# Newsletter

### *Our November-December 2015 Market Correction article concluded with:*

> ***"The 9-10% correction experienced by the US domestic markets during August-September was followed by 8-9% gains in October. We believe that this volatility was created by technical variables and not economic fundamentals. We believe that the markets could gain another 7-8% over the next 12 months. Despite this bullish prediction, we also believe that investors should wait for an interim correction to enter the markets. We expect an interim 5-7% correction based on lower levels of the VIX index currently experienced by the markets". November-December 2015.***

Major market indexes have lost approximately 5-6% on an average for the first week of January 2016. One can never be sure of the lurking uncertainties or unexpected negative political or economic events. However, markets have a way of instilling fear into even the most seasoned and intelligent investors. Despite this fact, some of us have ventured into the arena of economics and finance with and endeavor to predict the future of capital markets.

During time of uncertainty and heightened volatility we have found it useful to turn towards time tested fundamentals that ultimately have meaningful impact on the direction of capital markets. Again, one can never be sure of the outcome, but it helps provide some sanity to our decision-making. We have attempted to compose a list of fundamental variables with Pros and Cons for the markets. This list focuses on crucial parameters that ultimately drive markets instead of mere opinions.

| Pros | Cons |
|---|---|
| 1. **Low Interest Rates:** Low cost of borrowing.<br>2. **Low Energy Prices:** Results in higher disposable income.<br>3. **Low US Unemployment Rate: 5-5.1%.**<br>4. **Wages in the US are increasing.**<br>5. **US GDP grew at approx. 2.1% for 2015.**<br>6. **US GDP growth expectations: 2-2.5%.**<br>7. **Volatility Index (Fear Gauge):** Trading at about 24-25. Empirical evidence shows that this contrarian indicator is approaching Buying signals. | 1. **US Treasury has an inflated balance sheet** with US mortgage and other debt paper.<br>2. **Low commodity prices:** This variable indicates the potential for global economic deceleration.<br>3. **Chinese economic deceleration.**<br>4. **End of Economic Stimulus** from the US Federal Government. |

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

## 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 January 7th, 2016*** |
|---|---|---|---|
| S&P 500 Earnings | $127.00 | S&P 500 (12 Month Projection) = | 2,183.00 |
| S&P 500 Expected PE Ratio | 15.50 | S&P 500 (Jan 7th, 2016) = | 1,944.00 |
| 10 Treasury Bond Rate (%) | 2.20% | ***S&P 500 Expected (Gain/Loss) =*** | ***+12.35%*** |
| Inflation Rate (%) | 2.50% | *Standard Error* | **+/- 6.12%** |
| Volatility (VIX) Index | 25.00 | | |
| Unemployment (%) | 5.00% | | |

**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 followed by the inference of our model based on the recent developments in the capital markets:

1. The 12 month earnings expectation of the companies comprising of the S&P 500 has been reduced by 5% to $127, factoring deceleration in earnings for the next 12 months.
2. Volatility Index (VIX) is trading at the current value of 25. Our model has shown increasing negative correlation of the market indexes with the VIX. It should be noted that the correlation is primarily for shorter term trading and not long term forecasts. 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 10-12% over the next 12 months.

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

**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.**

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*

**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*