Continuum Global Asset Mgt., LLC

October-November 2018

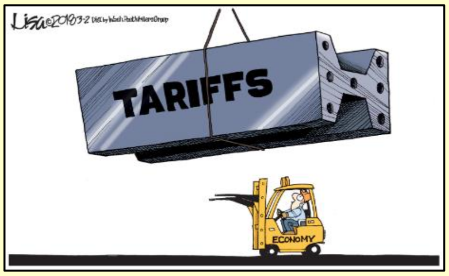
We concluded our August-September 2018 Newsletter issue with the following:

"To conclude, we would be very selective with new investments at current market levels. It would be prudent to focus and pay attention to security selection at these levels. We would also recommend that investors start to gravitate towards value investments as growth-oriented securities seem to be valued for perfection.

In other words, we would suggest that investors wait and watch for opportunities to present themselves as opposed to chasing performance. Sometimes, patience is a virtue…"

Major US market indexes have lost approximately 8-9% of their value as of October 24th, 2018. The correction is primarily due to the following area if concern:

Tariff Policy



Rising Interest Rates

China's Economic Slowdown

Currently, the combination of the trade Tariff policy, the Federal Government's hawkish posture to raise interest rates and the slowdown in Chinese economy, are the major variables effecting the US markets negatively. As mentioned above, US major stock market indexes have experienced another noteworthy correction in the month of October, after a similar correction earlier this year in February-March 2018.

The negatives mentioned above cannot be taken lightly. Having said that, following are the parameters that are favorable for the US economy and capital markets:

US GDP Growth

Corporate Earnings are Growing

Healthy Employment

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An amalgam of positive GDP growth, strong Corporate Earnings and healthy Employment is a resilient foundation for positive market gains.

We quote from our August-September 2018 Newsletter; ***"In retrospect, the February-March 2018 market correction was a buying opportunity. Since then, most of the fundamental variables have held their promise and so has the market. One thing is for sure, we are going to experience some sort of slowdown or hiccups along the way. The question is how deep and how long could these corrections be?"***

We believe that markets have been and continue to be driven primarily by human psychology; in other words, animal spirits. Currently, the markets have decided to focus more on the negatives which has resulted in an average correction of 8-9%. To evaluate whether this is a reasonable opportunity to invest, we have undertaken a simple and brief analysis.

If we use US corporate earnings, which is the most important ingredient to project the S&P 500, we will observe the following:

S&P 500 (Price/Earnings)	Earnings (EPS) for S&P 500 (EST 2019)	Estimated S&P 500 Value	Current S&P 500 Value	Est Gain/Loss (%)
15	$181[1]	2,715	2,656	2.22%
16	$181	2,896	2,656	9.04%
17	$181	3,077	2,656	15.85%

It can be observed that we have used $181 for S&P 500 earnings for the fiscal year 2019. In other words, if we used an aggregate growth of 10% year over year, for the combined 500 companies in the S&P index, we would derive $181 in earnings per share. The table above uses a range of 15-17 as the price to earnings (P/E Ratio) multiple to derive the projected S&P 500 value for the next fiscal year.

It can be observed that the P/E ratio is a crucial determinant in the future of the S&P 500. The estimated values show a range of reasonable to optimistic investor sentiment in terms of the market's future. Empirical evidence suggests that at a P/E of 15, investor sentiment is lukewarm and optimistic at 17-18. The inference derived from this simple calculation suggests that we are fairly valued at current levels. Of course, if the market fundamentals remain intact or improve, we could see further gains in the markets.

To conclude, we believe that the current market correction has created opportunities for investments in US equities. We would suggest that investors add to high quality dividend paying companies, especially in the Energy, Healthcare, Telecom and Consumer Staples sectors.

It's opportunistic to buy when everyone is selling and harvest gains when everyone is buying…

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

[1] *Source: CGAM projections.*

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