Continuum Global Asset Mgt., LLC

SEPTEMBER 2015

Newsletter

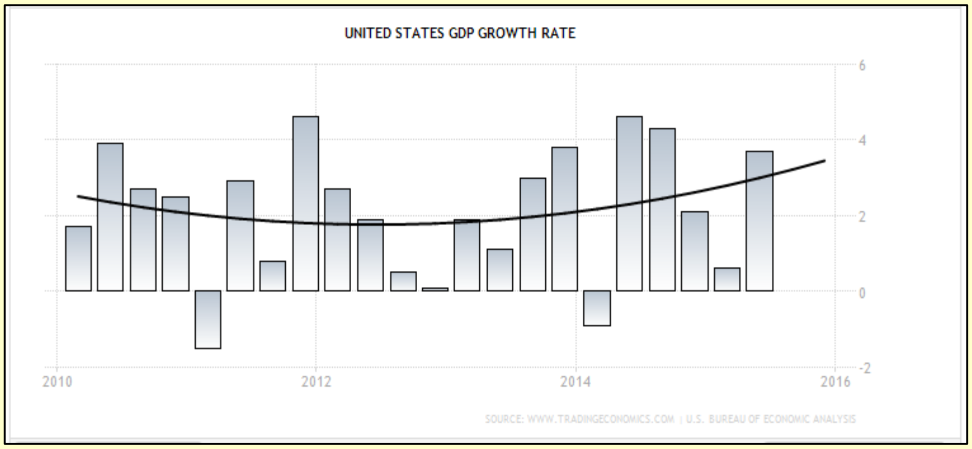
Our July-August 2015 Newsletter ended with…

"We had been waiting for 5-7% correction since the end of March. The culmination of Greek debt, deceleration in Chinese economy and Puerto Rico debt problems has resulted in a 5%+ correction in US markets. We believe that in the macro economic environment, these issues have created more short term noise than long term negative consequences. We are of the belief that this correction has created an opportunity for investors to invest in US stocks with primarily domestic exposure and decent dividends."

As mentioned before, we have been on the side of caution since March of 2015. Despite this view, we have believed and continue to believe in the US economy. Our inference that the markets could experience a 5-7% correction was based primarily on technical variables. The month of August has already experienced significant volatility with US major indexes losing close to 9-11% and then recovering 5-7%.

We still believe that this correction of over 10% is not driven by weak US economic fundamentals but the buildup casued by immense worry over Chinese economic slowdown and the end of low interest rates in the US.

Even though most investors understand that there is an inherent element of noise in the markets, it becomes next to impossible to ignore the precipitous decline in the value of ones portfolio. We turn to two crucial variables that impact the markets:



1. **US GDP Growth:** The most important facet of capital market's growth is corporate earnings and their future growth. Earnings are a function of the economy and how it's positioned to grow. The adjacent Chart shows the US GDP growth for each quarter since 2010. It can be observed that generally speaking the first quarter of each fiscal year since the 2008-09

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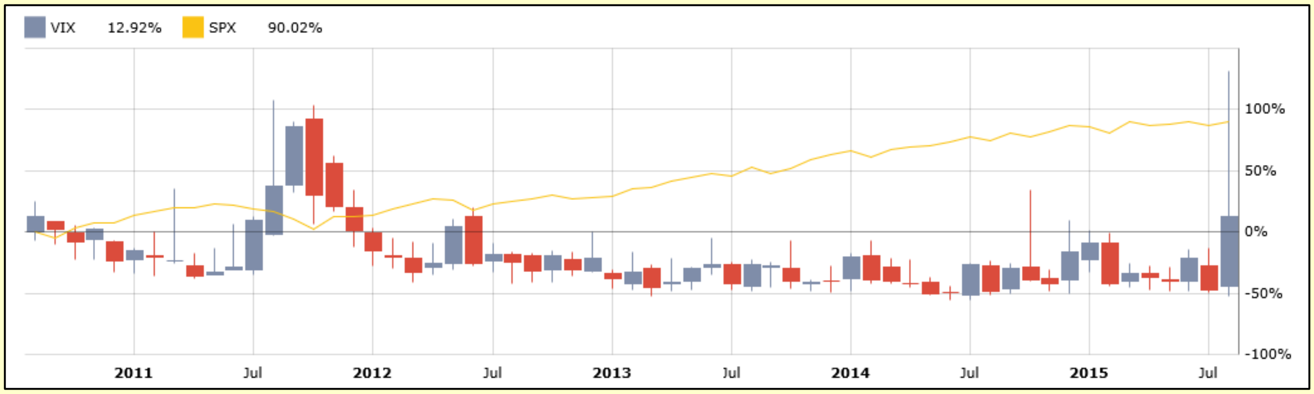
recession has been slower than the rest of the year. Even though the first quarter US GDP growth for 2015 was approximately 1.2%, the second quarter GDP growth was revised up to 3.7%. The US GDP is expected to grow at about 3% for the next 2-3 quarters. We believe that this is a favorable trend which should support markets going forward. We have used this variable in our proprietary model to project the S&P 500's value for the next 12 months.

2. **Volatility Index (VIX[1]):** A measure of market fear, the VIX Index is calculated using the puts and calls being bought and sold on the S&P 500 index.



A higher VIX shows elevated level of investor fear and vice versa (shown in the Chart above). Conventional wisdom suggests that we should be fearful of the markets as VIX rises and vice versa. In the constant battle between fear and greed, fear has a tendency to move quickly and violently. Fortunately, fear like a cheetah on the hunt, cannot maintain its high pace and has to slow down as quickly as it reached its peak speed. Similar phenomenon has been experienced in the US capital markets during the month of August. VIX reached a peak of 40 on August 24th from a low of approximately 12-13 during the beginning of August and is currently trading at 28-30 level. We believe that this level cannot be maintained for a prolonged period of time under strong US economic fundamentals. We therefore believe that the high level of VIX indicates unwarranted fear in the markets, which should revert as investors calm down and realize the extremes of their behavior.

We now turn towards CGAM's proprietary market model that has been developed to project the S&P 500 index over the next 12 months. The model is based on the concept that investor behavior repeats itself based on certain fundamental parameters of the economy and human psychology. The model constantly reviews the change in the index based on the changes in statistically significant economic variables. We have attempted to quantify these variables into a regression equation based on four decades of historical data. The combination of these variables explains almost 93-94% movement in the S&P 500 index.

[1] Source: www.cboe.com

Table 1[2]

Fundamental Variables (12 month Projections)		**Market Projections** ***Based on the regression equation illustrated below***	***As of August 31st, 2015***
S&P 500 Earnings	$130.00	S&P 500 (12 Month Projection) =	2,249.00
S&P 500 Expected PE Ratio	17.00	S&P 500 (August 31st, **2015**) =	1,972.00
10 Treasury Bond Rate (%)	2.20%	***S&P 500 (Gain/Loss) =***	***+14.05%***
Inflation Rate (%)	2.50%	***Standard Error***	**+/- 5.94%**
Volatility (VIX) Index	28.00		
Unemployment (%)	5.40%		

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

We have made a few changes in the model based on the prevailing market and economic conditions:

1. The 12 month earnings expectation of the companies comprising of the S&P 500 has been reduced from $135 to $130; a 3-4% decline based on global economic deceleration.
2. Price/Earnings ratio has been decreased from 18 to 17; a 5% decline. This is based on a combination of historic P/E average of 15.5 and the damange in investor sentiment caused due to the recent market correction.
3. VIX index: the previous Newsletter used a value of 19 vs the current value of 29. Markets seem to be significantly more concerned about China and rise in domestic interest rates.
4. Our projections guides us to believe that markets could gain a healthy 13-14% over the next 12 months.

The 9-10% correction experienced by the US domestic markets due to worries about China's decelerating economy and rise in US interest rates is overdone in our view. We believe that this correction has created an opportunity for investors to invest in US stocks with primarily domestic exposure and respectable dividends.

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

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

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