

Newsletter

Most financial pundits and gurus have one thing in common. They are all paid for having an opinion. There is an appropriate saying in the industry, "Bulls make money, Bears make money but Hogs get slaughtered..." I believe that it's virtually impossible to predict human behavior and how it impacts the direction of the market. Unfortunately most pundits have somehow convinced themselves that they can read the tea leaves, now known as the economic indicators and predict the unpredictable. Following is my reading of the tea leaves...

It can be clearly observed in Figure 1, that the Dow Industrial Index (DJI) has gained handsomely since the low of March 9th, 2009. Majority of fundamental analysts have raised their earnings expectations for the US corporate environment for the fiscal year 2009. As market is forward looking, it has naturally factored in the good news which has been experienced in the form of noticeable gains. On the other hand, the so called realists are screaming that the gain in earnings and positive projections are primarily fueled by the government's stimulus package which they consider short term and non sustainable.

Figure 1¹



Figure 2¹



Since 1978, when the DJI was in the vicinity of 750, it has doubled approximately every 7.25 years*. The 6,500 level experienced in March of 2009 was a generational low from our point of view (Figure 2). Without being overly optimistic, we believe that the US government has taken a chance at entrepreneurship by using tax payer's money to bolster the basic infrastructure of an economy; it's financial network. We believe that with the exception of high unemployment, most economic indicators have started to gravitate towards a positive direction. We strongly believe that the emergence of economies in Asia, Latin America, Russia and Eastern Europe has already created between 500-700 million middle to upper middle class consumers with per capita income of \$3,500-\$5,000 per annum. Fortunately, the savings rate in most of these regions is in double digits which in our opinion will start to flow towards discretionary items, as these consumers continue to experience higher levels of disposable income. In our view, this phenomenon will fuel explosive growth for the global economy.

Despite this optimistic belief, we acknowledge the short term noise in the capital markets and how it can adversely impact the values of securities. We therefore believe that larger global companies with a history of consistent dividend payments should have a higher margin of safety if the markets correct. In addition, we believe that international companies involved in the healthcare, financials and materials sector shall do particularly well as the basic demand in these areas should consistently grow over the next 5-10 years.

¹ Chart Source: Continuum Global Asset Management LLC, ² Source: <http://barrons.com/>, *Data Source: www.yahoo.com

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 1¹

Broad Based US Indexes	Dec 31 st , 2008	October 30 th , 2009	Gain/Loss (%)
Dow Jones Industrial Average	8,776.00	9,712.73	10.67%
NASDAQ COMPOSITE	1,577.00	2,045.11	29.68%
S&P 500 INDEX	903.00	1,036.19	14.75%
RUSSELL 2000 INDEX	499.51	562.77	12.66%
Average Return			16.94%

CGAM Recommendations Since December 31 st , 2008	Security Price at Recommendation Date (\$)	October 30 th , 2009 (\$)	Gain/Loss (%)
UltraShort 7-10 Year Treasury ProShares (PST)	52.66	52.17	-0.93%
Blackrock Corporate High Yield Fund Inc (COY) (Sell Recommendation October 2000)	4.08	6.4	56.86%
Eaton Vance California Municipal Income Trust (CEV) (Sell Recommendations July 2009)	7.99	10.12	26.66%
Western Asset Managed Municipals Fund Inc (MMU)	9.4	11.95	27.13%
Boulder Growth & Income Fund Inc (BIF)	4.47	5.39	20.58%
Ultra Financials ProShares (UYG)	3.28	5.22	59.15%
CGM Focus (CGMFX)	25.56	27.29	6.77%
Bank of America Corp (BAC)	6.82	14.58	113.78%
Caterpillar Inc (CAT)	27.96	55.06	96.92%
Corning Inc (GLW)	14.62	14.61	-0.07%
Manitowoc Co Inc (MTW)	5.95	9.14	53.61%
E TRADE Financial Corp (ETFC)	1.44	1.46	1.39%
Blue Nile Inc (NILE) (Recommendations: Sell Short)	45.9	60.05	-30.83%
Wendys/Arbys Group Ord Shs Class A (WEN)	4	3.95	-1.25%
Foster Wheeler Ltd (FWLT)	23.1	27.99	21.17%
Akamai Technologies Inc (AKAM)	16.44	22	33.82%
Immersion Corp (IMMR)	4.3	3.67	-14.65%
United States Natural Gas (UNG)	11.74	10.27	-12.52%
Average Return			25.42%

¹ Source: CGAM, LLC., www.fidelity.com Note: The average return for the CGAM portfolio does not include dividends and interest income.

Investment Themes

Progressive Corporation (PGR)³: \$16.00 as of October 30th, 2009. **BUY**

1. The Progressive Corp., (PGR) is an insurance holding company. The company is involved in providing personal and commercial automobile insurance, and other specialty property-casualty insurance and related services throughout the United States.
2. 52 week High and Low: \$17.50-\$9.76.
3. Currently, PGR has less than 10% share of the market and competes directly with AIG, Farmers, State Farm and it's smaller rival Geico, a Warren Buffett company. Warren Buffett recently mentioned that PGR is Geico's top rival. We believe that the company can continue to take share away from the top competitors with its innovative reach to its potential customers and sound after sales service.
4. The company has performed well with it new advertisement campaign that instills a consumer friendly attitude and price comparisons to potential customers.
5. We believe that the company **has the potential to grow in excess of 30% over the next 12 months**. We also believe that the company stock should reach a target of \$21-22 by the end of FY 2010 based on projected \$1.45 earnings per share and an average industry PE of 14-15.



Banco Santander ADR (STD)⁴: \$16.11 as of 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. Insurance is conducted in Europe, with the exception of the United Kingdom.
2. 52 week High and Low: \$17.59-\$4.87.
3. The company is a major banking institution in Europe and is boosting its global operations vehemently. STD is emphasizing catering to Latin Americans who are enjoying a growing economy, growth in corporate enterprise 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 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.



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

³ & ⁴ Source: Charts and quotes from www.fidelity.com

Please review the following disclaimer

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