

Newsletter

Schizophrenic: That could be the definition of the market action over the last 4-6 weeks. The question is whether this uncertainty is a prelude to another major dip in the market or an after shock to the 2008-09 financial debacle? The 2008 market trauma started with the real estate decline which turned into a full fledged financial services industry debacle. As banks and financial services started to retrench their lending activities and went into cost cutting and focusing on avoiding bankruptcy, the entire economy suffered.

Since the March 2009 lows, markets have rebounded almost 40% based in broad based indexes. The economic turnaround was fueled by the confidence instilled via the liquidity infusion by governments worldwide. The endeavor with liquidity infusion had been to reinforce confidence in our economic system and help the economy revert back to normalcy. So far this has worked in the form of a turnaround in the global growth which has translated into growing earnings for the global corporate environment.

The major market worry during the second half of 2008 and early 2009 was the rising unemployment rate in the US and the global corporate earnings growth. As the first and second quarter of 2009 rolled around, most market pundits laid emphasis on earnings sustenance and unemployment. Despite the improving conditions of the US economy in terms of both unemployment and earnings, the market has now moved it's focus on the European crisis and the ramifications of the British Petroleum oil spill.

As mentioned in our May 2010 issue, the Volatility index (a measure of the market fear) had moved up to levels only seen during 1987 (Black Monday), the dot.com bust and the March 2009 lows. **Obviously this index exhibits the worry in investor sentiment but we believe that there is another reason that most of us may have overlooked.**

The advent and evolution of media, which includes telecommunications, the internet and cable television is a major cause of market volatility in our view. More importantly, the advent in internet trading allows investors to trade first and think later. The low cost of trading in addition to rule based trading by individual and institutional investors add to the increased trading hence higher volatility as well. We can continue to illustrate the variables that have added to the increased trading and hence increased volatility in the markets, but you get the point.

The most important aspect to understand is that ultimately investors review the economic fundamentals to make decisions and we strongly believe that eventually the market recognizes the true value of an economic entity and security values converge to its true intrinsic value.

The Standard & Poor's 500 index (S&P 500) is currently trading at about 11.5 times the 2011 expected earnings estimate. This Price / Earnings (P/E) ratio is about 28% below the 80 year historic PE ratio for the S&P 500. At the risk of sounding like a broken record, we believe that investors who possess the gift of patience will be rewarded over the next 2-3 quarters as the European crisis starts to diminish and capital markets turn their focus on the economic fundamentals.



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.

Broad Based US Indexes	Dec 31 st , 2008	May 30 th , 2010	Gain/Loss (%)
Dow Jones Industrial Average	8,776.00	10,136.63	15.50%
NASDAQ COMPOSITE	1,577.00	2,257.04	43.12%
S&P 500 INDEX	903.00	1,089.49	20.65%
RUSSELL 2000 INDEX	499.51	661.61	32.45%
Average Return			27.93%

CGAM Recommendations Since December 31 st , 2008	Security Price at Recommendation Date (\$)	Jan 31 st , 2010	Gain/Loss (%)
UltraShort 7-10 Year Treasury ProShares	52.66	46.62	-11.47%
Blackrock Corp High Yield Fd(Sell Rec Oct 2009)	4.08	6.87	68.38%
Eaton Vance CA Muni Inc Trust (Sell Rec July 2009)	7.99	12.86	60.95%
Western Asset Managed Municipals Fund Inc	9.40	12.9	37.23%
Boulder Growth & Income Fund Inc	4.47	5.53	23.71%
Ultra Financials ProShares (1:10 Split;April 15th, 2010)	32.80	57.28	74.63%
CGM Focus	25.56	27.4	7.20%
Bank of America Corp	6.82	15.74	130.79%
Caterpillar Inc	27.96	60.76	117.31%
Corning Inc	14.62	17.43	19.22%
Manitowoc Co Inc	5.95	11.93	100.50%
E TRADE Financial Corp	1.44	1.48	2.78%
Blue Nile Inc (Recommendations: Sell Short)	45.90	46.9	-2.18%
Wendys/Arbys Group Ord Shs Class A	4.00	4.51	12.75%
Foster Wheeler Ltd	23.10	24.01	3.94%
Akamai Technologies Inc (Sell Rec May 2010)	16.44	38.83	136.19%
Immersion Corp	4.30	5.31	23.49%
United States Natural Gas	11.74	7.43	-36.71%
Progressive Corp	16.00	19.59	22.44%
Banco Santander ADR Rep 1 Ord Shs	16.11	10.15	-37.00%
Corning Inc	16.68	17.43	4.50%
AT&T Inc	26.94	24.3	-9.80%
Citigroup Inc	3.32	3.96	19.28%
Activision Blizzard Inc	11.39	10.75	-5.62%
PowerShares DB Gold Double Short ETN	14.13	11.21	-20.67%
Goldman Sachs Group Inc (Sell Rec May 2010)	156.35	145.2	-7.13%
Chimera Investment Corp	4.00	3.94	-1.50%
Banco Santander ADR Rep 1 Ord Shs	12.34	10.15	-17.75%
			25.55%¹

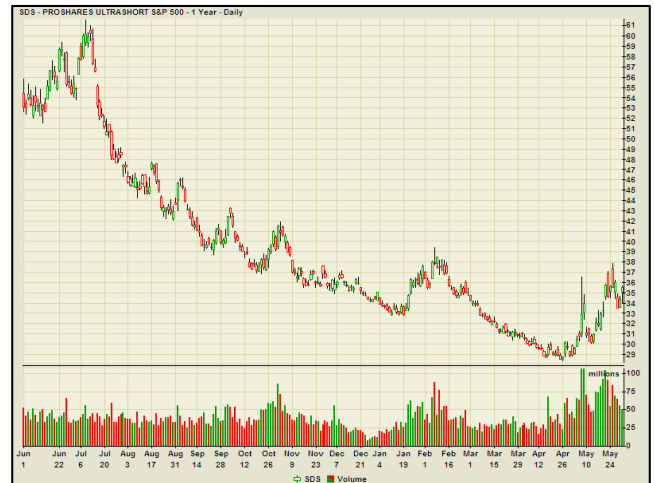
¹ Note: Total return for CGAM are not annualized and do not consist of dividends and interest.

Investment Themes

As the markets move turbulently between the positive and negative directions, we would like to focus on a strategy to hedge investor portfolios. The following investment product is for educational purpose and is not meant to be included in all types of asset allocations.

Proshares Ultrashort S&P 500 (SDS)²: \$35.54 as of June 1st, 2010. Recommendation: Consider as a hedge for traders.

1. ProShares UltraShort S&P500 seeks daily investment results that correspond to twice the inverse of the daily performance of the S&P 500 Index.
2. 52 week High and Low: \$61.57-\$28.37.
3. As mentioned, SDS is an exchange traded fund that has an inverse relationship with the S&P 500 index by the factor of 2. In other words, this fund will gain 2% in value if the S&P 500 index loses 1%. Therefore, this fund could be used to hedge a portfolio. For example, an investor could allocate 5-10% of his/her portfolio towards SDS. In an 80% allocation to equities, 10% to SDS and 10% in cash, approximately 25% of the downside will be protected by SDS.
4. Note: As SDS uses leverage, the movement of the fund does not have a perfect correlation to the S&P 500. Therefore, the movement of the fund could vary considerably on a day to day basis. We highly recommend that only active investors consider this investment. We believe that this vehicle could be used effectively by traders to hedge their portfolios.



² Source: Charts and quotes from www.fidelity.com

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