Continuum Global Asset Mgt., LLC

December 2010

Newsletter

In retrospect 2010 has been a great year so far for the capital markets and we should all feel blessed despite our spiritual or religious inclinations.

The popular rhetoric is that 2008–09 has experienced the worst recession in the US since the 1920s. **After losing -32% of its value in 2008, the Dow Jones Industrial Average (DJI) gained 19% in 2009 and 9% year to date**. Despite the fact that the markets are down approximately 12 to 13% below the January 2008 levels, we believe this to be a blessing considering that we experienced one of the worst recessions in history.

We believe that the world has entered into a new paradigm of capitalism due to major endeavors of economic liberalization by umpteen number of emerging economies. Capitalism is associated with its own perils, but we can argue convincingly that it also provides a platform for improving standard of living for the common human being.

Currently, there are different schools of thoughts, constantly debating on issues like inflation, country debt ratios, currency manipulation and protectionism. One of the hottest debates revolves around the easy monetary policy adopted by the US Federal government. In addition, many economists are concerned about China's policy to peg their currency to the dollar, hence providing them with a competitive advantage in terms of exports.

Debating the popular rhetoric is beyond the scope of this Newsletter, but the advent of capitalism has provided a great opportunity for the US. We believe that the growth of the emerging economies in areas like Asia, Latin American and Eastern Europe has created a huge burgeoning middle class with increasing disposable income. This phenomenon has immense momentum for the next few decades and will continue to propel the global economy into a phaze of higher growth.

We have mentioned umpteen times that the US is now at the verge of being able to transition into an export oriented economy from a consumption based economy. Our analysis shows that there is a population greater than that of the US in emerging economies worldwide, which can afford owning homes, vehicles, cell phones and laptops, have the luxury of dinning out and taking vacations, indulging in desires like designer clothing and accessories, upgrading home accessories, buying latest electronics that include consumer products and the list goes on and on.

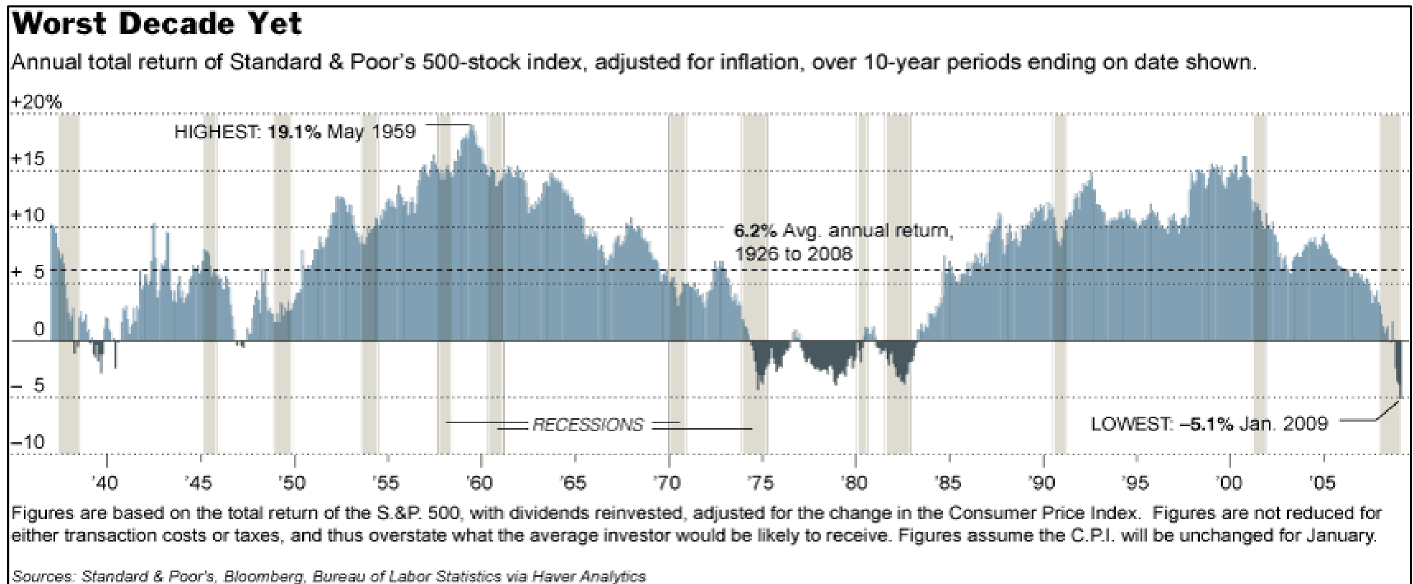
It is true that the per capita income in the US will have to diminish to a certain extent and come to parity with the income levels in competing coutries. This natural progression will allow the US to be competitive and hence gradually transition into creating more and more products and services for the global consumer.

We have mentioned in the past and reiterate that investors can and will benefit from investing in domestic US companies that are positioned to cater to not only the US consumer but also have exposure to the international community. Some of the companies that provide a flavor in international exposure are: Alcoa, Boeing, Citigroup, Caterpillar, Disney, IBM, JP Morgan, McDonald's, Yum Brands etc. It is important to not invest in these companies blindly as each

investor has varried objectives and different portfolios. In addition investing at the right price is an equally important element of investing in our view. Having said that, investors with a relatively longer time horizon will benefit from the global trade phenomenon.

The following section is a sequense of exerpts from our previous Newsletters for the year 2010. Our endeavor is to provide a chronology of our thoughts and inferences in a consice fashion.

January 2010 Issue: Started with:



January Newsletter Concluded with: Even though we have painted a rosy picture for the markets, we do not believe that we can now lower our guard and think that all is well. Going back to our simple P/E model, we realize that currently the P/E ratio for the S&P 500 index is 24, well above the 50 and 25 year averages of 17.7 and 21 respectively. As mentioned in our previous Newsletter; ***"It is crucial that earnings guidance keeps up with the markets but more importantly, the perception and I repeat "THE PERCEPTION" that earnings will continue to grow can keep the markets frothy…"***.

We have been a proponent of international companies and especially US companies with international exposure. We recommend considering large international financial, technology, healthcare and materials companies. These areas are experiencing high growth and should be more insulated to market downturns due to the basic needs of services and products in these sectors.

February Newsletter Concluded with: We believe that it is important to consider the recovery of the US economy from near catastrophic situation in late 2008 and early 2009. Most of the credit should be given to Federal government for providing first aid, in the form of much needed liquidity to unclog the US financial infrastructure and bolster toxic assets to build lost confidence in the system.

We believe that both US and international companies involved in the healthcare, technology, financials and materials sector shall do particularly well as the basic demand in these areas should consistently grow over the next 5-10 years. **We recommend that investors add to existing positions in sound national and regional Financial services, Healthcare and Industrial sectors.**

March Newsletter Concluded with: We believe that both the models above show a reasonably positive picture in regard to the future of the markets. However, it is very important to realize that these models are based on certain assumptions, and that's what they are; assumptions. Obviously, with the US economy improving, market participants tend to exhibit positive or bullish sentiment, further fueling the economic recovery. This self fulfilling prophesy can not continue forever and at some point markets shall correct.

We believe that currently both, the US and international economies are on a recovery path, with the emergence of the global consumer, especially in Brazil, Russia, India and China; the BRIC countries. We believe that global companies involved in the healthcare, technology and financial sector shall do particularly well as the basic demand in these areas should consistently grow over the next 5-10 years.

April Newsletter Concluded with: We still believe that there is true recovery in the global economy, but increasing estimates and valuing major indexes is a fool's errand. There are a lot of variables that can and will change between now and 2011. We believe that investors should continue to search for major deviations in the market and invest gradually in the areas which they believe will show real growth over the foreseeable future. With the risk of sounding like a broken record, we believe that global companies involved in the healthcare, technology and financial sector shall do particularly well as the basic demand in these areas should consistently grow over the next 5-10 years. We have mentioned umpteen times in the past and continue to believe that investors should sell when they feel happy and buy when they feel queasy...enough said!!!

May Newsletter Concluded with: We still believe that there is true recovery in the market, but increasing estimates and valuing major indexes is a fool's errand. As mentioned umpteen times before in our Market Commentary (http://cgamadvisor.com/?page_id=205) as long as the earnings growth story remains intact and analysts keep increasing US corporate earnings projection, the markets can continue to make new highs and trade in over valued zones. Nevertheless, we do not believe that the markets are currently in any major jeopardy and interim corrections will be in the range of 5-7%.

We believe that investors should continue to find major deviations in the market and invest gradually in the areas which they believe will show real growth over the foreseeable future. With the risk of sounding like a broken record, we believe that global companies involved in the healthcare, technology and financial sector shall do particularly well as the basic demand in these areas should consistently grow over the next 5-10 years.

June Newsletter Started with: Schitzophrenic: That could be the definition of the market action over the last 4-6 weeks. The question is whether this uncertainty is a prelude to another major dip in the market or an after shock to the 2008-09 financial debacle? The 2008 market trauma started with the real estate decline which turned into a full fledged financial services industry debacle. As banks and financial services started to retrench their lending activities and wen't into cost cutting and focusing on avoiding bankruptcy, the entire economy sufferred.

"IT'S CALLED 'THE STOCK MARKET'."

The most important aspect to understand is that ultimately investors review the economic fundamentals to make decisions and we strongly believe that eventually the market recognizes the true value of an economic entity and security values converge to its true intrinsic value.

And Concluded with: The Standard & Poor's 500 index (S&P 500) is currently trading at about 11.5 times the 2011 expected earnings estimate. This Price / Earnings (P/E) ratio is about 28% below the 80 year historic PE ratio for the S&P 500. At the risk of sounding like a broken record, we believe that investors who possess the gift of patience will be rewarded over the next 2-3 quarters as the European crisis starts to diminish and capital markets turn their focus on the economic fundamentals.

July Newsletter Started with: Uncertainty can wreck havock on the market sentiment. Major market indexes have lost approximately 14-15% value since early May 2010. The major areas of uncertainty include the European debt crisis, the US double dip recession expectation, the uncertainty with the financial regulations and the impact of Chinese GDP deceleration. A market poised for a sustained recovery during the first quarter of 2010 is now projected to be bundled in problems not only in the US but also beyond our borders. We attempt to illustrate our view of how the economy and capital markets will shape up over the next 12-15 months based on the variables we believe address both the fundamental and technical dimensions.

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1. The Yield Curve.
2. S&P 500 index movement since 1950.
3. S&P 500 Price Earning Ratio since 1870.

And Concluded with: We believe that the world has become a cohesive business entity with great intra and inter region trade possibilities. The premise of this belief is the emergence of a large labor and hence consumer group in the emerging economies. The inter region trade in our opinion should be very robust due to increasing disposable income in emerging countries like India, China, Brazil and other Latin American and South-East Asian countries.

Most of the emerging markets have now been accumulating foreign surplus reserves for sometime. We believe that consumers in economically advanced countries will be compelled to gravitate towards deleveraging their existing debt and increase savings. This phenomenon coupled with increased disposable income in emerging markets will provide a platform for increased domestic consumption in emerging economies. In addition, we also believe that the currencies of major emerging economies will continue to appreciate, allowing stronger buying power for these regions. Therefore, we believe that major consumption will come from emerging markets over the next 5-10 years.

August Newsletter Started with: "Paralysis By Analysis; Or Patience, A Virtue"

"A common model used to deduct the valuation of major indexes is to project future earnings potential of the companies in the respective index and multiply it with a historical average price to earnings (P/E) multiple. Currently, the S&P 500, a popular broad based index used in the US, is trading at 987. Earnings for fiscal year 2009 for the 500 companies in the index are estimated at $55-56. In other words, if we divide the index value with the earnings estimate, we will derive a P/E multiple of approximately 17. Historically, the index has traded at an average P/E multiple of 15-16. Encouraged by second quarter 2009 earnings, most analysts increased their earnings estimates of the S&P 500 companies for 2010 by almost 34% to $75-76. If we use the historic P/E multiple stated above, we can deduct a fair value of S&P 500 index in the range of approximately 1125-1200. It can be infered from this simple model that the S&P 500 can gain another 14% in value if the economy is infact in a turnaround phase and earnings continue to grow."

Following are various issues which have kept market pundits busy valuing domestic and global economic growth:

1. European banking and debt crisis.
2. US financial regulation.
3. Double dip recession in the US.
4. The impact on Chinese GDP growth if the European Union's economy slows down significantly.

And Concluded with: "Earnings Growth and S&P 500 valuation based on historical Price Earnings multiple"

S&P 500 Earnings (2008)	$49.51
S&P 500 Earnings 2011 (Estimate)	$80.00

	82 Year Average	**50 Year Average**	**25 Year Average**
Average P/E	16.00	17.00	21.00
Projected S&P 500 Valuation	**1,280.00**	**1,360.00**	**1,680.00**

1. Our model uses the average Price to Earnings multiple, usually used to value the market indexes.
2. Price to Earnings Ratio data derived from www.ndr.com and http://cgamadvisor.com/wp-content/uploads/2009/06/CGAM-Newsletter-December-20091.pdf. This data is used for the last 82, 50 and 25 years for illustrating the range of the S&P 500 index valuation.
3. The US economic recovery and the percieved financial infrastructure reconstruction has lead to hightened expectations in regard to US corporate earnings.
4. Most analysts and economists have started to raise the US corporate earnings expectations and expect approximately $80 in earnings for the S&P 500 companies in fiscal year 2011.

It can be observed that based on investor sentiment, which translates into different P/E multiple, we have different values of the S&P 500 exhibited in the table above. In other words, at a reasonable P/E ratio of approximately 16-17, we can expect the S&P 500 **to appreciate by 14-21% respectively for the next 12 months with $80 in corporate**

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earnings. Instead of being paralysed by too much analysis, we recommend that investors embrace patience as a virtue for long term handsome economic fruition.

October Newsletter Started with: After a lackluster first eight months of 2010, the US and most global capital markets were bestowed with a pleasantly surprising September. We emphasize pleasantly because historically September has been a dismal month for the US capital market performance. The month of September experienced approximately 9% gain for the major indexes. In other words, this has been the largest gain for the month of September since 1939. The major question for investors has always been and will always be; "What does the future hold?".

Earnings Growth and S&P 500 valuation based on historical Price Earnings multiple:

Following is a table illustrating the movement of the S&P 500 index in relation to the earnings and dividends of the 500 companies comprising the index:

Date	S&P 500 Index growth	S&P 500 Earnings Growth	S&P 500 Dividend Growth
2004	8.99%	23.75%	11.79%
2005	3.00%	12.96%	14.30%
2006	13.62%	14.74%	11.98%
2007	3.53%	-5.91%	11.45%
2008	-38.49%	-40.02%	2.37%
2009	23.45%	13.53%	-22.61%
2010	3.01%	33.39%	2.41%

It can be clearly observed that the S&P 500 index value preempts the earning pattern of the companies that form the index. We also believe that the dividend paid is a very important ingredient but plays a smaller part in the movement of the index during extenuating times like the severe recession of 2008-09.

Following is a scenario that projects the index value over the next 12 months based on our estimation of the corporate earnings for the year 2011:

S&P 500 Earnings (2010)	$74.68
S&P 500 Earnings 2011 (Estimate)[1]	$83.00

	82 Year Average	50 Year Average	25 Year Average
Average P/E	16.00	17.00	21.00
Projected S&P 500 Valuation	**1,328.00**	**1,411.00**	**1,743.00**

5. Our model uses the average Price to Earnings (P/E) multiple, usually used to value securities and this case the market index.
6. Price to Earnings Ratio data is derived from www.ndr.com and http://cgamadvisor.com/wp-content/uploads/2009/06/CGAM-Newsletter-December-20091.pdf. This data is used for the last 82, 50 and 25 years respectively for illustrating the range of the S&P 500 index valuation.
7. The US economic recovery and the perceived financial infrastructure reconstruction has lead to heightened expectations in regards to US corporate earnings.
8. Most analysts and economists have raised the US corporate earnings expectations and are projecting approximately $83 in earnings for the S&P 500 companies in fiscal year 2011.

It can be observed that based on investor sentiment, which can be illustrated by an array of P/E multiples, we have different values of the S&P 500 exhibited in the table above. In other words, at a reasonable P/E ratio of approximately 16-17, we can expect the S&P 500 **to appreciate by 14-15% for the next 12 months with $83 in corporate earnings.**

[1] *Source: CGAM, LLC estimates*

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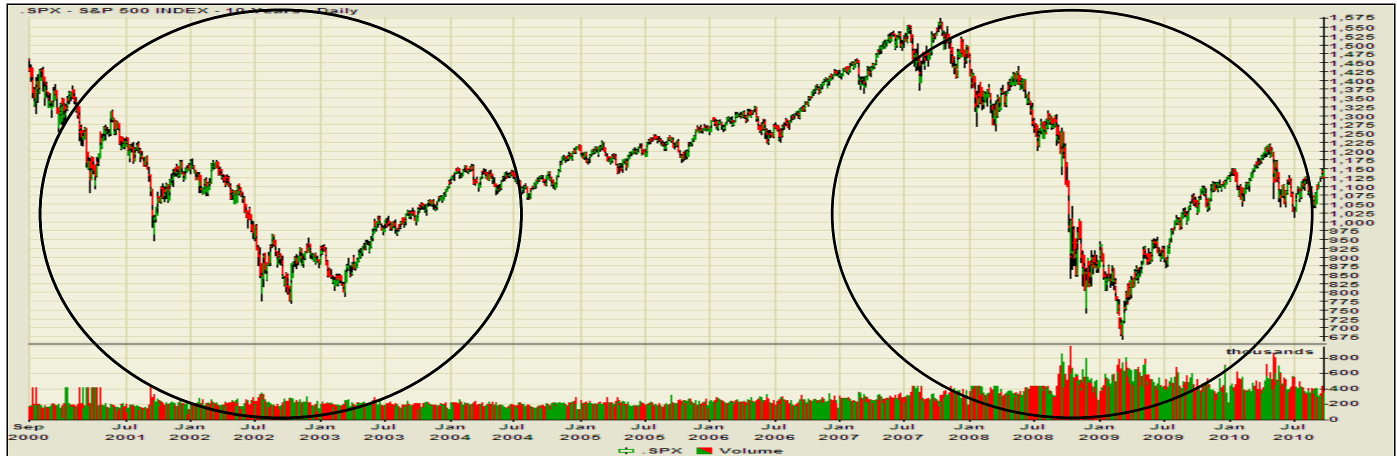
October Newsletter Started with: The October issue also discussed the similarities between the two major recessions the US experienced over the last decade and the inferences we drew from them. At the end of the day, we believed that the markets were poised to do well. So far the hypothesis has come to fruition for most of the variables considered.

Following are two charts showing the broad based index (S&P 500) movement over the last decade followed by the year to date chart. The S&P 500 has gained over 14% over the last two months, a significant move in our view. The following section will discuss the major factors behind this move and our view of the markets going forward.



According to our analysis the most important variables in the recent market movement have been:

1. US Corporate earnings growth.
2. Accommodative fiscal and monetary policy by the Federal government.
3. Mid-term elections and the ramifications of Republicans gaining the House.

And Concluded with: We believe that the Federal government has done a great job of putting band-aids on the severe recessionary wounds experiened by the US economy in 2008. The most important aspect of a turn around is to be able to do the rights things and not merely things right. Most emerging markets have experienced significant growth based primarily on exports over the past two to three decades. The major shift will have to come in the form of domestic consumption from export orientation if these economies need to sustain their economic growth. Therefore, we believe that international companies in the Financial, Technology, Healthcare and Materials sector will do particularly well as they cater to the basic need of the burgeoning global middle class.

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