



ASIA FLOW REPORT

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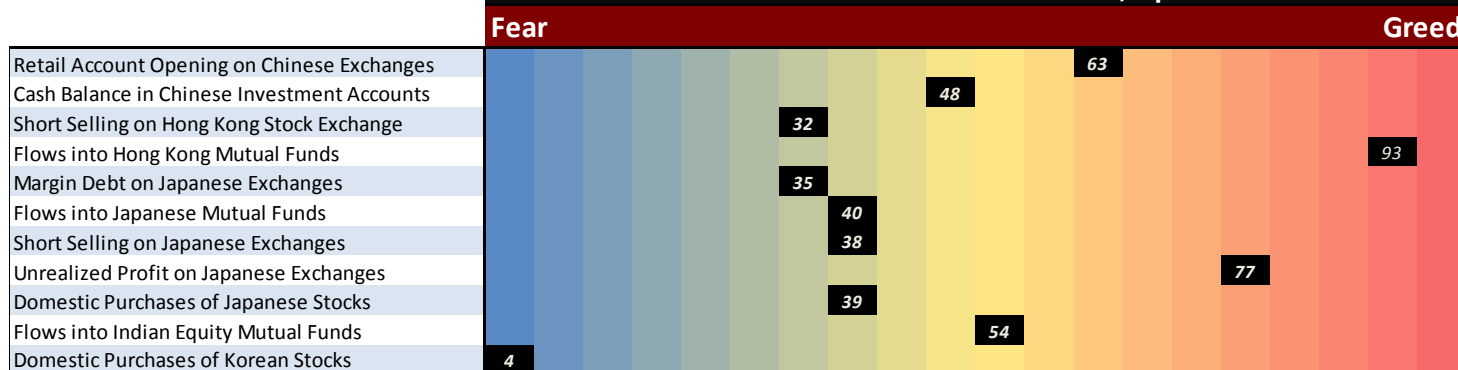
Foreigners Continue to Buy Japan, India, and South Korea Tighter Liquidity and Measures to Contain Property Prices Sink Chinese Market

ETF flows into Asia persist, as 10 of the 16 ETFs we track posted an inflow in the past two weeks. South Korea and China are especially popular. iShares MSCI South Korea (EWY) took in 7.4% of assets in the past month. The country's GDP grew 1.8% in Q1 2010, fueled by exports. China is the worst performing Asian market this year. The benchmark Shanghai Composite sits at its lowest level in six months, but cheap valuations are attracting buyers who are bullish about long-term growth. iShares FTSE/Xinhua China 25 (FXI) received 7.1% of assets in the past month. Elsewhere, we analyzed market timing by investor type in Japan. Our research shows that domestic financial institutions and corporations performed best, while foreigners underperformed a simple passive strategy. These results square with liquidity theory.

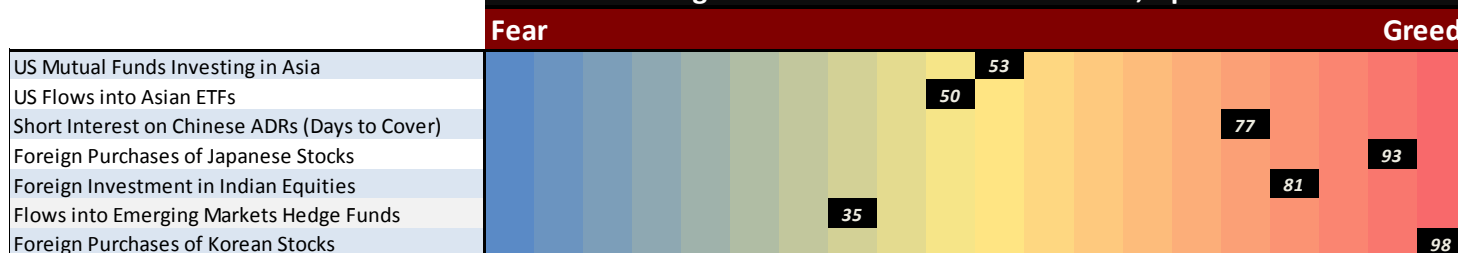
The cash balance in China's investment accounts remained nearly flat in the past two months, as capital flows favored the more profitable primary market. IPO stocks in China returned an average 60.1% on their first day of trading since July 2009, far and away the best performance in Asia. In India and South Korea, foreign and local investors continue to hold divergent views. Foreigners are bullish on equities, taking on \$6.0 billion in India and \$9.1 billion in South Korea since March. Foreigners are generally better market timers than their in-country counterparts.

The Hang Seng AH Premium Index, which measures the premium between shares of Chinese companies listed in both Shanghai (A-shares) and Hong Kong (H-shares), fell to a 20-month low. Speculation about stricter government action to drive down property prices could nonetheless continue to pummel market sentiment in China. Meanwhile, a wider gap between in-country and foreign demand in Japan, India, and South Korea leaves us neutral on these markets.

Local Investors: Fear and Greed Scale, April 23 2010



Foreign Investors: Fear and Greed Scale, April 23 2010



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ETF Investors Favor Stocks in South Korea, Distressed Equities in China. iShares MSCI Hong Kong (EWH) Posts Largest Outflow in Past Month.

ETF investors have shifted to South Korea, China, and India from Japan. iShares MSCI South Korea (EWY) posted an inflow of 7.4% of assets (\$260 million) in the past month, the largest of the ETFs we track. South Korea's GDP rose 1.8% in Q1 2010 on the back of strong exports. Also, the won hit a 19-month high yesterday, and the benchmark Kospi rose to the highest level since June 2008. Further, a benign inflation outlook allows South Korea to keep the benchmark interest rate at a record low. Meanwhile, iShares FTSE/Xinhua China 25 (FXI) posted an inflow of 7.1% of assets (\$596 million) in the past month. Chinese equities have underperformed this year, and we believe investors are betting on a reversal.

As to losers, iShares MSCI Hong Kong (EWH) posted an outflow of 6.0% of assets (\$128 million) in the past month, the largest of the ETFs we track. Also, Australia is losing popularity, as iShares MSCI Australia (EWA) posted an outflow in the past week, the first in two months. Recent inflation data is fueling speculation about an interest-rate hike in May.

Top Five Winners of ETF Flows (Flow/TNA)

Last Two Weeks				
From Apr-12 to Apr-23				
Ticker	Name	Flow/TNA	Flow	NAV %CHG
EWY	iShares MSCI South Korea	4.8%	\$176,629,000	1.3%
FXI	iShares FTSE/Xinhua China 25	3.0%	258,412,500	-5.7%
PIN	PowerShares India	2.4%	10,371,500	-1.4%
VPL	Vanguard Pacific	1.9%	27,873,680	-1.6%
EWA	iShares MSCI Australia	1.0%	29,232,000	-2.0%

Last Month				
From Mar-26 to Apr-23				
Ticker	Name	Flow/TNA	Flow	NAV %CHG
EWY	iShares MSCI South Korea	7.4%	\$259,679,000	2.2%
FXI	iShares FTSE/Xinhua China 25	7.1%	595,621,500	-2.8%
EWA	iShares MSCI Australia	7.0%	195,308,000	-0.7%
AAXJ	iShares MSCI Asia Ex-Japan	5.1%	75,858,000	0.7%
HAO	Claymore/AlphaShares China Small Cap	3.6%	13,751,200	-1.7%

Last Six Weeks				
From Mar-12 to Apr-23				
Ticker	Name	Flow/TNA	Flow	NAV %CHG
EWA	iShares MSCI Australia	12.5%	\$338,120,000	2.0%
AAXJ	iShares MSCI Asia Ex-Japan	10.6%	153,993,000	5.0%
EWY	iShares MSCI South Korea	9.6%	328,002,500	7.5%
HAO	Claymore/AlphaShares China Small Cap	9.1%	33,258,400	3.7%
EPI	WisdomTree India Earnings	5.9%	50,626,000	5.4%

Top Five Losers of ETF Flows (Flow/TNA)



Last Two Weeks				
From Apr-12 to Apr-23				
Ticker	Name	Flow/TNA	Flow	NAV %CHG
EWH	iShares MSCI Hong Kong	-5.8%	-\$119,004,000	-3.3%
EWS	iShares MSCI Singapore	-0.3%	-4,896,000	3.0%
GXC	SPDR S&P China	0%	0	-4.4%
GMF	SPDR S&P Emerging Asia Pacific	0%	0	-1.3%
EPP	iShares MSCI Pacific Ex-Japan	0%	0	-1.7%

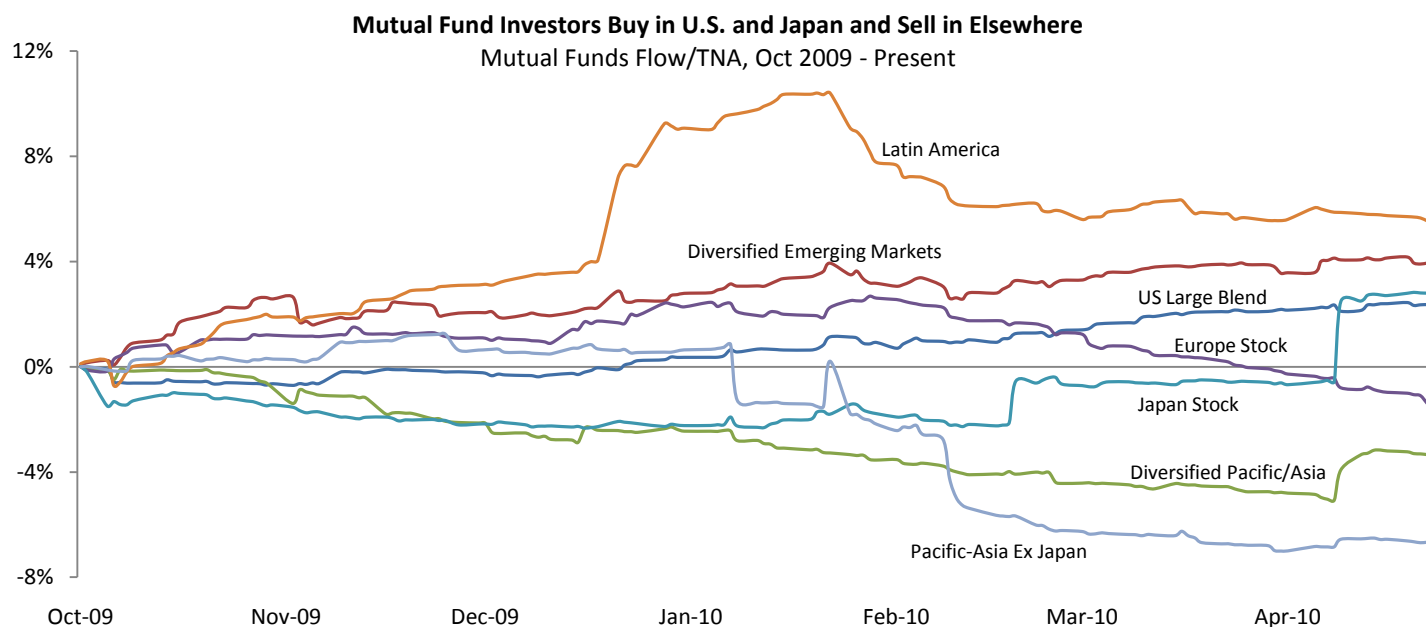
Last Month				
From Mar-26 to Apr-23				
Ticker	Name	Flow/TNA	Flow	NAV %CHG
EWH	iShares MSCI Hong Kong	-6.0%	-\$127,788,750	-2.1%
EWS	iShares MSCI Singapore	-1.7%	-26,822,000	4.2%
PGJ	Powershares Golden Dragon Halter USX China	-1.6%	-7,377,260	1.4%
EWT	iShares MSCI Taiwan	-0.3%	-9,964,000	0.2%
GXC	SPDR S&P China	0%	0	-1.6%

Last Six Weeks				
From Mar-12 to Apr-23				
Ticker	Name	Flow/TNA	Flow	NAV %CHG
PGJ	Powershares Golden Dragon Halter USX China	-2.1%	-\$9,811,260	5.7%
EWS	iShares MSCI Singapore	-1.7%	-26,822,000	7.7%
EWT	iShares MSCI Taiwan	-0.3%	-9,964,000	5.1%
EPP	iShares MSCI Pacific Ex-Japan	0%	0	2.6%
GXC	SPDR S&P China	0%	0	4.3%

Mutual fund investors seem comfortable with the economic recoveries in Asia, as all four categories of funds investing in the region posted inflows in the past month. Japan Stock funds remain the most popular this year, adding 3.5% of assets. Diversified Pacific/Asia and Diversified Emerging Markets funds received 1.4% and 0.3% of assets, respectively. In contrast, Pacific/Asia Ex-Japan funds lost 0.2% of assets in the past two weeks and 7.2% of assets year-to-date.

Diversified Pacific/Asia and Pacific/Asia Ex-Japan mutual funds did not receive inflows until April—they were late to join the rally. We believe flows into these funds will be subdued against the inflows we saw a month ago. From a global perspective, mutual fund investors are now buying the U.S. and Japan, while they are selling Europe, Latin America, and the Pacific/Asia Ex-Japan region.

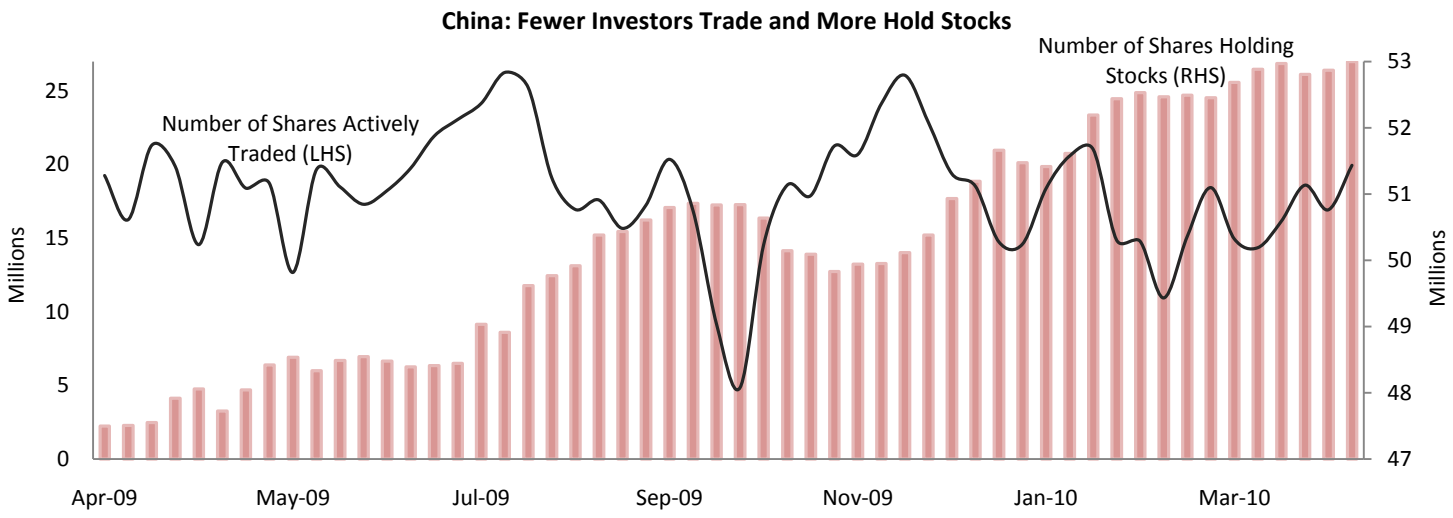
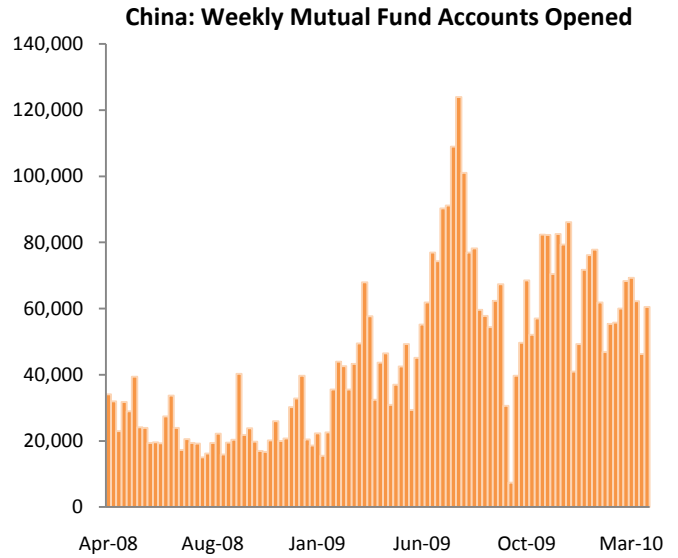
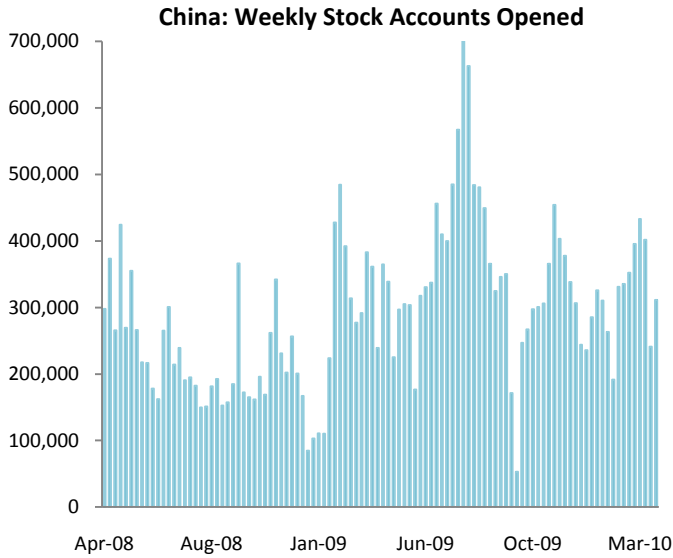
Mutual Funds Flow Name	Last Two Weeks		Last Month		Last Six Weeks		Year-to-Date	
	From Apr-12 to Apr-23 Flow/TNA	Flow	From Mar-26 to Apr-23 Flow/TNA	Flow	From Mar-12 to Apr-23 Flow/TNA	Flow	From Jan-4 to Apr-23 Flow/TNA	Flow
Japan Stock	0.4%	\$0	3.5%	\$3	3.5%	\$3	5.1%	\$5
Diversified Emerging Markets	0.1%	19	0.3%	49	0.4%	62	1.5%	218
Diversified Pacific/Asia	0.0%	0	1.4%	5	1.3%	5	-0.8%	-3
Pacific/Asia Ex-Japan	-0.2%	-6	0.0%	2	-0.3%	-11	-7.2%	-226



Source: TTIR

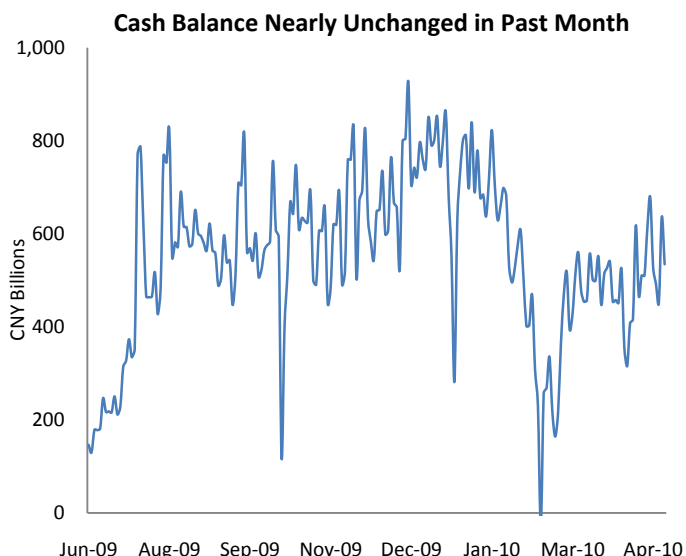
Chinese IPOs Sport Extraordinary Returns. Hang Seng China AH Premium Index Falls to 20-Month Low.

Chinese investors opened 311,338 stock accounts and 60,525 mutual fund accounts in the week ended April 16. Account openings hovered near 400,000 in the past six months, and lukewarm returns have yet to convince fence-sitters to pump liquidity into the market. We believe this could persist, as the Chinese authority is desperately trying to counter excessive credit expansion in the past year. Meanwhile, the number of accounts holding stocks hit a record 53 million, and it is up 3% year-to-date. Investors are adding equities five times as fast as they did in the same period last year, when the number of accounts holding stocks rose only 0.6%. Market returns are the reason. Benchmark stocks show a year-to-date loss of 7.4%, while they surged 39.3% in the same period last year. The inclination to hold onto losses worsened liquidity.



Source: ChinaClear

The remaining cash balance in China's investment accounts fell for four straight days in the past week, as six IPO subscriptions locked up 390 billion yuan (\$57 billion, or 30% of the total remaining cash balance). Excluding that figure, cash flow was nearly unchanged in the past month. Evidently, investors had very little appetite for assuming additional risk on the secondary market.



Source: Galaxy

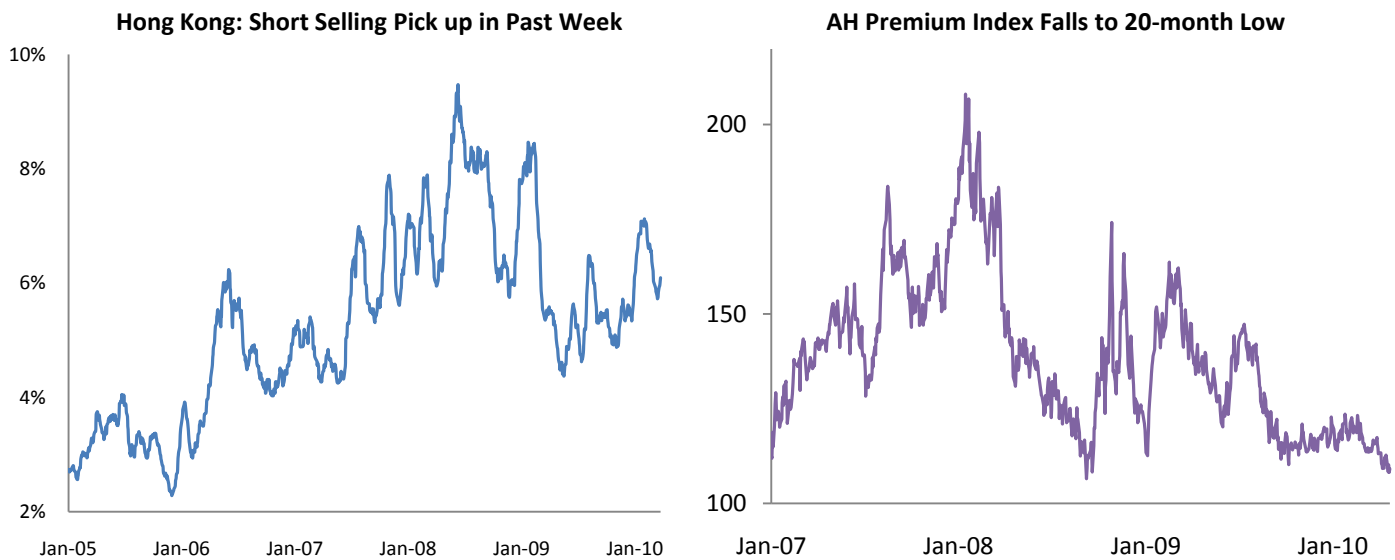
In the past week Chinese equities suffered their largest loss in eight months, but IPO stocks remain far more attractive. Chinese IPO stocks show an average first-trading-day return of 60.1% since July 2009, far and away the best in Asia, and a month later they are up an average 62.4% on their offering prices. China's IPO pricing and allocation system explain the stellar outperformance. In short, the market regulator has final say on how much capital a company can raise. It can therefore create an imbalance between supply and demand, and it is not rare to see IPOs subscribed 300 times over. Unless the regulator changes the system or imposes another IPO moratorium—both unlikely, in our view—the stellar return on IPOs will continue to cripple market sentiment. Meanwhile, 11 IPOs have been scheduled by May 4.



	Australia	India	South Korea	Hong Kong	Japan	China
1 Month	8.0%	14.6%	18.8%	22.2%	6.3%	62.4%
1 Day	0.0%	7.5%	17.7%	18.2%	20.1%	60.1%

Source: Dealogic

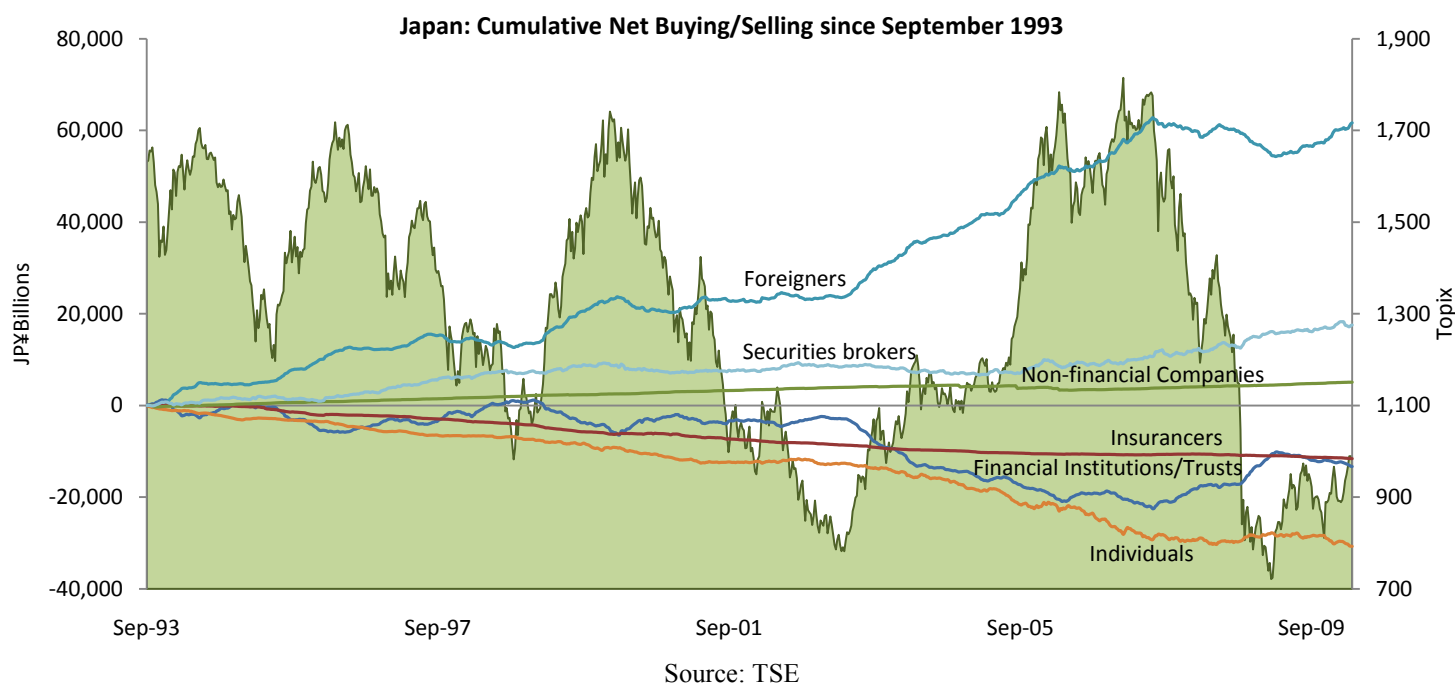
In Hong Kong, short selling picked up in April as the market tumbled and trading volume shrank. The short selling/total volume ratio stood at 6.1% at the end of last week, the highest this month. Short selling is a contrary indicator in Hong Kong, as the daily percentage change in the short selling/volume ratio exhibits a -0.25 correlation with the return on the benchmark Hang Seng (the correlation is -0.30 in the past two years). Also, the relative outperformance of Hong Kong stocks offers a shorting opportunity. The Hang Seng China AH Premium Index, which measures the spread between Chinese companies listed in both Shanghai (A shares) and Hong Kong (H shares), fell to the lowest level since September 2008 in the past week. This could tempt investors to switch to A shares, as the mainland market plunged in the past week.



Source: TTIR

Foreigners Largest Long-Term Buyers of Japanese Equities. Financial Institutions Best Able to Capitalize with Market Timing.

We looked at 17 years worth of Japanese equities flow data. It shows that foreign investors, securities brokers, and non-financial companies were chronic buyers, while insurance companies, financial institutions/trusts, and retail investors were sellers. Foreigners were easily the largest buyers, with a net total purchase of 61.7 trillion yen (\$655.2 billion).



We also analyzed profits and losses by investor type. We assumed all investors started from scratch. We cumulated weekly buying/selling of equities, and for a measure of investor return we assumed they got the return of the benchmark TOPIX for that week. As an example, a calculation for foreigners looks like this:

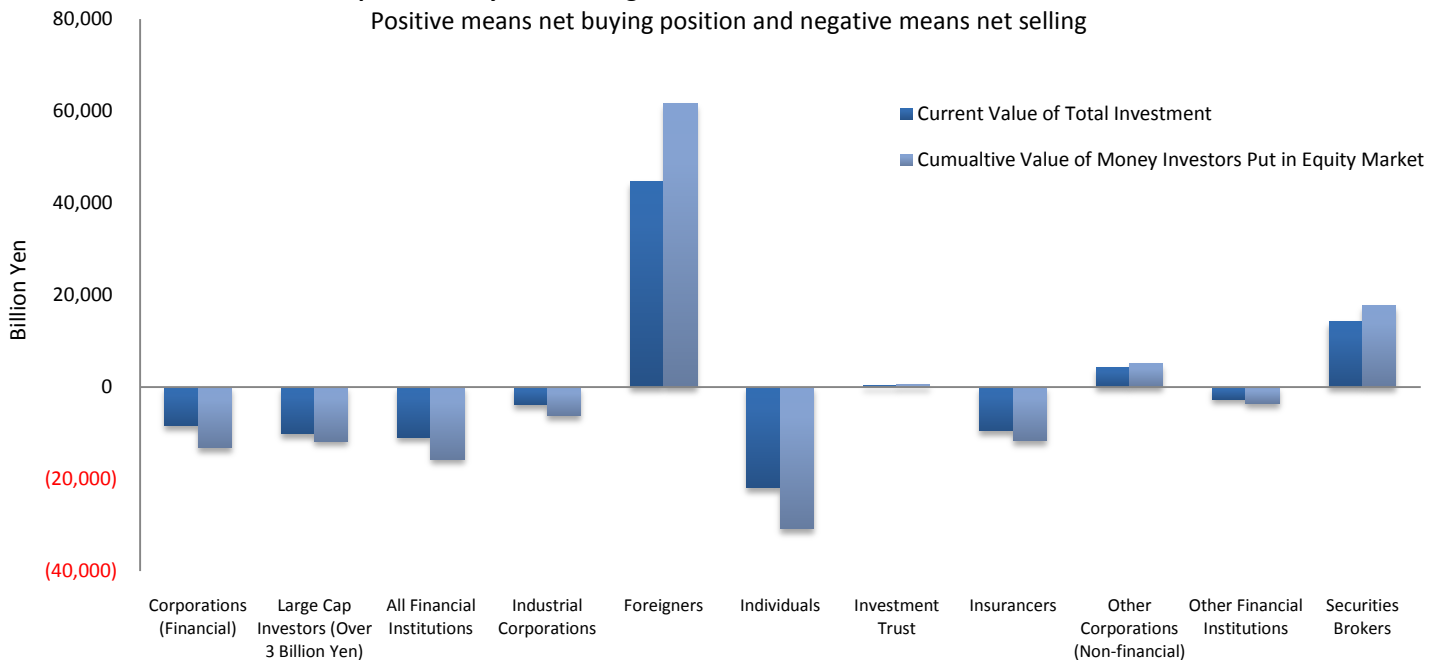
	1-Oct-93	8-Oct-93	15-Oct-93	22-Oct-93	29-Oct-93	5-Nov-93
Weekly Foreign Buying		-2	42	-41	-8	57
Topix Return		1.37%	-0.14%	0.55%	-1.95%	-3.05%
Total Money Invested	0.0	-2.0	40.0	-1.0	-9.0	48.0
Portfolio Value	0.0	-2.0	40.0	-0.8	-8.8	48.2

Foreigners invested ¥48 billion in the five weeks between October 1, 1993 and November 5, 1993, and their equity holdings were worth ¥48.2 billion at the end of the period. But while the TOPIX was down 3.2% in the period, foreign investors gained 0.5%. This is because they were net long in the third week, when the Topix gained 0.55%, but net short in the last two weeks, when the Topix lost 1.9% and 3.0%.

We repeated this analysis for the 865 weeks through April 16, 2010. The following chart shows foreigners invested a net ¥61.7 trillion yen since October 1993, but the current value of their holdings is only ¥44.7 trillion yen. This is obviously largely due to the fact that the TOPIX plunged 39% in the period. Net sellers of Japanese stocks therefore made money, while net buyers lost.

Japan: Nobody Makes Long-Term Profits Due to General Market Losses

Positive means net buying position and negative means net selling

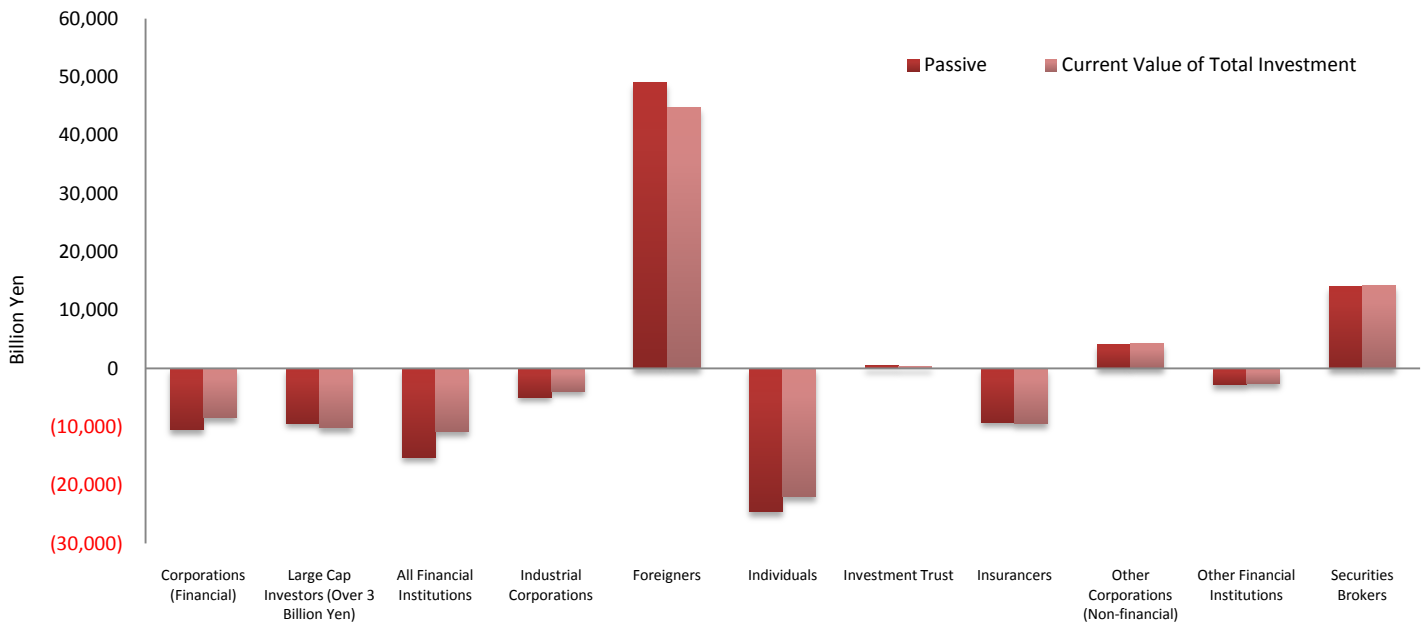


Source: TSE

We also wanted to know whether these investors are good market timers. How much money would they have ended up with if they had adopted a passive strategy? We assumed they keep their respective net long/short positions, and that they bought or sold the same value weekly (the average of their cumulative buying/selling). For example, foreigners were net buyers for ¥61.7 trillion yen, or ¥71 billion yen weekly. Did their active trading make them better off than an investor who simply put ¥71 billion yen in the TOPIX every week?

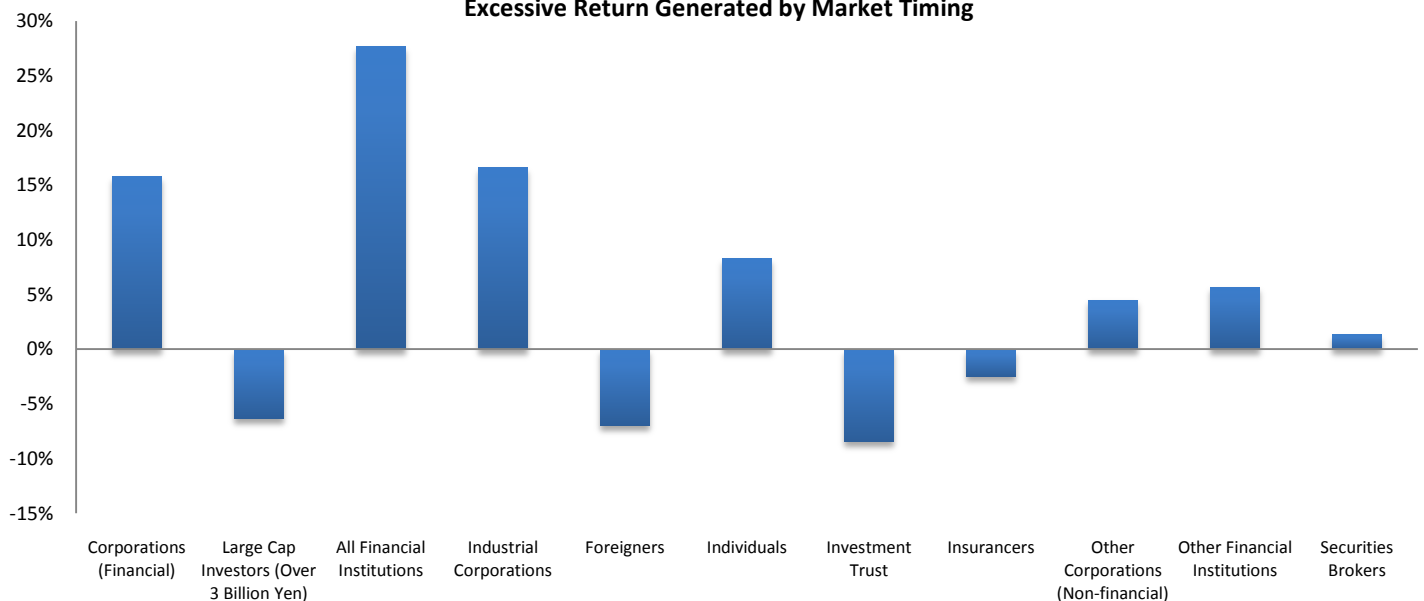
For foreigners, the answer is no. An investor who simply pumped ¥71 billion yen into the TOPIX weekly since October 1993 would have ¥49.1 trillion yen now. But the value of foreign investments in Japanese stocks is worth only ¥44.7 trillion yen now, so foreigners lost money by trying to time the market.

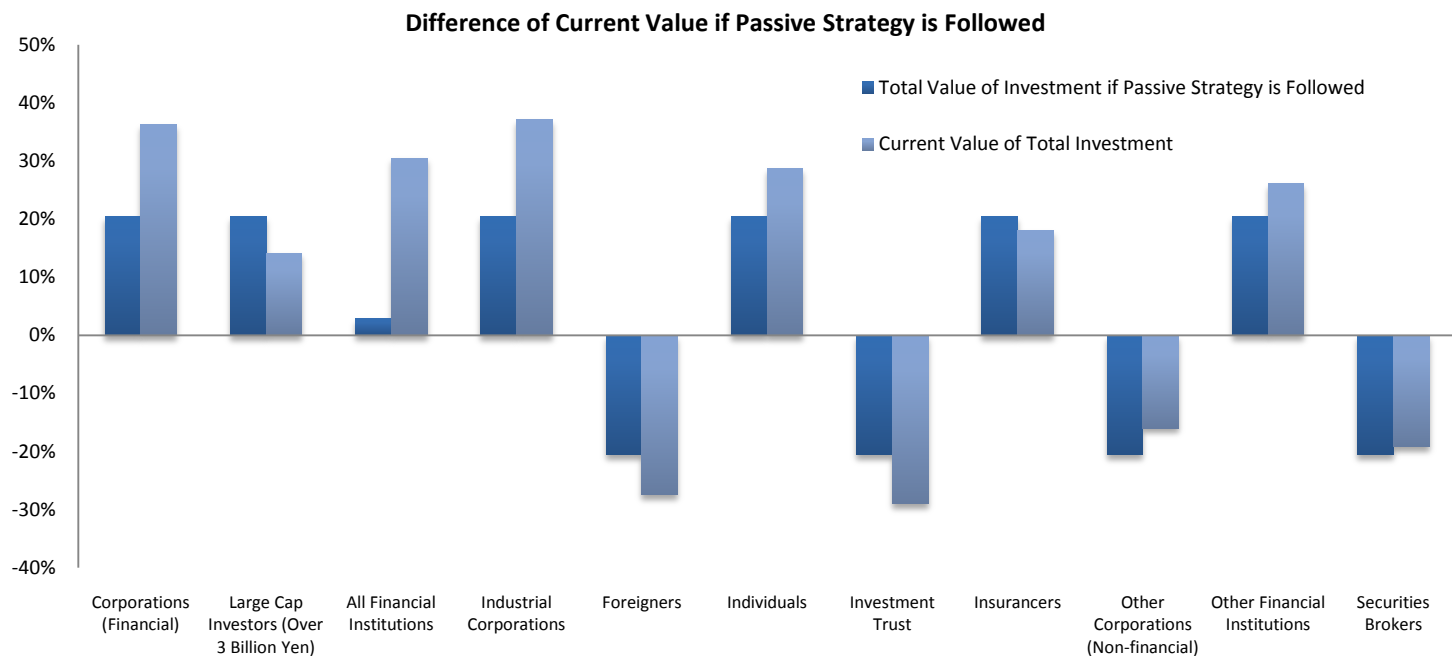
Japan: Does Market Timing Add Value to Investment?



Comparing the values generated by each strategy shows that not all investor types have beaten the market. Foreign investors and Japanese investment trusts underperformed the passive strategy by 7.0% and 8.4%, respectively, while Japanese financial institutions outperformed by 27.7%. Clearly, the biggest winners are corporations and financial institutions, which is consistent with liquidity theory. Corporate insiders and bankers are much more informed about their stocks than the investing public, and they can capitalize by timing equity issuance. Also, it makes sense that domestic investors fared slightly better than foreign investors, who know the least about the Japanese market.

Excessive Return Generated by Market Timing

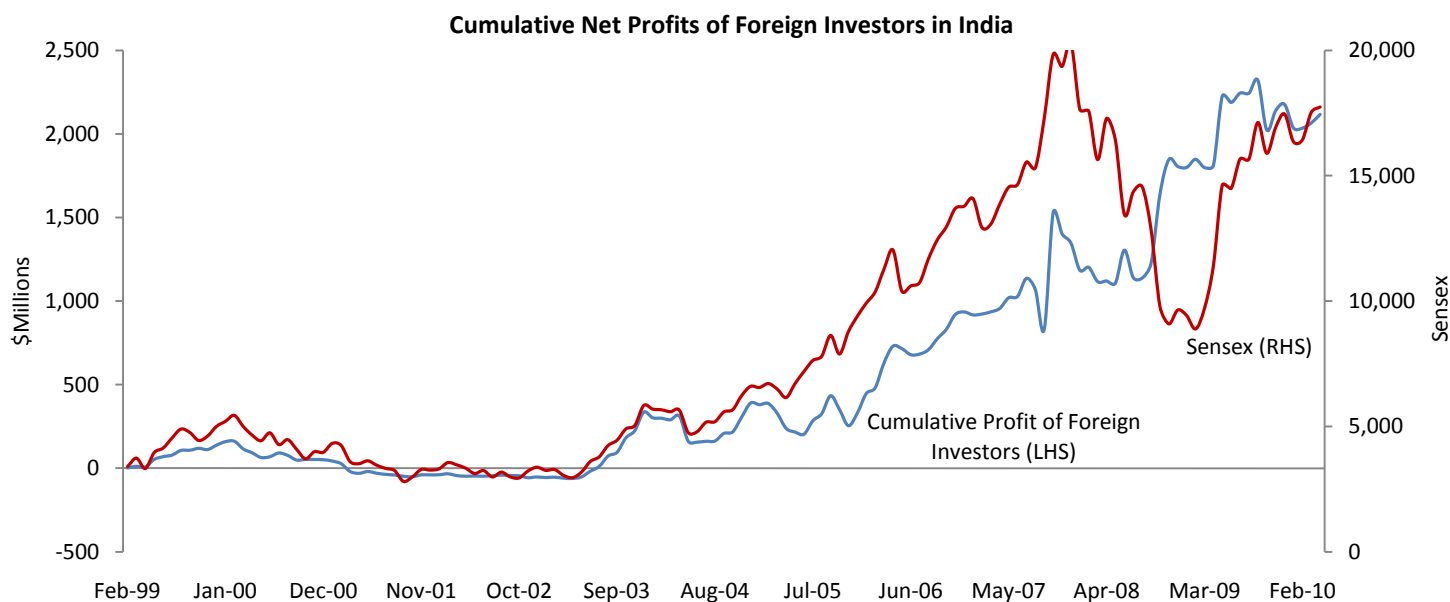




Divergent Local and Foreign Sentiment Adds Pressure to Indian Equities.

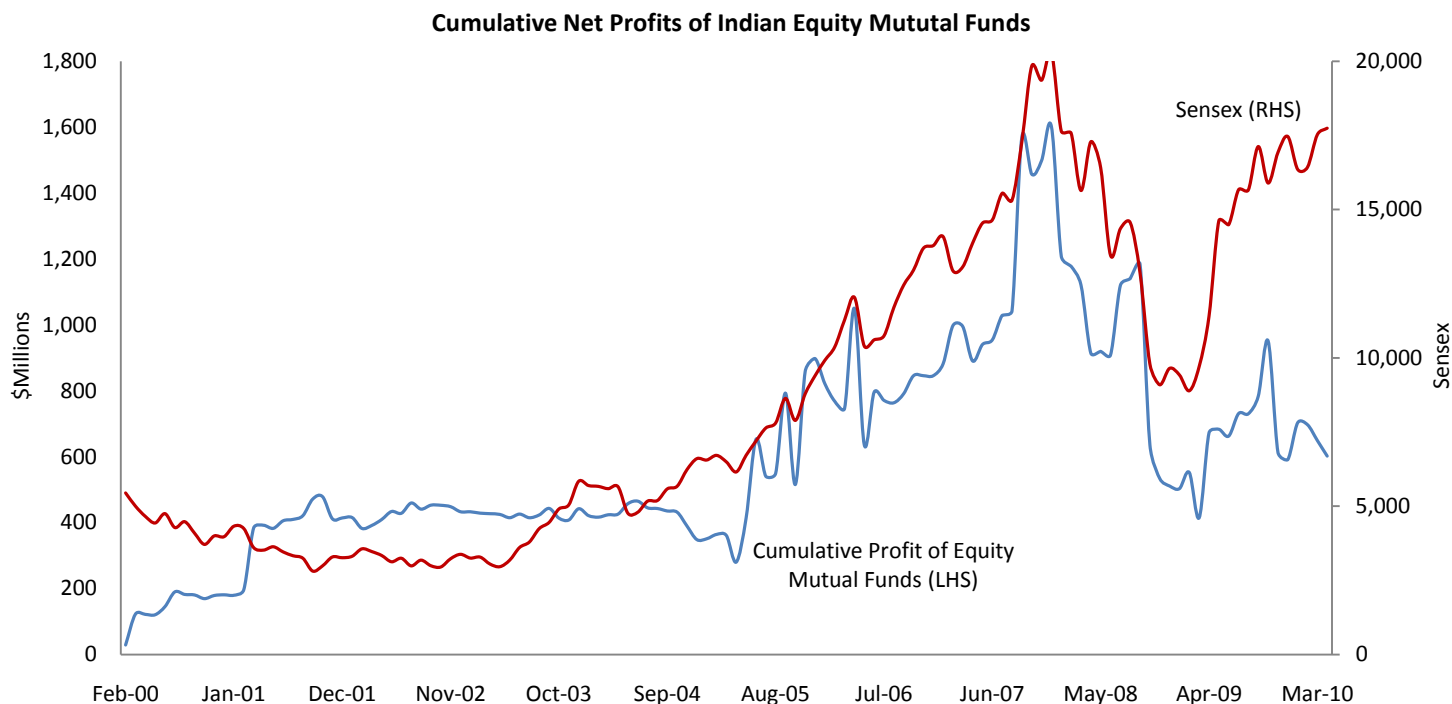
In India, foreign investors have bought \$1.8 billion in stock month-to-date, down sharply from \$4.1 billion in March. Indian equity mutual funds posted an outflow of \$365 million in April, much smaller than the March outflow of \$837 million.

As is the case in Japan, foreign investors in India are market followers. Their monthly net buying/selling exhibits a strong positive correlation (0.57) with monthly returns on the benchmark Sensex, and their profits and losses matched the market closely between 1999 and 2007. In addition, unlike local investors, they successfully avoided the market collapse between Q4 2007 and Q1 2009.



Source: SEBI

But locals (Indian equity mutual funds) are not always contrarians—they exhibit only a weak negative correlation with Sensex returns. 2008 marked a turning point, as they kept buying amid the worst market correction in India’s history. Now, they remained net sellers in the past eight months, dumping a total of \$3.9 billion in stock. At the mercy of two opposite forces, the Sensex is up only 3.6% since Q4 2009.

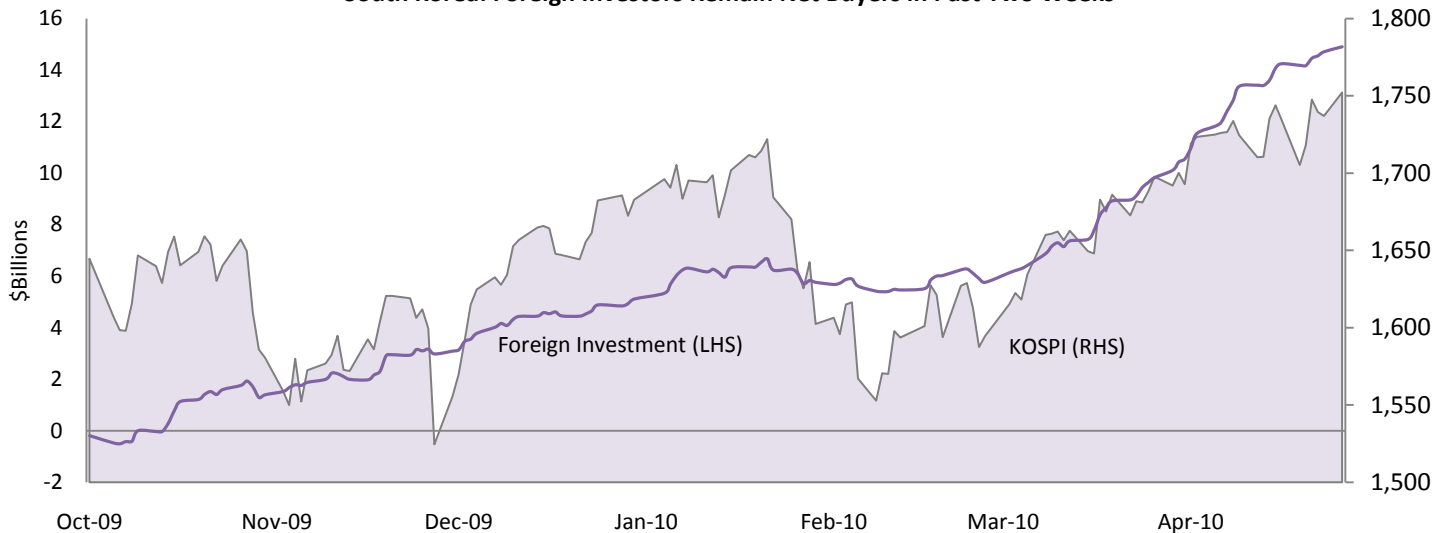


Source: SEBI

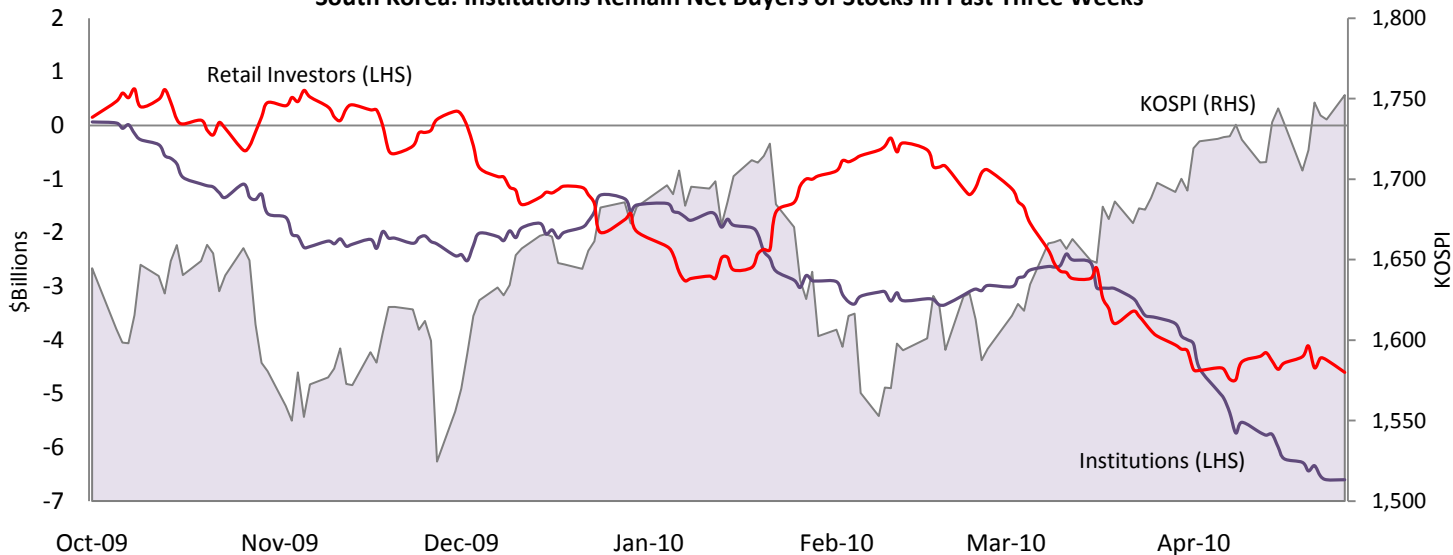
Foreign Investors Keen on South Korean Equities.

As our ETF flows show, foreign investors have been enthusiastic for South Korean stocks in the past two months. They snapped up \$4.8 billion in March, and \$4.4 billion month-to-date. Importantly, average daily net foreign purchases reached a record high of \$245 million in April. Meanwhile, net selling from retail investors plunged to \$406 million in April from \$3.5 billion in March. Only Korean institutional investors accelerated selling in April, dumping \$2.6 billion against \$1.0 billion in March.

South Korea: Foreign Investors Remain Net Buyers in Past Two Weeks



South Korea: Institutions Remain Net Buyers of Stocks in Past Three Weeks



Source: KRX

The South Korean economy is recovering, but government stimulus is still necessary. Exports rose 3.4% in Q1 2010 following a 1.5% decline in Q4 2009, and government spending (5.7%) and private consumption (0.6%) also increased. Additionally, the unemployment rate fell to 3.8% in March, and it is a full percentage point lower than it was in January. Investors are happy with market gains, but they nonetheless face risks. China's effort to curb inflation alongside a strong won could undermine South Korea's exports in the coming months. Also, foreign investors might soon take profits, as they scooped up about \$10 billion in stock in the past two months.

U.S. Market Flow Data

Table 1: U.S. Mutual Fund Flows (\$millions)

	Last Week			Last Month			Last 12 Months		
	TNA	Flow	NAV-%	TNA	Flow	NAV-%	TNA	Flow	NAV-%
Japan Stock	0.4%	0.4	-0.2%	3.5%	3.4	0.0%	3.5%	3.4	11.5%
Diversified Emerging Markets	0.1%	19.2	1.0%	0.3%	48.9	1.9%	0.4%	62.1	43.5%
Diversified Pacific/Asia	0.0%	(0.1)	0.8%	1.4%	4.9	3.8%	1.3%	4.5	54.6%
Pacific/Asia Ex-Japan	-0.2%	(6.2)	0.3%	0.0%	1.5	3.7%	-0.3%	(10.6)	65.6%

Source: TTIR

Table 2: U.S. Asia-oriented ETF Flows (\$millions)

	Last 2 Weeks			Last 4 Weeks			Last 6 Weeks		
	Flow/TNA	Flow	NAV CHG%	Flow/TNA	Flow	NAV CHG%	Flow/TNA	Flow	NAV CHG%
AAXJ	0.8%	12	-0.8%	5.07%	76	0.7%	10.6%	154	5.0%
EPI	0.0%	0	-0.9%	1.66%	14	1.4%	5.9%	51	5.4%
EPP	0%	0	-1.7%	0.00%	0	-0.3%	0.0%	0	2.6%
EWA	1.0%	29	-2.0%	6.98%	195	-0.7%	12.5%	338	2.0%
EWH	-5.8%	(119)	-3.3%	-6.04%	(128)	-2.1%	3.6%	75	1.3%
EWJ	0.3%	19	-1.7%	2.16%	121	-1.3%	0.6%	34	2.3%
EWS	0%	(5)	3.0%	-1.73%	(27)	4.2%	-1.7%	(27)	7.7%
EWT	0%	0	-0.8%	-0.29%	(10)	0.2%	-0.3%	(10)	5.1%
EWY	4.8%	177	1.3%	7.37%	260	2.2%	9.6%	328	7.5%
FXI	3.0%	258	-5.7%	7.09%	596	-2.8%	4.2%	346	5.1%
GMF	0%	0	-1.3%	0.00%	0	0.7%	0.0%	0	5.4%
GXC	0%	0	-4.4%	0.00%	0	-1.6%	0.0%	0	4.3%
HAO	0.0%	0	-3.3%	3.64%	14	-1.7%	9.1%	33	3.7%
PGJ	0.6%	3	-1.3%	-1.61%	(7)	1.4%	-2.1%	(10)	5.7%
PIN	2.4%	10	-1.4%	3.29%	14	0.4%	3.9%	16	3.5%
VPL	1.9%	28	-1.6%	1.88%	28	-1.0%	4.9%	72	2.5%

Source: TTIR

Table 3: Short Interest on Chinese ADRs (millions)

	31-Mar	15-Mar	26-Feb	29-Jan	29-Jan	15-Jan	15-Dec	YTD
Shares Short	182	185	187	182	182	173	183	183
Short Interest	3,494	4,212	3,837	3,290	3,290	4,104	4,339	3,765
Short Interest Flow	-682	119	88	-154	-154	355	-132	-125
Days to Cover	2.0	2.1	2.0	1.7	1.7	2.2	2.4	1.99
Flow/Volume Ratio	-0.6%	0.6%	-0.2%	-0.9%	-0.9%	-0.4%	0.4%	-0.3%

Source: TTIR

Asian Market Flow Data

Table 4: Investment Account Openings and Cash Balance in Investment Accounts in China

	Last Week	2-week	3-week	4-week	6-month	12-month	Year-to-Date
Equity Accounts (000s)	311	241	402	433	395	347	315
Fund Accounts (000s)	61	46	62	69	68	63	62
Total Accounts (000s)	372	287	464	502	464	409	377
Accounts Traded (mln)	20.0	16.9	18.6	16.2	14.4	18.1	16.8
Cash Balance (bln)	1,211	1,251	1,217	1,213	1,218	1,251	1,240
Change in Cash Balance (bln)	(384)	15	(301)	(440)	(234)	110	(268)

Source: Chinaclear

Table 5: Margin/Short Data, Mutual Funds Flow, and Net Purchases by Investor Types in Japan (\$Millions)

	Most Recent	1-month	2-month	3-month	6-month	12-month	Year-to-Date
Long/Short Margin Ratio	2.0	1.9	2.2	1.6	2.0	1.0	1.9
Short Sales/Volume	20.9%	22.5%	20.6%	21.3%	20.7%	22.3%	21.3%
Mutual Fund Inflows/TNA	1.2%	1.2%	0.6%	0.4%	1.3%	0.2%	1.0%
Purchases by Japanese Retail Investors	-1	-10	-21	-19	-36	-59	-25
Purchases by Foreigners	2	13	14	17	48	77	33

Source: TTIR

Table 6: Mutual Funds Flow and Purchases of Equities by Foreigners in India (\$Millions)

	Last Week	2-week	3-week	1-month	6-month	12-month	Year-to-Date
Mutual Funds Flow	48	-162	-325	-532	-2,242	-2,713	-1,647
Purchases by Foreigners	551	901	1,436	2,659	9,692	24,146	6,134

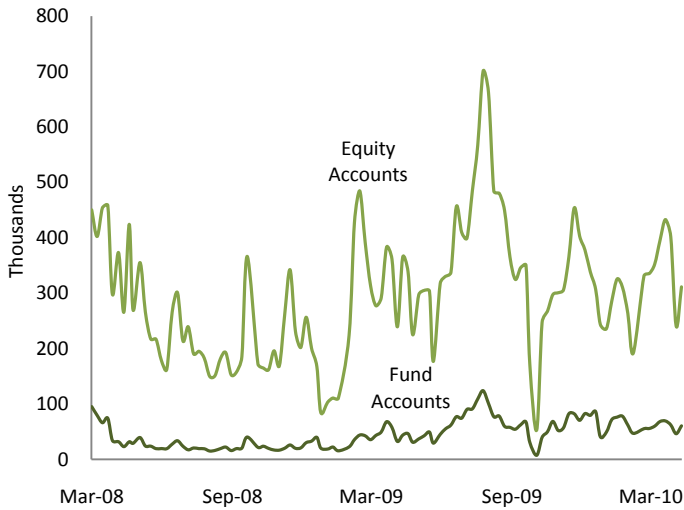
Source: SEBI

Table 7: Domestic and Foreign Purchases of Equities in South Korea (\$Millions)

	Last Week	2-week	3-week	1-month	6-month	12-month	Year-to-Date
Mutual Funds Flow	-232	-565	-1,270	-2,134	-9,885	-28,690	-7,889
Purchases by Foreigners	194	465	880	1,860	13,487	35,536	9,969

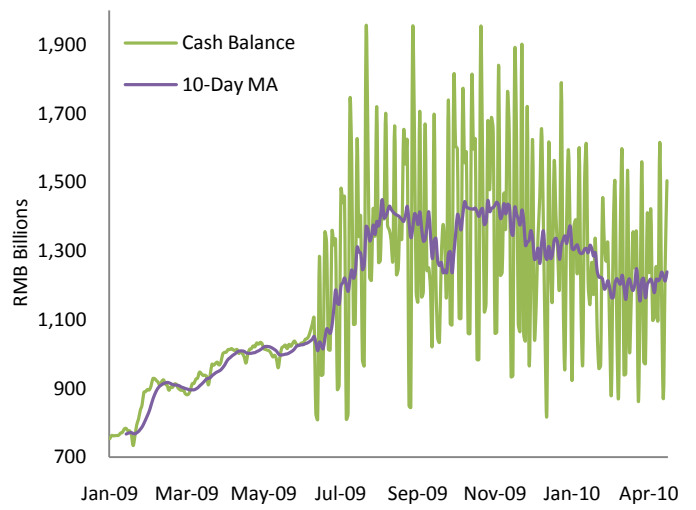
Source: KRX

Figure 1: Investment Account Openings in China



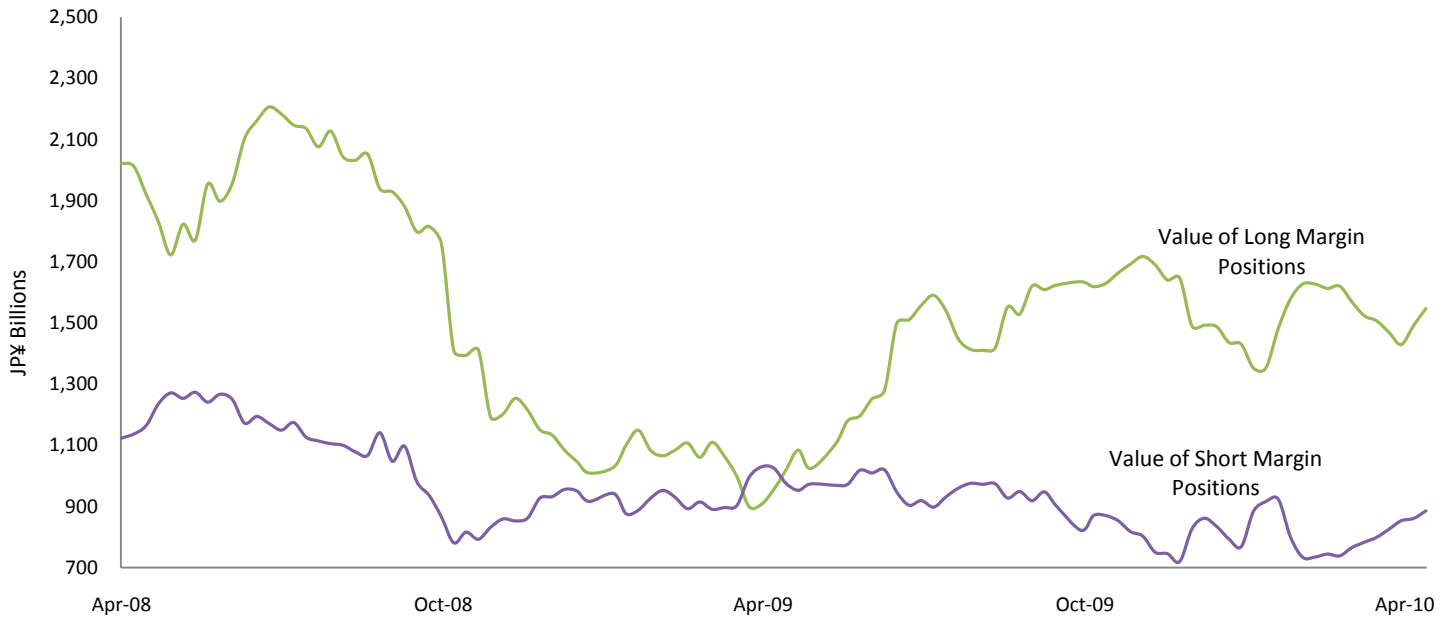
Source: Chinaclear

Figure 2: Cash Balance in China's Investment Accounts



Source: Galaxy

Figure 3: Margin Balance on Japanese Bourses



Source: TSE

Figure 4: Mutual Funds Flow and Foreign Purchases in India

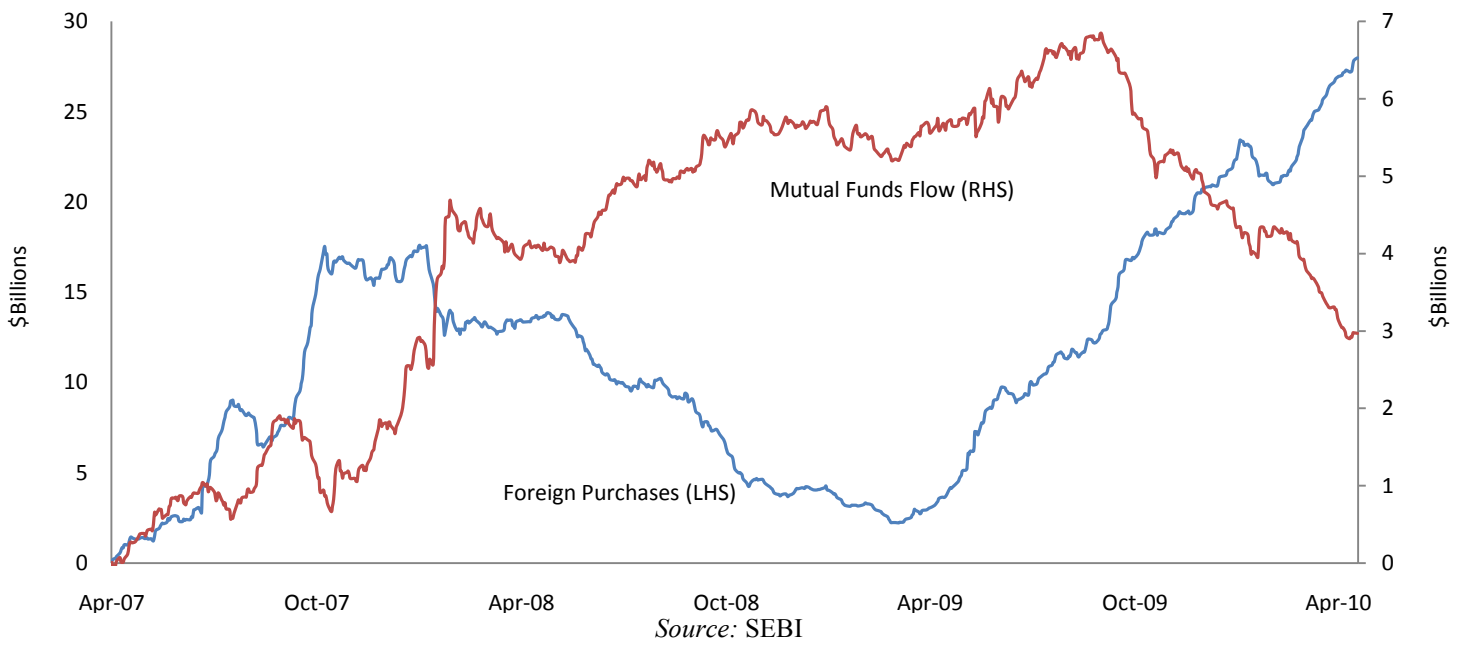
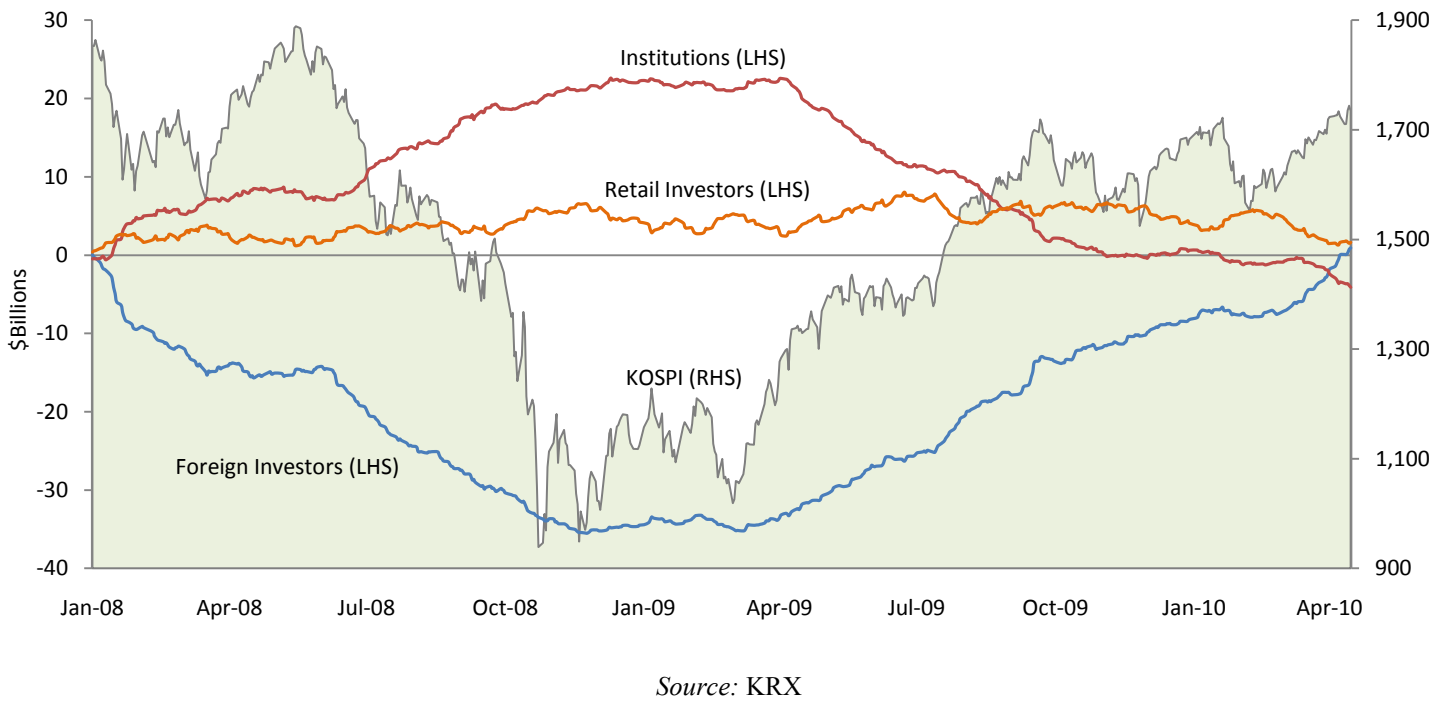


Figure 5: Domestic and Foreign Purchases in South Korea



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