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MONTHLY UPDATE

Trident Investment Management, LLC
Opportunities Funds Commentary

February 28, 2006

Performance Summary

The strong market moves in January were partially reversed in February. The Nikkei dropped 2.64%, the MSCI Europe Index fell 0.05%, while the S&P 500 rose 0.27%. Gold fell 2.01% to end the month at $563.90 and ounce. Bonds globally fell marginally with the U.S. 10-year Treasury yield rising 0.04% to 4.55%. Finally, the U.S. dollar rose 1.29% on the month.

Market Outlook & Portfolio Strategy

Investors continue to show no fear, at least as exemplified by the exceptionally low levels of volatility in most of the global market indexes. There is a pervasive belief that equity markets will trend up and that bond markets will stay range bound. Most equity market participants believe that all dips are buying opportunities and that catastrophic losses are virtually impossible thanks to the Federal Reserve's monetary medicine. In fact, such is the faith placed on the Fed that even bad news from companies, especially as it relates to the economic environment, is quickly ignored with the childlike belief that the Fed will act to prevent even these minor economic woes. On the bond side, the prevailing wisdom is that inflation is totally conquered and that any rise in yields represents a buying opportunity for bonds as well. Commodity, and in particular oil, price rises are perceived as non-inflationary moves because they are believed not to affect the "core" rate of inflation. The markets' views are justified to some degree. After all, looking at the official statistics, especially in the U.S., one would have to conclude that inflation is very low and well-behaved, and that growth remains robust. Taken together, these factors represent a decisive victory for U.S. policymakers and especially the Fed.

The rosy economic picture painted by the U.S. economic statistics is not fully reflected in Main Street, USA. Some of the largest financial institutions in the country such as Fannie Mae seem to be a morass of losses and fraud – something that is particularly perplexing given the strength in U.S. housing. General Motors and its chain of suppliers appear to be close to bankruptcy which is hardly a harbinger of good things to come on the industrial front. Numerous companies in the consumer staples and pharmaceutical areas have constantly disappointed with their earnings performance. In fact, when the financing operations of companies are excluded, it is clear that most of them see the environment as anything but robust. And while the consumer might perceive the economic environment as being reasonable at least given his job prospects, he would not argue either that inflation is low or that he is well-off, given that virtually all prices have soared, while incomes have not.

The disconnect between Wall Street and Main Street can be traced to the highly doctored statistics on which Wall Street bases its reading of the nation's economic health. The Consumer Price Index (CPI) in particular, is a measure that is of critical importance to the low inflation thesis, but it is equally important to the Federal government in that much of Social Security's cost of living adjustments are based off the CPI and related measures. A lower CPI means smaller transfers from the government to retirees making creative adjustments to lower the indices a major priority for policymakers. Since the Reagan years there have been repeated adjustments to the mechanism for the calculation of the CPI.

Hedonic or quality changes especially in technology have been of particular significance in lowering the CPI. The way such adjustments work is to recognize that even if the price of a computer remains the same from year to year, its quality may have improved due to a faster processor, bigger disk etc. Thus, even if the price for the basic computer remains unchanged over a year, the CPI could show a big decline in its effective price due to the improved quality and this effect will be amplified if the price had actually fallen. The improvements in technology over the last few years juxtaposed with falling prices in the arena have meant that this sector has contributed disproportionately to the decline in the CPI.

In addition, the government has been doctoring the basic consumption basket on which the CPI is based on the assumption that the consumer's purchasing patterns have changed. While this is justified to some degree as new goods that were not consumed before become available, policymakers have used this to generate a totally distorted outcome. For example, if steak is part of the consumer basket and a rise in steak prices caused consumers to buy burgers instead, an argument cannot be made that consumer tastes have changed and that burgers should receive a heavier weighting in the CPI basket relative to steak – the price rises engendered this. In fact, if one were to allow constantly for such substitution in a consumer basket, one would be measuring consumption patterns due to price changes rather than inflation itself and the concept of using such an index as an inflation measure would be meaningless. While this seems obvious, it is unfortunately what the U.S. government has been doing now for several years to lower the CPI. Thankfully, the government continues to publish detailed information on the adjustments they have made to the measures so much so that a careful observer can re-engineer a "true" CPI the way it used to be. With such a metric, U.S. inflation can be measured to be running around 7-8% per year – a far cry from the current levels of 3.5%. If Main Street believes that inflation is high, it is surely right!

U.S. inflation statistics moreover, do not capture the rise in home prices at all. Rental costs are a significant part of the CPI index, but they are highly distorted because in many areas of the country an active rental market does not exist. Outside the major urban areas, the rental properties are few in number with little turnover, and getting a CPI rent measure requires an inaccurate survey with limited data. Also, in areas experiencing a significant construction boom, rentals are often not popular and rents tend to be very depressed relative to the carrying costs for a purchased property. In such areas, rentals can even fall with home prices soaring as renters seek to capitalize on rising home values by purchasing instead of renting. In the current U.S. housing boom, rents have not risen at all compared to home prices. While other central banks use explicit asset inflation statistics in setting monetary policy, the Fed prefers to rely on its relatively limited inflation measures.

The high and rising U.S. trade deficit is the strongest symptom of the high levels of domestic U.S. inflation. We import a lot from the rest of the world, and even import goods which we used to be able to make here in the past. Notwithstanding our supposed productivity, we cannot manufacture competitively in the U.S. in most areas. Our main exports tend to be in aircraft, media and technology where we are protected by monopolies or by intellectual property advantages. In the areas we have ceded to the rest of the world, our competitiveness is being further eroded by our low levels of savings and investment. Even if the present were as rosy as it appears to be officially, the future seems fraught with problems.

A disconnect between markets and reality, however induced, inevitably results in a major adjustment. Such divergences are frequently caused by excess liquidity – recall for example the ridiculous situation in the late 1980s in Japan where excess liquidity convinced the till-then cautious Japanese that their Imperial Palace in Tokyo was worth more than all of California. We are definitely now in a world where all major central banks – the Fed, the European Central Bank and even the Bank of Japan are withdrawing liquidity. It is almost certain therefore, that a major market adjustment is imminent.

The gradual withdrawal of liquidity with the Fed, in particular, aiming for total transparency in the process is having some unintended consequences. The analogy it brings to mind is what happens when one tries to boil frogs in hot water. If one drops a frog into a bowl of boiling water, it feels the heat and hops out instantly. However, when placed in a bowl of warm water on a flame with the temperature being steadily raised to boiling point, the frog remains perfectly content to stay in the water until boiled alive. Markets today are operating with the frog-like psyche suggested by our morbid example. An aggressive Fed that used boiling water would have created fear and market volatility while the current gradualist Fed is creating torpor – either way, the end result will be the same and reality will catch up to the market.

MONTHLY UPDATE

The fund's portfolio had a rough February giving back most of January's gains. That said, we continue to stay the course in the portfolio. We remain aggressively long gold and short the U.S. dollar, the U.S. consumer and corporate credit. We are especially heavily weighted towards the real-estate sector on the short-side where valuations have simply become silly. While markets appear to be moving on a daily basis, the overall moves are small in the context of the action we experienced even as late as 2003. We firmly believe that the big moves for 2006 will be along the fault lines that we have identified. They are still to come and we are positioned aggressively to profit from them.

Fund Performance

Trident Global Opportunities Fund

Performance as at February 28, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Feb. '01)
-4.4%	6.3%	4.7%	2.7%	3.1%	5.1%	3.7	2.0%	3.7%

CI American Opportunities Fund

Performance as at February 28, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Oct. '99)
-4.5%	5.1%	6.1%	3.4%	-0.6%	5.2%	-0.1%	2.0%	5.5%

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