



# The Sage Capital Newsletter

June-July 2011

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Greetings, there has been a great deal of news lately; both abroad and here at home. It is impossible to ignore the debt ceiling debates and economic headlines covering the front pages. While across the pond we are witnessing Greece begin the painful process of living within their means. It seems surreal that our globe is in such financial disarray. Even the most simplistic can understand the importance of spending less than one earns, yet here we are as our leaders have spent our hard earned tax payer money for a dismal recovery, and an enormous debt burden; that must at some point be paid.

With all of this economic turbulence we are also in earnings season. Given the massive amount of news and earnings announcements we would expect to see volatility in the near term.

This newsletter we will focus on the US recovery and where we are in the current cycle, we will also discuss the current valuations of the major asset classes and try to make some sense of the current investment environment.

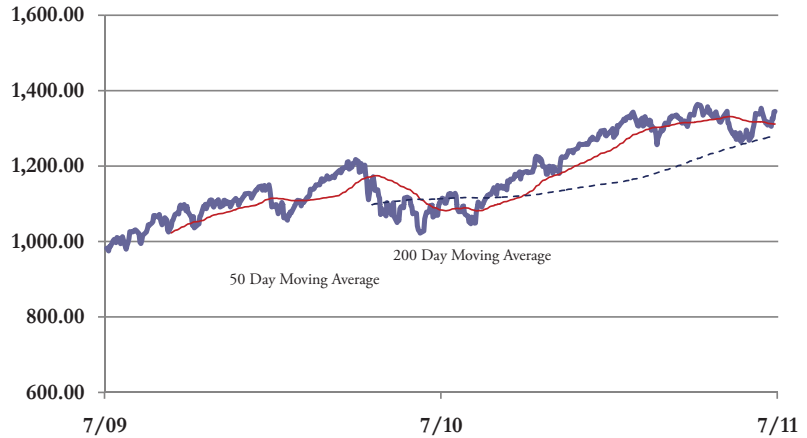


# Sage Capital Market Overview

**Figure 1: S&P 500**

Data: Thomson Baseline  
(S&P 500, Daily Closing Value,  
50 and 200 day  
moving averages)  
7/25/11

The market has shifted gears over the last quarter and appears to be digesting the many headlines that question the soundness of the current recovery. While valuations are still in-line with long-term averages, the current earnings yield of the market (approx.7%) indicates real value.



## Price % Change:

<b>1 Month Ago</b>	<b>-1.80%</b>
<b>3 Months Ago</b>	<b>-0.40%</b>
<b>12 Months Ago</b>	<b>28.1%</b>

**Table 1: S&P Performance**

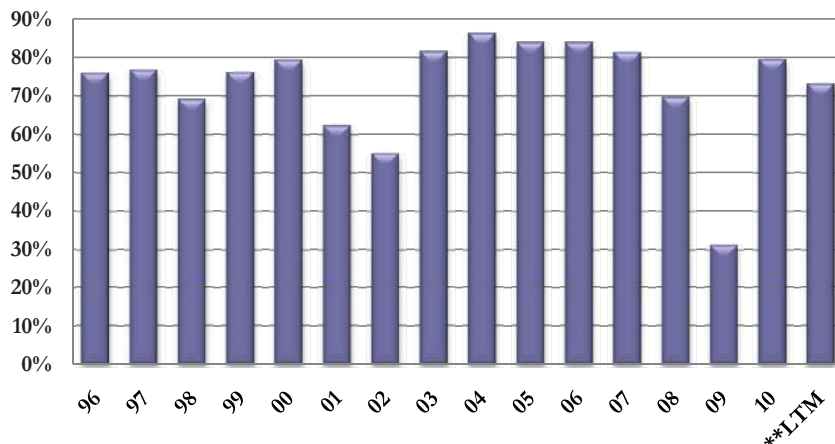
Data: Thomson Baseline  
(June 30th, 2011 Data)

## Current 5 Yr Avg.

<b>Forward P/E:</b>	<b>14.0</b>	<b>15.4</b>
<b>Dividend Yield:</b>	<b>1.8%</b>	<b>2.1%</b>
<b>Price to CF*:</b>	<b>9.8</b>	<b>9.6</b>
<b>Price to Book:</b>	<b>2.3</b>	<b>2.3</b>

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

Data: Thomson Baseline  
(July 25, 2011 Data)



**Figure 2:**

## % OF COMPANIES WITH POSITIVE REVENUE GROWTH YEAR/YEAR

Data: Thomson Baseline (Annual Reported Revenue)

Earnings season has once again started out relatively strong with adequate revenue growth for the companies that have reported.

\* Price to Cash Flow

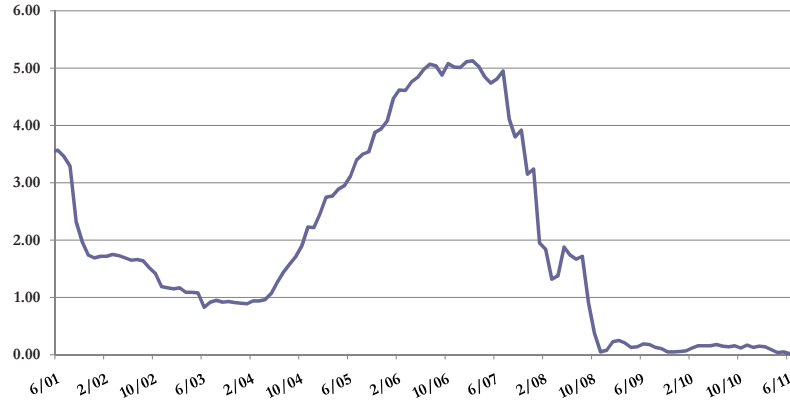
\*\* Latest Twelve Months

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# Market Analysis

**Figure 3:**  
**90 DAY TREASURY**  
 Data: Thomson Baseline  
 (90 day Treasury  
 Monthly Values.)

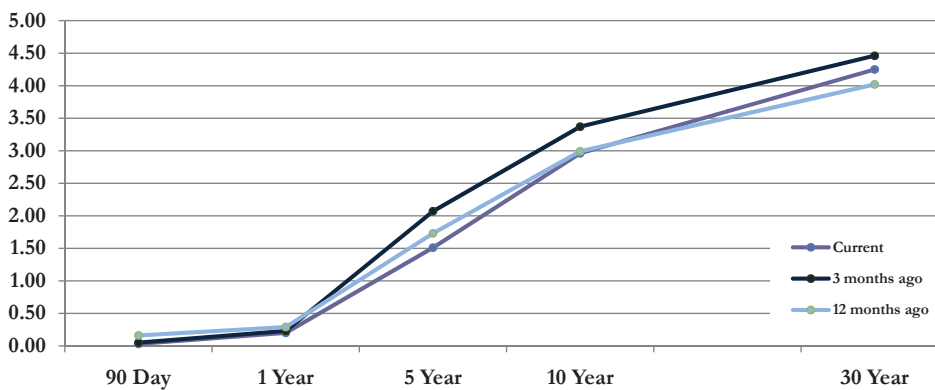
While we understand the drop in the short term treasury rates after the financial crisis in 2008, we find the current low rates may not fundamentally reflect the current economic conditions.



Short term interest rates remain low as the treasury market disconnect persists. From our viewpoint; we see little value in the short term instruments aside from the uncertainty trade. With the pressure of the debt ceiling and the stabilizing economy we would think higher short term rates await, yet the government is still very hands on with our short-term interest rates.

We remain cautious on bonds across the board as a true treasury downgrade could have implications across the spectrum; as all bonds are rated and priced off of our government treasuries.

We continue to favor corporate debt over treasuries and would currently recommend a laddered bond strategy with an average duration around 5 years.

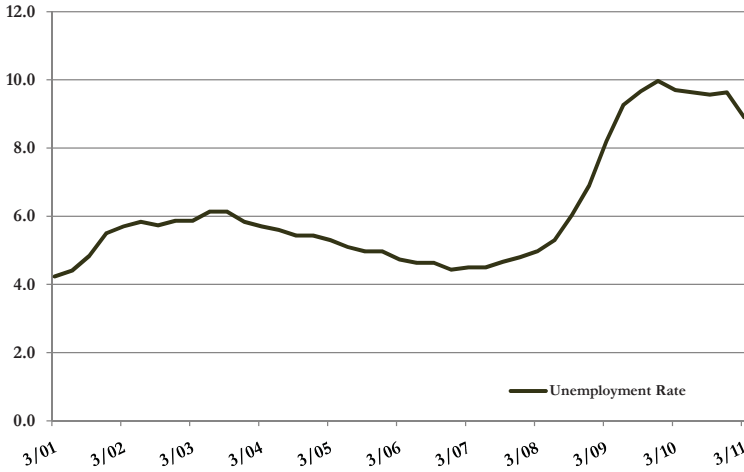


**Figure 4:**  
**TREASURY YIELDS**  
 Data: Thomson Baseline  
 (90 Day, 1 Year, 5 Year,  
 10 Year and 30 Year,  
 Daily Values.)  
 7/25/11

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# The Economy

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**Figure 5:**  
**UNEMPLOYMENT RATE**  
 Data: Thomson Baseline  
 (Unemployment Rate, Monthly  
 Closing Values.)

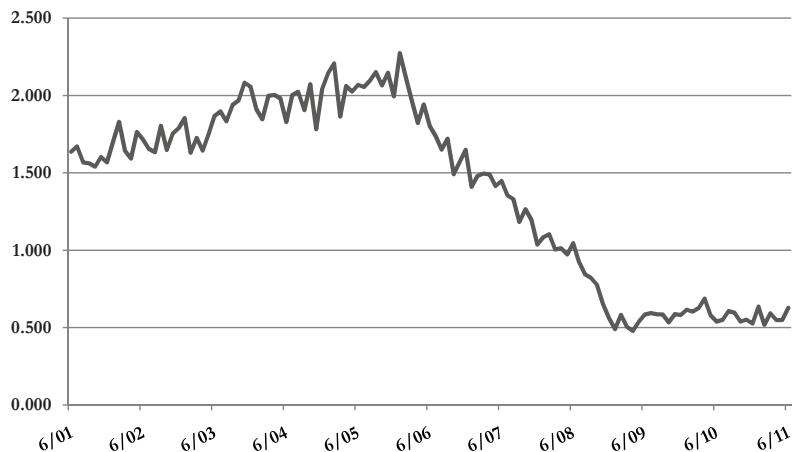
The employment situation appears to be turning the corner.

We feel the two largest factors we face for true economic recovery are employment and housing. Although we haven't witnessed vibrant growth in any of those two areas, we are finding that both housing and employment are stabilizing at their current levels.

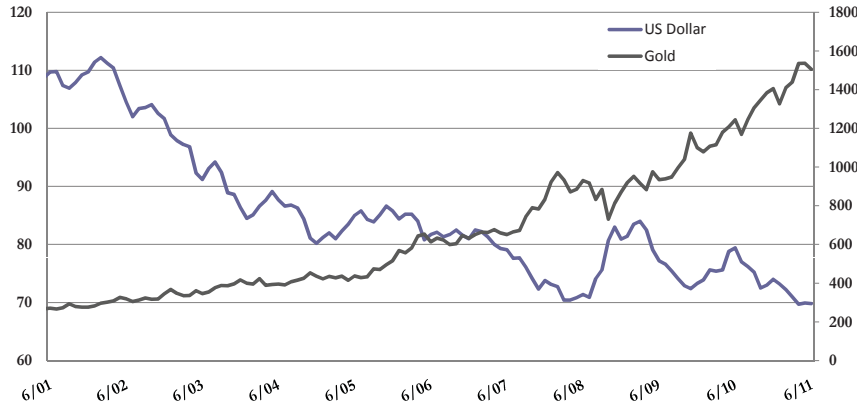
**Figure 6:**  
**HOUSING**

Data: Thomson Baseline  
 (Housing Starts, Monthly Values.)

We could see housing to start working through the inventory surplus and find its footing.



# The Economy



**Figure 7:**  
**US DOLLAR VS GOLD**  
 Data: Thomson Baseline  
 (US Dollar and Gold, Monthly  
 Closing Values.)

One theme that has persisted for sometime is the continued strength in commodity prices. From grain to gold to oil, the commodities have remained strong and aside from a few fundamental factors most of the gains look to be highly correlated with the still bloated federal balance sheet and sharp increase in the money supply. Yet, the US Dollar looks stable at these levels and should we get our collective fiscal house in order we wouldn't be surprised to see a strengthened Dollar put pressure on current commodity prices.

The one caveat on the commodity trade we may witness would be true economic strength that could keep pressure on the demand of all commodities.

**Figure 8:**  
**OIL**

Data: Thomson Baseline  
 (Oil, Monthly Closing Values.)

It appears oil and gold are trading on weak currencies vs. real end user demand.



# News of Note

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## News:

The “debt ceiling” debate continues as fear is being thrown from one side of the aisle to the other. From most estimates I have read we are talking about less than 10% of the total debt. Should the US not raise the debt ceiling it has been stated from various lawmakers, economists, and agencies that payments from social security to government salaries may be at delayed. However I have found no information to detail the prospects of a real plan to handle the various payment priority schedules.

With the action here at home many have missed that Greece has recently begun its restructuring process. The total bailout discussed for this round of funding appears to be approximately \$157B with approximately \$72B coming from banks and investors swapping their holdings of Greek debt for either lower interest rates or lower principal amounts. This will allow the pensions and government salaries to remain intact for the time being.



# Sage Capital Last Word

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## Thoughts

It seems that the core issues of our current debt crisis stems from the entitlement mentality of the respective governments. The earnings of hard working citizens has been getting spent with little consideration. Any entity that fails so miserably to manage its finances would be forced to reorganize and establish a legitimate plan. The governments across the globe simply spend hard earned money with no repercussions.

We remain optimistic that we are at the beginning of true recovery, and hold out hope our elected leaders can navigate this current roadblock with some semblance of common sense.

Corporate america has given the governments a great road map as tight cost controls and ample reserves have proven the right medicine. We continue to see good earnings from the companies that have released to date.

Best wishes,

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

Matt

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