD	5.86%	7.00%	-1.13%	5.26%	4.76%	0.50%
YTD	6.28%	15.32%	-9.03%	11.23%	5.96%	5.28%

Week Ending	SENTIMENT		
	Top Decile	Bottom Decile	Net
11-Sep	-1.19%	-0.31%	-0.88%
18-Sep	3.10%	1.46%	1.64%
25-Sep	2.65%	2.41%	0.24%
2-Oct	1.03%	1.28%	-0.25%
MTD	5.65%	4.91%	0.74%
YTD	11.63%	9.72%	1.91%

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 4 Weeks Ending 10/2/2010

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	
11-Sep	0.52%	0.14%	0.38%
18-Sep	1.55%	0.81%	0.74%
25-Sep	2.67%	2.21%	0.46%
2-Oct	-0.05%	0.31%	-0.36%
MTD	4.75%	3.50%	1.25%
YTD	6.80%	7.44%	-0.63%

Weekly IC for IQS Composite Model

Week Ending	IQS
11-Sep	0.004
18-Sep	0.095
25-Sep	-0.016
2-Oct	-0.029
MTD	0.014
YTD	0.007

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 1000 stocks by market capitalization

Sector definition is determined by Zacks Information Research

Summary of IQS Financial Sustainability Model Results for 4 Weeks Ending 10/2/2010

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	
11-Sep	0.87%	0.15%	0.72%
18-Sep	1.36%	1.20%	0.16%
25-Sep	2.46%	1.78%	0.68%
2-Oct	0.41%	0.58%	-0.17%
MTD	5.19%	3.75%	1.43%
YTD	7.72%	2.92%	4.80%

Weekly IC for IQS Composite Model

Week Ending	IQS
11-Sep	0.047
18-Sep	0.009
25-Sep	0.023
2-Oct	-0.007
MTD	0.018
YTD	0.008

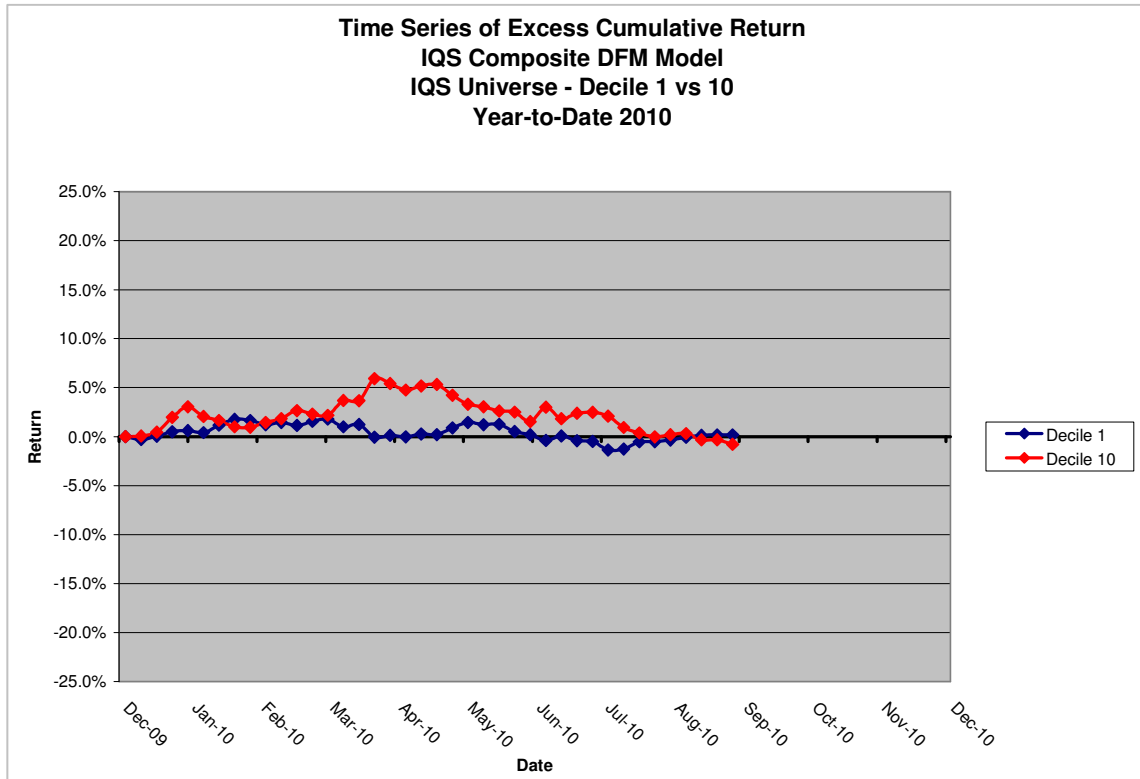
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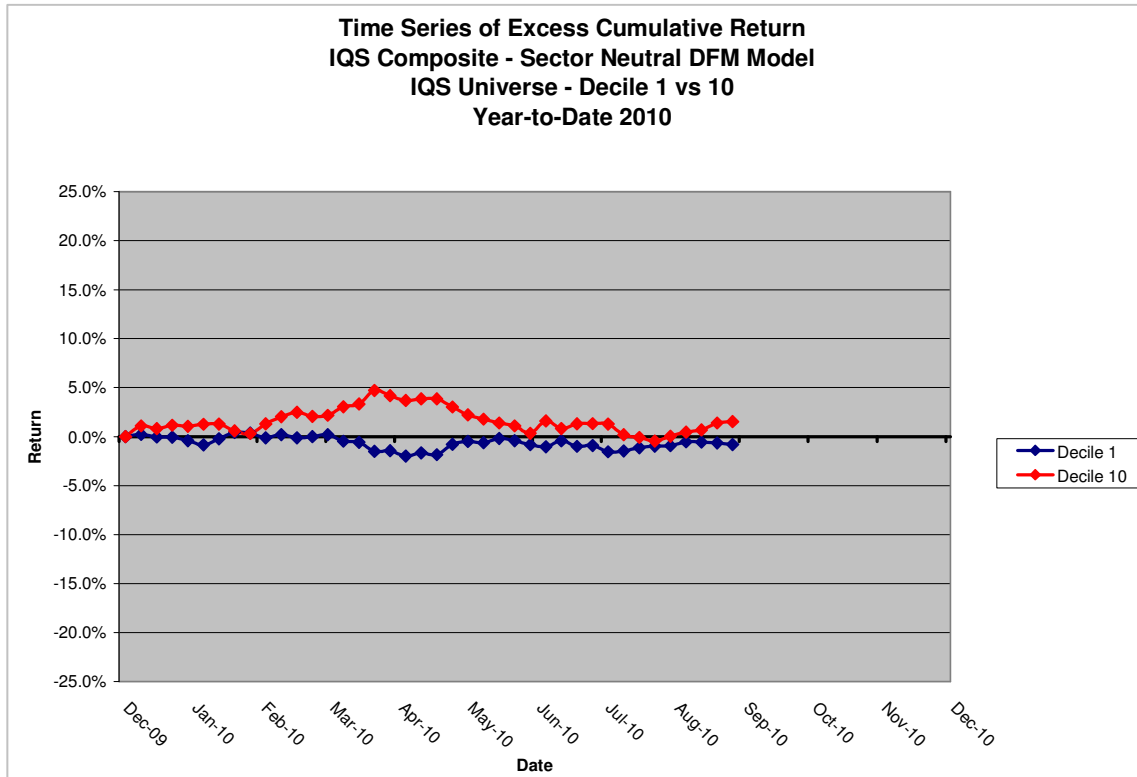
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IQS Universe includes approximately the largest 1000 stocks by market capitalization

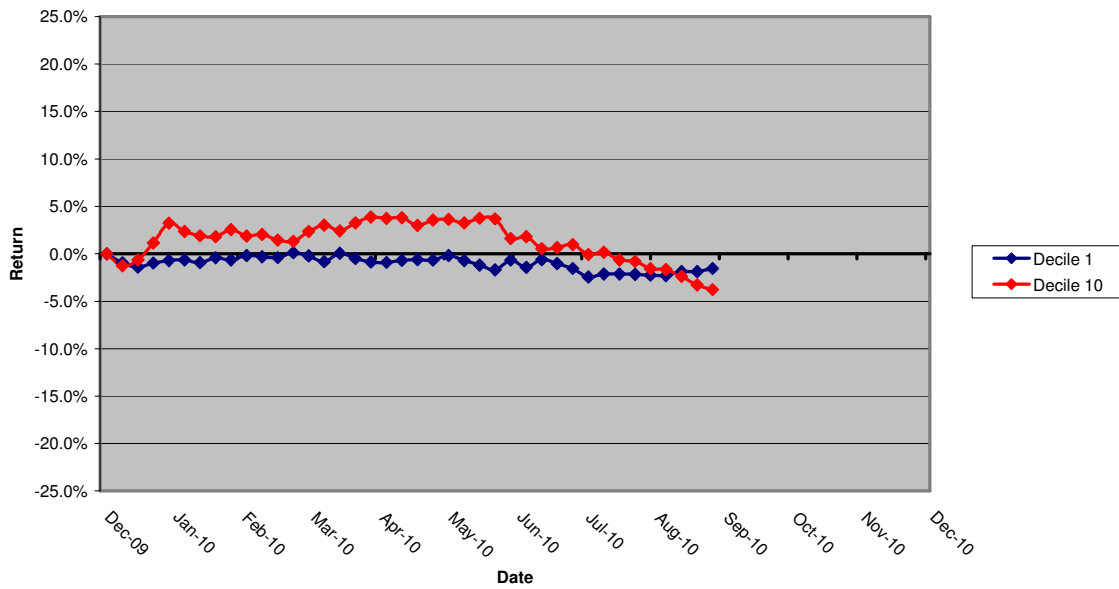
Sector definition is determined by Zacks Information Research



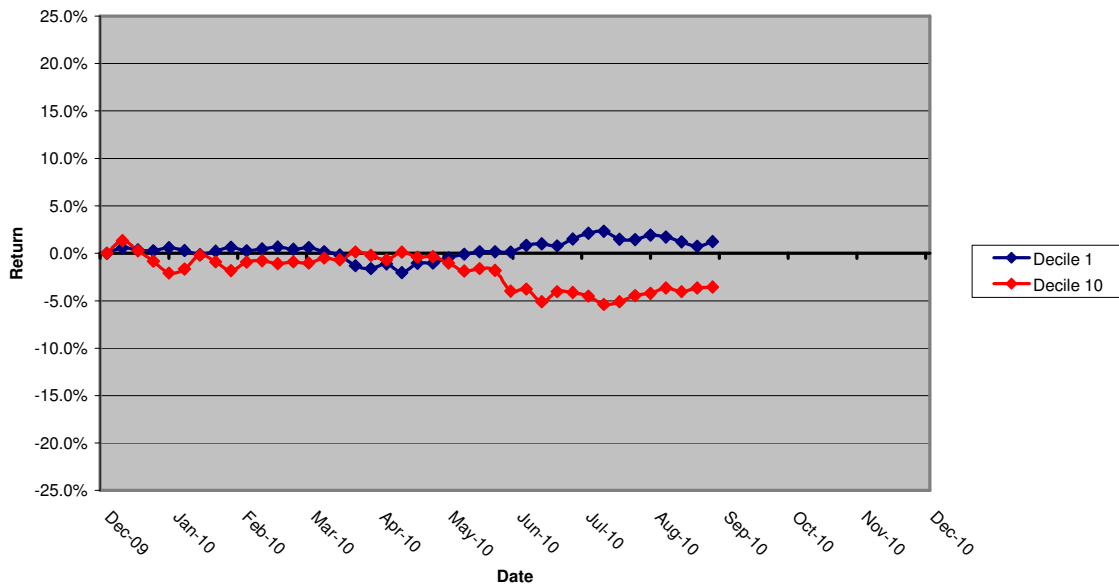




**Time Series of Excess Cumulative Return
IQS Component - Balance Sheet
IQS Universe - Decile 1 vs 10
Year-to-Date 2010**

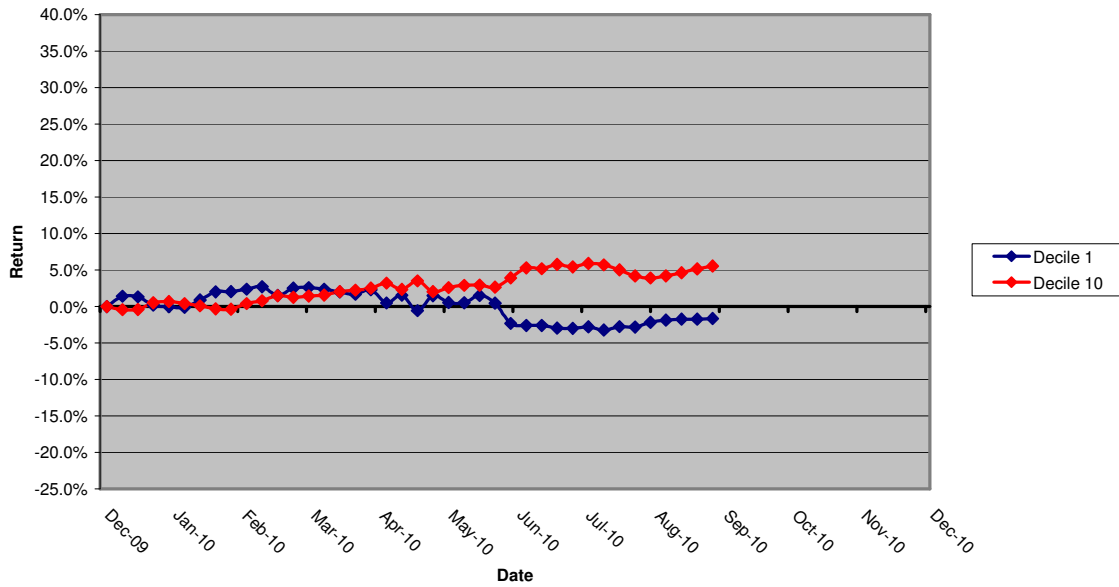


**Time Series of Excess Cumulative Return
IQS Component - Value
IQS Universe - Decile 1 vs 10
Year-to-Date 2010**

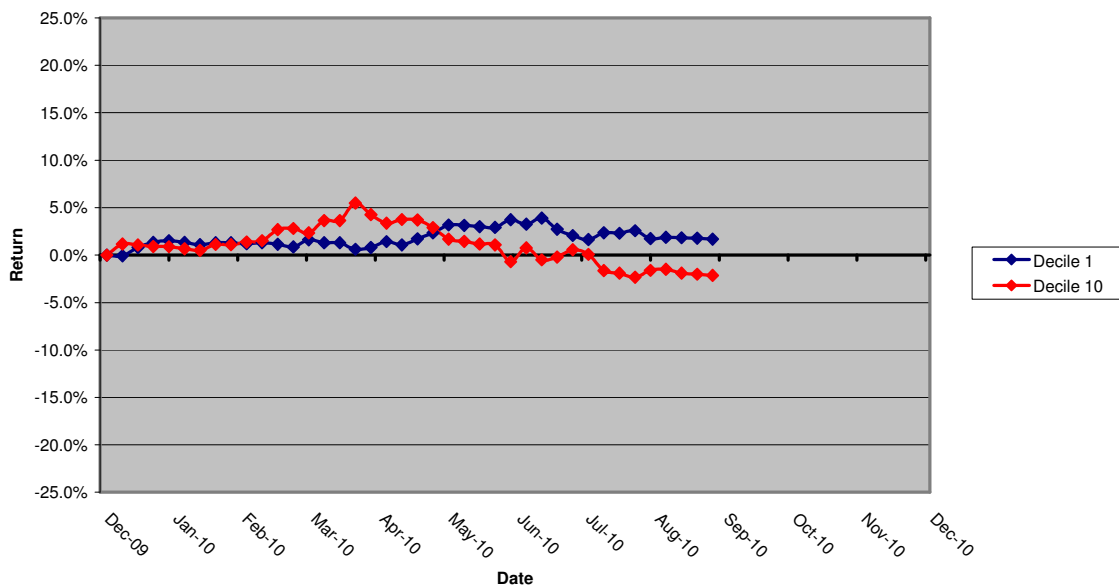




Time Series of Excess Cumulative Return
IQS Component - Momentum
IQS Universe - Decile 1 vs 10
Year-to-Date 2010



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**

