The Dream Continues

Update on “The Next American Dream”

- As they have all their lives, baby boomers — Americans born between 1946 and 1964 — remain the most influential segment of the population.

- Healthy. Boomers still want to be fit and healthy, but they are ever farther from that goal; by their own admission, they are the most overweight age group. They are increasingly taking small steps to improve their well-being, primarily by “eating healthy,” but the latest data reveal that they find it tough to cut down on “bad stuff” (e.g., alcohol and tobacco) and that they exercise less.

- Wealthy. Boomers feel increasingly experienced as investors, yet the percentage that said they “feel well informed about how to invest” has actually declined. Boomers are “most influenced” by investment counselors.

- Active. Boomers say that they want to remain in the workforce rather than retire, and they increasingly value “community.” Boomers continue to shun ostentatious material goods in favor of experiences, but covet occasional “indulgences” to spoil themselves.

- We identify ten additional stocks that may benefit from boomer trends: Altria Group, Best Buy, Harley Davidson, Harrah’s Entertainment, Hershey Foods, Kellogg, Marriott International, Nuveen Investments, PepsiCo, and Syneron.
The Next American Dream

In “The Next American Dream,” (published April 22, 2004; order no. US04M025), we argued that, with the oldest baby boomers soon facing their 60s, their mind-set and attitudes are changing and so, too, is the contour of the American Dream. The next American Dream is to be healthy, wealthy, and active.

In “Experience It” (published January 13, 2005; order no. US01P010), we utilized the Bureau of Labor Statistics’ 2003 Consumer Expenditure Survey, as well as a range of other survey results, to provide an update on “The Next American Dream.” In particular, we noted that “today, with most of their material needs satisfied, boomers place more value on experiences than on tangibles.”

Themes and Performance

In Figure 1, we illustrate the average performance (i.e., the time-weighted average stock gain) of the “Next American Dream” and “Experience It” stocks relative to the S&P 500.

Of course, when considering stock performance, it is important not to confuse near-term cyclical effects with more serious issues. For example, as Figure 2 illustrates, the recent underperformance of “The Next American Dream” and “Experience It” stocks seemed to be in reaction to the spike in oil prices (as well as the impact of Hurricane Katrina). But note that, prior to the “headline event,” oil prices had little impact on performance; moreover, as oil prices have fallen, relative price outperformance has returned.
More serious issues affecting performance can include poor execution (e.g., the company is truly a beneficiary of a theme, but weak management execution results in it not reaping the full benefits). Of course, in a worst-case scenario, either the company in question is not actually a beneficiary or the theme (or a sub-theme) is invalid because of a flawed initial premise. The following stocks are among those that have not fared well (through October 31).

➤ Avon Products is known for its focus on the skin care needs of aging boomers. While Avon has experienced a string of earnings disappointments lately, Citigroup Investment Research analyst Wendy Nicholson believes that a major restructuring program, designed to reduce its cost structure and reaccelerate growth, will likely be announced soon.

➤ International Game Technology is a potential beneficiary of boomers’ interest in gaming. Citigroup Investment Research analyst Michael Rietbrock believes that the company has been hurt by a decline in North American unit sales, reflecting that a big industry conversion to coinless slot machines has largely run its course, that we are in a slow period for the construction of new casinos, that there have been some delays in states opening their doors to casino gambling, and that the company’s competitors are coming at the market with renewed vigor.

➤ NBTY, the nutritional supplement maker, wholesaler, and retailer, is a potential beneficiary of boomers’ desire to be healthy. Citigroup Investment Research analyst Gregory Badishkanian believes that the company has been affected by a stagnant U.S. market for vitamins due, in part, to negative media attention surrounding vitamin E products, as well as a lack of new product introductions.

➤ PETCO Animal Supplies is a potential beneficiary of boomers’ interest in pets. Lately, pet owners have significantly curtailed their purchases of high-margin supplies, even as they continue to buy pet food (a low-margin category).
Ruby Tuesday is a potential beneficiary of boomers’ desire to “eat healthy,” as it lists the calorie content of servings on its menus. The company believes that recent same-store sales declines have been due to slower traffic, likely caused by a combination of higher gasoline prices and the elimination of coupon promotions, which the company had used to drive guest visits.

Stocks that have performed well (through October 31) include those listed below.

- Chico’s FAS has had robust performance that has been driven by its distinct niche, targeting the fashion needs of the underserved baby boomer woman. Citigroup Investment Research analyst Kimberly Greenberger believes the company’s strong competitive positioning has driven impressive sales and earnings momentum.

- Coach is an upscale leather goods and accessories retailer whose strong brand franchise has a lifestyle connotation. The company has been a beneficiary of strength in the luxury sector.

- Genentech is at the forefront of a new generation of cancer treatments involving targeted therapeutics and monoclonal antibodies. Cancer is, unfortunately, an issue for a growing number of aging boomers.

- Neiman Marcus is another retailer whose brand franchise has a luxury lifestyle connotation. The company was acquired earlier this year, but even before that the stock had performed well thanks to strength in the luxury sector, in the opinion of Citigroup Investment Research analyst Deborah Weinswig.

- Prudential Financial, with its exceptionally strong brand name, has been one of the beneficiaries of extremely strong sales of a product known as a guaranteed minimum withdrawal benefit (GMWB). This product is particularly attractive to boomers, given that it offers the opportunity to invest in a range of financial assets, including equities, and guarantees the return of the full amount of principal, provided that the initial principal amount is not withdrawn at a rate faster than 7% per year.

- Pulte Homes has been a beneficiary of strength in the housing sector. Citigroup Investment Research analyst Steve Kim notes that Pulte is a developer of gated communities close to major metropolitan areas that appeal to many boomers.

- Robert Mondavi is a wine producer that was acquired late in 2004. Even before the acquisition, the stock had performed well, reflecting, in part, that boomers drink more wine and liquor than beer, as illustrated by the Bureau of Labor Statistics’ Consumer Expenditure Survey.

- Toll Brothers is another beneficiary of strength in the housing sector. As we discuss below, Toll focuses on luxury “jewel boxes” that appeal to boomers.

- UnitedHealth Group and WellPoint Health Networks are long-term beneficiaries of the shift to health savings accounts (discussed below). Citigroup Investment Research analyst Charles Boorady believes both companies have enjoyed a favorable combination of rapid earnings growth and P/E expansion due, in large part, to moderate cost trends and positive pricing.
Some stocks highlighted in “The Next American Dream” and “Experience It” no longer seem well suited to the thematic or, alternatively, have been acquired. (Indeed, 9% of the companies discussed in “The Next American Dream” have since been acquired.)

The following names have been deleted from our list due to reanalysis or acquisition: Applebee’s International, GTECH Holdings, Home Depot, International Game Technology, Mandalay Resort Group (acquired), Masco Corporation, Mills Corporation, NBTY, Neiman Marcus (acquired), PETCO Animal Supplies, PetsMART, Procter & Gamble, Robert Mondavi (acquired), Ruby Tuesday, Weight Watchers, and WellPoint Health Networks (acquired by Anthem, which subsequently renamed itself WellPoint Health Networks).

### Table: Stocks that May Benefit from Boomer Trends

<table>
<thead>
<tr>
<th>Healthy</th>
<th>Wealthy</th>
<th>Active</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allergan Pharmaceuticals (AGN)</td>
<td>Charles Schwab (SCH)</td>
<td>Best Buy (BBY)</td>
</tr>
<tr>
<td>Altria Group (MO)</td>
<td>Hartford Financial (HIG)</td>
<td>BJ’s Wholesale Club (BJ’)</td>
</tr>
<tr>
<td>Amgen (AMGN)</td>
<td>Lincoln National (LNC)</td>
<td>Carnival Corp (CCL)</td>
</tr>
<tr>
<td>Avon Products (AVP)</td>
<td>Merrill Lynch (MER)</td>
<td>Chico’s FAS (CHS)</td>
</tr>
<tr>
<td>Brown-Forman (BFA)</td>
<td>Nuveen Investments (NC)</td>
<td>Coach (COH)</td>
</tr>
<tr>
<td>Darden Restaurants (DRI)</td>
<td>Prudential Financial (PRU)</td>
<td>Fairmont Hotels (FHR)</td>
</tr>
<tr>
<td>Endo Pharmaceuticals (ENDP)</td>
<td>T. Rowe Price (TROW)</td>
<td>Four Seasons Hotels (FS)</td>
</tr>
<tr>
<td>Estée Lauder (EL)</td>
<td></td>
<td>Harley Davidson (HDJ)</td>
</tr>
<tr>
<td>Genentech (DNA)</td>
<td></td>
<td>Harman International (HAR)</td>
</tr>
<tr>
<td>Hershey Foods (HSY)</td>
<td></td>
<td>Harrah’s Entertainment (HET)</td>
</tr>
<tr>
<td>Kellogg (K)</td>
<td></td>
<td>Lowe’s (LOW)</td>
</tr>
<tr>
<td>PepsiCo (PEP)</td>
<td></td>
<td>Magna International (MGA)</td>
</tr>
<tr>
<td>Syneron (ELOS)</td>
<td></td>
<td>Marriott International (MAR)</td>
</tr>
<tr>
<td>UnitedHealth Group (UNH)</td>
<td></td>
<td>Pulte Corp (PHM)</td>
</tr>
<tr>
<td>WellPoint Health Networks (WLP)</td>
<td></td>
<td>Royal Caribbean Cruises (RCL)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Starbucks Corp (SBUX)</td>
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<tr>
<td></td>
<td></td>
<td>Starwood Hotels (HOT)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target Corp (TGT)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Toll Brothers (TOL)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Williams-Sonoma (WSM)</td>
</tr>
</tbody>
</table>

Source: Citigroup Investment Research

**Fully 9% of the companies discussed in “The Next American Dream” have since been acquired.**
In this report, we use recent data, including new information from Yankelovich Partners\(^1\), to update our understanding of boomer behavior. In addition we incorporate data from Citigroup Investment Research industry analysts.

A key conclusion of these findings is that the desire for experiences, not just things, continues to be a potent motivator for baby boomers. Indeed, with most of their material needs satisfied, boomers place more value on experiences than on tangible items. We highlight the following data points:

- **When boomers were asked what they viewed as signs of success and accomplishment, the three bottom-ranked categories were an “extremely attractive spouse,” “designer clothes,” and “expensive jewelry” (see Figure 4).**

  ![Figure 4. Signs of Success and Accomplishment as Perceived by Boomers in 2005](image)

  Source: Yankelovich Partners, Inc.

- **Almost half of boomers (48%) say, “I often feel that there is something missing from my life,” while three out of five (59%) would “welcome more novelty and change.”**

- **Two out of three boomers (65%) say, “to truly understand something I need to experience it myself.”**

So, despite their material trappings, many boomers feel something is missing from their lives. Indeed, compared to other age groups, boomers are not “fun” people (see Figure 5) and, likely as a consequence, a significant percentage wish that they could change the direction of their lives (see Figure 6).

\(^1\) We use a range of survey results, including The Yankelovich MONITOR. For 30 years, Yankelovich Partners has been compiling comprehensive polls about consumer preferences, habits, and lifestyles. Key results of Yankelovich’s proprietary 2005 report on consumer behavior, The Yankelovich MONITOR, are discussed throughout this report. We note that, following Yankelovich’s nomenclature, we refer to “Boomers” as those Americans born in 1946–64, “Echo Boomers” as those born after 1979, “Xers” as those born in 1965–78, and “Mature” as those born in 1945 or earlier.
It seems that this dissatisfaction is driven, in large part, by the disconnect between values that boomers deem to be most important and the reality of their own lives (see Figure 7).

Stress is an issue for many boomers, with stress levels apparently rising markedly in 2005.

Not surprisingly, stress is an issue for many boomers, with stress levels apparently rising markedly in 2005 (see Figure 8).
Interestingly, boomers report that their main stressor is not work but, rather, factors such as “health care costs,” “aggressive drivers,” and their “financial future” (see Figure 9).

**Figure 9. Amount of Stress Caused by Various Aspects of Life (Boomers in 2005)**

Indeed, boomers remain very work oriented (with “Good at Job” considered a top sign of success and accomplishment, as shown in Figure 4), and about half (48%) of boomers saying, “I would rather have so much to do that I risk being stressed rather than have too little to do and be bored.”

Unlike their parents, who grew up amid the hardships of the Depression and World War II, many baby boomers do not view a leisurely retirement as their reward for years of hard work and sacrifice. Moreover, given that the typical American is living longer than ever before, many boomers will likely choose the intellectual stimulation of work over the monotony of doing nothing. That thesis is supported by a recent study (the 2005 Pulte Homes Baby Boomer Study), which revealed that 75% of boomers who have not yet retired say that they plan to work into their retirement years or never retire (see Figure 10).

**Figure 10. Which of the Following Do You Intend to Do?**

Based on a survey of boomers working outside the home

- Stay in my current job as long as possible 35%
- Work part-time, doing the same type of work you do now 5%
- Find a new job 22%
- Retire 25%
- Other 13%

Source: 2005 Pulte Homes Baby Boomer Study
The increasing desire to work is corroborated by a continued rise in workforce participation rates for men aged 55–64 in the past ten years (see Figure 11). Indeed, based on the most recent data (from third quarter 2005), the workforce participation of men in this age group is up almost 1 full percentage point from year-ago levels and up almost 5 percentage points from the 1994 trough.

**Figure 11. Quarterly Workforce Participation Rate of Men Aged 55-64, 1950-Present**

Source: Bureau of Labor Statistics
Boomers want to be fit and healthy, but they were even further from that goal in 2005 (see Figure 12).

Figure 12. “Importance of” Being Physically Fit vs. “Describes Me” (Boomers)

Undoubtedly, the stress that they experience takes a toll on their health, as a declining number of boomers say they “wake up feeling well rested,” even though the amount of sleep they get is, by and large, not an issue (see Figure 13).

Figure 13. “Most of the time I wake up in the morning feeling well rested.” vs. “I would prefer another hour of sleep.”

So, it continues to be the case that boomers are in poor physical shape; by their own admission, boomers are the most overweight age group (see Figure 14).
Part of the problem is likely that boomers are exercising less. The percentage of boomers who say they express themselves by engaging in sports dropped again in 2005 (see Figure 15), while those who do exercise have cut back on strenuous activities (see Figure 16). (This trend would seem to be bearish for manufacturers of exercise equipment, such as Nautilus and Cybex International, as well as gym operators, such as Bally Total Fitness.)

Exercise aside, boomers are taking small steps to improve their well-being. As Figure 17 illustrates, boomers are:

- keeping the amount of sweets they eat to a minimum,
- drinking at least eight servings of water a day, and
- eating high fiber foods.
At the same time, however, as Figure 18 illustrates, the latest data reveal that boomers still find it tough to cut down on the “bad stuff,” likely reflecting the stress they are experiencing.

- The number of boomers that “eat something decadent or sinful” as a treat has been rising steadily.
- The percentage using alcohol in moderation has been flat for three years.
- The percentage of boomers that smoke at least one pack of cigarettes per week has been essentially flat for four years.

**Figure 18. Stress-Related Behaviors Boomers Are Currently Doing**

Source: Yankelovich Partners, Inc.

Eating Healthy

So, as we noted in “The Next American Dream,” boomers want to have their cake (and french fries and chips) and eat it too; in other words, they aspire to healthy living, but they often do not want to make the necessary sacrifices. Some companies appreciate this paradox. So, for example, PepsiCo segments its snack businesses in three ways: Fun for You, Better for You, and Good for You (see Figure 19).
Figure 19. PepsiCo’s Snack Classification

<table>
<thead>
<tr>
<th>Snack Classification</th>
<th>Fun For You</th>
<th>Better For You</th>
<th>Good For You</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nutritional Qualification</strong></td>
<td>&gt;10g of fat</td>
<td>&lt;5g of fat</td>
<td>Nutritional</td>
</tr>
<tr>
<td><strong>Brands</strong></td>
<td>Cheetos, Lays, Ruffles, Doritos</td>
<td>Baked Lays, Baked Doritos, Cereal Bars</td>
<td>Quaker Rice Cakes</td>
</tr>
</tbody>
</table>

Source: Citigroup Investment Research and PepsiCo

1 *Fun for You* is by far the largest segment. This category includes unhealthy snacks such as regular Lay’s chips, which have ten grams of fat or more per serving.

2 *Better for You* is also known as “sensible snacks.” Containing fewer than five grams of fat per serving, these products are considered by the company to be an alternative for consumers looking for a tasty snack without the extra fat. The target customer base is aging baby boomers whom, the company hopes, will change their snacking habits as they age. In the third quarter of 2005, these sensible snacks grew 50% faster than the indulgent line, with baked chips up almost 30%.

3 *Good for You* includes snacks that have nutritional benefits. This category is also targeted at boomers.

In addition, via its Aquafina brand of bottled water, PepsiCo caters to boomers’ desire to “drink healthy,” at least when they are consuming nonalcoholic beverages. (Thanks, in part, to its early entry into the water market, PepsiCo has a greater share of the non-carbonated beverage market than its archrival Coca-Cola, which continues to be quite dependent on carbonated products.)

Cereal companies have also been emphasizing organic products, including Kellogg, with its Kashi cereal line. Of course, in addition to their organic properties, cereals also offer “healthy eating” by way of their fiber and, often, whole grain content.

Importantly, boomers want to try to “eat healthy” rather than diet. In 2005, less than one in three boomers (30%) said it was important to adhere to a diet. We noted in “The Next American Dream” that most diet fads do not last, and we speculated that the Atkins fad would not be an exception. As Figure 20 illustrates, Atkins diet trends have waned, as evidenced by sharp year-over-year sales decline at Atkins Nutritional Inc.

*Boomers want to try to “eat healthy” rather than diet.*
Boomers’ fickle attitudes about eating clearly create both risks and opportunities for packaged food companies. On one hand, Kraft Food introduced a line of South Beach diet products about a year ago, just when that diet fad seemed to be peaking. On the other hand, Hershey Foods has endorsed the concept of “permissible snacking.” For example, it recently introduced sugar-free chocolates, a product line likely to appeal to the ever-growing number of diabetics, into drugstores.

Then, too, various health claims have been made about dark chocolate. Recent studies at Yale University revealed short-term improvements in arterial function and blood pressure in subjects following the consumption of Hershey’s “Extra Dark” chocolate brand, highlighting the positive health aspects of high-cacao content dark chocolate. This has allowed Hershey to position its dark chocolate offerings as not only delicious, indulgent treats, but also as products providing specific health benefits.

Importantly, Hershey views dark chocolate, and the benefits of antioxidants, as a sustainable platform within the health and wellness arena; unlike low-carb products, which promote the absence of negative factors (such as carbohydrates), dark chocolate offers a positive attribute in the form of the inclusion of antioxidants.

**“Reduced Risk” Smoking**

On the subject of smoking, it is likely that Altria’s Philip Morris unit is keenly aware that the percentage of boomers who smoke has leveled off at close to one in three, while, at the same time, a large percentage of boomers aspire to a healthier lifestyle. Currently, the company is working on developing a “reduced risk” cigarette technology that could quite possibly result in a product that smells, tastes, burns, and looks just like a conventional cigarette, but with fewer health risks. If this research pays off, it could result in a kind of wild card product that could reduce the health risks of smoking in the next few years.
**Health Care Spending**

Given the findings above, it seems likely that boomers will continue to be heavily dependent on health care, the cost of which is the leading source of stress for them, as reported in Figure 9. But, in large part because of a likely sharp increase in health care costs, the growth in consumption of medical products and services may be about to slow sharply.

With health care accounting for only about 5% of boomers’ expenditures, many employers believe there is still plenty of room for households to pay more for medical coverage. As we have discussed in the past, the catalyst for employees paying more could well be the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which went beyond assisting seniors with prescription drugs and contained many other provisions that have wide-ranging implications for the entire health care industry. A key provision of the Act — the establishment of health savings accounts (HSAs) — will likely have profound implications for health care consumption by employees and retirees. In effect, an HSA is to health care what a 401(k) is to retirement savings.

Recent data suggest that HSAs are starting to take off. Citigroup Investment Research managed care analyst Charles Booraday’s “2006 Health Benefit Survey,” of 224 employers, covering 2.3 million lives, and 206 corporate health insurance brokers revealed that HSAs are expected to reach 30% adoption by 2008 (see Figure 21).

![Figure 21. HSA Adoption Rate](source: Citigroup Investment Research)

While the introduction of the HSA will likely be negative for the health insurance industry’s profitability in the long run (given that it is a low-revenue product), it should be very profitable to the first movers that have both the scale and the technology to grab share in a rapidly expanding market. Likely beneficiaries would include UnitedHealth Group and WellPoint Health Networks.

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Spending on prescription drugs and other nonurgent care would likely drop significantly with the adoption of HSAs.

There has been a sharp increase in the number of boomers saying they “work hard at looking young.”

Spending on prescription drugs and other nonurgent care would likely drop significantly with the adoption of HSAs because patients would see the money coming directly out of their own pockets. (So HSAs will likely prove to be negative for large pharmaceuticals manufacturers, which also face pressure on the supply side from generics and imports from overseas.) A key issue, of course, is what consumers consider to be “nonurgent” health care. It is likely that they will be more willing to pay for drugs that have an immediately perceptible effect than for drugs whose results are not as apparent (e.g., for cholesterol).

In that regard, drugs that help boomers feel young would seem well positioned. In 2005, there was a sharp increase in the number of boomers saying they “work hard at looking young” (see Figure 22); the data also revealed that boomers are, by far, the most stressed age group when it comes to “looking old” (see Figure 23).

**Figure 22. “I work hard at looking young.” (Boomers)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Botox</th>
<th>Laser Hair Removal</th>
<th>Chemical Peel</th>
<th>Laser Skin Resurfacing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>28%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>28%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>36%</td>
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</table>

**Figure 23. Amount of Stress Caused by “Looking Old”**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Echo Boomers</td>
<td>21%</td>
<td>20%</td>
<td>23%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Xer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boomers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mature</td>
<td></td>
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**Nonsurgical Cosmetic Procedures**

Not surprisingly, the market for cosmetic procedures is experiencing substantial growth, with nonsurgical alternatives being the fastest-growing segment. While injections of Allergan’s Botox are still the most popular nonsurgical procedure, laser treatments are growing rapidly in popularity (see Figure 24). Boomers, currently aged 41–59, account for the majority of both kinds of procedures (see Figure 25).

**Figure 24. Nonsurgical Cosmetic Procedures (Millions)**

<table>
<thead>
<tr>
<th>Procedure</th>
<th>2003</th>
<th>2004</th>
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<tbody>
<tr>
<td>Botox</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Laser Hair Removal</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Chemical Peel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laser Skin Resurfacing</td>
<td>1</td>
<td>1</td>
</tr>
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</table>

**Figure 25. Age Distribution for Nonsurgical Procedures (2004)**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Botox</th>
<th>Laser Hair Removal &amp; Skin Resurfacing</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;18</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>19-34</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>35-64</td>
<td>10%</td>
<td>30%</td>
</tr>
<tr>
<td>65+</td>
<td>0%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Yankelovich Partners, Inc.
In terms of laser treatment, since the late 1980s, aesthetic procedures have evolved from invasive procedures, such as carbon dioxide laser resurfacing (“laser peels”), to the noninvasive, light-based hair removal, skin rejuvenation, and acne treatment that we know today. While early procedures were limited to plastic surgeons or physicians with a surgical expertise, the noninvasive nature of many procedures today has opened the door for physicians with less medical expertise to perform treatments. Syneron is a leading developer of aesthetic laser equipment used in many of these types of procedures.

Aesthetic procedures help people look (and, hopefully, feel) younger. Of course, many personal care products are marketed with the same promise. Avon Products’ Anew skin care line boasts an assortment of products to fulfill antiaging needs, including its Anew Clinical product, which is specifically designed to fight lines and wrinkles associated with aging. Based on the success of the initial launch of this product, the Anew Clinical line has been broadened recently to include line extensions such as Anew Clinical 2-in-1 Facial Peel and Anew Clinical Lift-and-Tuck.

At the superpremium end of the skin care spectrum, a number of companies have recently lost market share to Strivecten (made by private company Klein-Becker and marketed as “better than Botox,” given that it claims to reduce the appearance of fine lines and wrinkles caused by aging), although Estée Lauder has been fighting back aggressively with a number of new product launches.
While boomers may want to look young, they know they are getting old and need to plan accordingly. However, only 15% of boomers say, “I feel that I am saving enough money to cover all of my future needs.” Importantly, reflecting that many boomers do not look forward to a leisurely retirement, the 2005 data reveal that saving for retirement is an important but not overwhelming factor, with other key goals including saving for unexpected emergencies and future medical problems, as well as saving for major purchases and fun activities, such as taking a vacation (see Figure 26).

The data also reveal that boomers feel increasingly experienced as investors. In 2005, more than one in four (28%) described themselves as “somewhat experienced” investors, representing an increase from previous years (see Figure 27), and a higher percentage than compared to other age groups (see Figure 28).
At the same time, the percentage of boomers who said that they “feel well informed about how to invest” actually declined in 2005 (see Figure 29).

**Figure 29. “I feel well informed about how to invest.” (Boomers)**

![Bar chart showing percentage of boomers who feel well informed about how to invest from 2002 to 2005.](chart)

Source: Yankelovich Partners, Inc

**Investment Advice**

Some boomers may now have an additional reason to seek investment advice — the leading edge of the boomer generation turned 59.5 years of age in July, and, thus, for the first time is permitted to withdraw from 401(k) and IRA accounts without incurring a 10% penalty.

In terms of whom they would look to for investment advice, boomers favor investment counselors over other sources (see Figure 30), a likely positive for Charles Schwab.

**Figure 30. Amount of Influence on Boomers’ Decisions in Money Matters or Investing**

| Source: Yankelovich Partners, Inc |

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*For investment advice, boomers favor investment counselors over other sources.*
A key part of Schwab’s business is its more than 5,000 independent investment adviser firms, which consistently bring in more net new assets than even the largest brokerage firms (with their legions of stockbrokers). Indeed, it would seem that clients value Schwab for its advice, given that more than half of its $1.2 trillion of client assets are in one of the firm’s three advice channels: the aforementioned registered investment advisers (RIAs), the Schwab Private Client group, and U.S. Trust, which targets high-net-worth investors looking for safe, low-risk investments. Assets at Schwab are “sticky” (i.e., tending to remain at the firm), likely reflecting that boomers have “grown up” with Schwab, which was founded in 1970, just as the leading edge of boomers (then 24) entered the workforce and started to learn about saving and investing.

Among asset managers, both Nuveen Investments and T. Rowe Price (Not Rated) seem relatively well positioned. Survey data reveal that boomers are conservative investors, with 72% saying “when I invest my money, I always look for safe investments.” Nuveen focuses on fixed income products that emphasize capital preservation and tax efficiency. Similarly, T. Rowe is perceived as an advocate of the individual investor with its no-load, low-cost approach and solid investment performance.
Housing

The fact that active boomers will work well into their retirement years has significant implications for housing. Del Webb, which was purchased by Pulte Corp. in 2001, has been conducting annual baby boomer surveys since 1996. (Pulte is a developer of gated communities close to major metropolitan areas.) The 2005 survey revealed that a majority of baby boomers plan to move, with less than half (43%) planning to stay in their current home even after retirement. As for where they will move to, most do not want to go far, with less than one in ten (8%) saying they would move to a home that is more than three hours away from family.

For those boomers who plan on moving, the Del Webb survey confirms that boomers are attracted to what Toll Brothers’ CEO Robert Toll has labeled “jewel boxes” — homes that, while modest in size (see Figure 31), offer an impressive array of upscale features, especially in the kitchen and bathrooms (see Figure 32).

Another quality that boomers seem to value is a sense of community. The number of boomers who think it is important to be a “good neighbor” continues to rise (see Figure 33), while being perceived as “a leader in the community” is more valued than an expensive car, designer clothes, or expensive jewelry (see Figure 34).
Coincident with this desire for a sense of community, a number of housing companies are undertaking “urban renewal” projects (see Figure 35). An example of this is Toll Brothers’ development of condominiums on the sites of a former tea factory and a former Maxwell House Coffee plant in Hoboken, New Jersey (just across the Hudson River from New York City). Such urban renewal efforts will likely be well received by boomers given 1) the aforementioned desire for a sense of community and 2) the multitude of experiences that city living has to offer.

**Figure 35. Urban Renewal Projects**

<table>
<thead>
<tr>
<th>Company</th>
<th>Location</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lennar Corp.</td>
<td>Hunters Point, San Francisco</td>
<td>Waterfront homes on former naval base</td>
</tr>
<tr>
<td>Pulte Corp.</td>
<td>San Jose, California</td>
<td>“Mariani Square” community on site of former Del Monte fruit processing plant</td>
</tr>
<tr>
<td>Toll Brothers</td>
<td>Hoboken, New Jersey</td>
<td>Projects include “Hudson Tea” (conversion to condos of former tea factory) and “Maxwell Place” (condo building on former Maxwell House Coffee plant)</td>
</tr>
</tbody>
</table>

Source: Citigroup Investment Research

A meaningful portion of boomers will, however, choose to stay in their current homes. The attachment of many boomers to their homes is underlined by Figure 36, which illustrates that boomers spend the most amount of leisure time in their homes of any age group (and with the desire to be at home higher in 2005 than in 2004).
The Dream Continues – November 9, 2005

Figure 36. “I prefer spending my leisure time around the house rather than out and about.”
By age group in 2005

![Bar chart showing preference for leisure time at home rather than out and about by age group in 2005.]

Source: Yankelovich Partners, Inc

Not surprisingly then, boomers are more interested in home improvement than other age groups (see Figure 37), with the amount of money that boomers plan to spend on home improvement reaching a new high in 2005.

Figure 37. Ways in Which You Express Yourself: Making Home Improvement
By age group in 2005

![Bar chart showing ways in which people express themselves through home improvement by age group in 2005.]

Source: Yankelovich Partners, Inc

While boomers are interested in working on their home, they acknowledge they cannot do it all by themselves. Half of boomers (51%) say “I often wish I had someone else around the house to do the things I just cannot do well.” In “The Next American Dream” we discussed the concept of “do it for me” (DIFM). We noted that, “given strong demand for DIFM by aging boomers, it seems likely that some company will eventually exploit this opportunity.” Lowe’s is among the companies actively exploiting the DIFM opportunity; it estimates that there is a $150 billion market for installed sales (e.g., installing Lowe’s kitchen cabinets in your home), with Lowe’s share of that market expected to rise from $2 billion in 2004 to $2.5 billion in 2005.
Another company that offers some DIFM services is Best Buy. The company’s “Geek Squad” offers 24-hour in-home computer support. After acquiring Geek Squad in 2002, Best Buy launched the service nationally in August 2004. Today, Geek Squad employs more than 11,100 agents and is in over 900 Best Buy stores as well as 13 stand-alone stores. Best Buy remains the only national, retail-based company providing in-home, as well as in-store, tech service that will support any PC, whether bought at Best Buy or not. Geek Squad’s pricing menu has prices starting as low as $29 for an in-store memory card installation, while in-home repair, late-night service calls, and more complex projects all drive up the cost.

**Retailing**

Boomers increasingly dislike ostentation, not only in their homes, but also in a wide range of areas, including cars (see Figure 38).

**Figure 38. Signs of Success and Accomplishment for Boomers: “Having a Large, Expensive Home” and “Owning an Expensive Car”**

![Graph showing the percentage of Boomers who value having a large, expensive home and owning an expensive car from 2002 to 2005.](image)

Source: Yankelovich Partners, Inc

It is not just that boomers dislike ostentation, recent data show that, generally speaking, they simply do not care about fashion or being stylish (see Figure 39), and they increasingly do not care if they aren’t hip or cool (see Figure 39).

**Figure 39. Need to Dress in the Latest Fashions. (Boomers)**

![Graph showing the percentage of Boomers who need to dress in the latest fashions from 2002 to 2005.](image)

Source: Yankelovich Partners, Inc

**Figure 40. Need to Be Hip/Cool/On the Cutting Edge. (Boomers)**

![Graph showing the percentage of Boomers who need to be hip, cool, or on the cutting edge from 2002 to 2005.](image)

Source: Yankelovich Partners, Inc
These findings have negative implications for apparel retailers, as well as manufacturers and retailers of high tech devices.

These trends would seem to have negative implications for a range of industries, such as apparel retailers (given that a growing number of boomers think they “don’t have to spend a lot of money to look really good,” see Figure 41), as well as manufacturers and retailers of high tech devices (as Figure 42 illustrates that the propensity to buy such gadgets declines steadily with age).

As we discussed in “Experience It,” in this environment, retailers “that offer more than just apparel and everyday products seem well positioned. These would include, for example, companies that offer ‘lifestyle retailing’ — a differentiated offering of premier brands, rather than just everyday necessities.”

Retailers that offer superior customer service would seem particularly well positioned. In comparison to other age groups, boomers are much more likely to lodge a complaint or offer a compliment to a business (see Figure 43), and are also more likely to avoid a particular company’s product or service if they are dissatisfied (see Figure 44).
Travel

While boomers may not want to move far from their current homes, they are traveling more frequently (see Figure 45), and they comprise the age group most likely to travel often for pleasure (see Figure 46).

<table>
<thead>
<tr>
<th>Figure 45. Mean Number of Overnight Trips Taken in Past Year By boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
</tr>
<tr>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: Yankelovich Partners, Inc

<table>
<thead>
<tr>
<th>Figure 46. Traveling for Pleasure Frequently/Occasionally By age group in 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Echo Boomers</td>
</tr>
<tr>
<td>57%</td>
</tr>
</tbody>
</table>

Source: Yankelovich Partners, Inc

In the hotel sector, the beneficiaries of this trend have been, and will likely continue to be, non-commodity hotels offering a “lifestyle” experience. In this regard, hotels such as Four Seasons, Fairmont (in Canada), Marriott International, and Starwood (with its W and Westin chains) offer time-starved boomers a high-quality, differentiated experience. We also note that, thanks to a steady upgrade of the quality of in-room hotel accessories, that experience is likely now even more luxurious.

Furthermore, many empty-nester boomers vacation in Las Vegas, which, in recent years, has gone from being a family destination back to being an adult-oriented “city of sin.” Of course, a key attraction in Las Vegas is gambling. Spending on gambling has increased sharply in recent years, reflecting:

- increased ease of access (thanks, in part, to Internet gaming),
- technological advancements, and
- the implicit approval of state governments (which are desperate for revenues in the face of exploding budget deficits).

Indeed, this increase is something of a self-perpetuating cycle for casino operators. Studies have shown that, once a person gets involved with the most simple form of gambling (e.g., a slot machine), he or she rapidly progresses to more sophisticated, and profitable, games (e.g., card tables). Some have argued that gambling is fast becoming the “new lipstick,” i.e., a cheap way of treating oneself and escaping the lingering anxiety that weighs on the minds of today’s older baby boomers.

Harrah’s Entertainment seems well positioned to benefit from these trends, given that it is the largest gaming company in the world, with more than 40 casinos located in every major domestic gaming market and in select international markets.
Finally, while boomers are traveling more, as discussed above, they are not flying more frequently (see Figure 47).

**Figure 47. Mean Number of Times Traveled by Airplane in the Past Year**

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boomers</td>
<td>2.0</td>
<td>2.2</td>
<td>1.9</td>
<td></td>
</tr>
</tbody>
</table>

Source: Yankelovich Partners, Inc

One possible reason for this is that some boomers are traveling more by recreational vehicle (RV), given that boomer ownership of motor homes is relatively high (see Figure 48). In addition, while it is not likely that many boomers are traveling by motorcycle, a quick escape ride on one seems to have its appeal as a boomer pastime (see Figure 49). Harley Davidson notes that two-thirds of its customers are between the ages of 35 and 54.

**Figure 48. Motor Home Ownership by Age Group**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>35-44</th>
<th>45-54</th>
<th>55-64</th>
<th>65-74</th>
<th>75+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>1.5%</td>
<td>2.2%</td>
<td>4.1%</td>
<td>4.1%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

Source: Winnebago Industries

**Figure 49. Age Distribution of Motorcycle Owners**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>35-39</th>
<th>40-49</th>
<th>50+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution</td>
<td>10%</td>
<td>28%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: Motorcycle Industry Council
**Risks**

There are potential risks to our thematic outlook. A key risk to the Next American Dream is that the patterns suggested by the historical and/or attitudinal data do not develop as expected. Another risk is that, even if these patterns develop as expected, companies, industries, and sectors may be unsuccessful in their efforts to take advantage of these trends. In addition, there are also near-term cyclical risks to the consumer sector, such as surprising price inflation or deflation, very slow economic growth, or an exogenous shock, such as a terrorist attack.

We further note that our analysis does not consider stock-specific metrics such as valuation, EPS, P/E ratios, balance sheets, market capitalization, and liquidity. Accordingly, when making investment decisions, investors should view thematic analysis as only one input to their investment decision. Since thematic analysis employs a longer-term methodology, its results may differ from that of fundamental analysis.
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