Continuum Global Asset Mgt., LLC

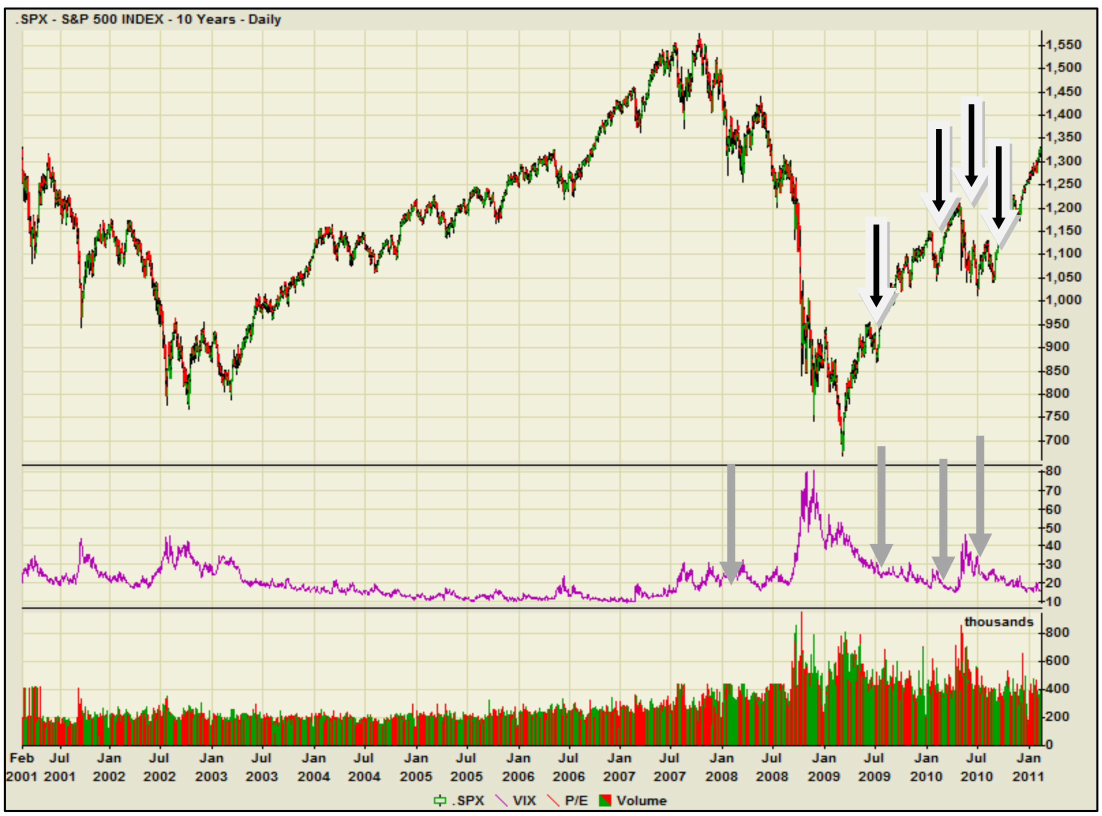
February 2011

Newsletter

Playing Devil's Advocate!!!

We have been primarily bullish on the US equity markets for the last two years. Our January 2011 newsletter illustrates better quarters ahead and provides a fairly bullish capital market valuation over the next 12 months. Despite our long-term bullish perspective, we believe that markets can not move up in a straight line. Therefore, we are playing devil's advocate against the bullish scenario in this newsletter. We have considered some major technical parameters to infer whether we are headed for an interim correction. We are not attempting to predict or time the market, but merely suggesting that human behavior repeats itself and if this assumption is true, it behooves us to be prepared for a correction and take prudent steps to not only protect our portfolios but also be strategically positioned to take advantage of it. Below are some observations we have made using parameters that may give us an idea whether we are reaching the short term top of the market.

S&P 500 and the Volatility Index (VIX):[1]



The volatility index is a proxy for investor fear, generally speaking. As investor fear increases the volatility index follows suit. It can be observed in the adjacent chart that volatility (denoted by the purple line) remains at lower levels during bullish market phases.

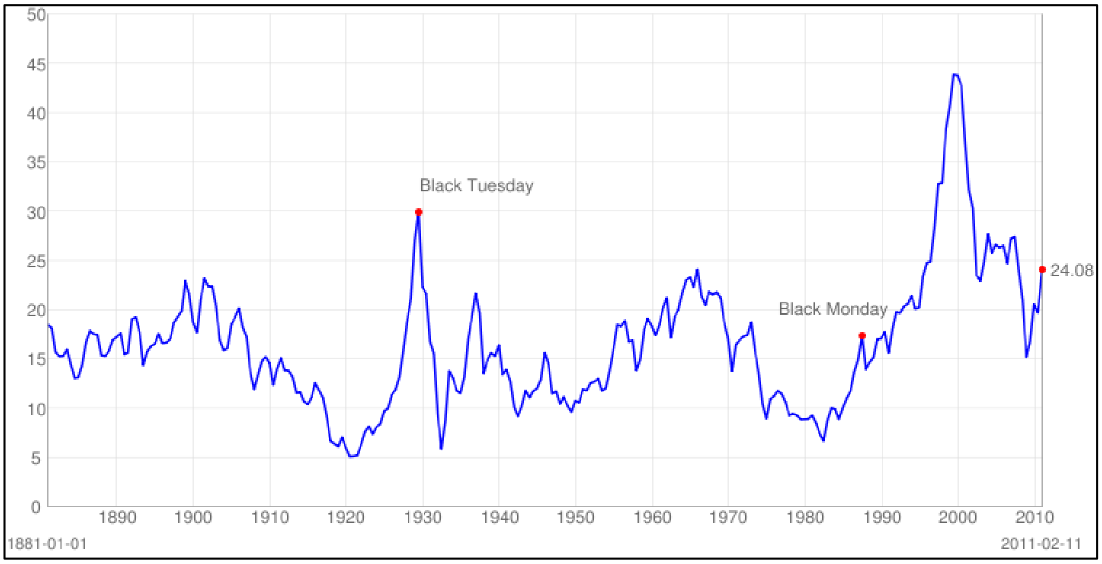
The volatility index traded in the lower twenties during October 2007, just before the market started to tumble. Similarly, the VIX index traded in the mid fifties during the March low of 2009. We believe that the VIX index is trading at relatively low levels, exhibiting investor complacence.

The S&P 500 index has experienced approximately four corrections between 3-5% during 2010. It is important to illustrate that each correction was preceded by a low volatility similar to what the market is experiencing currently. **We therefore believe that the investor complacency exhibited by the VIX index is a contrarian indicator and the markets could correct between 5-7%.**

[1] *Chart Source:* www.fidelity.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

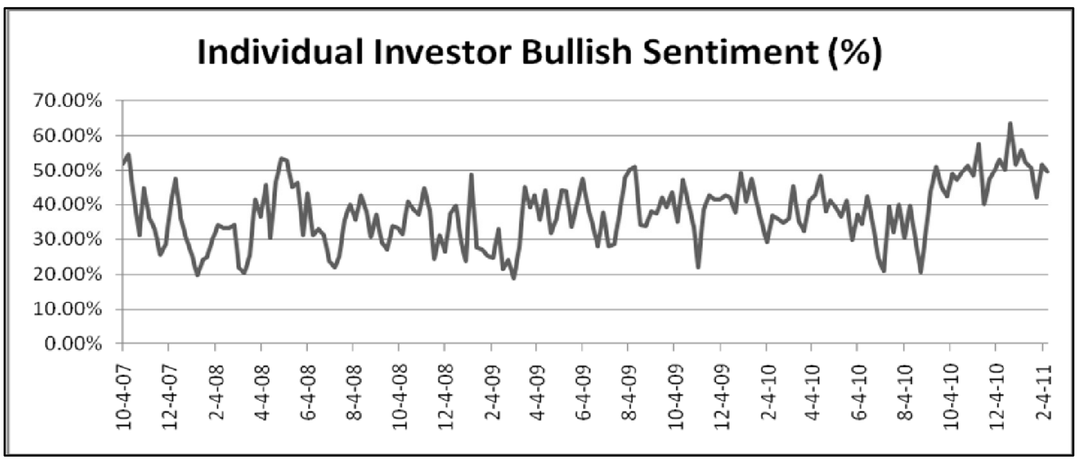
[S&P 500 Price to Earnings Ratio:](#)[2]



The adjacent chart illustrates the Price to Earnings ratio (P/E) of the S&P 500 index since 1890. The average P/E ratio over this time horizon has been approximately 16.

The current S&P 500 P/E ratio is hovering around 17. Even though this ratio is not excessively extended, it is expecting future earnings to continue to grow at an increasing rate. The US corporate earning's momentum is positive and most analysts have increased their earnings expectations for the year 2011 and 2012. We have mentioned before that **the perception of earnings is more important than actual earnings**. We do not believe that the current P/E ratio is sounding any alarm bells yet, but we remain cautious as the market increases its ascent and stretches this ratio upwards.

Individual Investor Sentiment[3]**:**



The American Association of Individual Investors conducts a survey of individual investor sentiment on a weekly basis.

The adjacent chart has been specifically designed to show the degree of investor sentiment since October 2007 when the markets were trading at they're all time high. It can be clearly seen the investor sentiment during October 2007 was over 50%. If we transposed the Investor Sentiment chart onto the S&P 500 index chart on page one, we will observe that the investor sentiment before each correction in 2010 was in the vicinity of 50%. The current individual investor sentiment is hovering a bit above 50%.

A combination of robust (5-7%) gains in major market indexes over the last six weeks combined with an elevated investor sentiment seems to be a contrarian indicator to us. This is another parameter to consider when reviewing short term market movements.

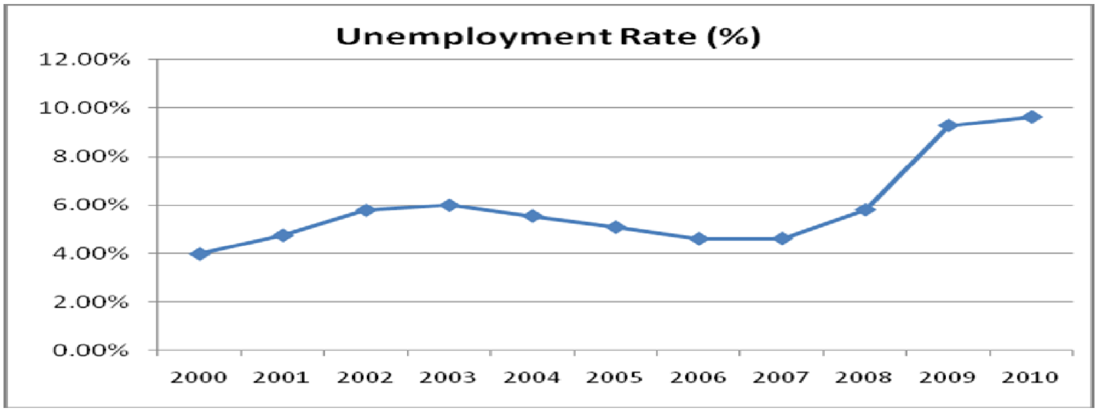
---

[2] *Chart Sources: http://www.multpl.com/,*

[3] *Source: CGAM, LLC and www.fidelity.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

Unemployment Rate (%)[4]:



It can be observed from the adjacent chart that the unemployment rate is at elevated levels for the decade.

The unemployment rate is a major factor in determining the growth of the US economy as 75% of the GDP is driven by retail consumption. Even though there are indications of somewhat improving employment scenario, we're not completely convinced that robust job creation is on its way. **We therefore remain cautious in this aspect and believe that any news suggesting deterioration in this area can cause a market retraction.**

The objective of this newsletter is not to alarm our readers but to make them cognizant of the parameters and technical variables that can cause an interim correction in the capital markets. It is therefore prudent to take relevant and adequate steps to protect ones portfolio in case there is an interim correction. In addition, a 5 to 7% correction can provide a better entry point for long-term investors.

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

[4] *Chart Source: CGAM, LLC & US Labor Bureau*

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

This page is left blank intentionally

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
Mobile: 661-312-2070