*Argument 13*

*The following appeared in a newsletter offering advice to investors.*

*"Over 80 percent of the respondents to a recent survey indicated a desire to reduce their*

*intake of foods containing fats and cholesterol, and today low-fat products abound in many*

*food stores. Since many of the food products currently marketed by Old Dairy Industries are*

*high in fat and cholesterol, the company's sales are likely to diminish greatly and their profits*

*will no doubt decrease. We therefore advise Old Dairy stockholders to sell their shares and*

*other investors not to purchase stock in this company."*

This excerpt from an investment newsletter cites a recent study in which 80% of

respondents indicated a desire to reduce their consumption of high-fat and high-cholesterol

foods, then points out that food stores are well-stocked with low-fat food products. Based on

this evidence the newsletter predicts a significant decline in sales and profits for Old Dairy

(OD), a producer of dairy products high in fat and cholesterol, and advises investors not to own

OD stock. I find this advice specious, on several grounds.

First, the excerpt fails to assure me that the survey results accurately reflect the desires of

most consumers, or that the results accurately predict consumer behavior. Without evidence

that the respondents' desires are representative of those of the overall population where OD

products are sold, it is hasty to draw any conclusions about future food buying habits from the

survey. Moreover, common sense informs me that consumers do not necessarily make

food-purchase decisions in strict accordance with their expressed desires. Thus as it stands

the statistic that the newsletter cites amounts to scant evidence that OD sales and profits will

decline in the future.

Secondly, the fact that low-fat foods are in abundant supply in food stores does not

necessarily indicate an increasing demand for low-fat dairy products or a diminishing demand

for high-fat dairy products. Absent evidence to the contrary, it is quite possible that consumers

are buying other types of low-fat foods but are still demanding high fat in their dairy products.

For that matter, it is entirely possible that food stores are well-stocked with low-fat foods

because actual demand has not met the demand anticipated by the stores.

Thirdly, even assuming an indisputable consumer trend toward purchasing more low-fat

daizy products and fewer high-fat dairy products, the newsletter concludes too hastily that OD

profits will decline as a result. OD can always raise the price of its dairy products to offset

declining sales, and given a sufficient demand OD might still turn a profit, despite the general

consumer trend. Besides, profit is a function of not just revenue but also expenses. Perhaps

OD expenses will decline by a greater amount than its revenue; if so, then OD profits will

increase despite falling revenues.

In sum, without additional information prudent investors should refrain from following the

newsletter's advice. To better assess the soundness of this advice it would be helpful to know

the following: (1) the demographic profile of the survey's respondents; (2) the extent to which

consumer desires regarding food intake accord with their subsequent behavior; (3) the extent

of OD loyalty among its regular retail customers who might continue to prefer OD products

over low-fat products even at higher prices; and (4) the extent to which OD might be able to

reduce expenses to offset any revenue loss resulting from diminishing sales of OD products.