



The Sage Capital Newsletter

March 2010

IN THIS ISSUE:

Market Overview	2
Market Analysis	3
The Economy	4
News of Note	6
Last Word	7



Greetings,

In this month's newsletter, we will examine current employment developments as they relate to the broader financial markets and provide our thoughts to the future employment situation. We will also dive a bit deeper into the overall earnings releases and discuss some noticeable trends while looking at the current economic landscape and bringing more clarity to past releases.

The unemployment rate is 9.7% and appears to have stabilized. Yet, as an economy, we have a distance to go in order to reach full employment. The construction industry continues to show weakness, which could lag the over-all economy, while temporary services exhibit good growth.

Corporate America's earnings have shown strength and currently the market appears to be reflecting fair valuations. Companies kept their earnings in-line; they installed massive lay-off programs, shrank their inventories, and pushed the remaining workers to produce at extremely high production levels. At some point, as companies gain more faith in the recovery, they may commit to permanent hires versus the current temporary employees. Gradually, the recovery could start showing more than mediocrity and truly demonstrate growth in-line with historical levels. Earnings drive the market and give us cause to be optimistic despite pessimistic views from the media.

Earnings season is ending. While we perused the many companies we follow, one main theme appears to be noteworthy: the current investment landscape looks to provide greater opportunities to the "stock-picker" versus the sector wide selection process. It has been years since I have seen such large differences in quality of earnings from companies in the same sector.



Sage Capital Market Overview

Figure 1: S&P 500

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

Recent earnings have justified current prices as the market is trading in-line with 5 year averages.



Figure 2: S&P 500 Key Stats

Data: Thompson Baseline (March 9, 2010 Data)

<u>Price % Change:</u>		<u>Current</u>	<u>5 Yr Avg.</u>
1 Month Ago	2.9%	P/E: 16.8	15.9
3 Months Ago	0.8%	Dividend Yield: 2.0%	2.1%
12 Months Ago	50.3%	Price to CF: 10.3	10.0
		Price to Book: 2.2	2.4

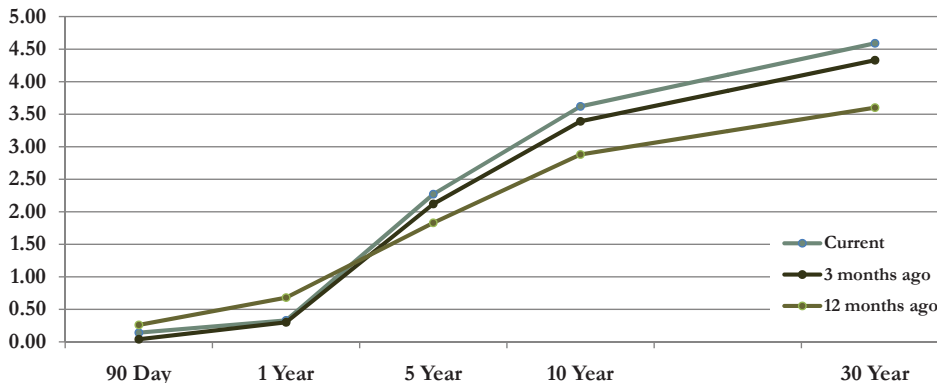


Figure 3: BOND YIELDS

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

The yield curve is still steep which should continue to help the financial stocks. The 5 year looks to be the bright spot on the curve.

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Market Analysis

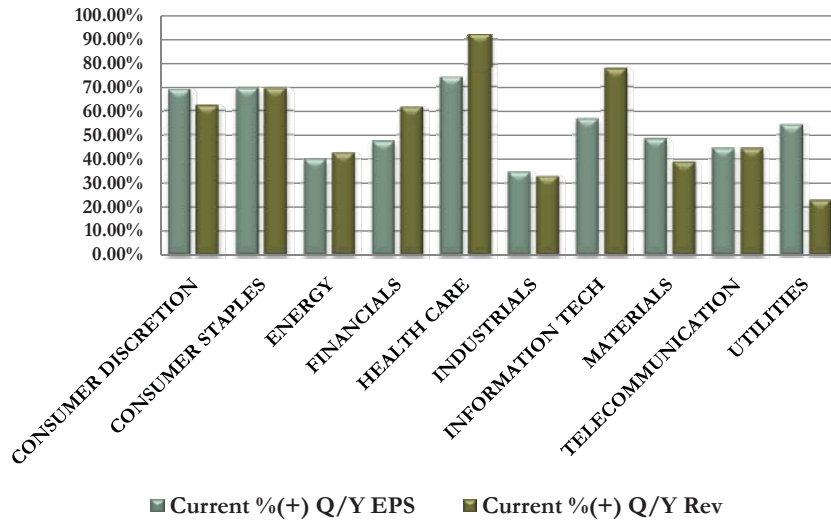


Figure 4:
EPS AND REVENUE
 Data: Thompson Baseline
 (S&P 500 End of Year 2009 % of
 companies reporting positive(+) EPS
 growth and positive(+) revenue growth)

Energy	8.0%	Materials	6.2%
Financials	15.8%	Telecommunications	1.8%
Health Care	10.2%	Utilities	7.0%
Industrials	11.6%	Consumer Discretion	16.2%
Technology	15.0%	Consumer Staples	8.2%

Figure 5: S&P 500 Sector Weighting
 Data: Thompson Baseline (S&P 500 Sector Weighting)

Sector Analysis:

Where we would normally be bullish or bearish on certain sectors, we are currently more interested in individual companies with pro-active management. We have seen large differences in companies this earnings season. We are looking to companies showing flexibility in their financials; those that use leverage for growth rather than working capital expenditures. Our most recent analysis finds many stocks trading at a discount to our internal intrinsic valuations as well as many overpriced within the same sector. We are still bullish on technology but feel prices could be catching up to the intrinsic valuations. We feel that sectors such as telecomm and healthcare present as undervalued; healthcare, may be in part due to the current political climate. We continue to find value in select industrials and select materials. We are cautious as it relates to consumer discretionary spending, despite recent strength, the current unemployment situation could serve as a drag.



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The Economy

Employment:

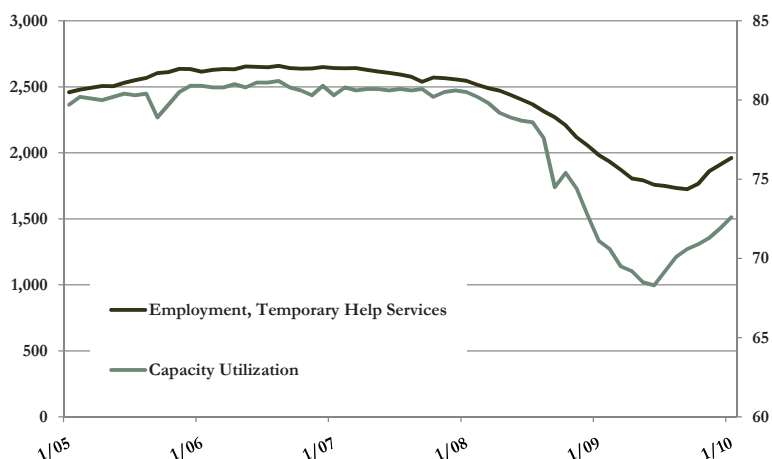


Figure 6: EMPLOYMENT, TEMPORARY HELP SERVICES VS. CAPACITY UTILIZATION

Data: Thompson Baseline (Employment, Temporary Help Services and Capacity Utilization; Monthly Values)

As mentioned earlier, temporary help services added 48,000 jobs in February, which leads us to believe that we are seeing beginning indications of stabilization and growth in the jobs market. Temporary employment was a factor in increased nonfarm productivity, with a revised 6.9 percent increase over last month. We view this as promising on the part of businesses eager to maintain healthy margins. We are also cognizant of political factors that may appear more favorable for hiring temporary employees as tax and cost considerations are still relevant for businesses.

Along with productivity increases, we witnessed a rise in Business Inventory numbers in January, which follow increases in October and November of 2009. We believe this could indicate an end to the Inventory correction. We have a tempered positive demand outlook, which could lead to a cycle of inventory build. Increased demand should decrease the number of unemployed workers. Yet, businesses continue to demonstrate their aversion to adding costs; either to mitigate loss or to boost profits, this indicates a hesitation to hire at this time.

Capacity Utilization continues to rise month over month, reaching 72.6 percent. In addition to being an inflationary indicator, we feel Capacity Utilization could potentially indicate future unemployment rates. This rise may demonstrate that market demand is increasing and has contributed to the increase in temporary hires and inventories. Plainly, this indicator denotes the ability of companies to produce at their most efficient levels utilizing their full resources. Historically speaking, Capacity Utilization increases could stop layoffs.

With growth in the above-mentioned areas, the next logical step should bring increased hiring. If growth continues to sustain at the last few quarters' level, this expansion in the over-all economy could bring good news.

The Economy

Gold vs Dollar:

The US Dollar, still the world's reserve currency, continues to show stability relative to other currencies. We do see potential risk to the Dollar as inflation could exert pressures outside of food and energy. We continue to monitor the Federal Reserve's monetary policy and look to provide more clarity in the coming weeks and months as the Federal Reserve examines options to unwind its' balance sheet expansion. Monetary policy tightening may curb long-term inflation worries if it begins in the intermediate term. Bond markets could feel the impact of a change in interest rates given the historically low levels we currently have. However, the Fed consistently announces its' intentions in efforts to minimize disruption to markets when the moves begin. In our opinion, the Federal Reserve's monetary policy should follow the markets and price risk accordingly rather than being the economic backstop. We welcome the return to business as usual and the Fed taking away the proverbial "floaties" and allowing the economy to swim (or sink) on its' own.

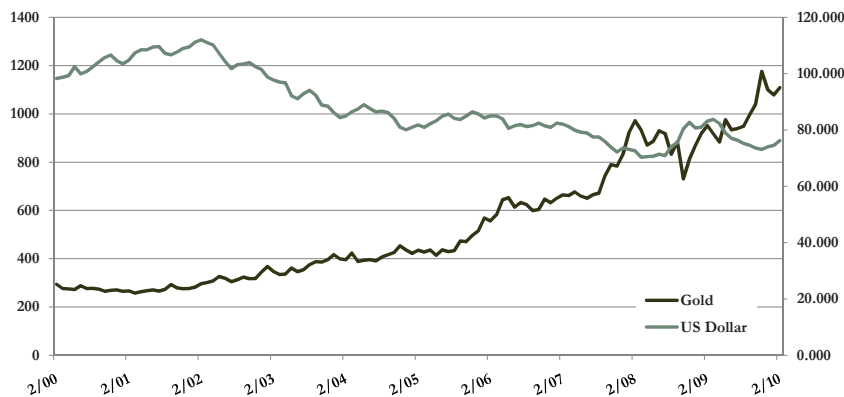


Figure 7: GOLD VS. TRADE WEIGHTED DOLLAR

Data: Thompson Baseline
(Gold and Trade Weighted Dollar;
Monthly Values)

We continue to be risk averse to certain speculative commodities markets. We will monitor these markets to identify an increase in absolute demand, which may lag due to economic conditions and the unemployment situation. This week, Gold came off; we could be seeing a supply and demand correction as opposed to doomsday speculative trading as a hedging strategy. In our opinion, this may be bullish for the Dollar, as markets still seem to show a "buy-dollar" ideology.



Sage Capital News of Note

The Fed

Recently we are hearing about the possibility that China will raise rates and attempt to curb inflationary pressures. China's premature withdrawal of crisis stimulus could rein in an expansion in its economy, but could also choke demand. This would likely have negative effects on commodities, as China has been a large buyer over the past few years. Tightening brings concerns of a somewhat rapid decrease in Chinese economic activities.

At the end of January, Fed chair Ben S. Bernanke received confirmation for a second four-year term. The Federal Reserve, which historically remained relatively unknown to the public and independent from political pressures, came into the spotlight due to huge bank bailouts and high rates of unemployment that caused much criticism regarding monetary policy. This scrutiny of monetary policy continues to be the focus of investors looking to gain insight as to the Fed's next moves to curb inflationary pressures.

Senate Banking Committee Chair Christopher Dodd introduced a new version of a "comprehensive" financial reform plan early this week. The proposed plan addresses banking, executive pay, and insurance among its scope of regulations in addition to creating new oversight agencies. The Volcker rule, which aims to regulate proprietary trading in hedge funds and private equity funds on the part of federally insured banks, found its way into this new plan as well. This plan and the Volcker rule seek regulation in a broad spectrum of the financial services arena. Proposed changes include shareholder say in executive compensation, SEC registration of all hedge funds in excess of \$100 Million, and creating an exchange for the OTC derivatives markets, which could include oversight by the CTFC in addition to the SEC. Investors and Wall Street could protest heavy regulation of OTC markets. We will continue to monitor this reform proposal and comment accordingly.

If health care reform could be related to poker, it would fair to say that President Obama is "all in" this week. The President made a final speech in Ohio this week and urged lawmakers to make a final up or down vote and use "courage" to pass the legislation. The debate over health care has carried on over a year, has lost steam among the public, become increasingly less bi-partisan, and lost most of its cost cutting strategies for the already bloated insurance and health care system in this country. However, we may be closing in on Congress' final decision whether or not to pass the Health Care Reform Bill and the implications arising from such will be discussed in future releases.



Sage Capital Last Word

Thoughts

Every quarter provides more relief from the recession of 2008. We are becoming more and more optimistic about the state of the economy. As the markets gain confidence in the US's efforts to sustain recovery efforts and provide guidance as to monetary policy, we may see an even stronger foothold on recovery. Certainly, questions remain which may go unanswered for many months; however, earnings have been strong and provide us with continued optimism.

Until then,



Matt



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Sage Capital Advisors, LLC. • 5672 La Jolla Boulevard, La Jolla, California 92037 • www.sage-cap.com • 858.459.0172

SAGE

CAPITAL ADVISORS LLC.

5672 La Jolla Boulevard
La Jolla, California, 92037

