



ALL EARS!!

The Litchfield Fund Weekly Newsletter

“We just don’t hear it on the street, we have our ears spread across all the fields!!!!”



Litchfield

Brinkmanship! The term is attributed to Adlai Stevenson who used it to describe the international policies of the Eisenhower administration under Secretary of State John Foster Dulles. This Cold War era political & military philosophy reached its pinnacle in October, 1962 when the Kennedy administration faced off against the Soviet Union over missiles in Cuba. While our current presidential administration seems incapable of negotiating with tyrannical regimes from a position of strength, Kennedy understood that he who blinks first, loses. Perhaps, the more appropriate term would be Blinkmanship!

This isn’t a game anymore: Brinkmanship is just the advancement of the mathematical model of Game Theory (or Decision Theory). Game Theory provides a mathematical matrix for determining the actions of rational decision makers in both cooperation & conflict. Developed in the 1700s by a British ambassador so he could win at cards, and long before it came under mathematical study, James Madison used the concepts to describe how states would respond to different forms of taxation. Game Theory became a field of intensive study in the early part of the 20th century. Some of its first uses were in the field of economics (von Neumann) but it quickly expanded into political science, military strategy, computer science, biology & philosophy. Game Theory has even been used in religion to prove the existence of God & the choices made by biblical characters. Although, when an Archangel is hovering above you with sword & trumpet, your decision is pretty much made for you!

As we look at changes in consumer behavior determining logical outcomes is nothing more than the use of Game Theory. While many would suggest consumer behavior is anything but rational, under a decision making matrix that includes possible outcomes, consumer behavior becomes much more logical. Let’s take the most obvious example. Why would consumers continue to smoke cigarettes, drink too much, or eat fast food when the outcome is disease, sickness, & death? Under a mathematical analysis, the consumer weighs near term convenience & satisfaction more importantly, thus the outcome. But the millennial consumer gives more weight to transparency, authenticity, & sustainability than it does to convenience, price, or immediate satisfaction. So Phillip Morris, Anheuser Busch, & McDonalds are out; Hain Celestial, Constellation Brands, & Chipotle are in. Steve Hughes, CEO of Boulder Brands, discussed this topic on the Next Accelerator Brown Bag CEO conference call this week. Millennial purchasing power will grow from \$600B *direct and indirect* (some are still in high school) to over \$1.2T (yes that’s a ‘T’) *direct* in the next 5 years. Mr. Hughes believes there will be a number of \$300M to \$500M brands in 3 to 5 years that no one has seen or heard of yet! Whole Foods, Sprouts, & other natural grocery stores are the incubators for these products.

These stores act as 365-day-a-year trade shows, proving labs, testing grounds. They offer entrepreneurs quick access to the public & assess consumer reaction almost immediately. What at one time may have taken a brand years to accomplish can now happen in 18 to 24 months. Mr. Hughes cited the growth of Boulder's *Udi's*, *Glutino*, & *Evol* brands as examples as well as *Suja Juice*, a Boulder Investment Group major holding.

Empirical evidence? **The Litchfield Fund** attended the Chipotle Cultivate festival in Scottsdale this weekend, which visits just three cities this year. Chipotle demonstrates how their food is different in composition & sustainability from other fast food, tests new food concepts, invites local artisan brands & emerging national brands like *Izze*, *Earthbound Farms*, *Plum Organics*, *Applegate*, etc. The crowd was 95% under age 30 with the required tattoos & piercings, & the bands performing we're clearly '*not what The Litchfield Fund calls Rock'n'Roll*' (apologies to Mark Knopfler)! No decision tree analysis needed!

Portfolio News: Hain Celestial (**HAIN**) was downgraded by Longbow Research to NEUTRAL. Longbow held to its 3rd OTR & full year earnings estimates for **HAIN**. Lifeway Foods (**LWAY**) holds a consensus 1-year target price of \$22.88 from brokerages covering the stock. Whitewave Foods (**WWAV**) received \$50 price targets from both Deutsche Bank & Stifel Nicolaus. Hershey (**HSY**) maintains a mean target price of \$107.36. Despite a sell off for United Natural Foods (**UNFI**) this week, Oppenheimer maintains BUY/OUTPERFORM rating on the stock. **UNFI** holds a mean price target of \$84.45.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

v1issue44.04.18.15