

THE AGE CURVE REPORT

How to Profit from the Ever-Changing Demographic Landscape

DEMOGRAPHIC LANDSCAPE

Northeast Population
Faces Many Challenges..... 1

Demographics Makes K12
a Great Education Play 4

Interdigital Poised to Reap
Profits From Cell Phones..... 5

Demographics Help Drive
Cell Phone Sales..... 6

Sector Watch: Taking Stock
of Teenagers..... 8

Age Curve Consulting
Generation Delineation 9

ACC Snapshot: Turkey May
Continue to Surprise 10

THE INFORMED INVESTOR

Market Overview 11

Model Portfolio 13

Market Performance and
Sentiment 14

AHEAD OF THE AGE CURVE

Wal-Mart to Challenge
Girl Scout Cookie Sales 16

Northeast Population Faces Many Challenges

As pointed out in our July story “Population Growth Vastly Different by Regions,” the Northeast appears to be the most demographically challenged region in the U.S. when compared to the other three U.S. regions. It has the smallest population (about 55 million, or about 19 percent of the total U.S. population), is experiencing the lowest growth rates (2.71 percent—roughly 1.3 million—from 2000 to 2008), and, by a wide margin, lost the most domestic residents (about 2.5 million from 2000 to 2008) through out-migration. States in the northeast also have the oldest populations by median age, and the lowest birth and fertility rates.

The U.S. Census Bureau delineates the northeast region as the states of Maine, Vermont, New Hampshire, New York, Massachusetts, Rhode Island, Connecticut, New Jersey and Pennsylvania. It is geographically the smallest region by a significant margin, and historically been the most densely populated.

Between 2000 and 2008 the Northeast’s natural increase (the difference between births and deaths) was 1,687,413, with 5,606,717 births and 3,919,304 deaths. While 1,760,742 immigrants moved into the northeast from abroad, 2,447,750 domestic residents exited the region, for a net migration loss of about 687,000.*

All nine of the Northeast states experienced natural increases, with the most populated state, New York, at more than 19 million people, seeing

the biggest natural increase with more than 803,000. The least populated state, Vermont, with about 600,000 people, saw a natural increase of almost 12,000. Four of the Northeast states experienced net migration losses: New York, -698,895; Massachusetts, -84,830; New Jersey, -53,930; and, Rhode Island, -16,268. Pennsylvania saw a net migration increase of 77,383; New Hampshire, 46,235; Maine, 34,6234; Connecticut, 5,127; and, Vermont, 3,546.

On a year-over-year basis, the Census Bureau’s most recent data covering July 1, 2007 to July 1, 2008, indicates that the growth rates are getting worse in the region. Rhode Island was one of two states in the country (Michigan being the other) that lost population. The Census Bureau determined that it lost 2,348 people from its population, giving it a growth rate of -0.2 percent. The other states in the region barely increased their populations at all, and, with the exception of Massachusetts, had a rate of 0.3 percent or worse, giving them, along with Rhode Island and the non-regional states of Michigan (-0.5 percent) and Ohio (0.1 percent), the lowest growth rates in the country for that year. Massachusetts did slightly better by eking out a 0.5 percent growth rate for the year.

Looking forward, the Census Bureau believes that the Northeast’s growth rate will continue to stagnate. In its 2005 interim projections based on the 2000 Census the bureau

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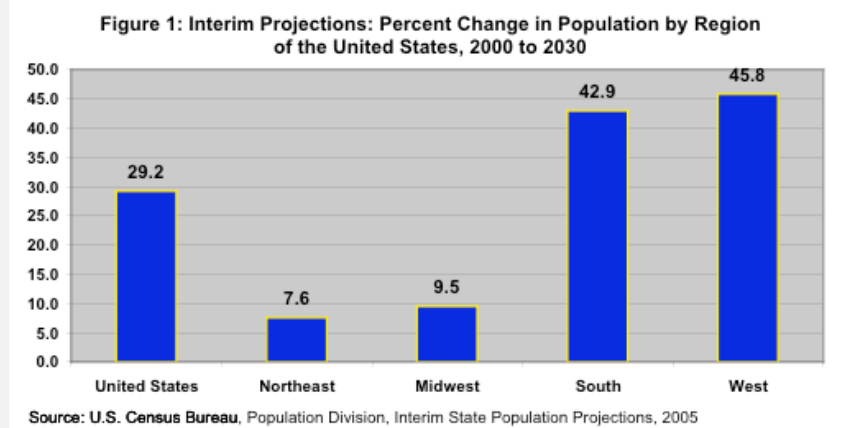
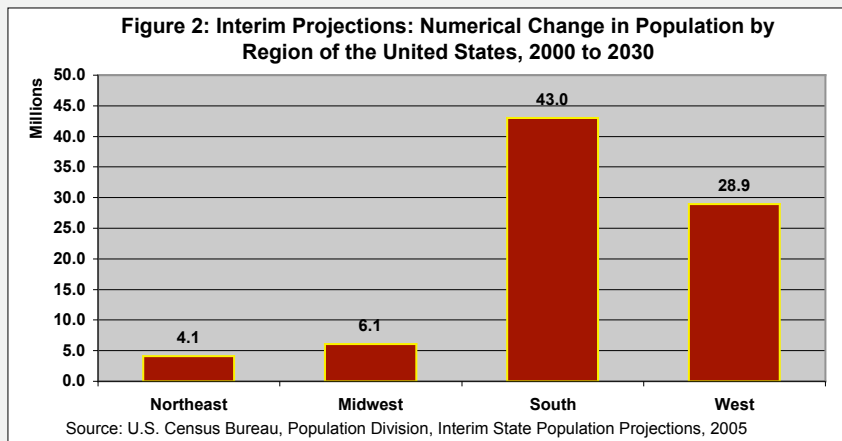
*The difference between natural increase and net migration means that the region’s growth for this period should be about 1 million, however, the Census Bureau adds or subtracts a “residual” to its state figures to account for population changes that “cannot be attributed to any specific demographic component.” Thus the Census Bureau considers the Northeast’s total population change for the period to be about 1.3 million.

determined that the region will see the slowest growth in the country, as its population will increase by about 4.1 million, a 7.6 percent increase between 2000 and 2030. Meanwhile the South—“will rise again”— will see a 42.9 percent increase in its population, which will grow by about 43 million.

Crunching the numbers of population growth is relatively easy—determining the reasons behind the Northeast’s stagnating population growth presents far more difficulties. Opinions abound and added all together most of them probably have relevance and contribute to the problem.

The economy, naturally, would be a primary determinant of the migratory metric of population growth, as people tend to move where the jobs are. On an historic basis the region as a whole has long enjoyed one of the strongest economies in the country, and some economic indicators—such as strong per capita income growth and high GDPs—suggest that this strength may have ebbed, but is still powerful. However, a large portion of this historic economic strength is primarily carried by the states of New York, New Jersey, Massachusetts, Connecticut and Pennsylvania. Moreover, the region’s economic health fluctuates over time and varies widely on a sub-regional, county-by-county and even city-by-city basis, with some areas being economic powerhouses, others being destitute, and many somewhere in between.

While space in this report does not allow an in-depth examination of all the economic factors that may be contributing to the region’s stagnating population growth, the loss of manufacturing jobs in the region is definitely having a significant impact.



According to Kenneth M. Johnson, senior demographer at the Carsey Institute, the Northeast is growing slower than the rest of the country in large part because many of these states, especially the northern ones, do not attract immigrants like states in the rest of the country (immigrants being the key in supporting the entire U.S. demographic, he notes), and domestic residents are migrating out because of the loss of manufacturing jobs. “There has been a significant population loss from what had been traditionally manufacturing counties,” he said, adding that an unrecognized factor is that “a larger part of the rural workforce works in manufacturing than the urban.” Many of these areas have experienced difficult economic times for the past 10 to 20 years, he said, and, as a result, significant out-migration.

Mark Mather of the population Reference Bureau says, “It’s all about jobs,” noting that parts of the Northeast “have been losing population for decades due to loss of employment opportunities, especially in manufacturing and farming.” Mather adds that the outmigration “is most pronounced for young adults,” and once that segment of the population declines, “the number of children and families starts to dwindle.”

While employment opportunities are certainly having an impact on the region’s population trends, the cost of living also plays a role. The Boston Globe, which has been chronicling Massachusetts’ stagnating population for many years, conducted a poll of former state residents in 2006 that indicated better jobs and lower housing costs were the top reasons for leaving the state, with 73 percent

saying their new home was more spacious than their former Massachusetts one, 54 percent indicating that they were enjoying a higher standard of living, and half reporting that housing costs were a major factor in their departure.

Brookings Institute demographer William H. Frey believes that the nation's housing boom was a significant contributor to the overall migratory patterns of the country during this decade, as people moved to the housing hot spots for jobs, or, especially in the northeast, moved away to find more affordable housing. With the boom over and economy stalled, Frey says data is pointing to significant declines of domestic migration to former housing boom areas, such as Las Vegas and many parts of Florida. The data also shows that outmigration from Northeastern states has slowed. These states are seeing a retention of potential out migrants as "many young couples, empty nesters and retirees attempt to hang on until new opportunities arise," he said.

The American Legislative Exchange Council's (ALEC) 2009 State Economic Competitiveness Index—Rich States, Poor States—calls the Northeast "America's Economic Black Hole," and blames high taxes and over-regulation as the primary cause of job losses, and resultant population declines. Using 15 parameters that primarily deal with taxation and regulation, the index gives the states of the Northeast region among the worst economic outlook rankings, and suggests that the outmigration of people is becoming a "stampede."

ALEC's report describes how residents in the region, with the exception of New Hampshire, pay on average \$4,000 more per year in state taxes, which is an "incentive to

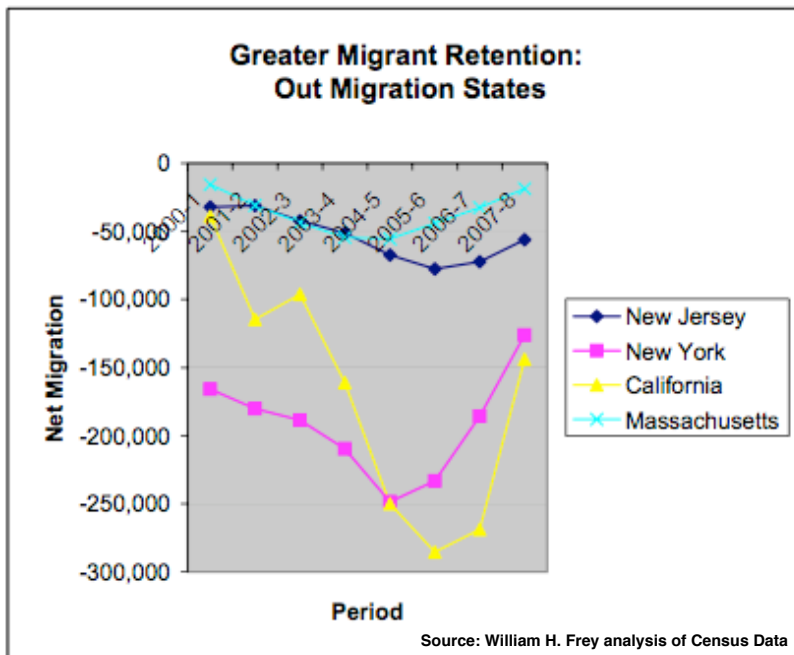
relocate out of the region." The report notes that "high taxes don't redistribute income, they redistribute people."

While most of the Northeastern states' personal income and property tax rates are "well above the national average," all of their corporate tax rates are well above the average, notes the report. These high taxes, along with "mindless and meddlesome regulation" that makes the entire region "a kind of businessman's purgatory," are causing employers to leave the East Coast "even faster than the workers." In short, the report blames the liberal high tax, spend and regulate policies of the region's state governments for the exodus of companies and people, and suggests that the region is becoming economically irrelevant.

Of course, not everyone ascribes to this viewpoint. In fact, the states in the Northeast region rank exceptionally high in a periodic study by the Kauffman and Information Technology and Innovation Foundations that tries to determine which states are best

positioned to capitalize on America's transformation to the "New Economy." The term "New Economy" was coined in the 1990s to describe a set of qualitative and quantitative changes that have been transforming the structure, function and rules of the economy. The New Economy is described as global, entrepreneurial and knowledge-based "in which the keys to success lie in the extent to which knowledge, technology, and innovation are embedded in products and services." In the most recent rankings—The 2007 State New Economy Index—Massachusetts, New Jersey, Connecticut and New York were ranked in the top 10 for being furthest along in transitioning into the New Economy, while New Hampshire, Rhode Island, Vermont and Pennsylvania were ranked in the top 21.

This report acknowledges that many of these higher ranked states are "not growing rapidly in employment," but argues that the New Economy's innovation and technology are boosting worker productivity to levels that more than



compensate for the lost jobs, and that will ensure continued economic growth for the states.

This argument is bolstered by data collected by the Northeast-Midwest Institute's Center for Policy Initiatives, which shows that while the number of manufacturing jobs in the region has been decreasing at

a rate above—in some areas far above—the national average, the output and value of manufacturing output has been rising significantly.

In conclusion, there are many explanations for the stagnating population of the Northeast, and it appears that low levels of population growth will continue in the years

ahead. For the sake of these Northeastern state economies, proponents of the New Economy line of thinking better be right. And, whether New Economy or not, Northeastern politicians should give serious consideration to ratcheting back on high tax and overloaded regulatory policies.

Demographics Make K12 a Great Play in Overlooked Education

Education as an investment sector is often viewed as a safe, defensive play because education is, relatively speaking, a constant, and times of economic stress usually increase higher education enrollments as people seek to boost their job skills. On a demographic basis we believe that the U.S. education sector is overlooked as great long-term growth play, especially given that total enrollment in grades prekindergarten-12 is projected by the U.S. Department of Education's statistics center to grow 10 percent (as of 2005) by 2017. In particular we like innovative companies that harness technology as means to boost learning skills, with our personal favorite being K12 Inc. (LRN).

K12 is a technology-based education company that offers proprietary curriculum and educational services to students in kindergarten through 12th grade who are being homeschooled, attending virtual public schools, attending a "blended" school, and to some in traditional classrooms. The company offers its educational programs and services through online lessons, offline learning kits, and teacher's guides; and provides a range of academic support services, such as scheduling tools, progress

tracking tools, administration management, compliance tracking, technology support, special education support, to name a few.

K12 was founded in 1999 in Herndon, Virginia, and to date its curriculum is offered and accredited in 22 states, and the company expects to expand in at least seven to eight more states by 2012. According to the company, Homeschooled and students in virtual schools who use K12's curriculum consistently exceed state averages on standardized test scores and outperform virtual schools that use other curriculum.

As it has expanded during the past 10 years and student enrollment rapidly increased, its revenues have significantly jumped, with the company taking in \$30.9 million in 2003, and estimating \$315 million in 2009. The company IPOed in December 2007.

While the number of U.S. students is seeing 10 percent growth in the coming years, the growth of alternative forms of education, such as homeschooling and virtual public schools has been even more robust.

As of 2007 the Department of Education's National Center for Educational Statistics estimated the number of home schooled children at 1.5 million, a 74 percent increase

from 1999 when the department first started keeping track. While the center did not try to project future numbers, a statistician for the center said they believed the number of homeschoolers would continue to increase at a high level.

The number of students in virtual schools almost doubled between 2005, when there were 31,000 students in 86 virtual schools in 13 states, and 2007, when there were 92,000 students attending 173 virtual schools in 18 states.

All of this bodes well for K12, which should see significant growth in the next few years, as more students continue to adopt alternative learning and the company expands into new states. If the company can continue its current pace of enrollment growth it will likely double its enrollment by 2012. And because the company's fixed costs are basically stable, increasing enrollment means a nice boost to margins.

As of July 10 the short position in the stock was at 24.9 percent, reflecting what we believe to be the mistaken belief that state and federal funding will not continue to support the nascent virtual school movement, because they should not be considered true public schools.

K12 Inc.	Price	1 Yr High	1 Yr Low	Yield	PE	PS	PB	PD
LRN	19.57	29.47	11.95	n/a	18.28	1.75	3.02	0.14

Source: Wall Street Journal—August 7, 2009

However, recent court cases, as well as continued accreditation, belies this line of thinking. In the most recent court ruling a Cook County, Illinois court issued a summary judgment June 12, in favor of the Chicago Virtual Charter School, ruling that the school is in full compliance with the Illinois School Code, and ensuring its continued lawful operation and public funding.

K12 reported May 8, that for the three months ending March 31, quarterly revenue was up 38 percent on strong enrollment growth. K12 Chief Executive Officer Ron Packard was very positive about the group's long-term growth prospects: "We are pleased to be able to deliver these results, particularly in this environment, and we continue to see strong demand from state governments and students for our



high quality offering." The company also reconfirmed the earnings and revenue guidance issued on February 9, 2009 of full fiscal year 2009 revenues of approximately \$310 million to \$320 million versus last year's \$266 million.

We believe that, despite the company's strong demographic tail wind, valuations still matter. On this basis the shares still offer excellent growth potential given its future growth prospects. The shares sell on an historic fully diluted price per earnings of 18.28 and a price to sales ratio of 1.7. Analysts are forecasting up to 50 percent plus growth this year, which leave the shares very attractively priced, particularly on a

price/earning/growth (peg) ratio basis.

While there are no certainties in the investment business, our demographic, valuation and sentiment models suggest that K12 growth prospects are being undervalued by investors and earnings surprises should continue to be on the plus side over the next few years. In addition, being an innovative company, we would not be surprised to see the company seek an alliance in the not-so-distant future with an e-book company—perhaps Amazon, with its Kindle; or Apple, with its highly anticipated iPad—as a new medium for offering its curriculum.

Interdigital Poised to Reap Profits in Burgeoning Cell Phone Sector

Interdigital Communications Corporation (IDCC) has long been the Rodney Dangerfield of the wireless Telecom sector, as it just "can't get no respect," from either Wall Street or many of the big wireless players. However, that may finally change this month as the world's leader in cell phone sales, Nokia, could decide to come to terms with IDCC rather than face a possible U.S. importation ban on its smart phones.

IDCC has been seeking respect and revenues from its technology and patents since it was founded in 1972. Its attempts to generate

revenues from its proprietary wireless phone system resulted in significant operating losses, but the company realized that its patented cell phone technologies—those used both in handsets and for transmission (base stations)—were crucial to the development of the fledgling worldwide cell phone system.

The big cell phone players, however, basically decided that IDCC's patented technologies were not "essential" to the system, and balked at paying the royalties Interdigital sought, forcing the company to seek redress through the court system.

In 1995 Interdigital lost a crucial patent infringement case against the biggest cell phone maker of that time period, Motorola, which reputedly made other companies even more hesitant to license with IDCC and pay for the company's technology. This despite the fact that the U.S. Patent Office, and several European patent offices, revalidated and affirmed the disputed patents in 1999.

A 10-year legal battle Ericsson resulted in a settlement in 2003, but the settlement itself disappointed Wall Street as it appeared that IDCC, which had reportedly been

seeking more than \$1 billion in damages, accepted “pennies on the dollar” (the settlement gave IDCC \$34 million for past infringement and established a new license with rates of between .5 percent to .75 percent for handsets and a flat \$6 million per year for base stations). However, Wall Street did get excited because IDCC announced that the Ericsson settlement initiated licenses and multi-million dollar payments from Samsung and Nokia under licensing frameworks (basically agreements to pay whatever Ericsson agreed to pay) IDCC had in place with those two companies, and the stock rose from about \$14 to reach a high of \$27.14 within two months.

Of course, both Nokia and Samsung claimed foul, initiated arbitration and began other legal maneuvering (Nokia has initiated more than 10 separate legal actions—most of which ultimately proved unsuccessful—in the U.S. and abroad in a strategy some call “delay and obfuscate”) to get out of paying IDCC anything for its patented technology. Ultimately, after arbitration awards granted to IDCC, appeals of those awards and other legal maneuvering by the defendants, Nokia in 2006 paid \$253 million for their use of IDCC patented technology up to the year 2006, while Samsung in late 2008 settled for a reported \$400 to \$500 million to cover both past infringement and a royalty bearing license good until 2012.

At this point in the story it should be noted that most of the above mentioned legal saga revolved around 2G (or second generation) cell phone patents. IDCC has also been a key player in the development of 3G technologies (which resulted in “smart phones” and is used extensively in wireless

computing) and served on the international standards body that coordinated the development of 3G for commercial application. The standards body reportedly accepted about 300 IDCC contributions of patented technology as either essential to the system or commercially attractive.

Starting in about 2003, Interdigital began publicly announcing that its goal was to get paid for every 3G device sold worldwide, and that it was aiming to

receive from between \$1 to \$2 per every device. Since then, IDCC has managed to license more than 50 percent of the 3G market with companies such as LG Electronics, Research in Motion, Apple, Panasonic, NEC, Hitachi, Kyocera, High Tech Computer, Arima, Toshiba, and, most recently, Samsung, coming to terms with the company.

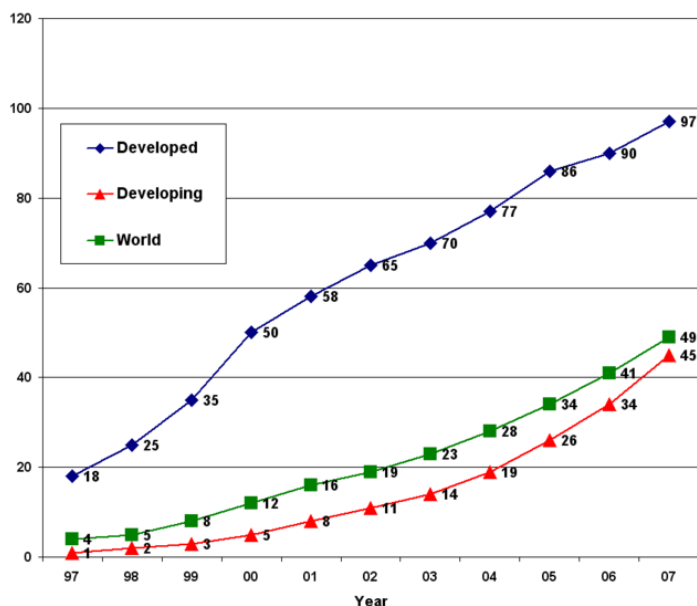
And now Nokia, which remains the biggest hold-out, is facing an August 14 “initial determination” on

Demographics Help Drive Cell Phone Sales

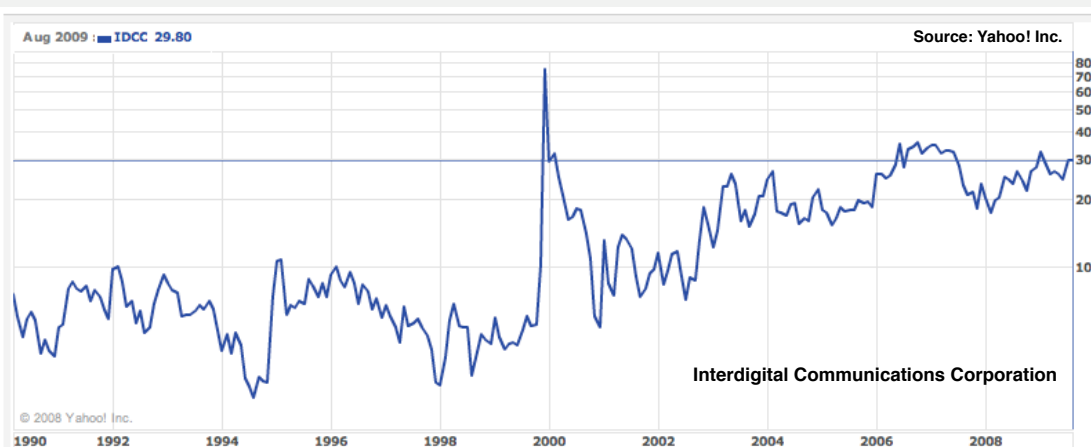
Demographically speaking cell phones have proven to be the best-selling consumer product in the world, with the product becoming so ubiquitous that they have effectively started to reach the bottom of the economic pyramid. In just 12 years cell phone sales have grown 10-fold, from almost 108 million sold in 1997 to an estimated 1 billion-plus expected to be sold by the end of this year.

The International Telecommunication Union estimated that mobile cellular subscriptions topped 4 billion by the end of 2008. And even though the market for cell phone sales is considered to be saturated in the U.S. and Europe, there is plenty of room for increasing sales in the emerging market. Moreover, even though the developed world market may be saturated, it is estimated that the average American purchases a new cell phone every 12 to 18 months. And with cell phones evolving into “smart phones” with a wide variety of applications far beyond “speak and hear,” sales should continue to climb for years to come.

Mobile phone subscribers per 100 inhabitants 1997-2007



whether the International Trade Commission (ITC) should ban the importation of Nokia handsets into the U.S. due to infringement of IDCC patents. The ITC case mirrors the one



IDCC had with Samsung prior to their settlement, in that it involves some of the same patents and that the ITC staff have recommended a finding of “no violation” (and thus, no importation ban) against the alleged infringer. Samsung agreed to settlement just weeks prior to the “initial determination” deadline in its case, and many pundits believe Nokia will do the same.

While the ITC staff recommendation would appear to favor Nokia, ITC judges are not under any obligation to follow the staff recommendation, and, in fact, often rule contrary to them. And, like Samsung, Nokia just cannot afford even the risk—a sword of Damocles—of an importation ban due to the scale of the potential economic disruption it could cause.

If Nokia settles as expected, the rest of the 3G market, including Sony-Ericsson and Motorola, is expected to quickly follow. In fact, IDCC officers have alluded to a 3G license framework the company has with Sony-Ericsson that dictates the terms under which that company will take a 3G license, and many analysts believe the primary dictate to be that IDCC licenses Nokia to 3G.

A Nokia 3G license would boost IDCC’s annual revenues by at least 30 percent, and adding the other holdouts to the mix should represent a doubling of revenues. While the company has been aiming for licensing terms of between \$1 to \$2 per 3G device, it appears that the company has been getting terms of between \$0.50 to \$1.25. However, this still adds up to hundreds of millions of dollars in revenues per year, most of which will flow to the bottom line as the company generates almost 100 percent gross margin on licensing revenues.

And these revenues should continue to increase every year for the foreseeable future as the number of 3G devices being sold every year continues to grow. Under Interdigital’s own projections for the year 2012, with 75 percent of the 3G market licensed at \$1 per device the company would earn about \$700 million in 2012. With 100 percent of the market licensed at \$1 per device this figure almost reaches \$1 billion.

The company has more than 3,000 patents issued worldwide, with another 9,000 pending, and was ranked 141 among companies worldwide for the number of patents

issued by US Patent Office in 2007. Its patents cover 3G wireless, the future 4G wireless, wireless LAN and Mobility/Convergence. Its roster of current 3G licensees represents a “who’s who” of the wireless business and currently help the company earn more than \$1 per share (excepting a recent \$37.1 million repositioning charge). The addition of Nokia and other holdouts, along with a growing market for 3G devices, could easily raise the company’s earnings to between \$2 to \$3 per share by late 2010.

With a current P/E of around 44 and a price to sales ratio of 4.28 we cannot argue that the stock is cheap, however we would argue that the P/E is misleading given the repositioning charge. We believe that future positive news flows, earnings surprises, new licenses, and growing revenues make the stock especially attractive on a forecasted 2010-2011 P/E of 9.5. We expect investors to drive the price back up to the \$35 range by the end of the month, and would not be surprised to see the price top \$40 should Nokia settle and take a license with the company under favorable terms.

Interdigital	Price	I Yr High	I Yr Low	Yield	PE	PS	PB	PD
IDCC	30.97	33.69	16.20	n/a	43.54	4.28	13.09	0.01

Source: Wall Street Journal–August 7, 2009

Sector Watch: Taking Stock with Teens

This month we are going to deviate from our normal Sector Watch to review and comment on the performance of stocks highlighted in PiperJaffray's, 17th biannual "Taking Stock with Teens" survey published in the Spring.

The report highlighted a Baker's Dozen (13) of stocks, which are listed in the table below. We feel this survey helps summarize the existing and emerging trends among U.S. Generation Y teenagers (ages 13 to 19, with a current 28.6 million of them, but set to grow to 30.3 million by 2025, thanks to Generation Z, born 2005 to 2024).

The key theme of the survey is the shift in U.S. teens towards value (more selective and increasingly price conscious) in both fashion and restaurant purchases, a trend we feel will continue throughout the life of Gen. Y. Despite this emergent frugality, two bright spots were the increase in video-game spending as a percentage of teens' overall budgets, and the high percentage of teens planning to buy an iPhone. The latter finding confirms our opinion that Apple will drive and dominate the current new technological product cycle, a position that should be further strengthened by the launch of the iPad later this year.

Overall Findings:

Clothing, music and movies are the top three items for spending among teens in general. Males are most likely to buy video games or electronics. Females are more likely to spend their money on clothing, jewelry and make-up rather than music or movies.

Fashion, Beauty and Apparel Preferences:

West Coast brands Pacific Sunwear (PSUN), Volcom (VLCM), Quicksilver (ZQK), Zumiez (ZUMZ) took the top spot in clothing brand preferences among teens, followed by Hollister (ANF), Nike (NKE), Forever 21 and American Eagle (AEO). Hollister took the most preferred position among young women and the West Coast brands

continued to remain the favorite among young men. Footwear spending produced the strongest year-over-year growth, with teenage girl spending up 4 percent and teenage boy spending up 21 percent.

Video Games and Electronics Preferences:

Video-game spending now consists of 8 percent of teen budgets, up from 3 percent five years ago. Eighty-nine percent of teens own at least one video game console, while 59 percent own two consoles. Gamestop (GME) remains the retail destination of choice with 31 percent share, as teens trade in old games to get credit toward purchasing new ones.

In digital music, 86 percent of teens who own a MP3 player indicated that they own an iPod (AAPL), up from 84 percent last fall and iTunes ownership rose to 97 percent from 93 percent. Eight percent of teens indicate they own an Apple iPhone (up from six percent year-over-year), while 16 percent expect to buy one in the next six months.

Restaurant Preferences:

As in past studies, Starbucks (SBUX) takes the number one restaurant spot among teens. The average estimated teen restaurant spending has decreased since the beginning of the recession (Fall 2007). Value as a factor of influence continues to rank increasingly higher, even more than convenience. The lunch, or day segment, continues to gain share at the expense of dinner. Operators with a value message, such as Starbucks, Chipotle (CMG) and McDonalds (MCD), are gaining teen market share, .

A separate but related study of parents indicates that spending on themselves and their teens decreased sequentially, although 2009 levels appear to be stabilizing and slightly ahead of last year.

Apparel spending by parents for their teens was \$915, compared with the Fall 2008 spending at \$1,085.

However, this level is above the \$883 average in Spring 2008. When shopping for their teens parents favored Hollister, Nordstrom and West Coast brands.

It would appear from the overall gains seen from the "Bakers Dozen" that many of these stocks were priced for extinction and the end of teenage spending. We expect these companies to, on the whole, produce earnings surprises in the coming years as teenage numbers continue to grow.



Company	Code	Price	%	Yield	PE	PS	PB	PD
Pacific Sunwear of California	PSUN	3.86	302	n/a	n/a	0.3	0.6	0.0
Volcom	VLCM	13.14	197	n/a	18.4	1.1	1.6	0.0
Zumiez	ZUMZ	12.39	183	n/a	24.3	1.13	2.0	0.0
Quiksilver	ZQK	2.23	206	n/a	n/a	0.14	0.73	2.7
Abercrombie & Fitch	ANF	32.81	187	2.3	18.4	1.11	1.53	0.1
Nike	NKE	58.07	49.3	1.74	19.04	1.48	3.2	0.1
American Eagle	AEO	15.59	76.1	2.7	19.7	1.26	2.14	0.1
GameStop	GME	25.16	9.1	n/a	10.1	0.51	1.67	0.2
Apple	AAPL	165.62	100	n/a	28.64	4.39	5.67	0.0
Starbucks	SBUX	18.95	128	n/a	55.3	1.4	4.8	0.2
Chipotle	CMG	93.70	90.6	n/a	31.21	1.89	4.6	0.0
McDonald's	MCD	55.20	5.3	3.7	14.5	2.64	4.52	0.8
Nordstorm	JWN	30.30	144	2.3	16.7	0.84	4.75	2.0

* Gain/loss from March 9, 2009 lows

Source: Wall Street Journal—August 7, 2009

The Generations as Delineated by Age Curve Consulting

Marketers and sociologists have studied "generations" for years, and spend much energy trying to define the different generations, and yet there has never been a formal, or standard, delineation of the generations. Thus, the size of a particular generation, its timeline through history, its name, and related characteristics are entirely subjective, and suffer from wide variations in interpretation and definition. Without a standard for delineation so-called generational pundits can pretty much say whatever they like about a generation and use whatever convenient timeline and population size they want in order to bolster their pronouncements.

Age Curve Consulting cannot afford to be subjective when referring to the different generations because we are trying to determine how generational changes are going to affect the economy. Therefore, we use what we believe to be a rational, consistent and logical delineation of the generations. While demography is not an exact science, the use of a standard delineation helps take some of the subjectivity out of making accurate forecast about commerce, culture and economics.

G.I. Generation	1905-1924	56.6 million
Silent Generation	1925-1944	52.5 million
Baby Boomers	1945-1964	78.2 million
Generation X	1965-1984	69.5 million
Generation Y	1985-2004	79.5 million
Generation Z	2005-2024	+16 million (thus far)
Generation Blend*	2025-2044	Unknown

*ACR has chosen the moniker "Generation Blend" because this will be the most ethnically assimilated U.S. generation ever.

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Age Curve Snapshot: Turkey May Continue to Surprise Everyone

Turkey is not only a major modern economy, but it is the largest economy in the Middle East. It is much larger than Iran and perhaps the only truly modern economy in the entire Muslim world. Most importantly, in a global world it sits between Europe, the Middle East and Russia. The Ottoman Empire by the sixteenth century controlled not only North Africa but also southeastern Europe, the Russian Caucasus and the Arabian Peninsula.

Economic Background: Placed 41st in Forbes 2009 Best Countries for Business:

"Turkey's dynamic economy is a complex mix of modern industry and commerce along with a traditional agriculture sector that still accounts for more than 35% of employment. It has a strong and rapidly growing private sector, yet the state still plays a major role in basic industry, banking, transport, and communication. The largest industrial sector is textiles and clothing, which accounts for one-third of industrial employment; it faces stiff competition in international markets with the end of the global quota system.

However, other sectors, notably the automotive and electronics industries, are rising in importance within Turkey's export mix. Real GNP growth has exceeded 6% in many years, but this strong expansion has been interrupted by sharp declines in output in 1994, 1999, and 2001. The economy turned around with the implementation of economic reforms, and 2004 GDP growth reached 9%, followed by roughly 5% annual growth from 2005-07. Due to global contractions, annual growth is estimated to have fallen to 3.5% in 2008. Inflation fell to 7.7% in 2005 - a 30-year low - but climbed back to 8.5% in 2007."

Demographic Landscape

Turkey's birth numbers peaked in 1982 at 1,568,700 versus a 2010 estimate of 1,380,100 (a fall of 12 percent). The number of children per women has fallen from 5.94 in 1965 to 2.11 and is forecast to fall to 1.85 by 2044. Turkey's Spending Wave (births lagged by 42 years) is set to remain strong until 2024.

Population

2009 Population 76,773,900

2025 Estimated Population 89,557,000 (Growth 16.7%)

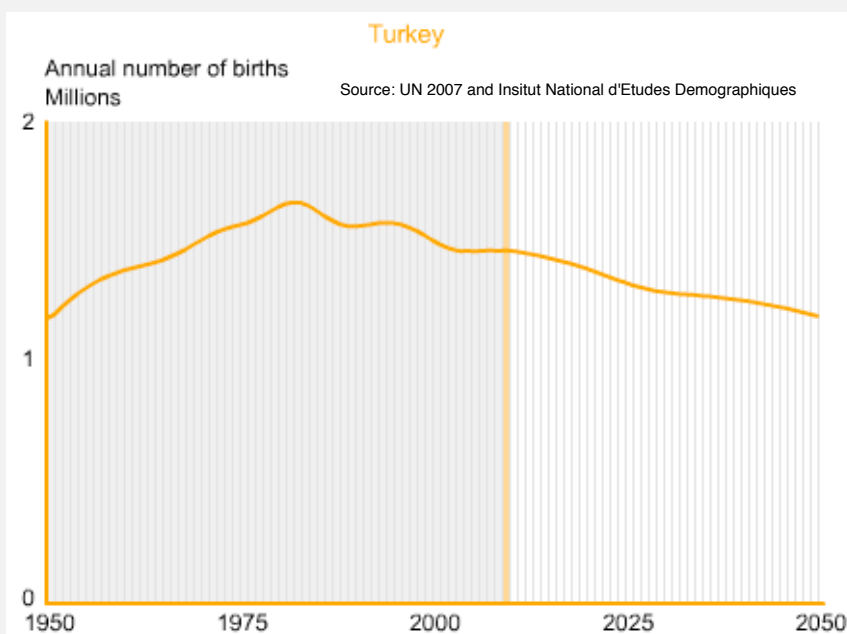
Generations

1965 to 1984 Generation X: 29,408,000

1985 to 2004 Generation Y: 27,748,000 (Decline 5.6%)

2005 to 2024 (Est.) Generation Z: 26,864,000 (Decline 3.2%)

2025 to 2044 (Est.) Blenders: 24,185,000 (Decline 9.9%)



Valuation Summary

The Turkish ETF, iShares MSCI Turkey Market Index Fund (TUR) is up nearly 144.3 percent against the s&P Global ETF (IOO) return of 52.1 percent since March 2009. At the March low, the Turkish market was undervalued using Ned Davis Research Turkey Earnings Yield model, as it was also in the early 1990s.

A recent forecast by Merrill Lynch shows Turkish GDP growing by an average of 4.5 percent between 2010 and 2019 (supported by strong growth demographics). If inflation is successfully kept under control, this could easily rise to an average of 5.5 percent.

The Turkish market measured by the TUR, or the Turkish Investment Fund ETF (TKF), is very overbought short-term, and a better long term entry point may arise in October or November on any market weakness arising from the IMF and the World Bank annual meetings in Istanbul. Turkey currently is our favored emerging market region and is the biggest emerging market holding in our model portfolio (please see page 13).

The Informed Investor

Market Overview: What Lies Beyond the Recession End?

By Logie Cassells

We believe one of the most reliable forward looking economic indicators is the stock market rather than predictions from economists, leading or otherwise. On average the stock market leads the economy by some four months. Therefore it should not surprise investors to see economic activity still declining, while the market bottoms and climbs its "Wall of Worry" as it progresses through the recovery phase of Bear Market low to Recession End.

Despite what bearish economists have been writing about over the lack of visible evidence of an economic recovery, the market rally since the 2009 lows has been "text book" and not out of sync with previous recoveries. The mean gain following a stock market low during a recession is 24 percent at six months and 32 percent at 12 months. To date the S&P 500 is up nearly 48 percent over five months and confirms our central "Monster Rally" theme from the March lows

We believe, as stated before, that the U.S. economy bottomed in June, and our stance is supported by the Index of U.S. Leading Economic Indicators that have now risen for three straight months, and by the broadest composite of OECD leading indicators experiencing its biggest monthly gain in July since 1975. So, what should investors expect as we enter the next investment phase of a market recovery, the Post Recession Phase?

In overall stock market terms, we should see further gains from the current rally. After a recession end the equity market has risen in nine out of ten times, with mean returns in the following six months of 9

percent and 14 percent after 12 months. These gains, although very attractive historically, are more modest over similar time periods after a bear market low: 24 percent after six months 33 percent after 12 months.

We continue to see further small-cap outperformance, but expect to see the pace of this outperformance moderate. The small to large cap ratio has risen by a mean of 10 percent following a bear low during recessions to recession end and by only 7 percent in the six months following a recession end.

During the last phase, Bear Market Low (9th March 2009) to Recession End (30th June 2009), sector leadership showed only a few differences from the historical script. The mean return for the S&P 500 during this stage is 26.1 percent, with outperformance coming from Consumer Discretionary (39.5%), Technology (38.9%), Financials (32.2%), Industrials (31.2%) and Materials (29.6%). The recent phases' gains were S&P 500 (35.9%), Financials (91.9%), Consumer Discretionary (44.9%), Technology (44.1%), Industrials (44.0%) and Materials (42.0%). This "Monster Rally," or stronger than norm market return, is consistent with recoveries following severe bear markets and the better than expected returns from the Financial sector is also a reaction to their being priced for extinction back in March.

We expect sector performance during its new phase: Recession End to Earnings Trough to continue on balance to follow previous historical patterns of a market recovery. Historically, the six month period

following the recession's end has favored the commodity sectors (Energy and Materials) and the traditional cyclicals (Industrials and Consumer Discretionary). The non-cyclicals (Utilities, Telecoms, Health Care and Consumer Staples) have underperformed during this period. Over the 12-month period the only change is that the Financial sector replaces Energy of the outperforming sectors. It may surprise readers that the investors' "favorite," Technology, is missing from our summary. This sector has tended to underperform post recession end: six months (-1.6%) and 12 months (3.5%). This may be due to the very strong recovery it shows during the first phase and the product cycles tend to be different in many of the economic recoveries. We believe the technology sector will outperform the market during the next phase with the current product cycle being dominated by Apple in particular, and by the growing demand for "Smart" cell phones technology. The visible drag on the sector is Microsoft, or should we say "Microstuck," and we feel that their expected failure to pleasantly surprise in the next product cycle will bring the company closer to its logical end of being broken up. However, we admit that the launch of Windows 7 this October may give it a short term boost.

Emerging markets historically outperform in the early part of global economic recoveries given their sensitivity to commodity markets, and tend to trend higher for at least six months after the end of a recession. Compare the sector weightings between the S&P Global 100 ETF versus the MSCI Emerging

Markets ETF. The S&P Global 100 Index has a higher weighting (26.3% versus 6.3%) than those sectors—Consumer Staples and Health Care—that traditionally underperform in a market recovery.

We are strong believers of the outperformance of certain emerging markets in the coming decade, but believe that many of the current favorites, particularly China, in the latest investment binge will surprise on the downside. This current nervousness of emerging markets stems from their current over popularity and their over reliance on the current “China-driven commodity demand bubble.” Jason Zweig pointed out July 25 in his highly recommended weekly column, *The Intelligent Investor*, that investors have poured \$10.6 billion into emerging-markets mutual funds so far this year, or more than 34 times the total they added to U.S. stock funds. The iShares MSCI Emerging Markets Index Fund is now the fourth-biggest of all exchange-traded funds, with \$30.8 billion in assets.

In fact, high economic growth doesn't ensure high stock returns, according to a new study by Elroy Dimson of the London Business School. Based on decades of data from 53 countries, Prof. Dimson has found that the economies with the highest growth produce the lowest stock returns, often by an immense margin. Stocks in countries with the highest economic growth have earned an annual average return of 6 percent, while those in the slowest-growing nations have gained an average of 12 percent annually.

That isn't a typo. Over the long run, stocks in the world's hottest economies have performed half as well as those in the coldest.

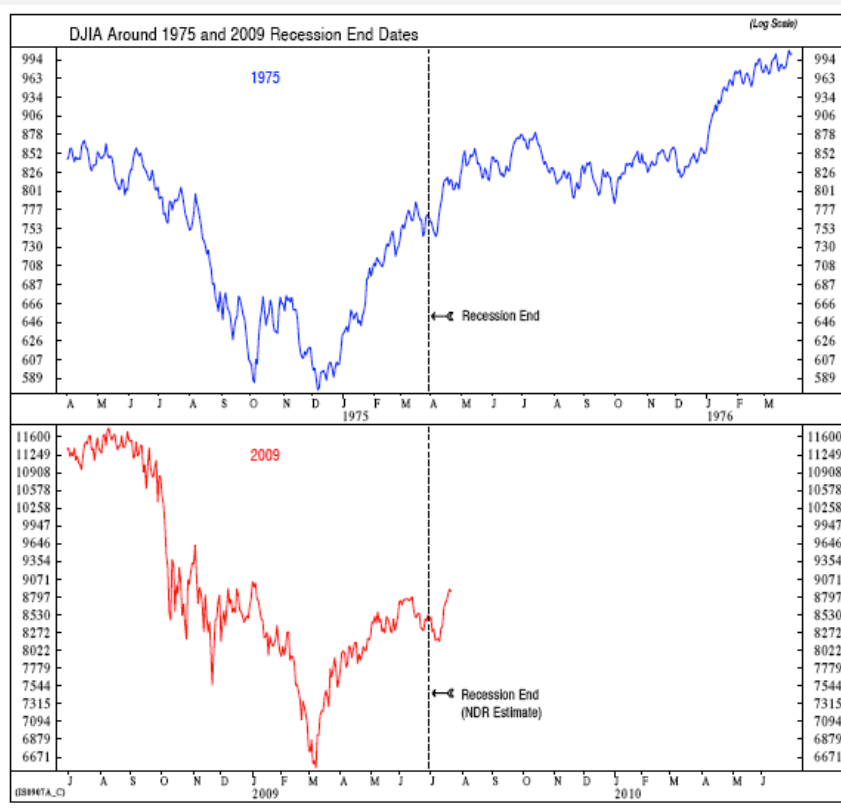
These findings should not surprise us, as investors have a habit

of placing too high a price on a country's or company's growth prospects. Remember everything was “Turning Japanese” in 1989. Investors forgot that the problem with highly rated investments is when the actual or expected earnings collapse, so does the price, as Japanese investors found out in the early 1990's. Many investors also fell into the same trap ten years later in 1999 with Internet stocks, as Jay Ritter, finance professor of the University of Florida, points out in Jason Zweig's article, “The logical fallacy is the same one investors fell into with Internet stocks a decade ago. Rapid technological change doesn't necessarily mean that the owners of capital will get the benefits. Neither does rapid economic growth.”

In recent weeks, we have reduced our weighting towards emerging markets from nearly 17 percent of our model Beacon Master

Portfolio to 12 percent, with Turkey being the largest holding at 3.3 percent. In absence of any further negative changes in our models we will give the benefit of the doubt to emerging market relative outperformance versus developed markets. However, our foot remains nervously near the exit.

We agree with many investors that if there is a theme to compete with “Chinese coming dominance over the United States” for the most misused phrase in the media, it is: “Worst since the Great Depression.” It makes wonderful sensational journalism, but little else. One key factor that many, if not all, miss when making comparisons with the 1930s was the weather's impact on the economy. The weather during the Dust Bowl, or the “Dirty Thirties,” period was far beyond the natural cycle of seasons. This was a period of severe dust storms causing major ecological and agricultural



damage to American and Canadian prairie lands from 1930 to 1936 (in some areas until 1940). This was caused by severe drought coupled with decades of extensive farming without crop rotation, fallow fields, crop cover and other techniques to prevent soil erosion.

So if the Dirty Thirties is not a comparable equity market road map, what is? We believe that the best parallel today for comparison sake is the recession of 1973 to 1975, and the 2009 market recovery is tracking the stock market recovery from the 1974 low (See NDR Dow Jones Index Around 1975 and 2009 Recession End Dates chart on previous page). This would indicate an extended

market uptrend lasting nearly two years. The market rallied nearly 60 percent from its lows to just over 1,000 by September 1976, and then declined by about 24 percent, finally bottoming in February 1978.

While historical road maps and market cycles can be very useful for investors, and can open one's mind to different investment possibilities, they need to be confirmed by actual evidence and not blindly followed. However, for the moment we remain on track.

Currently the evidence suggests to us that the "Monster Rally" will continue to climb the "Wall of Worry" for the next 12 months and our model Beacon Master Portfolio

is currently fully invested. There will of course be bumps along the way, and the first one may occur during late August to first weeks of September (please see our Aug. 7 Beacon Blog, <http://www.beaconassetmanagers.com/3-beacon-blog/equity-market-sentiment.html>), just as perhaps the green shoots are turning into recognized flowers. We will also be keeping a close eye on the Ned Davis Research Crowd Sentiment Poll (please see page 15), for a reading above 68 percent that would give us a bearish signal based on extreme optimism that would suggest the market is overbought. The current reading is 62.

Model Beacon Master Portfolio									08/07/09
Code	Name	Cost	Price	No.	%	Value	G/L\$	G/L%	
Bonds and Gold									
GLD	SPDR Gold Trust	94.6	93.8	475	2.8%	44,531	-404	-0.9%	
TIP	iShares Barclays TIPS Bond Fund	98.1	100.1	1,221	7.7%	122,198	2,381	2.0%	
Technology									
AAPL	Apple Inc.	94.0	165.5	212	2.2%	35,088	15,160	76.1%	
SWKS	Skyworks Solutions	9.8	11.2	2,040	1.4%	22,909	2,917	14.6%	
STAR	Starent Networks	23.9	22.4	837	1.2%	18,749	-1,247	-6.2%	
HITT	Hittite Microwave Corp	37.3	33.7	536	1.1%	18,052	-1,940	-9.7%	
VOD	Vodafone Group PLC ADS	19.3	21.4	1,038	1.4%	22,203	2,221	11.1%	
IGW	iShares S&P NA Tech.- Semiconductor Index	26.6	41.9	1,239	3.3%	51,865	18,870	57.2%	
Consumer Discretionary									
XHB	SPDR S&P Homebuilders ETF	14.3	15.5	2,099	2.1%	32,597	2,603	8.7%	
GPS	Gap Inc.	11.6	18.6	1,718	2.0%	31,920	11,923	59.6%	
ARO	Aeropostale	32.9	37.5	610	1.4%	22,875	2,824	14.1%	
CMG	Chipotle Mexican Grill	81.0	93.7	247	1.5%	23,144	3,137	15.7%	
TIF	Tiffany & Co.	26.2	31.6	764	1.5%	24,150	4,156	20.8%	
ESI	ITT Educational Services Inc.	94.4	102.6	264	1.7%	27,086	2,154	8.6%	
LSN	K-12	20.3	19.6	1,230	1.5%	24,071	-898	-3.6%	
Industrials									
XLI	SPDR Industrial Sector Index Fund ETF	22.8	25.1	1,752	2.8%	44,010	4,012	10.0%	
Energy and Materials									
MXI	iShares S&P Global Materials Sector Index	41.1	53.3	875	2.9%	46,673	10,693	29.7%	
KOL	Market Vectors-Coal ETF	23.7	28.8	2,197	4.0%	63,361	11,358	21.8%	
RYE	Rydex ETF Trust Rydex S&P Equal Wgt. Energy	43.3	43.4	1,776	4.9%	77,007	36	0.0%	
Health Care									
DNDN	Dendreon Corp.	20.1	23.8	994	1.5%	23,667	3,668	18.3%	
XBI	SPDR S&P Biotech ETF	49.1	53.7	407	1.4%	21,840	1,844	9.2%	

Financials								
RY	Royal Bank of Canada	40.0	47.3	624	1.9%	29,484	4,505	18.0%
SCHW	Charles Schwab Corp.	17.2	19.5	1,455	1.8%	28,300	3,317	13.3%
GS	Goldman Sachs	149.0	163.7	167	1.7%	27,330	2,447	9.8%
WFC	Wells Fargo & Co.	18.2	28.8	1,375	2.5%	39,545	14,548	58.2%
RKH	Merrill Lynch Regional Bank HOLDRs Trust	63.6	80.2	471	2.4%	37,755	7,819	26.1%
Consumer Staples								
SAM	Boston Beer Co. CI A	25.9	36.7	1,080	2.5%	39,604	11,621	41.5%
WVVI	Willamette Valley Vineyards	3.3	3.2	6,079	1.2%	19,210	-790	-4.0%
NUS	Nu Skin	15.3	18.0	1,308	1.5%	23,492	3,492	17.5%
Developed Overseas Markets								
EWJ	iShares MSCI Japan Index Fund	8.7	9.9	7,556	4.7%	74,880	9,218	14.0%
EWU	iShares MSCI United Kingdom Index Fund	11.8	14.8	3,567	3.3%	52,934	10,951	26.1%
EWA	iShares MSCI Australia Index Fund	15.1	19.5	3,604	4.4%	70,170	15,930	29.4%
EWC	iShares MSCI Canada Index Fund	20.3	24.1	2,162	3.3%	52,147	8,172	18.6%
Emerging Markets								
BRF	Market Vectors Brazilian Small Cap	32.0	35.9	875	2.0%	31,395	3,413	12.2%
TKF	Turkish Investment Fund Inc.	6.9	11.7	4,672	3.4%	54,662	22,659	70.8%
EWV	iShares MSCI Mexico Investable Market Index	35.4	43.4	706	1.9%	30,612	5,627	22.5%
EPP	iShares MSCI Pacific ex-Japan Index Fund	29.7	36.2	1,281	2.9%	46,334	8,352	22.0%
FXI	iShares FTSE/Xinhua China 25 Index Fund	41.9	41.8	597	1.6%	24,961	-30	-0.1%
Other								
IWM	iShares Russell 2000 Index Fund	44.3	57.1	746	2.7%	42,589	9,534	28.8%
Cash					3.9%	61,157		
Realized Gain/Loss							348,322	
Value of Model Beacon Master Portfolio						1,584,558		

Market Outlook:

Buy as of December 5, 2008

Market Phase:

Bear Market Low to Recession End

**Performance Comparison from
December 5, 2008**

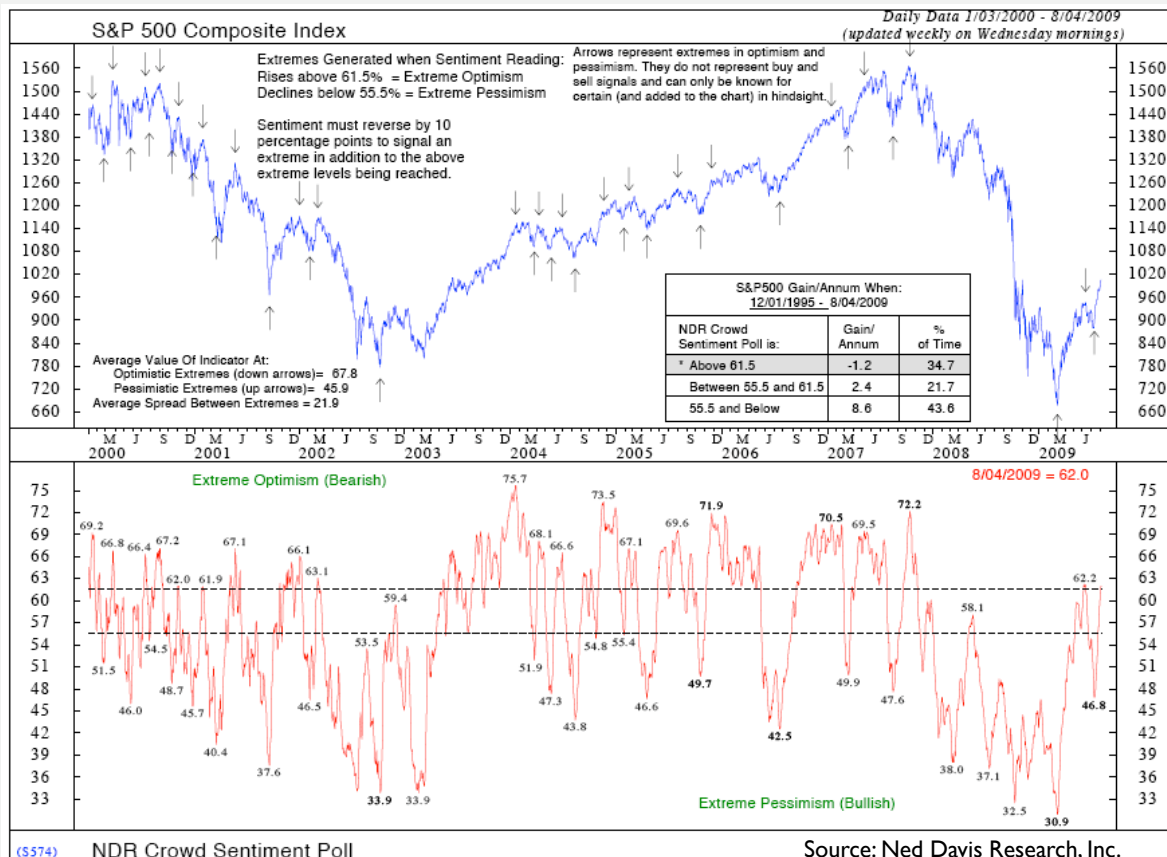
Model Beacon Master Portfolio	58.5%
S&P Global	14.9%
S&P 500	15.1%
Canada MSCI Index	56.2%
UK MSCI Index	27.0%
Commodity Index	18.2%
US Bond Index	2.0%

Market Data: Performance & Sentiment

Global stock market returns have continued to rebound with new impressive force since the July issue, with showed the Global DOW up 27.1 percent versus its current return of 42.4 percent. Investor sentiment has rallied from its July low of 46.8 to its current level of 62. We expect this figure to peak at around 68 to 70, at which point we would expect the market to be overbought and a potential correction to ensue, before the market recovers and goes higher by year's end.

Performance from November 20, 2008 Market Low to August 7, 2009

Markets	11/20/'08	08/07/'09	Move %	Ticker	U.S. Sector	11/20/'08	08/07/'09	Move %	Ticker
Global Dow	1265	1801.78	42.4%		Materials	19.9	30.2	52.0%	XLB
S & P Composite	741	1010.48	34.1%		Health Care	23.6	27.6	17.3%	XLV
FTSE 100	3875	4731.56	22.1%		Consumer Staples	22	24.3	10.7%	XLP
Dow Europe Stoxx	204	249.83	22.5%		Consumer Discret.	16.3	26.5	62.3%	XLY
Nikkei	7703	10412.09	35.2%		Energy	40	50.8	27.2%	XLE
Emerging Markets	18.3	36.53	100.1%	EEM	Financial	9.4	14.3	52.8%	XLF
CRB Index	230.4	265.64	15.3%	CRB	Industrial	20	25.1	25.6%	XLI
Gold	73.4	93.75	27.6%	GLD	Technology	13.2	19.8	50%	XLK
U.S. Corporate Debt	63.4	83.37	31.5%	HYG	Utilities	26.2	28.9	10.3%	XLU
U.S. 30 Year Yield	3.50%	4.61%	-31.7%		Nasdaq Composite	1316.1	2000.25	52.0%	
U.S. Dollar	27.1	23.48	-13.3%	UUP	Russell 2000	385.3	572.4	48.6%	



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Ahead of the Curve By Ken Gronbach

Wal-Mart to Knock Off the Girl Scouts?

Seriously, who do those pesky little girls in green think they are anyway? We live in a free market. They didn't invent cookies. OK, sure there are certain cookies that bear their signature and are sold on the merits of exclusivity but who's to say that other retailers can't capitalize on the market that the Girl Scouts of America established with decades of shoe leather by selling door to door? After all, it happens all the time, small organizations establish a market and set the stage for larger more sophisticated corporations to take the process to the next level. So, what's the big deal about Girl Scout Cookies? Are they a sacred product that is off limits to retail giants? It seems Wal-Mart asked that question internally and the answer was no.

Girl Scout cookies are big business. Nationally they sell over 100 million boxes a year in what amounts to The Girl Scouts' most successful fundraiser. Someone at Wal-Mart apparently did the math and recently determined that this could be a profitable category for them. It is not clear where Wal-Mart will manufacture their knock-off cookies but it is certain that China is being considered. We'll have to watch the ingredients carefully.

Many would consider this move by Wal-Mart to be reckless because of the certain public relations risk attendant in such a decision. Clearly Wal-Mart could make a case for check-mating the Girl Scouts but the reasoning would ring hollow and point up its lack of a moral compass. Wal-Mart is in financial trouble and the more trouble it gets into the more desperate it becomes. Taking on the Girl Scouts is a desperate move made by a desperate retailer. What's next, finding a market for blood and edging out the Red Cross?

Shifting demography is dealing Wal-Mart a bad hand and it has no clue that it is happening. The bulk of

its principal customers, The Baby Boomers, have crested fifty-years-old and, according to the Bureau of Labor Statistics, are weaning themselves off the consumption of stuff. The huge generation of Baby Boomers was a perfect customer for Wal-Mart. They knew what they wanted and Wal-Mart sold it for less than anyone else. Selection and fashion were not considerations. Unfortunately for Wal-Mart, Generation X, born right after the Boomer Generation, is too small to consume at the level of the Boomers or satisfy the sales needs of the Wal-Mart retail footprint. Wal-Mart's only market hope is the huge Generation Y born 1985 to 2004. The problem is young markets demand fashion and selection. Wal-Mart's retail model of "Cheap and Deep" can not accommodate this market. Small, start-up, entrepreneurial, fast-turning retailers will flourish and eat up Wal-Mart's business like a school of piranhas.

Are all big box retailers in trouble? No. Target, for example, seems to have a governing ethos that is compatible with Generation Y. It is cool, caring and has fair prices. Wal-Mart's indifference to human relations issues at all levels will seal its fate with Gen. Y.

This generation is rewriting the rules for doing business, especially retail business going forward. Generation Y is "Green" to a fault and "Green" is not limited to environmental issues. "Green" to Generation Y is all about giving back. You can give back to the environment and you can also give back to your fellow man. Smart businesses, especially retail, need to develop a "Green" story and act on it publicly with sincerity. Faking a "Green" story is called "green washing" and will be met with disdain on the part of Generation Y. A Generation Y boycott would be deadly and certainly not worth the risk.

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