

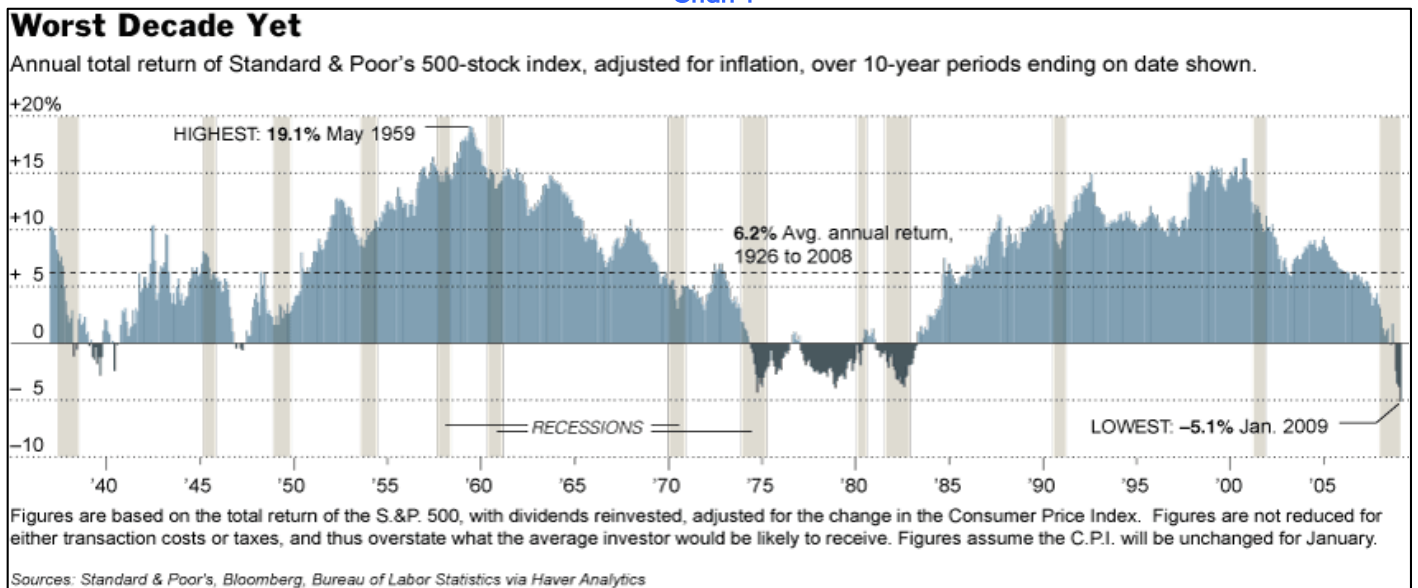
Newsletter

As the year end festivities turn to the New Year calendar, we are compelled to review not only how markets have done over the last year but also the last century. This months Newsletter focuses on the performance of the markets and our view on investor perception based on basic quantitative variables used in the industry.

We start with an illustration of the S&P 500 returns since the 1930s, in Chart 1 below. In addition, Chart 2 (Page 2) shows the S&P composite return along with the corresponding Price Earnings (P/E) ratio since the 1870s. Even though P/E ratio is a very simple variable used by investors, we will start with a basic definition: The **P/E ratio (price-to-earnings ratio**, also called its "P/E", "earnings multiple," or simply "multiple") of a stock is a measure of the price paid for a security relative to the annual net income or profit earned by the underlying firm per share. Generally speaking, a higher P/E ratio means that investors are paying more for each unit of net income, so the stock is *more expensive* compared to one with lower P/E ratio.

There are umpteen ways of evaluating the markets in order to infer whether they are overvalued or undervalued. Analyzing P/E ratio happens to be the most common methodology in addition to discounted cash flows, dividend growth models etc. We believe that most of these models are driven by Wall Street pundits who are constantly attempting to gauge Main Street activity and projecting those findings into future stock prices.

Chart 1

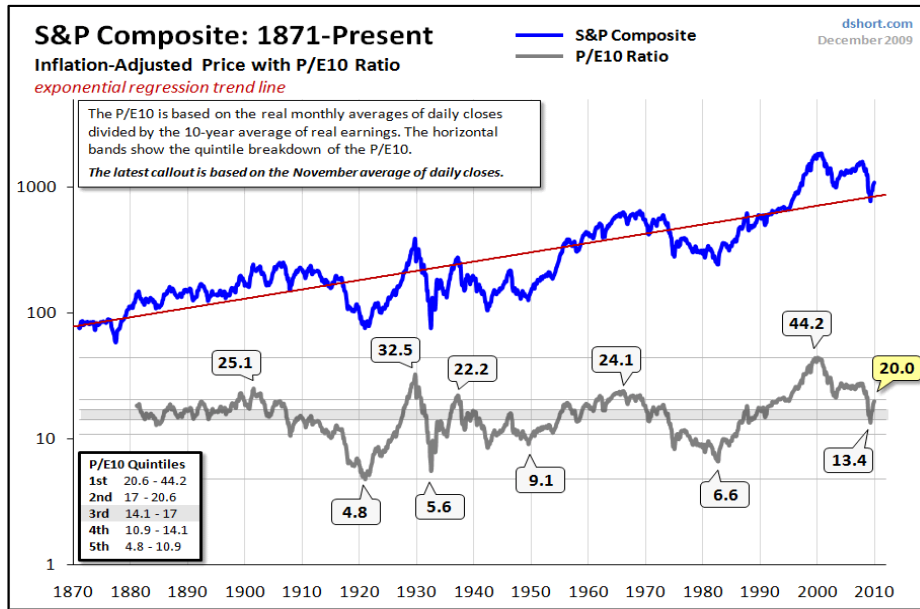


The generic definition of the P/E ratio defines how over or undervalued a security or for that matter various market indexes are. As can be seen in Chart 2, P/E ratio below 10 for the S&P 500 has been experienced during recessions. In other words, as the earnings power of the economy diminishes during recessions, the markets follow that trend downwards. Intuitively, this ratio should stay the same as both the numerator (Price) and the denominator (Earnings) are being reduced in value. The truth is that the price in the P/E ratio loses more value bringing the entire ratio down.

We believe that P/E is the representation of gauging how bullish or bearish the market sentiment is as opposed to viewing the P/E to determine how under or overweight the markets are. In other words, as the aggregate investor sentiment sours, fear dominates and selling takes place. If we closely review Chart 2, we will realize that the market sentiment has been the weakest just before the markets start their ascent after the end of respective recessions.

A recent example illustrating our inference is the market movement during 2008-2009. The S&P 500 traded at a P/E ratio of approximately 23-24 (**History of the markets: http://cgamadvisor.com/MKT_History**) in 2007 before the markets started declining. In other words, most economists in 2007 were expecting the S&P 500 companies to earn \$65-70 for the following 12 months. This obviously did not happen as the economy experienced a recession. As unemployment increased and the housing sector deteriorated, analysts started to lower corporate earning projections. The S&P 500 and the Dow Jones Industrial Average reached a low of 672 and 6,452 respectively in March 2009. The earnings estimates for the S&P 500 at that time were recalibrated down to \$55 from an earlier estimate of \$70 in 2007. Also, the P/E ratio had plummeted to about 13.4 (seen below in Chart 2) from a high of 24 in 2007. At this time of panic the US government intervened and flooded the market with liquidity. This was experienced throughout the globe as major economic regions followed suit. This truly helped the financial system, but more importantly it helped bring back investor confidence.

Chart 2



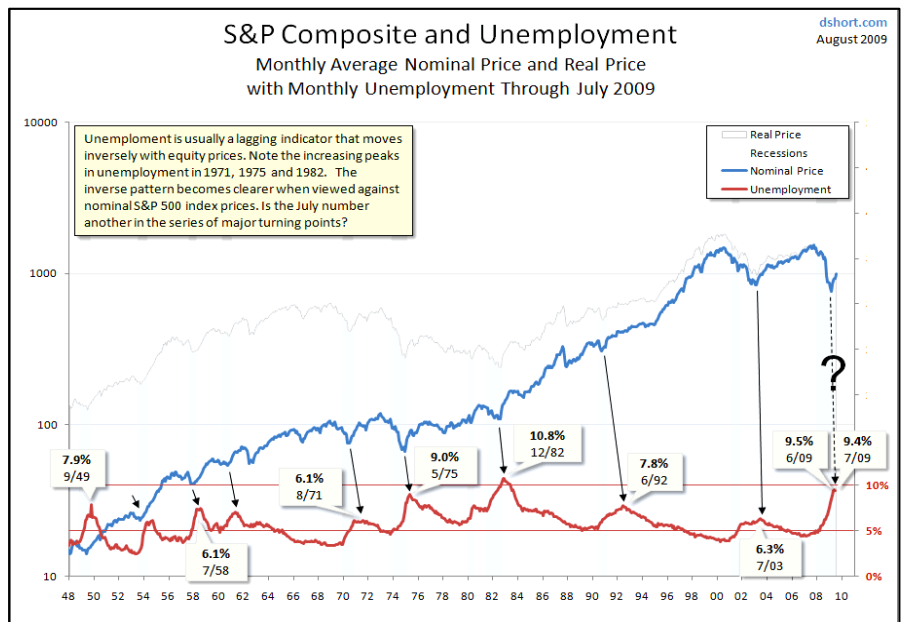
Needless to say, the most important indicator used by investors to develop market valuation has been the growth in the economy and how it translates to corporate earnings. We believe that the following variables will be very instrumental in growth of corporate earnings going forward.

1. Unemployment and Housing:

A recent study conducted by the Brookings Institute inferred a high correlation between unemployment and housing. Despite the natural correlation between these two variables, the study emphasized that housing recovery especially in the current environment depended heavily on the employment situation.

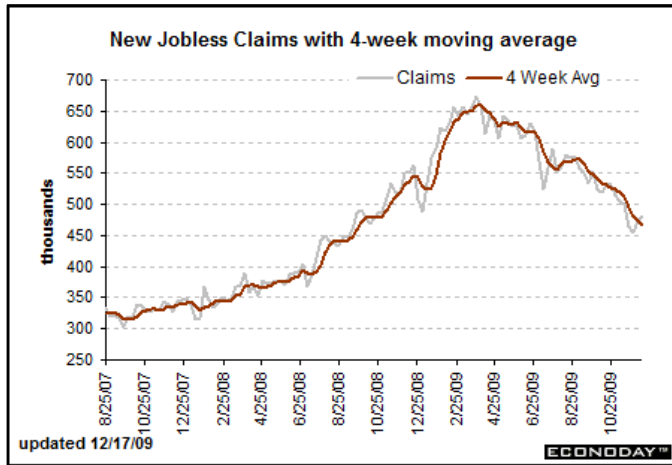
Even though unemployment is hovering around 10%, one of the highest levels for the last 60 years shown in Chart 3, we can also observe a declining trend in the jobless claims since Q2, 2009 portrayed in Chart 4 below. We believe that job's situation in the US will improve without putting much pressure on wages, containing inflation. If our projections of employment are correct,

Chart 3



residential foreclosure rate will start to diminish bringing stability in the real estate sector.

Chart 4¹



2. Consumer Demand:

Consumer demand has started to pick up in Q3, 2009 based on the improving retail sales numbers. In addition, the holiday season should also boost sales and provide buoyancy to the retail sector. We do not believe that the consumer demand will grow unabated over the next 3-4 quarters, however the short term trend looks positive.

3. Inventory Buildup:

As the economy shrunk in 2008, US corporate enterprise started to prepare for a prolonged negative growth period. Cost control via layoffs and reducing excess inventory was one of the first objectives undertaken during uncertain times. This endeavor has brought inventories to such low levels that corporations

should be thinking about inventory buildup if there is hope of economic revival. This in addition to improving consumer demand should be positive for the markets.

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.

¹ Source: www.bloomberg.com

Table 1 illustrates the change in U.S. broad based equity indexes since the beginning of the year 2009. This is followed by the performance of the recommendations CGAM has provided via the monthly Newsletters for the same time frame.

Table 1²

Broad Based US Indexes	Dec 31 st , 2008	Dec 31 st , 2009	Gain/Loss (%)
Dow Jones Industrial Average	8,776.00	10,428.00	18.82%
NASDAQ COMPOSITE	1,577.00	2,269.15	43.89%
S&P 500 INDEX	903.00	1,115.10	23.49%
RUSSELL 2000 INDEX	499.51	625.39	25.20%
Average Return			27.85%

CGAM Recommendations Since December 31 st , 2008	Security Price at Recommendation Date (\$)	Dec 31 st , 2009	Gain/Loss (%)
UltraShort 7-10 Year Treasury ProShares	52.66	53.94	2.43%
Blackrock Corporate High Yield Fund Inc (Sell Recommendation October 2009)	4.08	6.40	56.86%
Eaton Vance California Municipal Income Trust (Sell Recommendations July 2009)	7.99	10.12	26.66%
Western Asset Managed Municipals Fund Inc	9.40	12.19	29.68%
Boulder Growth & Income Fund Inc	4.47	5.75	28.64%
Ultra Financials ProShares	3.28	5.63	71.65%
CGM Focus	25.56	29.76	16.43%
Bank of America Corp	6.82	15.06	120.82%
Caterpillar Inc	27.96	56.99	103.83%
Corning Inc	14.62	19.31	32.08%
Manitowoc Co Inc	5.95	9.97	67.56%
E TRADE Financial Corp	1.44	1.76	22.22%
Blue Nile Inc (Recommendations: Sell Short)	45.90	63.33	-37.97%
Wendys/Arbys Group Ord Shs Class A	4.00	4.69	17.25%
Foster Wheeler Ltd	23.10	29.44	27.45%
Akamai Technologies Inc	16.44	25.34	54.14%
Immersion Corp	4.30	4.58	6.51%
United States Natural Gas Fd	11.74	10.08	-14.14%
Progressive Corp	16.00	17.99	12.44%
Banco Santander ADR Rep 1 Ord Shs	16.11	16.44	2.05%
Corning Inc	16.68	19.31	15.77%
AT&T Inc	26.94	28.03	4.05%
Average Return			30.29%

² Source: CGAM, LLC., www.fidelity.com Note: The average return for the CGAM portfolio does not include dividends and interest income.

Investment Themes

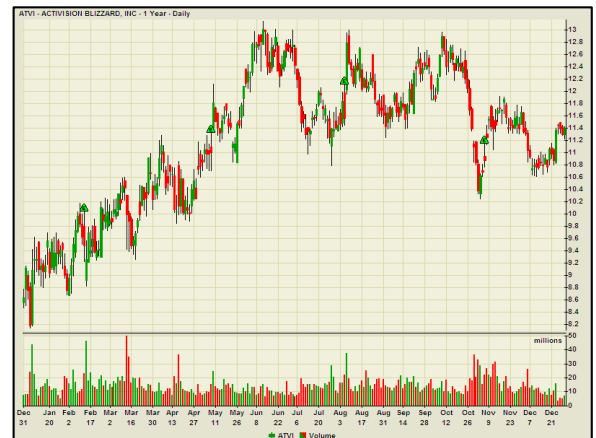
Citigroup Inc (C)³: \$3.32 as of December 31st, 2009.
Recommendation: **Buy**

1. Citigroup Inc. (Citigroup) is a global diversified financial services holding company. The Company is engaged in providing a range of financial services to consumers and corporate customers. As of May 4, 2009, Citigroup had more than 200 million customer accounts and operates in more than 140 countries. Through its two operating units, Citicorp and Citi Holdings, Citigroup provides a range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, and wealth management.
2. 52 week High and Low: \$7.58-\$0.97.
3. Citigroup has experienced a tumultuous 2008 and 2009, being at the center of the housing and financial crisis. The company is in the process of reorganizing itself and has raised equity through secondary offerings to repay assistance funds (TARP: Troubled Asset Relief Program) to the Federal government in access of \$20 billion. Currently, the government owns over 30% of the company, but the reorganization will save the company in approximately \$1.7 billion in interest payments per year.
4. Currently, the company has total annual revenues of about \$83 billion and market value of \$75 billion. In addition to a low .90 Price to Sales ratio, the company is trading at 0.53 price to book value. The company is trading at such low levels relative to most of its peers due to distressed real estate portfolio on its balance sheet and also uncertainty caused due to government ownership.
5. Currently, the total institutional ownership of Citigroup is less than 27% vs. an average ownership of over 65% for banks like Bank of America, JP Morgan and Wells Fargo. This is primarily due to the mandate discouraging most mutual funds from owning stocks with price lower than \$5.
6. We believe that the global reach of the company and the stabilizing housing market will bring positive changes in the company over the next 2 years. Even though the company is smaller after divesting some of its core businesses, it will generate profits by the end of 2010. As the share price reaches \$5, we believe that institutions will start to accumulate the company's stock, helping boost its price further.
7. Currently, the average analyst estimates that Citigroup will start to generate positive earnings in 2010. We believe that the government will start to divest its ownership if the stock reaches the \$4 level and institutions will simultaneously start to accumulate the company stock.
8. This is purely an aggressive and speculative investment idea and is meant for investors looking to undertake high risk with a turnaround situation.



Activision Blizzard, Inc. (ATVI): \$11.39 as of December 31st, 2009. **Buy**

1. Activision Blizzard Inc., formerly Activision, Inc., is an online and console game publisher. ATVI was formed by combining Activision, Inc., and Vivendi Games, Vivendi SA's interactive entertainment business. The company operates in four operating segments: Activision Publishing; which is engaged publishing interactive entertainment software and peripherals which includes Activision, Inc. and certain studios, assets, and titles previously included in Vivendi Games' Sierra Entertainment operating segment prior to the Business Combination (Activision), Blizzard Entertainment, Inc. and its subsidiaries, which are engaged in publishing traditional games and online subscription-based games in the MMORPG category (Blizzard); Activision Blizzard Distribution, which is engaged in distribution of interactive entertainment software and hardware products (Distribution), and Activision Blizzard's non-core exit operations.



³ Source: Charts and quotes from www.fidelity.com

2. 52 week High and Low: \$13.14-\$8.14.
3. The market of video games seems to be growing in all parts of the world. The three main game consoles are; Microsoft's X-box, Sony's playstation and Nintendo's Wii. Most markets are experiencing significant growth in these area and the US markets seem to be close to saturation as far as consule sales is concerned.
4. Activision has been very successful with games like Guitar Hero and Call of duty. The most recent version of Call of Duty sold over \$400 million in one weekend.
5. We believe that the company will grow in excess of 25% per year for the next 3-5 years. It is expected to earn \$0.70 in FY 2010, which should translate to a share price of approximately \$14-17 at a reasonable price earnings multiple of 20-25. This should provide an attractive return of over 26% for the next 12-15 months.

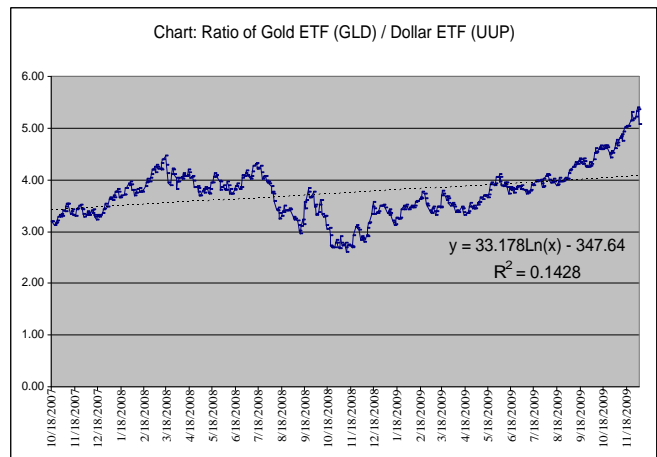
PowerShares DB Gold Double Short ETN (DZZ): \$14.13 as of December 31st, 2009. Buy

1. DZZ is an Exchange Traded Note which is negatively correlated to Gold by the factor of two.
2. 52 week High and Low: \$29.12-11.49
3. We believe that Gold has been a desired commodity over the last few years due to the major concern regarding the declining value of the dollar and the perception of imminent inflation.
4. Chart A below illustrates the relationship between the Gold Fund (GLD) and the US Dollar fund (UUP), used as Gold and dollar proxies respectively. It can be clearly observed that there is a negative correlation between the two. In addition, Chart B illustrates the divergence of the ratio of Gold to the US Dollar over the last two years. The average ratio of GLD (Gold Fund) / UUP (Dollar Fund) has been 3.74 for the past two years. Currently, this ratio is at 5.06, which is approximately 135% of the average. The ratio had reached a high of 5.38 on December 2nd, 2009.
5. We believe that as the US economy shows some stability, the Federal government will start to concentrate on inflation, which could be the beginning of rate increases in the US. This will clearly bolster the dollar and put pressure on commodities, especially gold. We believe that DZZ could be a benefactor if the dollar strengthens and overall economy starts to return to the path of growth.



Chart A

Chart B



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

Please review the following disclaimer

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