Continuum Global Asset Mgt., LLC

May 2009

Newsletter

The turn around in the markets since the low of March 9th has been phenomenal. Major broad based indexes have gained approximately 25-29% in value with Nasdaq gaining close to 35%. An important question is whether this is a bear rally or a result of improving economic conditions. Even though it is a fools errand to predict the direction of the market, we will attempt to evaluate a few variables which could help understand whether this rally is sustainable. Following are the variables that we believe have a crucial impact on capital markets over the foreseeable future.

1. Impact of Job Losses.
2. Current Market Valuation: Are we in an oversold state?
3. Impact of Stimulus Package.
4. Is inflation a Real Threat?

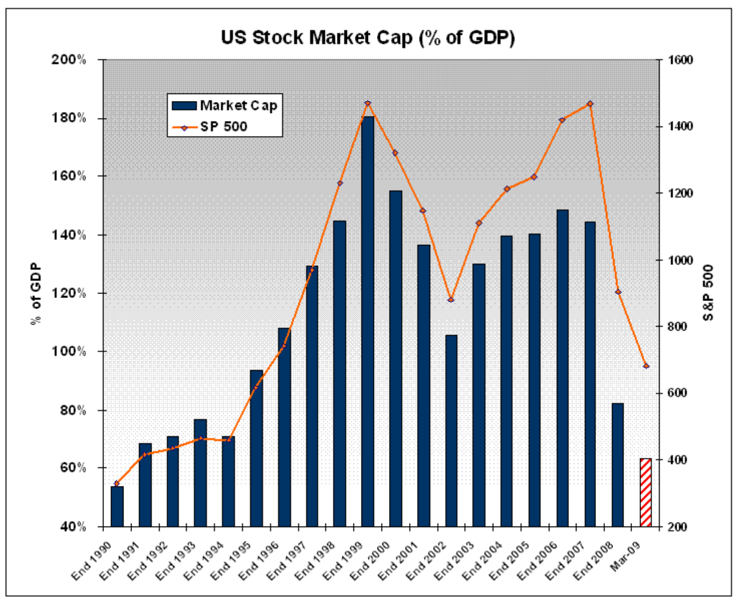
Impact of Job Losses

Currently, the U.S. is experiencing an 8.1% rate of unemployment. In other words, the country has lost approximately 5.1 million jobs since the financial debacle started. If we assume an average rate of $25/ hour and an average work week of 40 hours, we realize that the total annual wage loss per unemployed person is approximately $52,000, which translates to $312 biilion for the year. We know empirically that lack of disposable income impacts the economy with a multiplier effect. Using a conventional 1.5 times multiplier, we can assume that the total impact of lost wages on the economy could be in the range of $470 billion. In other words, we can experience an economy with approximately 2-3 % negative growth untill the unemployment rate stabilizes and reverses. Even though unemployment is a lagging indicator, its adverse impact can not be ignored in our opinion.

Current Market Valuation: Are we in an oversold state?

The adjacent Chart 1 illustrates the total market value of equities in the US as a percentage of the total Gross Domestic Product (GDP). Wall Street is constantly reviewing the growth on Main Street to estimate the fair value of various sectors and in turn the companies within those sectors. As investors become more confident of the economic growth, money flows into the market resulting in higher percentage of market value to GDP. Similarly, the opposite is true when market participants are discouraged and have a bleak outlook on the economy.

Chart 1[1]



It can be observed that this value increased from under 60% in 1990 to over 180% by the end of 1999. Thereafter, the economy couldn't sustain its growth and the market declined bringing this percentage down to approximately 100% by the end of 2002. We are currently experiencing a very low U.S. stock market value to GDP; in other words an oversold market from a historical perspective. When investors start to believe that the economy has and will continue on its growth cycle, markets will then sustain their assent and as usual may overshoot on the upside as they have currently overshot on the downside. If the recent confidence is reinforced by improving corporate earnings and consumer confidence, we can experience higher asset flows into equities, helping fuel the markets further.

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[1] ***Data Source:*** ***[World Federation of Exchanges](), BEA***

Impact of Stimulus Package

Each market downturn or a bubble has been a function of some kind of excess. The downturn of 2008 took the whole world with surprise and impacted not only the U.S. but also the rest of the world. Most nation's governements realize that the efficient functioning of any country's financial infrastructure is cruical for the operations of basic business. In order to avoid a deep and debilitating recession, most countries announced and have already started to enact a stimulus package to contain the damage and catalyze growth. U.S. and Europe have committed approximately $3 trillion amongst various projects to bolster economic growth. Even the BRIC (Brazil, Russia, India and China) countries have allocated over $750 billion with China committing over $589 billion by itself. We believe that a stimulus package is like an investment with borrowed funds. In this case the borrower is the government and the public is the lender. We all know that there is no free lunch and like all investments this also has a cost associated with it. The main question is whether the economy will create enough jobs, encourage entrepreneurship and add productivity to the economy. Again, the tax revenues from the enhanced economic activity would be expected to pay the debt down. Obviously, the Obama administration believes that, unlike the conservative approach of Herbert Hoover with higher taxes and protectionism, a Keynesian approach of government intervention will create economically fruitful results. This shall remain to be seen.

Is Inflation a Real Threat?

The definition of inflation is the loss of purchasing power of a currency, or the dearth of goods and commodities resulting in higher prices. One of the major causes of inflation can be excessive growth of the money supply, in other words, too much money chasing too few goods. One of the worries of a generous stimulus package is hyperinflation. The government had a choice of letting the market correct itself or attempt to learn from the similar debacles of the past and take proactive measures.

We believe that inflation will not be a threat for the foreseeable future for the following reasons:

a) Advent of economic liberalization in most regions of the world has created a larger pool of relatively qualified labor. Due to enhanced labor competition, wages are going to be contained for a long period of time.
b) Transference of successful and applied technology: Efficient technology and established processes from industrialized nations can now be easily transferred to other parts of the world due to the advent of communication mediums like the telephone and the internet. This helps enhance labor productivity in virtually all sectors of the economy resulting in downward pressure on wages.
c) Majority of the stimulus money in most emerging economies is being used from the surplus reserves of respective sovereign funds and hence putting very little inflationary pressure on those respective countries.
d) Emerging countries like China and India are allocating majority of the stimulus assets to the much needed enhancement of their respective infrastructure. This will create a more efficient and robust foundation for domestic and international business while maintaining wage competitiveness and enhancing productivity.

Inference

1. We believe that inflation will be subdued for the next 12-15 months.
2. Despite the high rate of global economic deceleration, capital markets worldwide have been punished more than necessary, and are in an oversold state in our opinion.
3. The current market value of U.S. stocks to the total GDP is at historically low levels.
4. The S&P 500 is trading at a 13.4-13.5 PE ratio, which is the average PE for the last 80 years.
5. We believe that the broad based indexes could correct in the short term, but the recovery in certain major sectors is intact and investors should take advantage of U.S. large capitalized quality companies and select sectors.
    a. The major benefactors of the economic turn around and the stimulus package would be: Financial, Industrial and the Technology sector in our view.
6. Lower quality companies have experienced a higher asset flow and have clearly outperformed the fundamentally stronger companies that were viewed as safe havens during the unrelenting market declines.
7. Equities were at their lowest over the last 52 weeks on March 9th. Since then they have started their ascent providing some indication that investors expect an economic turnaround.

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[2]

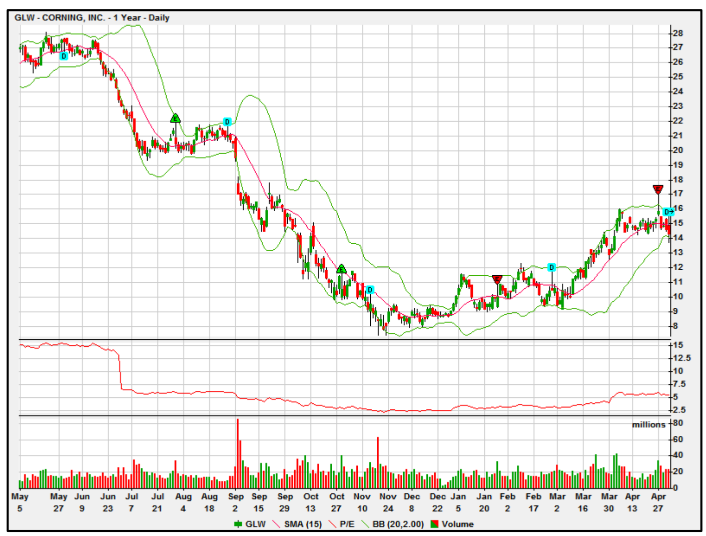
Index Description	December 31st, 2008	April 30th, 2009	Gain/Loss (%)
Dow Jones Industrial Average	8,776.00	8,168.00	-6.93%
NASDAQ COMPOSITE	1,577.00	1,717.00	8.88%
S&P 500 INDEX	903.00	872.81	-3.34%
RUSSELL 2000 INDEX	499.51	487.56	-2.39%
Ten Year Treasury Yield Index	2.42	3.00	23.97%
Average			4.04%

Security Description	December 31st, 2008	April 30th, 2009	Gain/Loss (%)[3]
Ultra Short 7-10 Year Treasury ProShares	52.66	54.71	3.89%
Blackrock Corporate High Yield Fund Inc	4.08	4.62	13.24%
Eaton Vance California Municipal Income Trust	7.99	11	37.67%
Western Asset Managed Municipals Fund Inc	9.4	10.75	14.36%
Boulder Growth & Income Fund Inc	4.47	4.36	-2.46%
Ultra Financials ProShares	3.28	3.53	7.62%
CGM Focus	25.56	24.78	-3.05%
Bank of America Corp	6.82	8.93	30.94%
Caterpillar Inc	27.96	35.58	27.25%
Average Return			14.38%

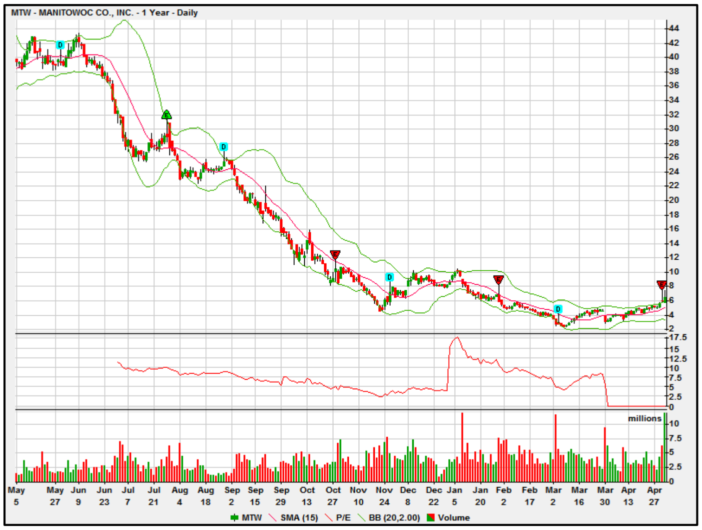
Investment Themes

Corning Inc. (GLW)[4]: $14.62 as of April 30th, 2009.

1. Corning Inc., has evolved from a glass ware manufacturer to a leading technology based manufacturer in five business segments: Display Technologies, Telecommunications, Environmental Technologies, Specialty Materials and Life Sciences.
2. 52 week High and Low: $28.07-$7.36.
3. As Corning generates a major part of its revenues from glass substrates used in LCD TVs and monitors, a global economic slowdown hurt its stock price.
4. The company is enacting a cost cutting plan to conserve cash during the period of global slowdown. This combined with a lower than expected slowdown in global sales of LCD monitors should boost Corning's revenue growth.
5. We expect that the company will be able to generate $1.20-$1.25 per share for FY 2010. Based on a PE expansion of 15-17, the stock could reach $20 within the next 12-15 months.



2 Source: www.fidelity.com
3 Gain/Loss is average return of the portfolio. Returns have not been annualized.
4 Source: Charts and quotes from www.fidelity.com



Manitowoc Inc. (MTW): $5.95 as of April 30th, 2009.

1. Manitowoc is one of the largest manufacturers of industrial cranes used for construction and infrastructure development projects. In addition, the company is involved in food services equipment manufacturing as well.
2. 52 week High and Low: $43.45-$2.34.
3. Current sales revenue of over $4.5 billion vs. the total company value of approximately $900 million.
4. The stock price has suffered due to the relatively higher debt levels and analyst's lowered expectations due to deceleration of global construction and infrastructure projects. This should change as most countries are allocating a substantial portion of their respective stimulus packages towards infrastructure development.
5. We expect the company to maintain its gross margins and improve earnings in excess of 20% over the next 12-15 months as global and domestic stimulus programs gain traction.
6. Our price target for MTW for the same time frame is $12 per share based on average historic price earnings multiple (12-15) the company has commanded over the last 5 years.

Markets have a way to surprise even the most seasoned investors. The first week of March 2009 was screaming of Armageddon and seven weeks later the markets have experienced a 25-30% + gain depending upon the index under consideration. Whether the markets have room to gain further ground is anybody's guess, but as mentioned in our previous newsletter, we still believe that there are specific opportunities in US domestic large companies and we will continue to introduce those to you through our monthly commentary and specific recommendations illustrated in our investment themes section.

Needless to say, each investor is unique and should invest to compliment their respective financial conditions and objectives.

Please review the following disclaimer

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