Continuum Global Asset Mgt., LLC

May 2010

# Newsletter

It can be very enticing to fall in the trap of complacency and believe that the gains in our respective portfolios are attributable to our stock picking prowess and market acuman. Remember, the broad based indexes have gained over 70% from their March 2009 lows and anywhere from 26% to 50% since the beginning of 2009, depending on the index considered.

The 64 million dollar question is whether markets have moved into an overvalued zone or is there still room for broad based gains. We revert back to our March 2009 newsletter issue that reviewed technical variables when markets and investor sentiment were at extreme lows. The market had lost over 18% for the first three months of 2009 in addition to having lost approximately 38% in value for 2008.

We began our March 2009 Newsletter with "**Fear, Fear and more Fear**…Apparently, most investors have been taking cover in cash as fear governs their decision making. In such irrational investor mood, it would be frivolous to discuss fundamentals of the markets. Therefore, this newsletter concentrates on technical indicators that attempt to provide an insight in the aggregate sentiment of the capital markets. I believe that the following variables describe important aspects of the market and attempt to gauge inverstor sentiment based on a historical perspective".

1. **Volitility index : The Gauge of Fear in the Market.**
2. **Equity and Mutual Fund Market Value Vs. GNP.**
3. **Money Market Levels.**
4. **Margin Levels.**
5. **Earnings Projections.**

We are revisitng these variables to review how they have changed over the last 12 months. In addition, we are adding a brief review of US corporate earnings as a fundamental variable that will decide the direction of the markets going forward.

**Volitility Index:** **Nuetral from Favorable in March 2009**

1. The volitility index(VIX) uses activity in the options market to calculate how bearish or bullish investor sentiment is.
2. It can be observed from the adjacent chart that the volitility index was much higher during October and November 2008 relative to current levels (Chart below).
3. Vix index is currently at 21-22 relative to 68 on October 23rd and 81 on November 20th, 2008.
4. The average volitility since 1990 (the formation of the VIX index) has been **20.27**, with a Standard Deviation of **8.30**.
5. We believe that a low volitlity signifies complacency in the market. Investors have a tendency to gravitate from extreme fear to extreme optimism. Even though investor sentiment may not be at an extreme, the current levels do not instill optimism as a contrarian indicator.

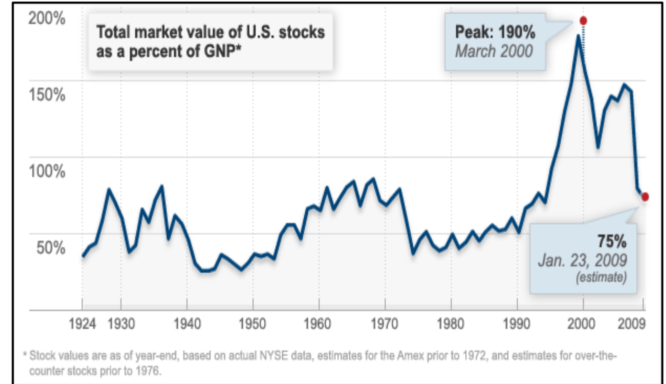
*Chat Source: www.Fidelity.com*

| Volatility Index Observations | |
|---|---|
| Average | 20.27 |
| Maximum Value | 80.86 |
| Minimum Value | 9.31 |
| Standard Deviation | 8.29 |

*Data Source: www.finance.yahoo.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

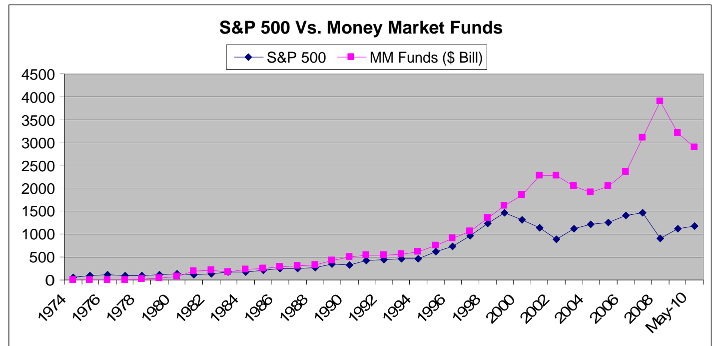
### Equity and Mutual Fund Market Value Vs. GNP: Neutral to Favorable from Nuetral to Unfavorable.




1. The adjacent chart exhibits the ratio of the total market value of the US stocks and equity based mutal funds to US Gross National Product (GNP) during the market lows of March 2009.
2. Currently, the Total Market Index is at **$ 12.4 trillion**, about **85%** of the last reported GNP has moved up from a low of 75% in January 2008.
3. Historic data suggests that market valuations could fall further from a current ratio of 85% to historic lows of approximately below 50%, if consumer sentiment retreats.
4. We believe that the economic situation has changed dramatically relative to 12-15 months ago. Analysts are now expecting an economic growth rate of about 3-3.5% as opposed to a net decline in 2008-09. As long as the economic growth is intact and corportate earnings continue to show strength, the market capitalization should continue to converge to the US GNP value.

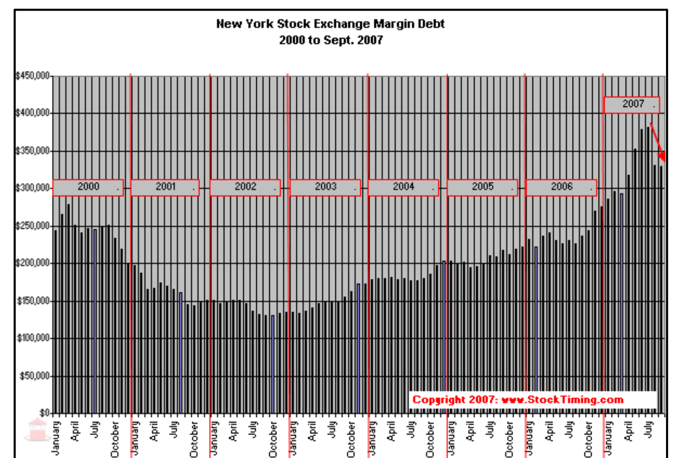
*Chart Source: http://money.cnn.com/*

### Money Market Levels: Nuetral from Favorable




1. It can be observed from the adjacent Chart, that the ammount of money market funds and the stock market represented by the S&P 500 are negtively correlated.
2. The total Money Market Funds at US brokerages in March 2009 were approximately $3.9 trillion[1] illustrated by the pink line on the adjacent chart. This figure translated to approximately 46% of the total equity and mutual fund's market value as of February 15th, 2009[2].
3. It can also be observed that money market funds were at their peak before the economy started to recover from the recession created by the dot com bust which lasted for 32 months. Similarly, extremely high levels of money market funds in March 2009 suggested major selling and market bottom.
4. As of March 2010, money market fund assets stood at $2.99 trillion, according to money-market fund tracker iMoneyNet; the first time they ended a week below $3 trillion since passing that mark on Nov. 20, 2007.
5. Even though money market levels have come down 23% since March 2009, the divergence between these funds and the S&P 500 is still at a considerably high level. In other words, total money market funds are approximately 23-25% of the total US stock and mutual fund market value. Considering the fresh memory of the significant market decline of 2008-09, we believe that investors will maintain relatively higher money market balances in their portfolios. Therefore, we have lowered our assessment of the the current cash or money market levels to Nuetral from Favorable.

### Margin Levels: Neutral from Favorable




1. Investors have the option to borrow funds (margin) from their brokers, using investments as collateral. Bullish cycles experience elevated levels of margin funds as investors take advantage by leveraging their assets, and vice versa during bearish cycles.
2. It can be observed by the adjacent chart that margin levels in the US have fluctuated with market cycles. The year 2000 experienced elevated margin levels that started to decrease as the markets plummeted and were at relatively low levels at the end of 2002.
3. As fear increases, investors are compelled to sell in order to fulfill margin calls, hence driving the markets further in to negative territory.
4. The NYSE margin levels in March 2009 were at approximately $186 billion as opposed to $286 billion in 2007[3] during the peak of the markets.
5. At the end of March 2010, margin debt grew 5.4% from February at $246.41 billion[4], according to Big Board data for

---

[1] http://www.ici.org/stats , Source: Money Market Chart: CGAM, LLC

[2] Source of Data: http://www.ici.org/stats/ and CGAM estimates, NYSE Margin Debt Chart Source: http://www.safehaven.com

customers of NYSE-member securities firms. The figure got as low as $173.3 billion at the end of February 2009, the smallest level since the end of 2003.

**Earnings Projections** :

It is easy to view the market movement and believe that we are in a recovery phase. In other words, it is easy to follow the trend and believe in it till the trend reverses. On the other hand, it is due to these types of self fulfilling prophesies that takes markets from one extreme to another.

In addition to technical variables stated above, we believe that the most crucial variable deciding the market direction is corporate earnings. Most US corporations have benefitted from cost cutting and retrenchments during the 2008-09 economic contraction. Due to this development, the Q1, 2010 earnings and projections from US corporations have been robust. Most analysts are now projecting the S&P 500 company's earnings estimate in the range of $85-90 for the year 2011. If we use the average Price Earnings ratio of (Ref: CGAM December 2008 Newsletter) last 25, 50 and 83 years respectively, we would infer the following valuation for the S&P 500 index:

1. 25 year S&P 500 P/E average: 21.01 X $85 **(S&P 500 EPS Estimate)**= 1,785
2. 50 year S&P 500 P/E average: 17.71 X $85 = 1,505
3. 83 year S&P 500 P/E average: 15.98 (1925-2008) x $85 = 1,358

If we believe in these assumptions, we can then value returns of 56%, 31% and 19% for the 25 year, 50 year and 83 year average P/Es respectively, with a 12-18 month time horizon.

We still believe that there is true recovery in the market, but increasing estimates and valuing major indexes is a fool's errand. As mentioned umpteen times before in our Market Commentary (http://cgamadvisor.com/?page_id=205) as long as the earnings growth story remains intact and analysts keep increasing US corporate earnings projection, the markets can continue to make new highs and trade in over valued zones. Nevertheless, we do not believe that the markets are currently in any major jeopardy and interim corrections will be in the range of 5-7%.

We believe that investors should continue to find major deviations in the market and invest gradually in the areas which they believe will show real growth over the foreseeable future. With the risk of sounding like a broken record, we believe that global companies involved in the healthcare, technology and financial sector shall do particularly well as the basic demand in these areas should consistently grow over the next 5-10 years.

| **Broad Based US Indexes** | **Dec 31st, 2008** | **April 30th, 2010** | **Gain/Loss (%)** |
|---|---|---|---|
| Dow Jones Industrial Average | 8,776.00 | 11,008.61 | 25.44% |
| NASDAQ COMPOSITE | 1,577.00 | 2,461.19 | 56.07% |
| S&P 500 INDEX | 903.00 | 1,186.69 | 31.42% |
| RUSSELL 2000 INDEX | 499.51 | 716.60 | 43.46% |
| Average Return | | | 39.10% |

| **CGAM Recommendations Since December 31st, 2008** | **Security Price at Recommendation Date ($)** | **April 30th , 2010** | **Gain/Loss (%)** |
|---|---|---|---|
| UltraShort 7-10 Year Treasury ProShares (TBT) | 52.66 | 49.6 | -5.81% |
| Blackrock Corporate High Yield Fund Inc (Sell Recommendaitons Oct 2009) (COY) | 4.08 | 6.87 | 68.38% |
| Eaton Vance California Municipal Income Trust (Sell Recommendations July 2009) (CEV) | 7.99 | 12.86 | 60.95% |
| Western Asset Managed Municipals Fd Inc (MMU) | 9.40 | 12.8 | 36.17% |
| Boulder Growth & Income Fund Inc (BIF) | 4.47 | 6.05 | 35.35% |
| Ultra Financials ProShares (1:10 Split;April 15th, 2010) (UYG) | 32.80 | 70.29 | 114.30% |
| CGM Focus (CGMFX) | 25.56 | 29.77 | 16.47% |
| Bank of America Corp (BAC) | 6.82 | 17.83 | 161.44% |
| Caterpillar Inc (CAT) | 27.96 | 68.09 | 143.53% |
| Corning Inc (GLW) | 14.62 | 19.25 | 31.67% |

[3] Source: http://www.federalreserve.gov

[4] Source: Wall Street Journal, April 29th, 2010, ***Note: Total return for the CGAM portfolio does not include dividends and interest***

*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*

| | | | |
|---|---|---|---|
| Manitowoc Co Inc (MTW) | 5.95 | 14.01 | 135.46% |
| E TRADE Financial Corp (ETFC) | 1.44 | 1.69 | 17.36% |
| Blue Nile Inc (NILE) | 45.90 | 53.99 | -17.63% |
| Wendys/Arbys Group Ord Shs Class A (WEN) | 4.00 | 5.31 | 32.75% |
| Foster Wheeler Ltd (FWLT) | 23.10 | 29.98 | 29.78% |
| Akamai Technologies Inc (AKAM) | 16.44 | 38.83 | 136.19% |
| Immersion Corp (IMMR) | 4.30 | 5.6 | 30.23% |
| United States Natural Gas (UNG) | 11.74 | 6.86 | -41.57% |
| Progressive Corp (PGR) | 16.00 | 20.09 | 25.56% |
| Banco Santander ADR Rep 1 Ord Shs (STD) | 16.11 | 12.34 | -23.40% |
| Corning Inc (GLW) | 16.68 | 19.25 | 15.41% |
| AT&T Inc (T) | 26.94 | 26.06 | -3.27% |
| Citigroup Inc (C) | 3.32 | 4.37 | 31.63% |
| Activision Blizzard Inc (ATVI) | 11.39 | 11.08 | -2.72% |
| PowerShares DB Gold Double Short ETN (DZZ) | 14.13 | 11.98 | -15.22% |
| Goldman Sachs Group Inc (GS) | 156.35 | 145.2 | -7.13% |
| Chimera Investment Corp (CIM) | 4.00 | 4.07 | 1.75% |
| **Average CGAM Returns** | | | **37.32%** |

## Investment Themes

**Akamai Technologies Inc (AKAM): $38.83 (Valuation)L SELL**

We had originally recommended investing in AKAM at $16.44 on July 31st, 2009. Since, the stock has gained over 136% on better earnings and the overall market recovery. The P/E ratio at that point was 25 with a reasonable growth in excess of 20%. The company has delivered the earnings projected and has reached our target price. Therefore, we would take the healthy profit in this company as it seems to be fairly valued.

**Goldman Sachs (GS): $145.20 (Headline risk): SELL**

Goldman has been under the scrutiny of the finance committee regarding their involvement in Credit Default Swaps. The government is targeting Goldman in an endeavor to uncover whether the company used illegal means to benefit from these complex securities. In addition, there is talk about the SEC filing criminal charges against the company. Despite the past reputation of the company and the recent endorsement by the Oracle of Omaha, Mr. Warren Buffet, we recommend selling the company or putting stop losses. The headline risk on our view makes the stock price volatile and uncertain. We believe that it would be prudent to place some kind of risk measure on the stock while the company deals with the current issues.

**Banco Santander ADR (STD)** [4]: $12.34 as of April 30th, 2010 (initially recommended at $16.11 on October 30th, 2009) **Buy**

1. Banco Santander, S.A. (STD) is a bank holding company, operating principally in Spain, the United Kingdom, Portugal, other European countries, Latin America and the United States. STD offers a range of financial products and is organized in three principal segments: Continental Europe, United Kingdom and Latin America. Continental Europe covers all retail banking business, wholesale banking and asset management.
2. 52 week High and Low: $17.59-$4.87.
3. The company is a major banking instution in Europe and is boosting its global operations vehemently. STD is emphasizing catering to Latin Americans who are enjoying a growing economy and higher per capital income.
4. STD has sales of over $35 billion and profit margins of over 27%, a relatively high margin in this sector.
5. We believe that the recent turmoil surrounding Greece and other European countries have taken a toll on equities in that area. If long term investors look beyond the systematic risk, we believe that this bank will grow in excess of 15% per year for the next 5-7 years. It is expected to earn $1.70 in FY 2010, which should translate a share price of approximately $20.00 at a reasonable PE multiple of 12-13. This in addition to a 5.4% dividend yield should provide an attractive return of over 25% for the next 12-15 months.

**Needless to say, each investor is unique and should invest to compliment their respective financial conditions and objectives.**

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

**This page is left blank intentionally**

Please review the following disclaimer

***This Newsletter has been prepared by Continuum Global Asset Management, LLC (CGAM), an independent Registered Investment Advisor. CGAM believes that the data contained is from reliable sources but can not guarantee the accuracy of the data. None of the information provided constitutes a recommendation or solicitation of an offer to buy or sell any particular security. The investment strategies and or securities may not be suitable to all investors and past performance is not indicative, nor a guarantee, of future results. It should not be assumed that recommendations made in this Newsletter and in the future will be profitable or will equal the performance of the securities mentioned in this or previous Newsletters.***

*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*