



Continuum Global Asset Management, LLC

Banking Sector Valuation Analysis:

Following is a group of national and regional banks that we have considered in our sector analysis. Each company has recently announced earnings which have been consistently improving since the 2008-09 housing and banking debacle. We have undertaken this exercise with a basic analysis paradigm to view the valuation and potential for investment return of this group.

Table 1¹

No.	Ticker	Company	Sector	Industry	P/E	PEG	P/S	P/B	P/Cash	P/Free Cash Flow	Dividend Yield	EPS (Past 12 months, \$)	EPS (growth this year, %)	EPS (growth next year, %)	Target price (This year,\$)	Potential Growth (This year-2012, %)	Target price (Next year, \$)	Potential Growth (Next year-2013, %)
1	BAC	Bank of America Corporation	Financial	Regional - Mid-Atlantic Banks			1.24	0.34	0.62	1.66	0.54%	-0.17	102.23%	69.35%	\$12.00	64.38%	\$18.00	146.58%
2	C	Citigroup, Inc.	Financial	Money Center Banks	7.88	0.87	1.14	0.45	3.11	1.71	0.14%	3.57	1.18%	12.41%	\$28.46	1.55%	\$32.00	14.15%
3	HBAN	Huntington Bancshares Incorporated	Financial	Regional - Midwest Banks	10.29	1.83	2.83	1	4.96	6.47	2.51%	0.62	206.69%	6.35%	\$19.57	204.77%	\$20.81	224.12%
4	JPM	JPMorgan Chase & Co.	Financial	Money Center Banks	7.95	1.09	2.25	0.72	2.46	1.34	3.35%	4.5	13.05%	17.34%	\$40.44	10.87%	\$47.46	30.09%
5	RF	Regions Financial Corp.	Financial	Regional - Southeast Banks	49.69	6.21	2.19	0.52	4.48	2.44	0.62%	0.13	96.48%	28.33%	\$12.69	101.14%	\$16.29	158.12%
6	WFC	Wells Fargo & Company	Financial	Money Center Banks	11.14	1.06	3.5	1.18	10.13	20.47	2.72%	2.91	27.71%	12.20%	\$41.40	28.09%	\$46.45	43.72%
					17.39	2.21	2.19	0.70	4.29	5.68	1.65%	1.93	74.56%	24.33%		68.47%		102.80%

Major quantitative observations from the Table above:

1. **The differential between the current and the future PE is very encouraging:** The Price/Earnings (P/E) ratio which attempts to gauge whether the stock is over or undervalued with respect to its earnings. It can be observed that the average P/E ratio for the group is approximately 17 which is relatively higher than the current S&P 500 P/E ratio of about 14-15. This ratio drops to about 9 if Regions Financial (RF) is dropped from the group, which illustrates a relatively attractive valuation. In other words this group is about 30-35% undervalued compared to the average PE ratio of the S&P 500 companies.

¹ Source: Continuum Global Asset Management LLC



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2. **PEG ratio:** Another valuation parameter that gauges the current value of the stock in relation to the earnings potential of the company is the Price/Earnings to Earnings Growth (PEG) ratio. This ratio is achieved by dividing the PE ratio by the earnings growth of the company. As earnings are the denominator in the formulae, a higher growth potential will result in a lower ratio. As a rule of thumb, the lower the PEG the better the valuation of the stock. The group has a PEG ratio of 2.2 which drops to 1.2 with out the inclusion of RF. Citigroup (C), JP Morgan (JPM) and Wells Fargo (WFC) have very reasonable PEG ratios relative to their industry and the S&P 500 companies.

3. **Price to Book Value:** A company's book value is derived by assuming the liquidation value of all assets. It provides a good gauge of the intrinsic value of the company per share. Currently, the Price to Book Value (P/BV) for the group is approximately 0.70. In other words, the group is trading 30% below the actual value on the books. In normal times, P/BV is approximately 1.25-1.5, but we have experienced some unusual times during the housing debacle in 2008-09. There are genuine reasons for this group to be trading at depressed levels historically speaking. Since the 2008 housing bust, most investors have been concerned about the quality of the mortgage portfolios these banks hold on their balance sheets. On the same token, most of these banks have accumulated adequate loan loss provisions (cash reserves in case a certain critical percentage of loans result in being delinquent). We believe that housing sector is actually in recovery. We have illustrated actual data that shows the progress in the US housing conditions and the Unemployment situation. We believe that the Unemployment situation is an important element which precedes the housing turn around.

The following definitions are taken directly from Bloomberg.com, *“The employment situation is a set of labor market indicators based on two separate surveys in this one report. Based on the Household Survey, the unemployment rate measures the number of unemployed as a percentage of the labor force. Other key series come from the Establishment Survey (of business establishments). Nonfarm payroll employment counts the number of paid employees working part-time or full-time in the nation's business and government establishments.”*

Chart 1²

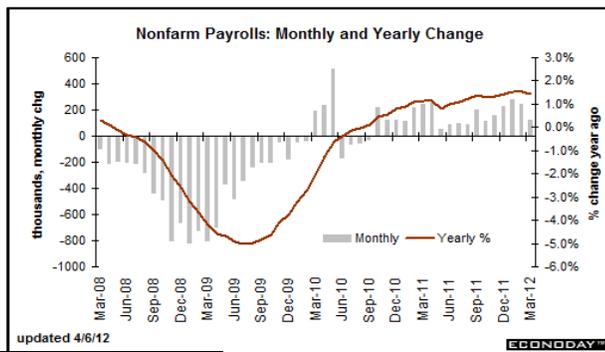
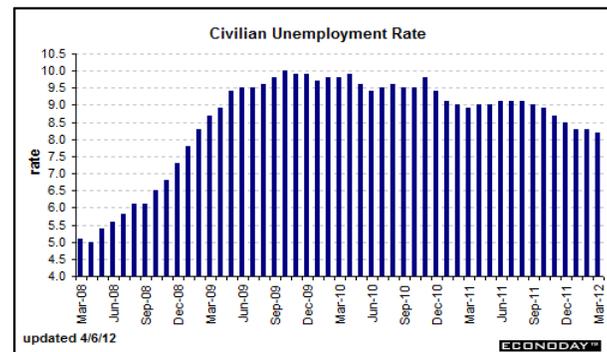


Chart 2



² Source: www.Bloomberg.com

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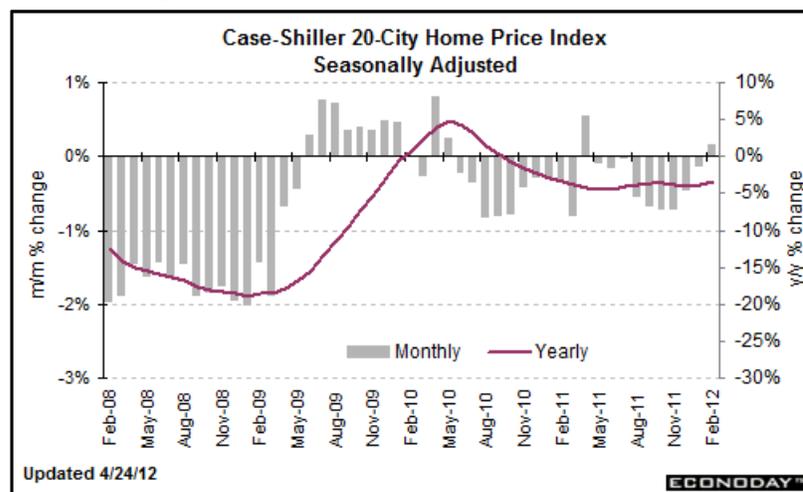
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We can clearly see from Chart 1 above that the Nonfarm Payroll numbers which measure employment other than agriculture in the US, experienced a turn around since December 2009. Despite some bumps the NonFarm Payrolls are trending upwards. Currently, the employment rate shown in Chart 2 has improved to approximately 8.1% from a high of 10% in October 2010.

We now move our attention to the housing conditions. Case-Shiller is a broadly followed index which exhibits the housing situation in the US.

Definition of the Case-Shiller Home Price Index: *The S&P/Case-Shiller home price index tracks monthly changes in the value of residential real estate in 20 metropolitan regions across the U.S. The composite indexes and the regional indexes are seen by the markets as measuring changes in existing home prices and are based on single-family home re-sales. The key composite series tracked are for the expanded 20-city composite indexes³.*

The adjacent chart shows that housing has improved in terms of prices. The chart illustrates an increase in prices since the bottom in December 2009. Even though housing hasn't improved with the robustness that we would like to see, we can not refute the improvement in this sector. If the housing sector continues to show resilience and stability, most of the banks will not have to continue to bleed cash into the housing loan loss provision accounts. The important aspect is the recovery in the employment situation which should diminish mortgage delinquencies. If our projections come to fruition, then the banks will be left with cash reserves that will eventually inflow to their respective balance sheets, making them even stronger.



4. EPS growth of 75% and 24% respectively for 2012 and 2013: The most crucial element attributing to the performance of a company is its earnings potential. We have used the average estimates of all analyst's following these companies. These estimates are then multiplied using current PE multiple to establish a logical stock value. The average potential gain for the group is evaluated at approximately 68%. It is not important to concentrate the actual price targets we can expect but the overall risk reward for this group.

Despite a numbers of negative variables surrounding this sector which include uncertain political / policy environment, exposure to European debt within the group's investment portfolios and the uncertainty with the US housing market; we believe that in light of factors mentioned above, banking sector provides a great buying opportunity for long term investors.

³ Source: www.Bloomberg.com



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