



The Sage Capital Newsletter

November 2011

Believe it or not we may be slowly gaining steam out of the recent abyss. While the news continues to give us reason for pause; both revenue and earnings have continued to show strength. It is not unreasonable to believe the markets have more upside based on the current relatively low earnings multiple.

While we realize there has been talk of a double-dip recession we haven't seen the evidence. The resiliency of the consumer in light of the low consumer confidence numbers is surprising.

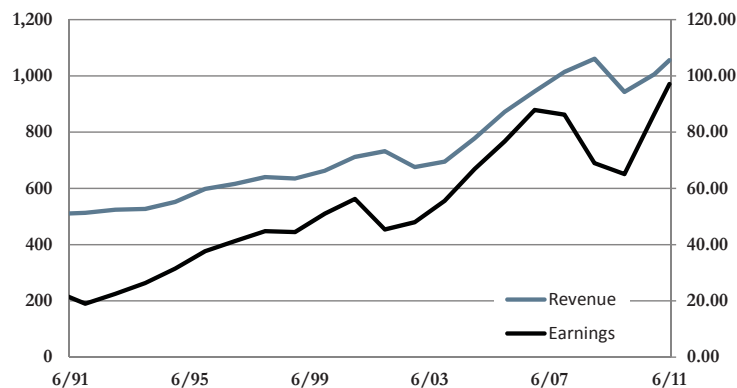
We feel that if not for such negative headlines concerning the MF Global bankruptcy, the Greek default, a domino effect of the Euro zone, and our ever growing national debt, we may be finding some traction with the employment situation and the recent GDP report showed positive signs. In this newsletter we will attempt to provide some clarity to the current investment environment and the recent headlines.

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**Figure 1:
S&P 500 REVENUE
AND EARNINGS**



	2011*	2010	2009	2008	2007
Revenue	1,056	1,006	943	1,061	1,014
Earnings	97	87	65	69	86

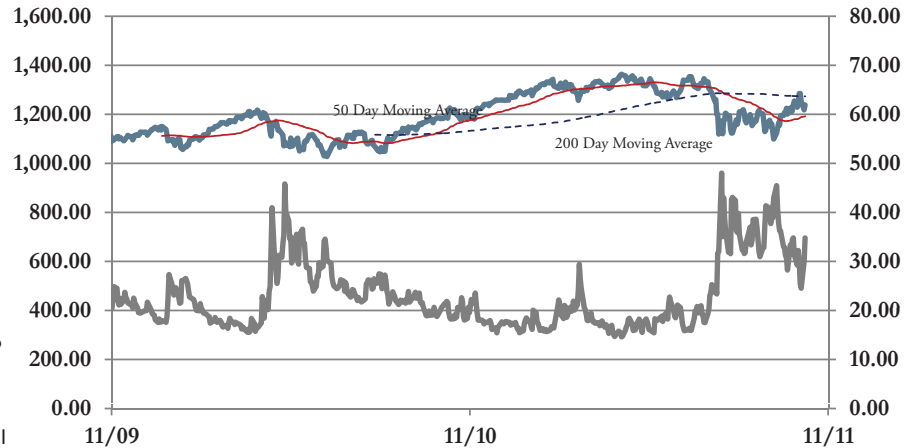
* Last Twelve Month Revenue and Earnings (June 2011 Data)

** See Disclaimer Page for all Data Sources

Sage Capital Market Overview

**Figure 2:
S&P 500 & VIX**

It appears the market is holding support from the 200 day moving average. Recent volatility is likely based on the Euro zone problems.



S&P 500 Performance

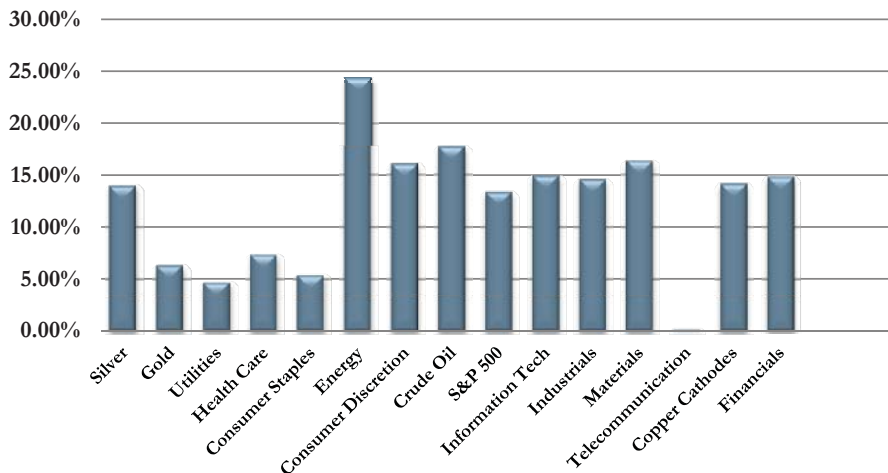
1 Month Ago	10.80%
3 Months Ago	-3.00%
12 Months Ago	5.90%

S&P 500 Key Stats

	Current	5 YR. Avg.	5 YR. High	5 YR. Low
Price/Earnings	12.7	15.2	20.0	9.0
Price/Cash Flow	8.7	9.6	11.95	6.02
Price/Book	2.0	2.3	3	1.3
Div. Yield	2.0	2.0	4.1	1.6

10/31/2011

The prominent valuation metrics characterize a market trading at below recent 5 year averages. Likely the dividend yield would be much higher if the financial sector had been able to maintain their pre-crisis yields.



**Figure 3:
OCTOBER PRICE
PERFORMANCE**

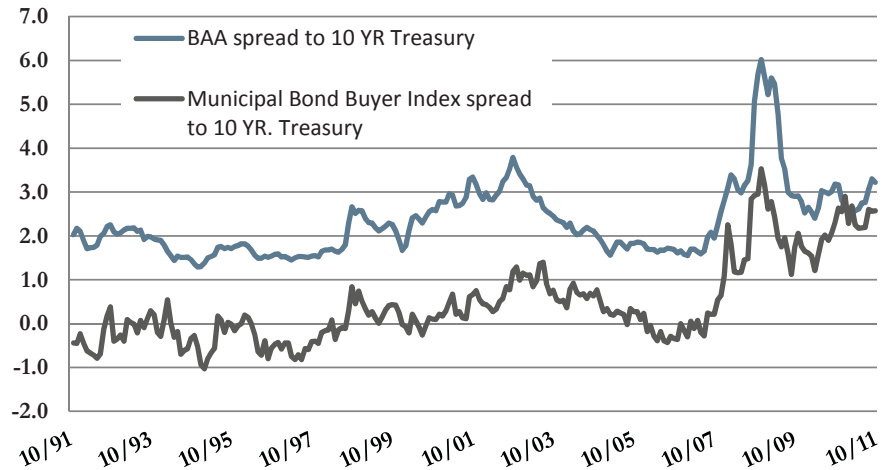
The sectors with the highest recent returns have been the growth sectors of the economy, which may imply things are better than the news headlines have us believe.

* See Disclaimer Page for all data sources

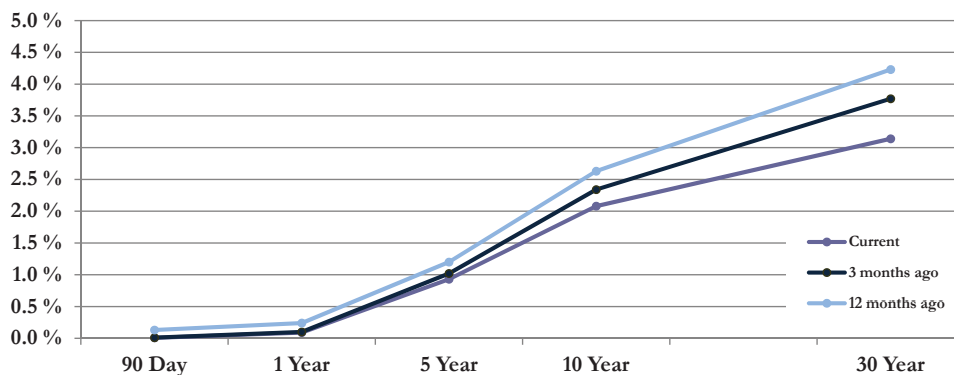
Market Analysis

**Figure 4:
CORPORATE BAA &
MUNICIPAL BUYER BOND
INDEX SPREAD TO
10 YR. TREASURY**

It would appear that municipal bonds pose relatively attractive values versus corporate and treasury bonds; however with the current budget issues across the country we would recommend stringent due-diligence and caution.



While writing this newsletter the current yield on the 10 year treasury is trading at 2.05%. As we have mentioned in previous newsletters; given the low rate environment our current bond strategy includes a laddered approach with duration in the 5-7 year area of the curve.



**Figure 5:
TREASURY
YIELDS**

An area of concern is the recent low levels of consumer confidence.

* See Disclaimer Page for all data sources

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The Economy



It is not difficult to understand the extremely low consumer confidence numbers. The employment situation while improving is still at 9%. Inflation has shown itself in nearly every reach of the economy, yet the Fed is only concerned with wage inflation and as the chart in Fig 7. Shows wage inflation is not currently an issue of concern.

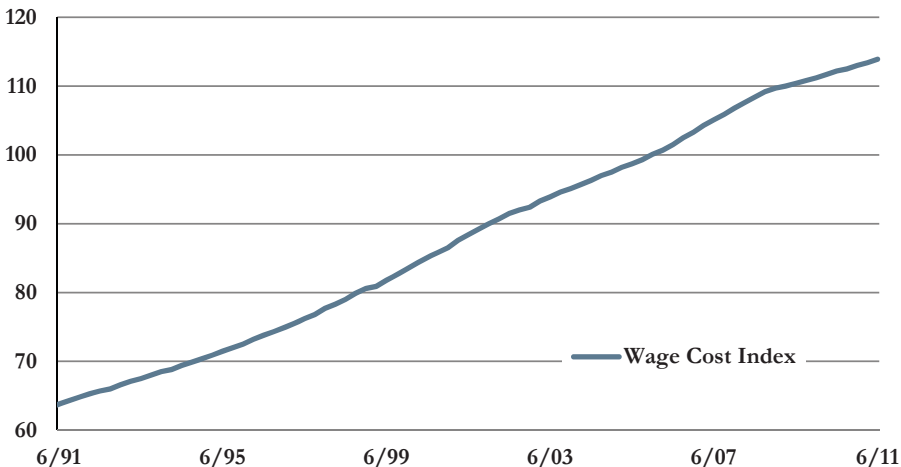


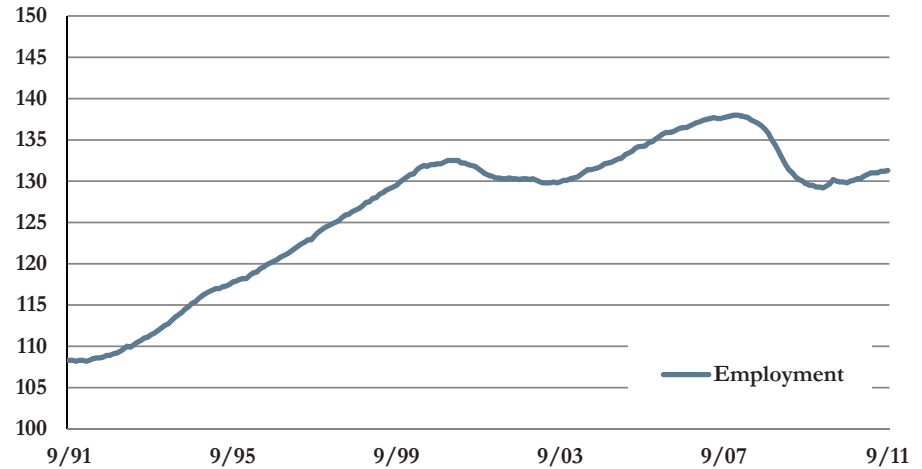
Figure 7: WAGE COST INDEX

* See Disclaimer Page for all data sources

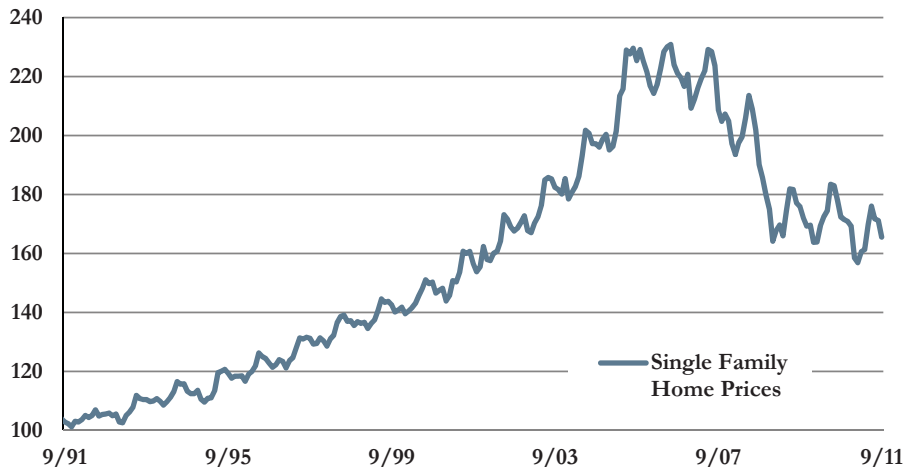
The Economy

**Figure 8:
EMPLOYMENT**

Employment is gaining traction although much slower than desired.



We continue to feel that housing may be the keystone to the employment situation and the overall economy. Housing can provide many viewpoints on the economy; home prices look like they have found a bottom, existing sales have shown strength and mortgage rates are historic lows. On the other hand, multi-family starts are growing much more rapidly than the single-family starts. As the banks begin to remove the shadow inventory and the lending environment gradually improves, we wouldn't be surprised with increased strength in housing.



**Figure 9:
SINGLE FAMILY
HOME PRICES**

* See Disclaimer Page for all data sources

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News of Note

The Consumer:

The consumer has taken appropriate action by lowering the debt ratio and increasing personal savings rate. While pessimism has prevailed in the consumer confidence numbers, the end result appears to be a much financially flexible consumer.

Household Debt Service and Financial Obligations Ratios

(Federal Reserve) - The household debt service ratio (DSR) is an estimate of the ratio of debt payments to disposable personal income. Debt payments.....([Read More](#))
<http://www.federalreserve.gov/releases/housedebt/>

GDP:

The Consumer spending portion of GDP has been showing strength. Overall GDP has been showing an economy that is growing, however at a very slow rate. Increased inventories and consumption have been the biggest contributors.

Consumer Spending Gains Outpace Income

(Wall Street Journal) - Americans are saving less but spending more, a warning sign the pickup in economic growth in recent months might not be sustainable.....([Read More](#))
<http://online.wsj.com/article/SB10001424052970203554104577003513954021708.html>

This Is the Economic Recovery We've Been Waiting For

(Minyanville) - Our current economic environment has been called many things – the Great Recession, a Second Great Depression, a Lost Decade, among others.....([Read More](#))
<http://www.minyanville.com/businessmarkets/articles/GDP-growth-real-gdp-negative-gdp/11/8/2011/id/37786>

The US Dollar:

The weak dollar is likely a cause for most of the contribution of GDP as tangible assets are desired to protect against inflation.

Crude Slips Swiftly, US Dollar Surges To One Week Highs

(IIFL) — WTI Crude oil futures eased from three month highs today as the world markets dropped amid continued fears of a debt contagion in Eurozone given.....([Read More](#))

<http://www.indiaonline.com/Markets/News/Crude-Slips-Swiftly-US-Dollar-Surges-To-One-Week-Highs/4013686369>

Sage Capital Last Word

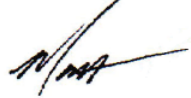
Thoughts

As we mentioned in our last news letter the volatility in the markets have continued and we wouldn't be surprised for this trend to continue. Keep in mind; earnings have continued to show strength and ultimately will determine the share price of the market.

We continue to favor the industrial, material, and technology sectors. We remain cautious of the financial sector.

High yield corporate debt and select GO municipal debt looks most attractive and we continue to favor duration in the 5-7 year area of the curve.

Best wishes,

A handwritten signature in black ink, appearing to be 'Matt', written in a cursive style.

Matt

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External Links:

<http://www.federalreserve.gov/releases/housedebt/>
<http://online.wsj.com/article/SB10001424052970203554104577003513954021708.html>
<http://www.minyanville.com/businessmarkets/articles/GDP-growth-real-gdp-negative-gdp/11/8/2011/id/37786>
<http://www.indiaonline.com/Markets/News/Crude-Slips-Swiftly-US-Dollar-Surges-To-One-Week-Highs/4013686369>

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