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Trident Investment Management, LLC
Opportunities Funds Commentary

September 30, 2006

MONTHLY UPDATE

Performance Summary

Oil markets continued their fall in September with WTI crude falling another 12.0% on the month to end at $62.91 US$ a barrel. Equity markets celebrated the drop, with most global equity markets being up on the month. The S&P 500 was up 2.6%, the MSCI Europe Index was up 1.7% and the Nikkei was up 0.3%. This is all the more remarkable considering the fact that September has traditionally been one of the worst months for equities. Bonds rallied fractionally on the month as well with US 10-year Treasuries falling in yield by 0.10% to end the month at 4.63%. The dollar posted a rally against most of the world's currencies, with the yen in particular falling 0.7% on the month to 118.18.

Market Outlook & Portfolio Strategy

The fall in oil prices was a result of two factors. First, crude inventories in the U.S. are at five year highs. The inventories were, to some degree, a result of concerns about the 2006 hurricane season in the Gulf of Mexico which was widely expected to cause significant oil supply disruptions. As things turned out, there were no significant hurricanes and thus hardly any supply disruptions. Next, the U.S. economy appears to be slowing with evidence that a major correction in housing is under way. This in turn led to expectations of a slowdown in global growth and oil demand adding to the worries about excessive inventories.

The data from September suggest that a U.S. housing slowdown is in full swing. National home prices declined for the first time in several years and 2006 is likely to be the first year since the Great Depression when national home prices in the U.S. might decline in nominal terms. Inventories of unsold homes have reached almost eight months of sales and are even more alarming when one considers that homebuilders still continue to build and that sales are still at relatively inflated levels. At more normal levels of sales as we saw in the mid-1990s, inventories would be well in excess of one year's sales.

The anecdotal housing evidence from many regions is even more bearish. In New York City, which so far appears to have seen little to no price declines, it is expected that 24,000 new condominiums will be made available for sale in 2006. In a peak year, the sales of all condominiums, co-operatives and townhouses total about 20,000 with the numbers for a normal year being no more than 15,000. That said, most analysts still seem blithely oblivious to the possibility of a sustained and steep fall in prices. In California, evidence has started to mount that the housing market could be heading for a free-fall. Inventories are up and sales are down to the point where even the realtors concede that a major correction may be under way. In fact, Leslie Appleton-Smith, the chief economist of the California Board of Realtors was quoted as saying that a soft landing in real estate was simply not possible. She in fact, expressed regret at even having used the term "soft landing" in previous statements.

The lenders to the housing market are more vulnerable than the homeowners in a housing downturn. Many lenders, especially in California, make significant use of option ARMS which are mortgages where the borrower has the option of making one of several types of payments. In particular, one option is the "credit card option" where the borrower can make only a minimum payment which does not even cover interest with the unpaid (interest) amounts being added to the principal. Thus, the lender in this structure permits the borrower's loan to experience negative amortization typically to a maximum threshold. Unfortunately, with negative amortization and an initial loan that is close to 100% of the property's value, the loan can end up being for an amount that is much more than the value of the house. In a falling home price environment, this effect gets even worse. The lender then, is locked into providing the borrower what is effectively credit-card financing at mortgage rates – the negative amortization practically speaking becomes unsecured lending. Lenders continue to initiate such loans at a fast pace because they book the entire payment made, be it with cash or with negative amortization, as

income. That is, even if the borrower does not pay the full interest on the loan, the lender counts it as income anyway. Cynically speaking, these loans appear to be ones which are contractually set up to allow the banks to pretend that defaulting borrowers are solvent. What is particularly scary though is the extent to which such negative amortization dominates bank earnings. Anywhere from 60% to 95% of many California thrifts' earnings are non-cash negative amortizations. These loans and their originating financial institutions are sure to become the first major casualties of the deflation of our current housing bubble.

The weakness in housing suggests a more pronounced slowdown in the overall U.S. economy because much of the job growth over the last four years has been in housing and mortgage related areas. Also, consumers' creativity with home equity extraction has allowed them to spend without let-up even during the recession of 2001 making the latter one of the first recessions in U.S. history without consumer retrenchment. The U.S. slowdown has not been mirrored overseas. The economic evidence in Europe has been very strong, although survey data which tend to be affected considerably by U.S. growth expectations have been weaker. The European Central Bank has continued its tightening cycle with at least one more hike expected by year end. Japan's economy remains on the road to recovery and deflation there has ended by most measures. The emerging markets and China in particular continue to grow at a strong pace.

With strong global growth and the possibility of a U.S. slowdown, the U.S. dollar has nevertheless mounted a significant rally in the currency markets against most of its trading partners. The only explanation we can advance for this is that the currency markets do not expect either a U.S. Fed easing at any time in the near future or a substantial hike in Euro and/or Japanese rates. The carry trade of borrowing in yen and Euro to invest in the U.S. has therefore come back into vogue. The bond markets globally appear to be pricing in a monetary policy mix that is overall too restrictive especially given the new lower level of inflation that can be expected with the lower prices for crude. Many bond market participants remain worried about housing and feel that bonds represent a much better, low risk investment alternative at this juncture.

While the currency and bond market views are reconcilable based on the common assumption of a responsible Fed, the equity markets are still living in the World of Oz. Equities anticipate a world where inflation is forever low, risk is permanently banished, growth is slow but not slow enough to impair corporate profits, and credit markets remain amply supplied with funds. The last assumption is especially perverse because in a flat to inverted yield curve environment most lenders who typically borrow short and lend long, make little to no money unless they take on huge amounts of risk. Most equity participants rationalize strong financial company profits going forward because they expect a Fed rate cut early next year guaranteeing that our decade long housing bubble market's marginal price decline for 2006 represents a true "bottoming" in home prices. This logic has also led to the stocks of most sub-prime lenders and their credits being bid up, even though there is no doubt about the problems that these companies face. The equity markets' current view represents a dramatic turn from late July where everyone was in a funk, thanks to a hawkish Fed, slowing growth and rising inflation. The Fed though, is still waiting for a more dramatic slowdown in growth and remains concerned about inflation. Oil prices while they have fallen, remain much higher than those that prevailed through much of 2005. In fact, Wall Street observers spent much of the last few years arguing that higher oil prices did not affect core inflation – in a self-serving twist, the same analysts now argue that falling oil prices will reduce inflation. And few want to even consider how a low inflation, slowing growth environment will affect a market dominated by financial companies which collectively are running out of quality borrowers to finance.

Given the market conditions, our funds had a very difficult September. Our major bets going into September were a big short in the U.S. dollar especially against the euro, a large short in U.S. credit especially in the sub-prime real-estate arena, and finally a short in U.S. consumer-related stocks such as big-ticket retailers and others selling items such as furniture geared to home sales. On the long side, we believed that the looming slowdown in the U.S. would cause a move to defensive growth stocks such as consumer staples and health-care stocks, as well as stocks in some foreign markets such as Japan that might benefit from a decline in oil prices. We also had some long positions in U.S. and Australian fixed income anticipating a growth slowdown.

MONTHLY UPDATE

We suffered from virtually all of our positions, both on the long and the short sides. Our U.S. dollar short was the major contributor to our losses accounting for about 50% of our losses for the month. We also suffered from our U.S. sub-prime and consumer-related stock shorts which as a group rallied about 10% on the month contributing to another 35% of our losses. Our credit portfolio suffered a little as well contributing to the rest of our draw down for the month. The only rays of sunshine were in our fixed-income long positions which contributed to performance. Paradoxically, our Japanese long positions did not help us at all, because Japan, the market most exposed to falling oil prices barely rallied on the month.

It must be noted though, that our poor performance was not due to losses sustained in a single large position but because virtually all of our bets went against us simultaneously. That is, the correlations we had expected across our positions did not materialize. We believe strongly that markets will soon move back to normality. However, we have already cut back considerably on our positions outside of credit to limit our short-term risk. Current market participants are high on Kool Aid – the process of detoxification when it starts is going to be very painful. We are waiting for that phase of market action to begin and fully expect that it should prove very profitable for us – our portfolio today truly symbolizes the expression "No pain, no gain".

Fund Performance

Trident Global Opportunities Fund

Performance as at September 30, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Feb. '01)
-4.7%	-7.0%	-4.5%	-4.8%	1.8%	2.0%	1.3	-2.4%	2.5%

CI American Opportunities Fund

Performance as at September 30, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Oct. '99)
-5.1%	-7.2%	-3.7%	-4.1%	2.8%	-0.5%	-0.2%	-2.1%	4.4%

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