Continuum Global Asset Mgt., LLC

August-September 2021

Our April 2021 Market Update concluded with the following inference:

"We reiterate our cautious stance towards the US capital markets. We are gravitating towards raising 20-25% cash and reducing exposure in high technology and some parts of overbought healthcare sectors. We believe that intermittent corrections in the near future will provide better opportunities that we should prepare ourselves for."

The S&P 500 index gained approximately 5-6% since our April 2021 Newsletter. Having said that, the same index corrected approximately -4% to -5% in the month of May 2021, after we published the April 2021 Newsletter. We shared our research and opinion during this correction via a video clip encouraging investors to start initiating and adding to quality companies trading at relatively attractive prices (Please see Chart 1 below).

Chart 1

S&P 500 has gained 17% year to date

Since the May correction, the markets have gained 9.5%, and year to date the markets have gained approximately 17%. We believe that this is primarly attributable to economic recovery due to improvement in domestic COVID pandemic, low interest rates and a huge influx of capital by the US Federal government.

As mentioned in our previous Newsletter, we still believe and reiterate that the US economy is moving in the positive direction, fueled by low interest rates, improving employment scenario and somewhat tame inflation.

20419 Cheryl Ln
Santa Clarita, CA 91350

Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com

Office: 661-299-1920
Mobile: 661-312-2070

Even though the US economy is strong and improving, an investor should not loose sight of how human psychology views gains and losses via the emotions of fear and greed.

If markets would only go up, we would not have to analyse, review or worry about our portfolios. But the truth is that despite a consistent growth in the major stock market indexes, there have been many painful periods that have devastated the markets and investors. It is easy for us as fallible emotional beings to loose sight of history and lessons its taught us.

Following is an illustration of major recessions and market downturns over the last 150 years. In addition, it is crucial to recognize how the role of government has evolved and impacted the capital markets.

Major recessions and their recovery since 1870s…

Recession Start	Recession Finish	10-Yr Rate Start Of Expansion	10-Year Rate At Recession	Total Rate % Change	Recession Length - No Of Months	Recovery Length - No Of Months	S&P Peak Prior To Recession		S&P Trough During Recession		S&P 500 Decline - Peak To Trough	
Oct-1873	Mar-1879	5.32	5.50	3.34%	66	35	Aug-1871	109.07	Jun-1877	73.30	-32.79%	Real Investment Advice
Mar-1882	May-1885	5.50	3.62	-34.12%	39	21	Jun-1881	187.28	Jun-1884	136.49	-27.12%	
Mar-1887	Apr-1888	3.62	3.55	-2.12%	14	26	Nov-1886	203.45	Mar-1888	166.19	-18.31%	
Jul-1890	May-1891	3.55	3.52	-0.71%	11	19	Sep-1889	193.26	Dec-1890	157.74	-18.38%	
Jan-1893	Jun-1894	3.52	3.75	6.53%	18	17	May-1892	214.23	Jul-1893	156.54	-26.93%	
Dec-1895	Jun-1897	3.75	3.59	-4.31%	19	23	Sep-1895	190.54	Aug-1896	164.30	-13.77%	
Jun-1899	Dec-1900	3.59	3.12	-13.05%	19	20	Mar-1899	249.53	Sep-1900	201.31	-19.32%	
Sep-1902	Aug-1904	3.12	3.26	4.49%	24	32	Jun-1901	306.23	Oct-1903	207.18	-32.35%	
May-1907	Jun-1908	3.26	3.74	14.62%	14	18	Jan-1906	315.64	Nov-1907	189.24	-40.05%	
Jan-1910	Jan-1912	3.74	3.91	4.64%	25	11	Aug-1909	289.74	Jul-1910	236.45	-18.39%	
Jan-1913	Dec-1914	3.91	4.45	13.81%	24	43	Aug-1912	273.74	Nov-1913	215.84	-21.15%	
Aug-1918	Mar-1919	4.45	4.53	1.78%	8	9	Dec-1915	249.24	Jan-1919	128.84	-48.31%	
Jan-1920	Jul-1921	4.53	4.97	9.73%	19	21	Jul-1919	148.01	Dec-1920	95.06	-35.77%	
May-1923	Jul-1924	4.97	4.26	-14.29%	15	26	Oct-1922	150.16	Oct-1923	125.70	-16.29%	
Oct-1926	Nov-1927	4.26	3.43	-19.60%	14	20	Sep-1926	206.12	Nov-1926	201.80	-2.09%	
Aug-1929	Mar-1933	3.43	3.42	-0.17%	44	49	Sep-1929	489.95	Jun-1932	94.98	-80.61%	
May-1937	Jun-1938	3.42	2.64	-22.79%	14	79	Nov-1936	335.79	Apr-1938	188.61	-43.83%	
Feb-1945	Oct-1945	2.64	2.36	-10.80%	9	36	Sep-1939	249.52	May-1942	131.75	-47.20%	Declined In Adv Of Recession
Nov-1948	Oct-1949	2.36	2.33	-0.99%	12	44	Jun-1948	189.00	Jun-1949	158.29	-16.25%	
Jul-1953	May-1954	2.33	2.93	25.66%	11	38	Aug-1952	255.38	Sep-1953	234.26	-8.27%	
Aug-1957	Apr-1958	2.93	3.93	34.13%	9	23	Apr-1956	483.72	Dec-1957	384.56	-20.50%	
Apr-1960	Oct-1960	3.93	4.28	8.91%	11	105	Jul-1959	554.03	Oct-1960	488.26	-11.87%	
Dec-1969	Nov-1970	4.28	7.65	78.74%	12	35	Jan-1966	794.69	Jul-1970	525.77	-33.84%	
Nov-1973	Mar-1975	7.65	6.73	-12.03%	17	57	Jan-1973	752.65	Sep-1974	364.56	-51.56%	
Jan-1980	Jul-1980	6.73	10.80	60.48%	7	11	Sep-1976	496.00	Apr-1980	344.35	-30.57%	
Jul-1981	Nov-1982	10.80	14.28	32.22%	17	91	Nov-1980	429.80	Mar-1982	317.51	-26.13%	
Jul-1990	Mar-1991	14.28	8.47	-40.69%	9	119	Aug-1987	779.74	Oct-1990	622.98	-20.10%	
Mar-2001	Sep-2001	8.47	4.89	-42.27%	9	72	Aug-2000	2,327.91	Sep-2001	1,586.59	-31.84%	
Dec-2007	Jun-2009	4.89	4.10	-16.16%	19	127	Jul-2007	1,977.01	Mar-2009	963.91	-51.24%	
Feb-2020	Apr-2020	1.52	0.62	-59.21%	3		Feb-2020	3,373.23	Mar-2020	2,237.40	-33.67%	COVID Pandemic Shut-Down
Averages Since 1871												
Mean		4.69	4.62	0.19%	18.24	42.31					-29.13%	
Median		3.91	3.91	-0.17%	14.00	32.00					-26.93%	
Mode					14.00	35.00						
Averages Since 1900					15.74	47.22					-30.76%	

- **The average recession lasts for 18 months but takes an average of 42 months for recovery.**
- **The major market indexes decline by an average of -29% during a recession. Markets declined over -80% during the 1929 depression and took over 2 decades to recover.**
- **The recession caused by COVID-19 was the shortest, lasting 3 months. During this time markets declined over -33%.**

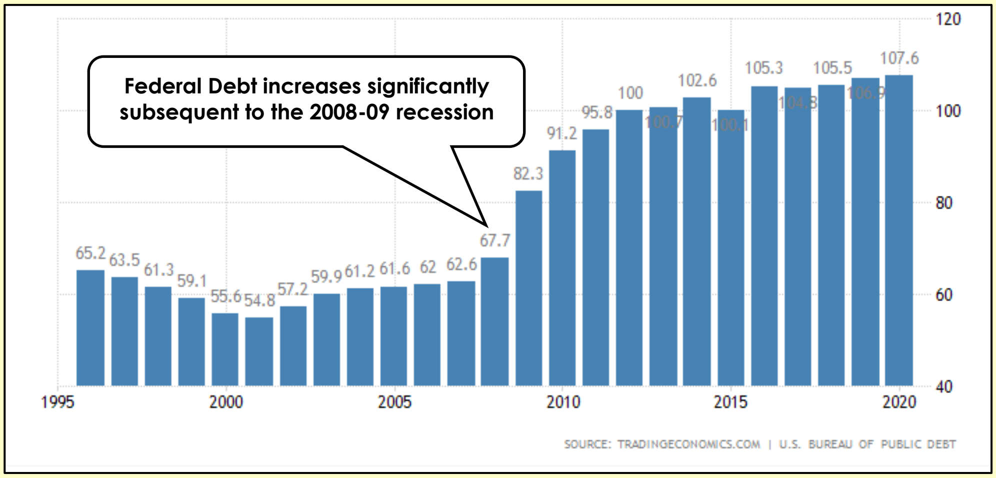
It can be observed in the chart below that the US Federal debt it now twice as much as it was prior to the 2008-2009 financial crisis.

20419 Cheryl Ln
Santa Clarita, CA 91350

Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com

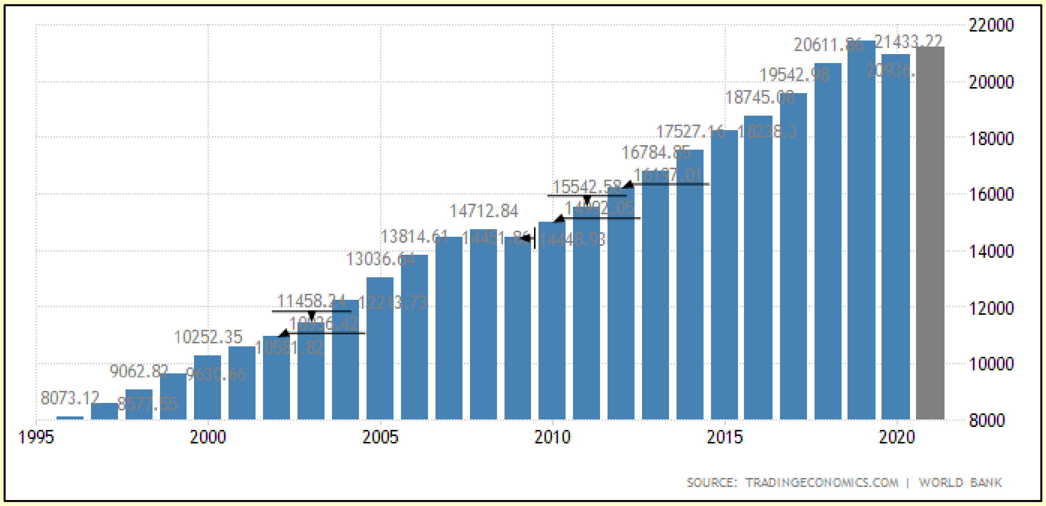
Office: 661-299-1920
Mobile: 661-312-2070

US Gross Debt as a percent of GDP…



The US GDP has also grown considerably since the 2008-09 recession. The perplexing statistic is that the US Federal Debt is approximately $25-26 trillion, an increase of 150% since the Federal government's stimulus aid during the 2008-09 financial crisis.

US GDP growth since 1995…

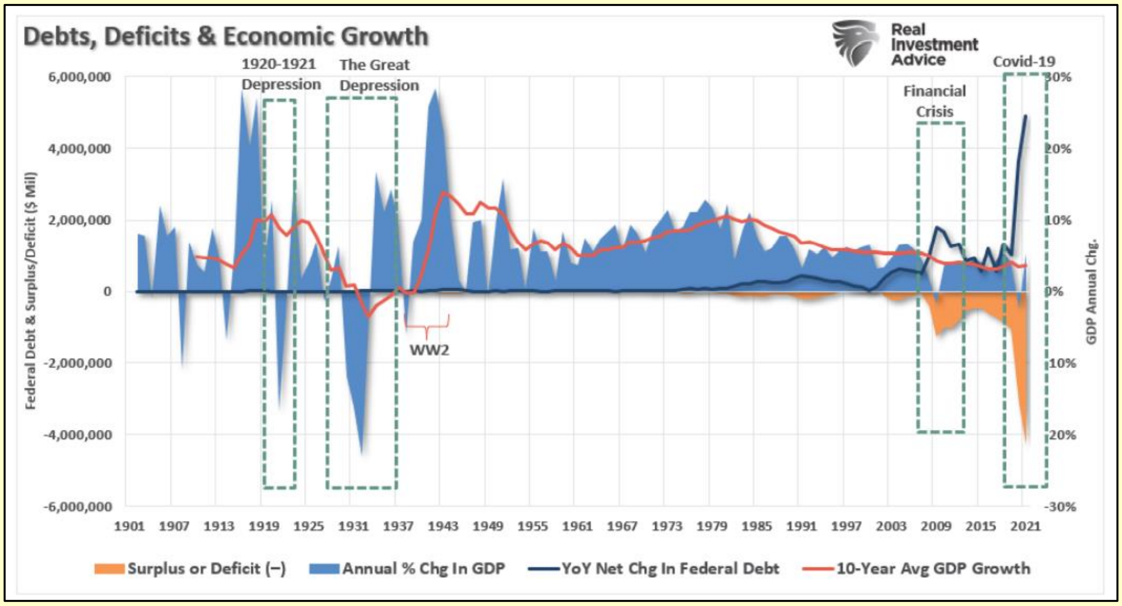


Are debt level out of control…

Debt is an important variable in the capital structure of any functioning organization. The trick is to have an appropriate level of debt that can help the organization grow at a sustained basis.

Debt levels that are out of control and in jeoprady of not being served can and will be detrimental to the organization's growth.

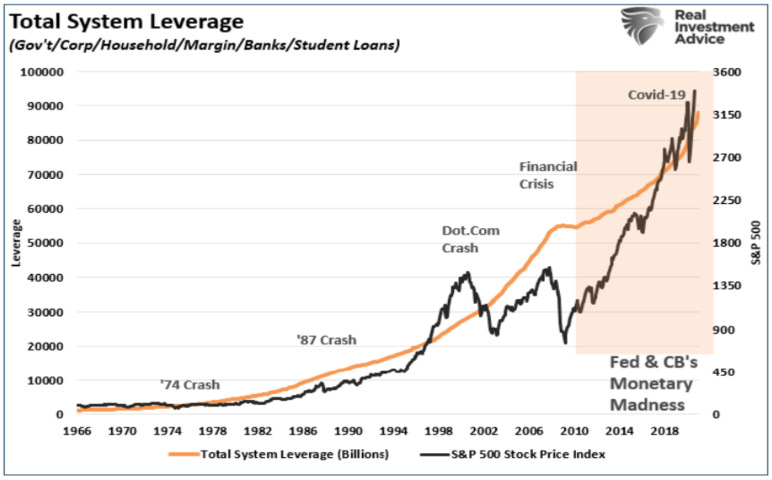
US debt has increased significantly since the 2008-09 financial crisis…

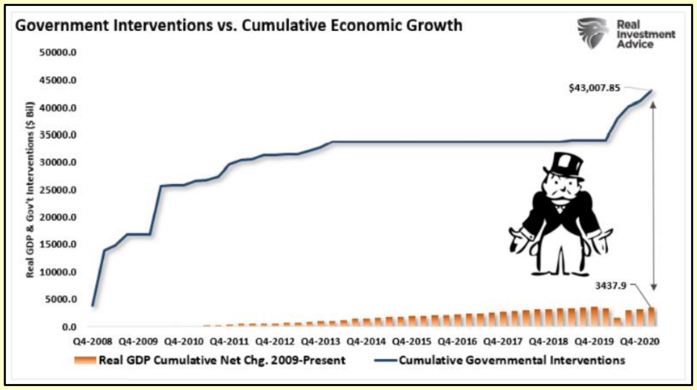


Federal deficit has never been this high in the last 150 years of US economic history. Low interest rates and Federal stimulus package that were intended to assuage the effect of COVID-19 has fueled the capital and real estate markets to elevated levels.

Government intervention has increased at an accelerated pace…

It can be observed in the adjacent chart that the total system leverage has been consistently increasing over the last 5 decades. But its even more important to recognize that the leverage has accelerated at an extraordinary rate since the dot.com recession that started in 2000 and lasted till 2003.





The chart to the left is an illustration of the impact of the leverage on Real US GDP.

We can observe that more leverage is being infused to sustain and generate GDP growth. The resulting return (growth) in US GDP does not commensurate the rate of leverage and can not be sustained in our view.

There seem to be considerable red flags…

All the excesses that existed before the last recession have only worsened since then.

- *Excess Debt*
- *High Stock Market Valuations*
- *Investor Complacency*
- *Financial System Fragility*
- *Weak Economic Underpinnings*
- *Declining Monetary Velocity*
- *Low Interest Rates Detering Productive Activity*
- *Financial Liquidity Required To Keep Asset Prices Elevated*

Fear and greed have and will continue to propel markets. Markets can stay euphoric for a lot longer than an investor can stay diciplined. Having said that, markets are like a rubber band, the more they are stretched, the more they will retreat.

Conclusion…

We believe that the US economy continues to grow from improvement in the COVID pandemic scenario. We also believe that valuations in the markets continue to stay elevated and cannot be sustained forever.

We do not believe that investors can effectively and consistently time the markets. On the same token, its prudent to hedge one's bets by being prepared for the worst.

Currently the S&P 500 trades at a 35 Price to Earnings ratio, which is more than twice the historical average of approximately 15.50. Even with a robust growth in US corporate earnings, we are in an overbought territory. The Federal Government will gradually lower its involvement with the Bond / Mortgage buying program. In other words, the Federal government cannot flood the economy with easy money endlessly.

We would therefore be in the camp of lowering equity exposure to specifically high beta stocks that have done well during the rebound from COVID pandemic lows. Again, we are not recommending timing the markets but being contrarian when majority of investors are euphoric and can stay euphoric for some time.

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

20419 Cheryl Ln
Santa Clarita, CA 91350

Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com

Office: 661-299-1920
Mobile: 661-312-2070

Please review the following disclaimer

20419 Cheryl Ln
Santa Clarita, CA 91350

Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com

Office: 661-299-1920
Mobile: 661-312-2070