February 16, 2010

Age Curve Weekly Focus

How to Profit from the Ever-Changing Demographic Landscape

Equities Remain on Track for New Highs by April

The recent weakness in equity markets has improved sentiment conditions by popping some of the excess optimism. This should help stocks this week and we should see further strength as equities continue to recover back to recent or new highs, and follow the Ned Davis Research Cycle composite for 2010 (please see page 10 of the February report). Our short-term picks of RDEN, HAS, PSUN, SCSS and CMG all had a good week of solid gains.

We have conceded that this rally may not be broad based, and will be keeping a close eye on the tape for any signs of market weakness before the expected April high. Investors are often vulnerable to seeing what they want to see, or in making their own reality. By staying in tune with the tape we may make a mistake, but we will avoid the disasters. John Maynard Keynes summed it up well: "The stock Market can remain irrational longer than one can stay solvent."

Our longer term concerns over China continue to mount, and as history suggests it does not end well. The Wall Street Journal recently pointed out that:

The recovery in China's housing market has underpinned the nation's return to double-digit economic growth, and will become increasingly crucial this year as Beijing winds down its two-year stimulus program. The growing fear of many officials and analysts is that a property bubble that leads to a bust could derail that expansion. How China handles this real-estate boom will have broad ramifications, since its strong demand for the raw materials and equipment needed to build out new housing, infrastructure and factories has been one of the few bright spots in the world economy.

"China's entire growth and investment boom is centered on sentiment in the property market," said Doris Chen, banking analyst with BNP Paribas in Shanghai. High property prices support local government budgets, she said, and so indirectly finance many of the infrastructure projects that have been rolled out as part of the stimulus.

Our short-term market stop-loss continues at 1060 on the S&P 500 or 106 on the ETF (SPY). At this point we would shift to a more defensive portfolio stance to protect the model's capital.

Model Portfolio Update

The model Beacon Master Portfolio is showing a return* of 75.8 percent, and represents a 57.9 percentage point outperformance over the S&P Global Index ETF (IOO) since our buy signal of December 5, 2008.

The Model Beacon Master Portfolio:	**75.8%**
S&P Global 100 Index:	**17.9%**
S&P 500:	**22.9%**
U.S. Bond Index:	**4.7%**

*Figures based on Friday's closing prices

Demographic Landscape

Baby Boomers Could Redefine What it Means to be "Old"

The aging of the Baby Boomers represents a potentially huge paradigm shift in U.S. consumer spending patterns, but trying to determine the economic implications–whether macro or micro–of this shift may be an exercise in futility as the Boomers could very well defy many expectations about how they will spend time, not to mention money, in their golden years.

Baby Boomers, of which some 78.2 million were born between 1945 and 1964, started turning 65 this year, and in the next 20 years will more than double the ranks of the U.S. 65 and older population. In anticipation of this generational shift, prognosticators have been making predications about how this will affect everything from Medicare to tissue paper sales.

While there is no question that the Baby Boom generation, the richest generation ever, is a powerful economic force, prognosticators often get it wrong, and the Baby Boomers have a long history of defying expectations. Additionally, perceptions about old age and what it means to be old may be different than the reality.

In fact, a 2009 Pew Research Center study–*Growing Old in America: Expectations vs. Reality*–found a "sizeable gap" between the expectations young and middle-aged adults have about old age, and the actual experiences as reported by older Americans, represented by the generation (the Silent Generation–

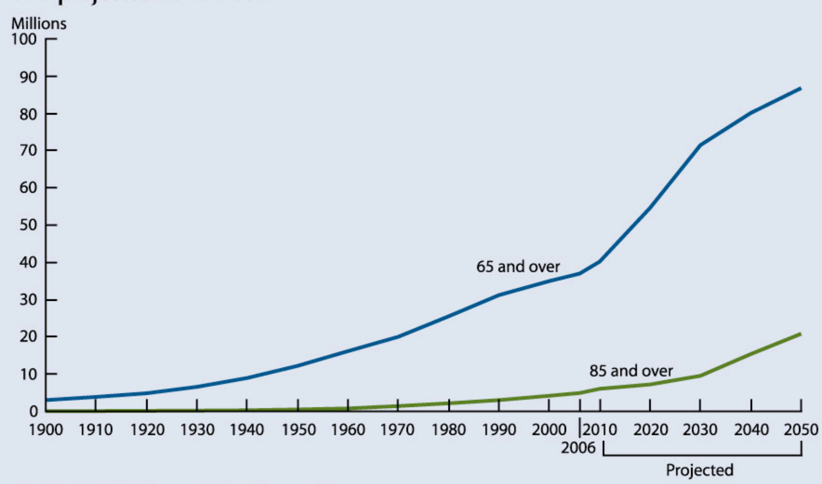
52.2 million born between 1925-1944) preceding the Boomers. This gap between expectations and reality seemed to be especially wide with negative benchmarks–such as illness, memory loss, end of sexual activity, loneliness, depression, and difficulty paying bills–with older respondents reporting the experience of them much less than the younger and middle-aged expect to when they get old. And while the gap is not as wide with positive benchmarks, with older people not experiencing the "upside of getting old" at the levels younger adults expect to, the responses did "indicate that the phrase 'golden years' is something more than a syrupy greeting card sentiment."

Defining old age also showed a wide gap between perceptions and reality, with the survey showing, relatively speaking, that the older people get, the younger they feel. Half of the survey respondents ages 50 and older reported that they felt at least 20 years younger than their chronological age. For those 65 and older, 60 percent reported that they felt younger, 32 percent felt right at their age, and only 3 percent felt older. And while more than half of the under-30 respondents reported that old age begins before age 60, only 6 percent of those 65 or older agreed with this sentiment, and only 21 percent of respondents ages 65 to 74 reported that they felt that they were "old."

So, if the members of the silent generation, now ages 66 to 85 , aren't feeling "old," will the Baby Boomers? Not likely! In fact, most generational pundits assume that the Boomers are going to do everything within their power to defy old age. And much as the Boomers redefined "youth," they may very well redefine old age.

The Age Curve Report will be keeping a close eye on the Baby Boomers as they enter their "golden years," and will seek out the potential economic impacts this powerful generation will undoubtedly yield in the latter stage of its lifecycle.

Number of people age 65 and over, by age group, selected years 1900–2006 and projected 2010–2050



Note: Data for 2010–2050 are projections of the population.
Reference population: These data refer to the resident population.
Source: U.S. Census Bureau, Decennial Census, Population Estimates and Projections.

THE INFORMED INVESTOR

Model Beacon Master Portfolio Earnings Highlights

Analysts Eat Their Words

Our favorite "Generational" food chain Chipotle Mexican Grill (CMG) last week not only beat consensus estimates, but had some analysts eating their words. The company reported earnings per share of 99 cents, ahead of an "aggressive" 81 cents Wall Street consensus number, and "was so far above our estimate we'd rather not say," admits RBC Capital.

RBC Capital won't do their own math, but we can tell you it was a 30 cent gap, as the firm forecasted 69 cents for the reported quarter. The upside came largely from better operating margins, which combined with strong store revenues underscores the company's "Super Stock" potential. If these analysts had looked at the demographic landscape of the U.S. along with the particular areas in which the chain operates, they would have seen the growing generational (Generation Y) demand for this fabulous food concept. We believe the earning surprises will keep on coming.

The company announced that for 12 months ended December 31, 2009 diluted earnings were up 67 percent to $3.95. Company executives also gave a positive 2010 outlook, with 120 to 130 new restaurant openings and flat comparable restaurant sales.

The company sells on a demanding 12-month trailing price to sales ratio (P/S) of 2.2 and an improving return on equity (ROE) of

14.2 percent. The average five-year revenue growth is 26.4 percent. On an earnings basis the shares sell on a January 2011 P/E of 22.7 (EPS $4.62) falling to 19.4 for January 2012 ($5.41).

Long term we continue to believe in Chipotle's "Super Stock" status, however, given its demanding current P/S of 2.2 (January 2012 this falls to around 1.2), we prefer other potential "Super Stocks" with a P/S below 1.0 over the shorter term.

The relative chart above comparing Chipotle to the S&P Global 100 Index, shows the building share price momentum since early 2008. We believe the stock price in the short term is discounting much of the stock's strong long-term story and should see the relative price consolidate at the top of its three trading range.

K12's Second Quarter up 20%

Our favorite "Generational" education play K12 (LRN) last week beat consensus estimates of 15 cents by reporting second quarter earnings of 32 cents. Also revenues for the six months ending December 31, 2009 were up 20 percent to $199.5m, as compared to revenues of $166.2 million for the first half of 2009. Average enrollments for this period were 67,902, an increase of 22.6 percent. At the end of the six-month period the group had $48 million in cash.

"We are obviously pleased with this record quarter," said K12 Chief Executive Officer Ron Packard. "K12 is fortunate to have talented and dedicated employees who have worked hard to increase productivity and improve our cost structure. These efforts have allowed us to improve our results while continuing to invest heavily in curriculum, technology and services that will benefit our students."

The company issued guidance for 2010 in line with expectations of revenues of $380 to 390 million and operating income of approximately $27 to $31 million. Analysts downgraded the shares from a buy to a hold on worries about state government budget cuts for education. We disagree as we believe that the Obama administration strongly supports charter schools, including the virtual schools, and that state cuts to education will be limited. We also expect the company to announce further expansion into new states this spring and summer, and this will present positive surprises to the market.

We continue believe in the "Super Stock" potential of K12 and feel the company will continue to dominate in the demographic lucrative and growing "K12 Landscape." The company sells on a fair 12 month trailing P/S of 1.6 and an improving ROE of 10.3 percent. The average five-year revenue growth is 34.6 percent. On an earnings basis the shares sell on a June 2010 P/E of 33.6 (EPS $0.56) falling to 23.8 for June 2011 ($0.79).

Long term we continue to believe in the company's sleeping giant status, however given its only fair current P/S of 1.6 (June 2010 this falls to around 1.4), we prefer other potential "Super Stocks" with P/S levels below 1.0 over the shorter term.

The chart below of K12 to the S&P Global 100 Index, shows the relative trading since 2008 and we believe the stock, by the year end, will be back up to the top of its two-year trading range.

Buffalo Wild Wings Misses

We took profits in Buffalo Wild Wings (BWLD) last week given its fourth quarter earnings miss. This was caused by an unexpected rise in the cost of its core "chicken wings" product. However, the group did reaffirm its growth target of 13 to 15

percent in restaurants and 20 percent in net earnings for fiscal year 2010. The company ended fiscal year 2009 with cash and cash equivalents of $9.6 million.

Buffalo Wild Wings' long-term strategy is to open 1,000 units in the United States. With 658 restaurants currently, we think the concept has a lot more room to grow before saturating the market. Televised sporting events and beer is a perfect attraction for the strong growing Generation Y market.

The group is on our "Super Stock" watch list, given its strong position to benefit from expected robust demand from Generation Y. The company sells on a fair 12 month trailing P/S of 1.4 and an improving ROE of 16.1 percent. The average five-year revenue growth is 25.8 percent. On an earnings basis the shares sell on a December 2010 P/E of 22.9 (EPS $2.05) falling to 17.3 for December 2011 ($2.48).

The relative chart of Buffalo Wild Wings to the S&P Global 100 Index, shows the strong relative trading since late 2008. We believe the stock will consolidate over the shorter term given its earnings "miss" and would look to be a buyer at its next earnings announcement or in any market pull back during the summer months.

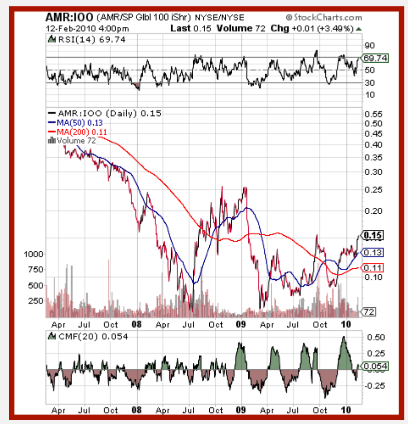
AMR Gets DOT Boost

There is a price for everything, and if you think the market is headed higher then AMR Corporation (AMR) could be a stock to consider. Airline stocks are always a lousy long-term investment, however, they have their moments.

AMR Corporation has traded on an historical P/S range of 0.05 to 0.3, and currently is trading on a ratio of 0.1. That is to say, an investor is buying $1 of sales for 10 cents, but of course, some would say that even that is too much!

However, the improving adjacent chart suggests that AMR could be flying high in the next couple of months.

The favorable passing of the regulators trans-Atlantic alliance with British Airways should boost the share price. The U.S.-EU "open skies" pact from 2008 opened the door to Saturday's decision by the U.S. Department of Transportation that will boost competition in popular markets. The DOT's ruling, if finalized, would allow the two giant carriers and their partners in the Oneworld alliance to cooperate in ways normally forbidden under antitrust laws as collusion, such as coordinating fares and schedules.



MARKET WATCH

Markets started the week with the bears in control as equities were weighed down with Greek default worries. However, by week's end the bulls were beginning to bargain hunt on the back of better economic numbers and company earnings. U.S. equities in the main continue to outperform their global counterparts thanks to a stronger U.S. Dollar and we expect this to continue as the rally builds into late March to early April.

Research continues to show that long-term sentiment remains firmly against equities. From 2008 through 2009, which covers the span of the recession, investors poured a net $401.7 billion into bond funds, compared to $242.7 billion in net outflows from equity funds, according to the Investment Company Institute. Citigroup research, citing data from the Census Bureau, notes that only 14 percent of people 65 or older are willing to take "substantial" or "above-average" risk to earn bigger investment gains, compared to 33 percent of people 40 to 64.

Sectors	Code	PRICE	YTD	Sep 9, 2009	Mar 9, 2009	2009	2008
Consumer Discretionary	XLY	28.91	-1.8%	9.1%	81.6%	41.3%	-33.5%
Consumer Staples	XLP	26.20	-0.1%	5.6%	36.2%	14.9%	-15.4%
Energy	XLE	54.50	-2.5%	5.9%	43.1%	13.9%	-34.9%
Financials	XLF	14.18	-3.1%	-3.8%	122.8%	17.2%	-55.2%
Health Care	XLV	31.28	-0.6%	7.6%	41.1%	19.7%	-22.8%
Industrials	XLI	27.38	-0.8%	6.2%	79.5%	20.9%	-39.9%
Technology	XLK	20.96	-6.8%	4.8%	61.6%	61.7%	-43.1%
Materials	XLB	30.14	-6.1%	1.3%	70.4%	48.6%	-45.6%
Telecoms	IYZ	18.22	-9.0%	1.3%	35.5%	8.9%	-30.5%
Utilities	XLU	29.53	-7.1%	-0.5%	26.7%	11.9%	-29.0%

In the 2000s bonds outpaced stocks by an average of 7.28 percentage points per year (6.33% avg. for Barclays Capital U.S. Aggregate Index vs. -0.95% avg. for the S&P 500). The only other times bonds outpaced stocks for an entire decade were the 1930s and 1970s. In both instances, stocks rebounded in the following decades, outperforming bonds by an average of 10 percentage points a year, according to *USA Today*.

Sectors	Code	PRICE	YTD	Sep 9, 2009	Mar 9, 2009	2009	2008
Dow Jones	DIA	101.27	-3.4%	5.3%	53.7%	22.70%	-34.2%
S&P 500	SPY	108.04	-3.6%	3.5%	57.7%	26.50%	-31.9%
NASDAQ	QQQQ	43.76	-6.5%	4.1%	66.2%	54.60%	-37.0%
Russell Index ETF	IWV	63.38	-3.8%	3.5%	60.4%	22.2%	-41.5%
S&P Global 100 ETF	IOO	56.28	-5.5%	-0.3%	58.1%	17.8%	-40.4%
Emerging Markets ETF	EEM	38.44	-7.8%	2.5%	85.0%	58.6%	-53.5%
Brazil ETF	EWZ	66.63	-13.3%	3.5%	95.9%	103.3%	-53.0%
India ETF	INP	59.34	-8.2%	4.5%	143.6%	91.1%	-64.0%
China ETF	FXI	38.91	-9.0%	-9.2%	62.0%	35.6%	-42.9%
Russia ETF	RSX	30.24	-0.4%	23.8%	159.2%	119.5%	-72.6%
Japan ETF	EWJ	9.80	1.0%	-3.3%	43.2%	1.0%	-25.6%
Europe ETF	IEV	35.6	-6.6%	-3.7%	69.9%	23.8%	-43.6%
UK ETF	EWU	15.15	-4.8%	-1.3%	71.4%	31.7%	-47.8%
Canada ETF	EWC	25.5	-7.2%	-0.0%	77.2%	47.3%	-43.7%
US Dollar ETF	UUP	23.63	1.6%	2.4%	-15.5%	-7.4%	7.0%
Gold ETF	GLD	7.04	-1.3%	9.1%	17.0%	24.5%	1.3%
Total Bond ETF	BND	79.6	1.3%	1.0%	4.8%	0.0%	1.5%
Commodity ETF	DBC	23.02	-7.8%	2.6%	18.9%	12.3%	-32.5%

Model Beacon Master Portfolio

	Model Beacon Master Portfolio							Date	12 Feb '10
Ticker	**Name**	**P/S**	**Cost**	**Price**	**No.**	**% of Fund**	**Value**	**G/L**	**G/L %**
	Bonds, Gold and other					**10.8%**			
UUP	PowerShares US Dollar ETF		23.1	23.6	3,862	5.2%	91,259	2,008	2.3%
HYG	IShares High Yield Corporate Bond ETF		83.2	83.9	1,183	5.6%	99,254	793	0.8%
	Technology and Telecoms					**2.1%**			
SWKS	Skyworks Solutions	2.5	12.4	13.9	2,684	2.1%	37,227	3,919	11.8%
	Consumer Discretionary					**29.8%**			
ROST	Ross Stores	0.8	43.4	46.4	784	2.1%	36,401	2,415	7.1%
PLCE	Children's Place Retail Stores	0.7	29.9	34.9	1,268	2.5%	44,279	6,378	16.8%
ARO	Aeropostale	1.0	32.9	34.8	1,210	2.4%	42,120	2,347	5.9%
PSUN	Pacific Sunwear of California	0.2	3.5	4.1	9,714	2.3%	40,216	6,411	19.0%
ZQK	Quicksilver	0.1	2.3	2.1	15,486	1.8%	32,521	-2,478	-7.1%
PSS	Collective Brands	0.4	21.0	21.0	2,542	3.0%	53,357	-25	-0.0%
SKX	Skechers USA Inc.	0.8	27.6	28.2	1,267	2.0%	35,679	697	2.0%
BOOT	LaCrosse Footwear	0.5	13.9	16.1	2,516	2.3%	40,508	5,510	15.7%
CMG	Chipotle Mexican Grill	1.9	81.0	104.9	447	2.7%	46,877	10,670	29.5%
LRN	K-12	1.6	20.3	18.8	2,230	2.4%	42,013	-3,256	-7.2%
SCSS	Select Comfort	0.5	6.8	7.5	4,438	1.9%	33,063	3,062	10.2%
MAT	Mattel Inc.	1.4	20.3	21.0	1,595	1.9%	33,479	1,180	3.7%
HAS	Hasbro Inc.	1.2	30.8	35.6	1,136	2.3%	40,385	5,396	15.4%
	Industrials					**13.0%**			
XLI	SPDR Industrial Sector Index Fund ETF		22.8	27.6	1,752	2.7%	48,303	8,304	20.8%
LLL	L-3 Communications Holdings	0.6	88.5	87.0	384	1.9%	33,412	-572	-1.7%
AGCO	AGCO Corp	0.5	30.5	33.8	1,156	2.2%	39,061	3,849	10.9%
MTH	Meritage Homes Corp.	0.7	21.9	22.5	1,595	2.0%	35,807	829	2.3%
SPF	Standard Pacific Corp.	0.4	3.8	4.1	9,210	2.1%	37,761	2,763	7.9%
AMR	AMR Corp.	0.2	8.1	8.7	4,326	2.1%	37,679	2,682	7.7%
	Financials					**4.2%**			
WFC	Wells Fargo & Co.	1.4	18.2	26.9	1,375	2.1%	36,960	11,963	47.9%
RKH	Merrill Lynch Regional Bank ETF		63.6	76.6	471	2.1%	36,079	6,142	20.5%

Ticker	Name	P/S	Cost	Price	No.	% of Fund	Value	G/L	G/L %
	Energy and Materials					**9.6%**			
RJA	Rogers Agriculture ETN		8.1	7.4	4,337	1.8%	32,267	-2,732	-7.8%
TSE:NEM	MNeo Material Technologies	2.5	4.5	4.1	6,450	1.5%	26,123	-2,774	-9.6%
DE:WUC	Western Lithium Canada		1.6	1.6	21,282	2.0%	34,690	0	0.0%
ACFN	Acorn Energy	2.5	5.6	7.5	5,319	2.3%	39,839	9,840	32.8%
NLR	Market Vectors Nuclear Energy		23.7	21.1	1,686	2.0%	35,625	-4,400	-11.0%
	Health Care					**5.2%**			
HUM	Humana	0.3	49.3	46.0	609	1.6%	27,984	-2,040	-6.8%
PRX	Parr Pharmaceutical Co.	0.8	26.1	24.9	1,149	1.6%	28,633	-1,356	-4.5%
MHS	Medco Health Solutions Inc.	0.5	61.4	62.1	570	2.0%	35,408	439	1.3%
	Consumer Staples					**15.5%**			
SAM	Boston Beer Co. Cl A	1.1	25.9	45.7	1,080	2.8%	49,356	21,373	76.4%
THS	TreeHouse Foods	0.8	40.2	41.3	746	1.8%	30,832	858	2.9%
WVVI	Willamette Valley Vineyards	1.1	3.3	3.4	11,079	2.1%	37,669	1,219	3.3%
WFMI	Whole Foods Market	0.6	30.5	29.8	1,256	2.1%	37,366	-917	-2.4%
NUS	Nu Skin	1.2	18.0	26.1	1,949	2.9%	50,869	15,884	45.4%
RDEN	Elizabeth Arden Inc.	0.5	16.6	17.6	2,110	2.1%	37,136	2,152	6.2%
JBSS	John B. Sanfilippo & Son Inc.	0.3	15.8	15.4	1,904	1.7%	29,264	-723	-2.4%
	Developed Overseas Markets								
	Emerging Markets					**2.5%**			
PLND	Market Vectors Poland ETF		23.9	22.4	1,000	1.3%	22,350	-1,550	-6.5%
TUR	ishares MSCI Turkey Market Index Fund ETF		52.1	52.3	400	1.2%	20,912	92	0.4%
	Cash					**7.3%**	128,379		
	Value of Model Beacon Master Portfolio						1,758,531		
Performance Comparison from December 5, 2008									
	Model Beacon Master Portfolio								75.8%
	S&P Global 100 Index (IOO)								17.9%

Model Beacon Master Portfolio Transactions

Feb 2, 2010	Aetna	AET	Sold	931	28.87	32.30	-10.6%	Sold as shares fell below stop loss
Feb 2, 2010	AMR Corp	AMR	Bought	4,326	8.09			Very attractive P/S and high Beta rally trade
Feb 8, 2010	Mattel	MAT	Bought	1,595	20.25			Attractive P/S and growing demand for toys
Feb 8, 2010	Medco Health	MHS	Bought	570	61.35			Increasing exposure to Health Care
Feb 8, 2010	Meritage Homes	MTH	Bought	1,595	21.93			Increasing exposure to House Builders
Feb 8, 2010	Standard Pacific	SPF	Bought	9,210	3.80			Increasing exposure to House Builders
Feb 8, 2010	Western Lithium	WUC	Bought	21,282	1.63			Buying after share price decline
Feb 11, 2010	Buffalo Wild Wings	BWLD	Sold	978	42.12	40.88	3.0%	Sold on earnings miss

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