Our November 2016 Newsletter concluded with:

> "**CONCLUSION: We are in the beginning of a volatile phase in the markets caused primarily due to the Presidential election. Wall Street favors Hillary Clinton as a better suited candidate for the markets. Volatility has risen with the rise in the probability of Donald Trump's success in the recent polls. We believe that the markets can experience another 3-5% correction due to this phenomenon. Despite this development, the macro economic environment combined with the current correction provides a good buying opportunity for investors as the markets experience this interim correction.**" ***November 2016.***

The US stock market (S&P 500 index) has gained almost 12% for the year. Almost 60% of the total return (+7%) has come since November 8th, 2016; Election Day. Markets are obviously bullish on the election of President Elect, Donald Trump and the expected policy changes. We at CGAM, LLC have a contrarian investing philosophy. Like Mr. Warren Buffett quote, *"Be fearful when others are greedy and be greedy when others are fearful."*

Our endeavor in this edition of the Newsletter is to allow our readers to develop their own thoughts and inferences based on certain crucial market psychological factors illustrated below. We are presenting certain visuals below that will weave a story and hopefully help formulate the intermediate direction of the capital markets.

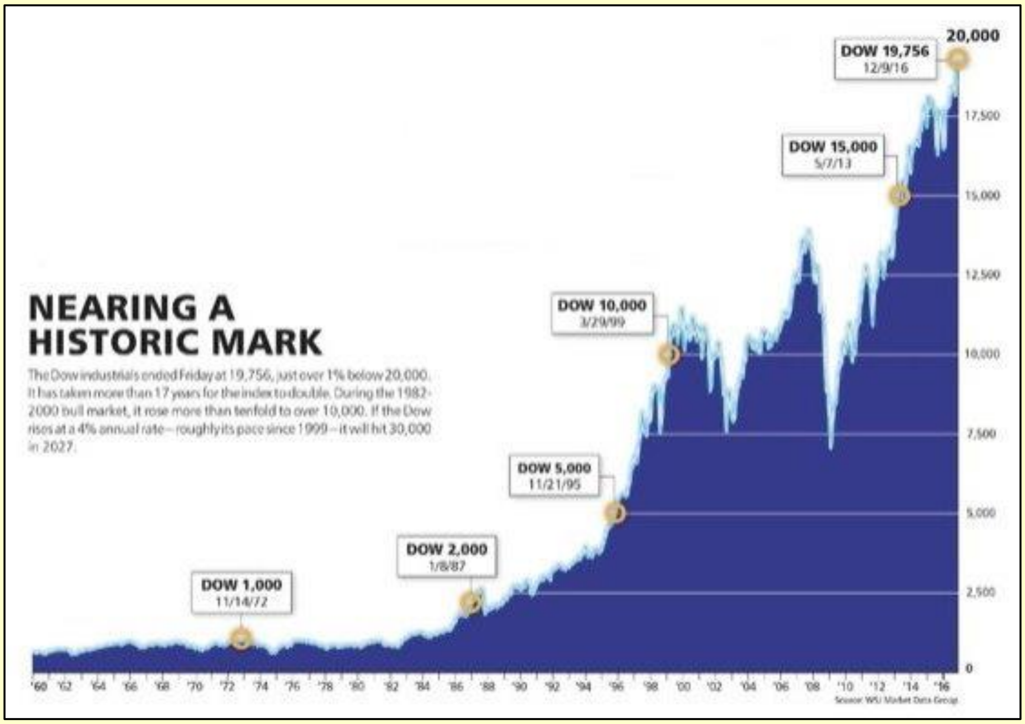
Following is the Fear & Greed Index developed by CNN. The level of sentiment (Extreme Greed) was calculated as of 12/09/2016.

Fear & Greed Index

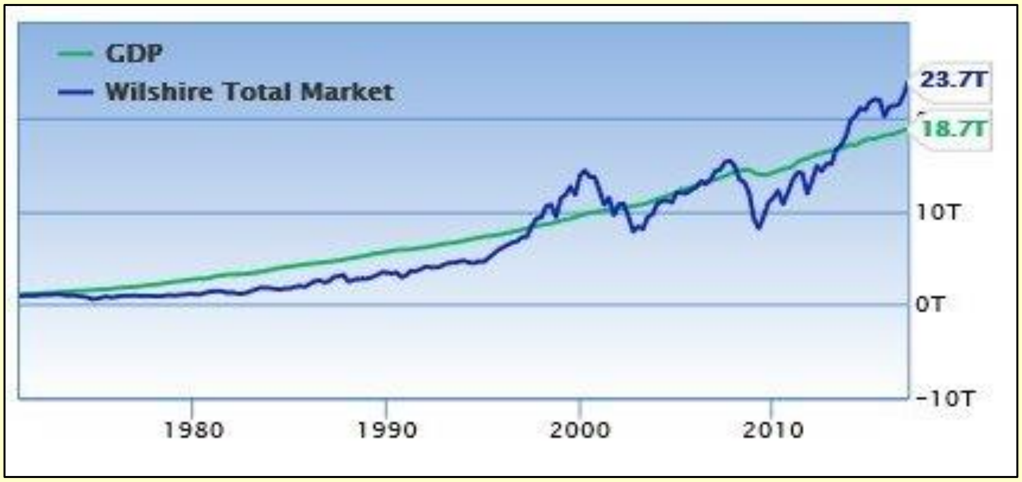
What emotion is driving the market now? [1]

[1] Source: http://money.cnn.com/data/fear-and-greed/

17991 Lost Canyon Rd., Suite 138
Canyon Country, CA 91387
Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com
Office: 661-299-1920
Mobile: 661-312-2070



The Fear & Greed index clearly shows that investors are in a great mood currently. I would even go to the extent of defining this as a euphoric market sentiment. We know from experience that euphoria is usually followed by market corrections. The adjacent chart highlights two important aspects. One; markets go up in the long term, and secondly, markets correct significantly after making new highs.



In addition to making new highs, we look at a market valuation indicator that the sage of Omaha, Mr. Warren Buffett follows. The adjacent chart[2] shows the comparison of the US market value vs. the US Gross Domestic Product (GDP). It can be observed that the blue line, (US stock market valuation based on Wilshire 5000 index) moves around the green line which represents the US GDP. It can also be observed that the blue line was significantly above the green line preceding major market corrections. To put this in perspective, the markets fell 43% and 48% in 2000-2002 and 2008-2009 respectively. Preceding these corrections, the market value was 148% of the GDP in 2000 and approximately 115% in 2008. **The current equity market value ($23.7 trillion) divided by US GDP ($18.7 Trillion) stands at 127%.**

[2] Source: http://www.gurufocus.com

17991 Lost Canyon Rd., Suite 138
Canyon Country, CA 91387
Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com
Office: 661-299-1920
Mobile: 661-312-2070

Despite our concerns with market valuations based on the factors explained above, we realize that euphoric periods can last longer than valuation models predict or logic commands. We now turn to our market projection model that provides us guidance to the direction of the markets over the next 12 months.

CGAM's Proprietary Market Model:

Our proprietary model was developed on the concept that investor behavior repeats itself based on a combination of fundamental parameters of the economy and human psychology. The model constantly reviews the change in the index based on the changes in statistically significant economic variables.

The objective of the model is to quantify these variables into a regression equation using four decades of historical data. The combination of these variables statistically explains 93-94% movement in the S&P 500 index.

Fundamental Variables (12 month Projections)		**Market Projections**	***As of: December 14th, 2016***
S&P 500 Earnings	$135.00	S&P 500 (12 Month Projection) =	2,267.00
S&P 500 Expected PE Ratio	17.00	S&P 500 (Dec 14th, 2016) =	2,259.00
10 Treasury Bond Rate (%)	3.0%	***S&P 500 Estimated (Gain/Loss) =***	***+0.38%***
Inflation Rate (%)	1.70%	***Standard Error***	**+/- 5.65%**
Volatility (VIX) Index	12.80		
Unemployment (%)	4.80%		

Markets have gained almost 7% since the elections in November 8th, 2016. We have increased the earnings projections of the S&P 500 companies from $130 to $135 (4-5% growth) in our model. This is based on the favorable corporate policies that could be enacted by the new administration.

It can be observed from our Market Direction Model, that the S&P 500 seems to be fairly valued. The markets seems to have factored in higher corporate earnings and an optimistic investor sentiment for the near future.

CONCLUSION: We believe that the markets are currently overvalued and operating on greed. It still has to be seen how the new administration will operate and the impact of new policies on markets. We would encourage investors to be cautious and prepare for an interim (5-10%) correction. We also believe that this rally can continue into the first quarter of 2017. We would start to gradually trim investments that have gained unusual returns and be ready to invest during the next correction.

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

17991 Lost Canyon Rd., Suite 138
Canyon Country, CA 91387

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

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

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Please review the following disclaimer

17991 Lost Canyon Rd., Suite 138
Canyon Country, CA 91387

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

Office: 661-299-1920
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