

THE AGE CURVE REPORT

How to Profit from the Coming Demographic Storm

DEMOGRAPHIC LANDSCAPE

- Gens. X and Y to Spur Housing Recovery 1
- New Cancer Therapy to Help Aging Boomers 3
- Japan Seeing Signs of Economic Recovery 6
- Proposed New Taxes Could Crimp Microbrew Sales 7
- Recession Impacts Differ by Age 7
- Sector Watch: Housing Stocks in Focus 8
- ACC Valuation: Australian Demographics Strong 9
- Generations Delineated 10

THE INFORMED INVESTOR

- Market Overview 11
- Market Performance 12
- Market Sentiment 13

AHEAD OF THE AGE CURVE

- Vote, Court Nominee, Show Changing Times 14

Gens. X and Y to Spur Housing Recovery

Age Curve Consulting (ACC) believes that the U.S. housing sector is showing signs of recovery, despite headlines to the contrary. On face value the outlook looks bleak with April's housing starts falling to an annual rate of 458,000, the slowest pace since 1959, when the Department of Commerce began collecting such data, and a 12.8 percent drop from March's figure of 525,000.

However, a deeper examination of the data shows signs of improvement, as single-family housing starts increased 2.8 percent and are now up two months in a row. Demographically this makes sense, as the number of people entering their key first home buying years is ramping up significantly because the second half of Generation X, born 1974 to 1984, and first members of Generation Y, born 1985-1990, represent a population increase of several million (annual birth rates from 1974 to 1990 increased from about 3.1 million to more than 4 million).

If this increase in single family housing starts turns into a trend, as ACC believes it will, housing prices should start to rise, as historically housing sales numbers improve before prices. This will in help drive U.S. GDP growth in the coming years.

Historically U.S. housing starts have averaged about 1.6 million new homes per year since the late 1940s. The key drivers of sales include two factors: population growth and net demolition (the number of homes destroyed by fire plus knock downs, minus conversions of other types of buildings into homes). From January

to April 2009, builders started new homes at an annual rate of 511,000. This is about one-third of the long term trend since the 1940s. The housing collapse and current slow pace of housing starts can be attributed in large part to the fact that too many houses were built during the "Housing Bubble" from 1990 to 2006, resulting in an excess of about 4 million homes (please see top chart on next page).

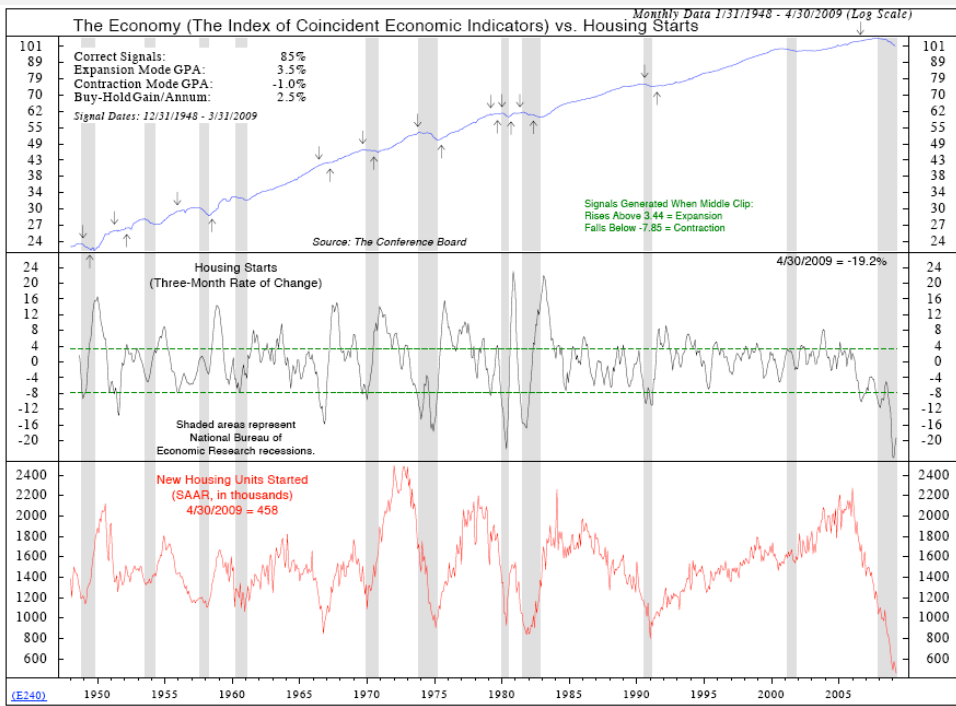
Today this excess has been reduced down to about 2 million homes, and simple math indicates that the current excess will be further reduced by the current slow growth in new housing. In any normal year, construction begins on about 1.6 million houses on average, but so far this year the annualized rate is showing a start of only 511,000. At this figure excess inventory should fall by about 90,000 per month, or 1.6 million less 511,000 divided by 12 months. At current housing start levels, excess inventory should be fully corrected in about two years.

"Doom and Gloom" economists believe that any return to the 1.6 million new housing starts average is pure fantasy in the coming years. However, the housing chart below shows three obvious trends: First, housing starts have normally followed a very cyclical pattern and the Baby Boomer housing bubble from 1992 to 2006 was not the norm. It was created in large part because of their massive numbers. Second, the U.S. always seem to recover to the average of 1.6 million new starts a year. Even during the 'Oil Shock' period of the mid-1970s, starts rose from around 1

Continued on Next Page

million per year to just over 2 million three years later. A similar picture can be seen in the early 1980s when the U.S. again recovered from around 1 million new starts a year to just under 2 million three years later. And last, housing seems to obey Warren Buffet's rule of "Being fearful when others are greedy and greedy when others are fearful." Applied to housing it would mean that when housing starts reach over 2 million a year be fearful that others are being greedy and expect a fall in housing prices, and when housing starts reach 1 million a year be greedy when others are fearful of house prices never recovering.

In terms of house prices ACC uses the valuation tool of Brian Westbury, Chief Economist of First Trust, who uses a price-to-rent (PR) ratio for the housing market. This is calculated by using the market value of residential real estate published by the Federal Reserve and the rental value of homes. The chart

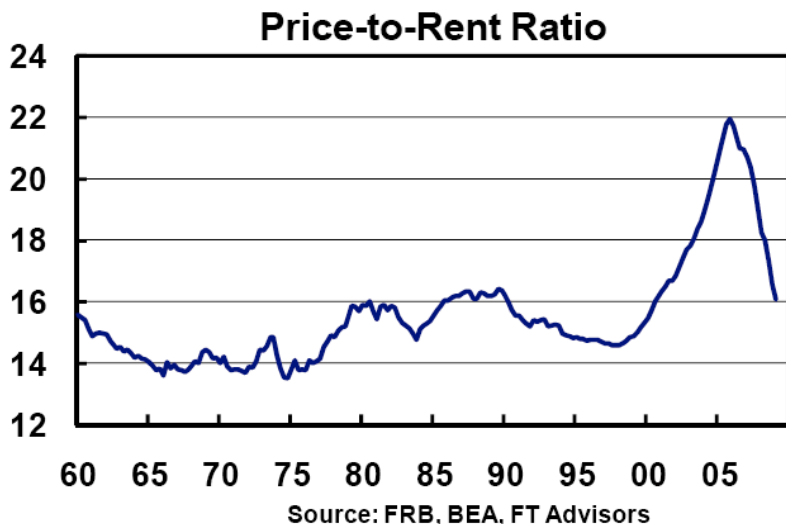


below shows that fair value in 1960 would be valued at about 15 times the annual rent.

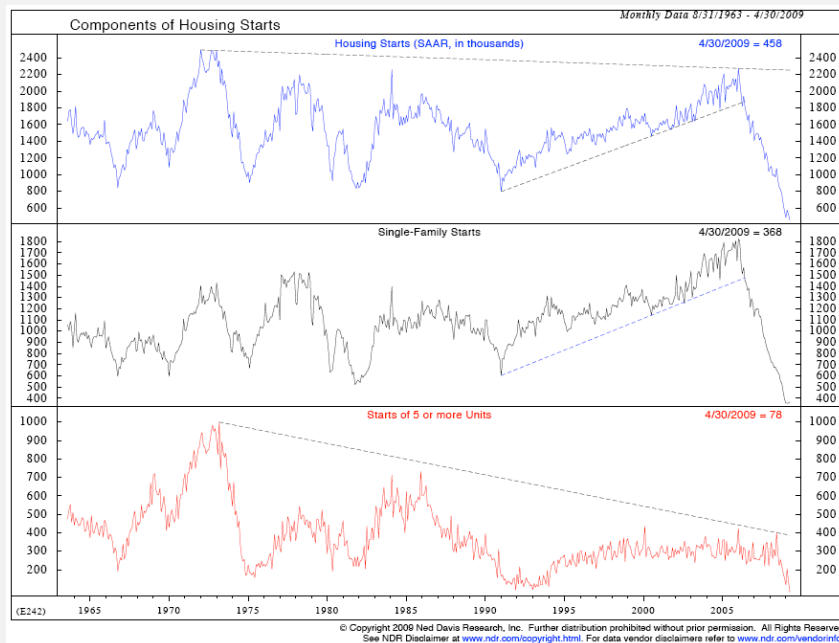
As an example, if a house rents for \$1500 per month, or \$18,000 per year, the owner should be able to sell this property for \$270,000 (\$18,000 times 15). At the peak of the housing frenzy, the housing PR ratio hit an unsustainable peak of 22. This meant that a house renting

for \$1,500 per month could be sold for about \$400,000. At the end of the first quarter 2009, the ratio had fallen to 16.1 and the corresponding home price had fallen to \$290,000. This is still 7.5 percent above its 50-year average. It is still possible, given the excess of "Boomer Castles," that the market will take the PR ratio below fair value over the next 12 months. However, it is worth remembering that much of the Baby Boomer price declines still in the pipeline will be clustered in the four problem states; California (-44 percent from the peak in median home prices), Arizona (-53 percent from peak), Nevada (-50 percent from peak), and Florida (-47 percent from peak). The other areas of the U.S. are already at or near fair value, and should show price gains as the broader economy recovers into 2009 and beyond.

We believe this new cycle will be no different and a housing recovery is under way. The members of Generations X and Y born 1975 to 1990, along with the rapidly growing



Hispanic population, will be the catalyst for the growth in new single-family starter homes (please see the adjacent chart and note the excess bubble in 2005-06). The excess over-build of “Boomer Castles” will take longer to unwind and will feel the negative force of the overall smaller Gen X generation. This home building recovery should contribute about 1 percentage point per year to the growth rate of real U.S. GDP and should not be felt until late 2009. It takes about six months to go from a turnaround in housing starts to a full recovery in overall home building and all stages of the construction process.



New Cancer Therapy Arriving in Time to Help Aging Baby Boomers

While the number of North American men being diagnosed annually with prostate cancer has seen a slight decline during the past decade, this trend will likely reverse in the coming years due to the aging of the Baby Boomers, who are just entering the demographic most susceptible to the disease. However, a groundbreaking new treatment for the disease will likely receive U.S. Food and Drug Administration (FDA) approval and become widely available just as the first Baby Boomers reach 65 in 2010. While the new treatment is not a “cure-all,” it offers a new possibility for a longer life to those diagnosed with the almost-always fatal advanced form of the disease.

Prostate cancer is the second most common cancer among men after skin cancer and the second leading cause of male cancer deaths after lung cancer. The American Cancer Society estimates that in this decade about 190,000 new cases were diagnosed every year, and almost 30,000 men die every year from it.

The disease primarily affects older men, with those age 65 and older accounting for about eight of 10 positive diagnoses. Scientists believe that given enough time, the majority of men would eventually get prostate cancer, and that at least 80 percent of men over 80 years old have some form of the disease. Prostate cancer’s mortality rate would likely be higher if it afflicted more younger men because older men who are diagnosed with it are just as likely to die from other causes. The cancer hits African Americans especially hard, as blacks are more than twice as likely as whites to get prostate cancer and have a nearly two-fold higher mortality rate over whites.

Seattle-based Dendreon came closer last month to becoming the first company to receive FDA approval for a cancer-fighting, immunotherapy based vaccine, as it released Phase III clinical trial results for its therapy—Provenge—that boosted survival rates in men with the advanced form of the disease beyond any currently

available treatments, and met FDA thresholds for approval.

Cancer fighting immunotherapy vaccines are designed to stimulate the body’s immune system to recognize tumors as foreign invaders, and thus trigger an immune response to fight the cancer. Numerous biotech and pharmaceutical companies have been developing a variety of immunotherapy based vaccines for the past 20 years, with mixed results in laboratories and clinical trials, and with no approval as of yet from the FDA.

One of the most recent setback in the arena was experienced in 2007 by Genitope Corp., whose patient-specific, non-Hodgkins Lymphoma therapy, MyVax, worked for some patients in a phase III clinical trial, but did not for others. The results were not robust enough to warrant approval, and the FDA rejected an appeal from the company to amend its application to allow the submission of a subset of positive data to account for the personalized nature of the

treatment. In other setbacks, Cell Genesys and Favril, Inc. terminated their cancer vaccine programs after disappointing phase III clinical trial results.

Success in the field, however, was met last year by Antigenics, Inc., whose patient-specific cancer vaccine became the first in the world to be approved by a regulatory body when it was approved by the Russian Federation for the treatment of kidney cancer. Its treatment, Oncophage, is currently under review by the European Medicines Agency, and undergoing phase III trials in the U.S. for review by the FDA. But it is Dendreon's Provenge that is poised to become the first cancer vaccine to receive U.S. regulatory approval.

The Dendreon story, both as a groundbreaking biotechnology company and as a controversial stock, is worthy of a book. A super condensed version is as follows: In 2006 Dendreon released Phase III Provenge results that failed to meet the primary endpoint of reducing tumor size, but showed a survival benefit beyond anything currently available for advanced prostate cancer. The FDA allowed the company to amend its application to account for the survival benefit and resubmit its application for approval. Skeptics of Provenge, which included a massive float of short sellers, some members of the medical community, and just about every analysts that followed the stock, argued that Provenge would never

receive FDA approval. These critics contended, among other things, that the survival benefit, if not an outright fluke, was not robust enough to meet approval. They also contended that the FDA would not ignore Provenge's failure to shrink tumors, and that the rigid bureaucracy of the FDA would not allow for the acceptance of new paradigms of cancer treatment.

However, in March 2007 an FDA advisory committee unanimously deemed Provenge as safe and recommended by a 13-4 vote that the FDA grant approval. Because the FDA traditionally followed the recommendations of its advisory committees about 90 percent of the time, the stock price soared some 260 percent, from about \$5 to \$18, and then hitting as high as \$25 in the subsequent week before settling down in the high teens. A little over a month later, though, the stock plunged back down to the single digits when the FDA refused to approve Provenge and requested more data from a much larger phase III trial.

On April 14, Dendreon announced the "unambiguous" success of its phase III "Impact" trial in prolonging the survival of men with advanced prostate cancer, and the stock soared into the \$20s again. The long-time skeptics quickly poured on all manner of negative

sentiments, but following Dendreon's actual release of the data two weeks later during the American Urological Association's annual conference, negative sentiment all but dried up and six analysts upgraded the stock to buy and set new one-year price targets of between \$22 and \$35.

There should be no question now about whether the FDA will approve Provenge, as the data conclusively met the criteria and specifications outlined in Dendreon's Special Protocol Agreement with the FDA. Dendreon will amend and resubmit its new license application to the FDA in the fourth quarter of this year and should receive approval within 90 days after that, at which time the company's already-in-place facilities should be in position to accept patient blood for immunotherapy infusion.

The question is what is Dendreon worth? Currently men facing death due to advanced prostate cancer have only one medical option, Taxotere, a chemotherapy drug with side effects considered so severe that it is declined by more than 40 percent of patients to whom it is offered. Dendreon's management has indicated that they plan to offer Provenge at a cost similar to that of other leading cancer treatments, which currently average about

Dendreon (DNDN)



© 2008 Yahoo! Inc.

Chart Courtesy of Yahoo, Inc.

\$50,000 per patient, and that they expect that the treatment will be covered by Medicare and insurers.

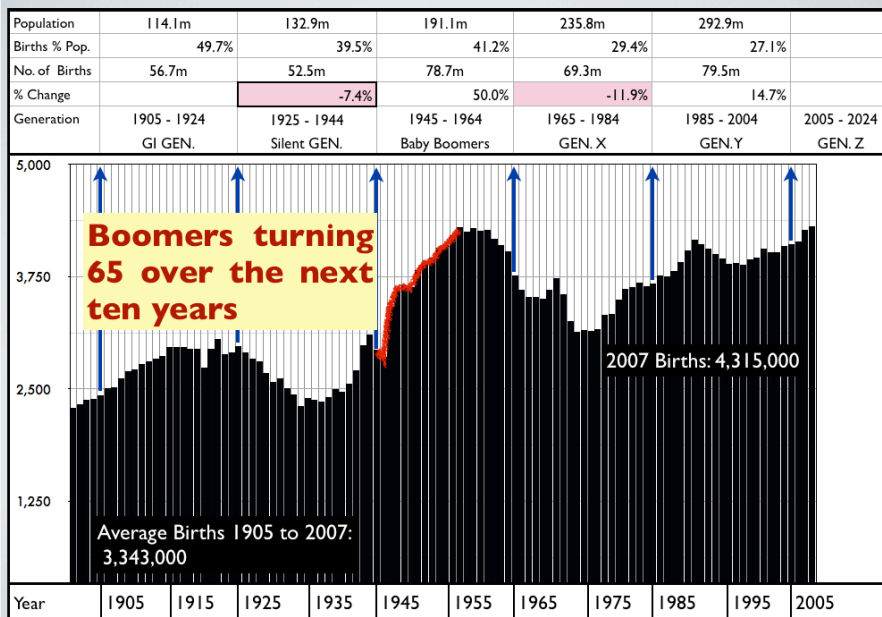
Even by using the most conservative numbers the company's potential sales numbers are impressive. With a 10 percent discount on existing treatment costs, for a cost of \$45,000, and 10,000 patients, sales add up to more than \$400 million. If all U.S. advanced prostate cancer patients were to opt for the "discounted" treatment, sales would reach more than \$1.5 billion.

Provenge also has the immediate potential for off-label usage in much larger population of those in the earlier stages of prostate cancer, especially since studies indicate that the therapy is much more effective when used by patients with less-compromised immune systems (FDA protocols call for many experimental therapies, such as Provenge, to be used in clinical trials on the sickest patient populations). And with castration being one treatment option for earlier stages of the disease, chances are good that many of these patients might want to try Provenge first.

There is also the rest-of-the-world market, which for most drugs and therapies is generally worth as much as the U.S. market, and thus theoretically doubles Provenge's potential revenues. Dendreon's management has indicated that it may partner with a larger drug developer for overseas sales, but the company's share in such revenues would still be impressive.

Finally, the Dendreon story does not end with prostate cancer. To conserve cash following the FDA's

The U.S. Age Curve 1905 to 2007



2007 request for an additional clinical trial to study Provenge, the company halted early stage trials of testing its immunotherapy on breast cancer and head and neck cancers. The company plans to restart those trials soon and will evaluate its immunotherapy approach for a range of other cancer types. The breast cancer trials can now be re-tailored as a less-timely label expansion study, potentially putting it up for FDA approval in five years. And the breast cancer market is at least as large as the one for prostate cancer.

Age Curve Consulting (ACC) believes that placing price targets can be useful to investors. However, in cases like Dendreon, a small biotechnology company, the trend of positive new flows, reinforced by promising earnings surprises and price action, is more important.

By implying a 6X sales ratio to a conservative revenue projection of \$500 million in 2012, we obtain a

valuation of \$3 billion, or \$27 per share. If Provenge can surpass conservative expectations and reach revenues of \$3 billion by post 2016, this would translate into a 6X sales valuation of almost \$165 per share.

The stock has been a strong performer this year, rising from about \$4.50 at the beginning of the year to a high of almost \$23 on April 29. The shares currently trade at almost \$22, and ACC believes that the share price has consolidated due to both the recent stock offering cash call to raise \$221 million to eliminate debt and fund working capital for the ramp of Provenge, and to Chief Executive Officer Mitchell Gold's 600,000 share trade (he still remains one of the top 25 shareholders).

The shares should break above their all-time high of around \$25 on the next earnings or news surprise. And then, to borrow an equine acronym, Dendreon will be "off to the races."

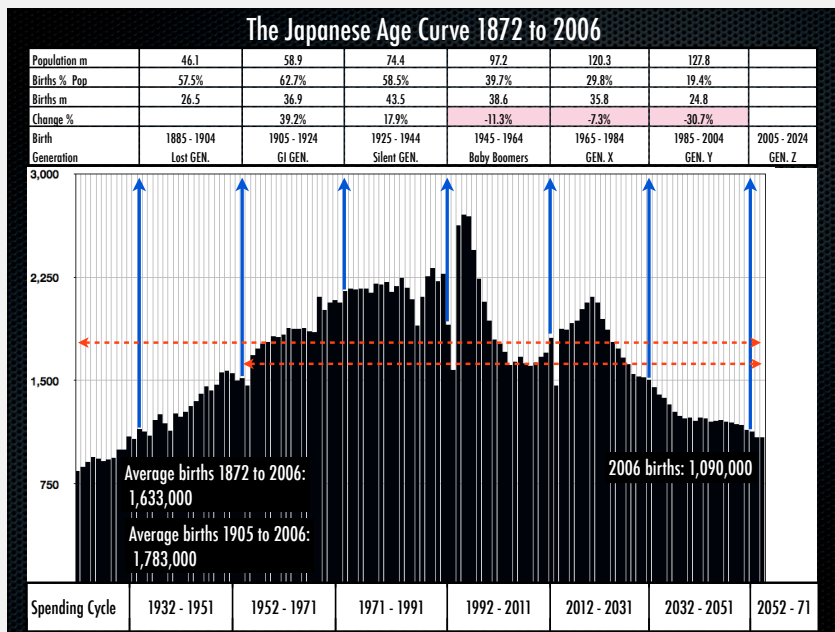
Disclosure: Long, DNDN

| Dendreon | Price | I Yr High | I Yr Low | Yield | PE | PS | PB | PD |
|----------|-------|-----------|----------|-------|-----|-----|-----|-----|
| DNDN | 22.67 | 27.40 | 2.55 | n/a | n/a | n/a | n/a | n/a |

Japan Seeing Signs of Demographic-Based Economic Recovery

An article in the January issue of The Age Curve Report highlighted the strong recovery potential for the Japanese economy in 2009. That story pointed out that the recovering Japanese economy, and its consumer spending cycle, was hit in 2008 by a sharp birth decline seen in 1966, the year of Hihocuma, a Japanese superstition that holds that giving birth to girls brings bad luck. In that year births fell by nearly 25 percent, but recovered sharply in the following years, climbing from the 1966 low of 1.4 million to 2.1 million in 1973. Most business reporting by the “western” media suggests that the over-saving Japanese consumer was solely to blame Japanese economy’s “bleak” outlook.

Therefore, it is not a surprise to Age Curve Consulting (ACC) that Japan saw a 10-year high in the quarterly improvement of consumer confidence at the end of the first quarter in 2009, and that the government’s household consumption proxy for March

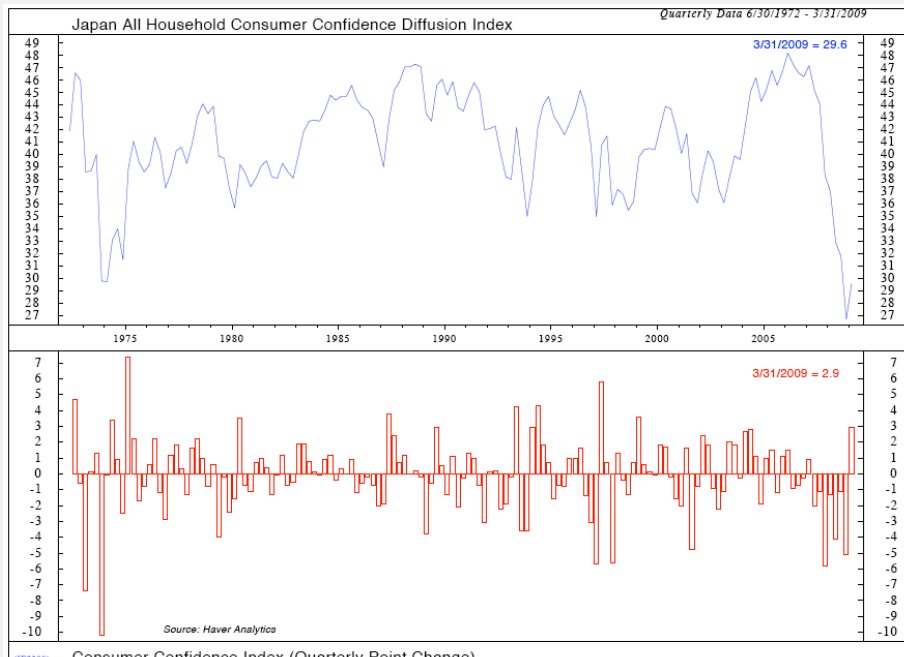


showed a 4 percent rise from February. All this points to a strong recovery in overall consumer spending up until 2015, as suggested by the Japanese Age Curve (please see chart). Even the Wall Street Journal, as reported by James Simms May 27, 2009, has begun to report about the signs of “Japanese

Green Shoots” of recovery, or as he put it, “Less is still pretty bad in Japan.” He further reported:

“In April, exports fell less sharply than in March. This is the second consecutive month that’s happened. In particular, shipments of semiconductors, electronics and autos fell at a slower pace than in the prior two months. The outcome—a trade surplus for the month—surprised many economists, even if it was a meager \$730 million. But the cause—inventory rebuilding by manufacturers in China or retailers in the U.S.—is a tenuous basis for recovery.”

ACC believes Japanese stock market will continue to climb its “Wall of Worry” as the economy continues to show signs of improvement against a backdrop of poor sentiment. The Japanese ETF (EWJ) is up 21 percent (World Index, 31 percent) since the November lows or 37 percent (World Index, 48 percent) since the more recent March 2009 lows, and is back near levels last seen in late September.



© Copyright 2009 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorsinfo/.

Proposed Beer Tax Increase Could Crimp Sales of Microbrews

A proposed 145 percent hike in the federal tax on beer could put a crimp on microbrewery beer sales just as these sales seemed to be benefiting from generationally induced demand. While total beer sales were essentially flat in 2008, micro-brewed beer sales increased more than 10 percent, and despite the weak economy, 114 new microbreweries and brewpubs opened during the year, the highest number since 1999.

The Senate proposal would add \$2 to a case of beer and undoubtedly hurt sales of higher priced microbrews more than it would the much cheaper mass produced brands. Even though Generations X and Y have displayed a distinct preference for microbrews, there comes a time when cost can dictate taste.

Beer is a popular target when politicians consider raising money for federal and state coffers because it falls under the category of a “sin tax” product. Increases in sin taxes are considered beneficial to the public at large because the higher costs are believed to reduce consumption of products considered to be unhealthy or morally wrong. According to the Beer Institute, more than 40 percent of the retail price of beer is composed of various taxes, and even if the federal government doesn’t raise its beer tax, states will undoubtedly push this figure higher.

While California has temporarily shelved its plan to increase the state beer tax by about 10 cents per bottle, state politicians in Oregon, the second largest microbrewery producer in the country, will soon vote on a bill that would raise the beer tax 1,900 percent (from \$2.60 to \$52.21 per barrel), effectively increasing the price of a bar-purchased pint by about \$1.35. Numerous other states also have beer

tax increase bills coming up for legislative consideration.

The U.S. Senate proposal was one of many that lawmakers bandied about during a closed-door debate focusing on expanding health coverage for the 50 million uninsured Americans. Included in the proposal was an 233 percent per bottle increase in wine taxes and a 19 percent per fifth increase in hard liquor taxes. No decisions were made during the meeting, but the committee’s chairman said feedback on the proposal will be used to draft legislation early this summer.

The measure would conflict with a House bill—Brewers Excise and Economic Relief Act of 2009—that effectively repeals the only remnant of the 1991 “luxury tax” still on the

books by cutting the beer excise tax in half. The House bill enjoys strong support from the nation’s brewers, big and small, whose trade associations put out a joint press release applauding the bill and its sponsors. The release pointed out that directly and indirectly the beer industry contributes almost \$200 million to the U.S. economy and supports more than 1.8 million jobs with wages and benefits valued at almost \$62 billion. The bill has been referred to the House Committee on Ways and Means, but has not yet been scheduled for a hearing.

Age Curve Consulting will continue to monitor these proposals and keep track of the economic health of the relatively nascent microbrewery industry.

Recession Impacts Seem to Differ by Age

While there has been plenty of concern raised by the media that older Americans have been hit especially hard by the current recession, a recent survey by the Pew Research Center indicates that such concerns may be overblown. The May 14 survey report—“Different Age Groups, Different Recessions”—found that Americans 65 and older were much less likely than the younger age groups to say that the recession was causing them significant economic hardship.

Among the survey findings were that 36 percent of adults over 65 had cut back on household spending, and that about 75 percent reported satisfaction with their personal financial situation. About 65 percent of the younger generations reported cutting back on household spending, but roughly the same number also reported satisfaction with their financial situation.

And in what may be a nice surprise for the children, about 75 percent of those over 65 reported that they planned to leave money or property to their children, but only 40 percent of the younger generations who had parents 65 and older expected to inherit property from them.

Overall, those in the 50 to 64 bracket, a large segment of the Baby Boomer cohort, indicated that they were having the most problems due to the recession, and reported experiencing the most losses in the stock market and retirement savings.

Meanwhile the youngest age group surveyed, those 18-29, representing the last of Gen. X and older members of Gen. Y, expressed significant confidence in the future by reporting few concerns about having enough money for their retirement years.

Sector Watch: Housing Sector Poised for Growth

The stock market continues to point to a housing recovery with the Philadelphia Housing Sector Index up over 50 percent since the market bottomed on the 9th of March. This its largest advance since the housing market peaked nearly four years ago. Age Curve Consulting believes the market is trying to tell us we have seen the bottom in the housing market.

While housing sector stocks point to a rebound, recent economic data is mixed. The S&P/Case-Shiller national home-price index fell 19.1 percent in the first quarter compared to the previous year. This marked the steepest decline since the index began recording data in 1988. According to recent data from First American CoreLogic and its Loan Performance Home Price Index, price declines are decelerating in the nation's hardest hit housing markets; however, price declines seem to be accelerating in markets that have not yet experienced steep declines.

In other negative news, mortgage delinquencies climbed in the first quarter, and mortgage rates jumped in the last week of May to their highest level in more than three months.

However, overlying the bad news, existing-home sales rose 2.9 percent in April from March and new-home sales rose a modest 0.3 percent for the same time period. Perhaps more importantly for the housing market sector, new construction, or housing starts, rose 2.8 percent in April, marking the second month of housing start increases (please see story on page 1).

ACC believes that the adage of positive stock market activity preceding economic recovery by about four to six months will hold true for the housing market.

Therefore the key question are: "How strong will this recovery be, and are housing stocks at this early recovery stage undervalued or expensive?" ACC believes that home building (in particular those geared to the upturn in small to mid size single family homes) stocks still offer positive returns from today's levels despite their strong performance to date.

In the table below we list the main housing stocks' performance since the March lows and their current valuations. The biggest performer has been Hovnanian Enterprises, which is highly feared financially for a housing recovery. At 60 cents in March it was pricing in that any type of new house would never be built again.

We expect that future housing indicators will continue to show improvement during the course of the year, especially those geared toward the single family housing market. We have already seen a strong improvement in California's unsold inventory index for existing single family detached homes—in April it was 4.6 months, compared with 9.8 months for the same period a year ago. Improvement in the four most troubled states—California, Nevada, Arizona and Florida—should also accelerate. For example, California house sales increased 49.2 percent in April compared with the same period a year ago. Admittedly though, the median price of an existing home has declined 36.5 percent.

| Company | Code | Price | %* | Yield | PE | PS | PB | PD |
|-----------------------|------|--------|-------|-------|------|------|------|-------|
| MDC Holdings | MDC | 30.71 | 31.4% | 3.3% | n/a | 2.0 | 1.39 | 0.97 |
| NVR | NVR | 494.93 | 53.3% | n/a | 40.4 | 1.27 | 1.92 | 0.16 |
| Toll Brothers | TOL | 18.58 | 30.1 | n/a | n/a | 1.82 | 0.95 | 0.67 |
| KB Home | KBH | 15.00 | 84.3 | 1.7 | n/a | 1.07 | 1.72 | 2.26 |
| Pulte Homes | PHM | 8.80 | 8.9 | 1.8 | n/a | 0.97 | 0.98 | 1.39 |
| D R Horton | DHI | 9.21 | 33.7 | 1.6 | n/a | 0.94 | 1.10 | 1.10 |
| Ryland Group | RYL | 17.08 | 40.2 | 0.7 | n/a | 0.69 | 1.13 | 1.10 |
| Hovnanian Enterprises | HOV | 2.68 | 347.0 | n/a | n/a | 0.14 | 6.33 | 14.94 |
| Lennar Corporation | LEN | 9.51 | 56.2 | 1.7 | n/a | 0.64 | 0.62 | 1.14 |
| Centex Corporation | CTX | 8.43 | 58.8 | n/a | n/a | 0.32 | 1.14 | 3.51 |

Source: Wall Street Journal—May 29, 2009

Age Curve Valuation: "G'day, Mate!" Australia Poised for Growth

Australia's birth chart represents one of the strongest demographic landscapes in the emerging or developed world. This will be of no surprise to any sports fan who has watched Australia (with a meager population of about 20 million) dominate the world stage in swimming, cricket, rugby and tennis, among other sports. Australia's Age Curve suggests that its sports domination could continue for some time.

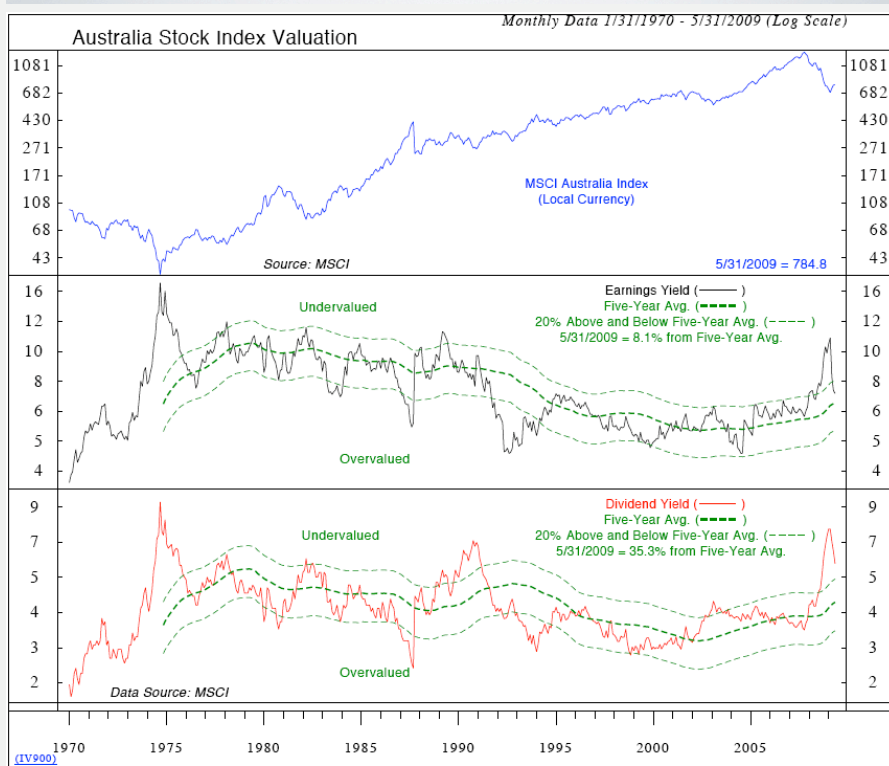
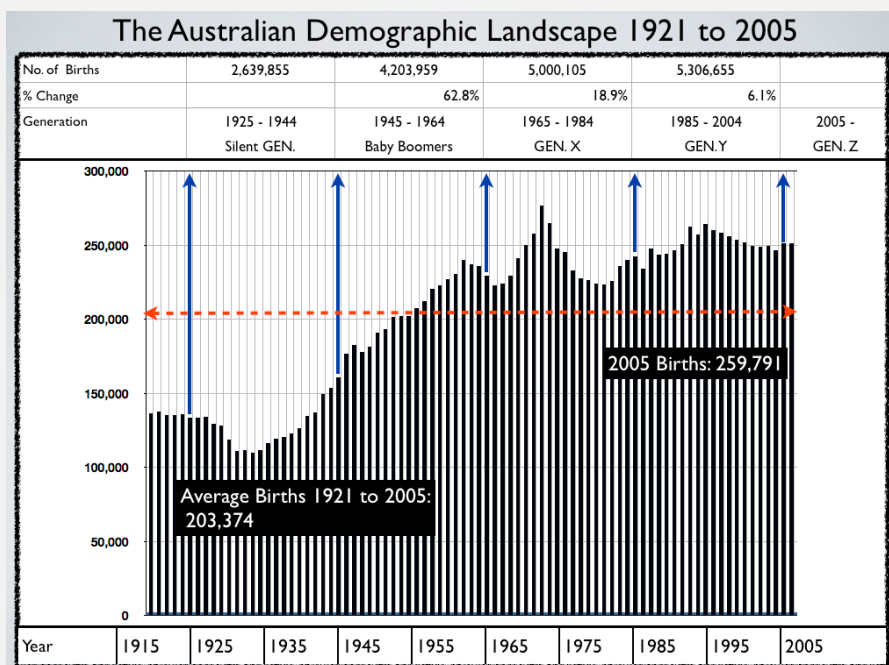
This domination in sports could be echoed in the economic arena, as it is favorably positioned to weather the current global downturn and take advantage of the recovery. Australian banks are in far better shape than most of its European and U.S. rivals and the country is experiencing about the shallowest downturn of all western economies.

While many investors are well versed in the country's reserves of coal, iron-ore and gold, the strength of its agricultural base is often overlooked. This pillar of its export economy has been in the doldrums for several years as it suffered from a series of El Nino-driven droughts. ACC believes that because its weather patterns are forecast to move into a "La Nina" influenced cold cycle, Australian (and New Zealand) agriculture will return to the more favorable conditions experienced in the 1940s, 50s and 60s. This should prove timely as long-term agricultural prices are being driven higher due to less fertile land, water shortages and growing food demand.

Australia's economy is in far better shape than almost all of its developed rivals and should benefit from any rebound in China. In 2009 recovering commodity prices should support the Australian dollar and could bring it back to

parity against the U.S. dollar within the next two years. Longer term, sound demographics and the four export pillars of the country—agriculture, coal, iron-ore and gold—should continue to support a growing

economy. It is worth noting that the 130,000 or so immigrants that enter the country each year also provide a boost to Australia's economy, but that story will be told in a future issue of The Age Curve Report.



© Copyright 2009 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/.

The Age Curve Consulting Delineation of the Generations

There are as many opinions about what delineates a “generation” as there are names for the generations. For example, Generation Y, also referred to as “Millennials,” “Trophy Kids,” “The Net Generation,” and “Echo Boomers,” to name a few, is broadly considered to consist of those people born anytime between the late-1970s to 2005. More narrowly, some people consider Gen. Y to be those born between 1975-1995, while others apply the time frame of 1980-2000, or 1980-1995, or 1985-2005.... Or take Generation X—“Baby Busters,” “Slackers,” “Generation Next,”—which is shortchanged by many pundits who only honor it with a nine- to 12-year age frame.

In short, there are no universally accepted specific date ranges for the different generations, and a referenced generation’s age-line will likely be vague unless expressly delineated by the source. This is primarily due to the fact that generations share more than chronology. They share life-changing experiences and events that cause them to bond, like the G.I. Generation’s experiences with the Great Depression and World War II; or Gen. Y, which is said to owe its personality to technology and the internet. Sometimes, the sheer size of the cohort helps shape its personality, like the huge Boomer generation. The end of one generation and the start of another can also be fuzzy, marked by an amorphous group of “tweeners” who

The Generations as Delineated by ACC

| | | |
|--------------------------|------------------|-------------------------------|
| 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 |

*ACC has chosen the moniker “Generation Blend” because this will be the most ethnically assimilated U.S. generation ever.

can be considered part of either generation dependent upon the one that best represents how they think, or on how others want to classify them.

For the sake of consistency, and to avoid discrepancies in generational numbers and international comparisons, Age Curve Consulting (ACC) will use 20-year time frames to delineate the generations. ACC is also going to consistently use the same name (or abbreviation) for each of the generations unless needed for context or in the use of a quotation. The use of sub-generations, such as “Generation Jones,” will be avoided.

The traditional view of a generation holds it to be roughly 20 years, the time between the birth of the parents and the birth of their offspring. When ACC selected what it considered to be the most accurate generational chronology, it started with what it felt was the best definition of the Baby Boomers. Boomers began in 1945 and

represent the baby boom that developed as the soldiers returned home from World War II. The most common delineation of the Baby Boomer years is 1945 to 1964. This being established, it was easy to align the Silent Generation, GI Generation, Gen. X, Gen. Y, and the oncoming Gen. Z into twenty year segments.

ACC almost made a 25-year exception for Gen. Y in the U.S., because the standard definition of what constitutes a generation seems to be moving towards a 25-year cycle to account for greater longevity and the later onset of child bearing by recent generations. However, for the sake of consistency and international comparisons, ACC will remain disciplined and use 20 years for Gen. Y.

Is demography an exact science?

No.

Can you use demography to make accurate forecasts about commerce, culture and economics?

Absolutely!

The information and data provided in The Age Curve Report reflect the views and opinions of Age Curve Consulting. The views expressed may change at any time. The opinions expressed in this communication are those of the author(s). No representation is made concerning the accuracy of cited data. Nor is there any guarantee that any projection, forecast or opinion will be realized.

Readers using this information are solely responsible for their own actions and invest at their own risk. Before making specific investments, further investigation is recommended. Although information contained in our publications is derived from sources which are believed to be reliable, they are not always necessarily complete and cannot be guaranteed.

The value of investments, and the income from them, can fall as well as rise and you may not get back the original amount invested. Past performance is not a guide to future performance. Certain securities referenced in the report’s articles may be held in portfolios managed by any of the principals of Age Curve Consulting. References to these securities should in no way be deemed as an understanding of any future position, buying or selling, that may be taken by the principals. In addition, employees and associates of Age Curve Consulting may have positions in these securities.

The Informed Investor

Market Overview: Market Signals Point to Recession End

By Logie Cassells

Do things look gloomy? They always do, close to a major market bottom. Depending on your index, the November or March lows provided the best buying opportunity in a generation. Since November (as at 29th May 2009) the S&P 500 is up 22.8 percent and the more technology laden NASDAQ is up 38.3 percent. The “Monster Rally” recovery has been very traditional to date, with those sectors that smell the recovery first leading the way: consumer discretionary up 41.3 percent, materials up 36 percent and technology up 33.6 percent. Even the poor old “Busted” financial sector is up 31.2 percent (or 100 percent since the March lows).

If these returns appear disappointing you only have to look overseas where emerging markets, up 82 percent, have outperformed developed markets, up 32.8 percent, considerably since the November lows. The developed market stars are: Hong Kong, 66.6 percent; Canada, 59.6 percent; and Australia, 50.3 percent. The emerging market stars make these returns look tiny in comparison with Russia up 125.6 percent; India, 108.9 percent; and Brazil, 105.3 percent. Even “pig flu torn-(not!)” Mexico is up 44.1 percent.

We admit markets are still considerably below their highs of 2007 or 2008, the Bloomberg World Equity Market cap lost 59 percent, or \$37 trillion, but has recovered just over a third of that loss to date. Its broad and traditional recovery indicates to us that our Global Bull Market signal on the 5th of December is well intact and sustainable, rather than the bearish belief that this is a temporary oversold rebound based

on a short-lived and unsustainable upturn in sentiment.

If we study the sentiment model on page 12 we can see we have moved from November’s “Despondency” and March’s “Depression” to one of “Hope.” Although investor sentiment has improved since the lows of November or March, it is still below the excessive levels of optimism seen in late 2007. We believe these levels must be returned to before the current “Monster Rally” in a secular bear market faces serious obstacles and spurs the need to take profits from the table.

We are currently nearing the end of the “Bear Market Bottom to Recession End” phase. During this phase we normally see a change in sector leadership as stocks anticipate an economic recovery and there is an inversion from defensive (health care and consumer staples) to aggressive sector (consumer discretionary and technology) leadership. The Ultra Bears (similar to Ultra bulls at the top) would have you believe that the recent lows were only temporary as “it’s different this time” took markets back to lows not seen since 1974 or 1929. This recovery has been fairly text book in nature with the strongest recoveries being seen in materials, industrials, consumer discretionary and technology. The only notable difference has been the top performing financial sector (normally performs in line with the market during phase 2) which has recovered from very oversold levels.

We think the recession could end sooner than most investors or economists think, perhaps in the next couple months. This suggests that as we near the end of phase 2, we

should begin thinking about phase 3—the post recession period—and examine potential new sector or market leadership. Ned Davis Research examined the historical leadership in five previous economic expansions since 1975, using three time periods of three, six and 12 months. In terms of the stock market, or the S&P 500, the market has on average been positive after three (up 5.6 percent), six (up 4.3 percent) and 12 (up 8.4 percent) months after a recession has ended since 1975. This research suggests that by the time the recession has ended the “easy” stock market money is likely to have been made.

However, while the stock market still produces respectable gains (long term annual stock market gains are about 10 percent) following the recession’s end, sector or industry specific factors have a bigger influence in determining future returns. The most consistent outperformers six months after a recession’s end have been commodity based sectors such as energy and materials (consumer discretionary), while industrials and financials have also performed well in this period. In sharp contrast to phase 2 leadership, technology has rarely outperformed six months after an end of a recession.

The expected performance of the commodity based sectors would seem to fit in well with a rebound or re-start in the “China-driven commodity demand theme.” However, given the extent of its previous bubble extremes, we believe it will be a monster rally or rebound rather than a new commodity bubble so soon after the old.

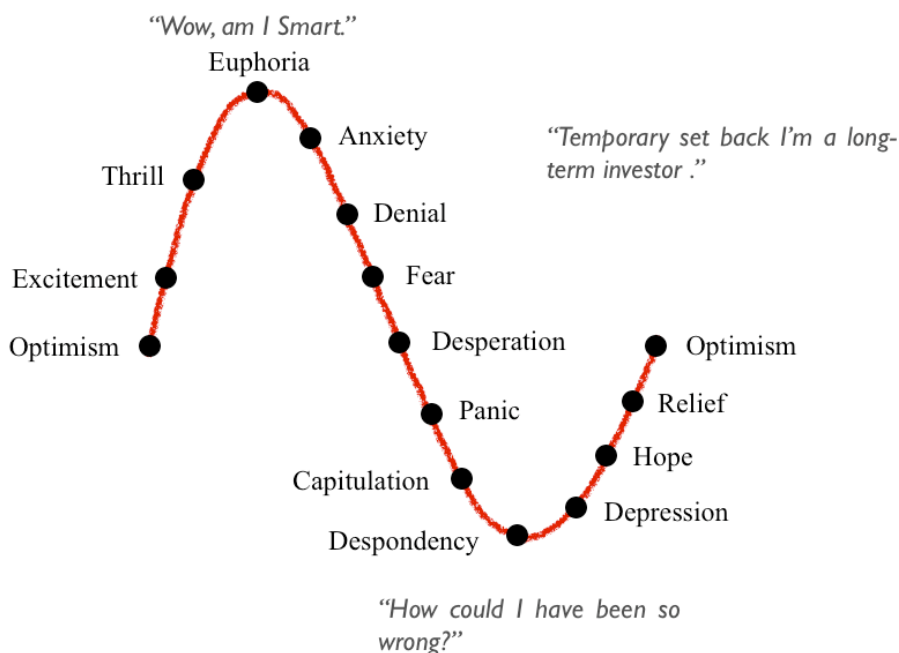
Market Data: Performance

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 seen in many of the areas 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.

Markets have continued to track Ned Davis Research's S & P 500 Cycle 2009 Composite, which should see a further break out in mid- to late-June. We continue to believe that markets will continue to climb their traditional "Wall of Worry" over the next 12 months as the economy improves. When

investor sentiment reaches extreme optimism we will consider taking profits on some positions and bank some of the year's strong gains. Our stop loss on our bullish outlook is currently at 810 on the S&P 500.

Point of Maximum Financial Risk



Point of Maximum Financial Opportunity

Performance from November 20, 2008 Market Low to May 29, 2009

| Markets | 11/20/'08 | 05/29/'09 | Move % | Ticker | U.S. Sector | 11/20/'08 | 05/29/'09 | Move % | Ticker |
|---------------------|-----------|-----------|--------|--------|-------------------|-----------|-----------|--------|--------|
| Global Dow | 1265.00 | 1696.88 | 34.1% | | Materials | 19.88 | 27.17 | 36.0% | XLB |
| S & P Composite | 741.02 | 919.14 | 24.0% | | Health Care | 23.56 | 25.83 | 9.4% | XLV |
| FTSE 100 | 3875.00 | 4417.94 | 14.0% | | Consumer Staples | 21.94 | 23.12 | 5.4% | XLP |
| Dow Europe Stoxx | 204.00 | 227.48 | 11.5% | | Consumer Discret. | 16.33 | 23.12 | 41.3% | XLY |
| Nikkei | 7703.00 | 9677.75 | 25.6% | | Energy | 39.96 | 51.68 | 29.3% | XLE |
| Emerging Markets | 18.26 | 33.24 | 82.0% | EEM | Financial | 9.39 | 12.23 | 31.2% | XLF |
| CRB Index | 230.40 | 260.81 | 13.2% | CRB | Industrial | 20.00 | 22.49 | 11.9% | XLI |
| Gold | 73.45 | 96.2 | 30.9% | GLD | Technology | 13.19 | 17.65 | 33.6% | XLK |
| U.S. Corporate Debt | 63.40 | 77.12 | 21.6% | HYG | Utilities | 26.21 | 26.77 | 2.1% | XLU |
| U.S. 30 Year Yield | 3.50% | 4.54 | -29.7% | | Nasdaq Composite | 1316.12 | 1774.33 | 34.8% | |
| U.S. Dollar | 27.10 | 23.67 | -12.7% | UUP | Russell 2000 | 385.31 | 501.58 | 30.2% | |

Source: Wall Street Journal-May 29, 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.

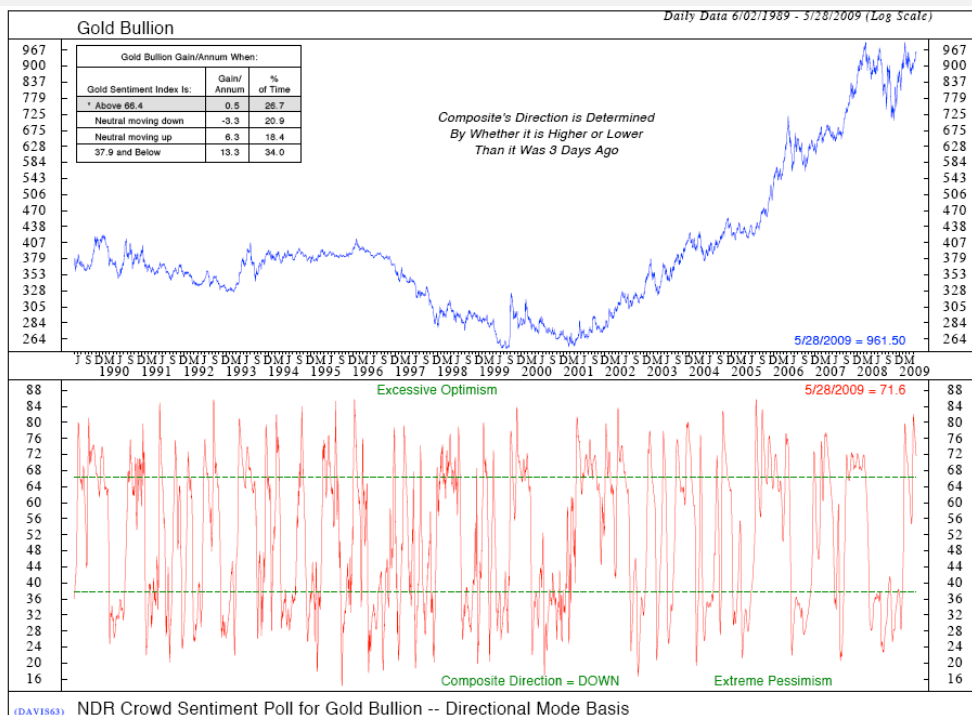
The indicators used are mostly based on ratios of relative bullishness or bearishness among different categories of investors. Because the chart aggregates several different sentiment indicators and highlights levels at which investor sentiment has reversed in the past, it can help investors anticipate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

This month we highlight the sentiment charts for Gold and U.S. Treasuries. Early in the year we highlighted the very overly optimistic sentiment in the bond market, which saw sentiment readings hit 20-year highs (bottom chart). Since then bond prices have fallen by about 16 percent coupled with a decline in sentiment to 51.2 percent, still above extreme pessimism levels of below 32 percent.

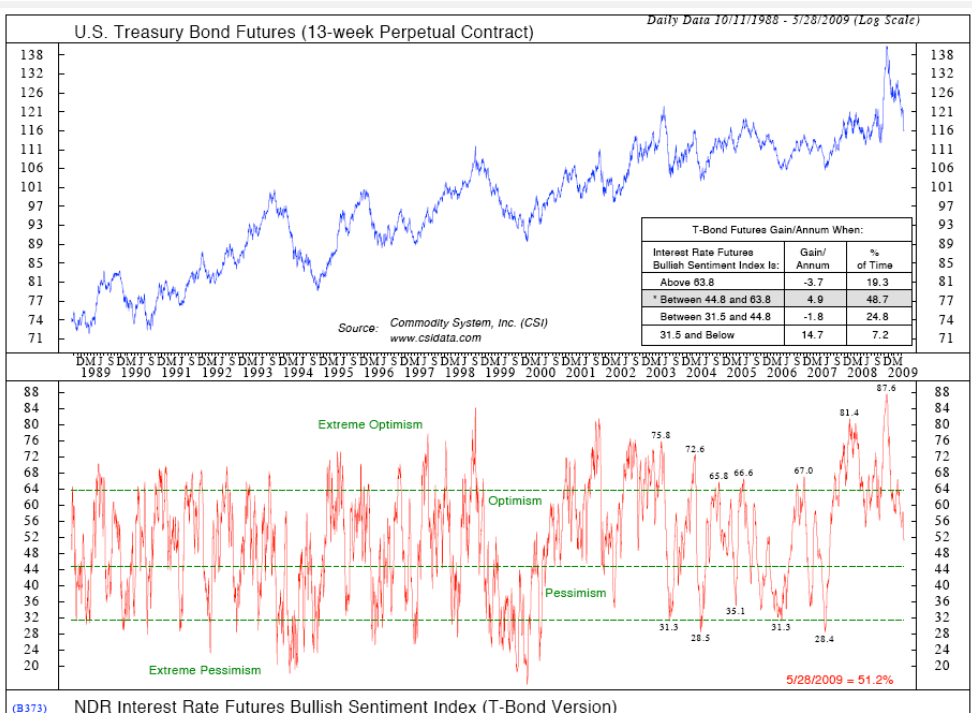
The next sentiment we see popping is the current "Excessive Optimism" bubble we see in the gold market. We remain attracted to the long term attractions of gold. However, with

current optimism investors are likely to see a better entry point once sentiment returns to extreme pessimism, similar to that which occurred in late 2008.

ACC will continue to track the different sentiment charts in future issues of this report.



© Copyright 2009 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/.



© Copyright 2009 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/.

Source: Ned Davis Research, Inc.

Ahead of the Curve By Ken Gronbach

Recent Vote, Latina Court Nominee Show how the Times are Changing

In 1964 Bob Dylan released the song "The Times, They are a Changin'." It was true then, and it is even truer now. Could it be that this ability to change is what makes The U.S. so strong? Why is The U.S. so capable of reinventing itself, fixing problems, overcoming difficulties and adapting? Could the answer be found in two simple words, We Vote? There is more to it, but the vote is a good place to start.

Consider that in 1955 two very separate but much related episodes defined the American psyche of that time. One took place in Las Vegas, Nevada and the other in Montgomery, Alabama.

Sammy Davis Jr., a very popular black entertainer, was headlining at a Las Vegas hotel where he was not allowed to stay because the hotel had a very clear "No Negroes Allowed" policy. After his last set he could not resist the temptation and impulsively jumped into the hotel pool. Without hesitation the hotel's management drained it and replaced the water.

In Montgomery, Alabama a slightly built, middle-aged black woman rode a municipal bus. She was dutifully sitting in the back of the bus in the first row designated for colored riders. A group of white businessmen boarded the bus and because there were no more seats in the forward white section the bus driver instructed Rosa Parks to give up her seat and move back. She refused and was arrested for disorderly conduct. The rest is history.

"The Vote" in last year's presidential election was the most racially and ethnically diverse in our Nation's history according to U.S. Census data recently analyzed by The Pew Research Center. Nearly one in four votes was cast by non-whites.

Blacks, Latinos and Asians all voted in record numbers and in

unprecedented proportions of the presidential vote.

It should make one wonder. The U.S. is a nation of immigrants. Was there a time when The Pew Research Center or its historical equivalent reported on the German, Irish or Italian minority vote? If so you can be sure that the "real Americans" were up in arms as our wonderful system of government began to share power with the latest minority.

In 2008 The U.S. elected its first ever African American president. It was a milestone of epic proportions that redefined the U.S. psyche. How did this happen? It was not that long ago when the U.S. exercised its own form of apartheid.

Have we forgotten who we were? In a way, yes, we have. The Baby Boomers' parents, the huge G.I. Generation born 1905 to 1924, were steeped in bigotry and segregation. Now they are almost all dead and they have pretty much taken their intolerance with them. Boomers are tolerant and have taught their children, Generation Y, born 1985 to 2004, not to see color, race or creed as the defining attributes of a man, but rather, his or her character. The times have changed, just like Dylan said.

Understanding the changes and being able to forecast what's next is the key to success in economics, culture, commerce and government. That's where the study of demography comes into play.

This month President Obama nominated a Latin American woman to the Supreme Court of the United States, the first Latino ever to be nominated. Is this monumental? More than we know. The flood gates are opening for the influence of the new minorities but you can be sure that it won't be long before the new minorities melt into this wonderful pot we call the United States.

Age Curve Consulting

1292 Saybrook Road
Haddam, CT 06438
1-860-345-4604

Beacon Asset Managers

43 Union Street, P.O. Box 895
Chester, NS B0J 1J0, Canada
1-902-273-2431

Contact:

Info@agecurveconsulting.com

info@beaconassetmanagers.com

Web Site:

www.beaconassetmanagers.com

Contributors

Ken Gronbach
Logie Cassells
Jamie Moyer

The Age Curve Report is published 12 times per year by Age Curve Consulting, Llc. All rights reserved. The report is published at the end of every month, and on average will be 15 pages long.

Subscription: \$299 per year, or \$79 quarterly, via website sign-up at www.beaconassetmanagers.com Issues are transmitted in PDF format by e-mail or web page download.

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 your copy of Ken Gronbach's bestselling book. *The Age Curve: How to Profit from the Coming Demographic Storm*, is available today, through [Amazon](http://Amazon.com).

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

www.ndr.com