Newsletter

Our January 2016 Newsletter concluded with:

> ***"As mentioned in our November-December 2015 Newsletter, we expected an interim 5-7% correction, which was based on lower levels of the VIX index trading during the last part of 2015. Despite strong US economic fundamentals, the volatility created by Chinese economic uncertainty and the lack of liquidity created by the Federal Open Market Committee has resulted in a 5-7% correction. We believe that this correction presents a good buying opportuity for investors with 12-18 month time horizon.".*** *January 2016.*

Since the beginning of 2016, the major market indexes have lost an average of 6-8%, depending upon the average considered. The complete damage to the investor sentiment cannot be captured in the chart below, however, this does

illustrate the immense volatility and fear the market indexes have experienced this year. The second week of February (blue arrow) experienced majority of the damage and most indexes had lost over 10% of their values between Feb 5th through the 12th. The uncertainty created in the markets resulting in this decline was based on the following factors:

1. Chinese economic deceleration: This effects global trade negatively.
2. Low commodity prices: Investors expect major US and global banks to suffer as they have loaned monies to oil and energy producing companies. Low oil prices would adversely affect their balance sheets resulting in delinquencies in oil related loans

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

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

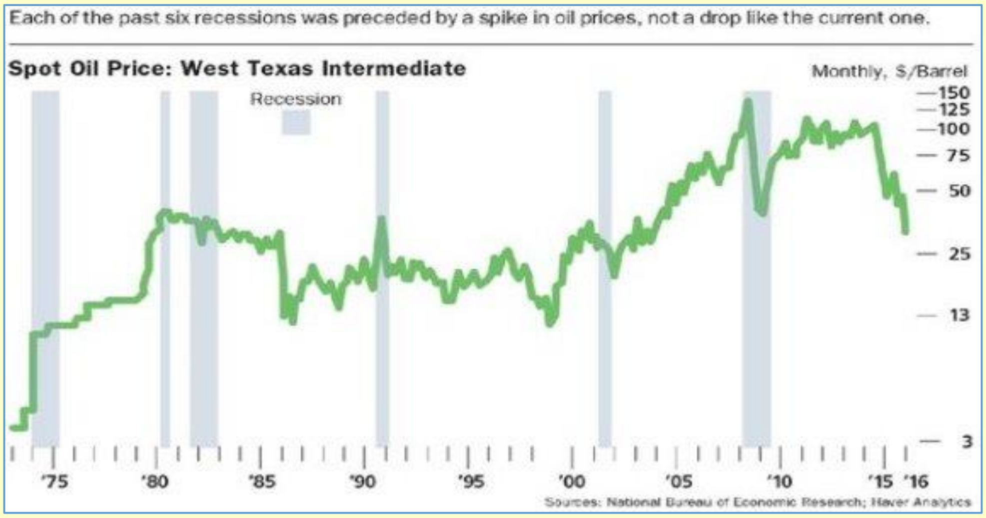
Office: 661-299-1920
Mobile: 661-312-2070

and corporate paper. In other words, low oil prices hurt the ability of energy companies to fulfill their debt obligations.

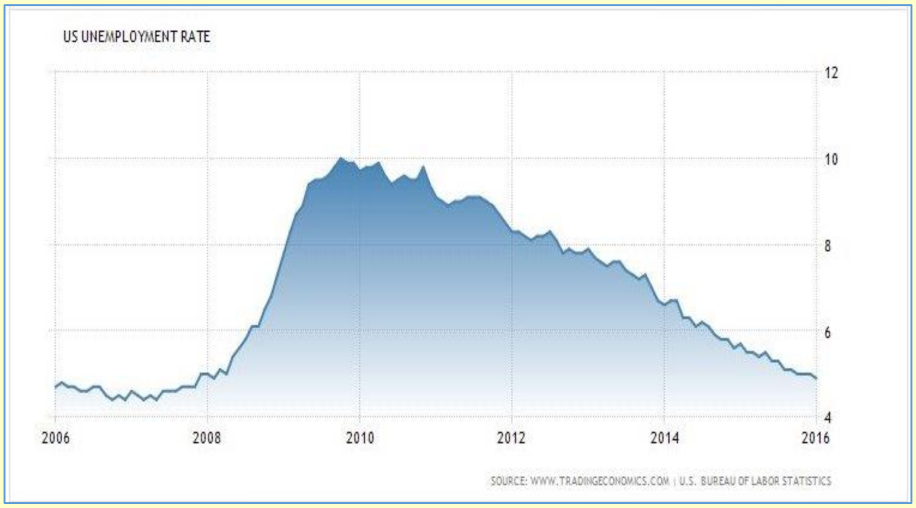
3. Interest Rates: End of economic stimulus from the US Federal Reserve System (FED).

We believe that despite the pertinence of these factor's negative impact on the global economy, there are other crucial economic indicators that state otherwise. These are:

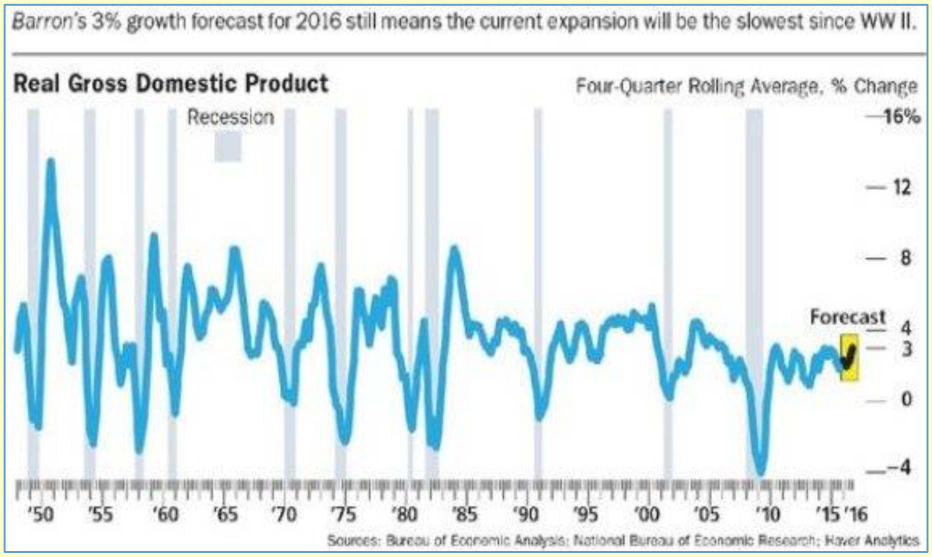
1. Low Interest Rates: Low cost of borrowing. We do not believe that the US Federal Reserve is in a hurry to raise rates. They do not want a repeat of 2008-09 and will be generously accommodative with the fiscal and monetary policy. Japanese Federal Bank and the European Union have already voiced their accommodative stance, reinforced by their current policy of low interest rates.
2. Low Energy Prices: The chart below is self-explanatory. It clearly states that the past 6 recessions in the US happened in conjunction with higher oil prices. This is not the case currently. We believe that low gas and energy prices have resulted in higher disposable income for US consumers which would propel the US growth over the next 12-18 months.



3. Low US Unemployment Rate: The current unemployment rate in the US is 4.9%. In other words, we have created approximately 12 million jobs since the 2008-09 recession. In addition, we are experiencing increasing wages which would help increase the spending ability of US consumer. We need to remember that 2/3rd of the US economy is propelled by the retail consumer; who seems to be in healthy shape currently.



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



4. US GDP: The Dow Jones average has doubled approximately every 10 years since the great depression of 1929. This was accomplished in tandem to an average yearly US GDP growth of approximately 3%. Even though we are below the 3% mark, the US GDP grew at about 2.1% in 2015 and is expected to grow between 2.5-3% for the next 12 months as shown in the Chart above.

CGAM's Proprietary Market Model:

We now turn towards CGAM's proprietary market model that has been developed to project the S&P 500 index over the next 12 months. The model is based on the concept that investor behavior repeats itself based on certain 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 is to quantify these variables into a regression equation based on four decades of historical data. The combination of these variables explains almost 93-94% movement in the S&P 500 index.

Fundamental Variables (12 month Projections)		**Market Projections** ***Based on the regression equation illustrated below***	***As of February 23rd, 2016***
S&P 500 Earnings	$127.00	S&P 500 (12 Month Projection) =	2,231.00
S&P 500 Expected PE Ratio	16.00	S&P 500 (Feb 23rd, 2016) =	1,927.00
10 Treasury Bond Rate (%)	1.80%	***S&P 500 Expected (Gain/Loss) =***	***+15.80%***
Inflation Rate (%)	2.10%	***Standard Error***	**+/- 5.84%**
Volatility (VIX) Index	20.00		
Unemployment (%)	4.90%		

S&P 500 (12 Month Estimate) = 927.80+10.77 x (S&P Earnings)+20.68 x (S&P Price Earnings Ratio)-35.90 x (Treasury Bond Rate{10 yr})-44.68 x (Consumer Price Index)-9.89 x (VIX; Volatility Index)-95.77 x (Unemployment Rate)+St. Error.

Following are the changes and the inference of our model based on the recent developments in the capital markets:

1. 12 month earnings expectation for the S&P 500 companies is $127[1]. We have factored deceleration in earnings primarily due to the result of the ailing energy sector. The S&P 500 earnings would have grown at about 4.5% rate, year over year, excluding energy.
2. The Volatility Index (VIX) is a fear gauge for the markets. It is calculated using PUTs and CALLs on the S&P 500 index and indicates the level of how worried investors are in the shor to intermediate term. VIX is trading at the current value of 22-23. Our model has shown increasing negative correlation of the market indexes with the VIX. Empirical evidence shows that the VIX level of 25 and above indicates buying signal from a contrarian perspective.
3. Our projections guides us to believe that markets could gain another 15% over the next 12 months.

We continue to believe that this correction presents a good buying opportunity for investors with 12-18 month time horizon. Markets presents opportunities for investors who can bear intermediate term volatility and uncertainty and eventually rewards them with superior returns.

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

[1] Source: CGAM, LLC estimates.

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

This Newsletter has been prepared by Continuum Global Asset Management, LLC (CGAM), an independent Registered Investment Advisor. CGAM believes that the data contained is from reliable sources but cannot guarantee the accuracy of the data. None of the information provided constitutes a recommendation or solicitation of an offer to buy or sell any particular security. The investment strategies and or securities may not be suitable to all investors and past performance is not indicative, nor a guarantee, of future results. It should not be assumed that recommendations made in this Newsletter and in the future will be profitable or will equal the performance of the securities mentioned in this or previous Newsletters.

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