

'Tis the Season of Spending

What does YOLO (You Only Live Once) have to do with it?

EDGE is an independent financial firm whose objective advice helps individuals and institutions realize their goals in the areas of investment management and corporate finance. The Edge Research Team's thoughtful and timely reports are based on extensive independent research and analysis of firms, financial developments, and macroeconomic trends.

With Holiday music now filling the stores and relentless ads from Black Friday to Cyber Monday and beyond hitting our inboxes, we decided to take a deeper look into the future of the American consumer, the Millennial, and how this generation's evolving preferences will influence consumer spending. While many of these trends could take years before broad based structural changes occur, it is important to recognize that we are in the early stages of a major shift in consumption patterns. We should take note because the American consumer is critical to long term economic growth: personal consumption now comprises approximately 70% of annual US GDP growth. It is hard to believe that Cyber Monday was a "marketing ploy" to enhance Black Friday revenue during the mid-2000's. 2015 sales could surpass \$3 Billion! Change may not be as far away as we think.

Why are Millennials so important?

Millennials, or Americans born between 1980 and the mid-2000's, are now the largest generation in the US and represent nearly one third of the US population according to the US Census Bureau.

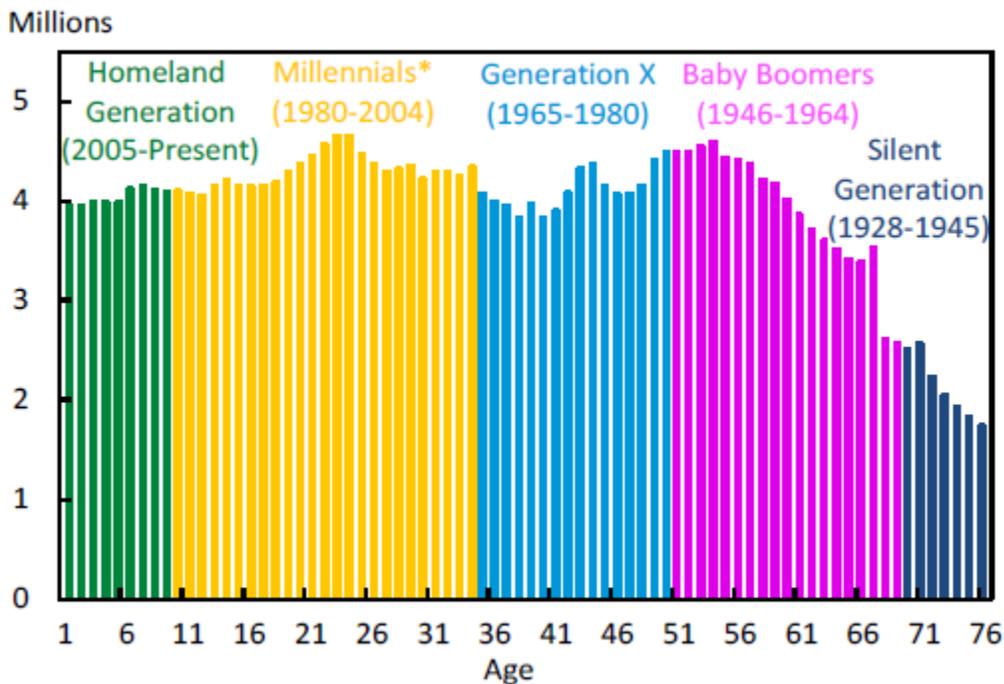


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Figure 1: US Population Distribution by Age, 2013



Source: Census Bureau.

'Tis the Season of Spending

What does YOLO (You Only Live Once) have to do with it?

Up to 75% of this population segment is now the primary decision maker in their households. This generation is entering their prime spending years with an estimated purchasing power over \$600 Billion.¹ Their preferences and behaviors will increasingly influence how goods and services are consumed and will dictate how companies operate for decades to come.

What do Millennials want?

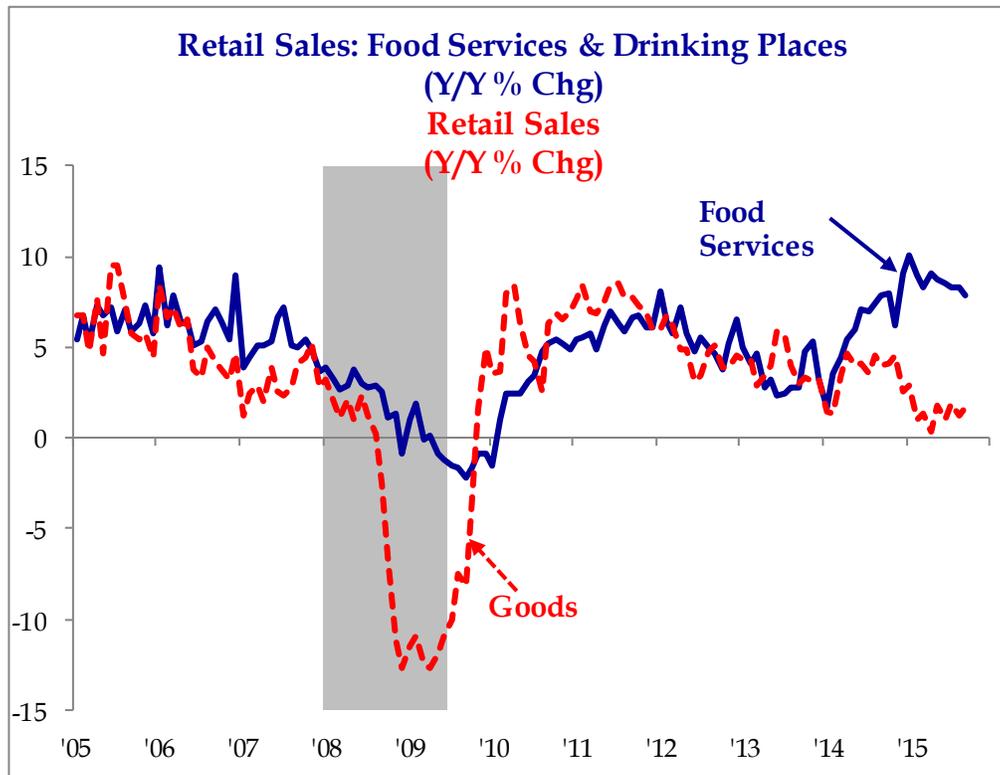
YOLO (You Only Live Once), a common phrase echoed among Millennials, is now a concept forcing retailers to create not only a first class product at a competitive price, but now they must also create an experience.

- A budgeting app, Level Money, recently published a study that shows Millennials are increasingly spending their time and money on event-based experiences.
 - **Their findings show that more than three in four Millennials (78%) would choose to spend money on a desirable experience or event over buying a desirable item.**
 - Further, 55% of Millennials say they're spending more on events than ever before.
 - Over 50% claim they are "Foodies".
- Based on these statistics, it is not surprising that a brand like American Express has nearly an 80% awareness rate among Millennials. AmEx is affording its cardholders the luxury of not only buying things but also *experiencing more* through member events such as concerts and festivals as well as cardholder bonuses.
- Again, consider Starbucks, whose focus on customization, created a destination experience for its customers and only continues to enhance its brand loyalty through the Starbucks app that distributes promotions to coffee tips and even music.
- With strong economic employment data and signs of wage growth, the desire for experience consumption could continue. In the chart below, there is a clear and sustained trend away from retail goods in favor of services. Note that even during the Great Recession, food services held up remarkably well.

¹ Accenture

'Tis the Season of Spending

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Source: Strategas

Perhaps more surprising is a growing consensus around what many Millennials are NOT interested in buying – at least not at the same ages of previous generations. The purchases of Baby Boomers or even Generation X appear postponed and maybe even eliminated among Millennials.

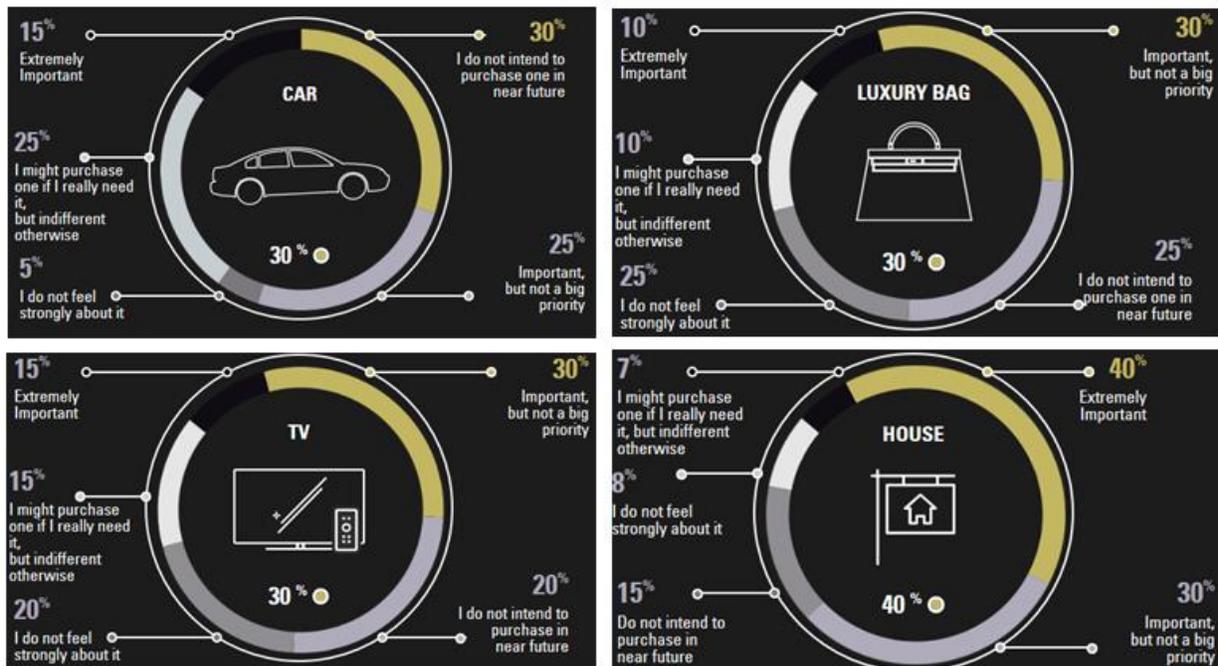
- Millennials are now approximately one third of the labor force and have faced significant challenges upon entering the workforce since the Great Recession despite the fact that over 60% of them attended college.² From cars to homes and luxury items, the memory of the financial crisis lingers and these larger purchases do not appear as important.
- In fact, according to the Bureau of Labor Statistics, the percentage of 18-34 year old adults living at home is at a 30 year high: 31%.
- However, Millennials do not want to live at home forever. According to Trulia, over 93% of current Millennial renters expect to buy a home at some point in the future.

² Decennial Census and American Community Survey. Data for Millennials are for those 15-34 years old in 2012.

'Tis the Season of Spending

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- The data below collected from Goldman Sachs demonstrates the idea that this generation (at least for now) is interested in a “sharing economy” where the access today is more important than the status of ownership. Flexibility allows for greater ability to create experiences...



Source: Goldman Sachs Investment Research

How do Millennials purchase and what makes them act?

When Millennials make a purchase, technology appears to be critical to the sales process. The sale is more likely if a product has been vetted by friends and if the transaction is frictionless.

- Brick and mortar stores are not yet a thing of the past for this generation but the use of the internet is critical to capturing market share through brand awareness and purchases.
- According to the Association of National Advertisers, 34% of Millennials turn to online networks when making purchases compared to 16% of buyers over 36. Approximately 64% of Millennials believe companies should offer more ways to share opinions online.** Since over 75% of Millennials have an account on a social networking site compared to less than 33% of Baby Boomers,³ “what your friends think” could continue to drive sales for years.

³ Ibid

'Tis the Season of Spending

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- As a brick and mortar operation, Target has excelled in connecting their in store experience to mobile devices through their Cartwheel app and on-trend commercials. As a result, 66% of Millennials now frequent a Target store at least monthly.⁴
- Amazon may define frictionless for Millennials. With over 85% of Millennials owning a smartphone,⁵ Amazon has taken advantage of attracting buyers through online couponing and ads. Amazon’s website offers the ability to easily compare prices, review opinions and purchase product. Its rank is notable in a recently released “most liked” technology brand survey.

Generation Y (16-34 year olds) most liked technology brands

Tech Rank	Brand	% Liked	Overall Top 100 Rank
1	Amazon	77%	2
2	Google	73%	6
3	Facebook	70%	10
4	YouTube	68%	12
5	Apple	61%	19

Source: w00t! Media Ltd

Looking Forward to the Nearer Future...

As we wrap up 2015 and assess financial market performance, the S&P500 has demonstrated difficulty in finding sustained upside or downside momentum.

⁴ Oracle, A New Perspective on Millennials

⁵ Nielsen, 2014

'Tis the Season of Spending

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- In fact, through November, the S&P has crossed above/below breakeven 20 times in 2015 (the record is 22 times in 2000) and has crossed above/below its 50-day moving average 38 times (that is a record).⁶

The table below shows that the majority of the S&P500's 2015 return can be explained by just a handful of names. Specifically, 13 of the top 15 contributors to performance in the S&P500 year to date through 12/2/2015 account for **119%** of the return! Many of these tech savvy, millennial loving growth companies below will sound familiar. 2015 performance of this narrow market segment has been impressive to say the least.

COMPANY NAME	GICS SECTOR	YTD PERFORMANCE	CONTRIBUTION TO	CURRENT	FORWARD
		(12/2/2015)	INDEX TOTAL	YEAR PE	PE
			RETURN YTD		
AMAZON.COM INC	Consumer Discretionary	118.2%	26%	119.8	68.7
ALPHABET INC-A	Information Technology	46.8%	13%	26.9	22.7
MICROSOFT CORP	Information Technology	18.9%	13%	20.1	17.8
ALPHABET INC-C	Information Technology	45.3%	13%	26.3	22.2
FACEBOOK INC-A	Information Technology	36.1%	11%	49.0	37.0
HOME DEPOT INC	Consumer Discretionary	27.5%	7%	25.0	21.7
APPLE INC	Information Technology	5.6%	7%	11.8	10.8
NETFLIX INC	Consumer Discretionary	163.6%	6%	355.3	276.8
WALT DISNEY CO	Consumer Discretionary	21.1%	5%	20.2	18.4
STARBUCKS CORP	Consumer Discretionary	49.2%	5%	32.4	28.0
VISA INC-CLASS A	Information Technology	20.8%	5%	27.7	23.6
NIKE INC -CL B	Consumer Discretionary	37.8%	5%	30.8	26.9
MCDONALDS CORP	Consumer Discretionary	21.3%	3%	23.4	21.3
13 of the top 15 CONTRIBUTORS TO YTD TOTAL S&P500 RETURN			119%	59.1	45.8

Source: Bloomberg

The question for all of us as investors remains...Is the current momentum a sign of what's to come or have the multiples of these companies already moved too far too fast for this long term trend?

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⁶ Strategas