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MONTHLY UPDATE

Trident Investment Management, LLC
Opportunities Funds Commentary

January 31, 2006

Performance Summary

Global markets started 2006 on a strong note. The Nikkei was up 3.35% in January, the MSCI Europe Index was up 3.50% and the S&P 500 was up 2.65% (in U.S. dollars). Gold rallied 9.95% reaching multi-year highs at $575.50 US an ounce. Bonds were down fractionally on the month with the 10 year U.S. Treasury rising in yield by 0.12% to end at 4.52%. Finally, the U.S. dollar came under some pressure, with the trade weighted dollar falling 2.42%.

Market Outlook & Portfolio Strategy

The U.S. Federal Reserve ended the Greenspan era with one more rate hike, taking the Federal Funds rate to 4.5%. The Fed's post-meeting comments were confusing as usual, suggesting that they might be nearly finished with rate increases, but also that more rate increases might be needed to limit inflation. Amazingly, despite rapidly rising real estate prices, commodity prices at multi-year highs, the U.S. trade deficit at all time highs and both CPI and PPI inflation figures registering year on year gains of over 4%, most market participants believe that inflation is dead and that Fed policy is restrictive! The oft-cited view that "this time it is different" is surely true – never has there been this much willingness to ignore everything that experience has taught us.

Numerous policymakers, including Ben Bernanke himself, have said that the very low level of long-term rates in the world (and ultimately, the high level of risk tolerance) is a consequence of "excess savings", especially in Asia. With the lack of investment opportunity in Asia, what better alternative do Asians have than to put their savings to work in financing the U.S. trade deficit and buying U.S. bonds? There is a fundamental absurdity in this view. The excess savings are largely generated by some of the poorest countries in Asia, most notably China. Basic economic theory suggests that capital can be invested more profitably in low-wage areas. Moreover, much of the longer-term demand outlook for the world is predicated on the growth of the consumer in precisely these developing countries. As such, most of Asia is in the enviable position of having the savings to invest, the low wages to permit such capital to be deployed profitably and finally, the consumers who will purchase the products made. With such a compelling backdrop for investment in Asia, it is perverse that the flow of capital is from Asia to the U.S.

The continued willingness of Asians to support the spendthrift U.S. and fund the colossal U.S. trade deficit reflect a gargantuan misallocation of capital much like what happened in the lead-up to the Asian crisis of 1997. During the early 1990s, the world's love affair with Asia was resulted in a massive inflow of funds into the region, causing significant currency appreciation. Asian countries, far from being manufacturing powerhouses, became consumption centers running significant trade deficits with housing booms to match. While non-tradable goods inflation in the region was high as measured by the costs of rents and haircuts, headline inflation remained low thanks to falling prices for imported goods such as Mercedes cars. The Asian crisis of 1997-1998 was not well foreseen by most market participants and policymakers -- in fact, what was most apparent in its aftermath was the extent to which investors had ignored the warning signs.

The U.S. today can be likened to Asia in 1997 except that the scale of its problem is much bigger. Like Asia in the mid- 1990s, the U.S. is running a large trade deficit that is artificially depressing headline inflation. Non-tradable goods inflation is soaring with costs of education, health care, insurance etc. rising far more than the CPI. The U.S. manufacturing sector is no longer competitive and most of the GDP growth is coming from sectors such as financial services. There has been a trend in the last several years to outsource many service sector activities to low-wage areas such as India. And, in an eerie parallel to Asia, real estate is the new asset of choice – much of the growth in household wealth and financial system earnings has been driven by rising home prices.

A number of U.S. policymakers would argue that an Asian style crisis in the U.S. is simply not possible given the depth and regulation of U.S. financial markets and the level of transparency and disclosure provided by its companies. However, such arguments ignore corporate reality. In the U.S. investment funds, as a group, are major owners of most companies. Fund managers typically are measured by their short-term performance relative to benchmarks and, as such, behave like closet index investors. The need to constantly monitor and allocate capital based on the actions of the herd almost ensures that these managers behave more like they rent stocks rather than own them. An unfortunate consequence of this is that company managers operate with little in the way of true owner oversight. They tend to run the companies in their own interest rather than for the benefit of stockholders.

Corporate managements, in general, receive enormous compensation packages that have little to do with performance and which are often hidden even from the company shareholders thanks to very limited accounting disclosure. U.S. regulators, instead of cracking down on corporate excess, have largely become cheerleaders for the same. Investors and funds have learned to ignore the management problems and the accounting irregularities in the largest of U.S. companies because there is an implicit assumption that all of them are too big to fail.

We hold the view that an Asian style reckoning is imminent in the U.S. The U.S. housing market today is so extended that a massive correction is virtually certain. Housing is beginning to face significant headwinds – inventories have ballooned to all-time highs, home equity loans have declined precipitously and the number of transactions has fallen dramatically over the past two months. Despite these warnings, prices have not corrected yet, allowing observers to argue for the robustness of housing as an asset class. We believe that the next few months are going to be unpleasant in housing and by extension for the U.S. consumer as well as the financial system. By avoiding dramatic rate hikes and keeping policy accommodative, the Fed is trying to forestall a dramatic housing and consumption decline but in doing so is increasing the scale of the problem.

With our views on the US, we continue to have strong conviction on our core positions. We remain long gold and short the U.S. dollar. The rally in gold in January suggests that markets might finally be coming to our view. We also believe that evidence to show the U.S. housing market is worsening should emerge early in the second quarter. We remain short U.S. housing and consumer stocks geared to housing, expecting the downturn in housing to portend an unpleasant period for these companies. We believe the biggest uncertainty over the next several months is going to be the level of global growth. With significant global inflationary pressures already in the pipeline, central banks may have to contend with the need to raise rates against a backdrop of weakening growth. Our central view remains that the U.S. is entering a period of stagflation which other countries, through appropriate policy, can easily avoid. Near-term, we expect a period of volatility and instability, but believe strongly that a new investment environment, which plays to our strengths, has definitely begun.

CI Investments

MONTHLY UPDATE

Fund Performance

Trident Global Opportunities Fund

Performance as at January 31, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Feb. '01)
6.7%	8.7%	12.2%	11.7%	6.9%	6.6%	n/a	6.7%	4.7%

CI American Opportunities Fund

Performance as at January 31, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Oct. '99)
6.8%	9.6%	14.1%	11.0%	3.1%	7.1%	-0.2%	6.8%	6.4%

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