

THE AGE CURVE REPORT

How to Profit from the Ever-Changing Demographic Landscape

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The South Has Risen Again!

The South, with almost 112 million people as of 2008 representing about 36 percent of the U.S. population, is by a wide margin the most populated of the country's four regions, and on a numeric basis experiencing the greatest growth. And despite recent hiccups—population declines in Louisiana and a first-time Florida population decline—the region is expected to maintain its population boom for at least the next 20 years, if not beyond.

At the turn of the 20th Century, the South, with a population of 24.5 million and an overall percentage share of the population of about 32.3 percent, was big, but the Midwest was more populated—26.3 million—and had a greater percentage share—34.7 percent—of the nation's overall population. The northeast, with 21.1 million people and a 27.7 percent of the total U.S. population, did not lag the south by all that much, and combined the three regions held about 95 percent of the nation's population (the phenomenal growth of the West will be covered in a future issue of The Age Curve Report).

By the year 2000, the South had more than quadrupled in population size, growing at a rate almost twice that of both the Midwest and Northeast, and led the nation in population both numerically and as a percentage of the U.S. total. It achieved this growth during a period which saw at least 60 years of relative economic stagnation as compared with its Northern and Midwestern

neighbors, and despite a 65-year, 6.6 million-strong, outmigration of its black population primarily to these neighboring regions. In short, the South's population managed to more than double during a 60-year period of economic stagnation and population outmigration, and then almost doubled again during the next 40 years, a period of strong economic expansion and reversal in migration patterns.

This is part 3 in 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. This segment on the South will be followed next month by the Midwest, and the month after by the West. At the conclusion of the series The Age Curve Report will feature a monthly demographic profile of the individual states.

And while the South's population growth is not projected to double again by 2040, its growth so far in the 21st Century leads the nation on many metrics, and should continue to do so for many years to come, according to U.S. government projections.

The U.S. Census Bureau delineates the South Region as the states of Delaware, Maryland, Virginia, West Virginia, Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Florida, Mississippi, Alabama, Arkansas, Louisiana, Oklahoma, Texas and the District of Columbia.

According to the Census Bureau, between 2000 and 2008 the South's natural population increase (the difference between births and deaths)

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was the largest of all regions at 5,148,467, with 12,684,109 births and 7,535,642 deaths. It also had by far the greatest net gain of population through domestic internal migration as more than 3.5 million people moved to the South from other regions. Combined with the second biggest gain (after the West) in international migrants, with almost 2.6 million, the South led the nation in total net migration with over 6.2 million, topping the West by about 3.1 million (the two other regions experienced net migration losses).

The growth was far from uniform among the southern states. In fact, four of the region's state's—Texas, Florida, North Carolina and Georgia—have been the primary drivers of growth and are expected to continue to drive this growth for the next 20 years.

With the exception of West Virginia, which experienced more deaths than births, all 16 Southern states and the District of Columbia experienced natural increases, with the most populated state in the region, Texas, at more than 24 million people, seeing the biggest natural increase with almost 1.9 million. Florida, the region's second most populated state with more than 18 million, experienced a proportionally small natural increase, with 405,457, but led the nation in both domestic migrants (almost 1.3 million) and overall net migration gains (almost 2 million), and was fourth in the nation with international migration with almost 700,000. Georgia saw a natural increase of almost 1.5 million, while North Carolina saw almost 1.2 million, and both states experienced net migrations of about 785,000.

On the losing end of Southern 2000-2008 population growth, Louisiana's population declined by

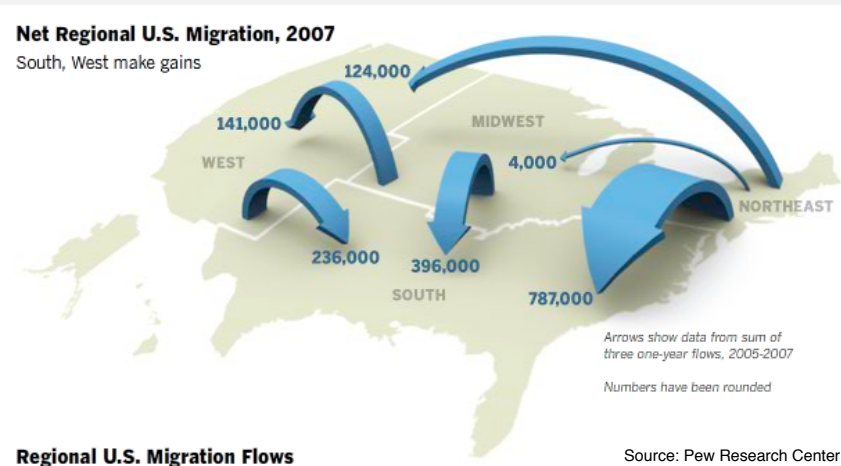
58,172, as an exodus of more than 325,000 domestic residents negated the state's natural increase and inflow of international migrants. The exodus was in large part caused by the infrastructure and economic damage caused by Hurricane Katrina, according to the Census Bureau, and between 2007 and 2008 the state experienced healthy 0.9 percent growth, providing evidence that the Katrina-inspired exodus has likely reversed. Other Southern states with subpar (or less than the national average of 8 percent) growth during this period were West Virginia—the only state in the nation to experience a negative (-515) natural increase—at less than 1 percent, and Mississippi and the District of Columbia with about 2 percent.

On a year-over-year basis, the Census Bureau's most recent data covering July 1, 2007 to July 1, 2008, indicates that the growth rates in the region are holding steady, or, in some states, improving. While the region as a whole grew by 1.3 percent during this time, 10 of the Southern states met or exceeded the national growth rate of 0.9 percent and five—Texas, North Carolina, Georgia, Florida and South Carolina were among the top ten in population gains for the year. The big gainers were Texas, 2 percent; North

Carolina, 2 percent; Georgia, 1.7 percent; and South Carolina, 1.7 percent; while those below the national rate included West Virginia, 0.3 percent; Maryland, 0.3 percent; Mississippi, 0.6 percent; and, Florida, 0.7 percent.

Florida's growth has apparently slipped further this year, as state economists reported that the state suffered a first-time-since-1946 drop in population for the April 2008-April 2009 period. Economists believe the 58,294 decline was caused by the "housing crunch" and ensuing recession, both of which hit the state especially hard. In fact, many economists expect the state to be in recession for up to 12 months after the rest of the country emerges from it, but also believe that population growth will return with a boom with the recovery.

The Southern Birth Rate has certainly been a factor supporting the South's population boom as most of the states have been maintaining birth rates above the U.S. mean. However, the state rates have varied significantly over the years, and while providing an overall boost to the region's growth, have been much more of a factor in some states than in others. While the rate in Texas, the South's biggest and fastest growing state, has been

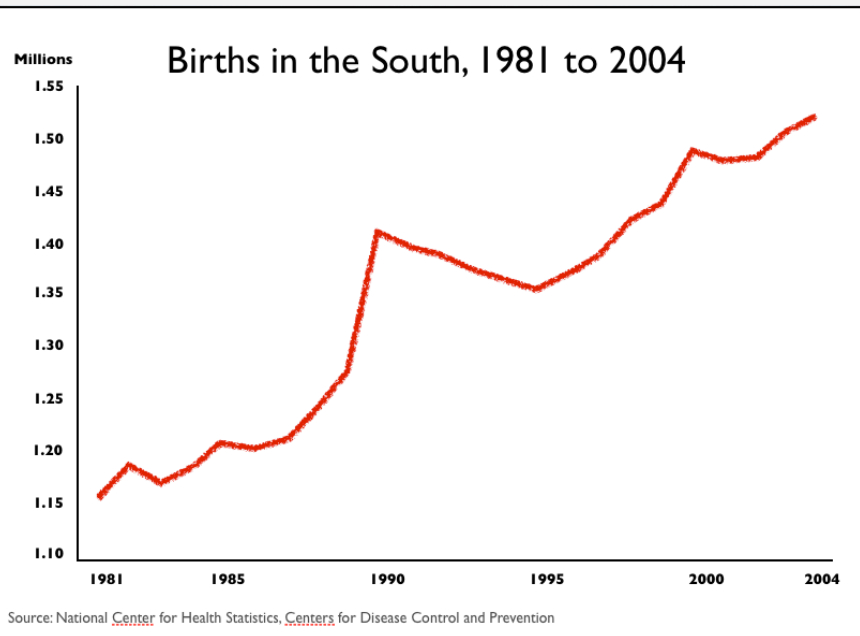


among the nation's largest this decade at between roughly 16 and 17 births per thousand, the rate in Florida, another of the region's top growing states, has been fluctuating between a much lower 12 to 13 births per thousand.

The bigger driver of the Southern population boom, both in the latter half of the 20th century and more recently, is migration, both domestic and from abroad (see chart on previous page). Florida, with its warm weather and lack of state income tax, has been attracting ever-increasing domestic and international immigrants since the 1940s, while Texas has long been a primary destination of immigrants from Mexico. However, in the early 1980s, most of the other Southern states began receiving noticeable numbers of domestic migrants from the Northeast and Midwest, a trend that, for the most part, has continued to accelerate.

While these domestic immigrants go to the South for a wide variety of reasons, there seems to be two primary groups: Retirees looking for warmer weather and a more relaxed, low cost lifestyle; and job seekers chasing employment in a rapidly expanding economy in a region with a relatively low cost of living. Among both groups are large numbers of African Americans who represent a reverse of the "Great Migration North" by Blacks between 1900-1970. Both those returning "home" to reconnect with their family communities and those new to the area are finding the Region to be welcoming and progressive, and that a highly visible Black middle class has emerged.

The primary driver of international immigration to the South has been the huge influx of Hispanics, a trend that began accelerating in the early 1990s and



saw the Region's overall "legal immigrant" Hispanic population almost double by 2000, with the states of North Carolina, Arkansas and Georgia experiencing growth of more than 300 percent. The Census Bureau estimated that the Southern Region's Hispanic population grew by another 40 percent by 2007, reaching 15.7 million. While immigration has been adding to the population, an emerging driver of the Southern Hispanic population boom has been natural, that is due to births, which, according to the Census Bureau, were responsible for 60 percent of the increase in the overall U.S. Hispanic population from 2000 to 2007.

Looking forward, the Census Bureau believes that the South's growth rate will continue to boom, with 2005 interim projections based on the 2000 Census estimating that the South will account for more than 50 percent of the expected 82.2 million increase in the U.S. population between 2000 and 2030. The estimated 43 million gain in the South's 2030 population represents a 42.9 percent increase over its 2000 population of 100.2 million,

and would give the South 39.4 percent of the overall U.S. population.

As with historical rates, the growth patterns are far from uniform on a regional basis, as the states of Texas, Florida and North Carolina are projected to account for 36 percent of national population growth on their own, while the states of Virginia, Maryland, Tennessee, South Carolina, Arkansas and Delaware are expected to see their populations increase by 20 to 40 percent. West Virginia is projected to lose over 88,000 people for a 4.9 percent population decline, and the District of Columbia is projected to lose more than 138,000 people for a 24.2 percent decline.

Along with a booming population, the South has experienced massive economic growth since the mid-1970s. To ask which of these two factors was most responsible for begetting the other is essentially a "chicken or the egg" question, as each propagates the other.

And while the Region's strong population growth offers business and industry an abundant work

force, the Region also offers numerous other incentives, such as low development, construction and operating costs; ready access to a fast growing consumer market; low unionization levels; advantageous tax rates; and excellent transportation and communications infrastructure that is generally not impacted by the weather. All of these factors together suggest continued growth, in both the population and economy.

Jonathan L. Sangster, a nationally recognized business and site location consultant, says the south's demographics combined with a favorable cost environment

and fully developed and reliable infrastructure create a "perfect storm" in a positive sense for the south's continued economic development, particularly in the technology sector. Sangster adds that most of the Southern urban areas will experience 2 percent or greater growth in the coming years, that, combined with numerous "leading-edge research universities" and a strong economic development-g geared community college system, will provide a strong pipeline for a knowledge-based workforce.

The promise of a young, healthy, educated workforce bodes well for

the Region and for the Nation overall. The South will drive the Nation's economic engine if, as we have forecasted, Asia's cheap manufacturing dominance is coming to a close because of serious labor force issues stemming from decades of low fertility. This would drive high-end manufacturing back to the States and the South in particular. The U.S. is in the enviable position of being able to both produce and consume within the confines of its own borders.

Disclosure: The Author is Southern and Owns Property Within the Region.

Demographics Favor Southeastern Conference College Football

Age Curve Consulting is primarily focused on examining how demographics impacts the economy, but also studies demographic impacts to society at large, on both the micro and macro levels. We believe that Demographics affects everything, and, lo and behold, an article in The Wall Street Journal early this month blamed demographic shifts for the declining fortunes of a once vaunted college football conference.

According to the Sept. 3 article—*The Big Ten: Down and Out?*—the NCAA Big Ten Conference, "college's biggest, richest and oldest major conference," has lost its powerhouse status and its teams have been on a bowl game losing streak because of a lack of local talent. The conference consists of 10 schools stretching across the demographically challenged midwest into Pennsylvania, and includes nationally recognized football teams from the University of Michigan, Ohio State and Penn State.

The article states that: "The main problem seems to be rooted in the population growth of the South and West, and the greater zeal for high-school football in those regions. Historically, Pennsylvania and Ohio rank

third and fourth all-time in terms of the number of NFL players born within their borders. Florida is fifth. But today, Florida has nearly twice as many active players as Ohio and more than three times as many as Pennsylvania. The South and West continue to benefit because of the national population trend: 47 of the 50 fastest-growing metropolitan areas between 2007 and 2008 were in those regions, according to the Census Bureau. Playing football also is just not as important to Northerners. In the last school year, more high schoolers in Georgia played football than in Pennsylvania, according to data from the National Federation of State High School Associations, even though Pennsylvania has nearly three million more residents."

With demographic trends forecast to favor the South and West over the Midwest and Northeast for at least the next 20 years, the Big Ten faces a continued struggle to find local talent. And if demographics is the talent key, the Southeastern Conference (SEC) is best poised to dominate college football in the coming decades.

Disclosure: The Author is a Fan of SEC Teams

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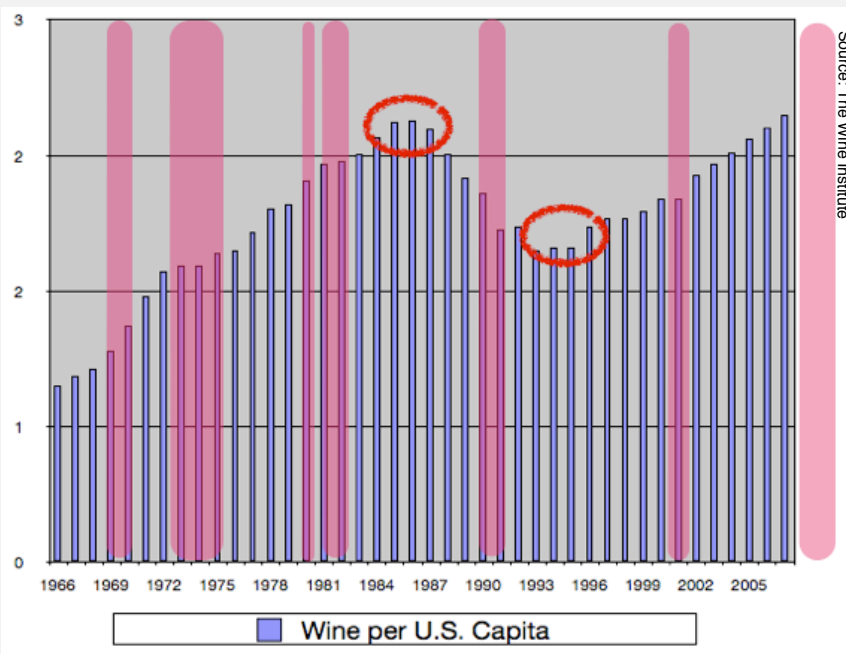
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Demographics Shows Generational Love for Wine

It is probably fair to say that many of us harbor the dream of owning a vineyard and spending the day pottering about the grapes and in the tasting room. We certainly would; however, we also realize that owning and running a profitable vineyard takes a special passion and a lot of hard work.

In 2008, wine consumption and the adult per capita consumption of wine set a new record high at 2.5 gallons (breaching the previous high of 2.4 gallons in 1985), and marks the 15th strait year of consumption growth. Despite America’s rapid adoption of wine, it still lags behind other traditional and new wine loving countries.

According to the Wine Institute’s latest data on global per capita wine consumption (2001 to 2005), the Vatican City State—not surprising—has the highest per capita wine consumption at 16.4 gallons, a growth of 30 percent since 2001. The traditional wine loving countries are also highly ranked: France is listed third, consuming 14.8 gallons; Italy, sixth, at 12.7 gallons; Spain, 11th, 9.2



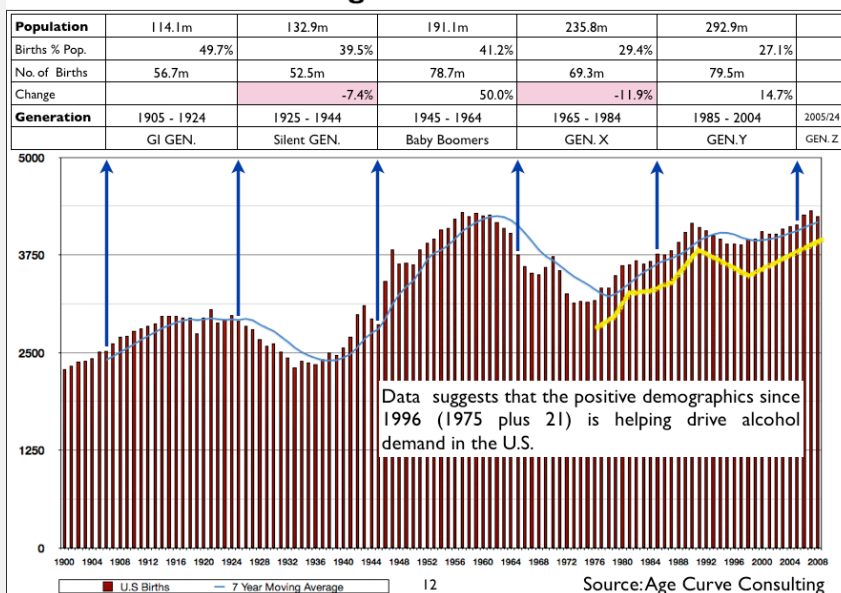
gallons; and Germany, 22nd, at 6.5 gallons. However many of the ‘New Boys’ on the bloc are catching up fast, with Australia consuming more than Germany at 6.6 gallons per capita, and the U.K. converting from the traditional pint of warm ale to drinking 5.0 gallons.

The “emerging” North American countries are making up for lost time

from a very low starting point, with Canada’s per capita wine consumption up 24 percent to 2.3 gallons. Over the comparable 2001-2005 time period U.S. growth has been less strong than their Northern cousins at 10 percent, to 2.3 gallons. However, this time window masks the strong 92 percent growth seen by American wine drinkers from 1970 to 2008, when per capita consumption rose from 1.3 gallons the 2008 record high of 2.5 gallons.

Not surprisingly, U.S. demographics has played an important role (as it has in other countries) in driving this growth, as more consumers young and old have taken to the taste of wine. The Baby Boomers helped drive the first wine boom of the early 1970s to the early 1980s. Readers may remember that good tasting red wine at a decent price was near non-existent at that time, and white wine was the vehicle of growth, driven on by the Boomers ubiquitous calls for “more Chablis, darling.” This demand was on the whole satisfied by imports from

The U.S. Age Curve 1905 to 2007



Europe. However, it encouraged a new breed of enthusiastic entrepreneurs to enter into the rapidly expanding U.S. home grown wine market. As with all consumer booms, there followed a bust, or slow down, which came in 1985 as the American consumer reached 2.4 gallons per capita (up from 1.3 gallons in 1970). This surprised and confused many a wine expert, especially as it came at a time when the economy was emerging from recession and disposable incomes were rising. Not surprisingly, the industry clamored for reasons why consumers were giving up on wine. Learned reasons given at the time included:

1. The federal government push to raise state legal drinking ages to 21, which culminated in the late 1980s;
2. The emerging 1980s health/fitness trend;
3. The implementation of mandatory labeling for sulfites in 1987, and mandatory alcohol warning labels in 1989;
4. Lowered state blood-alcohol levels for driving while impaired offenses;

5. Failure of Generation X to incorporate wine into their lifestyles;

6. Wine companies cutting their marketing expenditures.

All these logical reasons may or may not have had some impacts during the period when wine consumption fell per capita from 1985 (2.4 gallons) to 1993 (1.7 gallons). However, it does not surprise us that no experts chose to study the U.S. birth chart at the time. And what do you know, it clearly shows that a collapse in births from 1960 to 1975 was going to lead to FEWER consumers being able to buy wine at the shops or drink wine in the bars. It was only when demographics began to turn upwards in the mid-1990s, coupled with a greater acceptance of wine due in large part because of better and cheaper choice from the “New World” producers, did wine consumption per capita begin to rise again.

So what are the demographics and dynamics of today’s U.S. wine

Do you most often drink spirits, wine or beer? Among those who drink, by age.

Age	Beer	Wine	Spirits
18 - 29	55%	14%	23%
30 - 49	42%	33%	19%
50 - 64	35%	42%	20%
65 plus	24%	49%	25%

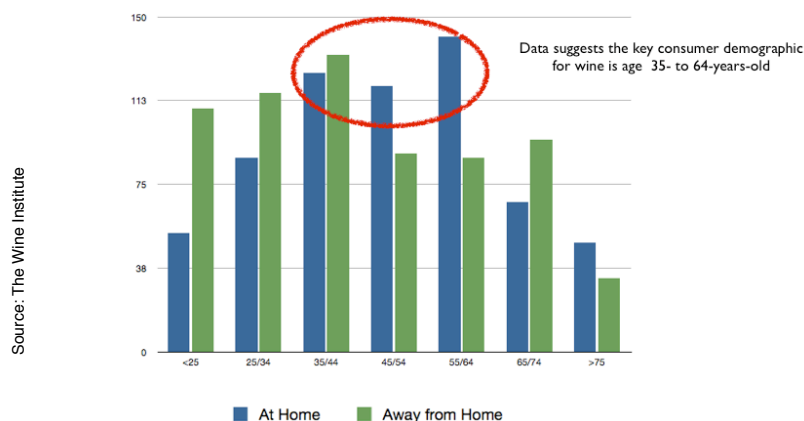
Source: The Wine Institute

market? We would argue they are very different than those that drove the wine market forward in the early 1970s to mid 1980s, and that the wine industry and consumer base are more developed. Wine continues to gain in popularity and in the latest Gallup Poll of June 2009 (chart below) 34 percent of respondents stated that they drank wine most often compared to just over 25 percent in 1992.

The key consumer sweet spot in the market for wine consumed at home and away from home is 35 to 44; however, consumer demand, unlike many other consumer products, remains strong into the 45- to 54- and 55- to 64-year age brackets.

This wider sweet spot was also confirmed by the Gallup Poll question (chart below) asking “Do you most often drink spirits, wine or beer?” which showed a 33 percent wine preference by those 30- to 49-years-old, 42 percent for those 50- to 64-years-old, and 49 percent for those 65 and older. In terms of gender, the poll also found that women favor wine (50 percent) over beer (21 percent) or spirits (24 percent). Whereas men clearly favor beer (58 percent) over wine (19 percent) or spirits (18 percent). The regional findings by Gallop showed wine is favored across the country, with the Midwest having the lowest

Wine consumed at home and away from home



percentage given its strong preference for beer.

In coming years we believe the American and Canadian wine industry will continue to prosper on the back of favorable demographics, strong domestic wine industries (the U.S. is now the fourth largest producer of wine among all countries), and consumers—particularly women and older generations—who continue to favor

wine over beer and spirits. While the U.S. and Canada currently lag behind other developed nations in wine consumption per capita, by 2020 we believe their per capita wine consumption will be approaching 4.0 gallons, and that in the U.S. the wine industry will be pushing the spirit industry for second place in sales by dollar volume.

As the wine industry moves into this next period of generational

growth, the issue of quality will be exceptionally important. In previous issues of this report we have noted how the craft beer brewers are emerging as the winners of the beer wars as Gen. Y enters its key beer drinking years (21- to 30-years-old). We believe the “craft” wineries that concentrate on producing good value, quality wine rather than going for volume will be equally successful.

Willamette Valley Vineyards: A David Versus a Goliath

Investors unfortunately have a very limited choice compared to wine consumers when it comes to investing in quoted wine companies. The choice can be summed up as David (Willamette Valley Vineyards) or Goliath (Constellation Brands). We prefer David, or Willamette, as Constellation needs time to restructure itself for having overpaid and over-expanded, and is over-leveraged with more than \$4 billion in debt due to its strategy of going for volume.

We believe Willamette (WVVI) is very well positioned to benefit from further market growth, and its strategy of producing quality at the expense of volume will reward investors and wine consumers handsomely over time. The company is based in Oregon and was founded in 1988 by Jim Bernau to produce and sell premium to ultra premium wine. Its goal is to become one of Oregon’s largest wineries and establish a reputation for producing some of Oregon’s finest and most sought after wines. The company has already received “Excellent” to “Recommended” reviews in tastings of its wines and believes its prices are competitive with other Oregon wineries.

Before looking at Willamette’s potential in depth, we believe it is important to remind the reader of the history and excellent prospects

for the Oregon wine industry. Vinifera wine grapes have been grown in Oregon since 1825, around the same time that wine grapes were being introduced into California, Australia and New Zealand. Due to a number of factors, including the dominance of California, the Temperance Movement, Prohibition and the Depression, this chapter of Oregon wine growing came to an end. Its revival came in the early 1960s and Oregon is now is the 4th largest wine producing state (see table below) with more than 390 wineries and over 19,300 acres of wine grape vineyards of which 14,900 are producing.

Following a ten-year run of vintages favored by full ripening and relatively minor weather problems, 2007 was plagued by intermittent periods of rain throughout the harvest, most particularly in northern Oregon. Despite this, wine continues to be a dynamic growth commodity around the state. Red wines accounts for 60 percent of production, with white wines

filling the balance. Four grape varieties make up almost 82 percent of Oregon’s wine grape production. They include:

- Pinot Noir, with 55 percent of the total at 20,317 tons;
- Pinot Gris, with 17 percent at 6,244 tons;
- Chardonnay, with 5.6 percent at 2,076 tons; and
- White Riesling, with 4.2 percent at 1,550 tons.

Willamette Valley in western Oregon is ideally suited to growing superior quality Pinot Noir, Chardonnay, Pinot Gris and Riesling grapes. Already many of Oregon’s wines made from these grapes are developing an outstanding

State	Production	Share
California	2.18 billion liters	89.25%
New York	106.8 million liters	4.37%
Washington	75.9 million liters	3.11%
Oregon	15.6 million liters	0.64%
Florida	6.6 million liters	0.27%
New Jersey	6.3 million liters	0.26%
Kentucky	4.7 million liters	0.19%
Ohio	4.2 million liters	0.18%
Virginia	3.7 million liters	0.15%
North Carolina	3.5 million liters	0.14%

reputation nationally and abroad. The company's wine production facilities are capable of efficiently producing up to 125,000 cases (297,000 gallons) of wine per year depending on the type of wine produced. In 2008, the winery produced 287,513 gallons from its 2007 grape crush. This compares to 73,212 cases produced in 2004. In 1997, with the purchase of Tualatin Vineyards, the company added a further 59,000 gallons of wine production capacity. However, this was not used in 2008 due to the low crop yield. The company believes that its ultimate forecasted production level of 306,000 gallons per year will give it significant competitive advantages over most Oregon wineries in areas such as marketing, distribution arrangements, grape purchasing and access to finance.

The company's brands under its Willamette Valley Vineyards label include the brand's flagship and best selling Pinot Noir at a price range in 2008 of \$19 to \$50 per bottle depending of vintage. It also sells Chardonnay, Pinot Gris and Riesling. Under its Tualatin Estate Vineyards label, the company sells its flagship Pinot Noir at \$35 per bottle. It also sells Chardonnay and Semi-Sparking Muscat. Under its Griffin Creek label the brand's flagship is Syrah at \$35 per bottle. It also sells Merlot, Cabernet Sauvignon, Cabernet Franc, Griffen and Viognier. For 2008, approximately 49 percent of the company's net revenues were attributable to its direct sales force and 37 percent of sales were attributable to out of state.

Results for twelve months ended December 2008 showed turnover down nearly 4 percent at \$16,048,000 from \$16,711,000 for 2007. The reason for this was a weak economy and, in particular, a downturn in sales to higher-end restaurants. Net income was down to \$708,594 (EPS of \$0.15) from \$1,686,661 (EPS \$0.35) for the year prior. The main reason for this earnings collapse was the 16 percent increase in selling and administrative expenses. As a percentage of net revenue these expenses increased to 40 percent, as compared to 33 percent in 2007. These problems were well discounted in the share price by early 2009, following a near 78 percent fall from the 2006 highs.

Six month results ended June 2009 showed the company is back on track with earnings of \$418,940 (up 93 percent over the prior period) on revenues that were up 5.5 percent to \$7,692,621. Fully diluted earnings rose from \$0.04 to \$0.09. These results demonstrate the positive results of president's Jim Bernau strategy of quickly refocusing the group's energy away from sales to high end restaurants to emphasize sales to grocery stores. This won the company new customers as they traded down during last six months. However, that was only part of Bernau's new strategy of putting Willamette back on the recovery path. His next step was to cut costs by eliminating "significant shrinkage" of its products by hiring a new manager to track logistics and revamp the company's system of storing, handling and delivering

wine, and finally, he streamlined the winery's accounting systems. He expects further savings to come over the coming year. The 2008 vintage was considered Oregon's highest quality to date and the 2009 harvest at the present time looks like another winner.

We expect the company to show further recovery and growth in the second half of 2009 and expect Willamette to make around \$0.24 versus \$0.15 in 2008, and \$0.35 in 2007. This places the shares at \$3.75 on a December 2009 P/E of 15.6, falling to 12.0 for December 2010, assuming earnings growth of 30 percent. Further analysis suggests the shares are good value as its trailing 12 months Price-to-Sales Ratio is 1.04 (it hit a Price to Sales of 2.5 in 2006), and its Total Debt to Equity is 0.11.

Willamette Valley Vineyards market cap is a tiny \$18.3 million (4.86 million shares outstanding and a public float of 4.4 million shares), and is 2.1 percent owned by 12 institutions. The average three-month trading volume is 1,421 shares, however in the hot days of 2006 and 2007 this climbed to over 30,000. Despite its small size, we believe the shares offer good value at current levels and present one of the only publicly traded ways to participate in the growth of the U.S wine industry. The shares are a core demographic holding in the model Beacon Master Portfolio.

Disclosure: No Current Positions, but WVVI is Featured in Our Model Portfolio.

Company	Code	Price	%*	Yield	PE	PS	PB	PD
Willamette Valley Vineyards	WVVI	3.50	60.0	n/a	18.82	1.04	1.69	0.11
Constellation Brands	STZ	14.93	16.9	n/a	n/a	0.94	1.71	1.59

* Gain/loss from March 9, 2009 lows

Source: Wall Street Journal-September 11, 2009

IDCC Hit by Adverse Ruling, Fight With Nokia to Continue

An August Age Curve Report article—Interdigital Poised to Reap Profits in Burgeoning Cell Phone Sector—recommended InterDigital Communications Corporation (IDCC) as an interesting play in the wireless communications sector, based in large part on expectations that Nokia Corp. (NOK) would take a license with IDCC for its wireless technology and settle all outstanding legal issues between the companies. To our surprise Nokia did not settle with IDCC, and on Aug. 14, the administrative law judge (ALJ) overseeing IDCC's International Trade Commission (ITC) case seeking an importation ban on Nokia cell phones rendered an initial determination that while IDCC's patents are valid and enforceable, Nokia's cell phones were not infringing on those patents. The ruling sent IDCC's share price into free fall on Aug. 17, falling as low as \$20.86 (down 29 percent), and have since settled in the \$21-\$22.50 range.

While we would have to agree that IDCC is a textbook case (pardon the pun) in support of the Wall Street adage of avoiding stocks based on anticipating the outcome of litigation, this legal outcome does not mark the end of IDCC as a valuable company with decent future growth prospects, nor does it end InterDigital's efforts to get Nokia, or the other currently unlicensed companies, to pay for its patented technologies.

With regard to Nokia, IDCC has petitioned the ITC for a "full commission" review of the ALJ's initial determination. The full commission will decide whether it will review the case by Oct. 16, and, if so, issue a final determination by Dec. 14, 2009, which could uphold

the ALJ's initial determination, or reverse it and find that Nokia's products did, in fact, infringe on IDCC's patents. Absent a favorable commission ruling, IDCC can then appeal the case to the U.S. Court of Appeals for the Federal Circuit.

Waiting in the wings of the final ITC outcome is litigation in the U.S. District Court system, in which both companies are arguing that the other company has engaged in false and misleading descriptions or representations regarding their respective 3G wireless patents. This litigation is currently stayed pending the final outcome of the ITC case

and provides further impetus for the companies to reach a settlement.

And while the IDCC versus Nokia legal battles continue, the company is still making money, pulling in annual revenues of more than \$260 million from the 50 percent of wireless manufacturers who have taken an Interdigital license. With more than \$5 per share in cash, a P/E of 33.0, virtually no debt, positive earnings and strong free cash flow, the company has more than enough resources to go 12 rounds with Nokia if ultimately necessary.

Disclosure: No Current Positions.

K12 Only Meets Expectations

K12 fell to earth Sept. 9, after only meeting 12-month earnings estimates for June 2009 of \$0.42 a share. The shares retreated sharply on the news, falling to an intraday low of \$15.75, before settling in by the end of the week at about \$16.

Revenues for fiscal year 2009 (FY 2009) grew to \$315.6 million, an increase of 39.5 percent over the prior year, primarily due to strong enrollment growth.

Net income for the year was \$12.3 million as compared to net income of \$33.8 million in the same period in the prior year. Net income for the full fiscal year 2008 (FY 2008), excluding the \$27.0 million tax benefit, would have been \$6.8 million.

Diluted net income per share in FY 2009 was \$0.42. On a pro forma basis, excluding the income tax benefit of \$27.0 million and assuming the conversion of preferred stock, diluted net income per share for FY 2008 would have been \$0.26.

Ron Packard, Chief Executive Officer of K12 Inc., stated "2009 was a year in which the company progressed on many fronts including the continued expansion into new states, the rapid growth in high school enrollment and the expansion of our international academy."

Following the sharp fall, the shares at \$17 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 mark, their May 2009 low.

We remain holders of K12 in our model Beacon Master Portfolio and believe the shares will trade between \$15 and \$18 over the next six months as the shares change hands from short- to long-term investors.

Sector Watch: Carbon Emissions Market

We are strong believers that further climate change legislation (which will undoubtedly be very complex) is on its way, and probably has more chance of making it through the U.S. political system than President's Obama's healthcare proposals. This will receive strong support from the guilt-ridden Baby Boomers and the environmentally aware Generation Y.

On the world stage, the Kyoto Protocol is scheduled for expiration in 2012, with talks for a new framework for climate change measures kicking off in December at a U.N. conference in Copenhagen.

President Obama's support in Copenhagen is very important in driving the Carbon Emissions Market forward and we believe this market will provide the next stage of growth in the secular "Clean Energy Bubble" (it will likely surpass the present China madness). It also may come to dominate the other forms of clean energy.

The Waxman-Markey, or American Clean Energy and Security Act, passed by the U.S. House of Representatives in June, will allow the U.S. government to certify 4.6 billion carbon allowances in 2012 at an inflation-adjusted price of \$17.46 a ton, placing the value of the U.S. carbon market at \$84 billion. It also aims to cut carbon dioxide emissions from 2005 levels by 17 percent in 2020 and 83 percent by 2050. However, expect this bill to be blocked, chopped and changed as it makes its way through the Senate this fall, as the powerful energy lobbies remind senators who's boss.

Wall Street is silently gearing up for changes with which to accommodate this new market place, and in the next five to ten years a new breed of entrepreneur will emerge to take advantage of these new challenging opportunities.

Steve Gelsi for MarketWatch explains that the U.S. Executive may have to react quickly over the next 12 months with carbon cost, rules and benefits

associated with their products and services, while consumers will be reminded of the carbon footprints their purchases made during production.

We strongly support a greater "Green" awareness of the planet and less pollution from cleaner power emissions to less infuriating consumer packaging (toy manufacturers please note). Solving the planet's pollution problems will be done through engineering solutions not mass media hype solutions. We hope the "Wise Old" media have learned from their "Year 2000 Computer Bug Hoax" that ran from 1997 to 1999.

We will be exploring this topic in greater detail in future Blogs. For those interested, more information on Carbon Emissions Market can be found on the iPath's web site, and prices can be followed through the iPath Global Carbon ETF (GRN) or the European Climate Exchange. It is also worth noting that iPath Global Carbon ETF is up over 86 percent since the March 2009 lows and the ECX EUA daily futures contract is up nearly 43 percent. On a sentiment basis we prefer this carbon space to the overly "Hot" area of emerging markets, which desperately need this market to help clean up their own "Back Yards."



Source: European Climate Exchange

Age Curve Snapshot: China Consumer Cycle on the Decline

This month we snapshot China, one of our least-favorite, long-term "BRIC" countries. One of our main reasons for our negative view on China, is Chinese consumer spending (peak births plus 40 years) peaked in 2007 and is set to decline until 2019 and after a brief rally is set to decline again. The reason for this is Generations Y, Z and Blenders are each set to decline on average by 14 percent.

Michael Pettis a professor at Peking University's Guanghua School of Management, who also has concerns over high Chinese consumer consumption growth, reminded us of the bulls' central argument for future double-digit GDP growth. This is provided by Professor Peter Williamson of Cambridge University, replying to his concerns.

"Michael Pettis is right to remind us that correcting the fundamental imbalances in the global economy means that China's export-orientated growth model is no longer tenable. But he is unduly pessimistic about the potential of Chinese consumers to generate sustained, double-digit growth in Chinese GDP."

"Between now and 2025 some 350 million Chinese are set to become new city dwellers. This alone will give a boost to demand equivalent to the size of another Germany. The government's stimulus package will also initiate more spending by consumers. The £73bn to provide universal cover for basic healthcare in China by 2011, for example, will encourage savers fearing medical bills to spend more freely. Workers made redundant from export-processing jobs, meanwhile, are adapting quickly—finding new work and retraining (4 million in Guangdong alone). Their consumption will rebound."

"Local consumption is, indeed, the key to China sustaining high growth over the next decade. But that should be cause for optimism rather than despair."

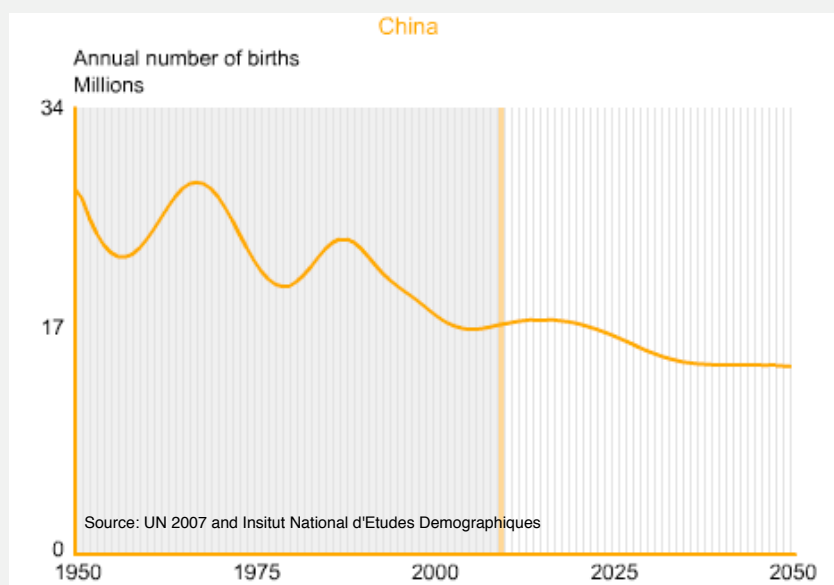
We disagree with Professor Williamson's central argument that Chinese consumption (roughly 8 to 9 percent over the past several years) will grow faster in coming years. He may be correct, however we think that consumption growth cannot be sustained by Chinese Government's fiscal stimulus.

This too it seems is a concern within the Chinese government. Chi Fulin, president of the China (Hainan) Reform and Development

Research Institute and a member of the Chinese People's Political Consultative Conference, recently commented in People's Daily: *"Whether consumption can become a leading engine of China's economy depends on how successful the reform is."*

The China iShare ETF (FXI) relative to the S&P Global ETF (IOO) shows weakening relative strength at a time no one wants the markets to misbehave before the all-important October 1 celebration of the sixtieth anniversary of the birth of the People's Republic.

As the Chinese state "We live in interesting times."



China's Demographic Landscape

Population

2009 Population 1,343,930,000

2025 Estimated Population 1,445,780,000 (Growth 7.6%)

Generations

1965 to 1984 Generation X: 484,548,000

1985 to 2004 Generation Y: 401,729,000 (Decline 17.1%)

2005 to 2024 (Est.) Generation Z: 353,679,000 (Decline 12.0%)

2025 to 2044 (Est.) Blenders: 304,516,000 (Decline 13.9%)

Speed of Population Aging

China will take only 25 years (2020) for their over-65 population to grow from 7 to 14 percent of its population. In comparison, it took the U.S. 71 years (2009).

Ahead of the Curve By Ken Gronbach

Forty Years After Woodstock A Kinder, Gentler Generation Gap

It had to be one of the most divisive times in U.S. history, as family was divided against family. No, this is not a reference to the Civil War, but rather a description of the turbulent 1960s and early 70s in the U.S.

It was the Baby Boomers against the Silent Generation and the G.I. Generation; Hippies fighting the establishment; the young versus the old; the people under thirty against the people over thirty; war against peace; long hair versus short hair; parents against kids-kids against parents; authority opposed to chaos; protestors clashing with police; tolerance versus intolerance; the right against the left; and, above all, rock and roll against everything else music. It was an unstable time that divided families and broke up homes, a time of elevated crime and drug use. This period was defined by its music and the exclamation point was a rock concert attended by over 500,000 people.

The Pew Research Center released a very interesting and revealing Social and Demographic Trends Report last month that was apparently timed to coincide with the 40th anniversary of that most famous-of-all outdoor music festivals—Woodstock.

Pew polled a nationally representative sample of 1,815 people age 16 and over from July 20 to August 2, 2009, that produced responses that were surprising and counter intuitive. Apparently, serious fractures still exist between young and old adults in their work ethic, respect/

tolerance of others, acceptance of technology, religion, moral values and political views. But according to Pew, “...this modern generation gap is a much more subdued affair than the one that raged in the 1960s, for relatively few Americans of any age sees it as a source of conflict—either in society at large or in their own families.”

So if the fractures still exist, where is the conflict? Where are the protestors, the sit-ins, the mass marches? According to the Pew research, there is one major aspect of the culture that enjoys a marked difference when compared to the clash of the 1960s. We all like the same music—rock and roll. Two-thirds of the people polled stated that they favored rock and roll over country, rhythm and blues, hip-hop, classical, jazz and salsa. Back in 1966 a Harris poll showed that only 4 percent of people 21 and older stated that rock and roll was their favorite kind of music, making it the most unpopular music of the day.

So does the common music sooth the savage beast in the different generations? Perhaps. Pew states it in a borrowed phrase: “... the generations appear to have found a way to disagree without being disagreeable.” Are we really a kinder, gentler nation? It would appear so. According to a 1969 Gallup poll 74 percent of the public thought there were major conflicts between generations compared to Pew’s 2009 findings that show that 79

Continued on Page 16

The Generations as Delineated by Age Curve Consulting

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

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

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

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

The Informed Investor

Market Overview: Can the Rally Run Without Revenue?

By Logie Cassells

The Wall Street Journal ran an interesting article last week on one of our key concerns about the U.S. and many global economies: the lack of, or sporadic nature of, revenue growth as the changing generational demand works its way through the system.

The Journal points out and illustrates in the chart below that many earning gains have resulted by cost cutting rather than revenue growth.

"The market barreled ahead this summer and is hovering near its high for the year, fueled in large part by stronger than-expected second-quarter earnings. But a significant driver of the good news was cost cutting. Many companies posted disappointing sales.

give the appearance of healthy profit increases. But in 2010, the ability of stocks to sustain or extend their advances will have to come from a revival in sales, strategists say. In an uncertain economic environment, that won't be an easy task."

The point of interest is that they make no reference to demographics and how the changing demographic landscape in America and overseas is impacting corporate revenue growth.

"According to Goldman Sachs Group Inc., 46% of companies beat Wall Street's earnings expectations by a wide margin, but only 23% significantly bettered revenue forecasts. Sales among companies in the Standard & Poor's 500 stock

index fell 16% in the second quarter from a year earlier, following a 14% decline in the first quarter."

The obvious information that Goldman Sachs forgot to mention is that the companies

that beat expectations are being positively impacted by Generation Y, while many that missed provide an example of how the "Baby Boomer" effect is no longer there.

The article also showed that the investment consensus continues to believe the BRIC nations, or

emerging countries, have the best revenue expectations in coming years. We differ in this view as many of their demographics and valuations do not support this overly optimistic view point.

"More narrowly, Brazil, Russia, India and China are likely to be the strongest performing economies, and, Mr. Kostin says, the best revenue prospects. Already, a basket of stocks that Goldman identifies as having the greatest business from those so-called BRIC nations has done 29 percentage points better than the S&P 500 this year."

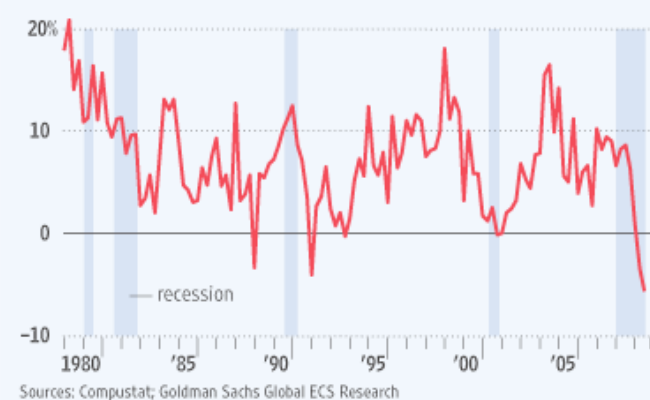
U.S. retailers posted their best sales in over a year. Sales at stores open more than a year, a key measure of retailer's health, fell by 2.9 percent, marking a 12th consecutive decline. However, the decline was better than a 3.8 percent drop expected by investment analysts.

It could be argued that the retailers only beat estimates because of the dismal year over year comparisons. We would rather leave that debate to more "learned" investors than ourselves. Instead we would like to concentrate on those retailers that beat expectations. How? Pure and simple demographics!

We highlighted the demographic attraction of teen retailers in our August Age Curve Report, and this segment of the retail trade posted sales much higher than analyst expectations, and we believe will continue to do so thanks to its attractive demographic landscape. Our Gen. Y benchmark is Aerospatiale (ARO), which had record August results as sales rose 9

Kindest Cuts

Companies have aggressively cut costs, inflating profits. Year over year change in selling, general and administrative expenses among S&P 500 stocks



"In the short-term, earnings prospects may remain favorable for the market. Aggressive expense control and modest inventory restocking could boost third-quarter numbers, while the fourth quarter has easy comparisons against an awful 2008 that will

percent. The New York-based retailer also boosted its third-quarter earnings forecast by 2 cents, to as much as 80 cents a share, which drove the shares to new all time highs. Another bright spot was Gap (P/S 1.1), which posted a much smaller than expected 3 percent decline thanks to a 4 percent increase at its Old Navy chain.

We are a big supporter of the value retailing sector. Our "Blue Chip" name for this theme is Ross Stores Inc. (P/S 0.9). It reported a 6 percent gain, topping analysts' estimates, according to Retail Metrics. The off-price apparel retailers have been posting some of the best results of late and analysts in recent days had raised their forecasts sharply. The demographic driver here is the growing numbers of young school-age children and the retailer is well positioned in the fast growing American Southeast. Ross Stores (ROST) states:

"Looking ahead we are optimistic about the important back-to-school and holiday periods for a number of reasons. We delivered exceptional sales and earnings growth for the first six months on top of strong results the prior year and are up against much easier comparisons in the second half. More importantly, we are well positioned in the value retailing sector and excited about our merchandise offerings and the availability of great product as we enter the fall season. As a result, we are now forecasting same

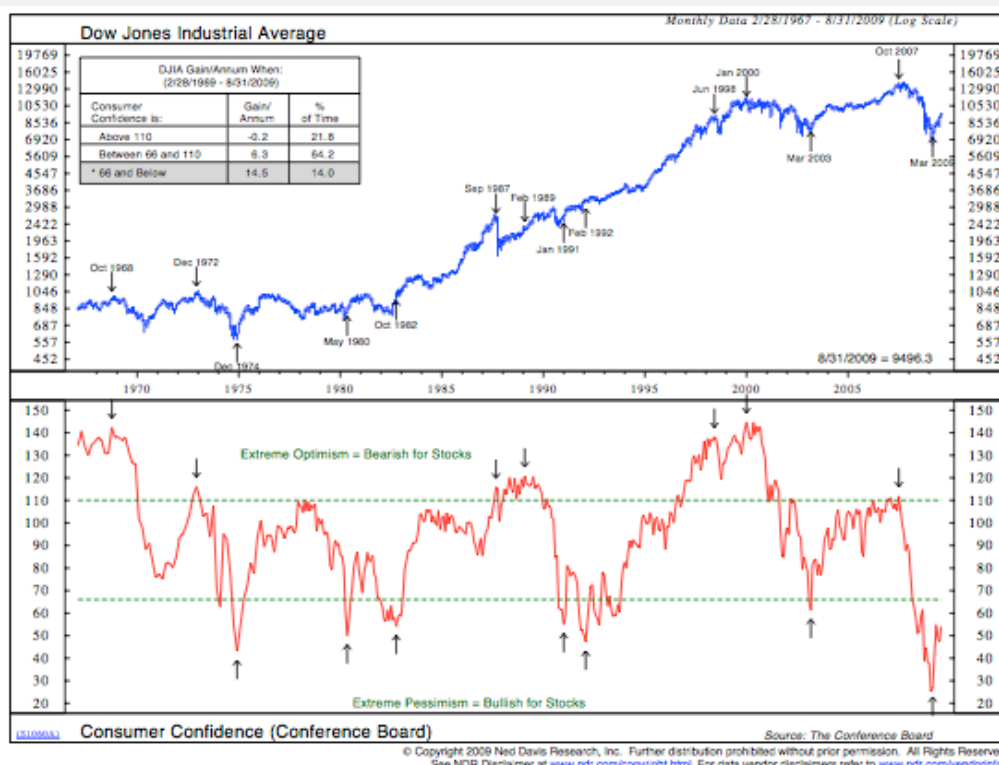
store sales gains of 5% to 6% for both the third and fourth quarters, up from our previous guidance for a 2% to 3% increase."

We have written before on the importance of Consumer Sentiment, as it is logical that current economic conditions impact consumer expectations. Research by Ned Davis Research suggests that these expectations lead GDP growth by about nine months. This also reminds us why the stock market is a better economic forecaster than historical GDP. The New York-based Conference Board's consumer confidence index rose to 54.1 in August, more than forecast, and the first gain in three months. This indicator gave a market buy signal in March (having given a sell signal in October 2007), and this improving consumer sentiment should continue to drive revenue growth, particularly in those pockets where demographics are favorable.

This month we sold our model Beacon Master Portfolio's holding in Gap Inc. (GPS), after its results posted a 76 percent profit. The shares over the last five years have struggled to make any further progress between \$22 and \$25 and we believe it is time at this point of the economic recovery to focus on those companies with a cheaper Price to Sales than Gap (P/S: 1.01).

Therefore, despite our market caution short term, we added positions in three teenage retailers where recovery prospects leave the shares undervalued over the next 12 months. These are Pacific Sunwear of California (PSUN and P/S 0.3), Quicksilver (ZQK and P/S 0.1) and GameStop (GME and P/S 0.6).

We will continue to concentrate on those sectors, themes and countries that represent the best value given their long-term demographic outlook in a recovering economy.



Source: Ned Davis Research

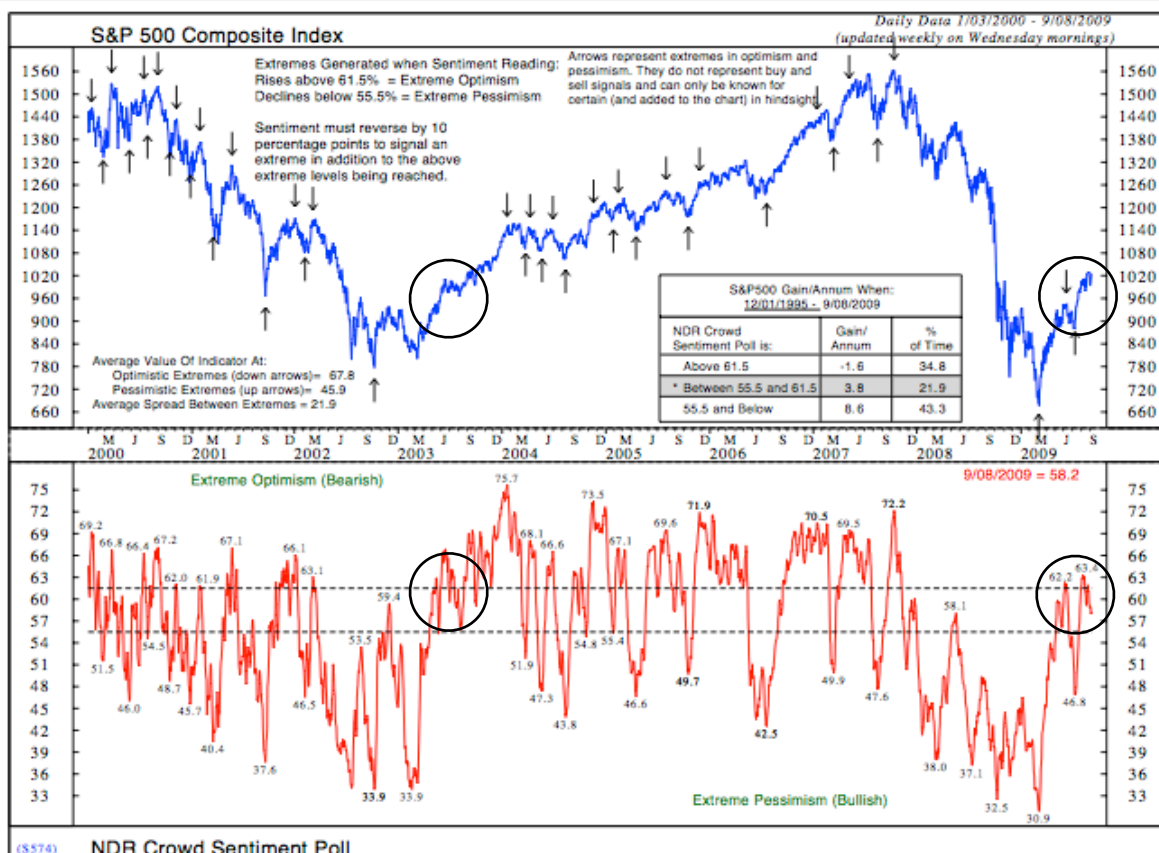
Model Beacon Master Portfolio								Sept. 11. 2009
Code	Name	Cost	Price	No.	%	Value	G/L\$	G/L%
Bonds and Gold								
GLD	SPDR Gold Trust	93.7	98.8	1,718	10.4%	169,704	8,693	5.4%
GRN	iPath Global Carbon ETF	27.0	27.5	741	1.3%	20,400	393	2.0%
TIP	iShares Barclays TIPS Bond Fund	98.1	102.3	610	3.8%	62,373	2,513	4.2%
HYG	iShares High Yield Corporate Bond Fund	83.2	84.0	1,522	7.9%	127,848	1,172	0.9%
PGF	Power Shares ETF Financial Preferred Portfolio	15.1	15.3	3,980	3.8%	61,053	876	1.5%
Technology								
AAPL	Apple Inc.	94.0	172.2	212	2.2%	36,498	16,570	83.1%
SWKS	Skyworks Solutions	9.8	13.9	2,040	1.7%	28,315	8,323	41.6%
VOD	Vodafone Group PLC ADS	19.3	23.2	1,038	1.5%	24,082	4,100	20.5%
IGW	iShares S&P NA Technology- Semiconductor Index	26.6	45.2	1,239	3.4%	56,040	23,045	69.8%
Consumer Discretionary								
XHB	SPDR S&P Homebuilders ETF	14.3	15.6	2,099	2.0%	32,723	2,729	9.1%
ARO	Aeropostale	32.9	42.1	610	1.6%	25,657	5,606	28.0%
PSUN	Pacific Sunwear of California	4.3	5.3	4,469	1.4%	23,552	4,558	24.0%
GEM	GameStop	23.5	24.7	807	1.2%	19,933	952	5.0%
ZQK	Quicksilver	2.5	2.7	7,632	1.3%	20,606	1,603	8.4%
CMG	Chipotle Mexican Grill	81.0	87.6	247	1.3%	21,635	1,628	8.1%
LSN	K-12	20.3	16.2	1,230	1.2%	19,877	-5,092	-20.4%
Industrials								
XLI	SPDR Industrial Sector Index Fund ETF	22.8	26.4	1,752	2.8%	46,165	6,167	15.4%
Energy and Materials								
WLC	Western Lithium Canada (C\$)	0.92	0.98	14,272	0.9%	13,987	856	6.5%
KOL	Market Vectors-Coal ETF	23.7	29.4	1,099	2.0%	32,344	6,330	24.3%
BP	BP	52.6	54.6	475	1.6%	25,926	921	3.7%
Health Care								
XBI	SPDR S&P Biotech ETF	49.1	55.4	407	1.4%	22,552	2,556	12.8%
Financials								
RY	Royal Bank of Canada	40.0	52.0	624	2.0%	32,436	7,457	29.9%
WFC	Wells Fargo & Co.	18.2	27.4	1,375	2.3%	37,716	12,719	50.9%
RKH	Merrill Lynch Regional Bank HOLDRs Trust	63.6	78.1	471	2.3%	36,804	6,867	22.9%
Consumer Staples								
SAM	Boston Beer Co. CI A	25.9	38.7	1,080	2.6%	41,839	13,856	49.5%
WVVI	Willamette Valley Vineyards	3.3	3.5	6,079	1.3%	21,277	1,277	6.4%
NUS	Nu Skin	15.3	17.8	1,308	1.4%	23,230	3,231	16.2%
Developed Overseas Markets								
EWJ	iShares MSCI Japan Index Fund	8.7	10.3	3,778	2.4%	38,876	6,045	18.4%
EWU	iShares MSCI United Kingdom Index Fund	11.8	15.8	1,784	1.7%	28,098	7,100	33.8%
EWA	iShares MSCI Australia Index Fund	15.1	21.4	1,802	2.4%	38,617	11,497	42.4%
EWC	iShares MSCI Canada Index Fund	20.3	25.0	1,081	1.7%	27,036	5,048	23.0%
Emerging Markets								
TUR	iShares MSCI Turkey Market Index Fund	45.5	48.5	597	1.8%	28,949	1,761	6.5%
TKC	Turkcell Iletisim Hizmetleri A.S.	16.0	16.9	1,246	1.3%	21,070	1,084	5.4%
EPP	iShares MSCI Pacific ex-Japan Index Fund	29.7	39.0	1,281	3.1%	49,959	11,977	31.5%
Other								
IWM	iShares Russell 2000 Index Fund	44.3	59.4	746	2.7%	44,320	11,265	34.1%
	Cash				16.2%	263,641		
	Realized Gain/Loss						430,471	
Value of Model Beacon Master Portfolio						1,625,133		
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								62.5%
S&P Global								20.3%
S&P 500								19.2%
Canada MSCI Index								62.0%
UK MSCI Index								34.7%
Commodity Index								11.4%
US Bond Index								4.6%

Market Data: Performance & Sentiment

Global stock markets have continued to climb to new post-recovery highs, with the Global Dow up 49.2 percent, up from the month ago figure of 42.4 percent. We continue to take a cautious investment stance until we see sentiment improve to reading below 45. We are currently positioned for short-term speed bumps between September and late November, and plan to return to a fully invested position by December.

Performance from November 20, 2008 Market Low to September 11, 2009

Markets	11/20/'08	09/11/'09	Move %	Ticker	U.S. Sector	11/20/'08	09/11/'09	Move %	Ticker
Global Dow	1265	1887.15	49.2%		Materials	19.9	30.8	54.9%	XLB
S & P Composite	741	1042.73	40.7%		Health Care	23.6	28.9	22.8%	XLV
FTSE 100	3875	5011.47	29.3%		Consumer Staples	22	25.3	15.5%	XLP
Dow Europe Stoxx	204	264.47	29.6%		Consumer Discret.	16.3	27.1	65.8%	XLY
Nikkei	7703	10444.33	35.6%		Energy	40	53.6	34.1%	XLE
Emerging Markets	18.3	37.86	107.3%	EEM	Financial	9.4	14.5	54.7%	XLF
CRB Index	230.4	251.12	9.0%	CRB	Industrial	20	26.4	31.8%	XLI
Gold	73.4	98.78	34.6%	GLD	Technology	13.2	20.7	56.9%	XLK
U.S. Corporate Debt	63.4	84.0	32.5%	HYG	Utilities	26.2	28.9	10.4%	XLU
U.S. 30 Year Yield	3.50%	4.18	-19.4%		Nasdaq Composite	1316.1	2080.90	62.4%	
U.S. Dollar	27.1	22.81	-15.8%	UUP	Russell 2000	385.3	593.6	54.2%	



Woodstock, continued from page 12

percent of Americans felt that there were major divides today between the perspective of younger and older adults. Clearly we have more conflict today with surprisingly less acrimony.

Could it be that the answer lies in the within the American family? Do Boomer parents get along better with their kids than their parents got along with them? The evidence would support a resounding yes. Only 10 percent of parents of older children reported that they often have major disagreements with their teenage or young adult kids. This is compared and contrasted to 19 percent that stated that they themselves routinely had major disagreements with their parents. Maybe Boomers are just cooler parents and maybe today's issues just aren't the stuff worth fighting for.

A closer look at the American home could give us an insight into what is perceived as differences between generations. The biggest ones according to the poll fell predictably into two areas: technology and music. Eighty-seven percent of the respondents said that there was significant difference in the way young and old used new technology, the internet and computers. No surprise there. It would be hard to imagine a heated generational exchange erupting over a conflict between using email over texting or even Facebook versus LinkedIn. What about the music differences? Nine out of 10 of the people polled cited huge differences between young and old preferences. But remember, its all rock and roll. So where is the divide? Is it worth hunkering down for a battle between oldies and pop?

Who has better values? The respondents to the Pew poll were very clear in their answer. With respect to three of the four values asked of the respondents, regardless of age, two to one voted in favor of older

Americans, indicating that they are superior in terms of their moral values, respect for others and work ethic. The younger generation got the nod for being more socially tolerant, though the results were not lopsided.

The fact that the public perceives older Americans as having a better moral compass than their younger counterparts is no surprise. What is interesting is the one category of ethics where the younger generation shines, social tolerance. Generation Y was taught not to see color and as a result they don't. As our Nation becomes more and more ethnically diverse this quality of Gen. Y will pay dividends.

The work ethic of Gen. Y is bound to improve as this cohort floods the workplace and faces 20 percent unemployment at entry level. Nothing improves one's attitude about work than the need to eat. The lopsided work ethic issue with young adults could easily have been a product of the tiny Generation X, because this cohort enjoyed an employees' market and full employment—10 jobs for every eight workers—at entry level. Nothing breeds a bad work ethic faster than being in demand. That's all changing in today's economic and demographic climate.

It has been 40 years since Woodstock, and though the perception is that generations in the United States are still divided, it is apparent that we have learned how to disagree and how to get along. Boomers are not the same parents as their parents no more than Mick Jagger is the same as Benny Goodman. The Boomer's kids, Generation Y, appear to prefer to make their mark and any sought after changes by way of harmony rather than through protest or discord. All this bodes well for the U.S. because we can ostensibly work out our internal differences and concentrate on making the world a better place.

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

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