



The Fate of the Twinkie

Perhaps no other product has captured the attention of Americans in recent months than the humble Twinkie, whose parent company is in the final stages of its bankruptcy proceedings. If you are like me, you probably haven't eaten one in years. But there is something about the little yellow cake that is iconic and...well...American!

So, the bankruptcy of Hostess Brands late last year felt like a strong kick to the gut for many of us. The immediate cause of the bankruptcy was a labor dispute with the bakers' union. But Hostess' problems ran much deeper and point to a much larger trend in the U.S. economy.

When was the last time you bought a Twinkie?

I ask not to belittle the brand but to make a point. The poor Twinkie is a victim of changing demographics.

The Baby Boomers bought Twinkies by the millions for their children, the Echo Boomers. The Echo Boomers were the second-largest generation in history (after the Baby Boomers themselves), so satisfying their sweet tooth was a profitable endeavor.

Unfortunately for Hostess, the Echo Boomers grew up. Most are out of college now, and many have started families of their own. And as a generation, they—along with the smaller Generation X—are a little more health conscience as parents. They are more likely to throw a banana into their child's lunch box than a Twinkie.

Of course, Twinkies are not the only iconic brand that has been on the wrong side of a demographic trend. Consider Harley-Davidson.

Imagine the "typical" Harley rider: a white male in his 40s or 50s. When the Baby Boomers entered this key age range two decades ago, it created the biggest boom in the company's history. But nothing lasts forever, unfortunately. Those same Boomers who once bought Harleys are more likely to buy an RV today. Generation X is not large enough to make much of a difference, and the Echo Boomers are still a few decades away from their motorcycle-riding mid-life crisis.

As investors, it's easy to get distracted by the headlines and by the fast pace of news that hits us every day. But the truth is that the forces that ultimately matter most to a company's health—and to the health of the entire economy—are slow moving and very predictable. An understanding of demographic trends would have helped you foresee the difficult times for both Hostess and Harley-Davidson. And they can also help you predict the next boom.

I expect a new baby boom at the beginning of the next decade that will be very profitable for those investors willing and able to get in front of it. And that is exactly what I intend to do.

Sincerely,

Jeremy E. Portnoff

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