Continuum Global Asset Mgt., LLC

June 2009

Newsletter

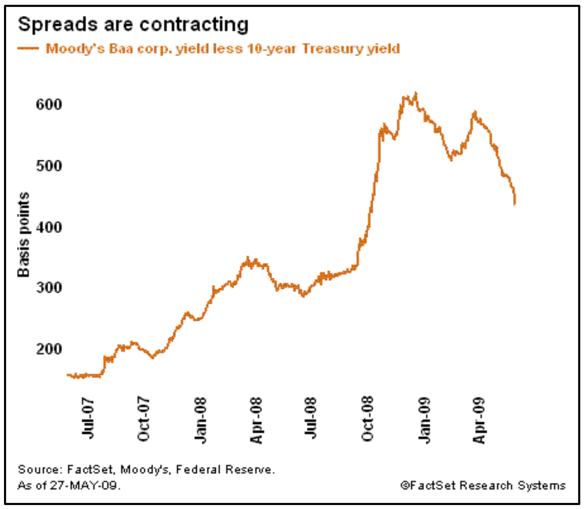
The study of history is a great way of understanding past human behavior but is no guarantee of how we humans may react in the future. Historical booms and busts have established that aggregate investor confidence can move markets from one extreme to another despite a less than significant change in the underlying economy of a country or a region. In our view, high confidence in a system instills greed or extreme risk adoption and low confidence brings out instinctual fear and irrational panic driven investment behavior. We believe that confidence is the key factor in reasonably smooth functioning of any area of a specific system with defined rules, in this case capital markets.

In the past year the US capital markets have lost approximately $4-$4.5 trillion in value. This loss was primarily due to the investor community's perception that the US financial infrastructure was headed for disaster and would have catastrophic ramifications for the rest of the civilized world. Obviously, there were and continue to be negative repercussions to the domestic and global economy due to the housing and banking excess created over the last monetary easing period that lasted from 2000 to 2005.

The fact is that even with a 10% unemployment rate (current unemployment approaching 9%) and a negative 5-6% Gross Domestic Product (GDP), US will produce close to $13 trillion worth of products and services for domestic and international consumption. Capital markets are forward looking and use the main street (the economy) as a gauge for fundamental growth or deceleration. Even a GDP contraction of $400-$500 billion (5-6% GDP deceleration) for the next two years doesn't warrant or justify a $4-$4.5 trillion decline in the market value that the capital markets experienced in 2008. Similarly, the turnarounds in the capital markets subsequent to such dismal sentiment have historically and will continue in the future to be an overreaction to the upside.

When markets were under the clutches of extreme fear, almost all asset classes were being liquidated (see Newsletter January 2009 at www.cgamadvisor.com) by both institutional and retail investors and being directed to the safety of the US treasury. The 30 day treasury was yielding almost 0% in the fourth quarter of 2008 and again in March of 2009. Chart 1 clearly illustrates that the difference between an investment grade corporate bond yield and the US 10 year treasury had risen to approximately 600 basis points or 6% during the fourth quarter of 2008. This was clearly an exhibition of fear by investors, where risk aversion went to an extreme. Investors were so fearful that they sold even the 2-5 year treasury to take cover under the shorter term 30-60 day treasury.

Chart 1[1]



We were skeptical about this deviation in investor risk aversion and believed that this trend would reverse as markets stabilize. Last week the 10 year Treasury bond yield reached a high of 3.73% from 2.41% earlier in the week and ended at 3.43%. This rise in yield was experienced despite the Federal government's announcement to repurchase $400 billion worth of treasuries.

It's important to recognize that as investor perceptions turn positive and confidence returns, they overreact and direct funds towards higher risk asset categories and vice verse. Table 1 on page 2 clearly illustrates the growth in the Ultra-Short 7-10 year treasury bond fund since the beginning of the year. In addition, the double digit growth in the corporate and the municipal bond funds is a clear indication that money gravitated towards relatively riskier asset classes as the market sentiment stabilized over the last 6-8 weeks.

One of the major worries of higher treasury yield is that it pushes up the average cost of capital. In other words, if cost of borrowing starts to rise, it hurts the profitability of corporate America and lowers access to capital for the common borrower.

[1] *Data Source: Charles Schwab & Co.*

This in turn could be very disruptive for the US economy attempting to rebound with the help of the government infusion of capital in various dimension of the economy.

We believe that the Federal government is cognizant of this phenomenon and will not allow the treasury yield to continue to rise uncontrolled. In addition, if the 10 year Treasury yield reaches in the range of 5%, it becomes attractive for domestic and foreign investors. As investor start to pour assets into the treasury at that time, the price would rise, acting as a control measure to keep the yields and in turn the cost of capital low.

The main question that needs to be answered is whether the fiscal stimulus be able to contain unemployment and maintain confidence. We believe that the government has done a good job of initially reversing the negative consumer/ investor confidence. This alone is not enough in our view. The government has to start investing in tangible projects that can create jobs and attract foreign investments. In this regard, we believe that the governmet should introduce fundamental business incentives by lowering corporate taxes and encourage a friendlier corporate environment. There is enough capital in the world that needs to be invested in growth opportunities. Investing in the US is a great opportunity for industrialized and emerging countries with vast cash reserves. We as an economic engine can attract a significant amount of those assets by providing a sound and attractive tax and corporate policy infrastructure. This would provide adequate investment in the efficient sectors or our economy without taxing the tax payer while creating jobs and enhancing respective industries.

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[2]

	Dec 31st, 2008	May 31st, 2009	Gain/Loss (%)
Dow Jones Industrial Average	8,776.00	8,500.33	-3.14%
NASDAQ COMPOSITE	1,577.00	1,774.33	12.51%
S&P 500 INDEX	903.00	919.14	1.79%
RUSSELL 2000 INDEX	499.51	501.58	0.41%
Average			2.89%

Security Description	Security Cost at Recommendation Date ($)	Security Market Value ($) May 31st, 2009	Gain/Loss (%)
UltraShort 7-10 Year Treasury ProShares (PST)	52.66	56.58	7.44%
Blackrock Corporate High Yield Fund Inc (COY)	4.08	5.1	25.00%
Eaton Vance California Municipal Income Trust (CEV)	7.99	11.03	38.05%
Western Asset Managed Municipals Fund Inc (MMU)	9.4	11.11	18.19%
Boulder Growth & Income Fund Inc (BIF)	4.47	4.6	2.91%
Ultra Financials ProShares (UYG)	3.28	4.11	25.30%
CGM Focus (CGMFX)	25.56	26.04	1.88%
Bank of America Corp (BAC)	6.82	11.27	65.25%
Caterpillar Inc (CAT)	27.96	35.46	26.82%
Corning Inc (GLW)	14.62	14.7	0.55%
Manitowoc Co Inc (MTW)	5.95	6.52	9.58%
Average Return			**20.09%[3]**

[2] *Source: CGAM, LLC*
[3] *Average performance is not annualized and does not factor dividends or capital gain disbursements.*

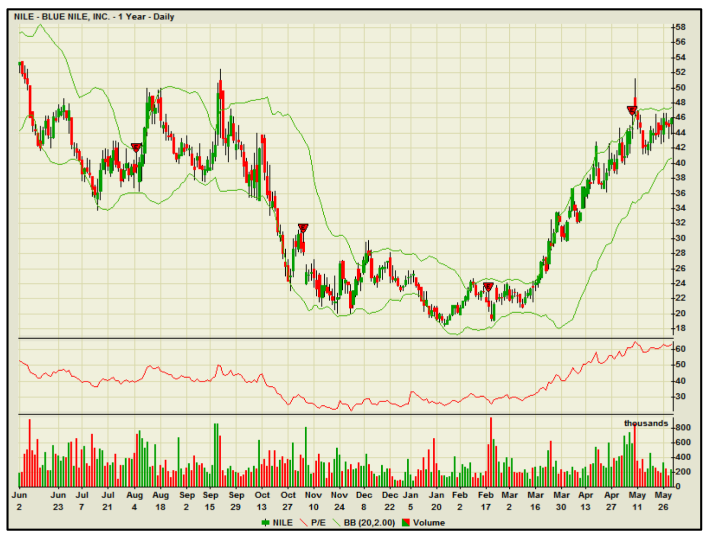
17991 Lost Canyon Rd., Suite 138
Canyon Country, CA 91387
Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com
Office: 661-299-1920
Mobile: 661-312-2070

Investment Themes

E-Trade (ETFC)[4]: $1.44 as of May 31st, 2009.

1. E-Trade is a financial services company which provides brokerage and banking services primarily to retail customers.
2. 52 week High and Low: $4.13-$0.59.
3. The company generates almost $2.9 billion in annual revenues, but has been hurt due to its banking division with non-performing mortgage debt and impairment charges.
4. The company has made effective changes to reduce sub prime loan exposure and cancel a large part of the open home equity lines of credit. In addition, the company has 6% Tier 1 capital that is adequate from FDIC standards for the sustainability of a bank.
5. We believe that the company will be able to generate positive earnings by 2011. The company's market value is 0.33 of its total sales. We believe that the stock price can comfortably double by end of 2010 as the company shows improvement in its retail brokerage and banking operations. This is purely an aggressive and speculative investment idea and is meant for investors looking to undertake high risk with a turnaround situation.

Blue Nile (NILE): $45.90 as of May 31st, 2009. **(NILE seems overvalued and hence we would be SHORT this company)**



1. Blue Nile is an online retailer of diamonds and jewelry in the US.
2. 52 week High and Low: $53.50-$18.34.
3. Current sales revenue of approx. $287 million vs. the total company value of approx. $670 million or 2.3 times sales.
4. The stock price has moved from a low of $19 in February 2009 to almost $46 as of May 31st, 2009. This 142% price increase is based primarily on the overall market rebound in our opinion.
5. The company is trading at over 63 price earnings (PE) and next year's forward PE of over 43. Other companies in the industry trade at an average PE multiple of 15-20. At this multiple the company's stock should be trading in the range of $12-15 over the next 12 months.
6. The company trades at 29 times its book value and 50 times its annual cash flow.
7. Our price target for NILE for the next 12 months is approximately $20-25 (45-55% decline) per share based on a more reasonable price earnings multiple of 30 even if the company has commanded a growth of approximately 30% over the last 5 years.

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

[4] *Source: Charts and quotes from www.fidelity.com*

17991 Lost Canyon Rd., Suite 138
Canyon Country, CA 91387
Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com
Office: 661-299-1920
Mobile: 661-312-2070

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17991 Lost Canyon Rd., Suite 138
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Email: manuwalia@cgamadvisor.com
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Office: 661-299-1920
Mobile: 661-312-2070