

THE AGE CURVE REPORT



How to Profit from the Ever-Changing Demographic Landscape

DEMOGRAPHIC LANDSCAPE

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The Recession is Over—Now What?

With the recession all but officially over, the “nattering Nabobs of negativity” are still out in force drooling over Black Swans and Dubai. Bye, Bye Dubai and perhaps Greece. Although these events remind investors of emerging market risk, we do not believe these well-flagged events will begin a new global meltdown that will take markets to new lows in 2010.

We continue to stress short term caution (since the September highs) given investors' current optimism as we enter the New Year. However, we continue to believe that any short-term correction will lead to new recovery highs in 2010.

This month we begin our state demographic overview with the Californian “Melting Pot,” and suggest that the Water or “Blue Gold” crisis (opportunity?) should be a higher priority than the state's debt burden. Ken Gronbach discusses Coke's cunning new

plan to double its business by 2020 and offers an alternative solution. We take a closer look at why emerging countries population growth has been more explosive than developing nations. This month we celebrate our model Beacon Master Portfolio's first birthday, with gains highlighted on page 19.

Please enjoy the many other articles in this issue and, as always, if you have any questions please feel free to contact us.

We also wish all of our readers a Merry Christmas and a prosperous New Year for 2010.

Model Portfolio Update

The model Beacon Master Portfolio is showing a return of 68.2 percent, and represents a 38.8 percentage point outperformance over the S&P Global Index ETF (IOO) since our buy signal of December 5, 2008.

The Model Beacon Master Portfolio:	68.2%
S&P Global 100 Index:	29.4%
S&P 500:	26.3%
U.S. Bond Index:	4.8%

Migration no Longer Key to California Growth

“As California goes, so goes the nation,” has long been used to describe California's position as a bellwether for the U.S. And while the truth of the adage is often disputed—especially when used in context of controversial subjects such as partisan politics or immigration—there is little doubt that California holds a unique position in the U.S. due to its large population and economy. In fact, California's population and economy are so large that the state is often likened to a country, with its population size ranked at 34th, behind Poland, if it were an independent country; and its

economy ranked from sixth to 10th largest in the world, depending upon the entity responsible for the ranking (state agencies tend to rank it closer to “number one,” while the U.S. Central Intelligence Agency's “Factbook” has pegged it as 10th).

According to the U.S. Bureau of Economic Analysis, California, with an estimated 2008 gross state product (GSP) of \$1.85 trillion, is responsible for about 13 percent of the entire U.S. gross domestic product. This is about \$630 billion more than its closest rival, Texas, with a GSP of about \$1.22

Continued on Next Page

trillion. On a per capita basis California, with a GSP of \$42,696, ranks 11th in the U.S (Connecticut ranks number 1).

Along with being an economic leader, California, due in large part to its population, leads the U.S. in a wide range of metrics, from largest producer of renewable energy to most “Miss America” titles. However, its large population may also be partially responsible for some less stellar rankings, such as its top ranking in a wide number of crime statistics to its recent ranking as having the fourth highest unemployment rate—12.5 percent—in the country.

As of July 1, 2008, the U.S. Census Bureau estimated California’s population at 36,756,666 (the state, which uses a different methodology, estimated the population at 38.1 million), making it by a factor of over 12 million the most populated state in the nation, with Texas coming in second, at more than 24 million, and New York third, with about 19.5 million. California’s population represents more than 12 percent of the U.S. total population, and the state has eight of the nation’s top 50 cities in terms of population, with Los Angeles being the country’s second largest city with a population of more than 3.8 million.

According to the Census Bureau, between 2000 and 2008 California’s natural population increase (the difference between births and deaths) was the largest of all states at 2,549,081, with 4,498,700 births far outpacing 1,949,619 deaths. Total net migration gains for California during this time period at 446,991, were the seventh largest of all states, with the state gaining the most international immigrants, 1,825,697, but losing the second (New York lost the most) largest

share of domestic migrants, 1,378,706. On a year-over-year basis, the Census Bureau estimates that California’s population increased by 379,132, or about 1 percent, between 2007 and 2008, the second largest gain by number, and 17th largest by percent.

Interim Census Bureau population projections for the state as of 2005, estimate that California’s population will increase about 37 percent for a total population of 46,444,861 by 2030, or almost 12.6

million, from the 33,871,648 recorded during the 2000 Census. Based on these interim projections the census bureau determined that California would experience the 2nd largest growth by number of all states (sandwiched between Florida, at first, and Texas, third), and 13th largest rate of growth on a percentage basis.

Migration into the state was one of the largest drivers of California’s population growth up until the 1990s, when the state began

Forbes Gives California Low Ranking

California is ranked 38th in the 2009 Forbes Magazine “Best States for Business” a two-point climb from its 2008 ranking of 40. While the state’s “Growth Prospects” ranking increased from 14 to 10, its “Business Costs” ranking remained the worst in the country at 50 and its “Economic Climate” ranking decreased from 12 to 27. The state also saw improvements in its “Regulatory Environment,” “Labor,” and “Quality of Life” rankings. The states of Virginia, Washington and Utah received the highest rankings in the survey.

Criterion	2009	2008
Overall Rank	38	40
Business Costs	50	50
Labor	22	25
Regulatory Environment	39	45
Economic Climate	27	12
Growth Prospects	10	14
Quality of Life	26	28

Of the six categories that make up the Forbes survey, the Business costs ranking, which is based primarily on labor, energy and taxes, weighs most heavily on the overall survey. Other data points include:

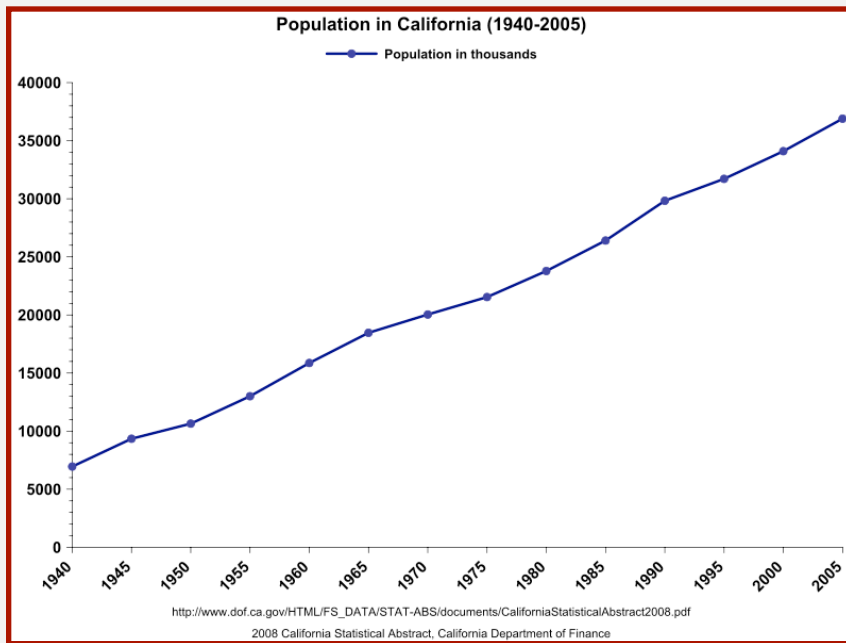
Labor—educational attainment, net migration, and projected population growth;

Regulatory Environment—regulatory and tort climate, incentives, transportation and bond ratings;

Economic Climate—job, income and gross state product growth, along with unemployment and the presence of large companies;

Growth Prospects—projected job outlook, income and gross state product growth as well as business openings/closings and venture capital investments;

Quality of Life—index of schools, health, crime, cost of living and poverty rates.



experiencing consistent patterns of net domestic outmigration. Significant migratory flows into the state began with the California Gold Rush of 1848, which saw in the arrival of some 85,000 prospectors by 1850. This inflow was followed by a wave of thousands of Chinese who were brought in to work on farms and railroads, who in turn were followed by thousands of Japanese after the U.S. Congress banned Chinese immigration in 1882. Historians and demographers estimate that about 350,000 migrants moved into California to seek work during the Great Depression years, followed by at least another 100,000 seeking defense-related work during World War II. After the war it is believed that about 300,000 discharged servicemen settled in the state.

According to various studies, at least half of the state's population growth between 1950 and 1985 can be attributed to domestic migration, with an estimated annual average 272,000 more people moving in from other states than leaving California for other states from 1950 to 1965. The net domestic migration

gains slowed in the late 1960s into the 1970s, leading to the state's first domestic net migration decline in 1971-1972. Net migration flows recovered in the mid-1970s, and up until 1985 showed an average gain of just over 60,000 per year.

Estimates of annual domestic migration after 1985 "vary substantially by data source," with annual estimates of net gains between 1985 and 1990 ranging from 200,000 to 450,000. This was followed by a reversal in the early to mid 1990s, which saw in a period of substantial domestic outmigration, that reportedly peaked in 1994 with a net domestic migration loss of more than 400,000. Since then the state has experienced net annual domestic migration losses of between 40,000 to 300,000 (depending upon the data source), and so far this decade the Census

Bureau estimates that domestic losses have averaged about 172,000 per year. However, the state estimates that California experienced net gains of between 60,000 to 155,000 from 2000 to 2004, followed by yearly net losses much more modest than estimated by the Census Bureau.

Meanwhile, international migration into California has increased significantly over the past 30 years, growing from less than 100,000 per year in the 1970s to more than 200,000 by the late 1980s, and up to 250,000 in the 1990s, and averaging between 200,000 to 250,000 so far this decade (these estimates do not

California's 25 Largest Companies (by revenue)†

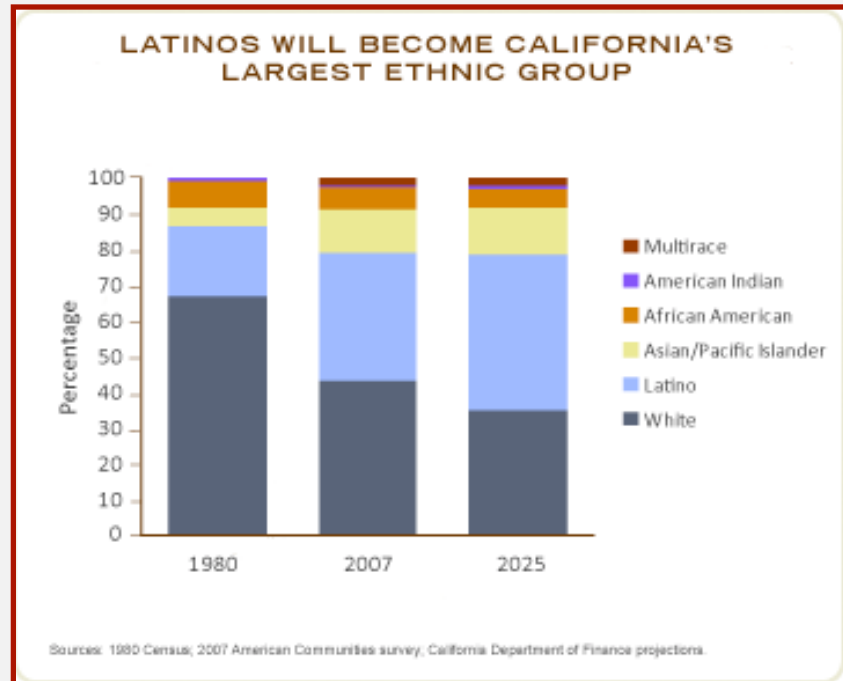
- * Chevron Corp. (CVX)
- * Hewlett-Packard Co. (HPQ)
- * McKesson Corp. (MCK)
- * Wells Fargo & Co. (WFC)
- * Safeway Inc. (SWY)
- * Cisco Systems Inc. (CSCO)
- * Walt Disney Co. (DIS)
- * Intel Corp. (INTC)
- * Ingram Micro Inc. (IM)
- * Northrop Grumman Corp. (NOC)
- * Apple Inc. (AAPL)
- * Occidental Petroleum Corp. (OXY)
- * Oracle Corp. (ORCL)
- * Google Inc. (GOOG)
- * DirecTV Group Inc. (DTV)
- * Health Net Inc. (HNT)
- * Amgen Inc. (AMGN)
- * PG&E Corp. (PCG)
- * Gap Inc. (GPS)
- * Edison International (EIX)
- * Sun Microsystems Inc. (JAVA)
- * Jacobs Engineering Group Inc. (JEC)
- * Qualcomm Inc. (QCOM)
- * Sempra Energy (SRE)
- * URS Corp. (URS)

†*Ranking compiled by Fortune Magazine, Spring 2009.

account for illegal immigration, but the Pew Hispanic Center estimates that as of 2008 there were 11.9 million illegal immigrants living in California).

Historical domestic migration patterns seem to show a distinct correlation between domestic migration flows and the health of the state's economy—during times of state economic stress domestic outmigration flows tend to significantly increase. However, times of economic recovery have not tended to lead to significant domestic inflows in the past two decades.

The impact to California's population trends due to the housing market collapse, recession and state's high unemployment rate, are yet to be known, and the California Department of Finance, which tracks demographic trends, determined that on a statewide basis population growth in 2008 was 1.1 percent, about the same as 2007. However, the department noticed that the previously fastest-growing areas in the state experienced noticeable year-over-year declines in their rates of growth.



Overall, the state's population should continue to grow despite the ongoing—and probably increasing—net domestic migration losses, because of net gains in international migration and because of the state's relatively high birth, 15.5 per thousand, and fertility, 2.2, rates, which are above the national average. These population supporting rates are driven in large part by the state's large Hispanic

population, which tends to have a fertility rate closer to 3, and by the state's relatively young median age, 34.8, compared with the national median age of 36.7. The California Legislative Analyst's Office in mid-November projected an annual 1 percent per year population increase for the next five years despite the current difficult economic climate.

Finally, no discussion of California demographics should conclude without mention of the exceptionally diverse ethnic, racial, national and religious composition of its people. California is one of only four U.S. states—the others being Hawaii, New Mexico and Texas—that lacks a majority ethnic group, although this is expected to change sometime between 2015 and 2020 when Hispanic numbers are expected to make them the majority. While Texas and New Mexico currently have a higher percentage of Hispanic residents, California has the largest

California Housing Market Shows Improvement

California's housing market, which was among the worst hit in the U.S. during the recent credit crunch and ensuing recession, seems to be in recovery mode based on 16 consecutive months of year-over-year unit sales increases and eight consecutive months of median sales price increases. October home sales increased 1 percent year-over-year, and the median price rose 0.3 percent from September, leading economists with the California Association of Realtors to suggest that the state's housing market had hit its bottom and is on the upswing.

The Association, in releasing the data Nov. 19, also pointed to an easing of distressed sales and a continued decline in inventory levels as further reasons for optimism. The Association's unused inventory index for existing, single-family detached homes in October was four months, compared to 6.1 months in the year-ago period. The median number of days it took to sell a single-family home was 34.1 days in October, compared to 45.5 days in October 2008. Additionally, sales of homes priced at \$1 million or more rose in year-over-year comparisons for the first time since July 2007.

number of any state.

California also has the largest populations of most other ethnic, racial, national and religious groups in the U.S. For example more than 4.5 million Asian Americans live in California, representing about one-third of the U.S. Total. More than 22 percent of foreign-born U.S.

residents live in California, where more than 200 different languages are known to be spoken and read.

In short, although the state has long had a significant Hispanic heritage that is growing significantly pronounced, the state also holds sizeable populations of just about every nationality, ethnicity and

religion in the world. And while this would suggest that California is the idealized American “melting pot,” the different groups for the most part strive to maintain their cultural differences, which should be of great benefit to the dynamism of both the state of California and entire country.

Water Could be Constraint to California’s Future Growth

Significant challenges lie in the path of California’s continued economic and population growth, including a housing market collapse, ensuing recession, and massive state government debt burden that have put the state in what is probably the worst financial crisis in its history. But the biggest challenge to California’s future growth is water, or, more specifically, a lack of bountiful, clean and easily accessible water.

Space here does not allow for a complete description of the state’s available water resources and myriad issues involved in allocating what is essentially a scarce resource. In short, the state relies primarily on the San Joaquin River Delta, snowmelt from the Sierra Nevada Mountains, the Colorado River and underground aquifers for its water. All of these sources and their related conduits are highly stressed due to various reasons such as overuse, environmental degradation, aging infrastructure, mismanagement, and weather pattern changes, to name a few. The allocation of water from these sources has long been a source of contention between different

interests—agriculture, municipalities, industry, the environment—and it is becoming increasingly difficult for the state’s water utilities and agencies to successfully allocate the water to meet all needs.

State legislators and Governor Arnold Schwarzenegger acknowledged the “crisis,” this year and in November passed an \$11 billion bond issue for a wide range of specific projects—such as reservoir improvement, pollution control, water recycling, desalination, groundwater monitoring, to name a few—to improve California’s water conveyance, storage and quality control systems. The bond issue, which will need to be approved by voters next November, faces significant opposition by those who feel that their water needs were not addressed by the bill, and because the electorate is expected to be wary about adding to the state’s significant debt load.

But whether or not the bond issue garners approval, the state’s aging water infrastructure is in

desperate need of upgrading and expanding to ensure continued allocation and distribution of clean water. And those companies involved in water infrastructure development and water quality enhancement—whether pollution control, desalination or watershed management—will undoubtedly reap significant business in the years ahead.

There are dozens of small-, mid- and large-cap publicly traded companies that are involved with water infrastructure and treatment, many of which conduct business in California. Age Curve Consulting will examine these companies more closely in the coming months to determine which stand to benefit most from the impending upgrading and expansion of California’s water systems, as well as from opportunities to improve water systems in the numerous other water-challenged areas around the world. Four companies that will undoubtedly benefit from any upgrading of California’s water system are highlighted in the box below.

Company	Code	Price	%*	Yld.	P/E	P/S	ROE	P/B	P/D
American Water Works Company Inc.	AWK	21.80	31	3.85%	n/a	1.58	-5.72%	0.79	1.13
California Water Service Group	CWT	37.67	0	3.13%	18.88	1.77	10.09%	2.13	0.72
Tetra Tech Inc.	TTEK	27.02	33	n/a	18.96	1.19	15.03%	2.13	0.10
Pentair Inc.	PNR	31.14	77	2.31%	28.52	1.11	5.30%	1.11	0.50

* Gain/loss from March 9, 2009 lows versus the S&P 500 return of 57.5%

Source: Wall Street Journal—December 4, 2009

The Rise and Fall of Nations?—Death is the Answer

There are many reasons why demographic landscapes differ and naturally always will. One demographic model of note that helps explain these differences is the Demographic Transition Model,” based on the interpretations of the American demographer Warren Thompson. His work, starting in 1929, observed the changes or transitions in birth and death rates in industrial societies over the past 200 years.

The Demographic Transition Model as shown in the adjacent chart shows the four original idealized stages of why a country’s birth and death rates fall, its population rises, and then stagnates. We believe this model also supports the Malthusian belief that changes in a country’s death rate is the primary cause of major population change over time. The last century saw the world’s population increase nearly four fold, but not due to rising births but instead driven entirely by a reduction in mortality and infant mortality in particular (examined in more detail in our January 2009 issue).

Stage One:

At this stage in a pre-modern or pre-industrialized society death and birth rates are in balance. This produces a relatively “high” stationary population. Death rates are very high during this stage for numerous reasons including: lack of knowledge of disease prevention and cure, food shortages, and the primary killer being a lack of clean drinking water and efficient sewage disposal.

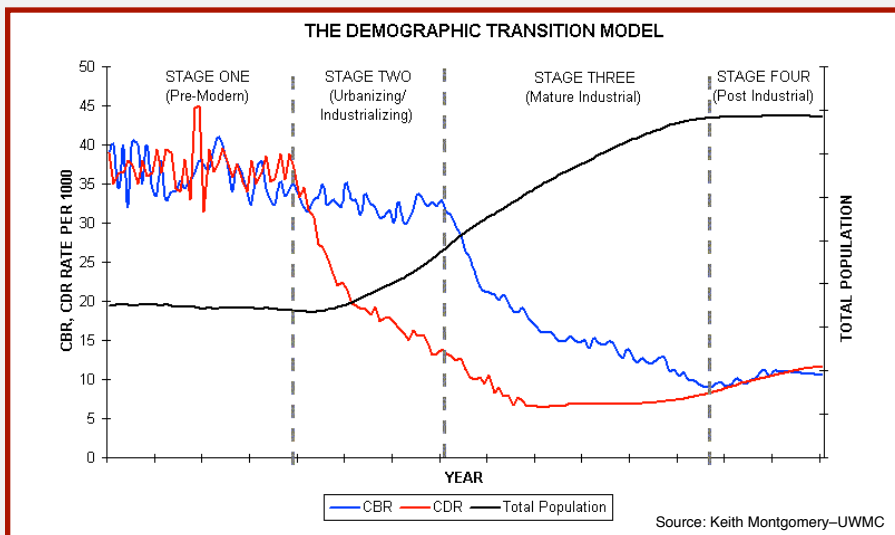
In York, England during the 17th century only 15 percent of children made it past 15 years old (threshold of human reproduction),

and only 10 percent remained alive by the age of 20. The high fertility at that time was needed to maintain the population and to ensure that

care insurance” for adults in their old age.

Stage Two:

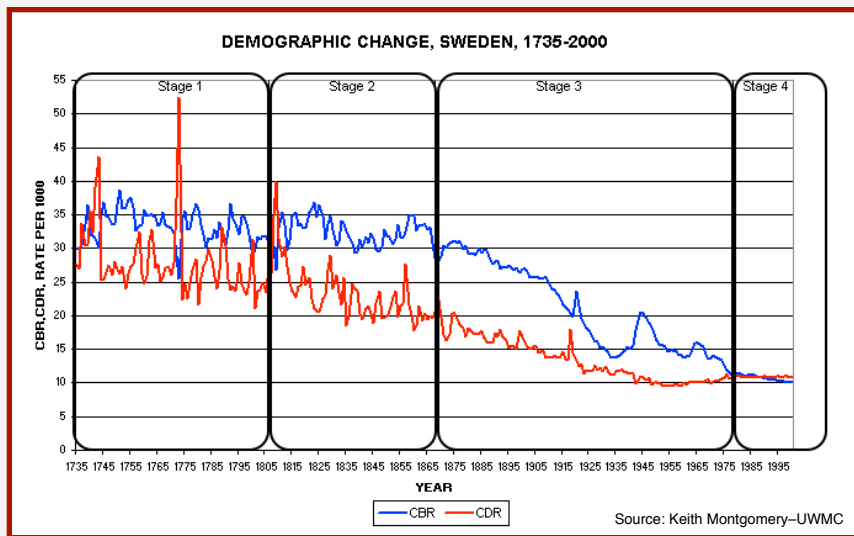
This stage sees a rise in



there were enough living females able to give birth.

The economics of children are very important at this stage. The total cost of raising children barely exceeded their contribution to the household until they became adults and were able to make a major contribution to the family business (farming in most cases). These children were also a form of “health

population caused by a decline in the death rate, while the birth rate remains high or in some cases rises. The decline in the death rate in Europe began in the late 18th century in Northwestern Europe and spread over Europe during the ensuing 100 years. The Swedish birth and death data below clearly show the balance between the crude birth rate (CBR) and crude death



rate (CDR) being broken during Stage Two.

The decline in the death rate is due to two key factors. Foremost, improvements in food supply brought about by higher agriculture yields. In England, this greater agriculture wealth enabled people to marry earlier, thus increasing the number of children born. Second and perhaps more important were the significant improvements in public health that reduced childhood mortality. These were not medical breakthroughs (these would arrive in the mid 20th century), but improvements in water supply, sewage, food handling and general personal hygiene. These came about from a growing scientific knowledge about the cause of disease.

The chart below illustrates the relationship between scurvy and measles in Wales and England between 1901 and 1967. Scurvy is caused by a dietary deficiency in vitamin C.

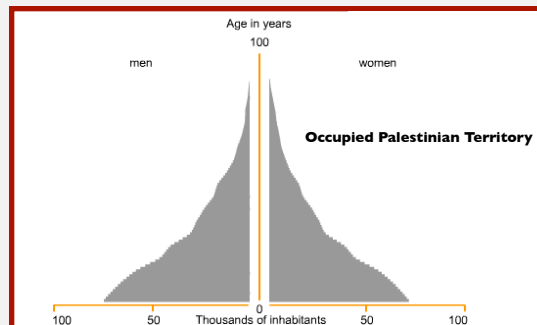
Therefore the consequences of the decline in mortality in Stage Two led to a rapid rise in the country's population as the gap between births grows wider. The important fact that must be remembered is that this growth is not due to an

increase in births but to a decline in death rates.

This fall in deaths that began in Northwestern Europe resulted in the population explosion seen over the last two centuries. And that peaked in the final stages of the 20th century as emerging nations entered Stage Two. This stage also sees an important change to the age structure of the population. In stage One, the majority of deaths are concentrated in the first 5 to 10 years of age. Therefore, during Stage Two the age structure of the population becomes increasingly youthful as these children enter the reproductive cycle of their lives and maintain the high birth rates of their parents. The effects of this can be clearly seen at the bottom of the above "age pyramid" for the occupied Palestine Territory as it widens, accelerating future population growth. This structure is common in most of the emerging market countries.

Stage Three:

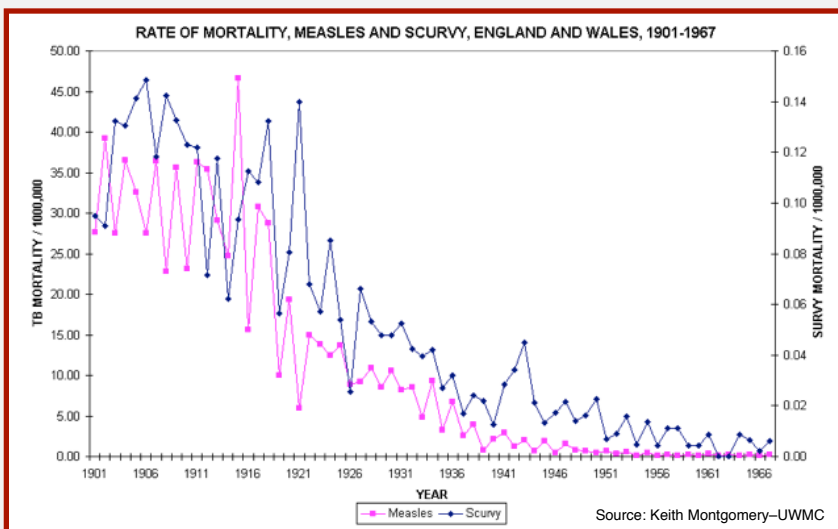
This moves the population towards stability through a decline in the birth rate. This shift enforces again the Malthus belief that

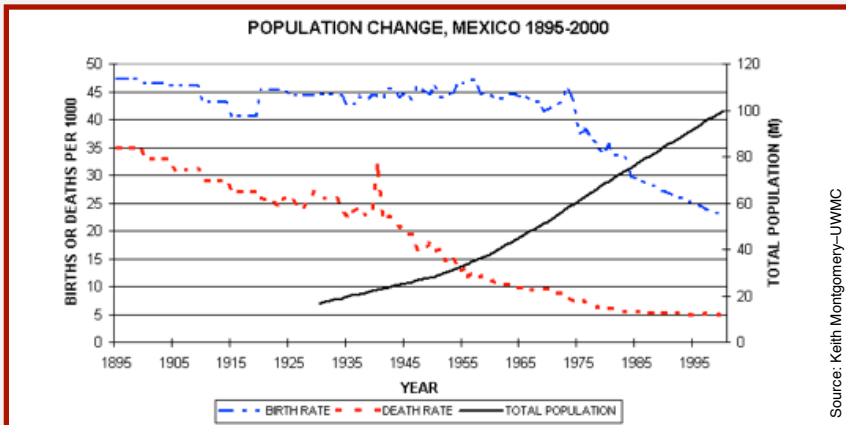


changes in death rates are the key cause of population change.

There are several factors that could contribute to this decline in births:

1. The decline in childhood deaths in rural areas due to increased wealth, better diet and improved sanitation.
2. Increased urbanization forces changes on traditional values regarding fertility and the value of children. Living in the city raises the cost of having children. Laws enforcing child education and preventing forced child labor alter the economic value of children. Families begin to assess more rationally how many children they desire or need.
3. Increased female literacy and employment increases the valuation of women beyond childbearing and motherhood. As women enter the workforce their attitudes change towards the burdens of childbearing and become increasingly influential in a family's childbearing decision.
4. Improvement in contraceptive technology helped lower birth rates from the second half of the 20th century. However contraceptives were not widely available in the 19th century and therefore contributed little to the decline in births.
5. The current fall in birth rates is caused by a change in values rather than simply the availability of contraceptives and the knowledge about how to use





Source: Keith Montgomery-UJMMC

them. Today a close relationship exists between fertility and contraceptive use, but this indicates that families have chosen to limit family size and find contraceptives the easiest and most effective way to do so.

6. During Stage Three the birth rate falls to near replacement levels. However, in many cases

population growth continues on account of population momentum. This can be seen in the Mexican chart above. Another cause could be explained by the youthful make up of the population, especially in many emerging market countries. This factor has driven many of the death rates below that of

developed countries, but this will undoubtedly rise as the population ages.

Stage Four:

This stage is characterized by stability and the aging of the country's population. At the early part of this stage fertility can fall below replacement level and a population decline can set in. If we simply extrapolate these linear trends for country's with negative population growth we can come up some startlingly simplistic conclusions. For example, Japan's population is set to fall by 20 percent from 128 million in 2010 to 102 million by 2050. If Japan's population continued to fall by 20 percent every 50 years, it would be around 13 million by 2500 (Russia's would be 3 million, down from 140 million).

India Has More to Offer than Just Curry

Today the U.S. government spends about 40 to 45 cents of every health care dollar in the country, while it also spends about 75 cents of every educational dollar. These two sectors have more problems than any other sector in the American economy. The greater government interference in the competitive landscape, the higher the prices and the lower the quality.

What more proof do we need than the table below. Lets hope President Obama asks to visit Dr. Shetty's flagship, 1,000-bed Narayana Hrudayalaya Hospital, during his next visit to India. Sadly we doubt it.

From The Wall Street Journal:

Dr. Devi Shetty, who entered the limelight in the early 1990s as Mother Teresa's cardiac surgeon, offers cutting-edge medical care in India at a fraction of what it costs elsewhere in the world. His flagship heart hospital charges \$2,000, on average, for open-heart surgery, compared with hospitals in the U.S. that are paid between \$20,000 and \$100,000, depending on the complexity of the surgery.

The approach has transformed health care in India through a simple premise that works in other industries: economies of scale. By driving huge volumes, even of procedures as sophisticated, delicate and dangerous as heart surgery, Dr. Shetty has

managed to drive down the cost of health care in his nation of one billion.

His model offers insights for countries worldwide that are struggling with soaring medical costs, including the U.S. as it debates major health-care overhaul. One thing is guaranteed "health tourism" to India is set to explode.

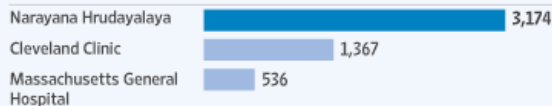
Operation Cut Costs

India's Narayana Hrudayalaya Hospital uses high volumes to lower health-care costs.

Average price charged for coronary artery bypass graft surgery*



Coronary artery bypass graft surgeries performed in 2008



Pediatric cardiac surgeries performed in 2008



*Prices for overall packages including hospital stay and surgery
Sources: Narayana Hrudayalaya Hospital; Cleveland Clinic; Massachusetts General Hospital; Children's Hospital Boston; Centers for Medicare & Medicaid; Religare Enterprises

Certainly a media-grabbing headline, but not very likely for two reasons: First, if Malthus is correct that death spurs population growth, perhaps a rising death rate will subconsciously bring the birth rate back to replacement level. If the pre-industrial society was plagued with a “high” stationary population, perhaps today’s global flat world would be plagued with a “low” stationary population growth. There may be relative exceptions, but perhaps the next 10,000 years will revert back to the “norm” of very slow population growth of less than 0.05 percent a year, resulting in long doubling times on the order of 1,500 years. Second, if Japan’s population was to collapse to such a low level, its next door neighbors would be knocking on the door to take full advantage of this situation by annexing it.

In the January issue of 2010 we will attempt to label today’s countries within the Demographic Transition Model. However, before that it is perhaps useful to look at the differences in transitions of today’s emerging markets versus previous transitions that made the developed nations we know so well today.

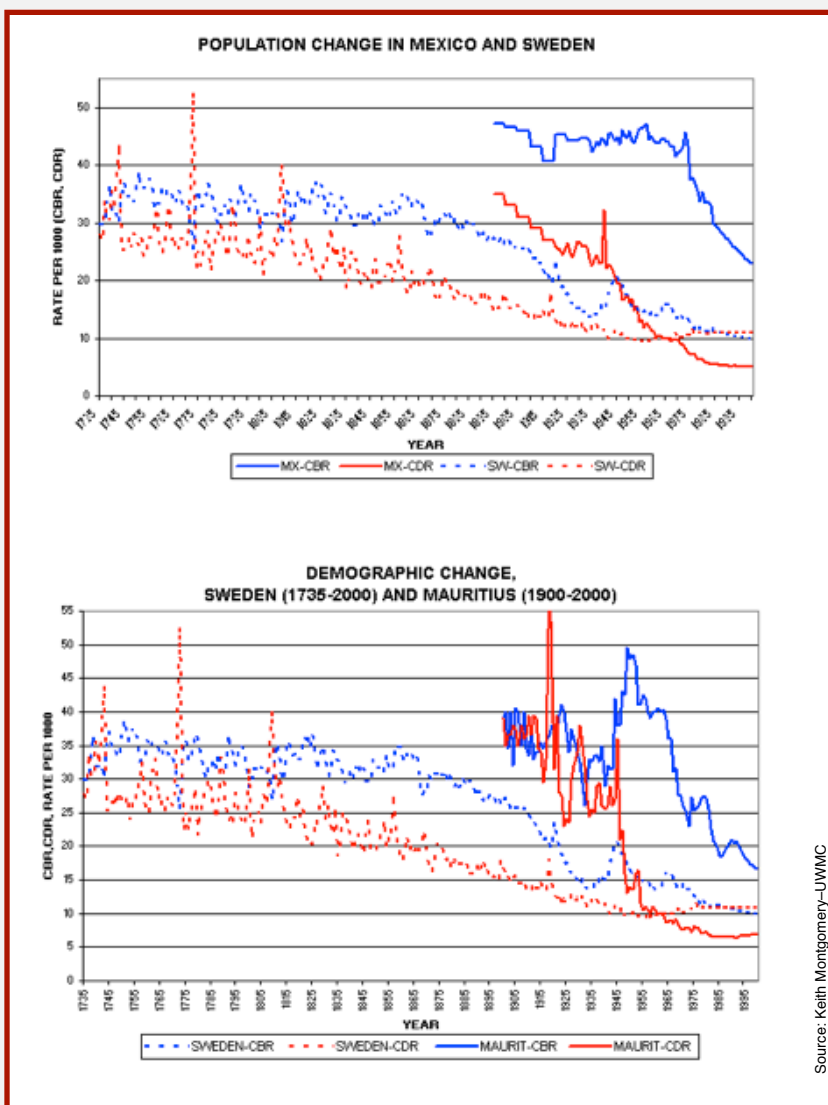
It would appear that today’s emerging nations are following Warren Thompson’s model. If we study and compare the adjacent charts for Mexico, Sweden and Mauritius, we can see the model still holds true. Of course, there are differences worth noting:

1. Developed countries, in particular Europe, went through their period of transition in the late 19th century and mid 20th century.
2. Modern drugs and improved literacy has helped death rates fall faster in emerging countries (50 years) than occurred in developed (150 years). Of the two the

primary driver has been behavioral changes to improve survival rather than taking a “pill.” These basic behavioral changes are quickly adopted because they support traditional human values that favor life over death in all societies.

3. Emerging markets have achieved death rates far lower than the developed nations. In 2009 Sweden’s death rate was 10 per 1,000 versus 7 for Mauritius and 5 for Mexico. The rates have been achieved because of its youthful population compared to the developed nations, and therefore will increase over time. What this

natural rate is, is anyone’s guess, but we believe given the length of available data and the fact that the emergence of the current developed nations’ rate began in Northwestern Europe, Sweden’s current rate of 10 per 1,000 is a reasonable example. The current exception could be Russia, which likes to consider itself a developed country. Its rate of 16 per 1,000 in its main driver of its population collapse. Sweden hit 16 per 1,000 in the late 19th century and took 50 years to bring it down to 10 per 1,000. If Russia is to avoid a reduction of more than 30 percent of its population in the next 50



Source: Keith Montgomery-UWIMC

years, improving its death rate is the only magic button left in its arsenal.

4. In most emerging market countries childhood mortality remains high when compared to developed nations. It is still lower by a third to a half, depending on the country, compared to 50 years ago. The chart below shows that Africa remains the problem area

nearer developed levels. It took Sweden nearly 80 years to lower its infant mortality from 60 per 1,000 to below five. We believe it will be difficult for the emerging nations, with maybe the exception of South America, to improve the trend of infant mortality any faster than Sweden did.

6. These differences have led to the population growth of today's

explain many of the differences we have seen and will continue to see in population growth across the globe. Over time the developed nations will revert to a position of "low" stationary population growth. Russia's rising death rates should drive births back to replacement level by 2025 or the country will suffer the same fate as Sparta (only conquered due to population loss). Further improved mortality in Emerging nations will over time bring another wave of falling birth rates to near replacement levels.

A primary demographic challenges facing the developed countries for the next 50 years will be solving the one-off "health care" problem created by aging Baby Boomers. We believe this problem can be helped by out-of-the-box thinking. Please see our article on "Health Care lessons from India" on page 8.

The emerging markets main challenge will be how to become rich before they get old. Japan was lucky to be the first Asian country to "emerge" and its Japanese export model allowed it to successfully become rich before becoming old. However its model of xenophobic immigration and strong currency is not the model emerging nations should follow for long term generational growth.

Infant mortality rates per 1,000 by major area and region 1950 to 2000

Major area/region	1950-1955	1980-1985	1990-1995	1995-2000
World	157	79	64	60
Africa	181	113	98	91
Eastern Africa	181	119	111	103
Middle Africa	187	116	101	98
Northern Africa	188	102	67	58
Southern Africa	105	72	59	63
Western Africa	191	120	105	96
Asia	182	83	65	59
Europe	72	18	12	10
Latin America and Caribbean	126	58	40	36
Northern America	29	11	8	7
Oceania	60	35	29	26

Source: United Nations

for childhood mortality and is as high as Sweden's was back in 1915.

5. The drop in birth rates in emerging countries has been due to fertility changes. That is to say choosing to limit the size of the family and contraception is the easiest and most effective way to do so. We believe the next stage of lower birth rates will not occur until child mortality improves to

emerging markets of over 3.5 percent per year in Stage Two compared to 1.3 percent at the same stage in Sweden. These differing growth rates have meant emerging countries have doubled their population in 20 years versus 50 years for the developed nations.

Despite its dated age we believe Warren Thompson's "Model of Demographic Transition" helps

Demographics Suggests Sky's the Limit for Skyworks Solutions

Share prices of most companies in the Semiconductor industry have seen significant gains since the

March lows, with some shares climbing 100, 200, and even 300 percent. Many of these companies have also experienced significant revenue growth, primarily driven by increased sales with the easing of the recession. In the absence of any major tech boom, revenue growth will undoubtedly slow and the share

prices in the industry will likely falter. However, some semiconductor companies will continue to see increasing revenue flows, especially those with innovative product offerings and those experiencing increasing demand for their products.

In particular we believe that Skyworks Solutions Inc. (SWKS) should benefit from the combination of an innovative product line and

demographics that favor increasing demand for their wireless line of products. The company makes integrated circuits and semiconductors that are used in wireless telephone handsets and infrastructure, as well as in numerous other products with wireless functionality. Skyworks, which was formed in 2002 with the merger of Alpha Industries and the wireless communications division of

Conexant Systems Inc. (CNXT), built its reputation as a military contractor, and still serves as sole-source provider of radio frequency components for the U.S. military's Aegis radar system.

The company's success lies in part to the fact that it makes its circuits out of gallium arsenide, a material that performs at higher speeds and with less energy consumption than the industry-standard silicone. And makers of wireless devices are always looking for higher speeds, while those making portable devices are also seeking lower energy consumption so as to conserve battery life. Key customers for Skyworks include Nokia Corp. (NOK), Motorola Inc. (MOT), Sony Ericsson (SNE), LG Electronics Inc. Research in Motion Ltd.(RIMM), Dell Inc. (DELL), Hewlett-Packard Co. (HPQ), Apple (AAPL), and Samsung. The company also has strategic, partnerships with Qualcomm Inc. (QCOM), Broadcom Corp. (BRCM), Texas Instruments Inc. (TXN), Infineon, Marvell Technology Group (MRVL), MediaTek and ST Ericsson.

Skyworks Solutions describes itself as "an innovator of high reliability analog and mixed signal semiconductors," offering "diverse standard and custom linear products supporting" a wide range of applications, most of which are focused on the wireless field. In fact, the company currently supplies semiconductors to all top-tier mobile phone handset original equipment manufacturers, and claims that it is gaining market share with all market leading smartphone providers. Skyworks is

seeing increasing market share with semiconductors supporting "push-to-talk" functionality, and with other wireless applications such as netbooks and pocket computing devices. The company also states that it is "PA/FEM shipments" are "significantly outperforming handset market growth," and that it achieved 34 percent compound annual growth rate between 2003 and 2008, and currently holds more than 40 percent of the worldwide market share.

Along with gaining market share, Skyworks is benefitting from

wireless applications—especially cell phones—are still very much a boom market. 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



the rapid evolution of wireless applications, or, more specifically, as 2G technologies are replaced by 3G, 4G and Edge technologies. While the company considered 2G's market growth low, with many competitors, few opportunities to be a "sole source" provider, and a relatively low "dollar content," Edge, 3G and 4G provide a high market growth, with few competitors, emphasis on "sole source" providing, and a dollar content two to six times greater than that of 2G, depending on the product.

And unlike other high tech sectors such as desktop computers,

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 developing world. 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.

Company	Code	Price	%*	Yield	P/E	P/S	ROE	P/B	P/D
Skyworks Solutions Inc.	SWKS	13.65	96.4%	n/a	25.19	2.97	9.10%	0.67	0.15

* Gain/loss from March 9, 2009 lows versus the S&P 500 return of 57.5%

Source: Wall Street Journal—December 4, 2009

With cell phones and other wireless applications maintaining robust growth, Skyworks is clearly in a strong position to continue growing its revenue stream.

On a trailing 12-month price to earnings ratio of about 25, the company's share price, at about \$13.50, seems fair, especially when compared to many other companies in the industry that are trading with much higher P/Es. The shares would seem expensive based on their trailing 12-month P/S of 2.97, but the P/S is justified by the company's high gross margins.

Looking forward, the consensus estimates for the company's earnings give it a P/E of 15 as of the

company's fiscal year end Sept. 2010, dropping to 12.9 in Sept. 2011. While the consensus earnings per share for fiscal 2011 is \$1.05, the high end of the range is \$1.28. A P/E of 20 on that high estimate would give the shares a price of \$26.

The company reported fourth quarter 2009 earnings on Nov. 5, that beat analyst estimates by .10 per share, and marked a 19 percent increase in revenues over the prior quarter. The company also guided first quarter 2010 revenues and earnings above analysts expectations, and predicted sales would rise 13 to 15 percent year over year. Skyworks CEO David J. Aldrich said the company will

continue to benefit from "powerful, multi-year waves" of growth in broadband access, infrastructure capacity and smart grids.

If the company can continue to surprise to the upside—which we believe, for all the reasons highlighted above, it will—then it should generate enough revenue growth to meet the higher estimates, and with an improving earnings outlook, should easily break into new highs not seen since 2002, and perhaps in time, since 2000.

Everything that can be invented has been invented."

—Charles H. Duell, Commissioner, U.S. Office of Patents, 1899.

Walmart is Chasing Baby Boomer Market all the Way to the Grave

The world's largest retailer, Walmart Stores Inc. (WMT), seems to be paying attention to demographic trends and apparently is aware that its largest customer base—Baby Boomers—is exiting its key spending years that were responsible for so much of the behemoth retailer's phenomenal growth.

Not content to let this massive cohort of former big spenders go quietly into the night, Walmart is now going to chase those Baby Boomer dollars all the way into the grave.

Prices for the Walmart line of caskets range from a "Mom -" or "Dad Remembered" high gauge steel model for \$895 to a "Sienna Bronze" model with "European-style hardware and a tufted rose-tan interior" for \$2,899. Caskets can be purchased online and customers can "plan ahead" by paying for the caskets with a 12-month interest free payment plan. The retailer offers 48-hour shipping, however returns are not allowed, with the exception

of damage during delivery.

According to news reports, the casket prices undercut those of many funeral homes. However, funeral industry spokesmen said they were not unduly concerned about competition from Walmart because the retailer cannot offer the bereaved the "human touch." A spokesperson for the National Funeral Home Directors Association told the Associated Press: "There's no question in my mind as a funeral director for nearly 40 years that the most critical element is the human contact."

The screenshot shows the Walmart.com product page for a "Sienna Bronze Casket". The page features the Walmart logo, navigation menus, and product details. The price is prominently displayed as \$2,899.00. There is an "ADD TO CART" button and a "Buy Online" section with a table of shipping and pricing information.

Buy Online (What's this?)	Price	Shipping & Additional Information
Walmart.com	\$2,899.00	• Ship to home See estimated arrival date

J.M. Smuckers—The Forgotten Coffee Play

The coffee business has boomed in recent years, especially with regard to specialty coffees. More than 75 percent of U.S. adults drink coffee daily and about 20 percent have been to a coffee shop in the last month. Although the popularity of coffee shops has recently spread across the nation, the West coast has the most coffee shop patrons.

Over 60 percent of coffee is consumed at breakfast in the U.S., so establishments that serve coffee but do not open until 11.00 a.m. are taking advantage of only 40 percent of the market. According to the National Coffee Association, seniors drink more coffee away from home, while 18- to 24-year-olds drink more coffee at home. Overall home consumption has risen from 44 percent in 2002 to over 60 percent, which may be a result of a slow U.S. economy and a rising number of 18- to 24-year-olds.

We expect coffee as a whole to benefit from strong American demographics from 2010 to 2025. The Coffee bars (offering free wireless as well) and home consumption should benefit from the growing number of 18- to 24-year-olds and first time mothers between ages 31 to 40. The over 60s market will post the strongest demographic growth from 2010 to 2025, and will become particularly important for mid-priced coffee shops. The demand for speciality coffee is expected to grow across all age groups, with those 25 to 44 making up the largest group.

Coffee related stocks have recovered strongly since the March lows: Starbucks (SBUX) is up 161 percent, Peet's Coffee and Tea (PEET) is up 64 percent, Green Mountain Coffee Roasters (GMCR) is up 143 percent and J.M. Smuckers Co. (SJM) is up 72 percent.

Nestle and Starbucks have been going head-to-head in the instant-coffee war—with Starbucks invading Nestle's jealously guarded turf via Ready Brew, and the giant Swiss food maker mounting a spirited counteroffensive by passing out free samples of its Nescafé Taster's Choice instant coffee across several

key U.S. cities. Meanwhile, Peet's Coffee and Tea just lost a hard fought battle with Green Mountain Coffee over Diedrich Coffee and its K-cups. The often forgotten coffee play, J.M. Smuckers Co., keeps plugging away, and last month beat earnings estimates and raised its full-year 2010 profit outlook.

Behold the Power of "Joe"

Just where did the expression "A Cup of Joe" originate? There are many, but our favorite attributes it to Admiral Josephus "Joe" Daniels, secretary of the U.S. Navy, who in 1914 eliminated wine from the officers' mess. Coffee or a "Cup of Joe" became the servicemen's cup of choice.

- * There is no precise measure of the amount of coffee the world consumes, because we can not agree on what constitutes "a cup." However, the generally agreed estimate is 1.6 billion cups of coffee are drunk worldwide every day. That equates to 584 billion cups per year, and in 2007 coffee consumption surpassed that of soft-drinks.
- * The most java-struck nation on earth is Finland, where consumption per capita is nearly 1,110 cups per year.
- * The Ottoman Turks were driven out of Vienna, Austria, in 1683, thanks to the rallying cry of an Italian Capuchin monk named Marco d'Aviano. As the Turks fled, they left their bitter brew behind. Leave it to the Italians to make the drink more palatable by adding milk and renaming the drink after their hero's religious order: Cappuccino.
- * In 1727, Brail wanted in on the "coffee action" and sent their top secret government agent Lt. Col. Francisco de Melo Palheta to steal some beans from French Guiana. The colonel was more of a lover than a fighter and accomplished his mission by wooing the governor's wife, who gave him a bouquet containing seedlings. Today Brazil is the world's largest producer of coffee, producing about of 36 million 60 kilogram bags of beans per year.
- * The average American adult between the ages of 18 to 24 drinks 3.2 cups (8 ounce cups) of coffee a day. That is up from 2.5 in 2005.
- * In 1683, coffee was considered so valuable in New York that 1 pound of coffee was worth four acres of land. In today's terms that is equivalent to Donald Trump and partners accepting 19 pounds of coffee for the 77-acre 2005 land sale in Gotham's far West Side, instead of \$1.76 billion.
- * Fifteen to 20 minutes is the amount of time it takes for caffeine to enter the blood stream, where it keeps on coursing for three-plus hours.
- * You are becoming sleepy behind the wheel of your car. What's the solution? According to a recent French study, have a "cup of Joe." The study compared the number of times sleepy drivers crossed the center line in traffic. The findings showed: drinkers of decaffeinated coffee crossed the center line 159 times, while those who catnapped crossed only 84 times, coffee drinkers scored best with only 27 line crossings. Verdict? Decaf drinkers are a menace to society!

The company, best known for its peanut butter and jelly, posted higher-than-expected quarterly results, driven by strong margins at its Folgers coffee business, and raised its full-year profit outlook, sending its shares up 5 percent. Its second-quarter earnings nearly tripled to \$140 million, or \$1.18 a share from \$51.5 million, or 94 cents a share in the year-ago period. The food company's adjusted net income rose to \$1.22 share from \$1.01 a share. Sales rose 52% to \$1.29 billion due to the addition of Smucker's acquisition of Folgers's.

Wall Street analysts expected earnings of \$1.04 a share and revenue of \$1.25 billion. Smucker raised its April 2010 earnings forecast to the \$3.95 to \$4.05 a share range, from its previous target of \$3.65 to \$3.80 a share.

From Reuter's: *The company, which also manufactures and markets fruit spreads, retail packaged coffee, ice cream toppings and sweetened condensed milk, saw overall gross*

margin rise to 33.8 percent from 28.9 percent in the year-ago period.

Gross margin at Folgers, the largest producer of retail packaged coffee in the United States, was helped partly by green coffee market conditions and favorable product mix, the company said in a statement.

Strong performance at Folgers has boosted Smucker's results since the company bought the coffee business last November. Folgers' product offerings include the namesake brand, Millstone brand and a license to manufacture and distribute Dunkin' Donuts coffee in the retail grocery market.

Also, other brands such as Pillsbury flour, Crisco oils, Jif peanut butter, and Hungry Jack have performed relatively well in the recession as consumers eat more at home, and have offset weaker sales in the company's foodservice and natural foods businesses.

Although J.M. Smuckers does not instantly grab the average "Growth Investor," it meets the

demands of a very attractive demographic consumer segment: 1- to 15-year-olds. This segment is set to grow by about 5 percent in numbers by 2015 and the company should benefit by young Americans' never-ending taste for peanut butter and jelly sandwiches. The recently acquired Folgers business should also continue to drive margins higher, as 75 percent of American cups of coffee are brewed at home.

J.M. Smuckers (\$60) sells on a consensus April 2010 P/E of 14.8 falling to 13.9 the year after and the shares yield a 2.3 percent dividend. The shares also sell on a 12-month trailing P/S of 1.5 and a Return on Equity of 12.3 percent.

We hold both Peet's Coffee and Tea and J.M. Smuckers in our model Beacon Master Portfolio. At current levels Smuckers looks particularly undervalued, given the company's strong food brands, and attractive demographic and earnings outlook in both the coffee and young children's food market.

Company	Code	Price	%*	Yield	P/E	P/S	ROE	P/B	P/D
J.M. Smuckers Co.	SJM	59.73	72%	2.60	17.00	1.50	12.3%	1.37	0.28

* Gain/loss from March 9, 2009 lows versus the S&P 500 return of 57.5%

Source: Wall Street Journal—December 4, 2009

Sector Overview: If the Well is Dry, Do We Know the Worth of H2o?

"When the well is dry, we know the worth of water," said Benjamin Franklin in 1746. Here it is some 264 years later and the global water well is going dry, or otherwise being negatively impacted, and yet it would seem that people still do not know the worth of water.

Yes, water would seem to be ubiquitous, but it should be considered more precious given that only about 2.5 percent of the earth's water is "fresh," or potentially fit for human use, whether for drinking, agriculture or industry. Of this 2.5 percent, more than 60 percent is

locked up in polar and glacial ice, while another 20 to 30 percent or so (estimates vary widely) is too polluted or otherwise impaired for human use.

To compound this relative overall dearth of fresh water its distribution varies, with countries in the northern and southern latitudes generally enjoying bountiful supplies, while many in the middle latitudes, such as China and India do not. And these middle latitude "developing" countries tend to have the most water pollution and impairment problems.

No that the developed world isn't immune to water scarcity and impairment (please see our story on California's water woes on page 5). In short, everyone needs fresh water, and the continued health of every country's people and economy is dependent on adequate supplies of it.

With that said, it would stand to reason that companies involved in the development of water supply and treatment will benefit from the world's growing need for fresh water supplies. Dozens and dozens of companies are involved in the water infrastructure and treatment

industry, and Age Curve Consulting will be examining them over the coming year to determine which stand to benefit most. In the meantime, there are several exchange traded funds (ETFs) that offer exposure to the water industry:

The First Trust ISE Water Fund (FIW) tracks the International Securities Exchange Water Index and is comprised of the equities of 35 companies that derive a significant portion of their revenues from the potable and waste water industry. Most of the fund's positions are in smaller-sized companies, with only 10 percent of the holdings in large-cap stocks. Most of the companies maintain a strong presence in North America, but also conduct business around the world. The stock, which is up about 60 percent from its March lows of \$11.37, has been range-bound between about \$17.50 to \$18.50 since September. We feel that with its emphasis on smaller-cap issues the ETF has more upside potential than those with more emphasis on larger-cap issues, as the larger companies are more likely to be fairly priced and see less upside movement when new water-related deals are inked.

The Claymore S&P Global Water Index ETF (CGW) seeks to

International Overview: Is Scotland a MacTiger or a MacBust?

If asked whether Scotland represented a model of hope or bust, a scunnered Scotsman might say, "Ah Dina ken," which in English would be, "I don't know."

So let's look at the evidence, past and present. Scotland once led the world in shipbuilding, steel making and engineering, but its days as a center of heavy industry are long gone. In 2007, as the country celebrated the 40th anniversary of the launch of the QE2 (the last great ship to be built on the

correspond to the performance of the S&P Global Water Index and is comprised of the equities of 25 water utility and infrastructure companies and 25 water equipment, treatment and materials companies. About 40 percent of the ETF's holdings are in U.S. stocks, with the rest diversified among other developed markets such as the U.K., France and Japan. CGW's share price has been range bound from \$17 to \$18.50 since early September, and is up about 80 percent from the March lows.

PowerShares Water Resources ETF (PHO) is designed to track the results of an equity index called the Palisades Water Index, which primarily consists of companies that provided potable water, treat water, and provide technology and services related to water consumption. This

ETF is almost exclusively comprised of U.S. companies, almost all of which are large-cap issues. Its share price has recently been trading just above \$16, and is up about 55 percent from the March lows.

Similar to PHO, PowerShares Global Water ETF (PIO) tracks the performance of the Palisades Global Water Index, which is comprised of global companies that provide potable water, treat water and provide water technology and services. About one quarter of the ETF's holdings are utilities, and only about 30 percent of the companies are from the U.S. The share price has been range bound between about \$17 to \$18 since mid September, and is up about 94 percent from the March lows.

Water Industry ETFs in Focus

Exchange Traded Fund	Code	Price	%*	Yield
First Trust ISE Water Fund ETF	FIW	18.18	59.9%	1.32%
Claymore S&P Global Water Index ETF	CGW	18.54	79.5%	7.20%
PowerShares Water Resources ETF	PHO	16.36	61.3%	n/a
PowerShares Global Water ETF	PIO	18.15	93.7%	n/a

* Gain/loss from March 9, 2009 lows versus the S&P 500 return of 57.5%
Source: Wall Street Journal—December 4, 2009

River Clyde), most of Scotland's coal mines and all of its steel works had closed.

These industries have been replaced by services, and the service industry now accounts for 67 percent of the Scottish economy. Manufacturing now only accounts for 22 percent of the Scottish economy, construction 6 percent, mining 2 percent, and agriculture, fishing and forestry at 3 percent.

Financial and business services have provided more new jobs in

Scotland than electronics and North Sea oil combined, and Edinburgh is the fifth largest financial center in Europe. Tourism is the most important contributor to the Scottish economy, injecting nearly \$7 billion annually and employing one in 15 of the workforce. The biggest single employer is sadly the Government: almost one in four Scots work in the public sector.

Many Scots looking over the Irish sea at the "Celtic Tiger" expected Scottish devolution in 1999

to modernize the country and its lackluster economy. Instead they got more of the same: more Government. Over half of the Scottish GDP is now in the state sector, productivity is dire and economic growth has almost vanished. Currently Scotland has the highest per capita health spending in Europe and the worst health in the EU's 27 countries under a Stalinist super-centralized Scottish National Health Service (Americans be warned). The country's educational system is not much better as 20 percent fewer young Scots finish high school than the European average.

The answer to these problems lies partly in the destruction of the subsidy-driven culture by cutting off its financial lifeline as provided by the English taxpayer. This would force the Scots to return to their Adam Smith, thrifty, self-improving and Presbyterian roots.

Another ingredient needed to transform Scotland into a "MacCeltic Tiger" of the 21st Century is unfortunately missing. This being people. The difference between the Irish and the Scottish demographic landscapes (see Scottish birth chart) could not be more different. In a phrase: Chalk and cheese.

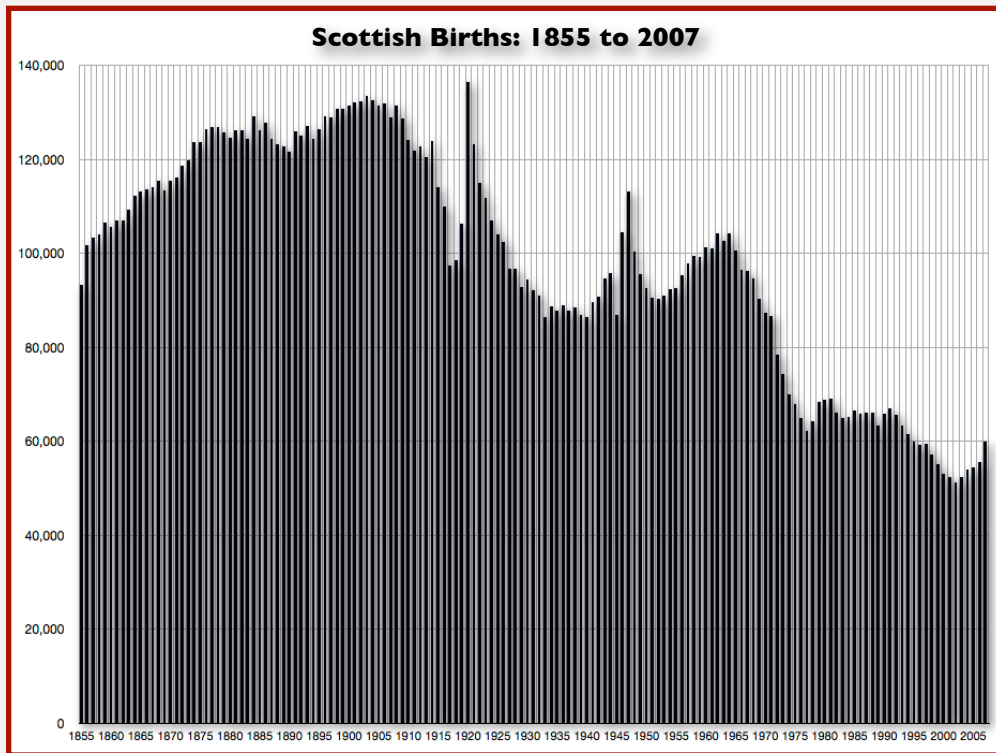
Scottish births: 11 per 1,000
Irish births: 18 per 1,000
Scottish deaths: 11 per 1,000
Irish deaths 6: per 1,000

In fact, in 2008 Ireland had the highest birth rate, lowest death rate

and the highest net-migration gain (44 per 1,000) in the entire European Union, and the highest population growth in the 27 member bloc.

Meanwhile, Scotland's demographic report card puts it at

Returning to our headline question of whether Scotland is a model of hope or bust, demographically it would appear that there is hope. Scotland is heading back to replacement level and "low" stationary population



the bottom of the class. Its birth rate over the last 100 years has suffered a "birth bust" as severe as Japan's. Scottish births peaked in 1903 at 133,525 and hit an all-time low in 2002 at 51,270 (a decline of nearly 62 percent compared to the Japanese collapse since 1948 of 59 percent). Births have recovered sharply since 2002, and are up to 1995 levels at 60,041. This is primarily due to the influx of migrants from Eastern Europe since 2004. To its credit the new Scottish Executive has responded positively to Scotland's demographic problems by setting up the "Fresh Talent" working in Scotland program that allows foreign (non-EU) graduates from Scottish universities a two-year residency period after graduation.

growth, thanks to immigration from Eastern Europe. However, economically (and on the sports field) there is no evidence of hope or change on the horizon. We believe that despite the effects of the "2008 Financial Meltdown" that affected both countries, the gap between the "Celtic Tiger" and the "Sick Man of Europe" seems sadly only set to grow larger in the coming years. Next month we take a closer look at the health of the "Celtic Tiger."

The Irish gave the bagpipes to the Scots as a joke, but the Scots haven't seen the joke yet.
—Oliver Herford

How to Turn the U.S. into an “Emerging Market”

We have often talk about the importance of asset allocation, or the sector breakdown, of an index. This is shown to good example with the composition of the S&P 500 ETF (SPY) and the China Index ETF (FXI) and these differences are the reason why the Chinese performance since the March 2009 lows is 92.6 percent versus the S&P 500 return of only 62.6 percent. If we readjusted the S&P 500 to reflect the Chinese index ETF sector weightings, and then used S&P sector returns, the S&P return would be adjusted upwards to 95.5 percent and would rise even further if U.S. Dollar weakness was factored in.

Our argument is not that China should share the same sector breakdown as the U.S., but with an emerging market sector allocation and investing in U.S. S&P sector ETFs, one would have gained a higher return than investing directly in many of the emerging country ETFs. We would add with less risk.

Index/Sector	Return %	S&P Wtg %	China Wtg %
Consumer Discretionary	82.2	9.5	1.3
Materials	81.9	3.6	12.7
Industrials	84.1	10.4	9.1
Financials	133.2	14.1	47.3
Technology	69.5	19.0	0
Energy	43.1	11.9	11.5
Healthcare	43.1	12.9	0
Telecoms	44.7	3.2	16.4
Consumer Staples	46.9	11.7	0
Utilities	35.8	3.7	1.7
U.S. Dollar Index	-19.6		
Returns		S&P	China
Index Return		64.3%	92.6%
U.S. Index Readjusted		95.5%	92.6%

THE INFORMED INVESTOR BY LOGIE CASSELLS

Market Overview: Happy Birthday to our Model Portfolio!

Last week marked the one year anniversary of our model Beacon Master Portfolio. We believe it is fair to say it has been a year of two halves (down and up), and if you have been a believer of our “Generational Opportunity,” a profitable one as well.

Over the year our model Beacon Master Portfolio met our goal of beating our primary benchmark (S&P Global 100 Index) by 10 percentage points over a 12 month period. By backing a normal recovery, and the merging demand of Generation Y, we produced a Birthday gain of 68.1 percent versus 29.4 percent for the S&P Global 100. We are very pleased with this figure, especially given our cautious equity market stance since September.

Looking out into the murky unknown of 2010 and beyond, we

continue to believe that over the next 12 months markets will post gains of a more modest nature compared to those of the past year. There will always be surprises, and, as always, we will be listening to the market for advance warning. Our number one 2010 surprise expectation is that the U.S. Dollar will not disappear down the plug hole.

Brian Wesbury in the introduction to his excellent book—“It’s Not as Bad as You Think,”—summed up our January 2009 feelings about the “nattering nabobs of negativity” as follows:

Next “to the Chicago Cubs winning the World Series, the end of capitalism may be the most predicted and expected event of humankind. In fact, many believe that we are locked in a war between economic heaven and hell right

now. And at the beginning of 2009, most would have been hard pressed to believe that hell hadn’t won.”

Our latest presentation entitled “What Lies Over the Hill?” (available for download on our Age Curve Report Archive on our website) lays out our belief about the current “Generational Opportunity” in equities that lies ahead, similar to that of 1939 and 1974. We will expand in depth upon many of its points in the January 2010 Age Curve Report outlook issue.

While the next eight years will likely present many challenges and tests ahead, not to mention a few stiff market corrections, we believe that those investors who back the emerging demand of Generation Y will not be faced with another “Lost Decade” of disappointment.

Model Portfolio Quarterly Earnings Overview

Gap Looks Well Set Going Forward

Gap (GPS) in November reported that net earnings for the third quarter, which ended October 31, 2009, increased 25 percent to \$307 million, or \$0.44 per share on a diluted basis, compared with \$246 million, or \$0.35 per share on a diluted basis, for the same period last year.

Financial Performance Highlights

Third quarter diluted earnings per share increased to \$0.44 from \$0.35 last year (compared with analysts' earlier forecasts of 38 cents a share).

Third quarter net sales increased one percent to \$3.59 billion compared with \$3.56 billion last year.

Third quarter gross margin increased 380 basis points to 42.5 percent; and third quarter operating margin increased to 13.9 percent compared with 11.1 percent last year.

After more than three years of dragging down Gap Inc., Old Navy is starting to pull its own weight again. The bargain brand, which accounted for roughly 41% of Gap's sales last year, is expected to be the main driver of the apparel giant's earnings over the next few years.

In 2008 under an initiative dubbed Project ONE, for Old Navy Evolution, Gaps created a persona for a fictional shopper, a 29-year-old named Jenny (the most popular baby name in 1980), when Old Navy's target customer was born. She is married and the mother of at least one young child.

We believe returning Old Navy to its roots is the reason behind its revival. Old Navy brought back categories its designers had decided were stale, such as the brand's fleece category and T-shirts with the Old Navy logo. "We got tired of it. The customer never did," Mr. Wyatt (who oversaw Gap's outlet division, as interim president of the unit in February 2008) says. Fashion items became "democratic," Mr. Wyatt says, meant to appeal to a Jenny type of consumer in Kansas City rather than New York City.

The other key factor is that between 1990 and 2010 the number of 26 to 30 year olds in the U.S. fell by 12.4 percent and looking forward to 2015 this consumer bracket (where Jenny lives) is set to grow by 5.7 percent. This favourable headwind should help drive Old Navy's recovery forward.

We continue to find the shares undervalued given their growing demographic customer base and attractive valuation. The shares (\$21.80) share sell on a January 2010 consensus P/E of 14.5 falling to a P/E of 13.4 the year after. The shares 12 month trailing Price to sales is 1.11 and Return on Equity is 20.2 percent. They are a core holding in the model Beacon Master Portfolio.

Willamette Posts Healthy Rise in Profits

Willamette Valley Vineyards (WVVI) posted quarterly earnings in November with a healthy increase in revenues. For the nine months to Sept. 30, earnings per share rose by 40 percent. We continue to believe that despite the company's very small size, the shares are very attractive and have the potential of producing 35 to 40 cents of full year earnings by 2011. This would place them on a prospective September 2011 P/E of about 9.0. They remain a core generational holding in the model Beacon Master Portfolio.

From PR Newswire:

Willamette Valley Vineyards, a leading producer of Pinot Noir, generated a profit of \$248,021 or \$0.05 cents per share. Comparable results for the prior year include profit of \$243,629 and \$0.05 cents per share.

The quarterly 7.9% increase in sales revenue and 7.5% increase in gross profit resulting from national chain placements were mostly offset by increases in sales labor and accounting support.

Jim Bernau, Founder and President of the winery said, "the economy is weak but there are more placement opportunities to be found, through increased sales staffing. The additional accounting expense is to help improve our inventory controls and financial reporting."

For the nine months of 2009, the winery generated net earnings of \$666,961 or \$0.14 cents per share, a 45% and 40% increase respectively, over the prior year. Willamette Valley Vineyards, Inc. is headquartered at its Estate Vineyard near Salem, Oregon.

Pacific Sunwear Falls to Earth

Pacific Sunwear (PSUN) fell to earth with a bump last month, and are nearly 55 percent off their October highs

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MODEL BEACON MASTER PORTFOLIO										Date	4 Dec. '09
Ticker	Name	Yld	PE	P/S	Cost	Price	No.	% of Fnd.	Value	G/L	G/L %
Bonds, Gold and other								26.7%			
UUP	PowerShares US Dollar Index Bullish Fund				22.8	22.5	9,008	12.0%	202,500	-2,973	-1.4%
GLD	SPDR Gold Trust	0			95.5	113.8	291	2.0%	33,101	5,308	19.1%
TIP	iShares Barclays TIPS Bond Fund	0.6			98.1	104.9	780	4.9%	81,791	5,249	6.9%
HYG	iShares High Yield Corporate Bond Fund	9.9			83.2	86.3	1,522	7.8%	131,273	4,596	3.6%
Technology and Telecoms								9.7%			
AAPL	Apple Inc.	0	30.9	4.3	94.0	193.3	212	2.4%	40,984	21,056	105.7%
SWKS	Skyworks Solutions	0	21.3	2.5	12.4	13.7	4,040	3.3%	55,146	5,010	10.0%
NVDA	NVIDIA	0		2.1	13.0	14.3	3,038	2.6%	43,322	3,828	9.7%
VOD	Vodafone Group PLC ADS	7.9	23.1	1.7	19.3	23.4	1,038	1.4%	24,320	4,339	21.7%
Consumer Discretionary								20.0%			
AMZN	Amazon	0	74.0	2.3	93.6	137.6	200	1.6%	27,516	8,788	46.9%
BBY	Best Buy Co.	1.4	18.5	0.4	39.3	43.8	867	2.3%	37,966	3,928	11.5%
GPS	Gap Inc.	1.5	17.2	1.2	22.7	21.8	1,718	2.2%	37,401	-1,512	-3.9%
PLCE	Children's Place Retail Stores	0	15.4	0.7	29.9	27.6	1,268	2.1%	34,984	-2,916	-7.7%
ARO	Aeropostale	0	12.6	1.4	32.9	29.0	1,210	2.1%	35,030	-4,743	-11.9%
PSUN	Pacific Sunwear of California	0		0.2	3.5	3.3	5,714	1.1%	18,742	-1,257	-6.3%
PSS	Collective Brands	0		0.4	21.0	22.4	1,190	1.6%	26,704	1,714	6.9%
DECK	Deckers Outdoor	0	13.7	1.3	93.0	97.8	217	1.3%	21,225	1,055	5.2%
CMG	Chipotle Mexican Grill	0	30.7	2.0	81.0	84.8	447	2.3%	37,915	1,708	4.7%
PEET	Peet's Coffee and Tea	0	41.2	1.6	36.6	31.9	546	1.0%	17,390	-2,594	-13.0%
LRN	K-12	0	42.3	1.6	20.3	18.5	2,230	2.5%	41,300	-3,969	-8.8%
Industrials								7.9%			
XLI	SPDR Industrial Sector Index Fund ETF	2.2			22.8	28.2	1,752	2.9%	49,354	9,356	23.4%
AGCO	AGCO Corp	0.0	14.4	0.5	30.5	32.2	1,156	2.2%	37,200	1,988	5.6%
DE	Deere & Co.	2.4	13.9	0.8	47.5	54.2	840	2.7%	45,562	5,628	14.1%
Energy and Materials								3.8%			
BP	BP	6.4	14.3	0.6	52.6	57.9	750	2.6%	43,395	3,915	9.9%
BTU	Peabody Energy	0.7	14.3	0.6	42.0	42.9	475	1.2%	20,354	390	2.0%
Health Care								1.2%			
XBI	SPDR S&P Biotech ETF	1.2			49.1	51.2	407	1.2%	20,834	838	4.2%
Financials								9.0%			
TD	Toronto-Dominion Bank	3.7	18.6	3.0	63.2	61.8	549	2.0%	33,945	-736	-2.1%
RY	Royal Bank of Canada	3.7	27.9	2.8	40.0	53.0	824	2.6%	43,672	10,687	32.4%
WFC	Wells Fargo & Co.	0.7	31.8	1.4	18.2	27.0	1,375	2.2%	37,070	12,073	48.3%
RKH	Merrill Lynch Regional Bank HOLDERS Trust	0			63.6	77.3	471	2.2%	36,427	6,490	21.7%
Consumer Staples								13.8%			
SJM	J.M.Smucker		17.0	1.3	56.0	59.7	714	2.5%	42,647	2,663	6.7%
SAM	Boston Beer Co. CI A	0	35.6	1.1	25.9	42.7	1,080	2.7%	46,159	18,176	65.0%
WVVI	Willamette Valley Vineyards	0	20.7	1.1	3.3	3.6	11,079	2.4%	39,774	3,324	9.1%
BARE	Bare Escentuals	0	14.1	2.1	13.2	13.3	2,519	2.0%	33,553	403	1.2%
WFMI	Whole Foods Market	0	43.2	0.6	30.5	26.2	1,256	2.0%	32,907	-5,376	-14.0%
NUS	Nu Skin	2.6	21.5	1.2	15.3	27.7	1,308	2.2%	36,232	16,232	81.2%
Developed Overseas Markets								0.0%			
Emerging Markets								6.4%			
EWZ	iShares MSCI Brazil	0			78.9	77.9	380	1.8%	29,602	-388	-1.3%
TUR	ishares MSCI Turkey Market Index Fund	2.4			49.6	51.7	504	1.5%	26,047	1,074	4.3%
INP	iPath MSCI India Fund	0			57.7	63.4	833	3.1%	52,779	4,706	9.8%
Cash								1.5%	25,707		
Value of Model Beacon Master Portfolio									1,681,826		
Market Outlook: Buy as of December 5, 2008											
Market Phase: Recession End to Earnings Trough											
Performance Comparison from December 5, 2008											
Model Beacon Master Portfolio										68.1%	
S&P Global										29.4%	
S&P 500										26.3%	
US Bond Index										4.8%	

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of \$7.15. Recent results that were ahead of expectations but were pummeled because of a poor forward looking forecast.

Third quarter 2009 sales fell 21% to \$268 million, yielding a net loss of 17 cents, ahead of the \$260 million and 20 cent estimate. However the fourth quarter 2009 net loss may be 28 cents to 35 cents, worse than the 11 cent consensus, including a \$5 million impairment charge.

The big surprise came over the company's comments:

Through the first 11 weeks of the third quarter, our business performed at the higher end of our internal expectations led by some improving trends in our Young Mens business," stated Gary Schoenfeld, President and Chief Executive Officer. "We've since seen a precipitous decline across both genders during the last two weeks of the third quarter and into the first two weeks of the fourth quarter. Thus, while we still expect an improvement over the fourth quarter last year, we remain intently focused on several key initiatives toward getting this company turned around."

After this month's fall the shares trade on a 12 month trailing Price to Sales of 0.22, which we believe represents good value given the company's recovery prospects and strong brand name amongst teenagers. We took profits in the model Beacon Master Portfolio's holding in October at \$6.33 and this month re-added a starting position in the company at \$3.50.

Teen Retailers: Better to Travel than Arrive

The loss in the market leadership of "Value" oriented teenage and children's retailers in September suggests that investors reflected on the view that "It is better to have travelled than to have arrived" and took profits.

We believe this week's shake out in both The Children's Place (PLCE) and Aeropostale (ARO) following poor monthly sales numbers because of milder winter weather offers an excellent buying opportunity in two companies that are supported by sound demographics and strong "Value" brands. We do not believe that teenagers and parents are going to dump the "Value" brands for the "\$100 Jean" retailers as the economy improves.

The Children's Place (\$26.85) sells on a P/E for January 2010 of 10.3 falling to 9.1 the following year. Its 12-month trailing P/S is 0.46 and Return on Equity is 14.7 percent. Aeropostale (\$28.72) sells on a P/E for January 2010 of 8.9 falling to 8.4 the following year. Its 12 month trailing P/S is 1.2 and Return on Capital is 54.8 percent.

Although it seems that the market is not correcting en masse, it is providing buying opportunities in previously strong performing areas of the market. In terms of the two mentioned companies above an entry point of around \$25 offers great long term value. Both companies remain a core generational holding in the model Beacon Master Portfolio.

Those Feet are Made for Walking

This month we increased the weighting towards footwear by adding a model Beacon Master Portfolio starting position in Collective Brands (PSS). Our existing exposure is represented by Deckers Outdoor (DECK). This area of the consumer market should continue to see the benefits of growing demand from Generation Y and general demand for their 'Value' offering.

Collective Brands the wholesaler and retailer of footwear and related accessories, recently reported third-quarter 2009 results that topped consensus expectations on the heels of strong boot sales and "back to school" season.

The quarterly earnings of 61 cents a share outdid the Consensus Estimate of 49 cents, and jumped 48.8% from 41 cents delivered in the prior-year quarter. On a reported basis, including one-time items, earnings came in at 57 cents, down 23% year-over-year.

The operator of Payless ShoeSource and Stride Rite chains delivered revenue of \$867 million, up 0.5%, reflecting an increase in comparable-store sales and sales increases across brands such as Saucony and Sperry TopSider.

The company's Payless ShoeSource chain, the specialty family footwear retailer, saw domestic comps rise 5.4%. Payless ShoeSource domestic chains' revenue rose 4.4% to \$578.1 million, whereas Payless ShoeSource international chains slid 1.3% to \$110 million. PLG wholesale revenue dipped 15.5% to \$111.6 million, whereas PLG retail revenue climbed by 2.7% to \$67.3 million.

We find the shares an attractive recovery play given their growing demographic customer base and attractive valuation. The shares (\$22.50) share sell on a January 2010 consensus P/E of 18.6 falling to a P/E of 14.3 the year after. The shares 12 month trailing Price to sales is 0.4 and Return on Equity for the quarter ended is 20.4 percent. The shares are above risk because of their high debt to equity ration of 1.20.

Managers don't have to cook the books to manipulate earnings; they often have all the power they need in the leeway built into accounting rules...

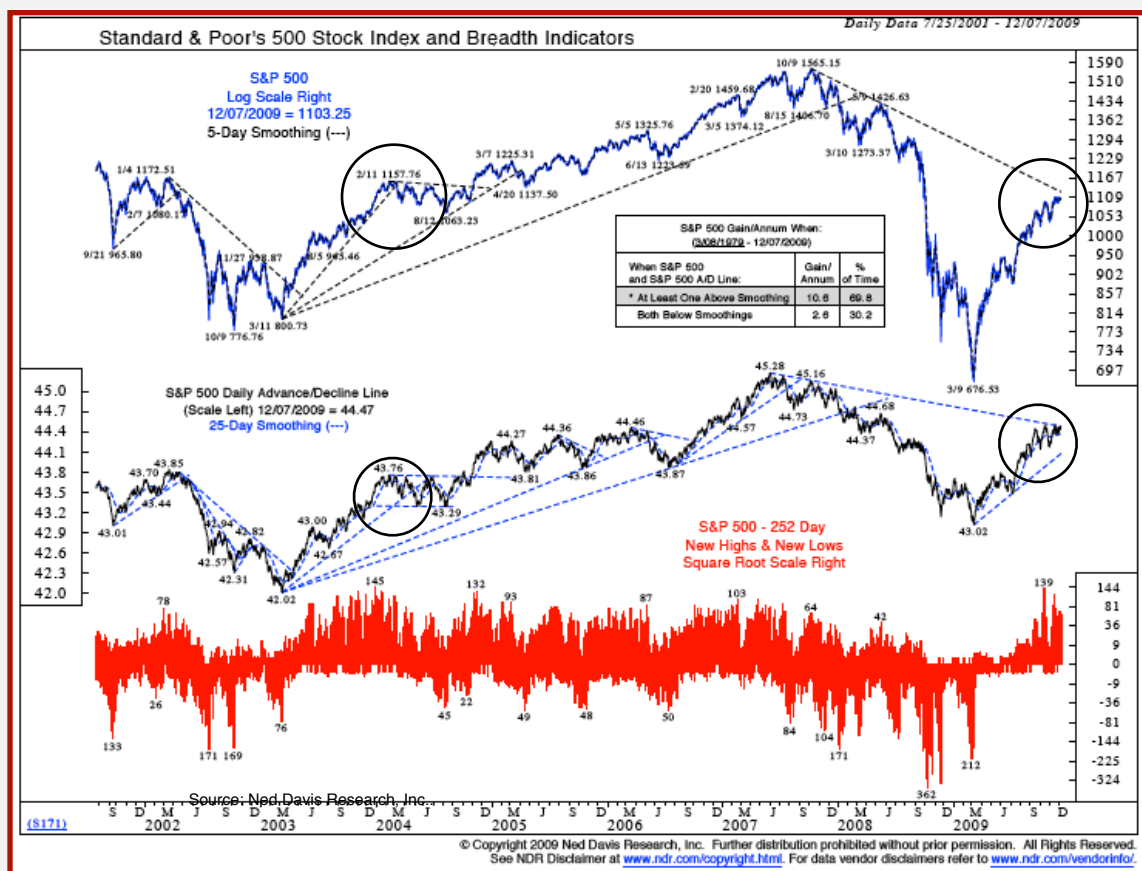
—Fred S. Worthy

Further earnings reviews and comments can be found on our Three Beacon Blog:
www.beaconassetmanagers.com/3-beacon-blog.html

Market Data: Performance & Sentiment

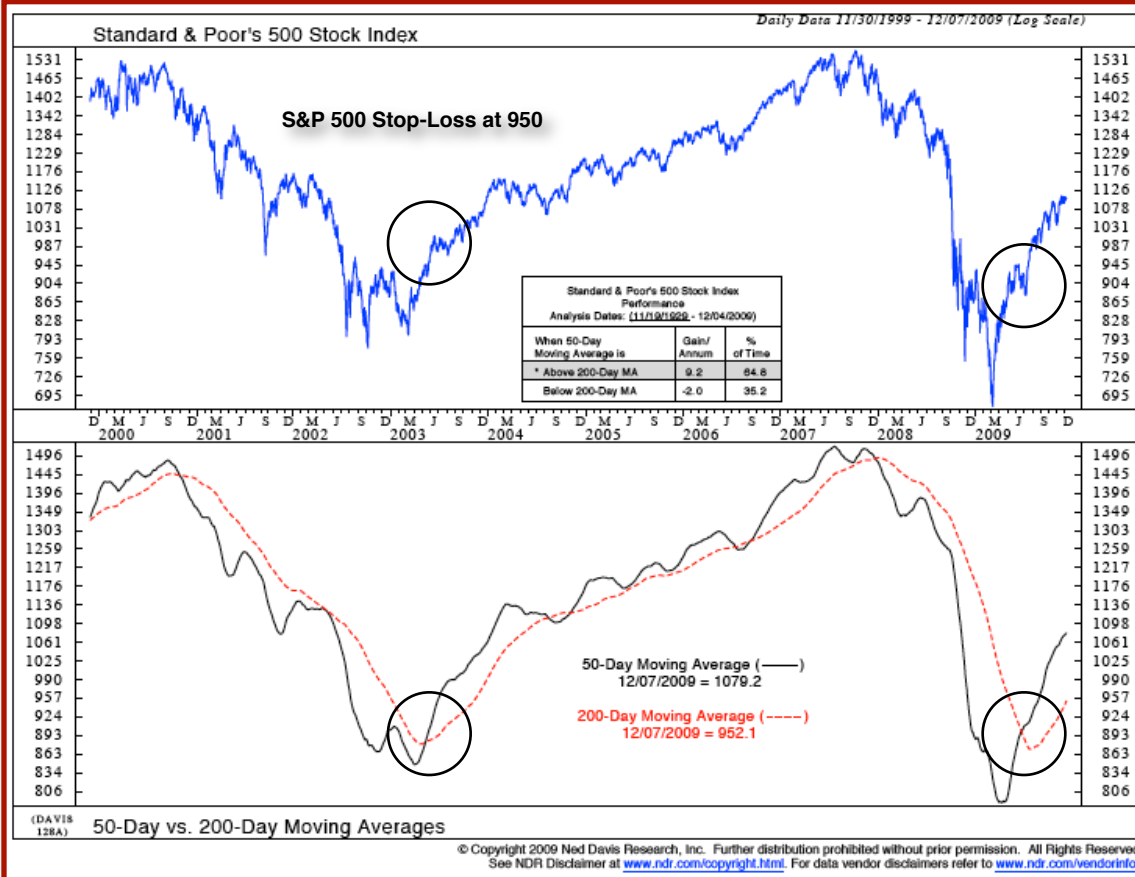
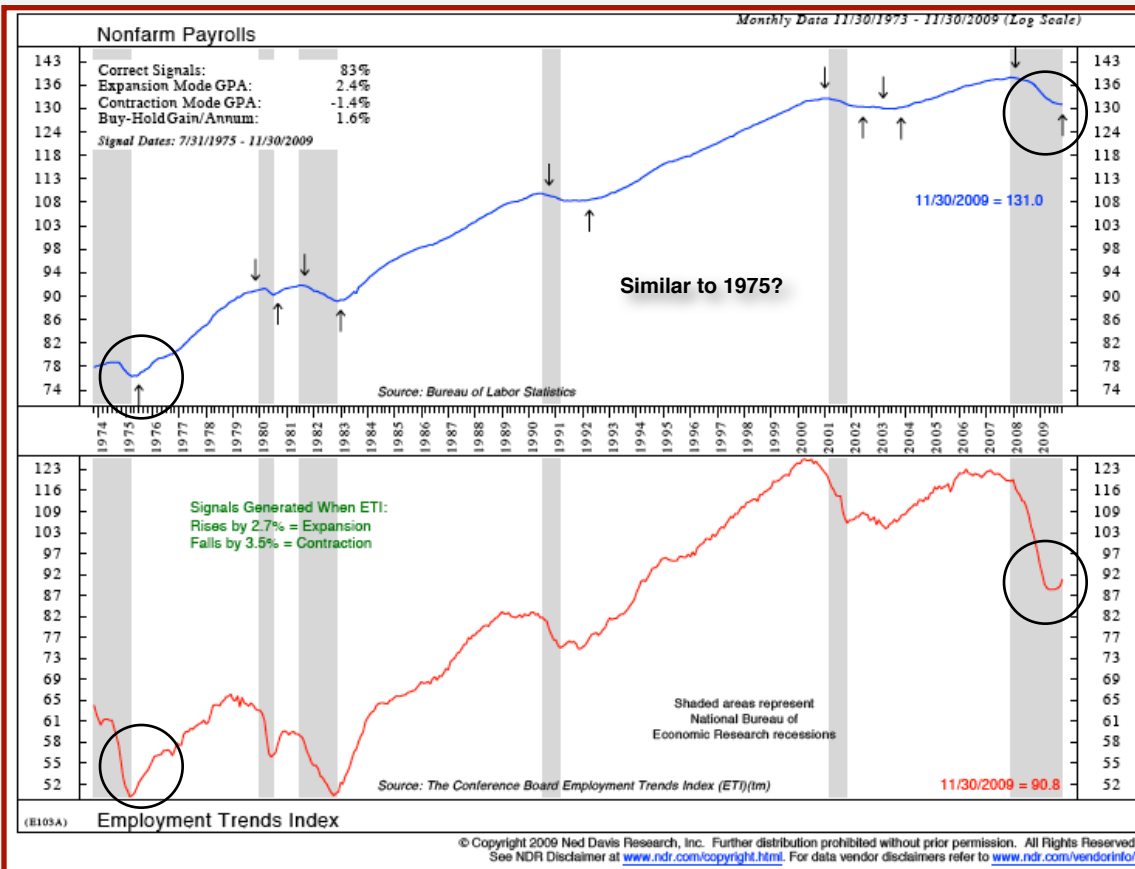
November saw Global equity markets edge higher into new high ground driven on by large cap “Blue Chips.” These market gains have masked heavy profit taking in many small- to mid-cap names. This lack of short-term breadth, in the chart below similar to late 2003, is another reason for our cautious stance since the September market highs (S&P 1072). We are very aware that the bull climbs the “Wall of Worry,” but remain concerned over the short-term optimism in equities, and are reminded at these levels that equities often slide down a “Slope of Hope.”

Despite these short-term concerns, the Ned Davis Employment Trends Index has given a “Buy” signal for employment expansion. Also our key longer term S&P key “Bull Indicator” of the 50- and 200-day moving averages remain positive. When the 50 is above the 200 day moving average the average annual gain is 9.2% versus below at an average loss of minus 2.0%.



Performance from March 9, 2009 Market Low to December 4, 2009

Markets	03/09/09	12/04/09	%	U.S. Sector	03/09/09	12/04/09	%
IOO S&P Global	36.01	61.74	71.5%	XLB Materials	18.18	32.55	79.0%
SPY S & P 500	68.11	103.99	63.0%	XLV Health Care	21.88	30.98	41.6%
EWU MSCI U.K.	9.00	16.63	84.8%	XLP Consumer Staples	19.41	27.05	39.4%
EWG MSCI Germany	12.73	22.72	78.5%	XLY Consumer Discret.	16.11	29.15	80.9%
EWJ MSCI Japan	6.87	9.99	45.4%	XLE Energy	38.86	55.90	43.9%
EEM Emerging Markets	20.69	41.84	102.2%	XLF Financials	6.26	14.63	133.7%
DBC Commodity Index	19.09	24.45	28.1%	XLI Industrials	15.36	28.17	83.4%
GLD Gold	90.57	113.75	25.6%	XLK Technology	13.22	22.22	68.1%
HYG U.S. Corporate Debt	61.64	86.25	39.9%	XLU Utilities	22.74	30.64	34.7%
TLT 20-Year Treasury	103.65	93.34	-10.0%	QQQQ Nasdaq Composite	25.74	44.12	71.4%
UUP U.S. Dollar	27.75	22.48	-19.0%	IWM Russell 2000	34.39	60.42	75.7%



AHEAD OF THE CURVE BY KEN GRONBACH

“Coke is it!” but Can it Capture the Generation Y Market?

It sounds like Coke took itself to the woodshed last week in Atlanta in an effort to find out why it seemed to be rudderless in the new marketplace. A Nov. 22 www.AdAge.com article—“Coca-Cola Lays Out Its Vision for the Future at 2010 Meeting”—explains how the company “plans to connect with consumers via operational marketing and social media [and] focus on multicultural efforts.”

This was a serious meeting by all accounts and it is apparent that Coke brass wanted to get to the bottom of what they considered to be a very serious and potentially dangerous marketing issue. As evident in what is now being called a confession, Coca-Cola CEO Muhtar Kent stated, “there was a period when our company did lose its way. We were too internally focused and not focused enough on the changes taking place with our consumers and customers. In essence, we were

too busy looking at the dashboard and were not sufficiently paying attention to the world outside of our windshield.”

The above statement sounds like an epiphany, a revelation really, that sets the stage for fixing obvious problems that were right in front of their noses. But has Coke really seen the light? Woken-up? Are they ready to look out the windshield? Maybe they are. The above statement is ironic because most companies don’t get their direction from the dashboard but seem focused on the rear view mirror. At least there are gauges on the dashboard that can tell you what you’re doing, but not where you going.

According to the article, Coca-Cola remains the dominant beverage company in the world, and controls nearly 51 percent of the global carbonated soft-drink business. Pepsi’s 22 percent is pale by comparison, according to Beverage

Digest figures. However, Pepsi is growing and Coke is not, a fact that certainly would have a negative effect on Coke stock and a positive influence on Pepsi’s stock price.

John Sicher, editor and publisher of Beverage Digest states, “today, in my view, Coke is really back to functioning at a high level again. Relations with bottlers are good. There’s good morale inside the company. They’re recruiting good people and not losing people anymore. They’re really now focusing on the business and the brands.”

If Coke’s projections are any indication, from their view it would appear that problems are solved and the future is more than bright. In the 2020 Vision meeting last week with analysts and journalists Coke revealed its ambitious goal of more than doubling its business to \$200 billion and its consumption from 1.5

Continued on Page 24

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.

Coke and Gen. Y, continued from page 23

billion servings per day worldwide to 3 billion. The key to this epic increase will be putting the customer front and center. Whatever that means.

Coke's marketing is apparently about to undergo some significant changes.

Coke's chief marketing and commercial officer, Joe Tripodi, said, "People are demanding more and more for their time and attention. People need to be constantly entertained now, [it's an] ADD economy. We're changing fundamentally from being TV commercial producers to content developers.... We're leading a new and unique approach ... from purely mass marketing to one-on-one marketing."

Notice carefully the last part of the last sentence in the above quote. Coke is going to double their business in ten years by shifting from mass marketing, their former strength, to one-on-one marketing, something they have never tried. Really? It is one thing to entertain stockholders with the new marketing buzz words but it is quite another to make your marketing work.

The fact is the U.S. market is the strength of the company and the U.S. market has an abiding dilemma. That is, how to successfully market to the huge Generation Y, born 1985 to 2004. With the exception of Apple and a very few others, no companies have achieved success with Gen. Y. Coke and Pepsi need to take a look at the phenomena of Jones Brothers' Soda and its viral marketing success with this marketing-recalcitrant generation.

And what of the Baby Boomer? Has Coke abandoned marketing to this, its biggest consumer, now aged forty-five to sixty-four?

Yes and for good reason, it's too late to change their consumption habits or make them consume more. At the Boomer's age they drink what they drink. If it's Coke they won't switch to Pepsi and visa versa. Boomers were branded at an early age and are very brand loyal. The superior marketing efforts and huge advertising budget of Coke gave them the advantage over Pepsi.

It's a new ball game. Generation Y does not respond to conventional media like radio, television, newspapers and magazines and is therefore essentially unbrandable. To date social media sites are not good venues for commercial messages. Coke built its success on branding young kids early with deluge media campaigns, but now those anachronistic strategies no longer work. Pepsi is simply gaining on Coke because the products are essentially the same in the eyes of Generation Y, so it comes down to what cola is on sale or available. Bottom line? The cola wars could be won by whoever finds favor with Wal-Mart or Costco and other big dominant vendors.

Will Coke double its business by 2020? We don't think so. What Coke should do is move into coffee, which has been outselling soft drinks since 2007. After all, Coke already is a caffeine distributor.

We hope you have enjoyed and prospered from the last 12 free issues of The Age Curve Report. As of January 2010 new issues of this report will only be available to subscribers. Subscriptions start at \$78 for a three-month trial, and cost \$299 for a full year. Please subscribe on the Age Curve Report sign-up page on the Beacon Asset Managers website: www.beaconassetmanagers.com.

The issues produced during 2009 will remain open to non-subscribers in our news report archive on our web site.

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Order Ken's Bestselling Book

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