Newsletter

We are celebrating the 9th anniversary of Continuum Global in January 2015. ***<u>THIS COULDN'T HAVE NEVER BEEN POSSIBLE WITHOUT OUR CLIENT'S SUPPORT AND TRUST</u>***. I still remember the fist day of the start my own endeavor. It has been tough ride but more rewarding than I could have imagined or asked for. During the last 9 years, I have learned and unlearned a lot while struggling with the markets. Despite the rewards this has been a very humbling experience.

Therefore, instead of our conventional format, I have decided to share some of my personal thoughts and experiences which should recap 2014.

Favorite Quote:

- *<u>"Conventional wisdom promotes long term investing. In the long term, we are all dead…" John Maynard Keynes, World famous Economist, Investor and Writer.</u>*

Favorite Books that everyone should read:

- *<u>"Antifragile", Nicholas Nasim Taleb.</u>*
- *<u>"The Most Important Thing", Howard Marks.</u>*
- *<u>"Don't Sweat The Small Stuff…and it's all small stuff", Richard Carlson.</u>*

Favorite Investors :

- *Warren Buffet, now worth $50 billion.*
- *Howard Marks, manages $90 billion.*
- *George Soros, Billionaire, Philanthropist and Author of various books.*

What have I learned:

- *<u>"Predicting the Stock Market's future is a fool's errand...and yet we are compelled to attempt to predict it and make sense of it constantly…".</u>*
- *<u>"The most important characteristic of a successful investor is PATIENCE".</u>*
- *<u>"A successful active investor should have the guts to go against the investing herd; one of the most difficult behavior to inculcate, develop and maintain".</u>*

My New Year's Resolution: ***<u>"TURN OFF CNBC…"</u>***

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Despite what I have learned about predicting the markets, we dare to attempt projecting the future of the markets using our statistical proprietary market model.

CGAM's proprietary market model has been developed to project the S&P 500 index over the next 12 months. The model is predicated on the paradigm that investor's behavior repeats itself based on certain fundamental parameters of the economy. The model constantly monitors the change in the index based on the changes in statistically significant economic variables. We have illustrated the regression equation developed based on 4 decades of historical data. The combination of these variables explains almost 93-94% movement in the S&P 500 index.

Table 1

Fundamental Variables (12 month Projections)		**Market Projections** *Based on the regression equation illustrated below*	***As of Jan 1st, 2015***
S&P 500 Earnings	$135.00	S&P 500 (12 Month Projection) =	2,241.00
S&P 500 Expected PE Ratio	18.00	S&P 500 (**Current, Nov 9th, 2014**) =	2,019.00
10 Treasury Bond Rate (%)	2.30%	***S&P 500 (Gain/Loss) =***	***+11.00%***
Inflation Rate (%)	2.50%	***Standard Error***	**+/- 5.96%**
Volatility (VIX) Index	21.00		
Unemployment (%)	5.50%		

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

The major change in the model since Q3, 2014 has been the revision in US corporate enterprise's earnings projections. We believe that the S&P 500 companies will earn an aggregate of approximately $135.00 over the next 12 months. We reiterate our belief in the improvement of investor sentiment in tandem to the US economic recovery. Due to this phenomenon, it is warranted that the Price Earnings ratio (a measure of investor sentiment and how much they are willing to pay for earnings) should expand. Therefore, we have used P/E of 18 in our model; a 6-7% expansion from curent levels.

Keeping the fundamental observations in mind, it can be observed that the model infers a gain of approximately 11% in the S&P 500 index for the next 12 months. One of the most notable observation has been the movement of the Volatility Index and its impact on net returns. The VIX index *(In laymen terminology the Volatility or the VIX index is a gauge of investor fear)* reached a value of approximately 25, three times during 2014. This happened everytime the markets corrected by more than 5%.

[1] Data Source: Various Analyst estimates, CGAM's estimates

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Currently, the VIX index is trading at approximately 21, a somewhat elevated level based on empirical data. We are more comfortable with investing during periods when VIX spikes and trades at current levels; a range of 23-25. In other words, we believe that portfolio returns can be enhanced by investing during corrections that are signaled by VIX levels of approximately 20-25 range.

We believe that the current economic conditions, especially in the United States, which include a growing economy, improving unemployment situation and low inflation will boost corporate earnings and consumer sentiment. The culmination of strong fundamentals should compel domestic and international investors to feel confident in the US capital markets.

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

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Please review the following disclaimer

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