Continuum Global Asset Mgt., LLC October 2010

Newsletter

After a lackluster first eight months of 2010, the US and most global capital markets were bestowed with a pleasantly surprising September. We emphasize pleasantly because historically September has been a dismal month for the US capital market performance. The month of September experienced approximately 9% gain for the major indexes. In other words, this has been the largest gain for the month of September since 1939.

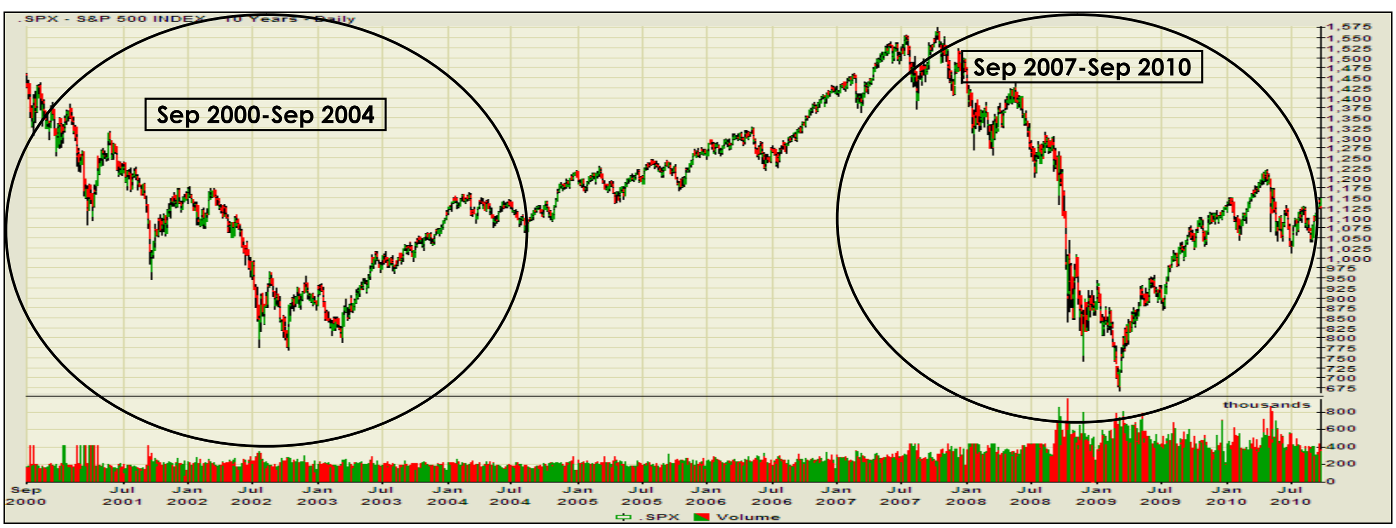
The major question for investors has always been and will always be; "What does the future hold?". This issue of our Newsletter focuses on comparing the after math of the two major recessions that have impacted the capital markets over the last decade and analyze the similarities in investor behavior between the two phases. If we believe that history repeats itself, we can provide some credibility to this analysis. Needless to say, we are referring to the famous dot.com bust early this decade and the housing related collapse in 2008-2009 that nearly destroyed our banking infrastructure.

Interesting similarities in the market reaction during the recovery of these two major recessions can be observed respectively by the circles highlighting the S&P 500 index in Chart 1 below:

Technical Similarities:

1. US capital markets represented by the S&P 500 index experienced a low after 18-20 months of economic downturn in both recessions.
2. Capital markets gained approximately 40-45% for the following 9-10 months, subsequent to the economic trough during both periods.
3. Markets were flat in the second half of 2004 (after a steep gain of over 40% in 2003), similar to their behavior in the second half of 2010, after a gain of over 50% in 2009 from the lows of March 2009.

Chart 1:
Source: www.Fidelity.com



Fundamental Similarities:

1. Federal reserve action: The Federal Reserve enacted similar monetary policies to bolster and revive the economy during both recessions.
2. Corporate earnings for S&P 500 companies grew at double digits for both periods from the economic lows experienced during the 18-20 month economic downturn.

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3. Performance of the stock and bond markets were similar in both time frames. Bonds gained initially as Fed Fund Rates were lowered and stocks eventually started their ascent.
4. The Republicans picked up seats in both the House and Senate in 2004. Projections for the November 2010 elections are similar, and hence Republicans are expected to gain seats in the House.

Earnings Growth and S&P 500 valuation based on historical Price Earnings multiple:

Following is a table illustrating the movement of the S&P 500 index in relation to the earnings and dividends of the 500 companies comprising the index:

Date	S&P 500 Index growth	S&P 500 Earnings Growth	S&P 500 Dividend Growth
2004	8.99%	23.75%	11.79%
2005	3.00%	12.96%	14.30%
2006	13.62%	14.74%	11.98%
2007	3.53%	-5.91%	11.45%
2008	-38.49%	-40.02%	2.37%
2009	23.45%	13.53%	-22.61%
2010	3.01%	33.39%	2.41%

It can be clearly observed that the S&P 500 index value preempts the earning pattern of the companies that form the index. We also believe that the dividend paid is a very important ingredient but plays a smaller part in the movement of the index during extenuating times like the severe recession of 2008-09.

Following is a scenario that projects the index value over the next 12 months based on our estimation of the corporate earnings for the year 2011:

S&P 500 Earnings (2010)	$74.68
S&P 500 Earnings 2011 (Estimate)[1]	$83.00

	82 Year Average	50 Year Average	25 Year Average
Average P/E	16.00	17.00	21.00
Projected S&P 500 Valuation	**1,328.00**	**1,411.00**	**1,743.00**

1. Our model uses the average Price to Earnings (P/E) multiple, usually used to value securities and this case the market index.
2. Price to Earnings Ratio data is derived from www.ndr.com and http://cgamadvisor.com/wp-content/uploads/2009/06/CGAM-Newsletter-December-20091.pdf. This data is used for the last 82, 50 and 25 years respectively for illustrating the range of the S&P 500 index valuation.
3. The US economic recovery and the perceived financial infrastructure reconstruction has lead to heightened expectations in regards to US corporate earnings.
4. Most analysts and economists have raised the US corporate earnings expectations and are projecting approximately $83 in earnings for the S&P 500 companies in fiscal year 2011.

It can be observed that based on investor sentiment, which can be illustrated by an array of P/E multiples, we have different values of the S&P 500 exhibited in the table above. In other words, at a reasonable P/E ratio of approximately 16-17, we can expect the S&P 500 **to appreciate by 14-15% for the next 12 months with $83 in corporate earnings.**

[1] *Source: CGAM, LLC estimates*

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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.

Broad Based US Indexes	Dec 31st, 2008	30-Sep-2010	Gain/Loss (%)
Dow Jones Industrial Average	8,776.00	10,788.05	22.93%
NASDAQ COMPOSITE	1,577.00	2,368.62	50.20%
S&P 500 INDEX	903.00	1,136.08	25.81%
RUSSELL 2000 INDEX	499.51	676.14	35.36%
Average Return			33.57%
CGAM Recommendations Since December 31st, 2008	**Security Price at Recommendation Date ($)**	**Security Price as of 30-Sep-2010 ($)**	**Gain/Loss (%)**
UltraShort 7-10 Year Treasury ProShares	52.66	39.3	-25.37%
Blackrock Corporate High Yield Fund Inc	4.08	7.15	75.25%
Eaton Vance California Municipal Income Trust	7.99	13.38	67.46%
Western Asset Managed Municipals Fund Inc	9.40	13.11	39.47%
Boulder Growth & Income Fund Inc	4.47	6.27	40.27%
UltraFinancials ProShares (1:10 Split;April 15th, 2010)	32.80	55.3	68.60%
CGM Focus	25.56	28.38	11.03%
Bank of America Corp	6.82	13.3	95.01%
Caterpillar Inc	27.96	78.22	179.76%
Corning Inc	14.62	18.23	24.69%
Manitowoc Co Inc	5.95	11.88	99.66%
E TRADE Financial Corp	14.40	14.89	3.40%
Blue Nile Inc (Recommendation to Sell Short)	45.90	44.65	2.72%
Wendys/Arbys Group Ord Shs Class A	4.00	4.42	10.50%
Foster Wheeler Ltd	23.10	24.3	5.19%
Akamai Technologies Inc	16.44	49.33	200.06%
Immersion Corp	4.30	5.83	35.58%
United States Natural Gas	11.74	6.07	-48.30%
Progressive Corp	16.00	20.86	30.38%
Banco Santander ADR Rep 1 Ord Shs	16.11	12.58	-21.91%
Corning Inc	16.68	18.23	9.29%
AT&T Inc	26.94	28.81	6.94%
Citigroup Inc	3.32	4.09	23.19%
Activision Blizzard Inc	11.39	10.87	-4.57%
PowerShares DB Gold Double Short ETN	14.13	9.34	-33.90%
Goldman Sachs Group Inc	156.35	147.7	-5.53%
Chimera Investment Corp	4.00	3.96	-1.00%
Banco Santander ADR Rep 1 Ord Shs	12.34	12.58	1.94%
ProShares UltraShort S&P500	35.54	29.33	-17.47%
Microsoft Corp	$23.27	24.38	4.77%
AT&T Inc	$24.29	28.81	18.61%
Bank of America Corp	$13.84	13.3	-3.90%
Chevron Corp	$67.31	81.95	21.75%
Pfizer Inc	$14.14	17.18	21.50%
Citigroup Inc	$3.79	4.09	7.92%
Merck & Co Inc	$34.22	36.6	6.95%
Average CGAM Portfolio Return			26.39%[2]

[2] *Note: CGAM's performance does not include dividends or interest. Also, results can not be compared on a net basis with the indexes as most recommendations have not been held in the portfolio since the beginning of 2009.*

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