



INTEGRITY RESEARCH INSIGHT

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ChangeWaveResearch

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ChangeWave sees an uptick in Consumer Spending

This issue of ResearchInsightSM explores the results of ChangeWave's latest consumer spending survey. ChangeWave Research is a Rockville, Maryland-based company that conducts a series of more than 20 surveys each quarter measuring real time changes in Corporate Buying, Consumer Demand and Sentiment, Company, and Industry trends in a broad range of sectors including IT, Telecom, Energy, and Healthcare.

Utilizing its proprietary Research Network of more than 20,000 members, ChangeWave tracks demand trends in advance of most other sources. The firm provides the results of this research through a weekly subscription service of published reports to its Institutional clients. ChangeWave also conducts numerous proprietary surveys on behalf of its clients.

ChangeWave surveys first picked up signs of a pullback in U.S. consumer spending two years ago – in August 2007 – and then identified and reported upon the descent into a full-blown economic recession back in January 2008.

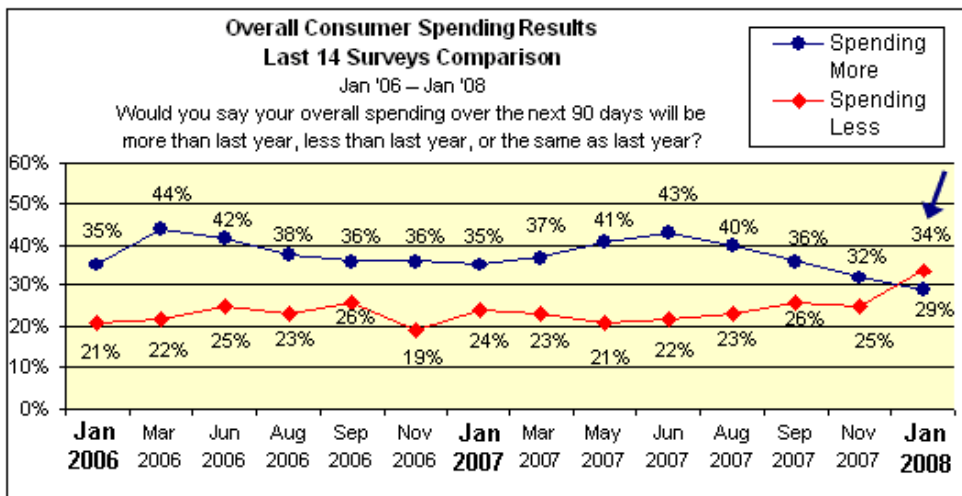
Fifteen months later – in April 2009 – ChangeWave's monthly consumer tracking survey identified an upward move in spending by consumers. Since then they have been tracking a slow but consistent improvement up until a month ago (July 2009), when they identified a modest pullback among consumers.

The good news, according to ChangeWave, is that its August consumer survey is once again showing a slight uptick – which indicates that the July setback was more of a temporary blip on the screen rather than a reversion back into recession.

Background Data

ChangeWave surveys first reported on a full-blown recession in U.S. consumer spending back in January 2008, after tracking a continuing decline for the previous five months. Here is what U.S. consumer spending looked like over a two year period of ChangeWave surveys (Jan '06 – Jan '08), culminating in the descent into recession in January 2008.

The Descent into Recession: ChangeWave Survey Data Jan '06 - Jan '08



At that time, ChangeWave reported that the decline in spending growth had occurred across all income levels, even among respondents earning more than \$150,000 per year.

The collapse in consumer spending peaked in the fall of 2008 in ChangeWave surveys, and in early April 2009 they reported the first significant uptick in spending by consumers. Since then they have been tracking a slow but consistent improvement up until a month ago (July 2009), when they again identified a slight pullback among consumers – including a significant worsening in consumer sentiment and expectations.

These findings were verified a few weeks later when the actual retail sales results came out for July. CBS MarketWatch released a story on August 6th that detailed an aggregate drop in July sales of 5%.

The main question for ChangeWave back in their July report was whether this was just a momentary pullback in an otherwise positive picture, or if the July data was an early indicator of a bigger problem in consumer spending, right before the start of the crucial Back-to-School spending season.

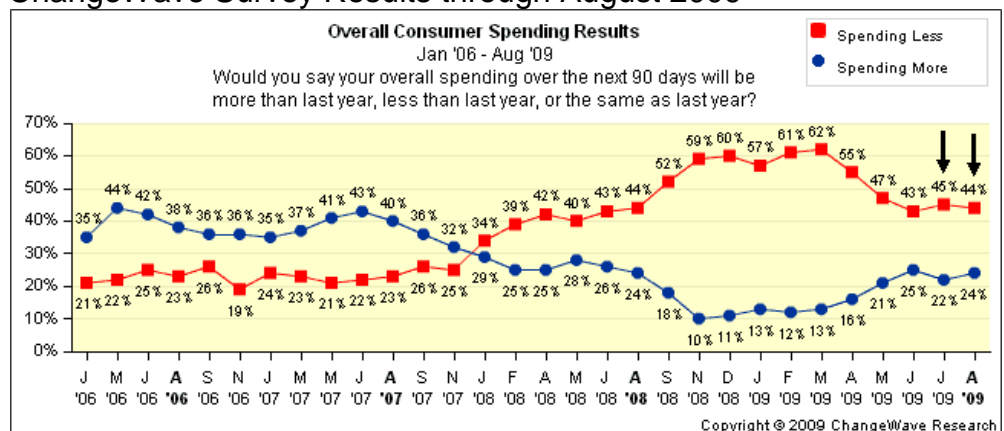
August Results

ChangeWave’s newest report shows a slight uptick in U.S. consumer spending plans, reversing the small pullback seen in the July survey. The survey of 2,705 consumers, which was completed on August 5th, also picked up a significant improvement in consumer sentiment and expectations.

But while the 90 day spending outlook improved marginally, there is little indication of a major expansion in consumer spending plans in the works. To the contrary, looking at the longer term, an astonishing one-in-three consumers report they’ve permanently changed their purchasing behavior and spending habits because of the recession - to focus on cutting costs and increased savings.

The following chart shows ChangeWave’s overall consumer spending survey results from January 2006 – August 2009.

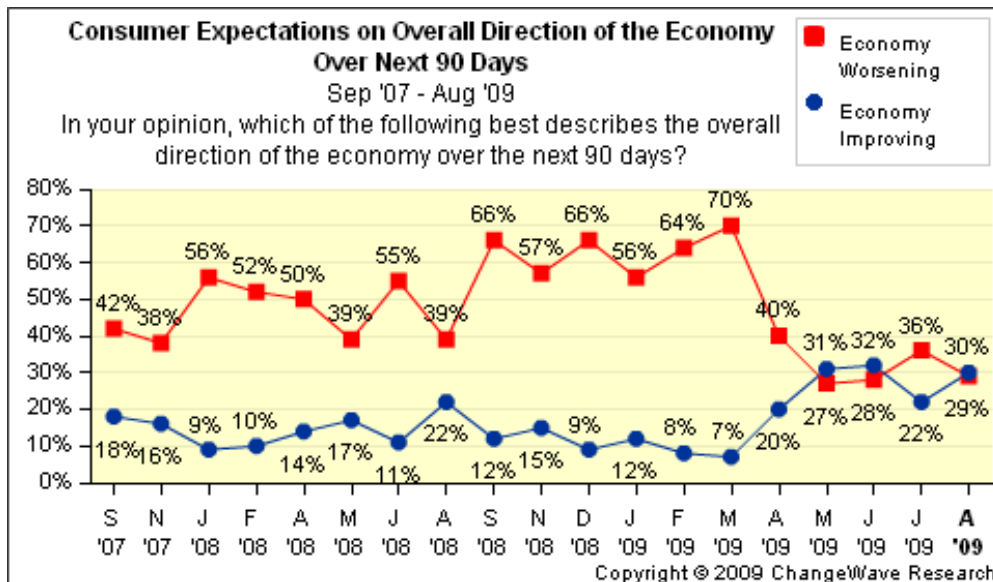
ChangeWave Survey Results through August 2009



These findings clearly show a modest rebound in August 2009 from the slight downturn evident in their July survey (the two arrows in the chart point at these findings). In August, 24% of U.S. respondents said they’ll spend more over the next 90 days than a year ago. This response was 2-pts better than their July survey. A total of 44% of survey respondents also said they’ll spend less in August, but that’s still a 1-pt improvement over the July survey.

Consumer Electronics, Durable Goods, Travel/Vacation and Automobiles were the areas which showed the most improvement in the August survey.

The survey also reported a rebound in consumer sentiment and expectations surrounding the economy. 30% of respondents now believe that the economy will improve over next 90 days, an 8-pt increase over July. Conversely, only 29% believe it will worsen, which is 7-pts better than the July number.

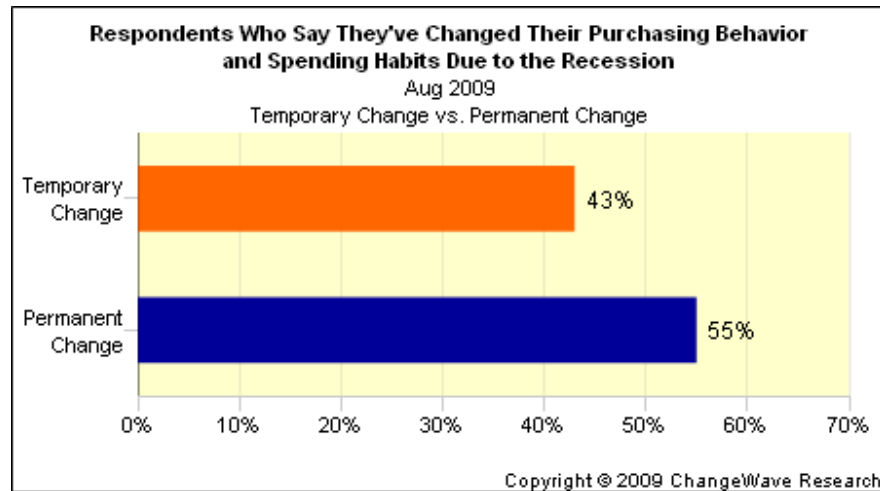


36% of respondents also say the current state of the economy is better than they thought it would be 90 days ago, while only 13% think it is worse.

Not all of the news out of the August survey was rosy, however, as the back to school shopping outlook was mixed and respondents' longer term outlook remains cloudy.

Importantly, only 28% of respondents are saying they'll shop for Back-to-School items this year, a major downturn from the 33% of a year ago. There is one positive – 35% who report they'll shop say that they will spend more money than last year, but this is not enough to make up for the 5 percentage point drop in total shoppers from this time one year ago.

In another ChangeWave finding, nearly two-thirds of respondents (63%) report they've changed their purchasing behavior and spending habits due to the recession. While by itself, this may not be alarming, 55% of this group say they've *permanently* changed their behavior and spending habits to focus on cutting costs and savings.



In other words, better than 1 out of every 3 consumers surveyed (63% x 55% = 35%) say they have a permanent focus on savings and cutting costs, a trend which could have major implications on consumer spending going forward.

Specific Stock Recommendations

Amazon

The biggest winner to emerge from ChangeWave Research's August Consumer Spending survey is Amazon.com, who appears as a winner for both online shopping and home entertainment shopping.

In addition, as the chart below shows, online shopping is the only category which has both a positive *Net Score* in the August survey and a positive *Change in Net Score* from the previous year's back to school survey.

For each of the following categories, please tell us if you will be spending more money, the same amount, or less money this "Back to School" season compared with last year's "Back to School" season.

	More Money	Less Money	Net Score	Change in Net Score	Same Amount of Money	No Money This Year or Last Year
Home Furnishing & Accessories (e.g., Bed Bath & Beyond, Home Goods)	9%	18%	-9	+5	17%	51%
Electronics Retailers (e.g., Best Buy, Fry's Electronics)	11%	21%	-10	+4	25%	38%
Mail Order Catalogues/Telephone	3%	12%	-9	+4	21%	57%
Online Shopping	15%	12%	+3	+3	43%	25%
Department Stores (e.g., Macy's, Sears, Nordstrom)	7%	20%	-13	+1	33%	35%
School Supply Stores (e.g., Staples, Office Depot, Office Max)	13%	17%	-4	0	53%	13%
Discount Stores (e.g., Wal-Mart, Costco, Target)	28%	8%	+20	-2	59%	3%

Within online shopping, Amazon also was the only firm to garner both a positive *Net Score* (consumers spending more money minus less money) and a positive *Change in Net Score* from a previous ChangeWave survey in May 2009.

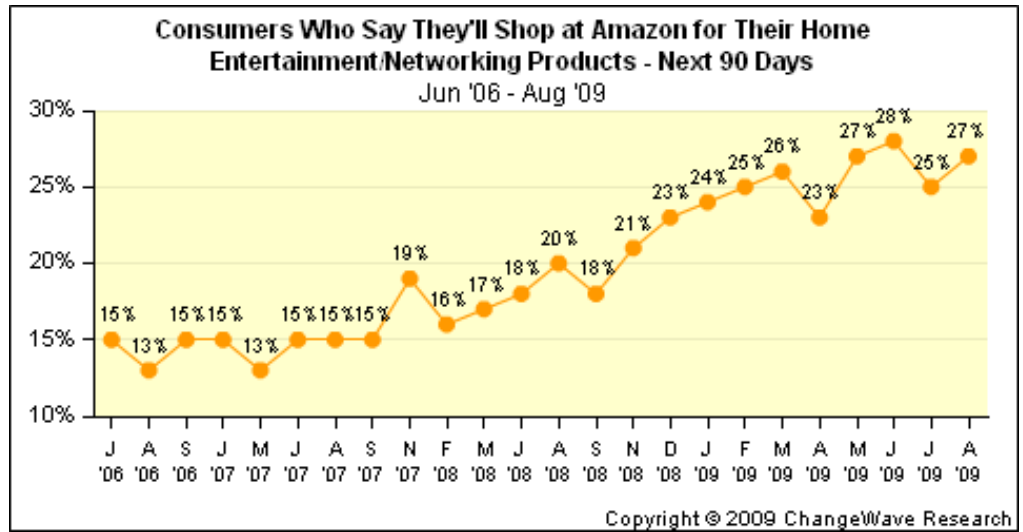
For each of the following websites, please tell us if you will be spending more money, about the same amount, or less money over the next 90 days compared with the previous 90 days.

Current Survey (August 2009)

	More Money	Same Amount of Money	Less Money	Net Score	Change in Net Score	No Money
Amazon.com	14%	41%	9%	+5	+2	31%
Overstock.com	1%	7%	3%	-2	+1	78%
Yahoo! Shopping	0%	5%	2%	-2	0	82%
Target.com	1%	10%	4%	-3	0	75%
Costco.com	3%	13%	4%	-1	-1	71%
Best Buy.com	2%	11%	6%	-4	-1	71%
eBay.com	4%	22%	8%	-4	-1	57%
Wal-Mart.com	2%	12%	4%	-2	-2	73%

The percentage of consumers who say they will spend more money at Amazon.com is up 2-pts since the May survey.

In another major positive for Amazon, 27% now say they'll be shopping there for home entertainment and computer networking products over the next 90 days – a 2-pt jump since July.



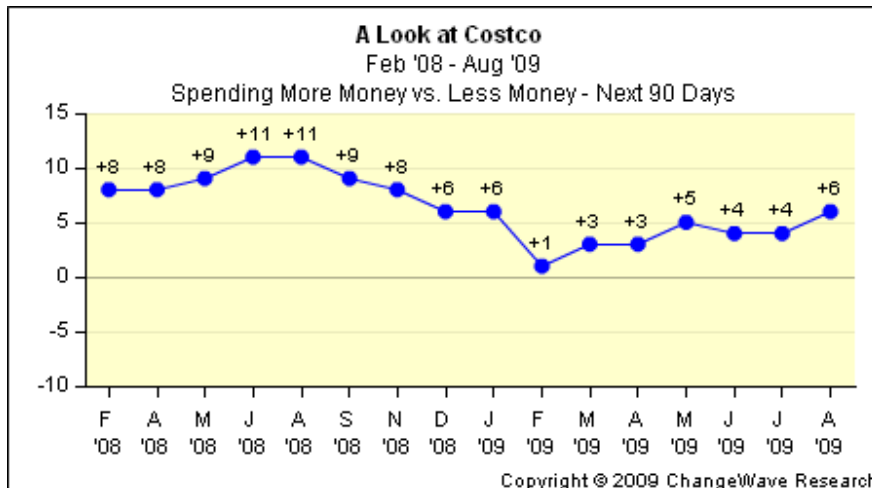
Costco

A second winner ChangeWave has identified from their latest survey is Costco. Like Amazon, Costco also has a positive *Net Score* and a positive *Change in Net Score* when pitted against their competitors.

We want to learn more about how Alliance members will be spending their shopping dollars over the next 90 days. For each of the following stores, please tell us if you will be spending more money, about the same amount, or less money over the next 90 days compared with the previous 90 days.

	More Money	Less Money	Net Score	Change In Net Score	Same Amount of Money	No Money
Costco	11%	5%	+6	+2	33%	45%
Bed, Bath & Beyond	4%	9%	-5	+2	21%	59%
JC Penney	3%	9%	-6	+2	22%	58%
Bloomingdale's	0%	2%	-2	+1	3%	85%
K-Mart	1%	7%	-6	+1	18%	67%
Wal-Mart	13%	9%	+4	0	50%	23%
Sam's Club	5%	4%	+1	0	20%	63%
Fred's	0%	1%	-1	0	2%	88%
Target	7%	10%	-3	0	48%	27%
Nordstrom	1%	6%	-5	0	11%	73%
Macy's	2%	10%	-8	0	23%	57%
Sears	2%	12%	-10	0	25%	51%
BJ's Wholesale Club	1%	2%	-1	-1	6%	82%
Ross	2%	4%	-2	-1	10%	75%
T.J. Maxx	3%	6%	-3	-1	16%	66%
Dillard's	0%	5%	-5	-1	8%	78%

The below chart shows Costco's individual results over the past 18 months from ChangeWave's consumer spending surveys. The company took a big hit between August 2008 and February 2009, began trending upwards till it fell back in June and July, and has resumed trending upwards in ChangeWave's August survey.



Summary

The good news is that ChangeWave's new August survey results show a slight uptick overall in consumer spending over the next 90 days. After the pullback in July, this is probably the best that could have been hoped for. Amazon and Costco seem best positioned currently to take advantage of this slight uptick.

The bad news is that back to school spending will likely be down from last year (the ChangeWave survey shows a drop of 5-percentage points in terms of total number of back-to-school shoppers). In addition, about one in every three respondents has indicated that the cost saving changes they have made to their purchasing behavior due to the recession is permanent.

To see ChangeWave's entire August report click [here](#).

Methodology

The ChangeWave Research Network is a group of more than 20,000 business, technology and medical professionals – along with early adopter consumers – who over the past 9 years have joined to form an intelligence gathering research network.

ChangeWave's proprietary intelligence-gathering process is based upon the systematic collection of business and investment information directly from accredited members. ChangeWave surveys members on a range of topics, collects feedback from them electronically, and converts the findings into quantitative and qualitative reports. The Network has assembled its membership from leading companies of select industries – professionals who spend their everyday lives working on the frontline of technological change. More than half of members (53%) have advanced graduate degrees (e.g., Masters or Ph.D.) and 91% have at least a 4-year bachelor's degree. Members represent a broad cross section of vertical markets such as software, telecom, healthcare, energy, hardware and retail, along with a wide range of professional disciplines including managers, programmers, executives, sales personnel, engineers, and physicians.

ChangeWave helps to maintain quality control over their Research Network in three ways:

- **Membership Application and Accreditation:** Members undergo an accreditation process before being admitted into the program. Since its inception, only 40% of applicants have been admitted as members.
- **Membership Profiling:** To be accepted, members have to fill out a comprehensive profile including their employment information, educational background, and specific areas of expertise – all of which enables ChangeWave to target and engage respondents in a variety of ways to enhance the quality of information gathered.
- **Membership Grading & Verification:** Every 6 months, each member is graded on both the quality and quantity of their participation. Grades are based on a 4.0 grade point system. Each member is also asked to verify their employment data every 6 months, ensuring the most up-to-date information.

In addition, ChangeWave incentivizes their respondents by sharing targeted summary survey results on a time delayed basis and has a turnover rate of less than 2%. They have above average response rates in their surveys, which in turn allows them to have large sample sizes.

ChangeWaves' respondent pool is broken down among various industry segments. For example, Software, IT & Computer Services (17%) and Healthcare (17%) are two of the most highly represented industry groups.

ChangeWave respondents also represent a wide range of Job Titles, with IT/Engineering Managers and Staff Positions comprising 30% of the network, and Senior management and Mid-Level management each comprising 21% of the network. ChangeWave also maintains a consumer respondent pool that it utilizes in its monthly consumer spending surveys.

A total of 38% of ChangeWave research network members have received a Bachelor's degree, 32% have received a Masters, and 21% have received a PHD/Professional degree.

About ChangeWave Research

ChangeWave's survey methodology enables them to predict company, sector and macro-economic trends before they become mainstream news. They have a wide network of respondents to draw from, and as such they produce research weekly on a range of consumer buying, corporate buying and industry trends.

The firm maintains a network of more than 20,000 accredited technology, business and medical professionals in 20 vertical industries – along with early adopter consumers – and polls them on a continual basis. The network helps ChangeWave provide real-time data and insights into the future performance of products, companies and industries, focusing in particular on Tech, Telecom, and Electronics sectors, as well as the macro economy.

Its products include quarterly publications covering Business Spending and Corporate Sales; monthly Consumer Spending reports focusing on leading companies and segment winners/losers; and a variety of industry reports covering specific industry trends and new technology adoptions. At least one new report is published weekly, which includes investment theses and long and short-term outlooks.

Applicants to the ChangeWave research network go through an initial screening process in which only about 40% are accepted. Participation is rewarded with time delayed access to targeted survey results. All surveys are scheduled for specific dates each quarter to ensure accurate comparisons. Proprietary surveys are also conducted for specific clients. Surveys have benchmark information dating back as far as eight years.

ChangeWave Research is one of several unique groups that reside within their overall parent company – Rockville, Maryland-based InvestorPlace Media. Other groups within Investorplace Media include the investor newsletter services for Louis Navellier's Blue Chip Growth, Tobin Smith's ChangeWave Investing, Dan Wiener's The Independent Adviser for Vanguard Investors, and Richard Band's Profitable Investing.

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Disclosure

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