

# AGE CURVE WEEKLY FOCUS

How to Profit from the Ever-Changing Demographic Landscape

## Market Awaits Earnings Confirmation and Apple's New Device

Current profit taking following President Obama's comments on bank reform has pushed the S&P 500 ETF (SPY) down below its 50-day moving average. The chart on page 3 shows that this has occurred twice before during the current "Monster Rally"—the first time in July with a 7 percent correction, and again in November, with a 5 percent correction. In both cases markets bounced back to new recovery highs.

It is too early to say whether markets will climb (as expected—see page 3 chart) to new highs by April, or if this is the start of our expected market consolidation come early. We continue to tread a cautious path by staying away from over-belived themes (China related), and concentrating on overlooked companies with price to sales ratios below 0.7, which we believe should offer protection if the short-term correction has indeed arrived early.

The model Beacon Master Portfolio is showing a return of 72.8 percent, and represents a

50.8 percent outperformance over the S&P Global Index ETF (IOO) since our "Generational Opportunity" buy signal of December 5, 2008.

The model's trend of outperformance is continuing into its second year from December 5, 2009 to January 15, 2010. The model is up 2.8 percent versus a small negative return of 2.7 percent for the S&P Global Index ETF (IOO).

Due to our caution, or concerns on sentiment and valuation, we have placed a stop-loss at 1080 on the S&P 500 or 108 on the ETF (SPY). At this point, we would look to shift to a more defensive portfolio stance to protect

the model's capital. More details on this can be found in the 2010 outlook for markets in our recently released Age Curve Report "2010 Outlook" issue, available on our report archive at [www.beaconassetmanagers.com](http://www.beaconassetmanagers.com).

Also new on our website's 3 Beacon Blog is Ken Gronbach's interview on the Don Creech Show, a nationally broadcast financial radio show.

### Model Portfolio Update

The model Beacon Master Portfolio is showing a return\* of 72.8 percent, and represents a 50.8 percentage point outperformance over the S&P Global Index ETF (IOO) since our buy signal of December 5, 2008.

The Model Beacon Master Portfolio:	72.8%
S&P Global 100 Index:	22.0%
S&P 500:	24.2%
U.S. Bond Index:	5.1%

\*Figures based on Friday's closing prices

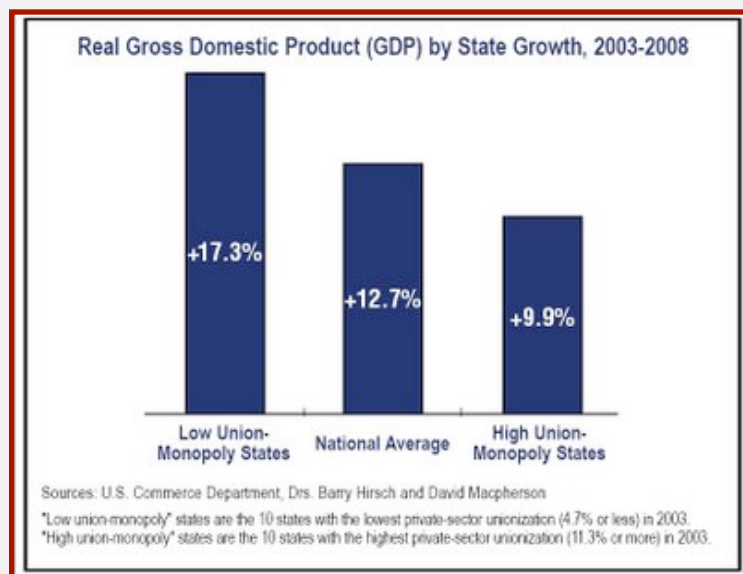
## DEMOGRAPHIC LANDSCAPE

### U.S. Labor Union Membership Set to Decline Further with Gen. Y

Last year U.S. trade union membership saw its biggest decline in more than 25 years, with the number of workers belonging to unions declining by 771,000 to 15.3 million, or just 12.3 percent of the workforce. In 1983 labor union membership in the U.S. workforce was 20.1 percent, and at its 1945 peak, 36 percent.

The U.S. Bureau of Labor Statistics 2009 Union Members summary also showed:

More public sector employees (7.9 million) belonged to a union than did private sector employees (7.4 million), despite there being 5



times more wage and salary workers in the private sector.

Workers in education, training, and library occupations had the highest unionization rate at 38.1 percent.

Black workers were more likely to be union members than were white, Asian, or Hispanic workers.

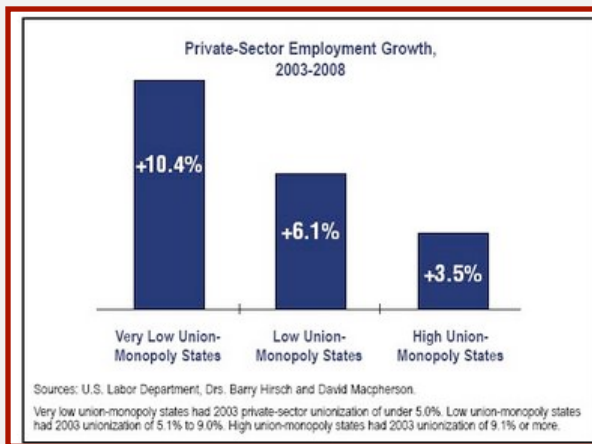
Among states, New York had the highest union membership rate (25.2 percent) and North Carolina had the lowest rate (3.1 percent).

Union membership has been in steady decline since 1983 due to the dramatic decline seen in the private sector union membership, and manufacturing in particular. The low approval rating of unions was shown in an August 2009 Gallup Poll, which showed that for the first time 48 percent of Americans approved of unions and represents the first sub-50 percent approval since Gallup first asked the question in 1930. The previous low of 55 percent was hit in 1979 and 1981. The drop was across most demographic and political groups, but was most marked among

political independents.

Also repeated studies (see charts) demonstrate that low union states produce the highest real gross domestic product and highest private sector employment growth (2003 to 2008) compared to high union membership states.

It is arguable whether demographics has played a major role in the rapid decline in union membership since 1945, although the Baby Boomers' refusal to "sign up" certainly added to the declining membership woes in the 1980s and 1990s. The highest membership is seen in the age brackets of 55 to 64 (16.6%), while the lowest is in the 16 to 24 (47%) bracket. Therefore, as Generation Y floods into the workforce and the Boomers exit,



membership will likely continue to fall and probably fall well below 10 percent by 2020. We expect the biggest declines in the high union states, in particular New York (24.9%), Michigan (19.6%) and California (18.4%). The added surprise for investors will be higher than expected real gross domestic product and private sector employment growth over the next decade. We believe this adds further support to our "Generational Opportunity" in equities.

## MARKET WATCH

About 150 companies have reported earnings since Alcoa kicked off earnings season earlier this month, with 70 percent of them exceeding analyst estimates for earnings per share. The earnings "Beat Ratio" was 68 percent in the prior two quarters, marking a high bar to surpass this quarter.

With the market struggling, it appears as if investors may have already factored in a healthy earnings season, and are too focused on other issues (perhaps the China lending crisis?). However, if the earnings numbers do manage to exceed 70 percent, this may give the market a further boost until April.

Sectors	Code	PRICE	YTD	Sep 9, 2009	Mar 9, 2009	2009	2008
Dow Jones	DIA	101.63	-2.3%	6.4%	55.3%	22.70%	-34.2%
S&P 500	SPY	109.21	-2.0%	5.3%	60.3%	26.50%	-31.9%
NASDAQ	QQQQ	44.16	-3.5%	7.5%	71.6%	54.60%	-37.0%
Russell Index ETF	IWV	64.04	-1.9%	5.5%	63.4%	22.2%	-41.5%
S&P Global 100 ETF	IOO	58.16	-3.5%	1.9%	61.5%	17.8%	-40.4%
Emerging Markets ETF	EEM	39.61	-4.6%	6.1%	91.4%	58.6%	-53.5%
Brazil ETF	EWZ	67.97	-8.9%	8.8%	105.8%	103.3%	-53.0%
India ETF	INP	61.15	-4.5%	8.7%	153.4%	91.1%	-64.0%
China ETF	FXI	39.07	-7.4%	-7.5%	65.0%	35.6%	-42.9%
Russia ETF	RSX	31.5	1.0%	25.5%	162.7%	119.5%	-72.6%
Japan ETF	EWJ	10.17	4.4%	-0.1%	48.0%	1.0%	-25.6%
Europe ETF	IEV	37.09	-4.8%	-1.9%	73.2%	23.8%	-43.6%
UK ETF	EWU	15.68	-3.2%	0.3%	74.2%	31.7%	-47.8%
Canada ETF	EWC	25.08	-4.7%	2.6%	81.9%	47.3%	-43.7%
US Dollar ETF	UUP	23.08	0.0%	0.7%	-16.8%	-7.4%	7.0%
Gold ETF	GLD	107.17	-0.1%	10.4%	18.3%	24.5%	1.3%
Total Bond ETF	BND	79.5	1.2%	0.8%	4.7%	0.0%	1.5%
Commodity ETF	DBC	23.52	-4.5%	6.4%	23.2%	12.3%	-32.5%

Sectors	Code	PRICE	YTD	Sep 9, 2009	Mar 9, 2009	2009	2008
Consumer Discretionary	XLY	29.02	-2.6%	8.2%	80.1%	41.3%	-33.5%
Consumer Staples	XLP	26.29	-0.7%	5.0%	35.4%	14.9%	-15.4%
Energy	XLE	56.30	-1.2%	7.3%	44.9%	13.9%	-34.9%
Financials	XLF	14.18	-1.5%	-2.2%	126.5%	17.2%	-55.2%
Health Care	XLV	31.66	1.9%	10.4%	44.7%	19.7%	-22.8%
Industrials	XLI	27.84	0.2%	7.2%	81.3%	20.9%	-39.9%
Technology	XLK	21.66	-5.5%	6.2%	63.8%	61.7%	-43.1%
Materials	XLB	31.63	-4.1%	3.4%	74.0%	48.6%	-45.6%
Telecoms	IYZ	18.72	-6.5%	4.1%	39.2%	8.9%	-30.5%
Utilities	XLU	29.82	-3.9%	3.0%	31.1%	11.9%	-29.0%

## California Housing Shows Recovery

California's inventory of unsold, previously owned homes shrank to a five-year low in December, in another sign that the state may be coming out of its worst housing slump in decades.

The supply of unsold single-family homes dropped to 3.8 months from 5.6 months a year ago and 16.6 months in January 2008, when inventories were at a peak, according to estimates released Friday by the California Association of Realtors. The inventory levels are now at their lowest level since 2005, resulting in frenzied sales with multiple offers in some cities.

We continue to believe that the U.S. housing is on the mend and nationally the bottom is in. California is a good example of this, being one of the first states into the mess and one of the first to recover. We expect further good news from the other bubble states—Arizona, Nevada and Florida—during the course of the year, particularly in the starter homes that will cater to first-time Generation X and Y home buyers.



## THE INFORMED INVESTOR

### Demographics Drives Harley Davidson to First Loss in 16 Years

Harley Davidson Inc. (HOG) on Friday reported a fourth quarter 2009 loss of almost \$219 million, or 94 cents per share, its first quarterly

shortfall in 16 years. While company executives attributed the shortfall to restructuring costs and a sluggish economy, we continue to

maintain our stance that Harley is getting blindsided by a demographic whirlpool, as its core consumer base—the U.S. Baby Boomer—ages out of the market for heavy-duty Harley-style motorcycles.

from between 5 to 10 percent of the 2009 level, which saw a decline of 27 percent from its 2008 shipments. Shares dropped \$1.99, or 7.8 percent, to \$23.59 on the news Friday, 69 percent below the 2006p all-time high of \$75.

Along with the disappointing earnings, the company warned that 2010 will be “a challenging year,” and that it expects 2010 shipments of its motorcycles to decline

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Harley Davidson has been seeing significant sales declines since 2006, and has periodically announced various restructuring plans, introduced news models and introduced its bike to new overseas markets. What the company has not done is address, let alone even acknowledge, the rapid decline of its core market.



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diminishing numbers of Baby Boomers will soon be followed by Generation X, which is not only much smaller, but does not even seem to share the same affinity for the iconic brand.

To address its declining U.S. sales, the company has divested itself of its Buell and MV Augusta sports motorcycle lines—the very lines that would appeal most to Gen. X—in order to focus more of its resources on its namesake brand. The company has also significantly expanded its presence in China and India.

OK, so the company is divesting itself of brands that have appeal to younger generations so that it can focus on its beloved core market

generation that is rapidly aging out of the market. The company is also making a big push to sell some of the world's biggest production motorcycles to people who on average are the smallest in the world. Perhaps the company isn't getting "blindsided" by demographics—it's more a case of company executives wearing "blinders."

On a price to sales (1.5) and price to book (2.8) ratio, Harley Davidson is back to the levels of the late 1990s and does not seem to be overpriced. The key difference now is that unlike the 1990-2002 period, the company will no longer be mining the demographic growth market of the large Baby Boomer generation.

Instead the company will be marketing its once cool, outlaw-style brand to much smaller younger generations, who in many cases consider the homogenized Harley Davidson logo to be about as outlaw and cool as the Walt Disney logo.

**In other earnings news,** Apple Inc. (AAPL) released first quarter 2010 results after the market close yesterday, marking its most profitable quarter ever, but only spurring a lackluster response from investors, as the impressive results were boosted in large part by company accounting changes. The company's real share-price moving news will come on Wednesday with the release of the iPad device.

### Model Beacon Master Portfolio Transactions

Date	Stock/Asset	Code	Action	QTY	Price	Cost	G/L	Comment
Jan 18, 2010	Hartford Financial	HIG	Sale	1,000	26.78	26.78	0	Sold on sector underperformance fears
Jan 19, 2010	Deere & Co	DE	Sale	840	57.23	49.27	16.2%	Sold on China slow down fears
Jan 21, 2010	Peabody Energy	BTU	Sale	950	45.55	44.26	2.9%	Sold on China slow down fears
Jan 21, 2010	Coal ETF	KOL	Sale	1,238	38.38	35.54	8.0%	Sold on China slow down fears

Model Beacon Master Portfolio								Date	22 Jan '10
Ticker	Name	P/S	Cost	Price	No.	% of Fund	Value	G/L	G/L %
<b>Bonds, Gold and other</b>							<b>8.5%</b>		
UUP	PowerShares US Dollar ETF		22.8	23.1	1,931	2.6%	44,567	521	1.2%
HYG	IShares High Yield Corporate Bond ETF		83.2	86.8	1,183	5.9%	102,649	4,188	4.3%
<b>Technology and Telecoms</b>							<b>2.1%</b>		
AAPL	Apple Inc.	4.8			0	0%			
SWKS	Skyworks Solutions	2.5	12.4	13.8	2,684	2.1%	37,066	3,758	11.3%
<b>Consumer Discretionary</b>							<b>24.4%</b>		
AMZN	Amazon.com	2.6			0	0%			
SNE	Sony	0.4	29.8	34.2	1,175	2.3%	40,162	5,147	14.7%
ROST	Ross Stores	0.8	43.4	43.8	784	2.0%	34,363	376	1.1%
PLCE	Children's Place Retail Stores	0.7	29.9	32.4	1,268	2.4%	41,096	3,195	8.4%
ARO	Aeropostale	1.0	32.9	34.1	1,210	2.4%	41,237	1,464	3.7%
PSUN	Pacific Sunwear of California	0.2	3.5	3.6	9,714	2.0%	35,359	1,554	4.6%
ZQK	Quicksilver	0.1	2.3	2.1	15,486	1.9%	32,056	-2,942	-8.4%
PSS	Collective Brands	0.4	21.0	19.7	1,785	2.0%	35,129	-2,356	-6.3%
BOOT	LaCrosse Footwear	0.5	13.9	13.5	2,516	2.0%	33,840	-1,157	-3.3%
CMG	Chipotle Mexican Grill	1.9	81.0	97.8	447	2.5%	43,703	7,496	20.7%
BWLD	Buffalo Wild Wings	1.3	40.9	46.7	978	2.6%	45,702	5,721	14.3%
LRN	K-12	1.6	20.3	20.3	2,230	2.6%	45,247	-22	-0.0%
SCSS	Select Comfort	0.5	6.8	6.8	4,438	1.7%	30,178	178	0.6%

Ticker	Name	P/S	Cost	Price	No.	% of Fund	Value	G/L	G/L %
<b>Industrials</b>						<b>6.8%</b>			
XLI	SPDR Industrial Sector Index Fund ETF		22.8	27.8	1,752	2.8%	48,776	8,778	21.9%
LLL	L-3 Communications Holdings	0.6	88.5	84.9	384	1.9%	32,617	-1,367	-4.0%
AGCO	AGCO Corp	0.5	30.5	31.7	1,156	2.1%	36,622	1,410	4.0%
<b>Energy and Materials</b>						<b>12.6%</b>			
BP	BP	0.6	52.6	57.9	750	2.5%	43,403	3,923	9.9%
NBR	Nabors Inds	2.3	24.0	23.9	1,041	1.4%	24,859	-125	-0.5%
MOO	Market Vectors Agribusiness ETF		44.7	42.9	782	1.9%	33,556	-1,423	-4.1%
RJA	Rogers Agriculture ETN		8.1	7.5	4,337	1.9%	32,571	-2,429	-6.9%
TSE:NEM	MNeo Material Technologies	2.5	4.5	4.0	6,450	1.5%	25,929	-2,967	-10.3%
DE:WUC	Western Lithium Canada		2.0	1.9	11,282	1.2%	21,436	-564	-2.6%
NLR	Market Vectors Nuclear Energy		23.7	22.2	1,686	2.2%	37,412	-2,613	-6.5%
<b>Financials</b>						<b>6.2%</b>			
TD	Toronto-Domion Bank	3.0	63.2	58.4	549	1.9%	32,051	-2,630	-7.6%
WFC	Wells Fargo & Co.	1.4	18.2	27.3	1,375	2.2%	37,483	12,485	49.9%
RKH	Merrill Lynch Regional Bank ETF		63.6	78.6	471	2.1%	37,035	7,098	23.7%
<b>Health Care</b>						<b>3.5%</b>			
HUM	Humana	0.3	49.3	51.0	609	1.8%	31,059	1,035	3.4%
AET	Aetna	0.4	32.2	31.3	931	1.7%	29,140	-838	-2.8%
<b>Consumer Staples</b>						<b>15.4%</b>			
SJM	J.M.Smucker	1.3	56.0	60.0	714	2.5%	42,819	2,835	7.1%
SAM	Boston Beer Co. Cl A	1.1	25.9	47.0	1,080	2.9%	50,760	22,777	81.4%
THS	TreeHouse Foods	0.8	40.2	39.0	746	1.7%	29,094	-880	-2.9%
WVVI	Willamette Valley Vineyards	1.1	3.3	3.8	11,079	2.4%	42,211	5,761	15.8%
WFMI	Whole Foods Market	0.6	30.5	28.5	1,256	2.1%	35,733	-2,550	-6.7%
HFL	Herbalife	1.0	44.8	41.3	781	1.9%	32,240	-2,726	-7.8%
NUS	Nu Skin	1.2	15.3	24.6	1,308	1.9%	32,124	12,125	60.6%
<b>Developed Overseas Markets</b>						<b>2.9%</b>			
EWJ	iShares MSCI Japan ETF		10.0	10.2	5,000	2.9%	50,850	850	1.7%
<b>Emerging Markets</b>						<b>8.7%</b>			
PLND	Market Vectors Poland ETF		23.9	24.0	2,000	2.8%	47,960	160	0.3%
TUR	ishares MSCI Turkey Market Index Fund ETF		49.6	55.3	960	3.1%	53,088	5,520	11.6%
IIF	MS India Investment Fund ETF		22.6	22.5	2,213	2.9%	49,726	-266	-0.5%
<b>Cash</b>						<b>6.7%</b>	115,134		
<b>Value of Model Beacon Master Portfolio</b>							1,728,039		
<b>Performance Comparison from December 5, 2008</b>									
<b>Model Beacon Master Portfolio</b>									81.1%
<b>S&amp;P Global 100 Index (100)</b>									28.7%

## Age Curve Weekly Focus

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The Age Curve Weekly Focus is published by Age Curve Consulting and Beacon Asset Managers. Our publications are designed to give further insight into how our investment tool kit of "3 beacons"—demographics, valuation and sentiment—can be used to both discover undervalued assets and to help preserve capital during the current "generational opportunity."

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