

The “Wildebeests” have gone shopping online!



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As of December 1, 2010

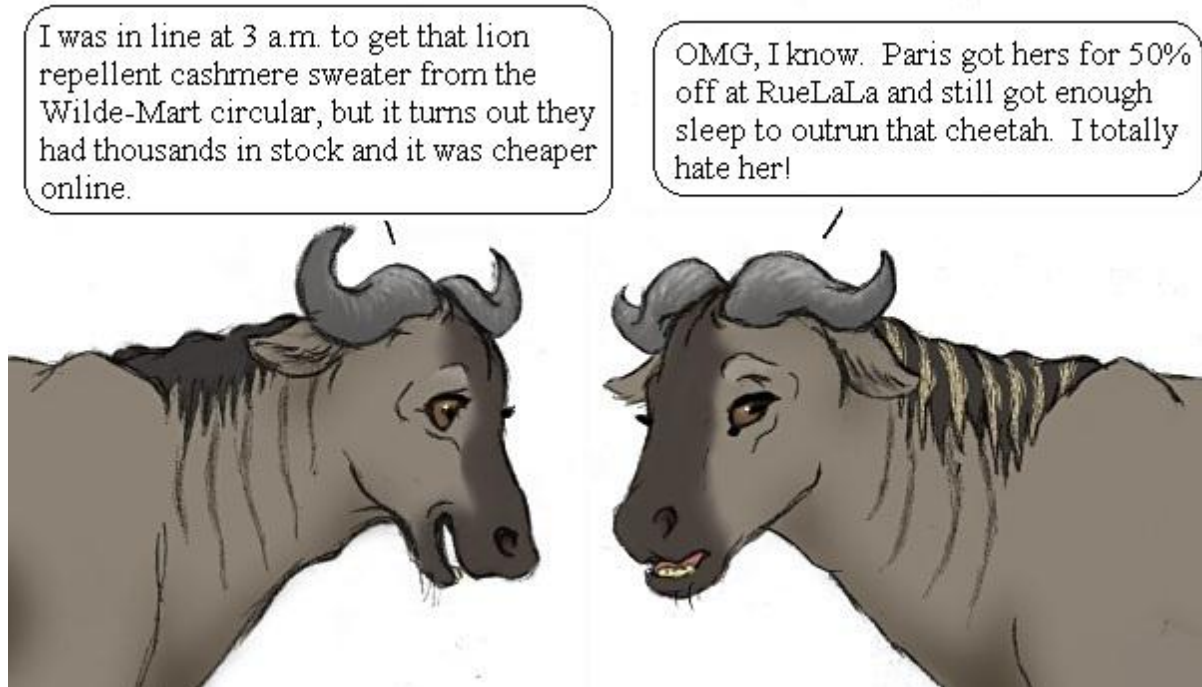
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Caution: It's a risky world we live in. My opinions are based on information believed to be reliable but hey, I could be wrong. Our purpose is to add information and analysis that results in a fuller thought process and better investment decisions. Risk and reward in investing go hand in hand. Every investor should understand their expectations, limits and tolerance for risk.

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Early reports suggest the American consumer, aka “wildebeest”, is engaged in serious “retail therapy”.



Why does this matter? . . . Several reasons . . . it is a “belly button” indicator – by that I mean it’s an economic indicator that won’t fake you out and it is sending a message about a restoration of growth. **What are some implications?** – It’s a result of and stimulus for tech spending / broadband (both wired and wireless) / smartphones / online advertising / cloud computing – ***It’s a sign that the most educated, higher income segments of the population are loosening the purse strings, getting jobs and feeling better about the future . . .***

2010 holiday online shopping is STRONG! **The news from the trade press is uniformly positive**

About 212 million shoppers visited stores and retail websites this past weekend, up from 195 million last year

Online shoppers started buying on Thanksgiving and did not let up on so-called Cyber Monday, the day retailers designated for more discounts and promotions. By 6 p.m. on Monday, Eastern time, sales were 20 percent higher than during the same time period on the Monday after Thanksgiving a year ago, according to Coremetrics

"It's absolutely crazy," Craig Adkins, the vice president for fulfillment operations, said early Monday afternoon. He said **orders were "significantly larger than we thought."**

Cyber Monday **online same-stores sales**, which include customers active with ChannelAdvisor for at least one year, **grew 36 percent year-over-year**. ChannelAdvisor retailers wrapped up the very active "Cyber 5," the five days from Thanksgiving to Cyber Monday, with impressive 26 percent same-store sales growth.

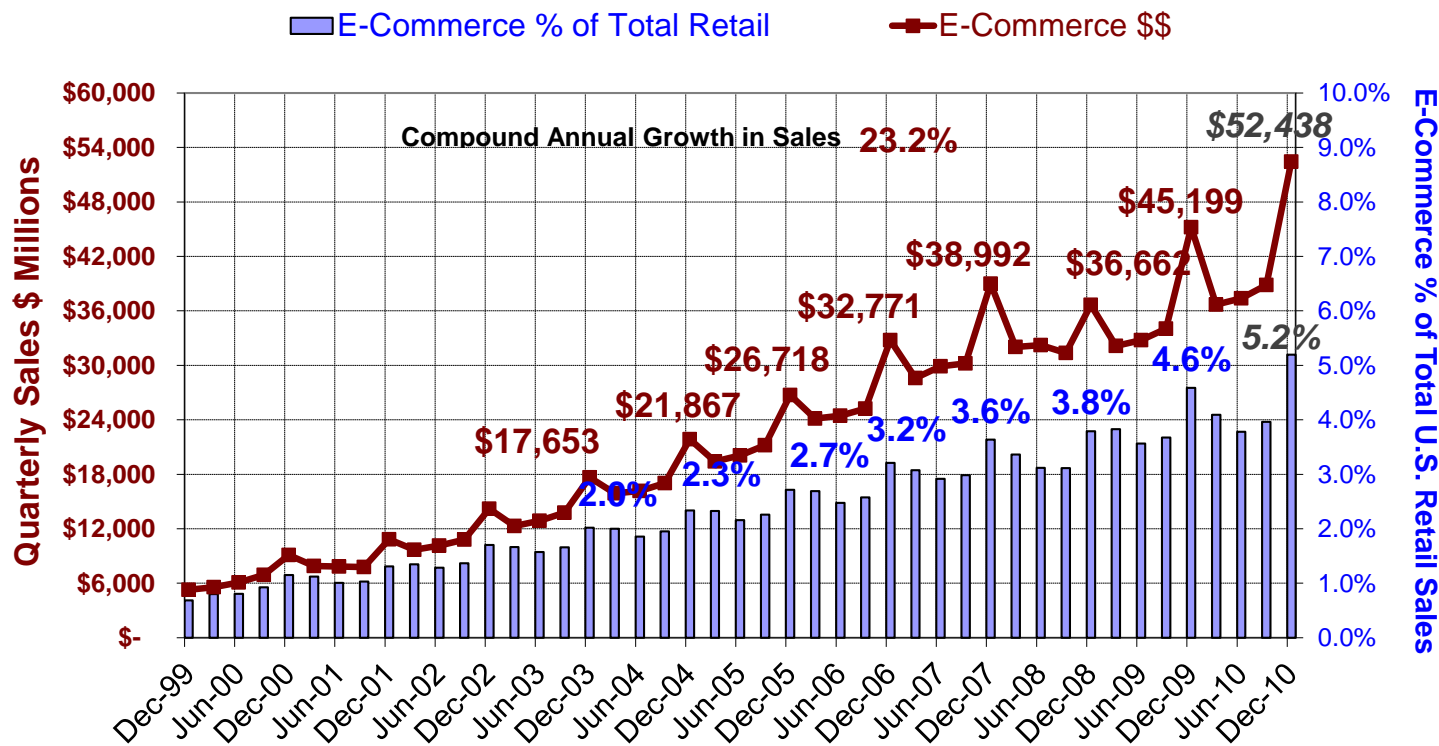
On Black Friday 2010, card spending growth **returned to pre-recession levels**. Overall, consumers responded favorably to aggressive Black Friday marketing campaigns which resulted in year-over-year same-store dollar volume growth of **12.3%**. Transaction growth showed strength at **10.1%**.

"We've actually never seen a Thanksgiving Day this robust before online," said Fiona Dias, EVP of strategy and marketing for GSI Commerce, which operates more than 100 online stores for retailers. "We clearly believe that for us and the hundred sites we have, **it'll be the best holiday we've had by far,**" Dias said.

According to the National Retail Federation, about **33.6 percent of people who went shopping** during the four-day Black Friday weekend which kicks off the holiday shopping season **shopped online. That is a 15 percent increase from a year ago.**

The prospects are for e-commerce sales to exceed the expectations. I have bumped 2010 Q4 spending up to 16% growth over 2009. There are some forecasters that have even higher growth which may be justified by the evidence to date.

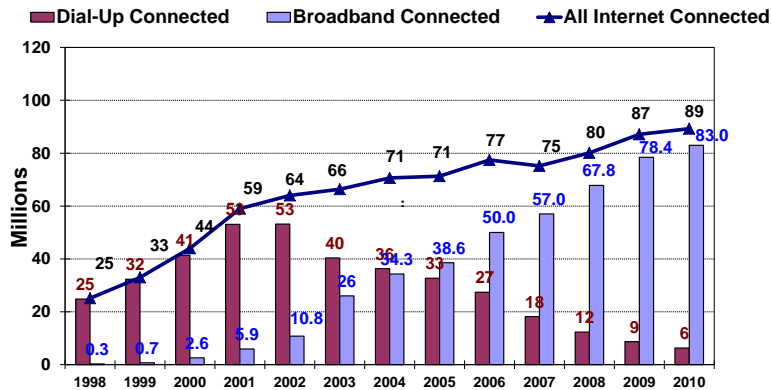
E-COMMERCE CONTINUES TO SURGE Quarterly E-Commerce Sales



Source: U.S. Census Bureau

The expansion of broadband connectivity is a significant driver of e-commerce growth. It will become more so as wireless broadband becomes increasingly common with the rapid adoption of smartphones.

U.S. Households on the Internet: Almost All Broadband

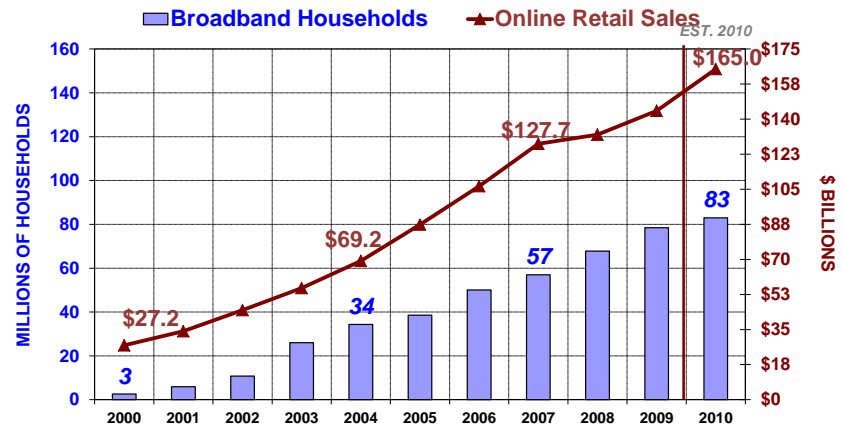


Source: E-Marketer, Internet World Stats, Aberdeen Estimates

Broadband penetration is now in ~66% of all US households and represents over 90% of all internet connections. **Bandwidth is no longer a scarce commodity.** All manner of rich media is being generated to take advantage of the medium.

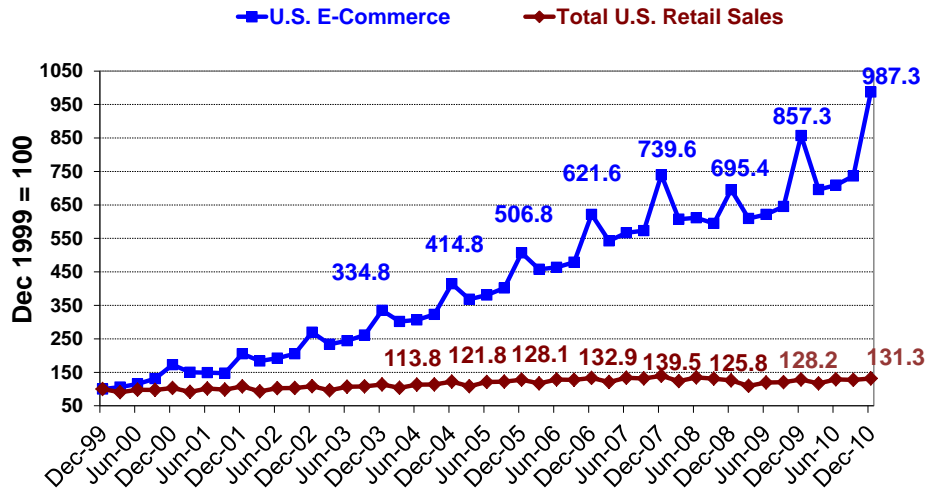
Broadband internet speeds have enabled rising online retail sales. **Online sales are accelerating now that the consumer footprint has surpassed critical mass.** The growth in online retail sales is 98% correlated to the growth in broadband connections.

More Broadband = More Time Online = More Online Retail Sales



Source: E-Marketer

E-COMMERCE CONTINUES TO OUTPACE BRICK & MORTAR
Comparative Indexed Growth



Source: U.S. Census Bureau

E-Commerce will account for 26% of all Q4 retail growth. **It will grow 8X faster than offline retail.** At only 5.2% of all estimated retail sales, e-commerce in the U.S. has ample potential to as much as double over the next 4 to 5 years.

Yin and Yang – More Online Advertising => More E-Commerce and Vice Versa

Spending on online advertising has grown more than 3X since we started investing in e-commerce companies in 2003. That is impressive. It is more impressive to know that online advertising could triple again in the next 5 years as online advertising disrupts conventional advertising.

While online advertising spending has more than doubled since 2004, newspaper advertising has dropped by nearly 50%. Radio has dropped by 32%. Internet based advertising now exceeds newspapers and radio ad spending whereas it was less than a third of each back in 2004. **Online advertising is the only major category of ad**

spending that has grown from its 2007 level prior to the financial crisis and recession of 2008/2009.

Online Advertising: Regaining Above Trend Growth

— Online Ad Spend: Quarterly → Linear (Online Ad Spend: Quarterly)



Online advertising reached a record high in Q3 and Q4 will set another record. 2010 total online advertising will grow ~13% to \$25.7 billion and should accelerate in 2011. It far exceeds radio, will soon eclipse newspapers and will challenge TV in the coming years.

Online advertising is now critical to any branded product marketing campaign. Total advertising spending in the U.S. is as much as \$250 billion per year as estimated by the Interactive Advertising Bureau and PriceWaterhouseCoopers. The industry is dominated by multinational conglomerates who have consolidated the global ad industry and are dependent on extending the predominance of TV based advertising campaigns.

The advertising industry is in the process of being utterly disrupted by the online eco-system.

Why Should you Care? What Should You Do?

**Don't be a wildebeest with your head in the dirt!
You will become lion food!**



The recovery in online shopping is further proof that **the economy is returning to a normal inclination toward growth . . .**

With that, **we can expect to see more investment in stocks** – particularly tech stocks (that's where the most earnings are –eh?) – and less investment in bonds.

Be brave – go ride the wave of e-commerce and online advertising in 2011 – that's what we are doing here at Aberdeen.

**Cheers . . . Merry Christmas . . . Happy Holidays . . . Happy New Year . . .
May your favorite teams win their bowl games . . .**