



# The Sage Capital Newsletter

January 2010

Happy New Year.

In 2009, what began with an extremely nervous market ended with both optimism and a few major questions for the year ahead. Despite a volatile start, the 2009 broad equity market still managed to return gains north of 20 percent.

This month's newsletter will discuss the main investment themes we foresee influencing the markets in the year ahead. Without question, the central issue of the coming year is the double digit U.S. unemployment rate. We will look further into the numbers and try to add some clarity to the current situation. In the past, retail sales and housing numbers have provided expectations of future growth; we discuss whether this will hold true in today's economic environment.

On the other hand, inflation hawks continue to watch the Feds' every move, as the worry over our nation's monetized debt has ruffled many feathers. We don't know what the future will bring; Hopefully we can provide a clear, un-biased point of view, and some basic insight to the current investment landscape.

## IN THIS ISSUE:

<b>Market Overview</b>	<b>2</b>
<b>Market Analysis</b>	<b>3</b>
<b>The Economy</b>	<b>4</b>
<b>News of Note</b>	<b>6</b>
<b>Last Word</b>	<b>7</b>



# Sage Capital Market Overview

**Figure 1: S&P 500**

Data: Thompson Baseline  
(S&P 500, Daily Closing Value)

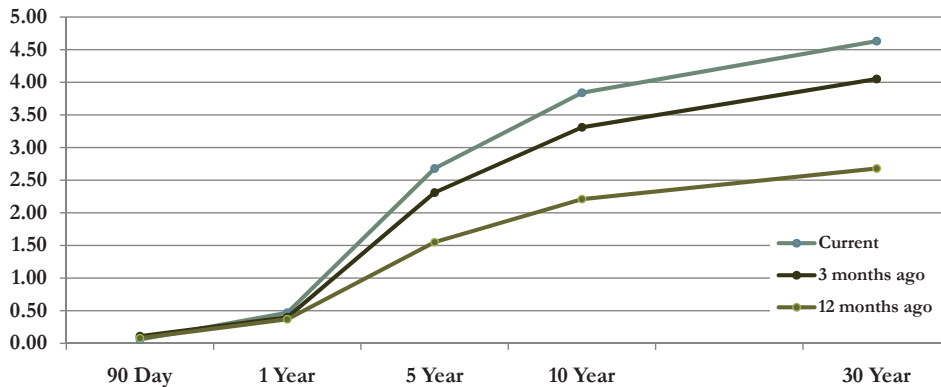
The market looks to be valued for a very strong 4th quarter as most valuation ratios are on the high end of their 5 year averages. It appears any bumps in the road could bring downside volatility.



**Figure 2: S&P 500 Key Stats**

Data: Thompson Baseline (December 31, 2009 Data)

<u>Price % Change:</u>		<u>Current</u>	<u>5 Yr Avg.</u>
<b>1 Month Ago</b>	<b>1.8%</b>	<b>P/E: 18.8</b>	<b>15.9</b>
<b>3 Months Ago</b>	<b>5.5%</b>	<b>Dividend Yield: 2.0%</b>	<b>2.1%</b>
<b>12 Months Ago</b>	<b>23.5%</b>	<b>Price to CF: 11.3</b>	<b>10.0</b>
		<b>Price to Book: 2.3</b>	<b>2.4</b>



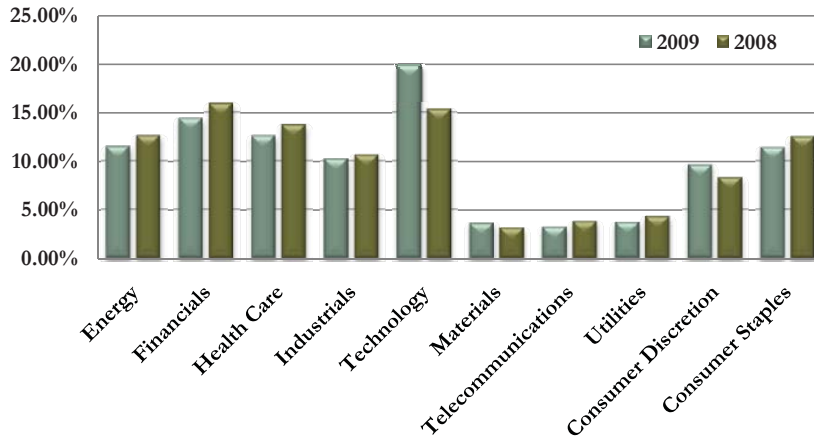
**Figure 3: BOND YIELDS**

Data: Thompson Baseline  
(90 Day, 1 Year, 5 Year,  
10 Year and 30 Year,  
Daily Values)

Although short-term rates have remained at historically low levels; Longer-term interest rates have risen across the curve over the last year. We expect this trend to continue in the coming year.

# Sage Capital

# Market Analysis



**Figure 4:**  
**SECTOR WEIGHTINGS**  
 Data: Thompson Baseline  
 (S&P 500 End of Year 2008 & 2009  
 Sector Weighting)

<b>Energy</b>	<b>-8.73%</b>	<b>Materials</b>	<b>16.13%</b>
<b>Financials</b>	<b>-9.43%</b>	<b>Telecommunications</b>	<b>-15.79%</b>
<b>Health Care</b>	<b>-8.03%</b>	<b>Utilities</b>	<b>-13.95%</b>
<b>Industrials</b>	<b>-3.77%</b>	<b>Consumer Discretion</b>	<b>15.66%</b>
<b>Technology</b>	<b>30.07%</b>	<b>Consumer Staples</b>	<b>-8.80%</b>

**Figure 5: Sector Key Stats**

Data: Thompson Baseline (S&P 500 Sector Weighting % Change by Sector from December 31, 2008 to December 31, 2009)

## Sector Analysis:

Over the course of the last year the technology sector displayed the greatest move as it relates to the weighting of the S&P 500, followed by the materials and consumer discretionary sectors.

We feel the technology sector performed well for two reasons; First, they had extremely strong balance sheets with very little debt. Second, they displayed good value as it relates to the cash flow they created on a broad basis. It appears a great deal of the discounted value has been realized by this sector and we would look at the more defensive sectors to rebound in the year ahead.

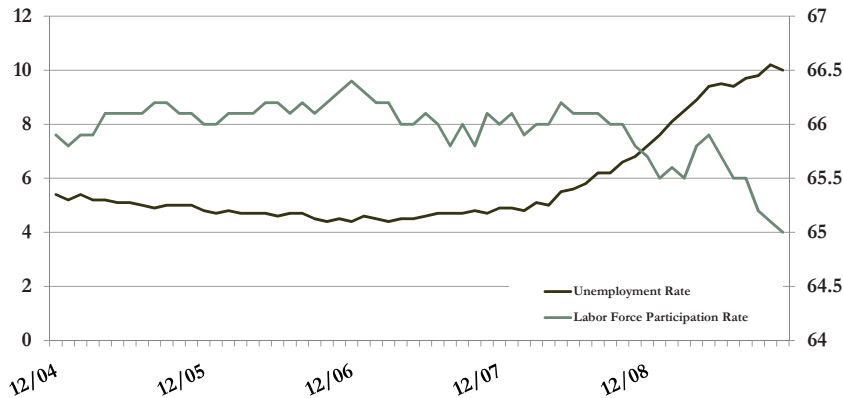
The healthcare and telecommunications sectors, as well as select industrial and material stocks continue to look under-valued.



# Sage Capital

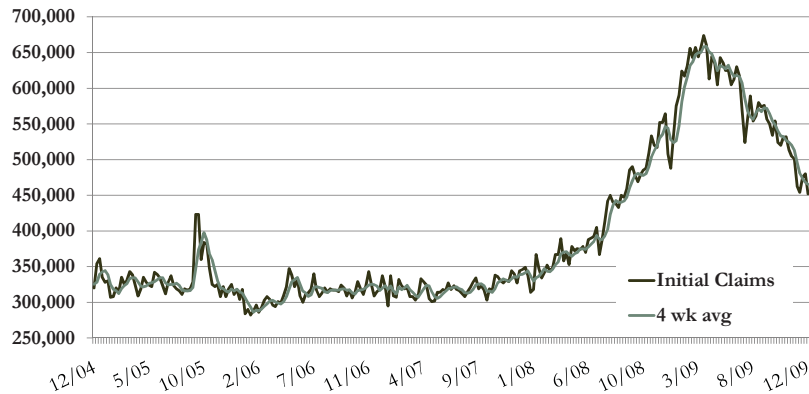
# The Economy

## Employment:



**Figure 6: UNEMPLOYMENT RATE VS. LABOR FORCE PARTICIPATION RATE**  
 Data: Thompson Baseline  
 (Unemployment and Labor Force Participation; Monthly Values)

**Figure 7: INITIAL JOBLESS CLAIMS**  
 Data: Department of Labor



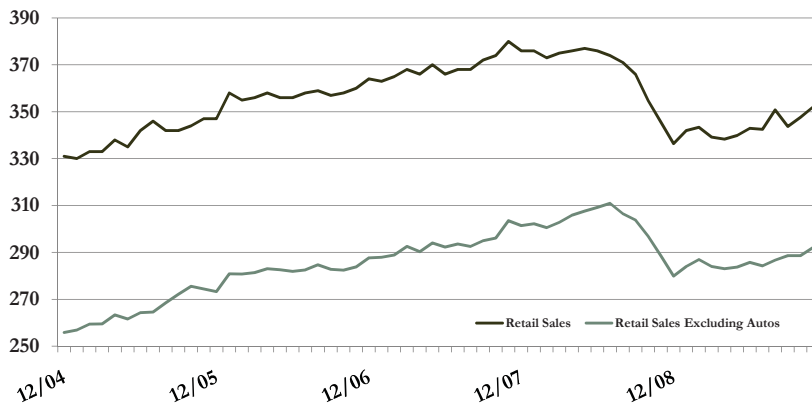
Recent employment data has shown mixed signs as it relates to overall employment health. The decline in the number of initial jobless claims suggests that there have been fewer layoffs. The stabilization of the unemployment rate, albeit at uncomfortably high levels, may also seem like a positive sign. However, this comes at the cost of an increasing number of people who have stopped looking for work because they are discouraged by the prospects of finding a new job in a tough labor market.

We are already observing fewer layoffs, but companies need to hire at a more rapid pace in order for the overall employment situation to improve. When the job market does improve, all of the currently discouraged workers would likely begin to seek employment meaning that the unemployment rate is more likely to see a gradual recovery as opposed to a “v-shaped” recovery.

# The Economy

## Retail Sales:

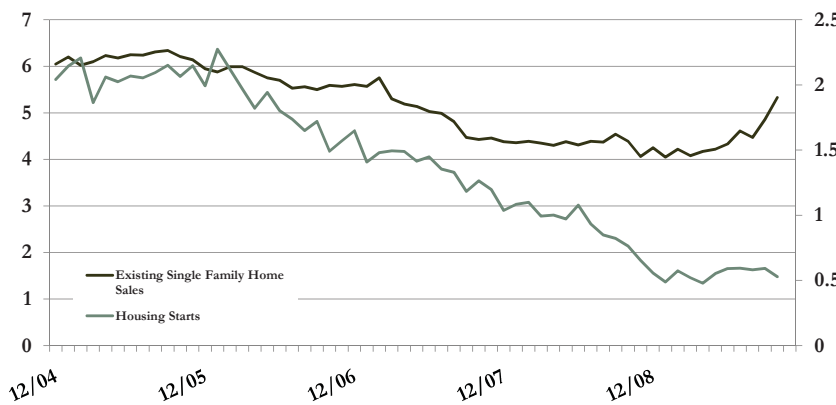
After a pullback in retail sales in September due to the end of the 'cash for clunkers' program, retail sales has bounced back above pre 'cash for clunkers' values. Excluding the volatile auto sector, retail sales has shown a slow but steady recovery though the growth rate remains very slow compared to pre-recessionary periods.



**Figure 8: RETAIL SALES**  
Data: Thompson Baseline  
(Retail Sales; Monthly Values)

## Housing:

Existing home sales has experienced a rapid growth these past couple of months. However, the demand for new houses remains low as shown by the number of new housing starts. As the inventory of existing homes begins to dwindle, we can expect demand for new houses, and consequently, new housing starts, to increase.

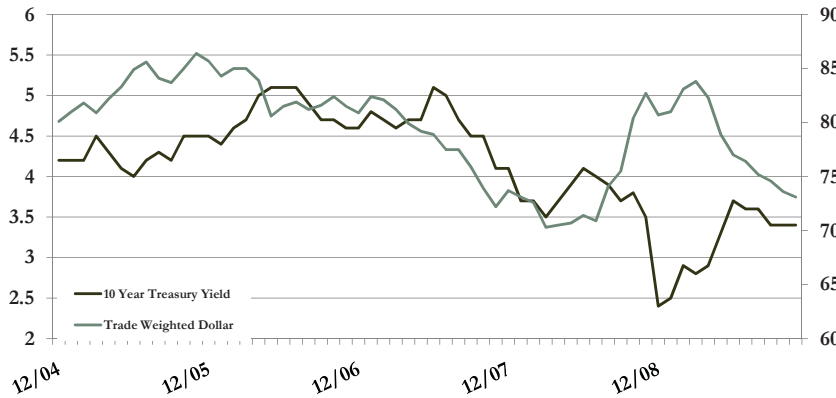


**Figure 9: HOUSING STARTS**  
Data: Thompson Baseline  
(Existing House Sales and Housing Starts; Monthly Values)



# News of Note

## The Fed



**Figure 10: 10YR TREASURY YIELD VS TRADE WEIGHTED DOLLAR**

Data: Thompson Baseline (10 Year Treasury Yield and Trade Weighted Dollar; Monthly Values)

The Federal Reserve is considering the sale of treasuries to combat potential inflation which would expect to have the following two effects if implemented. First, the increased supply of treasuries in the market should create a downward pressure on the price of those treasuries. Second, the sale of treasuries would reduce the amount of dollars in circulation due to the dollars required to purchase those treasuries. This decreased supply of dollars could create an upward pressure on the value of the dollar. Due to these two potential effects, we would be cautious with treasuries, commodities, and other investments that are highly affected by the value of the dollar.



## Thoughts

Much like last quarter the market is still looking for revenue growth to provide confirmation of a true economic recovery. Retail sales have been strong and we don't expect too many surprises with 4th quarter earnings. While we wouldn't be complacent in this environment, it appears the market does have more upside potential as business gets back to pre-recession productivity and earnings.

Until then,



Matt



# The Sage Capital Newsletter

---

January 2010

Sage Capital Advisors, LLC is a registered investment adviser. This publication is only intended for clients and interested investors residing in jurisdictions in which the Adviser is qualified to provide investment advisory services. Please contact Matt Johnson at (858) 459-0172 to find out if the investment adviser is qualified to provide investment advisory services in the state where you reside. The Adviser does not attempt to furnish personalized investment advice or services through this publication. Any subsequent, direct communication with a prospective client will be conducted by the Adviser's investment advisory representatives. Some of the information given in this publication has been produced by unaffiliated third parties and, while it is deemed reliable, the Adviser does not guarantee its timeliness, sequence, accuracy, adequacy, or completeness and makes no warranties with respect to results to be obtained from its use.

Disclosure: The S & P 500 is market-value weighted index; each stock's weight in the index is proportionate to its market value. The 500 stock are chosen for market size, liquidity, and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the overall market. It is meant to reflect the risk/return characteristics of the large-cap universe.

---

Sage Capital Advisors, LLC. • 5672 La Jolla Boulevard, La Jolla, California 92037 • [www.sage-cap.com](http://www.sage-cap.com) • 858.459.0172

## SAGE

CAPITAL ADVISORS LLC.

5672 La Jolla Boulevard  
La Jolla, California, 92037

