

Getting Healthy Through... Junk Food?

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You read that right. Today, I'm going to show you how we're taking our worst enemy and making it our greatest weapon.

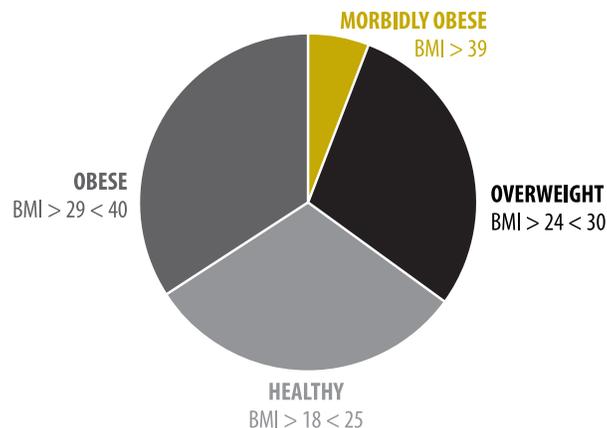
We're fat. You hardly need me to tell you this. Everywhere you turn are reminders – from the stats to our now-narrow airline seats, to advertisements for 6,000-calorie sandwiches seemingly designed to stretch our waistlines.

Think I'm kidding? Last year, a man's ticker gave out while eating the 6,000-calorie Triple Bypass Burger at a chain restaurant named The Heart Attack Grill.

Earlier, the restaurant lost its 29-year-old spokesman to pneumonia – which many linked to his 572-pound girth. It'd be funny if it weren't so tragic.

More than one-third of America's adults are obese. Perhaps more disturbingly, less than a third of adults are a healthy weight:

Adult Obesity In America



SOURCE: Center for Disease Control and Prevention, 2010

BMI is an imperfect measure – Arnold Schwarzenegger famously was “morbidly obese” on that scale, thanks to his hefty muscles during his Mr. Universe days – but still, these are scary numbers.

And it's not much better for our kids – about 18% of adolescents are obese as well.

If you remember what your metabolism was like in high school, that last statistic should be especially sobering. To put on weight before college, you've got to really be trying.

We're well on our way to becoming the least healthy generation on Earth – and it's our own damn fault.

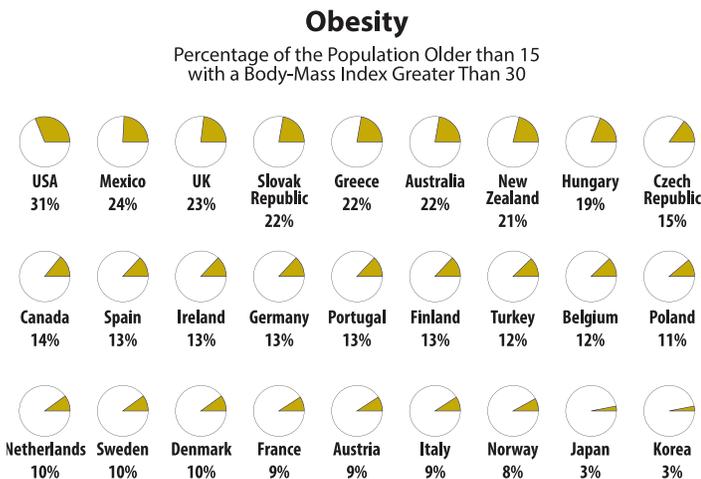
We're eating our way to all sorts of problems...

- Heart attacks and other cardiac issues
- Stroke
- Sleep disorders (such as apnea)
- Osteoarthritis
- Type II diabetes
- Cancer.

None of these completely go away if we get healthy – but our obesity exacerbates them all, and many others.

In fact, taken together, it's estimated that Americans spend around \$147 billion annually on treatments related to problems caused by obesity.

And don't assume there's American exceptionalism at work here, either. We may lead the world, but there are plenty of others that aren't far behind:



SOURCE: London School of Hygiene & Tropical Medicine

Wherever the Western diet goes, obesity isn't far behind. It's damaging our health – an 18-year-old obese white male can expect to live about 10 years less than his healthy counterpart.

It's damaging our wallets – the health care costs for obese Americans are about \$1,429 higher than for healthy Americans (and make no mistake – whether through Medicare or insurance premiums, we're all paying for it).

However, we may have reached the high-water mark. Thanks to a number of clever people working on this problem, solutions are on the way. And some of them are going to make a few people a small fortune.

But before we get to that, first we have to ask – how'd we wind up here in the first place?

Stupid, Stupid Evolution

We are victims of our own success.

Way back before history was even thinking of dawning, life was tough. Nasty, brutish and short, Thomas Hobbes called it – and that about sums it up.

- We weren't atop the food chain and constantly had to be on the lookout for predators.
- When we did manage to get some food, we had to be extra-alert – nothing attracts nasties such as tigers faster than the smell of fresh meat.
- Long before we mastered farming, winters could be especially harsh. To this day, we still eat more in autumn, stocking up our store of fat for a lean, lean winter.
- In fact, because food was so difficult to come by for so long, whenever presented with an abundant source, we'd stuff ourselves. Who knew the next time we'd eat this well again?

That last part is key. Basically, we have this problem – millions of years of barely surviving taught us to eat as much as possible, whenever possible. And if the food source had salt – a precious, rare thing? Eat even more! If it was fatty? The better to give us a little extra layer to lean on during lean times. That's the jackpot!

This system worked wonderfully during prehistoric days – and it continued to fare pretty well during civilized days, as well.

After all, even after we invented farming, storing and pickling, food remained in relatively short supply. So much so that a potbelly was considered a sign of wealth – and hence was considered very attractive.

However, all those millions of years of programming – going back to our time as monkeys, long before we'd learned our ABCs – would prove a detriment during a new age: the industrial age.

Or, more specifically, the industrial age combined with the green revolution in farming. At the same time that we started congregating in cities in larger and larger numbers, we made a number of breakthroughs in farming technology – which allowed our foodstuffs to boom.

Throw in a little refrigeration, add a few preservatives, and suddenly, we were awash with food.

However, we still had our natural, evolutionary proclivities. We still love fat, salt and sugar. And when we get

a bit, our wiring instantly tells us we need to have more.

That's why "Betcha can't eat just one," as Lay's chips proposed, will always be a safe bet. Millions of years of evolution are screaming at us to eat the whole damn bag.

Indeed, after researchers fed potato chips to rats (as opposed to regular rat chow), MRIs showed that the food made all sorts of centers go crazy. The pleasure center, for one – the reward center, for another.

But it didn't stop there. The sleep center, food intake, motion center – all received extra blood flow. In short, when presented with junk food in particular – more so than even just fatty or high-carb food – our brains want more.

That is the biggest problem we face. There are other, related problems – such as the worst foods for us being the cheapest to make and the most convenient to eat.

However, those in the Western world have basically unlimited access to food, which also happens to be the worst for us.

The First Solution – And Why It Fails

There has been a big backlash against junk food for all these reasons – and a cult of health that's sprung up in response.

I'm not talking just about gym culture – though there's overlap. I'm talking about the organic, local push that's best exemplified by Whole Foods.

Whole Foods wants to get back to basics – fresh food whenever possible, no preservatives whenever possible, and local sourcing as well.

While some offerings at Whole Foods are as fattening as anything out there, for the most part, the food is considered healthy. Even when the calories are high, the purity of the food makes up the difference.

By sticking only to "real," unprocessed food, the body knows what to do with it – and voila! We're back to health.

Only a lot of the "health benefits" are really just slick packaging. As one writer for *The Atlantic* noted, a "healthy" Vegan Cheesy Salad Booster actually had three times the fat content per ounce as a Big Mac hamburger.

Even if all the food at Whole Foods were as healthy as claimed, there are four main problems with the system that will never lead to a cure for our obesity epidemic.

1. Giving people flaxseed and quinoa won't change our urges – the things our body tells us to eat. In fact, going with a Whole Foods diet often feels to some people like a form of starvation – which can lead to all sorts of unhealthy binges when willpower breaks down. We can fight our own nature only so much.
2. Going local and organic is fine in small doses – but if we ate that way, suddenly, there wouldn't be enough food for us all. The very things that Whole Foods is against – factory farming, preservatives and processing – are the things that brought us times of plenty in the first place. If we eliminate them, we eliminate our ability to feed ourselves.
3. Even if we were able to create enough local, organic foods to feed everyone, we don't have a way to get it to everyone. If you live in a city, you don't experience this problem – there are choices everywhere you turn. But in wide swaths of the country – often rudely referred to as the "flyover states" – you'd have to go 100 miles to find a grocery store that didn't have a name ending in "Mart." Those areas are often called "food deserts" – because you've got a Wal-Mart and whatever the local diner has on hand, and that's about it.
4. If you've ever shopped at Whole Foods, you know how expensive it is. When I go, it isn't unusual for me to spend twice what I would at Giant and get half of the goods. An organic diet is great if you can afford it – but that leaves out the majority of the American people (and might explain why obesity is worse in lower income brackets).

You can see why Whole Foods and its ilk can't be the solution. Even if we could convince the majority to go along with it... and improve craveable taste to junk-food levels... the problems we'd create would be worse than what we started with.

Personally, I'd rather try to grapple with overeating than starvation.

And there's another problem. While there are many proponents of going back to only "wholesome"

food, there's no evidence anywhere that processed or industrialized food is, de facto, unhealthy.

Indeed, the only things that really seem to matter are the fat, sugar and carb content – and wholesome foods are just as guilty of high caloric content as anything else.

That's why we need a different solution.

Luckily, there is one.

Taste Doesn't Change – But Calories Can

I remember the first time I drank a Diet Coke.

It was awful. I could taste the chemicals... it was oversweet and cloying... and I suspected any resemblance to Coke had more to do with the visual signals of the brown drink than the taste.

Over time, I grew to tolerate the taste of Diet Coke, and I'd turn to it whenever I wanted something fizzy or an infusion of energy in cool, liquid form.

But I never liked it.

Then Coke Zero came out. And it was like I was a kid again.

Listen – I'm not saying that Coke Zero tastes just like regular Coke, no matter what the ads claim. I am saying, though, that it comes a lot closer. Further, it lost most of the chemical taste in my mouth and felt much more... well, real.

The difference? Coke had been experimenting with different sorts of artificial sweeteners for years – and finally came up with a mix that I both enjoyed and felt satisfied by.

While Diet Coke was sweetened with just aspartame, Coke Zero added acesulfame potassium to the mix. The two additives canceled out each other's negative effects and produced a pleasing sweetness closer to what we'd find in nature. Only without any of the calories.

Now, many people react in horror at a chemical name on a label, but Ace-K (as acesulfame potassium is often called) is completely safe. Tests at levels equivalent to drinking 1,343 cans per day found no increased risk for cancer or any other health problem.

The stuff just passes through our body, leaving no trace beyond sweetness on our tongues. The preservatives we use in our crackers are more dangerous than Ace-K.

Why do I bring this up? Simply because of this: We are entering a golden age of what I call Taste Tech – and it's going to revolutionize the way we think of obesity,

junk food and health. It's already starting.

Taste Tech In Action

We don't need to go to the extremes of zero calories to improve the healthfulness of junk food. We just need to make it less bad to have a strong effect.

And that's what's happening right now.

Today – unbeknownst to most consumers – a number of junk foods actually are getting healthier.

A McDonald's fruit smoothie rings in at 220 calories – far less than most "health shakes," and with a taste that actually appeals to the majority of people.

Carl's Jr. has introduced a Charbroiled Atlantic Cod Fish Sandwich, with less than half of the tartar sauce found in a McDonald's Filet-O-Fish, weighing in at about 420 calories. That's a lot less than a grass-fed all-natural beef burger, I can assure you – and right in line for a healthy number of calories for lunch.

And at McDonald's, there now is the option to get an Egg White Delight McMuffin, with much of the refined flour replaced by whole wheat. It costs only \$2.65.

A premium McWrap, selling at \$3.99, is full of grilled chicken and spring veggies, seasoned with rice vinegar.

And it doesn't end with healthier options, either. McDonald's and the other chains have been doing things such as shrinking portions, reducing fat content and cutting salt throughout their menus. Some estimates have fast-food restaurants shaving as much as 10% of calories off their menus.

Given that Americans get 11% of their food from fast-food restaurants – a number that is probably much higher among the obese – there's a real chance to do a lot of good here.

McDonald's and the others haven't touted these improvements – because the industry is still haunted by the McLean Deluxe, which was a failure. Tell consumers that something is healthy for them and that psychologically affects the taste. Make things healthier under the radar and no one notices.

If fast-food restaurants – and junk food in general – can continue to give people what they want... and satisfy their cravings... but do it in a healthier way... we've got a real chance to beat back this obesity epidemic.

But portion control alone won't do it. Reducing salt or refined flour alone won't do it.

What will do it? Tricking our tongues.

The Next Generation of Food Tech

Today, in labs across the world, scientists are developing new ways to bottle flavors and sell them on shelves.

It may seem fanciful, but it's not. If you've ever had a Buttered Popcorn Jelly Belly jelly bean, you know how good some of this can be.

However, it isn't easy to recreate a taste.

- There is the actual taste, of course. But then there are other tastes that may come along for the ride – and need masking agents.
- There's smell, which – as we've all heard time and again (and know from eating when we have colds) – makes up a larger part of taste than is generally acknowledged.
- There's also release. Fat “cushions” other flavors, for instance, allowing them to spread out over time. If you reduce fat, you need to spread those flavors out in other ways.
- And there's texture – because, as we've recently discovered, the mouthfeel of food has more to do with its taste than ever before assumed. You might prefer one texture to another – but you probably never knew that blending can change taste.

If recreating taste were easy, we'd have pulled it off long ago. But it takes work – and, until recently, we didn't even know all the factors that played a role (such as release and texture).

But as we learn more about how taste works, we're getting much better at manipulating taste. What does that mean for the future?

Imagine having a burger with half of the fat... but additives that gave it a full-fat feel and taste. Imagine eating potato chips that tasted as good as any you've had but were so much healthier your fingers never got greasy.

That's exactly what's on the way. Businesses have been scared off by previous failed attempts such as the McLean. But that is very, very old tech.

Amazing advances are happening right now. Labs have taken every taste our mouths can sense and put them into 5,000 bottles, ripe for mixing and matching.

Advances in gum technology are allowing us to control texture like never before – and, through that, to control flavor release.

We're standing right on the verge of a major change in the way we make our processed foods – a change that should be the first true blow against obesity we've seen in our lifetimes.

The \$45.2 billion Americans spent on fitness last year? That's nothing – imagine what Americans spend on food. Now imagine if Americans could buy food they enjoy eating – and get healthy doing it.

Getting healthy by eating junk food is definitely an unconventional thought. But when you look at the realities of our obesity problem... the limits of other approaches... and the technical breakthroughs we're experiencing today... it's very clear.

It may be unconventional. But it's the future. We need to get onboard now.

Three Ways to Play the Healthy Junk Food Trend

As mentioned above, a number of labs are hard at work finding the combinations of flavors that will make healthy food more satisfying tomorrow. Two of those labs stand out.

The first is **International Flavors & Fragrances Inc. (NYSE:IFF)**. Though unknown to most of the world, IFF is actually one of America's oldest companies and has been an established leader in flavor enhancement for years.

Headquartered in New York, it has a sizable – some might say dominant – presence throughout the developing world. With factories in the U.S., the U.K., Spain, Indonesia, Japan, China, Brazil, the Netherlands, Argentina, Mexico and Singapore, IFF truly has a global reach.

Over the past five years, earnings per share have grown at an annualized rate of 10%. IFF's profit margin is 9.65% – well above the industry average – and its return on equity is a very tasty 21.34%.

IFF is the dominant player in the flavor industry. It's difficult to predict where the next breakthrough will come from, but it's a good bet that IFF will be involved.

The company even gives us a healthy 1.9% dividend – a nice bonus for owning the best company inside a sector poised for meteoric growth. **Buy up to \$85.**

While we can't know who will be the next to discover a brilliant flavor, our next company is a very good bet. Chiefly because it recently grabbed 113 new flavor patents and also because it's trusted by a number of big-

name partners – such as PepsiCo, Kraft, and Nestle.

The company is **Senomyx (NASDAQ:SNMX)**, and there's a second reason for contrarians to like it.

Senomyx, thanks to some false rumors about aborted fetal cells showing up in Pepsi products, received a lot of bad publicity last year.

To be clear, there never were and never will be fetal cells in Senomyx's products. The confusion came about because some of Senomyx's technology came about by studying cloned embryonic cells.

There's absolutely nothing fishy – or unique – going on here. But given the charged political nature that comes with any mention of the word “embryo,” Senomyx shares were knocked down in price and have only recently recovered to pre-rumor levels.

The troubles are now well and truly past, and the future should be very smooth sailing – in no small part because of those 113 new patents.

Senomyx is a very small-cap stock, so *Unconventional Wealth* readers could actually move the price just by themselves. For that reason, I want to stress a very firm buying cap – **buy up to \$3.60 and no higher**. If the price moves higher, wait for it to drop again.

Finally, no matter where breakthroughs come from, there is one giant of the industry that we know will make use of them. I'm talking, of course, about **McDonald's (NYSE:MCD)**.

McDonald's doesn't feel very unconventional, you say? Well, we're not investing in McDonald's, the fry shack – we're investing in McDonald's, the health

company! That's sounds pretty unconventional to me.

McDonald's just announced another slew of healthier options – such as side salads in lieu of fries. And knowing how the giant responds to competition, I fully expect Burger King's new “Satisfry” – with 30% fewer calories – to find an answer in Mickey D's lineup.

That is, if the Satisfry doesn't succumb to the curse of the McLean Deluxe. If it does, expect the improvements from McDonald's to remain under the radar.

Either way, over the next decade, we're going to see McDonald's go from one of the worst offenders in our obesity epidemic to one of our most effective champions of healthier options. It doesn't hurt that those healthier options can also be sold at a slight premium, either.

While the transition occurs, we'll sit back and enjoy a 3.37% dividend from one of the most stable and profitable companies in the history of Wall Street. **Buy up to \$97.**

These are three of the best ways to attack America's obesity problem – and to make a considerable amount of money doing so.

But they're not the only ways to think about this issue. For another take, here's our own Alex Wissel.

Unconventionally yours,



Ryan Cole

How to Profit From the Junk Food Revolution

Investment #1: Buy shares of **International Flavors & Fragrances Inc. (NYSE:IFF)** up to \$85. With a 100-plus-year history and global reach, IFF should lead the charge in the flavor tech revolution.

Investment #2: Buy shares of **Senomyx (NASDAQ:SNMX)** with a strict buying cap of \$3.60. Remember that it's a small-cap company, so if shares shoot higher, wait for them to drop before you buy more.

Investment #3: Buy shares of **McDonald's (NYSE:MCD)** up to \$97. I predict the fast-food titan will transform into a champion of healthier food choices. In the meantime, this extremely stable stock offers us a 3.37% dividend to enjoy.

Premium Cupcakes and a Gucci Food

Alexander Wissel, Editor, *Insiders Strategic Review* and the soon-to-be-released *Rogue Capitalist*

I was kicking some business ideas around with one of my classmates the other day – it seems she needed some input on what direction she should take with a cupcake company she’s building.

I love cupcakes. They’re one of the world’s simple pleasures. I had a few ideas for her, but it came down to one word:

Premium.

You see, when you break capitalism (or baking) down to its fundamentals, it’s about selling products for more than you can make them. The higher prices you can charge, the better off you’ll be. Those brands that can command the greatest share of the high-end segment are positioned to make the most money and – potentially – be the most successful.

Consider **Apple’s (NASDAQ:AAPL)** strategy when Steve Jobs returned to the helm in 1996. When he took over, the company was near bankruptcy, with multiple products that were competing on cost – and losing.

Jobs streamlined and discarded product lines so that instead of 30 products, Apple now had six. Then, through a combination of skilled marketing, design, engineering and innovation, Apple morphed into a premium brand.

Apple did it by offering a better product than its competitors did and by charging more for it. That’s the value of a premium brand – the name alone allows you to increase your price.

So when you hear someone call a cupcake “Gucci,” you’re really hearing them equate a premium, high-end and exclusive brand to a simple product.

You don’t always sell as many premium products as your competitors. But the beauty is you don’t have to. Premium products build in fat margins and healthy profits with their high prices. Ideally, it’s exactly what we want to see in our investments.

I encouraged my classmate to do the same with her brand.

Which sounds easy to do from the comfort of my writing desk. It’s another story altogether when you’re

in the trenches, up to your elbows in confection and buttercream... tasty, tasty, buttercream.

It’s incredibly hard to do – especially in a segment such as food. Margins are razor tight.

So when you see food companies do it – and do it well – it’s worth taking notice. That’s why I love **Whole Foods Market (NASDAQ:WFM)**. It’s a premium grocery store chain that markets a wide variety of organic and natural foods to an upscale population segment, while appealing to the mass market.

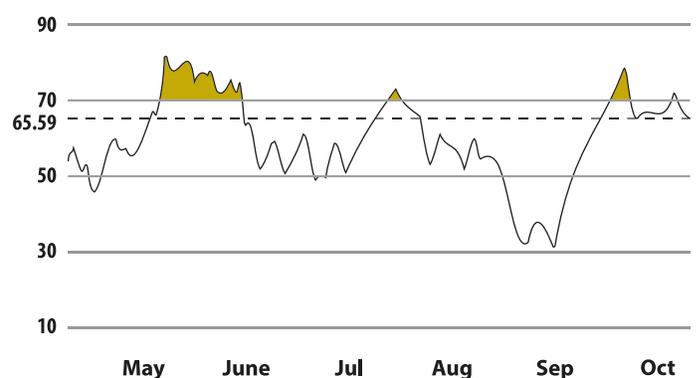
You know almost everything you need to know from the nickname it’s been given by its customers: “Whole Paycheck.”

The term “grocery store” – or even “supermarket” – doesn’t begin to elaborate on the breadth and reach that a premium store such as Whole Foods has. From sourcing its own unique produce, fresh seafood from sustainable fisheries, certified organic products, vitamins and nutritional supplements, to employing in-store fishmongers, bakers and butchers, the store provides a large assortment of healthy products in an open-market setting.

Whole Foods has a smart and aggressive expansion strategy that places its stores in upscale markets and charges premium prices across the board. In the supermarket/grocery store world, Whole Foods is a “best in breed” premium brand that should be a strong investment for a long time.

It’s a strategy that more food brands are trying to implement in markets that didn’t necessarily contain

Whole Foods' Performance Over the Past Six Months



SOURCE: Stockcharts.com

premium products before. Consider what's become of the dog food business over the past few years as pet owners want to feed their pooches the best food with the healthiest balance of additives.

Safeway Inc. (NYSE:SWY) is one such brand that has been trying to redefine its stores as a higher-quality brand. It's introduced a line of "Safeway Select" branded staple items. In addition, it's redesigned and renovated its stores with more of an open-market feel – modeled after Whole Foods. It remains to be seen if this transition will work in the long run.

It's one thing to go out and call yourself a premium brand. It's quite another to be one.

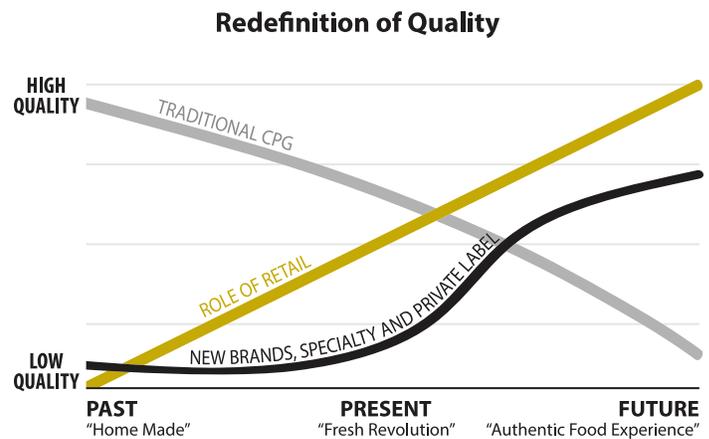
Take **Starbucks Corp. (NASDAQ:SBUX)**, for example. The company didn't start out as a premium brand but grew into one as the quality of its products allowed it to charge more and develop a stronger brand value. You see, it's not just about higher costs.

When brands can't raise their prices, they raise their quality. Providing value or even a perceived value is an important aspect of premium that isn't as reliant on prices. It used to be quantity was the metric for value, but not anymore. Today, the name of the game in food is "healthy."

When a fast-food chain such as **Burger King (NYSE: BKC)** publicizes its new french fries because they have been designed to contain 40% less fat and 30% fewer calories, it sends ripples throughout the entire food segment.

As consumers constantly redefine what they consider quality and premium, brands that provide more value and deliver healthier options will be regarded as better values than their competition. Take a look at the chart for a visual representation of this.

You can see from the chart in the next column that today and in the past, terms such as "homemade"



and "fresh" have been the buzzwords that have driven specialty and private-label products.

As we move forward, an "authentic food experience," or high-quality food that resonates with the consumer as healthy and tasty, is going to be the driver of premium sales. Traditional consumer packaged goods, once considered high quality, will slowly lose their luster, while retail establishments such as Whole Foods and Burger King will drive improvement.

With the range of quality and healthfulness in the foods retailers offer today, the biggest improvements are going to come from the lowest-quality brands. As they improve their quality, the possibility exists that they will be able to charge more.

As companies across the board work to improve their quality, the nature of "premium" changes over time. It provides opportunities for new brands and companies that are making improvements in quality over their peers and, ultimately, providing better value for consumers.

So, for example, if you can figure out how to make a cupcake healthy as well as delicious, you're halfway down the road to success.

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