

>: Retail Stocks for the Holidays

Monday, November 26, 2007 / Wayne Mulligan

Well, we've zipped through the first weekend in this year's Holiday shopping season, and retailers are pretty happy so far.

Black Friday's sales were up about 8.3% from the year ago period, hitting roughly \$10 billion on Friday alone.

The second major milestone we have coming up is for the online retailers. What has affectionately become known as *Cyber Monday* kicks off today, and is expected to show some robust growth for the e-tailers, as well.

So while investors could go ahead and place their bets on retail stocks off and online my feeling is we're in the middle of a dramatic shift in how consumers spend their money.

While many folks still really enjoy running into crowded stores, fighting over the last Nintendo Wii on the shelf and heading home in traffic, there are plenty of people who are finding it more convenient to shop from the comfort of their living rooms. That means these folks are going to be shifting a lot of their holiday spending dollars from offline to online outlets.

How much of their wallets will be diverted online?

20%? 40%? 60%?

It's tough to call, but this writer predicts that the number will increase as the online shopping experience becomes more like the offline experience. Sites like Zappos.com, where exchanges and returns are free, are a perfect example of how an online retailer can aggressively compete with its offline brethren.

So, as we begin to see e-tailer sales numbers come in after today's kick-off, I'd be keeping my eye on the following stocks:

Amazon.com (Nasdaq: AMZN)

Here's the granddaddy of online retailers the Wal-Mart of the web if you will and now they're even getting into the electronic book and music business, so it'll be fun to see how this affects this company's top and bottom line numbers this season.

Dell (Nasdaq: DELL)

Dell has lost a bit of its luster over the last two years in the wake of declining product quality and customer service debacles. Let's see if a snazzy new ad campaign and the return of the company's founder, Michael Dell, can turn this company into a rising star for the holidays again.

Apple (Nasdaq: AAPL)

While Apple isn't strictly an e-tailer in the traditional sense of the word, an increasing amount of this company's sales and earnings are coming from internet-enabled products such as the iPod and the iPhone. Those two products in particular are sure to make Apple a hit for this year's shopping crowd.

eBay (Nasdaq: EBAY) For the online bargain hunters out there, eBay is still likely to be the standard for finding great deals or hard-to-find products on the web. For those who still haven't made the leap into online auctions, let me relate a personal story.

My aunt called me yesterday and said she couldn't find a single Nintendo Wii for my younger cousins this Christmas it was sold out at every store in her town. So I told her to jump on eBay and poke around for a bit. Within 10 minutes she found a brand new Wii, and a Christmas crisis had been averted.

So, needless to say, I'll certainly be watching how this company fares this season.

I hope you save yourself some time and money by using some of the sites I've mentioned. And my real hope is that they turn into potential profits for you in the market, as well.

If you have any suggestions for retail (online or offline) stocks that other Tycoon members might want to watch this holiday shopping season, please mention them in the comments section on the web site. I'd love to hear what everyone is buying this year.

Happy holiday hunting my friend!



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Tuesday, November 27

10:00 - Consumer Confidence (for November): Consensus 91.5

Big Picture: The index reached a six-year high in July, but dove to a two-year low in October given the worsening housing recession, the market implications of the reckless sub-prime mortgage lending, a rising price of oil, tighter labor markets and the consumer fear of recession ahead. Conference Board's survey is far larger and more business-heavy than the household-heavy Michigan sentiment index. The index is presumed to provide an early read on consumer spending, which is far better previewed through interest rate levels and income growth.

Implications: The Conference Board conducts a monthly survey of 5,000 households to ascertain the level of consumer confidence. The report can occasionally be helpful in predicting sudden shifts in consumption patterns, though most small changes in the index are just noise. Only index changes of at least five points should be considered significant. The index consists of two subindexes -- consumers' appraisal of current conditions and their expectations for the future. Expectations make up 60% of the total index, with current conditions accounting for the other 40%. The expectations index is typically seen as having better leading indicator qualities than the current conditions index.

Wednesday, November 28

8:30 - Durable Orders (for October): Consensus 0.0%

Big Picture: A small (but third consecutive) decline in durable orders can be tied to transportation orders, as Boeing reported a large decline in October airplane orders near the size of August's large decline. Non-transportation orders are expected to rise 0.7% -- the third rise in four months. Core capital goods (ex defense/aircraft) is expected to show a fourth consecutive gain. The annual growth rates get help from the year ago decline of -8%, and after September yoy declines in orders and non-defense capital goods, we expect Oct yoy gains.

Implications: The durable orders release measures the dollar volume of orders, shipments, and unfilled orders of durable goods (defined as goods whose intended lifespan is three years or more). Orders are considered a leading indicator of manufacturing activity, and the market often moves on this report despite the volatility

and large revisions that make it a less than perfect indicator. These problems can be minimized by looking at the breakdown of orders. The total number is often skewed by huge increases in aircraft and defense orders. An increase based solely on strength in one sector tends to be discounted, while the market is more impressed with broadbased increases in orders.

10:00 - Existing Home Sales (for October): Consensus 5.0M

Big Picture: October should show a small but welcome first gain in eight long months. The declines have accelerated over the last few months, but pending resales edged higher in September. Oct NAHB index reached a record low, and the MBA purchase index fell -3%. Inventories have shot to a cyclical high of a huge 10.5 months, well above August's 18-year high. Despite the massive bleeding, prices have been fairly stable. Prices may have to fall 10% - 15% from their peak to clear the huge supply of inventories.

Implications: The name speaks for itself -- this report provides a measure of the level of sales of existing home sales. The report is considered a decent indicator of activity in the housing sector. Housing starts precede this report each month, but starts are a supply rather than demand-side indicator. Existing home sales precede the other key demand-side indicator of housing -- new home sales -- thus boosting the visibility of this report. Sales are highly dependent on mortgage rates, and will tend to react with a few months lag to changes in rates. Sales are also determined by the level of pent-up demand for housing -- immediately after a recession, sales are typically quite strong due to the demand which accumulated through the recession.

Thursday, November 29

8:30 - GDP-Prel. (for Q3): Consensus 4.8%, Chain Deflator-Prel. (for Q3): Consensus 0.8%

Big Picture: Q3 leaves the last four quarters with average growth of 2.6% as the Fed targets sub 'potential' growth (3%) to cool inflation pressures. The risks for slower growth have been offset by the resilient economy to date. The forward risks have increased with the mortgage credit crisis and the housing sector slipping in to deeper recession. A key risk is business investment fading given the weaker growth outlook leaving weaker manufacturing demand. Consumer spending will provide support given full employment and moderate income growth, but will show weaker growth in the coming quarters. Inventories have slimmed and shouldn't provide a strong pull, as global growth remains positive given the weak dollar and the pace of global growth. Q4 will again test just how resilient the economy is.

Implications: Gross Domestic Product (GDP) is the the broadest measure of economic activity. Annualized quarterly percent changes in GDP reflect the growth rate of total economic output. The figures can be quite volatile from quarter to quarter. Inventory and net export swings in particular can produce significant volatility in GDP. The final sales figure, which excludes inventories, can sometimes be helpful in identifying underlying growth trends as inventories represent unsold goods, and a large inventory increase will boost GDP but might be indicative of weakness rather than strength. The broad components of GDP are: consumption, investment, net exports, government purchases, and inventories. Consumption is by far the largest component, totaling roughly 2/3 of GDP. In addition to the GDP figures, there are GDP deflators, which measure the change in prices in total GDP and for each component. Though the consumer price index is a more closely watched

inflation indicator, the GDP deflator is another key inflation measure. Unlike CPI, it has the advantage of not being a fixed basket of goods and services, so that changes in consumption patterns or the introduction of new goods and services will be reflected in the deflator.

8:30 - Initial Claims (for 11/24): Consensus NA

Big Picture: Weekly initial claims can be volatile, as recent movement suggests some easing in the tight labor market. Layoffs (seen in initial claims) have risen modestly as hiring (seen in continued claims) has improved since the high in August. Claims provide a nearly real time read on layoffs and the labor market, as the low 4.7% unemployment rate reflects the broader combined read of layoffs and hiring. A level above 350K for claims is worrisome, as a 375K level would signal a potential recession. We're nowhere near there.

Implications: Initial jobless claims measure the number of filings for state jobless benefits. This report provides a timely, but often misleading, indicator of the direction of the economy, with increases (decreases) in claims potential signaling slowing (accelerating) job growth. On a week-to-week basis, claims are quite volatile, and many analysts therefore track a four-week moving average to get a better sense of the underlying trend. It typically takes a sustained move of at least 30K in claims to signal a meaningful change in job growth.

10:00 - New Home Sales (for October): Consensus 750K

Big Picture: The expected October decline offsets the September gain, leaving a new 11-year low in new home sales. New home sales are nearly half the level of the July 2005 peak, and inventories will rise with the decline in sales, and may top the 9-month high of August. Median prices continue to swing, and annual growth turned to 5% in September from -4.8% yoy in August. Prices need to fall 10%-15% from their peak to clear inventory and re-energize sales.

Implications: The report indicates the level of new privately owned one-family houses sold and for sale. New home sales usually have a lagged reaction to changing mortgage rates. They also tend to be stronger early in the business cycle when pent-up demand is strong, and they fade later in the cycle as the demand for housing is sated. In addition to home sales, the market monitors the number of homes for sale relative to the current sales pace. As this inventory measure falls (rises), housing starts tend to rise (fall). Finally, the median home price provides an indication of inflation in the housing sector, though only year/year changes provide any meaningful information. The home sales report is quite volatile and subject to huge revisions, making any one month's reading very unreliable. The report rarely prompts a market reaction. The market prefers the existing home sales report, which has a sample data pool four times as large and is released earlier in the month.

Friday, November 30

8:30 - Personal Income (for October): Consensus 0.4%, Personal Spending (for October): Consensus 0.3%, Core PCE Inflation (for October): Consensus 0.2%

Big Picture: (Not Available)

Implications

: Personal income measures income from all sources. The largest component of total income is wages and salaries, a figure which can be estimated using payrolls and earnings data from the employment report. Beyond that, there are many other categories of income, including rental income, government subsidy payments, interest income, and dividend income. Personal income is a decent indicator of future consumer demand, but it is not perfect. Recessions usually occur when consumers stop spending, which then drives down income growth. Looking solely at income growth, one may therefore miss the turning point when consumers stop spending. The income report also includes a section covering personal consumption expenditures, also known as PCE. PCE is comprised of three categories: durables, nondurables, and services. The retail sales report will provide a good read on durable and nondurable consumption, while service purchases tend to grow at a fairly steady pace, making this a relatively predictable report, and ranking it well below retail sales in terms of market importance.

9:45 - Chicago PMI (for November): Consensus 50.5

Big Picture: The measure is expected to rebound back above 50 with production increases. New orders are expected in the low 50s, as production rebounds somewhat after the 11 pt October plunge. Employment is also expected to bounce back above 50, as order backlogs and inventories hold below that level. Prices paid will follow energy prices higher, but the lack of manufacturing pricing power leaves very little inflation threat.

Implications: There are many regional manufacturing surveys, and they tend to be ranked in order of timeliness and the importance of the region. The New York and Philadelphia Fed's surveys are the first each month followed by the Chicago purchasing managers' report on the last day of each month. A few, such as the Atlanta and Richmond Fed surveys, are released after the ISM and are of little value. The purchasing managers' reports are measured like the national ISM -- 50% marks the breakeven line between an expanding and contracting manufacturing sector. For the New York, Philadelphia and Atlanta Fed indexes, 0 is the breakeven mark. These surveys can be of some help in forecasting the national ISM.

10:00 - Construction Spending (for October): Consensus -0.2%

Big Picture: (Not Available)

Implications: The construction spending report is broken down between residential, non-residential, and public expenditures on new construction. The monthly changes are both volatile and subject to huge revisions, so this report rarely has any market impact. Only trends extending over three months or more can be viewed as significant.

Source: www.Briefing.com