November 2009

The Age Curve Report

How to Profit from the Ever-Changing Demographic Landscape

Demographic Landscape

The Informed Investor

Ahead of the Age Curve

Recessionary Clouds Continue to Clear!

Over the last month further economic data has been published to confirm that the recovery is well under way. At the beginning of this year the "Nattering Nabobs of Negativity" were predicting sluggish 1.5 percent real economic growth for the third quarter. Real GDP grew at a solid 3.5 percent annual rate in the third quarter, and we believe it could jump to a bumper 5.0 percent in the fourth quarter.

The media having failed in their "Depression Scenario" are now turning their attention to the high unemployment numbers (boosted in part by large numbers of Generation Y entering the workforce) of above 10 percent. The sequence of business cycles in unemployment generally only improve many months after the economy bottoms, a fact being ignored by the pundits. Using history as a guide, we expect the job market will naturally begin to improve by Spring of 2010.

This month we complete our whistle-stop tour of the American Demographic landscape, with a look at the West. Ken Gronbach considers the impact Generation Y are having on education, and very timely will feed into the new American entrepreneurial boom that lies just around the corner. We begin to get festive with a look at whether the pessimists are right in that Christmas may be cancelled this year.

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

Model Portfolio Update

The model Beacon Master Portfolio is showing a return of 66.6 percent, and represents a 42.0 percent point outperformance over the S&P Global Index ETF (IOO) since our buy signal of December 5, 2008.

The Model Beacon Master Portfolio:	**66.6%**
S&P Global 100 Index:	**24.6%**
S&P 500:	**21.8%**
U.S. Bond Index:	**4.4%**

Migration Key to West's Wild Demography

The U.S. West has experienced the greatest regional population growth by percentage and second greatest by number since 1900, with its 1900 population of 4.1 million increasing more than 17 fold to about 70.1 million in 2008. More than half of this current population resides in the state of California, with a 2008 population of almost 37 million, with the bulk of the other half residing in the states of Washington, 6.5 million; Arizona, 6.5 million; Colorado, 5 million; Oregon, 3.8 million; Utah, 2.7 million; and Nevada, 2.6 million. The remaining 6 percent of the West's population can be found in Idaho, 1.3 million; Hawaii, 1.2 million; Montana, 900,000; Alaska, 626,000; and in the nation's least populated state, Wyoming, 494,000.

As compared to the idiosyncrasies found in the other regions, the West is a study in contrasts, both demographically and with regard to other metrics. For example, it contains the largest state by population, as well as the smallest state by population.

It has by far the largest landmass of any region, encompassing more than half of the entire U.S. total, but is

Continued on Next Page

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the least densely populated with an estimated 49.5 inhabitants per square mile–only California, with 213.4 inhabitants per square mile, Hawaii, with 188.6, and Washington, with 86, exceed the national average of about 78 per square mile.

Many of the region's states have among the the youngest populations in the country by median age, but the region also has one state–Montana–that has one of the oldest median ages.

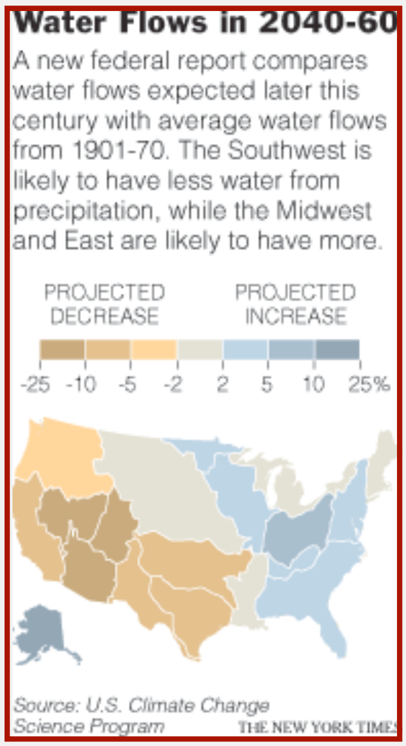
The region contains the largest number of minorities in the U.S., with a greater percentage of Hispanics, Asians and Native Americans, but its percentage of black Americans, at about 6 percent, is well below the national proportion of almost 13 percent. The region also contains three of the country's four states that have non-white populations that outnumber the white population.

The region includes the wettest state–Hawaii–in the country, as well as the driest–Nevada. For the most part the region is considered "semiarid" in climate; however, its temperate rain forests in the Northwest, along with the state of Hawaii, receive the highest annual precipitation in the country. And while the states of Washington, Oregon, Hawaii and Alaska are rich with water resources, the lack of water resources in the region's other states could prove to be a limiting factor on future growth, especially in those areas already experiencing explosive growth.

The U.S. Census Bureau delineates the West Region as the states of Arizona, Colorado, Idaho, Nevada, Montana, New Mexico, Utah, Wyoming, Oregon, Washington, California, Alaska and Hawaii.

According to the Census Bureau, between 2000 and 2008 the West's natural population increase (the difference between births and deaths) was the second largest of all regions (the South having the largest) at 4,610,364, with 8,444,782 births and 3,834,418 deaths.

All 13 Western states experienced natural increases, with the most populated state, California, with almost 37 million people–more than half the entire population of the region–adding just over 2.5 million people. Washington, the second most populated with just over 6.5 million people, and Arizona, the third most populated, with almost 6.5 million, experienced much more modest natural increases of about 306,000, and 418,000 respectively.



Wyoming, the smallest state in the country by population–532,668–experienced the smallest natural increase with 23,970; however, the state's population was boosted by a gain in net migration of 17,347. Alaska, the fourth smallest state in the country by population–686,293– experienced a natural increase of 60,994.

On a proportional basis the West is seeing far more births than deaths than any other region. This is probably due to the relative youth of the population in many of the Western states, several of which have the youngest median ages in the country. While the West experienced 2.2 births for every death between 2000 and 2008, the more populated South experienced about 1.7, the Midwest just over 1.5, and the north just over 1.4.

On a statewide basis, Utah, which has by far the youngest median age–28.5–of all the states, has the country's highest birth to death ratio at about 3.9. Alaska, the third youngest state by median age–33.4–had a ratio of 3.4, and California, with the fifth youngest median age–34.7–having a ratio of 2.3. Conversely, Montana, which has the fourth oldest median age–39.3–in the country has a ratio of 1.4, comparable with most states in the Northeast, which also have older populations.

Total net migration gains for the West were just over 3.1 million, about half the net migration gain of the South, but more than five times greater than that of the North or Midwest, both of which experienced net migration losses. The West gained 2,685,286 international migrants and another 445,496 migrants from the other U.S. regions.

The state of Arizona experienced the greatest net migration with a gain of 934,622, with 718,275 domestic migrants and 216,347 international migrants. Nevada had the second biggest net gain, with 463,706, followed by California with 446,991. However, while California gained about 1.8 million international migrants, almost 1.4 million domestic residents left the state.

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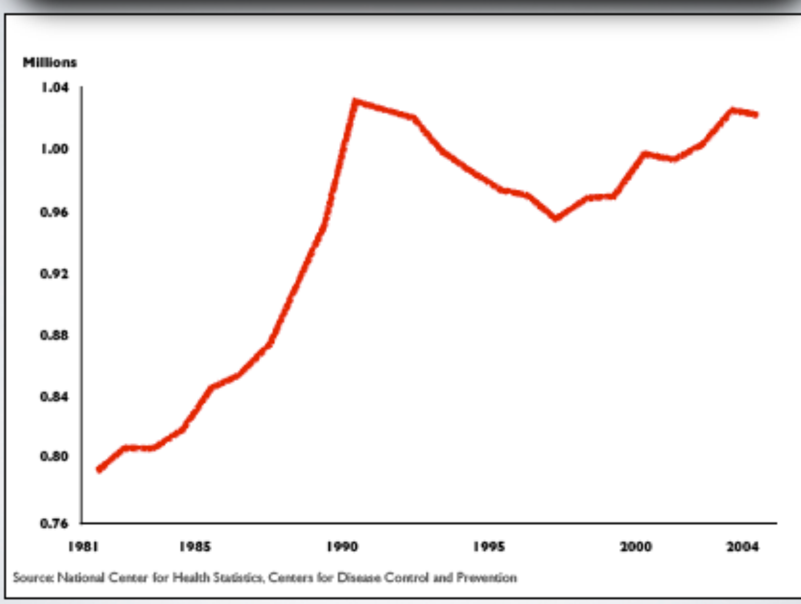
Alaska and Hawaii also experienced losses in Domestic residents. In fact, Alaska was the only state in the West to experience a net migration loss, with the departure of almost 10,000 domestic residents outstripping the arrival of 4,400 international migrants for a net loss of almost 5,500 though migration. Hawaii gained about 31,000 international migrants, but lost about 26,000 domestic residents for a net gain of about 5,000.

Births in the West, 1981 to 2004



On a year-over-year basis, the Census Bureau's most recent data covering July 1, 2007 to July 1, 2008, the West experienced the greatest population growth rate at 1.4 percent, just above that of the South, 1.3 percent, but far above that of the Midwest, 0.4 percent, and Northeast, 0.3 percent. The population of the Western states increased year-over-year by 974,004.

While California experienced the biggest population gain in both the region and country by number, 379,132, this only represented a 1 percent gain percentage wise. Utah experienced the biggest percentage gain in the country, 2.5 percent with a gain of 67,499 people. Arizona experienced the second biggest gain in the country by percentage, 2.3, and second biggest regional gain by number, 146,759. Colorado, with a 2 percent gain, and Idaho, Nevada and Wyoming, all at 1.8 percent, also saw robust percentage gains.

Looking forward, the Census Bureau projects that the West will experience the greatest growth on a percentage basis of all regions. In its 2005 interim projections based on the 2000 Census, the bureau determined that the West's population would grow by almost 29 million people between 2000 and 2030, an increase of 45.8 percent, just above the near 43 percent increase expected for the South, but far below the South's numeric increase of an estimated 43 million. The West's projected growth is far above that of either the Midwest, about 6.1 million for a 9.5 percent rate of growth, or Northeast, with about 4 million for a 7.6 growth rate. With a projected 2030 population of about 92.1 million, the West's share of total U.S. population is expected to increase to 25 percent, from a current 23 percent.

Nine of the 13 Western states are projected to have among the highest growth rates in the country for the 2000-2030 time frame, joining five Southern states with growth rates above 34 percent. While California is projected to experience by far the greatest numeric population increase, 12.5 million for a 37.1 percent increase, the states of Nevada and Arizona are expected to experience the greatest growth on a percentage basis. Nevada's population is expected to add almost 2.3 million residents for a gain of almost 115 percent, and Arizona is expected to add more than 5.5 million for a gain of almost 109 percent. Other top Western gainers are Utah, 1.2 million-plus for a gain of 56.1 percent; Idaho, 675,000 for a 52.2 percent gain; Washington, 2.7 million for a 46.3 percent gain; Oregon, 1.4 million for 41.3 percent; Alaska, 241,000 for 38.4 percent; and Colorado with 1.5 million for a gain of 34.7 percent. Hawaii is expected to add about 254,000 for a 21 percent gain; Montana, 143,000 for 15.8 percent; New Mexico, 281,000 for 15.4 percent; and Wyoming, 29,000 for 5.9 percent.

Like the South, most of the states in the West have birth rates higher than the national average of 14.2 births per thousand, and higher than most of the states in the Northeast and Midwest. This is likely due in large part to the relative youth of these states populations, as in general the lower a state's median age the higher its birth rate. Utah,

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which has by far the youngest median age in the country, also has the highest birth rate, with 21 per thousand. Conversely, three of the four Western states with the region's highest median ages, also have the lowest birth rates. Montana, Washington, and Oregon have rates between 13.2 and 13.6, well below the national average. Hawaii, which also has a relatively high median age, at 38, bucks the trend, as its birth rate is a healthy 14.8. Birth rates for the other Western states are Arizona, 16.6; Idaho, 16.5; Alaska, 16.4; Nevada, 16; California, 15.4; New Mexico, 15.3; Colorado, 14.9; and Wyoming, 14.9.

Like the South, the West's population boom has in part been fed by migration. However, while migration to the south has been significantly increasing over the last few decades, migration to the West–which was largely responsible for its 17 fold population increase between 1900 to 2008–has been decreasing. In fact, since at least the mid-1990s more people have been migrating from Western states to Southern states than from Southern to Western states. Nevertheless, the West, unlike the Northeast and Midwest, is still drawing in net gains of migrants, primarily due to the large influx of international migrants.

The California Gold Rush of 1848 started the first large migration boom to the West, drawing in about 300,000 settlers to the area by 1855. Meanwhile, the numbers of settlers looking for other opportunities throughout the West increased every year, arriving first by rugged overland trails such as the "Oregon," "Mormon" and "Bozeman," or by ship via the long and perilous journey around Cape Horn in South America. These migration flows accelerated with the enactment of the "Homestead Act," which offered free Western land to settlers, and with the building of transcontinental railroads, the first of which was completed in 1869.

Of course, this migration came with a price, as the region's original settlers, the 500,000 to 1 million (estimates vary greatly) Native Americans of 1850, were, if not outright killed, pushed aside and had their land essentially stolen from them, all within the space of about 40 years. They are still recovering from that brief period of history, as their population in the region does not top 1.5 million.

Migration flows from other regions into the West continued in the 20th Century, as the West, and particularly California was still seen as America's land of opportunity. Migration flows were helped by the rise of the automobile, which was in turn enhanced by the building of the interstate highway system in the 1950s. While data containing actual numbers of migrants to the West in the 20th Century are lacking, one Census Bureau report estimated that about 4.5 million residents of other regions migrated to the West between 1900 and 1940, with another 10.5 million migrating to the West between 1940 and 1990.

The inflow of migrants from other regions seems to be easing, with the South emerging as the current most popular destination of choice for domestic migration. A study by the Pew Research Center using U.S. Census Bureau data showed that while the West received a net gain of more than 1.1 million domestic migrants between 1975 to 1980, this inflow had slowed to a trickle by 2000, with a five-year net gain of only about 20,000. While the West received a net gain of 166,000 from the Northeast and 115,000 from the Midwest from 1995-2000, it experienced a net loss of 261,000 from its overall migration flows to the South. Looking at more recent data for the three year period 2005-2007, the research center determined that the West continued to receive net gains from the Midwest–124,000–and Northeast–141,000–but continued to experience net migration losses to the South–236,000.

Migration Gains/Losses 2000-2008

State	Domestic	International
Alaska	-9,887	4,418
Arizona	718,275	216,347
California	-1,378,706	1,825,697
Colorado	168,984	142,990
Hawaii	-26,282	31,317
Idaho	113,582	17,780
Montana	36,327	2,178
Nevada	378,231	85,475
New Mexico	25,124	34,375
Oregon	158,819	92,394
Utah	47,097	63,855
Washington	198,710	166,335
Wyoming	15,222	2,125

These recent migratory flows need to be put into context by the fact that the state of California represents the population of more than half the region, and as such is responsible for more than half of the West's migratory flows. In fact, most of the Western states recorded healthy gains in net migration for the 2005-2007 period, and net domestic migration losses were only experienced by California, -681,000; Alaska, -60,000; Hawaii, -27,000; and Wyoming, -17,000. The region's biggest net domestic migration gainers were Arizona, 287,000; Washington, 116,000; Oregon, 96,000; Nevada, 92,000; Idaho, 75,000; and Colorado, 63,000.

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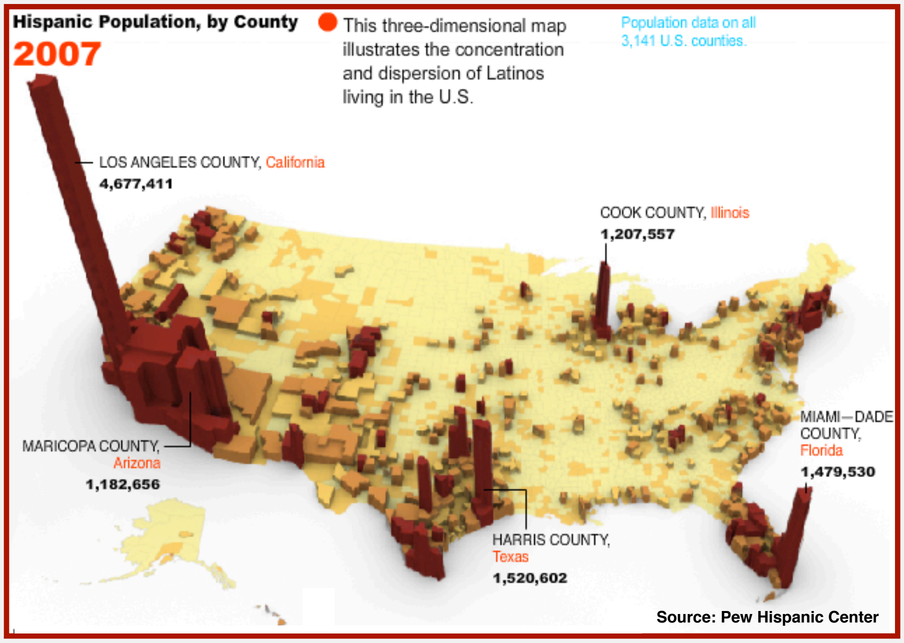

Source: Pew Hispanic Center

Among all these population numbers and projections is another factor that will play a key role in the region's future growth: The region's large and growing Hispanic population.

According to the most recent data from the U.S. Census Bureau and the Pew Hispanic Center, more than 43 percent of the roughly 46.9 million U.S. residents of Hispanic origin, many of whom are second, third and fourth generation citizens, reside in the West. Hispanics have become the ethnic majority in New Mexico, and are expected to become the majority in California by 2020, and in Arizona by 2050. Currently there are about 14.6 million Hispanics in California, 1.9 million in Arizona, and 900,000 in New Mexico. Other state Hispanic populations include Colorado, with about 1 million comprising 20 percent of the population; Nevada, 700,000, for 25 percent; Oregon, 392,000, or 10 percent; Washington 650,000, or 9 percent; Utah, 307,000, for 12 percent; and Hawaii, 102,000, or 8 percent.

It should be noted that Asians will also play a key role in Western growth, especially in California where their numbers are projected by the state government to double by 2050 to almost 8 million, making them the third largest ethnic group comprising more than 13 percent of the state's population. Asians also have a significant presence in the states of Hawaii, 41 percent of the population; Washington, 6.5 percent; and Nevada, 6 percent.

Finally, it should be pointed out that successful future growth–both population and economic–in the West will be highly dependent on how the states utilize the region's scarce water resources. As water resources and water rights are allocated for the most part by the states, this issue will be examined further in future individual state profile articles.

This is the last article of a five-part series examining the U.S. population by regions, the four of which display profound demographic differences. Part I, in our July issue, provided an introduction and broad overview, while Part II in August examined the decline of the Northeast, Part III, the rise of the South, and Part IV, the stagnation of the Midwest. This segment, on the West, concludes this series on the U.S. Regions. Starting next month The Age Curve Report will feature a monthly demographic profile of each individual state.

Is the Beauty Sector Poised for Generational Growth?

Ulta Salon, Cosmetics & Fragrance Inc. (ULTA) and Bare Escentuals Inc. (BARE)–which sells a significant percentage of its personal care products through Ulta retail stores–are sitting in a demographic sweet spot of future growth that will be fueled by increasing populations of its core customer base and by the opening of hundreds of new Ulta stores.

The companies' potential customer base will see increases with female members of the second–and larger–half of Generation X (those born 1975 to 1984) entering the peak spending years for cosmetics, perfume and bath products. This growing customer base should be further enhanced by the increasing population of U.S. Hispanic women, who on average spend 28 percent more on cosmetics, perfume and bath products than other customers. And as the Gen. X females start exiting the peak cosmetic spending years they will be replaced by the even larger cohort from Gen. Y.

Ulta was founded in 1990 in Bolingbrook, Illinois, as a discount beauty retailer, but in 1999 began transforming itself into a beauty

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product superstore and specialty retailer offering “one-stop shopping for prestige, mass, and salon products and salon services.”

As of Sept. 1, the company operated 333 stores in 38 states offering about 21,000 different beauty products, including cosmetics, fragrances, haircare, skincare, and bath and body. Ulta stores also operate full-service salons on the premises, and offers salon styling tools and products for sale. The company prides itself on being the only U.S. retailer “that offers products and services across all segments of the [$75 billion] beauty market.”

The growth of Ulta this decade has been impressive, with the company reporting for the years 2002 to 2008 a 20 percent compound annual growth rate (CAGR) in sales and comparable store sales; 25 percent CAGR in earnings before interest, taxes depreciation and amortization (EBITDA); and 19 percent CAGR in new store openings. The company went public Oct. 25, 2007 at an offering price of $18, which saw a 65 percent one-day return as the shares climbed to prices in the mid- to low-30s, and reached an all time high of $35.63 on Oct. 31. Since then the shares shuffled downward, hitting an all-time low of $4.11 on March 6, but have since moved successively higher and are now trading at around $17.

Bare Escentuals, which was founded in 1976 in San Francisco, California as STB Beauty Inc., develops, markets and sells a variety of cosmetics and skin care and body care products under the “bareMinerals,” “RareMinerals,” “Buxom,” and “md formulations” brands worldwide. It markets its products through premium wholesale customers, with Ulta being its biggest; company-owned boutiques, spas and salons; home shopping television; infomercials; online; and through international distributors.

The company saw impressive growth in the first half of the decade, growing revenues more than 80 percent a year from 2001 to 2006, and maintaining operating margins above 30 percent, which is well above that of its rivals. Bare Escentuals went public Sept. 29, 2006 at an offering price of $22, which traded as high as $29 before ending the day 23 percent higher at $27.15. The share price stayed range bound in the $20s until the second half of 2008, and then drifted downward to reach an all-time low of $2.45 on March 4, 2009, before rapidly climbing higher to reach a new one-year high above $13.

The company reported third-quarter earnings in October, of $22.6 million, or 24 cents per share, topping analysts' estimates of 21 cents per share. Chief Executive Officer, Leslie Blodgett issued an upbeat statement for prospects going forward:"While the economic environment remains challenging, we are pleased with our third quarter performance and proud of the progress we`re making against the strategic initiatives that we set for ourselves at the beginning of the year," said Leslie Blodgett, Chief Executive Officer. "Based on our compelling assortment, we believe that we are well positioned for the upcoming Holiday season."

Demographically both of these companies will see significant growth in their potential U.S. customer base. According to the New Strategist “Demographics of Consumer Demand,” the best customers for cosmetics, perfume and bath products, making up almost 30 percent of the customer base, are in the 35 to 44 age bracket. As of 2010, the number of Americans entering this age bracket will begin to rise as U.S. birth numbers, which had been on a 15-year general decline, began climbing in 1975 (birth plus 35 equals 2010). By 2018, the number of Americans entering this age bracket will outstrip the number of Americans exiting it, as birth numbers climbed ever higher through the 1980s, and with a seven-year respite in the 1990s, into the 2000s. The population growth for this age bracket will include increasing

Company	Symbol	Price	%*	Yield	P/E	P/S	P/B	P/D
Ulta Salon, Cosmetics & Fragrance Inc.	ULTA	17.02	305	n/a	35.82	0.87	2.21	0.39
Bare Escentuals Inc.	BARE	12.91	375	n/a	14.75	2.26	n/a	n/a

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

Source: Wall Street Journal–November 6, 2009

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numbers of Latinas, both from immigration and from U.S. Hispanic birth numbers that have been climbing significantly since the late 1970s. According to the New Strategist "Best Customer" index, Hispanics spend "28 percent more than average on cosmetics, perfume and bath products."

The valuation of these companies differs enormously, given their different debt levels, gross margins, revenue growth, and Ulta's earnings dilution caused by the increase in share numbers following its flotation. However, we feel that their ability to surprise analysts forecasts is likely in coming years due to their placement within a rising demographic sweet spot.

In Summary: We like both companies, however we currently favor Bare Escentuals going into the key Christmas season, following its positive third quarter earnings surprise and recent upgrades from analysts. This leaves the shares attractively priced on a December 2009 price to earnings ratio of 16.3 falling to 14.6 the following year. Bare Escentuals is a core holding in our model Beacon Master Portfolio.

Harley Davidson Focuses on Low and Slow Boomer Market

Harley Davidson Inc. (HOG) reported an 84 percent plunge in third-quarter profits Oct. 15, and announced the dissolution of its Buell line of specialty sport motorcycles and the sale of its MV Agusta division in order to focus its resources on its namesake brand.

The shares rose more than 10 percent on the news in the week following the announcement, and made us wonder if investors had considered how the company plans to generate these greater returns when the Baby Boomer generation that makes up the vast bulk of its customer base is rapidly aging out of the market, and the generations following do not seem to share the same affinity for the iconic brand.

In short, we feel that the company is making a big mistake in divesting itself of two brands that have far more appeal to younger generations than the Harley Hogs, and that company executives, as well as investors, have blinders on with regard to the multi-generational earnings power of the Harley Davidson brand.

The stock price action would suggest that we do not know what we are talking about; however, demographic change does not happen overnight, it's a relatively slow progression, kind of like the Harley riders of today slipping into old age and out of their Hogs and into golf carts and wheel chairs. As this comes to pass, Harley Davidson is going to see significant sales declines if the incoming and younger generations don't buy into the Harley Davidson brand.

And Harley Davidson's earlier success was built on a brand, the branding of the outlaw biker. In the 1960s and '70s the Harley Davidson logo was signature wear for the "Hells Angels," other biker gangs, and bad-boy wannabes–relatively rare and thus "cool." Today the logo seems almost ubiquitous on middle-aged and elderly bikers, who wear far more black leather and sport shinier chrome on their Harleys than any Hells Angel ever did. The once cool, outlaw-style logo has been homogenized, and is about as outlaw and cool as the Walt Disney logo.

Harley Davidson has been seeing significant sales declines since 2006, and the CEO reported that it will "bump along the bottom through 2010," but suggested that the company's "strategy," cost-cutting efforts, and overseas opportunities position it for future growth. We believe that a rebounding economy will help Harley Davidson for the short term, but feel that demographic headwinds will prove detrimental to the company's long term future unless it accounts for the younger generations. With the boot Harley is giving to Buell and MV Agusta it appears that executives aren't giving full credence to younger generational tastes quite yet, but at least they still have a bit of hope with its V-Rod model.

Oh, and speaking of overseas opportunities, Harley Davidson executives believe that India and China represent great opportunities and plan to significantly boost the company's presence in both countries. Let's see, Harley Davidson primarily makes big, in many cases really big, production motorcycles. People in China, and even more so, India, on average are among the world's shortest people. There's just something not right about this picture.

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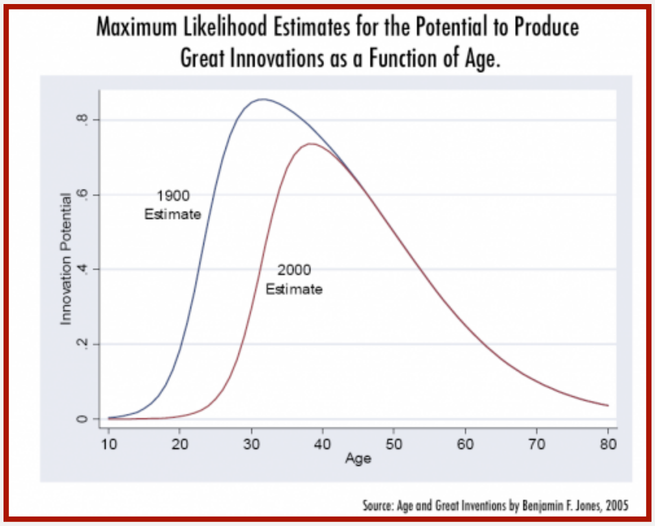
Americans Doing it Their Way–Opening Businesses

We are all aware that the world is aging. Although, from the many one-sided media articles, one would think that this is only happening in the United States.

This aging American landscape has been seen to be a major problem in terms of returning to a period of consistent above-trend economic growth (3 percent plus GDP growth). One of the media's concerns in this recovery is that an aging country does not translate into an entrepreneurial society.

It would appear that the media is wrong, as research from the Kaufman Foundation indicates that America may be on the cusp of a boom in entrepreneurial activity (in terms of job creation, innovation and productivity)–not in spite of an aging population, but because of it. By considering the broad demographic landscape of the U.S. we can expect to see in 2010 a bulge in the 45- to 64-year-olds (Born 1946 to 1965). This age group in number is set to rise for the next ten years.

Other factors to consider going forward is the increase in U.S. life expectancy, suggesting that perhaps a healthy 60-year-old entrepreneur could be an entrepreneurial 70-year-old in 2020. Even if business formation rates fell within this age group, we would still have tens of thousands of potential mentors for the new Generation Y entrepreneurs. The positive impact of technology must also be considered as future barriers to entry are continuing to fall for people of every generation.



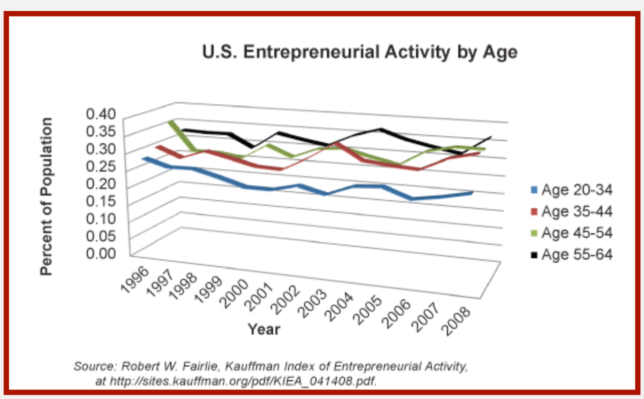
Dane Stangler of the Kaufman Research states:

Why does this matter for entrepreneurship? Contrary to popularly held assumptions, it turns out that over the past decade or so, the highest rate of entrepreneurial activity (a measurement of new business creation) belongs to the 55-64 age group. The 20-34 age bracket meanwhile-which we usually identify with swashbuckling and risk-taking youth (think Facebook and Google)-has the lowest. Perhaps most surprising, this disparity occurred even during the decade surrounding the dot-com boom-when the young entrepreneurial upstart became a cultural icon.

Additionally:

- *In every single year from 1996 to 2007, Americans between the ages of 55 and 64 had a higher rate of entrepreneurial activity than those aged 20-34.*
- *For the entire period, the 55-64 group averaged a rate of entrepreneurial activity roughly one-third larger than their youngest counterparts.*
- *These trends seem likely to persist: in the Kauffman Firm Survey, a longitudinal survey of nearly 5,000 companies that began in 2004, slightly less than two-thirds of firm founders are between the ages of 35 and 54.*
- *Kauffman research has also revealed that the average age of the founders of technology companies in the United States is a surprisingly high 39-with twice as many over age 50 as under age 25.*

If we overlay this powerful coming wave of new entrepreneurs with the next wave of great innovations (starting 2010: 1975 birth low plus 35 years), and add a highly educated and technologically savy Generation Y work force, we believe that over the next 25 years the current "Generational Opportunity" will be greater than the ones in 1942 or 1974.



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Is the Grinch Dead–Will Christmas Return?

The Pittsburgh Post Gazette reported on the latest figures from the National Retail Federation that concluded spending in the months of November and December (excluding cars, gas and restaurants) should hit \$437.6 billion. That compares to \$441.97 billion in holiday 2008 spending, and \$457.75 billion in 2007. If correct, this year will mark the slowest holiday season since 2005, when sales totaled \$433.66 billion, and it would be the first consecutive decline in 40 years.

From the Pittsburgh Post Gazette:

Other forecasters are offering slightly different projections but they generally agree on certain issues: Consumers will be drawn to discount retailers, will buy practical gifts and will stick to the budgets and coupon-clipping ways that have become ingrained over the past year.

Many retailers are braced for it.

"The expectation of another challenging holiday season does not come as news to retailers, who have been experiencing a pullback in consumer spending for over a year," said Tracy Mullen, president and CEO of the Retail Federation, in a prepared statement. Despite some signs the official recession could be over, the trade group noted that continued uncertainty over housing values, jobs and even the stock market have done little to convince consumers that a recovery is solidly in place.

Still, "I think we were a little bit surprised that those numbers didn't come in worse," said James Russo, vice president, Global Consumer Insights at the New York-based Nielsen Co. That organization last week predicted overall holiday sales would be almost flat this year.

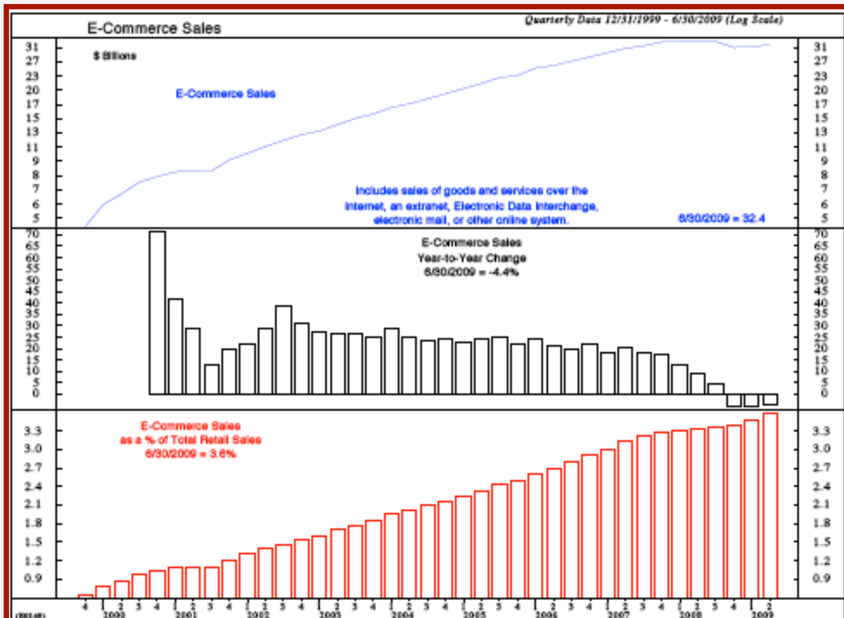
Although it runs its calculations a bit differently than the retail federation, the findings don't conflict. The research company found 85 percent of households planning to spend the same or less this year than last, with a 7 percent increase in the number planning to cut back. Nielsen found consumers expect to spend more in one category–gift cards. Mr. Russo said a growing number of shoppers plan to give gift cards to grocery stores as gifts. Talk about practical.

Meanwhile, Wilkes University business professor Anthony L. Liuzzo is sticking to his forecast, made in August, that overall holiday sales will rise 2 percent. "It seems that things are going the way we thought they would," said Dr. Liuzzo. "It's not terrific but it's better than last year." He agreed with the other observers that retail inventories are tight and he recommended consumers figure out what they want and start shopping long before Thanksgiving. "I think retailers generally are kind of underestimating as a rule," he said, predicting some popular colors of clothing or certain toys could be out of stock early.

But there may be deep discounts on some items for those who wait, according to the National Retail Federation. The group said retail battles for sales in areas such as apparel and electronics could create deflation because of aggressive sales.

Christmas sales have been feeling the impact from a changing demographic landscape even before last year's 3.4 percent decline. The writing has been on the wall since 2005, as Baby Boomers and their buying habits started to leave the "Christmas Mall," to be replaced by the more value-driven Generations X, and in particular, Y.

We believe that retail sales in the key November and December period, on balance, will surprise to the upside by about 1 to 2 percent. However, there will be winners and losers, with the demographically favored retailers offering "value" to



Source: Ned Davis Research

their cohorts being best positioned to reap good sales numbers. Retailers targeting teenagers and children (especially those offering deals with coupons), pushing Boomer health products (to make them look and feel younger), and those utilizing E-commerce should have bumper year (Amazon).

As for the behemoth of retail, Wal-Mart, we believe the closely followed retailer will, by its own high standards, have a disappointing Christmas season.

In Summary: We would argue that the retail sector's valuations have yet to price in a full economic recovery. Best Buy's P/S of 0.3 is considerably below that of its 2003 to 2006 average of 0.7, The Children's Place Retail's P/S of 0.7 is below its 1999 peak of 3.2, and even the sector's current darling Aerospatale's P/S of 1.4 is below its 2004 peak of nearly 2.0.

So, don't fret, Santa Claus will still come down the chimney this Christmas. Investors should be prepared to take advantage of any buying opportunities brought about by disappointing earnings from Wal-Mart.

Sector Overview: A Time to Die or Take Profits?

"Nothing can be said to be certain except death and taxes," said Benjamin Franklin. And with death being a certainty, one would expect that the business of death should always make money.

Of course, how much money is dependent on numerous factors, among which the most important would be how many people are dying. In short, demographics.

While the U.S. population grew by about 17 million people during the first six years of this decade, the number of people dying every year remained relatively static at roughly 2.4 million per year. In fact, in 2006, the U.S. death rate hit an all time low of 776 deaths per 100,000 population, according to the U.S. Centers for Disease Control. U.S. government data for that year, which is the most recent available, also showed that the U.S. life expectancy at birth reached a record high of 78.1 years.

Barring any cataclysmic disasters or high mortality pandemic disease outbreaks, the annual number of U.S. deaths will likely remain static for at least the next three years, reflecting the declining number of Silent Generation births between 1925 and 1935. In 2013, the number of Americans turning the key life expectancy age of 78 will start to increase, and then rapidly accelerate beginning in 2018, to reflect the steady increase in Silent Generation births beginning in 1940, that turned into a flood with the Baby Boomers starting in 1945.

Despite strong consolidation efforts in the 1990s, the U.S. funeral industry remains highly fragmented with the top 50 companies holding only about 30 percent of the market. In fact, the majority of U.S. companies still operate as a single funeral home, earning annual revenues of about $1 million. These smaller operations are able to successfully compete with the larger national companies because business is fiercely local. The

primary advantage held by the larger companies is their ability to share resources, such as vehicles, personnel and marketing costs.

Companies in the business sell products, such as caskets, burial vaults, burial garments, memorial guest books, flowers, memorial stones, burial rights, cremation urns, and related merchandise. Services can include body preparation, transportation, facility rental, the opening and closing of burial plots, and cremation. Caskets are generally the biggest single-item cost of a funeral service.

Funeral Industry Stocks in Focus

Company	Symbol	Price	%*	Yield	P/E	P/S	P/B	P/D
Service Corporation International	SCI	7.55	175%	2.13	19.23	0.95	1.06	1.26
Carriage Services Inc.	CSV	4.20	171%	n/a	26.24	0.43	0.38	2.10
Stewart Enterprises	STEI	4.80	154%	2.49	n/a	0.90	1.06	1.12
StonMor Partners L.P.	STON	17.95	71%	12.47	47.51	1.25	1.14	1.18

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

Source: Wall Street Journal–November 6, 2009

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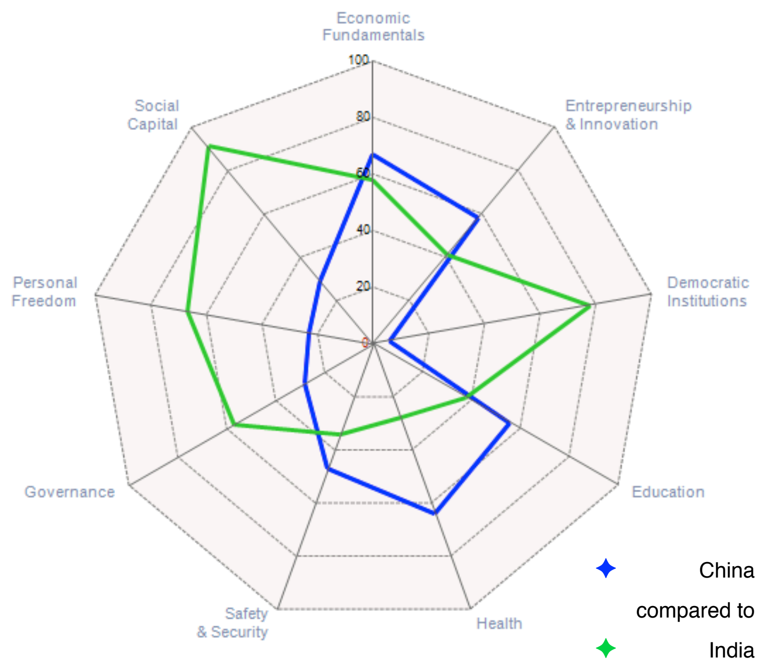
The largest publicly traded U.S. funeral industry companies include Service Corporation International (SCI), Carriage Services Inc. (CSV), Stewart Enterprises (STEI), and StoneMor Partners L.P. (STON). The share prices of these companies, excepting StoneMor Partners which was founded in 1999, all showed significant growth in the 1990s (though far beyond the slow yet steady increase in U.S. deaths during that period), but essentially plummeted at the end of the decade and have been struggling ever since.

The sector has recovered strongly since the March lows, when these companies were priced for extinction. Since the March lows StoneMor is up about 78 percent, Service Corporation about 165 percent, Stewart Enterprises about 180 percent, and Carriage Services more than 200 percent. The sector's strong recovery has left many valuations stretched along with highly leveraged balance sheets.

In summary: we would advise taking profits as we believe the sector is not set to return to a consistent growth track until 2013 when the number of deaths should turn upwards dramatically.

The Latest Index for Measuring Global Prosperity

The London-Based Legatum Institute has developed a new tool for measuring the prosperity of a country. The Legatum Prosperity Index examines data covering 79 different variables organized into nine sub indexes (as seen around the "web" in the adjacent chart), each of which has been identified as a foundation of long-term prosperity. Index rankings are produced by averaging the scores of the nine sub indexes, with the countries performing well in each of them doing the best in the overall rankings. Finland has the top ranking in the 2009 index, while Zimbabwe ranks last. Age Curve Research will take a closer look at this index in our next issue. To see the index go to: www.prosperity.com



Source: Legatum Institute

International Overview: The U.S. is Not and Never Will be Japan

We admit there are many reasons why the U.S. could enter into a "Lost Decade" similar to that experienced by Japan starting in the 1990s. However, demographics is not one of them. By studying the generational makeup and growth of the U.S. and Japanese consumer (ages 15 to 70) from 1970 to 2025, we can see it is like comparing apples with mangoes.

In the two charts we have taken a snapshot of consumers (both historical and estimated for future years) ages 15 to 70 every five years between 1970 to 2025 to illustrate the changing demand of the differing generations. In Japan in the 1990 the generation consumer makeup was:

- 9%: GI Generation (born 1905 to 1924)
- 38%: Silent Generation (1925 to 1944)
- 34%: Baby Boomers (1945 to 1964)
- 19%: Generation X (1965 to 1984)

The absence of a sizeable Gen. X or Gen. Y resulted in the number of Japanese consumers between 15- and 70-years-old to peak in 1990, and is set to fall by about 30 percent by 2025. To make the Japanese situation worse the 40-year consumer spending cycle peak also occurred in 1990. Therefore, not only did the domestic Japanese economy have to cope with changing generational demand, but also with fewer and fewer consumers entering shopping malls.

The U.S. generational snapshot is very different and does not support a Japanese-style "Lost Decade" scenario. The U.S.

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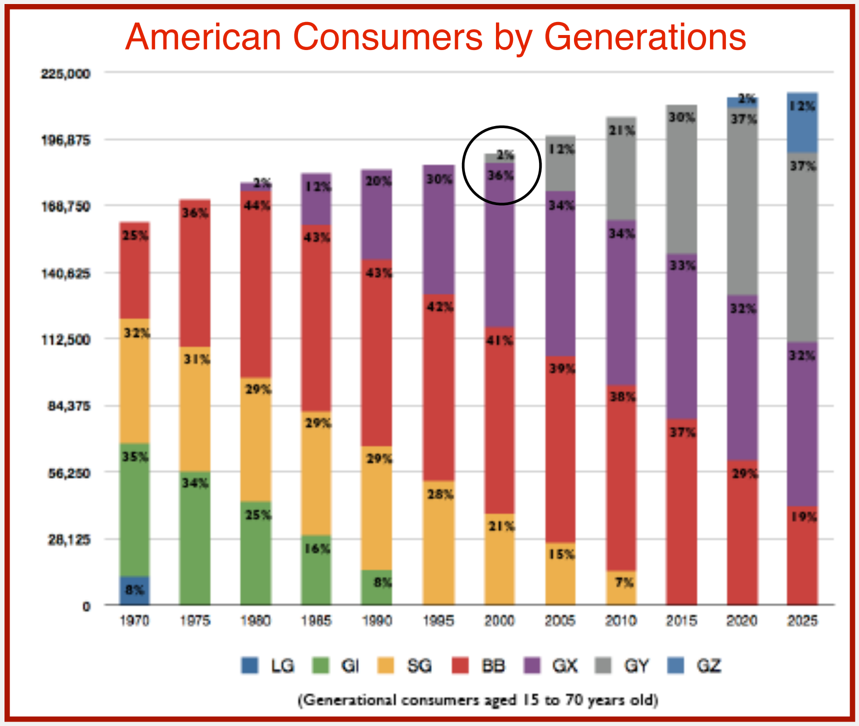
consumer 40-year cycle peaked at around 2000 with a consumer generational makeup of:

- 21%: Silent Generation
- 41%: Baby Boomers
- 36%: Generation X
- 2%: Generation Y

Although the generational makeups are different at the time their respective 40-year consumer cycles peaked, the key simple difference is that in the U.S. the number of consumers will continue to grow to 2025 thanks to Gen. Y (grey bars) and Gen. Z (blue bars). We believe this supports our view that the U.S. economy is not ending but changing. Companies that became fat and happy catering to Boomer demand from 1980 to 2000 need to understand that in many cases this demand is no longer there. Why? Because the generational landscape has changed and will continue to change between now and 2025.

In simple terms of supply and demand, from the period between 2000 and 2025, Boomer consumer potential demand will decline from 41 percent to 19 percent as a proportion of total U.S. consumer demand. Whereas the Generation Y proportion of potential demand share will increase during this time frame from 2 to 37 percent.

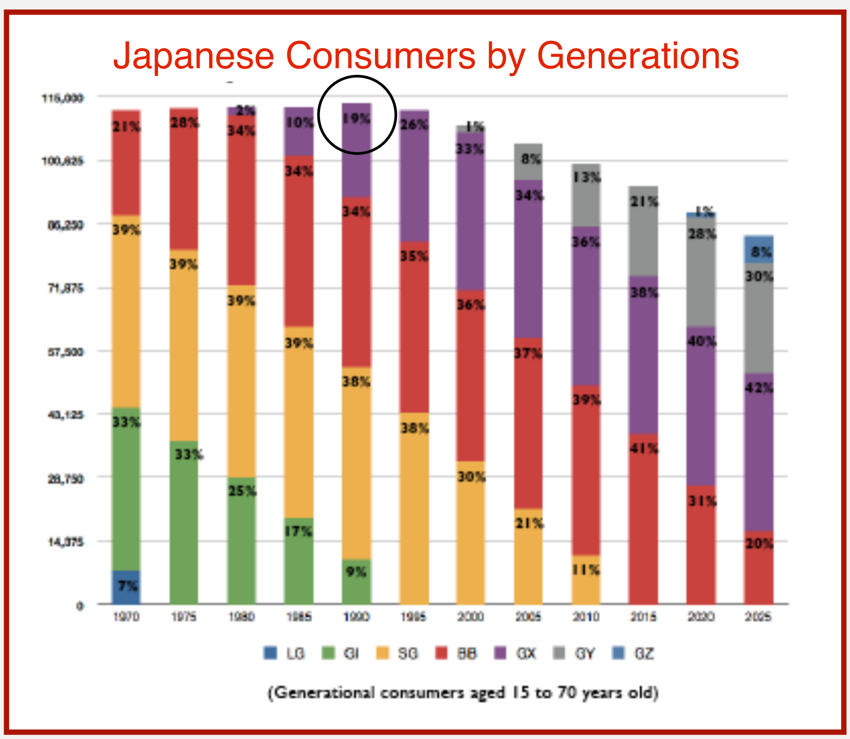


We strongly suspect that those companies that are aware of this shift in demand, and are catering to it, will become the next "Stock Market Darlings," as apposed to those who are scratching their heads and wondering where their Boomer customers have gone.

The ripples of these generational changes are still being felt in the economy, and in our belief will continue to be felt until about 2015. At this point we believe the conditions will be right to a return to consistent GDP growth of above 3 percent. There any many hurdles to overcome between now and then, such as consumer debt and rising taxation; however, we continue to believe the March 2009 low presents a "Generational Opportunity" similar to 1940 and 1975.

Japan is the Big Worry

This year we had been hopeful for a window of Japanese relative outperformance based on its short-term positive demographic window (Gen. X) and a depreciation in the Yen. This has not occurred and it would appear to us that the market



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is preparing itself, although as yet unconfirmed, for another bout of Japanese underperformance, as it begins to concentrate on the grave consequences of Japan's terrible long-term demographic landscape and its mounting government debt.

The composition of the Japanese index ETF (EWJ) differs greatly from many of the international indices. One of the main differences in its make up is the 20 percent weighting towards its consumer discretionary sector versus the S&P 500 ETF (SPY) of 9.1 percent, and the S&P Global ETF (IOO) weighting of 7.4 percent.

In terms of Japanese GDP, the Japanese consumer contributes nearly 80 percent, up from 66 percent in 1990. This increase mainly resulted from a reduction in the Japanese saving ratio and that its demographic landscape saw a short-term improvement between 2002 and 2014.

A further reduction of Japan's key economic consumer age bracket by nearly a third over the next 15 years will in all probability cause a second wave of chronic Global equity market relative underperformance, similar to 1990 to 1999. It would appear that Japan's only tool left to lessen this decline is a large and swift depreciation in the Yen.

The huge difference between the American and Japanese demographic landscapes and of the composition of their benchmark indices highlight the problems the Japanese economy faces. This is illustrated below:

Changes in the key consumer age brackets from 2010 to 2025:

- **Japan**
- **31 to 35: 31.8% Decline**
- **36 to 40: 33.2% Decline**
- **41 to 45: 13.5% Decline**
- **U.S.**
- **31 to 35: 23.2% Rise**
- **36 to 40: 14.5% Rise**
- **41 to 45: 1.3% Rise**

The other growing risk, investors are beginning to consider is in currency. It would appear demographically the Yen's eventual collapse is not if but when.

THE INFORMED INVESTOR BY LOGIE CASSELLS

Market Overview: Even We are Surprised with the Bulls' Strength!

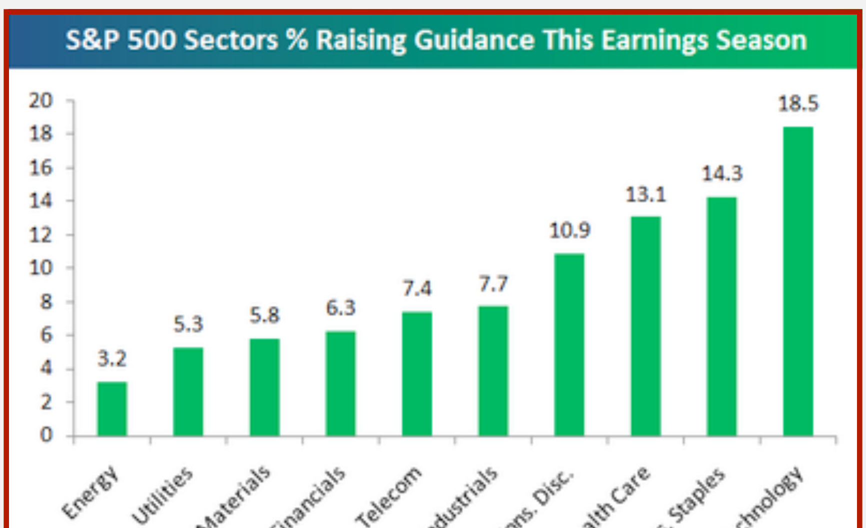
The stock market continues to climb the infamous "Wall of Worry" with as few investors on board as possible.

Market sentiment seems all over the place with indicators that we track from Ned Davis Research showing investor sentiment near previous short-term peaks. However, the latest data from Hulbert Financial Digest suggests that the average recommended equity exposure among a group of short-term market timing services is just 3.2 percent currently. Two week ago when the Dow Jones was above previously above 10,000, this average stood at 25.8 percent.

It is worth considering that the last time the short-term average timing service was this low was on March 24, when the Dow closed at 7,660. The market is more than 30 percent higher today than then. Thus, the market has craftily been able to gain over 30 percent, while at the same time preventing any new converted bulls into the paddock.

Over the last month we have selectively rejoined the party by putting some our cash on the sidelines to work into sectors which have lagged the market in the last few months: Technology and Consumer Staples. We have also added to existing positions where results have exceeded analyst's expectations. These names include:

- Skyworks Solutions
- NVIDIA
- Children's Place Retail
- Deckers Outdoor
- Peet's Coffee and Tea
- Bare Escentuals
- WholeFoods Market
- K-12
- Boston Beer



Source: Bespoke Investment Group

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During the month we took profits in Amazon, by reducing the holding by half and sold the position in American Eagle, which produced earnings below analysts expectations.

This week sees the end of the third quarter earnings season. Sixty-nine percent of the 1,800 companies that have reported have beaten earnings estimates, currently one percent point above the 68 percent reading seen in the second quarter of this year. The earnings season ends this Thursday with Wal-Mart, which we believe will disappoint the market.

Eleven percent of companies have raised guidance so far this results season. The top three sectors that have raised guidance are Technology 18.5 percent, Consumer Staples 14.3 percent and health Care 13.1 percent. Our model Beacon Master Portfolio is well weighted in both these sectors.

Model Portfolio Quarterly Earnings Overview

Whole Foods Only Meets Raised Expectations

Whole Foods Market (WFMI) reported Nov. 4, with sales up 1 percent to $8.0 billion. Diluted Earnings came in at 85 cents per share, 1 cent ahead of the consensus estimates of 84 cents (range 99 to 78 cents). For the full year 2010, the company estimates diluted earnings per share, based on approximately 170 million weighted average shares outstanding, in the range of $1.05 to $1.10. Current estimates $1.11 (range $1.30 to $0.96).

The shares reacted negatively, falling nearly 15 percent due to "understandable" comments regarding economic growth prospects in 2010. We believe that this needed pullback–as highlighted in last month's article on the company–in the shares provides an excellent long-term buying opportunity on the belief that the economy will continue to improve in 2010, and that consumers will continue to trend towards organic food.

We further believe that sales of organic food and beverages will reach $30 billion in 2010 (Up from $1 billion in 1990) driven by demand across all generations and expect growth of 15 percent each year to 2020 ($120 billion market).

In Summary: At $27 the shares would sell on a September 2010 P/E of 24.5 falling to 20.7 the year after. The trailing 12-month P/S is 0.56. The shares are up nearly 150 percent from the March 2009 lows, but we continue to find the shares attractive long term.

Children's Place Retail Stores Beats Estimates

This came as no surprise to us, as our Sept. 22 Three Beacon Blog we wrote:

Children's Place Retail Stores (PLCE) and Gymboree Corp. (GYMB) both compete in the very lucrative 0- to 12-year-old children's market. Why lucrative? This area of the retailing market is benefiting from the higher trend in U.S. births from 1995 (3,892,000) to 2007 (4,315,000). This is a near 11 percent rise in births and should keep both these companies' sales bubbling along for the next six to eight years.

The strategies of both companies are very different with Children's Place going for volume and low margin and Gymboree going for higher margins. A recent survey by Geezeo showed Gymboree actually outperformed Children's' Place in terms of visits per customer, but they lost most of this advantage over Children's Place in terms of spending per visit.

Continued on Page 16

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Model Beacon Master Portfolio

Date 6 Nov '09

Ticker	Name	Yld	Cost	Price	No.	% of Fund	Value	G/L	G/L %
	Bonds, Gold and other					**31.2%**			
UUP	PowerShares US Dollar Index Bullish Fund		22.8	22.8	9,008	12.3%	205,653	180	0.1%
GLD	SPDR Gold Trust	0	95.5	107.4	582	3.8%	62,524	6,937	12.5%
TIP	iShares Barclays TIPS Bond Fund	0.6	98.1	104.3	1,160	7.3%	121,011	7,180	6.3%
HYG	IShares High Yield Corporate Bond Fund	9.9	83.2	85.6	1,522	7.8%	130,298	3,622	2.9%
	Technology and Telecoms					**12.3%**			
AAPL	Apple Inc.	0	94	194.3	212	2.5%	41,200	21,272	106.7%
SWKS	Skyworks Solutions	0	12.4	12	4,040	2.9%	48,520	-1,616	-3.2%
NVDA	NVIDIA	0	13	13.2	3,038	2.4%	39,980	486	1.2%
VOD	Vodafone Group PLC ADS	7.9	19.3	22.6	1,038	1.4%	23,480	3,498	17.5%
IGW	iShares S&P NA Technology- Semiconductor Index	0.6	26.6	41.8	1,239	3.1%	51,827	18,833	57.1%
	Consumer Discretionary					**19.5%**			
AMZN	Amazon.com	0	93.6	126.2	200	1.5%	25,240	6,512	34.8%
CENT	Central Garden & Pet	0	10.8	10.3	1,851	1.1%	19,028	-963	-4.8%
BBY	Best Buy Co	1.4	39.3	40.2	867	2.1%	34,888	850	2.5%
GPS	Gap Inc	1.5	22.7	23	1,718	2.4%	39,566	653	1.7%
PLCE	Children's Place Retail Stores	0	29.9	35.4	1,268	2.7%	44,836	6,936	18.3%
ARO	Aeropostale	0	32.9	33.7	1,210	2.4%	40,777	1,004	2.5%
DECK	Deckers Outdoor	0	93	93.2	217	1.2%	20,218	48	0.2%
CMG	Chipotle Mexican Grill	0	81	86.5	447	2.3%	38,643	2,436	6.7%
PEET	Peet's Coffee and Tea	0	36.6	39.3	546	1.3%	21,463	1,480	7.4%
LRN	K-12	0	20.3	17.9	2,230	2.4%	40,006	-5,263	-11.6%
	Industrials					**4.0%**			
XLI	SPDR Industrial Sector Index Fund ETF	2.2	22.8	26.9	1,752	2.8%	47,094	7,096	17.7%
DE	Deere & Co.	2.4	47.5	47.2	420	1.2%	19,807	-160	-0.8%
	Energy and Materials					**3.8%**			
BP	BP	6.4	52.6	58.4	750	2.6%	43,823	4,343	11%
BTU	Peabody Energy	0.7	42	42.2	475	1.2%	20,050	85	0.4%
	Health Care					**1.2%**			
XBI	SPDR S&P Biotech ETF	1.2	49.1	49.8	407	1.2%	20,277	281	1.4%
	Financials					**6.3%**			
RY	Royal Bank of Canada	3.7	40	51.3	624	1.9%	32,036	7,057	28.3%
WFC	Wells Fargo & Co.	0.7	18.2	27.1	1,375	2.2%	37,290	12,293	49.2%
RKH	Merrill Lynch Regional Bank HOLDRs Trust	0	63.6	77.2	471	2.2%	36,366	6,429	21.5%
	Consumer Staples					**11.1%**			
SAM	Boston Beer Co. Cl A	0	25.9	40.2	1,080	2.6%	43,405	15,422	55.1%
WVVI	Willamette Valley Vineyards	0	3.3	3.7	11,079	2.5%	40,992	4,542	12.5%
	Bare Escentuals	0	13.2	12.9	2,519	2.0%	32,520	-630	-1.9%
WFMI	Whole Foods Market	0	30.5	28.3	1,256	2.1%	35,482	-2,801	-7.3%
NUS	Nu Skin	2.6	15.3	25	1,308	2%	32,700	12,701	63.5%
	Developed Overseas Markets					**1.5%**			
IRL	New Ireland Fund	0	7.5	7.5	3,333	1.5%	24,964	-33	-0.1%
	Emerging Markets					**3.0%**			
TUR	ishares MSCI Turkey Market Index Fund	2.4	49.6	49.5	504	1.5%	24,943	-30	-0.1%
INP	iPath MSCI India Fund	0	57.7	58.1	433	1.5%	25,162	173	0.7%
	Cash					**6%**	99,535		
	Value of Model Beacon Master Portfolio						1,665,605		

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	**66.6%**
S&P Global	24.6%
S&P 500	21.8%
US Bond Index	4.4%

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From page 14

We like the fact that the Children's Place Web strategy is working well and expanding. It is currently ranked No. 149 in the Internet Retailer's Top 500. Over the last two quarters E-commerce sales have increased 36 percent to $50.2 million from $36.9 million. The web now accounts for about 7 percent of total revenue, compared with 5 percent in the prior year.

We like both companies, however Children's Place shares look undervalued when compared to its higher margin competitor. The shares trade on a consensus January 2010 P/E of 13.7, falling to 11.4 the following January. Their Price to Sales ratio of 0.5 is very attractive when compared to that of Gymboree's at 1.5.

We expect the shares of Children's Place to outperform those of Gymboree over the next 12 months.

In Summary: Looking into 2010 and beyond, we continue to favor the Children's Place strategy of seeking thrifty shoppers and its active online presence. The shares are attractively price on a January 2010 P/E of 15.7 falling to 13.2 the following year.

Demographics Drives Nu Skin's Results Higher

Nu Skin Enterprises (NUS) announced record third-quarter revenue of $334.2 million on Oct. 30, an 8 percent improvement over the prior-year period. Earnings per share for the quarter were $0.40, a 54 percent improvement over the same quarter of 2008. Earnings per share,

excluding restructuring charges of $0.01, were $0.41, a 58 percent improvement over the prior-year period.

The company stated: *"We are really pleased with accelerated growth on both the top and bottom line. We are also optimistic about continued growth going forward.*

"There are several reasons we expect continued strength in our business. First, our anti-aging focus is tapping into a substantial market opportunity as consumers age, and as increasing numbers seek alternative income sources. Second, our product portfolio features highly differentiated and demonstrable skin care products today, and will expand into nutrition products next year. Third, our operating margin has consistently improved since we began restructuring our business in 2006. Our efforts to improve efficiency will continue to yield bottom-line improvements. Finally, our local currency revenue growth accelerated to 7 percent, boosted by continued sales trend improvements in Japan and double-digit growth in South Korea, Southeast Asia, Europe, Taiwan, Mainland China, and Latin America."

In Summary: Despite the shares strong performance over the last year, we continue to believe they are undervalued. The shares sell at a 12-month trailing P/S of 1.2 (Pretax Margin of 10.95%) and on a December 2009 P/E of 16.9, falling to 14.4 the year after. Although the shares are overbought short term, we expect the company's news flow over the next 12 months to continue to be positive.

The Bare Escentuals Are?

Bare Escentuals (BARE), reporting Oct. 29, produced a third-quarter profit of $22.6 million, or 24 cents per share, beating consensus analyst estimates of 21 cents per share. The company also issued positive forward guidance.

Third Quarter comment: Net sales for the third quarter of fiscal 2009 were $135.7 million, an increase of 4 percent from $130.2 million in the same period last year. Net income for the third quarter of fiscal 2009 was $22.6 million, or $0.24 per diluted share, compared to $22.9 million, or $0.25 per diluted share, in the same period last year.

Nine Months comment: Net sales for the nine months ended September 27, 2009, were $392.4 million, a decrease of 4 percent from $409.1 million in the same period last year. Net income for the first nine months of fiscal 2009 was $59.1 million, or $0.63 per diluted share, compared to net income of $73.4 million, or $0.79 per diluted share, in the same period last year.

Outlook: "While the economic environment remains challenging, we are pleased with our third quarter performance and proud of the progress we're making against the strategic initiatives that we set for ourselves at the beginning of the year," said Leslie Blodgett, Chief Executive Officer. "Based on our compelling assortment, we believe that we are well positioned for the upcoming Holiday season."

In Summary: The shares reacted favorably to this news, by rising over 13 percent on the day of the results to a new 52 week high. The shares sell on a December 2009 P/E of 16.3 falling to 14.6 for the following year. The

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shares' trailing 12-month P/S is high at 2.2, but is supported by good pretax margins of over 25 percent and the company's five year revenue growth average of 42 percent. We continue to find the shares attractive.

Demographics Drive Boston Beer Ever Higher

Wall Street analysts were expecting Boston Beer Co. (SAM) to report earnings of $0.39 (versus a loss of $0.02 previous) for last quarter, however the company, reporting on Nov. 5, beat expectations with earnings of $0.72.

This was 33 cents above the consensus estimate, and not surprisingly the company also issued earnings guidance for next quarter that is above current analyst expectations. These results are no surprise to demographic investors, who believe Generation Y's taste for micro or craft beer will drive this sector of the drinks industry ever higher for many years to come.

Boston Beer's strategy of concentrating on this sector of the market, appears to be paying off. The shares are up 46 percent versus a decline of nearly 10 percent for Molson Coors.

In Summary: The shares reacted favorably to this news, by rising over 10 percent on the day of the results. he shares sell on a December 2009 P/E of 20.5 falling to 17.8 for the following year. The shares' trailing 12-month P/S of 1.3, is supported by good gross margins of 54 percent. We continue to find the shares undervalued given their position in this highly favorable demographic area.

K12 Beats Analyst Expectations

K12 Inc. (LRN) Nov. 6, reported earnings 1 cent above analyst estimates and also issued earnings guidance for next quarter that is above current analyst expectations. The shares responded well by rising nearly 7 percent.

Ron Packard, Chief Executive Officer of K12 Inc., stated, "we are pleased with the level of demand we are seeing for our offering and continued margin expansion, particularly in the current economic environment."

In September the shares “Fell to Earth” when the company’s earnings only “met” expectations. We wrote in our Sept. 9 Three Beacon Blog:

In Summary: The shares at $16.00 are trading on a consensus June 2010 P/E of 24, falling to 18 for 2011 and on a P/S for 2010 of 1.05, falling to around 0.80 the year after. We believe the share price remains attractive given the revenue growth potential over the next five years and the shares look well supported around the $15.00 mark, their May 2009 low. We believe the shares will trade between $15 and $20 over the next six months as the shares change hands from short- to long-term investors.

Amazon Revenue Surges 28% to $5.45 Billion

The faithful have waited a long time for the shares to surpass their 1999 high of $106.63. This was achieved in after-hours trading Oct. 22, with the shares hitting $108.60, after the release of quarterly results That is a return of over 17 times the October 2001 lows of $102.65. Not bad for a company described by most analysts at the time as a money losing machine.

Revenue increased 28 percent to $5.45 billion in the third quarter, compared with $4.26 billion in same quarter last year. Net income increased 68 percent to $199 million in the third quarter, or $0.45 per diluted share, compared with net income of $118 million, or $0.27 per diluted share. Analysts polled by Thomson Reuters expected earnings per share to rise to just 33 cents.

These results confirm our belief that Amazon is becoming, or has become, the next generational Wal-Mart. Its optimism counters the gloomy Christmas expectations of Wal-Mart. Is Amazon better run? Perhaps, the key is that Amazon is mining the correct demographic scene, while Wal-Mart continues to go after the "mined-out" Boomer. For the crucial fourth quarter Amazon predicted revenue in the range of $8.125 billion to $9.125 billion. Wall Street had been expecting revenue of $8.13 billion.

In Summary: Amazon is no longer as cheap as it was back in late 2001. The shares sell on a consensus December 2009 P/E of 60 falling to 50 for December 2010 and a 12-month trailing P/S of just under 2.0. We believe the shares still offer good long-term value and we would re-add to our position in a market correction.

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

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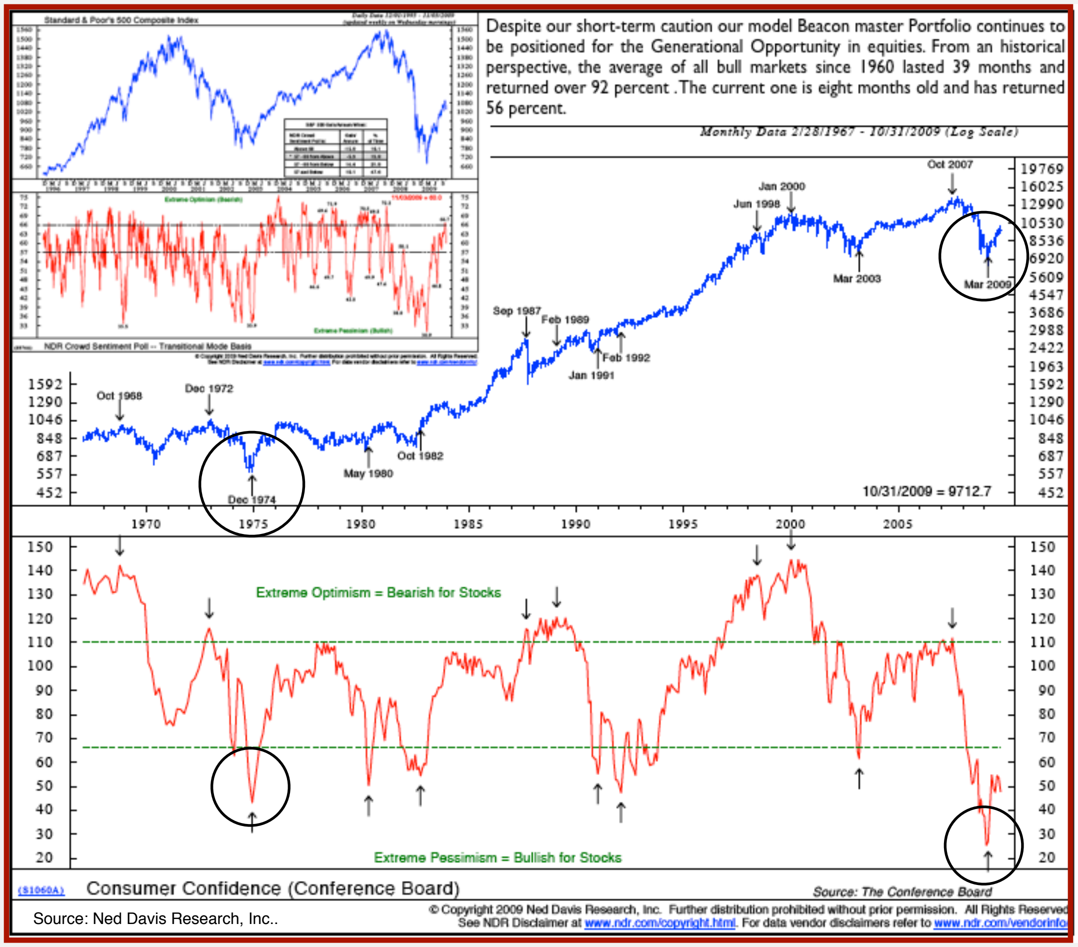
Market Data: Performance & Sentiment

October saw the Global Dow consolidate its strong gains from the November 2008 lows, with it up 50.5 percent, down from the previous figure, in the October report, of 51.2 percent. The S&P continued its upward climb, however Emerging Markets, Europe and Japan posted small negative returns over the month. The asset that grabbed the headlines in October was gold, which finally broke the $1,000 barrier and has returned 46.4 percent from the November 2008 lows.

The equity market recovery rally continues to be driven by those sectors geared to the economic recovery, with Consumer Discretionary, Materials, and Tech being the top performers. Strong profit taking was seen during the month in the Small- to Mid-cap and Financial sectors.

We continue to take a cautious short-term stance until we see an improvement in sentiment (top left chart). However, we remain very positive over the continuing generational opportunity in equities.



Performance from November 20, 2008 Market Low to November 6, 2009

Markets	11/20/08	11/06/09	%	Oct.		U.S. Sector	11/20/08	11/06/09	%	Oct.	
Global Dow	1265	1903.3	50.5%	51.2%		Materials	19.9	30.69	54.4%	58.5%	XLB
S & P 500	741	1069.3	44.3%	42.2%		Health Care	23.6	29.2	23.8%	22.6%	XLV
FTSE 100	3875	5142.72	32.7%	33.2%		Consumer Staples	22	26.2	19.4%	18.1%	XLP
Dow Europe Stoxx	204	262.07	28.5%	32.9%		Consumer Discret.	16.3	28.1	72.1%	70.2%	XLY
Nikkei	7703	9,789.35	27.1%	30.0%		Energy	40	57.1	42.8%	40.5%	XLE
Emerging Markets	18.3	39.65	116.7%	118.2%	EEM	Financials	9.4	14.3	52.4%	62.3%	XLF
CRB Index	230.4	269.44	16.9%	14.0%	CRB	Industrials	20	26.88	34.4%	32.8%	XLI
Gold	73.4	107.43	46.4%	40.0%	GLD	Technology	13.2	21.25	61.1%	59.4%	XLK
U.S. Corporate Debt	63.4	85.61	35.0%	35.2%	HYG	Utilities	26.2	28.9	10.3%	11.6%	XLU
U.S. 30 Year Yield	3.50%	4.4	-25.7%	-26.0%		Nasdaq Composite	1316.1	2112.44	60.5%	66.2%	
U.S. Dollar	27.1	22.89	-18.4%	-16.2%	UUP	Russell 2000	385.3	580.35	50.6%	59.6%	

Ahead of the Curve By Ken Gronbach

Gen. Y Making Mark in Higher Education

The huge Generation Y, born 1985 to 2004, is now making its mark in college enrollment as the share of 18- to 24-year-olds attending college in the U.S. hit an all-time high in October 2008, driven by a surge in enrollments at community colleges, according to a Pew Research Center analysis of newly released data from the U.S. Census Bureau.

It shouldn't be a surprise to anyone that Gen. Y would make its presence known in the higher education arena at this time, as the first wave of Gen. Y births peaked in 1990 with well over four million births. These peak-year kids are now nineteen-years-old and ripe for college. Age Curve Consulting has been watching the consumption of this Generation very closely, and has not been disappointed by what it has seen. Gen. Y seems to be consuming at a rate greater then preceding generations, but also seems to be environmentally and socially conscious about its consumption habits.

According to the Pew Research Center, almost 11.5 million students or about 40 percent of all Gen. Y young adults ages 18 to 24 are enrolled in college as of October 2008. Both the total number and the percentage are the highest ever. The spike in junior college would follow as the four-year schools have their pick of the best and brightest and the two year schools take the overflow. In 2007 there were 3.1 million young adults in community colleges but by 2008 that number had swelled by 300,000 students or 11.8 percent of all the 18- to 24-year-olds. Enrollment in the four-year schools remained flat during this same period.

So what is the employment picture for these 18- to 24-year-olds? It is bleak. According to the Bureau of Labor Statistics only 46.1 percent of them were employed as of September 2009, the lowest number ever since this data has been gathered starting in 1946.

The trend to two-year community colleges has its financial advantages. Compared to four-year public colleges the cost is on average a third less and compared to four-year private schools the cost is about two thirds less (College Board, 2009). Is the trend to the cheaper college a product, at least in part, of the recession? Yes, without a doubt.

Is there a silver lining to this grey cloud of high unemployment and difficult economy for the large beleaguered Gen. Y? Yes, they are graduating high school and attending college in record numbers. A record 84.9 percent of 18-24-years olds had completed high school as of 2008. This goes along with the record low percentage–9.3–of young adult high school drop outs.

Education is a good thing. So if they can't find work let them stay in school. The economy will rebound, especially as China begins to slow because of its ill-fated one-child-only policy, which should lead manufacturing back to the States as China runs low on labor. The U.S. will have the biggest, best and most educated labor force in its history, another good thing.

There is more. Back in the early 1980s when the 1957 peak of the Boomers found the economic and employment climate to be very unfriendly, what did they do? They helped open new businesses by the thousands.

Necessity is the mother of invention. We can't wait to see what Gen. Y invents and creates as they face the same challenges.

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