

Aging Population And Growing Demand For Low-PEG Stocks

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| includes: [AAPL](#), [CRUS](#), [CSTR](#), [DENN](#), [EBIX](#), [PCS](#), [PNRA](#), [TESS](#)

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. **(More...)**

The world is aging. The number of older persons has tripled over the last 50 years and it will more than triple again over the next 50 years, as quoted from my last [article](#), "World Demographics: Embracing The Gracious Aging World." With the updated data released by the U.S. Consensus Bureau in December 2012, the projections of the population by selected age groups will be reviewed. The potential implication for investment will also be analyzed in this article.

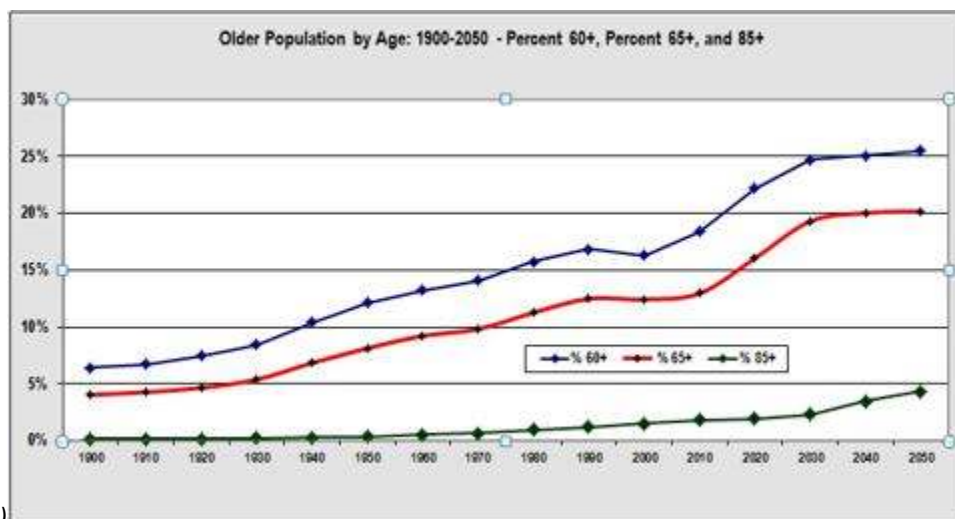
Projections of the Population by Selected Age Groups and Sex for the United States

Sex and age	Projections of the Population by Selected Age Groups and Sex for the United States: 2015 to 2060									
	(Resident population as of July 1. Numbers in thousands)									
	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060
BOTH SEXES	321,363	333,896	346,407	358,471	369,662	380,016	389,934	399,803	409,873	420,268
Under 18 years	74,518	76,159	78,190	80,348	81,509	82,621	84,064	85,918	87,744	89,288
Under 5 years	21,051	21,808	22,115	22,252	22,516	23,004	23,591	24,115	24,479	24,748
5 to 13 years	36,772	37,769	39,511	40,366	40,790	41,190	41,936	42,951	43,969	44,758
14 to 17 years	16,695	16,582	16,565	17,730	18,203	18,427	18,558	18,852	19,296	19,782
18 to 64 years	199,150	201,768	203,166	205,349	210,838	217,675	224,562	230,147	234,819	238,947
18 to 24 years	30,983	30,028	30,180	30,605	32,125	33,199	33,680	33,967	34,469	35,239
25 to 44 years	84,327	88,501	91,833	93,878	95,013	96,078	98,725	101,609	104,331	106,303
45 to 64 years	83,839	83,238	81,152	80,865	83,700	88,398	92,157	94,570	96,020	97,404
65 years and over	47,695	55,969	65,052	72,774	77,315	79,719	81,288	83,739	87,309	92,033
% of 65+ among										
all population	15	17	19	20	21	21	21	21	21	22
85 years and over	6,306	6,693	7,389	8,946	11,579	14,115	16,512	17,978	18,201	18,187
100 years and over	78	106	143	168	188	230	310	442	564	690

(click to enlarge)

Source: [U.S. Census Bureau, Population Division](#) (Released on December, 2012)

Chart of Percent of Population aged 60 and over, 65 and over, and 85 and over: 1900 to 2050



(click to enlarge)

Source: [U.S. Administration on Aging](#) using the Census data from U.S. Census Bureau

According to the table, the percentage of population 65 and older is expected to increase from 15% in 2015 to 19% in 2025. The above chart shows the percent of the population 65 and older increasing from 4% in 1900 to 12% in 2000 and projected to be

19-20% in 2030 and 20-21% in 2050. It also shows the percent of the population 85 and older, as well as the population 60 and older. The aging trend will continue and will only start to stabilize in 2040.

Investment Implications

As [written](#) by Jim Fink from Investing Daily, the P/E ratio is highly correlated and falls with the increasing percentage of older age population (65+), as compared to the middle-age population (40-49). Jim Finks utilized a metric called the "Middle-/Old-age ratio," which divides the number of people aged 40 to 49 (prime earnings and spending years) by the number of people aged 60 to 69 (retirement age with declining spending). As quoted,

Between 1981 and 2000, as baby boomers reached their peak working and saving ages, the M/O ratio increased from about 0.18 to about 0.74. During the same period, the P/E ratio tripled from about 8 to 24. In the 2000s, as the baby boom generation started aging and the baby bust generation started to reach prime working and saving ages, the M/O and P/E ratios both declined substantially.

The decline in the M/O ratio has just begun and will continue until 2025 according to the SF Fed. However, the Fed authors also expect real earnings to grow 3.42% annually over the next decade. Yet, declining M/O will overwhelm the growth in real earnings and cause the stock price (in real terms) to decline by 13% between now and 2012, according to Jim Fink. The solution derived from Jim Fink's article is to look for stocks that will grow earnings much faster than declining P/E ratio can devalue them, which means the stocks with low PEG ratios.

Investment Targets

By using Reuters' [stock screener](#), a list of potential investment targets will be presented below. The list will focus on stocks with low P/E, low PEG ratio, high EPS growth, and a reasonable low-medium beta.

Name (Ticker)	Sector	P/E	EPS Growth	5 Year PEG Ratio	Beta	Dividend Yield
Coinstar, Inc. (CSTR)	Services	10.60	41.61%	0.60	0.86	N/A
Denny's Corporation (DENN)	Services	4.85	29.53%	0.26	1.60	N/A
MetroPCS Communications Inc. (PCS)	Services	6.66	35.22%	0.48	0.87	N/A
Panera Bread Co (PNRA)	Services	10.25	69.05%	0.54	0.89	N/A
Apple Inc. (AAPL)	Technology	10.88	62.22%	0.64	1.05	2.27%
Cirrus Logic, Inc. (CRUS)	Technology	11.92	32.70%	0.47	0.62	N/A
Ebix Inc. (EBIX)	Technology	9.53	52.55%	0.48	1.28	1.74%
TESSCO Technologies, Inc. (TESS)	Technology	10.4	21.03%	0.68	1.12	3.20%
Yahoo Inc. (YHoo0)	Services	6.35	47.68%	0.46	0.77	N/A

Source: Reuters and Google Finance

In short, conservative investors may want to focus on non-technology stocks with strong, stable economic moat to reduce the risks of rapid technology change. The above list may not be suitable for investors seeking income as most of the mentioned stocks do not offer dividends, with the exceptions of AAPL, EBIX, and TESS.

Note: This list is only provided as the starting point for interested investors to research further. Investors and traders are

recommended to do their own due diligence and research before making any trading/investing decisions.