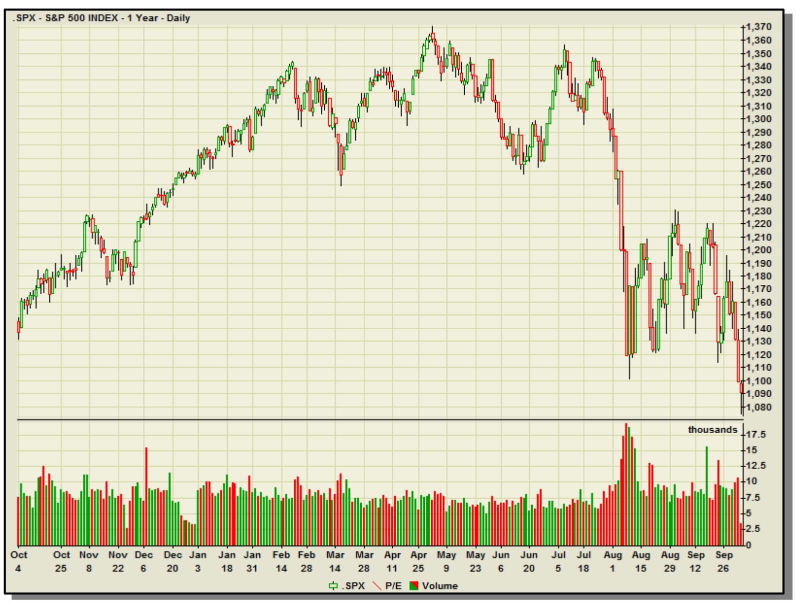
# Continuum Global Asset Management, LLC

# Patience is a Virtue!!!

Our September Newsletter ended with the following statement:

"To summarize, we believe that the uncertainty and the hightened market volatilty has brought such ambiguity in the market that it becomes not only difficult but foolhardy to attempt to predict the market direction on the short term. Therefore, it behooves prudent investors to not react to market noise, but to wait and watch through this turbulence and start investing when times are more opportune."

The question now becomes, what comprises of an opportune time. Does a 290 point drop (see chart below), which translates to a **21% decline since May 2011 high in the S&P 500 index** comprise of an opportunity? This question could be answered succinctly if we had the ability to know the future. Because we know for sure that we do not know the future, the only path left to take is to evaluate whether the sell off is truly based on long term fundamentals or investor panic.




We believe that there are some major issues like European debt, US political gridlock, decelating econmies; both domestic and global that concern investors. But we also believe that the majority of the market reaction comes from the recent memory of the US housing and banking collapse which wiped out almost 50% of the US stock market value. To put that in perspective, the US stock market value in October 2007 was approximately $13 trillion. By March of 2009, this value had dwindeled down to approximately $8-9 trillion.

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| Table 1 | |
|---|---|
| ASSUMPTIONS | |
| S&P 500 Earnings (12 months) | $ 85.00 |
| S&P 500 PE Ratio (Average: 25 years) | 15 |
| S&P 500 Dividend Yield (%) | 2.2% |
| 10 Year Treasury Bond Rate | 1.9% |
| Inflation Rate | 3% |
| VIX Index | 20 |
| Unemployment (%) | 10% |

| Table 2 | |
|---|---|
| **Final Model** | |
| **S&P 500 (Projection) =** | **1,240.31** |
| **S&P 500 (Current) =** | **1,099.52** |
| **S&P 500 (Gain/Loss) =** | **12.80%** |

As we mentioned in our September newsletter, we used fundamental and technical variables to develop a regression model that attempts to project the direction of the markets. Tables 1 and 2 respectively illustrate the variables used and market projection.

The most important point to consider is that we have used conservative values of variables which are particularly important. For example, the earnings estimates of the S&P 500 companies and the unemployment rate used are exceptionally conservative. Despite a reasonably conservative estimate, the model projects an approximate 12% gain in the markets over the next 12 months. This value was about 8-9% when we posted our September newsletter. In other words, the markets have become cheaper over the last few weeks and look more attractive, if we believe that the US and the global economy is not going through a double dip recession. The evidence that supports recovery on the domestic front is the steady gains on the manufacturing aspect and the consistent spending from the domestic consumer. In addition, the International Monetary Fund (IMF) projects a 3.5% global GDP growth over the next 12 months.

Panics create great buying opportunities. We believe that despite the uncertainty and the possibility of some more volatility and market decline, we are closer to the bottom in the capital markets. Therefore, we believe that this is the time to take advantage of the sale in capital markets that we are witnessing. We also believe that US equities, especially high dividend paying stocks with global exposure provide a great risk reward opportunity currently. These companies have great staying power and could benefit from both domestic consumption and global growth.



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