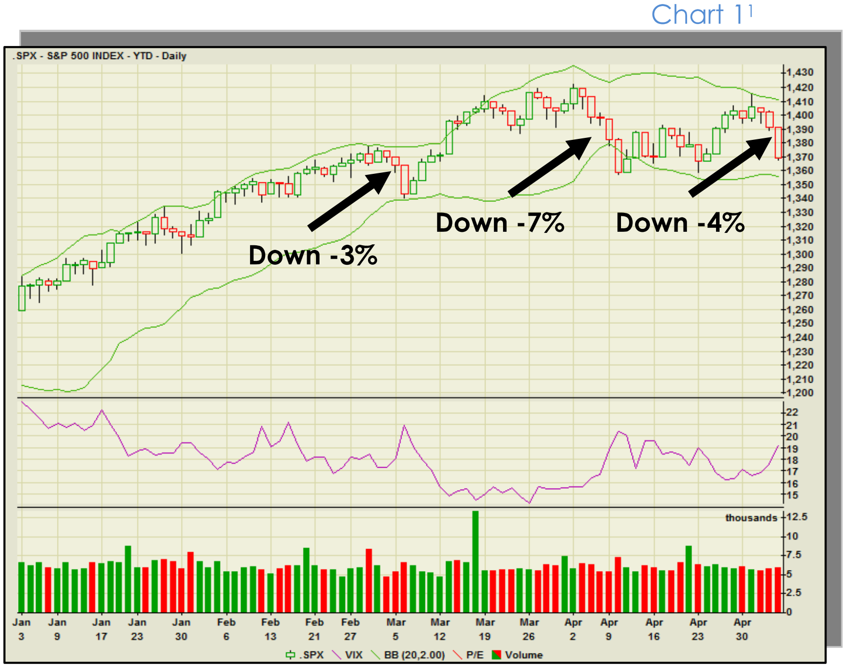
Continuum Global Asset Mgt., LLC

May-June 2012

Newsletter

Our March-April 2012 Newsletter concluded with, ***"To summarize;, despite being bullish over the next 12-18 months, we think that it would be prudent to wait for an interim correction to initiate fresh investment positions. It is reasonable to say that during a correction, stocks especially the high beta stocks can loose 2 to 3 times the market loss. An interim correction can hurt an average portfolio significantly more than the average market loss. It would be therefore prudent to raise cash in order to take advantage of an opportune time to rebuild a portfolio…"***

Chart 1[1]



Summer slowdown and interim correction of 5-7% predicted: It can be observed from Table 1 below that the broader stock market is up approximately 6-9% year to date, for the Dow Jones average and S&P 500 respectively.

Despite these gains in the broader markets, there have been three notable corrections of -3% to -7% this year, which can be observed from the adjacent Chart 1. We are experiencing a correction currently, attributable primarily to the lack of momentum in the US employment recovery and the uncertainty induced in the European region due to the change in governments in France and Greece.

Table 1[2]

Index	Close	Week Chg	Week % Chg	YTD Chg	YTD % Chg
Dow Jones Ind. Avg.	13038.27	-190.04	-1.44	820.71	6.72
Dow Jones Transportation	5227.64	-39.75	-0.75	207.95	4.14
Dow Jones Utilities	467.88	-1.58	-0.34	3.20	0.69
NASDAQ	2956.34	-112.86	-3.68	351.19	13.48
NYSE	7933.30	-218.61	-2.68	456.27	6.10
AMEX	2390.74	-44.13	-1.81	112.41	4.93
S&P 100	622.73	-15.26	-2.39	51.94	9.10
S&P 500	1369.10	-34.26	-2.44	111.50	8.87
RUS 2000	791.84	-33.63	-4.07	50.92	6.87
10 YR BOND	1.88	-0.05	-2.59	0.01	0.53

[1] Data Source: www.fidelity.com , CGAM's estimates
[2] Source: Charles Schwab Market Alerts www.schwab.com

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We as investors can always find a reason to not be a market participant. There has and will always be factors that bring uncertainty, turbulence and fear in the markets. On the other hand, its important to view what one believes are the fundamental variables that ultimately drive markets.

Illustrated below is CGAM's proprietary market model which has been developed to project the potential gain or loss in the S&P 500 index over the next 12 months. The model uses fundamental growth and strength of the economy to project the market movement. We have also illustrated the regression equation developed based on 4 decades of historical data.

Table 2[3]

Fundamental Variables		**Market Projections**	
S&P 500 Earnings	$ 115.00	S&P 500 (Projection) =	1,499.00
S&P 500 PE Ratio	16	S&P 500 (Current) =	1,369.00
Treasury Bond Rate (%)	1.88	***S&P 500 (Gain/Loss) =***	***+9.49%***
Inflation Rate (%)	3.0		
VIX Index	19.5		
Unemployment (%)	8		

S&P 500 (Estimate) = 584.008+4.22(S&P Earnings)+34.54(S&P Price Earnings Ratio)-95.57(TreasuryBond Rate{10 yr})+9.69(Consumer Price Index)-21.304(VIX; Volatility Index)+4.47(Unemployment Rate)

The model infers that the S&P earnings and the Price to Earnings ratio (investor sentiment) have a major impact on the movement of the S&P 500 index. Since September 2011, most analysts have increased their overall estimation of the S&P 500 earnings and the P/E ratio. Our estimation of the earnings and the P/E ratio has also increased by 35% and 14% respectively. In other words, the world as we know has changed significantly since 2008-09 recession. As the economy shows signs of recovery, investor sentiment continues to grow in tandem. Investor sentiment is a weird phenomenon. If investors feel confident that the economy will continue to do well, the markets can experience expanding Price Earnings ratio; pushing the markets up.

European Bail Out Plan disruption: European debt and banking problems have been a major problem that the entire world is trying to deal with. Significant bail out plans and support from the European union and the International Monetary Fund (IMF) has been coordinated to help support the deteriorating conditions in this region. The financial support to various countries which include Greece, Portugal, Italy and Spain have been based on austerity plan specific to these countries. In other words, this financial support is based on following cost cutting plans designed to reduce federal debt and bring their financial house in order. In simple words, these measures obviously hurt public workers in terms of salary and benefit cuts and markets in terms of increased taxes. These bail out plans, which have been developed and approved by major countries like France and Germany are now in jeopardy, primarily due to the change in French government which has a socialist slant and may not agree with the previous regime's thought process.

US Earnings and Investor Sentiment (P/E): We believe that earning's power of the corporate sector is one of the most important factors in determining the direction of the market. This inference is not an instinct at our company but an inference driven by analysing 40 years of data. An interesting fact is that 77% of the companies that have announced earnings in the most recent quarter (Q1, 2012) have beaten the market analyst's estimates and have guided to better times ahead. We do not predict that the good time will last forever but for the time being US corporates are expected to retain the momentum in their earnings growth from the US economic recovery.

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

US as a Safe Haven: Broadly speaking, markets are divided into two geographic regions; the emerging and the industrialized markets. We believe that emerging markets which include Asian and Latin American markets are going to continue to grow at a faster pace than the rest of the world. A higher growth will obviously attract Foreign Direct and secondary markets investments in these regions. But we can not ignore the United States economic recovery and the reasonable growth rate post 2008-09 recession. If we experience improvement in the US real estate sector, we should see increased confidence in the overall economic growth. We therefore believe that the domestic and global investor will be compelled to gravitate towards the US capital markets, especially in the eauity side of the equation.

Based on our market model illustrated on page 2 and our macro thought process, we are bullish on the US equity markets over the next 12-18 months. We believe that this interim correction is a good point to initiate fresh investment positions or add to exisitng companies.

Despite our shorter term outlook, we are enclosing a growth portfolio with a time horizon of 12-18 months. We are going to monitor and make changes to this portfolio to optimize returns. **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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