

“This financial research guide could help you GROW your retirement funds, EXPAND your businesses, and PROSPER like never before...” – Harry Dent

SPENDING WAVES



The Scientific Key to Predicting
Market Behavior for the Next 20 Years.



HARRY S. DENT, JR.

SPENDING WAVES

*The Scientific Key to Predicting Market
Behavior for the Next 20 Years*

HARRY S. DENT, JR.

2019

DENT RESEARCH

DENT RESEARCH

55 N.E. 5th Avenue, Suite 200

Delray Beach, FL 33483

Tel.: (561) 272-0413

Copyright © 2019 Dent Research. All international and domestic rights reserved, protected by copyright laws of the United States and international treaties. No part of this publication may be reproduced in any form, printed or electronic or on the worldwide web, without written permission from the publisher, Dent Research, 55 N.E. 5th Avenue, Suite 200, Delray Beach, FL 33483.

Notice: This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold and distributed with the understanding that the author, publisher and seller are not engaged in rendering legal, accounting or other professional advice or service. If legal or other expert assistance is required, the services of a competent professional advisor should be sought.

The information and recommendations contained herein have been compiled from sources considered reliable. Employees, officers and directors of Dent Research do not receive fees or commissions for any recommendations of services or products in this book. Investments and other recommendations carry inherent risks. As no investment recommendation can be guaranteed, Delray Publishing takes no responsibility for any loss or inconvenience if one chooses to accept them.

Table of Contents

| | |
|---|-----|
| Introduction..... | 5 |
| Education..... | 34 |
| House and Home..... | 45 |
| Sports and Recreation..... | 66 |
| Media..... | 77 |
| Furniture and Appliances | 90 |
| Home Goods..... | 101 |
| Home Services..... | 119 |
| Auto and Transportation | 145 |
| Children's Goods and Services..... | 171 |
| Clothing and Accessories for Adults | 194 |
| Computers and Electronics | 215 |
| Entertainment and Travel..... | 221 |
| Health Care..... | 238 |
| Professional Services..... | 249 |
| Conclusion..... | 258 |
| Notes | 261 |

Introduction

In the rough and tumble world of business, we're conditioned not to think about things like "destiny." In America, you make your own luck, and those of us with the best ideas and the best execution, rise to the top. It's the American dream that good ideas and hard work are rewarded with material success.

This spirit is what makes the United States such a dynamic place, and it's what pushes the economy forward. It's what created modern, world-dominating successes like Apple, Facebook, and Alphabet (the parent company of Google), and the success stories of generations gone by, such as Ford and General Electric.

So long as America's entrepreneurs maintain that special spark, there will be no shortage of new opportunities in this country. It's important to keep this dream alive, and I'm not here to argue against it. But I am here to tell

you that, despite my faith in American business, I do believe in destiny. And it's not always a charmed one.

You see, demography is destiny. It's the future that has already been written. You just need to know how to read it. Even politicians, who are not always the sharpest people, are able to instinctively grasp this concept.

Did you notice the endless slicing and dicing of the American electorate both before and after the 2016 presidential election? The media beat the statistics to death. Donald Trump carried the votes of white males over the age of 40, whereas Hillary Clinton performed better among women and younger voters. Clinton took most voters with incomes under \$50,000, while Trump won the \$50,000 to \$100,000 income bracket. The two candidates took equal numbers of voters with incomes over \$100,000.

But that's not where the number crunching stops. Not even close. These demographic groups can be broken down into subgroups and broken down again into even smaller sub-subgroups based on age, sex, marital status, race, educational level, and more. I'm willing to bet you that strategist from both political parties could tell you the precise voting preferences of suburban-dwelling married Caucasian women with master's degrees, incomes in the 93rd percentile, exactly two children, and a strong preference for Coke over Pepsi. The information is out there and readily accessible; they would be fools not to use it.

Why does this kind of information matter? Because the success of any political candidate depends on his or her ability to know the preferences of the demographic groups that have the power to swing an election. Nixon had his Southern Strategy (for which my father is credited), George

W. Bush captured America's suburbs, Barack Obama took the votes of a younger and more diverse America, and Trump won by taking the formerly unassailable "blue wall" of the upper midwestern rustbelt states. Republican or Democrat, whoever wins the next election will have done their demographic homework as well. I guarantee it.

Businesses, be they large multinationals or small mom-and-pop stores, also instinctively get demographics. If you hope to be successful, you must know your market.

Think about it. The television commercials aired during Monday Night Football (think beer and macho pick-up trucks) are very different from the commercials aired during daytime soap operas (think baby products, food and diet-related products, and home exercise equipment). Both are different from the commercials aired during Peppa Pig or PAW Patrol. With the dollar figures at stake, advertisers can't afford to waste resources targeting the wrong viewership.

Similarly, at the small business level, you don't open a store that sells baby strollers next to a college campus or open a trendy late-night bar in a retirement community. The local convenience store owner knows whether he should be stocking baby diapers or adult diapers. (Incidentally, Japan started selling more adult diapers than baby diapers in 2011. They've also started making shopping carts at grocery stores lighter weight so that an older person can push them more easily.)

The key is that you know who your customers are. You must, or you won't be in business for long. Most small businesses fail within five years of their founding. The most cited reason is a lack of investment capital,

but the real reason is often a lot simpler: Many businesses fail because they misunderstand their target market.

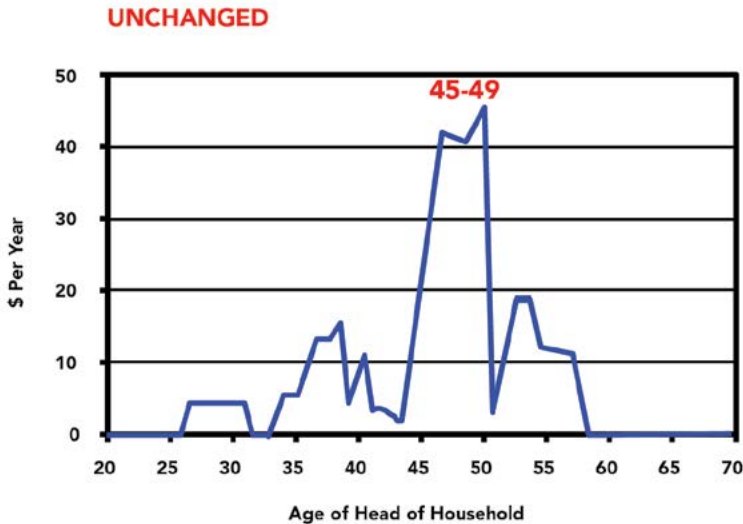
But even if you *do* understand your core market, that may not be enough. It's an important first step, but even if you understand your market perfectly well, you can still see your business swept away by an unstoppable wave of changing demographics. Just ask Harley-Davidson about shifting demographics.

Harley-Davidson knows its core market. The stereotypical riders of its iconic chrome-laden motorcycles are almost exclusively white men in their mid-to-late 40s — the classic age for a man to have a mid-life crisis, grow a beard, and wear a dew rag. And the data confirms this: spending on large motorcycles peaks between the ages of 45 and 49. The iconic company had a fantastic run supplying its hogs to Baby Boomer men as they went through that stage of their lives. But then, suddenly, it all screeched to a halt. Harley has had a terrible time growing its sales since 2008. Sales topped out at \$6 billion in that year, and a decade later they're still below those levels. Taking basic CPI inflation into account, revenues are lower by about 15%... despite the lowest financing costs in history. It's no mystery why. Harley's core demographic of middle-aged white men has effectively aged out of its bike-buying years.

We'll get into the specifics of how to track demographic trends shortly. But the key point to take away here is that demographics change... and major changes are coming that will affect your business in ways you have probably never considered. It's my job to show you what's coming so that you know how best to prepare. After reading this book, you may decide to make major changes to your business. You may decide to expand... or to

hold off on expansion. In the most extreme cases, you may decide that it makes sense to close shop and start something new. I'm going to give you the tools you need to make that decision.

Motorcycle Sales by Age



What Really Drives the Economy

We all like to think that we're unique and special, but when it comes to our basic consumer behavior by age and stage of life, we're remarkably predictable.

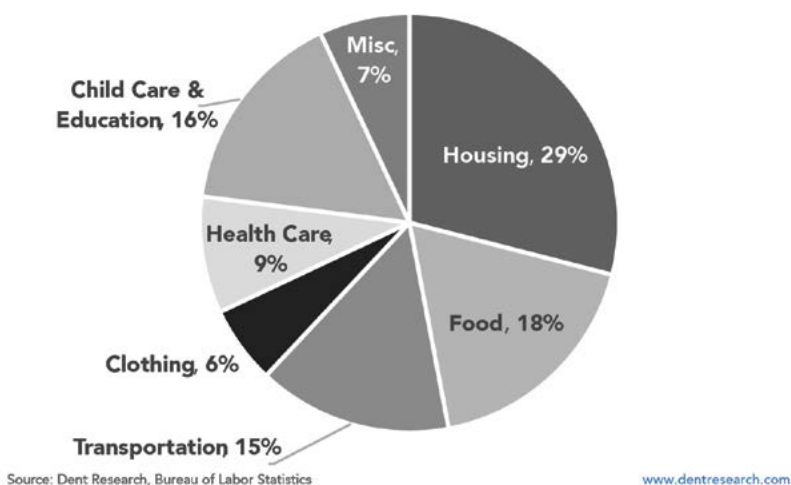
Let's start with the birth of a child. For starters, it's expensive. The cost to raise a child born in 2015 from birth to age 17 is \$454,770 for an urban, educated couple, according to U.S. government estimates. The figure for lower income families is smaller but not nearly as small as you might think. For the lowest-income groups (defined here as a family with an average income of \$36,300), the figure is still a mind-blowing \$212,300 per child.

SPENDING WAVES

The real figure across all income groups is much higher than these estimates because few 17-year-olds are financially independent. It's common for parents to at least partially support their kids well into their 20s, and we've said nothing about the cost of a college education. You can tack on another \$100,000 to \$200,000 per child for that... and maybe more if you offer to pay for their graduate school. And if they opt for medical school, you have my condolences. You're talking about million-dollar babies at that point.

Where does all the money go?

The Cost of Kids



The biggest increases in expenditures are due to lifestyle changes. You need a bigger home; preferably one with a yard. Housing accounts for 29% of child-related expenses. You have new mouths to feed, quite literally. Food adds another 18%. You probably need a bigger car or a gas-guzzling SUV. And you probably now have a longer commute and more errands to run. Transportation adds another 15%. Clothes? Throw in 6% more.

Given the sky-high cost of health insurance these days, it's surprising that health care spending is only 9% of the pie, though for most Americans, employer-sponsored health insurance covers the bulk of health care costs. But, this is changing, as high costs are forcing companies to be less generous, and Americans will be spending more on their families' health care going forward. After housing, food, and health care, child care and non-university education take up most of the rest, at 16%.

This doesn't tell the whole story, of course. The government figures also don't consider the harder-to-measure cost factors, such as being "mommy tracked" or passed over for promotions due to family obligations. This could be worth hundreds of thousands of dollars in lost wages, or perhaps even millions if your skills are in high demand or if you have an advanced degree.

By Wall Street Journal estimates, the cost to raise kids is closer to \$1.6 million per child and, again, this doesn't include college. It also doesn't include socialized costs such as the taxes you pay for public schools. If you have three children, it could literally cost you millions to raise them, and maybe another half a million or more to educate them. That's daunting to even think about.

I go into this level of excruciating detail for a reason. If you're a parent, what I'm saying will seem very real to you because you're the one paying these bills. This isn't abstract theory; it's real life. And it's important to understand for the sections to come.

When a baby is conceived, we already know with high probability how his or her life will unfold. The pregnancy and birth will be expensive to the

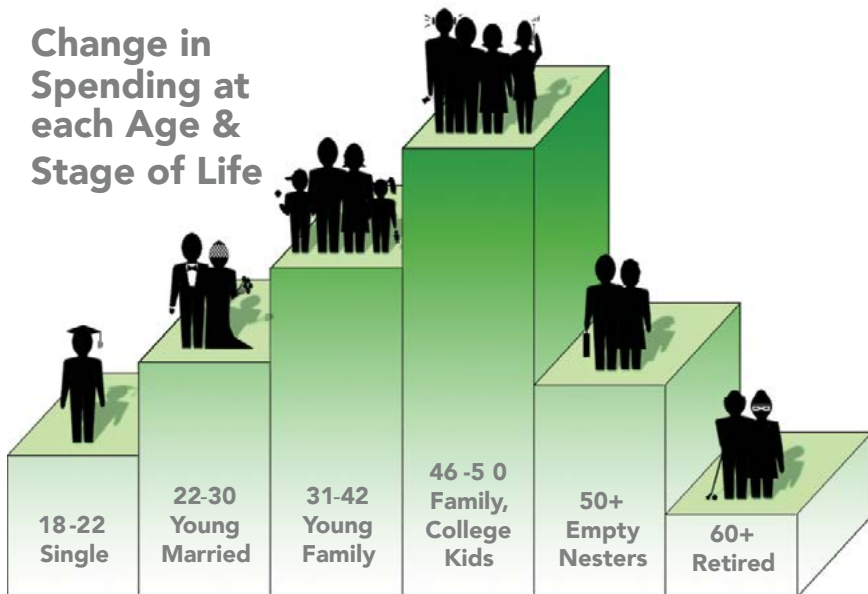
parents but will be a boon to everything from pediatrician offices to baby clothes makers to early childhood development classes.

The child will start school at age five and presumably graduate by age 18, after which most Americans go on to some level of higher education. If a boy, he will probably get married around the age of 28. If a girl, it will be closer to 26. And they'll have children of their own shortly thereafter.

The ages for first marriage and childbirth tend to be a little older the higher up the income and education ladder you go. Again, this makes sense. The longer you stay in higher education, the longer you postpone family formation. Everything gets pushed back by a few years. As such, Americans with lower levels of formal education and lower incomes have children around 27, while higher-educated and higher-income Americans having kids at 30 or older.

With children, come the need for houses. Starter-home purchases peak around age 32, and for those Americans who upgrade, trade-up home purchases peak around age 41. We'll jump into real estate in more detail in Chapter 2, but I include this data here to make an important point. A home is the most expensive asset most American families will ever own, and home spending is driven almost entirely by demographics.

As for consumer spending, it rises every year of your life until your kids finally leave the nest. For most Americans, this will happen sometime between the ages of 41 and 51, or more precisely at age 46, on average. And for higher-income Americans, that age is a little higher. The top 20% of income earners peak in their spending around age 51 (due in part to spending on their children's college education), and the top 1% around 54 or older.



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

The age of peak spending among higher-income Americans has been trending higher in recent years, due in part to the skyrocketing net worth of wealthy Americans after a decade of stock market gains. A major recession or bear market – which will hit the wealthy harder – will likely cause this trend to plateau or reverse.

As we get into our 50s, we start to spend less and save more. Retirement is still years away, but with the kids out of the house, we're finally in a better position to sock money away. So, even while we work harder and earn more than at any other stage of our lives, we're spending less. And once we get into our late 60s and 70s, our spending falls even further. Frankly, at that stage of our lives, we already own everything we want, and many of us are retired, living on a fixed income. We may still live to be 100, but by our 60s we've already reached the last stage of the consumer life cycle.

By the way, you don't have to take my word for it on any of this. My data comes directly from the U.S. government. The Bureau of Labor Statistics Consumer Expenditure Survey annually tracks the spending habits of American consumers and breaks them down by age, sex, income level, and so on. This is where I got the data for motorcycles and for total consumer spending and it's going to be the focus for most of the rest of this book. I'm going to break down the retail economy and detail the products and services that demographic trends suggest should boom... and those that demographic trends suggest should bust. But before I do that, I want to step back and look at the broader picture. No matter how good or bad the demographic trends might be, the overall health of the economy matters. And yes, demographics play a major role here as well.

The Great Boom and the Great Bust

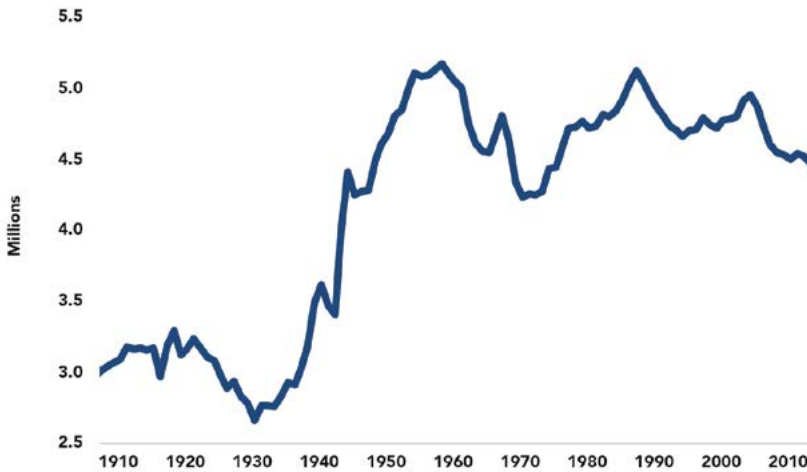
You've heard the expression "a rising tide lifts all boats," and nowhere is this truer than in the case of demographics and the economy. The great boom of the 1980s, 1990s, and mid-2000s was due to the maturing of the largest and wealthiest generation in history, the Baby Boomers. And the stagnant economy I expect ahead is largely the result of those same Baby Boomers reaching a different stage of their lives. Remember my comment about Americans reaching their peak spending years between the ages of 45 and 50? You're about to see why that matters.

Look at this chart, the Immigration-Adjusted Birth Index.

There's no rocket science here; this graph is nothing more than the annual live births in the United States adjusted for immigration. I add immigrants to the index in the year they were born in their respective

home country. So, a 30-year-old immigrant who comes to the United States in 2013 shows up as a birth in 1983.

U.S. Immigration-Adjusted Births



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Notice the enormous bulge in the middle of the graph? That's the Baby Boomer generation; the proverbial pig passing through a python. Though ridiculed by some as the "Me Generation," the Baby Boomers might be forgiven for believing the world revolves around them because, for much of the past 50 years, the economic world really has revolved around them. By their sheer size, they've been a major disruptive force in the economy since their birth, and they're a major focus of our research.

This generation — perhaps more than any other in history — has truly defined our age. Their births in the years following World War II brought us the massive expansion of the American suburbs, as their parents needed bigger homes in which to raise them. The surge in the number of school-aged children necessitated school construction on a massive, unprecedented

scale. As they become teenagers and young adults, the rock and roll culture they created led to a cultural and social revolution.

In the 1970s, the largest generation in history began to enter the workforce en masse. Not shockingly, the entry of millions of young, untrained workers led to the biggest eruption of peacetime inflation in American history. As Boomer workers gained experience in the 1980s, productivity surged, inflation fell, and the economy reached new highs. The 1980s “Decade of Greed” was largely a result of the Boomers getting haircuts and real jobs, rolling up their sleeves, and getting to work. Similarly, the technology revolution of the 1990s was the result of the innovations of Boomers like Steve Jobs and Bill Gates that went mainstream, leveraged by the disruptive power of the internet.

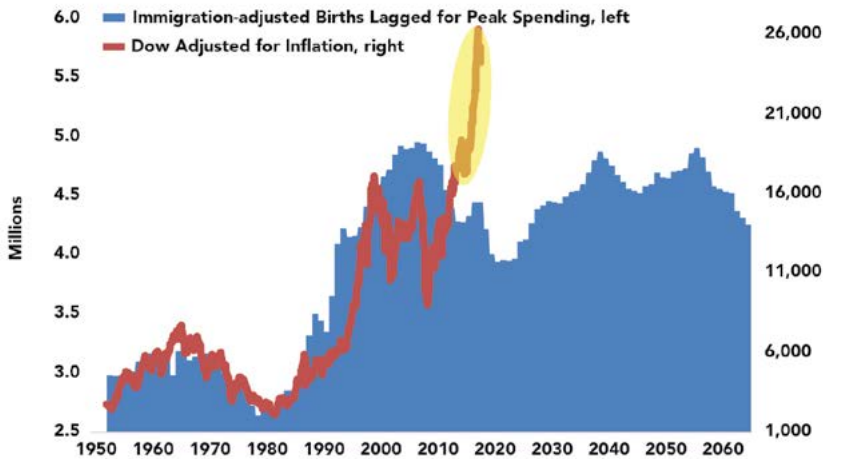
Stop reading for a minute and think back to the early 1990s. With the benefit of nearly 30 years of hindsight, it seems obvious that a major boom was inevitable. And indeed, I was saying as much in my 1992 book entitled *The Great Boom Ahead*. But it sure didn't seem that way to most people at the time. American industry was in decline, getting routed by nimbler Japanese competitors. Our budget deficits were sky high. We were just coming out of a nasty recession. Unemployment was high. Despite the “obvious” evidence of gloom, I knew without a doubt that a major boom was about to get underway. And I knew it from looking at *The Spending Wave*.

The Spending Wave takes the Immigration-Adjusted Birth Index and adds our insights about peak spending by age. If we know that average Americans peak in their spending at age 46, we can turn the birth year into a forecasting model for consumer spending.

And how do the numbers play out? The Baby Boom peak was 1961. This means that the biggest cohort of the Boomers would be hitting their peak spending years 46 years later in 2007, which just happened to correspond with the end of a multi-decade boom and the onset of the worst recession in nearly a century.

The Spending Wave

Births Lagged for Peak Spending vs. The Real Dow



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

To be clear, this kind of demographic analysis is a broad sword, not a surgical scalpel. In the real economy, there are forces that can cause a demographic forecast to be off by a year or two. Government spending, strong exports and foreign trade, strong business investment, and a loose banking system can all keep an economy booming in the short term, and a lack of any of these can depress an economy in the short term. Indeed, a quick look at The Spending Wave shows that the tight correlation between peak spending and stock returns started to break down around the time the Fed's last quantitative easing move ("QE Infinity") went into effect.

Still, there's no escaping the broader macro trend. Over any real timeline, demographics will trump everything else, even the almighty Federal Reserve and U.S. government.

As early as 1992, I forecast that the boom of the 1990s and 2000s would turn into a nasty bust by 2008, and this proved to be accurate. As if on cue, the Baby Boomers reduced their spending and started saving more. How much more? During the boom years of the 2000s, savings fell below 2.5%. Americans couldn't manage to save even 3% of their incomes. But by late 2012, it had soared to over 12%. It's eased slightly as rising stock prices have done some of the heavy lifting of wealth accumulation but has remained relatively high.

This is good for the Boomers, of course, but it's bad for the rest of us. More than 70 years ago, noted economist John Maynard Keynes wrote about the paradox of thrift, in which what is good for the individual saver — to frugally save money — is bad for the economy as a whole. If everyone saves at the same time, then economic activity grinds to a halt. The economy goes into bunker mode. We saw what that was like in 2008, and it wasn't much fun. But given the demographic trends in front of us, it's about to get a lot worse.

A Note on the Effect of QE on the Spending Wave

Before we move on, it's important I make note of a feature in that Spending Wave that stands out. You'll notice the highlighted Dow trend line that extends way above the generational wave. That is courtesy of the Fed and its free-lunch, quantitative easing (QE) program.

It used to be that, when I showed people that chart, it needed little

explanation. Now I must show it in two steps. The first with the market correlation to the 46-year lag for peak spending before the idiotic, insidious, irresponsible QE phenomenon took flight. And the second one after, which is the one you saw earlier.

To reiterate, the Spending Wave was my first breakthrough indicator in 1988 and, until March 2009, it was the best tool for projecting the economy and stock markets. It is that fundamental, based on people driving our economy, not B.S. politicians who are rewarded for giving free lunches today and kicking the can down the road.

The markets are now just over double what they should be by my most fundamental indicator. And this final bubble has occurred in the worst recovery in history on all counts: real GDP, wage growth, productivity, and capital spending.

What central banks figured out is how to leverage earnings and stock prices (and all financial assets): Set short-term interest rates to zero and then create trillions (\$12 trillion since 2009 thus far) to buy your own bonds and push even long-term, risk-free borrowing rates down to zero adjusted for inflation...

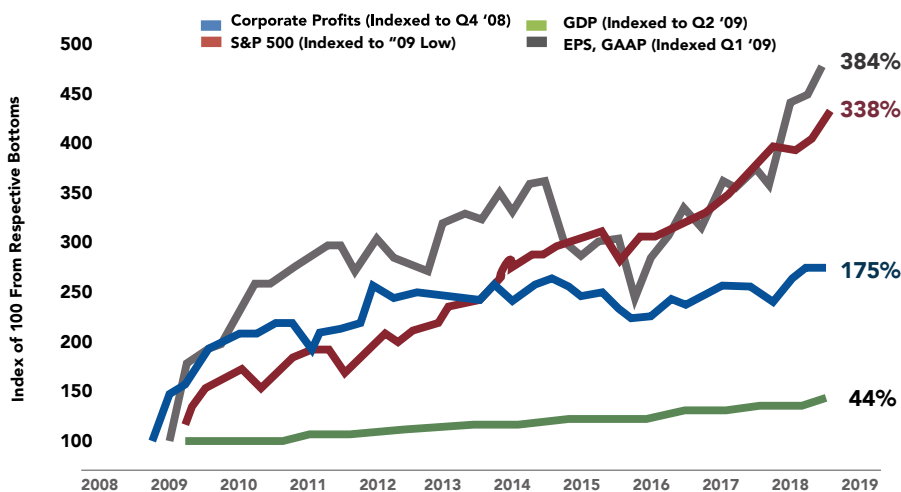
Basically, FREE MONEY! Something for nothing on steroids!

And then, President Donald Trump added major corporate tax cuts when major businesses were enjoying the highest profits in history as a percent of GDP... and when they had more capacity than they need.

SPENDING WAVES

That's how they created this unprecedented stock bubble out of a financial crisis and a weak recovery...

EPS Grows 119% and Stocks 93% More than Profits



The biggest single driver of stock prices is growth of earnings per share, and these central bank schmucks figured how to goose that.

In summary:

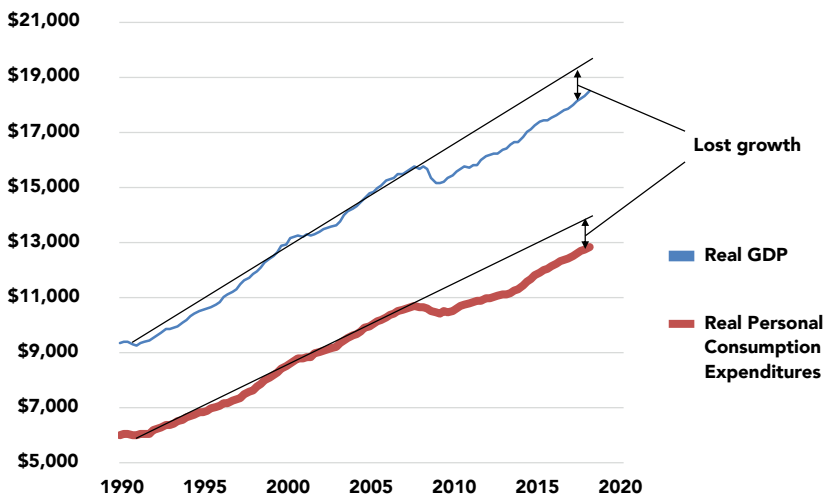
- GDP (not adjusted for inflation) grew a measly 44% since 2009.
- Profits grew an astounding 175% (thanks to ultra-low borrowing and interest costs).
- Earnings per share (EPS) grew an even more staggering 384% (119% more than profits because companies used cheap money and free tax cut cash flow to buy back their own stock and restrict the shares to lever up).
- Stocks grew a little less than EPS, at a mind-blowing 338%.

This is B.S. It's like magic: now you see it, now you don't. We see the miraculous effects of QE now. In the blink of an eye, it'll all be gone.

The Big Picture: A Rough Economy Until the 2020s

The year 2008 is what I call the “Great Reset,” when our economy was knocked out of high growth mode. We returned to growth in 2010, but we never made it back to the old trend. Not even close. Growth has been uneven, and the crisis left a massive gap of lost growth that we’ll never get back.

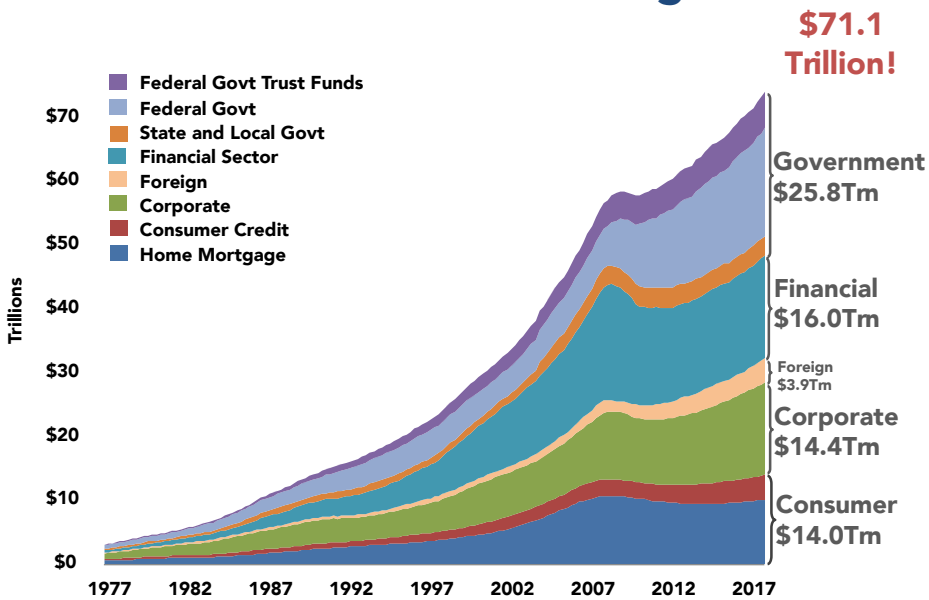
The Great Reset



There’s one big piece of all this that I’ve left out. Demographic trends are slow moving, whereas the collapse in 2008 was swift and violent. What’s the connection? The key here is leverage. During the boom years, the availability of cheap credit is like gasoline on a fire. In high enough doses, it can turn a flickering flame into a raging inferno. Debt makes it possible to buy things today that would normally have been bought at some point in the future. Debt is a facilitator that turns latent demand into real consumption. So, it makes the booms much, much bigger than they would have been.

The flip side of this is that it makes the bust much, much worse. Think about 2008. When the bubble burst, the Baby Boomers not only stopped borrowing; they even started paying down their debts, at least for a little while. Consumer debt growth was flattish for nearly a decade. But the siren song of cheap money was just too hard to ignore, and debt started climbing again a few years ago. We're now back to new all-time highs.

U.S. Total Debt Outstanding



And it's not just corporate debt. Enabled by the Fed's largest asset buying scheme in history, government borrowing has exploded higher. A similar explosion followed in corporate borrowing, as companies took advantage of cheap debt to lever up their balance sheets. As a result, total indebtedness surged higher in 2010... and has yet to slow down.

The real reversal will eventually happen. There's a point at which debt becomes destabilizing, and we're getting close to it (if we're not there

already). The next recession will make companies rethink the wisdom of having a leveraged balance sheet, and a gridlocked government is less likely to borrow and spend than one with one party in control of all branches of government.

It's not fun to live through deleveraging. Just ask anyone old enough to remember life during the Great Depression. But while unpleasant, deleveraging will ultimately make the economy stronger and more robust.

Deleveraging goes hand in hand with deflation, or falling prices, because it reduces consumer demand and destroys dollars that were created by excessive debt in the bubble. When supply is as strong as ever but demand is weak, you end up with overcapacity. And overcapacity means falling prices. Just think of your local car lot. What does the sales manager do when he has a lot full of unsold cars? He lowers the price.

Deflation: It's Happened Before

It's hard to run a business in a deflationary environment. Your customers have little urgency to buy — and even less incentive to buy on credit — because they know that prices will be lower if they just wait awhile. Once deflation sets in, it can be something of a self-fulfilling prophecy. Prices fall because we expect them to fall. And this works its way all the way up the supply chain. If the retailer must lower its prices, then so must its suppliers. It's an absolute nightmare for anyone running a business.

The last time the United States had significant deflation was during the Great Depression of the 1930s. There is, however, a more recent example on the other side of the Pacific and one that's more relevant to our situation today. I'm talking about Japan, which went through a debt bubble and

crisis two decades ago that was very similar to ours. It provides a sobering vision of our future.

Japan was the first emerging market “miracle” economy in the years following World War II. No country in history could match Japan’s growth rates from the 1950s through the 1970s. In just three decades, Japan evolved from a shelled-out warzone into an industrial powerhouse that rivaled the United States. By the 1980s, Americans suddenly found themselves struggling to compete with Japanese manufacturers of steel, autos, and consumer electronics. The world clamored to learn Japanese. Everywhere, Japan Inc. was on the offensive. Remember the future portrayed in the 1989 movie *Back to the Future Part II*? Michael J. Fox’s character gets to see what his life will be like in 2015, and his boss is Japanese, calling from Tokyo.

The Japanese stock market had a wild ride. Between 1985 and 1990 the Nikkei tripled, hitting a high just shy of 40,000 in December of 1989. Not to be outdone, the Japanese real estate bubble made the stock market bubble look like child’s play. Just as we saw in Florida, California, and other bubble markets in the mid-2000s, home prices in Tokyo far outpaced incomes and reached highs that would have seemed absurd in more sober times. Hundred-year, multigenerational mortgages became a necessity to afford a modest apartment in Tokyo. At its peak, Japanese property was worth four times that of the entire United States, and the area around the Imperial Palace alone was gauged to be more valuable than the state of California, Silicon Valley and all.

Those bubble days are long gone, and today we see a very different Japan. Japanese stocks are still down by 43% from their peaks two decades

ago. The country has spent the better part of the past 30 years in and out of recession, unable to gain any real momentum. It's the modern-day equivalent of a depression... except it never ended and persists to this day. It's more like a "coma" economy due to endless money printing to ease the pain. The trouble is, that doesn't allow debt to deleverage for longer-term health.

Japan's Collapse was Predictable

The collapse of Japan took everyone from expert economists to the Wall Street establishment by surprise. But it would have been easy to predict if they had simply known where to look. And by the way, I *did* know where to look, and I successfully forecast Japan's implosion in my first book *Our Power to Predict* (1989) and in its follow-up, *The Great Boom Ahead* (1993).

Japan didn't have a post-war Baby Boom on the scale of America's. So, its Spending Wave peaked long before ours, in 1989 (Japanese spending peaks around age 47). What followed in Japan is exactly what you should expect in an overleveraged economy dependent on one large generation that had already peaked in spending. The situation was made more extreme by an over-leveraged, over-indebted population, corporate sector, and banking sector, but Japan's slow-motion depression would have happened in any event. The demographic story had already been written.

But surely it can't get that bad here, you reckon. After all, we saw that the Fed can flood the market with cheap money. They did it once. What's to stop them from doing it again?

Well, I expect that the Fed will try. But it will only get them so far, as we

saw in Japan. As the Japanese crisis wore on, the Bank of Japan cut interest rates from 6% to zero, giving money away in the hopes that someone would spend it. Sound familiar? Our Fed followed the same playbook in 2008 and will probably try it again.

In the standard formula, lowering interest rates is supposed to boost consumption and investment, disincentivizing people to save. It didn't quite work out like that. Interest rates dropped, but savings remained high. Consumer spending stayed flat and then fell. New investment in productive assets stalled; Japanese businesses already had more than enough capacity.

And what about America's experiment with 0% interest? Well, it certainly fueled the mother of all bubbles in the stock and bond markets. But it's debatable as to how much it helped the real economy. GDP spent most of the past decade growing at less than 2% per year.

Japan didn't stop with central bank monetary policy. The government launched countless fiscal stimulus programs, most of which caused a brief blip in growth but led to no lasting effect. The once fiscally conservative Japanese government went on the largest public works spending spree in history, boosting its budget deficits and government debts to levels rarely seen in developed countries. Again, sound familiar? U.S. deficits soared to appalling levels during Obama's presidency, and they're getting worse under Trump. Yes, deregulation and tax cuts have goosed the economy, giving us growth rates not seen since the mid-2000s. But it remains to be seen if the growth is sustainable once the shock and awe wears off. It certainly wasn't in Japan.

Today, Japan has 30 times the amount of land covered in concrete as the United States, adjusting for the size difference in the two countries, and over 2,800 river dams. But none of this was enough to jolt an economy dragged down by deleveraging and bad demographics.

I've rambled on about Japan long enough for you to get my point. This demographic forecasting isn't theoretical. It's real, and we see it coming to life in the world around us. My forecast was correct in Japan, and it has been correct here so far. Nearly three decades after the bubble burst, Japan is showing modest signs of life, yet is still struggling with deflation. It's a zombie economy kept alive by government intervention.

We won't have decades of deflation here; I expect us to return to "normal" inflation by early next decade. But that is still several years away, and in the meantime, we still must operate in a potentially rough economy. So, how do we do that?

As I wrote in *The Great Crash Ahead*, deflation is not an equal-opportunity destroyer. It comes once in a lifetime in the longer-term business cycle, and it determines which businesses are going to survive and which businesses are going to fail. It shakes out the weak and the unprepared, but it also makes room for the stronger competitors to grow and gain market share. My goal is to make you one of those survivors.

In *The Great Crash Ahead*, I laid out a general blueprint for surviving a long deflationary shakeout.

You need to...

- Position your business so that you aren't overly dependent on credit from a deleveraging financial system.

- Focus on the core areas of your business that you dominate today and that you can realistically expect to dominate in the future.
- Shed assets and business segments where you are weaker or where you have a harder time differentiating yourself from the competition.
- Make only short-term investments in marketing and promotional efforts that can grow your business, or in investments that can help you cut costs.
- Defer major capital investments until later in the decade, when you will likely be able to buy them more cheaply.

And to this list I would add one final addition: If your business is particularly at risk to a decline in your core customer demographic, consider radically changing the direction of your company or starting a new business altogether. The next several years will be some of the most challenging in your career, but the foundations you lay today will put you in a position to prosper in the global boom ahead.

Surfing the Spending Waves

In the sections that follow, we'll look at the demographic buying patterns of over 200 common consumer products with the idea of applying these insights to your business and to your family's decision making.

First, a little background on the data is in order. All the data used came directly from the U.S. Government's Consumer Expenditure Survey (CES). The CES consists of two separate surveys: The Quarterly Interview Survey and the Diary Survey. The Diary tracks expenditures over the preceding two weeks. So, given that some of the data is quarterly and some is biweekly, a little cleanup is needed to make the data usable. To do that, we crunched the data over several years to get a larger sample size.

Then, we tested for statistical significance to eliminate any products for which the data was too thin to use or inconclusive. To eliminate the noise, we used statistical smoothing methods. And finally, to make sense of the dollar amounts, we indexed all amounts to the spending level of a 20-year-old. So, for example, if a 50-year-old consumer has a value of 2.5 on the bedroom linens chart, that means that a 50-year-old consumer spends two and a half times as much on sheets and pillow cases as a 20-year-old.

The result is a series of graphs that I can confidently say are both accurate and easy to understand.

In the sections that follow, we'll look at the demographic buying patterns of over 200 common consumer products with the idea of applying these insights to your business and to your family's decision making.

Second, think back to the section earlier where I laid out the rationale for the Immigration-Adjusted Birth Index and the Spending Wave. For a product or service to profit from the aging of the Baby Boomers, it needs to have a peak age of early 60s or older. Remember, the largest cohort of the Baby Boomers has already passed their mid-50s. So, unless a product appeals to a consumer close to the age of 60 or (preferably) later, you've already missed the Boomer wave.

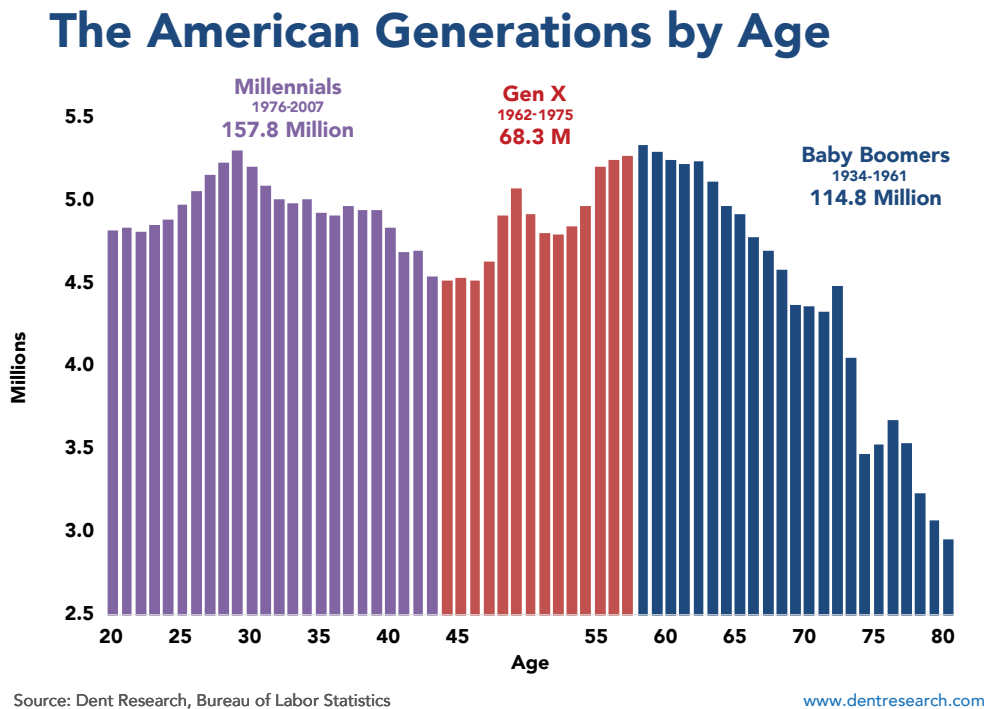
The next great generation is the Millennials, also known as the Echo Boomers or Generation Y. The largest cohort of this generation is now pushing 30, so products with a peak demand age in the 30s to early 40s have an excellent demographic forecast in front of them.

To make these generational waves easy to see at a glance, we've included them on each spending wave chart. That way you can see where a

SPENDING WAVES

generation falls in that category. However, it's important to note that we've placed these waves backwards, with the Boomers (1934 to 1961) on the far right, the Gen X'ers (1962 to 1975) in the middle, and the Millennials (1976 to 2007) on the far left.

It looks like this:

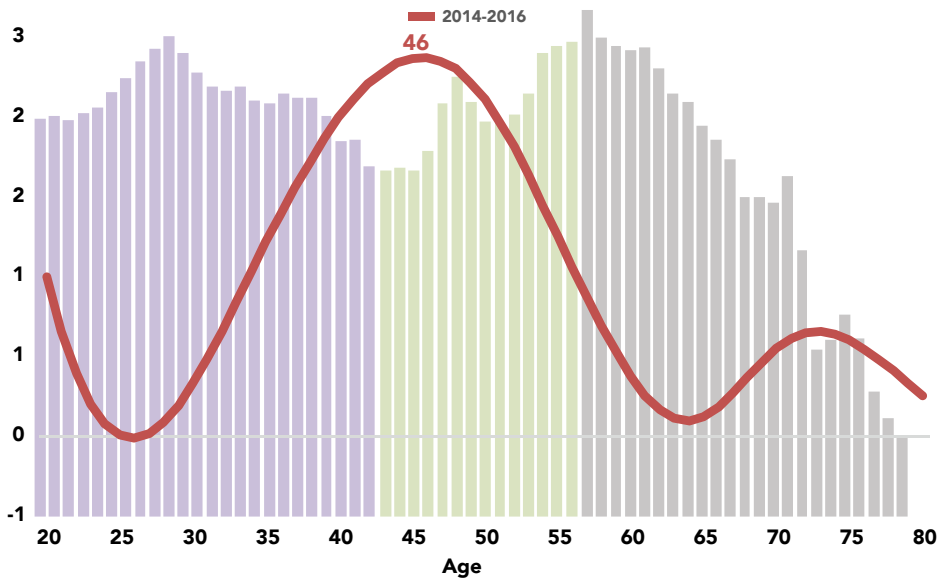


We do this because the generations are moving through their spending waves in that order. First came the Baby Boomers, then the Gen X'ers, and then the Millennials.

Let's look at a few examples of how to get the most from the charts you're about to encounter. Here's the one for tuition at elementary and high school:

Tuition at Elementary and High School

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

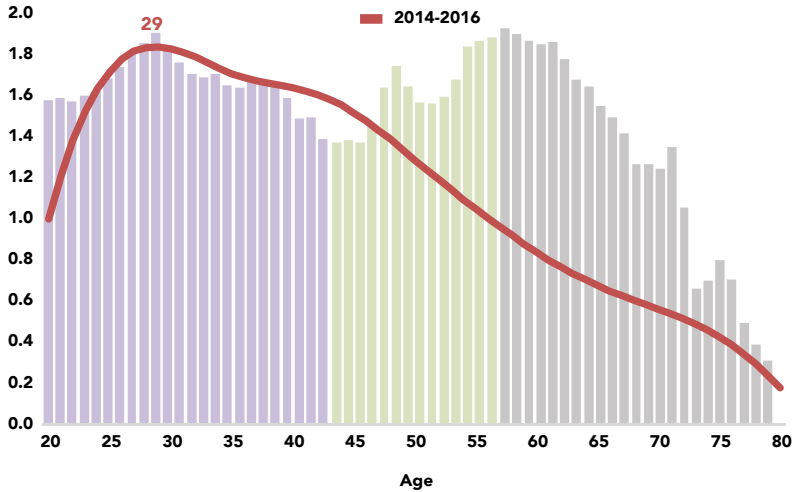
The red trend line is the spending wave for this category. As you can see, people generally spend the most on elementary and high school tuition when they're 46 years old. You can also see, if you glance at the generation waves in the background, that Baby Boomers are WELL past spending money in this area. Even the secondary peak of Gen X'ers are done as well.

The reality here is that investing in this category isn't going to be a very good idea for years to come. In fact, if this is an area of interest to you, consider waiting until 2036, when the peak of Millennials will be spending money on putting their kids through elementary and high school.

Here's another example:

Video Streaming

Average Annual Spending by Age, Indexed to 20 year olds

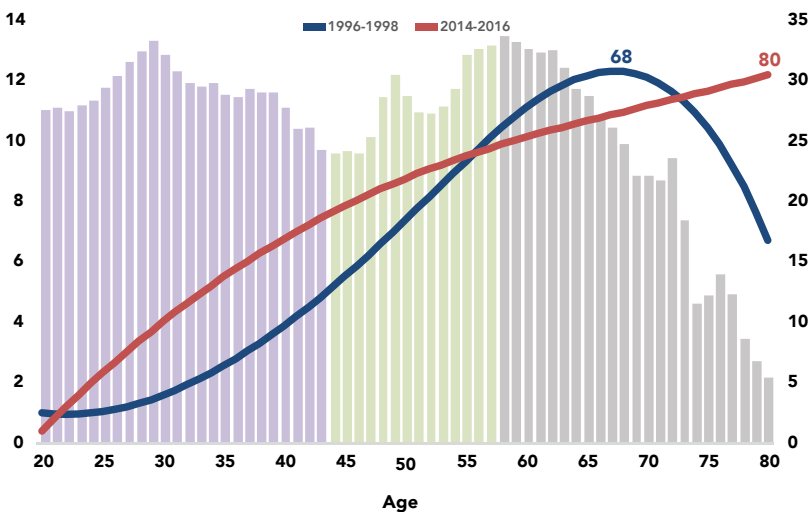


Spending on video streaming peaks, on average, at age 29. As you can see, this is exactly where the largest chunk of Millennials is. This sector, for all intents and purposes, should be booming!

Here's one last example...

Homeowner's Insurance

Average Annual Spending by Age, Indexed to 20 year olds



Notice that there are two trend lines here: one blue and one red. The blue line is for the spending data gathered from 1996 to 1998. The red line is the updated data, gathered from 2014 to 2016.

We've included BOTH trend lines in this chart to show you the significant change in spending pattern here. A decade ago, spending on homeowners' insurance peaked at age 68. Now, however, spending in this area peaks at age 80! That means that the Baby Boomer generation is still a viable market for this product. Note that, throughout this book, we only include the trend lines for both data sets when there has been a significant change.

With all of that said, there are really two best avenues for growth. You either orient your business to sell to the wave of aging Boomers or to the Millennials, who are starting their careers and the family formation cycle. If your product or service is a "tweener" that appeals to an age group other than these two big groups, you might have some difficult choices to make in the very near future.

So, without further ado, let's jump into the data.

Education

We'll start with an expense area that may be more useful in your personal life than in your business life, unless your business happens to concern education. Of course, if you invest or are considering investing in property — such as rental housing for students or recent graduates — this section is one you don't want to miss.

Figure 1.1 tracks college tuition, and there are no surprises here.

Two distinct peaks correspond to the college kids themselves, into their early 20s, and to their parents around the age of 50-51, when they're typically paying to put their kids through college. The results here are intuitive and exactly what you'd expect to see.

Figure 1.2 tells the same story and we see peaks at very similar ages.

A quick note before we continue. I mentioned earlier that we've color

Figure 1.1

College Tuition

Average Annual Spending by Age, Indexed to 20 year olds

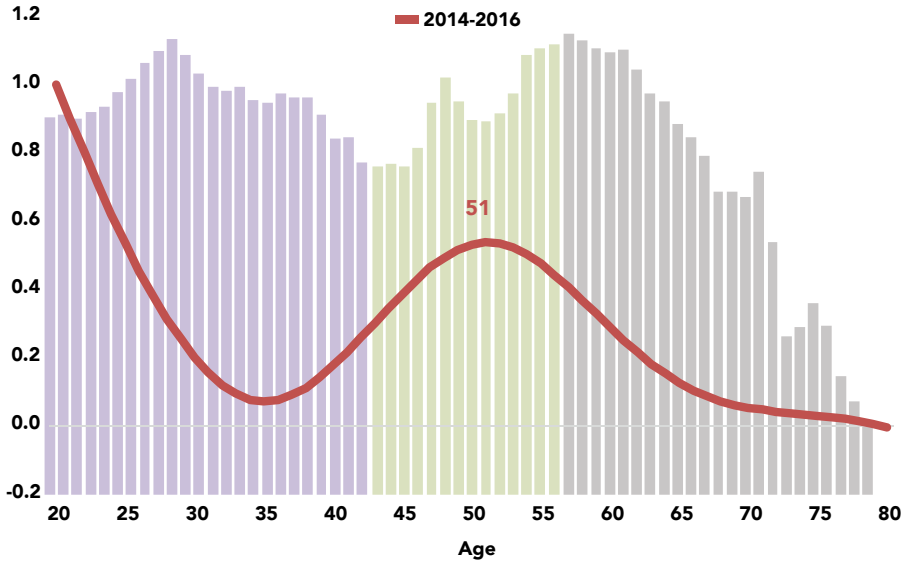
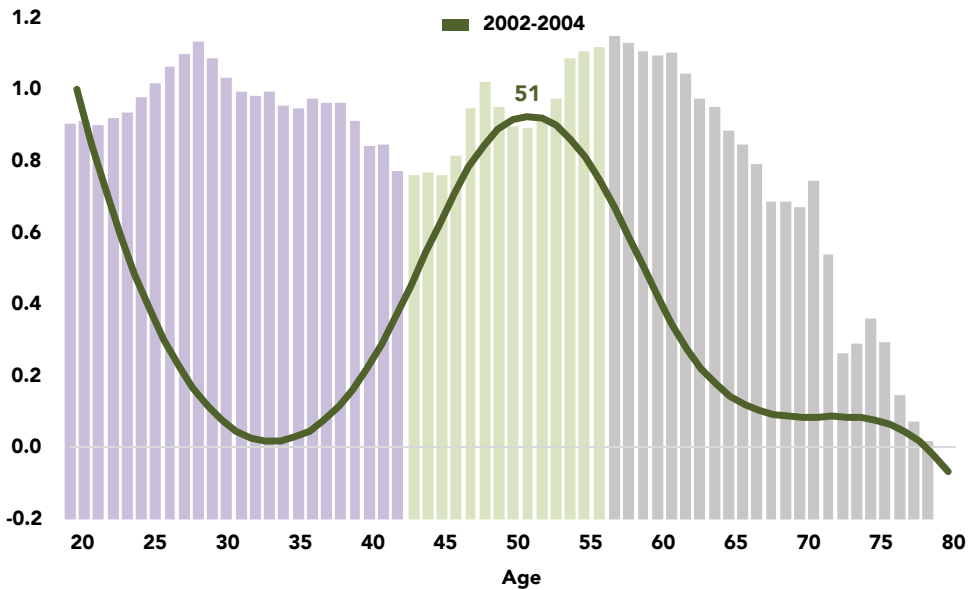


Figure 1.2

Housing While Attending School

Average Annual Spending by Age, Indexed to 20 year olds



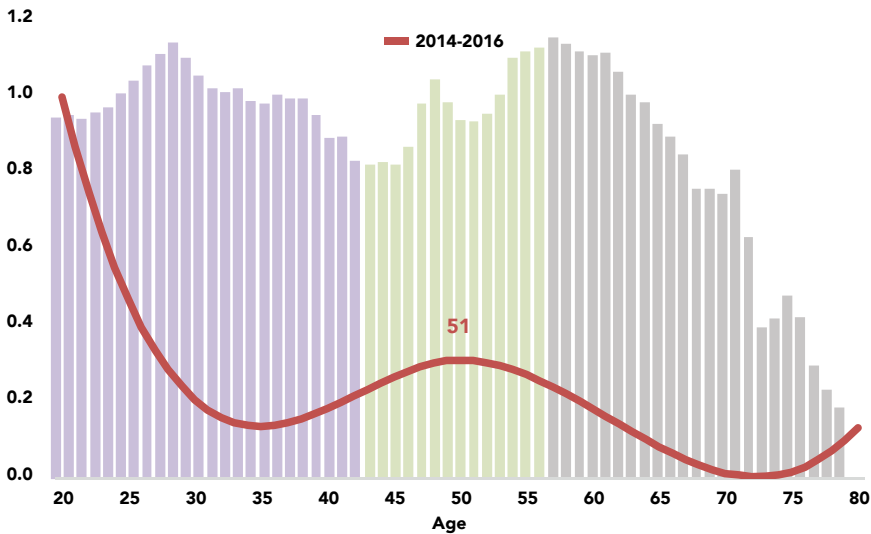
coded the trend lines to reflect the age of the data. The blue trend lines, when you see those, are from information gathered between 1996 and 1998. Any green trend lines represent data collected between 2002 and 2004. The red trend lines are those based on the most recent available data.

With college books and supplies (Figure 1.3), there’s less help from parents and grandparents, though this is probably due more to the way the survey questions are phrased than to any fundamental difference in spending patterns. Students do the actual buying in the bookstore, but it’s often with their parents’ money.

Figure 1.3

Books, Supplies, and Equipment at College

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

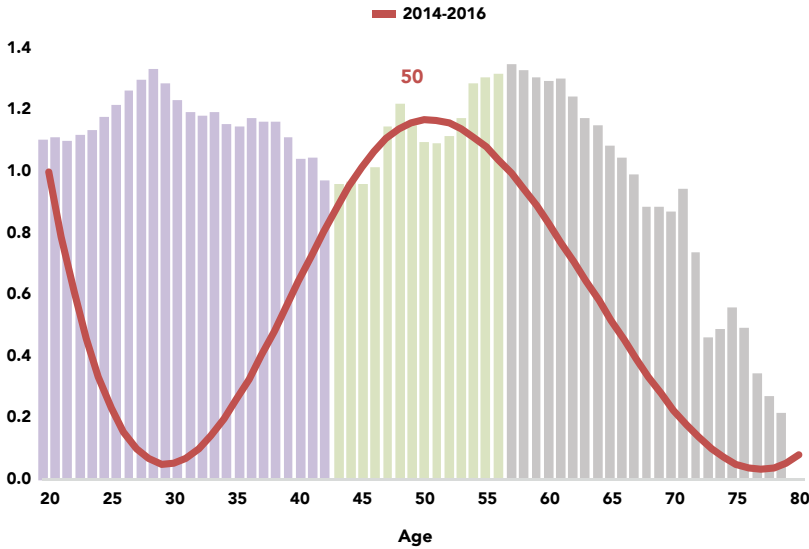
www.dentresearch.com

We see the same trends for food and/or boarding at school...

Figure 1.4

Food or Board at School

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Based on the Immigration-Adjusted Birth Index, demand for higher education due to demographic trends alone peaked around 2008, when the largest cohort of the Millennials turned 18. The number of 18-year-olds then dropped for the next eight years, finally bottoming out in 2016. There was another mini-boom in births that peaked in 2007, so we'll have a steady stream of 18-year-olds coming down the pipeline through 2025. After that, it drops like a rock.

Interestingly, for all the talk about the college education bubble, enrollments have been falling in recent years, just as my demographic data would suggest. The National Student Clearinghouse reported that 2017 enrollments in all post-secondary programs declined about 1% and have been in decline for six straight years.

Yet remarkably, college tuition costs haven't declined. In fact, college expenses have continued to rise at or above the rate of inflation. It seems that, while overall enrollments are down, the schools suffering from lower enrollment tend to be less prestigious or less competitive schools. Highly-sought-after universities continue to wield monopoly-like power in raising prices.

While unfortunate, this isn't strange. Education has never been more critically important to career advancement than it is today. The top universities know that and charge accordingly.

There's been talk of a "college tuition bubble" and with good reason. In 2012, the total balance of student loans outstanding rose higher than credit card debt for the first time in history. A 2008 study found that 70% of college students graduate with a significant amount of college debt, with the average balance greater than \$37,172. Debts of well over \$100,000 aren't uncommon for students with graduate degrees or even undergraduate degrees at the most prestigious schools. It's no wonder, when you consider that the cost of a college degree has risen by nearly 1,200% since 1978 — double the rate of inflation for health care, another area where costs have spiraled out of control.

As I mentioned earlier, one reason for the explosion in the price of a college education is the increased importance of having one. Wages for skilled professionals have massively outpaced wages for non-skilled labor over the past two decades, and the unemployment rate gets significantly lower the higher up the educational food chain you go. By Bureau of Labor Statistics (BLS) estimates, the unemployment rate for all American workers aged 25 and older at midyear of 2018 was 3.1%. For college graduates, the

percentage drops to 2.0%! But for those with only a high school diploma or for those who hadn't finished high school, the rate shot up to 4.0% and 6.0%, respectively. Those are still very low numbers, of course, but remember that we're nearly a decade into an economic expansion, and unemployment is at generational lows.

The takeaway is that your employment prospects look better with each additional level of education. Unemployment for those with college degrees was 2.5%. For workers with a master's degree, the unemployment rate was only 2.2%, and for those with professional degrees (i.e. medicine, law, etc.) the number fell to just 1.5%.

Education doesn't only ensure a higher likelihood of getting a job. It also massively increases the quality of your job. Weekly earnings of those with even a basic bachelor's degree were double those of workers who never finished high school and 64% higher than those with a high school diploma. Money talks.

And for all the headlines you see about delinquency and low educational attainment in the United States, a record number of young Americans have earned a bachelor's degree. In fact, 33% of all Americans 25 or older have a bachelor's degree, and fully 63% have completed some amount of college. That is nearly double the rate of the 1970s.

This is yet another reason why I'm optimistic about the future. The young people of today will be the innovators that lead the next great technology boom. That said, the proportion of young people going to college has leveled off in recent years and probably doesn't have much further to rise. Much of the rise in the percentage of Americans going to

higher education since the 1970s consisted of women “catching up” to men, and that process was completed long ago. In fact, young women are now significantly better educated than young men.

So, education is becoming even more dependent on age demographic trends than ever before. The good news is demographic trends are strong for the next several years. The bad news is that after 2025 they drop like a rock.

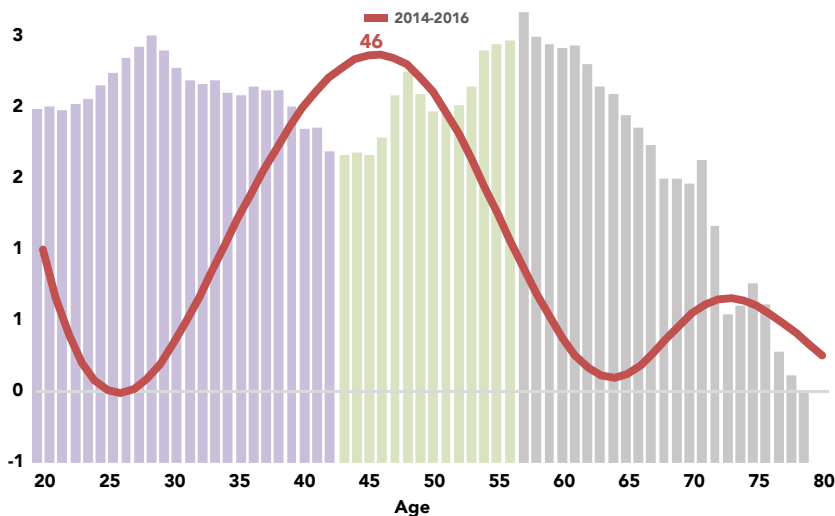
If you intend to launch or expand a business that caters to a college clientele (think everything from bars to smoothie shops in college towns) or if you intend to invest in student housing, you need to move quickly. You have a good window, but demographic trends turn against you in 2025.

Moving on, we have very different spending patterns for elementary and high school tuition than we do for university education.

Figure 1.5

Tuition at Elementary and High School

Average Annual Spending by Age, Indexed to 20 year olds



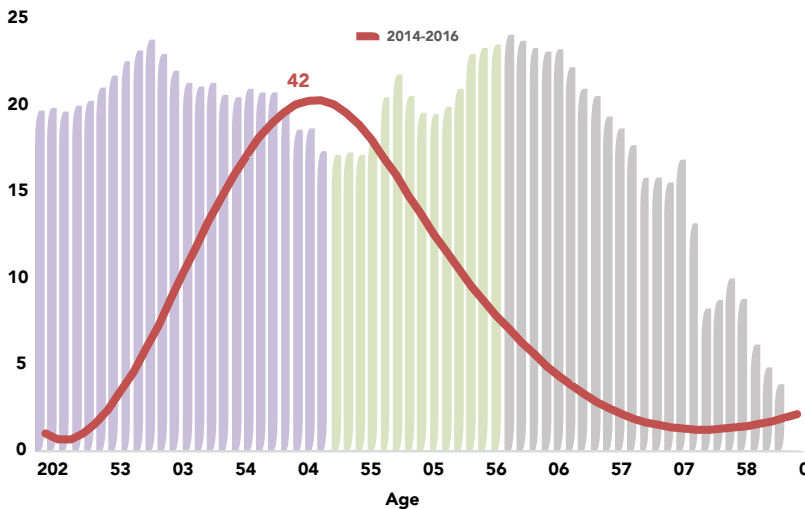
Grandparents contribute relatively little, and the students themselves obviously contribute nothing. Private school is purely the responsibility of the moms and dads who can afford it, which tends to be wealthier and higher-income Americans. Approximately 10% of all American children are currently enrolled in private schools, many of which are affiliated with a religious institution.

Spending on private tuition peaks at age 46, which is a little later than in prior periods. This is consistent with Americans having children slightly later in life.

Figure 1.6

Books, Supplies, and Equipment at Elementary and High School

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

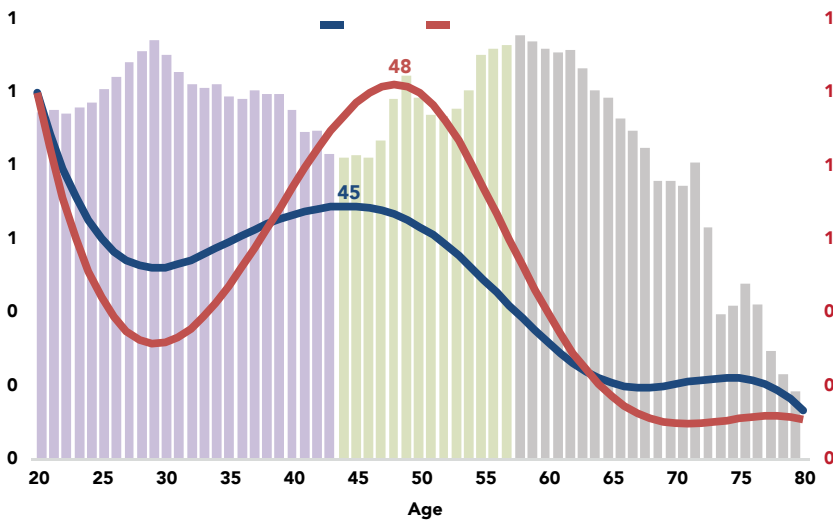
Interestingly, spending on books and supplies peaks a little earlier, around age 42. This may be due to the increasingly competitive nature of college enrollments, with parents spending more money at a younger age to put their kids in the best possible position to succeed.

Spending on calculators (Figure 1.7) has an initial peak at college age but has a secondary peak at age 48, just before college tuition expenses peak.

Figure 1.7

Calculators

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Again, these figures make sense. If you have a child in your mid-20s to early 30s, that child will be 10 to 15 years old by the time you're 40. And you may be paying tuition for more than one child!

Note how the spending wave for calculators has changed since 1998. Back then, it peaked at age 45. That peak has shifted by three years.

Unfortunately, this is a less-investable theme than the college wave. Few entrepreneurs are going to start a new private school. And even if you did, it would be years or decades before your school was competitive on a reputational level.

Still, there are opportunities for school-related expenses, particularly college prep classes, sporting equipment, musical instruments, and other expensive extracurricular activities. I'll get to those in a later section.

There are some figures to keep in mind for all child-related products and services. The number of live births reached a peak in 1990 before going into a seven-year decline. Births then hit a new all-time high in 2007, at 4,316,233, before falling sharply due to the financial crisis. (But note that adjusted for immigration, total birth rates for the Echo Boomers never got as high as the peak for the Baby Boomers.) Couples who thought about starting a family or having another child thought twice about it after their home values collapsed and the economy screeched to a halt. And the lousy economy a decade ago caused many Millennials to postpone marriage, family formation, and adulthood in general.

Despite a stronger economy, the U.S. birth rate continues to hit new lows. In 2017, there were 3,853,472 babies born, which was a good 2% lower than 2016 and about 11% lower than the 2007 peak. The decline in the raw number is less pronounced than the decline in the birth rate due to a large increase in the number of women of childbearing age. In other words, mothers are having fewer kids, but there are still a massive number of mothers out there.

The bad economy starting in 2008 led many younger Americans to postpone marriage and family formation. The rising cost of housing in the urban and suburban areas attracting skilled workers has exacerbated this problem and, unfortunately, it may be too late for the Millennials to reverse it.

The peak of Millennial births was 1990, meaning that the largest cohort of Millennial women are now pushing 30, which should be prime age for child rearing. While it is not at all uncommon to start a family in your early to mid-30s, starting later will generally mean having a smaller family. A couple that intended to have three kids may end up having only one or two if they start in their mid-30s.

The Millennials really are a “lost generation” of sorts. They had the misfortune of starting their adult lives during the deepest economic crisis since the Great Depression, and this rough start haunts them a decade later.

The good news is that Generation Z isn't far behind them. The largest cohort of Generation Z was born in 2007 and these kids are still in middle school today. But we should see a strong uptick in births from around 2027 to 2036 as this generation reaches its prime family formation years.

For entrepreneurs, this is a great opportunity, and I have another section dedicated to it. The key takeaway from this chapter is that the wave of babies that crested in 2007 means there is a wave of 11-year olds in 2018... and thus a wave of 18-year-olds coming in 2025. Keep your eye on this generation and try to stay one step ahead of them.

House and Home

There is no sector of the economy more important to the average American today than housing. A person's home is generally their most valuable asset, and a big part of the "American Dream" is owning one. Housing also gave us the last great investment bubble — and made millionaires out of plenty of nimble speculators— but when the subprime market started to crumble in 2008, it set into motion a chain of events that caused severe financial hardship for millions of Americans and led to the deepest recession in a century.

This is really a pity because housing is one of the sectors most driven by demographic trends and thus easiest to understand and forecast. At the right price and under the right conditions, housing is a fantastic investment that takes advantage of easy-money leverage. And due to high non-cash depreciation charges, it's often possible to generate a nice

stream of current income while paying little or no income tax. If you take advantage of certain aspects of the tax code, such as a 1031 exchange, you can avoid paying capital gains taxes as well. There are few investments out there that legally offer these kinds of advantages.

But notice that I said that real estate is a fantastic investment “under the right conditions.” Under the wrong conditions, it’s a highly leveraged investment nightmare with the potential to ruin you financially.

So, what are the right conditions? To start, you want inflation and, ideally, a low interest rate. We definitely have a low interest rate environment today, even if rates are a little higher than in the recent past.

But what about the inflation? As you read in the introduction, I believe that deflation will be an ongoing issue for our economy and financial system off and on for several years to come. The Baby Boomers — the largest and richest generation in history — are paying down their debt load as they prepare for retirement, and by doing so they’re sucking liquidity and purchasing power out of the economy.

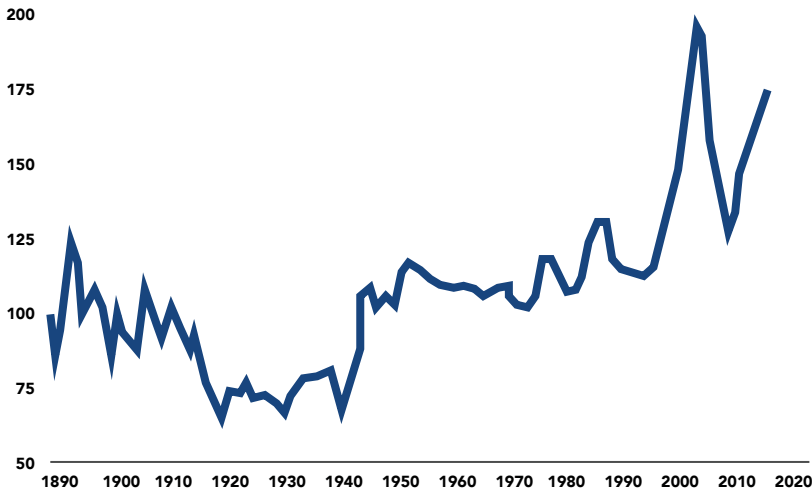
An increase in corporate and government borrowing has partly offset this, which helps to explain why the inflation rate has hovered near 2%. But it goes to show just how powerful the deflationary demographic forces really are.

Why does this matter?

Look at figure 2.1.

Figure 2.1
Long-Term Inflation Adjusted U.S. Home Price Index

1890=100



Source:<http://econ.yale.edu/~scheller/data.htm>

www.dentresearch.com

Over time, housing prices have tracked the rate of inflation.

As you can see in the graph, the housing bubble of the 2000s was a major anomaly that jumps off the line like a spike. Prices came down sharply following the crash, but remarkably have recovered to be in line with the long-term trend.

The combination of low interest rates and below-average construction in the years following the 2008 meltdown created a shortage of housing, particularly in the lower-cost starter home segment. This has had the effect of pushing prices sharply higher in growing areas.

Most of the returns that investors and homeowners have enjoyed from owning a home are due to inflation and leverage. A typical down payment on a primary residence is 5% to 10% (though it is usually significantly

higher on investment properties). After a modest initial investment, you pay back the loan over 30 years in dollars that inflation continually depreciates.

It all works splendidly... except when there is no inflation. In a deflationary environment, all of this goes in reverse. You pay back your loan in dollars that get increasingly more valuable with each passing year, even while the market value of the house continues to sag. If you owned a home in one of the states hit hardest during the property crash, such as Florida, California, Arizona, or Nevada, you know exactly what I'm talking about.

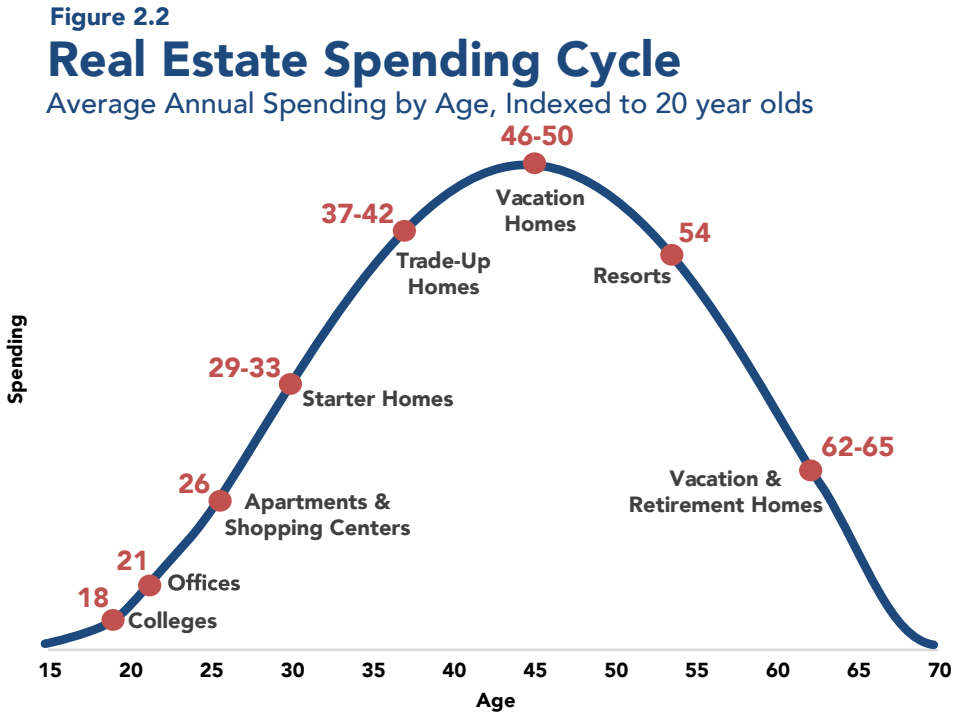
So, in an environment of broad-based deflation, we must be careful how we invest. This doesn't mean that there will not be great opportunities in real estate for those who are patient and know where to look.

There is an old expression that the three rules that every real estate buyer should consider are "location, location, and location." I won't argue with this colloquial wisdom, but I will add to it. Don't just think of location as a neighborhood or a prestigious zip code. Instead, think of location as where demographic trends are driving people. This is the single most important rule of real estate investment and ultimately the only one that matters.

Strong demographic trends can create inflation in certain areas of the market even in an environment of broad-based deflation. But you must make sure that you're on the right side of this. It will make the difference between profitable investment and financial ruin.

So where are the demographic trends heading?

Look at Figure 2.2. The basic real estate life cycle is easy enough to understand...



When we turn 18, we drive demand for college housing and low-rent apartments. In our early 20s, after we graduate and start our careers, we drive demand for office space, apartments, and the retail and entertainment properties that service both. After we get married and start families in our late 20s or early 30s, we drive demand for starter homes. And many of us go on to buy trade-up “McMansion” homes in our late 30s and early 40s, when our careers have really started to take off — and we and the kids want more space from each other!

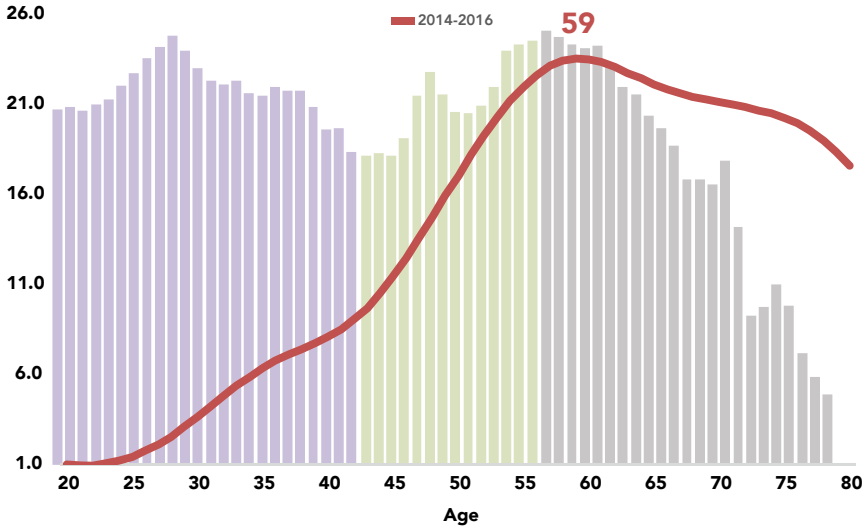
Vacation homes (Figure 2.3) are an interesting study.

Figure 2.3

Expenditures on Owned Vacation Homes

(Includes mortgage interest, insurance, taxes, maintenance, and miscellaneous household equipment)

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

When we reach our peak spending years in our late 40s and early 50s, some of us buy that vacation house at the lake or the timeshare in Mexico we always wanted, and there's a clear peak in vacation home purchases around the age of 49. But for others, the vacation home comes later, at or near retirement. There is a secondary peak in the mid-60s.

These are really two separate markets. The first is a vacation “get-away” house used on long weekends; the sort of place your teenagers might enjoy jet skiing at the lake. The second is more of a permanent home in which to live in retirement. Sometimes, these two markets overlap; there are plenty of resort communities that appeal to both weekend vacationers and to retirees looking to make a permanent move. At the same time, there are plenty of communities that appeal to only one group or the other.

If you plan to make an investment in this area, make sure you understand the demographics of the community because it could make the difference between scoring a home-run investment and losing a lot of money unnecessarily.

Not everyone follows this real estate life cycle script exactly. Some of us get married earlier or later... or choose to remain single. Many Americans either can't afford to own a home or they live in a city where homeownership tends to be impractical or unaffordable to all but the wealthy, such as in New York City or the San Francisco area.

And some of us choose to buy a single house and live in it our entire adult lives.

But Figure 2.2 gives an accurate timeline of the average upper-middle-class American consumer and I consider it an accurate roadmap for the years ahead.

Let's dig deeper into the Consumer Expenditure Survey data to see what insights we can glean.

The total dollars spent on rent (Figure 2.4) peak at age 26 and then go into a steep decline that lasts for the rest of our lives.

Tenant insurance (Figure 2.5) peaks at 29-30, though the drop-off is less pronounced and levels off by age 40.

Note the change in the secondary peak around age 70. This has changed markedly from a decade ago. This could be due to older would-be renters opting to live in owned homes, or it could simply be a case of the 1990s data being a little thin.

Figure 2.4
Rent

Average Annual Spending by Age, Indexed to 20 year olds

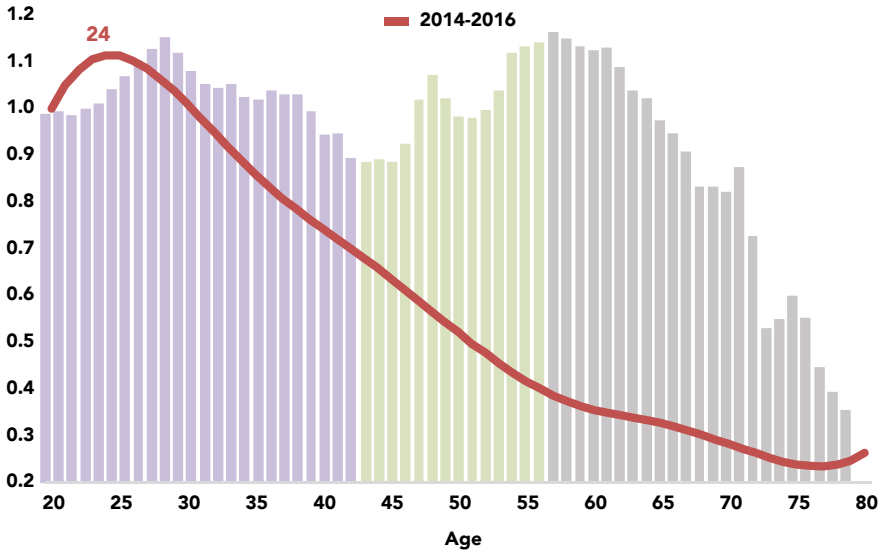
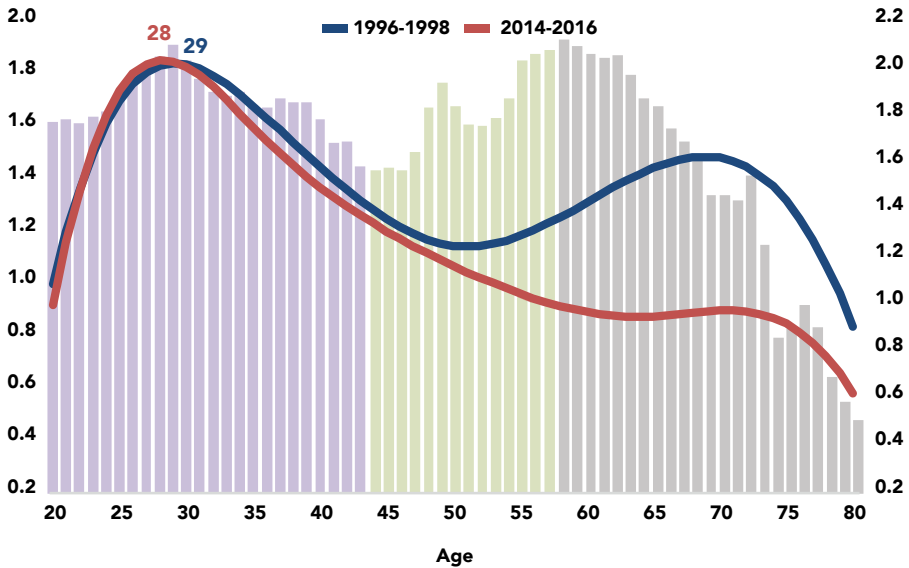


Figure 2.5

Tenant's Insurance

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

The rent and tenant's insurance waves make intuitive sense. Those Americans who choose to rent in their 40s are more likely to have property worth insuring than a 20-something renter fresh out of school with furniture from Wal-Mart or Ikea. Renting and services relating to renting is still something oriented towards the young, however.

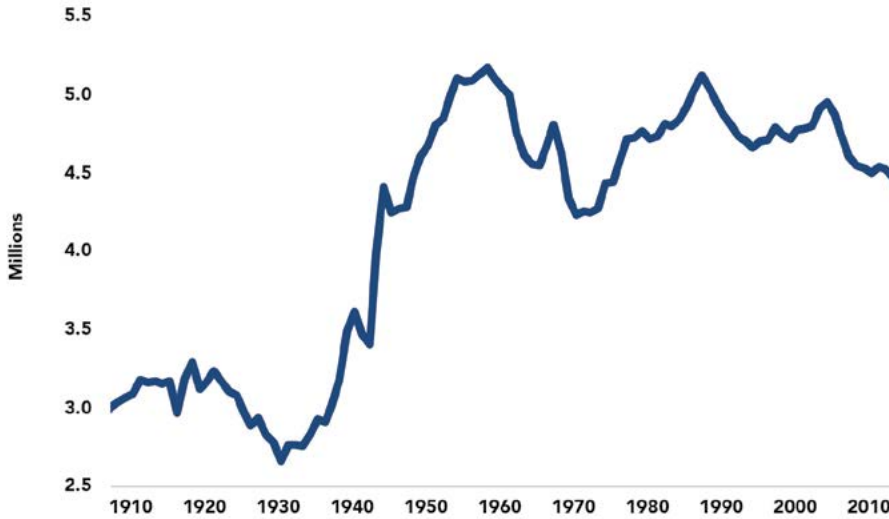
The rental market has been hot for the past decade, but demographic trends suggest that age-based demand for apartments has already peaked. The financial media credit this long boom in rentals to a lousy housing market with tight credit and on generational preferences.

In other words, millions of Americans are renting because they can't qualify for a mortgage, they can't afford a house, or they're simply afraid of the housing market and prefer the flexibility of renting. And naturally, those trendy hipster Millennials prefer a lively urban environment to a quiet life in the suburbs.

All of this is true, at least to an extent. The wave of foreclosures a decade ago turned millions of homeowners into renters with bad credit. And yes, Millennials have preferred urban living up to now, but that is hardly a generational preference. It's simply called being young. Young people have always preferred a more youthful environment. It just so happens that the Millennials are an enormous generation, and their presence is more obvious.

Remember the Immigration-Adjusted Birth Index?

U.S. Immigration-Adjusted Births



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

There was a massive wave of births that crested in 1990, and those babies are today's 28-year-olds. So, even if we had never had a housing bust, we would have still had a massive boom in rental demand. The demographic trends were baked in more than two decades ago.

As an investor, are there still opportunities in rental apartments?

Maybe, in some markets, but the easy money was made a long time ago, and demographic trends no longer support additional rental demand. Over the next several years, growth in new renters coming down the pipeline will be modest.

A caveat here would be a recession that knocked marginal homebuyers back into apartments for a few more years.

Remember, after 1990, births went into a sharp decline that lasted for

seven years. Those babies born in 1997 are today's college kids and the new apartment renters from 2024 forward. It's not that rental apartment demand will shrink, per se, but rather that its rate of growth will slow, at least at the national level. The cities experiencing the most growth and attracting the greatest number of new graduates may continue to enjoy a healthy rental market for years to come. But be wary of overbuilding.

If you're looking to allocate capital to the rental apartment market, ask yourself these two:

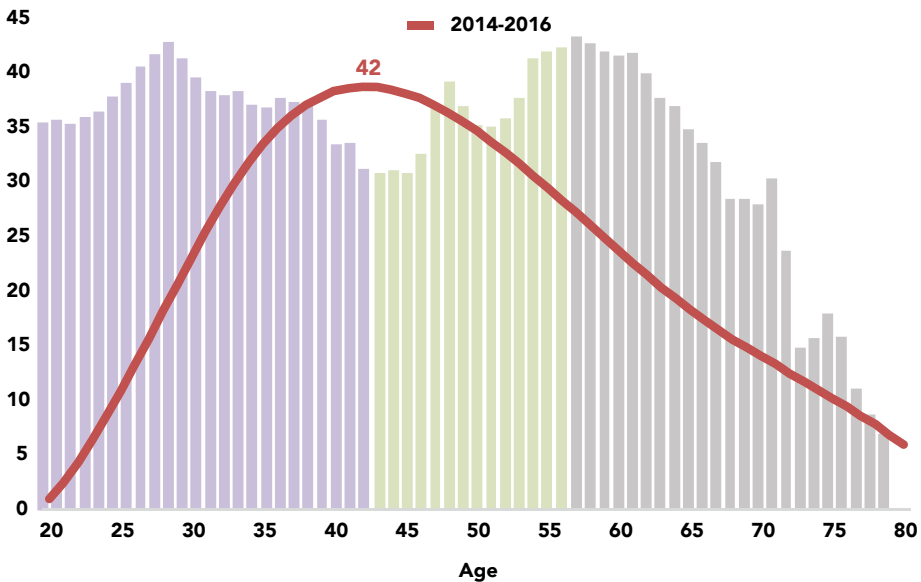
Is the city I'm considering for rental investment attracting young people from other parts of the country?

Have developers already anticipated this and created an over-supply of new apartment properties?

Figure 2.6

Mortgage Interest, Owned Home

Average Annual Spending by Age, Indexed to 20 year olds



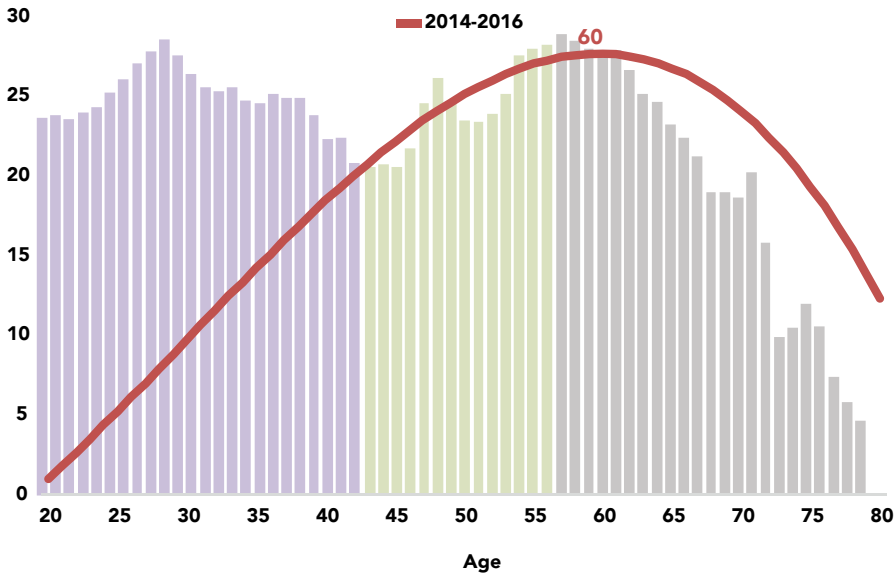
Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 2.7

Interest Paid, Home Equity Loan

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Before you invest a single dime in apartments, have credible answers to those two questions.

Moving on, let's look at what the Consumer Expenditure Survey can tell us about owned homes, starting with interest paid. In figures 2.6 and 2.7 we see very different age profiles for regular mortgage interest and interest on home equity loans.

Spending on regular home mortgage interest peaks around age 42, in line with the peak for trade-up home purchases. This is precisely what we would expect.

Interest on home equity loans peaks significantly later, at age 60, even later than overall peak spending in the early 50s. It's a little counterintuitive that home equity borrowing peaks this late. What exactly are these people

spending the loan proceeds on if they've already passed their peak spending years?

One possible explanation is that, given tighter credit conditions following the 2008 meltdown, younger borrowers were simply locked out of the market and unable to borrow. Furthermore, a homeowner at age 60 will generally have more accumulated equity in their home and would thus have more borrowing power (i.e. more equity to extract). At 60, you might have owned your home for 20 or 30 years and may have already paid off your original mortgage. So, given that the sampling period covered is 2014-2016, it could be a case of the sample being a little biased. Or maybe these borrowers are remodeling their homes to live a more comfortable retirement rather than buying a separate retirement house. We don't have enough data here to say conclusively.

The more important question here is how to make the information investable.

The Baby Boomers are long past the age of peak home buying, though the tail end of the much smaller Generation X is currently in its peak years for trade-up homes.

The bigger play here is those problematic Millennials. They're doing everything a little later than past generations, but they're still entering their peak starter-home-buying years. And in roughly another decade, they'll be trading up to more expensive "McMansions" or whatever higher-end homes are called in the future. So, if you want to make a killing in real estate, find a way to make homeownership affordable and attractive to Millennials. They are your market for the foreseeable future.

One trend you should watch out for is the Baby Boomer exodus out of high-end McMansions. The average Boomer bought the largest trade-up home s/he will ever own a decade ago. And now that they're empty nesters, many would love to sell their McMansion and downsize.

This means that the supply/demand dynamics of the high-end suburban home market are severely out of whack. The largest and richest generation in history is a net seller, while Generation X is too small to pick up the slack, and the Millennials are too young and lack the income to buy a high-end home. So, don't even think about buying a McMansion for investment purposes.

Don't do it. You *will* regret it.

You may get what you think is a good price today from a motivated seller. But what makes you think that you'd be able to sell it for a better price? Also, McMansions are risky as a "flip," and they're generally a bad choice as a rental as well.

Sure, there *is* a niche market for high-end home rentals for executives that are on a temporary rotation in a new city, but these opportunities tend to be few and far between. People who rent homes usually do so because they can't afford to buy or because they're young and tend to move from job to job. That's why renters generally go for starter homes, not McMansions.

Bottom line: Stay away from the McMansion market.

And if you're thinking of downsizing to a smaller home, do it now rather than later because the larger home is likely to depreciate more than the smaller home in the years and decade ahead.

I'm somewhat skeptical of home equity lending going forward. Given how much home prices have appreciated in many markets, there's a lot of equity to be extracted via refinancing or taking out home equity lines. But Millennials who watched their parents get into debt trouble are going to be less likely to fall down that rabbit hole. Furthermore, financing costs are rising, making these kinds of loans more expensive. Rates will fall in the next recession, of course, but so will home prices, and thus equity. And, naturally, if home equity borrowing really does peak at 60, the Boomers are already there. So, any demographic tailwinds you were hoping to get will quickly start to peter out.

It's a little late in the game to be investing in vacation and resort homes as well, or at least those that don't cater to a retired crowd. As I discussed earlier, when talking about Figure 2.3, vacation home spending has an initial peak at age 49, which the Baby Boomers passed a decade ago.

Growing areas full of yuppie families may offer pockets of opportunity (such as buying lakeside or country properties within an hour or two of growing cities like Dallas or Atlanta), but nationwide, the demographics are not favorable here either.

The one area that could still benefit from Boomer spending is the retirement home market, which peaks at 67. Another area, to some extent, is townhomes located closer to downtown areas. Many Boomers will continue to live in their current suburban home because they like the neighborhood, they have roots in the area, they benefit from low homesteaded property taxes, or they simply can't afford to leave. But for other Boomers, becoming an empty nester is an opportunity to escape the sterility and isolation of the suburbs, not to mention a chance to lower

their property taxes and utility bills. Suburban subdivisions, while kid friendly, offer little in the way of amenities for active adults in their 50s and 60s. Many Boomers will find an urban townhouse within walking distance to shops and restaurants or resort and exurban communities with community centers designed for mingling with neighbors to be preferable.

We have two seemingly contradictory trends happening at the same time. After decades of urban decay, many American cities are “re-urbanizing” with new residential and retail development tailored to a mostly high-income crowd of singles, marrieds without children, marrieds who can afford private school, and empty nesters. At the same time, there’s demand at the fringes of the city for both young families and active empty nesters who want a property that comes with a recreational lifestyle.

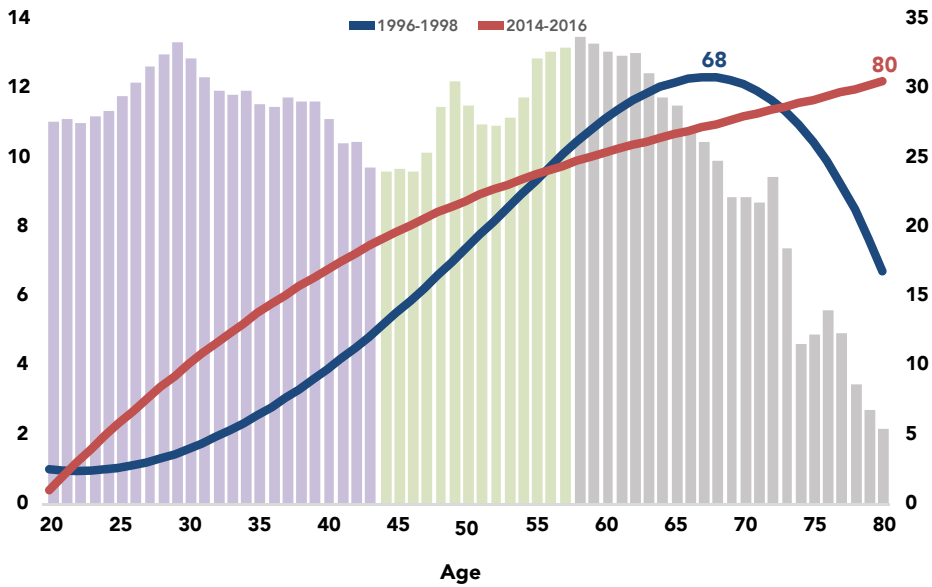
The areas now stuck in a demographic no-man’s land of sorts are the suburbs built from the 1970s to the early 2000s. The decay we saw in America’s urban inner cities after the 1960s was due to a lack of investment and high-income flight to these suburban areas. But as demographics and buying patterns shift, it’s these suburbs that will suffer from lack of investment and high-income flight. Rather than having metro areas with a thriving periphery and a stagnating core, we have something that looks like a bullseye. A vibrant core and a vibrant fringe with decay in the large middle ring.

All cities have their unique characteristics, and there will be neighborhoods that buck these trends. But as a rule, you’ll want to stay away from these areas and focus instead on the areas that offer better growth prospects.

One last thing about the Boomers here: While their demand for housing and most housing-related items is in decline, there are certain complementary businesses for which their demand remains strong.

Look at Figure 2.8.

Figure 2.8
Homeowner's Insurance
 Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

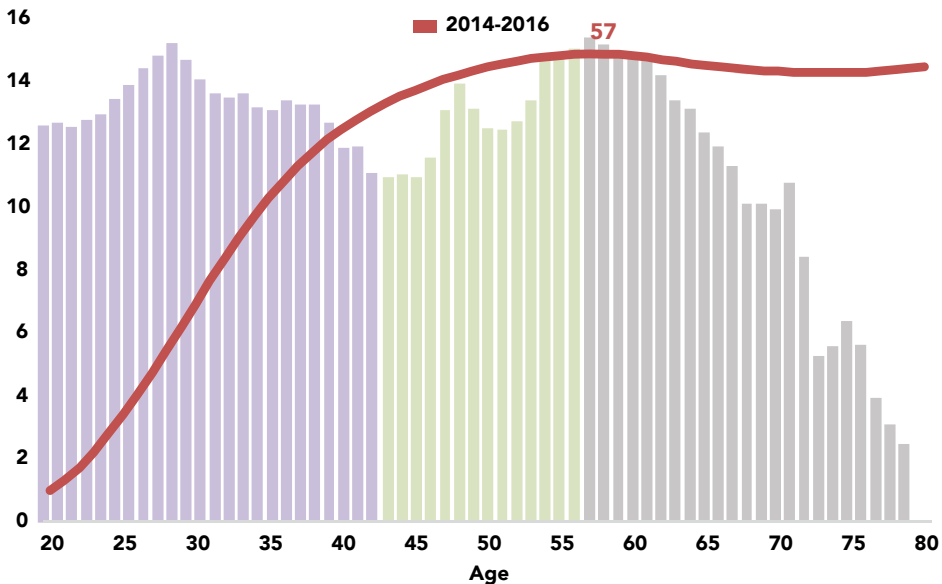
Demand for homeowner's insurance grows until the bitter end. Whether we own our house outright or we're still paying down the mortgage, we need to insure our homes from disasters. So, if you're an insurance agent or financial advisor, remember this as you plan your practice for the years ahead.

Likewise, basic utilities, such as natural gas, maintain a relatively constant demand (Figure 2.9). You must heat your home, no matter how old you are and no matter how many kids live in the house.

Figure 2.9

Utility: Natural Gas (Owned Home)

Average Annual Spending by Age, Indexed to 20 year olds



This isn't really an investable area for most people, however, because the city and large corporations provide utilities. There isn't a lot of room for a would-be entrepreneur, unless you have a product or service that promises to save homeowners money on their heating and air conditioning bills, such as insulation or energy-efficient windows.

And finally, we come to moving expenses (Figure 2.10).

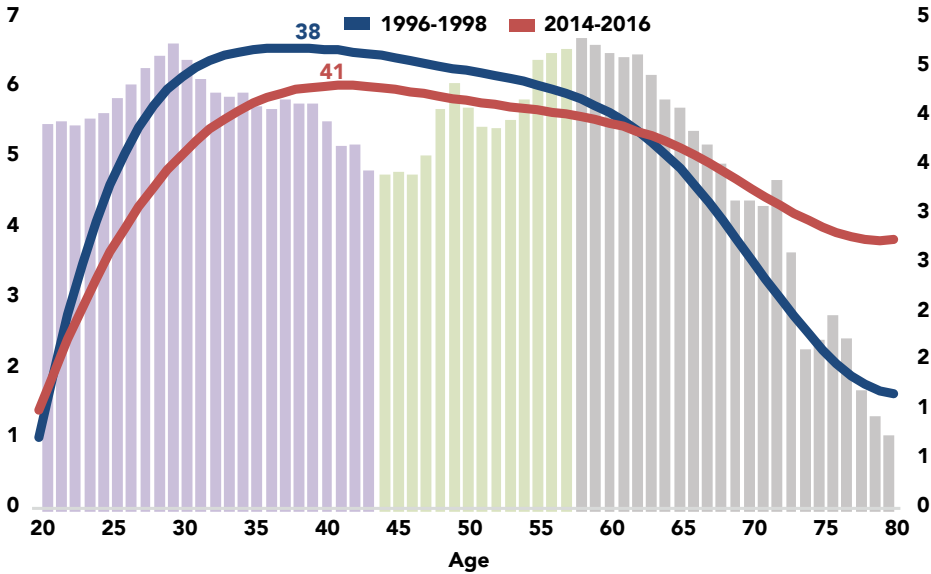
It's not that surprising that expenses on moving shoot higher as a person goes through their 20s. This is a time when people are likely to change jobs multiple times as they start their careers. Expenses flatten out around age 41 because, by that time, you're likely to have a family and roots in the community.

Notice how this curve has shifted over the years. This is likely due to

Figure 2.10

Moving, Storage, and Freight

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Americans doing everything a little later than previous generations (i.e. staying in school a little longer, buying a house a little later, etc.).

So, how can you profit from this information?

People in their early 20s are more mobile. But they also have less “stuff.” And what they do have, they’re able to move themselves using a U-Haul trailer and their friends’ muscles and good will. By the time people reach early middle age, they own more furniture and property and what they own is more valuable. Their time is also more valuable and their arms and backs more fragile. At 40, you’re a lot less willing to rent a U-Haul and move yourself unless you can use your children as slave labor!

People in their 30s to early 40s are really your peak market here.

Moving is a fairly easy business to start. All you need is a small fleet of leased trucks and a cheap workforce of young men willing to work part time. As the Millennials move into their peak starter home years, they are your core clientele for the next decade. Millennials should be strong home buyers into the early 2020s, and then we should get a secondary boom in starter homes from Generation Z from around 2029 into 2038-2039.

As I said earlier, the key to making money in real estate in the coming years is making it affordable for the average Millennial couple. That's not easy because wages have been stubbornly slow to rise, even while home prices have shot through the roof due to a lack of new supply and the Fed's artificially loose monetary policy.

There's a lot of risk in this market, as many cities look as frothy today as they did in 2006, right before the entire market imploded. So, it's important to get a good price. As with *any* investment, your returns ultimately depend on the price you pay, and it's important to have a margin of safety.

If you're considering building a portfolio of starter homes, keep these rules of thumb in mind. The investment *absolutely must* generate positive cash flow from the beginning. Determine what a realistic rental price would be based on other rental properties in the area. But, to give yourself a decent margin of safety, assume that you might have to cut the rent by 20% or more if the economy takes another downturn or if the rental market in that neighborhood becomes oversupplied. If the expected rent is still enough to cover the mortgage, basic maintenance, and any other expenses, then the property is worth considering. If not, don't push it. Walk away and look for better investment opportunities elsewhere. Also,

don't be afraid to make a low-ball offer. You lose nothing for trying, and if you offend the seller you can simply move on to the next house. Don't be embarrassed or worry about offending them. If they don't like your offer, they just won't return your call. And finally, try to think as young parents would think. Does the neighborhood feed into a good school? Is it safe for children to play there? Remember, your final goal is to sell the property to a Millennial family down the road. They're your target market, so buy now what you expect they will be buying later.

The next McMansion boom doesn't kick in until the first wave of Millennials hits those peak trade-up years, around 2023, and once there, such demand should stay strong until around 2032. That's well down the road and it's better to see how much excess inventory of suburban McMansions builds up in the decade ahead when younger couples are buying starter homes and older couples are trading down to urban townhomes.

With any investment or business venture, keep the macro picture in mind because a sickly economy can disrupt even the most solid businesses. This is even truer of real estate due to the leverage involved and the dependence on the credit markets. When banks aren't lending freely for mortgages, the demand for all housing sectors dries up in a hurry. So, while the demographic trends are very clear as to which sectors should do well and which sectors should do poorly, take the macro risk you face into consideration as well and give yourself an extra margin of safety. Unless a deal looks like a homerun, it's not a bad idea to sit it out. Other opportunities will present themselves.

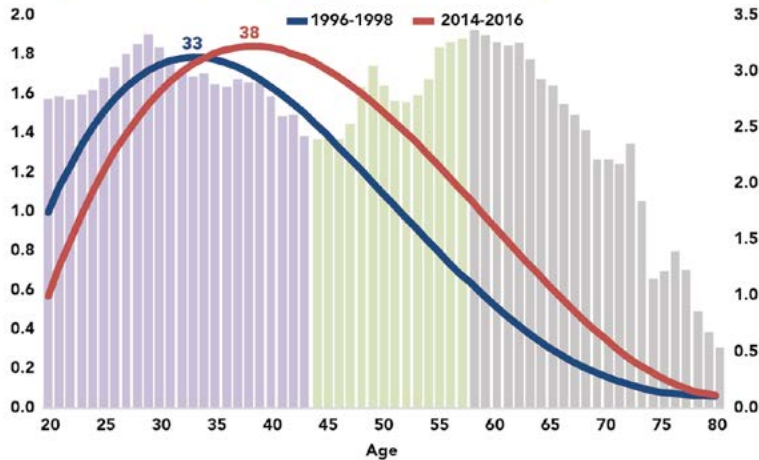
Sports and Recreation

Sports and recreation is a broad category that covers a wide range of businesses and investment opportunities. In general, spending in this category tends to peak far earlier than overall peak spending, which is not a bad thing. It means that the Baby Boomers already peaked in their spending on these items years ago, so there isn't a large crash looming.

Our focus will be on the Millennials. By and large, an investment in a sports and recreation business opportunity will be a play on the tail end of Generation X and on the Echo Boomers; and distinctly NOT on the Baby Boomers. Let's start with a product that is part of every American's childhood, the bicycle (Figure 3.1).

Figure 3.1
Bicycles

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Spending on bicycles peaks around age 38, and not because there are a lot of Lance Armstrong wannabes out there training for the Tour de France. Nor is it due to 38-year olds becoming green activists who ditch their cars and pedal their way to work. While bikes are becoming more common in urban areas these days, few adults buy bikes for themselves. Rather, they buy them for their young children.

Let's do the math. If you have a child in your mid-to-late 20s, that child is going to be five to 10 years old by the time you hit your mid-to-late 30s. That's plenty old to be getting a nice bicycle for Christmas.

Demographic trends here are a mixed bag. Based on past data, you would assume that demand for bicycles would be strong for the next several years. Think back to the Immigration-Adjusted Birth Index. Millennial births peaked in 1990.

Adding 38 years to this would suggest that bike demand would peak in

2028. Going back 38 years from today puts us in 1980, just as births had bottomed out and started to trend higher again. But remember, for these Millennials to be buying bikes in a few years, they need to start having the babies that will grow up to ride them. And births have been trending lower since 2008.

Looking at the data another way, there was the secondary surge in births that topped out in 2007. Babies born in 2007 are 12 years old in 2019, an age where a bike still makes sense. But in just four years, these kids will be old enough to drive. And while car ownership is lower among 16-year olds today than it was a generation ago, older teenagers are probably more likely to hail an Uber than get around town on a bike.

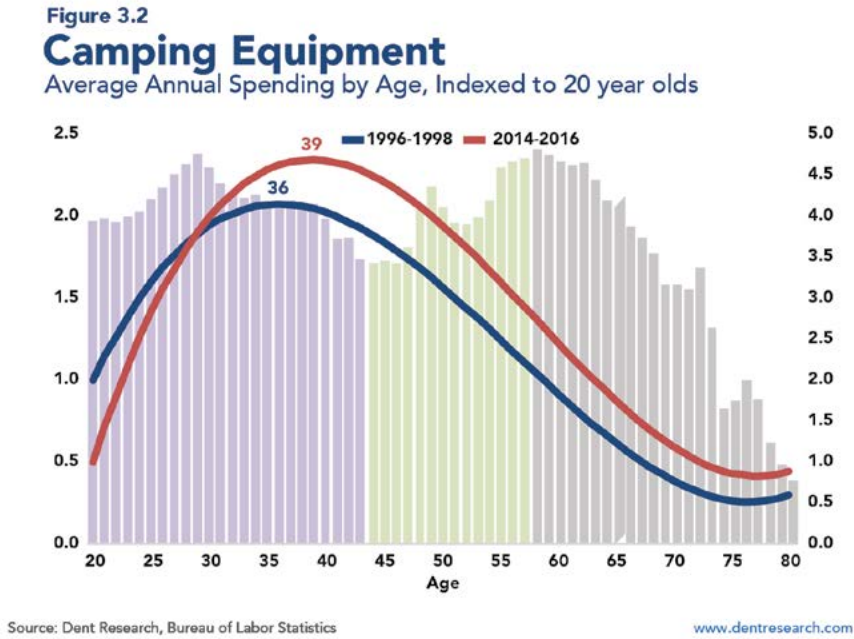
So, again, the picture on bike sales is mixed.

Still, it's interesting that the age of peak bicycle buying trended higher between the late 1990s and the 2010s. Part of this may be due to people having children later, though some may indeed be due to health-conscious or environmentally-conscious urbanites embracing the humble bike over the automobile.

Is there an investment trend here? Should you consider opening a specialty bike store catering to Millennial hipsters? Well, that is one option. But think deeper than that.

What about starting an internet business that sells stylish bike helmets? Or accessories that riders can attach to a bike? Or, assuming births start trending higher, what about offering bike riding lessons for the children of busy executives who don't have time to teach them? There are endless possibilities for small businesses here.

Moving on, Figure 3.2 shows demand for camping equipment.

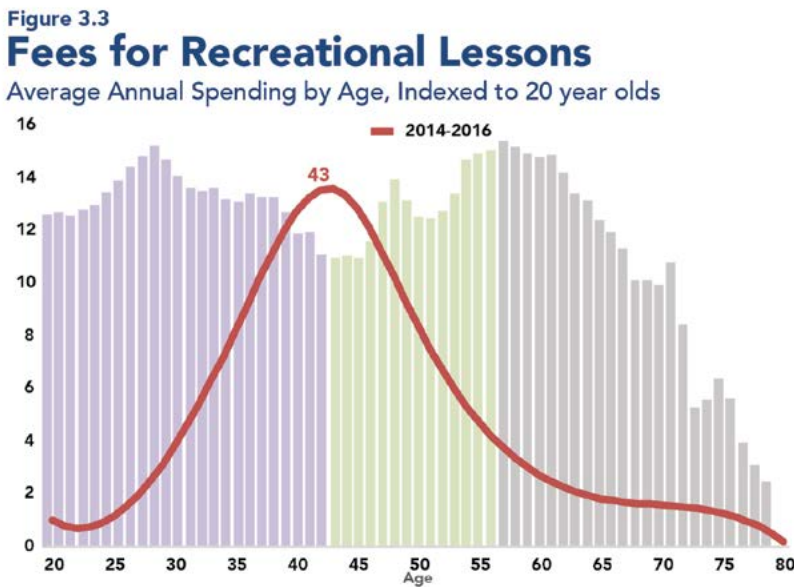


The story here is much the same. Demand peaks around age 39, and it isn't just because urban city slickers have started to crave the great outdoors (though adventure travel for active singles and couples in their 20s and 30s is certainly popular). Again, it's due mostly to children. When your son or daughter is 10 years old, it's the perfect time to take them camping. Or they may go without you with an organization such as the Boy Scouts or their local church youth group.

Focusing on the initial peak at 39, demographics don't look terrible, though I'm going to give the same caveats here that I did with bicycles: The data doesn't specify whether the camping equipment is bought for active adults or for their children. But, if you're in this business, and your buyers tend to be 30- and 40-something outdoorsmen, your demographic

profile is fantastic. You have years of solid demand from Millennials to look forward to. However, if you're primarily selling camping gear to parents, you may only have a few strong years left before demand gets lean. The children born in 2007 – the peak of last boom in births – are now 12 years old. In another few years, camping with dad will no longer be cool.

For a very pronounced demographic curve, look at Figure 3.3, which tracks fees for recreational lessons.



Source: Dent Research, Bureau of Labor Statistics

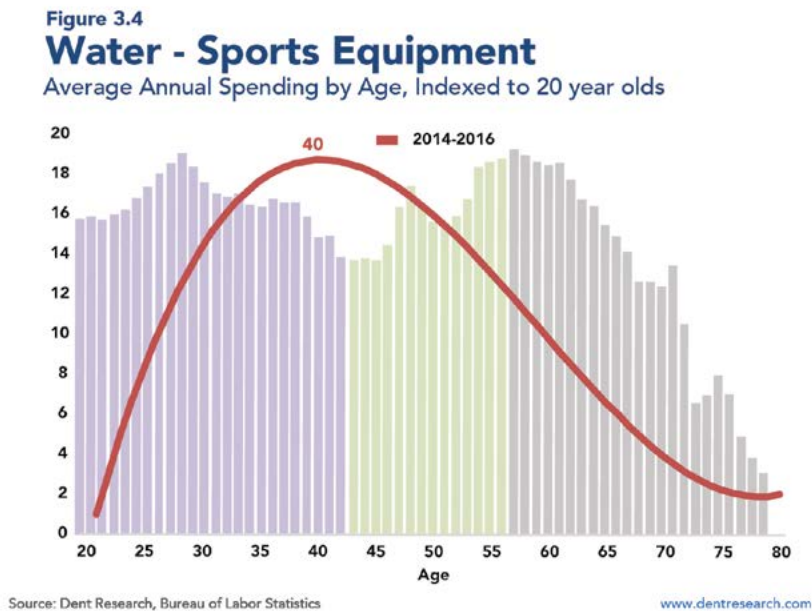
www.dentresearch.com

There is a huge bulge in the early 40s that peaks at age 43. Again, it's not that 40-something Americans suddenly yearn to learn a new sport. Aside from perhaps golf or skiing lessons, we're done paying for sports lessons long before we reach adulthood. Rather, these lessons are for our kids.

In the immediate future, the best opportunities here are in serving the large cohort of children that peaked in 2007. And the opportunities here are endless.

Parents, and particularly higher-income parents, are competitive and willing to pay for lessons for everything: ballet, basketball, guitar, ice skating... you name it. However, the window here is fairly tight. These kids are already 12 and by the time kids reach their teenage years, they've found a niche, be it the clarinet or competitive chess, and their interests get narrower.

Demand for water-sports equipment (Figure 3.4) tells a similar story, with demand peaking around age 40.

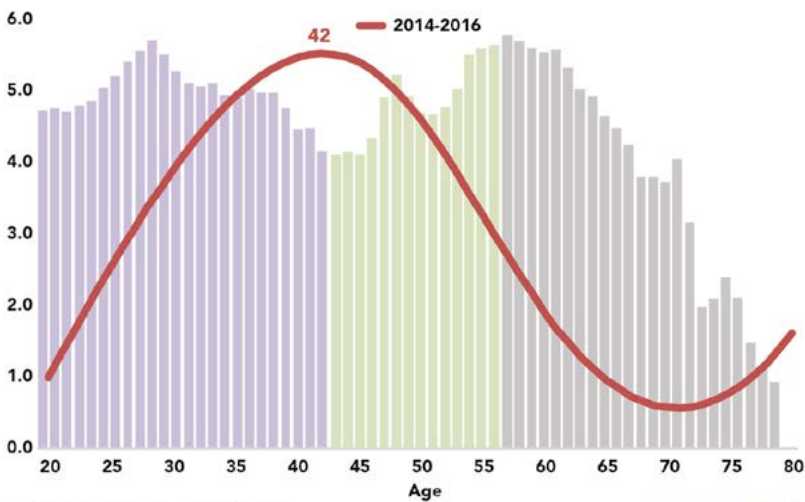


Again, it pays to know your market here. If you sell water sports equipment and your clientele tends to be active 30-somethings who like to waterski or go fishing, then demographic trends for you look great for the next decade. Demand rises sharply throughout the 20s and 30s, making this an ideal area to target the growing incomes of the Millennials. If you live near a popular lake or beach, this is an area of opportunity.

If your clientele tends to be mostly parents buying equipment for children, pay attention to the ages of the kids. If they tend to be 10 or younger, demand will likely start to slacken in the years ahead.

Winter-sports equipment (Figure 3.5) needs a little explaining.

Figure 3.5
Water - Sports Equipment
 Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

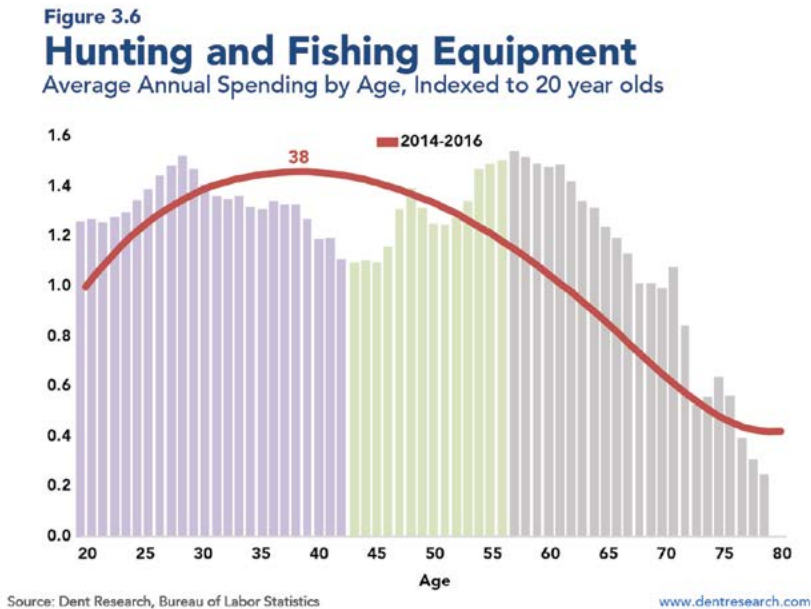
www.dentresearch.com

The curve looks “normal” until age 70, after which it shoots higher again. I don’t for a minute believe that there’s a large pool of 75-year olds investing in a new pair of skis at that age, though there are certainly the adventurous souls out there. I would chalk this up to idiosyncrasies in the data. Sometimes the data can be a little thin in the tails, and you get odd shapes like these.

The real takeaway here is that demand peaks in the early 40s, along with the rest of the sports and recreation categories we’ve covered. Overall, demand for winter sports equipment should be strong in the years ahead, but I must throw in a few caveats. Skiing is an expensive active vacation,

and a deep recession will likely sap demand. Furthermore, it pays to know your clientele. Millennial ski and snowboard enthusiasts will likely be solid customers for another decade and a half. But if your niche is selling ski equipment to parents of young children, you may need to reevaluate your business. The large cohort of children born in 2007 are 12 today. So, if teenagers are a good niche for you, business should be strong for years to come.

Hunting and fishing (Figure 3.6) are sports that exhibit less extreme age-based characteristics.

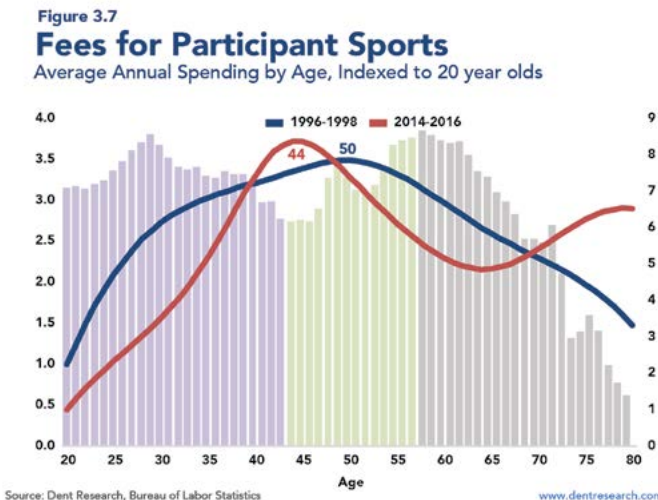


Demand peaks around age 38, but it's more of a gentle curve. Looking at the smoothed trend line, the takeaway is that the real drop-off in demand happens after the late 40s. This is somewhat counterintuitive, as hunting and fishing are generally considered to be pastimes of older men. But the data here is unambiguous. The people spending the most money in this area are those in their mid-30s to mid-40s.

This is good news for hunting and fishing suppliers! Assuming that Millennials show the same enthusiasm as the Baby Boomers and Generation X, demand should be strong here for a long time to come. One caveat is the regulatory environment. Gun sales tend to be strong during democratic presidential administrations as there's a sense of urgency. Fear of gun control encourages people to speed up firearm purchases. This was certainly the case during President Obama's administration. Under republican administrations, there is less of a sense of urgency, although, sadly, gun sales do tend to spike following high-profile shootings due, again, to fear of regulation to follow. Public opinion can be fickle here, and it isn't inconceivable that we see major new regulation at some point in the next decade. So, consider greater regulatory and legal costs as potential risks.

I don't see increased gun control having a major impact on gun sales for hunting or sporting purposes, per se. The impact, to the extent that there is one at all, will likely affect guns sold for self-defense or assault rifles.

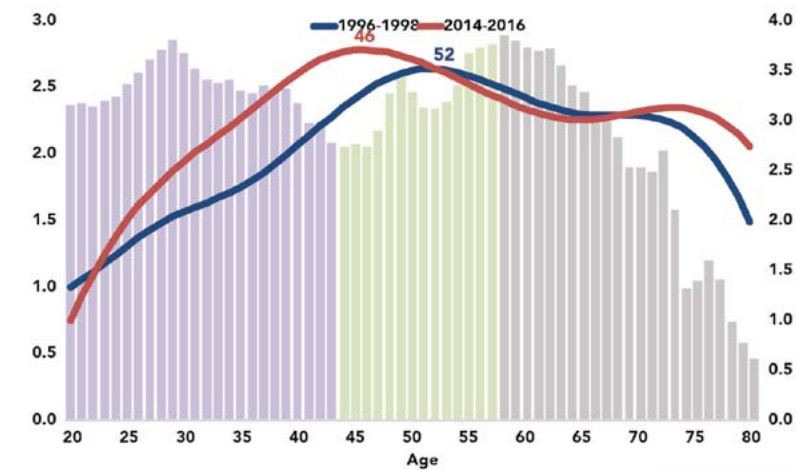
Fees for sports such as golf, tennis, and bowling (Figure 3.7) peak



around age 44, which, interestingly, is six years younger than during the late 1990s.

Membership fees for country clubs and other private-member clubs (Figure 3.8) peak around the same time, at age 46, also younger than during the 1990s.

Figure 3.8
Social, Recreation, Health Club Membership
Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

This is a welcome development. Sports and clubs geared towards a 50 and older clientele have very negative demographic trends in front of them. The Baby Boomers have already aged out of that stage of their lives, Generation X is far too small to replace them, and the Millennials won't be hitting those years for decades.

If sports and country clubs are successfully attracting younger people, then the future looks a bit more promising. That said, the next few years may be harder. Today's 44- to 46-year olds were born in 1972-1974, in the pits of the baby bust. Births didn't really start to trend higher again until

the late 1970s. So, if your business revolves around adult sports leagues or private clubs, you might want to modify your marketing efforts over the next few years to focus on a slightly younger clientele, possibly by adding discounted “Under 40” memberships.

If you operate in a sports and recreation business or are considering starting a business in this area, the key takeaway here is that your core customer is *not* a Baby Boomer. You’re looking at cutting your teeth in selling to Generation X with a goal of expanding your sales to the up-and-coming Millennials.

Media

Media is a business area in a state of flux, and this was true long before “fake news” became a fixture in our country’s political dialogue. The internet and communications revolution has turned all media-related industries upside down.

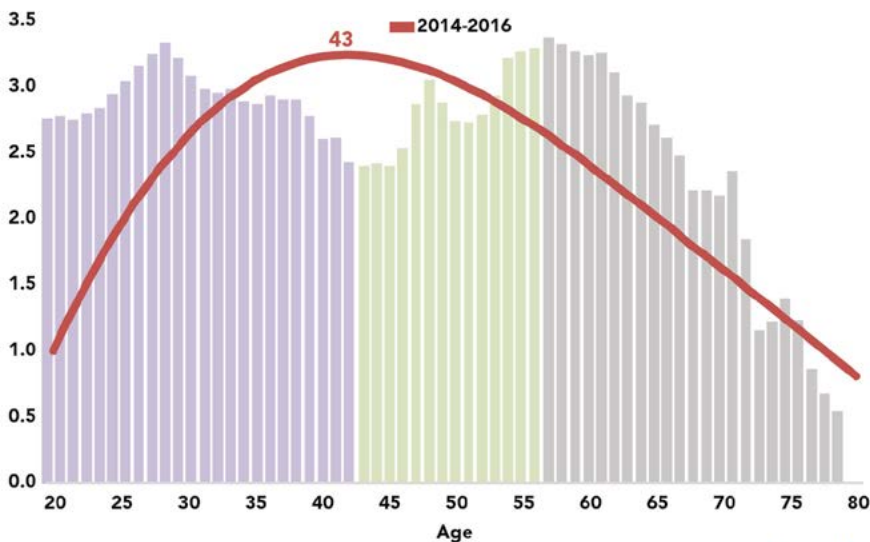
Until 2001, there was no such thing as an iPod, and until 2007 there was no such thing as an iPhone. 2007 was also the year Amazon released its Kindle, making electronic books a mainstream product for the first time.

2007 was really a pivotal year for media. It seems like forever ago, but prior to 2007, Netflix wasn’t a streaming video company. It mailed DVDs to subscribers. But starting in 2007, Netflix started to push its new streaming video service, and the rest is history. Up until Netflix made it mainstream, the idea of streaming video content over the internet would have been laughable to anyone other than a starving college student. Now,

“cord cutting,” or cancelling traditional paid TV service and relying on cheaper streaming services is mainstream... arguably even trendy.

So, media consumption is an area where technological changes will trump demographic trends. It’s also an area in which things are changing so fast that historical demographic analysis is dated by the time it’s produced. It really doesn’t matter when the peak spending age for compact discs is (Figure 4.1) because the compact disc as a media format is quickly becoming obsolete.

Figure 4.1
Compact Discs (CDs)
 Average Annual Spending by Age, Indexed to 20 year olds



In fact, looking at Figure 4.1 will cause you to draw the **wrong** conclusion. While historically young people have been the largest consumers of music, this chart would suggest that 43-year olds are the largest buyers. Yet, common sense would tell you that teenagers and 20-somethings dominate music sales, and today most of what they listen

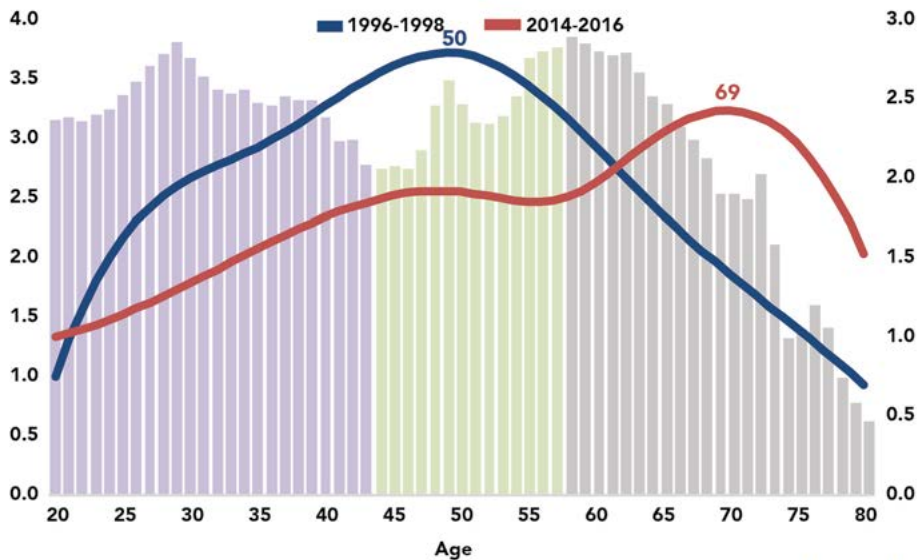
to, they stream online. It doesn't do us much good to know about peak CD sales because the profit model itself is shot. Yes, there are niche businesses that sell vintage vinyl records and the like, but you're swimming against the tide of history if you think you're going to make money selling music on physical media.

Books are another area undergoing a major upheaval.

Figure 4.2

Books (Not Through Clubs)

Average Annual Spending by Age, Indexed to 20 year olds



Amazon made electronic books economically viable, and today it's simple to instantly download a book to your smartphone or tablet. The idea of going to a bookstore to see if a certain title is in stock seems quaint.

It's telling to see how buying patterns here have shifted. In the 1996-1998 period, book sales peaked at age 50. The more recent data (2014-2016) puts the peak age at 69. Are today's 50-year olds reading less and today's 69-year olds reading more? Well, I suppose that's possible. But the

far more sensible explanation is that older consumers prefer a traditional book whereas young and middle-aged readers are more comfortable reading on their phones or tablets.

Unless you own a specialty bookstore or web site that trades in antiques or some area of the book market that the big retailers are not serving, don't even consider books as a business. You would be putting yourself in direct competition with Amazon and Apple, and that isn't a battle you can win. Amazon has crushed every industry it has touched, and it's not realistic to think that you're going to be the exception.

There are other interesting trends in this space. The internet has reduced the need for the traditional publishing apparatus altogether. Using print-on-demand publishing, which reduces the need for a large print inventory, or publishing as an e-book allows up-and-coming authors to skip the middleman and sell directly to their readers. And user-generated reviews (think Amazon product reviews) reduce the need for expensive marketing. They are also more authentic. We know when we're being spun an advertising spiel. But reading an endorsement from an actual paying customer is a very different experience.

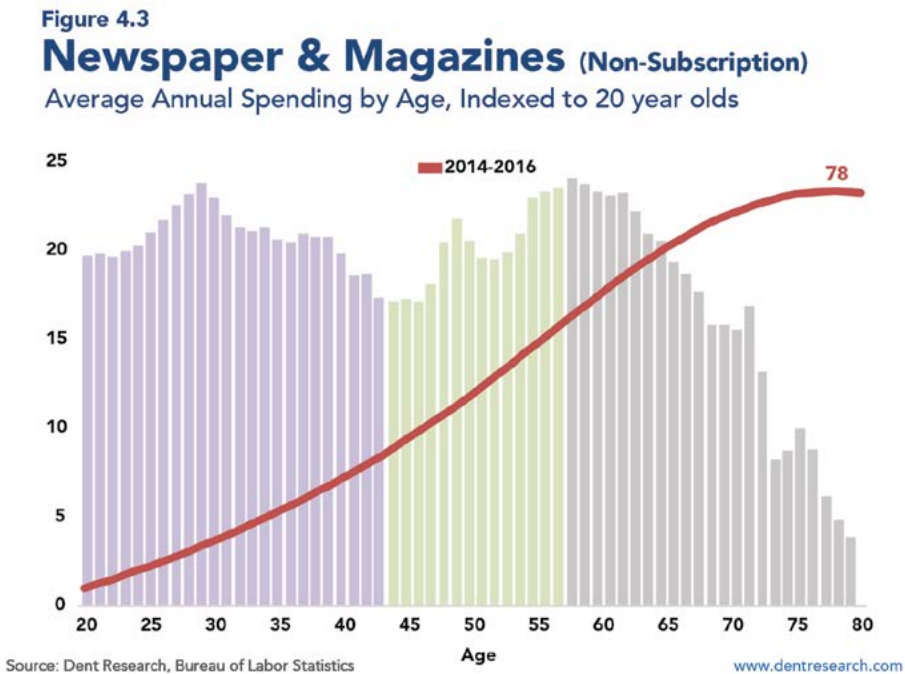
This revolution in the publishing industry has cut out expensive middlemen and empowered authors, turning them into entrepreneurs. This is a good thing. But it's leaving a burnt-out shell where the traditional publishing industry used to be.

If you work in the traditional publishing business, it may be time to pursue other options. A good editor can work as a freelancer for newly independent authors, and there will likely always be demand for marketing

consultants, agents, and other middlemen that can help authors reach their goals. But you will be fighting for those jobs with the legions of unemployed editors from the large publishing houses that will continue to downsize in the years ahead.

Frankly, this is a terrible business to be in. If this is your chosen career, do it for the love of reading or for the satisfaction you get from it. The economics are rough.

The same is true of newspapers and magazines purchased off the rack (Figure 4.3).



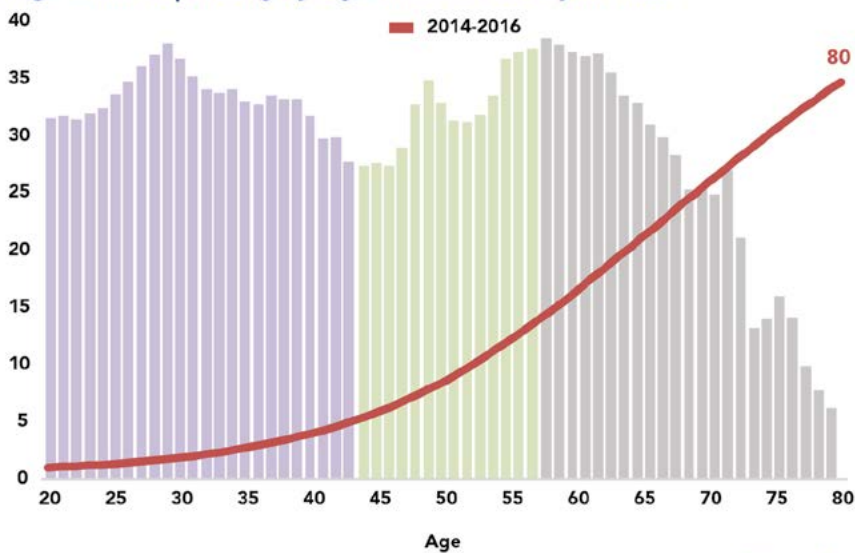
This is an expense that traditionally dropped off after the age of 50. But widespread use of smartphones and tablet computers has absolutely gutted the business, and today the peak buyer is pushing 80 years old.

Think about it. Travelers would typically buy a magazine at the train station, airport, or perhaps at the supermarket as something to read to pass the time while waiting. Smartphones and tablets have absolutely killed the need for these kinds of purchases. Magazine subscriptions and newspaper subscriptions (Figure 4.4) are products that historically had peak demand much later in life than most, rising through age 80.

Figure 4.4

Newspaper & Magazines (Subscription)

Average Annual Spending by Age, Indexed to 20 year olds



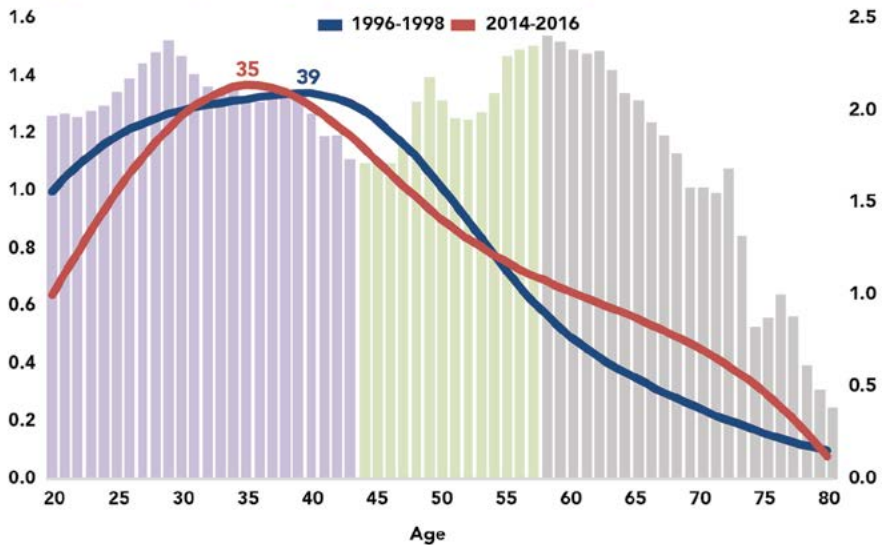
Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

But does this mean that aging Baby Boomers will provide a reprieve to these ailing industries? Not likely. Older people consume more of their media via traditional print, but the Boomers have been consuming digital media for years. They're getting more of their content online, and this will only continue to increase. It's hard to imagine a 60-year old Boomer ditching their iPad and replacing it with a paper magazine in another 10 or 20 years. So, while *today's* older consumers consume traditional print media, it's doubtful whether *tomorrow's* older consumers will.

Let's also take a quick look at movie rentals (Figure 4.5).

Figure 4.5
Movie Rental (Physical Discs)
 Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Demand for movie rentals peaks at age 39 and then drops off quickly thereafter. But frankly, I'm surprised the government still tracks this. Blockbuster Video went out of business in 2010. You still see Redbox kiosks in front of grocery stores, but that company has been struggling financially as customers continue to migrate to streaming rentals.

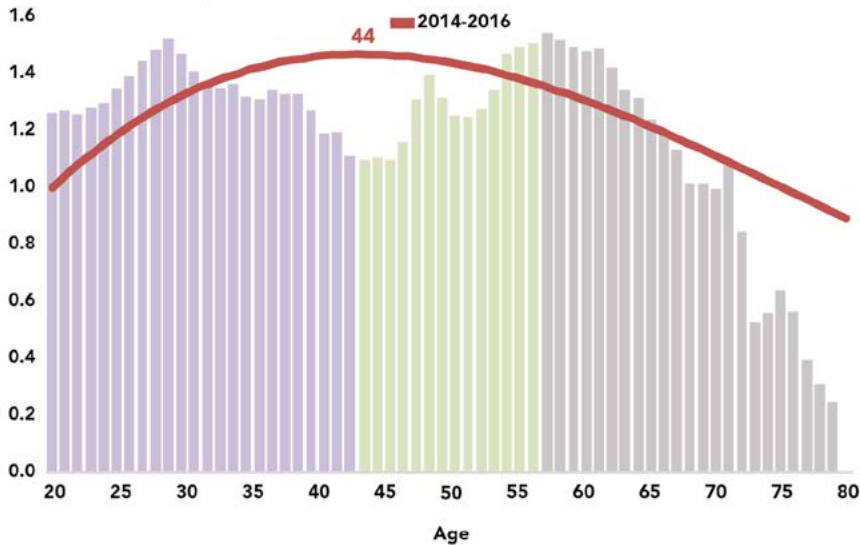
In short, this is a terrible business to be in on multiple fronts. Technical obsolescence is most obvious, but even if this could somehow be halted, demographic trends here aren't favorable. Age based demand goes essentially sideways for the next decade before dropping off a cliff.

To make money in this space, you'd really need to reinvent the experience the same way that high-end movie theaters have. Many now offer movie-themed alcoholic cocktails, and going to the theater is an

Figure 4.6

Video Players

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

“experience” rather than just a “movie.”

Video players peak in spending around age 44.

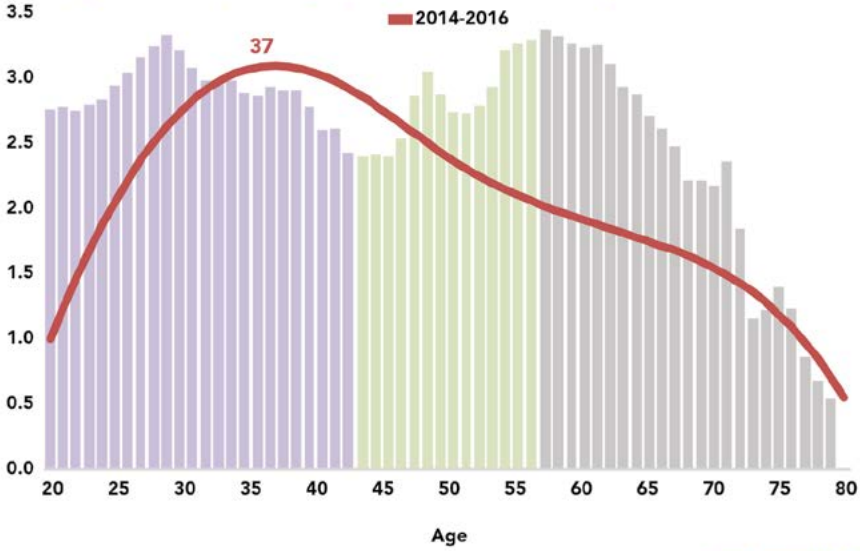
While DVD and Blu-ray players are formats in decline, might there be opportunities in video players that stream video content? Maybe, but the players here (Apple TV, Roku, Amazon Fire Stick, etc.) are already well established and compete with the built-in smart-TV interfaces that come with most higher-end TVs today.

Video disc sales (as opposed to rentals) peak at age 37, suggesting some opportunities from aging Millennials over the next decade.

But again, physical media isn't likely to make much of a comeback and tomorrow's 37-year olds are a lot more likely to stream their content. Speaking of that, I find the video streaming chart (Figure 4.8) interesting.

Figure 4.7 Video Discs

Average Annual Spending by Age, Indexed to 20 year olds

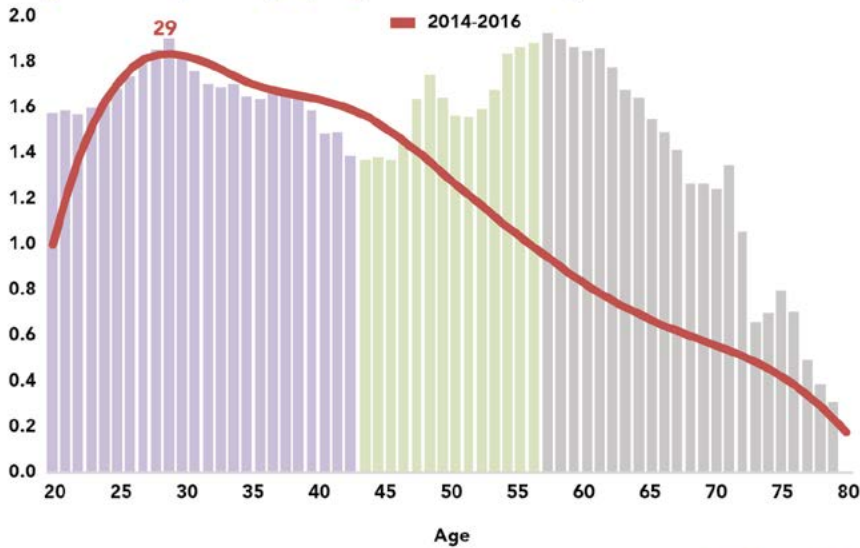


Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 4.8 Video Streaming

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

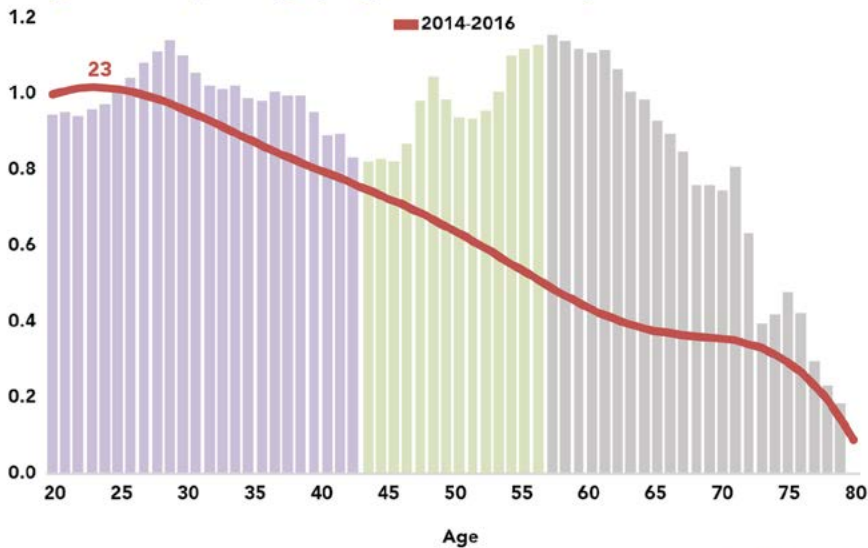
As of the 2014-2016 period, the government statistics show streaming demand peaking at age 29, suggesting that it's peaking today as the Millennials hit that milestone. But this is likely a case of younger, more tech savvy people being the early adopters.

As streaming goes more and more mainstream, we're likely to see this peak age move higher.

Figure 4.9

Audio Streaming

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

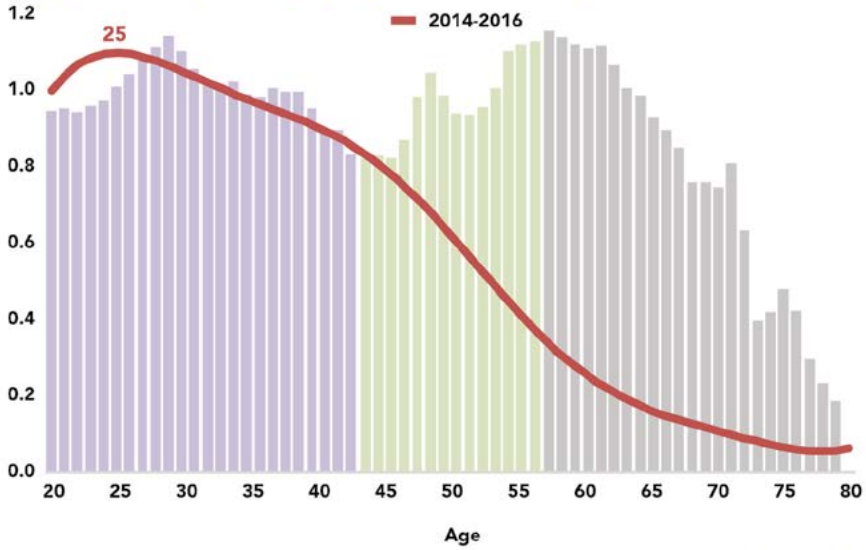
Likewise, Figure 4.9 shows audio streaming peaking at age 23.

While it's true that young people consume a lot of music, it's also true that younger consumers, who are more current on new technology trends, are quicker to adopt streaming services like Spotify. We're likely to see the peak age trend higher in this category in the years ahead as well.

Figure 4.10

Video Game Hardware & Accessories

Average Annual Spending by Age, Indexed to 20 year olds



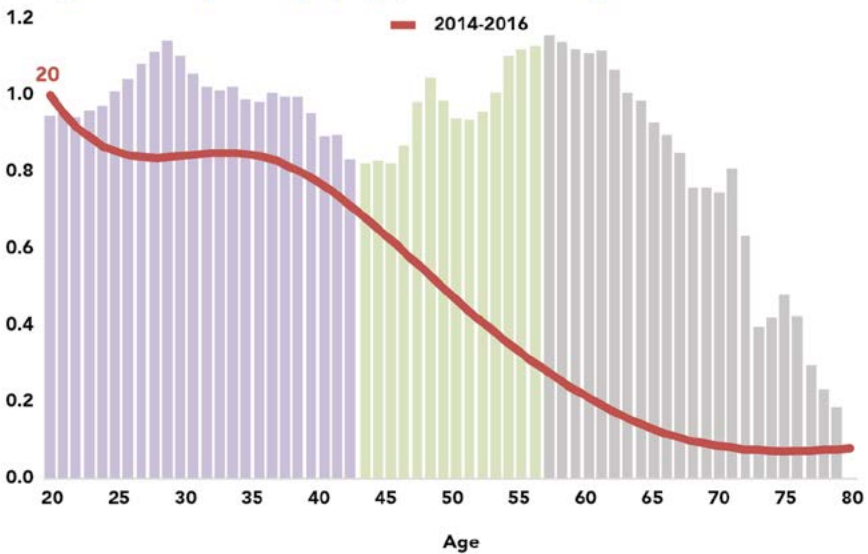
Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 4.11

Video Game Software

Average Annual Spending by Age, Indexed to 20 year olds



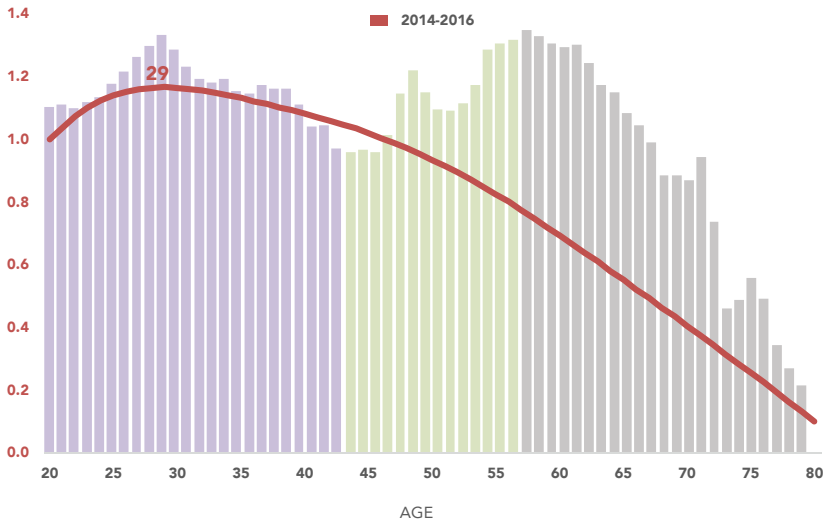
Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 4.12

Online Gaming Services

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

It's not particularly surprising to see video game hardware and software peaking at ages 25 and 20, respectively.

While it has become more acceptable for middle-aged men and women to play videogames, it's still mostly a hobby for the young. Online gaming services peak a little later, at age 29, suggesting the Millennials have already hit "peak game."

But given the global nature of these products, our traditional demographic analysis may not be as accurate here. Weakness in the American market could be offset by strength overseas.

I've painted a rather bleak picture of media industries, and I hope you take my warnings seriously. It's generally a mistake to stake your future on a highly competitive industry that also happens to be in a major state of flux. If you're a tech savvy entrepreneur, then it's entirely possible that you

create that next big app that spawns an entirely new need (think of ride hailing app Uber, for example). But if you're a non-technical entrepreneur, it's best to avoid media businesses for now.

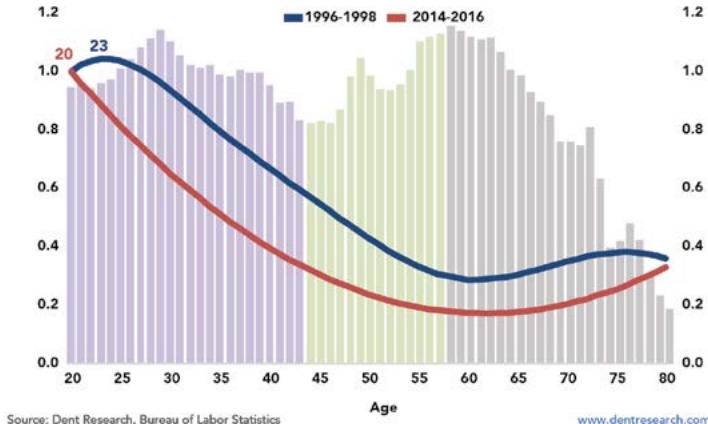
Furniture and Appliances

Furniture and appliances fall into a special category of expenses along with autos and real estate in that they're often financed. This means that macro forces, such as interest rates and ease of credit, effect sales. Demand in this category is also tied to real estate in that the purchase of a new house often spurs a spending spree on items to fill it up. So, while demographic forces directly affect furniture and appliances, it's also important to account for the other knock-on effects.

Let's starting by looking at furniture rental (Figure 5.1).

Perhaps not too surprisingly, furniture rental is generally for young people. Demand peaks around age 20 and continues in a downward slope until it bottoms out around age 60. With the largest cohort of the Millennials now pushing 30, I don't expect furniture rental to be a growth

Figure 5.1
Furniture Rental
 Average Annual Spending by Age, Indexed to 20 year olds

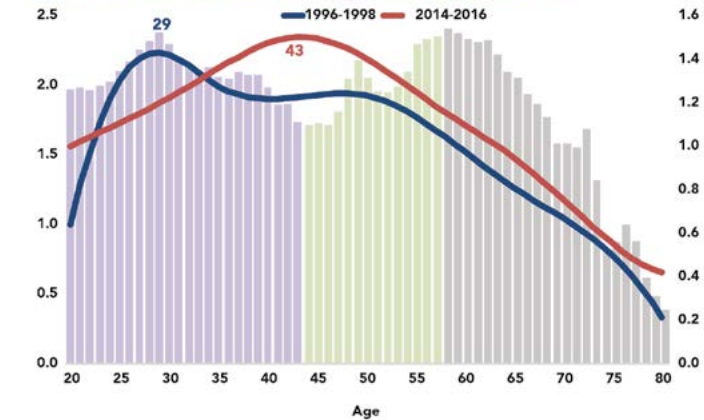


Source: Dent Research, Bureau of Labor Statistics www.dentresearch.com

business for the next several years. I'd lump it in with other college-era expenditures (see Chapter 1). That said, in another five years this could be a very strong business, as Generation Z will be approaching peak furniture rental. Remember, your clientele of tomorrow will be the 11- and 12-year olds of today.

Moving on to more significant household items, look at sofas, living room chairs, and living room tables (Figures 5.2 and 5.3).

Figure 5.2
Sofas
 Average Annual Spending by Age, Indexed to 20 year olds

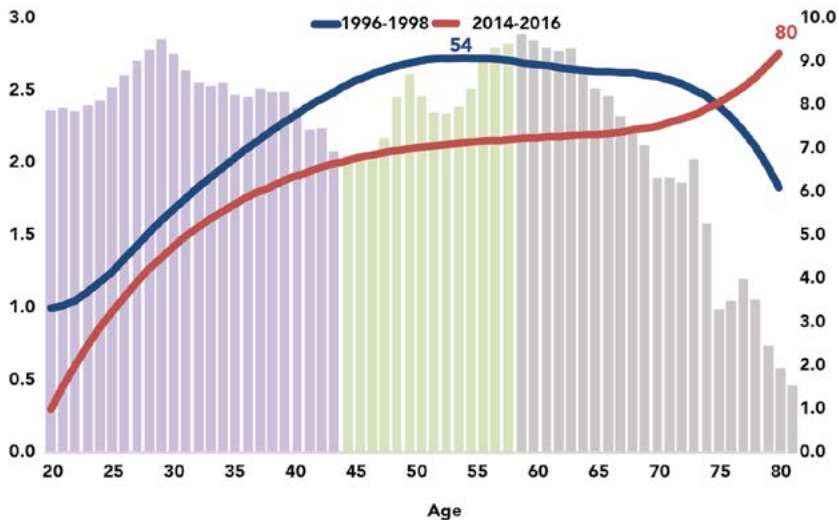


Source: Dent Research, Bureau of Labor Statistics www.dentresearch.com

Figure 5.3

Living Room Chairs

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

You may naturally think that both would have similar demand characteristics and that they are bought at the same time, but this isn't the case at all. Sofa buying peaks at around age 43 and then steadily declines from there. Livingroom chair demand soars higher throughout the 20s and 30s before leveling off in the mid-40s. It then trends slightly higher into the mid-60s. Note that the spike you see into age 80 is likely a data quirk due to it being somewhat thin in the tails.

Why the difference in buying patterns? I surmise that as people age and spend more time in their homes, they want to be comfortable, and a La-Z-Boy recliner is more comfortable for quiet nights at home enjoying a movie. And they offer better back support, which is going to be attractive to a person in late middle age or their golden years, especially relative to a person in their 20s or 30s.

The demographic forecast for living room furniture is mixed. We should continue to see strong demand from Millennials for both sofas and chairs over the next decade as this large generation settles down into its family formation years. Meanwhile, demand for chairs should continue to be strong from aging Baby Boomers as well.

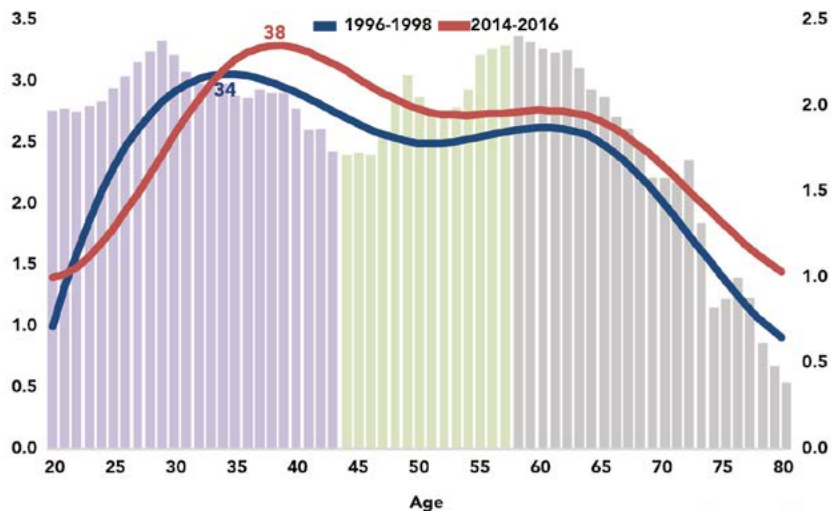
If you're in the home-furnishings business, it pays to know your customer here. While your typical 30-something Millennial is likely furnishing their first home from scratch and thus needs *everything*, a Boomer is less likely to be looking for an entire set. They're far more likely to buy a new chair that offers better lumbar support and overall comfort.

Moving out of the living room, we see that demand for mattresses and springs (Figure 5.4) makes intuitive sense.

Figure 5.4

Mattresses & Springs

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

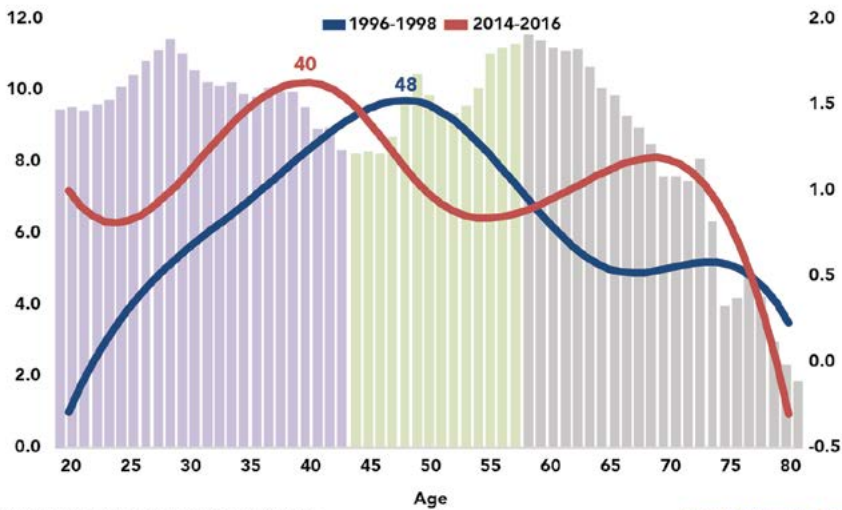
There is a surge in demand leading into the late 30s, after which it drops and then levels off. It makes sense that a young couple moving into their first home in their early 30s would want to upgrade to a nicer bed a few years later.

Spending remains strong well into the 60s and even makes a modest secondary peak around age 65 before dropping off again. At risk of being crass, this boils down to sex. The mattress market is *not* uniform. While overall spending is highest among young couples in their baby-making years, consumers in their 50s and 60s are noteworthy buyers as well. They buy a different type of product, however. Several years ago, *Barron's Magazine* ran a story titled "Sex or Sleep" in which it outlined the economics of memory foam mattresses such as those made by Tempur-Pedic. Memory foam mattresses tend to be unpopular with younger couples because they... ahem... sink into them while in the act. But for the Baby Boomer buyers of Tempur-Pedic mattresses, seeking relief for their aching backs, sex is apparently something they're willing to sacrifice for a good night's sleep. In any event, mattresses should be a good business in the years ahead.

Family formation by the Echo Boomers should lead a broad-based rally, whereas Baby Boomer trade-up buying should continue to be strong for another several years. Again, any new shocks to the housing market or economy will hurt bed sales. When money is tight, buying a luxurious new bed isn't a high priority. But as far as the furniture market goes, mattresses aren't a bad product area for the years ahead.

Office furniture for home use (Figure 5.5) also has a good outlook.

Figure 5.5
Office Furniture for Home Use
 Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Demand peaks at age 40, implying we have another decade of growing demand from Millennials. But there's also a secondary peak in the very late 60s, implying that the Baby Boomers are still a viable market here as they retire from full-time work but still pursue part-time consulting or simply like a workstation at home for personal use.

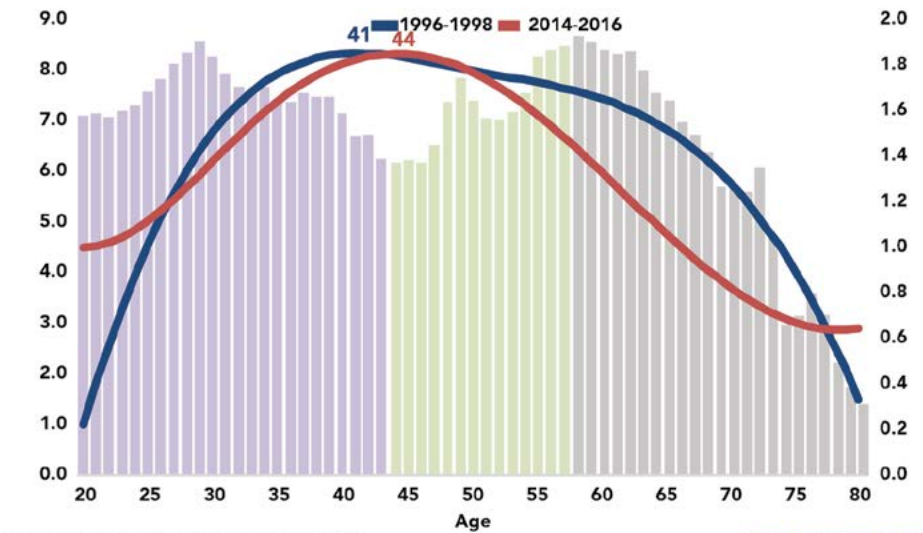
Notice how this spending wave has shifted between the two data sets. This could be due to a rising trend of younger workers, primarily in technology and creative fields, working from home rather than commuting to a traditional office.

Before you run out and open an office supply store though, consider that it's actual offices that drive overall demand for office furniture. The Millennials have already entered the workforce, and the Baby Boomers are starting to leave. It's hard to see demand for office furniture rising much from here.

If you *do* pursue opportunities in office furniture, focus on the home-use market, as the demographic trends are much stronger here and less economically sensitive. Also, don't rule out playing this from a services angle. A lot of office furniture must be assembled, which can be challenging, particularly for older people. A service that employs high school or college kids to assemble office furniture would be a scalable business with little overhead.

Moving out of the office and into the kitchen, the outlook for kitchen and dining room furniture looks strong for the next decade and a half (Figure 5.6).

Figure 5.6
Kitchen & Dining Room Furniture
 Average Annual Spending by Age, Indexed to 20 year olds



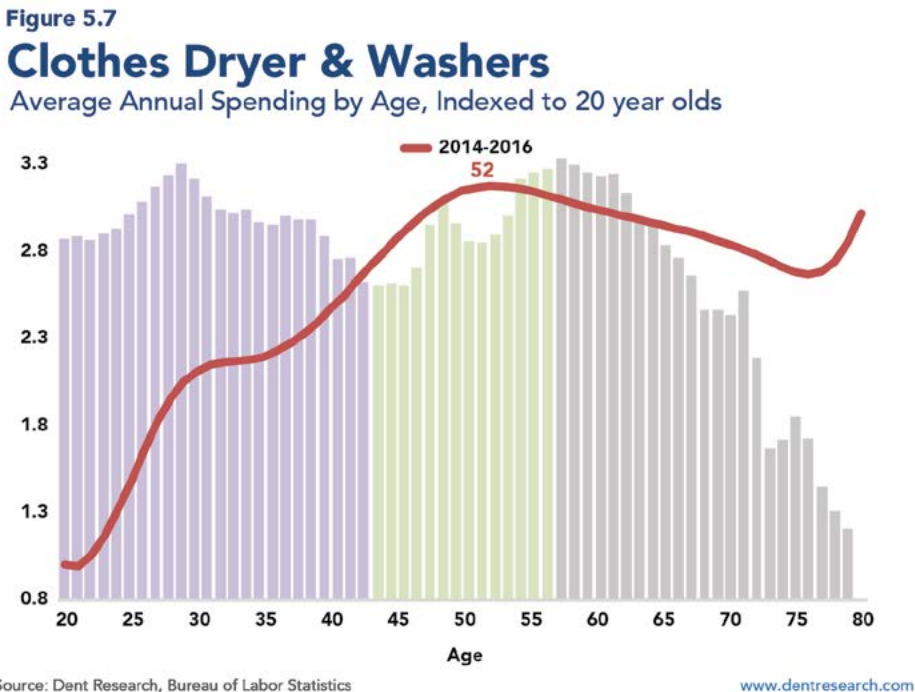
Demand rises sharply into the late 30s and has a peak around age 44, meaning today's Millennials in their late 20s and early 30s have a lot of buying left to do. Also, don't worry about a major drop-off from the Baby

Boomers. The Baby Boomers peaked in their spending on this product area well over a decade ago, and the damage to demand from their aging is already long since done.

So, if you own a furniture store or are considering making an investment in the industry, it makes sense to orient your inventory to the tastes and preferences of the Millennials. For the next 15 to 20 years, they are going to be your primary clientele.

Moving onto appliances.

Clothes dryers and washers (Figure 5.7) have a demand curve that peaks surprisingly late, at age 52.



Cooking stoves, refrigerators, and small electrical kitchen appliances (Figures 5.8, 5.9, and 5.10) all have surprisingly late peak spending ages as well.

Figure 5.8
Cooking Stoves & Ovens
 Average Annual Spending by Age, Indexed to 20 year olds

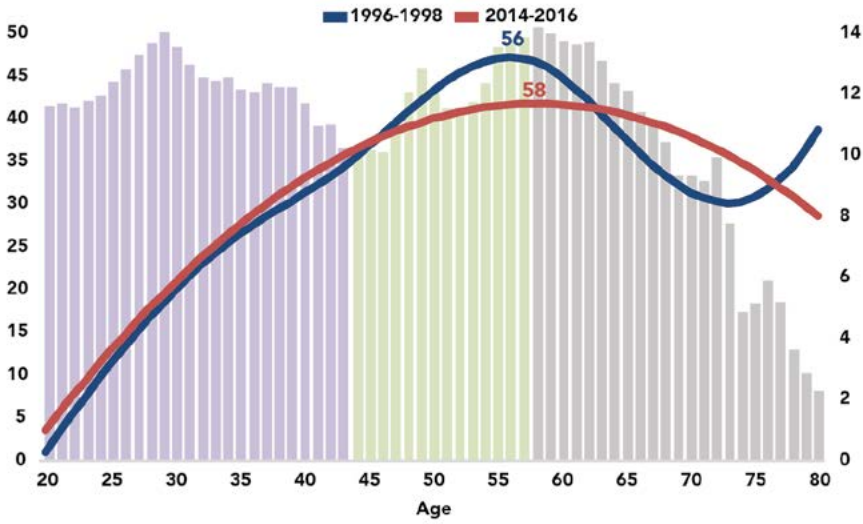
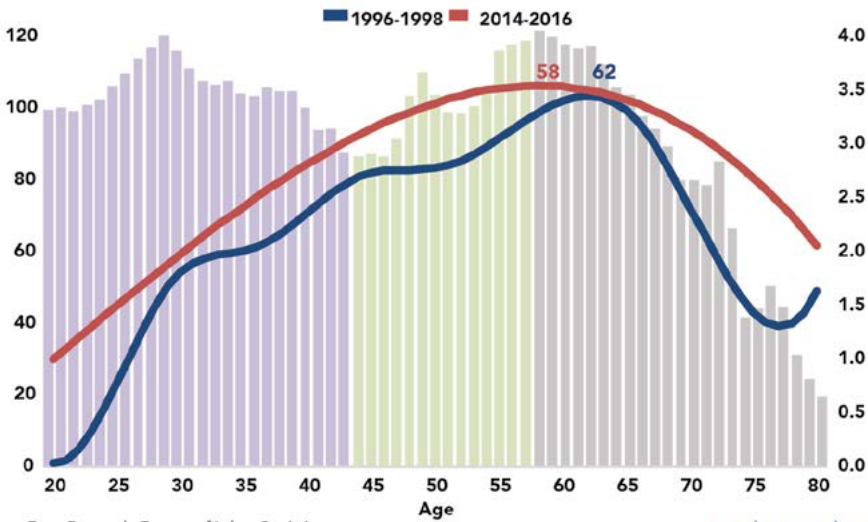


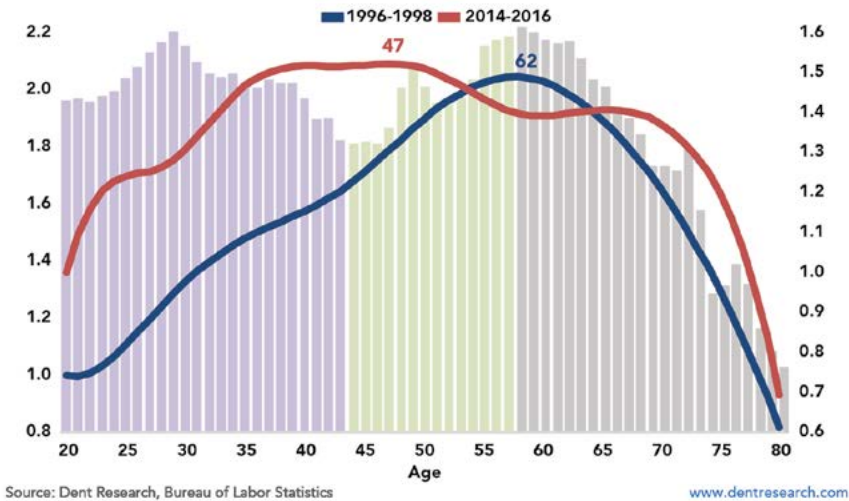
Figure 5.9
Refrigerators & Freezers
 Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 5.10
Small Electrical Kitchen Appliances
 Average Annual Spending by Age, Indexed to 20 year olds



Ovens peak around 58 and refrigerator spending doesn't peak until the age of 62. Although this seems like a strangely late peak, it does roughly coincide to ages where home improvements and renovations are strong. This implies a mixed bag for appliances.

The Baby Boomers who have been driving this late peak spending are now mostly done. The Millennials are the new target market here, and their spending should trend higher for another 20 to 30 years. But their spending won't be replacing that of the Baby Boomers any time soon. Millennials are getting married and buying homes later in life, which is likely slowing down their purchases of high-end appliances. So, we could see the shape of this curve change slightly in the years to come. Still, the overall trends suggest that appliances will have significant demographic tailwinds for several years to come.

The advent of “smart appliances” connected to your home’s Wi-Fi network creates interesting opportunities. Younger consumers are more comfortable with technology and with sharing personal information over the internet, so internet-enabled appliances should continue to be an area of high growth in the years to come. Imagine being able to preheat your oven or to start a hot bath remotely from your smartphone. The possibilities here are endless for forward-thinking entrepreneurs.

I have no specific recommendations as to which jobs or investment opportunities to pursue in this area, but I would encourage you to brainstorm ways that you can profit from one of the major consumer trends of the coming decade: the networking of the American house and its appliances. If nothing else, network monitoring could be a profitable service business with regular, annuity-like income.

Let’s look now at smaller household items.

Home Goods

The products in this section are far less dependent on credit than furniture and appliances. They also tend to be relatively inexpensive. This makes them less susceptible to macro forces and to the broader state of the economy. New home sales (or a lack thereof) will influence demand, but demographic trends should dominate.

For many items in this category, the demographic picture isn't good. Let's start with demand for bathroom and kitchen linens (Figures 6.1 and 6.2).

Demand for bathroom linens has a rounded top from around age 48, while kitchen and dining linens has a rounded peak around age 54, again a part of the home improvement trends after the kids leave the nest.

The demand patterns here are interesting and not particularly intuitive.

Figure 6.1
Bathroom Linens

Average Annual Spending by Age, Indexed to 20 year olds

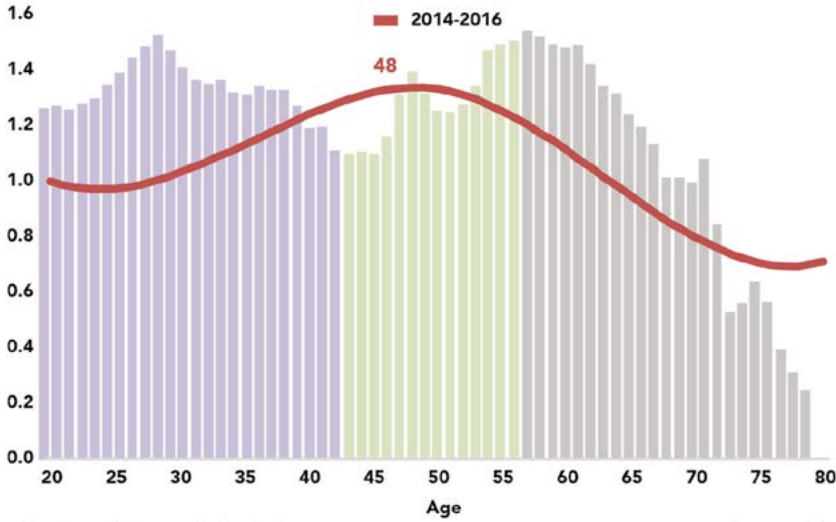
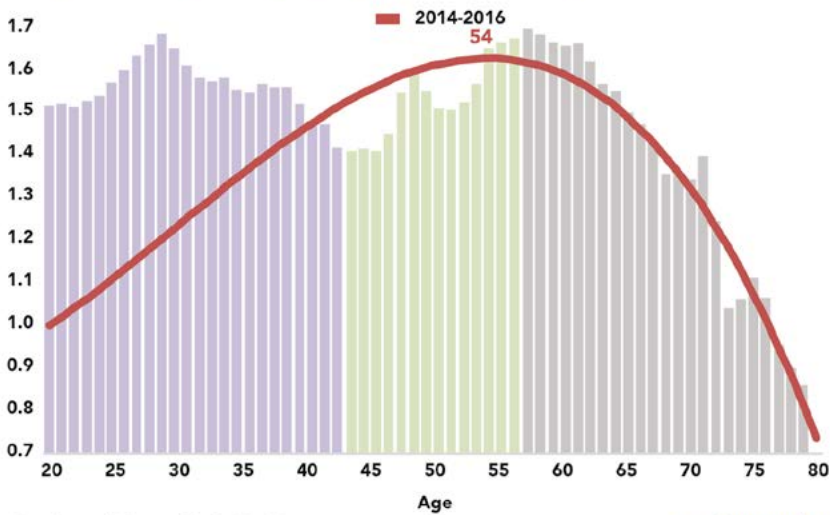


Figure 6.2
Kitchen, Dining Room, & Other Linens

Average Annual Spending by Age, Indexed to 20 year olds

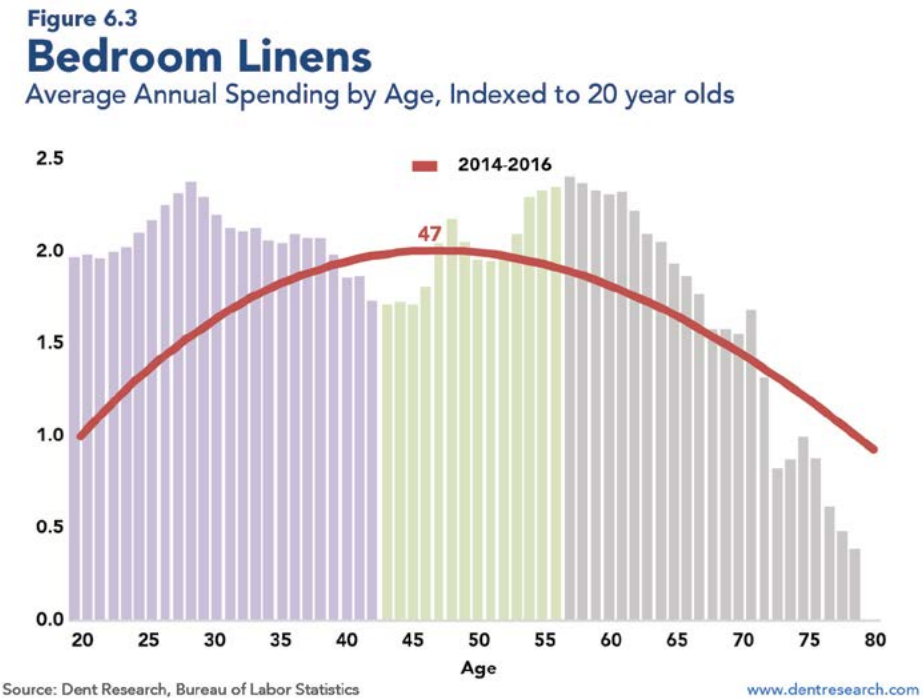


Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

You might think that bathroom and kitchen linens would peak around the age of first marriage, in the late 20s, or at the age of first home purchase, but the data here is unambiguous. Spending on items such as towels and tablecloths rises well into the late 40s and 50s. Call it the “Martha Stewart Living Wave,” if you will, but the point here is obvious. With the Baby Boomers having already peaked in their spending, this isn’t a good time to get started in the business of selling bathroom and kitchen linens. Demand here may have seen its peak for the foreseeable future. Eventually, the Millennials will be big spenders here, but that time is nearly two decades away.

We see a similar pattern in bedroom linens (Figure 6.3).



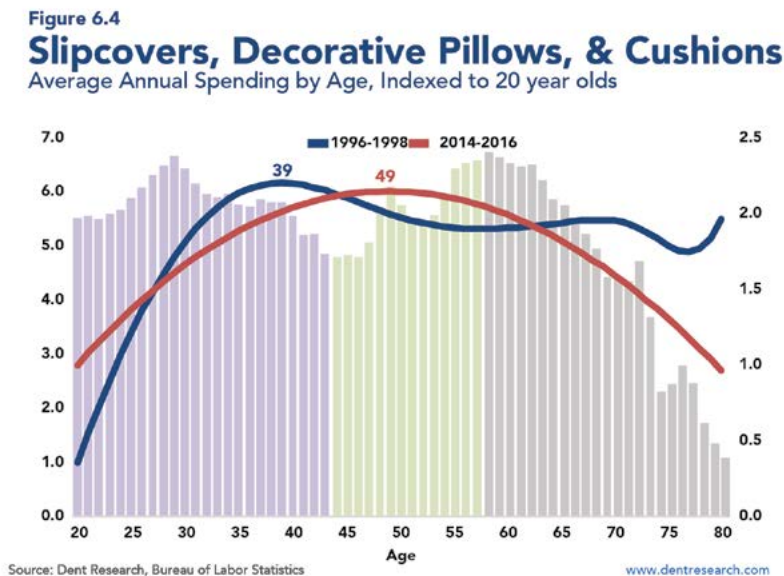
Demand for sheets and blankets rises sharply in the 20s, as young people

move out of their parents' homes and student housing and into their own dwellings. Interestingly, the rate of growth slows markedly around age 30. Yet it continues to grow into age 47 with a gentle decline thereafter.

Some of this is a matter of quality over quantity. A 50-year-old consumer will generally have a higher income than a 30-year-old consumer, all else being equal, and will be willing and able to spend more on a set of sheets. The older we get, the more we value a good night's sleep. And once your kids leave the nest, you have extra income to spend on a linen upgrade. And, after having rowdy kids and teenagers destroying your house, it's nice to buy new things once they've moved out.

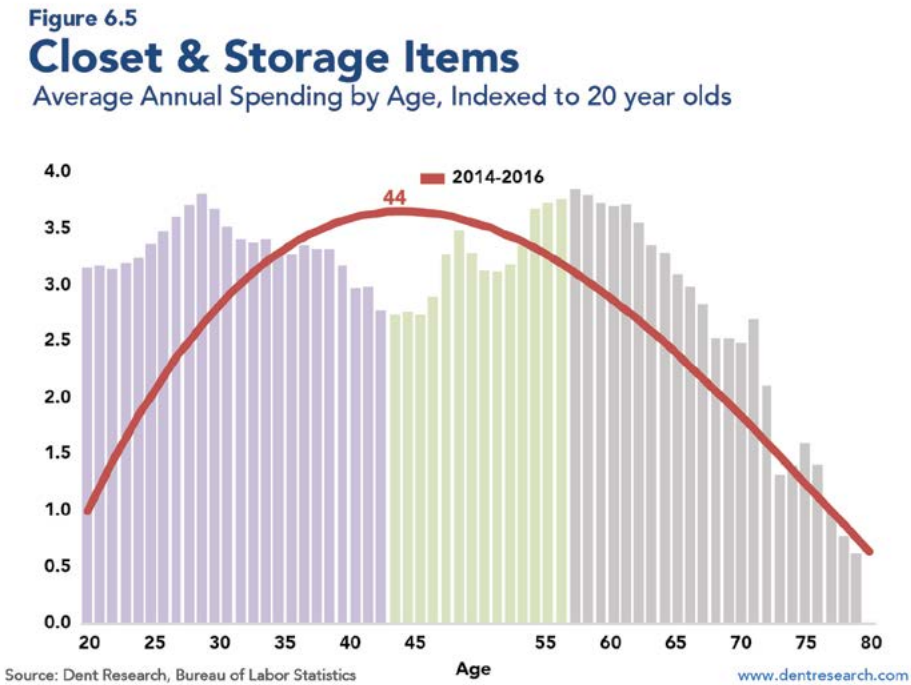
Still, the takeaway is the same: with the Boomers now in retreat in this sector, this isn't a good time to be selling bed linens, or at least not high-end bed linens.

Demand for the assorted cushions and decorative pillows that might go on a bed (Figure 6.4) have a similar demand profile.



Even so, there isn't much of an investable theme here. Overall, demographic trends don't favor bedroom linens.

The demographic profile of closet and storage items (Figure 6.5) is a little different.



Demand peaks around age 44. Demand rises very strongly between the late 20s and mid-40s, so the Millennials will be a very dependable source of demand here for the next 14 years. And any improvement in the housing and job markets should allow for more mobile workers who relocate more often and have greater needs for items such as closet organizers. The key is looking for items that benefit from the family formation of the Millennials.

Figure 6.6

Curtains & Drapes

Average Annual Spending by Age, Indexed to 20 year olds

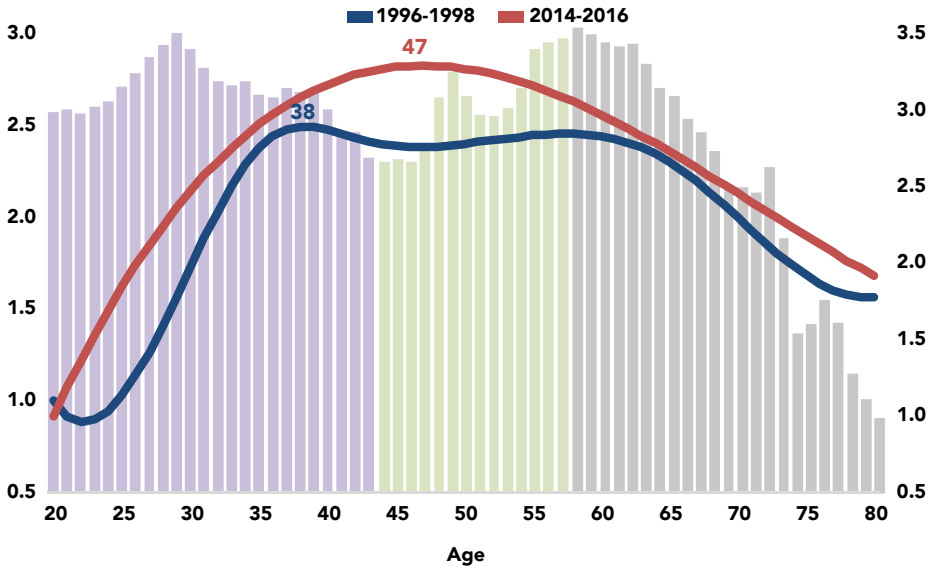
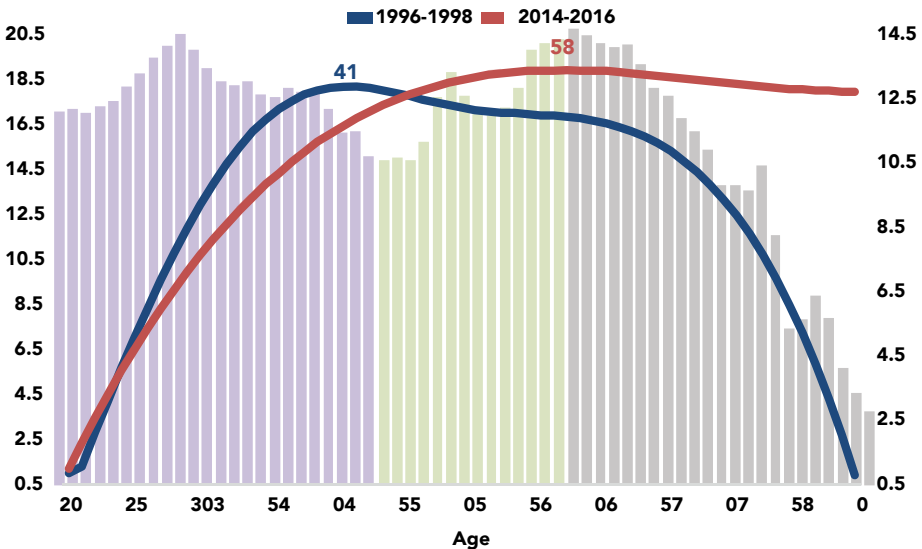


Figure 6.7

Window Coverings (Blinds & Shades)

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Demand for curtains and drapes (Figure 6.6) peaks around the age of 47, putting them in something of a demographic no-man's land.

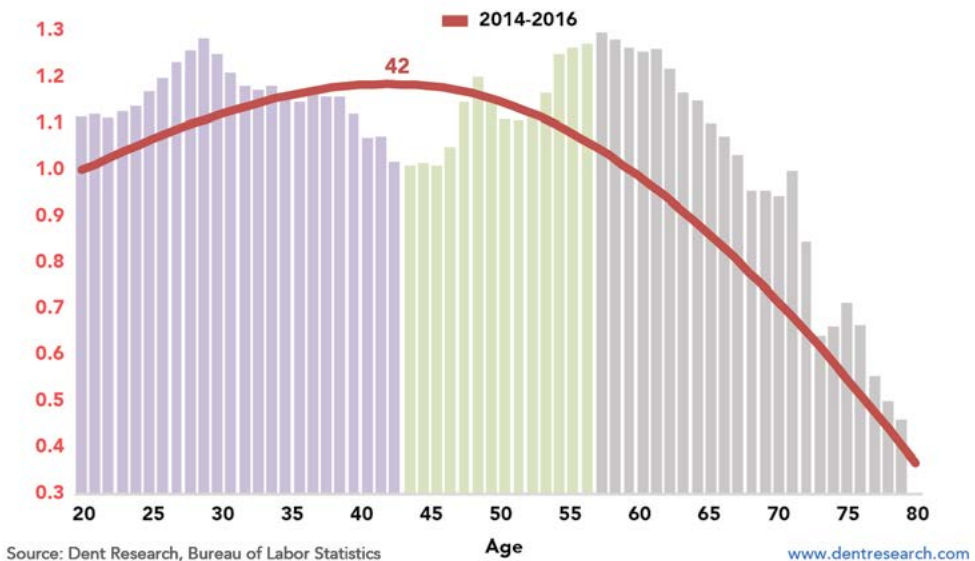
The Boomers are done buying, but the Millennials haven't really started yet.

The demand patterns for blinds and shades (Figure 6.7) is a little different...

Demand starts to level off in the mid-40s and then goes mostly sideways after that. This suggests that growth will be modest over the next decade due to demographic trends, but there shouldn't be a major drop-off.

The demographic trends for glassware, dinnerware, and china (Figure 6.8) look fantastic.

Figure 6.8
Glassware, Dinnerware, & China
Average Annual Spending by Age, Indexed to 20 year olds



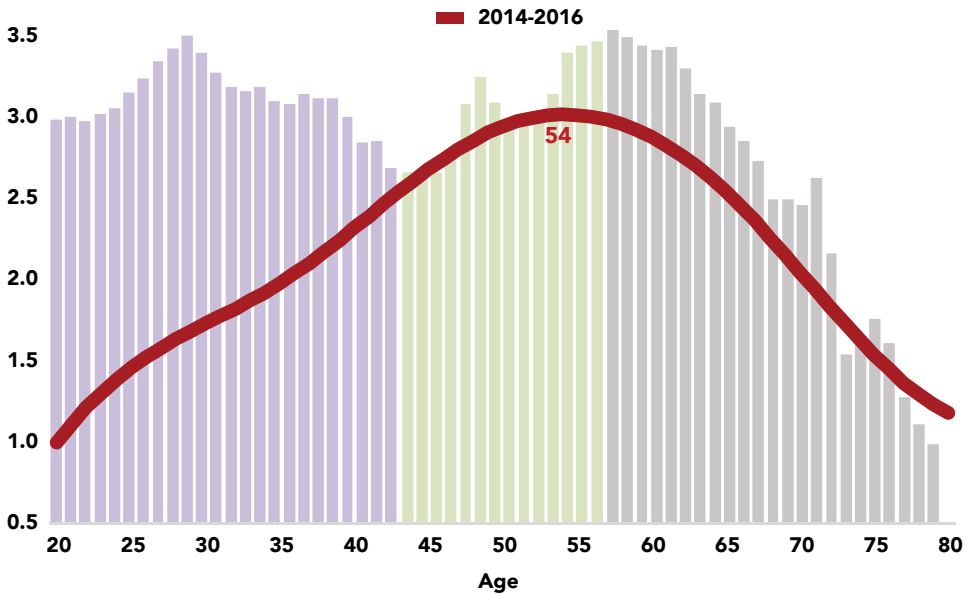
Demand peaks around the age of 42, meaning that the Millennials have yet to make a splash here. With the bulk of the Millennials still in their late 20s and early 30s, demand for these kitchen and dining essentials should be strong for the next 10 to 15 years. Of course, a lot of this will depend on Millennial marriage and family formation rates. Single young men don't buy fancy glasses and plates, the occasional high-end beer mug notwithstanding. Single young women also aren't major buyers. These are very much products for married couples building a home together.

Interestingly, flatware demand (Figure 6.9) peaks later, around 54.

Figure 6.9

Flatware

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

While much of this is no doubt the result of empty nesters buying nice things for their homes once their children are no longer there to break them, it's possible that consumers over the age of 50 are buying some of these items as wedding presents for those same children. The Consumer Expenditure Survey doesn't give us any indication of who the intended recipient is, only the buyer.

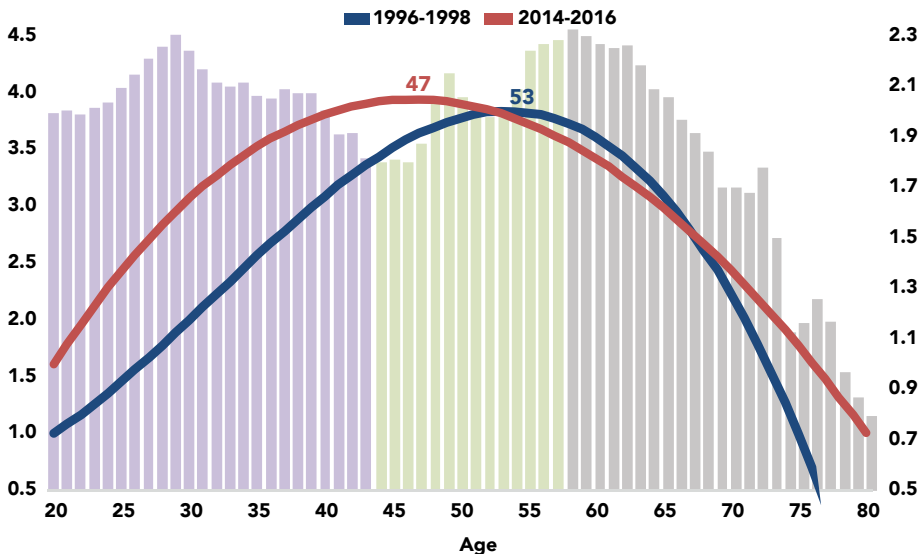
What are we to glean from this? The Baby Boomers are essentially nonentities in these segments. They're done and have been for a long time. Demand today is coming from Generation X, which is a comparatively small generation. But retailers have the aging of the Millennials to look forward to. It is they who will dominate this space, so make sure your wares correspond to their tastes.

Anyone who picks up this book five or 10 years from now might find it funny or even quaint that I included clocks (Figure 6.10).

Figure 6.10

Clocks

Average Annual Spending by Age, Indexed to 20 year olds



Apart from watches, which are more a fashion accessory than a functioning tool for telling the time, clocks are a product that is almost certainly in terminal decline. Younger consumers generally use the built-in alarm clock in their smartphone for their morning wake-up. And as market penetration and usage of smartphones increase, consumers further and further up the age scale will follow suit. Besides, most consumers who use alarm clocks have had the same clock for years and use it more out of habit than anything else.

Nevertheless, there's still some demand for decorative time pieces, and spending on clocks has an early peak around 47. I would hesitate to draw hard conclusions from this data, as it makes no distinction between ornamental clocks and utilitarian plastic alarm clocks.

Moving on, the next decade might be strong for florists. Demand for fresh flowers and potted plants peaks at age 68, meaning the Baby Boomers will potentially be major buyers for another 10 or 12 years.

With the kids out of the house, Boomers might have the time and money to freshen up the house with plants and flowers. Interestingly, this number is significantly older than the 1990s estimates, which indicated peak demand at age 55. This could be an issue of the 1990s data being somewhat thin, which can skew the numbers, or it could be a generational preference by the Boomers.

However, before you run out an open a flower shop, take stock of your competition. Buying flowers on flowers.com or another online seller has never been easier. To differentiate yourself, you'll need to offer something the competition isn't. Perhaps a service-based interior decoration business

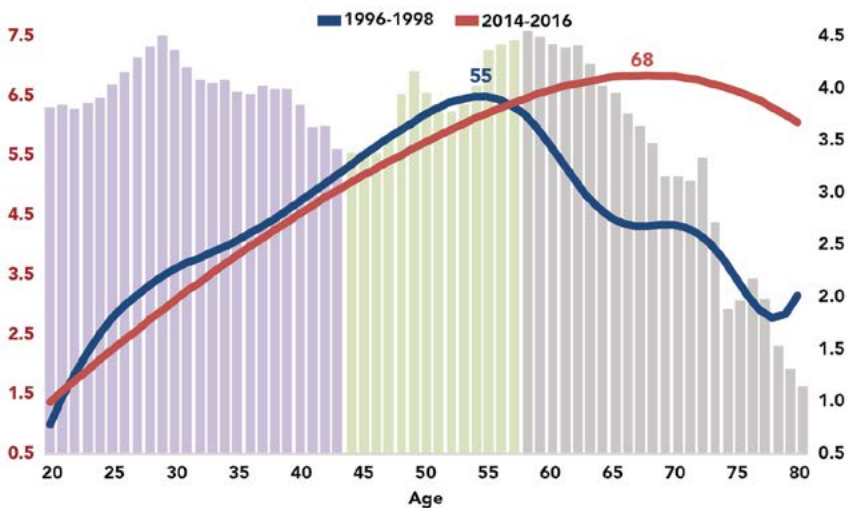
focused on plants and flowers would work in your neighborhood. Such a business would be appealing for retirees looking for part-time work or stay-at-home moms looking to earn a little extra income while the kids are in school.

Demand for home products generally thought of as being “masculine,” such as lawn equipment (Figure 6.12), non-power tools (Figure 6.13), and power tools (Figure 6.14) have interesting patterns.

Demand for lawn mowing equipment peaks around 63. In the 1990s, the peak age was 51.

This shift reflects multiple trends. To start, it’s less common today for middle- and professional-class men to mow their own grass. Lawn services were popular in the 1990s, but they are even more so today. Furthermore,

Figure 6.11
Indoor Plants and Fresh Flowers
 Average Annual Spending by Age, Indexed to 20 year olds



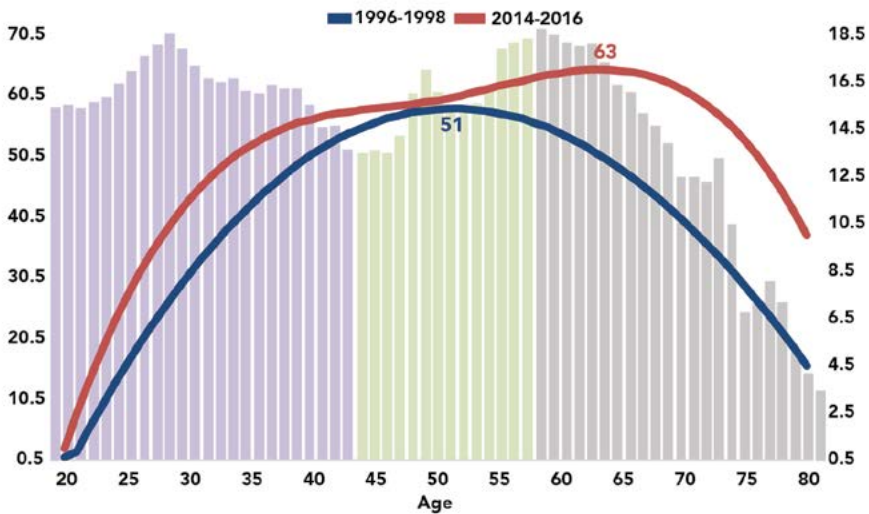
Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

newer homes built over the past 20 years tend to have smaller lots, as rising land prices and environmental concerns have prompted higher-density living. All of this has affected the buying patterns of lawn and garden equipment.

Gardening and lawncare is a passion for many recent retirees who enjoy being outdoors. Opening a niche business that sells high-end home gardening equipment and offers landscape consulting may be a promising

Figure 6.12
Lawn & Garden Equipment
 Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 6.13

Hand Tools

Average Annual Spending by Age, Indexed to 20 year olds

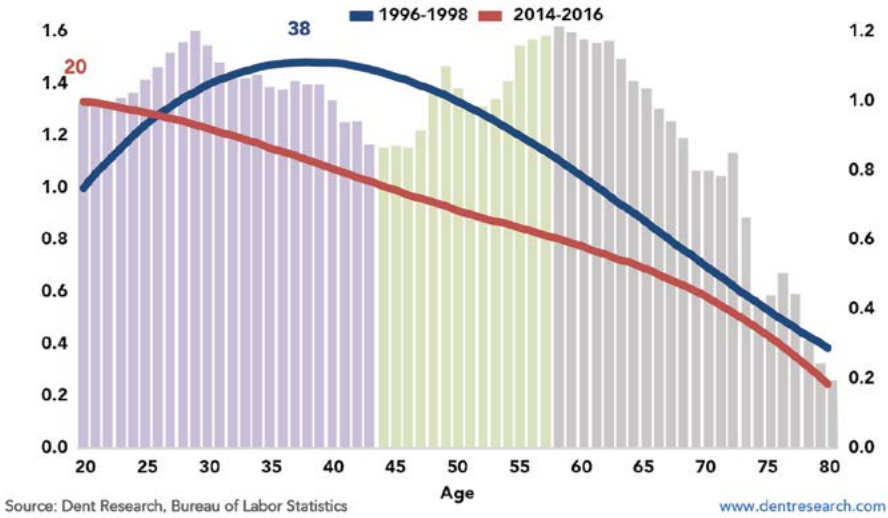
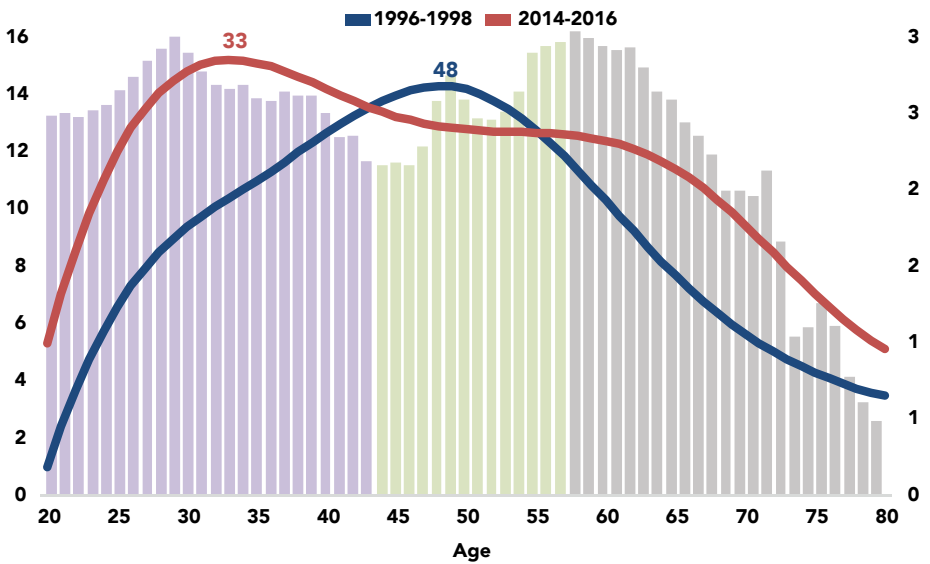


Figure 6.14

Power Tools

Average Annual Spending by Age, Indexed to 20 year olds



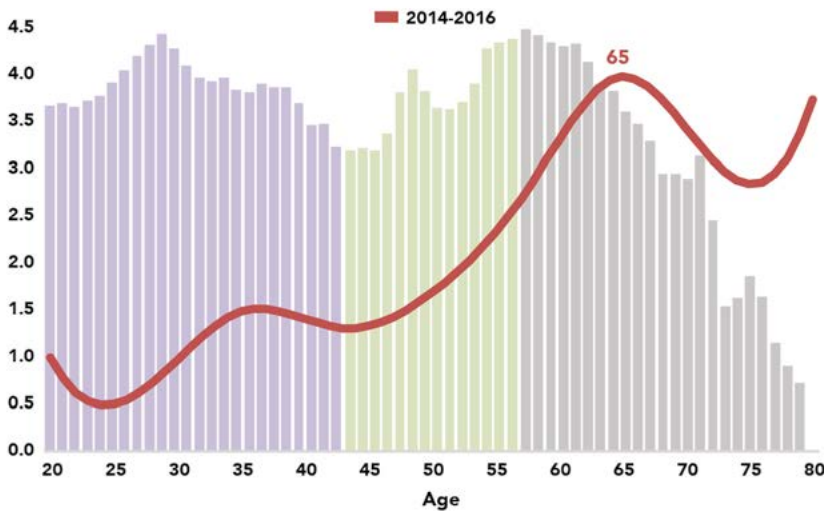
business for the next few years, but in another five years these trends will have likely run their course.

Consumption patterns for hand tools and power tools has also been shifting. In the 1990s, hand tool demand peaked around age 38 and power tool demand peaked around age 48. Today, the ages are 20 and 33, respectively.

Figure 6.15

Material & Supplies for Sewing, Needlework, Quilting

Average Annual Spending by Age, Indexed to 20 year olds



This may be a measurement issue in that the data could be recording professional sales rather than retail sales. A young man graduating from high school and starting a job in a blue-collar trade will be a buyer of tools. Historically, woodworking and carpentry were hobbies of middle-aged men. It could be that the popularity of “do it yourself” home remodeling shows is encouraging younger consumers to buy the equipment.

Furthermore, a lack of new construction over the past decade has led many first-time buyers to buy older homes, many of which need significant renovations. Regardless, the data suggests that demand for hand and power tools looks weak for the foreseeable future as the Millennials are already in their early 30s.

Short-term demand changes due to home sales (or even flooding and storm damage) will likely have a far greater impact than demographic trends here.

We now come to products you might associate with your *great* grandmother — sewing, needlework, and quilting materials (Figure 6.15).

Yet, sewing materials peak at a much younger age than most of us might expect, around 65, corresponding with retirement age. The Baby Boomers are entering these years quickly, which is bad news for the long-term success of Joanne Fabrics or your neighborhood sewing and fabric store.

Moving into more obscure home products. Demand for floor cleaning equipment (Figure 6.16) peaks around age 49.

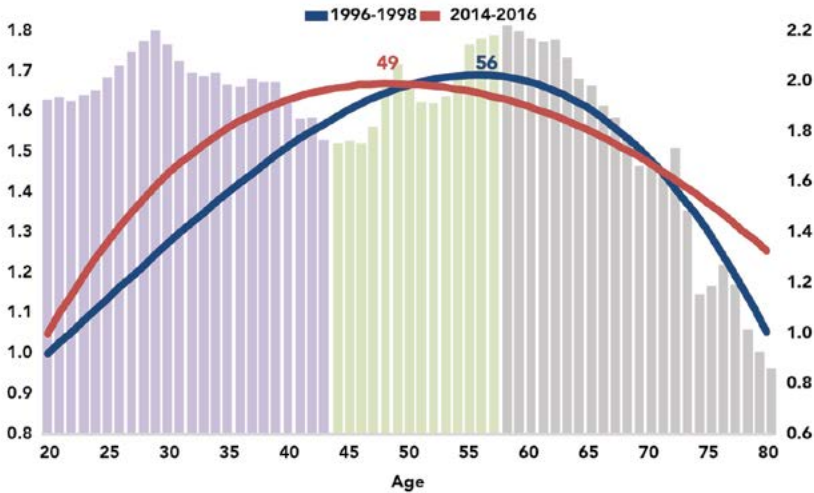
This is a niche market and not one that most entrepreneurs would naturally gravitate towards. Demand for non-permanent floor coverings such as rugs and permanent floor coverings such as installed carpets have similar demand patterns, peaking at ages 58 and 61, respectively. Demand really drops off after that.

This is bad news for flooring companies because the Baby Boomers essentially just peaked in this area, and the Millennials won't be replacing them any time soon. The age patterns here make intuitive sense. Once your

Figure 6.16

Floor Cleaning Equipment

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

kids (and their pets) are out of the house, it's nice to replace the threadbare, stained carpet that's likely been an eyesore for years.

But naturally, there's more to carpet sales than demographic trends. Home sales and remodeling plays a big role here, as do natural disasters. These figures were compiled prior to Hurricane Harvey's destruction of Houston and Hurricane Florence's flooding of the Carolinas. Natural disasters like these are clearly going to trump demographic trends in determining short-term demand.

Moving on, we come to coal, wood, and other fuels (Figure 6.19).

Demand for these fuels shoots higher into age 53 before leveling off.

I don't know that there's much of an investment play here, but I would point out that the Baby Boomers are already long past their peak spending years in this category. The products in this chapter all have idiosyncratic

Figure 6.17

Rugs

Average Annual Spending by Age, Indexed to 20 year olds

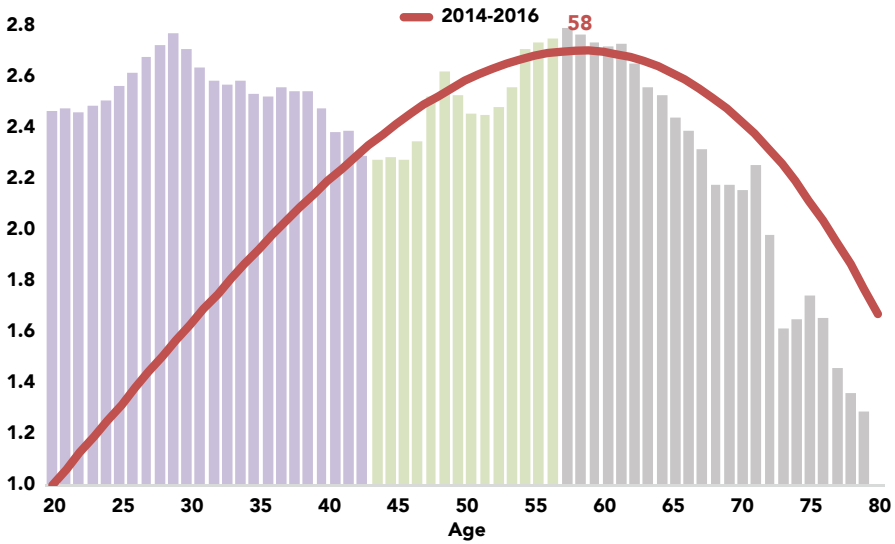
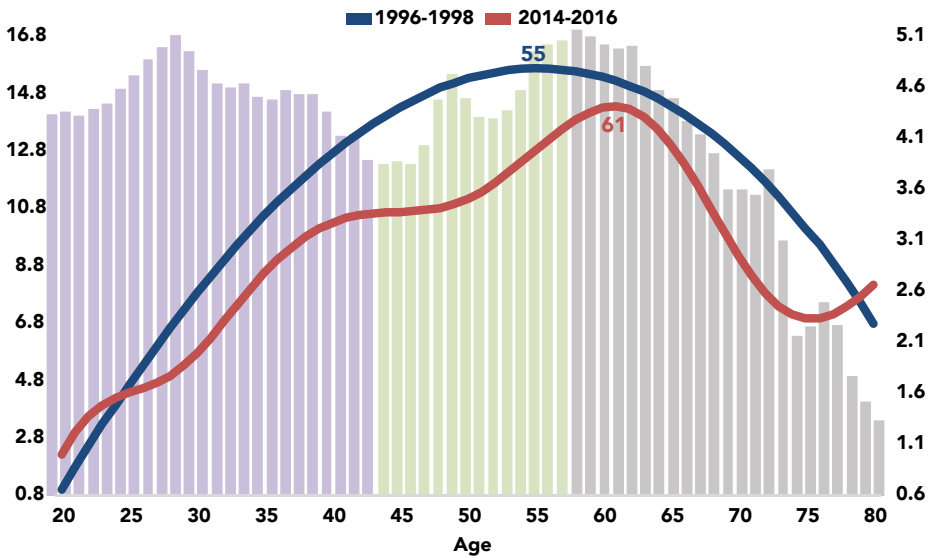


Figure 6.18

Floor Coverings

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

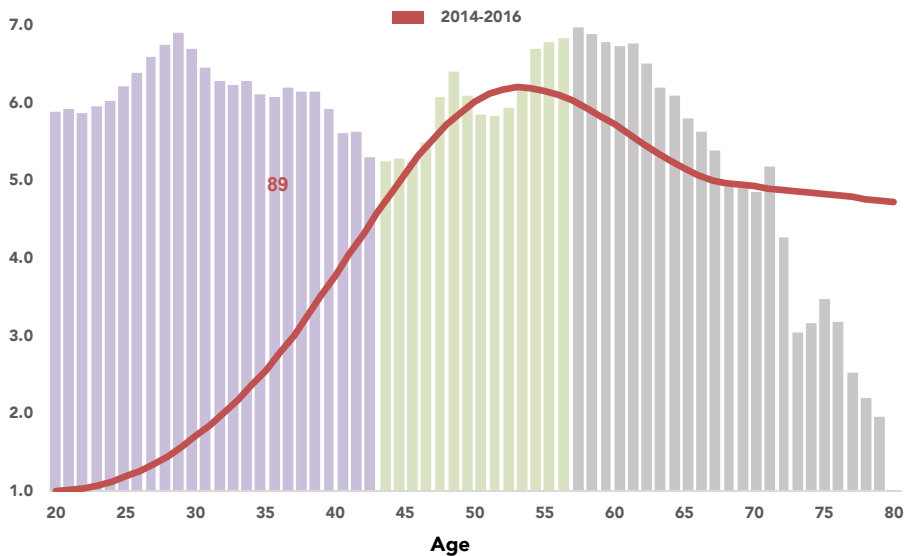
quirks, but the key takeaway is this: Baby Boomers are mostly “done” here. If your business has thrived selling products to people primarily in their 50s and early 60s, you may have tough times ahead. This demographic is shrinking.

The next major source of buying power will come from the Millennials. But remember, this generation is still young, with its largest cohorts still in their late 20s and early 30s. So, to the extent you can, try to orient your business to appeal to customers in their mid-30s to mid-40s. This gets you ahead of the coming wave.

Figure 6.19

Coal, Wood, & Other Fuels

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Home Services

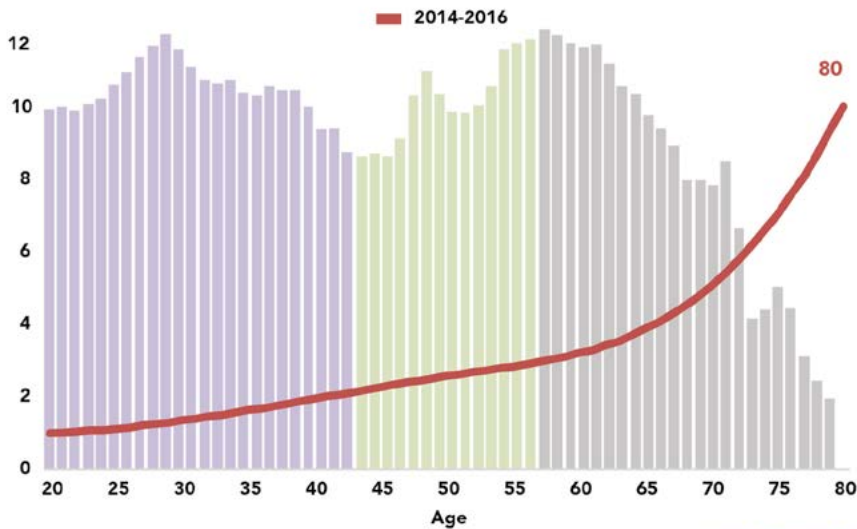
While the overall picture for home goods isn't positive, the news for most home services is better. As Americans age, there are more tasks that they either can't continue to do or that they prefer to pay someone else to do. With few exceptions, the home services sector is an area I recommend profiting from the aging of the Baby Boomers, even in an environment of overall lower spending.

Let's start with home security systems and security guards (Figure 7.1).

The older we get, the more vulnerable we feel and the more at risk we are to attack or robbery. Demand for home security increases every year from young adulthood to death.

This is an excellent area of opportunity. Starting a bodyguard or "rent a cop" service is unrealistic for the most part because the percentage of

Figure 7.1
Security Systems
 Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Americans who can afford private security is small. But home security system installation and monitoring are a very different story. Many of the large home security firms such as ADT use local resellers and technicians to install their systems. This could be an excellent business model for neighborhoods with large populations of Baby Boomers. Remote monitoring of security cameras would also be a viable growth business, as would ongoing maintenance of existing security equipment.

Repair of household appliances (Figure 7.2) is also a booming business among older consumers.

After our peak spending years, we're far less likely to spend money on new washing machines and refrigerators. But we're likely to repair what we already own after it breaks. For Americans living on a fixed income, paying a nominal amount of money to repair a broken appliance is going

to be far less of a financial burden than buying a new appliance altogether. Demographic trends suggest that this will be a booming business opportunity for years, and that's just the start.

The rise in popularity of new “smart” appliances means that appliance repair will be increasingly more sophisticated and specialized. This means that there will be boom in demand for highly skilled technicians with the knowhow to do the work.

Demand for lower-tech home services — such as septic tank cleaning (Figure 7.3) — is also pretty much age-proof.

If you own a house with a septic system, you're going to have it serviced, regardless of what age you are. And as country homes or retirement homes are more likely to use a septic system than a suburban McMansion, this is an area that may benefit from Boomer retirement home spending.

Catered affairs (Figure 7.4) and clothing rental (Figure 7.5) are interesting products that are closely related.

The largest catered event that most people will ever host is a wedding. And clothing rental is generally for just two purposes: senior proms and weddings.

While the Boomers would appear to be in or past the peak spending age here, most still haven't had the expense of their children's weddings yet. Because the Millennials are getting married later, on average, than the generations before them, their parents, the Baby Boomers, will be taking on these expenses later in life than these charts suggest.

This is the problem with using this type of demographic analysis.

Figure 7.2

Home Appliance Repair

Average Annual Spending by Age, Indexed to 20 year olds

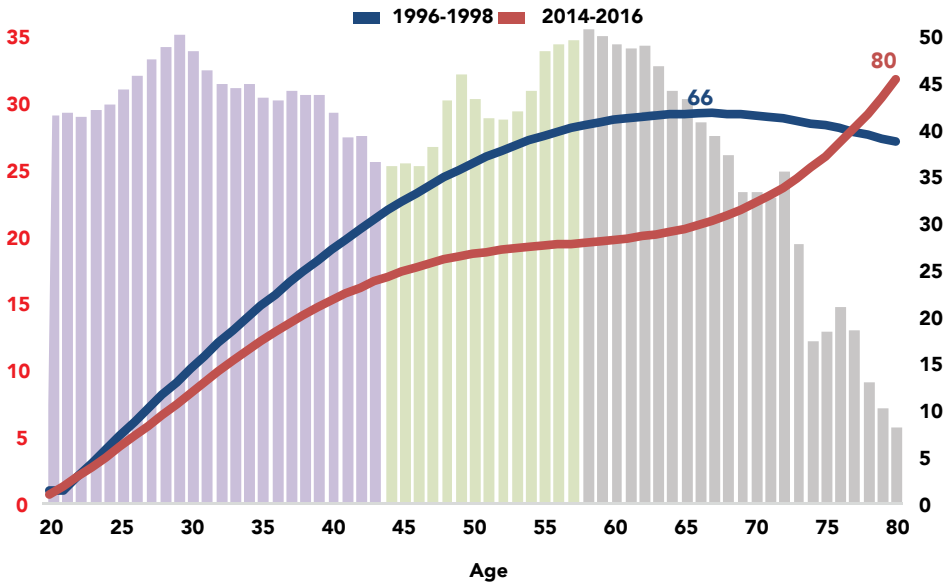
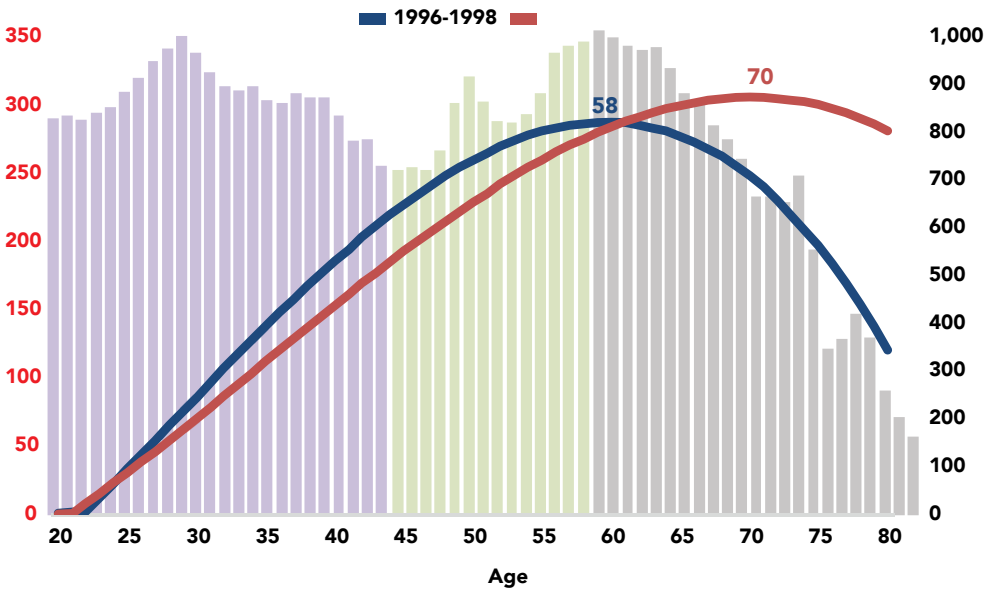


Figure 7.3

Septic Tank Cleaning

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Looking at the raw data is never enough. You must take it to the next level of understanding who the ultimate beneficiary of the purchase is. If you recall, I mentioned in the introduction that external economic shocks can throw off natural demographic trends by a few years. Well, catered affairs are a good example of this. The biggest key point to remember is that the consumer life cycle ultimately revolves around kids and where they are in their development.

Millennial weddings should keep demand strong for a few more years. But remember, kids born in 1990 are already 29 years old, bumping up against the average age of marriage. These numbers are constantly shifting as people are getting married later these days, but high costs and shaky finances have had a serious impact on marriage rates.

Pew Research polls suggest that 70% of Millennials eventually want to marry. While that's an overwhelming majority, it's much lower than the rates of marriage for Baby Boomers (91%) and Generation X (82%). And wanting to marry and being married are two very different things. A Gallup analysis showed that, as of 2016, 59% of Millennials were still single.

Let's also look at photographer fees (Figure 7.6).

Photographer fees peak at age 33, which is later than you might expect as it doesn't correspond to peak ages for weddings. Bottom line: Millennials are in their peak marriage years, so the next few years should be very strong for all wedding-related businesses. But after around 2020, demand should start to taper.

Now let's look at demand for labor and material for capital improvements

Figure 7.4

Catered Affairs

Average Annual Spending by Age, Indexed to 20 year olds

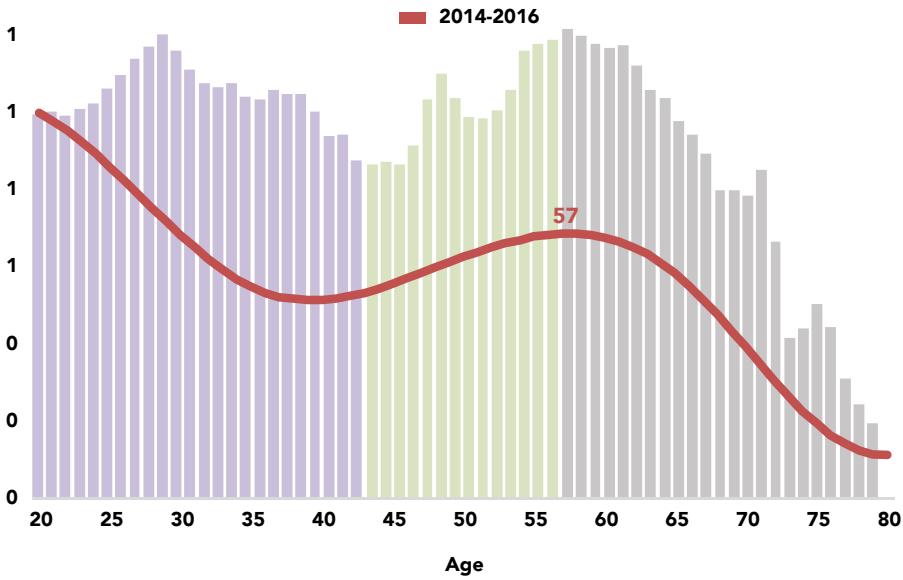
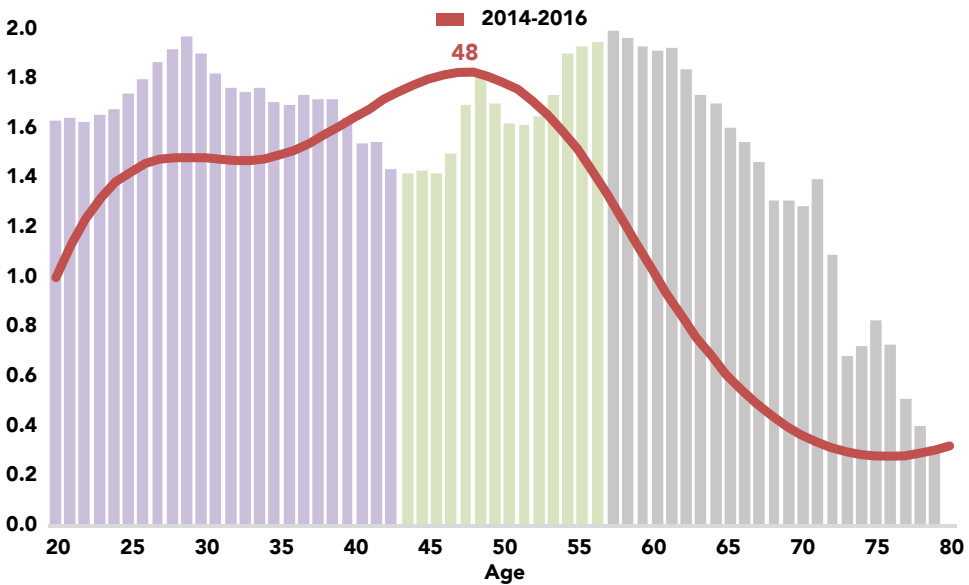


Figure 7.5

Clothing Rental

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

or, in plain English, home renovations. Demand for hardcore remodeling shoots higher throughout the 30s, levels off somewhat between 40 and 45, and continues to trend slightly higher until age 58.

This is intuitive. Young homebuyers pour a lot of blood, sweat, and tears into their homes, but a person in their 50s is going to have a larger remodeling budget than a person in their 30s.

As our families grow, we have increasing needs for space, which could mean making alterations to existing space or, say, building an apartment over the garage. After our children leave the nest, we might feel like making significant changes, as we find new uses for the bedrooms and family room. By our late 50s, we've done all the heavy remodeling we need to do. This is bad news for contractors, as the Baby Boomers have now aged out of these peak remodeling years.

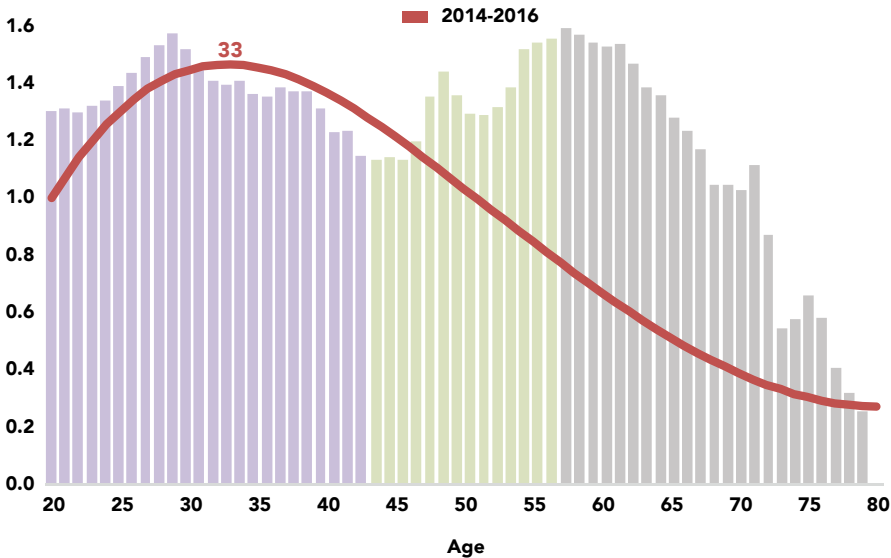
Interestingly, demand for home remodeling peaked at 52 in the late 1990s and then had a more pronounced decline than it does today. It seems that the Baby Boomers were more likely to invest in their homes later in life than previous generations. This is consistent with the Boomers being more accustomed to spending on lifestyle expenses than previous generations. It may also partly be the result of exceptionally cheap financing costs over the past decade due the Fed's quantitative easing policies.

Recent developments have likely skewed these numbers from what would be "normal" due to demographic trends. Due to rising land costs, more stringent environmental regulations, and tighter credit

Figure 7.6

Photographer Fees

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

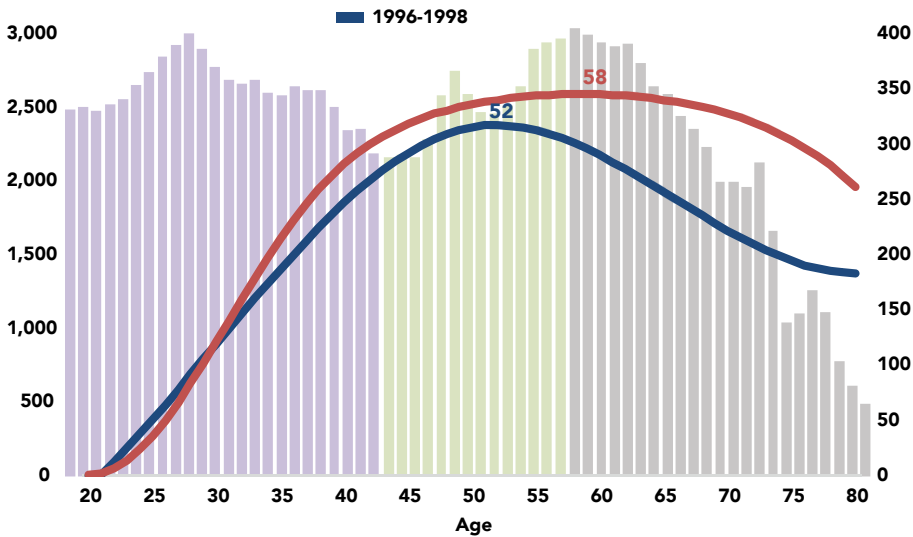
conditions for younger borrowers with weaker credit, new construction over the past decade has favored more expensive, higher-end homes. It's not economically viable in many growing cities for developers to build affordable starter homes. With limited supply of new entry-level homes, many first-time buyers are buying smaller, more modest existing homes in older neighborhoods. But frankly, no one wants to live in a house with pink 1950s-bathroom tiles or Formica kitchen countertops. So, younger families are spending more on renovations than demographic trends might normally suggest. And popular home improvement reality TV shows encourage it.

It'll be interesting to see if these developments cause this graph to look very different when new figures are released in the coming years. If you're a contractor, you'd better hope that this is the case, because, if past

Figure 7.7

Capital Improvements, Labor, and Material

Average Annual Spending by Age, Indexed to 20 year olds



demographic trends are any indication, demand here might be tepid for the next several years.

Business should be good for the Orkin Man and his competitors though. Spending on termite and pest control (Figure 7.8) continues to rise until the very end.

Demand for these services is inflexible. If you have a pest problem, you'll pay to get it taken care of. Older people in older homes are likely to have more problems with pests than younger families in recently purchased homes. And while you might be tempted to lay down mouse traps or knock down that wasp nest yourself as a 30-year-old, the prospect of doing that is a *lot less* appealing at the age of 60 or 70.

So, bad economy or not, pest control businesses should have a stable and rising demand in the years ahead. Boom or bust, expansion or

Figure 7.8

Termite & Pest Control

Average Annual Spending by Age, Indexed to 20 year olds

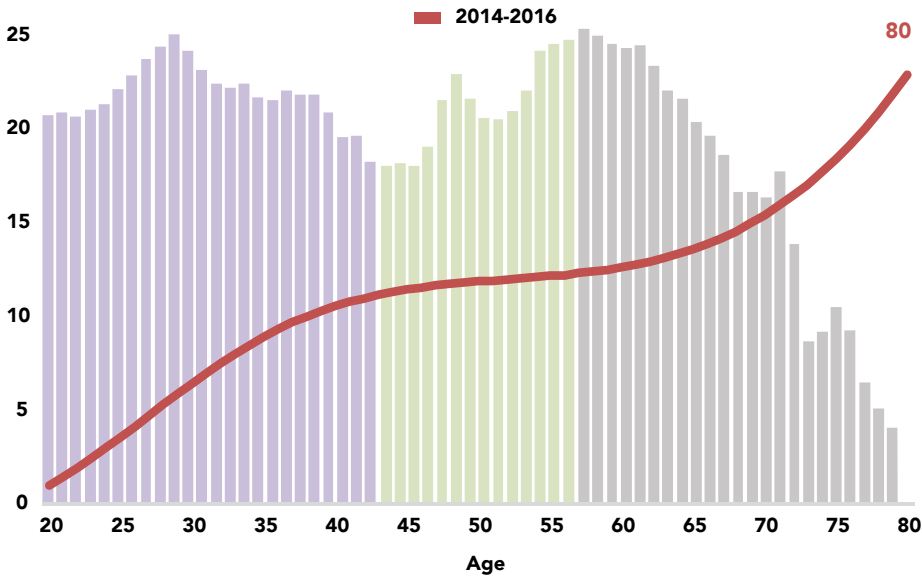
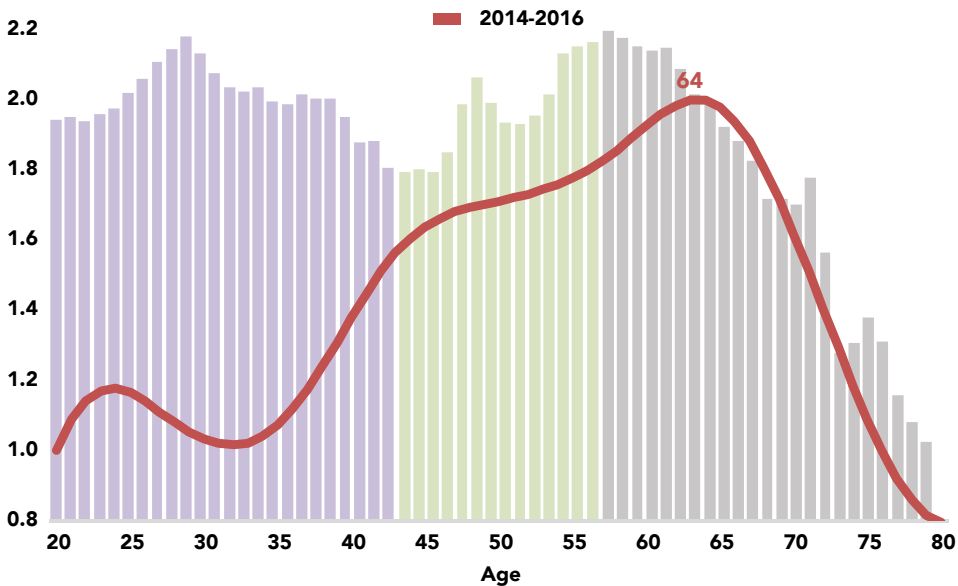


Figure 7.9

Electrical System Repair

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

contraction, Republican or Democrat in the White House, we'll always have cockroaches to deal with.

Electrical system repair (Figure 7.9) rises strongly into age 64 before going into a long decline.

This may at first seem counterintuitive. After all, you must pay to fix your electrical system when it breaks, no matter how old you are. But as we age, we consume less electricity and are less taxing on our home electrical systems. We use the large appliances that use the most electricity less and have fewer electronic gadgets in the house.

The Boomers are in their peak demand years today, implying demand may soon taper off. So, if you're an electrician, you might want to broaden the services you offer. Instead of focusing solely on the electrical system, consider moving to a related area, such as installing home security systems. Or, consider using your skills to modernize older homes by installing the cabling for home networks for use with internet-enabled TVs and other entertainment devices. Retrofitting homes to work with solar panels might also be a growth area. You may also want to consider offering mobile services, leaving your home market to work in storm-damaged areas where skilled contractor labor is needed and in short supply. With your core electrician service offering mediocre growth prospects, you will want to explore alternatives.

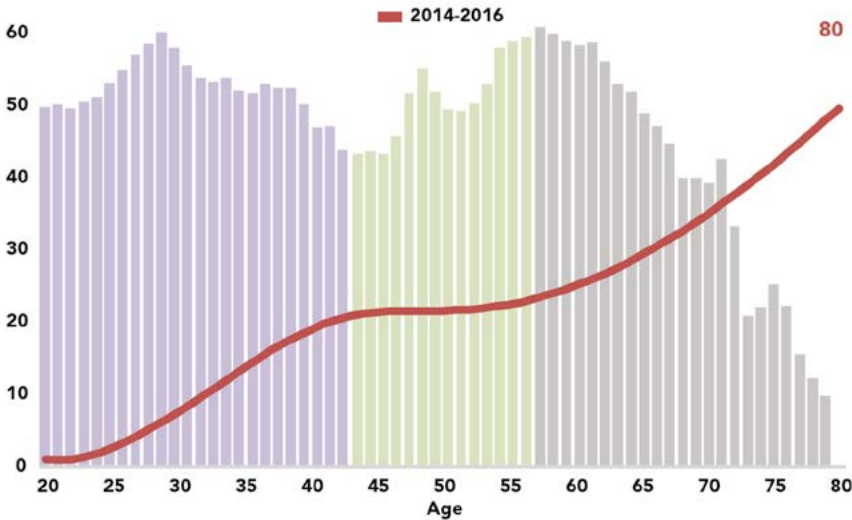
As I briefly mentioned in the Home Care section on lawn equipment (Figure 6.12), gardening and lawn care services (Figure 7.10) have strong demand based on demographics.

Spending on these services rises for as long as we live in our homes. In

Figure 7.10

Gardening & Lawn Care Service

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

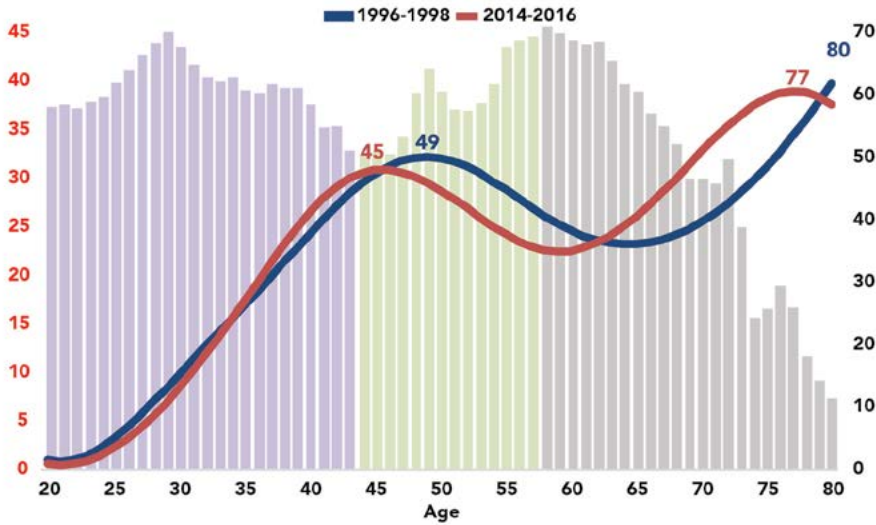
fact, demand growth for gardening and lawn care starts to accelerate at exactly the time when overall spending starts to turn down, around the 50-year mark.

In a weak economy, some homeowners will choose to cut costs by mowing their own lawns. This is particularly true for cash-strapped young families. But the greatest demand here comes from consumers over the age of 50. So, the Baby Boomers will be an excellent source of growth in this segment for decades to come.

Housekeeping services (Figure 7.11) is an interesting chart.

Demand is strong into age 45, dips for several years, and then accelerates well into our golden years. This makes intuitive sense. Once your kids are out of the house, it gets a lot less messy. Cleaning it yourself isn't such a

Figure 7.11
Housekeeping Services
 Average Annual Spending by Age, Indexed to 20 year olds



burden. But at some point, moving the couch to vacuum under it is just not something you want to do. It makes sense to hire someone to do the drudgery.

Demographic trends are strong here. Boomers will be a growth market, as will Millennials.

Housekeeping is often done by new immigrants, and recent immigration restrictions could create a labor shortage for housekeepers. An entrepreneur could likely do quite well creating a placement agency that located and placed housekeepers.

One caveat here is the overall health of the economy. If the economy remains in slow growth mode, demand for housekeeping should remain healthy. Should unemployment take a major turn for the worse, then

Americans who could only marginally afford to have their houses professionally cleaned will opt to clean their houses themselves or learn to be content with a dirty house!

The next two charts are some of my favorites in the entire book because we can all relate to them on some level. Figures 7.12 and 7.13 track personal care services for women and men, respectively. These cover everything from haircuts to manicures to eyebrow waxing. It's a rough estimate of the money we spend to keep ourselves looking good.

Women never stop making the effort. Spending levels off around age 52, but never really falls much.

Though hairstyles change, a woman cares as much about the appearance of her hair at the age of 70 as she does as a teenager, and she has more money to spend on it.

Men? Not so much.

Spending soars throughout the 20s and then starts to rise at a slower rate starting around age 30. Young whippersnappers like to make a good impression on the ladies. But after the age of 44, men completely let themselves go, and spending drops off a cliff. If they still have their hair (the lucky ones!) they tend to spend less money taking care of it.

I call Figure 7.13 the “Al Bundy” chart in honor of the main character from the 1980s’ sitcom *Married with Children*. Poor Al is a working-class Everyman who has largely given up on life. He feels no need to invest in his appearance. What’s the point? His appearance matters little in his career as a mall shoe salesman and being married with children means he is out of the dating game.

Figure 7.12

Personal Care Services, Females

Average Annual Spending by Age, Indexed to 20 year olds

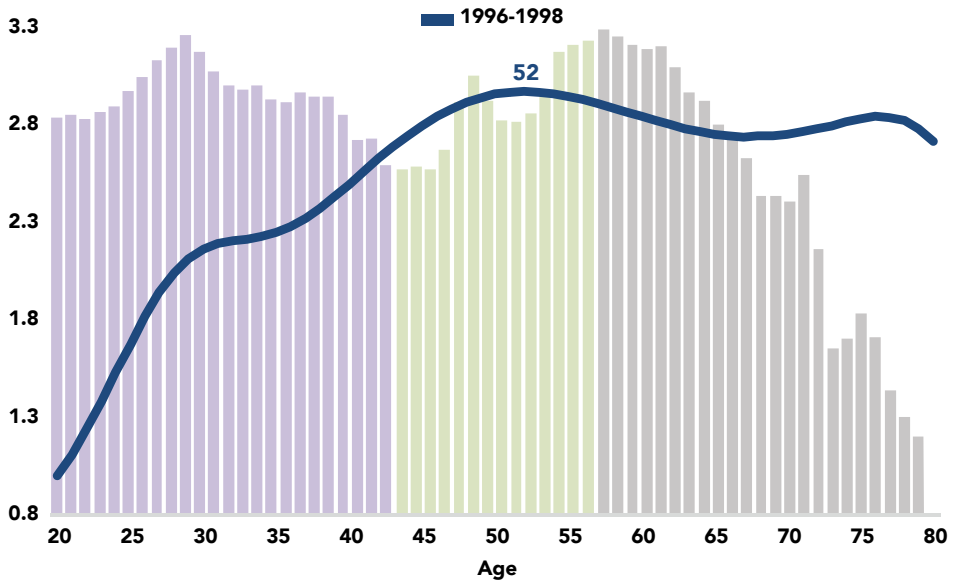
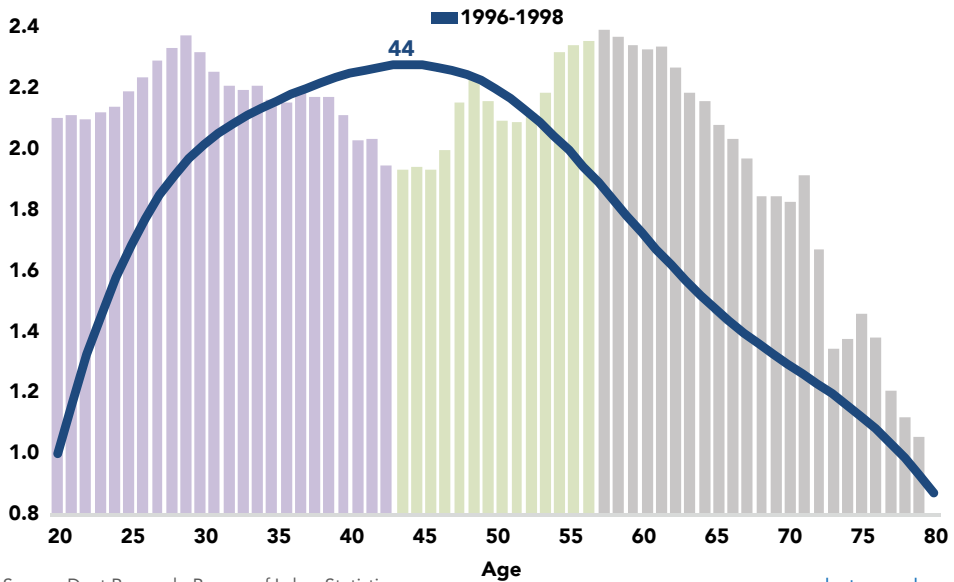


Figure 7.13

Personal Care Services, Males

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

What conclusions can we glean from this? The first and most obvious is that women are better lifelong customers for the personal care services than men. Men top out in early middle age and it's downhill from there. That said, with the personal care industry for women already saturated, marketing efforts have gone towards convincing younger men to invest more in their appearances. Call it the "rise of the metro-sexual," but younger men today are more willing to pay up for items generally thought of as products for women, such as skin creams and high-end hair products. It's also common to see luxury shaving products and even oils for moisturizing the luxuriant beards of hipsters.

So, if you own a business that caters to the personal care services of men or women — such as a hair salon — the Millennials are your target. Get them as customers today and benefit from multiple decades of favorable demographic trends.

Pet services (Figure 7.14) peak at age 57, which is about a decade later than in the late 1990s.

There are interesting implications here. Most obviously, there's some truth to the stereotype of the empty nester who buys a dog for companionship after their kids leave home. What does this mean for pet breeders and suppliers of pet-related services? The Boomers have already hit "peak pet." Business should start to slow in the coming years.

Moving on to less glamorous topics, consider trash and garbage collection for owned homes (Figure 7.15).

Our expenses here tend to rise with the size of our homes but remain constant from the late 40s on.

Figure 7.14

Pet Services

Average Annual Spending by Age, Indexed to 20 year olds

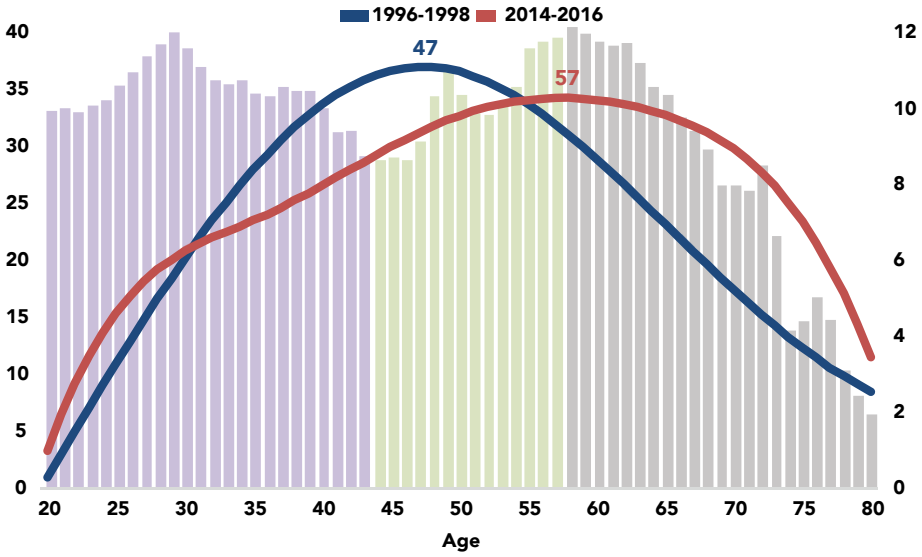
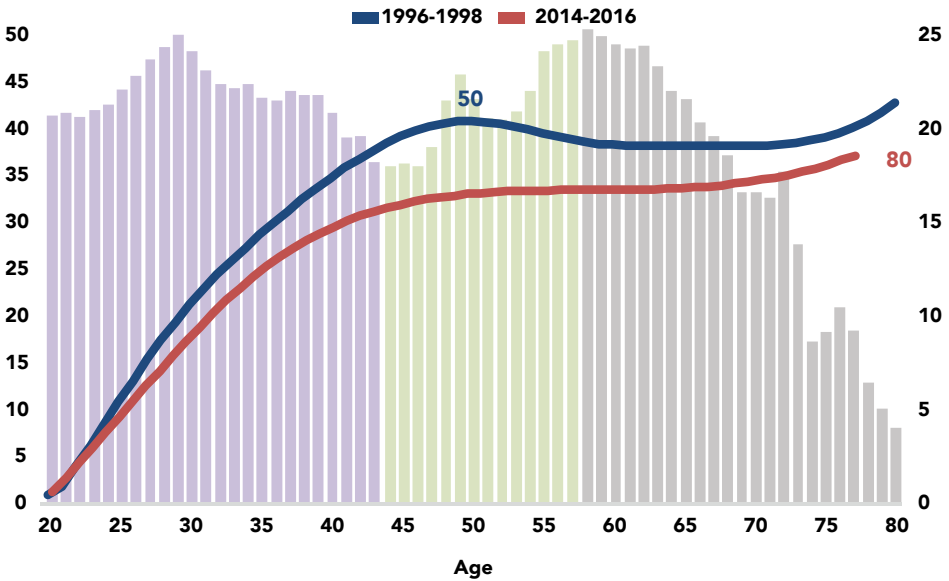


Figure 7.15

Trash Collection

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

For most investors, this isn't going to be an investable theme. Trash collection is a utility service that the city or municipal government typically provides. That said, there may be opportunities here if you have a way to reduce the government's costs.

You may also find opportunities offering to make trash collection more environmentally responsible, though you'd be competing with entrenched, well-run competitors like Waste Management.

Even after a decade of economic expansion, many city and budgets are still under pressure, and given the enormous pension and health care liabilities many local governments face for their aging workforces — there may be opportunities for privatization. Larger firms like Waste Management will be the primary beneficiaries, but a crafty entrepreneur might find a niche opportunity here, particularly in a smaller city or town that might be off the radar of a larger company.

Water softening services (Figure 7.16) don't have an excellent demographic profile.

Demand peaks around age 53 and falls off sharply thereafter. The Baby Boomers are already past this stage, and the Millennials won't be hitting peak demand for another couple of decades.

Demographic trends have improved somewhat for the cobbler.

Shoe repair expenses (Figure 7.17) used to peak in the early 50s but now peak around the age of 66, meaning that the Baby Boomers are still a viable market here for at least a few more years.

The bigger threat here isn't so much from shifting demographics as from

Figure 7.16

Water Softening Service

Average Annual Spending by Age, Indexed to 20 year olds

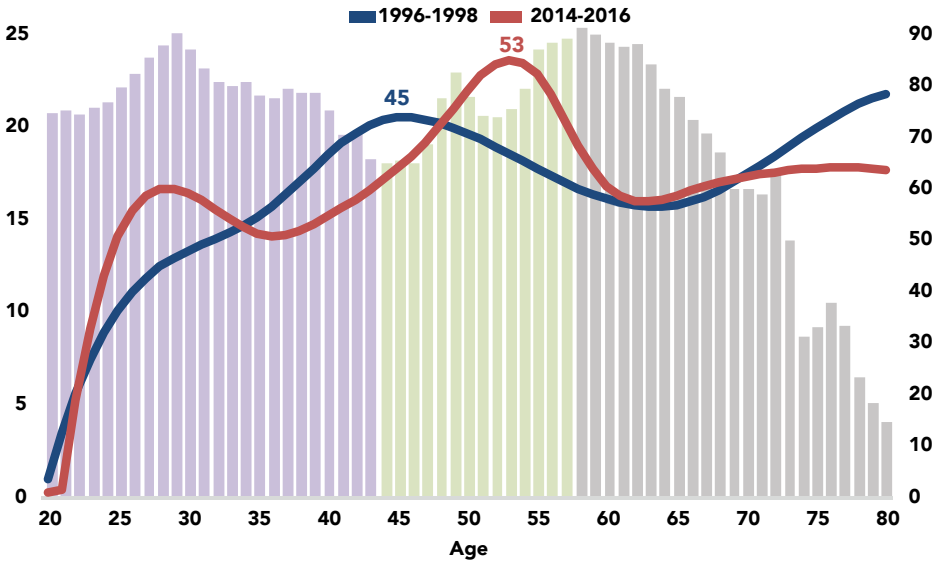
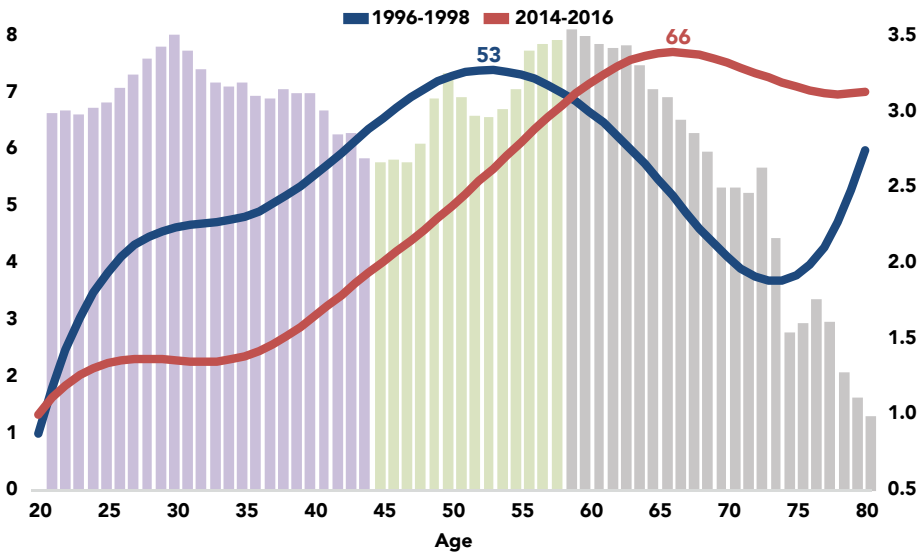


Figure 7.17

Shoe Repair

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

changing styles. Most semi-formal men's shoes these days tend to have rubber soles and are designed to be discarded after a couple years rather than repaired.

Coin-operated laundromats (Figure 7.18) are almost entirely a service for the young.

Demand peaks by age 25 and then promptly falls off a cliff, never to recover. The Millennials have already peaked here, so the next major demographic wave will come from Generation Z (today's high-school kids). In the meantime, the Millennials are growing up and climbing the ladder of social respectability, renting nicer apartments with laundry appliances provided and then eventually graduating to a house of their own. This is a long way of saying that demographic trends for coin-operated laundry services are severely negative.

Adding insult to injury, restrictions on working-class immigrants that would be more likely to use a laundromat remove another source of demand. Unless you own a laundromat in a neighborhood with a constant supply of college students, I would recommend staying away from this business for the foreseeable future.

Dry cleaning demand (Figure 7.19) peaks at age 49.

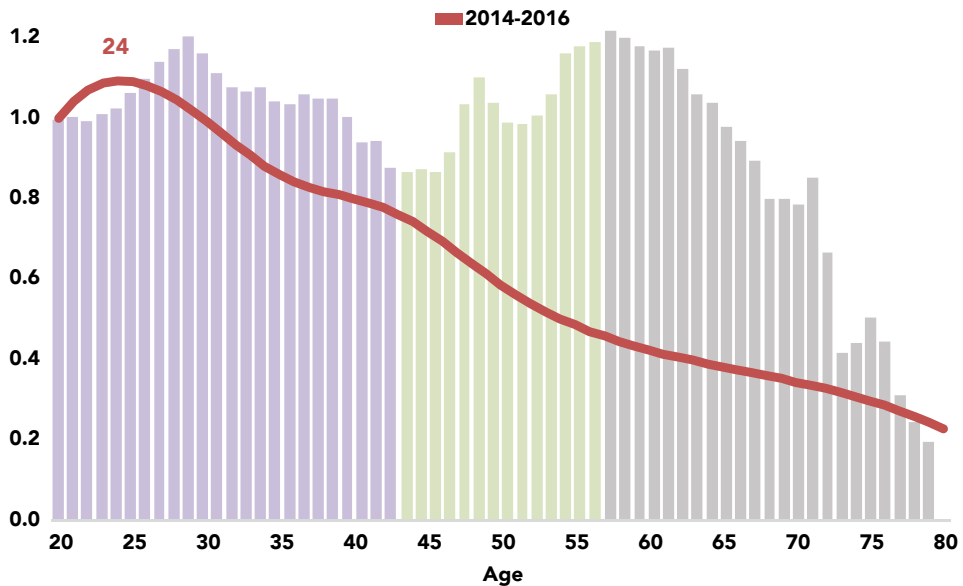
The Baby Boomers are long past their peak years for these services, and as more and more Boomers leave the workforce, their need for dry cleaning will continue to decline.

I should also note that dry cleaners are a very localized business. When you need something dry cleaned, you generally go to a cleaner within

Figure 7.18

Laundry & Dry Cleaning (Coin-Operated)

Average Annual Spending by Age, Indexed to 20 year olds



a couple miles from your house. For dry cleaners in neighborhoods dominated by Baby Boomers, this is bad news. But dry cleaners setting up shop in new neighborhoods populated with young Millennial families will have a very different business climate. Spending on dry cleaning rises at a very fast rate throughout the 20s and 30s.

As with real estate, the most important factors for success in the dry-cleaning sector are location, location, location. If you own a dry cleaner in an older neighborhood populated mostly by Baby Boomers, consider relocating.

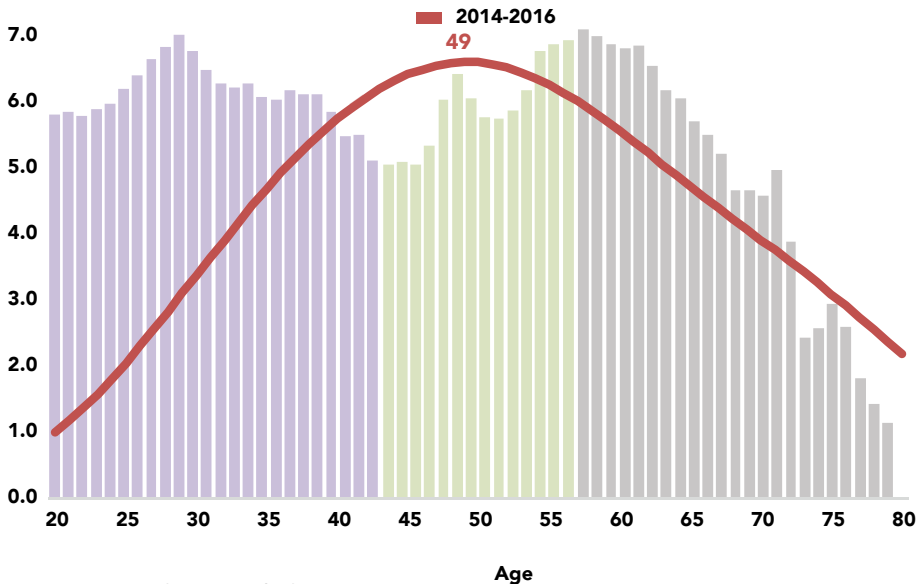
The same is true of tailoring (Figure 7.20).

Demand for clothes tailoring peaks around the age of 40, but the takeaway is the same. The Baby Boomers are done here and have been

Figure 7.19

Laundry & Dry Cleaning (Not Coin Operated)

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

for over a decade. If you're a tailor or seamstress, consider relocating to a neighborhood dominated by young families.

Mobile phone service (Figure 7.21) is one that I include knowing full well that my data is already obsolete.

This is such a rapidly changing industry that government data will always be obsolete by the time it's published, and historical data is going to be less useful.

We have multiple overlapping trends here. First, older people today are using cell phones more than in generations past because they've grown into them. Today's 70-year old has likely used a mobile phone for at least the past decade, if not significantly longer. But a 70-year-old 10 years ago

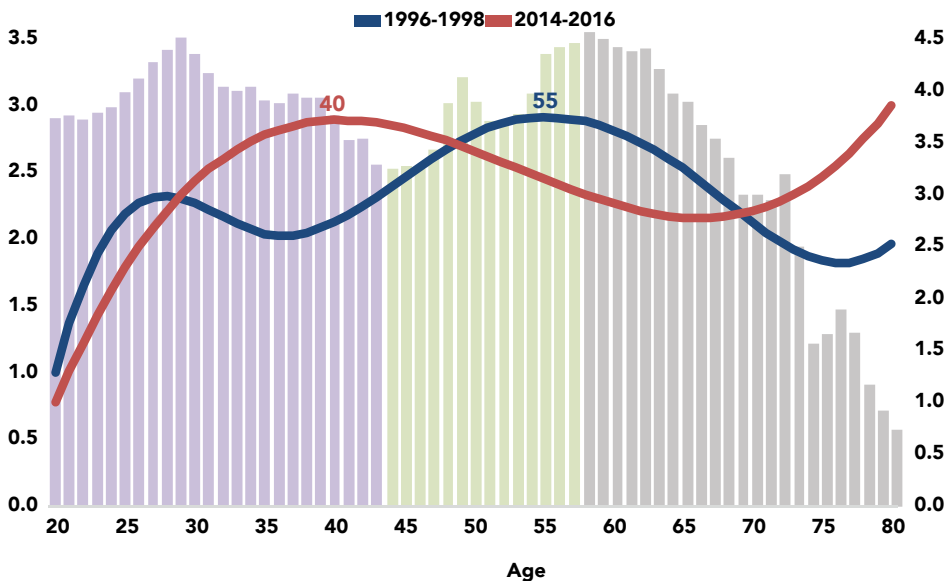
might never have owned a cell phone, and now at the age of 80, they're probably not waiting in line to buy the latest iPhone.

Another major theme is the shift from regular feature phones to smartphone, such as Apple's iPhone. The smartphone has only been around a decade, making comparisons over time difficult. Furthermore, cellular service is now essentially a commodity, and the major competitors compete heavily on price. That's a rough business to be in.

Figure 7.20

Clothing Alteration, Repair, & Tailoring

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

I have no specific advice as to how to profit from these trends, and even if I did it might be obsolete by the time this book hits the printing presses. But I do encourage entrepreneurs to consider these trends because I believe opportunities will arise.

Figure 7.21

Mobile Phone Service

Average Annual Spending by Age, Indexed to 20 year olds

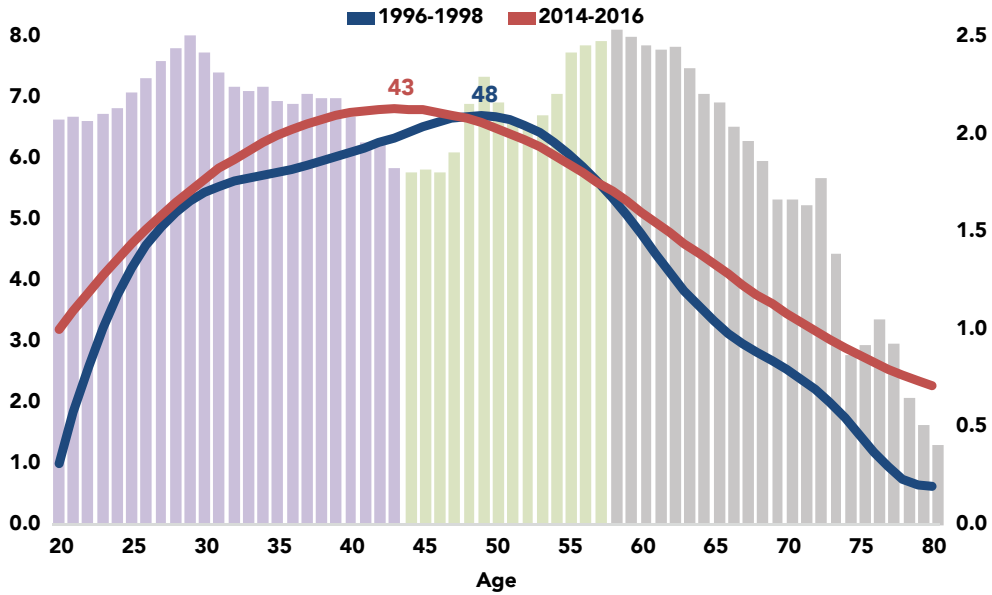
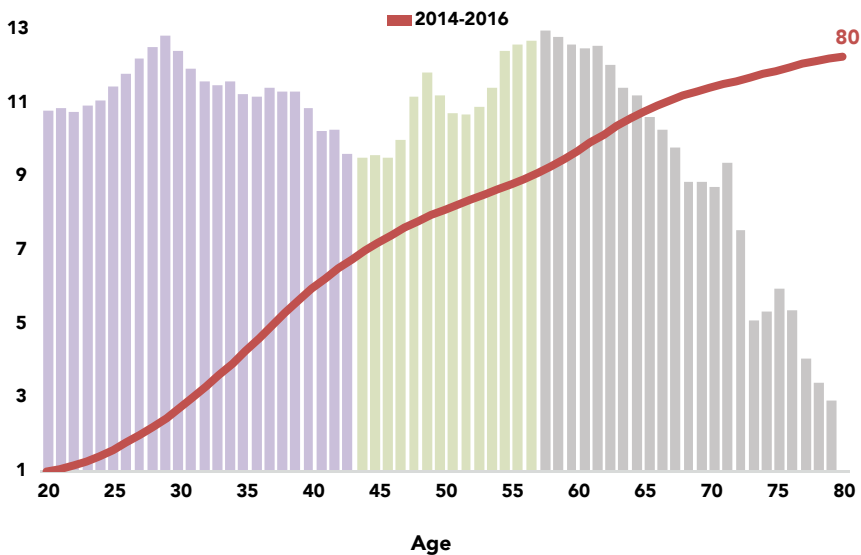


Figure 7.22

Residential Telephone Including VOIP

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

Finally, we get to furniture repair, refurnishing, and re-upholstery (Figure 7.23).

Demand for these services peaks at age 43, which is, not coincidentally, the age when you're likely to have a bunch of preteens running around your house causing damage.

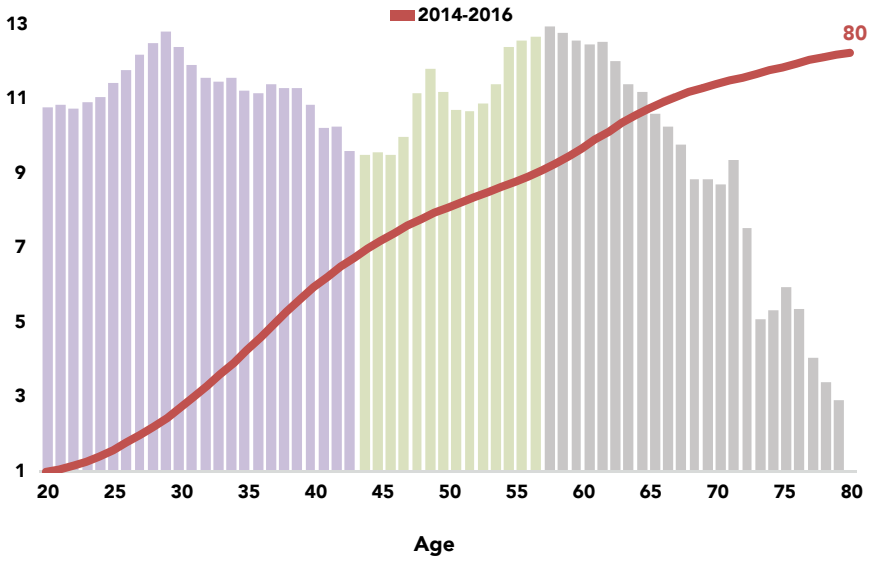
This is a niche market and not a particularly easy one for an inexperienced entrepreneur to exploit. But I do expect it to do well in the years ahead as the Millennials grow up and buy furniture worth repairing.

Overall, demographic trends suggest a healthier decade ahead for consumer services relative to consumer goods. Many, though certainly not all, consumer products have demand curves that peak later in life than overall spending. I consider this area a great place to hunt for business opportunities in the 2020s.

Figure 7.23

Residential Telephone Including VOIP

Average Annual Spending by Age, Indexed to 20 year olds



Auto and Transportation

Perhaps no other sector of the economy feels more “American” than autos. While public transportation is popular in densely-populated urban centers like New York or San Francisco, the identity of most of the country revolves around car ownership. Homes, offices, and the entire retail economy are structured to accommodate private cars.

At the margins, this is changing. Ride-hailing apps like Uber are cheap and convenient, particularly in dense, urban areas. Likewise, car-sharing services like Zipcar allow for as-needed use, making dedicated ownership less necessary. Further on the horizon, driverless taxis could one day make private car ownership completely impractical. And younger people tend to be more open to using public transportation.

All of this is exciting. But the reality is that private car ownership is still the most practical transportation option for most Americans, particularly

those who live in suburban, exurban, or rural areas.

Autos and transportation are a critical sector of the U.S. economy. Though vehicles and vehicle parts only make up 3% of total U.S. GDP, a car or truck payment is often the largest expense for an American family after their home mortgage or rent. And the auxiliary industries that make auto ownership possible — everything from financing to insurance to oil changes — employ millions. Finally, because vehicles are often bought on credit, they tend to have an outsized impact on consumption by pulling future purchases into the present. In the circular world of economics, this means that auto sales both create economic volatility and are uniquely susceptible to its effects.

It's been a wild ride in the auto industry. Annual U.S. light vehicle sales were consistently over 16 million per year from 1999 to 2007, and in several of those years, sales exceeded 17 million units. Then 2008 happened. Industry sales fell to just 10.4 million units in 2009, dropping by more than a third from pre-crisis levels. In a bad economy, the auto industry is NOT a pleasant place to be. Since then, sales have gradually clawed their way back to pre-2008 levels, and in 2017 they hit a new all-time high of 17.5 million units. Sales were slightly lower in 2017 and were on track to be a little softer in 2018 as well. But sales remain near historically high levels.

Some of this strength is due to interest rates (and thus auto loan rates) being artificially low thanks to the Fed's policies, and subprime loans have (unfortunately) made a comeback. All of this puts future sales at risk. But for now, the industry is the healthiest it's been in over a decade.

There are trends that bear watching, however. For years, auto industry observers have commented that younger people drive less than Americans of previous generations, and data supports this. For example, the percentage of 16-year-olds with a driver's license is down by 47% since 1983. The reasons for this are varied.

It's partly economic. Adjusted for inflation, wages haven't grown much over the past few decades, but car ownership hasn't gotten any cheaper. So, buying a car for junior isn't a major priority for mom and dad. The decline in teenage employment is also a factor. Working at McDonald's doesn't pay well, but it pays enough to cover car insurance and gas if you're still living with mom and dad and have little in the way of true expenses. At the same time, cheap delivery services and ride hailing make cars less necessary for young people.

It's not all economics, however. Today's younger people are also less independent, at least in many of the ways we might normally measure independence. Parents are more protective and less likely to give them free rein with an automobile. And with ubiquitous internet and mobile apps, teenagers can "hang out" with their friends virtually without having to jump in the car.

Many young people are merely getting a late start and will eventually take up driving. Recent data has shown that middle and lower-income Millennials drive more today than they did in 2009. Unfortunately, the same data shows that driving among those aged 26 to 30 with incomes over \$100,000 has continued to fall. And recent data from the U.S. Department of Transportation shows that, while vehicle miles the average family drives for commutes to work, school, or church haven't changed

much over the past decade, the total miles they drive are materially lower. Specifically, the miles they drive for shopping, family and personal errands, and social and recreational travel are all significantly lower.

Amazon is clearly a factor here. Internet purchases reduce our need to drive to the mall. But it doesn't tell the whole story. Demographics also play a major role. Older people drive less than young or middle-aged people. The aging of the Baby Boomers is clearly having an impact and will continue to have an impact for the foreseeable future.

The rise of electric vehicles, led by Tesla, also promises to shake up the industry. Tesla struggles to turn a profit, and the company may very well be out of business a few years from now, but Tesla has done something no other automaker in history has been able to do: it's made electric vehicles cool. Now every major automaker is tripping over itself to produce high-end electric vehicles to compete with Tesla head-on.

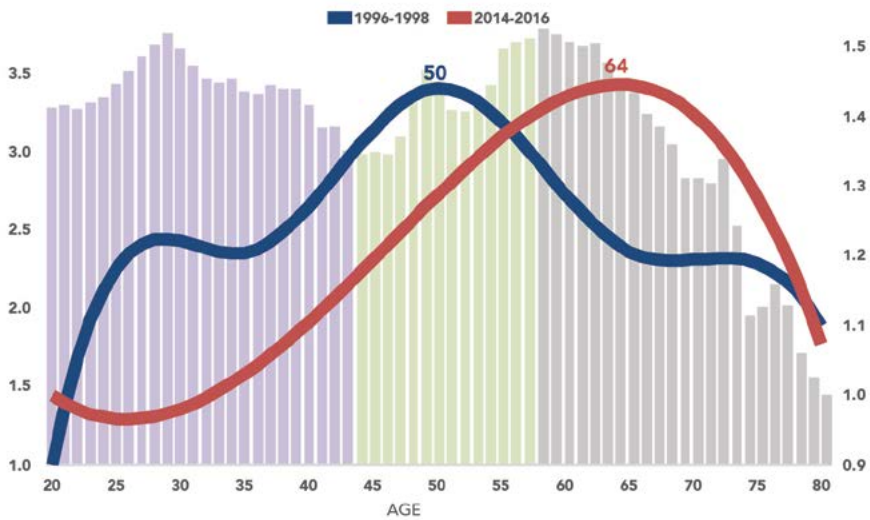
So, with all of this said, let's look deeper into the world of automobiles and see what the demographic spending trends tell us. We'll start with new car sales (Figure 8.1), given their importance to the entire industry.

Here, the news is not encouraging for the likes of General Motors or Ford. Spending traditionally peaked around age 50. Interestingly, this figure has significantly shifted later in recent years. Data from 2014-2016 indicate spending peaks at age 64.

Some of this is due the low-interest rate regime we've had in place since the crisis. But a good part of it may simply be that the Baby Boomers have different buying preferences than previous generations. At age 64, many high-earning professionals are still in the workforce and at the peak of their

Figure 8.1**New Cars**

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

career and earning power. Having a high-priced car is part of maintaining an image.

Still, it's difficult to see the trend of more expensive car purchases later in life continuing much longer. Most Americans lack the income to afford a high-end car once they retire, and they don't need one for image reasons anymore. Furthermore, as I mentioned earlier, older people tend to drive less and thus need to replace their cars less often.

So, what does this mean for the industry? Well, the largest cohort of the Baby Boomers turns 64 in 2024. If demand for auto sales continues to look like the 2014-2016 period, Boomers might keep auto sales strong for another several years. After that, demand will likely be weak for the foreseeable future, particularly on higher-end luxury cars.

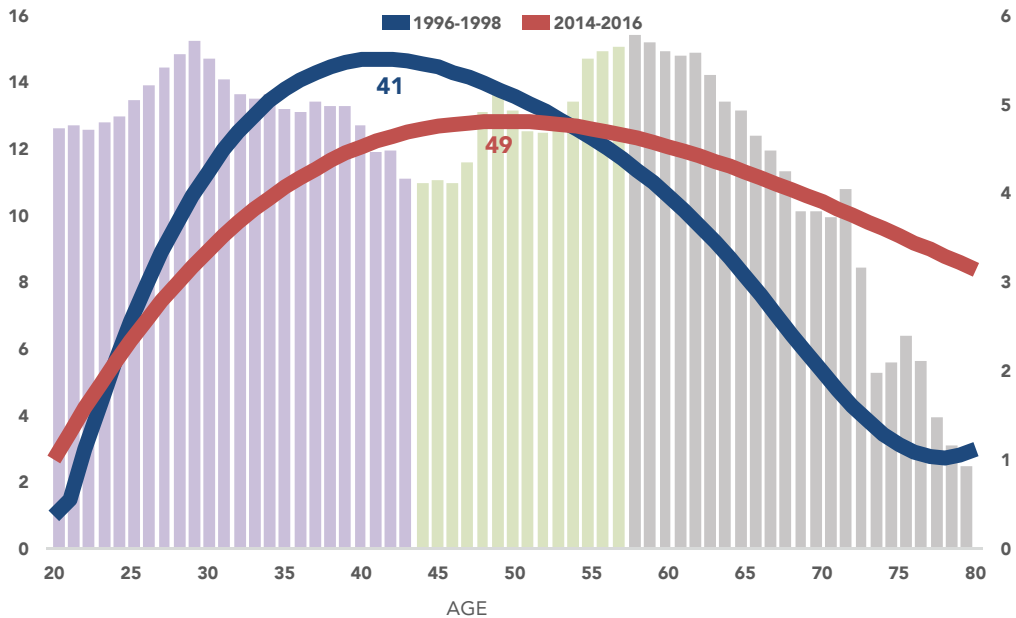
Of course, a lot can happen between now and then, and we should remember that auto sales are cyclical. If we get a recession, auto sales will decline much more quickly than these numbers suggest.

Consider a demand peak in 2024 the absolute best-case scenario. It's far more likely that we have a recession before then and that the decline in auto sales starts much sooner.

Figure 8.2

New Trucks

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Interestingly, demand for new trucks (Figure 8.2) looks very different than demand for new cars.

Demand peaks earlier, around the age of 49, and the drop-off that follows is less dramatic. As was the case with cars, peak age for truck demand has been trending higher in recent years. In the late 1990s,

demand peaked at age 41. In the latest data set, that peak was at age 49.

This is an important segment of the new vehicle market. The three best-selling cars in the United States in 2018 were the Ford F-Series, the Chevrolet Silverado, and the Dodge Ram pick-up trucks. This isn't particularly strange. Americans love pick-up trucks, and these models are consistently among the top sellers.

To show how important trucks and SUVs are to American automakers, Ford announced in 2018 that it would be discontinuing production of virtually all cars, focusing almost exclusively on trucks. But here the demographics don't look good. With demand peaking at 49, the Boomers are already long-past "peak truck."

Some of the boom in truck and SUV sales in recent years could be due to younger consumers choosing these vehicles in lieu of cars. Lower gas prices have also helped to nudge buyers towards larger, gas-guzzling trucks and SUVs.

However, consumer tastes are fickle, and it remains to be seen what will be popular in the years ahead. Based on our demographic statistics here, the contrarian bet is to expect car sales to rally relative to truck and SUV sales given the later age of peak demand. Boomers are more likely to opt for a car than a truck or SUV at this stage.

The demographic profiles of the used vehicle market are very different. Used cars are more popular among younger consumers and fit better into their budgets. Used car expenditures (Figure 8.3) initially peak around the age of 22, though they have a secondary peak at 46. After that point, demand goes into a steep decline.

Figure 8.3

Used Cars

Average Annual Spending by Age, Indexed to 20 year olds

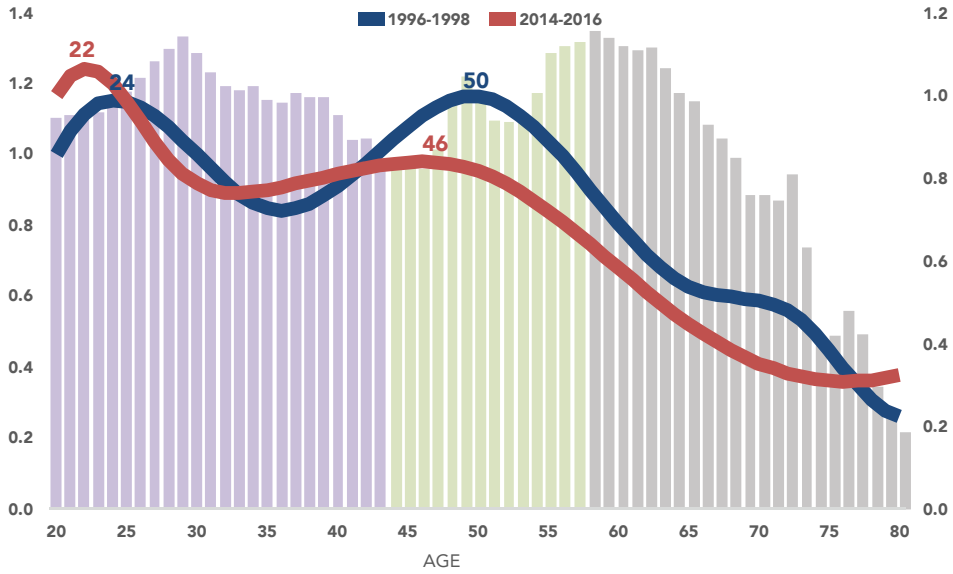
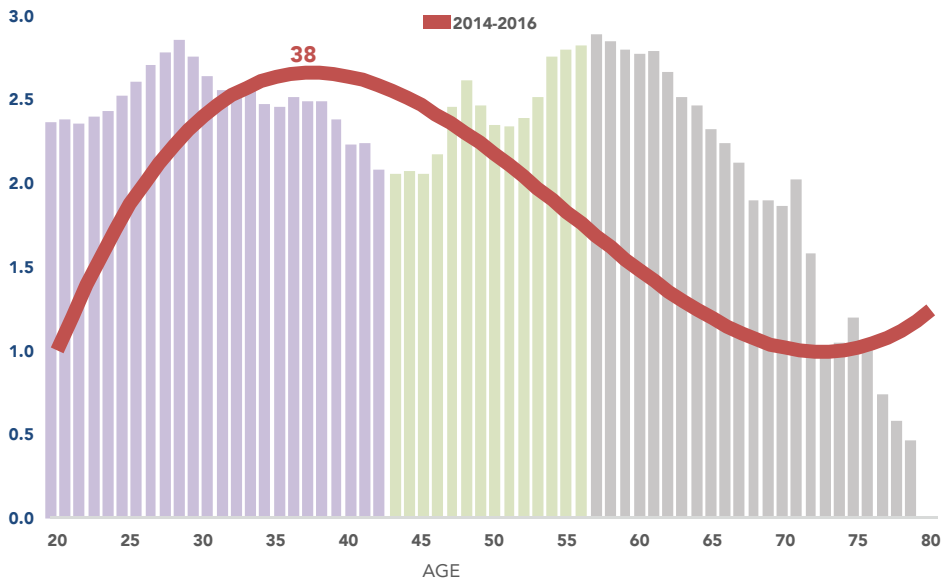


Figure 8.4

Used Trucks

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Demand for used trucks and vans (Figure 8.4) looks very different.

Sales of used trucks are lower among younger consumers and peak around age 38.

Used cars and trucks are what economists call “inferior goods.” While demand for normal goods rises when the economy is strong (people have more money to spend), demand for inferior goods tends to fall when the economy is strong and rise when the economy is weak. This is partly why the used vehicle market is far more complicated to understand than the new vehicle market.

Essentially two factors drive new car demand: demographics and the health of the economy. Other factors, such as high oil prices, might affect which vehicles people buy and how much money they spend on those vehicles, but demographic and macroeconomic forces dominate overall sales.

These same factors affect used vehicle demand, but the latter is also complicated more by supply factors. Fewer new vehicles sold means a smaller inventory of used cars in the years that follow, which, all else being equal, narrows the price differential between new cars and used cars. But a boom in new car sales means a surge in the inventory of used cars, making their prices more competitive. As with any commodity, limited supply causes prices to rise, and excess supply causes prices to fall. And this price differential in turn affects demand for used vehicles vis-à-vis new ones. It's a remarkably circular and complex market dynamic.

What does it all mean going forward? Given the record sales of recent

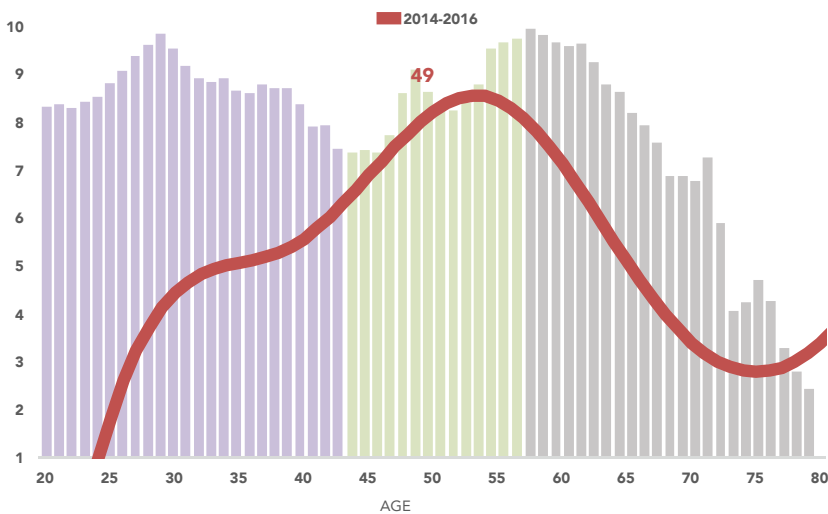
years, I expect used car pricing to be difficult for the next several years. Know that running a used car lot might be a tough business for the next few years, but you might be able to find a lot owner willing to sell their business at a good price.

Taking a longer view, given that cars have longer lives than ever before and that the economy will likely slowdown in the years to come, running a used car lot would seem a better business opportunity than owning a new vehicle dealership, and your start-up costs would be a fraction of a new car dealership.

In your personal life, if you're considering buying a car, you may find that buying a used car makes more sense.

Moving into the world of auto finance, we see a different demographic profile. Car and truck lease payments (Figure 8.5) have a demand profile that looks a lot like the demand profile for new car sales in the late 1990s.

Figure 8.5
Car & Truck Lease Payments
 Average Annual Spending by Age, Indexed to 20 year olds



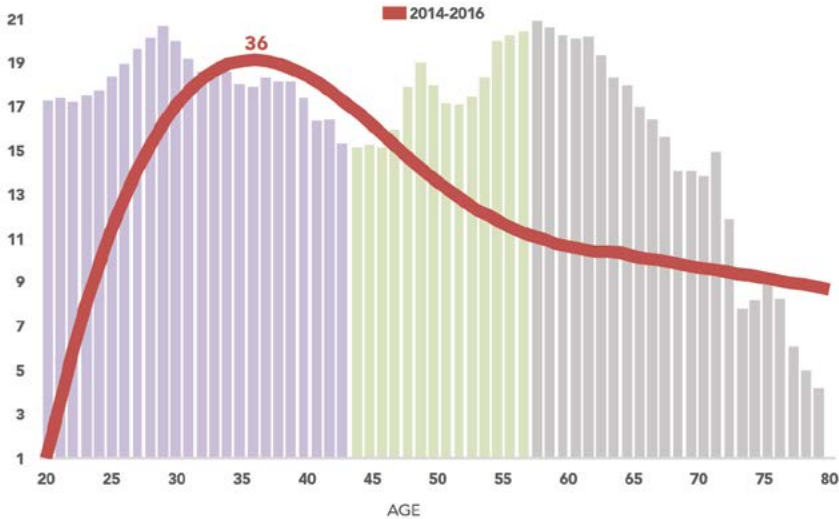
Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 8.6

Cash Down Payment for Car & Truck Lease

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Payments continue to rise until around age 49, after which they drop off significantly. Interestingly, cash down payments for car and truck leases (Figure 8.6) peaks much earlier, at age 36.

It makes intuitive sense that leasing peaks at a younger age than buying. After all, older drivers are likely to have more disposable income to spend on a vehicle than younger drivers. They're also more likely to hold on to a car for a longer time, which favors buying over leasing.

Demand for auto financing for purchases (Figure 8.7) is interesting.

Demand for auto loans has an initial peak around the age of 28 and a second, larger peak around 48. So, while buyers in their 60s may be spending more on cars (Figure 8.1), younger buyers are financing more of them.

Figure 8.7

Automobile Finance Charges

Average Annual Spending by Age, Indexed to 20 year olds

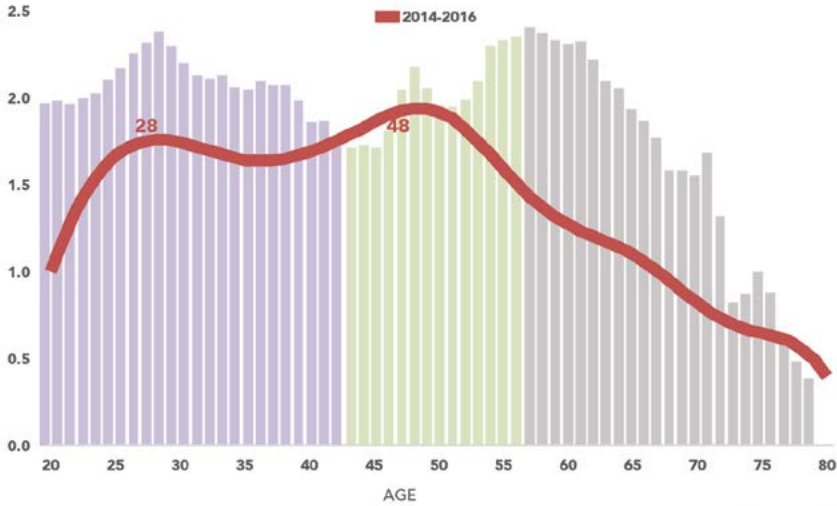
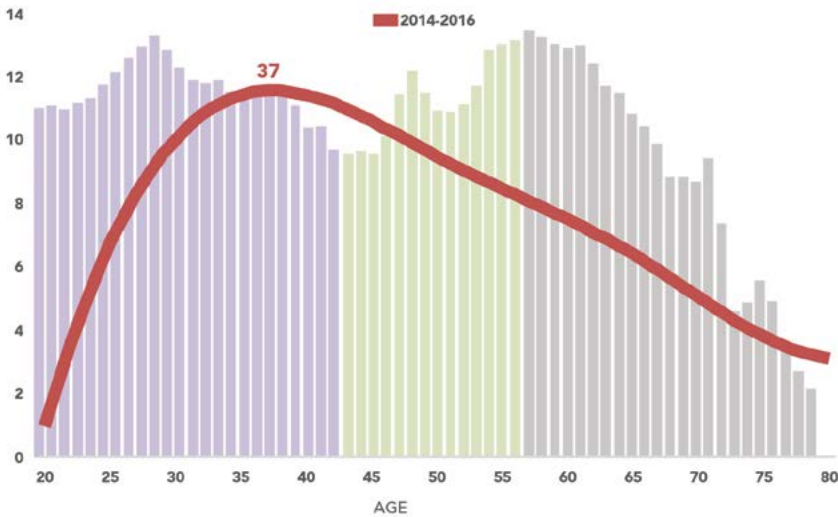


Figure 8.8

Truck Finance Charges

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Truck finance charges (Figure 8.8) seem to split the difference between the two car financing peaks, peaking around age 37.

Is there an investment angle here? Probably not, unless you already own or operate a car dealership.

If the Millennials follow these demographic spending trends along the same lines as the Boomers and Generation X, you should expect to see steadily increasing demand for leases as Millennials enter early middle age. Purchase financing, however, has likely peaked for now.

If credit markets tighten due to traditional banks retrenching or de-risking, there could be opportunities to profit in the private loan market. But be very careful here. Lending can be a risky, and messy, business.

In short, there's a lot of uncertainty facing auto sales going forward, and demographic trends aren't particularly favorable.

Let's move on to look at trends for the various service businesses that cater to auto owners. The market for vehicle insurance (Figure 8.9) is mixed.

Demand peaks at age 50 and then goes into steep decline. This means that the Baby Boomers peaked here nearly a decade ago. Rising spending by Millennials is partially offsetting declining Boomer spending, but overall, demand here looks weak going forward.

If you sell car insurance, consider expanding your practice to a different product area.

SPENDING WAVES

Figure 8.9

Vehicle Insurance

Average Annual Spending by Age, Indexed to 20-Year-Olds

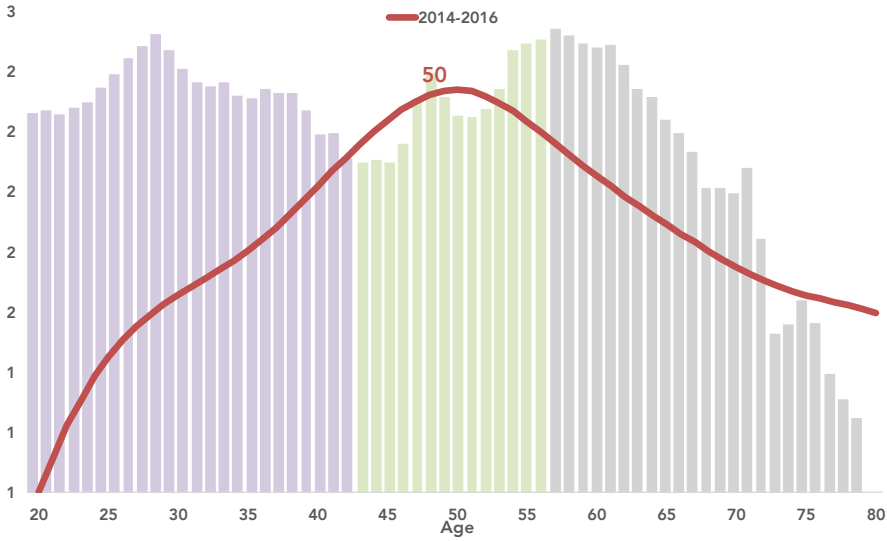
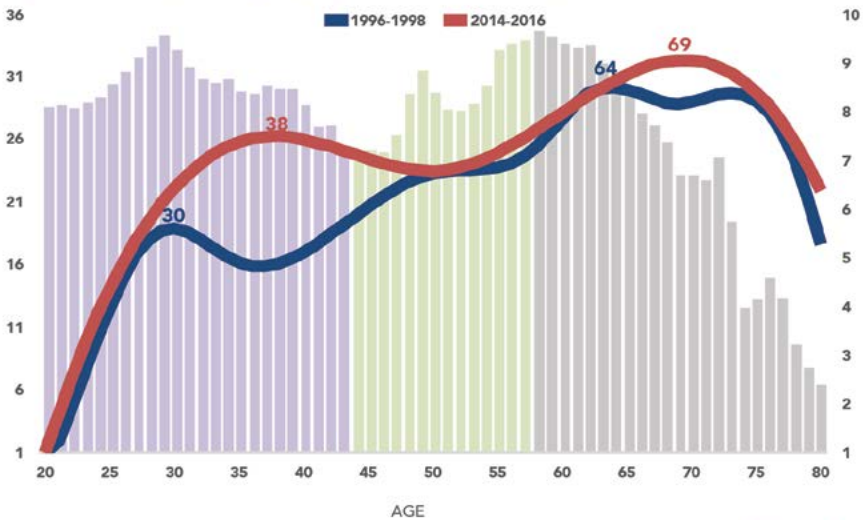


Figure 8.10

Auto Repair Service Policy

Average Annual Spending by Age, Indexed to 20 year olds

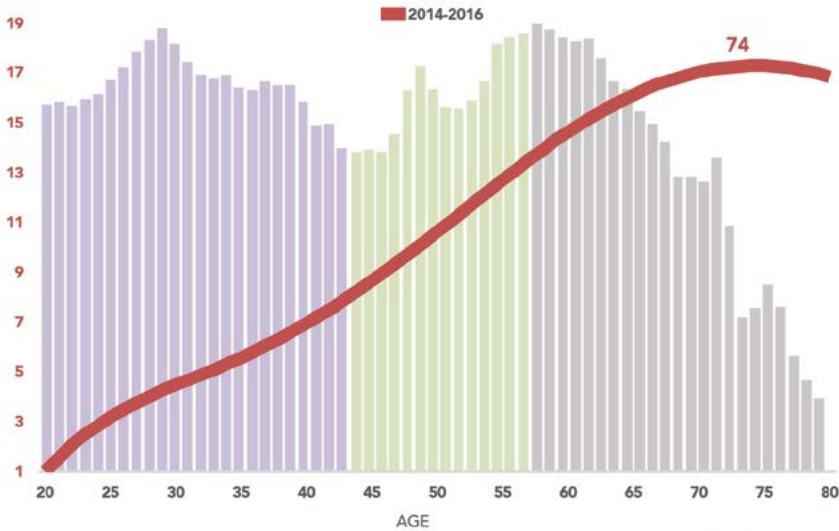


Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 8.11

Automobile Service Clubs and GPS Services
Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Auto repair service policies (Figure 8.10) and membership fees for auto service clubs (Figure 8.11) are two areas that should continue to see growth.

Growth is strong into age 38, implying that the Millennials are a prime market here. At the same time, total spending doesn't peak until age 69. So, the Boomers are still strong buyers here too.

Meanwhile, auto service club membership spending doesn't peak until age 74.

These areas are concentrated in dealer-sold policies and in large third-party sellers such as AAA, but if you have connections and expertise in the auto industry, then you may want to explore ways to profit from this

SPENDING WAVES

Figure 8.12

Satellite Radio Service

Average Annual Spending by Age, Indexed to 20 year olds

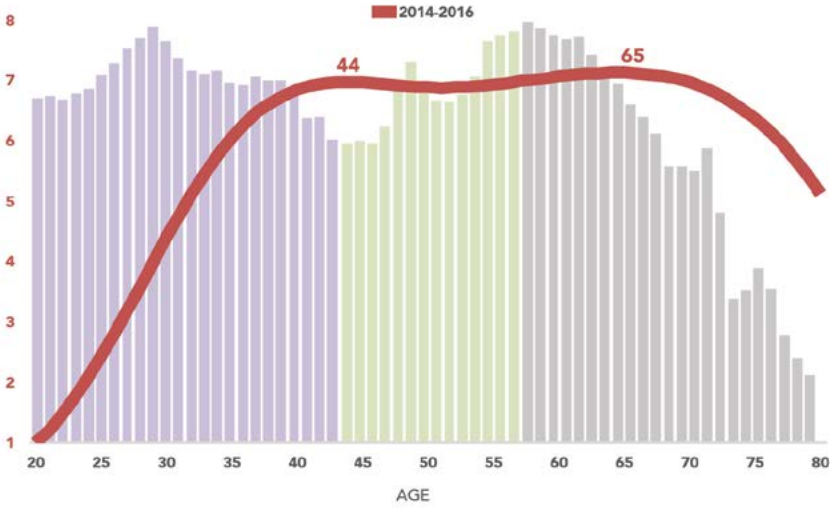
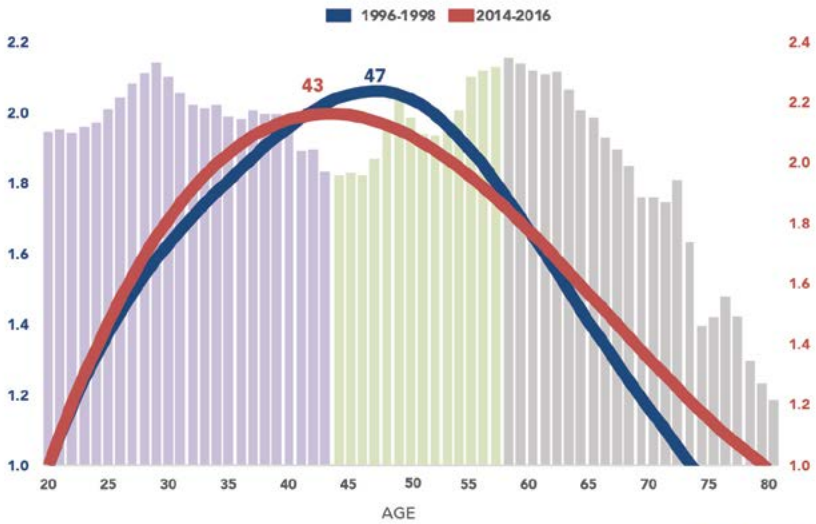


Figure 8.13

Gasoline

Average Annual Spending by Age, Indexed to 20 year olds



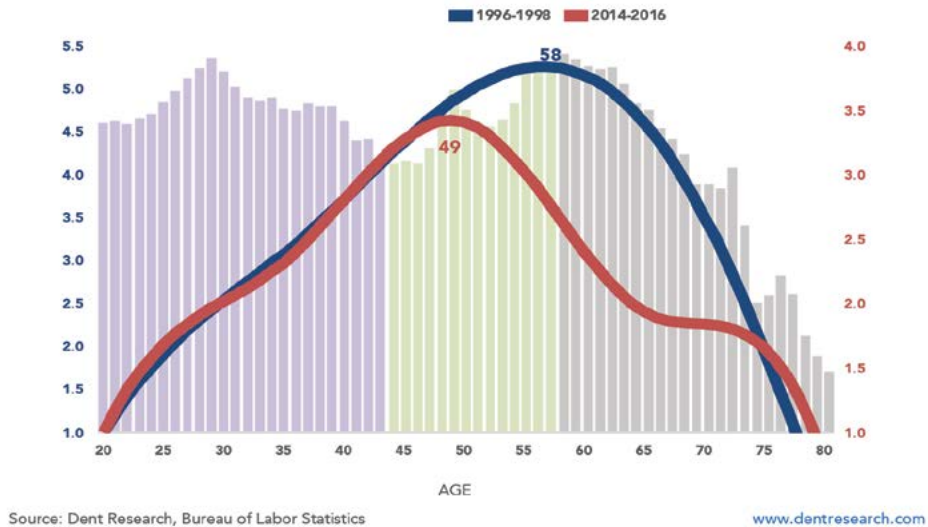
Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 8.14

Diesel Fuel

Average Annual Spending by Age, Indexed to 20 year olds

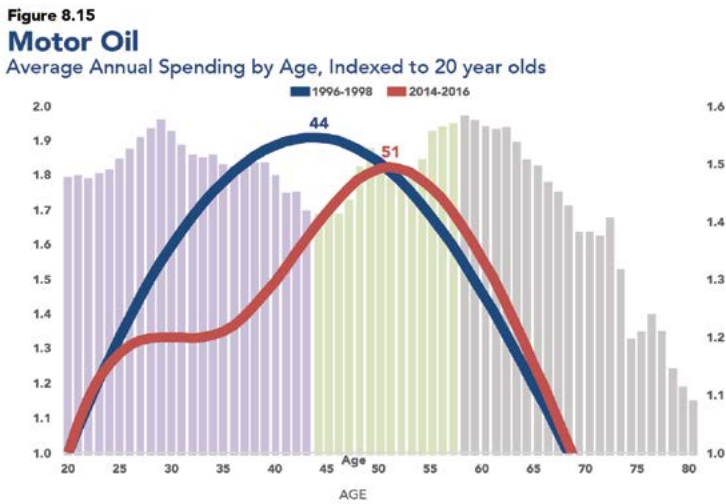


trend. It's one of the few ways I see to profit from the auto industry in the foreseeable future.

It might be a mistake to read too deeply into satellite radio service demand by age (Figure 8.12), as this is relatively new as a mainstream service (it's been mostly a niche market) and it's prone to disruption from competing internet music streaming services.

But demand appears to rise strongly into age 44 and remains relatively constant until age 65. This implies that Boomer demand should be pretty constant while Millennial demand is actually rising significantly.

Again, this is a service that's more likely to live or die based on the success of competing technologies as opposed to demographics. That said, it's worth noting that, in 2018, SiriusXM made an offer to buy internet music streaming service Pandora. SiriusXM, the leader in satellite radio,



seems to be conceding that its traditional format is at risk.

Gasoline consumption (Figure 8.13) peaks around 43, while diesel fuel consumption (figure 8.14) peaks later, at 49.

In your 40s, in addition to your work responsibilities, you're likely driving your children to soccer lessons and band practice. As your kids get old enough to drive themselves, you're driving less and spending less money on fuel.

Motor oil (Figure 8.15) peaks at 51.

Demand for oil and lube changes, as a service, (Figure 8.16) peaks slightly earlier, at age 46.

Less driving means lower fuel consumption, which means less traffic for gas stations. But there are also knock-on effects. Gas stations earn most of their profits from the convenience stores on site that sell everything from cigarettes and beer, to lunchmeat and juice. Lower traffic to the gas stations also means fewer convenience store purchases.

Figure 8.16

Lubrication, Oil Changes, & Filters

Average Annual Spending by Age, Indexed to 20 year olds

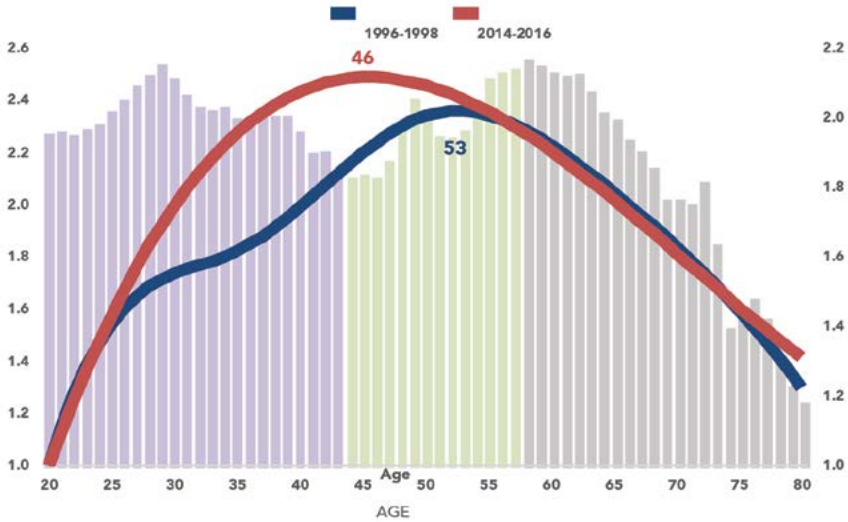
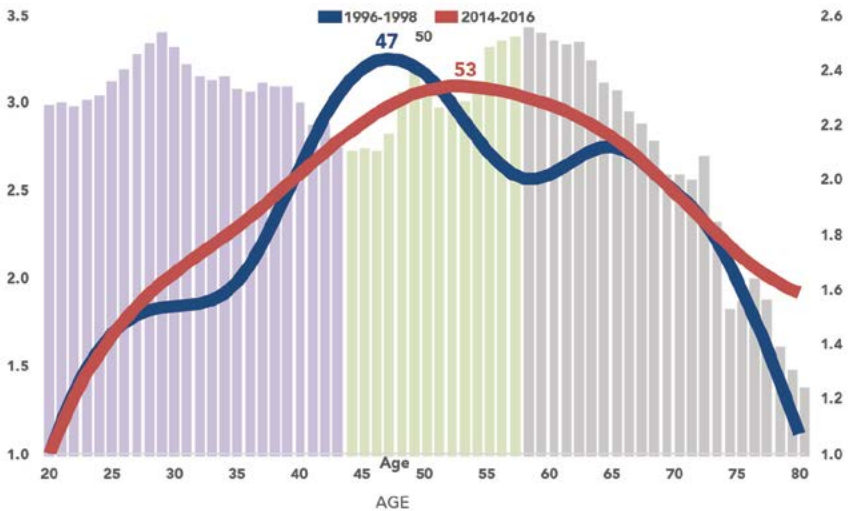


Figure 8.17

Tire Repair & Other Repair Work

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 8.18

Motor Tune-Up

Average Annual Spending by Age, Indexed to 20 year olds

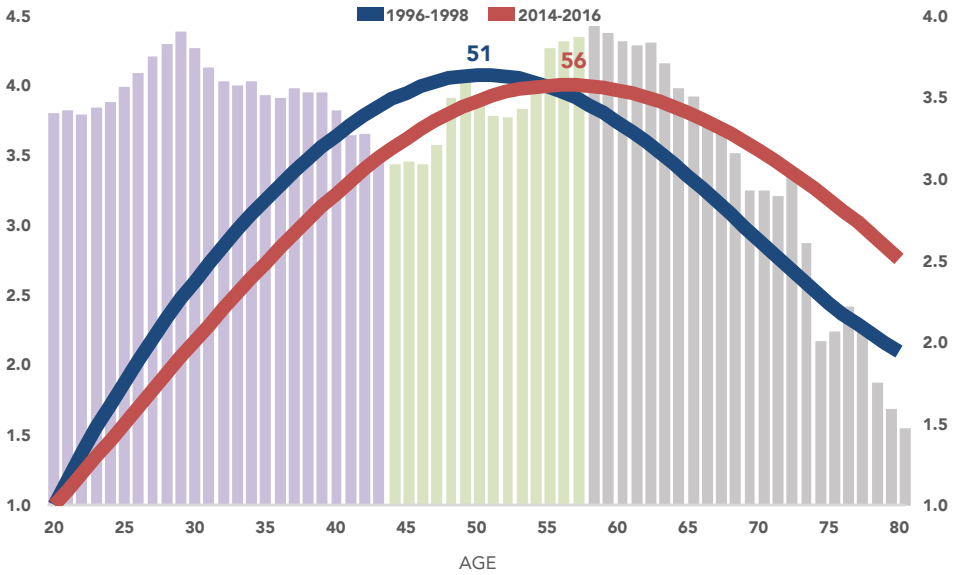
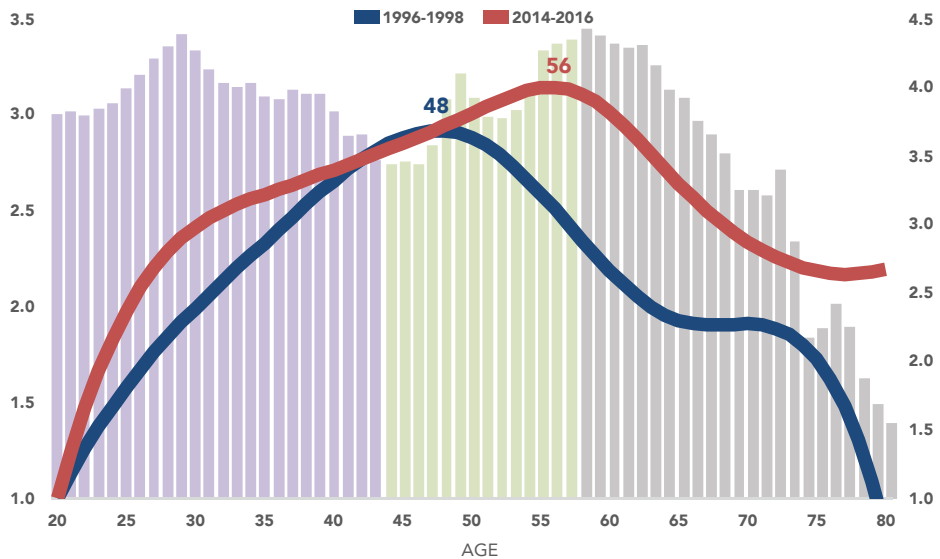


Figure 8.19

Front-End Alignment, Wheel Balancing, & Rotation

Average Annual Spending by Age, Indexed to 20 year olds

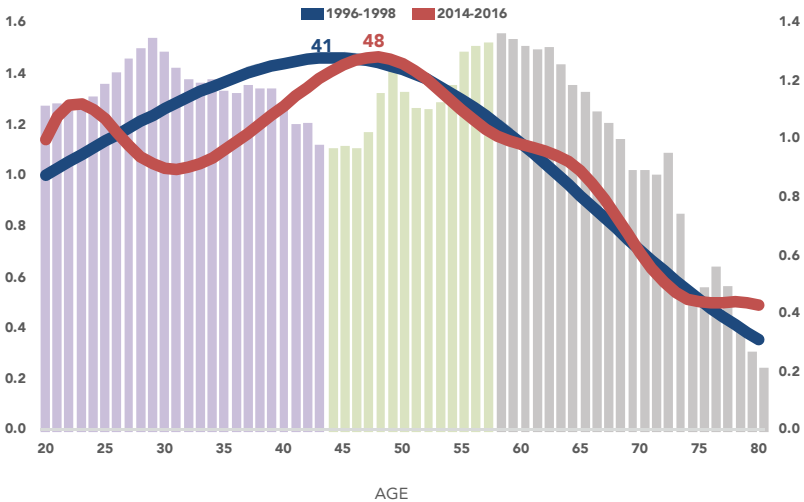


Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 8.20
Engine Fluids

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Also, the next 20 years will likely see a significant percentage of the cars on the road switch to electric vehicles. This will create opportunities for retrofitting gas stations on interstates and country highways to accommodate charging stations. It will also create opportunities in non-traditional spaces for charging stations, such as grocery store or mall parking lots.

The gradual shifting from gasoline engines to electric motors will create challenges for gas station owners. There are tens of millions of gasoline-powered engines on American roads, so gas stations won't be facing extreme difficulties any time soon. But long-term technology trends are clearly *not* on their side.

Moving on. As I mentioned earlier, Americans are driving less. Well, less driving also means less need for basic maintenance and replacement parts like tire repair (Figure 8.17), motor tune-ups (Figure 8.18), front-end alignments, wheel balancing and rotations (Figure 8.19), engine fluids

Figure 8.21

Shock Absorbers

Average Annual Spending by Age, Indexed to 20 year olds

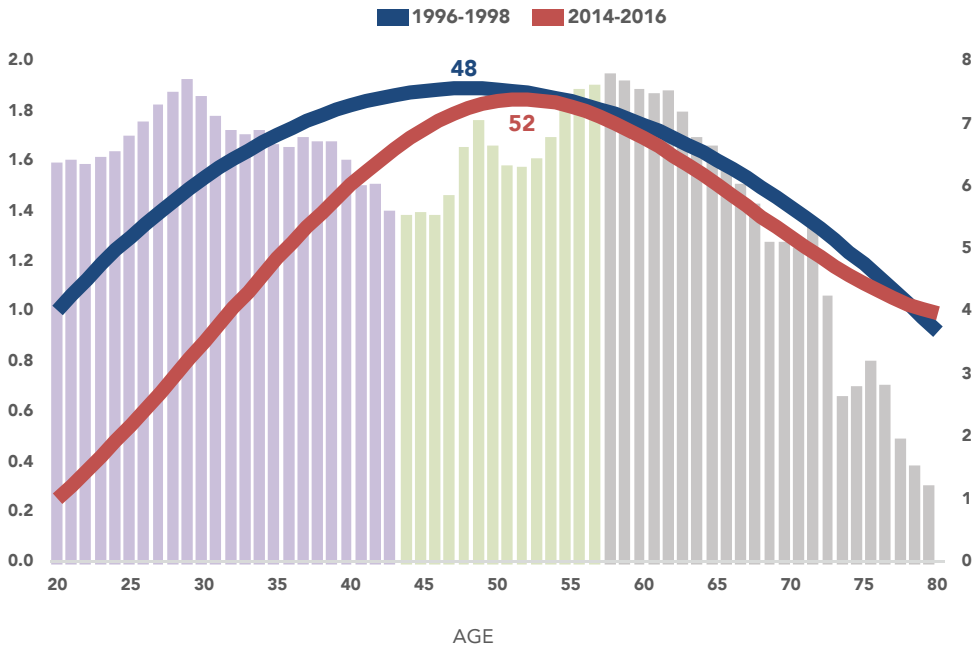
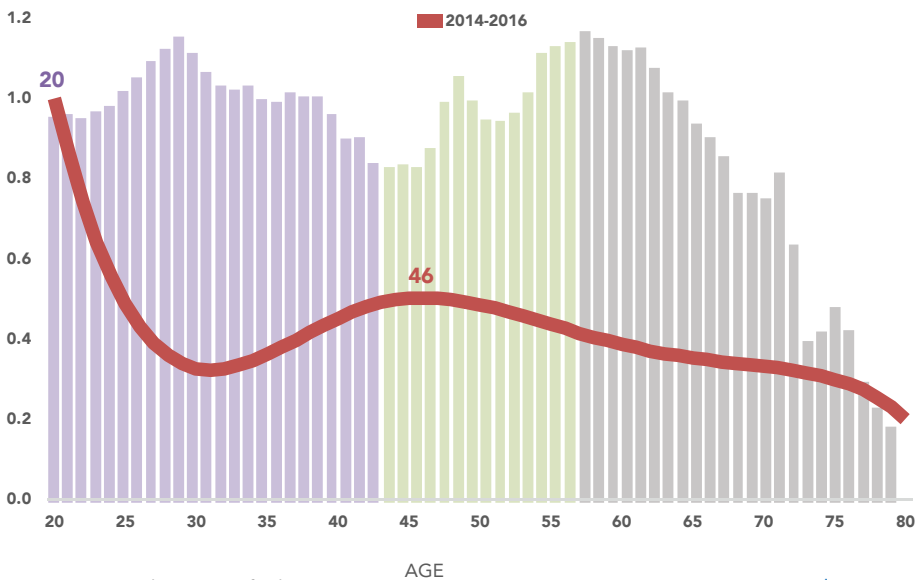


Figure 8.22

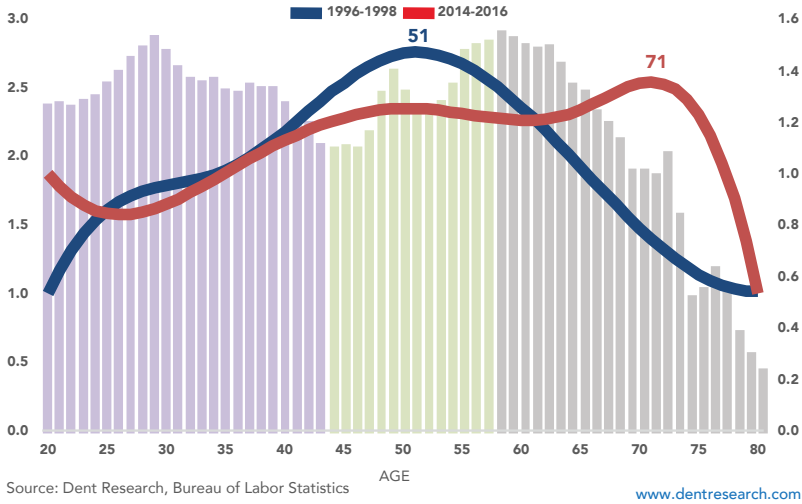
Towing Charges

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

Figure 8.23
Body Work & Painting
 Average Annual Spending by Age, Indexed to 20 year olds



(Figure 8.20), and shock absorbers (Figure 8.21).

Adding insult to injury, most of these categories have peak demand in the 50s. This means the Baby Boomers have already peaked in their spending in these areas.

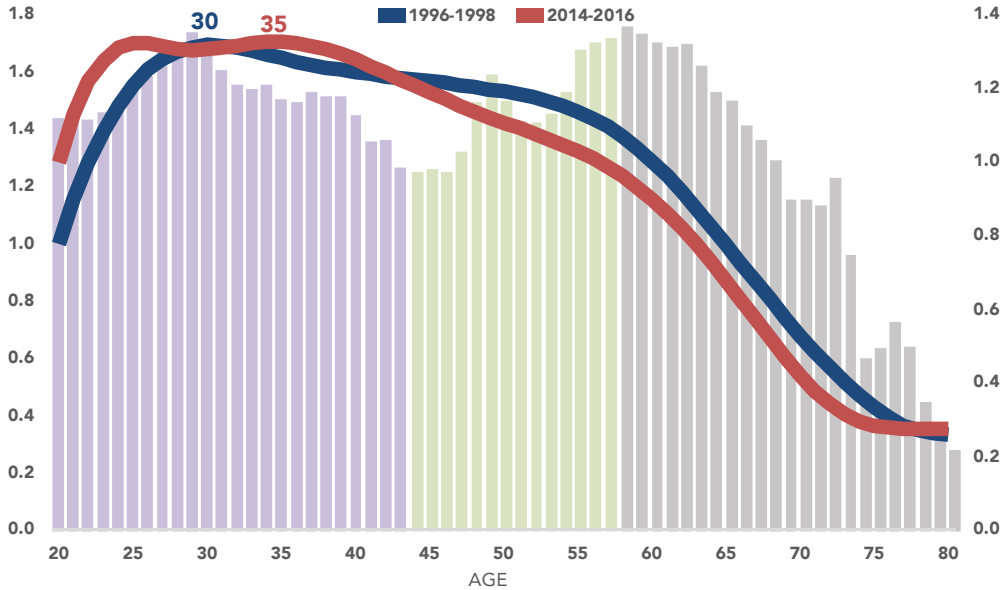
Returning to the growing trend of electric vehicles, this will create both opportunities and hardships in the auto services sector. Electric motors, as a rule, are simpler and require less maintenance than gasoline-powered internal combustion engines. To put it simply, electric cars have fewer moving parts and thus less to potentially break and need repair. Of course, electric vehicles will still require maintenance, which will require retraining mechanics to work on the new systems.

Again, the shift to electric vehicles will be gradual. The total number of electric cars on American roads is too small to matter at this point, and even if they suddenly increased to account for all new sales, the existing

Figure 8.24

Intra-City Mass Transit Fares

Average Annual Spending by Age, Indexed to 20 year olds



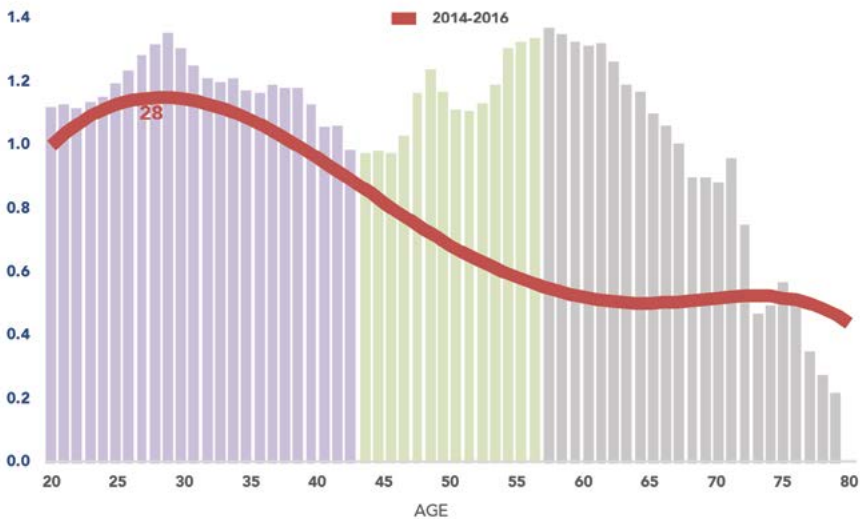
Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 8.25

Taxi & Limousine Services

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

stock of internal combustion cars would still need to be serviced for years or even decades to come.

But things are changing quickly in this industry. As of 2017, 39% of all new cars sold in Norway, and 6.4% of all cars on Norwegian roads, were electric vehicles. Norway is a tiny country and a drop in the bucket compared to global auto sales, but the trend here is clear.

If your business is related to auto maintenance, understand the challenges you will be facing. Your market won't evaporate over night, but trends aren't in your favor. Keep your debt load manageable and maintain a lean cost structure.

Two areas that should be largely immune to the shift to electric vehicles are towing charges (Figure 8.22) and body work and painting (Figure 8.23).

It really doesn't matter what kind of engine your car has. If you have a fender bender, you're still going to need to have your car towed to the repair shop, and you're still going to need the dent popped out and the panel repainted.

That said, demographic trends aren't particularly strong here. Demand for towing peaks at 46, which is demographic no-man's land. The Boomers are too old to push demand, but the Millennials are too young.

Demand for body work and painting looks a little better.

Demand rises strongly from age 25 to 45 and continues to rise modestly through age 71.

Moving away from autos for a minute, intra-city mass transit fares

(busses, subways, etc.) peaks around age 35 before dropping dramatically.

This makes sense. Young professionals tend to migrate to urban areas offering mass transit but tend to move to suburban or exurban areas once they marry and start to form families.

Taxi and limo services (Figure 8.25) peak even earlier, at age 28.

It's worth noting, however, that this data covers the 2014-2016 period, and ride hailing services such as Uber have become more popular since then. While this graph might look a little different if built with 2018 data, I would still assume that it would skew young.

If you glean anything from this chapter, let it be this: The auto industry and all its complementary sub-industries are in for difficult times in the years ahead. This is an industry heavily dependent on the health of the economy, and even the most optimistic of economists stop short of forecasting strong growth over the next decade. But even in a normal economic environment, demographic trends point to a mixed future. And the pace of technological change, including the rise of electric vehicles, make this an industry ripe for major disruption.

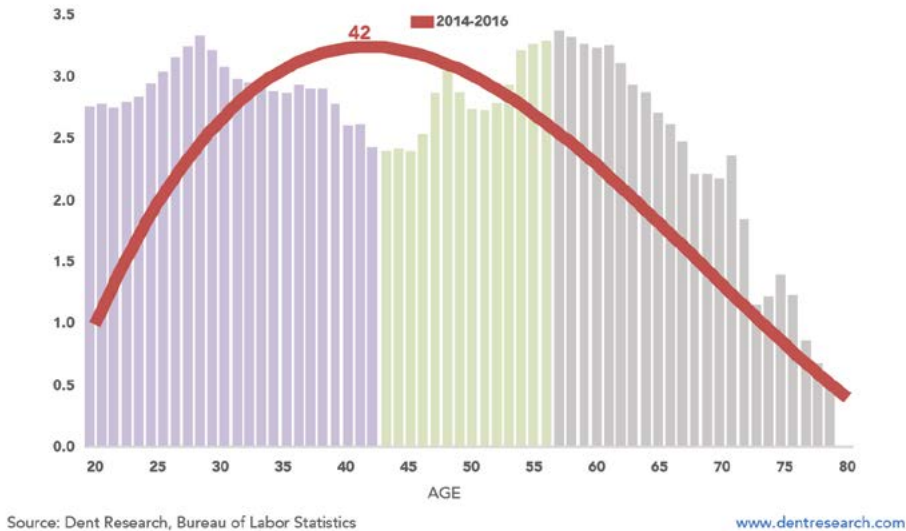
If your business revolves around the auto industry, you have serious choices to make. If you have the flexibility to sell your business, you may want to consider doing so. If this is not a realistic option, then prepare to compete by perhaps offering greater specialization, customization, or focusing on a niche market. And for the next several years, focus on cutting costs and reducing your overhead wherever possible. Some years will be better than others, but the overall trend for the foreseeable future will be one of slow growth or shrinkage.

Children's Goods and Services

I have breaking news for you: Kids cost money! As I outlined in the introduction, kids cost parents a *shocking* amount of money — as in hundreds and hundreds of thousands of dollars. They come into this world as a major expense, and they only get more expensive until they move out of the house. And if you're paying for their university education, then the expenses ratchet up to a whole new level.

More than just increasing the amount of money we spend, children change the way we spend it. Rather than focus our consumption on ourselves, our disposable dollars go to pay for the wants and needs of our children — everything from Mickey Mouse dolls to bunk beds.

Figure 9.1
Musical Instruments
 Average Annual Spending by Age, Indexed to 20 year olds



Let's start by looking at musical instrument sales (Figures 9.1). Spending peaks at 42 in this area.

Might some of this be 40-something men having an early mid-life crisis and starting a garage band? I suppose. But it's safe to say that most of these expenses are for school-aged children joining their school band.

The Baby Boomers passed this stage a full decade ago, so the damage that their aging will do to musical instrument sales has already been done. But we might not get the boom that age demographics would normally expect from the Millennials. With the Millennials in their late 20s and early 30s, this chart would suggest we have a strong decade in front of us. But remember, birth rates started dropping a decade ago, and Millennials have yet to really start cranking out children.

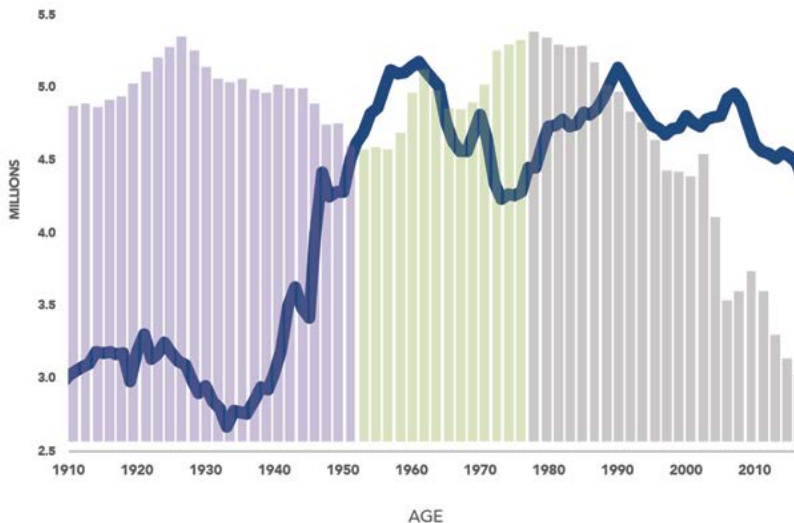
In the immediate future, children born in the years leading up to 2007 –

the generation tentatively called “Generation Z” – will drive demand. But given that these kids are now already 12 years old, their demand for band instruments is peaking now. Most children pick up a musical instrument around the age of 11 or 12. So, I would expect demand for “starter” musical instruments to stay strong for another couple of years, with “professional class” instruments peaking three or four years from now. After that, demand looks weak.

Are there opportunities to pursue here?

In the immediate future, demand for private instructors should be high. But this isn’t a business opportunity that just anyone can participate in. Professional expertise and connoisseurship are necessary.

Figure 9.2
U.S. Immigration-Adjusted Births
 Average Annual Spending by Age, Indexed to 20 year olds



But let’s step back for a moment to review the Immigration-Adjusted Birth Index (Figure 9.2).

Figure 9.3
Babysitting & Child Day Care
 Average Annual Spending by Age, Indexed to 20 year olds

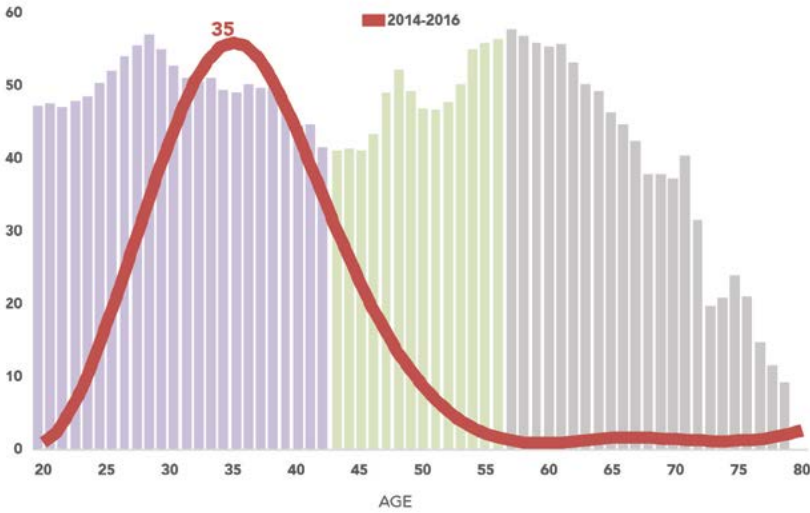
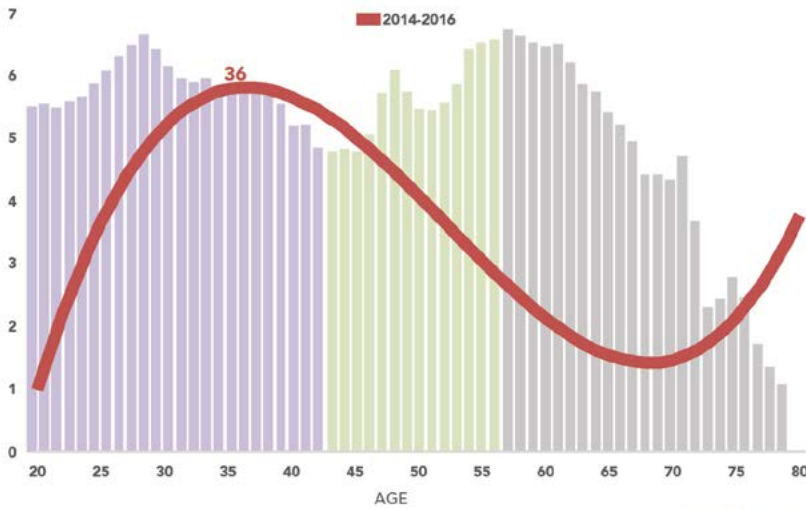


Figure 9.4
Playground Equipment
 Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

The largest demographic force in America remains the Baby Boomers, as you can very easily see by the large bulge in the middle of the graph. Not only were births in the United States at record highs in the late 1950s and early 1960s, but immigrants in the 1970s, '80s, and early '90s swelled their ranks even further.

As most Baby Boomers are now empty nesters, this generation won't be much of a factor in this chapter. The key generations to watch for children's goods and services will be the Millennials, who saw their peak birth year in 1990, and Generation Z, who saw their peak birth year in 2007.

If I have succeeded in confusing you, let me put it to you like this: There was a large generation of kids born leading up to 2007, so think of this mini-boom as a wave that will push through the economy in the years to come. But the much *larger* wave is still to come.

Births to Millennial mothers should trend sharply higher from around 2027 to around 2036, although pent up desires for kids from the first wave could start to resurface earlier if the economy remains strong.

With that said, let's jump back into demographic forecasting. Demand for paid babysitting (Figure 9.3) is concentrated in the mid-30s and peaks around 35, just as the average kid born to a mother aged 28 to 29 is entering elementary school.

The real boom in babysitting has already come and gone, as the kids born in 2007 have already passed this stage.

Playground equipment (Figure 9.4) peaks at 36. This peaks a few years after starter home purchases.

It's unfortunately already a little too late to take advantage of the Generation Z birth surge. The kids born in 2007 are already 12 years old. But it would make sense to put the pieces in place today to take advantage of the next boom. Opportunities here could include designing high-end playgrounds for the kids of upper-middle-class Millennial parents. Or, offering to assemble playgrounds for dads without the tools or knowhow could be an option for those with basic carpentry skills.

The same logic applies to toys, games, and hobbies (Figure 9.5).

Figure 9.5

Toys, Games, & Hobbies

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

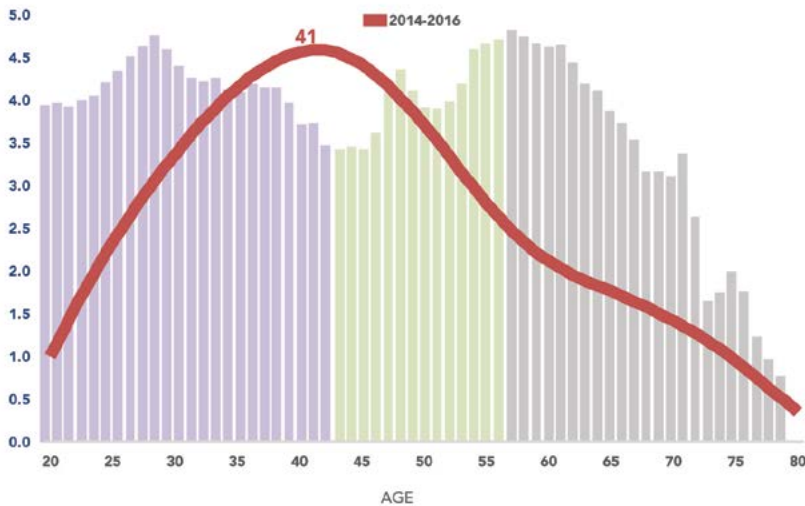
www.dentresearch.com

Spending here peaks at age 36, just as the kids are getting hooked on Star Wars or super hero toys. I expect this age to rise going forward as the average age at first childbirth continues to rise for women. But the basic reasoning is the same: Babies born when you're in your late 20s or early 30s want toys by the time you are in your mid-to-late 30s.

The last wave (children born in 2007) has already crested, but there will be opportunities a few years from now once birth rates start to tick up again. But while demographics are straightforward, profiting from these trends may not be particularly easy. If you're trying to sell toys, you compete with the likes of Target, Wal-Mart, and Amazon among others. Competing against these titans would be difficult.

But if you're looking at potential employment opportunities, then toy marketing or the making of high-end specialty toys might not be a bad career choice.

Figure 9.6
Athletic Gear, Game Tables, & Exercise Equipment
 Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Sales of athletic gear, game tables, and exercise equipment (Figure 9.6) peaks around age 41.

This is a hybrid product segment in that these would include purchases for adults with active hobbies and children.

Figure 9.7
Infant's Accessories
 Average Annual Spending by Age, Indexed to 20 year olds

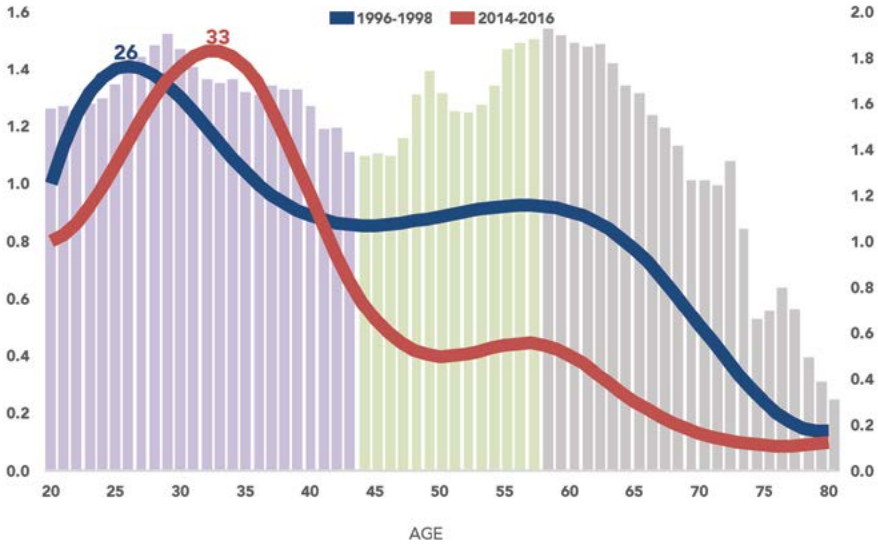
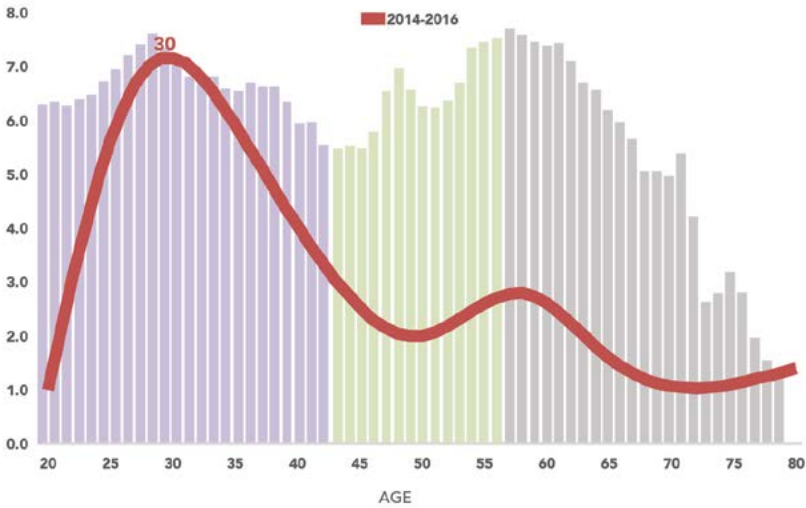


Figure 9.8
Infant's Equipment
 Average Annual Spending by Age, Indexed to 20 year olds

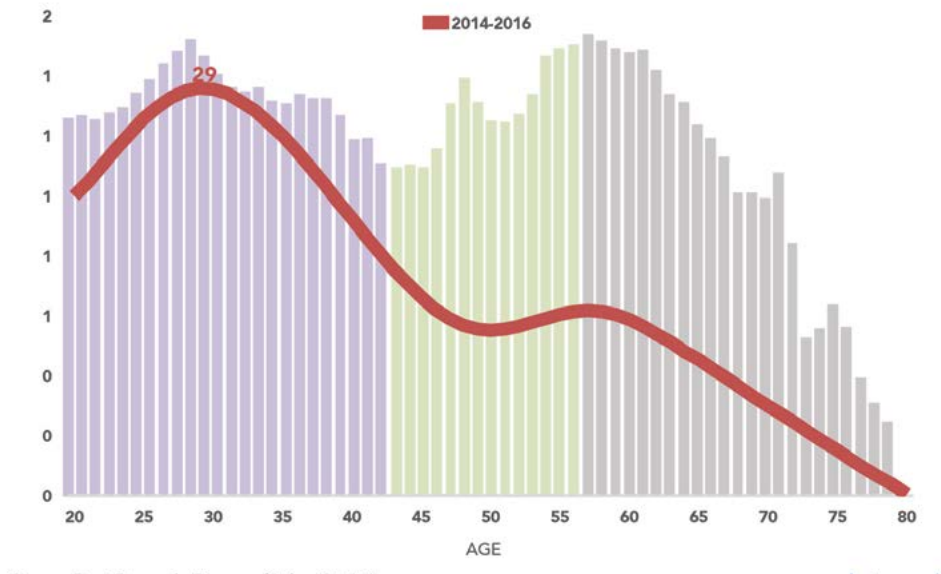


With the Millennials now in their late 20s and early 30s, demand should be strong in this area for the next decade.

The next several graphs of demand for infant products all essentially tell the same story: Demand generally peaks in the late 20s or early 30s, in line with first childbirth.

The first child is far more of an economic event than his or her subsequent siblings. It's with the first child that you must buy the most expensive things, such as equipment (Figure 9.8) and furniture (Figure 9.9). Equipment includes things like strollers and baby swings, and furniture includes the biggest items like the crib, dresser, changing table, etc.

Figure 9.9
Infant's Furniture
 Average Annual Spending by Age, Indexed to 20 year olds



After the first child, you already own all of these things and have no need to buy it all again, unless you want to upgrade. But beyond this, you're also more experienced as a parent and are in a better position to choose your purchases more carefully. You learn from the first child what you actually need and what you don't.

Average peak ages have been trending higher in these segments, which isn't at all surprising as Americans have been marrying and having children later in life. Infant equipment purchases peaked at 27 in the late 1990s. In the 2014-2016 period, that number had risen to 30.

Over the same period, peak demand for infant furniture has risen from 27 to 29.

You can tell from the shapes of the charts that grandparents regularly buy many items. For example, notice that infant accessories have a modest secondary peak just before age 60. Infant equipment and furniture have similar patterns as well. This pattern has become less pronounced in infant dresses and outerwear (Figure 9.10) and nightwear (Figure 9.11).

Note that you should ignore the spike in nightwear spiking into age 80. This is a statistical fluke. Don't interpret it as 70-something grandparents going on a spending spree for baby nightgowns.

Interestingly, parents are almost completely on their own when it comes to buying diapers (Figure 9.12).

In looking at these demand curves, you get a decent idea of who your market is. The primary buyers are the parents, and though the data isn't segregated by sex, it's safe to assume that the mother is the primary decision

Figure 9.10

Infant's Dresses & Outerwear

Average Annual Spending by Age, Indexed to 20 year olds

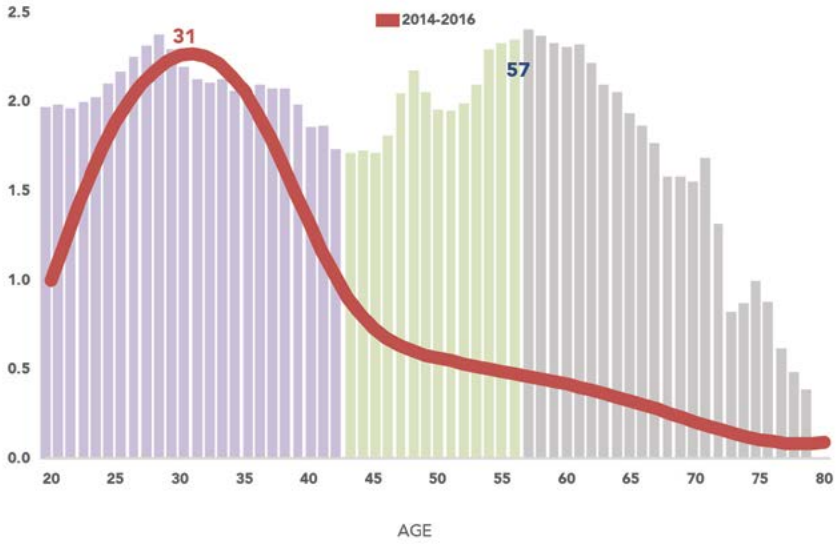
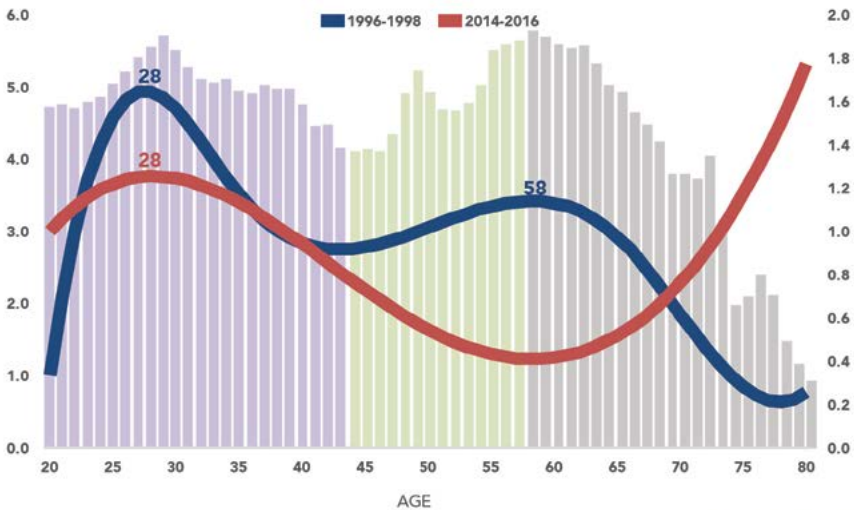


Figure 9.11

Infant's Nightwear & Loungewear

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 9.12
Infant's Undergarment & Diapers
 Average Annual Spending by Age, Indexed to 20 year olds

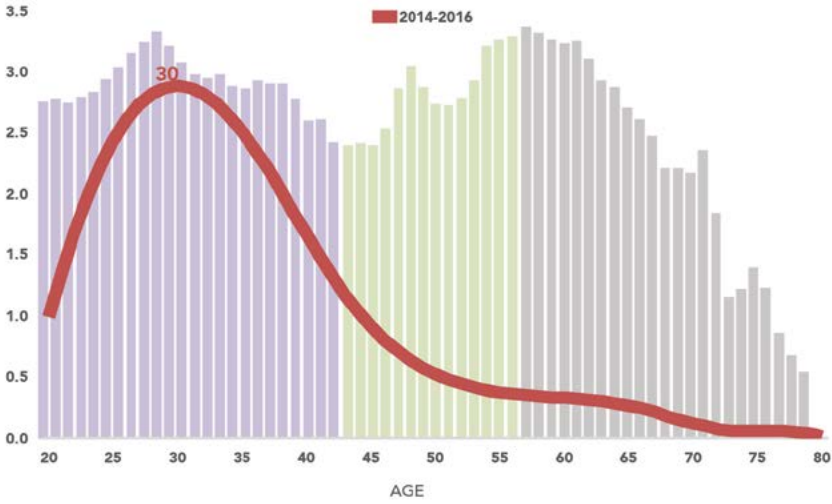
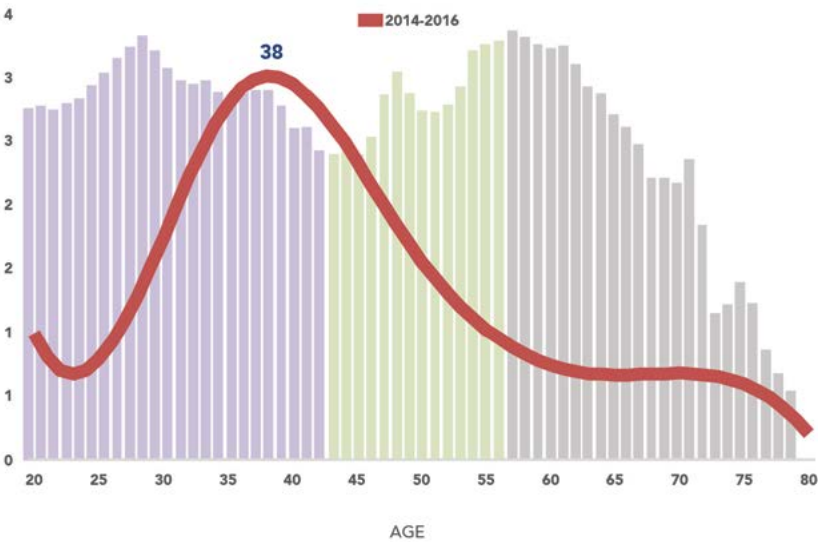


Figure 9.13
Boys' Accessories
 Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 9.14

Girls' Accessories

Average Annual Spending by Age, Indexed to 20 year olds

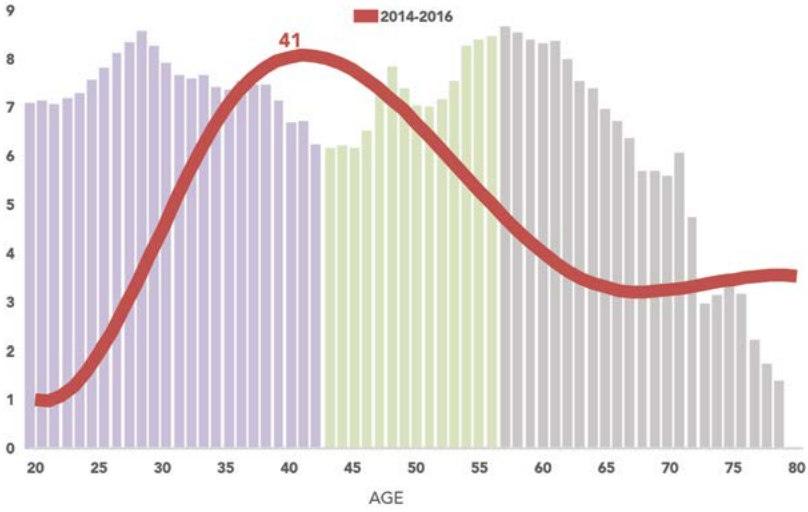
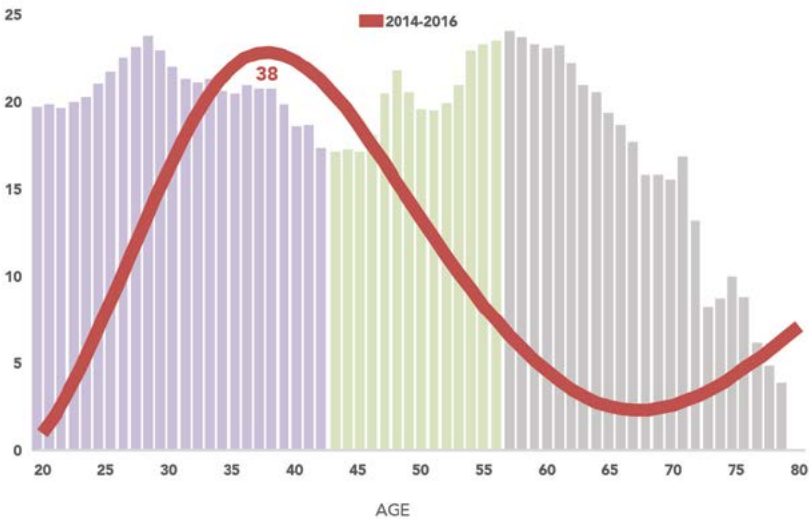


Figure 9.15

Boys' Coats & Jackets

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 9.16

Girls' Coats & Jackets

Average Annual Spending by Age, Indexed to 20 year olds

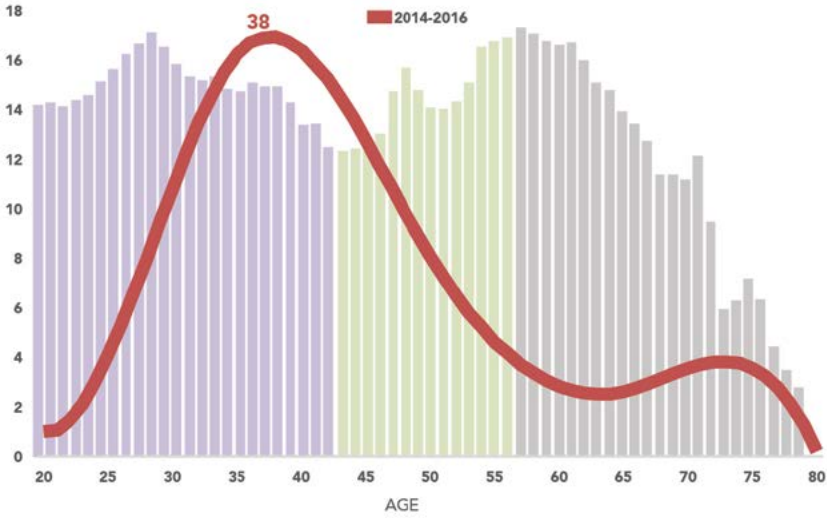
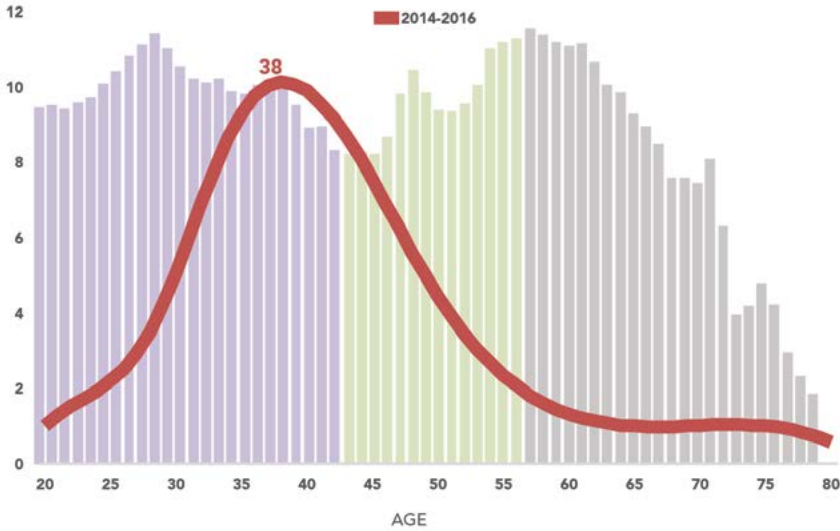


Figure 9.17

Boys' Footwear

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 9.18

Girls' Footwear

Average Annual Spending by Age, Indexed to 20 year olds

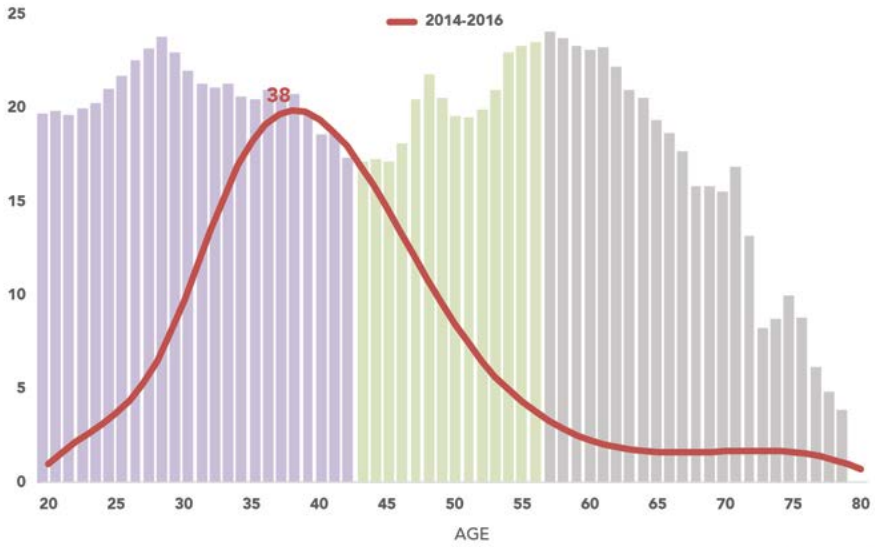
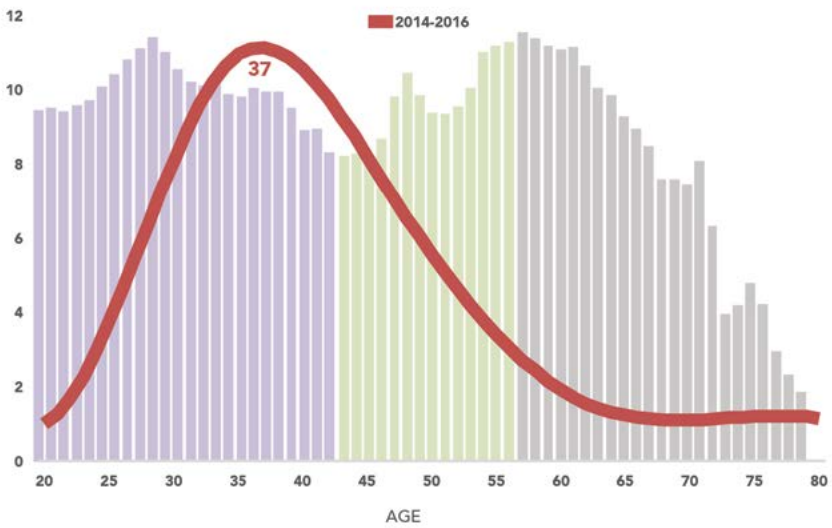


Figure 9.19

Boys' Hosiery

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 9.20

Girls' Hosiery

Average Annual Spending by Age, Indexed to 20 year olds

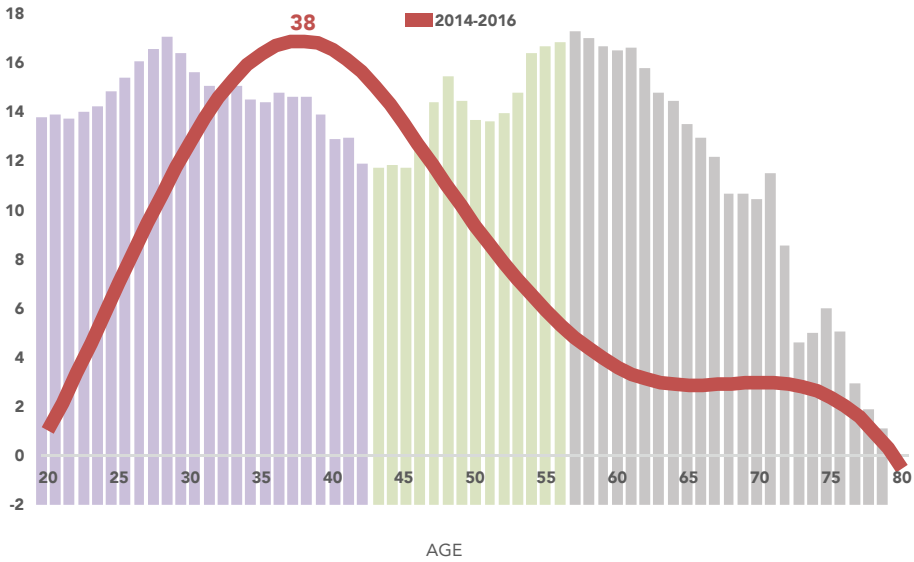
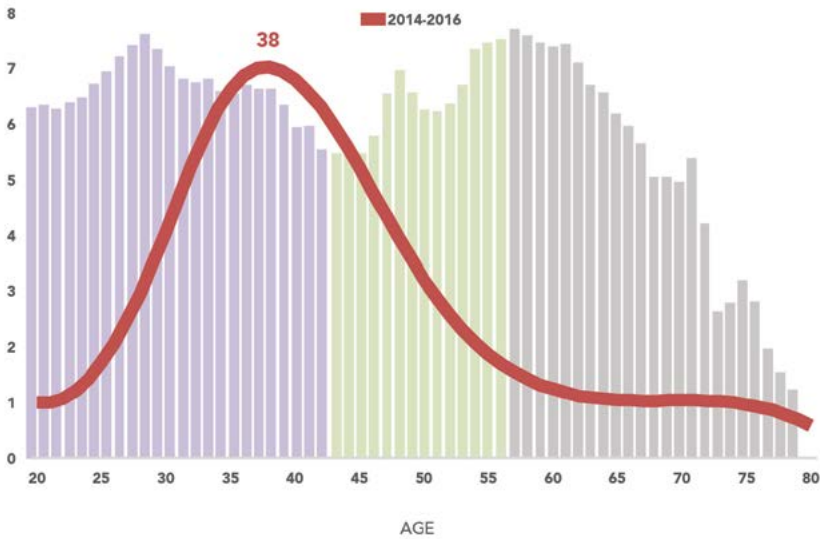


Figure 9.21

Boys' Pants & Shorts

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 9.22

Girls' Skirts, Pants & Shorts

Average Annual Spending by Age, Indexed to 20 year olds

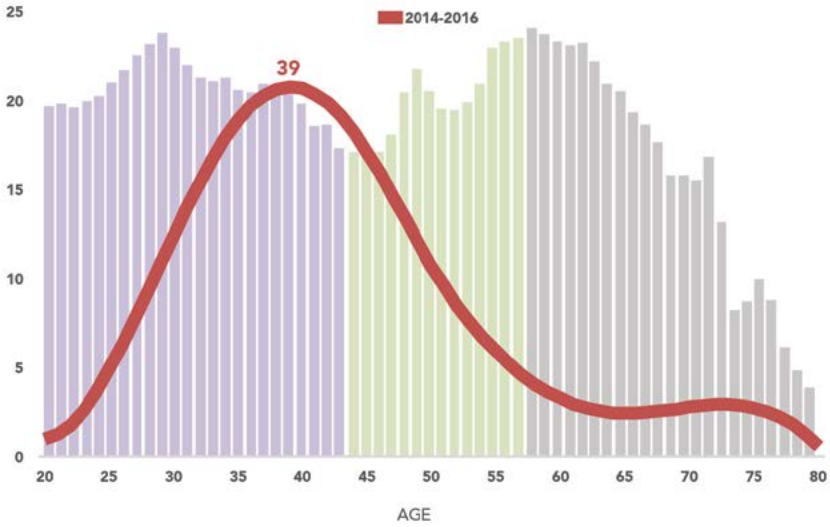
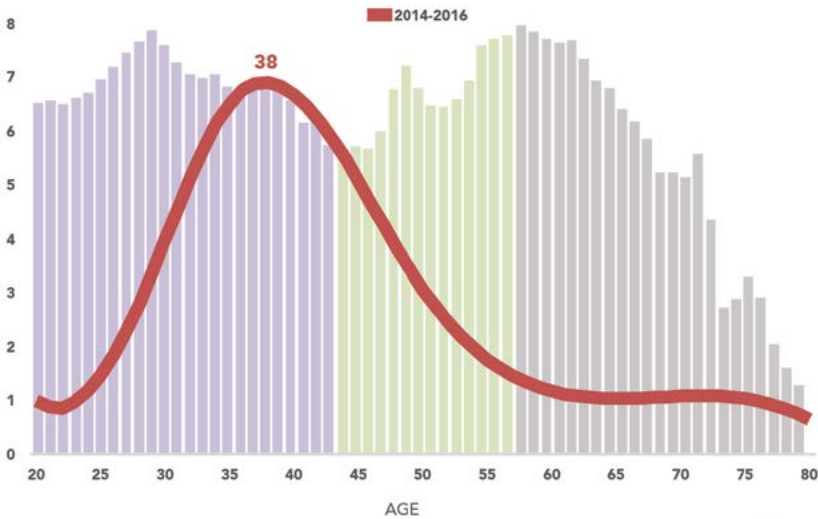


Figure 9.23

Boys' Shirts & Sweaters

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 9.24

Girls' Shirts, Blouses & Sweaters

Average Annual Spending by Age, Indexed to 20 year olds

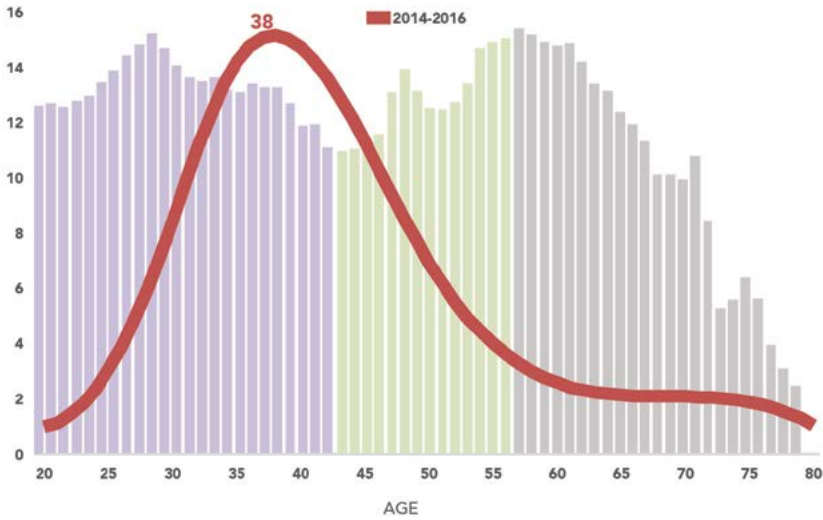
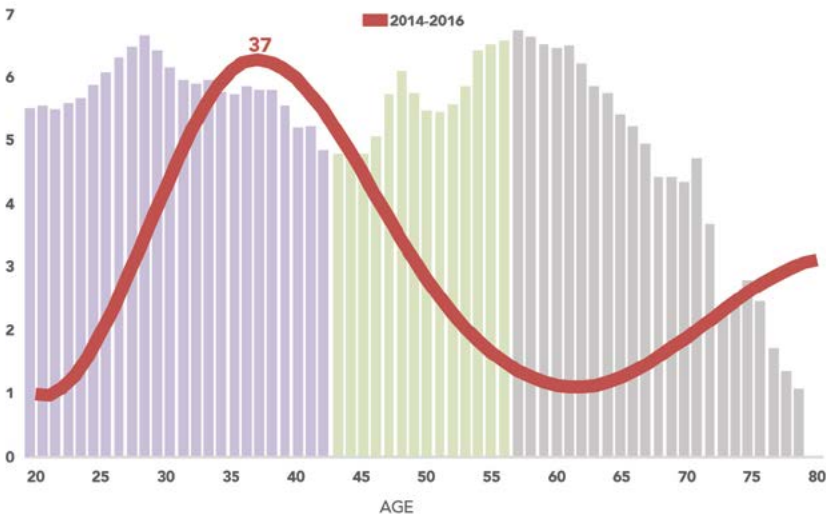


Figure 9.25

Boys' Sleepwear

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 9.26

Boys' Underwear

Average Annual Spending by Age, Indexed to 20 year olds

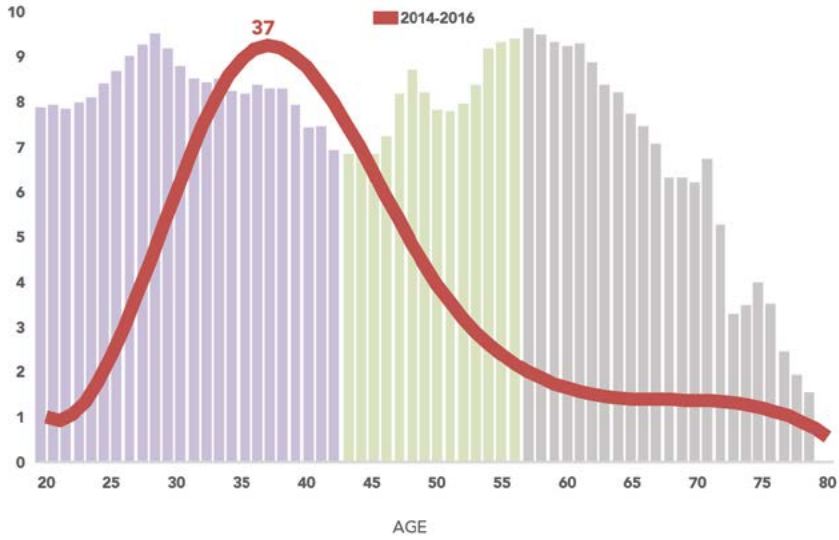
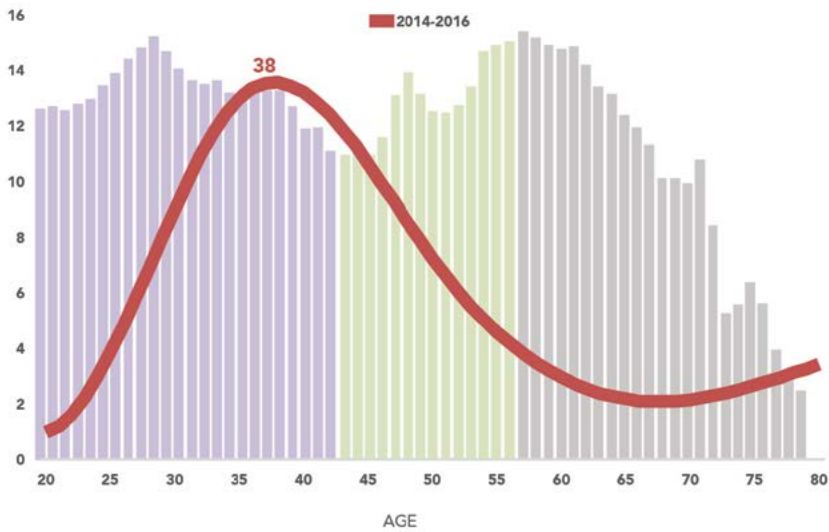


Figure 9.27

Girls' Undergarments & Sleepwear

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 9.28

Boys' Suits, Sportscoats & Vests

Average Annual Spending by Age, Indexed to 20 year olds

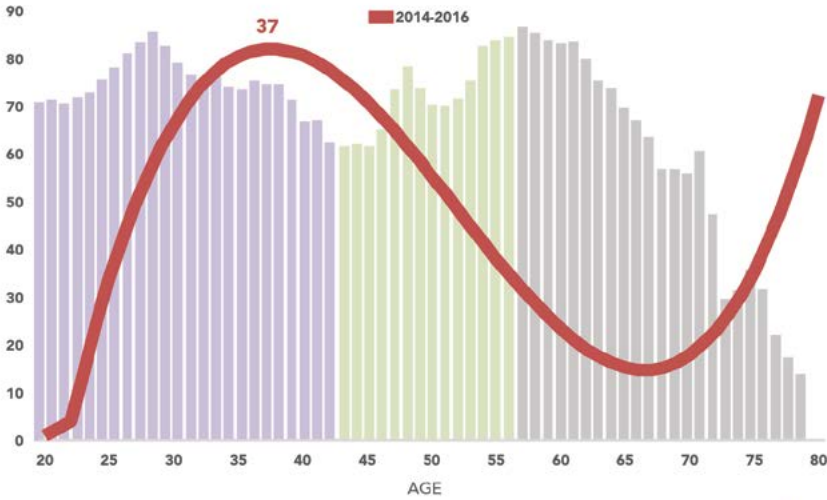
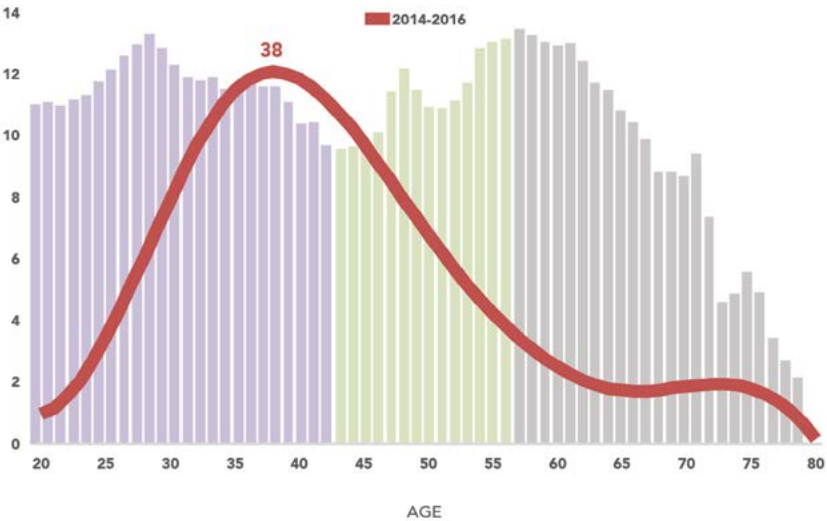


Figure 9.29

Girls' Dresses & Suits

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Figure 9.30

Girls' Active Sportswear

Average Annual Spending by Age, Indexed to 20 year olds

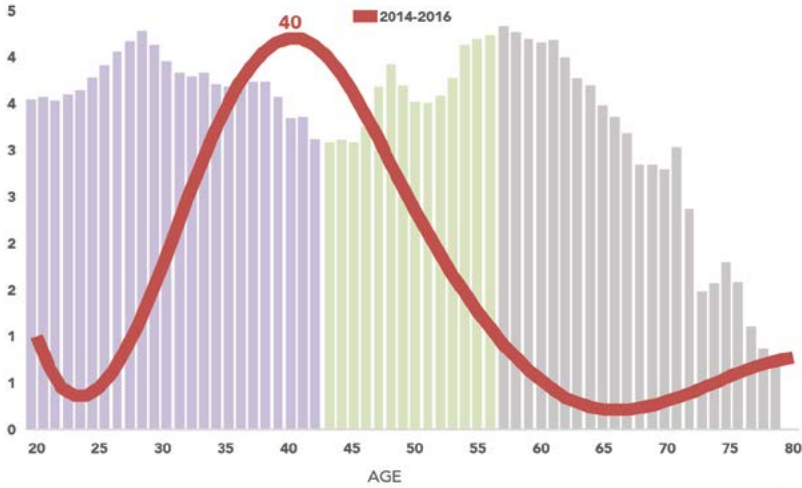
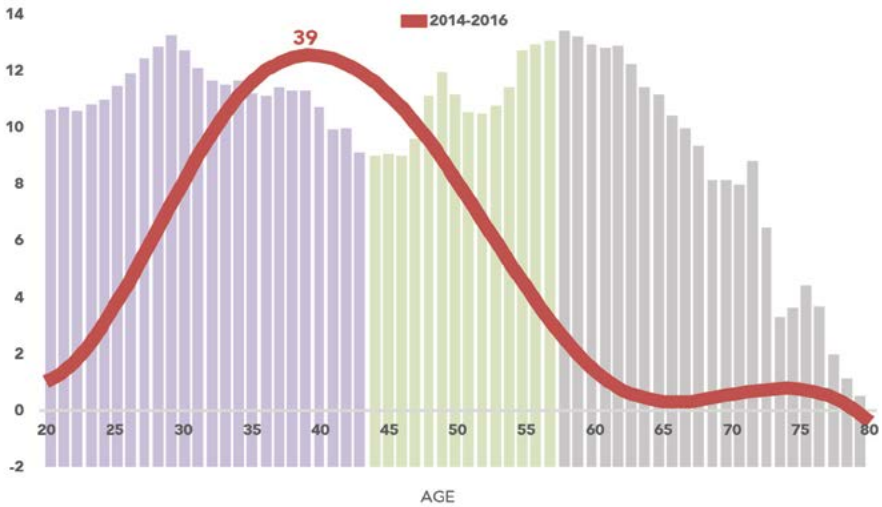


Figure 9.31

Girls' Costumes

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

maker on these purchases. But for plenty of these products, grandparents are significant buyers as well. And what appeals to a baby's mother may be very different than what appeals to a baby's grandmother. In other words, tailor your products to the tastes of Millennial mothers, but don't neglect Baby Boomer grandmothers.

The low birthrates of the past decade imply that the boom you see suggested in some of these charts won't happen. Yes, 30-year-olds buy the most diapers. That's good to know so you can tailor your product to the tastes of the primary buyers. But, in forecasting total demand for these purchases, it's more important to know how many babies have been recently born.

Millennials are getting married and having children later in life, so these demand curves will likely skew a little older in the coming years. Still, human biology doesn't change. After the early 30s, conception becomes more difficult and having a large family becomes less realistic. A couple that might have ideally liked to have three or four kids will be lucky to have one or two if they wait until their mid to late 30s to start.

An important consideration in this market is the large retailers. They tend to dominate the baby products arena. But this is also an area where word-of-mouth recommendations carry a lot of weight. If you have a concept for a new baby product, use the next few years to build your brand and develop a presence on the web and via social media. Participate in message board discussions and in the comments sections of sites and blogs popular with new moms. This is still wide-open territory, and the possibilities in the next boom are limitless.

The best part about infants is that you know what comes next! Today's infant is a toddler two years later and a kindergartener three or four years later. Figures 9.13 through 9.31 all tell very similar stories: Spending on virtually all clothing and accessories for boys and girls peak in the late 30s. After that point, the lines get a little blurred. You may technically be buying adult clothes for the teenage kids by the government's definitions, and these purchases would happen in your 40s, not your 30s.

So, true peak spending on the clothes for your children will generally be much later than these figures suggest. Take these particular charts with a healthy grain of salt.

The key to take away here is this: Once the new baby boom gets underway, you will have plenty of advanced notice to put a plan in place for profiting from the next stage of childhood development. Build a loyal client base among the mothers (and grandmothers) of infants, and they'll be your customers for the next eight to 10 years. Your business can mature along with their kids. After about the age of nine or 10, kids tend to form their own fashion opinions. Good luck trying to divine what that will be ahead of time. On this count, even the most in-depth demographic analysis is likely to fail!

Clothing and Accessories for Adults

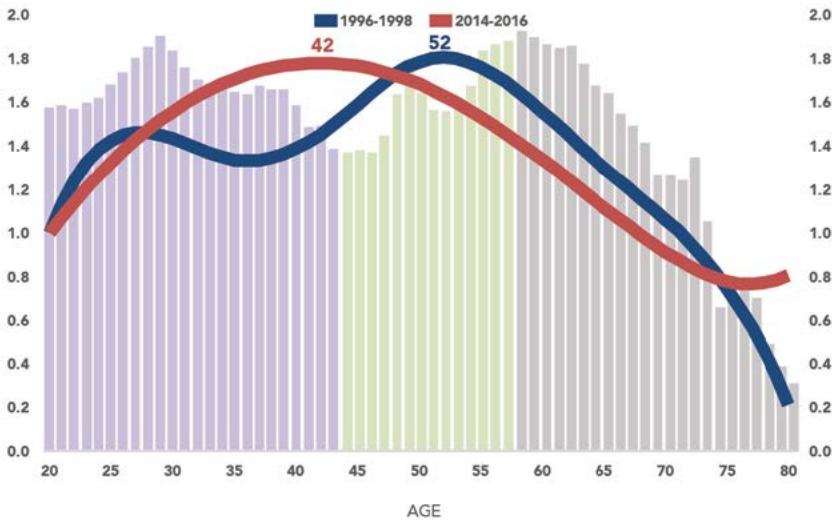
I would love to tell you that I have good news for clothing and accessories for men and women, but that's not at all the case. The dominant buyers are consumers in their late 40s and early 50s, meaning that retreating Baby Boomers will be a major headwind for years to come. Combine this with the disruption of internet retailers like Amazon, and you have a recipe for very hard times at America's shopping malls. I expect to see major consolidation in the years ahead.

That said, there are some products that do favor Millennial buyers. So, there is hope! Looking into the next decade, marginal department stores like JC Penney and Sears probably won't survive. It's a miracle they've survived this long, given the upheaval in the retail space. Their eventual

demise will create opportunities for the stronger competitors left behind, but it's still likely to be a rough several years in the meantime.

It's not just old-style department stores that are suffering (and will continue to suffer). Smaller specialty shops will have a hard time as well. Just as a rising tide lifts all boats, a falling tide reveals who's been swimming naked, to take a colorful quote from Warren Buffett. As the Boomers approached their peak spending years, there was enough money to go around. Even marginal stores with mediocre product lines could limp along in that kind of macro environment. But with the Boomers retrenching and without a large, wealthy generation immediately coming up behind them, these are precisely the kinds of retail stores that fail.

Figure 10.1
Jewelry
 Average Annual Spending by Age, Indexed to 20 year olds



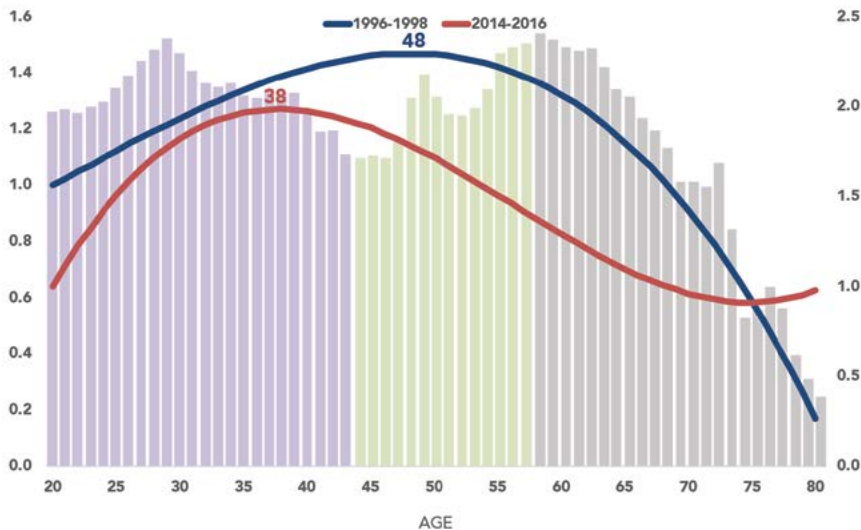
The retailers that survive and thrive in the years ahead will be those

that best navigate internet and mobile commerce *and* that appeal to Millennials. Financial discipline is also important. The next few years won't be a time for borrowing and expanding, but rather for consolidating what you have and keeping your powder dry for the next great opportunity.

With that said, let's jump into some specific products. Jewelry is one area where spending patterns have really changed over the past two decades (Figure 10.1).

Figure 10.2
Watches

Average Annual Spending by Age, Indexed to 20 year olds



In the late 1990s, spending peaked at age 52, though there was a noticeable bump in the mid-20s corresponding to wedding jewelry purchases. Interestingly, peak spending has moved forward to age 42. Should these numbers hold, this is good news for the industry, as the Millennials are just now entering their early 30s. But jewelers should orient their products to Millennial tastes. The Boomers (and even most of Gen X) are done here.

If you're in the jewelry business and you've done well selling wedding jewelry to Millennials, you likely have a few good years left due to that generation marrying later than previous ones. But don't expect it to last forever because the Millennials, as a generation, are in their peak marriage years now. They will soon be aging out of it, and it will be well over a decade before Gen Z starts to walk down the aisle in any real numbers.

Like jewelry, watch spending has been peaking at younger ages in recent years (Figure 10.2).

Spending now peaks around the age of 38. If this holds, it's good news for retailers because Millennial spending will be rising here for the next decade.

There should be opportunities for watch and jewelry repair (Figure 10.3). Americans continue to spend more on this service well into old age.

Figure 10.3
Watch & Jewelry Repair
Average Annual Spending by Age, Indexed to 20 year olds

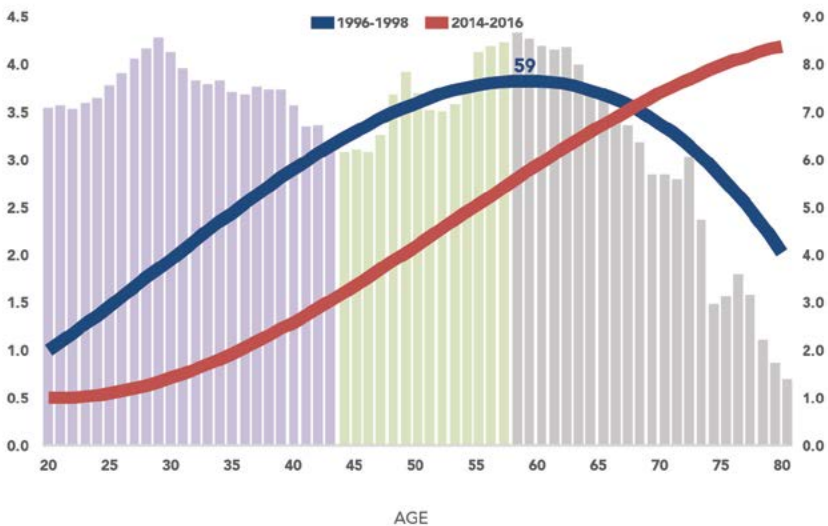
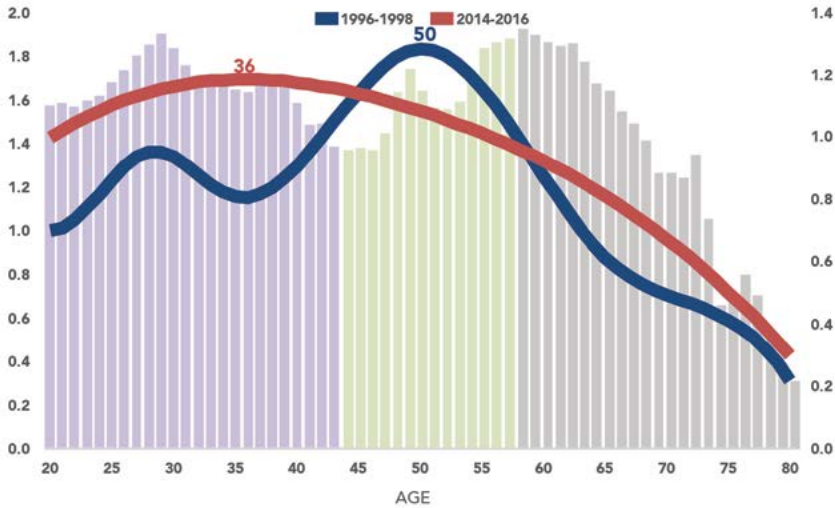


Figure 10.4**Men's Accessories**

Average Annual Spending by Age, Indexed to 20 year olds



If you own a watch or jewelry store, offering a new maintenance and repair service could be a viable growth business for you and might help you to partially offset lukewarm product sales.

With products sold specifically for men, the outlook is mixed. Demand from Millennials is poised to grow at a nice clip, though falling demand from Boomers is a major headwind. The demographic demand curves for Figures 10.4 through 10.16 tend to have similar peaks in the mid- to late-40s, though there are notable exceptions. Interestingly, many of these product categories have been trending younger in recent years. That's very good news for men's retailers.

Spending on men's accessories (Figure 10.4) peaks at age 36, an age when a man's career tends to accelerate. Interestingly, the peak in the late 1990s was much later, around 50.

If Millennial men invest in their appearance on the same timeline that Gen X men did, this will be an area of growth over the next several years.

Active sportswear (Figure 10.5) and coats and jackets (Figure 10.6) also peak younger than in decades past, at 42 and 45, respectively.

Figure 10.5
Men's Active Sportswear
Average Annual Spending by Age, Indexed to 20 year olds

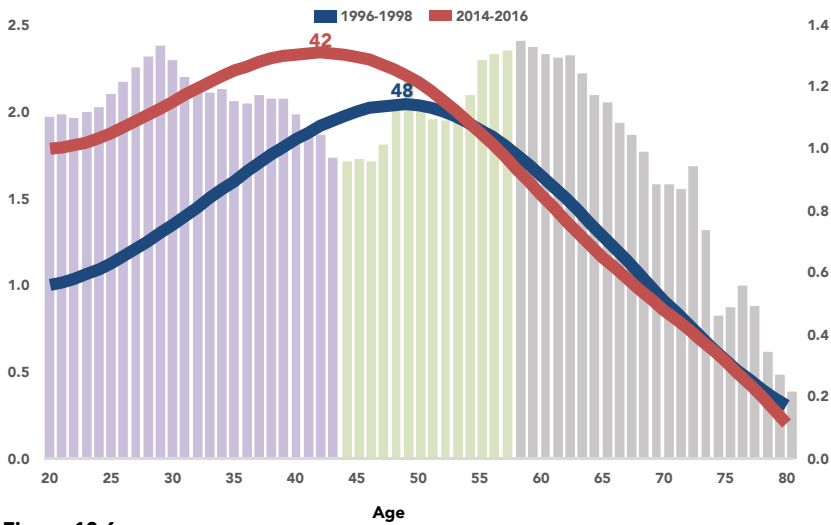


Figure 10.6
Men's Coats & Jackets
Average Annual Spending by Age, Indexed to 20 year olds

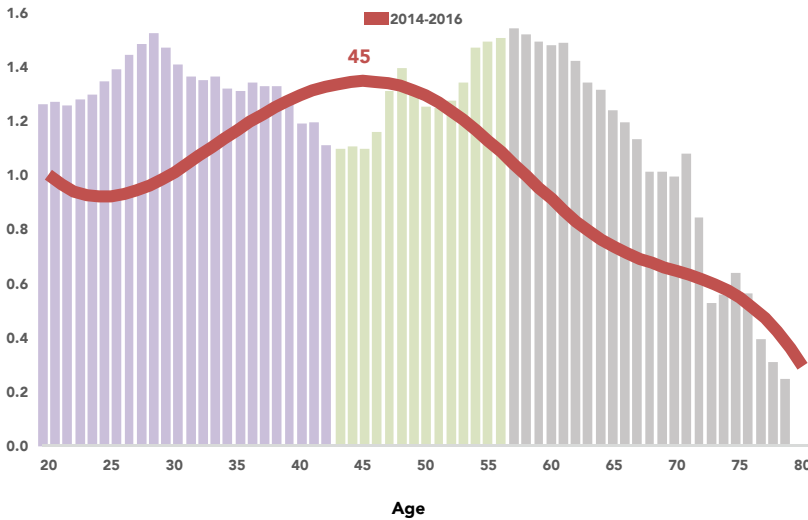
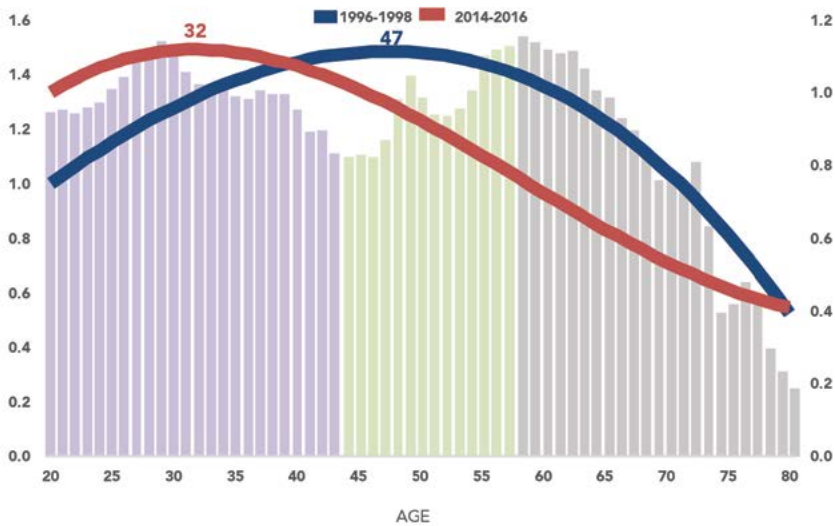


Figure 10.7

Men's Costumes

Average Annual Spending by Age, Indexed to 20 year olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

I don't know that Halloween costumes for adult men is a large market, but it's likely to get smaller a few years down the road. Men's costumes (Figure 10.7) peak at age 32, and the largest cohort of the Millennials will be hitting this threshold within four years.

Men's footwear (Figure 10.8), hosiery (Figure 10.9), and nightwear (Figure 10.10) all peak in the late 40s and very early 50s. This is that dreaded demographic no-man's land of the next decade. The Boomers have aged out of this stage but it's still going to be a long time before the Millennials age into it.

Men's pants and shorts (Figure 10.11) and shirts, sweaters and vests (Figure 10.12) both peak a little younger, in the mid-40s. But again, this is still demographic no-man's land.

Figure 10.8

Men's Footwear

Average Annual Spending by Age, Indexed to 20-Year-Olds

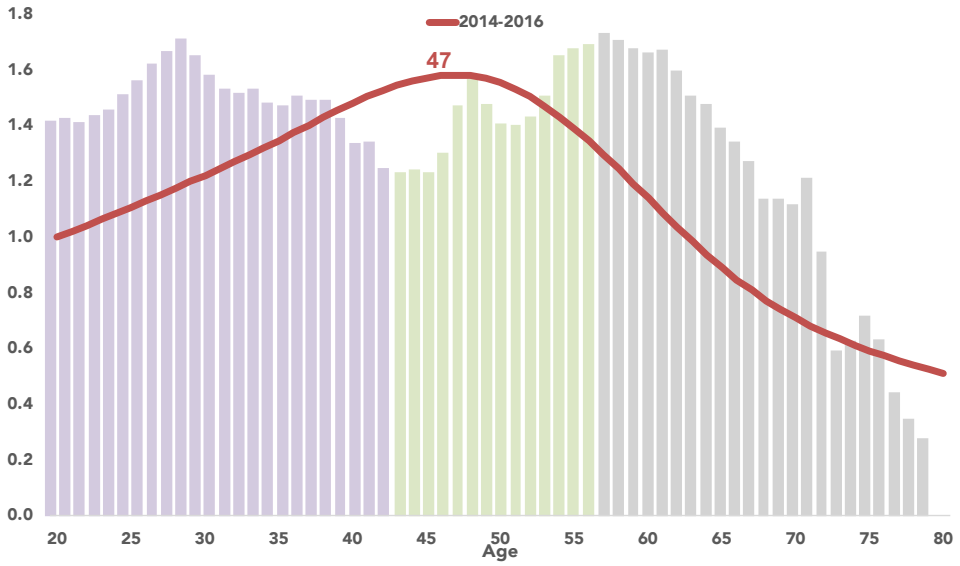
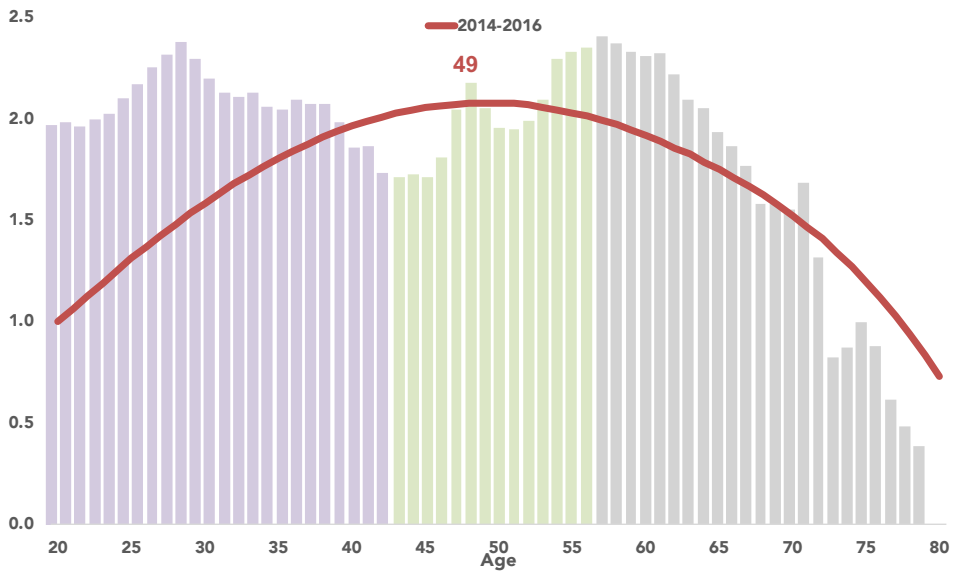


Figure 10.9

Men's Hosiery

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

Men's tailored clothing has been a difficult business in recent decades as offices have continued to get more casual. However, this may be poised to reverse. Demand for sportscoats (Figure 10.13) and suits (Figure 10.14) has been trending younger and now peak at 35 and 39, respectively.

Perhaps it's a rebellion against excessively casual workplaces, but men appear to be spending more money at a younger age on tailored clothing. And the Millennials won't be peaking here for another decade.

Men's underwear (Figure 10.15) and uniforms (Figure 10.16) peak at 47 and 43, respectively.

As a general rule, spending on women's clothing and accessories peaks a few years later than on those for men, even if peak spending is a few years earlier than it was a few decades ago. But on virtually every category, demand from Boomer women will continue to decline in the coming years.

Women's accessories (Figure 10.17) peak at age 46. Interestingly, younger women spend comparatively more than their peers did two decades ago. But after the early 50s, demand here really does drop off.

Overall, demand looks shaky here. But Millennial women will be a bright spot. Their spending is already high and will continue to grow.

The shape of the demand curve for active sportswear (Figure 10.18) hasn't really changed in 20 years. But peak spending has moved five years younger, to 45.

This is that dreaded demographic no-man's land between the Boomers and the Millennials, but it's worth noting that the curve does get steeper around age 35. So, Millennial women will really start to accelerate their

Figure 10.10

Men's Nightwear

Average Annual Spending by Age, Indexed to 20-Year-Olds

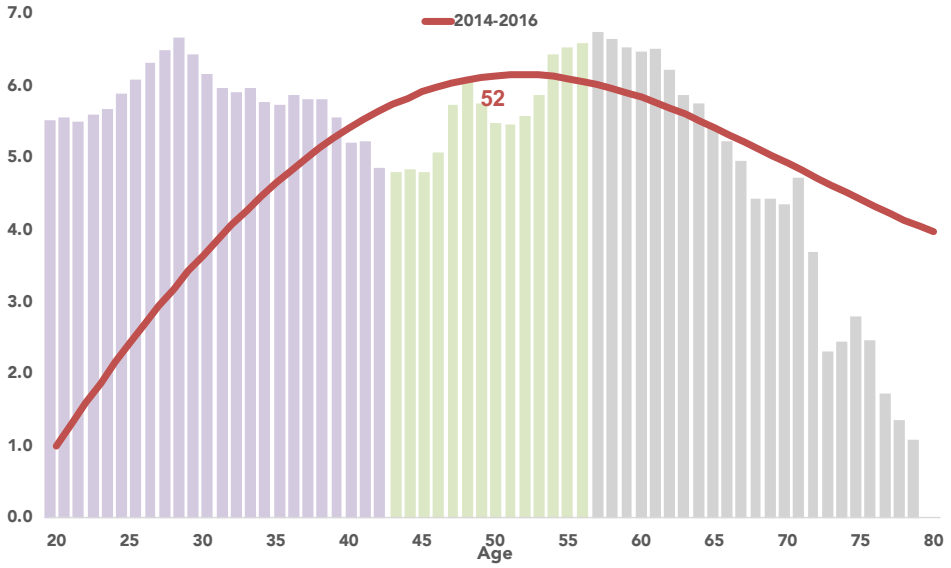
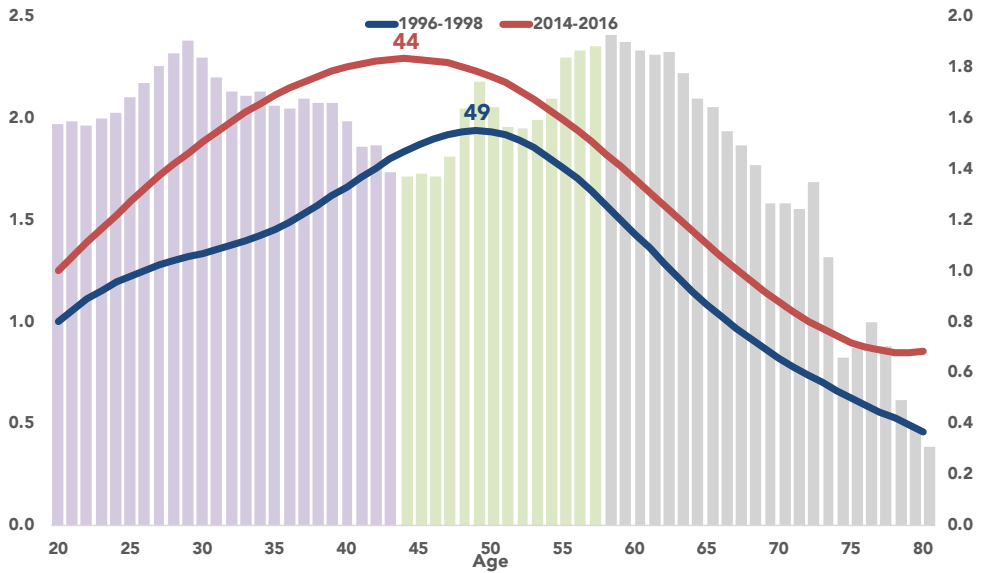


Figure 10.11

Men's Pants & Shorts

Average Annual Spending by Age, Indexed to 20-Year-Olds



SPENDING WAVES

Figure 10.12

Men's Shirts, Sweaters, & Vests

Average Annual Spending by Age, Indexed to 20-Year-Olds

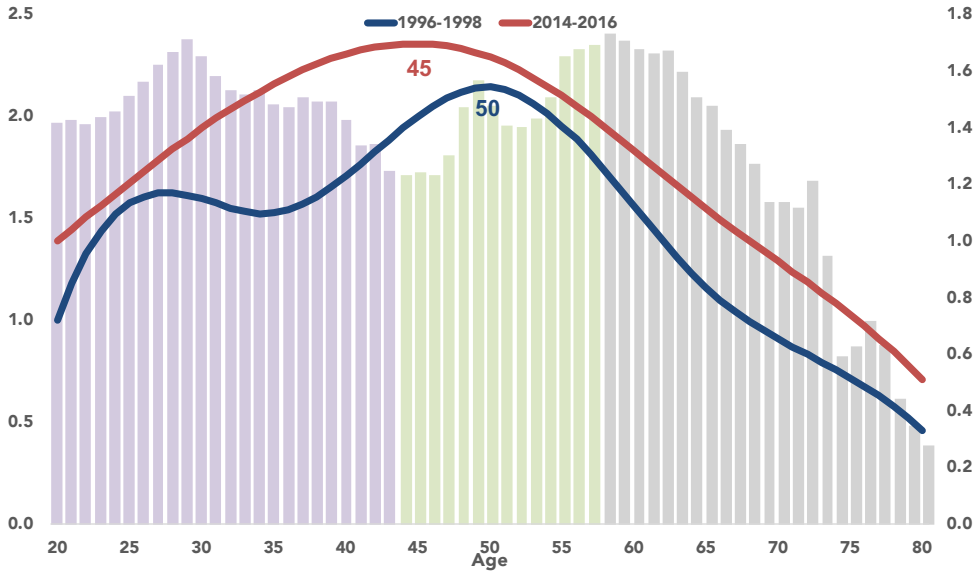


Figure 10.13

Men's Sportscoats & Tailored Jackets

Average Annual Spending by Age, Indexed to 20-Year-Olds

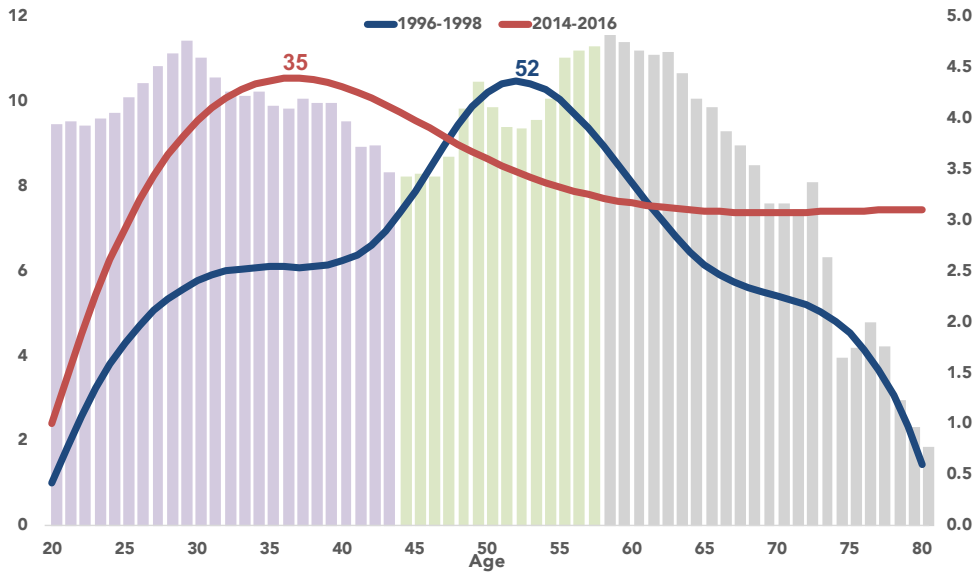


Figure 10.14

Men's Suits

Average Annual Spending by Age, Indexed to 20-Year-Olds

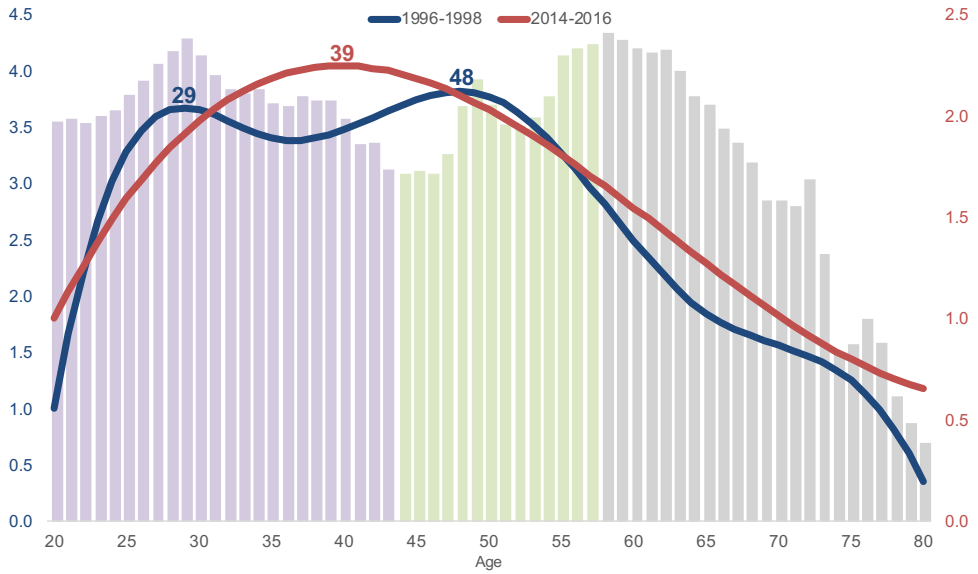
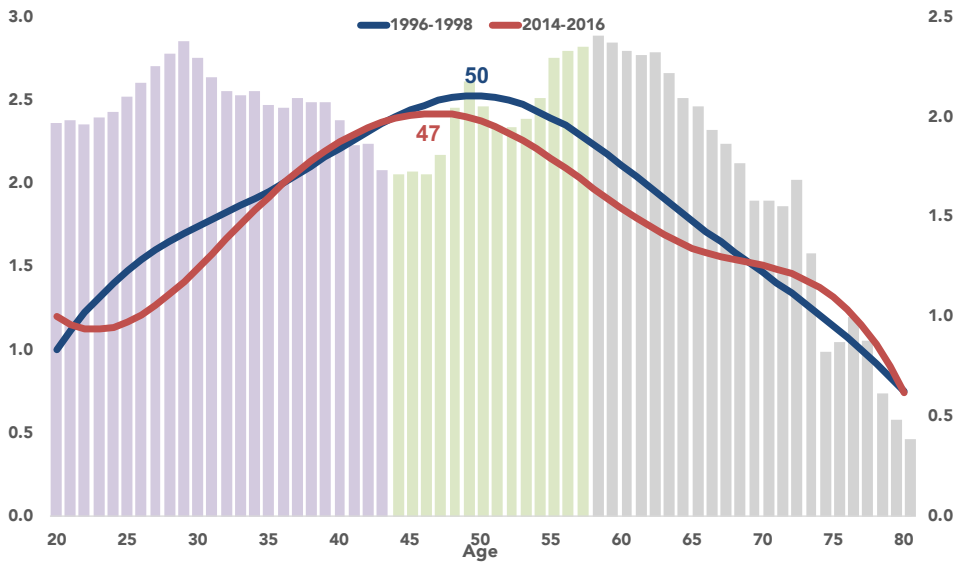


Figure 10.15

Men's Underwear

Average Annual Spending by Age, Indexed to 20-Year-Olds



SPENDING WAVES

Figure 10.16

Men's Uniforms

Average Annual Spending by Age, Indexed to 20-Year-Olds

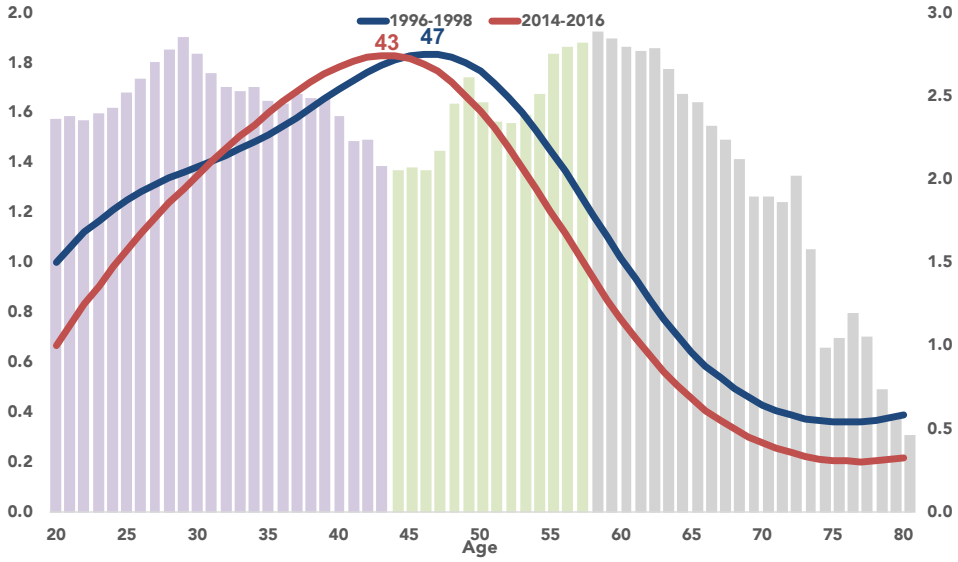


Figure 10.17

Women's Accessories

Average Annual Spending by Age, Indexed to 20-Year-Olds

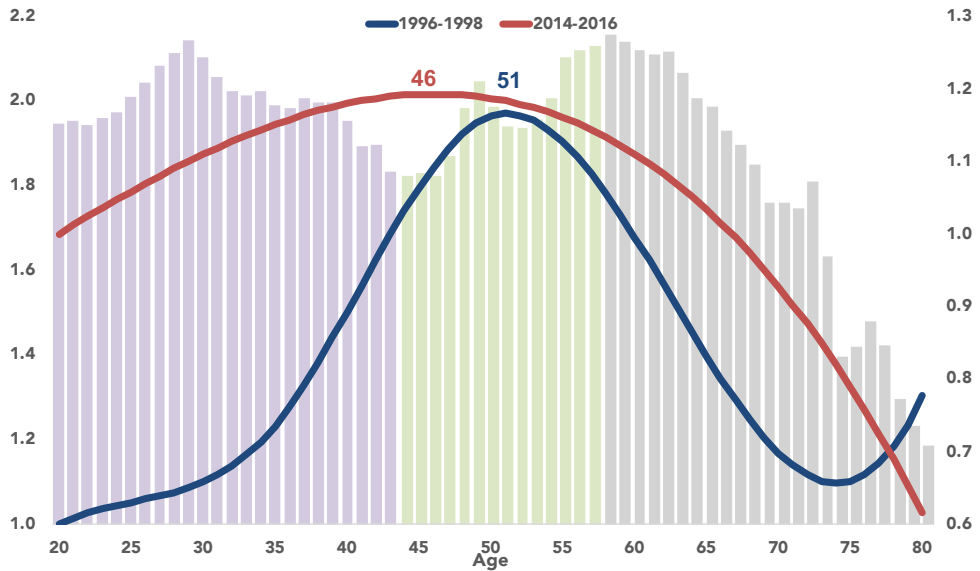


Figure 10.18

Women's Active Sportswear

Average Annual Spending by Age, Indexed to 20-Year-Olds

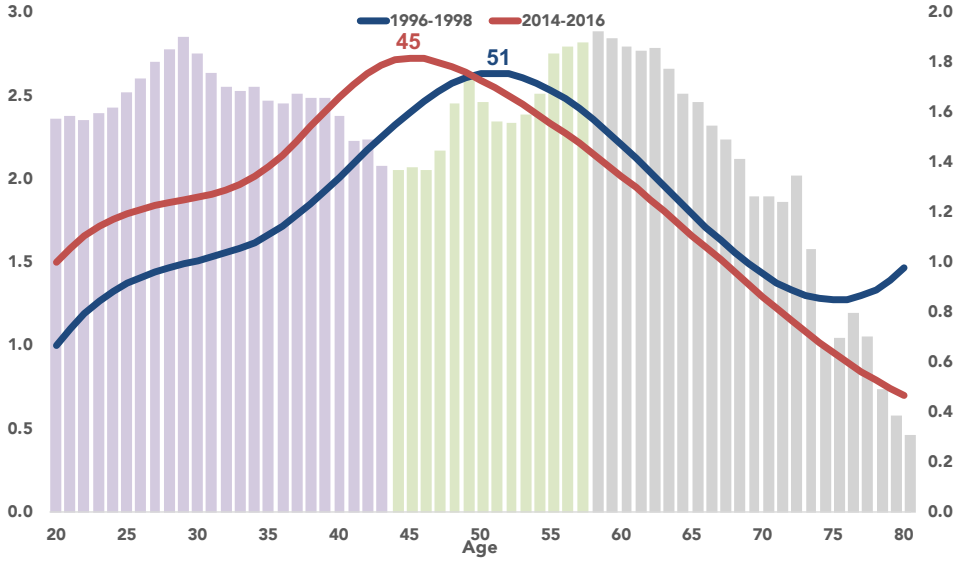


Figure 10.19

Women's Coats & Jackets

Average Annual Spending by Age, Indexed to 20-Year-Olds

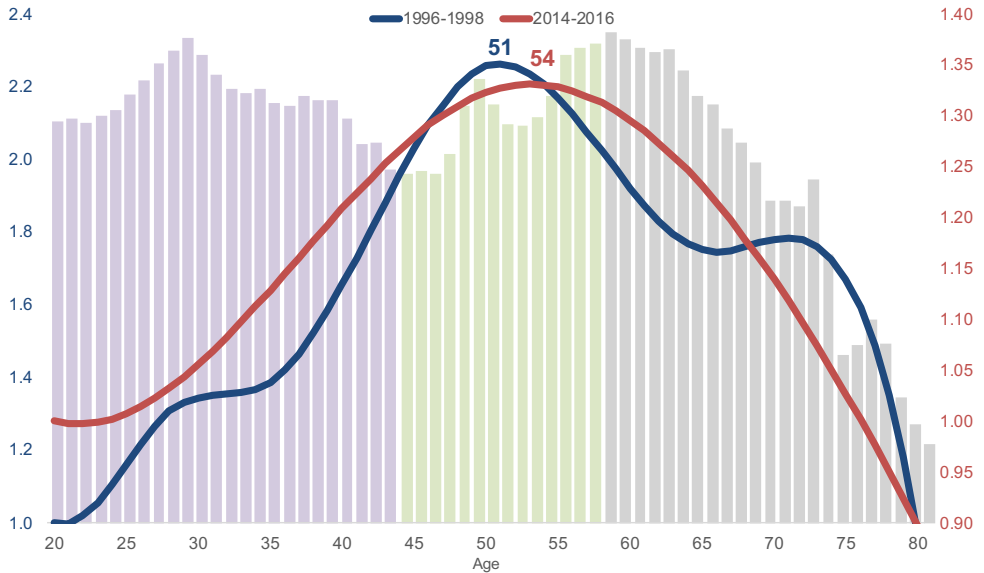


Figure 10.20

Women's Costumes

Average Annual Spending by Age, Indexed to 20-Year-Olds

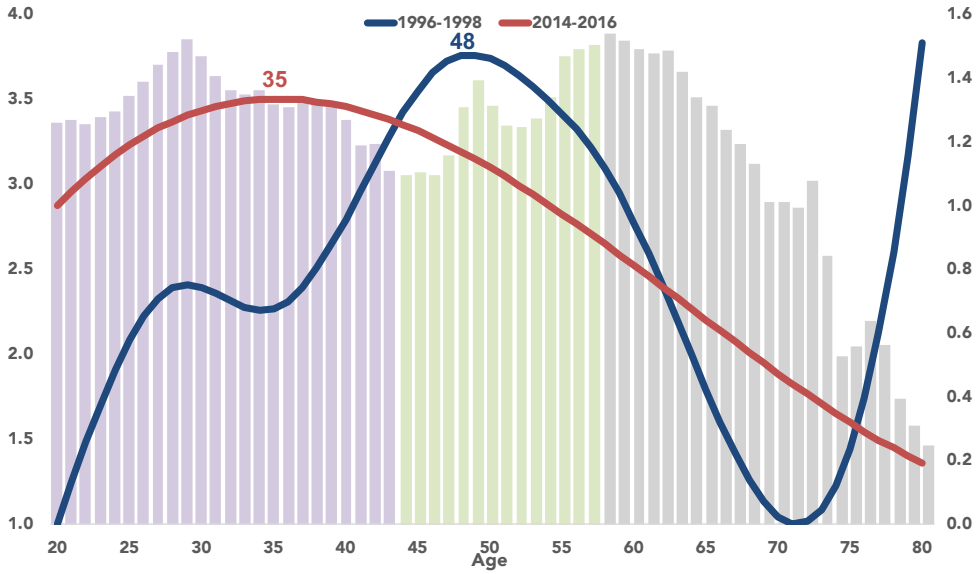
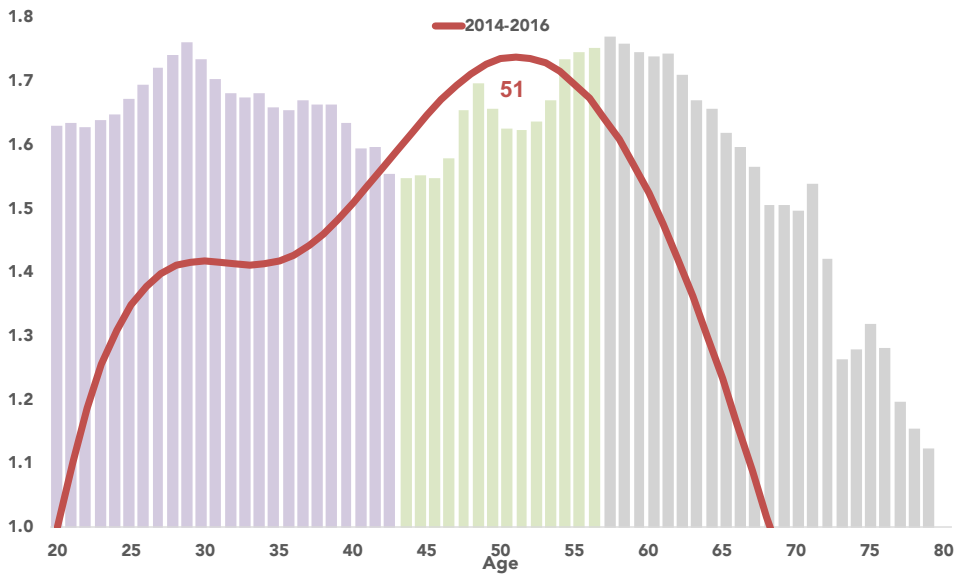


Figure 10.21

Women's Dresses

Average Annual Spending by Age, Indexed to 20-Year-Olds



spending here in the next five years.

Women's coats and jackets (Figure 10.19) peak in the mid-50s.

This is really just about the worst possible demand curve you can have right now. The Boomers only recently passed this threshold, and it's going to be decades until the Millennials hit it.

Demand for women's costumes (Figure 10.20) peaks at age 35, implying there is still some Millennial money left to be spent here.

Dress demand (Figure 10.21) peaks at age 51, but the takeaway from this chart is that younger consumers play more of a role here than they did in the past.

Women in their 30s and 40s spend more today relative to women in their late 40s and 50s a generation ago. This may be due to women working longer, pursuing better-paying careers and marrying later, all of which give them more disposable income to spend on themselves.

Demand for footwear (Figure 10.22), hosiery (Figure 10.23), pants and shorts (Figure 10.24), and skirts (Figure 10.25) all have similar curves, peaking in the very early 50s.

All of these spending waves fall into that dreaded demographic no-man's (er... no-woman's) land, poised to suffer from continued declining Boomer demand.

Demand for sleepwear (Figure 10.26) peaks later, at age 60. But Baby Boomers are essentially peaking in the spending on this now, meaning demand won't be growing going forward.

SPENDING WAVES

Figure 10.22

Women's Footwear

Average Annual Spending by Age, Indexed to 20-Year-Olds

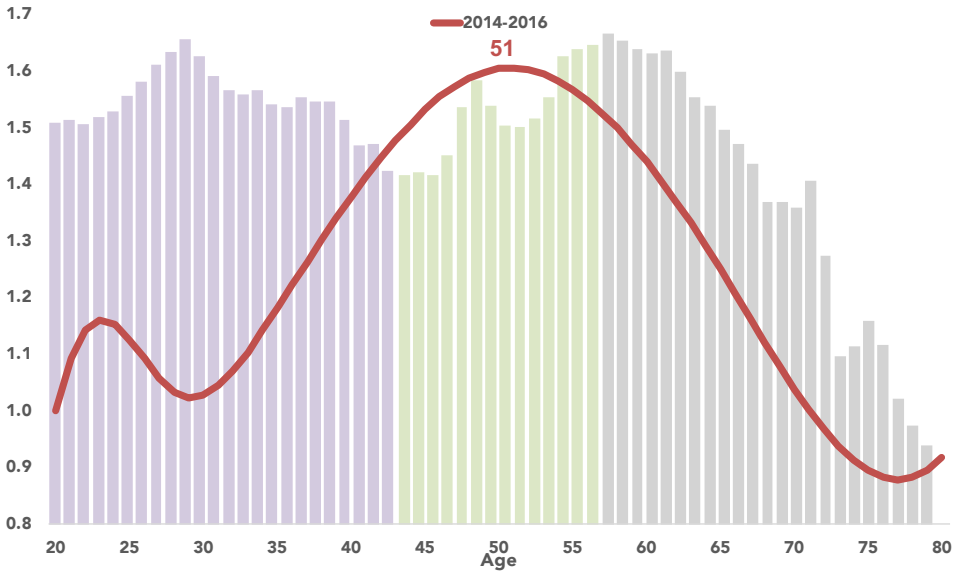


Figure 10.23

Women's Hosiery

Average Annual Spending by Age, Indexed to 20-Year-Olds

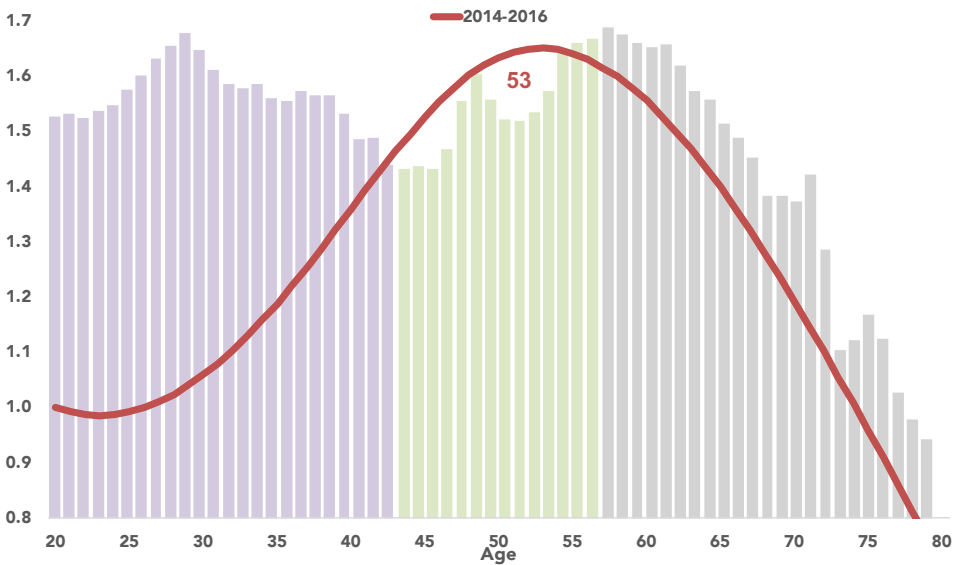


Figure 10.24

Women's Pants & Shorts

Average Annual Spending by Age, Indexed to 20-Year-Olds

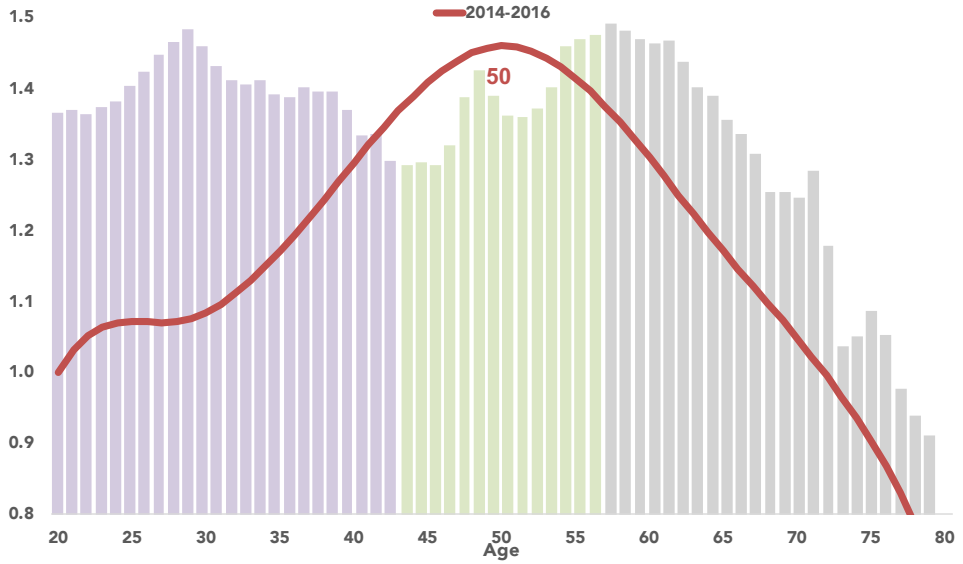


Figure 10.25

Women's Skirts

Average Annual Spending by Age, Indexed to 20-Year-Olds

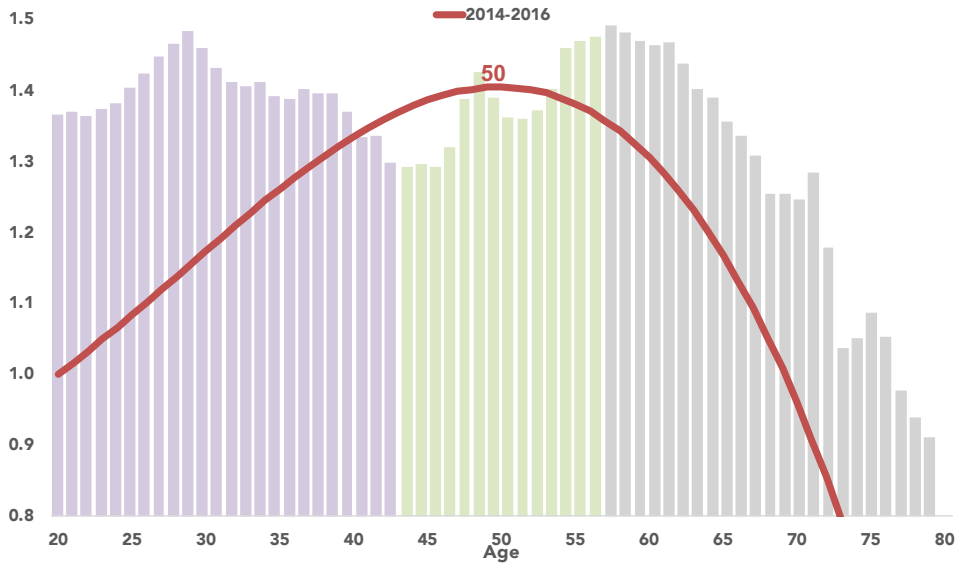


Figure 10.26

Women's Sleepwear

Average Annual Spending by Age, Indexed to 20-Year-Olds

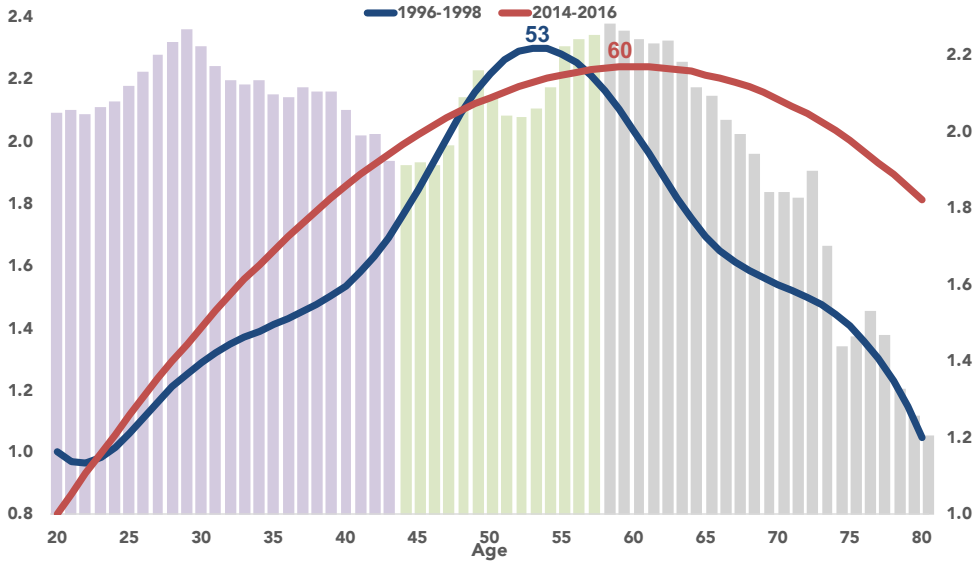
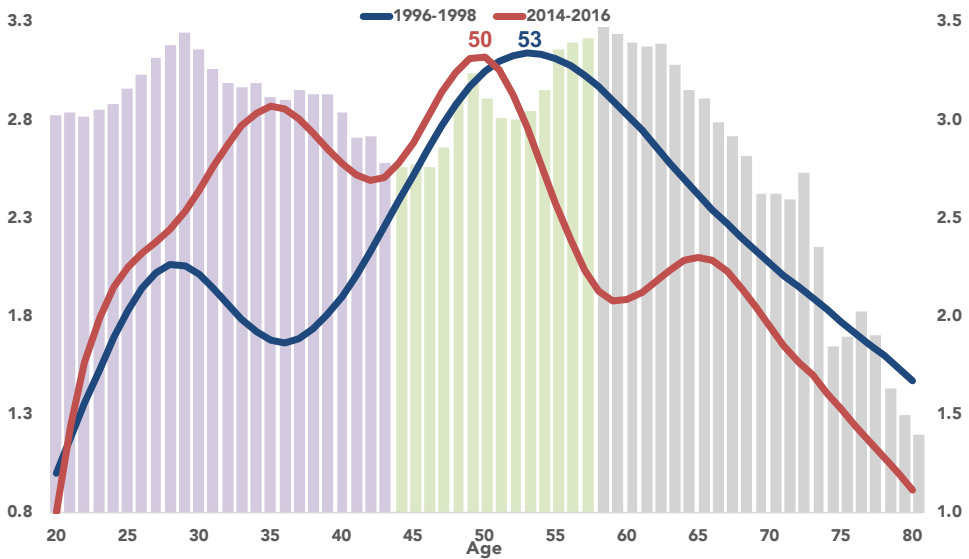


Figure 10.27

Women's Suits

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

Figure 10.28

Women's Undergarments

Average Annual Spending by Age, Indexed to 20-Year-Olds

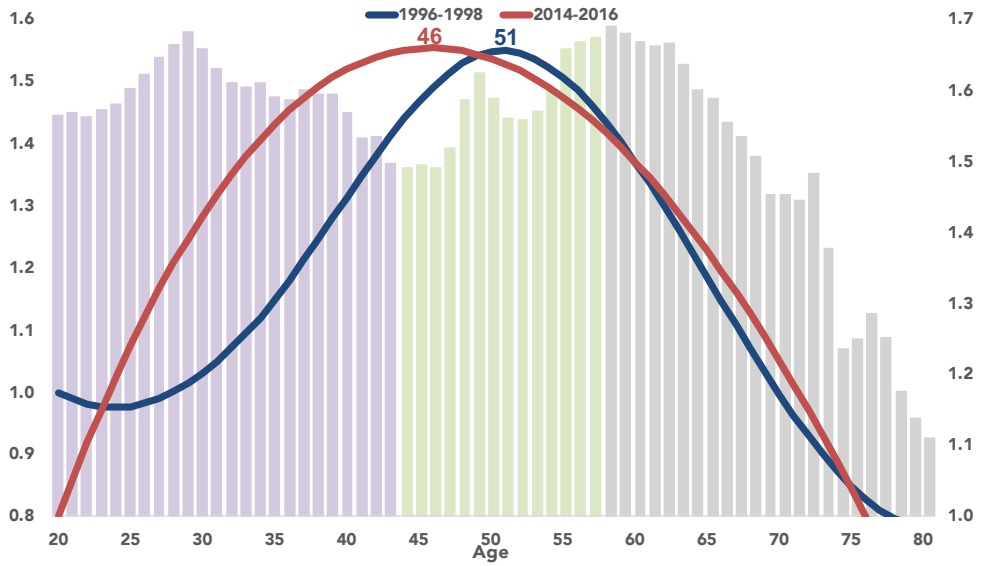
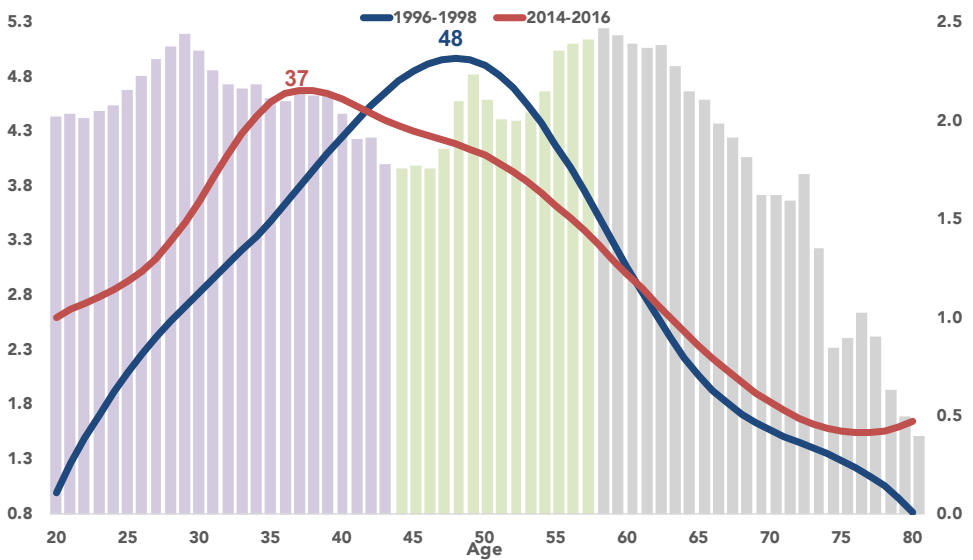


Figure 10.29

Women's Uniforms

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

What are the key points to take away from this chapter? Consumers in their late 40s and early 50s dominate the clothing and accessories markets for men and women. This was fantastic news when the Baby Boomers were entering this stage of their lives. But now that they have passed it, it's a nightmare scenario for retailers.

Women's suits (Figure 10.27) and undergarments (Figure 10.28) peak at 50 and 46, respectively, again falling into demographic no-man's land.

Women's uniforms (Figure 10.29) peaks at 37, with demand sharply increasing for women throughout their late 20s and 30s. This means the Millennials are a very solid market here.

Unless your specialty is selling to the 30-something demographic, clothing and accessories are terrible businesses to be in right now. If your career is in this industry, you might want to seriously consider a career change. If that's not possible for you, do what you can to keep your overhead low and expenses cut to the bone. Your best chance for growth is to be the last man standing as your competitors close down.

Computers and Electronics

This chapter will be a little shorter than the preceding ones, as the Consumer Expenditure Survey had fewer products with usable data. Still, there's good information and good food for thought here in the fast-moving area of computer and electronic products.

In product areas with fast technological change, demographics matter much less. In the 1920s, it didn't matter that spending on horse buggy whips peaked at age 40 (or whatever age it was). When you've undergone a technological regime shift, the calculus changes. So, we should take some of the data in this chapter with a healthy grain of salt.

Let's jump into televisions (Figure 11.1) and the broader televisions, radios, and sound equipment category (Figure 11.2), which is mostly a

Figure 11.1

Televisions

Average Annual Spending by Age, Indexed to 20-Year-Olds

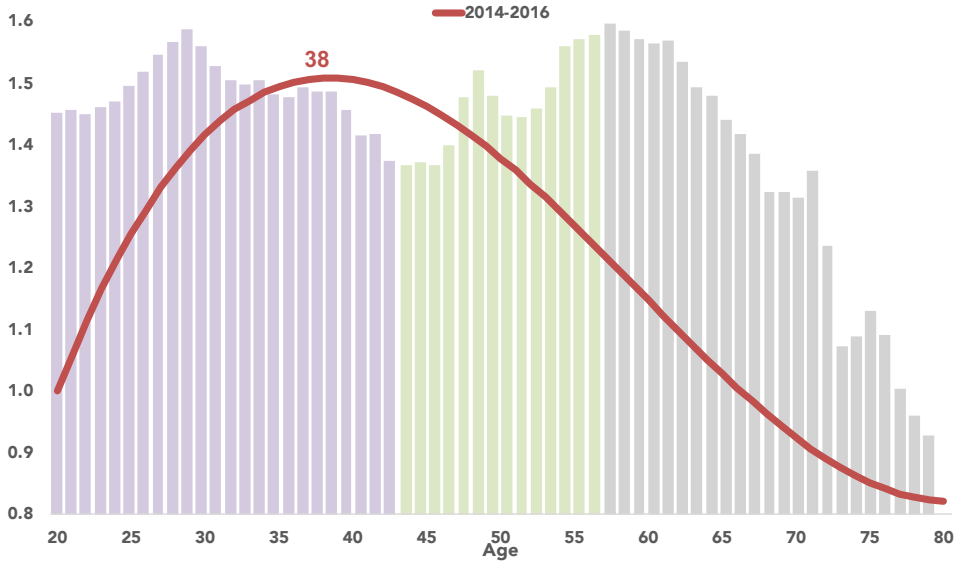
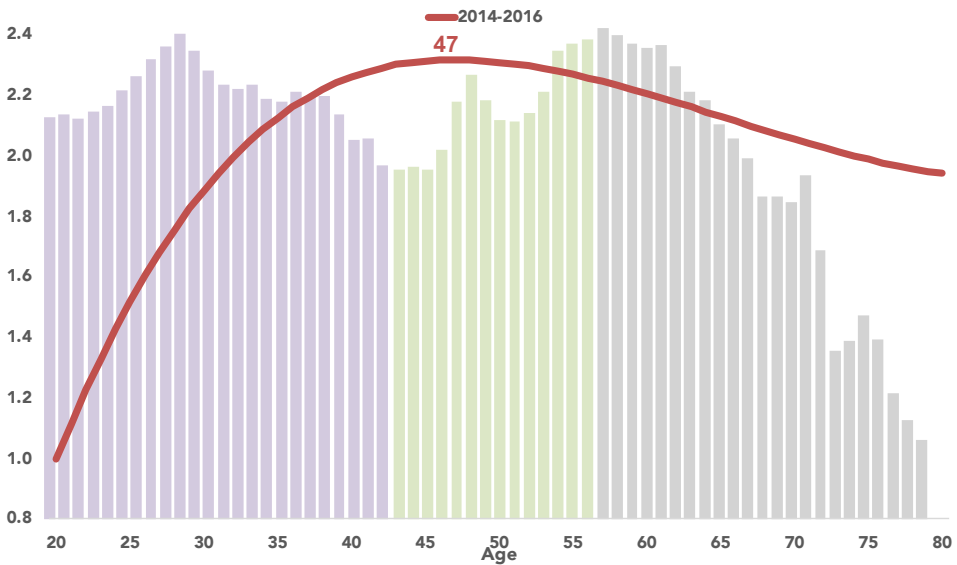


Figure 11.2

Televisions, Radios, & Sound Equipment

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

product for men. Demand for these two categories peaks at 38 and 47, respectively, though demand for televisions, radios and sound equipment starts to rise at a much slower rate after the mid-30s.

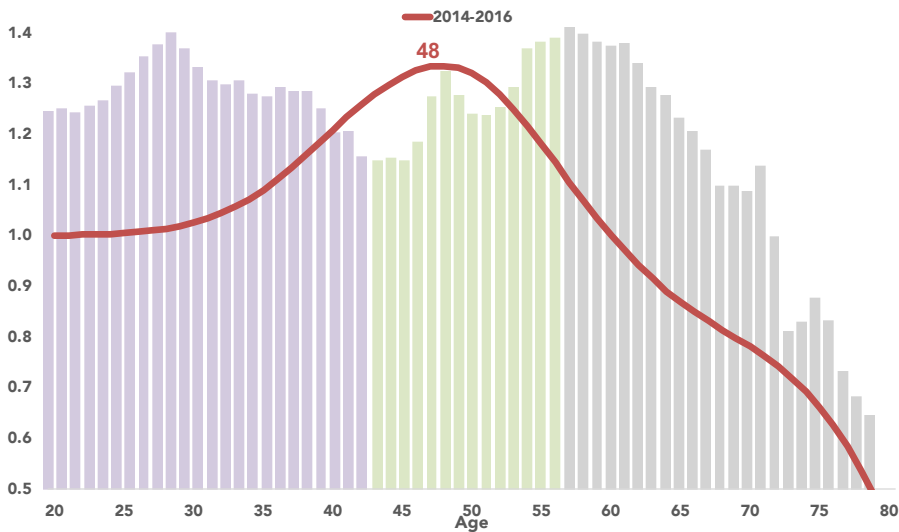
There's much change afoot in the home electronics market. High end equipment and surround sound systems used to be niche markets, but they've gone more mainstream in recent years, in part because of the mobile revolution that allows user to control their systems via smartphone apps.

Millennials should be major buyers of these products over the next decade, particularly as they advance in their careers and earn higher incomes.

Figure 11.3

Computers & Computer Hardware, Nonbusiness Use

Average Annual Spending by Age, Indexed to 20-Year-Olds

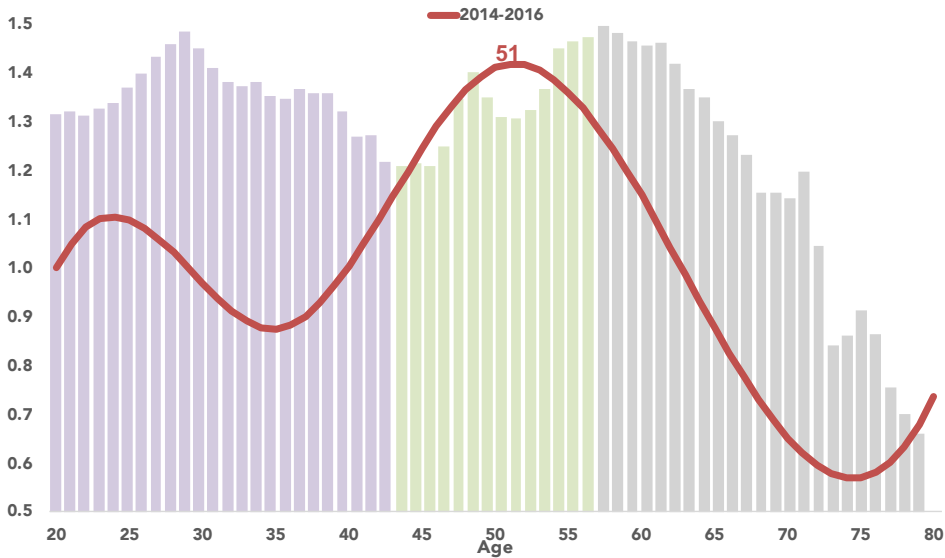


Demand for computers for home use (Figure 11.3) peaks at age 48, though some of this demand no doubt comes from buying computers for children.

Figure 11.4

Computer Software

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

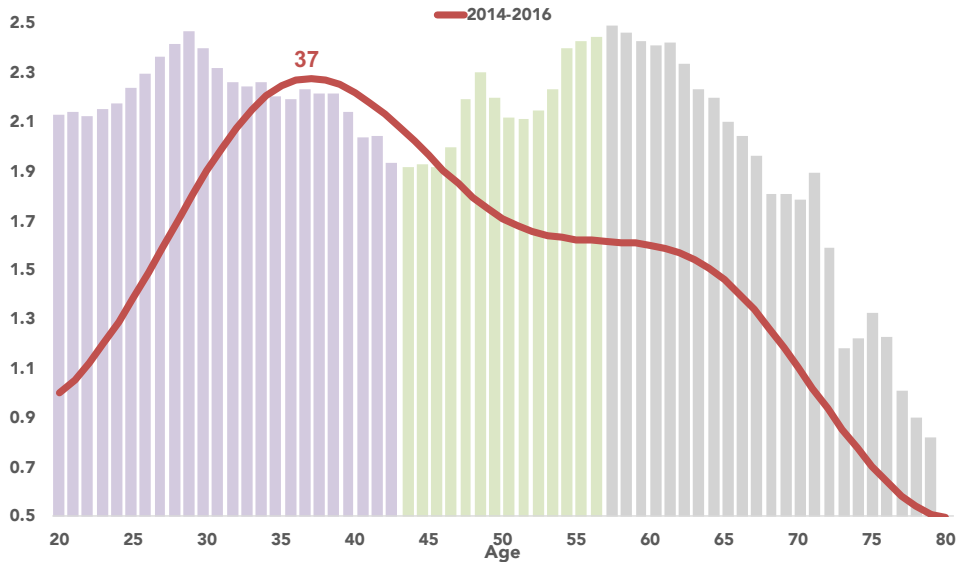
Demand for computer software (Figure 11.4) peaks shortly thereafter, at age 51.

Computers and computer software are, of course, products in a state of upheaval as we can use smartphones and tablets now to perform many of the functions we would have used a laptop or desktop computer for. Furthermore, the nature of software purchases has changed. Rather than buy a single disc or download, the model that has come to dominate in recent years is a subscription-based “software as a service” model. For example, when I wrote the first edition of this book several years ago, I used a version of Microsoft Office that I purchased as a single download. Today, I pay a low monthly subscription for what is essentially the same software, though I get all of the latest updates automatically downloaded and installed.

Figure 11.5

Digital Book Readers

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

Digital book readers (Figure 11.5) are a relatively new addition to the data and show demand peaking around age 37.

But this is also a product in flux. Amazon launched the Kindle in 2007, and it immediately turned the publishing industry upside down. Now, you can download the Kindle app on your smartphone or tablet, which takes away the need to buy the hardware. In other words, don't expect a boom in Millennial sales for e-reader purchases.

It should be clear that, while demographic trends do matter in electronics products, technology trends clearly trump demographic trends.

This chapter offers little in the way of actionable business advice, but I hope you come away with a better appreciation for technological disruption. New technology is turning several old industries upside down.

Electronics are the example used in this chapter, but books, newspapers, music, and movies are all prime examples. So, while I recommend you consider the demographic buying patterns of any industry before you invest, I can't emphasize enough how important it is to also consider technological paradigm shifts as well. Even the most powerful demographic trends won't save a product eclipsed by a new technology with mass acceptance. You don't want to be a maker of buggy whips in the age of the automobile!

Entertainment and Travel

This chapter is something of a catch-all for travel and leisure activities. The prior chapters covered items that we buy in the course of our regular day-to-day affairs. This chapter covers products and services we buy when we want to, often for special occasions.

Consider cigars (Figure 12.1), perhaps the quintessential leisure product we reserve for celebrations. In the popular mind, a cigar is a product for a discerning older gentleman with good taste. The “ideal” customer might be the “Most Interesting Man in the World” from those old Dos Equis beer commercials. The data, however, paints a very different picture. Demand for cigars and other tobacco products (other than cigarettes) peaks at the relatively young age of 47.

The Boomers have already long passed peak cigar, but the Millennials are now entering the ages where demand starts to trend higher. So, if

SPENDING WAVES

Figure 12.1

Other Tobacco Products (Including Cigars)

Average Annual Spending by Age, Indexed to 20-Year-Olds

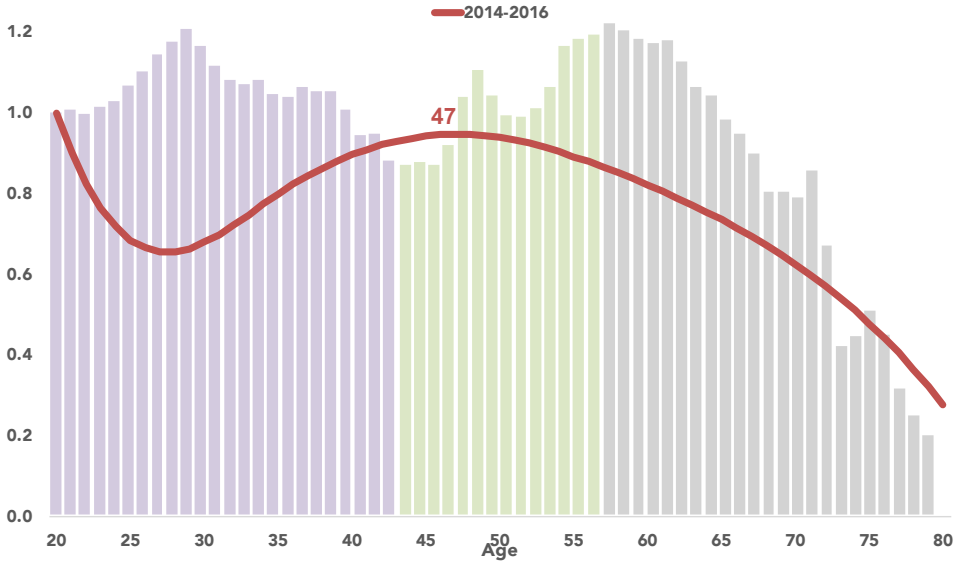
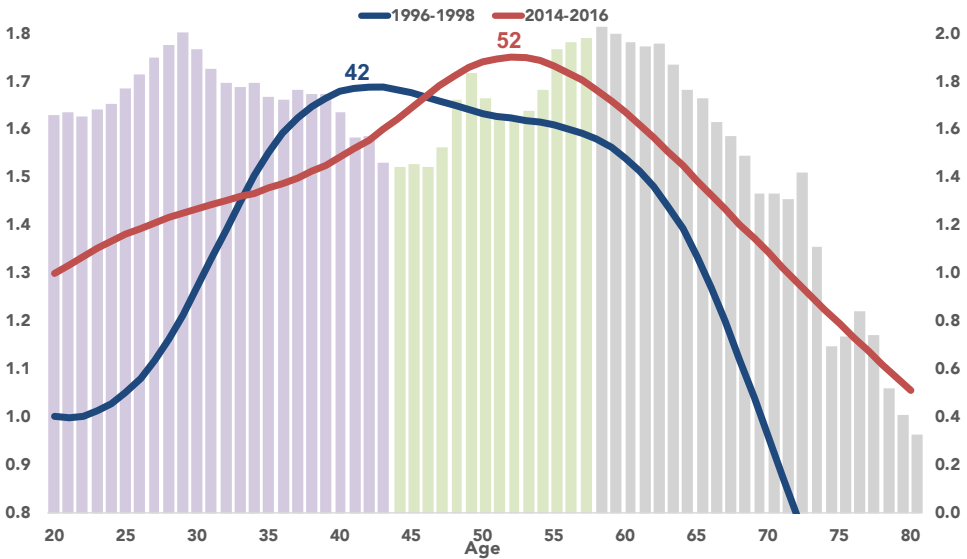


Figure 12.2

Cigarettes

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

www.dentresearch.com

Millennials pick up cigar smoking like previous generations, the industry could see two strong decades ahead. This will depend on evolving attitudes and legislation towards tobacco, however, and the availability and popularity of competing products such as legalized marijuana. But it is a trend worth studying further.

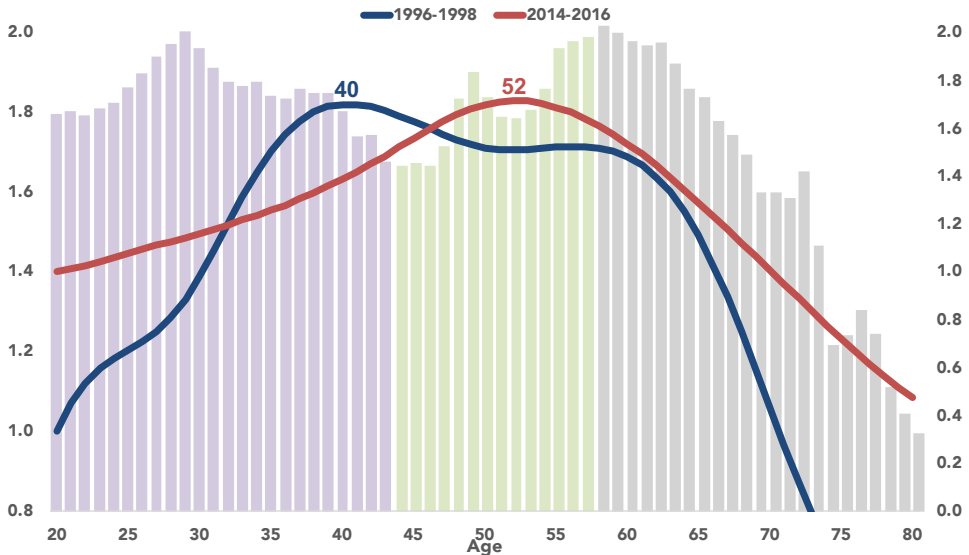
Demand for cigarettes (Figure 12.2) peaks around age 52, which is fully 10 years older than during the late 1990s.

The trend here is less that 50-year-olds are smoking more and more a case of younger people smoking less. Remember, this data is indexed to a 20-year old's demand, and the average teenager or 20-something is more likely to have used illegal drugs in the past year than to have smoked a cigarette.

Figure 12.3

Tobacco & Other Smoking Supplies

Average Annual Spending by Age, Indexed to 20-Year-Olds



Demand for tobacco and other smoking supplies (Figure 12.3) looks

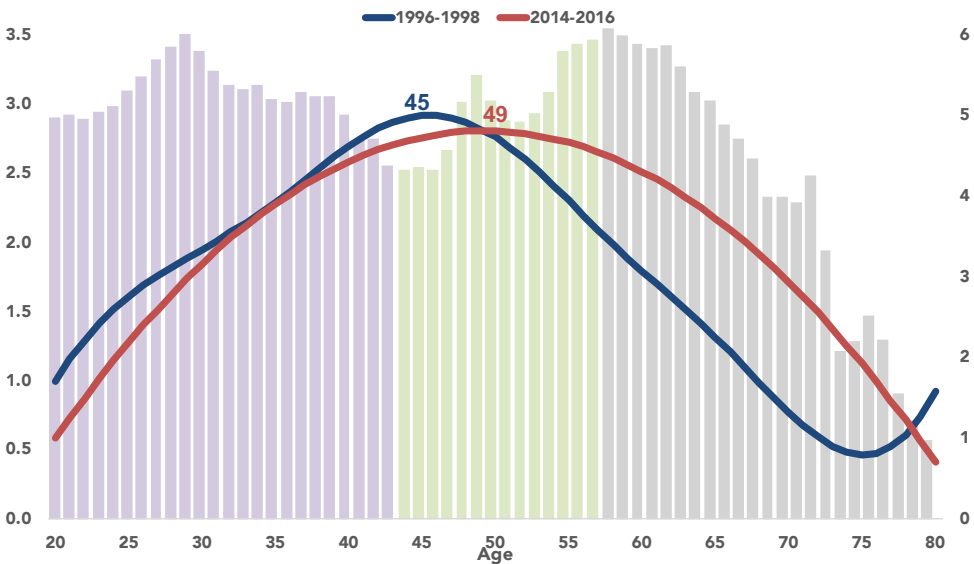
very similar to that of cigarettes.

Though we should consider that this data is from 2014-2016. With drug legalization spreading to more and more states, the demand patterns for smoking supplies could look very different when we get the next batch of more recent data. Tobacco is a highly-regulated product and it makes for an easy legal target. There may be opportunities on the periphery of this market, such as with smokeless tobacco or water-vapor-based products. But even these are coming under more scrutiny.

Figure 12.4

Admission to Sporting Events

Average Annual Spending by Age, Indexed to 20-Year-Olds



Demographic trends aren't favorable for sports events tickets (Figure 12.4). Americans peak in their live sports spending around the age of 49, and it falls pretty aggressively after that.

Rising Millennial demand won't compensate for falling Boomer

demand. So, demographic trends suggest that professional sports franchises have a rough road in front of them. It might seem strange to say this at a time of record athlete salaries, but the demographics speak for themselves.

Technology also plays a role here. The quality of high definition home TVs has become so good that watching a game at home on your couch is an attractive option.

What conclusions can we draw from this? Professional sports teams will depend more on TV and other revenues than on ticket sales in the years ahead. Will TV continue to pay as well as it has in the past? This will depend on the advertisers, of course, but trends here are also mixed, given the rise of cord cutting.

Few people reading this book will be sports franchise owners. But it's possible that your business is affected by sports. If you own a retail store or restaurant close to a stadium or if you act as a supplier to the stadiums, your business might be affected. Similarly, stadium construction is lucrative business for construction companies and subcontractors. Given that the wave of stadium construction that started nearly 20 years ago has pretty well run its course, it's hard to see much positive in this line of business in the years ahead.

Interestingly, spending on sporting events on out-of-town trips (Figure 12.5) peaks younger, at age 40.

So, businesses that cater specifically to out-of-town sports fan might have opportunities over the next decade as the Millennials pass through their 30s.

Spending on admission fees to movies, theater, concerts, and opera

SPENDING WAVES

Figure 12.5

Admission to Sporting Events, Out-of-Town Trips

Average Annual Spending by Age, Indexed to 20-Year-Olds

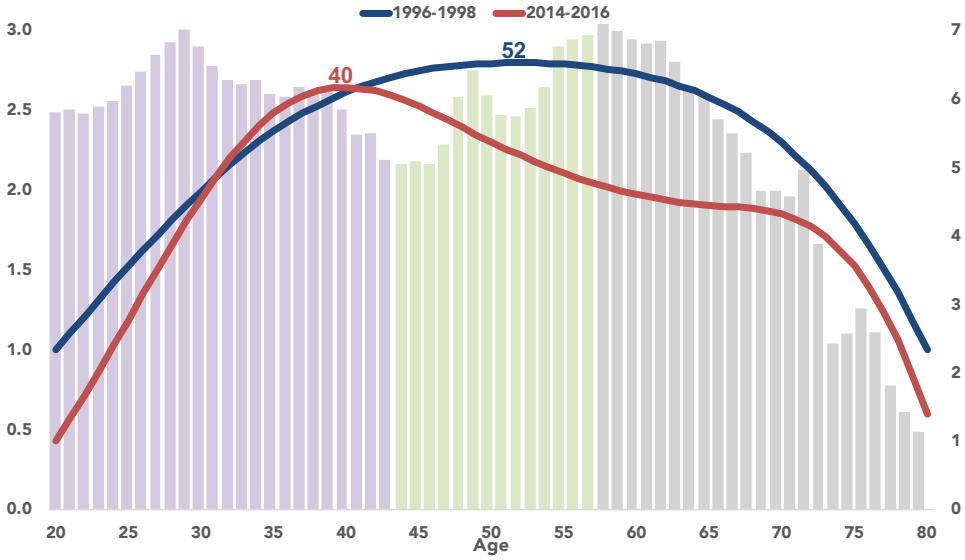
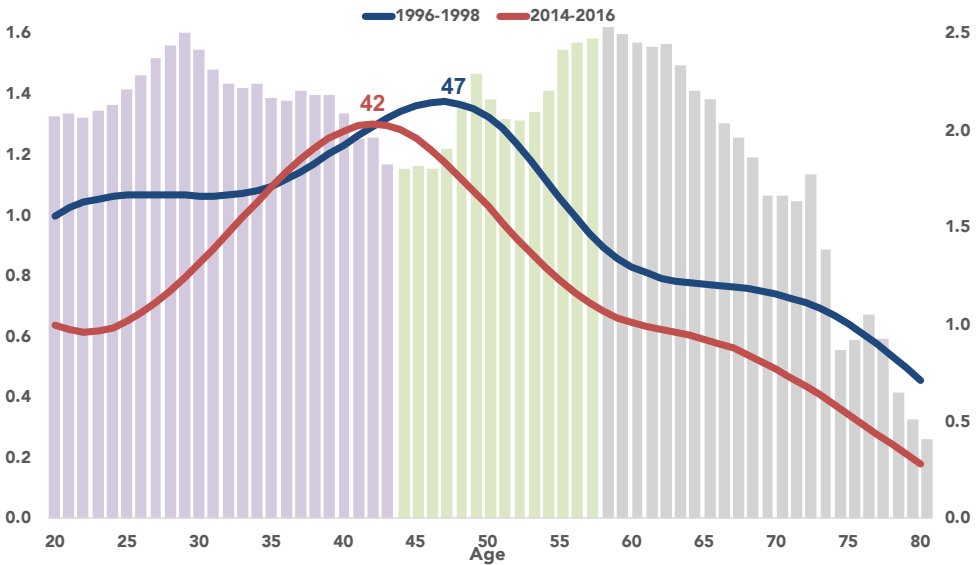


Figure 12.6

Movies, Amusement Parks, & Museums

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

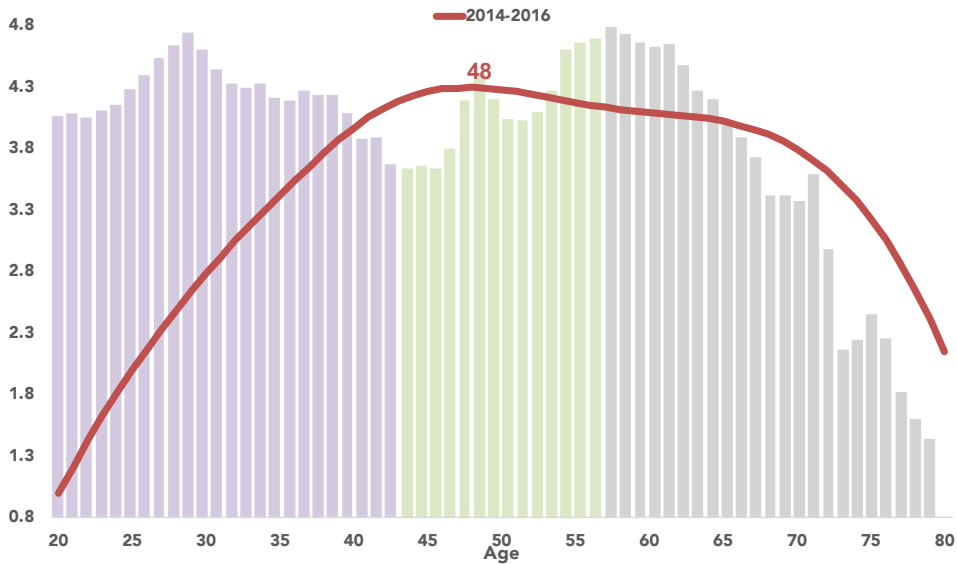
(Figure 12.6) peaks at age 42, and this has actually trended younger over the past two decades.

Even though movies today compete with home streaming options and piracy, demand should be strong if the Millennials continue to embrace theaters like Gen X and the Boomers. The theaters gaining market share these days tend to be premium theaters with high-end food and alcohol. These theaters make movie making an “experience” rather than simply a place to watch a two-hour film.

Figure 12.7

Food at Restaurants on Trips

Average Annual Spending by Age, Indexed to 20-Year-Olds



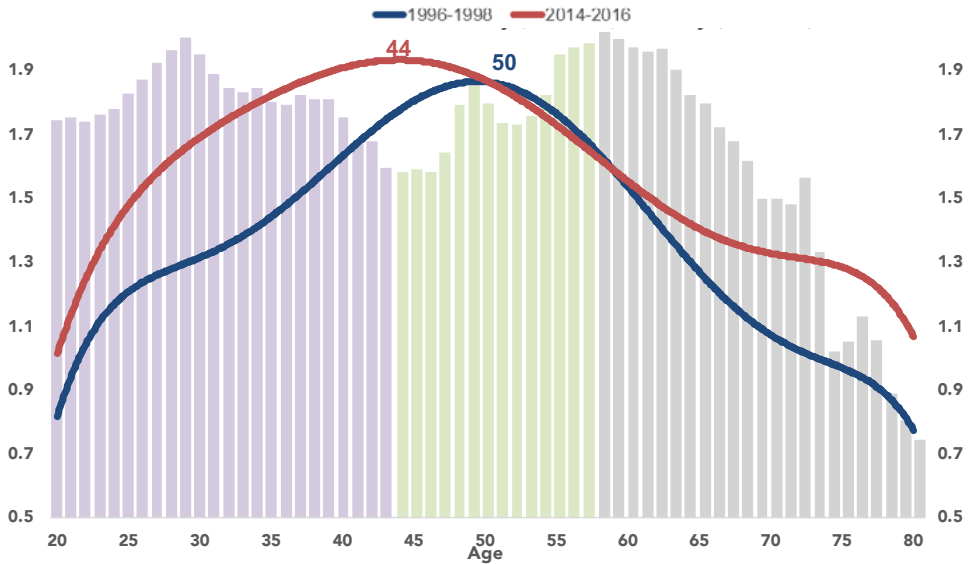
Food at restaurants on trips (Figure 12.7) peaks at age 48 and then makes a gentle decline until around age 70.

Demand from Boomers is declining here, but it hasn’t fallen off the cliff. Meanwhile, demand from Millennials should be rising quickly.

Figure 12.8

Food at Restaurants (non-Trips)

Average Annual Spending by Age, Indexed to 20-Year-Olds



Food at restaurants *not* on trips (Figure 12.8) peaks younger, at age 44.

Many established restaurant chains have struggled over the past decade. Much of this is thanks to demographic trends. The Boomers peaked here around 2004, and the restaurants they frequented have been suffering ever since.

Alcohol at restaurants and bars on trips (Figure 12.9) has an interesting profile.

Demand soars higher throughout our 20s, which we expect. It grows at a slower pace throughout our 30s, 40s, and 50s. But interestingly, it doesn't peak until age 58. It's important to note that this is booze on trips, not what you'd drink at your neighborhood watering hole. 58-year-olds take more expensive trips than 21-year-olds, and they spend more on dinner and drinks while they're at it.

Figure 12.9

Alcohol at Restaurants & Bars on Trips

Average Annual Spending by Age, Indexed to 20-Year-Olds

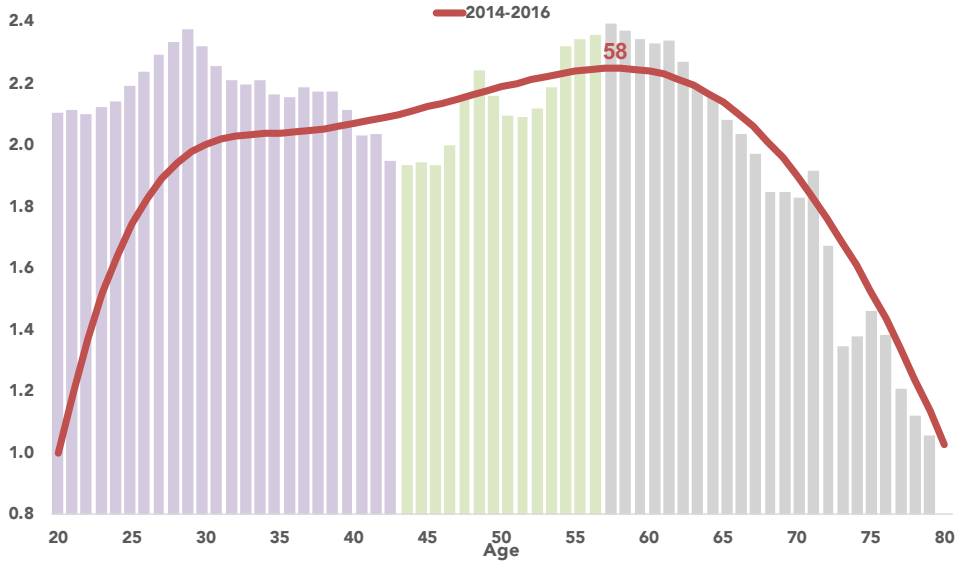
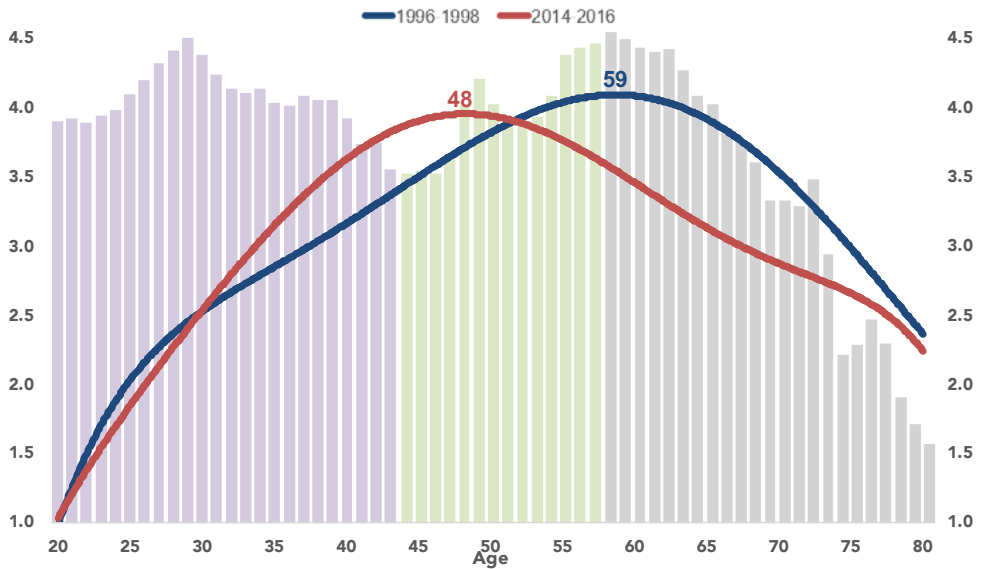


Figure 12.10

Airlines

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

Let's move on to travel and leisure. Consider airlines (Figure 12.10).

Airlines are a terrible business to be in. Warren Buffett once joked that the easiest way to become a millionaire is to start with a billion dollars and buy an airline. You have continuous problems with labor unrest, sensitivity to oil prices and to the overall health of the economy, and huge capital outlays that you typically pay for with debt. And that's during good times!

Demand for airline fares peaks around age 48, which is younger than the peak two decades ago. The Boomers crossed this threshold a decade ago. Do you think it's a coincidence that airlines have had to resort to baggage fees and other cheap shots to maintain profitability?

Demand for cruise ships (Figure 12.11) continues to rise well into old age and accelerates after age 55.

Older people know, from experience, that overseas travel is stressful and often difficult, so they switch from airlines to cruise ships, which bring with them the added benefit of no jet lag or hassles, and food and booze on tap. Cruise ships should be strongest from 2022–2031.

How do you profit from these trends? That is a trickier question to answer.

Travel agencies are in terminal decline due to cheaper internet options, and in the online world you're competing against the likes of Priceline, Expedia, and other established players. The challenge for entrepreneurs will be to find ways to profit from these trends given the disruption that technology has wrought for the "old fashioned" travel industry.

Figure 12.11

Cruise Ships

Average Annual Spending by Age, Indexed to 20-Year-Olds

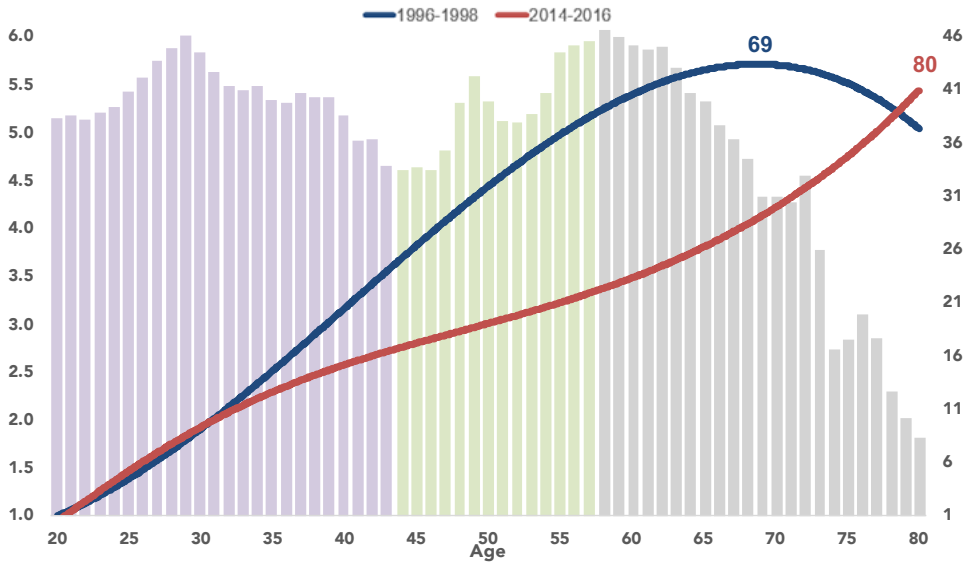
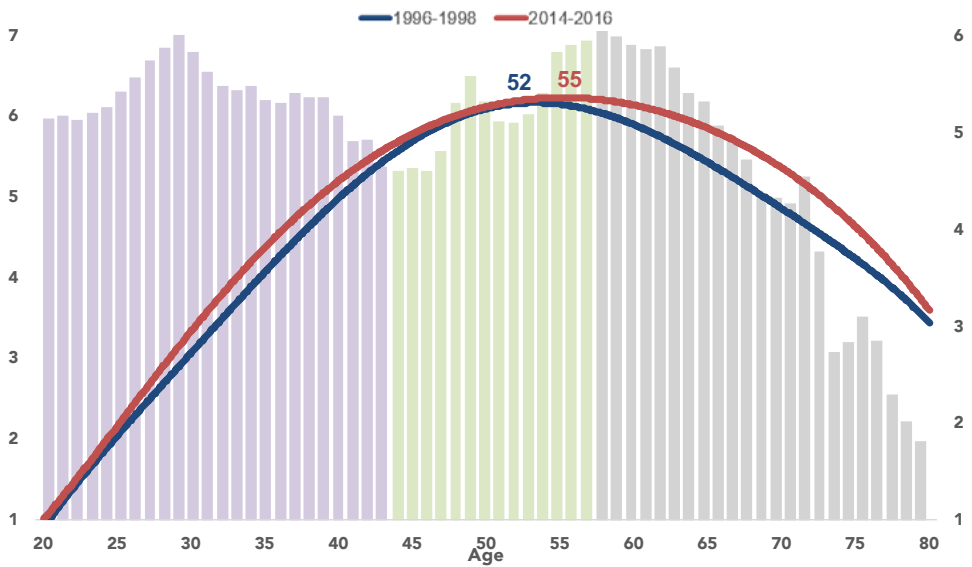


Figure 12.12

Lodging Away From Home

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

SPENDING WAVES

Figure 12.13
Luggage

Average Annual Spending by Age, Indexed to 20-Year-Olds

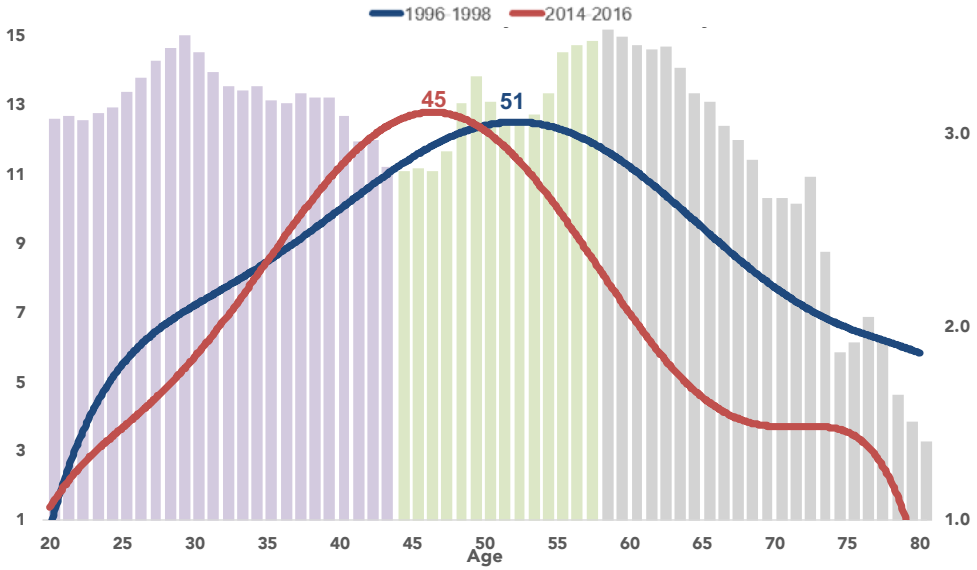
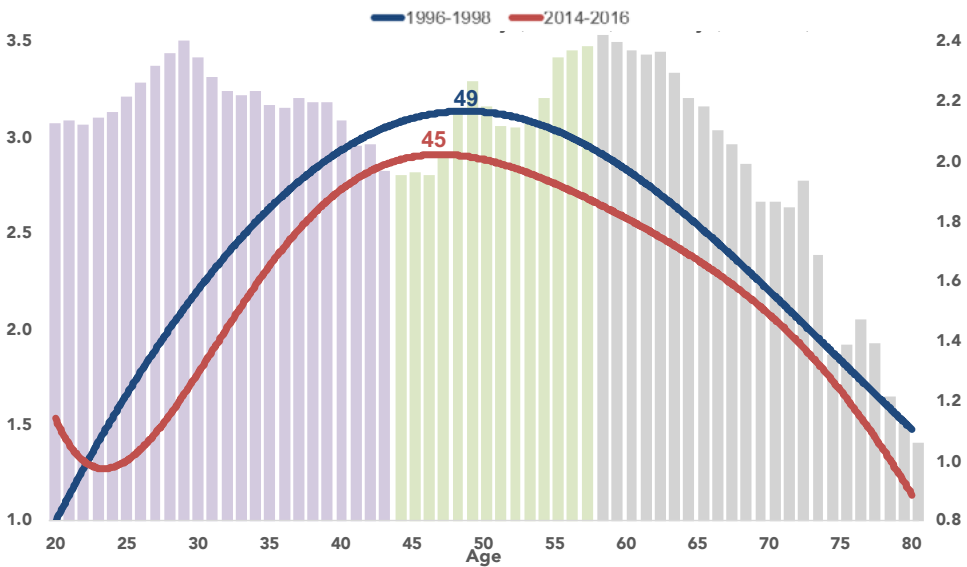


Figure 12.14
Out-of-Town Entertainment

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

Figure 12.15

Auto Rental on Trips

Average Annual Spending by Age, Indexed to 20-Year-Olds

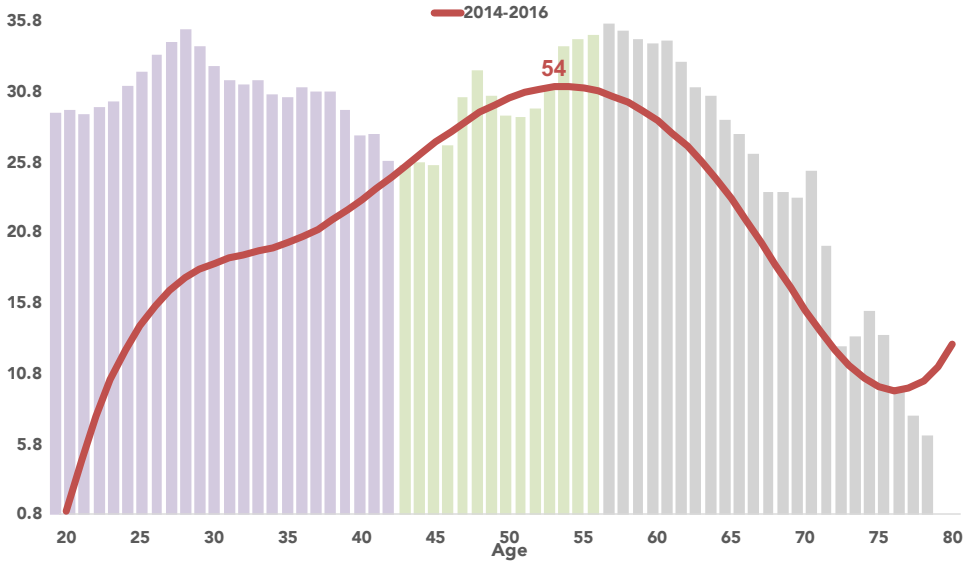
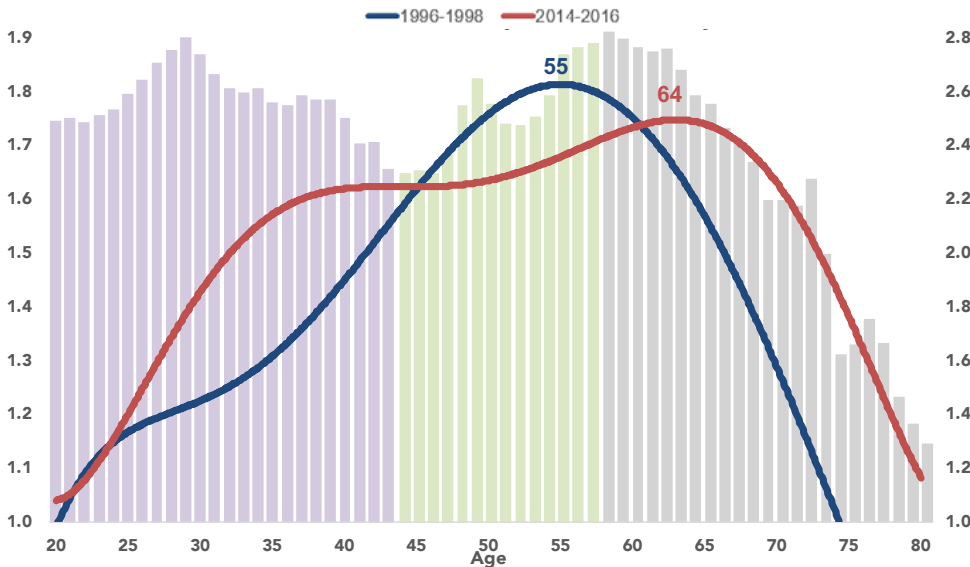


Figure 12.16

Gasoline on Trips

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

SPENDING WAVES

Figure 12.17

Local Transportation on Trips (Taxi, Public Trans.)

Average Annual Spending by Age, Indexed to 20-Year-Olds

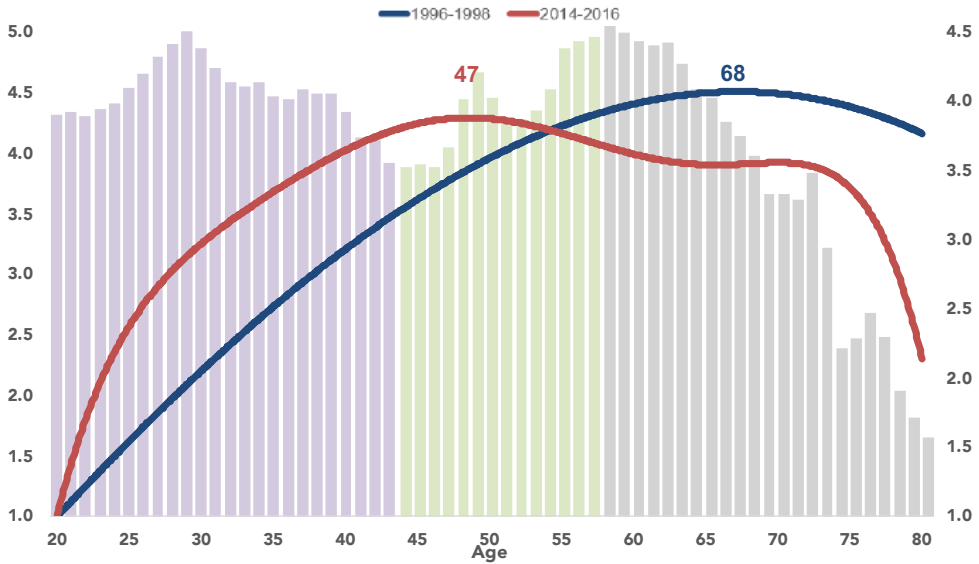
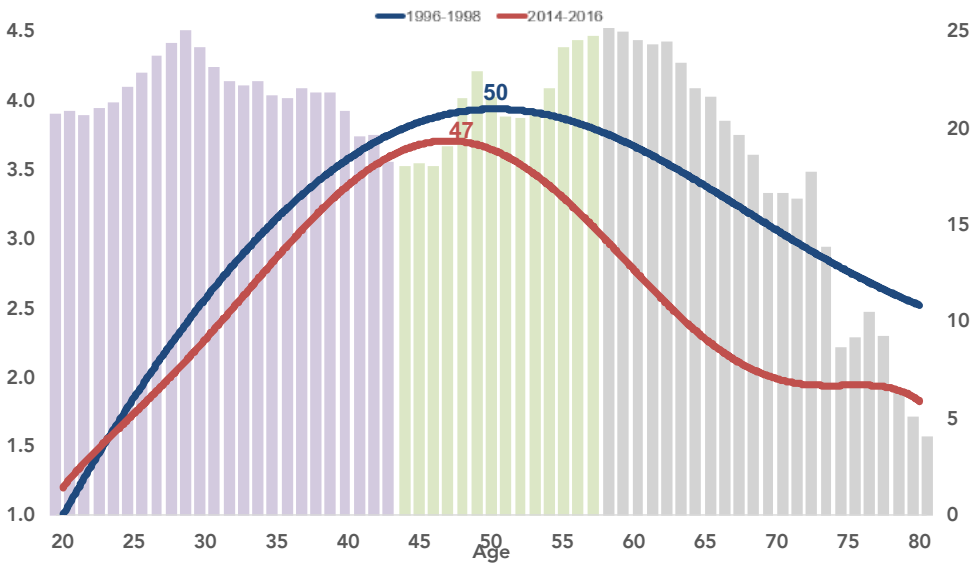


Figure 12.18

Participant Sports on Trips

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

Figure 12.19

Total Trips

Average Annual Spending by Age, Indexed to 20-Year-Olds

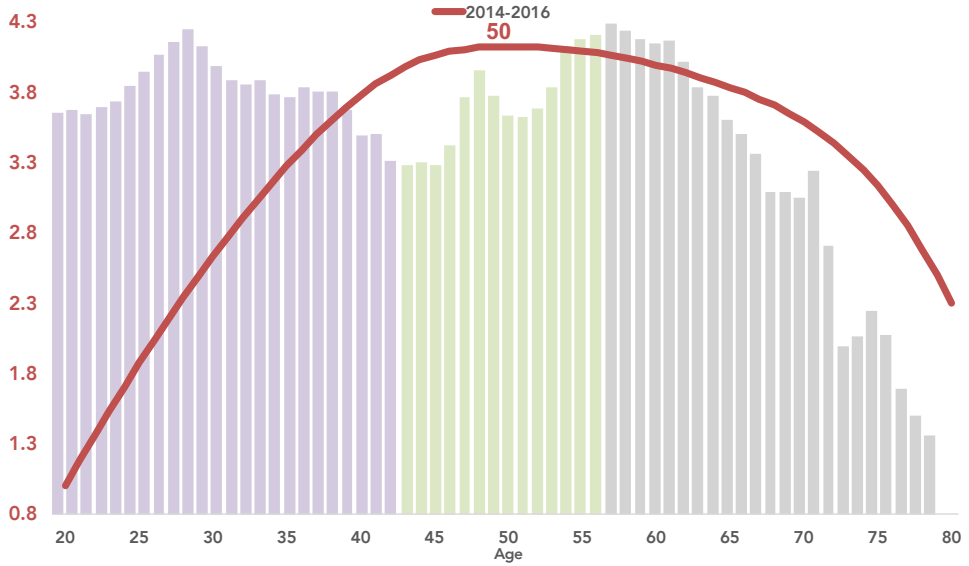
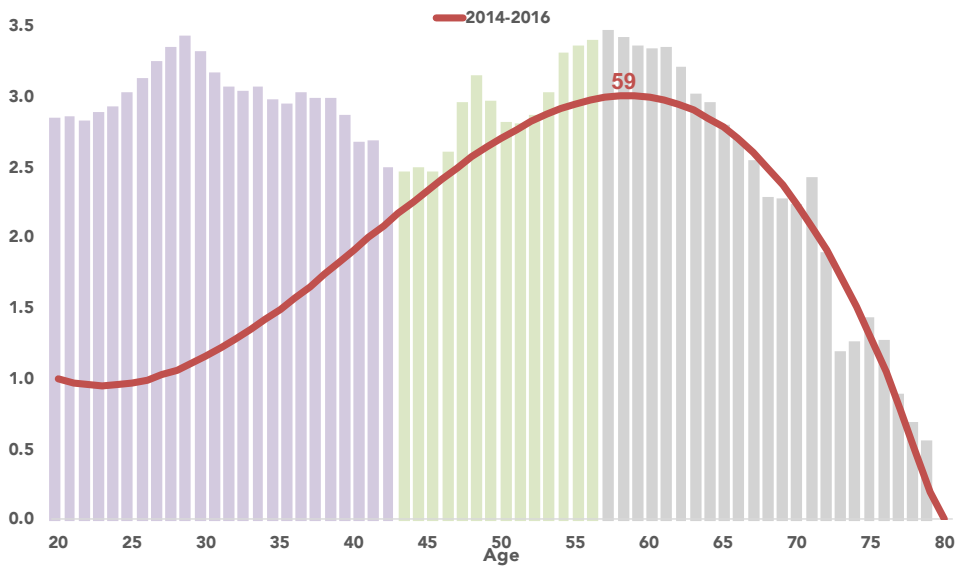


Figure 12.20

Recreational Vehicles (motored)

Average Annual Spending by Age, Indexed to 20-Year-Olds

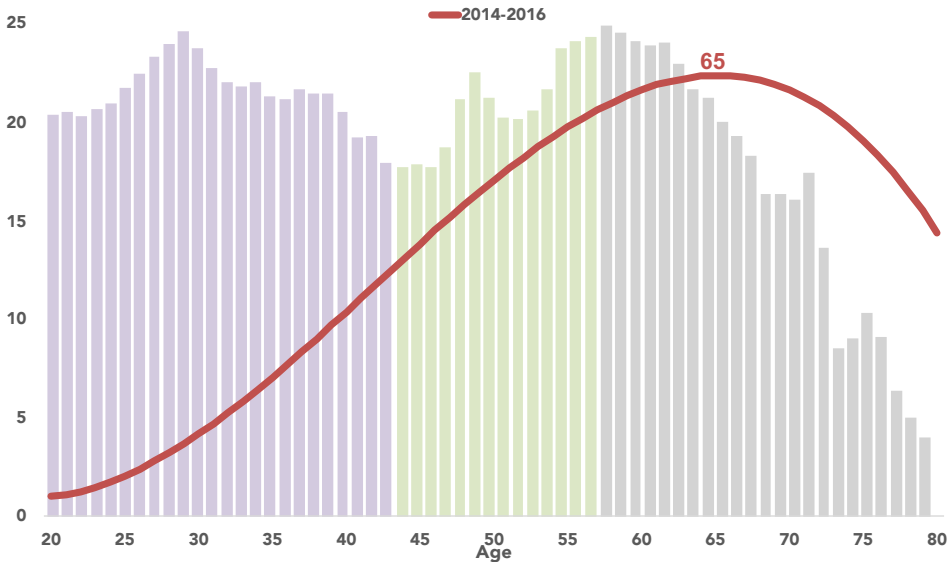


Source: Dent Research, Bureau of Labor Statistics

Figure 12.21

Recreational Vehicles (non-motored)

Average Annual Spending by Age, Indexed to 20-Year-Olds



Lodging away from home (Figure 12.12) peaks around age 55.

Business travel, which the broader economy affects, also affects hotel occupancy rates. So, in general, it's safe to say that lodging is an area in this broader industry that you can ignore.

Spending on luggage (Figure 12.13) peaks at age 45 and falls very quickly thereafter. This puts luggage in the demographic no-man's land between the Boomers and the Millennials.

Out-of-town entertainment demand (Figure 12.14) also peaks at 45, and auto rental on trips (Figure 12.15) peaks at 54. Interestingly, gasoline on trips (Figure 12.16) peaks 10 years later, at age 64.

Local transportation on trips (Figure 12.17) peaks at age 47, which has moved up by about two decades since the late 1990s.

Participant sports on trips (Figure 12.18) also peaks at 47. This would include things like golf vacations.

Demographic trends here are weak, as the much smaller Generation X is currently at this stage of life.

Taking a more comprehensive look, we see that total spending on trips (Figure 12.19) peaks at 50, yet doesn't start to really fall until the 60s.

Given that the Boomers are now entering those years, this is a worrisome trend for the travel industry. For many Americans, the retirement dream isn't a beach house or frequent cruises, or resort stays, but rather the adventure of the open road. With the kids out of the house and with more time at their disposal, buying an RV gives them the opportunity to explore America at their own pace, allowing for a sense of "home" while on the road. We associate a particular stereotype with recreational vehicles, usually a recently-retired gentleman with a little gray in his hair that wants to experience a major adventure after years of being cooped up in the office. You don't see too many college kids driving them, due in part to their high cost (fully loaded RVs can cost more than a house), though an RV might make for quite the spring break. Peak buying for motorized RVs (Figure 12.20) peaks a little earlier than you might think though, at 59.

Non-motorized RVs (Figure 12.21) peak a little later, at 65.

The Baby Boomers' Spending Wave has already crested in this category, and from this point on they'll progressively spend less money on virtually everything. There are pockets of leisure travel that are still attractive, but overall spending on travel and leisure tends to peak in late 40s through late 50s.

Health Care

Whenever I mention the words “demographics” and “Baby Boomers” to a group of people, the first question I get is: “What about health care?” It’s true. Baby Boomers are going to be using a lot more health care as they age. This has big implications for Americans since insurance companies pay most health expenses. We pay these companies premiums, and we pay government programs like Medicare and Medicaid indirectly via taxes.

Health care is already an enormous chunk of the U.S. economy, coming in around 20%. It’s mindboggling that health care consumes so much of our economy given that, until now, we’ve had a relatively young country without a lot of medical needs. Our health spending as a percentage of GDP is roughly double the size of every other industrialized country. This points to a very flawed payment system in which medical professionals are incentivized to practice their trade in a costly, inefficient manner.

Please don't think this is a criticism of doctors or an allegation of greed. Doctors actually make far less now than they did in the 1980s and 1990s when you adjust for inflation. Yes, you read that right. Even as medical costs have exploded, doctors are getting paid less. This is a bad system for everyone involved.

I expect major changes in the health care industry in the years ahead, which will probably be controversial to many readers. Keep in mind, I'm not necessarily advocating any of these policies, I'm merely telling you what I think will happen. The biggest will be medical rationing.

Think back to the early years of President Obama's first term. The most controversial aspects of the Obamacare legislation were the allegations that government "death panels" would decide which patients live and which patients die. This was unsettling to many because we like to think that our families and doctors should make these kinds of decisions, not cold, impersonal government bureaucrats. But if you frame the question differently, Americans might have a very different view. Ask instead: "Do you think the government should avoid wasting Medicare money on unnecessary procedures that are unlikely to improve the health of the patient?" Suddenly, rationing doesn't seem quite so bad when presented like that.

Again, I'm not defending Obamacare or expressing any opinion at all on the program. I'm just making a point that we need change if we're to keep the medical system solvent, and the change is going to be controversial.

Through Medicare, the government pays more in doctor and hospital bills during the last two months of patients' lives than it does for the

Department of Homeland Security or the Department of Education. That's not total spending. It's just the spending on those patients in the final two months before death. And 20% to 30% of these medical expenses have no meaningful impact. They're tests and procedures performed on terminally ill patients. Chronically ill people in the last two years of their lives account for 32% of total Medicare spending.

Breaking it down further, Medicare pays for one-third of the cost of treating cancer in the final year of life, and 78% of that spending occurs in the last month. Doctors are programmed to do everything they can to prolong a patient's life, no matter what the probability of success. At some point, you have to assign a dollar value to the cost of prolonging a life by that extra six months or so. Medical resources are not inexhaustible, and it's better to spend them on patients with longer life expectancies.

Frankly, if presented honest odds, many Americans might prefer to simply treat the pain symptoms and accept death on their own terms rather than risk dying on the operating table in a procedure that most likely won't work. Personally, I don't like the idea of having my health care rationed. I prefer to be given honest assessments of the odds of success and honest assessments of the costs so that I can make my own decision. But I don't see that happening, so we're left with some sort of rationing.

Without rationing of services, the only alternative is the rationing of the market, and by this I mean the de facto rationing that comes with higher prices. When prices rise, we can afford less.

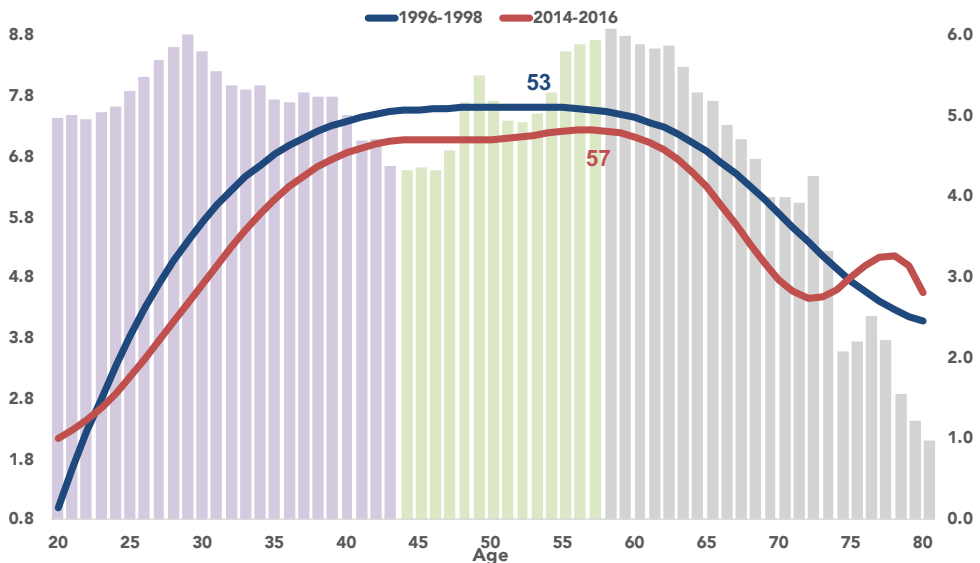
At any rate, this debate will rage on for years, and I don't expect that either political party will be honest with American voters about the choices

we face as a country. The Democrats prefer to make the choices for you, and the Republicans prefer to live in a fantasy world in which we don't have to make choices. This is a long way of saying that demographics are not the only trend you need to watch in the health care space. Changes in government policies can have a major impact on the prices charged for medical services and on your ability to get reimbursed for them. And change is coming. I can't tell you what precise form it will take, because that's fundamentally political and will depend on which party is in power. But change will come, and you must be ready for anything.

Figure 13.1

Physician's Services

Average Annual Spending by Age, Indexed to 20-Year-Olds

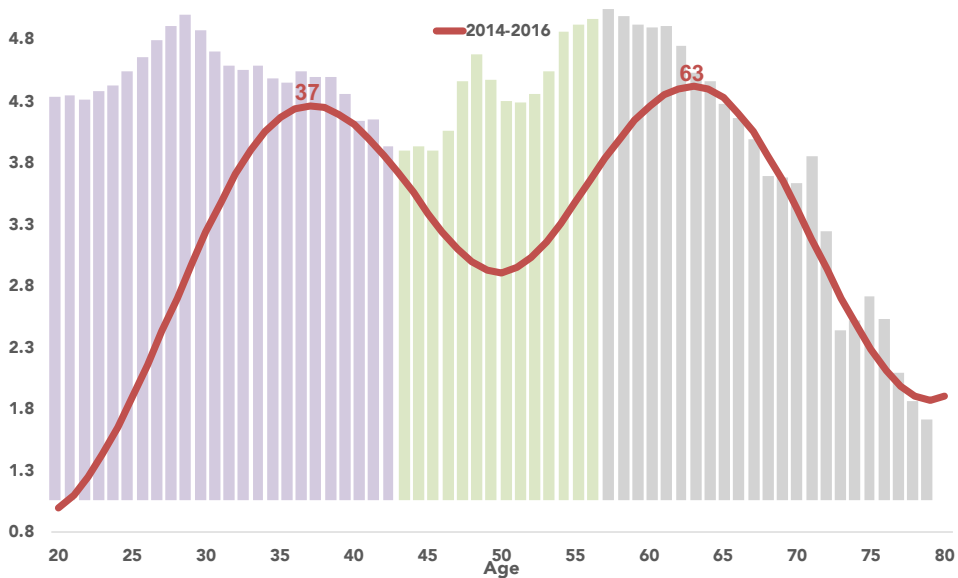


With all of that said, let's dig into the demographic trends of medicine, starting with physician services that peak around age 57 (Figure 13.1), hospital services that peak around age 63 (Figure 13.2), and lab tests and x-rays that peak at age 58.

Figure 13.2

Hospital Room & Services

Average Annual Spending by Age, Indexed to 20-Year-Olds



These ages might seem strangely young at first glance, but remember, Medicare becomes the primary payer at age 65. Also, as we age beyond our 50s, we tend to do fewer things that would get us hospitalized, such as blowing out a knee playing tennis or skiing.

Dental services peak much later, around age 75 (Figure 13.4).

Given that dentistry is less dependent on insurance regulation and has no real exposure to Medicare, this should be a very durable profession in the years ahead. Apart from good demographic trends, dentistry is also recession resistant. You might postpone cosmetic work when the economy is rough, but you're not going to put off a filling or root canal.

Moving into prescription drugs, which never really peak (Figure 13.5), and Medicare-related expenses, which peak around age 76 (Figures 13.6

Figure 13.3

Lab Tests & X-Rays

Average Annual Spending by Age, Indexed to 20-Year-Olds

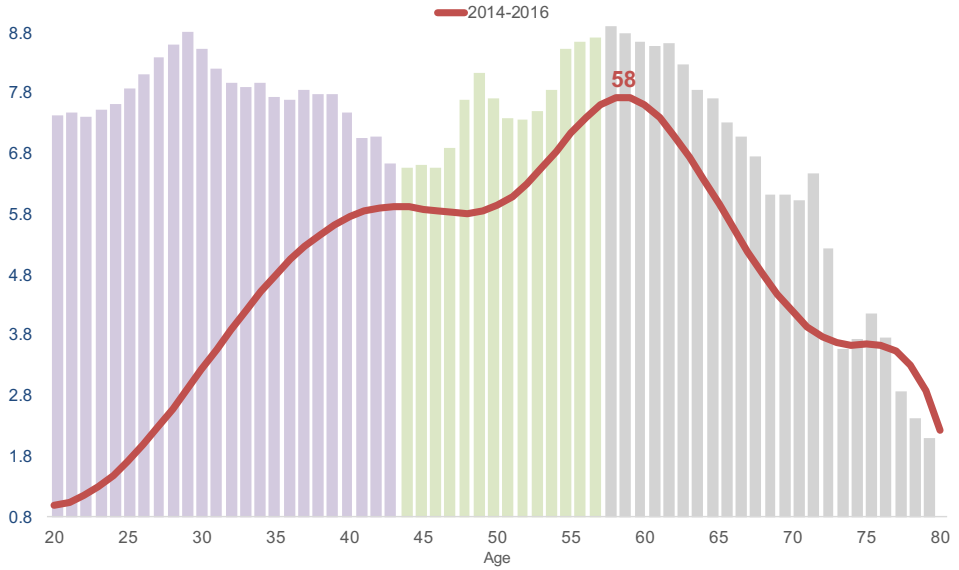
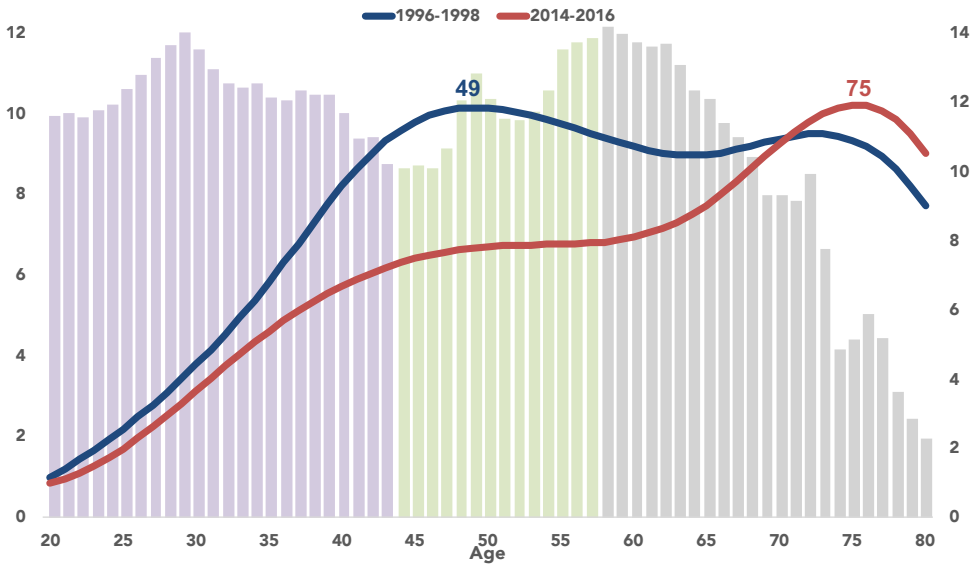


Figure 13.4

Dental Services

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

Figure 13.5

Prescription Drugs

Average Annual Spending by Age, Indexed to 20-Year-Olds

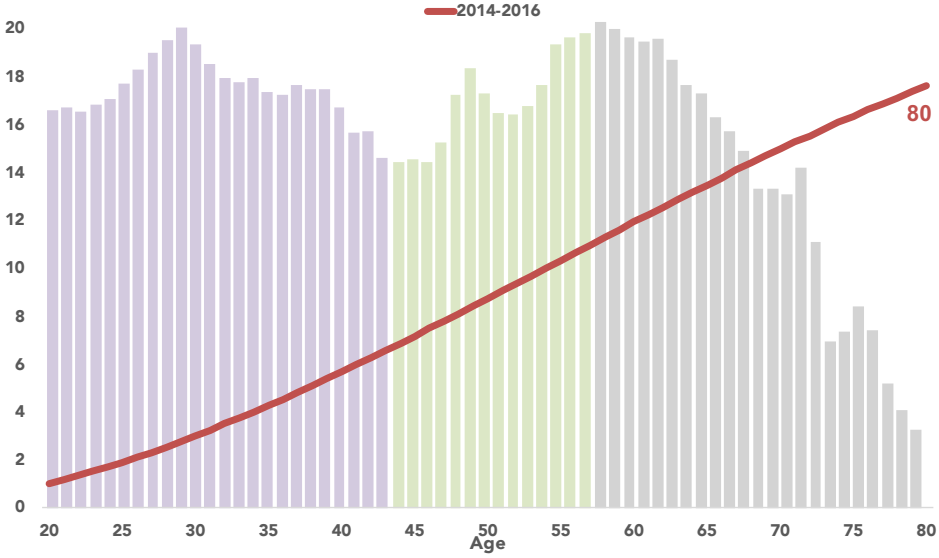
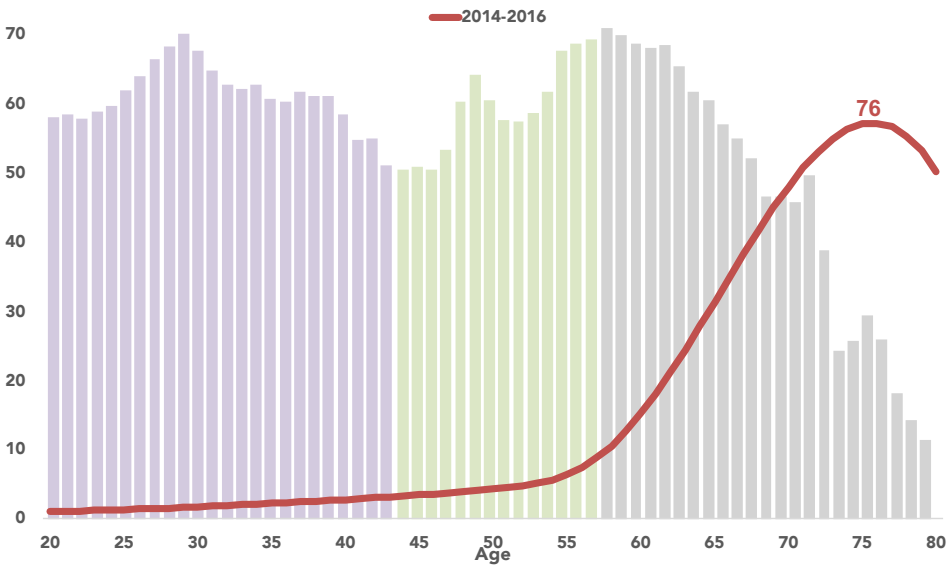


Figure 13.6

Medicare Payments

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

and 13.7), we see exactly the kind of graphs you would expect to see. Prescription drug expenses rise from young adulthood to death.

Medicare-related expenses kick in later, once we qualify for Medicare, but then they rise for the rest of our lives.

Profiting from these trends is tricky. You could invest in a pharmacy, of course, but there's already a lot of competition on that front, not the least of which from brutally-competitive new entrants like Amazon.

To profit from Medicare's looming funding crisis, you could start or invest in a home care nursing business. These have become popular in recent years, though your biggest risk is that Medicare changes to reimbursement policies cut into your revenues. Assuming you can keep your costs reasonable and have a good understanding of Medicare reimbursement policies, you'd be on the right side of a powerful trend.

Moving on, eye care services (Figure 13.8) never really peak.

Aging eyes require more care, and the aging of the Baby Boomers will create new opportunities here, particularly in fighting age-related conditions like macular degeneration.

Eyeglasses and contact lenses (Figure 13.9) will not, however, be particularly attractive businesses in the years ahead. Demand for these products peaks around 52 and then goes into a long decline.

Demand for medical equipment for general use (Figure 13.10) rises until around age 60.

Purchases of convalescent equipment (Figure 13.11) never really peaks, though it levels off slightly at age 60.

SPENDING WAVES

Figure 13.7

Medicare Prescription Drug Premium

Average Annual Spending by Age, Indexed to 20-Year-Olds

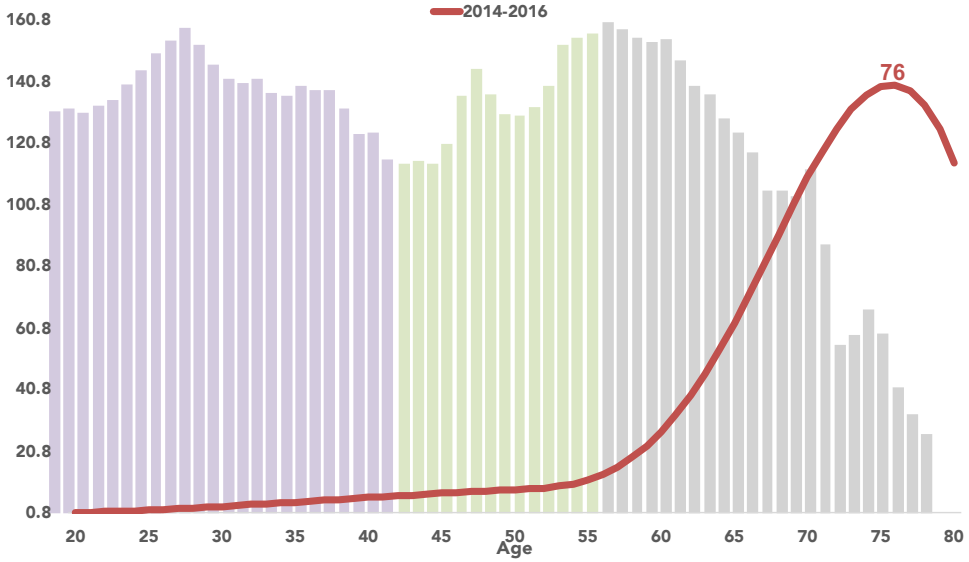
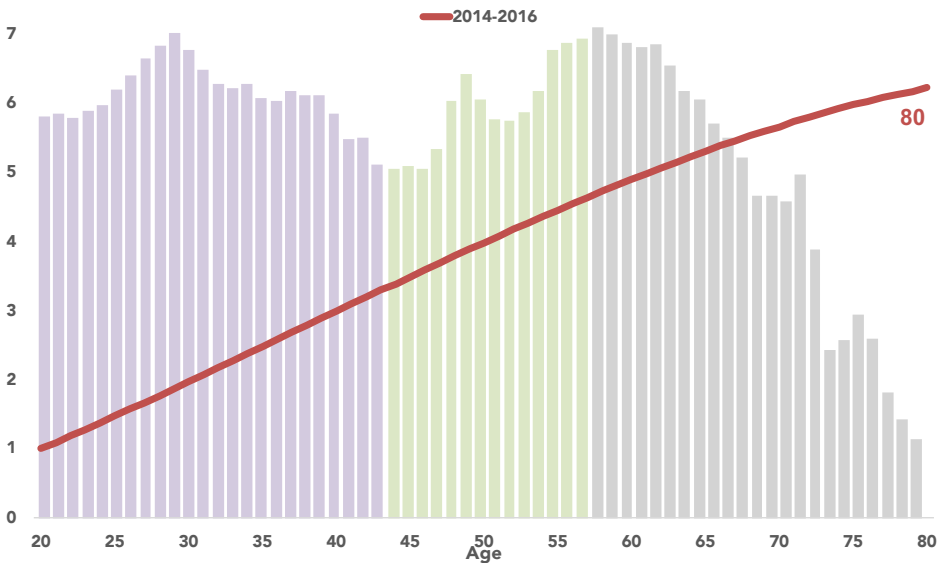


Figure 13.8

Eye Care Services

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

Figure 13.9

Eyeglasses & Contact Lenses

Average Annual Spending by Age, Indexed to 20-Year-Olds

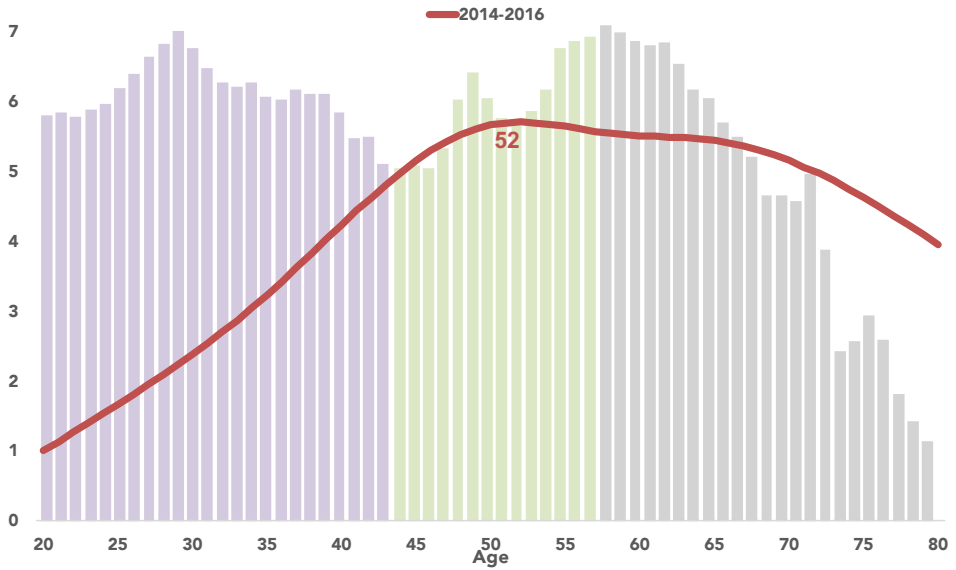
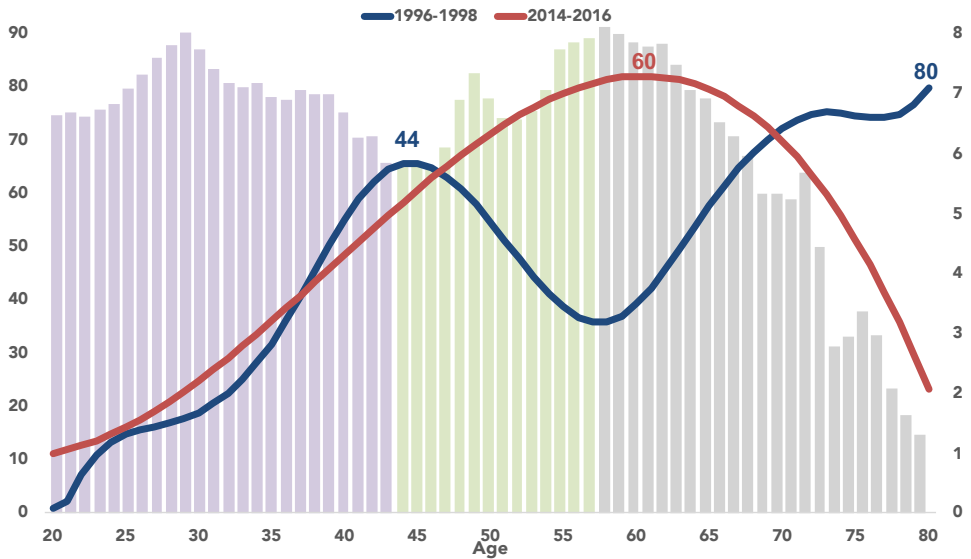


Figure 13.10

Medical Equipment for General Use

Average Annual Spending by Age, Indexed to 20-Year-Olds

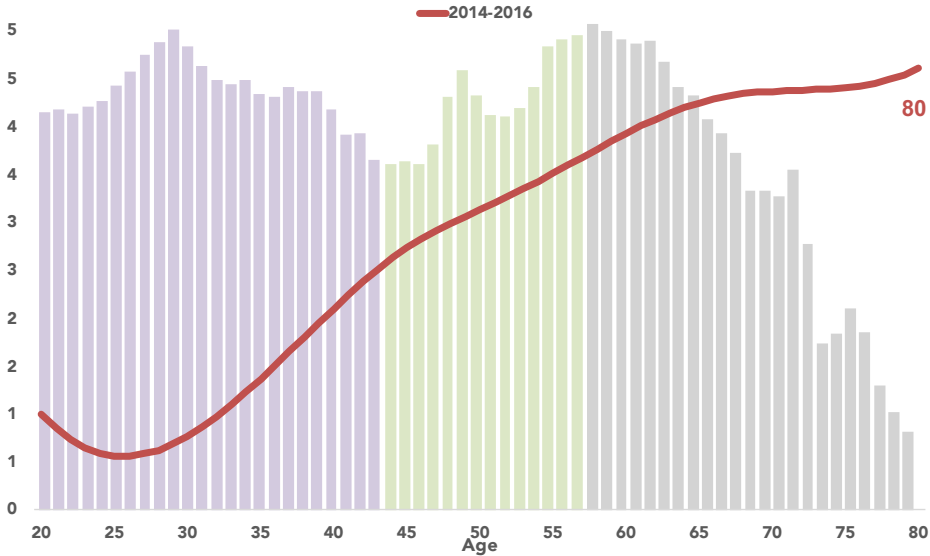


Source: Dent Research, Bureau of Labor Statistics

Figure 13.11

Convalescent Medical Equipment

Average Annual Spending by Age, Indexed to 20-Year-Olds



Here, there might be potential opportunities for rental services. Most Americans would probably prefer not to buy a wheelchair or crutches for conditions they expect to be temporary. A rental service for these sorts of products might make sense in your area.

Despite the apparent opportunities due to the aging of the Baby Boomers, profiting from these trends can be difficult due to regulatory and payment issues. Overall, the best opportunities in medicine in the next decade will be in finding ways to cut costs without reducing the quality of care. This is easier said than done, and I have no easy or obvious answers for you. The problem is there. It's up to you to find the solution.

Professional Services

This last chapter covers professional services, which includes a broad array of services that you could loosely describe as financial, legal, and other white-collar professional services. Higher income Americans tend to pay for these sorts of services, but nearly everyone pays them in some form or another.

I'll start with accounting fees (Figure 14.1) and legal fees (Figure 14.2), which in this case doesn't include real estate closing costs. Accounting fees peak at age 65, though it's a subtle peak. Demand starts to level off in the mid-50s, but never really declines after that.

Our personal finances continue to get more and more complex through middle age. When you're 21 and starting your first job, you really don't need the services of a CPA to file your tax return. But by the time you're at the peak of your earning power, it makes sense to pay a professional. Proper

SPENDING WAVES

Figure 14.1

Accounting Fees

Average Annual Spending by Age, Indexed to 20-Year-Olds

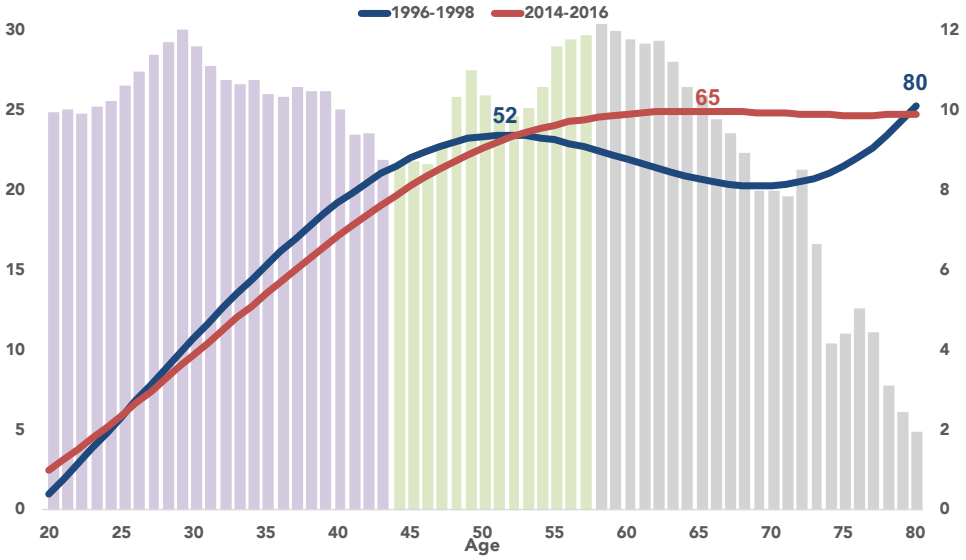
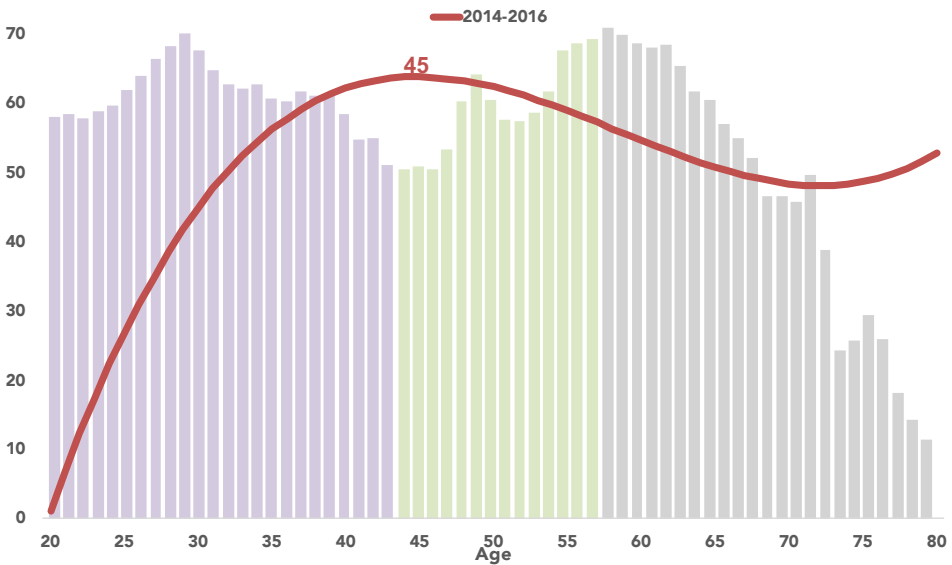


Figure 14.2

Legal Fees

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

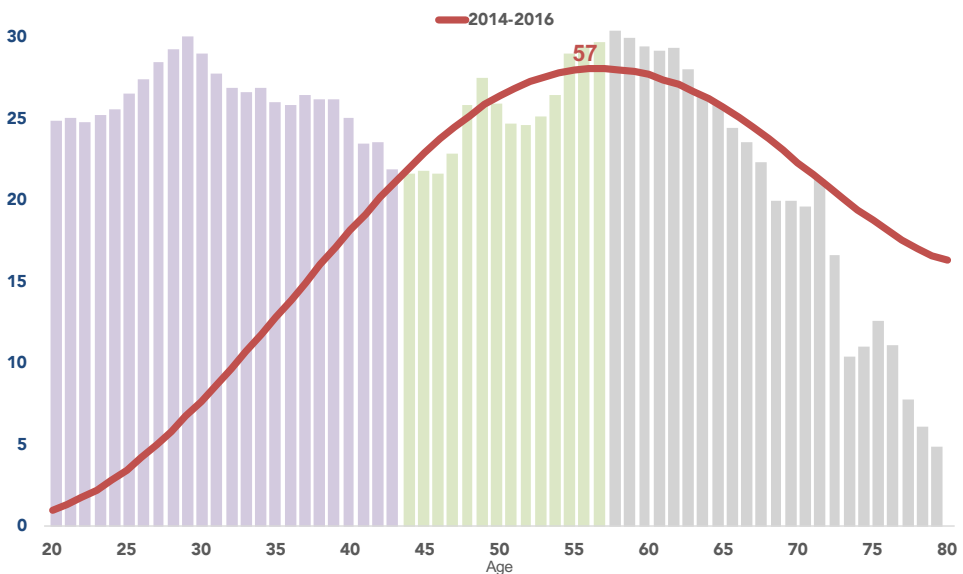
structuring and expert knowledge of deductions matter a lot more at that stage of your life. And once you get used to paying an accountant to handle these things, you're not likely to fire them.

Interestingly, legal fees peak fairly early, around 45, putting this service in that dreaded demographic no-man's land in which the Boomers have peaked but the Millennials are still years away.

Few Americans need the services of a criminal defense attorney. Most of the legal fees Americans pay are for marriage, divorce, and family issues, and later in life for estate planning issues. Given the lower demand implied by demographic trends, I can't recommend law as a career path right now. Even in a more benign demographic environment, there would still be an enormous glut of lawyers. There are twice as many law school graduates as there are legal jobs, which means that legal wages have nowhere to go but down in most practice areas.

Figure 14.3

Life, Endowment, Annuity, & Personal Insurance
Average Annual Spending by Age, Indexed to 20-Year-Olds



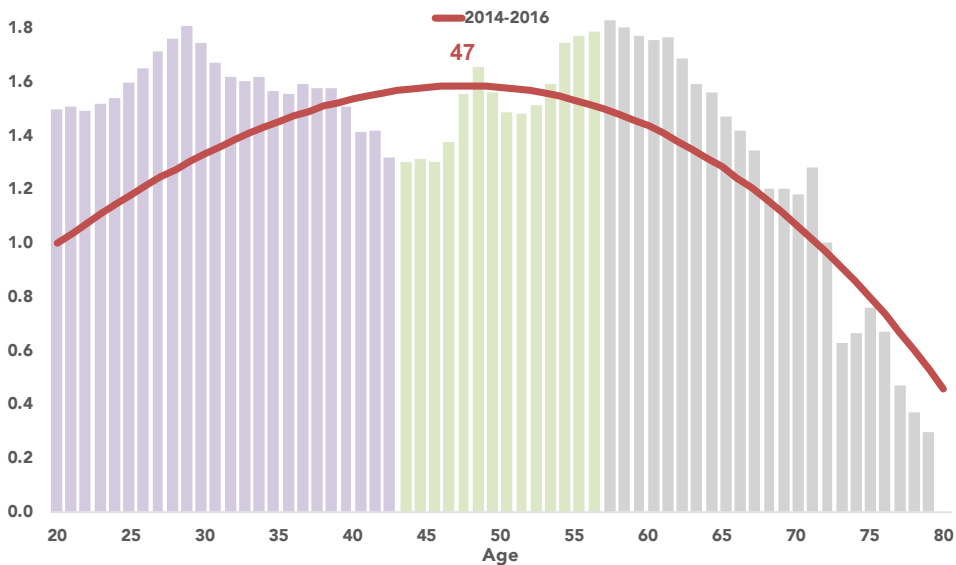
Demand for life, endowment, annuity, and personal insurance products (Figure 14.3) peaks around age 57.

After this point, life insurance becomes prohibitively expensive and, frankly, by this age your insurance needs naturally decrease. Your children should be independent (or close to it) and you have less need to protect them from the possibility of their guardian having an untimely death.

Figure 14.4

Checking Accounts and Banking Service Charges

Average Annual Spending by Age, Indexed to 20-Year-Olds



Demand for other financial services tends to peak at very different times. Fees paid on checking accounts (Figure 14.4) peaks around age 47, while demand for safe deposit box rentals (Figure 14.5) continues to rise until very late in life.

It's hard to gauge the business opportunities here, as the primary providers of these services are banks. But it's interesting to note that, apart

Figure 14.5

Safe Deposit Box Rental

Average Annual Spending by Age, Indexed to 20-Year-Olds

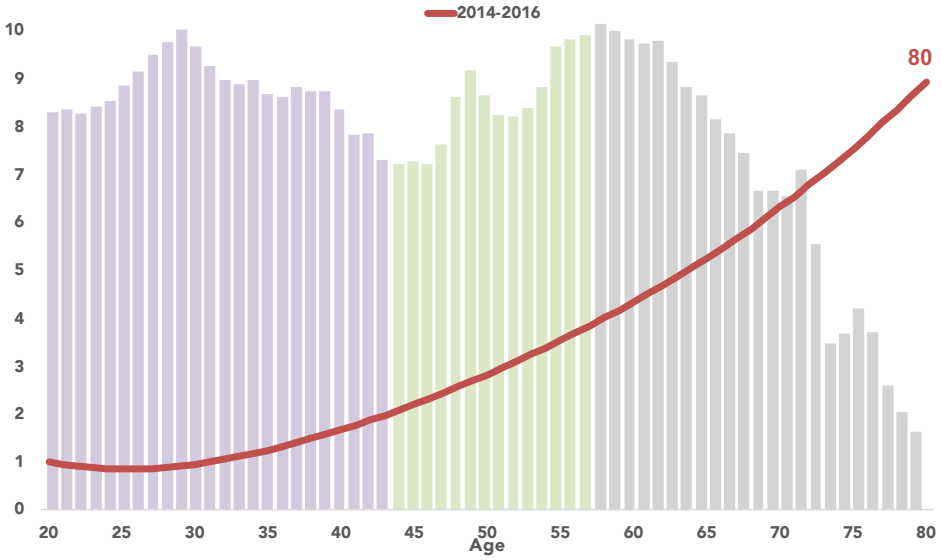
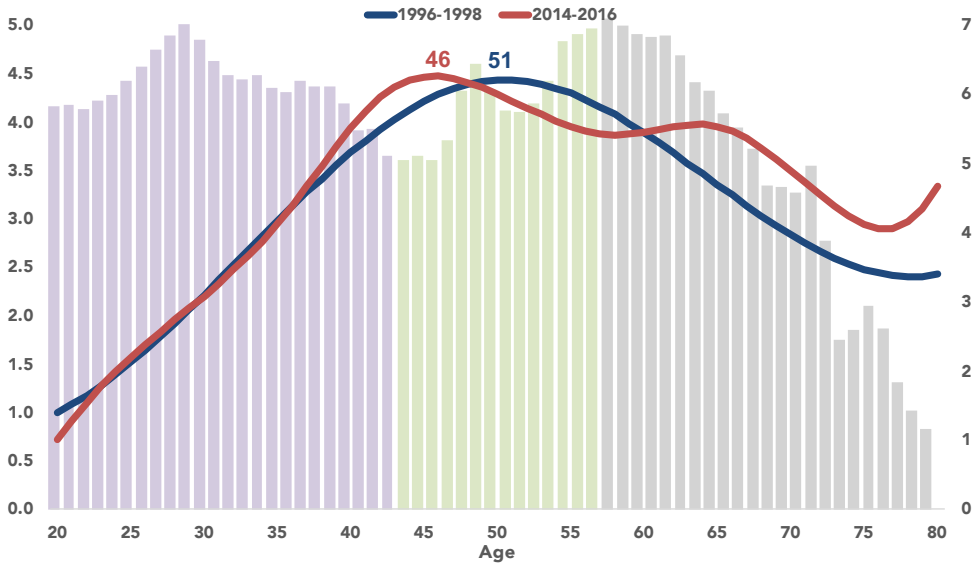


Figure 14.6

Non-Physician Professional Services

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

from the safe deposit box fees, Baby Boomer demand for most financial products has already peaked.

Non-physician professional services (Figure 14.6) is a catch-all for essentially all white-collar services outside of medicine.

Demand here peaks around age 46, putting it in the dreaded demographic no-man's land.

Another factor to consider here is the rise of automation. Robots eliminated factory jobs first starting in the 1970s. Today, the white-collar office worker is most at risk from the rise of automation. Why pay a lawyer thousands of dollars if you can find a template online for the contract you need for a fraction of the cost? Clearly, this risk affects lower-end services more than high-end ones. But it's telling that Goldman Sachs, the world's premier investment bank, announced in 2017 that roughly 50% of investment banking tasks can now be automated and done with a computer.

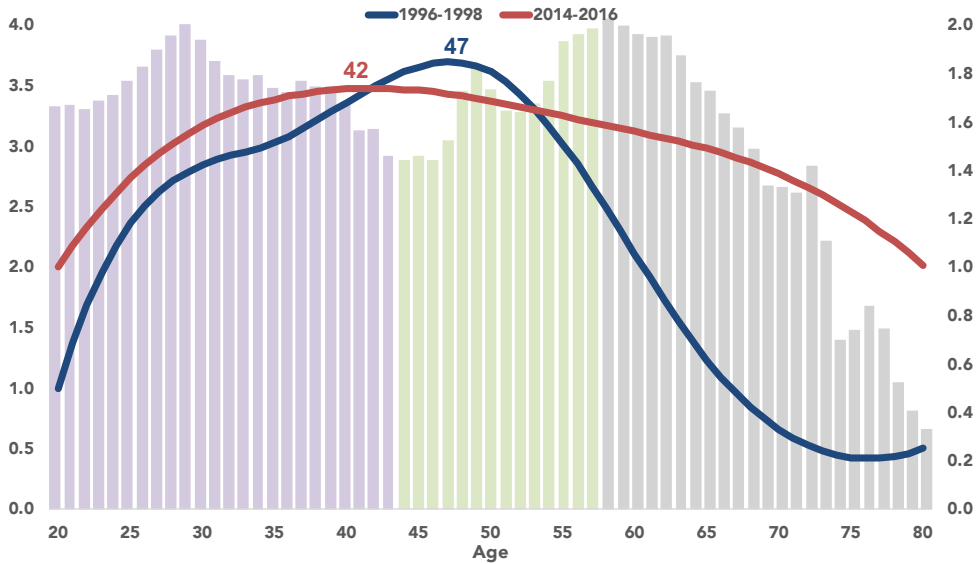
Computer information services (Figure 14.7) is different than other professional services in that it's more technical. And demographic trends here are mixed. Spending peaks around age 42, then starts a slow decline.

Baby Boomers are already long past that age, though the Millennials could be a solid source of growth over the next decade. Of course, given that the Millennials grew up with modern technology (and given the ease of finding information and even video tutorials on the internet), it's possible that they won't need computer services to the same extent as past generations. Regardless, the key to success here will be identifying what services Millennials are likely to need and getting in front of these trends.

Figure 14.7

Computer Information Services

Average Annual Spending by Age, Indexed to 20-Year-Olds



It's also entirely possible that the aging of the Boomers will cause this chart to look very different going forward. Boomers use more technology than the generations that came before them. As older Americans use computers, tablets, and smartphones more, there may be new opportunities to serve an older demographic than has ever been served before.

Finally, we get to services we would rather not think about: funeral expenses (Figure 14.8). Americans don't like to think about death, but they do often plan ahead. The rise in demand is actually the steepest between ages 45 and 60, though expenses never really peak.

Some of the pick-up in buying you see after age 45 is no doubt the result of children paying for the final expenses of their parents. But prepayment of funeral expenses is becoming more and more popular for those over the age of 60. Regardless, with the aging of the Boomers, we're

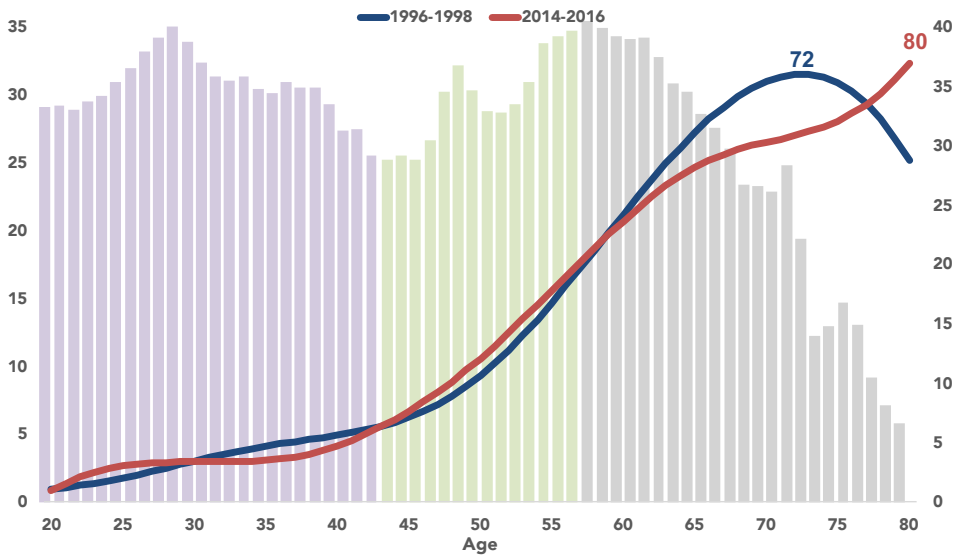
going to have a bull market in death that will last decades.

Most people reading this book will never consider a career in funerals.

Figure 14.8

Funeral Expenses

Average Annual Spending by Age, Indexed to 20-Year-Olds



Source: Dent Research, Bureau of Labor Statistics

It reminds us too much of our own mortality, and most of us are pretty uncomfortable around death. But it's an excellent business, with excellent demographics in front of it, and it's likely to see steady growth up until 2040. I'm not recommending that you go to mortuary school. Most funeral homes are family owned and operated, and those aren't the kinds of jobs you can just walk into. Instead, I would recommend making an investment in an existing home or partnering with existing owner operators who might need capital for expansion or who might have run into financial problems for unrelated reasons. There will be a boom in final expenses, but you have plenty of time here. Remember, the largest cohort of the Baby Boomers are only 59 right now. Given current life expectancy, they might

have another 40 or 50 years of life left. In the meantime, demand might actually be a little slack. Births went into a sharp decline from 1924 to 1933 before turning up. These people are in their 90s today.

Conclusion

In the introduction, I laid out my case that the United States is facing a prolonged period of sluggish growth due to the aging of the Baby Boomers beyond their peak spending years, and the unwinding of the greatest debt bubble in history. Overall, our economy faces very difficult challenges ahead. And other than my comments in Chapter 13, I barely even touched on the fiscal issues facing our government. Our national debt is growing by around a trillion dollars per year, in peacetime and after a decade of growth. Considering it's been 10 years since the last recession, we should be running surpluses by now, yet we have some of the largest deficits in history.

As if that wasn't bad enough news, it gets so much worse. Social Security and Medicare, which are designed to be funded by their own distinct tax streams, aren't even part of the current funding problem yet. Social

Security's expenditures for current retirees started to exceed income from current workers in 2010. This means that the federal government has had to make up the difference. The real deficits will come in the early 2020s when the Baby Boomers born in the late 1950s and early 1960s start to collect their payments. Most recent government estimates expect the Social Security trust funds to be completely depleted by 2034.

For Medicare, the story is even worse. Congress has already had to dip deeply into the general fund to pay for current expenses. Barring major cost clampdowns, which will be unpopular with retired Baby Boomer voters, these expenses will absolutely explode in the 2020s as the Boomers enter the high-health-care-consuming stage of their lives.

This is the point I want to drive home: Our government is running record deficits at a time of relative peace and when Social Security and Medicare costs are still not a major burden. This is the calm before the storm, when we should be building up surpluses to tide us over in the difficult period to come. Instead, we're running deficits that should be shocking and appalling to all Americans. Can you imagine how bad it's going to get in the next decade?

I'm not being defeatist when I say that these debts will never be paid back. They won't be. It's the honest truth, and anyone who says to the contrary is either delusional or a charlatan. The only way they can be "paid back" would be through Federal Reserve debt monetization. Essentially, the Fed would have to "forgive" the outstanding amounts on the bonds it holds. But this brings with it a whole new set of problems, such as potential currency collapse. Is your head spinning yet?

In the years ahead, we'll face a host of overlapping crises that will make life very difficult for American business professionals. Think of the reduction in spending by the Baby Boomers and the process of deleveraging in the financial sector as a balloon that's deflating. Other factors in the economy will determine how fast it deflates, but they can't plug the leak. The air is seeping out and there's nothing we can do about it!

Government policy adds another wrinkle to this scenario. How will our government respond to the challenges I outline? Will it cut spending and pull more dollars out of the economy? Or will it delay reform for another few years and risk creating an even bigger crisis later? There's no way to answer this, and it doesn't make sense to spend our time calculating scenarios that, in the end, will depend on the whims of politicians. Instead, we can focus on demographic trends, which are highly predictable. Even in a terrible economy, marked by slow growth and governmental uncertainty, there will be excellent opportunities for forward-thinking entrepreneurs and investors. I hope the demographic analysis we performed in this book will give you a framework for seeking out those opportunities.

Notes

