Continuum Global Asset Mgt., LLC

May-June 2013

Newsletter

March 2009 in REVERSE !!!

From Manu Walia

2013 has started with a bang for the US capital markets. Table 1 below clearly illustrates the great performance these broad based indexes have exhibited year to date. Obviously, we all desire that the party would never stop and the markets continue to provide us with these generous returns. Wishful thinking aside, we all know that the markets do not move up or down in a straight line.

Table 1

Market Index	January 2nd, 2013	April 1st, 2013	Gain/Loss (%)
Dow Jones	13,104.30	14,565.25	11.15%
S&P 500	1,426.19	1,553.28	8.91%
Nasdaq	3,091.33	3,239.17	4.78%

We at Continuum believe that any security valued by the aggregation of human sentiment (security markets) would eventually revert to its mean. To illustrate this phenomenon and provide our view of the markets, we researched major market reversals in the past and in that process dug up our March 2009 newsletter. This was coincidently written and distributed immediately before the markets bottomed (March 9, 2009) and started a reversal to make fresh new highs.

Our March 2009 Newsletter started with: "Fear, Fear and more Fear…These words pretty much sum up the market sentiment since the third quarter of 2008. The broad based equity indexes in the US have lost an average of -18% year to date (January 1-March 1st, 2009), after loosing approximately -35% for the calendar year 2008.

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 (VIX) : The Gauge of Fear in the Market.**
2. **Margin Debt Levels.**
3. **Equity and Mutual Fund Market Value Vs. Gross Domestic Product (GDP).**
4. **Insider Activity." End of Excerpt from March 2009 Newsletter**

CASH: To Raise it or not?

From Levar Hewlett

Over the last four quarters the S&P 500 and Dow Jones Industrial Average (DJI) have gained approximately 11% and 10.3% respectively. Even more impressive is that both these indexes have gained majority of these returns in the first quarter of 2013.

There is an age adage on Wall Street: "Sell in May and go away". This period includes May through September months and is referred to as the "summer months". On the flip side, the winter months which include October-April, are known to be a positive period for market returns.

Now that May is virtually upon us; the big question is whether we should consider this historical reoccurrence and move to the sidelines? Continued on Page 5…

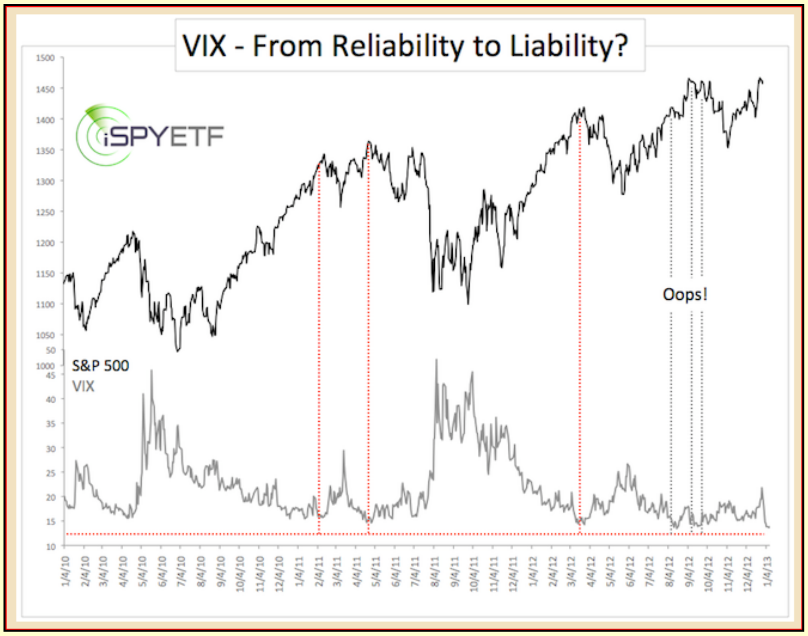
17991 Lost Canyon Rd., Suite 138
Canyon Country, CA 91387

Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com

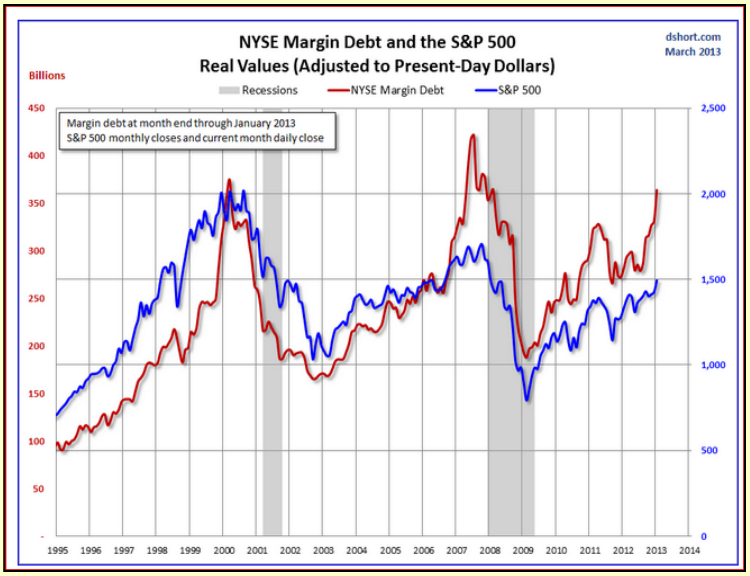
Office: 661-299-1920
Mobile: 661-312-2070

These technical variables helped guide us to take a contrarian stance when the investor sentiment was negative and the markets were selling assets as if it was end of the days : armageddon (March 2009). We have used the same variables to gauge the current market cycle. These technical variables have helped us understand whether the market values have breached a reasonable value on the upside and if so, **are these indexes ready to revert back to a reasonable mean value**.

1. Volatility Index (VIX): UNFAVOURABLE[1]
   I. The volatility index uses activity in the options market to evaluate bearish or bullish investor sentiment.
   II. It can be observed from the adjacent chart that the volatility index has an inverse relationship with the S&P 500 index. In addition, the VIX index is currently trading at historically low levels : approximately 13-14.
   III. Lower levels of VIX indicates complacency within the investor community. In other words, lower level of VIX means that investors are buying less insurance or protection for their portfolios.
   IV. We believe that this indicates a sense of euphoria within the investor community, which in turn elevates the probability of an interim market reversal. Despite this being a technical variable, we believe that it has a very important role in predicting the intermediate movement of investor sentiment.



2. Margin Debt: UNFAVOURABLE
   I. Investors have the option to borrow funds (margin loan) from their brokers, using their investments as collateral. Bullish market cycles experience elevated levels of margin debt as investors take advantage from leveraging their assets, and vice versa during bearish cycles.
   II. It can be observed by the adjacent chart that margin levels in the US have fluctuated with market cycles. The year 2000 and 2007 experienced elevated margin levels that showed tops of the markets in both time frames.
   III. Currently, the NYSE commands approximately $245 billion of margin debit as opposed to $248 billion in 2007 and $215 billion in 2000[2]. We believe that the elevated levels of margin debt exhibits a sense of complacency



1 Source: http://ispyetf.wordpress.com/tag/vix-sp-500-correlation/
2 Source: http://www.dshort.com

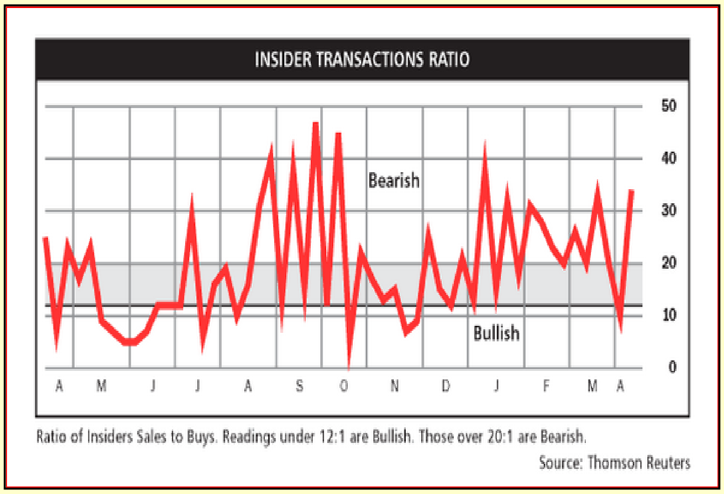
and lack of concern; once again euphoria. This can reverse very quickly if adverse events take place in the capital arena, adding further pressure on a declining market.

3. Market Capitalization / GDP : Neutral

Source: Bianco Research

I. The adjacent chart exhibits the ratio of the total market value of the US stocks and equity based mutal funds to the US Gross Domestic Product (GDP).
II. Historical data suggests that this ratio averages in the area of 60-70%. It can be observed that the current ratio is approximately 120%, which is somewhat on the higher side. The average ratio during recessions has been below 50%.
III. Wall Street sentiment follows the perception of economic activity. If US GDP continues to grow, we can see an expansion in this ratio. On the other hand if GDP growth-rate decelerates, we could experience a contraction in this ratio, resulting in downward pressure on the markets.

4. Insider Activity : Unfavorable[3]



Ratio of Insiders Sales to Buys. Readings under 12:1 are Bullish. Those over 20:1 are Bearish.
Source: Thomson Reuters

I. Insiders are comprised of persons of interest. In other words, upper management, directors and employees privy to material information regarding the company's developments in the future.
II. Even though insiders are not legally supposed to take advantage of the exclusive information they possess, one can not ignore the fact that following insider buy / sell activity can provide a decent gauge of whether the markets are under or overbought.
III. We can clearly observe from the adjacent chart that insider (insiders have been selling at a relatively higher rate recently) sentiment is pointing to a bearish outlook.

Further to a discussion based on the technical variables, we now turn to CGAM's proprietary Market Direction Model which helps us determine the general direction of the capital markets. This model was based on regressing the data for major market variables which are exhibited below.

[3] Source: www.barronsonline.com

Fundamental Variables		**Market Projections**	***As of April 15th, 2013***
S&P 500 Earnings (12 month Projections)	$115.00	S&P 500 (Projection) = ***Based on the regression equation illustrated below***	1,659.69
S&P 500 Expected PE Ratio	15	S&P 500 (Current) =	1,567.07.48
10 Treasury Bond Rate (%)	2.50%	***S&P 500 (Gain/Loss) =***	***+5.91%***
Inflation Rate (%)	3.50%	***Standard Error***	**+/- 1.99%**
Volatility (VIX) Index	12.50		
Unemployment (%)	7.50%		

CGAM Market Model Equation

S&P 500 ***(12 Month Estimate) =*** ***927.80+10.77 x (S&P Earnings)+20.68 x (S&P Price Earnings Ratio)-35.90 x (Treasury Bond Rate{10 yr})-44.68 x (Consumer Price Index)- 9.89 x (VIX; Volatility Index)-95.77 x (Unemployment Rate)+St. Error***

It can be observed from the table above, the variables considered are an amalgam of fundamental (S&P 500 companie's earnings, 10 yr bond rates etc) and technical variables (Volatility {VIX} Index).

We believe that the US economy is on sound footing and should continue to grow aggregate earnings over the next 12-18 months. Even at a reasonable investor sentiment, which can be measured by the Price to Earnings ratio, we believe that the capital markets can gain another 5-7% over the next 12 months.

We ended our March-April newsletter with a belief that the markets would exhibit a bullish trend over the next 4-5 years and could gain an average of 12-13% for this period. This was based on the longer term trend of market value doubling every decade along with an average GDP growth of 3%. **Despite our longer term bullish projections, we recommend raising between 20-25% cash in respective portfolios to take advantage of an interim technical correction of 5-7% during the summer months this year (see Page 5: "CASH: To Raise it or not? From: Levar Hewlett)**

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

Continued from Page 1…

We can observe from the data below that the summer months tend to produce subdued returns relative to the rest of the year. This phenomenon is no different than other patterns that the markets have experienced, which include the "January Effect", "Tax Selling" during the end of the year etc etc.

We believe that some of the reasons for this sell off during the summer months comprise of vacations, summer expenses, general fears of historical outcomes or profit taking. Despite specifics, there is empirical evidence supporting this occurrence, which should be considered especially when the capital markets have experienced such significant return during the first quarter this year.

Table 2[4]

DIJA				S&P 500			
Years	**Jan-April**	**May-September**	**October-December**	**Years**	**Jan-April**	**May-September**	**October-December**
2012	4.60%	8.42%	0.06%	2012	6.51%	9.95%	0.99%
2011	7.72%	(13.18%)	2.20%	2011	6.03%	(15.89%)	0.34%
2010	9.35%	6.43%	0.10%	2010	10.51%	4.75%	6.29%
2009	2.09%	14.26%	0.10%	2009	5.68%	15.01%	7.62%
2008	1.34%	(14.14%)	(5.88%)	2008	0.51%	(16.71%)	(6.76%)
2007	3.50%	1.97%	(4.01%)	2007	3.07%	(0.25%)	(5.23%)
2006	4.62%	4.57%	3.17%	2006	2.39%	5.18%	2.93%
2005	(2.84%)	0.97%	2.66%	2005	(2.07%)	3.13%	3.42%
2004	(2.50%)	(1.06%)	7.53%	2004	(2.11%)	(0.54%)	7.23%
2003	5.29%	4.80%	6.66%	2003	7.15%	3.36%	5.83%
2002	0.26%	(23.51%)	(0.66%)	2002	(4.71%)	(23.60%)	(0.67%)
Average	3.04%	-0.95%	1.08%		3.00%	-1.42%	2.00%

Even though the past market movement does not necessarily predict the future, we believe that investors should study and understand historical patterns to help gauge the probability of favorable / unfavorable future market events. The data in Table 2 above helps infer that over the past 11 years market returns have generally been lower during the summer months (May through September) compared to the winter months (October through April).

Here at CGAM, we like to usually make our investments decisions solely off of the readings on our staff's terra card reader but unfortunately they are getting ready to go on vacation like most of the market during the upcoming months. We believe that raising Cash in the current market environment should help protect the gains earned during the recent bull phase. Wise investing and risk management comprises of paying close attention to aspects of risk and proactive management. We believe that capital markets will provide an opportunity to invest in great stocks that could become undervalued from the so called "summer months" occurrence over the next quarter. So remember, having cash isn't really a bad thing and may prove prudent based on history. Here at CGAM we are "glass half full" kind of managers and we believe Cash equates to opportunity and more opportunities equates to more cash in the future.

[4] Source: Continuum Global Asset Mgt., LLC

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Please review the following disclaimer

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