Edward Kerschner, CFA
+1 212 713 2448

Michael Geraghty
+1 212 713 2581

Jeremy Zirin, CFA
Associate Analyst

GLOBAL INVESTMENT STRATEGY

The All American Shopping List

April 1, 2001

Where U.S. Consumers' Money Will Be Going

- After several years of robust growth, a confluence of factors has caused a *temporary* retrenchment in consumers' incomes, expenditures. Those factors should soon ease.
- Long-term fundamentals for consumer remain favorable. Low unemployment, a cyclical economic rebound, stabilizing energy prices, tax cut, growth in productivity should combine to lead to real after-tax wage gains. And baby boomers are in their peak income years.
- Rather than dwell on the current malaise, to *anticipate* consumer behavior, UBS Warburg had Gallup conduct a proprietary survey asking what consumers *will do* "when things get better."
- There is now some pent-up demand. "When things get better," 37% will buy greater quantity of goods, 10% smaller quantity. In July 2000, only 20% said they would buy a greater quantity, 20% a smaller quantity. It's *still* about quality: 27% want higher quality, just 2% lower quality, vs 23% higher quality/4% lower quality in July 2000.
- The priorities reflect the dominant demographic—the aging baby boomer.
  - Few Americans will buy a new home (19% will, 80% won't) or new car (34% will, 65% won't), or spend more money on clothes (33% will, 67% won't).
  - 39% will spend more in home product stores (11% less). 34% will spend more in superstores (8% less). But the trends are not as favorable for department stores (27% will spend more, 12% less), discount stores (23% more, 15% less) and clothing stores (21% more, 21% less).
  - 46% will spend more on vacations. Of those, over 70% will take a domestic flight or stay in an upscale hotel.
  - 56% will save more. Of those, 47% will buy a mutual fund, 27% to use a broker.
- It's *still* about online speed:
  - 56% of Americans now access the Net from home (up from 40% in 2000).
  - A year from now, 45% of those online Americans want to be accessing the Net by some fast method (cable modem, DSL, satellite), just 37% by dial-up modem (versus 68% using dial-up today).
  - 21% will spend more money on a PC over next 12 months.

Exhibit 1: Key Findings of the UBS Warburg/Gallup Survey

Taxes and Money

- Almost half (42%) of Americans think that federal tax rates will be reduced over the next 12 months.
- Of those Americans who expect a tax cut, over three-quarters (77%) think that they will have as much—*or more*—money to spend on goods and services over the next 12 months as they did in the past year.

What Americans Will Buy

- As economy rebounds, a majority of Americans will *not* buy a new home (80% won't) or new car (65% won't), or spend more money on clothes (67% won't).
- But there is some pent-up demand. 37% plan to buy a greater quantity of goods as the economy rebounds, 10% plan to buy a lesser quantity. This compares to 20% to buy more / 20% to buy less in July 2000.
- 27% will buy higher quality goods. Just 2% will buy lower quality goods. This compares to 23% to buy higher quality / 4% to buy lower quality in July 2000.
- As economy rebounds, 50% will spend more on home improvement, 39% will spend more on home furnishings.
- 46% will spend more money on vacations.

Where Americans Will Give Their Business

- To selected retailers. 39% say they will spend more in home product stores. 34% will spend more in superstores. But the trends are not as favorable for department stores (27% will spend more, 12% less), discount stores (23% more, 15% less) and clothing stores (21% more, 21% less).
- To restaurants, but not to movie theaters. 23% will spend more at restaurants, 14% will spend less. But 19% will spend less on movies, just 16% will spend more.
- To upscale hotels, airlines and theme parks. Of those spending more on vacations, over 70% will spend more on taking a flight within the U.S. or staying in a nice hotel. 50% will spend more on going to a theme park.
- To mutual funds and brokerage firms. 56% will save more. 47% of those savers will put some savings into a mutual fund, 27% into a brokerage account.

Technology

- 21% say that, as things get better over the next 12 months, they will spend more money than last year on a PC, only 14% on a TV or 15% on a DVD recorder.
- 56% of Americans now access the Internet from home, up from 40% in 2000.
- 68% of online Americans now access the Net from home via a dial-up modem, down from 80% in July 2000.
- Almost half (45%) of Americans who currently access the Internet by dial-up modem from home say that, a year from now, they will be accessing the Net by some faster method, such as a cable modem or DSL. That compares with 34% in 2000.

A Consumer Spending Rebound Is a Matter of When, Not If

On Wall Street there are few certainties, but today three things seem pretty likely:

- President Bush and Fed Chairman Alan Greenspan will succeed in boosting consumer incomes through a combination of lower taxes and lower interest rates.
- The weather will get better.
- Americans will be a year older in 2001 than they were in 2000.

For the reasons discussed below, these three factors should have a material impact on consumer spending in 2002. The first two factors likely mean that a rebound in spending is now only a matter of when, not if. And the third factor should strongly influence how consumers direct their spending when the rebound occurs.

To try to anticipate consumer behavior over the next year, UBS Warburg and The Gallup Organization, a leading expert on consumer behavior, recently conducted another proprietary survey of 1,000 Americans. This is the fourth survey of Americans that the Investment Strategy group has conducted with Gallup over the past four years. (The results of the first survey were discussed in our report "The New Millennium American—Changing attitudes drive consumer behavior," September 7, 1998.) The results of the most recent survey are discussed throughout this report.

To try to anticipate consumer behavior over the next year, UBS Warburg and The Gallup Organization recently conducted another proprietary survey of 1,000 Americans.

A Cyclical Slowdown Amidst Secular Strength

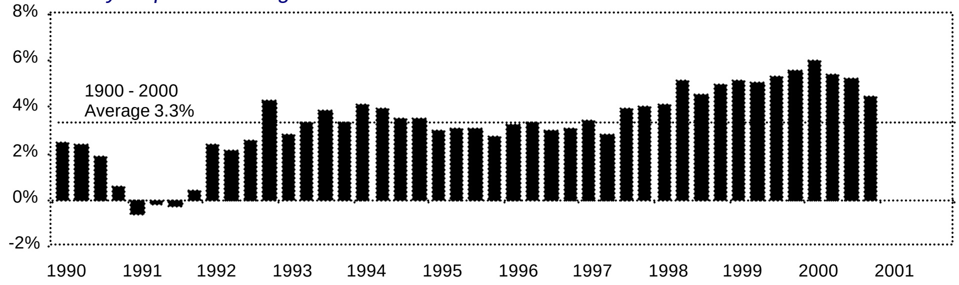
Importantly, a rebound in consumer spending, when it occurs, will be a continuation of a spending boom that began in the late 1990s (Chart 1). As we have discussed in many reports in recent years (beginning with "Consumer Comeback," September 4, 1995), since the late 1990s consumer spending growth has been driven by real income growth (Chart 2). Driving real wage gains has been a healthy combination of:

- Strong demand for labor/low unemployment (Chart 3), in the context of a muted business cycle.
- A slowly growing supply of labor (Chart 4), because most women and boomers have entered the labor force.

These real wage gains have not boosted inflation because productivity is rising rapidly.

Chart 1: Real Personal Consumption Expenditure Growth

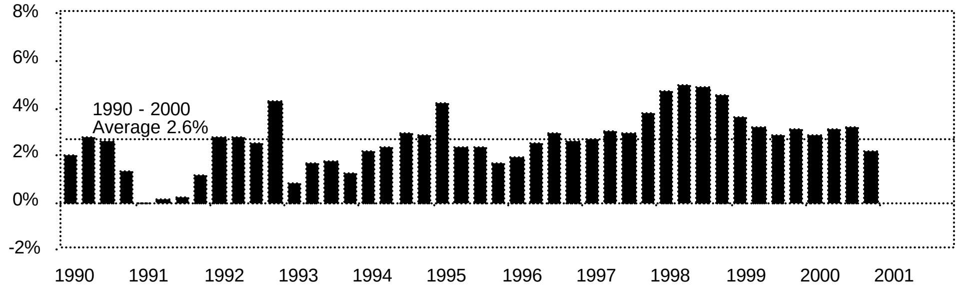
Year over year percent change



Source: Bureau of Economic Analysis.

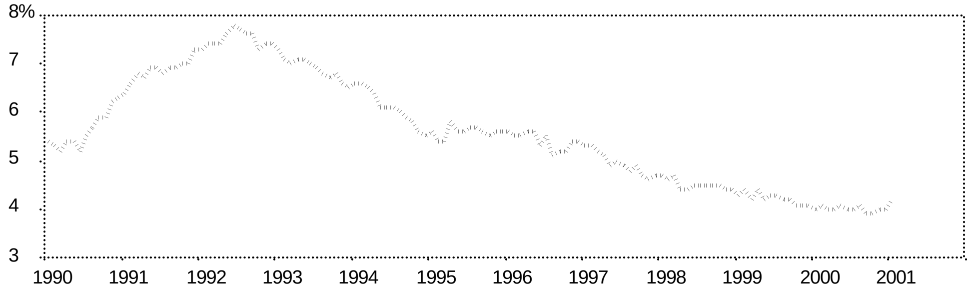
Chart 2: Real Disposable Income Growth

Year over year percent change



Source: Bureau of Economic Analysis.

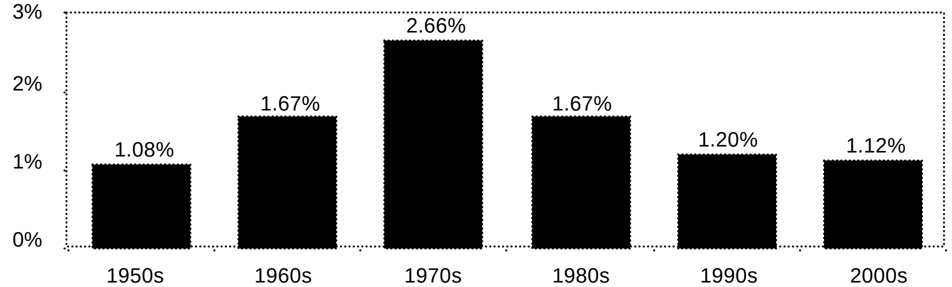
Chart 3: Unemployment Rate



Source: Bureau of Labor Statistics.

Chart 4: U.S. Labor Force Growth

by decade (CAGR)



Source: Bureau of Labor Statistics.

However, in 2000 the environment became much less favorable, with several factors *temporarily* pressuring consumers' incomes and spending power:

- *Higher interest rates*. Between November 1998 and May 2000, the Fed raised interest rates by 175 basis points.

- *Higher energy costs*. Natural gas prices rose from a low of $1.64 (per MMBtu) in March 1999 to a high of $8.12 in December 2000, while the price of a barrel of oil (West Texas Intermediate) rose from $10.73 in December 1998 to $37.20 in September 2000.

- *An economic slowdown*. Higher interest rates and energy prices increased costs for corporate America, while the strong dollar reduced the competitiveness of U.S. companies. At the same time, the dot.com sector imploded, throwing thousands of people out of well-paid jobs. Reflecting these factors, the unemployment rate rose from a low of 3.9% in September 2000 to 4.2% in February 2001.

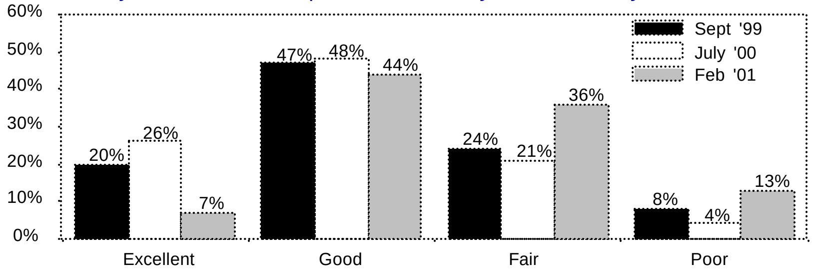
- *A modest "wealth effect."* The dot.com implosion was a key factor behind the collapse of the Nasdaq, which has plunged 60% from its March 2000 high. In July 2000, our Gallup survey revealed that the vast majority (90%) of those Americans with some kind of investments in the financial markets (57% of the population) said that, up to that point, changes in the stock market had no effect on their spending levels. However, those investing Americans also said that their portfolios would have to decrease by an average of 27% before they would feel it necessary to reduce spending. With the Nasdaq down much more than 27% in the last 12 months, it seems likely that there has been *some* "wealth effect" on consumer spending, although the diversified nature of most investors' portfolios likely means that effect has been *quite modest.*

- *Higher taxes*. One of the downsides of the economic boom of the past few years has been that more people are paying higher taxes. A key culprit in this regard is the Alternative Minimum Tax (AMT), which was designed to prevent people with very high incomes from using special tax benefits to pay little or no tax. But because of flaws in the way the legislation was crafted, the AMT has been impacting more taxpayers each year, including some people who don't have very high incomes. Today, consumers' tax burden is close to the highest share of GDP in peacetime history—a hefty 10.4%, versus a 1980-95 average of 8.1%.

Reflecting these adverse factors, consumer sentiment has plunged. Just about half of Americans rate economic conditions in the U.S. as either "excellent" (7%) or "good" (44%), while 36% consider them "only fair" and 13% rate them "poor" (Chart 5). By contrast, in July 2000 and September 1999, over two-thirds of Americans rated economic conditions in the U.S. as either "excellent" or "good," while no more than one in three Americans considered them "only fair" or "poor."

Chart 5: How Americans View Economic Conditions

Three surveys of Americans: September 1999, July 2000, February 2001

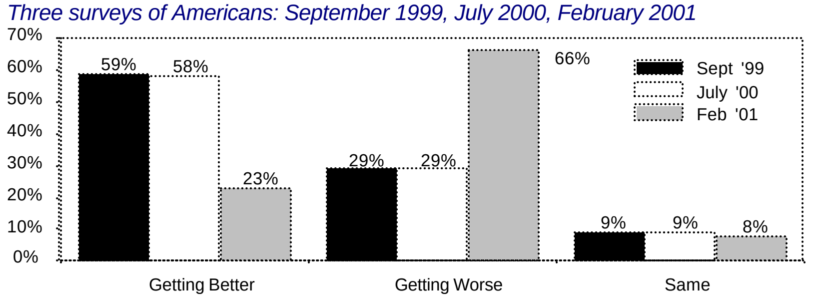


Source: UBS Warburg LLC/Gallup.

Not only do economic conditions seem bad, but a majority of Americans also think they are *getting worse*. As Chart 6 illustrates, two-thirds of Americans say that economic conditions in the U.S. are getting worse, as compared to less than one in three who felt that way in September 1999 and July 2000.

Chart 6: How Americans Think Economic Conditions Will Change

Three surveys of Americans: September 1999, July 2000, February 2001



Source: UBS Warburg LLC/Gallup.

Brightening on the Horizon

Amidst this gloom, there are some signs of brightening on the economic horizon.

Amidst this gloom, there are some signs of brightening on the economic horizon:

- *Lower rates.* Since January, the Fed has cut interest rates by 150 basis points, and UBS Warburg expects that rates will be cut by another 150 basis points this year.

- *Lower energy costs*. Both natural gas prices and oil prices are down from their highs, and it is expected that those prices will fall further. Two key points to bear in mind in this regard: First, the winter heating season is just about over, so demand for energy should drop as the weather improves. Second, on the supply front, energy is, of course, a commodity and the recent high prices have spurred increased exploration activity, as evidenced by the North American oil rig count which has jumped from 558 in April 1999 to 1,657 in January 2001. So the combination of lower demand and increased supply should ensure lower energy costs. UBS Warburg is forecasting that natural gas prices will fall from $5.75 (per MMBtu) in 2001 to $3.75 in 2002, and that the price of oil (West Texas Intermediate) will fall from $28 per barrel in 2001 to $24 per barrel in 2002.

- *An economic rebound.* Thanks to the end of the inventory correction and the positive impact of lower rates, UBS Warburg expects real GDP growth to rebound later this year, from slightly negative growth (-0.5%) in Q2 to +2.5% growth in Q4.

- *A better stock market.* In 2000, the DJIA fell 6%, the S&P 500 dropped 10% and the Nasdaq Composite plunged 39%. Declines of such magnitude over the next 12 months are unlikely for three reasons. First, interest rates are low, which should support P/E levels. Second, economic activity should rebound, which should help corporate profit growth later this year and in 2002. Third, valuations are at low levels. The UBS Warburg Equity Valuation Model gauges that stocks have +30% appreciation potential to normal value.

- *Lower taxes.* President Bush made lower taxes a key part of his election platform. According to an analysis by the accounting firm Deloitte & Touche, a fairly typical American couple with $60,000 of income and two children would see their taxes drop by 28%, to $3,545 from $4,945, if the Bush plan were *fully* phased in. (Note that the reductions won't begin to take hold until the 2001 tax year at the earliest, and many parts of the plan phase in over several years.)

The misery index today is lower than the levels in 86% of the 360 months in the last 30 years—i.e., the "adult years" of the baby boom generation.

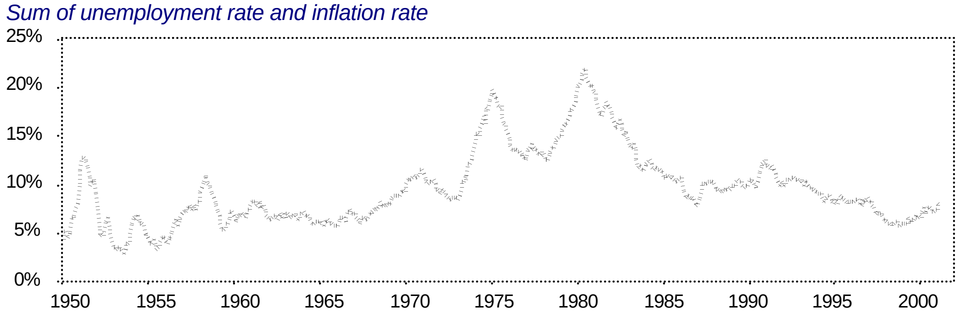
It's important to bear in mind, however, that while economic conditions are weak today, they are *not nearly as weak as in prior downturns*. This is clearly illustrated by the "misery index"—the sum of the unemployment rate and the inflation rate.

- At just 8.0%, the misery index is currently lower than the levels in 60% of the 600+ months since 1950 (Chart 7).

- And the misery index today is lower than the levels in 86% of the 360 months in the last 30 years—i.e., the "adult years" of the baby boom generation.

Chart 7: Misery Index

Sum of unemployment rate and inflation rate



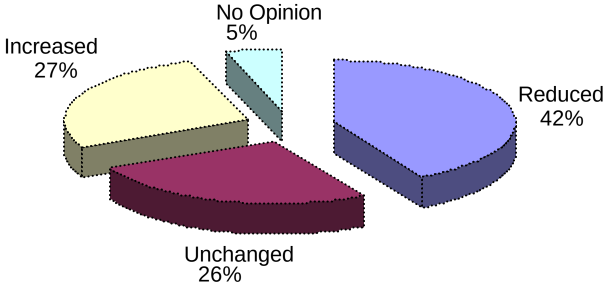
Source: Bureau of Labor Statistics.

Consumers are rational observers of the economic landscape, so although Americans say that economic conditions in the U.S. are currently deteriorating (Chart 6), they also realize that things will get better over the next 12 months. In this regard, the latest Gallup survey reveals that:

Almost half (42%) of Americans think that federal tax rates will be reduced over the next 12 months.

- Almost half (42%) of Americans think that federal tax rates will be reduced over the next 12 months (Chart 8).

Chart 8: "What Will Happen to Federal Tax Rates over the Next 12 Months?"



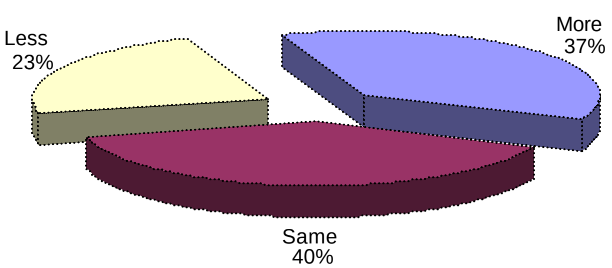
Source: UBS Warburg LLC/Gallup.

Of those Americans who expect a tax cut, over three-quarters (77%) think that they will have as much—or more—money to spend on goods and services over the next 12 months as they did in the past year.

- Not surprisingly, of those Americans who expect a tax cut, over three-quarters (77%) think that they will have as much—*or more*—money to spend on goods and services over the next 12 months as they did in the past year (Chart 9).

Chart 9: "Compared to Last Year, How Much Money Will You Have to Spend on Goods and Services over the Next 12 Months?"

Of those Americans who expect a tax cut in the next 12 months



Source: UBS Warburg LLC/Gallup.

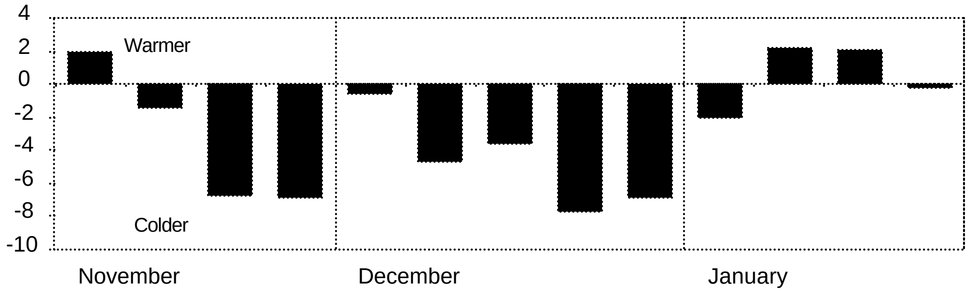
Here Comes the Sun

In addition to the adverse factors cited above (interest rates, energy costs, economic slowdown, etc.), the snowy, cold weather this past winter probably restrained consumer demand. The average weekly temperature was below normal for 10 of 13 weeks in the period from November through January, including 9 consecutive weeks from mid-November through the beginning of January (Chart 10).

The average weekly temperature was below normal for 10 of 13 weeks in the period from November through January including 9 consecutive weeks from mid-November through the beginning of January.

Chart 10: Degrees Fahrenheit Above or Below Normal

Weekly for the United States



Source: AGA and National Oceanic and Atmospheric Administration.

Additionally, there were large accumulations of snow throughout the Northeast, with the major metropolitan areas of Boston and New York being particularly hard hit. Therefore, as pent-up consumer spending is released with the onset of spring, we may expect a greater-than-normal uptick.

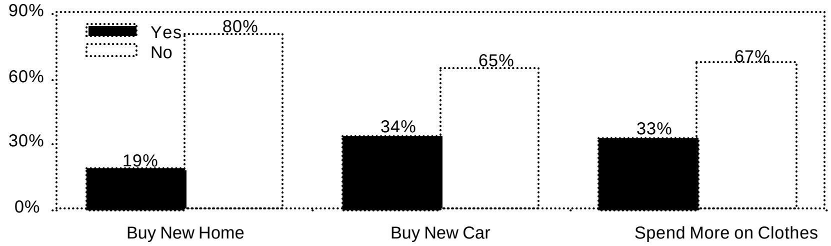
Changes in Attitudes as Americans Age

Higher incomes and better weather should ensure that consumer spending picks up later this year. As for the beneficiaries of that spending, the results of the most recent UBS Warburg/Gallup survey continue to support some of the longer-term themes we have identified in earlier reports. Note that in our most recent polling, we asked consumers about what they would do over the next 12 months *if things actually got better*, i.e., if economic conditions improve, federal tax rates are cut and interest rates move a little bit lower (as UBS Warburg assumes).

Few Americans say that they will buy a new home or new car, or spend more money on clothes in the next 12 months, even as the economy improves, federal tax rates are cut and interest rates remain low.

- *It's still not car/house/clothes.* As we noted in "Consumer Comeback," "older and wiser, now middle-aged, John Q. Public is not the 'ebullient youth' of the 60s, nor the 'conspicuous consumer' of the 80s" and so the beneficiary of consumer spending is not "the cyclical auto/housing/retailing troika." Our latest survey reveals that few Americans say that they will buy a new home or new car, or spend more money on clothes in the next 12 months (Chart 11), *even as* the economy improves, federal tax rates are cut and interest rates remain low.

Chart 11: "If Things Get Better, What Will You Do?"

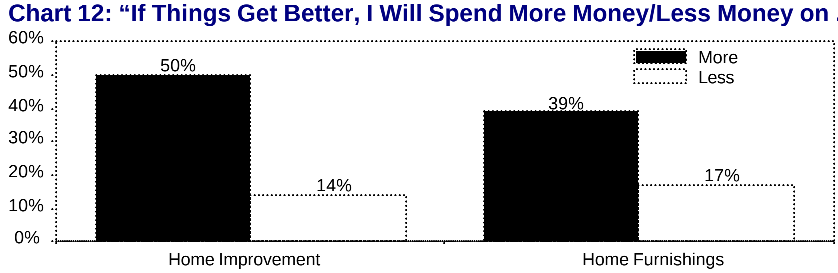


Source: UBS Warburg LLC/Gallup.

The percentage of Americans that will boost their spending on home improvement and home furnishings exceeds (by a factor of two to one) the percentage that will cut back on such spending.

- *It's still home improvement.* In "The American Age of Affluence," (November 7, 1999) we wrote that "rather than constantly 'trading up' to a 'better' house, many Americans are spending heavily on home improvement." Our latest survey indicates that the percentage of Americans that will boost their spending on home improvement and home furnishings exceeds (by a factor of two to one) the percentage that will cut back on such spending (Chart 12).

Chart 12: "If Things Get Better, I Will Spend More Money/Less Money on . . . "



Source: UBS Warburg LLC/Gallup.

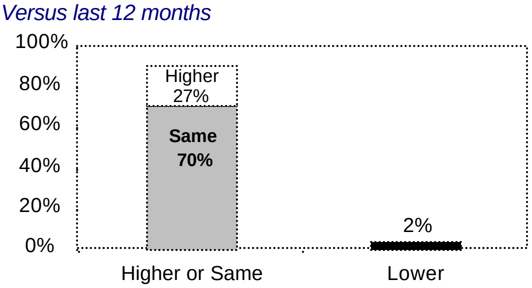
27% of Americans will trade up to better quality items. Just 2% say they will trade down to lower quality.

- *It's still about trading up to better quality.* In "More Affluent Than Ever," (September 4, 2000) we noted that our July 2000 survey revealed that "23% of Americans say that, over the next 12 months, they will buy *higher-quality* goods, versus just 4% of Americans who plan to trade down to lower-quality items" (Chart 13b). A desire to trade up to better quality is still prevalent today, with 27% of Americans saying that, if things get better, "over the next 12 months I will be buying goods that are of higher quality than the goods I bought in the past year" (Chart 13a). Just 2% say they will trade down to lower-quality items.

February 2001

Chart 13a: *Quality* of Goods that Americans Plan to Buy over Next 12 Months *If Things Get Better*

Versus last 12 months

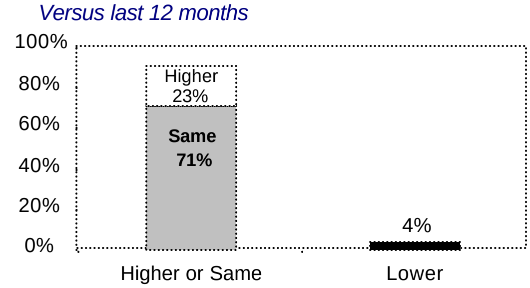


Source: UBS Warbug LLC/Gallup, February 2001.

July 2000

Chart 13b: *Quality* of Goods that Americans Plan to Buy over Next 12 Months

Versus last 12 months

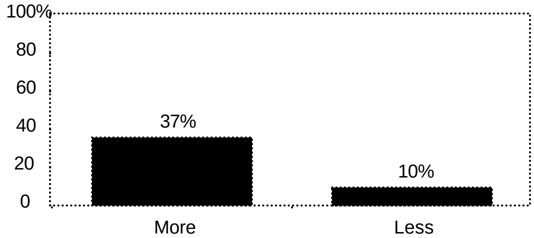


Source: UBS Warbug LLC/Gallup, July 2000.

February 2001

Chart 14a: *Quantity* of Goods that Americans Plan to Buy over Next 12 Months *If Things Get Better*

Versus last 12 months

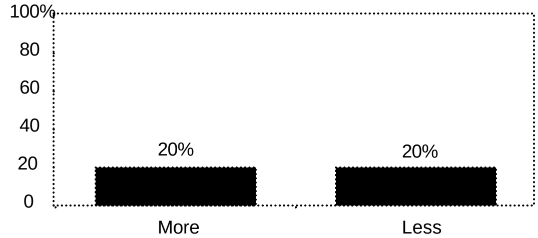


Source: UBS Warburg LLC/Gallup, February 2001.

July 2000

Chart 14b: *Quantity* of Goods that Americans Plan to Buy over Next 12 Months

Versus last 12 months



Source: UBS Warburg LLC/Gallup, July 2000.

While Americans have a strong desire for higher-*quality* goods, the economic slowdown has led to a modest increase in the number of Americans who desire to purchase a greater *quantity* of goods. In July 2000, the percentage of Americans who said they planned to buy a greater quantity of goods (20%) equaled the percentage of Americans who planned to buy a lesser quantity (20%). Today, however, there is some modest pent-up demand, with 37% of Americans saying they plan to buy a greater quantity of goods, and just 10% saying they plan to buy a lesser quantity (Chart 14a).

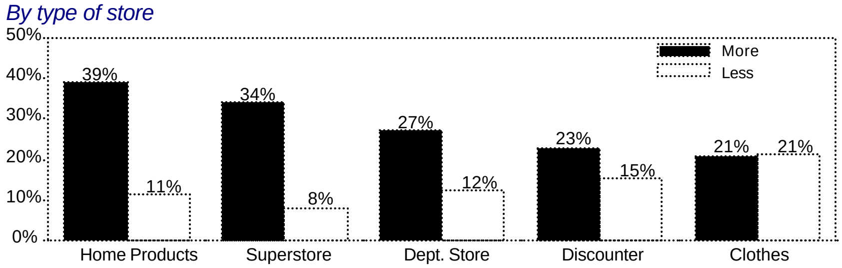
Today there is some modest pent-up demand, with 37% of Americans saying they plan to buy a greater quantity of goods, and just 10% saying they plan to buy a lesser quantity.

Follow the Money

Given the three factors listed above (no big ticket spending, a focus on home improvement, a desire for better quality), it's not surprising the type of stores Americans say they would shop in as things get better over the next 12 months (Chart 15).

Chart 15: "If Things Get Better, I Will Spend More Money/Less Money in . . . "

By type of store



Source: UBS Warburg LLC/Gallup.

- Reflecting the intention of Americans to continue spending heavily on home improvement, two in five consumers (39%) say they will spend more in home product stores as the economy improves. This trend is clearly bullish for stores such as Home Depot and Bed, Bath and Beyond.

- One in three Americans (34%) plans to increase their spending in superstores such as Wal-Mart or Costco.

Two in five consumers (39%) say they will spend more in home product stores as the economy improves.

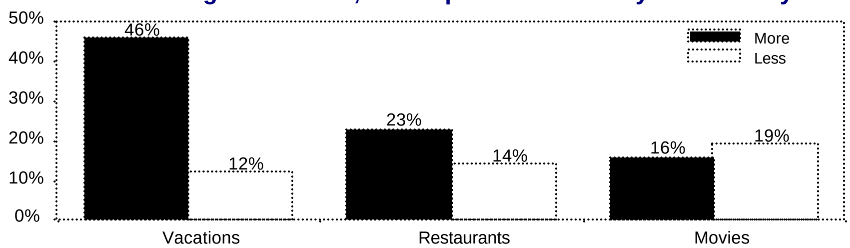
For other retailers, however, the trends are not as favorable:

- One in four Americans (27%) say that, as things get better, they will spend more money in department stores such as Sears and JC Penney, but one in ten (12%) say they will cut back on spending in those stores.
- One in four Americans (23%) say they will spend more in discount stores, such as Kmart and Dollar General, but about one in seven (15%) say they will cut back on spending in those stores.
- And while one in five Americans (21%) say they will spend more in clothing stores, such as Gap or Limited, an identical amount (21%) say they will cut back on spending in those stores.

Vacations still hold tremendous appeal to Americans

As for the types of services they will be spending on as the economy rebounds, the Gallup survey reveals that, in contrast to eating out in restaurants or going out to movies, vacations still hold tremendous appeal to Americans (Chart 16).

Chart 16: "If Things Get Better, I Will Spend More Money/Less Money on . . . "

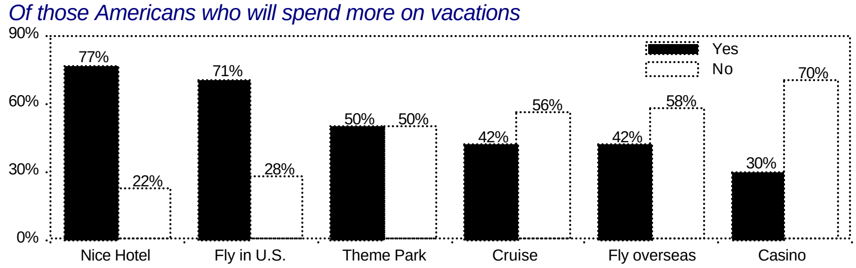


Source: UBS Warburg LLC/Gallup.

That Americans will spend more on vacations is not surprising. We noted in "More Affluent Than Ever" that "with their discretionary income rising, stressed-out consumers are spending heavily on vacations and other leisure activities. And . . . while time-starved Americans are not taking *more* vacations, they are paying up for *better* vacations." Chart 17 illustrates the types of vacations that Americans will spend more on as things get better.

Chart 17: "In Terms of Vacations, Will You Spend More Money on . . .?"

Of those Americans who will spend more on vacations



Source: UBS Warburg LLC/Gallup.

- Going to stay at a nice hotel has the most appeal. Of those Americans who said they will spend more on vacations as the economy improves, three-quarters (77%) say they will spend more on a nice hotel. This trend is bullish for companies such as Four Seasons Hotels and Starwood Hotels.

- Flying to a nice destination in the U.S. is almost as appealing. More than two in three (71%) of the Americans who will spend more on vacations say they will take a domestic flight, a positive trend for Delta Airlines.

- A possible domestic destination for those Americans is a theme park. Half (50%) of Americans who will spend more on vacations say they will go to a theme park, a bullish trend for Disney.

- Going far from the U.S. on vacation has mixed appeal. Two in five (42%) of vacationing Americans will spend more on a cruise, which is positive for Carnival and Royal Caribbean.

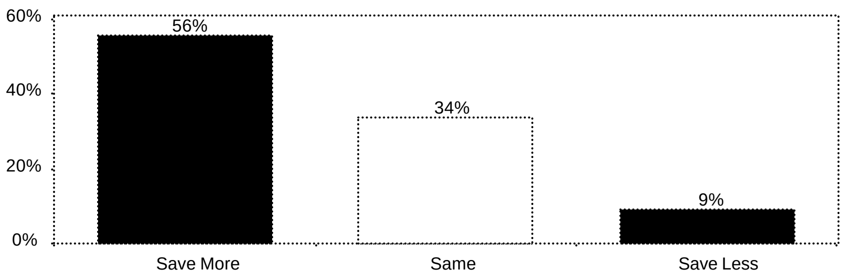
- Similarly, two in five (42%) vacationing Americans will spend more on flying to a destination overseas.

- But going to a casino has limited appeal. More than two in three vacationing Americans (70%) will *not* spend more at casinos.

Finally, although Americans plan to continue spending heavily as the economy rebounds, they also plan to save more (Chart 18). But note that, given continued real income gains *and* the expected tax cuts, these two trends *are not inconsistent.*

Although Americans plan to continue spending heavily as the economy rebounds, they also plan to save more.

Chart 18: "If Things Get Better, I Will Save More Money/Less Money than in the Past Year"



Source: UBS Warburg LLC/Gallup.

Where will the investment funds of those 90% of Americans who say they will save either more or the same amount go? Reflecting the "Big Shift" into equities that has been underway for the past decade (see "The Big Shift," September 1, 1991 and "The Big Shift—Barely Begun," February 8, 1998):

- Three in five (60%) of those Americans who will save more or the same amount will put some of their savings into a retirement account.

- Almost half (47%) will put some of their savings into a mutual fund.

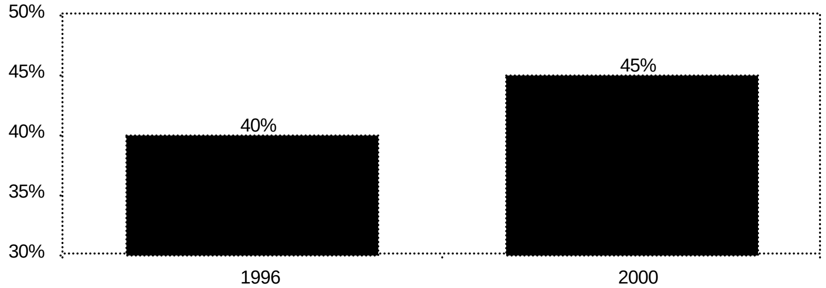
- About one in four (27%) will put some of their savings into a brokerage account.

Beneficiaries of the continued "Big Shift" into equities include American Express, Bank of New York, Citigroup, Hartford Financial and Merrill Lynch.

The Need for Speed

A key reason why Americans are so stressed out is "time deepening," or doing several things at once (e.g., cooking, watching TV, talking on the phone and helping the kids with their homework). Indeed, Americans now feel so pressed for time that a recent survey found that 45% of Americans say they would rather have more time than more money. This represents a notable increase from 1996, when another survey found that 40% of Americans said that lack of time was a bigger problem for them than lack of money (Chart 19).

Chart 19: Percentage of Americans Saying They Would Rather Have More Time than More Money
In 1996 and 2000

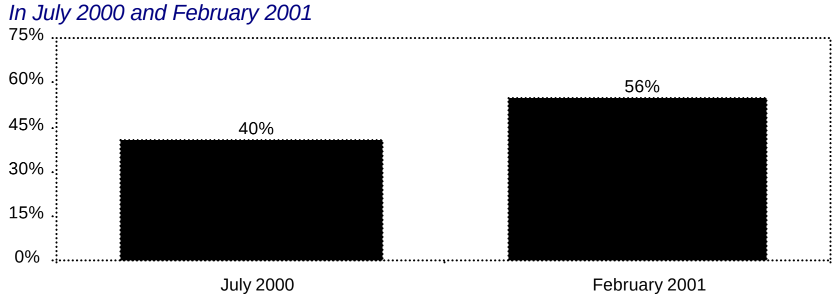


Source: *The Wall Street Journal*, *Roper Starch Worldwide*.

As we noted in "More Affluent Than Ever," time-starved Americans want to go faster, and the "need for speed" is prevalent in every aspect of boomers' lives, including Internet access. This is especially true because, as the latest UBS Warburg/Gallup survey reveals, over half (56%) of all Americans now access the Internet from home, up from 40% in 2000 (Chart 20).

Fully 21% of Americans say that, as things get better over the next 12 months, they will spend more money than last year on a PC, a significantly greater percentage than those who say they will spend more on a TV (14%) or DVD recorder (15%).

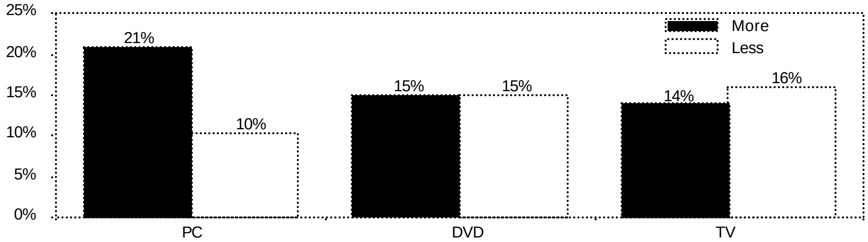
Chart 20: Percentage of Americans Who Access the Internet from Home
In July 2000 and February 2001



Source: UBS Warburg LLC/Gallup.

That number is likely to keep rising, as more Americans get hooked up to the Information Age. Our most recent survey revealed that fully 21% of Americans say that, as things get better over the next 12 months, they will spend more money than last year on a PC (Chart 21), a significantly greater percentage than those who say they will spend more on a TV (14%) or DVD recorder (15%). This is positive for PC-oriented firms such as Dell, Gateway, Hewlett-Packard, IBM, Intel and Microsoft.

Chart 21: "If Things Get Better, I Will Spend More Money/Less Money on . . . "



Source: UBS Warburg LLC/Gallup.

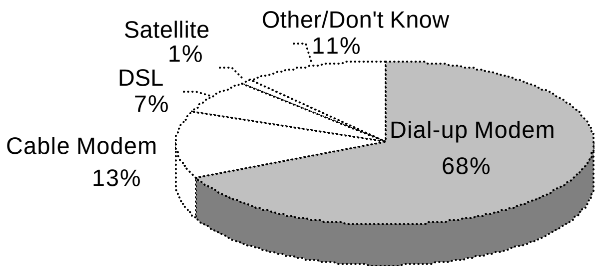
Almost half (45%) of Americans who currently access the Internet by dial-up modem from home say that, a year from now, they will be accessing the Net by some faster method, such as a cable modem or DSL.

A considerable source of frustration for Net users continues to be the fact that bandwidth to the home has not been developing as quickly as PC chip technology. While large institutions and government agencies maintain their own networks, most consumers at home access the Internet by dialing into a local or long-distance telephone company. According to the most recent UBS Warburg/Gallup survey, 68% of Americans now access the Net from home via a dial-up modem (Chart 22a), down from 80% in July 2000 (Chart 22b).

February 2001

Chart 22a: Current Method of Accessing the Net

As of February 2001

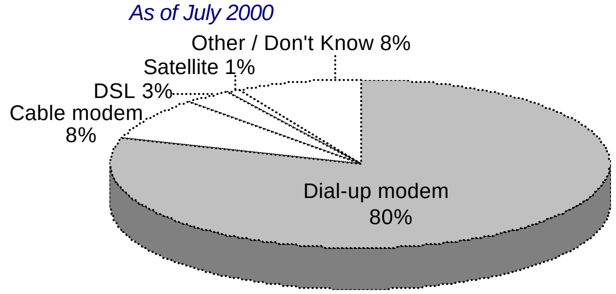


Source: Gallup, February 2001.

July 2000

Chart 22b: Current Method of Accessing the Net

As of July 2000



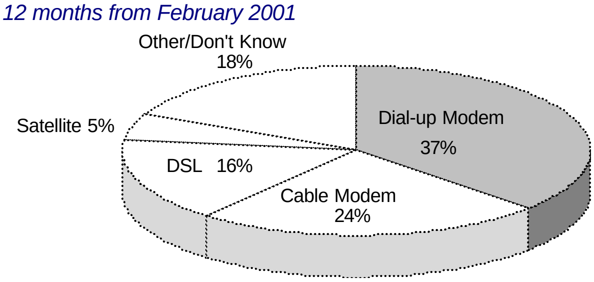
Source: Gallup, July 2000.

However, time-starved consumers are clamoring for significantly higher connection speeds, and, thanks to improved technologies—including cable, DSL and satellite—faster Internet access is becoming more widely available. According to the latest UBS Warburg/Gallup survey, almost half (45%) of Americans who currently access the Internet by dial-up modem from home say that, a year from now, they will be accessing the Net by some faster method, such as a cable modem or DSL (Chart 23a). That compares with 34% in 2000 (Chart 23b).

February 2001

Chart 23a: Expected Method of Accessing the Net

12 months from February 2001

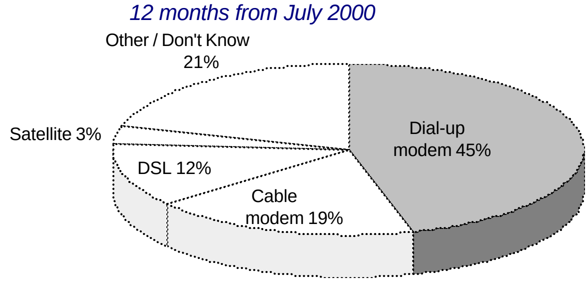


Source: Gallup, February 2001.

July 2000

Chart 23b: Expected Method of Accessing the Net

12 months from July 2000



Source: Gallup, July 2000.

Strong demand for fast Internet access is bullish for Cisco Systems, Juniper Networks and Nortel Networks (networking), Verizon and WorldCom (DSL access), Motorola (General Instrument's cable modems and set-top boxes) and AOL Time Warner (cable modems).

Additional information available upon request.
Prices of companies mentioned as of March 29, 2001:

American Express	2	AXP	$38.96
AMR Corp	2	AMR	$34.52
AOL Time Warner Inc.		AOL	$40.75
Bank of New York	2	BK	$48.50
Bed, Bath & Beyond	1	BBBY	$23.19
Carnival Corporation		CCL	$27.63
Cisco Systems	1	CSCO	$15.25
Citigroup	2	C	$44.70
Continental Air	2	CAL	$41.02
Costco Wholesale Corp	1	COST	$37.94
Dell Computer Corp	1	DELL	$26.94
Delta Air Lines	2	DAL	$39.79
Dollar General		DG	$20.00
Four Seasons Hotels		FS	$47.77
Gap Inc		GPS	$23.69
Gateway Inc		GTW	$16.80
Hartford Financial Services	2	HIG	$59.05
Hewlett-Packard		HWP	$30.64
Home Depot		HD	$42.66
IBM	2	IBM	$95.04
Intel Corp	1	INTC	$26.56
J.C. Penney	2	JCP	$15.94
Juniper Networks	1	JNPR	$39.40
Kmart Corp		KM	$9.65
Limited Inc		LTD	$15.77
Merrill Lynch & Co.	2	MER	$55.50
Microsoft Corp	1	MSFT	$55.38
Motorola Inc	2	MOT	$14.52
Nortel Networks		NT	$13.50
Royal Caribbean Cruises Ltd		RCL	$22.60
Sears, Roebuck & Co		S	$34.69
Starwood Hotels & Resorts		HOT	$33.80
The Walt Disney Company		DIS	$28.10
Verizon Communications	2,57	VZ	$48.20
Wal-Mart Stores		WMT	$50.62
WorldCom Inc.	1	WCOM	$19.06

1. UBS Warburg LLC and/or one of its affiliates makes a market in the securities of this company.
2. UBS Warburg LLC, UBS PaineWebber Inc. and/or one of their affiliates has acted as a manager/co-manager or placement agent in underwriting securities of this company or one of its subsidiaries in the past three years.
57. UBS Warburg LLC is acting as co-manager in underwriting securities of Verizon Wireless.

UBS Warburg LLC, 1285 Avenue of the Americas, New York, NY 10019 Phone: +1-212-713-2000