Continuum Global Asset Mgt., LLC

February 2010

# Newsletter

Major stock market indexes have advanced north of 50% over the last 12 months. What we can guarantee is that markets do not go up or down in a straight line. As mentioned umpteen times in our previous Newsletter issues, we believe that aggregate investor sentiment is the primary driver of markets. It can be clearly observed in the chart below that there have been intermittent corrections during the robust rally since the market low of March 9th 2009. The biggest decline was experienced in June 2009, a 7% correction. We have now experienced a 6% correction since January 19th 2010.


Aggregate investor sentiment in our view is sculpted by fear and greed. We believe that the most recent correction is another illustration of this phenomenon. This correction started with the worry that Chinese government will squeeze credit from its banking system to help curtail the country's real estate bubble. The focus has now shifted to Mr. Obama's announcement suggesting regulatory restrictions on major US banks and their alleged speculative activities. Despite our belief that the Obama / Bernanke government has done a fine job to bring confidence back to both Main and Wall Street, we think that President Obama has succumbed to political diversions created by the recent election of a Republican Senator in the state of Massachusetts.

Mr. Obama vociferously announced his intent to reform banks in an endeavor to protect the masses and avoid the financial catastrophe we experienced in 2008-09. Immediately after this announcement, Congressman Barney Frank, Chairman of House Financial Services Committee, mentioned in an interview (http://www.cnbc.com/id/15840232?video=1385591941) that the enactment of this policy could take years. Despite Mr. Frank's calming words, market uncertainty and turbulence couldn't be alleviated.

Without getting too deep in to the political debate, we believe that this is political propaganda and rhetoric. Corrections in the markets happen for various reasons. There are fundamental reasons for major changes and then there is noise in the near term. We believe that this rhetoric from the White house is nothing but noise. At the end, government can conceptually make major changes but operational enactment of these policies creates problems unforeseen. We believe that the bank policy reform suggested by Mr. Obama will have to be viewed carefully by the Congress and adopted gradually.


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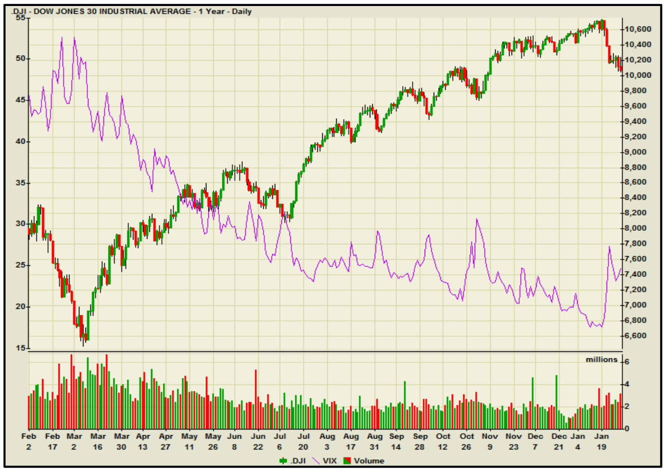
Most professionals attempt to predict the future of capital markets using historical data. The foundation of historical data analysis is laid on the concept of human nature repeating itself under comparable conditions. We therefore, revisited our March 2009 Newsletter (http://cgamadvisor.com/CGAM-Newsletter-March-2009.pdf) and reviewed crucial technical variables that shed light on investor behavior during market extremes. Following is a brief discussion of three crucial technical variables that provides some visibility regarding the current state of the markets:

1. **Volitility index : The Gauge of Fear in the Market.**
2. **Margin Levels.**
3. **Money Market Levels.**

Chart 1




**Volitility Index: Neutral**

1. The volitility index uses activity in the options market to calculate how bearish or bullish current investor sentiment is.
2. It can be observed in Chart 1 that the volitility index despite trending downwards has spiked at every market correction. The current level of the VIX index is at about 25, down from a recent high of 30.
3. Each time the Dow Jones average has corrected over the last 12 months, the VIX index has reached levels of 30 and then retreated.
4. The average value of this index before the market meltdown in 2008-09 were in the range of 12-17. We do not believe that the VIX index will reach it 2008 highs but investors are concerned and a higher level in the range of 30-35 can be tested before markets rebound.

**Margin Levels: Neutral**

1. Investors have the option to borrow funds (margin) from their brokers, using their investments as collateral. Bullish market cycles experience elevated levels of margin funds as investors take advantage from leveraging their assets, and vice versa during bearish cycles.
2. It can be observed by Chart 2, that the margin levels at the NYSE during 2007 (market high) were at elevated levels just before the markets started to correct.
3. Subsequently, margins declined as investors liquidated their positions and gravitated towards safer investments. This led to an increase in the average Money Market (cash) levels during 2008 and early 2009.
4. We can observe in Chart 3 that the margin levels have risen since March 2009 as markets have shown resilience.
5. We do not believe that margin levels are at historic highs, a matter of major concern.

Chart 2

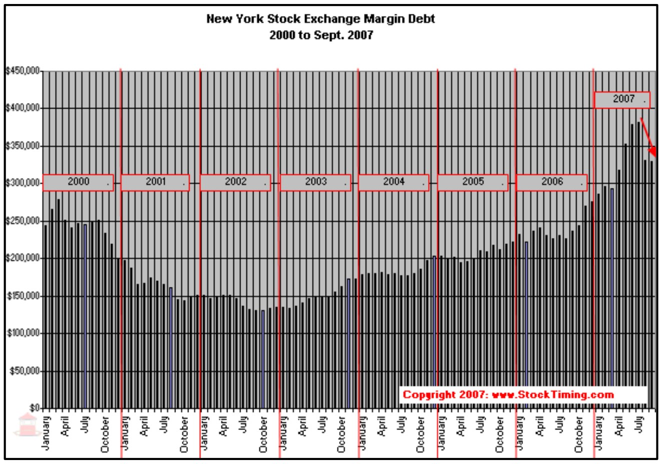
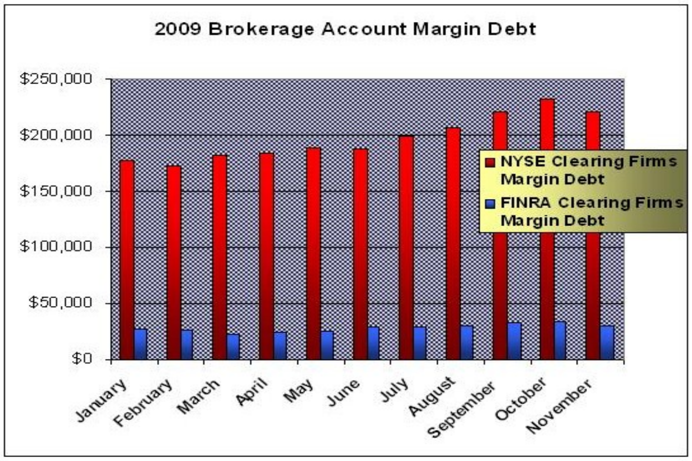



Chart 3

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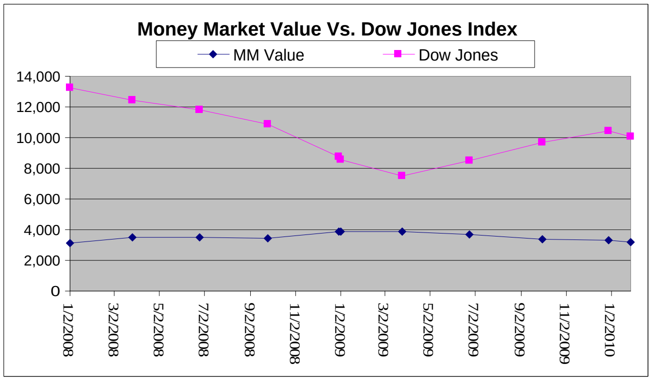
**Money Market Levels: Neutral to Favorable**

1. Currently, the total Money Market Funds at US brokerages are approximately $3.2 trillion[1], illustrated by the pink line on Chart 4. This is approximately 33% of the total equity and mutual fund's market value as of January 31st, 2010 vs 46% in February 2009[2].
2. Relatively low levels of money market funds as a percentage of total capital market value is a matter of concen.
3. Having said that, we believe that the markets were in a different state during 2007. Price to earnigns ratios were elevated and the total market value was significantly higher.

Chart 4




***Source: CGAM, LLC***

Once again, technical indicators mentioned above are a good gauge of how investors have reacted in the past. We will take a moment and talk about fundamentals that are equally important to the market participant. Before we proceed, we would like to quote the following from our recent Market Commentary. ***"It is crucial that earnings guidance keeps up with the markets but more importantly, the perception and I repeat "THE PERCEPTION" that earnings will continue to grow can keep the markets frothy…"***.

**Corporate Earnings are the Key**: We would like to draw our reader's attention to the recent fourth quarter earnings in the US:

1. 79% of the companies that have announced results have beaten the analyst earnings expectations and 64% have beaten revenue estimates.
2. Future projections, especially from sectors and companies exposed to international markets have been raised due to growing global business.
3. Most analysts have increased earnings projections of the S&P 500 companies for 2010 and 2011. Curenlty, some analysts are expecting the S&P 500 companies to earn in the range of $80 and $95 in 2010 and 2011 respectively. At these levels the current valuation of the S&P 500 index would be 13.4 and 11.29 for 2010 and 2011 respectively. The average P/E ratio of the S&P 500 for this century is aproximately 16. It can be inferred that if the economy is truly in an inflexion point, we can experience further gains in the market over the next 12-24 months.

We believe that it is important to consider the recovery of the US economy from near catastrophic situation in late 2008 and early 2009. Most of the credit should be given to Federal government for providing first aid, in the form of much needed liquidity to unclog the US financial infrastructure and bolster toxic assets to build lost confidence in the system.

We believe that both US and international companies involved in the healthcare, technology, financials and materials sector shall do particularly well as the basic demand in these areas should consistently grow over the next 5-10 years. **We recommend that investors add to existing positions in sound national and regional Financial services, Healthcare and Industrial sectors.**

**Each investor is unique and should invest to compliment their respective financial conditions and objectives.**

[1] http://www.ici.org/stats

[2] Source of Data: http://www.ici.org/stats/ and CGAM estimates, *Source:* http://conference.ici.org/pdf/mm_data_2010.pdf

**Table 1 illustrates the change in U.S. broad based equity indexes since the beginning of the year 2009. This is followed by the performance of the recommendations CGAM has provided via the monthly Newsletters for the same time frame.**

**Table 1**[3]

| Broad Based US Indexes | Dec 31st, 2008 | January 31st, 2010 | Gain/Loss (%) |
|---|---|---|---|
| Dow Jones Industrial Average | 8,776.00 | 10,067.00 | 14.71% |
| NASDAQ COMPOSITE | 1,577.00 | 2,147.35 | 36.17% |
| S&P 500 INDEX | 903.00 | 1,073.87 | 18.92% |
| RUSSELL 2000 INDEX | 499.51 | 602.04 | 20.53% |
| **Average Return** | | | **22.58%** |

| CGAM Recommendations Since December 31st, 2008 | Security Price at Recommendation Date ($) | January 31st, 2010 | Gain/Loss (%) |
|---|---|---|---|
| UltraShort 7-10 Year Treasury ProShares | 52.66 | 51.27 | -2.64% |
| Blackrock Corporate High Yield Fund Inc **(Sell Recommendation October 2000)** | 4.08 | 6.81 | 66.91% |
| Eaton Vance California Municipal Income Trust (CEV) **(Sell Recommendations July 2009)** | 7.99 | 12.38 | 54.94% |
| Western Asset Managed Municipals Fund Inc | 9.40 | 12.49 | 32.87% |
| Boulder Growth & Income Fund Inc | 4.47 | 6.07 | 35.79% |
| Ultra Financials ProShares | 3.28 | 5.43 | 65.55% |
| CGM Focus | 25.56 | 26.68 | 4.38% |
| Bank of America Corp | 6.82 | 15.18 | 122.58% |
| Caterpillar Inc | 27.96 | 52.24 | 86.84% |
| Corning Inc | 14.62 | 18.08 | 23.67% |
| Manitowoc Co Inc | 5.95 | 10.9 | 83.19% |
| E TRADE Financial Corp | 1.44 | 1.52 | 5.56% |
| Blue Nile Inc | 45.90 | 51.55 | -12.31% |
| Wendys/Arbys Group Ord Shs Class A | 4.00 | 4.61 | 15.25% |
| Foster Wheeler Ltd | 23.10 | 27.98 | 21.13% |
| Akamai Technologies Inc | 16.44 | 24.7 | 50.24% |
| Immersion Corp | 4.30 | 4.43 | 3.02% |
| United States Natural Gas | 11.74 | 9.31 | -20.70% |
| Progressive Corp | 16.00 | 16.58 | 3.62% |
| Banco Santander ADR Rep 1 Ord Shs | 16.11 | 14.08 | -12.60% |
| Corning Inc | 16.68 | 18.08 | 8.39% |
| AT&T Inc | 26.94 | 25.36 | -5.86% |
| Citigroup Inc | 3.32 | 3.32 | 0.00% |
| Activision Blizzard Inc | 11.39 | 10.16 | -10.80% |
| PowerShares DB Gold Double Short ETN | 14.13 | 14.42 | 2.05% |
| **Total CGAM Portfolio Return** | | | **24.84%** |

[3] *Source: CGAM, LLC., www.fidelity.com Note: The average return for the CGAM portfolio does not include dividends and interest income.*

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