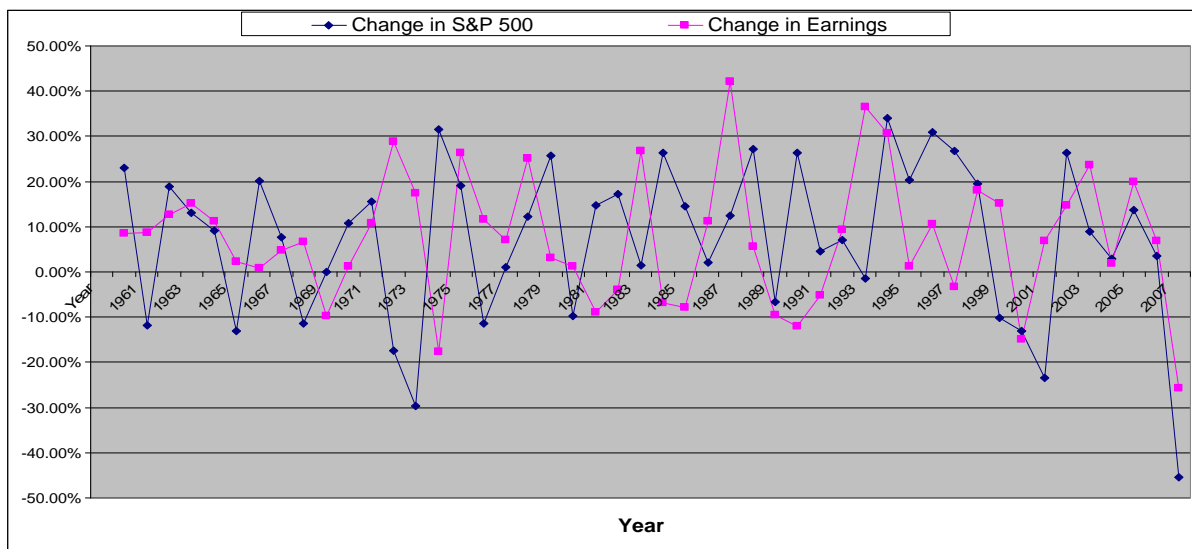


Newsletter

The US capital markets represented by the broad based S&P 500 index has lost approximately 45% year to date. The index lost approximately 37% for October and November cumulatively. Intuitively, this seems completely ridiculous and illogical, but as a wise man once said "The markets don't lie, only people do...". Instead of relying on my intuition, I have attempted to analyse the major cause(s) attributable to market declines historically and how the markets are positioned going forward.

Chart 1¹



- Earnings: A major variable impacting the movement of S&P 500 Index: It can be clearly observed from the chart above that the movement of the broad based index, S&P 500 is highly correlated to the composite earnings of the companies that form the index. A regression analysis using data for the last 50 years confirmed that approximately 94% of the movement in S&P 500 was attributed by the change in total earnings.
- Price Earnings Analysis: Price earnings ratio is a measure that helps investor gauge whether an investment opportunity (in this case the S&P 500 index) is over or undervalued relative to its earnings and historic performance. It can be observed from Chart 2:
 - 25 year S&P 500 P/E average: **21.01**
 - 50 year S&P 500 P/E average: **17.71**
 - 83 year S&P 500 P/E average: **15.98** (1925-2008)
 - The current P/E of the S&P 500 is 13.33; trading at the historically lower range (See Chart 2)
- Earnings Estimate for S&P 500: Currently the consensus estimate of the S&P 500 companies is \$60².
 - At a 10% deceleration of the total earnings for FY 2009, the fair value of the S&P 500 should be in the range of 860-870, an 8-9% gain from current levels.
 - Worst Case Scenario: If investor sentiment further deteriorates, it will push unemployment rate higher and earnings lower. In this adverse circumstance we could experience up to 200

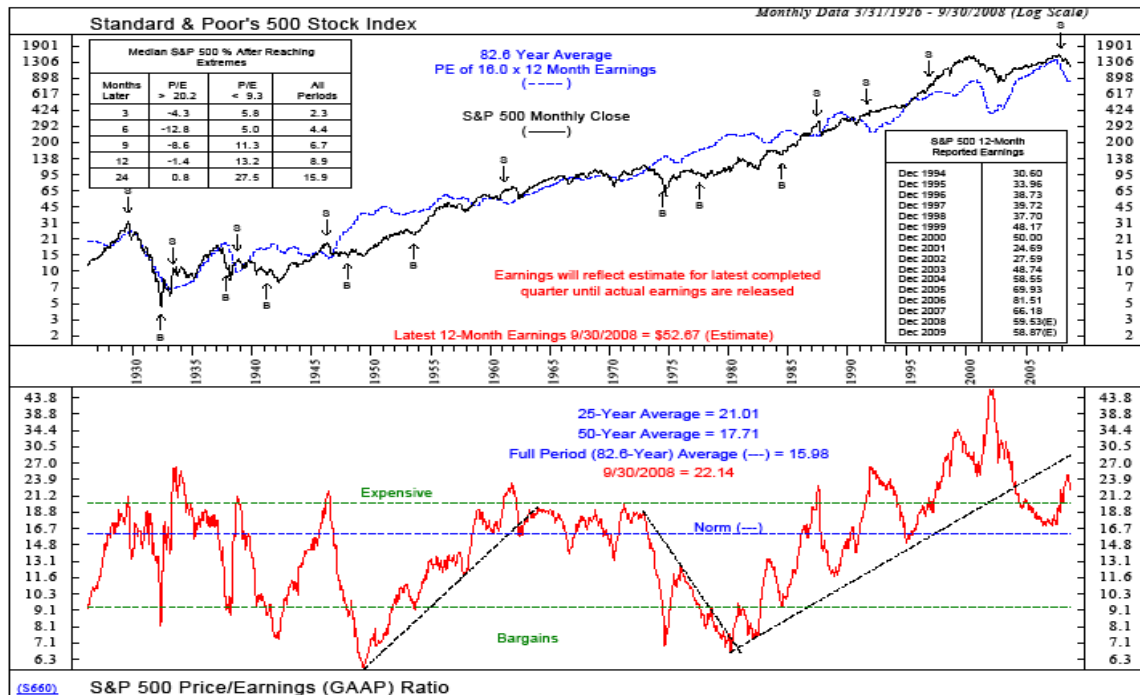
¹ Source: CGAM, LLC

² Source: Standard & Poor's

point loss on the S&P 500 from current levels. This would translate to another 15-17% decline from current levels.

4. Facts about the S&P 500's historical declines (See Exhibit A at the end of the document):
 - a. The S&P 500 index has only experienced losses of over two years in a row during 1973-74 and 2000-2002, since 1960. The total loss during 1973-74 was -42% and -34% during 2000-2002.
 - b. Composite earnings increased during 1973-74, and declined approximately 9% for the period of 2000-2002.
5. Inference:
 - a. The S&P 500 has lost approximately -45% of its value year to date (S&P was valued at 1,471 on January 1, 2008 and 800 on November 21st, 2008).
 - b. The S&P 500 seems to be fairly valued at a relatively low P/E of 13-14, with composite earnings of \$60 for FY 2008.
 - c. Consumer's confidence is one of the most important factors that shall dictate future earnings. This will also have a significant impact on earnings on majority of the emerging economies, as we have realized their economic correlation to the US economy.
 - d. The market seems to have factored a 10% deceleration on earnings for FY 2009, in addition to a 10% decline in earnings from 2007 to 2008. As markets are comprised of investor (human) sentiment, they usually tend to overshoot during booms as well as busts.
 - e. With an assumption that the economy will stabilize at some point in 2009, the current environment warrants selective investments in companies with sustainable domestic and international earnings.
 - f. The S&P 500 has the potential to gain between 10-20% over the next 12 months with an assumption of \$55 composite earnings (a 10% deceleration from 2008) and a P/E range of 16-17.5; which are 80 and 50 year averages.

Chart 2³



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³ Source: Standard & Poor's

Exhibit A⁴

Year	S&P 500	Change in S&P 500 (%)	Earnings	Change in Earnings (%)
1960	58.11		3.1	
1961	71.55	23.13%	3.37	8.71%
1962	63.1	-11.81%	3.67	8.90%
1963	75.02	18.89%	4.13	12.53%
1964	84.75	12.97%	4.76	15.25%
1965	92.43	9.06%	5.3	11.34%
1966	80.33	-13.09%	5.41	2.08%
1967	96.47	20.09%	5.46	0.92%
1968	103.86	7.66%	5.72	4.76%
1969	92.06	-11.36%	6.1	6.64%
1970	92.15	0.10%	5.51	-9.67%
1971	102.09	10.79%	5.57	1.09%
1972	118.05	15.63%	6.17	10.77%
1973	97.55	-17.37%	7.96	29.01%
1974	68.56	-29.72%	9.35	17.46%
1975	90.19	31.55%	7.71	-17.54%
1976	107.46	19.15%	9.75	26.46%
1977	95.1	-11.50%	10.87	11.49%
1978	96.11	1.06%	11.64	7.08%
1979	107.94	12.31%	14.55	25.00%
1980	135.76	25.77%	14.99	3.02%
1981	122.55	-9.73%	15.18	1.27%
1982	140.64	14.76%	13.82	-8.96%
1983	164.93	17.27%	13.29	-3.84%
1984	167.24	1.40%	16.84	26.71%
1985	211.28	26.33%	15.68	-6.89%
1986	242.17	14.62%	14.43	-7.97%
1987	247.08	2.03%	16.04	11.16%
1988	277.72	12.40%	22.77	41.96%
1989	353.4	27.25%	24.03	5.53%
1990	330.22	-6.56%	21.73	-9.57%
1991	417.09	26.31%	19.1	-12.10%
1992	435.71	4.46%	18.13	-5.08%
1993	466.45	7.06%	19.82	9.32%

⁴ Source: http://www.swivel.com/data_sets/spreadsheet/1004767

1994	459.27	-1.54%	27.05	36.48%
1995	615.93	34.11%	35.35	30.68%
1996	740.74	20.26%	35.78	1.22%
1997	970.43	31.01%	39.56	10.56%
1998	1229.23	26.67%	38.23	-3.36%
1999	1469.25	19.53%	45.17	18.15%
2000	1320.28	-10.14%	52	15.12%
2001	1148.09	-13.04%	44.23	-14.94%
2002	879.82	-23.37%	47.24	6.81%
2003	1111.91	26.38%	54.15	14.63%
2004	1211.92	8.99%	67.01	23.75%
2005	1248.29	3.00%	68.32	1.95%
2006	1418.3	13.62%	81.96	19.96%
2007	1468.36	3.53%	66.18	-19.25%
2008	800	-45.52%	59.53	-10.05%
2009(Estimate)⁵	Range 880-962⁶	10-20% growth	55.00	10.00%

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⁵ Source: CGAM, LLC

⁶ Source: CGAM, LLC; S&P 500 earnings of \$55, P/E range of 16-17.5