

THE AGE CURVE REPORT

How to Profit from the Ever-Changing Demographic Landscape

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Population Growth Vastly Different by Region

The U.S. population is growing at an economically healthy rate, thanks in large part to Hispanic immigrants who are increasing the population and helping the country maintain a 2.1 percent "replacement-level" birth rate (see April Report, page 2). While this steady growth of about 2.7 million people per year should be a boon for the overall U.S. economy, regional variations in this growth will provide a boon for some regions, but serve as a bust for others.

Large population changes can have vast and profound impacts on countries, regions, states, counties and towns. Population increases can

provide a boost to an area's economy by driving the growth of industries, services, jobs and tax revenues. And while not the only catalyst for driving economic growth, population increases are certainly one of the linchpins needed for perpetuating economic growth, as a fall in population can put the brakes on the "perpetual" part of the growth and lead to a decline in industries, services, jobs and tax revenues. In many cases, economic stagnation begets population decline, but in some instances population declines can presage economic downturns, but no matter which comes first, these population declines are

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New Report Adds to Focus on Stock Markets

Welcome to the new and improved look of The Age Curve Report. As we reported in our June 23 "Update," Age Curve Consulting (ACC) has partnered with Beacon Asset Managers in an effort to better anticipate and track demographic trends impacting the economy, and, in particular, sectors of the global stock market. To that end you will notice that our report puts more emphasis on the examination of equities; however, it still examines the demographic profiles of specific countries and regions, along with emerging demographic trends, to determine how they will impact the political climate, socio-cultural scene, as well as the economy, on both the local and international level.

The report now includes the model Beacon Master Portfolio, which demonstrates the success of Beacon's "Back to Basics" investment approach, which uses demographics, valuation and sentiment to discover undervalued assets (please see page 11). The model portfolio has produced returns in excess of 40 percent since its inception in December.

For more information on Beacon Asset Managers please visit www.beaconassetmanagers.com. Archived copies of the report, along with daily stock market and demographic commentary, can be retrieved at www.beaconassetmanagers.com/3-beacon-blog.html. Report sign-up details are available on our new website, www.agecurveconsulting.com, as well as on the Beacon Asset Managers home page.

ACC trusts that you will enjoy and profit from these improvements.

almost always indicative of current or imminent economic deterioration.

And while an increasing population is generally beneficial for economies on the local, state, regional and national levels, a growing population also presents numerous challenges, such as the need for more government services such as schools, hospitals and social assistance. The composition and the rate of the increasing population brings additional challenges and potential stressors on all levels.

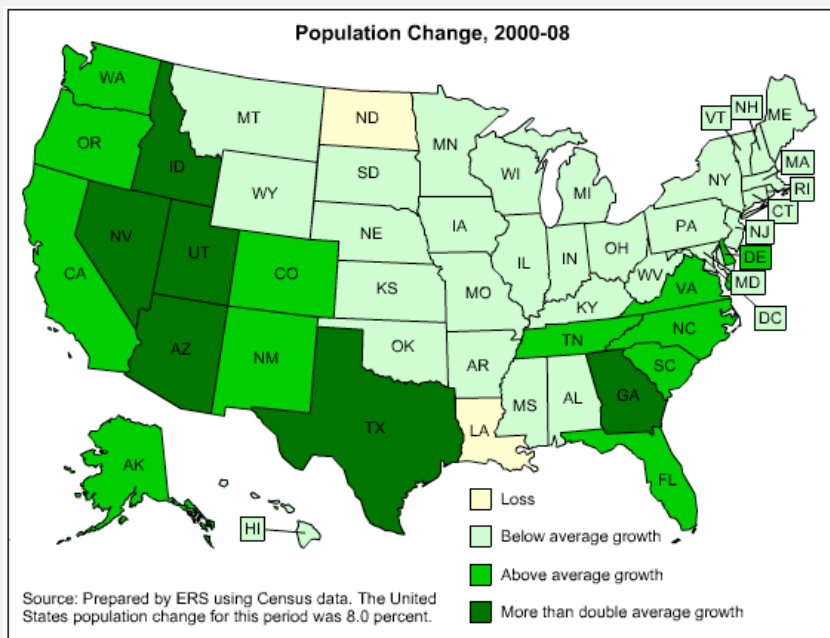
Think about it: is the increase being primarily driven by births? births with a lack of aged mortality? highly-educated immigrants looking for high-tech work? under-educated immigrants looking for any work? under-30s looking for work and the good life? baby boomers seeking paradise in retirement? urbanites moving to the country? rural folk moving to the city? or, and most likely, some combination of all of the above?

Is the increase looking like a 50-year population double? a 30-year population double? a 20-year population double? a 10-year population double? indeterminable because it's coming in spurts and sputters?

All of the above composition and rate scenarios present significant challenges, but also offer opportunities.

In looking at an increasing population as a positive factor, the south and west are on target to be the primary economic beneficiaries of population growth as both regions are experiencing well-above average growth, while the northeast and midwest are experiencing significant below-average growth.

According to the U.S. Census Bureau, the U.S. population grew by about 22.5 million from April 2000 to July 2008, with about 14.1 million



representing a “natural increase” (the number of births minus deaths) and more than 8 million consisting of immigrants. Regionally more than 50 percent (11,482,701) of this growth occurred in the south and about 35 percent (7,656,198) in the west. The midwest only accounted for about 9 percent (2,166,241) of the nation’s growth, while the northeast accounted for less than 6 percent (1,329,982).

Two states, North Dakota (minus 714) and Louisiana (minus 58,172) experienced negative population growth, but the Louisiana decline may be temporary and due in large part to the economic disruption caused by Hurricane Katrina, as that state’s population showed an increase of more than 37,000 from 2007 to 2008.

Perhaps more telling from an economic standpoint are the rates of net migration, and, in particular, rates of domestic migration into or out of the regions. Net migration, which accounts for both the total number of immigrant migrations and domestic resident migrations, represented population declines in

excess of 500,000 for both the northeast and midwest, but accounted for about 50 percent of the population increases in both the south (6.2 million) and west (3.1 million). While 3,609,854 domestic U.S. residents moved into the south and 445,496 moved into the west, almost 2.5 million migrated out of the northeast and about 1.6 million departed from the midwest.

It is interesting to note that the regions with the smallest overall populations, the northeast with about 55 million and the midwest with around 66.5 million, experienced large outflows of resident domestic migration, while the west (almost 72 million) and particularly the south (almost 112 million) experienced healthy inflows. This would seem to follow the adage of “people want to go where the people are.”

So what do all these numbers mean? Age Curve Consulting will examine the numbers more closely for each of the regions and their states in the next four issues of The Age Curve Report. In our next issue we will focus on the demographic decline of the northeast.

Wal-Mart Losing its Edge Due to Over-Reliance on Boomers

Wal-Mart Stores Inc. (WMT) sought to capitalize on the recession in 2008 by upping their ad spending by a whopping 15.9 percent over 2007 according to analysis by Ad Age Data Center. Total U.S. ad spending by Wal-Mart in 2008 was reported to be \$1.66 billion, and measured media spending on its flagship Wal-mart chain soared 66.4 percent, making the giant discount retailer the fifth-most advertised brand in the U.S. (Proctor and Gamble [PG], which spent almost \$5 billion, is the largest U.S. advertiser).

Wal-Mart is receiving marginal returns from this big increase in advertising spending, with sales up 3 percent in the first quarter of 2009 for U.S. stores, but down significantly for international stores. But shouldn't Wal-Mart's U.S. sales be up more than marginally? After all the company is a "discount" retailer and the U.S. has been in the midst of a recession. One would think that heavy advertising and discount prices should lead to bigger sales increases during a recession.

"Save Money, Live Better" is the theme of their message and who could question that Wal-Mart sells what they sell for less than anyone? And in a bad economy everyone should be flocking to the retailer who sells for less than anyone, but apparently, they're not. Can the bad economy be blamed for the company's meager sales increases?

We don't think so. In fact, we believe that demographics may be playing a significant role in Wal-Mart's lackluster performance.

Wal-Mart's best customer, the Baby Boomer, is aging and as they age their consumption is dropping precipitously and very predictably. And no matter how much money

Wal-Mart spends to chase this shrinking market, the returns are always going to be marginal. Why? Because the worse mistake one can make in marketing is to use good money to chase bad. A shrinking market is death, and the most efficient ad/marketing dollars are spent on expanding markets.

Is Wal-Mart paying attention? We don't think so. If it did it would realize that a retail business model

built primarily on low price is extremely vulnerable. Wal-Mart's retail concept is called "Cheap and Deep" by the retail trade. It always has depth in a limited assortment of merchandise at a very low price. In Wal-Mart's case this cheap merchandise is manufactured in China by near slave labor.

This retail concept is not about selection or breadth of assortment and it is certainly not about short

Is Amazon the Next On-Line Wal-Mart?

Cowen analyst Jim Friedland raised his rating on Amazon (AMZN) in late June to outperform, calling the company the "next generation Wal-Mart."

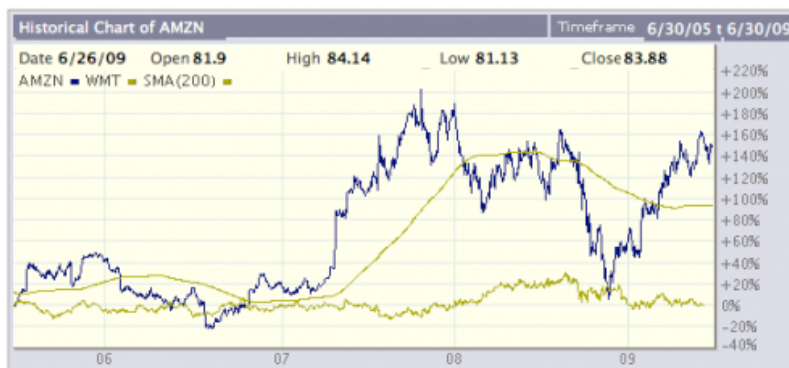
Friedland noted that Amazon has 9.5 percent of the U.S. book market and thinks the company is well-positioned to gain share in other retail categories. He added that the company is only 0.3 percent of U.S. retail sales, versus 7.7 percent for Wal-Mart. "Amazon is a next-generation Wal-Mart," he stated. "The company's focus on lower prices and a superior shopping experience versus online and offline competitors will result in substantial share gains over time."

We believe that Amazon is the next Generation Wal-Mart and it is interesting to note which the "Market" is backing and believes the winner is going to be.

Approximate Share Price Returns to June 30, 2009

	1Y	2Y	3Y	4Y	5Y	10Y
Amazon	10%	20%	115%	150%	150%	40%
Wal-Mart	-12%	0%	0%	0%	-10%	0%

Amazon Versus Wal-Mart over the Last Four Years (Source: Bigcharts.com)



Our money is on Amazon....

runs of anything. This concept, therefore, would struggle with the fashion tastes of a new market and therein lies the problem. Generation Y, born 1985-2004 and currently between the ages of 5-24 and the biggest generation in U.S. history is the new market. And new markets generally have very fickle tastes. If they don't want something, it doesn't matter if it is free—they just don't want it.

Wal-Mart is very used to dictating what their customers should buy—large quantities of very cheap retailer's choice items. Remember the gallon jug of Vlasic pickles?

Wal-Mart is a Baby Boomer-based company. Boomers were born 1945 to 1964, and Wal-Mart has decades of experience catering to the clearly defined tastes of this generation who are currently 45- to 64-years-old. Wal-Mart has figured out what the mature Boomer market buys. They have also refined this demand to the narrowest selection possible, almost telling Boomers what they will buy. Boomers in turn are okay with this because when you are between 45- and 64-years-old you have pretty defined tastes and preferences that influence your buying of stuff. If Wal-Mart does not have what a Boomer really wants, but does have something close at a very low price, the Boomer will buy it.

So where is the rub? It's simple. When a consumer hits about 50-years-old, according to the U.S. Bureau of Labor Statistics, his or her demand for stuff begins to subside. At 60 years old a person pretty much has all the stuff he or she needs and then some. At 60, one's

body has stopped changing so one can wear clothes longer, a lot longer. If you want to see what was fashionable thirty years ago go to a Miami retirement community. The point here is that the bloom is off the rose of the Boomers' consumption of things. The Boomer population is a huge bell shaped curve with many Boomers turning sixty at its leading edge and with its very top cresting at 50-years-old in 2007. All of this means that Wal-Mart needs to find a new market fast if it wants to continue doing business.

But where does Wal-Mart turn? The two U.S. generations over 60 do not have the critical mass to serve their infrastructure, and besides, for the most part they have stopped consuming. The U.S. population now 25- to 44-years-old is a non-homogeneous combination of the small native born Gen. X (nine million fewer than the Boomers) and the free standing market of Latino immigrants. (Latinos are not evenly dispersed through out the U.S. but live in geographical pockets in about nine states).

So who's left? It is Gen. Y, the largest and most powerful generation of consumers this nation has ever seen. Will they be the solution to Wal-Mart's sales problems?

No. Gen. Y is an emerging market, a huge bell-shaped curve with its peak at age 19. They are inhaling entertainment products, fashion, food, electronics and transportation. Selection is everything to them. They do not care about low price unless it is exactly the item they want. Their tastes change daily. They don't know what they will want six months from now.

Wal-Mart's limited selection, low price offering to the Boomer will not and cannot translate to Gen. Y.

Wal-Mart has other issues that will play into their business success or failure. Wal-Mart and China are joined at the hip. Despite popular belief, China's economy is not healthy or stable. China's one child policy has devastated its emerging labor force. It is much smaller because by their own official estimation China has prevented 400 million births in the last 30 years. A smaller labor force in China means higher labor costs and higher—much higher—product costs for Wal-Mart. Couple this with higher shipping costs, a falling U.S. dollar, a slowing U.S. economy and Wal-Mart will have to find a new trading partner that can produce goods as cheap as China once did because China's prices are going to go up. And guess what? That trading partner doesn't exist. India? We don't think so. India has its own problems.

Oh yes, and one more thing. Gen. Y is on track to become the greenest and most humanitarian generation in U.S. history. If one wants to do business with them they had better be very green and very nice to their fellow mankind. And popular perception is that Wal-Mart has a dismal record on both accounts. Perception is reality. This fact could seriously injure Wal-Mart's business all by itself.

As shown in the table below, Wal-Mart's stock price is hovering near its 52-week low. The stock hit its 52-week high, 63.85 on September 18, 2008, and has been essentially range bound between \$40 and \$60 since hitting its all-time high of \$70.25 in December 1999.

Wal-Mart	Price	1 Yr High	1 Yr Low	Yield	PE	PS	PB	PD
WMT	47.79	63.85	46.25	2.28	14.22	0.49	2.99	0.57

Source: Wall Street Journal—July 2, 2009

Geron May Have Biotech's Best Risk-Reward Ratio

Within the next three months, certainly before the end of August, some poor soul is going to find himself in the hospital with a broken back, facing a future life as a paraplegic. With essentially no hope of a cure from currently available medical treatments, this individual will agree to participate in a groundbreaking new clinical study that could help heal his devastating injury and usher in a whole new paradigm of medical treatment for a variety of illnesses and injuries.

Geron Corp. (GERN) is the first company to receive U.S. Food and Drug Administration (FDA) clearance for the world's first clinical study of a human embryonic stem cell (hESC)-based therapy in humans. The phase I trial is primarily designed to demonstrate the safety of GERN's GRNOPC1 in patients with "complete" American Spinal Injury Association (ASIA) grade A subacute thoracic spinal cord injuries (essentially a severance of the spinal cord resulting in complete loss of motor and sensory function below the break). However, if that first recipient of GRNOPC1 starts wiggling his proverbial toes the world's entire medical community, as well as Wall Street, will take notice.

Such a toe wiggle would undoubtedly spark a large spike in GERN's share price (currently at about \$7.75), which would likely be followed by extreme volatility for months, if not years, to come as GRNOPC1 winds its way through the FDA approval process, and investors mark every toe wiggle, as well as any hint of a possible side affect or bureaucratic delay.

Will we see a toe wiggle?

Preclinical evidence as highlighted in GERN's 21,000 page

FDA Investigational New Drug application suggests that we will, as numerous animal studies demonstrated "significantly improved locomotor activity and kinematic (movement) scores" after treatment. And if thousands of rats with broken backs were able to wriggle their toes and more after being injected by GRNOPC1, it would seem likely that a similar response will be seen in humans. The animal studies also demonstrated no evidence of

toxicity, tumor formation or mortality in the receiving animals.

So, what is GERN worth?

Right now, about \$7.75.

OK, so what is GERN worth if GRNOPC1 works?

"Priceless" would argue the 50,000 or so people worldwide who suffer crippling spinal cord injuries every year.

"Nothing without FDA approval" would argue Wall Street.

All right, what is GERN worth with an FDA approval of GRNOPC1?

SCI Data Incomplete, but Numbers Bound to Grow

Demographic data relating to the number of people in the U.S. living with spinal cord injury (SCI) is sadly deficient, and most researchers and medical professionals involved with the SCI field admit that statistical data commonly used represents a case of "significant under-reporting." No matter what the true numbers may be, though, the number of Americans who suffer crippling SCIs is bound to increase as members of Generation Y, the largest generation in U.S. history, enter the key 16-30 age bracket in which the highest per capita rate of SCI occurs.

According to the National Spinal Cord Injury Association, which points out that its data is incomplete and that most researchers believe that their numbers "represent significant under-reporting," 250,000 to 400,000 Americans are currently living with SCI or spinal dysfunction. However, These numbers were recently disputed by the Christopher and Dana Reeve Foundation's Paralysis Resource Center, which released a report in April that concluded that about 1.2 million Americans are living with paralysis resulting from SCI.

The association believes that approximately 7,800 Americans suffer debilitating SCIs every year; however, the annual number cited by most researchers and medical professionals is 11,000 (1,500 in Canada). The association estimates that 44 percent of SCIs are caused by motor vehicle accidents, 24 percent by acts of violence, and 22 percent from falls. Males account for 82 percent of SCIs, and the median age at injury is 26, while 19 is considered to be the age at which SCIs occur with the most frequency.

The Reeve Foundation report did not attempt to annualize numbers, but estimated that 24 percent of SCIs were caused by motor vehicles accidents, 28 percent from work-related accidents, 16 percent from sports and recreational accidents, 9 percent from falls and 4 percent by acts of violence.

While the true statistical numbers may be incomplete and deficient, the costs of SCI treatment are astronomical, with national estimates for SCI treatment and ongoing care ranging from \$20- to \$40 billion annually.

To date, the company has not offered up any plans for how much it might charge each patient for the treatment, and part of the answer probably lies in how patients fare in the clinical studies—i.e., what level of motor and sensory function return patients gain from the treatment. Thus any effort to put a treatment cost on GRNOPC1 would be a stab in the dark, but given that there are no current medical options for severe spinal cord injuries, the price will undoubtedly be high.

Let's turn out the lights and throw a knife or two: The average cost of repairing badly torn knee cartilage averages about \$12,000 and the costs of repairing a broken heart can soar far above \$100,000. Fixing a broken back is certainly worth more than fixing a knee, but may not be as valuable as fixing a heart (that is unless you're considering this while pondering life in a wheelchair).

So, at the potential low end of the scale, Gern's treatment might warrant a cost of \$30,000 per patient. Using this figure, and estimating that a conservative 50 percent of spinal cord injured patients opt for the treatment, would result in annual revenues of \$750 million. Up the treatment cost to the higher end of the scale, at say \$60,000, annual revenues with 50 percent of the potential patients would be \$1.5 billion. Not too shabby for a company with a current market cap of about \$600 million.

If GRNOPC1 shows promise early on then it could receive fast-track designation by FDA and see approval as early as 2012. By using a 6X sales ratio to the conservative \$750 million revenue projection, we

Alliance Gives Boost To Geron's Program

Geron's controversial stem cell program received a strong vote of confidence from a big player in the field of medical technology late last month, as the company announced a multi-year collaboration with GE Healthcare designed to use stem cells for drug development and toxicity screening. The agreement grants GE Healthcare, a \$17 billion unit of General Electric Co. (GE), exclusive license to use Geron's extensive intellectual property portfolio covering the growth and differentiation of human embryonic stem cells for the development of new drug discovery technologies. Scientists from both companies will work together to develop products, and GE Healthcare will fund the research and development, as well as the cost of manufacturing, sales and distributions of all products developed under the agreement.

The newly developed products are expected to reduce drug discovery costs and reduce the incidence of toxicity in human clinical trials by using stem-cell derived cellular assay products to be used in early in-vitro screening of drug candidates. The companies expect the first marketable products from the venture to be available in early 2010, "with a pipeline of products to follow."

obtain a valuation of \$4.5 billion, or about \$50 per share. By using the less conservative \$1.5 billion in revenues, we can get a valuation of \$9 billion, or about \$100 per share.

But the Geron story doesn't end with GRNOPC1, as the company has numerous other therapeutic products under development.

In the hESC field GERN is also actively studying the use of stem cells for the treatment of heart disease, Type 1 Diabetes, Osteoporosis and Osteoarthritis.

GERN's heart disease treatment, GRNCM1, is furthest along in the pipeline, and undergoing preclinical studies in animals. The stem cells are designed to replace damaged heart cells and grow into healthy heart muscle tissue. The approach has been demonstrated in mice, in which stem cells were injected into mice hearts and successfully engrafted and improved

the left ventricular function. The company is currently conducting preclinical testing in larger animals.

The company has successfully derived insulin-producing cells from stem cells and injected them into diabetic mice, which demonstrated a response to high levels of glucose in their blood and extended their survival. Small animal studies are continuing.

GERN's research into developing stem cell therapies for Osteoporosis and Osteoarthritis is in the initial stages of small animal testing and further advancement of these products will depend on how well the treatments work in repairing bone and cartilage damage.

Along with being the leader in the stem cell therapeutic arena, GERN is the leading biopharmaceutical company in the development of cancer-fighting

Geron	Price	I Yr High	I Yr Low	Yield	PE	PS	PB	PD
GERN	7.65	8.50	1.95	n/a	n/a	382.54	3.34	n/a

Source: Wall Street Journal—July 2, 2009

therapies based on telomerase. Telomeres, located on the ends of chromosomes, act as “molecular clocks” for cells, and the human enzyme telomerase can reset these clocks. While not a cause of cancer, GERN and other researchers determined that telomerase is abnormally activated in all cancer types, allowing cancer cells to replicate indefinitely and thereby enable tumor growth and metastasis. But the researchers also discovered that inhibiting telomerase activity can kill cancer cells.

GERN has telomerase inhibitor treatments undergoing FDA Phase I trials for the treatment of solid tumors, non-small cell lung cancer, breast cancer, multiple myeloma and chronic Lymphoproliferative disease in humans. Initial results have shown an inhibition of telomerase and is helping the company determine optimum dosing for the ongoing trials. The company is conducting FDA Phase II trials on a telomerase cancer vaccine (designed to teach the immune system to recognize and

fight cancer cells) for acute myelogenous leukemia. Thus far, the company has reported that these trials are demonstrating a strong safety profile and robust immune responses.

The successful advancement and FDA approval of any one of these treatments would be as valuable as an FDA-approved stem cell spinal cord injury therapy. Thus, the potential valuation of GERN could be up to 10 times that considered when examining the potential value of the spinal cord therapy alone.

And the Geron story does not end with these treatments, as the company also holds an exclusive license to the nuclear transfer technology patents that allow animal cloning, and owns Roslin Bio Med, the commercial subsidiary of the company that cloned Dolly the sheep, the world’s first cloned animal. Under a joint venture with Exeter Life Sciences, Inc., GERN in 2008 formed ViaGen, Inc., which will manage and license the broad portfolio of animal reproductive technology intellectual property rights. Among the commercial

applications expected to be offered are cloning for desired genetic traits, such as disease resistance, improved meat quality or yield, an increased milk production. This commercial application may come into play sooner than many think, as the FDA ruled in 2008 that meat and milk products from cloned animals are safe to eat. As this is such a relatively new field, not to mention controversial, the author will not attempt any stab in the dark valuation estimates.

GERN has telomerase licensing deals with Merck & Co., and with Sienna Cancer Diagnostics. The company has no debt and enough cash in the bank to run its trials and research for the next two years, by which point it should be earning some revenues from ViaGen and from its licensees.

Without any FDA approvals placing a value on its products, and thus the potential value of its stock, is truly like throwing knives in the dark, but the potential value is so astronomical that this stock must have the best risk-reward ratio in the field of biotech.

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.

Sector Watch: Education is Making the Grade as a Sector Pick

In our January issue we highlighted the long term attractions of the education sector because of the positive impact of Generation Y has had, and will continue to have, in the coming years.

This is not a new story—many of the stocks have performed very well over the last 12 months, with ITT Education up 12.7 percent and Apollo Group up 24 percent, versus the S&P 500 decline of 28.8 percent. We have listed 11 potential candidates in the Educational Sector box below and will further examine our favored ones in coming issues.

Not surprisingly, this sector has underperformed those sectors and stocks that the market had priced for extinction at the March lows. However, we feel it is time to start looking at the sector again following the successful IPO of Bridgeport Education (BPI) and Rosetta Stone (RSA).

Bridgeport was founded in 2004 in San Diego and is an online higher education provider offering programs for BA, MA and PhD degrees in business, education, psychology, social sciences and health sciences. The company generated more than twice the revenues and eight times the earnings in 2008 versus 2007, ending the year with \$26.4 million in profits. It has more students, faster enrollment growth and a higher operating profit margin, at 15 percent, than the last online college that went public, Grand Canyon Education Inc. (LOPE), which IPOed in November 2008.

Rosetta Stone was founded in 1992 and has seen a rapid growth in sales since 2003 after spending aggressively in marketing, and distribution. Its earnings have grown more than 50 percent in both 2007 and 2008, while it has increased operating margins from 6 percent to 14 percent. However, the discretionary consumer makes up for 80 percent of sales and the jury is still out as to how the recession has hit sales, given the minimum \$219 price point of their products.

Another stock we are keen on is K-12 Inc. (LRN), and we have recently added it to our model Beacon Master Portfolio, along with ITT Educational Services (ESI). K-12 came to the market in December 2007. It is a technology-based education company and offers proprietary curriculum and educational services created for online delivery to students in kindergarten through Grade 12, or K-12. Their mission is to maximize a child's potential by providing access to an engaging and effective education, regardless of geographic location or socio-economic background. It has seen 50 percent revenue growth since 2007 and, despite the recession, we believe enrollment growth should continue to be strong and that it will see continued improvement in operating margins.

We look forward to continuing to report on those companies we believe are best positioned to reap the dividends of the on-going positive impact of Generation Y.

Company	Code	Price	%*	Yield	PE	PS	PB	PD
Bridgepoint Education Inc.	BPI	15.46	n/a	n/a	n/a	2.43	3.36	0.01
ITT Educational Services	ESI	95.00	12.7	n/a	16.72	3.15	18.26	0.75
Corinthian Colleges Inc.	COCO	15.99	34.9	n/a	27.33	1.00	2.88	0.07
Apollo Group Inc.	APOL	67.90	24.0	n/a	14.80	2.47	10.05	n/a
Strayer Education Inc.	STRA	208.87	0.1	0.96	34.19	5.86	20.37	n/a
DeVry Inc.	DV	46.96	-18.1	0.34	22.27	2.13	3.79	0.02
K12 Inc.	LRN	19.65	-6.8	n/a	19.64	1.88	3.25	0.08
Grand Canyon Education	LOPE	16.75	n/a	n/a	77.63	3.22	11.61	0.49
Pearson Group	PSO	9.64	-16.8	6.9	12.3	0.84	0.99	0.5
Rosetta Stone Inc.	RST	27.00	n/a	n/a	n/a	2.72	1.98	0.12
American Public Education	APEI	37.51	-7.8	n/a	39.25	5.12	11.28	n/a

*12-month gain/loss

Source: Wall Street Journal—July 2, 2009

Age Curve Valuation: What Lies Over the Hill for Italy?

By 2050, there will be about 100 million more Americans and about 100 million fewer Europeans. One of the countries that, if current trends continue, will see its population halve with every new generation is Italy. There is no need to extrapolate this trend, but if you do it gets somewhat frightening. Just for fun, here goes: by 2050 60 percent of Italians will have no brothers, no sisters, no cousins, no aunts, and no uncles. Essentially, the big Italian family, with papa pouring the vino and mama ladling out the pasta down an endless table full of children, grandchildren, aunts, uncles, cousins and grandparents will be as dead as the dinosaurs.

In 1970 there were 4.6 million Italians under five-years-old. By 2004 there were only 2.6 million. Demographically they are up a stream without a paddle. The adjoining chart shows that demographically the country has been challenged for years. Italian births stalled in about 1885 (today there are nearly 50 percent less births than in 1865) and have been declining consistently every generation since the GI Generation, born 1905-1924.

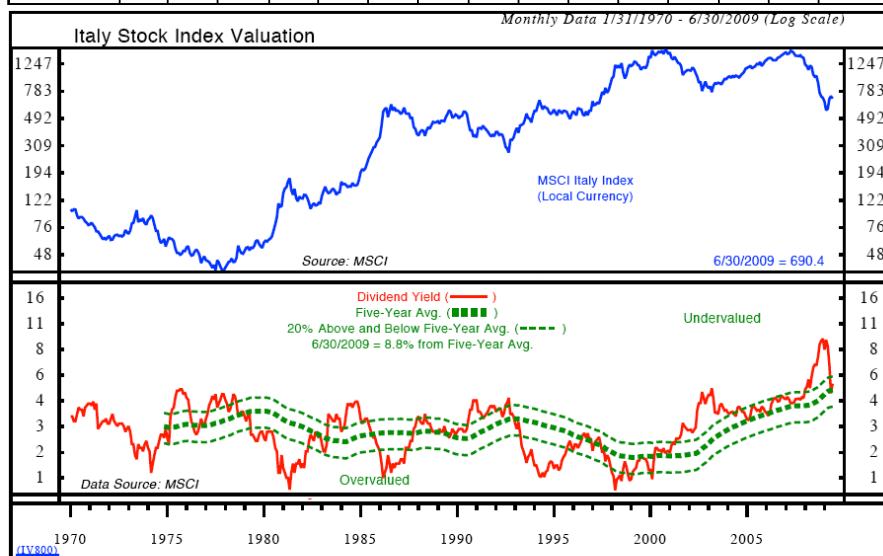
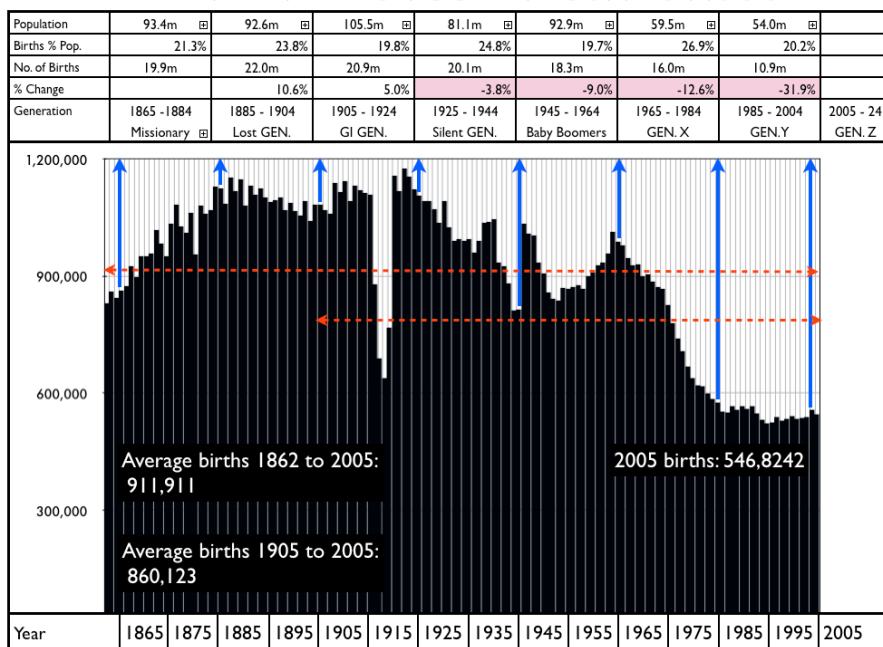
The generational numbers in the birth chart indicate that the Italian economy will continue to struggle on the domestic front. The Italian Silent Generation declined 3.8 percent (The U.S. Silents declined 7.4 percent), followed by a 9 percent decline of the Baby Boomers (U.S. Baby Boomers were up 50 percent), and then a decline of 12.6 percent by Generation X (U.S. Generation X declined by 11.9 percent), and last a drop of 31.9 percent by Generation Y (the U.S. Generation Y rose by 14.7 percent). Perhaps this is why the rapidly aging rich

politicians are perhaps out of touch with the problems of the dwindling average Italian.

Although demographics are an important part of the long term investment puzzle, a stock market's valuation is equally as important. The bottom chart shows that the Italian market remains undervalued with its current dividend yield of about 8 percent, an undervaluation that would remain even if that yield

fell to 4 percent. The Italian stock market exchange traded fund (EWI) has bounced strongly since the March lows, up nearly 60 percent. However, given its long-term demographic problems, we strongly believe it will continue to lag into the current global economic recovery. And overseas international investment by Italian companies, like Fiat in Chrysler, will become more commonplace.

THE ITALIAN AGE CURVE 1862 TO 2005



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The Informed Investor

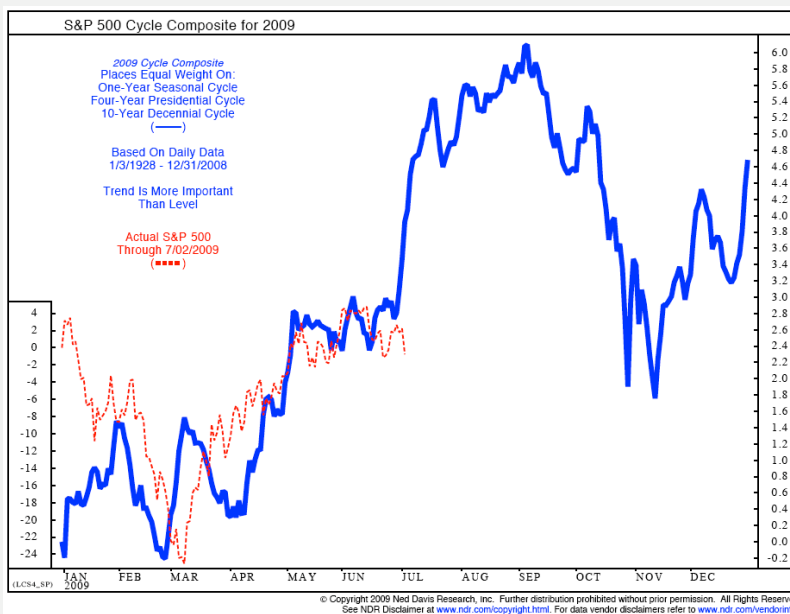
Market Overview: What's on the Other Side of the Hill?

By Logie Cassells

While traveling as a boy with my father, we used to play my favorite car-game of guessing "What kind of terrain lay on the other side of the hill." Once we reached the top my father would often remind me that "All the business of war, (My father was in the army) and all the business of life, is to endeavor to find out what you do not know by what you do." That is the real game of guessing what is on the other side of the hill.

Since the March recovery we have repeatedly re-asked ourselves this question. We continue to believe that over the next 10 to 20 years equities will be the best performing asset class. However, we expect there will be many severe tests of faith and unseen and unpleasant surprises along the way.

The "Herd's" vision of what lies on the other side of the hill currently makes us uncomfortable. This being the outperformance of emerging markets, which has once again become the "Hot" recommendation of many Wall Street and financial advisors. The following list of top ETFs by popularity are: iPath MSCI India Index, iShares MSCI Brazil Index, iShares MSCI Emerging Markets, iShares MSCI South Korea Index, iShares Russell 2000 Index Fund, Market Vectors Gold Miners, Market Vectors Russia, SPDR Gold Trust, and ProShares UltraShort Real Estate.



We do not discount further higher returns during the period July to September (please refer to the Ned Davis S&P 500 Cycle Composite road-map for 2009), and emerging markets currently account for 12.7 percent of our model Beacon Master Portfolio. However, our feet remain nervously near the door as we view their strong recovery since November last year similar to the strong six- to 12-month recovery in many technology stocks following their 2000-2003 bust.

A good example of a faded tech star is Cisco. It bottomed in October 2002 at around \$9.50 and then rallied strongly to a high in January 2004 of about \$29. Over the next four months it fell nearly 41 percent, while the S&P 500 rose by about 7 percent.

Cisco did manage to regain the \$30 mark briefly at the market peak in October 2007, before finally bottoming in March 2008 at around \$15. Although many tech stocks became busted earnings stories, a few continued to recover backed by strong earnings growth. Apple would be a good example of this, as it rose over 210 percent during the 12 months following January 2004, surpassing its 2000 high in December 2004.

In the coming years we believe certain areas of emerging markets will deliver periods of strong out-performance. We differ from the "Herd" in that many of the current favorites, especially those linked to a strong oil price, are likely to disappoint over the next 12 months.

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The Model Beacon Master Portfolio

The model portfolio below (as of July 2, 2009) is based on the money management and research processes of Beacon Asset Management and Age Curve Consulting. They are built upon original research with a solid foundation of demographics, sentiment and valuation disciplines.

We believe in a "Back to Basics" or taking an "owner's approach." Therefore, we are just as driven by the performance derived from our approach as we are by capital preservation.

We compare the returns of the model to major world equity and bond benchmarks (listed on page 13), but they play no part in its overall portfolio construction.

Derivatives and "boys with formulas" play no part in the management of the fund, as we subscribe to Warren Buffet's view that financial weapons of mass destruction should be left to others.

We have made four changes to our model portfolio. We have sold our position in Google (GOOG) for a 21.5 percent profit and in Ishares Dow Jones U.S. Technology Sector Index Fund (IYW) for a 31.9 percent profit.

The reason for this is the belief that the easy gains in Google have been made and we are uncomfortable with the logic of the revenue model of its YouTube subsidiary. Malcolm Gladwell candidly reminded us in his July 6, 2009 *New Yorker* article that YouTube has so far failed to make any money and its costs are rising, or, to be more precise, soaring to unbound heights.

The returns were reinvested into Skyworks Solutions (SWKS) and K-12 (LRN) to increase the model portfolio's exposure to U.S. small cap stocks and the companies' distinct growth potential (for more information on LRN, please see page 8).

In particular, Skyworks Solutions' shares have recovered very well from their "Priced for Extinction" low of \$4.00 in December 2008 to a current price of around \$10.00. The shares are not cheap selling at a P.E. of 17.4 and a Price to Sales of 2.4. However, we believe the company is a quality smaller company play to the rapidly growing smart phone market. The position was filled at \$9.80, with a stop at \$8.50.

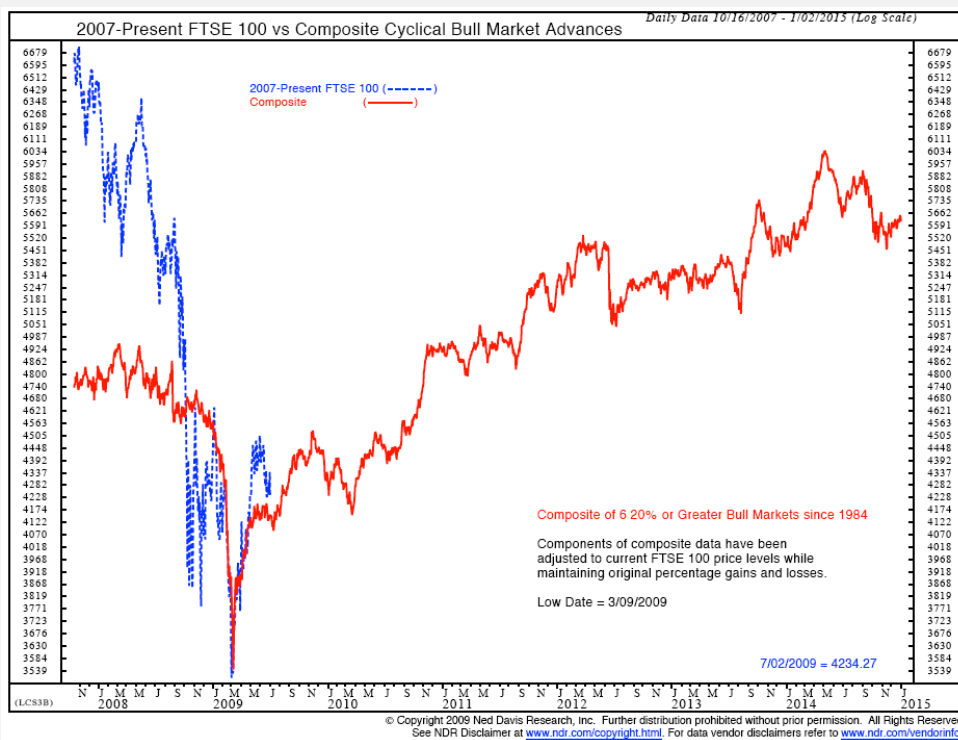
Model Beacon Master Portfolio							Date	07/02/09
Code	Name	Cost	Price	No.	%	Value	G/L	G/L %
Bonds								
TIP	iShares Barclays TIPS Bond Fund	98.1	100.8	1,221	8.9%	123,065	3,248	2.7%
Technology								
AAPL	Apple Inc.	94.0	140.0	212	2.1%	29,684	9,756	49.0%
SWKS	Skyworks Solutions	10	10.1	2040	5.1%	20,604	612	3.1%
VOD	Vodafone Group PLC ADS	19.3	19.1	1,038	1.4%	19,784	-197	-1.0%
IGW	iShares S&P NA Technology- Semiconductor Ind.	26.6	36.9	1,239	3.3%	45,719	12,725	38.6%
Consumer Discretionary								
AMZN	Amazon.com Inc.	48.3	79.3	414	2.4%	32,838	12,859	64.4%
GPS	Gap Inc.	11.6	15.3	1,718	1.9%	26,234	6,236	31.2%
JWA	John Wiley & Sons Inc. Cl A	29.6	32.6	676	1.6%	22,031	2,021	10.1%
TIF	Tiffany & Co.	26.2	24.3	764	1.3%	18,565	-1,429	-7.1%
ESI	ITT Educational Services Inc.	94.4	95.0	264	1.8%	25,080	148	0.6%
LSN	K-12	21.5	19.7	931	1.3%	18,294	-1,704	-8.5%
Industrials								
DSX	Diana Shipping Inc.	14.4	12.8	1,390	1.3%	17,834	-2,155	-10.8%
KEX	Kirby Corp.	29.7	30.9	674	1.5%	20,806	822	4.1%
Energy and Materials								
GGB	Gerdau S.A. ADS	5.7	10.3	3,521	2.6%	36,161	16,161	80.8%
SYT	Syngenta AG ADS	33.0	45.8	605	2.0%	27,697	7,708	38.6%
ESV	ENSCO International Inc.	32.2	33.6	621	1.5%	20,841	863	4.3%
BTU	Peabody Energy Corp.	32.2	29.2	621	1.3%	18,121	-1,863	-9.3%
MXI	iShares S&P Global Materials Sector Index Fund	41.1	45.9	875	2.9%	40,128	4,148	11.5%
KOL	Market Vectors-Coal ETF	21.2	22.6	1,182	1.9%	26,737	1,738	7.0%
RYE	Rydex ETF Trust Rydex S&P Equal Weight Energy	46.0	37.5	478	1.3%	17,915	-4,058	-18.5%

	Health Care							
DNDN	Dendreon Corp.	20.1	23.5	994	1.7%	23,339	3,340	16.7%
XBI	SPDR S&P Biotech ETF	49.1	48.5	407	1.4%	19,752	-244	-1.2%
	Financials							
SCHW	Charles Schwab Corp.	17.2	16.8	1,455	1.8%	24,415	-567	-2.3%
BNS	Bank of Nova Scotia	21.0	36.9	952	2.5%	35,100	15,108	75.6%
HBC	HSBC Holdings PLC ADS	28.0	41.2	714	2.1%	29,445	9,453	47.3%
WFC	Wells Fargo & Co.	18.2	23.1	1,375	2.3%	31,735	6,738	27.0%
RKH	Merrill Lynch Regional Bank HOLDRs Trust	63.6	63.5	471	2.2%	29,885	-52	-0.2%
	Consumer Staples							
SAM	Boston Beer Co. CI A	25.9	29.8	1,080	2.3%	32,152	4,169	14.9%
	Developed Overseas Markets							
	Developed Overseas Markets							
EWJ	iShares MSCI Japan Index Fund	8.7	9.3	7,556	5.1%	70,497	4,836	7.4%
EWU	iShares MSCI United Kingdom Index Fund	11.8	13.0	3,567	3.3%	46,407	4,423	10.5%
EWA	iShares MSCI Australia Index Fund	15.1	16.2	3,604	4.2%	58,457	4,217	7.8%
EWC	iShares MSCI Canada Index Fund	20.3	21.3	2,162	3.3%	45,964	1,989	4.5%
	Emerging Markets							
ILF	iShares Trust S&P Latin America 40 Index Fund	25.4	34.1	787	1.9%	26,797	6,808	34.1%
FNI	First Trust ISE ChIndia Index Fund	11.1	16.1	2,698	3.1%	43,465	13,463	44.9%
TKF	Turkish Investment Fund Inc.	6.9	8.9	4,672	3.0%	41,581	9,578	29.9%
EWV	iShares MSCI Mexico Investable Market Index	35.4	36.2	706	1.8%	25,543	558	2.2%
EPP	iShares MSCI Pacific ex-Japan Index Fund	29.7	30.7	1,281	2.8%	39,301	1,319	3.5%
	Other							
IWM	iShares Russell 2000 Index Fund	44.3	49.9	746	2.7%	37,233	4,178	12.6%
QLD	ProShares Ultra QQQ	36.9	36.5	1,355	3.6%	49,485	-488	-1.0%
	Cash				4.8%	66,658		
	Realized Gain/Loss						228,89	
	Value of Model Beacon Master Portfolio					1,385,349		
	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							38.5%
	S&P Global							1.6%
	S&P 500							2.1%
	Canada MSCI Index							37.7%
	UK MSCI Index							11.3%
	Commodity Index							11.8%
	US Bond Index							2.3%

Market Data: Performance

Our buy signal of December the 5th on the S&P at 876.1 remains in place, despite the highly volatile nature of global stock markets. In our March and April issues we highlighted the "Generational Opportunity" that markets offered. Investors will be pleased to note many of the very strong returns, especially in international markets, seen highlighted in the table below. The outright winners since the November lows have been in emerging markets, small cap stocks and the consumer discretionary sector. Global markets have continued to rebound with impressive force since the March lows. According to Jim O'Shaughnessy of O'Shaughnessy Asset Management, in the last 85 years there have only been a handful of times that the market has gained more than 35 percent in just 68 days, and in each case the market was recovering from a major bear market bottom (for example, 1933, 1938, 1975 and 1982). This

month we have included for our British readers a chart of the FTSE 100 (the blue line) versus its composite cyclical bull market advance (the red line, which is the average of six bull markets since 1984). We can see the recovery from the March lows has indeed been stronger than average, and we believe this will continue over the next 12 months.



Performance from November 20, 2008 Market Low to July 2, 2009

Markets	11/20/'08	07/02/'09	Move %	Ticker	U.S. Sector	11/20/'08	07/02/'09	Move %	Ticker
Global Dow	1265	1607.1	27.1%		Materials	19.9	25.2	26.6%	XLB
S & P Composite	741	896.4	20.9%		Health Care	23.6	25.8	9.3%	XLV
FTSE 100	3875	4236.3	9.3%		Consumer Staples	22	22.9	4.1%	XLP
Dow Europe Stoxx	204	221.1	8.3%		Consumer Discret.	16.3	22.3	36.8%	XLY
Nikkei	7703	9816.1	27.4%		Energy	40	46.2	15.5%	XLE
Emerging Markets	18.3	31.9	74.3%	EEM	Financial	9.4	11.5	22.3%	XLF
CRB Index	230.4	245.9	6.7%	CRB	Industrial	20	21.4	7.0%	XLI
Gold	73.4	91.3	24.4%	GLD	Technology	13.2	17.8	34.8%	XLK
U.S. Corporate Debt	63.4	77.8	22.7%	HYG	Utilities	26.2	27.4	4.5%	XLU
U.S. 30 Year Yield	3.50%	4.33%	-23.7%		Nasdaq Composite	1316.1	1796.5	36.5%	
U.S. Dollar	27.1	23.9	-9.1%	UUP	Russell 2000	385.3	497.2	29.0%	

Source: Wall Street Journal—July 2, 2009

Market Data: Sentiment

These two Ned Davis Research charts highlight the importance of tracking short- to intermediate-term swings in investor psychology. The indicator in the lower half of both charts is a composite reading which is based on seven different individual sentiment indicators that represent the psychology of a broad array of investors.

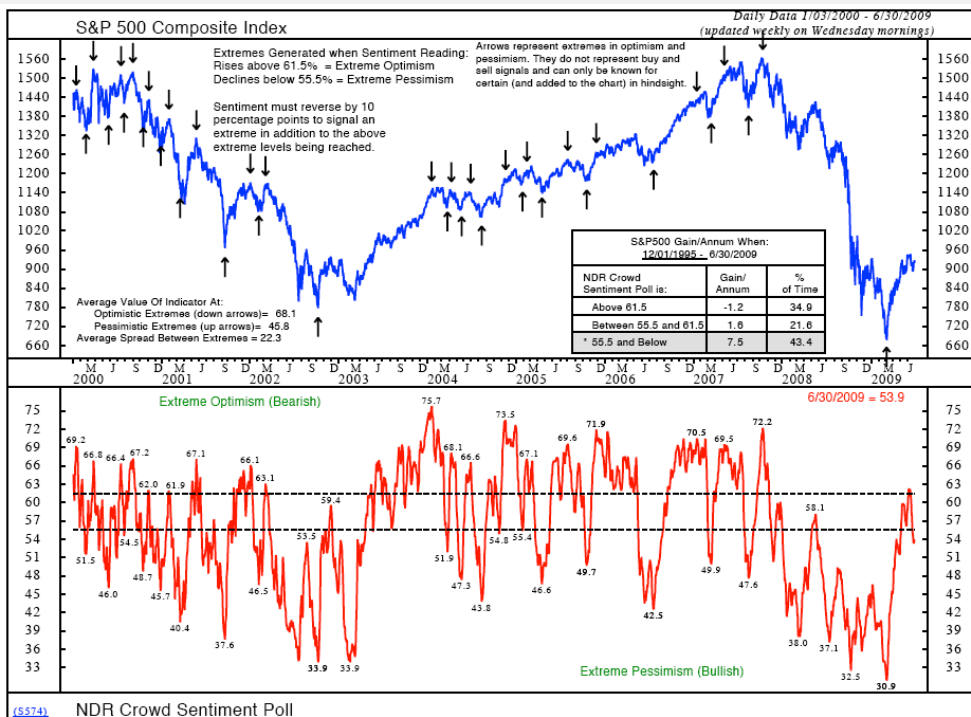
The indicators used are mostly based on ratios of relative bullishness or bearishness among different categories of investors. Because the chart aggregates several different sentiment indicators and highlights levels at which investor sentiment has reversed in the past, it can help investors anticipate reversals in investor psychology, and thus stock prices, going forward.

This month we highlight the sentiment charts for oil and U.S. equities. After hitting a high of 62.7 percent bullish on June 5, putting U.S. equities just in the excessive optimism zone, the short-term Ned Davis Crowd Sentiment poll declined to just 53.4 percent bullish on June 25, putting it just into the extreme pessimism zone. This pattern is very similar to the recovery in equities in 2003. We are now on the alert for a rapid move up to near 70 percent bullish, which is the average level at important short-term peaks in sentiment.

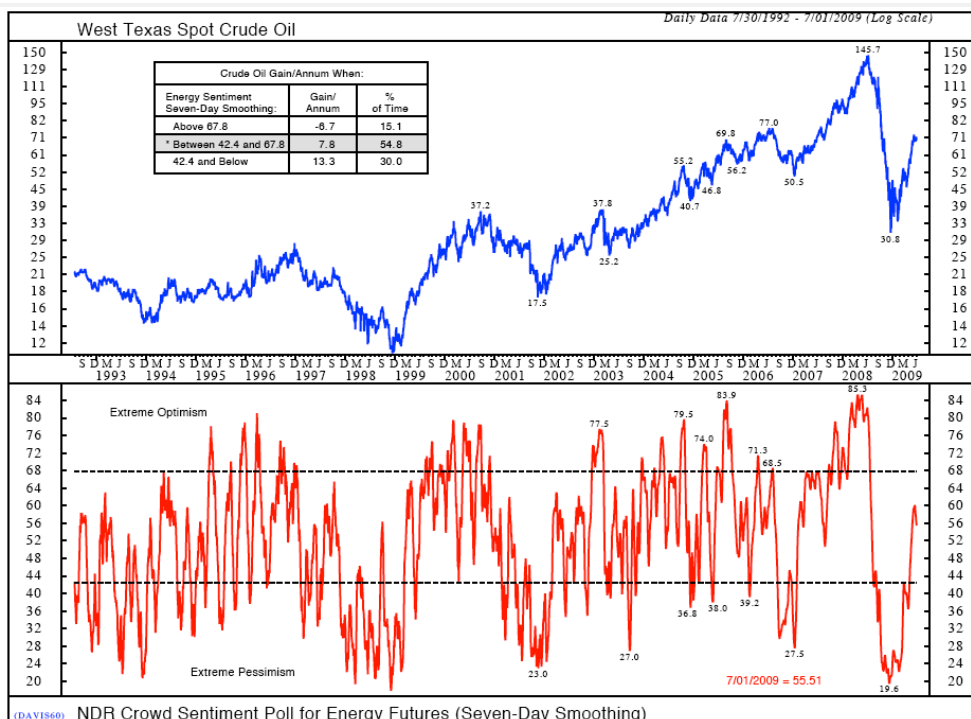
Our best time period for this to occur would be early September (Please see the 2009 Equity

Roadmap chart on page 10).

The sentiment chart for oil is similar to equities. We believe the oil bubble has further room to deflate and we may see a decline in sentiment similar to the period in late 1997, which saw oil decline after a strong rally.



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Ahead of the Curve By Ken Gronbach **Demographics Challenge U.S. Education System**

I am active in town government because I believe all politics is local. It doesn't matter if a decision is made by Congress, President Obama or our town's local board of selectmen—if it affects me it is local. From my perspective one of the biggest enemies to government is bad information. Good decisions made for the wrong reasons quickly become bad decisions.

Far and away the largest part of any local town budget is always education, often accounting for 80 percent or more of the allocation of property tax. In our town of Haddam, Connecticut the board of finance holds the purse strings, but the real power is wielded by the board of education because that's where the money is spent. While they have tremendous power, they don't always have good information.

I recently attended a board of education meeting in our beautiful new \$40 million dollar middle school. The chair of the meeting was reviewing some unexpected savings in the overall budget resulting from the drop in oil prices and the fact that two fewer kindergarten teachers would be needed for the 2009/2010 school year. I asked why we needed fewer kindergarten teachers and the chair explained that kindergarten enrollment had unexpectedly dropped by 25 percent under what had been budgeted. I asked him why there was a drop in enrollment and he stated that it might have something to do with the fact that new housing starts in our town had ground to a halt.

That might have something to do with it, but it is not the real reason. I knew that this unexpected drop in enrollment would be played out in towns across the U.S. and that the inverse, unexpected increases in kindergarten enrollment would also catch thousands of towns by surprise.

Why? Because the nation's demography is shifting, really

shifting. While I still had the floor I asked if this reduction in enrollment continues, would we need this new school in eight years? The answer was no. But, hey, it was only \$40 million dollars.

Good decisions require good information. 2007 was a record year for live births (4,317,000) in the U.S. according to recent census Data. In fact, it broke a 50-year record set in 1957 (4,300,000) at the height of the Baby Boom. The U.S. is currently the only industrialized nation that has fertility above the 2.2 children per couple replacement level. 2007's live birth numbers hold significant clues to America's future demography and its overall future. Twenty-five percent of the 4,317,000 births were Latino. Latinos make up about 14 percent of our overall population so it is clear to see where the U.S. population growth is coming from.

Let me be very clear here. This fact regarding Latino births bodes very well for the U.S. Without a replacement level fertility countries do not remain strong for very long. The U.S. future is bright, but many challenges lie ahead. Latinos are not yet geographically diverse. The Southern and Western states have high concentrations of Latinos while the Mid-West and Northeast states have relatively few. This translates into significantly fewer live births where you have fewer Latinos.

Both of the Latino families that live in Haddam, Connecticut cannot balance out the drop in live births in our region. Our town is going to need to rethink our school budget to allow for fewer students and fewer teachers. On the surface this may sound good because the amount of tax necessary to run things should be less. Below the surface this is a disaster waiting to happen because long term these kids that we didn't have will translate into a workforce that we can not tap.

Life is complicated. Stay tuned.

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Order Ken's Bestselling Book

For an insightful, broad-based overview of some of the principles that underlie the research used to produce this report, order Ken Gronbach's bestselling book, *The Age Curve: How to Profit from the Coming Demographic Storm*, available today, through Amazon.

ACC would like to thank Ned Davis Research, Inc. for the use of its data and chart services.

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