Continuum Global Asset Mgt., LLC
March 2010

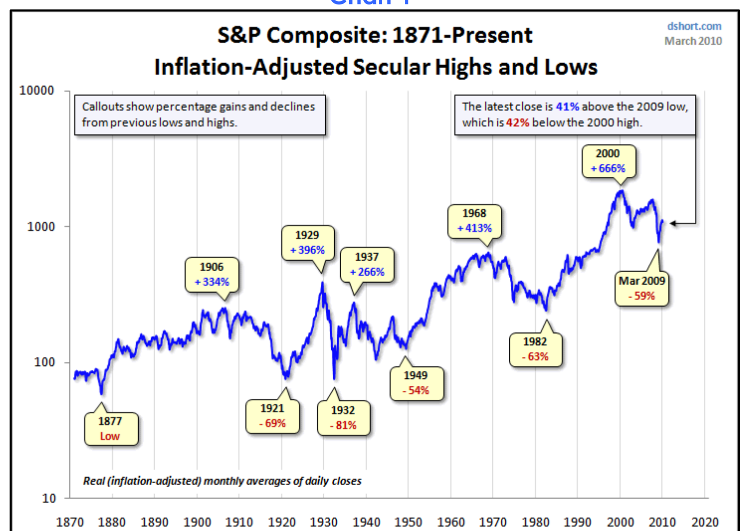
Newsletter

As markets move significantly in either direction, investors start to speculate and expectations of a reversal increase. We have now experienced more than 50% gains in major market indexes since the low of March 2009. In our February Newsletter we described the behaviour of the broad based market indexes during a prolonged bullish period. Our belief that markets go through interim corrections during secular bullish phases was confirmed with the recent 7.5% correction. This issue focuses on the historical trends portrayed by major indexes after a significant economic contraction. In addition, we have used two different models to help predict the direction of the major market indexes as well.

Chart 1 illustrates the S&P Composite returns since 1871. It clearly shows how the market index bounced back significantly after every major pullback. Following are major observations:

1) Annualized growth rate since 1871 = 6.63% (Includes dividends).
2) Since the first trough in 1877: Secular bull gains totaled 2075% for an average of 415%.
3) Secular bear losses totaled -329% for an average of -65%.
4) Secular bull years total 80 versus 52 for the bears, **a 60:40 ratio**.

Chart 1[1]



Even though the S&P composite has gained approximately 7% on an average over the 130 years, it has experienced major downturns which most investors can not tolerate. It is important to recognize this, as most investors do not have the time horizon or the patience to wait for a decade or more for their investments to come to economic fruition.

Year	Market Milestone	Percent Change	Number of Years	Annualized Return, No Dividends	Annualized Return with Dividends
1877	Low	-	-	-	-
1906	High	340%	29.3	5.1%	10.1%
1921	Low	-69%	14.9	-7.5%	-2.0%
1929	High	396%	8.1	21.9%	28.4%
1932	Low	-81%	2.7	-44.9%	-41.2%
1937	High	266%	4.7	32.1%	38.7%
1949	Low	-54%	12.3	-6.2%	-0.8%
1968	High	413%	19.5	8.8%	13.3%
1982	Low	-63%	13.6	-7.0%	-3.0%
2000	High	666%	18.1	11.9%	15.3%
2009	Low?	-59%	8.5	-9.8%	-8.1%
Now	-	41%	1.0	60.8%	64.6%

Based on inflation-adjusted S&P Composite monthly averages of daily closes.

On the same token, the adjacent table clearly shows the market ascent after major downturns. Does this somehow compel us to time the market? It would be nice to be able to time the market but even professional money managers have not been able to gauge the market sentiment correctly since time immemorial and instead get caught up in the hype of the herd mentality.

One can infer from the adjacent table that we are currently at a point where markets are coming from a traumatic downturn not experienced in decades. Even though we have gained over 50% from the March 9, 2009 low, we could be only at the beginning of a major bullish phase if history is any indication of the future. Then again, this could be wishfull thinking. We attempt to answer that question based on the two market valuation models shown below.

[1] Source: http://dshort.com/charts/SP-Composite-secular-bull-bear-markets.html?SP-Composite-secular-trend s

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1. **Interest Rates Vs. S&P 500 Regression Analysis.**
2. **Earnings Growth and S&P 500 valuation based on historical Price Earnings multiple.**

Interest Rates Vs. S&P 500 Regression Analysis

S&P 500 (Estimate) = -14.08 X 10 Year Treasury -68.05 X Fed Fund Rate +1013.37 + e[t]

Estimated 10 yr Treasury	5.00%
Estimated Discounted Rate	3.00%
S&P 500 Estimate Value	**1,011.37**

1. There has been enough rhetoric regarding the loose monetary policy from the Federal government which allegedly lead to the recent real estate bubble. History shows that easy money has attributed to major bubbles that ended in significant market debacles.
2. In order to understand the empirical relationship between interest rates and the S&P composite index, we have gathered data for the S&P 500 index, the Federal Fund Rate and the 10 Year Treasury for the last 47 years; from January 1962 to January 2010[2] and ran a regression analysis. The highlighted equation above has been deducted based on this analysis.
3. The negative sings in front of both variables in the equation (Federal Fund Rate and the 10 Year Treasury) signify that there is an inverse relation between these variables and the value of the S&P 500 index. In other words, as rates go up, they tend to put downward pressure of the value of the index. This is not necessarily a hard and fast rule, but a mean deduction from the data of the last 47 years.
4. The current model states that even if the federal fund rates are raised up to 3%, from the current level of .15-.25%, the S&P 500 index is fairly valued. Please remember that the Federal Open market Committee Chairman, Mr. Bernanke has indicated a low rate environment for the foreseeable future.

Earnings Growth and S&P 500 valuation based on historical Price Earnings multiple

S&P 500 Earnings (2008)	$49.51
S&P 500 Earnings 2010 (Estimate)	$75.00

	82 Year Average	50 Year Average	25 Year Average
Average P/E	16.00	17.00	21.00
Projected S&P 500 Valuation	**1,200.00**	**1,275.00**	**1,575.00**

1. Our second model uses the average Price to Earnings multiple, usually used to value the market indexes.
2. Price to Earnings Ratio data derived from www.ndr.com and **http://cgamadvisor.com/wp-content/uploads/2009/06/CGAM-Newsletter-December-20091.pdf**. This data is used for the last 82, 50 and 25 years for illustrating the range of the S&P 500 index valuation.
3. The US economic recovery and the percieved financial infrastructure reconstruction has lead to hightened expectations in regard to US corporate earnings.
4. Most analysts and economists have started to raise the US corporate earnings expectations and expect approximately $75 in earnings for the S&P 500 companies in fiscal year 2010.
5. It can be observed that based on investor sentiment, which translates into different P/E multiple, we have different values of the S&P 500 exhibited in the table above. In other words, at a reasonable P/E ratio of approximately 17, a 20% discount from the current market P/E, we can expect the S&P 500 **to appreciate by 15% for the next 12 months with $75 in corporate earnings.**

We believe that both the models above show a reasonably positive picture in regard to the future of the markets. However, it is very important to realize that these models are based on certain assumptions, and that's what they are; assumptions. Obviously, with the US economy improving, market participants tend to exhibit positive or bullish sentiment, further fueling the economic recovery. This self fulfilling prophesy can not continue forever and at some point markets shall correct.

We believe that currently both, the US and international economies are on a recovery path, with the emergence

[2] Source: www.finance.yahoo.com

of the global consumer, especially in Brazil, Russia, India and China; the BRIC countries. We believe that global companies involved in the healthcare, technology and financial sector shall do particularly well as the basic demand in these areas should consistently grow over the next 5-10 years.

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 1[3]

Broad Based US Indexes	Dec 31st, 2008	February 28th, 2010	Gain/Loss (%)
Dow Jones Industrial Average	8,776.00	10,325.26	17.65%
NASDAQ COMPOSITE	1,577.00	2,238.26	41.93%
S&P 500 INDEX	903.00	1,104.49	22.31%
RUSSELL 2000 INDEX	499.51	628.56	25.84%
Average Return			26.93%

CGAM Recommendations Since December 31st, 2008	Security Price at Recommendation Date ($)	Jan 31st, 2010 Prices ($)	Gain/Loss (%)
UltraShort 7-10 Year Treasury ProShares	52.66	50.72	-3.68%
Blackrock Corporate High Yield Fund Inc (Sell Recommendaitons Oct 2009)	4.08	6.88	68.63%
Eaton Vance California Municipal Income Trust (Sell Recommendations July 2009)	7.99	12.44	55.69%
Western Asset Managed Municipals Fund Inc	9.40	12.6	34.04%
Boulder Growth & Income Fund Inc	4.47	6.12	36.91%
Ultra Financials ProShares	3.28	5.77	75.91%
CGM Focus	25.56	28.47	11.38%
Bank of America Corp	6.82	16.66	144.28%
Caterpillar Inc	27.96	57.05	104.04%
Corning Inc	14.62	17.63	20.59%
Manitowoc Co Inc	5.95	11.66	95.97%
E TRADE Financial Corp	1.44	1.61	11.81%
Blue Nile Inc	45.90	51.24	-11.63%
Wendys/Arbys Group Ord Shs Class A	4.00	4.88	22.00%
Foster Wheeler Ltd	23.10	24.63	6.62%
Akamai Technologies Inc	16.44	26.3	59.98%
Immersion Corp	4.30	4.09	-4.88%
United States Natural Gas	11.74	8.7	-25.89%
Progressive Corp	16.00	17.15	7.19%
Banco Santander ADR Rep 1 Ord Shs	16.11	13.04	-19.06%
Corning Inc	16.68	17.63	5.70%
AT&T Inc	26.94	24.81	-7.91%
Citigroup Inc	3.32	3.4	2.41%
Activision Blizzard Inc	11.39	10.63	-6.67%
PowerShares DB Gold Double Short ETN	14.13	13.49	-4.53%
Total Returns			27.16%

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

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Investment Themes

Goldman Sachs (GS)[4]: $156.35 as of March 1st, 2010. Recommendation: **Buy**

1. The Goldman Sachs Group, Inc. (GS) is a bank holding company and global investment banking, securities and investment management firm. GS activities are divided into three segments: Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services.
2. 52 week High and Low: $193.60-$72.78.
3. GS has been a pioneer company since its inception and has proved its superiority by operating rather efficiently during the near financial catastrophy in 2008.
4. GS was the first company to return the TARP assets back to the Federal government and returned to profitability in recent quarters.
5. Currently, the company has total annual revenues of over $52 billion and market value of $85 billion.
6. One of the highlights has been the recent investment from Mr. Warren Buffet in GS. Mr. Buffett continues to believe in the company and its superior business model.
7. We believe that the global reach of the company, its dominance in the Mergers & Acquisitions and the increased global underwriting activity will add to its already strong profitability.
8. Currently, the average analyst estimates GS's earnings for 2010 and 2011 to be $18.16 and $20.22 respectively. This should translate to a stock price or approximately $181 and $202 for 2010 and 2011 respectively. The average expected return based on these numbers should be north of 15% per annum.

Chimera Investment Corp. (CIM): $4.00 as of March 1st, 2010. **Buy**

1. Chimera Investment Corporation is a specialty finance company that invests in residential mortgage-backed securities (RMBS), residential mortgage loans, real estate-related securities and various other asset classes.
2. 52 week High and Low: $4.36-$2.35.
3. CIM issued a seconday offerring in ealrly 2008 and raised capital to invest in the housing market. The company was in the right place at the right time and has benefitted from acquiring residentail real estate assets at distressed levels.
4. The company paid close to 17% dividend in 2009 due to capital gains in its portfolio in addition to positive cash flow generation.
5. We believe that the company will benefit from a stabilizing real estate market in the short term. We also envision a growth in CIM's RMBS portfolio which would be accretive to earnings and allow the company to raise dividends in 2010 and 2011.
6. Currently, the average analyst estimates CIM earnings for 2010 and 2011 at $0.57 and $0.62 respectively. This should translate to a stock price of approximately $5.70 and $6.20 for 2010 and 2011 respectively with an average P/E of approximately 10. Including dividends and capital gains, we believe that CIM can provide a total return of approximately 50% for the year 2010 and 2011.
7. This is an aggressive investment idea and is meant for investors looking to undertake high risk. The financial soundness and sustainability of this company is based on the real estate market that is still facing economic headwinds.

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

[4] *Source: Charts and quotes from www.fidelity.com*

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