Continuum Global Asset Mgt., LLC

August-September 2013

Newsletter

Markets generally move based on the mood of investors. Whether they are retail or institutional clients, its their market reaction or investor sentiment that moves markets. Currently, the Bernanke (Chairman of the Federal Reserve) watch supercedes all other variables that can or should impact the markets.

One can logically view the markets from two dimensions : Technical and Fundamental. We have attempted to dichotomize these areas and illustrate crucial variables that comprise of each, the Technical and Fundamental aspect. Following is CGAM's perspective on both issues followed by our inference of the future of the markets over the next 12-18 months:

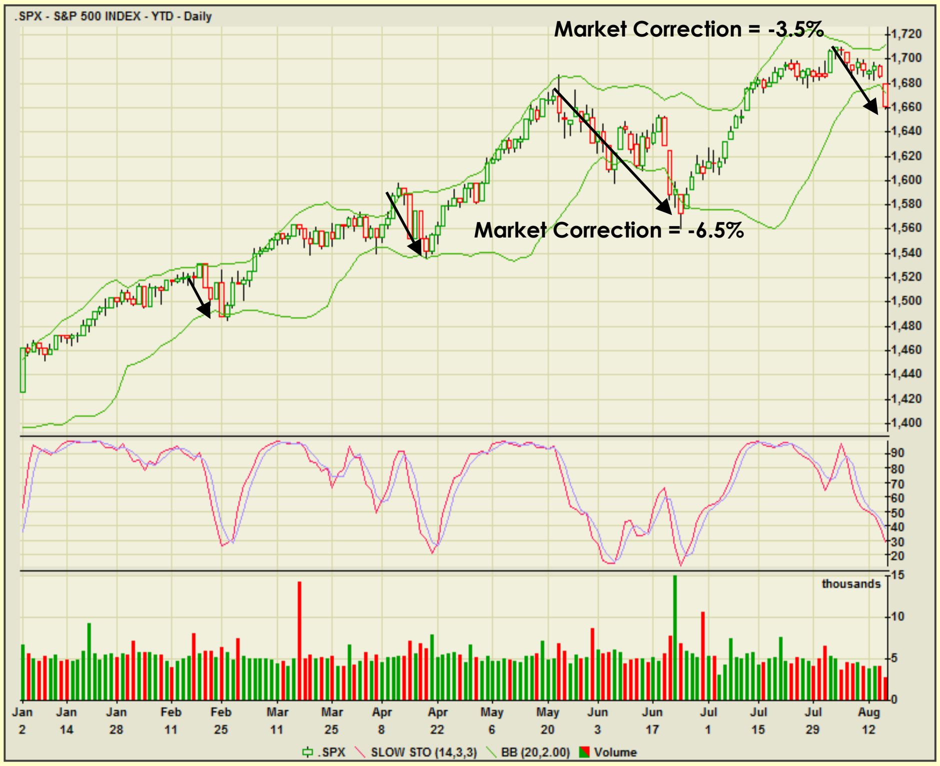
Technical Parameters

1. **Volatility Index (a constrarian Indicator)**
2. **Margin used at the NYSE**
3. **Money Market Levels**
4. **Insider Buying/Selling**

Fundamental Variables

1. **US Corporate Earnings and GDP growth**
2. **Inflation**
3. **Cost of Capital**
4. **European Economic Recovery**

Chart 1[1]



Before we elaborate on the variables mentioned above, we would like to illustrate the movement of the S&P 500 (proxy for overall broad based markets) year to date.

It can be clearly observed in Chart 1, that the markets have experienced a healthy return for the year 2013. But it is also important and valuable to learn that the markets have corrected 3-4 times since the beginning of 2013. This phenomenon of market corrections in the order of 3-7% is not out of the ordinary during prolonged bullish phases.

[1] Source: www.fidelity.com

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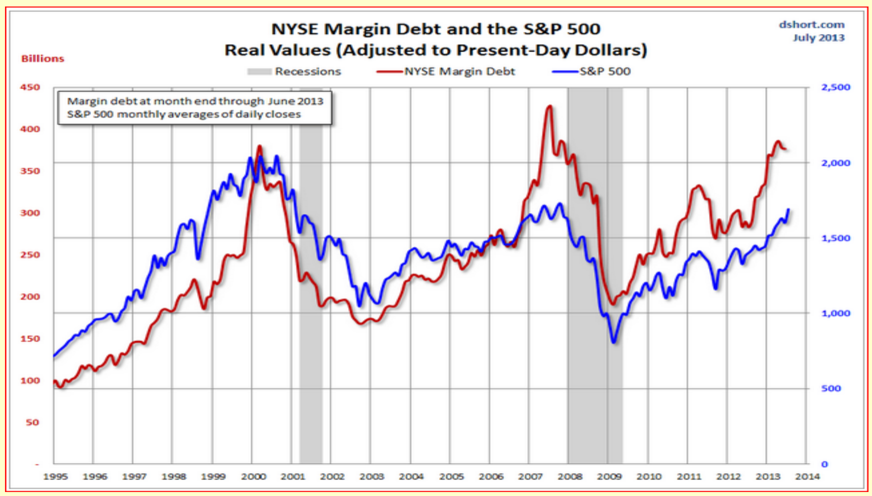
TECHNICAL PARAMETERS

1. Volatility Index (A Contrarian Indicator): Negative

The volatility index uses activity in the options market to evaluate bearishness or bullishness amongst investors. Generally, the higher the VIX, the higher the fear in investor sentiment and vice verse. It can be observed from the adjacent chart[2] that currently the VIX index is at extremely low levels flashing complacency in the market, which could be a prelude to an interim market correction.

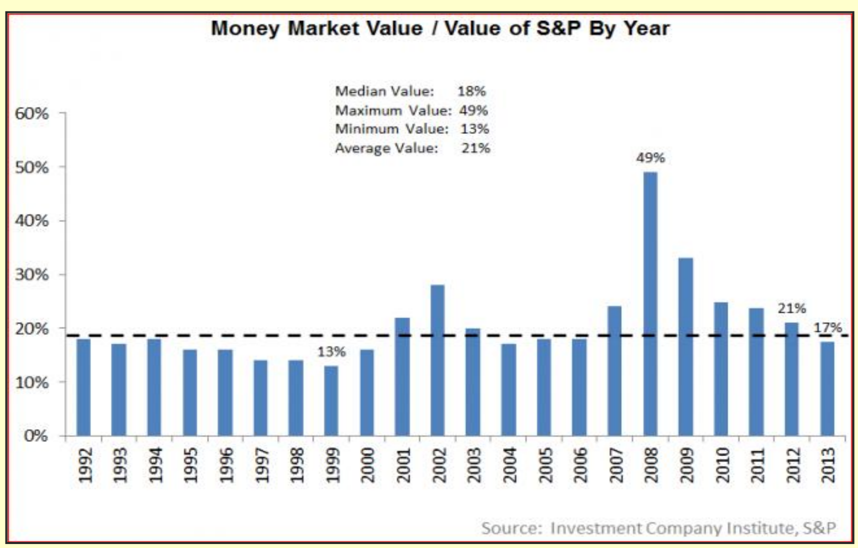
2. Margin used at the NYSE: Negative

Margin debt is money borrowed by investors. This is done by pledging their currents liquid securities. It can be seen in the adjacent chart that margin levels (in red) are at extremely high levels. These levels were reached previously in the year 2000 and 2007, right before the markets crashed in both instances.



3. Money Market Levels Nuetral to Negative

The level of aggregate cash relative to the overall market capitalization is a good measure of the bullish / bearish sentiment of investors. The higher the cash, the more bearish the sentiment and vice verse. The adjacent chart shows that historically the average cash position for an investor has been approximately 21% since 1992. Current levels of 17% seem a bit anemic and may not support a strong market rally.



2 Source: www.fidelity.com

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4. Insider Buying/Selling: *Negative*

Insider Sell Buy Ratio August 9, 2013

Insiders are comprised of persons of interest in a company. In other words, upper management, directors and employees privy to material information regarding the company's developments in the future. Even though insiders are not legally supposed to take advantage of the exclusive information they possess, one can not ignore the fact that following insider buy / sell activity can provide a reasonable gauge of whether the markets are under or overbought. We can clearly observe from the chart[3] above that insider (insiders have been selling at a relatively higher rate recently) sentiment is pointing to a bearish outlook.

FUNDAMENTAL PARAMETERS

CGAM's Proprietary Market Direction Model: *Neutral*

We believe that ultimately economic fundamentals drive market sentiment. We at Continuum have developed a market model based on regressing data of market variables spanning over three decades. As always, we have illustrated our proprietary market direction model below. Our endeavor has been to develop a model that evolves with changing data. It started with a number of variables which were narrowed down to 6 crucial parameters that we believe attribute to majority of the movement in the S&P 500 index.

Fundamental Variables (12 month Projections)		**Market Projections**	*As of August 23rd, 2013*
S&P 500 Earnings	$115.00	S&P 500 (Projection) = *Based on the regression equation illustrated below*	1,749.76
S&P 500 Expected PE Ratio	16.00	S&P 500 (**Current, Aug 23, 2013**) =	1,656.96
10 Treasury Bond Rate (%)	2.70%	**S&P 500 (Gain/Loss) =**	**+5.60%**
Inflation Rate (%)	3.10%	***Standard Error***	**+/- 1.88%**
Volatility (VIX) Index	16.00		
Unemployment (%)	7.00%		

CGAM Market Model Equation[4]

S&P 500 ***(12 Month Estimate) =*** ***927.80+10.77 x (S&P Earnings)+20.68 x (S&P Price Earnings Ratio)-35.90 x (Treasury Bond Rate{10 yr})-44.68 x (Consumer Price Index)- 9.89 x (VIX; Volatility Index)-95.77 x (Unemployment Rate)+St. Error***

It can be observed that the model estimates approximately 5-6% growth in the S&P 500 index with an error rate of about 1-2%. Even though this is a reasonable return in the broader market, we are compelled to prefer individual stock selection over relying on the direction of the broader markets.

[3] Source: Data Compiled by CGAM from various sources
[4] Source: CGAM's Proprietary Market Direction Model

1. **US Corporate Earnings and GDP growth: *Positive***

We believe that the US economy is in a recovery mode and US corporations should continue to experience earnings growth over the next 12-18 months. Even at a reasonable investor sentiment, which can be measured by the Price to Earnings ratio (approximately 16-17), we believe that the capital markets can gain 6-8% over the next 12 months.

2. **Inflation : *Positive***

The Federal Reserve Board is cognizant of the inflation rate and it's consequences for the economy. As a matter of fact, the basic mandate of the FOMC (Federal Open Market Committee) is to monitor inflation and employment closely and help manage these two variables for stable ecomomic growth. FOMC has reiterated that inflation is currently contained and the prevailing accommodative monetary policy will be in place for some time.

3. **Cost of Capital : *Positive***

Since the 2008-09 US real estate and banking debacle, the Federal Reserve lowered the Federal Fund Rate (interest rate the Federal Reserve uses to loan money to national banks) to almost 0% with an endeavor to infuse liquidity in the economy. This low rate policy by the government has helped keep the cost of capital for businesses low. We believe that a low cost of capital during economic recovery is very positive and will continue to catalyze both Main and Wall Street going forward.

4. **European Economic Recovery *: Positive***

After 3-4 years of economic contraction and banking issues, Europe is showing economic recovery. Europe and the US comprises of approximately half the GDP of the world. Most institutional investors are now diverting assets to the US from Emerging markets. We believe that this is a good trend that will help boost the economy in the industrialized regions.

We believe that this recent market correction of 3-4 % during the first two weeks of August 2013 was based primarily on fears of Federal government's rhetoric regarding contraction of liquidity. We believe that this provides a great entry point from a contrarian perspective for growth oriented investors.

PLEASE REMEMBER: Each investor is unique and should invest to compliment their respective financial conditions and objectives.

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