Continuum Global Asset Mgt., LLC

DECEMBER 2013

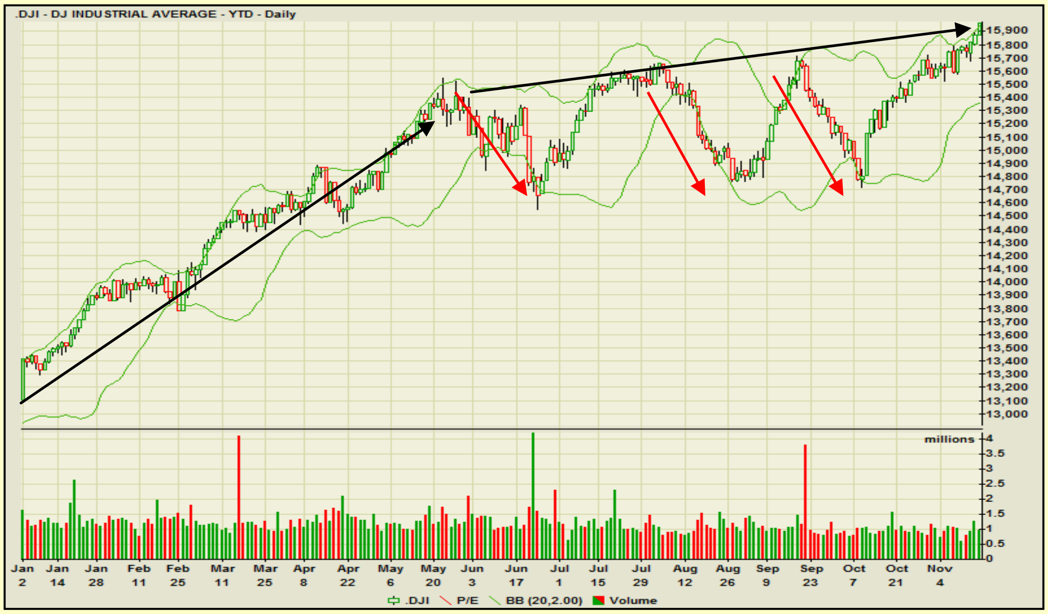
Newsletter

Are we poised for a correction???

Chart 1

Dow Jones Industrial Average Index

Year to date Performance



Markets have a way of repeating cycles: cycles of boom and bust. In other words, markets do not go up or down in a straight line as there are interim corrections in bullish phases and bullish streaks within bearish phases.

US Capital markets have experienced a great bull run this year, with the average broad based indexes up over 25%. It can be clearly observed in Chart 1 above, that there have been 3 to 4 corrections of sizable magnitude this year, despite the great returns experienced by the markets. The 64 million dollar question is whether we can continue this run and if so at what pace or is this a prelude to a crescendo for a correction.

We believe that investor behaviour is dominated by two major emtions; FEAR and GREED!!!
Also, there is a constant struggle within the two emotional stances which leads to an aggregate shift within the range of these emotions causing the markets to gravitate between bull runs and bearish periods.

Let me explain this phenomenon.

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As markets go through a bullish phase, more and more investors gravitate towards the markets and start to invest. Obviously, not all investors buy securities at prices that could bring them economic fruition. As this bull run gains momemtum, additional investors continue to follow the herd with expectations of market's continued ascent. At some point the market momentum catalyzes the markets to shoot above the reasonable value based on economic fundamentals. As this phenomenon occurs and valuations continue to move away from a reasonable mean, the probability of a correction continues to increase. This is true on the opposite side as well. In other words, as markets correct, the agggreagate investor momentum pushes the markets below the reasonable valuations. As this happens, the probability of a rebound also increases.

We have used Technical and Fundamental variables in our previous Newsletters to reach certain inferences in reagrds to the direction of the markets. This paradigm of variables (mentioned below) has served us well in projecting the overall direction of the markets. On the other hand, when markets move into territories that defy any semblence of logic, we turn towards gauging the fragility and degree of sensivity amongst the aggregate investor.

Technical Parameters

1. **Volatility Index (a constrarian Indicator)**
2. **Margin used at the NYSE**
3. **Money Market Levels**
4. **Insider Buying/Selling**

Fundamental Variables

1. **US Corporate Earnings and GDP growth**
2. **Inflation**
3. **Cost of Capital**
4. **European Economic Recovery**

Even though we do not believe that the markets have moved to such unreasonable levels to warrant alarm bells but the magnitude of the gains across the board have moved the markets into an area that need to be evaluated with caution. We have illustrated our proprietary model that uses these variables to predict the market movement.

CGAM's Proprietary Market Direction Model:

We believe that ultimately economic fundamentals drive market sentiment. As mentioned, Continuum has developed a market model based on regressing market variables with data spanning over three decades. As always, we have illustrated our proprietary market direction model below. Our endeavor has been to develop a model that evolves with changing data. It started with a number of variables which were narrowed down to 6 crucial parameters that attribute to majority of the movement in the S&P 500 index.

Fundamental Variables (12 month Projections)		**Market Projections** *Based on the regression equation illustrated below*	***As of November 19th, 2013***
S&P 500 Earnings	$117.00	S&P 500 (Projection) =	1,734.25
S&P 500 Expected PE Ratio	16.00	S&P 500 (**Current, Aug 23, 2013**) =	1,786.64
10 Treasury Bond Rate (%)	2.50%	***S&P 500 (Gain/Loss) =***	***-2.94%***
Inflation Rate (%)	3.00%	***Standard Error***	**+/- 1.88%**
Volatility (VIX) Index	13.00		
Unemployment (%)	7.20%		

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CGAM Market Model Equation[1]

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***

It can be observed that the model estimates approximately -3% decline in the S&P 500 index with an error rate of about 1-2%. This has been a reversal since our last Newsletter which was disseminated to our clients late August. Since August (Current Value = 1,786 – August 26th value = 1,660 => 126) the broader market has gained over 7.5%, to make the total year to date gain in excess of 25%.

Despite the handsome ascent of the markets and strong fundamentals including seemingly unending support from the Federal government, we can not ignore the efficacy that our contrarian fabric has shown in helping us predict the direction of the markets.

We believe that the magnitude and the short timeframe in which the capital markets have experienced this positive ascent, warrants us to be cautious in the near term. We believe that the markets will digest positive news with an element of skepticism and any negative news with a dimension of exaggeration. In other words, we expect an interim correction of approximately 5% based on our contrarian perspective.

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

[1] Source: CGAM's Proprietary Market Direction Model

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