

# THE AGE CURVE REPORT

How to Profit from the Ever-Changing Demographic Landscape

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### Midwest Growth Stagnate, but Pockets Thrive

The Midwest, with about 66.5 million people as of 2008 representing about 22 percent of the U.S. population, has a demographic profile similar in many ways to that of the stagnating Northeast (please see August Age Curve Report), but has more pockets of favorable population growth. While the Midwest overall is experiencing significant net outmigration, numerous urban areas are bucking the trend and experiencing healthy population growth fueled in large part by incoming migrants, both domestic and international.

At the turn of the 20th Century the Midwest, with a population of 26.3 million representing 34.7 percent of the nation's overall population, was the largest region by population. By the year 2000, the population of the Midwest had more than doubled; however, this growth was far surpassed by that of the West, which saw its population increase by more than 15 times, from about 4 million to 63 million, and that of the South, which more than quadrupled, from 25 million to more than 100 million.

The Midwest's first population boom began after the American Revolutionary war, as settlers from the East flooded into the region to claim federal government land grants and to till the region's fertile soil. The region remained predominantly rural and became known as the nation's "breadbasket" due to abundant harvest of cereal crops such as corn, oats and wheat. Population growth accelerated

in the late 1800s and first half of the 1900s due to the industrialization of the Midwestern Great Lake states— Illinois, Indiana, Ohio, Michigan and Wisconsin—which, joined with the Northeastern states of New York, Pennsylvania, New Jersey and West Virginia, served as the nation's steel-driven manufacturing belt. This industrialization drew in millions of migrants, from Easterners looking for new opportunities, to Europeans bypassing the East, and black Southerners fleeing the segregationist South in what was known as the "great migration." This industrialization saw in the rise of Midwestern cities such as Chicago, St. Louis, Detroit, Minneapolis, Cincinnati, Cleveland, Milwaukee, among others, but much of the Midwest remained rural and thinly populated on a relative basis.

**This is Part IV 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, and Part III, the rise of the South. This segment on the Midwest will be followed next month by the conclusion of this series, the West. In December, The Age Curve Report will begin featuring a monthly demographic profile of the individual states.**

The manufacturing belt began a slow decline in the 1960s, a decline that in the ensuing years has been exacerbated and accelerated by numerous factors—such as recessions, high state tax rates, worldwide free-trade agreements, and exceptionally high labor costs, to name a few—and is

*Continued on Next Page*

perhaps reaching its apogee during the current recession. As the manufacturing belt metamorphosed into the “rust belt,” it lost its appeal as a destination for incoming migrants, and spurred significant outmigration of its residents, a key factor in the population stagnation in both the Midwest and Northeast.

The U.S. Census Bureau delineates the Midwest Region as the states of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin (12 states in total).

According to the Census Bureau, between 2000 and 2008 the Midwest’s natural population increase (the difference between births and deaths) was the second smallest of all regions at 2,677,922, with 7,390,395 births and 4,712,473 deaths. All 12 Midwestern states experienced natural increases, with the most populated state, Illinois, with almost 13 million people, adding 644,967. Ohio, with about 11.5 million people, and Michigan, with just over 10 million, experienced much more modest natural increases of about 353,000, and 366,000 respectively. North Dakota, the third smallest state in the country by population—641,481—experienced a natural increase of 20,460; however, it was one of only two countries to have a net population loss—minus 714—between 2000 and 2008 (Louisiana being the other).

Like the Northeast, the Midwest experienced a net migration loss of population, with the departure of 1,607,600 domestic residents outstripping the arrival of 1,071,295 international migrants. Michigan experienced the greatest net migration loss with -315,621, followed by Ohio, -249,542; Illinois, -159,182; Kansas, -21,213; North

Dakota, -17,787; Iowa, -13,010; and Nebraska, -11,435. While Illinois lost the most domestic residents, -585,075, it also gained the most international immigrants, 425,893. Michigan lost the second most domestic residents, -472,795, but only attracted 157,174 international immigrants. Ohio lost 345,793 domestic residents, and only gained 96,251 international immigrants.

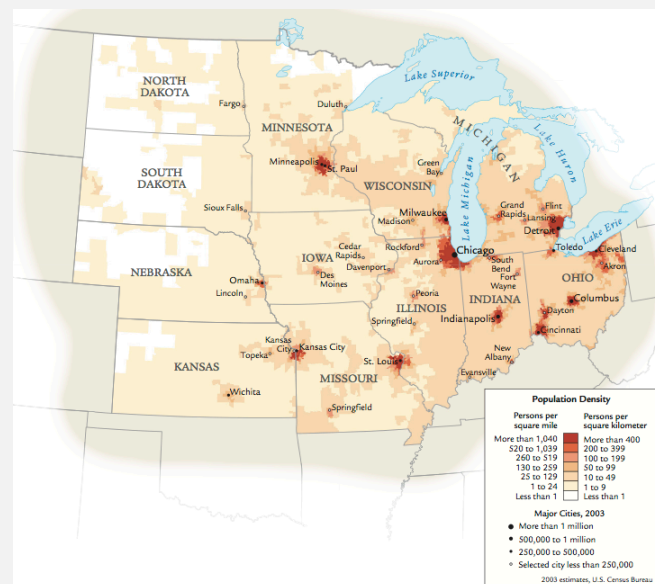
Missouri had the best net migration gain, with 52,563 international immigrants plus 38,111 domestic migrants. South Dakota also gained both international, 4,592, and domestic, 5,102, migrants. The states of Indiana, Minnesota and Wisconsin also had net migration increases—53,231, 48,311, and 49,575 respectively—as the number of international immigrants outstripped the number of exiting domestic migrants.

On a year-over-year basis, the Census Bureau’s most recent data covering July 1, 2007 to July 1, 2008, the Midwest population growth rate of 0.4 percent was better than that of the Northeast with 0.3 percent, but much lower than the South, 1.3 percent, and West, 1.4 percent. Michigan was one of only two states (the other being Rhode Island) in the country to lose population, with a decline of 0.5 percent, or 46,368 people. Ohio had the second worst growth of the Midwest, at 0.1 percent, a gain of 8,269; while South Dakota saw the

most robust growth, with a 1.1 percent gain, or 8,505 people. Other states in the region registered year-over-year growth rates of between 0.5 to 0.7 percent.

Looking forward, the Census Bureau projects that the Midwest’s growth will only be slightly better than that of the Northeast, and no Midwestern states reach the national projected 2030 population increase of 29.2 percent. In its 2005 interim projections based on the 2000 Census, the bureau determined that the Midwest’s population would grow by about 6.1 million people between 2000 and 2030, a 9.5 percent increase, just above the 7.6 percent increase expected for the Northeast, but far below the West’s 45.8 percent or South’s 42.9 percent. With a projected 2030 population of about 70.5 million, the Midwest’s share of total U.S. population is expected to drop to 19.4 percent, from a current 22 percent.

Eight of the 12 Midwestern states are projected to have among the lowest growth rates in the country for the 2000-2030 time frame, joining seven other states (primarily from the Northeast) and



Source: Discovery Communications LLC

the District of Columbia with growth rates below 10 percent. North Dakota is projected to lose 5.5 percent of its population, or 35,634 people, by 2030, giving it the second worst projected rate in the country (Washington, DC, with a projected 24.5 percent decline, is the worst). The states of Iowa and Ohio are projected to barely grow at all, as their populations are expected increase by 1 percent (28,800) and 1.7 percent (197,300) respectively. Other Midwestern states below the 10 percent growth rate were South Dakota, 6 percent; Nebraska, 6.4 percent; Michigan, 7.6 percent; Illinois, 8.2 percent; and Kansas, 9.4 percent.

The Midwestern state with the best growth projections is Minnesota, which is expected to increase its population by 28.2 percent, or almost 1.4 million, by 2030. Missouri is expected to add 834,962 people for a 14.9 percent increase; Wisconsin, 787,000 people, for a 14.7 percent increase; and Indiana, 729,623 for a 12 percent increase.

While birthrates in the Midwest states are generally lower than those of the Southern and Western states, most are higher than those of the Northern states and close to the national average of 14.2 births per thousand. South Dakota, with a rate of 15.2, has the highest rate, followed by Nebraska, 15.1; Kansas, 14.8; and Minnesota, 14.2. Midwestern states with the lowest rates are Michigan, 12.6; Wisconsin, 13; and Ohio, 13.1. Thus, while the region's birth rate is not the primary cause of lagging growth, it is certainly not providing anything of a boost to the population like it is in the South, and more particularly, the West.

As an inverse to the South's migration-fed population boom, the Midwest's population bust is also

fed by migration, though outbound. In fact, according to a 2008 Pew Research Center report—Who Moves? Who Stays Put? Where's Home?—the South has received the largest share of Midwestern migrants since 1975, with the region losing about 2.8 million residents net to the South (the Midwest also had net migration losses to the other two regions).

While Midwestern retirees have long sought out the warmth of the South, a primary source of the exodus has been manufacturing job losses, particularly those in the steel and auto industries, which have been in decline for decades. In fact, population losses tend to be greatest in pockets of steel and auto industry manufacturing.

Take for example Detroit, once proudly known as Motor City, but now perhaps best known as capital of the Rust Belt. The city has lost more than 1 million residents since its heyday in the 1950s as the world's largest auto manufacturing center. As with other cities that have experienced population losses

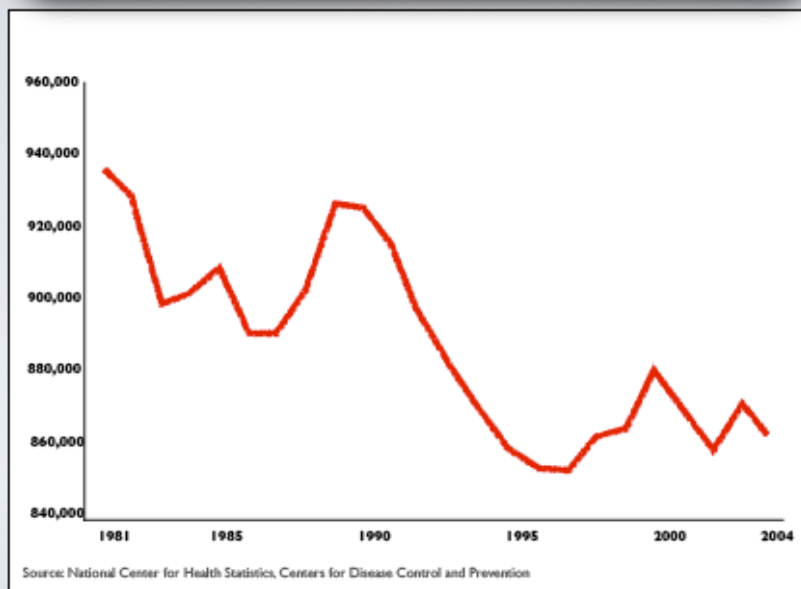
over the past 50 years, some of Detroit's exodus was short-range, local migration to the suburbs. However, suburban Detroit has also suffered intermittent population declines, especially from 1970-1990.

This ongoing exodus has long impacted the city's housing market, but the last six years have been exacerbated by the collapse of the U.S. auto industry. The average cost of a Detroit house in 1994 was \$42,000 while the 2009 average price was \$11,600 (the 2003 high was \$98,000).

Some other Midwestern steel and auto industry cities experiencing noticeable population losses include Cleveland, Ohio, down more than 115,000 since 2000; Dayton, Ohio, down 33,500; Flint, Michigan, down 17,221; and Youngstown, Ohio, down more than 28,000.

But outmigration and population loss isn't restricted to steel and auto industry cities. Census Bureau data shows that hundreds of counties across the Midwest lost population between 2000 and 2008, with all but three states—Indiana, Wisconsin and

## Births in the Midwest, 1981 to 2004



Missouri—recording more population declines by county than increases.

However, every state had pockets of growth, and in some cases—particularly those urban areas not heavily reliant on the steel or auto industries—significant growth. And while no Midwestern city or urban area can be considered a boomtown, more than 20 metropolitan areas—including Minneapolis-St. Paul, Minnesota; Indianapolis, Indiana; Madison, Wisconsin; Columbus, Ohio; Kansas City, Missouri; Springfield, Missouri; and Des Moines, Iowa, to name some of the largest—experienced population growth between 2000 and 2008 above the U.S. metropolitan average of 8 percent.

In short, the Midwest as a whole is experiencing population stagnation, with some areas, particularly in Michigan and Ohio,

facing significant population declines; but other areas, primarily those urban areas not associated with the auto and steel industries, seeing fairly healthy growth.

State officials and business leaders from those areas hit by population stagnation generally acknowledge the problem, but finding solutions takes time and funding to provide incentives for new business growth. “We’re up against a strong headwind,” said a spokesperson for Michigan Gov. Jennifer Granholm, adding that its a tremendous challenge to make changes when “you have an economy based for a hundred years on one industry.” So far the State of Michigan, which has determined that it is “losing one family every 12 minutes,” according to the Detroit News, has only taken “scattershot” efforts to stem the exodus. These

efforts include offering offering tuition incentives for community college and university students in an effort to increase the percentage of adults with college degrees, and offering grants to cities to make their “communities “more vibrant and energetic.”

While many critics consider this a tepid response, others acknowledge that change can’t happen overnight. John Bebow, executive director of The Center for Michigan, an Ann Arbor-based think tank, said that the state has reinvented itself before when it shifted from a lumber-based economy to an auto manufacturing one at the end of the 19th century. “Michigan’s past includes times when innovation grew from desperation,” he said. “This is going to take time. We’re trying to turn an economy.”

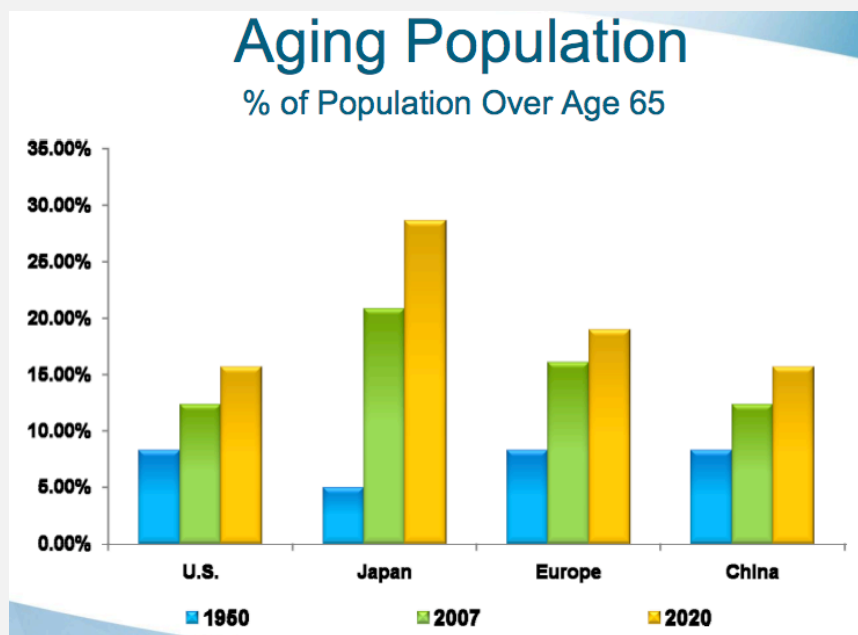
## Nu Skin Thriving on Demographics of Global Aging Baby Boomers

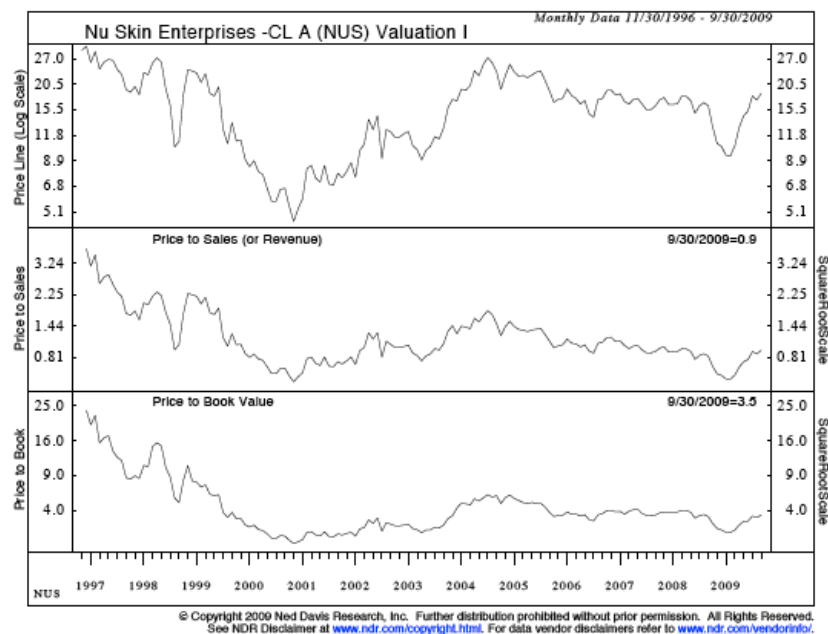
Nu Skin Enterprises Inc. (NUS) is sitting on a demographic sweet spot that should guarantee significant expansion of its revenue stream for years to come, based on the significant aging of the world population and what seems to be an ever-increasing global focus on “retaining one’s youth.” The 25-year-old company primarily develops and produces a line of skin-care products and nutritional supplements offered in 48 worldwide markets through a 750,000 strong direct sales force, and in China through 45 retail stores.

The company’s share price is up more than 39 percent since we added it to our model Beacon Master Portfolio July 13, and up almost 15 percent so far this month and making new four-year highs, after an earnings upgrade and price target increase from an analyst.

The company’s stated goal, as of 2008, was to become the “world’s leading anti-aging company by addressing the sources of aging, not just the signs and symptoms.” With that in mind, the company is

currently releasing a new line of “ageLOC” products that are designed to reduce the number of facial skin free radicals. According to a Nu Skin sponsored study conducted by Stanford University,





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Source: Ned Davis Research

ageLOC serums and creams reduced the appearance of fine lines, wrinkles, crows feet and other signs of aging in a study group of 55-year-olds, making them appear seven years younger.

This study's results, along with the popularity of their existing line of products with the 50-year-old and older population, bodes well for the company as the number of people age 50 and older will dramatically increase in the coming years, especially in some of the key markets in which Nu Skin has built a strong presence.

According to the United Nation's Population Division, the growth rate of the world's older (60-plus) population is already significantly higher than that of the total population growth rate (1.9 percent versus 1.2 percent, respectively), but by as early as the year 2025 the growth rate of those over 60 will be 3.5 times that of the rate of total population growth. Or,

put another way, the global population of those over 60 is expected to more than double and surpass 1 billion by 2030, and reach nearly 2 billion by 2050.

This represents a hefty increase in the number of potential customers passing through Nu Skin's core demographic base, an increase that is already well into acceleration mode. According to Nu Skin, the anti-aging industry is expected to grow 76 percent in the U.S., 73 percent in Japan and 82 percent in the Asia Pacific region within the next five years.

Despite the worldwide recession and declines in discretionary spending, the company appears to be on track to earn record revenues in 2009, and should easily top 2008 revenues of more than \$1.25 billion. In 2008 the company saw 24 percent year-over-year growth in its "Skincare" products, 180 percent growth in its "Galvanic Spa" facial care products, 70 percent growth in

its "Tru Face Essence" products, but recorded a 4 percent decrease in its "Pharmanex" line of nutritional products. Since 2001 the company has achieved a 5 percent compound annual growth rate (CAGR) in total revenues, 10 percent CAGR in Korean sales, 15 percent CAGR in U.S. sales, and a 25 percent CAGR in European sales. In its most recent earnings announcement the company's second-quarter profit rose 7 percent year-over-year, beating analyst expectations, and the company increased its guidance for expected third-quarter and full year earnings.

The company attributes some of its success to its emphasis on direct sales, and considers direct selling a "hedge against consumer spending contractions" during tough economic times. According to the Direct Selling Association, during the 2001-2002 recession direct sales were up \$2 billion in 2002 from the prior year, "far outpacing the average increase between 1990 and 2006 of \$1.2 billion." Nu Skin also credits its sales force for robust results, noting that they are paid the "highest percentage of revenue in distributor commissions of all direct selling companies listed on the New York Stock Exchange."

With a current share price of about \$21 a trailing 12-month price to earnings ratio of 19.76, and a price to sales ratio of 1.02, the company seems to be more attractive than its biggest rival, Avon Products Inc. (AVP), with a current sales price of about \$34, and a P/E of 22.31 and P/S of 1.44. We believe Nu Skin is undervalued given its growth prospects and that its current discount to Avon is unwarranted.

Company	Code	Price	%*	Yield	P/E	P/S	P/B	P/D
Nu Skin Enterprises Inc.	NUS	21.26	164.4%	2.28%	19.76	1.02	3.8	0.42

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

Source: Wall Street Journal—October 9, 2009

## Apple Should Have Edge with Younger Readers in E-Reader War

The release of best-selling “Da Vinci Code” author Dan Brown’s new novel, *The Lost Symbol*, seemed to herald the emergence of the electronic reading device (e-reader) as the next mass market, must-have gizmo, as the media trumpeted the news that Amazon.com Inc.’s (AMZN) first-day digital sales of the novel outsold paper copies. However, publishing pundits quickly refuted the assertion, calling into question how Amazon was going to account for pre-orders, which had made the hardcover version one of Amazon’s top-selling books for 156 days. While the actual number of e-book sales of “*The Lost Symbol*” is still undergoing vigorous debate—the Associated Press reported that it only represents 5 percent of sales—it seems clear that e-readers and e-books are coming into vogue.

With all that said, the question arises as to which company is ultimately going to become the e-reader sales leader? Among those currently in contention are Amazon, with its “Kindle;” Sony (SNE), with at least five versions of its “Reader;” Samsung, with its “Papyrus;” Fujitsu, with its “FLEPi;” Jinke Electronics, with its “HanLin eBook;” Interead, with its “Cool-er;” and iRex Technologies (a spinoff from Royal Philips Electronics {PHG}), with its “Digital Reader 1000” and “iLiad.”

Waiting in the wings, and likely to enter the fray with a big bang is Apple Inc. (APPL), with its highly anticipated, yet features-unknown, “iTablet,” which is expected to be released in January 2010. Microsoft (MSFT) is also starting to create buzz with its “Courier,” which is currently in “late prototype stage of development.” Others that may join the fray include Google (GOOG), Nokia (NOK), Hewlett Packard Co.

(HPQ), Palm Inc. (PALM), LG Electronics, Panasonic (PC), and probably just about any other company that already produces handheld electronic devices.

Despite the company’s refusal to release sales numbers, Amazon’s Kindle appears to be the sales leader in the U.S.; iRex reportedly holds the lead in Europe; and Sony is probably leading in the rest of the world absent China, which is under the dominance of Jinke. Amazon is lagging in its efforts to expand into Europe due to problems reaching agreements with suitable Wi-Fi and/or cellular operators. Sony is pushing hard in the U.S. market, promoting its readers through a partnership with Google that allows Sony Readers to download 500,000 titles free. iRex, meanwhile, recently announced plans to enter the U.S. market, having reached agreements with Verizon Communications Inc. (VZ) for wireless downloading and with Best Buy Company Inc. (BBY) for device sales.

According to analysts and market researchers, about 1 million e-readers were sold in the U.S. in

2008. Predictions for 2009 sales are vary widely, ranging from 2 million to 5.5 million devices, with some on the lower end of the scale asserting that the e-reader will not become a mass market device unless the price drops down to about \$100. E-readers currently sell for between \$250 to more than \$1,000, depending on the brand, model and country of sale.


Emergence of the ultimate market leader will be dependent on numerous factors, such as price, features, style, type of download access (wireless versus Wi-Fi), and the extent of access to digital content (Amazon is currently claiming about 250,000 books, while Sony claims about 1 million, with half of these offered free). Demographics will also play a role, much as it did with Apple’s iPod, sales of which were primarily driven by Generations X and Y.

While we are not aware of any marketing studies that have determined the composition of the average e-reader customer, Kindle Culture last summer performed an informal demographic analysis of

### The Perfect Reader

- 12" multi-touch color display at 360 dpi
- Pressure-sensitive stylus compatible
- PDF and epub support
- Safari browser
- 5 hour battery life
- 64G Flash storage
- OS X variant
- Wi-Fi, Bluetooth
- iTunes-style ebook management
- thickness: 0.5" weight: 2.5 lb.

concept design  
www.lo.wordpress.com



1,387 Kindle customers by examining 70 pages of Amazon's Kindle chat forum thread on the "Average Kindle Owner's Age." The results, while not in compliance with survey methodology standards and thus not statistically significant, were surprising in that they suggested that the Kindle may be the first modern technology device to receive early adoption by an older age bracket rather than by those 35 and under. In fact, the largest grouping of Kindle owners by decade were those in their 50s at 21.2 percent, followed by those in their 40s, 19.1 percent, and then by those in their 60s, with 18.3 percent. Only 24.3 percent of the customers were ages 34 and under. This suggests that Kindle may be making big strides with Baby Boomers, what of the younger generations?

We believe that Apple will be in an excellent position to capture these younger customers due to its overwhelming success in capturing this market with their iPod and other products. Not only is Apple a

Generation Y (and to some extent Gen. X) brand of choice, but many of these younger potential e-readers will be disdainful of Amazon's proprietary, or "closed," format.

Of course, Apple's success with the iPad will ultimately rely on its price and what sets it apart from the rest of the field. Apple is doing an excellent job keeping details on the product's features secret, but all indications are that, unlike other e-readers, it will be a multi-purpose machine. And this will put it into a more direct and separate competition with Microsoft's Courier, which is also projected to be a multi-purpose e-reader. "Are you a Mac or PC" will likely determine which customer goes for which of these two devices.

Another factor that could generate a sales leader, or make or break the other companies' devices is the U.S. textbook market. Whichever company, or companies, can get an edge into this market is looking at more than 60 million potential customers.

There is, of course, the possibility that the e-reader market gets split, with Apple getting the bulk of the younger generations, and the older generations being split between Amazon, Sony, Microsoft and the others. Whatever the case, the e-reader war is on, and Apple CEO Steve Jobs recently took a shot at Amazon's Kindle: "I'm sure there will always be dedicated devices, and they may have a few advantages in doing just one thing," Jobs said during a Sept. 9 release of Apple's updated iPod. "But I think the general-purpose devices will win the day because I think people just probably aren't willing to pay for a dedicated device. You notice Amazon never says how much they sell; usually if they sell a lot of something, you want to tell everybody."

We believe that within five years Apple's iPad sales have the potential to meet or surpass the surprising sales growth of the iPod (220 million units sold since Oct. 2001) and iPhone (26.4 million units sold since third quarter 2007).

## Sector Watch: Organic Food Market Soaring, Still Plenty of Upside

U.S. organic food production has more than doubled since the late 1990s; however, the consumer appetite has grown even faster, with organic food sales increasing from \$3.6 billion in 1997 to \$21.1 billion in 2008, and now accounting for 3 percent of total U.S. food sales. Despite this doubling, organic food production only represents 0.5 percent of all U.S. crop land and pasture, leaving plenty of room for growth in this burgeoning food product niche business. We believe that by 2020 U.S. organic food sales will have reached over \$100 billion.

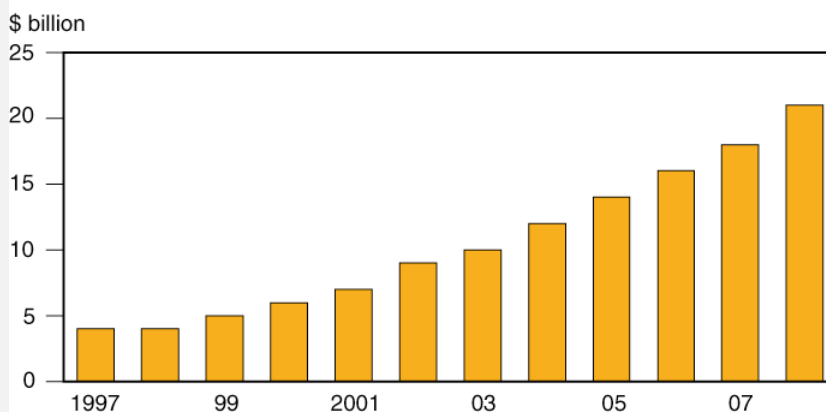
Today more than two-thirds of U.S. consumers buy organic products at least occasionally, and 28 percent buy organic products weekly,

according to the Organic Trade Association. Organic food products are now firmly established in the American food culture, and what was once available only in natural

product stores, are now found in mainstream venues like Wal-Mart, Target, and Costco.

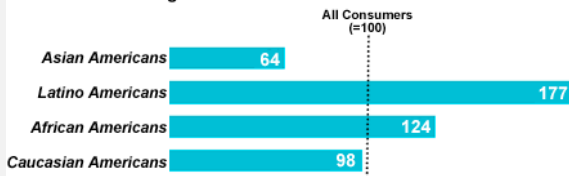
The top selling categories are fruit, vegetables and dairy products,

Figure 1  
U.S. organic food sales topped \$21 billion in 2008



Source: Nutrition Business Journal.

FIGURE 2. Core Organic Consumer Index



Base: All respondents with charted ethnicity (n=2106; 99 Asian Americans, 272 Latino Americans, 251 African Americans, 1748 Caucasian Americans in non-exclusive categories). Base for Native Americans (n=36) was too small to provide reliable result.

SOURCE: The Hartman Group, Organic 2006 Survey, December 2005.

accounting for more than half of organic food sales in 2007. These categories are followed by soy milk and other beverages, packaged foods, breads/grains, snack foods, condiments, and meat.

A recent survey by the Hartman Group suggests that about 50 percent of those who frequently buy organic food have incomes below \$50,000, and that African-Americans, Hispanic and Asian-Americans use more organic products than the general population, as shown by the organization's Core Organic Consumer Index.

These statistically significant findings have huge implications for marketers who traditionally have only targeted the upper-class white cohort of organic food consumers. While it is true, given their large numbers in the overall population, that the typical organic consumer is white, the real opportunity for the out-of-the-box corporate thinkers in terms of revenue growth lies with the other ethnic groups, who have a core organic preference, especially the fastest growing group, Hispanics.

Why do Hispanics have a closer tie to Organics? In general terms, they have resisted taking up the "ready meal solution" en-mass because of their close and more recent connections to the land and the authenticity of its products, the findings by The Hartman Group's survey showed.

"Compared to White Americans, Hispanics are significantly more likely to buy organics for the

following reasons: to support the environment, to avoid pesticides and genetically modified foods, to support better treatment of farm animals, "for my children" and because organic food tastes better."

One of the major constraints for organic food growth has been the lack of reliable supplies. However, it appears that help is at hand with the state of Illinois grasping the bull by the horns. A recent article in *Grist.com* (a Beacon in the Smog) showed how Illinois is tackling this problem and providing a model on how simple it is to increase the supply of organic or fresh food. The state's new organic food legislation will build the infrastructure for what will be a ground-breaking regional fresh food system in Illinois, that could be a model for the country. *Grist.com* writes:

"This Illinois state legislation establishes a council to develop a fresh farm and food system in the state, and it creates a system that allows buyers for state agencies to pay up to 10 percent above the lowest bid when purchasing locally grown foods. It also sets a goal for state-owned agencies to increase their purchase of locally grown foods each year so that 20 percent of their food purchase is spent on Illinois-grown foods by 2020.

"Currently, an estimated four percent of the money Illinois residents spend on food each year is for products grown in the state, and just several hundred of the state's 76,000 farmers are producing for the local market, according to a task force report.

"That last statistic is astonishing. Illinois has tens of thousands of farmers and only one half of one percent of them sell their

products in their home state. The new law is all the more impressive when you realize that Illinois is second only to Iowa in corn production—we're talking the heart of the Corn Belt here. It's quite a statement when a top agricultural commodity state has decided it's time to diversify its food production. And make no mistake, institutional buyers are exactly what growers need to have the confidence to give up their reliance on commodity crops, which they can always sell to the local grain elevator. Asking a farmer to grow something that he or she can't hope to sell isn't exactly a recipe for success. But what happens if they know the state will not only buy their produce, but pay a premium for it? I'm smelling a win-win here."

The number of Illinois farmers producing organics for farmers markets has tripled in the last ten years, but is still not enough to meet the demand from the commercial market. This new legislation should help encourage local farmers to meet this lucrative growing demand. This simple, effective and almost uncontroversial legalization is strategically brilliant. We believe if all 50 states adopted similar policies it would go a long way in helping to solve U.S. long-term health and rising obesity problems.

We believe that the 2008-2009 recession was an important milestone for the industry as it proved that organic products are economically viable, as they did not take a "sales nose dive" as predicted by many consumer experts. In fact, it did the reverse and the market has continued to thrive. Even the White House has joined the bandwagon with the recent launch of "White House Farmer's market," that will run through the Fall.

What does this growth demonstrate? We believe it is

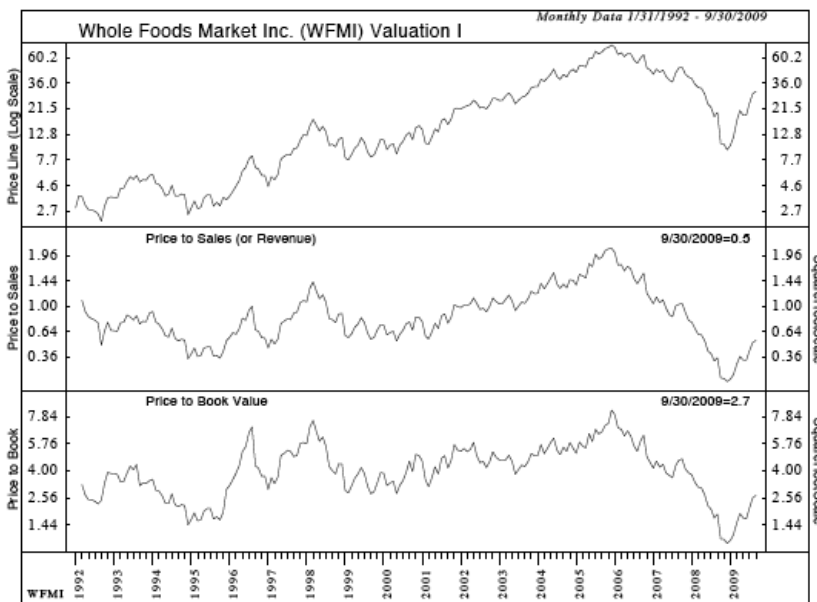
further proof that the trend towards organic food is not a fad, but a true testament to the way in which consumers want their food grown, processed and handled. Despite the economic difficulties over the last two years consumers are willing to pay more for organic produce.

The era of “cheap food” as represented by the 99 cents box of Ho-Hos is dead and truly buried. The ignored consequences of rising obesity, increased related health care costs, and environmental abuse have festered and been ignored for far too long. True, organic food has a more upfront cost (we would say investment), however it would seem that consumers are voting with their wallets for a solution that leaves a far better taste in their mouths today and lesser health care costs further down the road. Surprisingly, in relationship to their size, white Americans need more encouragement to become better core organic consumers. This is no easy task given their acquired taste for unhealthy ready-to-eat meals.

**How Can Investors Invest in this Organic Revolution?**

Well, if you don’t want to become a farmer or open a stall at the local farmers market, **Whole Foods Market Inc. (WFMI)** is our favored vehicle to play this growing theme. Founded in 1978 in Austin, Texas, they are the leading natural and organic supermarket chain in the U.S., and the first nationally certified organic grocer.

As of September 2008, the company operated 284 stores organized into 11 geographic operating regions, 264 stores in 38 states; six stores in Canada, and five stores in the U.K.



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Between 1992 and 2006 Whole Foods Market was an investors’ wonder stock that rose over the period from \$2 to nearly \$78. This placed the group on a price to sales ratio at nearly two times sales, with investor short-term expectations that were becoming impossible to meet. Higher commodity prices and a slowing economy resulted in the share price dropping 91 percent over the next three years, approaching almost \$8 in November 2008. This placed it on a P/S of just over 0.1 times and offered a wonderful opportunity for investors willing to back the recovery of this organic food play.

Since then the stock has not disappointed in terms of share price, as the stock is up about 300 percent from the late 2008 lows and meeting recovery earnings expectations. In August Whole Foods Market reported better-than-expected third quarter 2009 results.

Earnings per share came in at 25 cents versus 24 cents, a year ago. This surpassed the consensus estimates of about 19 cents, and was driven by stringent cost-control measures and improved store performance. On account of the better-than-expected results, management raised its full-year earnings outlook. Consensus estimates were raised to 85 cents for September 2009 and \$1.10 for September 2010. This places the stock on a forecasted P/E for 2010 of 27.3 and price to sales ratio of 0.5.

The easy money has been made, however the shares are not expensive given its further recovery prospects and expansion plans. The company will announce fourth quarter earnings and update expectations for 2010 on November 2. We would use any short-term weakness before or on this announcement as a buying opportunity.

Company	Code	Price	%*	Yield	P/E	P/S	P/B	P/D
Whole Foods Market Inc.	WFMI	31.67	169.3%	n/a	48.58	0.56	1.40	0.56

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

Source: Wall Street Journal—October 9, 2009

## Age Curve Snapshot: Canada Births, Market on the Upswing

Today we highlight the demographic landscape of Canada, which looks in better shape demographically than many of its developed economic partners. The country has been battling against the strong headwinds of a downturn in consumer expenditures that started in 1999 (Peak births in 1959 plus 40 years). However, this is set to turn up in 2013 and remain positive until 2031.

Statistics Canada in September reported that 2007 Canadian births were up 3.7 percent from 2006, the fastest annual increase since 1989. Four provinces—Alberta, Ontario, Quebec and British Columbia—accounted for 83 percent of the total increase in births. The number of births rose in all age groups, particularly among mothers ages 30 to 34, and in every province and territory, except Prince Edward Island and Yukon. Our own Nova Scotia showed a growth of 4.5 percent.

The total Canadian fertility rate (the average number of children born per woman) increased from 1.59 in 2006 to 1.66 in 2007. While this was the highest total fertility rate since 1992, it remains well below the replacement level of 2.1 children per woman needed to maintain a country's population.

The data also showed that for the second year running women ages 30 to 34 were the main contributors to the increase in births, accounting for 31.4 percent of births in 2007. Overall, women ages 30 and over accounted for more than 56 percent of 2007 births.

Statistic Canada reported that the increase was a result of "two colliding demographics: "baby busters" aged 33 to 41, and women born to boomers - the "echo"

generation aged 12 to 32, and now poised to give birth."

Although this is good news, it is very much expected because women are having children later than they did in the early 1990s (see bottom chart). The average age has risen from about 25 to 29 years old.

Also the reduction in births, shown in the chart below, between 1990 (405,486) and 2001 (327,107), was a result of the collapse of 28.4 percent in births between 1959 (Peak births of 479,275) and 1973. That mathematically lead to a smaller number of women being able to give birth, although this has to be adjusted for immigration.

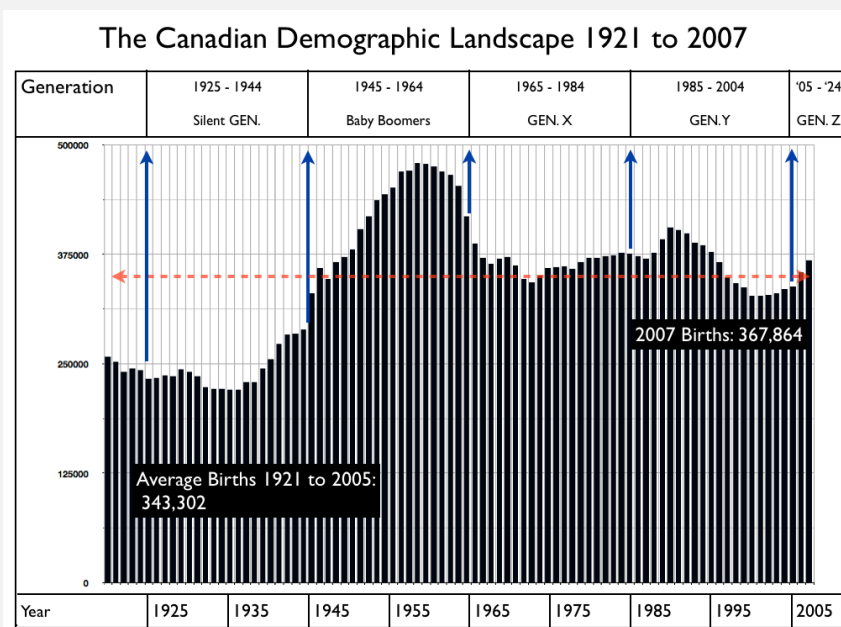
The current rise in births can be attributed in part to Canada's immigration policy (immigrants birth rates tend to be high) and to the greater number of births between 1973 and 1990, a rise of 18.1 percent. In layman's terms: a greater number of women being able to give birth to a greater number of babies.

This trend of higher births should continue to around 2020 and

should easily surpass the 1990 peak of 405,486, helping Generation Z become 1 percent larger than Generation Y. Generations X, Y and Z do not include the 4 million or so immigrants that have entered Canada during each generation, however the births in Y and Z do.

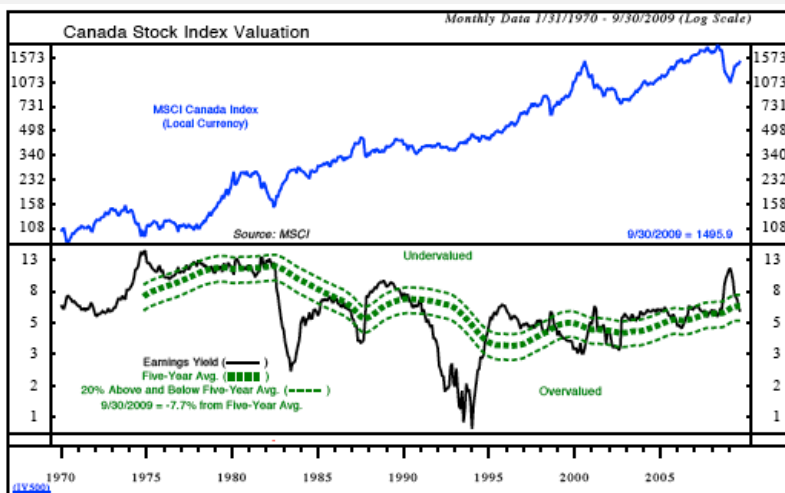
For the last ten years the Canadian economy has benefited from, and is expected to continue to benefit from, the global commodity demand in the energy, materials and agriculture sectors. This, combined with a strong banking system, following its restructuring from its "bust" in the early 1990s, places it in a strong economic position going forward.

The iShares MSCI Canada index ETF (EWC) has been a strong performer since the March 2009 lows. It has returned 90.6 percent versus the S&P Global Index ETF (IOO) return of 63.5 percent. This outperformance has been driven by the Index's overweight position in the top performing sectors since the March lows: Financials, with a 36 percent weighting; and Materials,



with 18 percent. This has made up for the underperformance of the ETF's second largest sector, Energy, with a 26 percent weighting. The iShares Canadian Small Cap fund (Canadian listed ETF: XCS) is up 69.3 percent and has underperformed the large cap index because of its lower weighting in financials, 14 percent versus the 36 percent weighting in the EWC.

Both Canadian ETFs need a period of short term consolidation after such a strong recovery in the commodity markets, and we would favor buying opportunities in the iShares Canadian Small Cap fund.



Source: Ned Davis Research

## The Informed Investor

### Market Overview: Is it Time to Rethink Stocks? We Don't Think So!

By Logie Cassells

Jim O'Shaughnessy's latest commentary, "Asset Allocation Mistakes," challenges the crowd's latest asset allocation solution as highlighted in a recent Wall Street Journal article, "Rethinking Stocks' Starring Role."

It would appear from the WSJ article that there is a growing number of financial advisors, who are challenging the classic 60/40 split between stocks and bonds, as it ignores alternative asset classes that can offer returns with different levels of risk.

Our instant response is "have these advisors not learned from their 'March of Folly' between 2003 to 2008, when boys with toys and formulae loaded up with illiquid alternative assets, packaged them in brightly colored wrapping paper and sold them to the unsuspecting investment world (professional and

general public alike)?" Obviously not. Jim O'Shaughnessy points out that:

*"[I]n many instances, we hear that advisors are moving their stock allocation to just 15 percent, with fixed income alternatives making up the balance of their portfolios. When we ask mutual fund wholesalers what they are selling,*

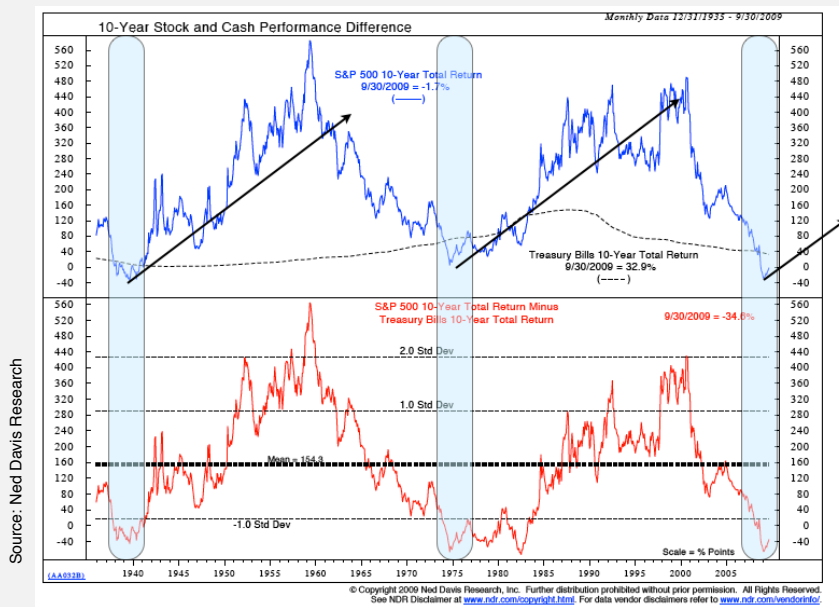
*the answer is always "bond funds, bond funds, and more bond funds."*

One of the reasons behind this is "recency bias." This describes the investors' tendency to associate more importance to recent events than to the more distant.

The crowd's latest recency bias, or flawed rule of thumb, is that from

Recession		Subsequent Returns (%)											
Start Date	End Date	60-40 Portfolio				15-85 Portfolio				Excess Return (60-40 Portfolio minus 15-85 Portfolio)			
		1-Year	3-Years	5-Years	10-Years	1-Year	3-Years	5-Years	10-Years	1-Year	3-Years	5-Years	10-Years
10/31/1926	10/31/1927	21.88	-1.65	-4.93	6.99	7.57	4.74	2.12	4.36	14.31	-6.39	-7.05	2.63
4/30/1929	2/28/1933	138.38	49.60	23.84	16.05	15.69	11.09	7.42	5.61	122.68	38.51	16.42	10.44
5/31/1937	5/31/1938	16.66	7.32	15.03	13.92	9.99	4.36	4.58	4.14	6.67	2.96	10.44	9.79
2/28/1945	9/30/1945	4.01	4.68	8.79	11.82	1.17	1.58	3.11	3.99	2.84	3.10	5.68	7.83
11/30/1948	9/30/1949	28.04	16.31	14.81	14.06	5.70	3.74	4.99	3.85	22.34	12.57	9.81	10.21
7/31/1953	4/30/1954	36.82	15.55	15.66	11.69	6.14	3.29	3.52	4.34	30.68	12.26	12.14	7.35
8/31/1957	3/31/1958	34.41	17.38	11.72	11.76	1.96	4.89	4.48	3.69	32.44	12.49	7.24	8.08
4/30/1960	1/31/1961	11.35	8.47	11.51	9.42	4.14	4.65	4.32	3.96	7.21	3.82	7.19	5.47
12/31/1969	10/31/1970	20.11	10.47	6.60	11.18	16.00	8.77	6.93	5.94	4.12	1.70	-0.33	5.24
11/30/1973	2/28/1975	34.02	16.26	16.18	16.98	10.07	6.68	4.21	8.78	23.95	9.58	11.96	8.21
1/31/1980	6/30/1980	17.75	22.69	18.76	15.56	-2.31	12.21	12.92	12.34	20.05	10.48	5.84	3.22
7/31/1981	10/31/1982	25.84	18.07	15.41	14.28	8.83	13.34	13.21	12.34	17.01	4.73	2.20	1.94
7/31/1990	2/28/1991	23.85	16.10	14.84	13.19	12.91	11.39	10.42	9.87	10.94	4.72	4.41	3.33
3/31/2001	10/31/2001	-9.64	8.41	9.73	—	3.67	5.57	5.26	—	13.31	-2.84	-4.47	—
Average		28.82	14.98	12.71	12.84	7.25	6.88	6.25	6.40	21.57	8.10	6.46	6.44

Source: O'Shaughnessy Asset Management



February 1969 to February 2009 (40 years), 20-year Treasuries (income reinvested) would have beaten investors in the S&P 500. This fact is true (see chart above) and there have been many other 40-year periods when bonds have beaten stocks. The key point the crowd is missing is, “in this Generational Opportunity for equities what happens over the next ten years following those 40 years of equity underperformance?”

Back to Jim O’Shaughnessy’s research of looking at how the two asset allocation models (60/40 and 15/85 equity bond split) have performed as the U.S. economy emerged from a recession. The table below shows the results, and, not surprisingly, the 60/40 traditional mix outperformed the “New” mix by more than 21.5 percent one year after the recession, and 6.4 percent per annum for the next 10 years.

In layman’s terms, if you invested \$250,000 and followed the 15/85 split, ten years from now it would have grown to \$464,897 versus the 60/40 split total of \$836,702.

We are strong believers and supporters of asset allocation as an important tool to add value over time, and O’Shaughnessy’s research shows there is no need to “rethink stocks starring role.” If anything, the proposed asset allocation change at a recessions end should be 85 percent equities and 15 percent bonds.

### Portfolio Review

In September we maintained our cautious stance. We took profits in two companies (Quicksilver and GameStop) and two ETFs (iPath Global Carbon and Market Vectors Coal). In terms of iPath Global Carbon, we were reluctant sellers, but it seems that Carbon talks in Copenhagen may well disappoint, and thought it would be better to

wait on the sidelines. We also took profits in our gold position, due to sentiment returning to overly optimistic levels.

We added three new demographically-inspired companies, which have recently announced results above expectations and appear cheap on a price to sales basis: Ulta Salon, Cosmetics and Fragrance (ULTA), 0.86; Children’s Place Retail Stores (PLCE), 0.53; and Whole Foods Market (WFMI), 0.50. We believe that their positive demographic profiles will ensure earning surprises over the next 12 months. It is prudent to expect a moderate pace of share price performance, however we do expect these companies to outperform the market.

We added a position in Microsoft ahead of its Window 7 launch on October 22. The stock has traditionally outperformed 12 months following the launch of a major upgrade. Sentiment remains negative towards Microsoft, However we feel that there is a 12-month window of opportunity on the basis that its P/S is back to levels last seen in the late 1980s and that a new IT spending cycle is about to begin.

This month’s star performer was Nu Skin, which rose nearly 32 percent since the publication of the September Report. This puts the shares at a new four-year high. Despite its short-term outperformance, we continue to believe the market is underestimating this company’s excellent long-term growth potential.

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Model Beacon Master Portfolio										Date	9 Oct. '09
Ticker	Name	Yld	PE	P/S	Cost	Price	No.	% of Fnd.	Value	G/L	G/L %
<b>Bonds, Gold and other</b>								<b>23.6%</b>			
UUP	PowerShares US Dollar Index Bullish Fund				22.8	22.7	3,504	4.7%	79,611	-315	-0.4%
GLD	SPDR Gold Trust	0			95.5	102.8	582	3.6%	59,841	4,254	7.7%
TIP	iShares Barclays TIPS Bond Fund	0.6			98.1	102.8	610	3.7%	62,702	2,843	4.7%
HYG	iShares High Yield Corporate Bond Fund	9.9			83.2	85.7	1,522	7.8%	130,496	3,820	3.0%
PGF	Power Shares ETF Financial Preferred Portfolio	9.0			15.1	16.0	3,980	3.8%	63,600	3,423	5.7%
<b>Technology and Telecoms</b>								<b>11.0%</b>			
AAPL	Apple Inc.	0	33.1	4.9	94.0	190.4	212	2.4%	40,369	20,441	102.6%
MSFT	Microsoft Corp.				25.0	25.6	1,622	2.5%	41,491	957	2.4%
SWKS	Skyworks Solutions	0	21.3	2.5	12.4	12.4	2,040	1.5%	25,316	0	0.0%
VOD	Vodafone Group PLC ADS	7.9	23.1	1.7	19.3	21.4	1,038	1.3%	22,161	2,180	10.9%
IGW	iShares S&P NA Technology- Semiconductor Index	0.6			26.6	44.9	1,239	3.3%	55,631	22,637	68.6%
<b>Consumer Discretionary</b>								<b>14.0%</b>			
XHB	SPDR S&P Homebuilders ETF	1.0			14.3	15.1	2,099	1.9%	31,779	1,784	5.9%
AMZN	Amazon.com				93.6	95.7	414	2.4%	39,624	857	2.2%
ULTA	Ulta Salon Cosmetics & Fragrance				16.5	17.4	1,214	1.3%	21,136	1,141	5.7%
PLCE	Children's Place Retail Stores	0	14.1	0.6	29.9	33.9	668	1.3%	22,612	2,645	13.2%
ARO	Aeropostale	0	16.0	1.4	32.9	42.4	610	1.5%	25,882	5,832	29.1%
AEO	American Eagle	2	29.9	1.3	17.3	18.4	1,151	1.3%	21,132	1,174	5.9%
PSUN	Pacific Sunwear of California	0	0	0.3	4.3	6.1	4,469	1.6%	27,082	8,089	42.6%
CMG	Chipotle Mexican Grill	0	30.7	2.0	81.0	91.8	247	1.4%	22,670	2,663	13.3%
LRN	K-12	0	44.7	1.7	20.3	19.0	1,230	1.4%	23,419	-1,550	-6.2%
<b>Industrials</b>								<b>2.8%</b>			
XLI	SPDR Industrial Sector Index Fund ETF	2.2			22.8	26.6	1,752	2.8%	46,516	6,517	16.3%
IWM	iShares Russell 2000 Index Fund	1.0			44.3	61.4	746	2.7%	45,834	12,779	38.7%
<b>Energy and Materials</b>								<b>2.4%</b>			
WLC	Western Lithium Canada (C\$ 1.09)	n/a	n/a	n/a	0.92	1.04	14,272	0.9%	14,843	1,713	13.0%
BP	BP	6.4	14.3	0.6	52.6	52.3	475	1.5%	24,828	-176	-0.7%
<b>Health Care</b>								<b>1.2%</b>			
XBI	SPDR S&P Biotech ETF	1.2			49.1	50.8	407	1.2%	20,676	680	3.4%
<b>Financials</b>								<b>6.7%</b>			
RY	Royal Bank of Canada	3.6	28.6	n/a	40.0	53.6	624	2.0%	33,453	8,474	33.9%
WFC	Wells Fargo & Co.	0.7	37.2	n/a	18.2	29.2	1,375	2.4%	40,164	15,166	60.7%
RKH	Merrill Lynch Regional Bank HOLDERS Trust	0			63.6	82.5	471	2.3%	38,872	8,935	29.8%
<b>Consumer Staples</b>								<b>6.8%</b>			
SAM	Boston Beer Co. CI A	0	32.8	1.3	25.9	38.1	1,080	2.5%	41,094	13,111	46.9%
WVVI	Willamette Valley Vineyards	0	21.3	1.1	3.3	4.0	6,079	1.4%	24,012	4,012	20.1%
WFMI	Whole Foods Market	0	48.2	0.6	30.5	31.7	656	1.2%	20,776	781	3.9%
NUS	Nu Skin	2.6	17.4	0.9	15.3	21.3	1,308	1.7%	27,808	7,809	39.0%
<b>Developed Overseas Markets</b>								<b>6.8%</b>			
EWJ	iShares MSCI Japan Index Fund	1.0			8.7	10.0	3,778	2.2%	37,591	4,760	14.5%
EWU	iShares MSCI United Kingdom Index Fund	2.8			11.8	15.5	1,784	1.6%	27,581	6,583	31.4%
EWA	iShares MSCI Australia Index Fund	0.4			15.1	23.4	901	1.3%	21,056	7,496	55.3%
EWC	iShares MSCI Canada Index Fund	0.7			20.3	26.1	1,081	1.7%	28,214	6,227	28.3%
<b>Emerging Markets</b>								<b>3.3%</b>			
TUR	iShares MSCI Turkey Market Index Fund	2.2			45.5	53.2	597	1.9%	31,784	4,597	16.9%
TKC	Turkcell Iletisim Hizmetleri A.S.	4.9	9.8	2.4	16.0	18.2	1,246	1.4%	22,727	2,741	13.7%
<b>Cash</b>								<b>18.6%</b>	312,125		
<b>Realized Gain/Loss</b>										468,562	
<b>Value of Model Beacon Master Portfolio</b>									1,676,508		
<b>Market Outlook:</b> Buy as of December 5, 2008											
<b>Market Phase:</b> Recession End to Earnings Trough											
<b>Performance Comparison from Dec. 5, 2008</b>											
<b>Model Beacon Master Portfolio</b>										67.7%	
<b>S&amp;P Global</b>										22.8%	
<b>S&amp;P 500</b>										22.0%	
<b>Canada MSCI Index</b>										69.1%	
<b>UK MSCI Index</b>										32.2%	
<b>Commodity Index</b>										15.2%	
<b>US Bond Index</b>										4.4%	

## Portfolio Overview

### Sector: Consumer Discretionary and Overweight.

**Theme:** Consumer recovery with an emphasis on Generation Y spending and value or discount retailers. The portfolio is currently weighted 14 percent towards the consumer discretionary sector. This sector is traditionally one of the strongest performing sectors following a bear market low. This recovery has proved no different, with the sector up 73.4 percent versus the S&P 500 return of 57.9 percent since the March 2009 lows.

#### Children's Place Retail Stores (PLCE)



**Theme:** Operating in the current demographic lucrative 0- to 12-year-old children's market.

**Comment:** 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 the company's sales bubbling along for the next six to eight years. We favor Children's Place over its rival, Gymboree, because it operates at the value or discount point of the children's consumer market. Please see our September 22 Three Beacon Blog for further details.

**Results:** Q3 2009 results, November 19. Consensus estimate, \$0.94 (High, \$1.03 and Low, \$0.84).

**Valuation:** The shares sell on a consensus January 2010 PE of 15.5, falling to 12.9 the year after. The shares are on a 12 month trailing Price to Sales ratio of 0.58. We believe the shares are very undervalued, given the company's recovery and long term growth prospects.

#### Aeropostal (ARO)



**Theme:** Generation Y consumer spending at the value or discount market point.

**Comment:** Aeropostal is our key indicator for the health of the Generation Y consumer spending. The company's objective of providing Generation Y with high-quality fashionable products at prices that represent substantial value relative to the competitors appeals to the price

conscious Generation Y spender. The company raised earnings guidance in August for Q3 2009.

**Results:** Q3 2009 results, December 2. Consensus estimate \$0.86 (High, \$0.90 and Low, \$0.84).

**Valuation:** The shares sell on a consensus January 2010 PE of 13.6, falling to 12.5 the year after. The shares are on a 12month trailing Price to Sales ratio of 1.4. We believe the shares are undervalued, given the company's recovery and long term growth prospects.

#### American Eagle (AEO)



**Theme:** Recovery in the non-discounters consumer market segment.

**Comment:** The company raised earnings guidance in October for Q3 2009.

**Results:** Q3 2009 results, November 24. Consensus estimate \$0.21 (High, \$0.23 and Low, \$0.19).

**Valuation:** The shares sell on a consensus January 2010 PE of 24.9, falling to 18.4 the year after. The shares are on a 12-month trailing Price to Sales ratio of 1.3. We believe the shares are good value, given the company's recovery and long term growth prospects.

#### Pacific Sunwear of California (PSUN)



**Theme:** The number one Generation Y West Coast brand and a recovering Californian economy.

**Comment:** The shares were priced for extinction back in March and, despite its strong share price recovery, we believe that this favored Generation Y retailer is very undervalued given its very low Price to Sales ratio and the overall improvement in apparel retail sales.

**Results:** Q3 2009 results, November 20-30 timeframe. Consensus estimate, \$0.21 (High, \$0.17 and Low, \$0.24).

**Valuation:** The shares sell on a consensus January 2010 PE of n/a, falling to n/a the year after. The shares are on a 12 month trailing Price to Sales ratio of 0.35. We believe the shares are very undervalued, given the company's recovery and long term growth prospects.

**Ulta Salon Cosmetics & Fragrance (ULTA)**

**Theme:** The beauty market is backed by strong demographics from Generation Y to the Baby Boomer.

**Comment:** Ulta is the value leader and the only retailer that offers products and services across all segments of the U.S. beauty market, currently worth \$75 billion. The company has produced 21 percent compound sales growth since 2003.

**Results:** Q3 2009 results, November 30 - December 10. Consensus estimate, \$0.10 (High, n/a and Low, n/a).

**Valuation:** The shares sell on a consensus January 2010 PE of 15.5, falling to 12.9 the year after. The shares are on a 12-month trailing Price to Sales ratio of 0.58. We believe the shares are very undervalued, given the company's recovery and long term growth prospects.

**Amazon (AMZN)**

**Theme:** Recovery in consumer spending and expectations of a positive Christmas E-commerce season.

**Comment:** Amazon has gone from "that bookstore" in peoples' mind to the general online retailing leader. Despite Apple's future competition to Kindle, we expect sales of its new e-reader to surprise on the upside.

**Results:** Q3 2009 results, October 22. Consensus estimate \$0.33 (High, \$0.37 and Low, \$0.27).

**Valuation:** The shares sell on a consensus December 2009 PE of 56.9, falling to 44.1 the year after. The shares are on a 12 month trailing Price to Sales ratio of 2.0. We believe the shares are undervalued, given the company's position, recovery and long-term growth prospects.

**Chipotle Mexican Grill (CMG)**

**Theme:** The U.S. Generations', in particular Generation Y, growing taste for quality Mexican food.

**Comment:** This restaurant chain should benefit from favorable demographics and Generation Y's support of the company's strategy to embrace the use of local produce in its stores.

**Results:** Q3 2009 results, October 22. Consensus estimate \$0.86 (High, \$0.98 and Low, \$0.75).

**Valuation:** The shares sell on a consensus December 2009 PE of 26.8, falling to 23.6 the year after. The shares are on a 12-month trailing Price to Sales ratio of 2.0. We believe the shares are undervalued, given the company's recovery and long term growth prospects.

**K-12(LRN)**

**Theme:** K12 is a technology-based education company that offers proprietary curriculum and educational services to students in kindergarten through 12th grade in charter schools or who are being home schooled.

**Comment:** The shares have recovered since only meeting analysts estimates back in early September. We continue to expect the company to benefit from its positive demographic landscape over the next five years.

**Results:** Q1 2010 results, November 9-19. Consensus estimate, \$0.23 (High, n/a and Low, n/a).

**Valuation:** The shares sell on a consensus June 2010 PE of 28.8, falling to 22.1 the year after. The shares are on a 12-month trailing Price to Sales ratio of 1.8. We believe the shares are good long-term value, given the company's recovery and long term growth prospects.

**SPDR S&P Homebuilders ETF (XHB)**

**Theme:** Housing recovery

**Comment:** Top holdings: Home Depot, Lowes Cos, Bed Bath & Beyond, Sherwin Williams, Masco, and Pulte Homes.

**Results:**

**Home Depot (HD):** Q3 2009 results, November 17. Consensus estimate \$0.35.

**Bed Bath & Beyond (BBBY):** Q3 2009 results, January 4 - January 10. Consensus estimate, \$0.48.

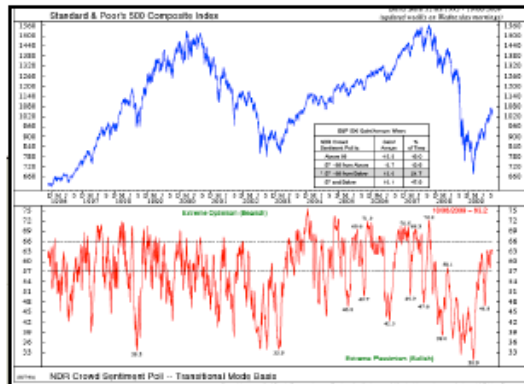
## Market Data: Performance & Sentiment

Global stock markets have continued to climb to new post-recovery highs, with the Global Dow up 51.2 percent, up from the month ago figure of 42.4 percent. The recovery rally continues to be driven by emerging markets and those sectors geared to the economic recovery (consumer discretionary).

We continue to take a cautious investment stance until we see sentiment improve to a reading below 45. We are currently positioned for any short-term speed bumps between now and late November, and plan to return to a fully invested position by December or a sentiment reading below 45. This week we begin a new results season, and despite our market caution, we will be keeping a close eye on those consumer discretionary stocks which announce revenue surprises.

### Performance from November 20, 2008 Market Low to October 9, 2009

Markets	11/20/'08	10/09/'09	Move %	Ticker	U.S. Sector	11/20/'08	10/09/'09	Move %	Ticker
Global Dow	1265	1913.14	51.2%		Materials	19.9	31.5	58.5%	XLB
S & P 500	741	1071.49	42.2%		Health Care	23.6	28.9	22.6%	XLV
FTSE 100	3875	5161.87	33.2%		Consumer Staples	22	25.9	18.1%	XLP
Dow Europe Stoxx	204	271.06	32.9%		Consumer Discret.	16.3	27.8	70.2%	XLY
Nikkei	7703	10,016.39	30.0%		Energy	40	56.2	40.5%	XLE
Emerging Markets	18.3	39.85	118.2%	EEM	Financial	9.4	15.2	62.3%	XLF
CRB Index	230.4	262.55	14.0%	CRB	Industrial	20	26.6	32.8%	XLI
Gold	73.4	102.84	40.0%	GLD	Technology	13.2	21.0	59.4%	XLK
U.S. Corporate Debt	63.4	85.74	35.2%	HYG	Utilities	26.2	29.3	11.6%	XLU
U.S. 30 Year Yield	3.50%	4.24	-26.0%		Nasdaq Composite	1316.1	2139.28	66.2%	
U.S. Dollar	27.1	22.72	-16.2%	UUP	Russell 2000	385.3	614.92	59.6%	



Despite our short-term caution our model Beacon Master Portfolio continues to be positioned for the generational opportunity in equities. From an historical perspective, the average of all bull markets since 1960 lasted 39 months and returned over 92 percent.



Source: Ned Davis Research, Inc. and Martin Pring

## **Ahead of the Curve** By Ken Gronbach **Latino Immigration Huge Benefit to U.S.**

Recently my wife, two daughters and I were invited to a homecoming party for a middle-aged Latino friend who had been away in the Philippines for several months on special military assignment for the U.S. Air force. The house was packed and we were definitely the non-Latino minority because every grandmother, grandfather, mom, dad, brother, sister, aunt, uncle, in-law, cousin, niece, nephew and friend was in attendance to welcome Angel home. It was an interesting mix and my demographic instincts took over.

The older first-generation folks who were born in Puerto Rico spoke English, but with a definite Spanish accent. When they spoke among themselves they seemed to favor speaking Spanish. The second generation, Angel's counterparts, spoke perfect English with only a slight hint of the Spanish accent. The remaining third and fourth generation young adults, teens and young children chattered away in English and, so I'm told, know little or no Spanish. However, one or two young recent arrivals spoke Spanish.

I was very impressed by how quickly these Latino immigrants assimilate. My German ancestors, who first came to the U.S. in 1840, took 100 years to break away from the old culture, but these Latinos seem to have done it in a single twenty-year generation. Amazing.

Demography aside, the food was wonderful, indigenous dishes I can't pronounce but could certainly eat. For desert Angel summoned the entire group into the dining room for the ceremonious cutting of a huge cake, and a wonderful thing happened that I would never have expected: the entire family spontaneously belted out the "Star Spangled Banner."

A recently released Pew Research Center report—*Latino Children: A Majority are U.S.- Born Offspring of Immigrants*—sheds some interesting light on this dynamic, yet often misunderstood group, such as the fact that Latinos now make up 22 percent of all U.S. youth under the age of 18, up from 9 percent in 1980. A whopping 52 percent of the country's 16 million Latino kids are considered second generation, meaning they are the native born offspring of at least one foreign born parent. About 11 percent of Latino kids are themselves first generation meaning that they were born outside of the U.S., and about 37 percent are third generation, meaning they are U.S. born from U.S. born parents.

Projections by the U.S. Census Bureau indicate that by 2025 nearly three in 10 children in the U.S. will be of Latino ancestry. While on the surface this number might alarm some people it is actually very healthy from a demographic stand point. As immigrants go Latinos bring a lot to the table. They assimilate very quickly, are hard working, have strong family ties and are culturally very compatible with mainstream America. It would be difficult to design a better immigrant.

In 2007 some 4.3 million babies were born in the U.S., marking a new record for the number of U.S. births. About 25 percent of those babies were Latino, precipitated by only 14 percent of the U.S. overall population. Thanks to this Latino contribution, the U.S. is one of the few Western cultures and industrialized nations in the world with above replacement level fertility (2.2). This means that unlike Japan or the European Union the U.S. will have a viable youthful labor force for decades to come.

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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](http://Amazon.com).

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