

>: Can You Profit From The Shoe Business?

Friday, August 1, 2008 / Ethan Roberts

Tycoon readers, with sincere apologies to the late, great singer and actress, Ethel Merman, let me just say, "There's no business like "shoe" business, there's no business I know..."

Today I want to be a "Goody Two Shoes", hopefully by writing a good article on two stocks within the shoe business! The two stocks, both of which have been in the news a great deal this past week, are Crocs, Inc. (CROX) and Skechers USA, Inc. (SKX).

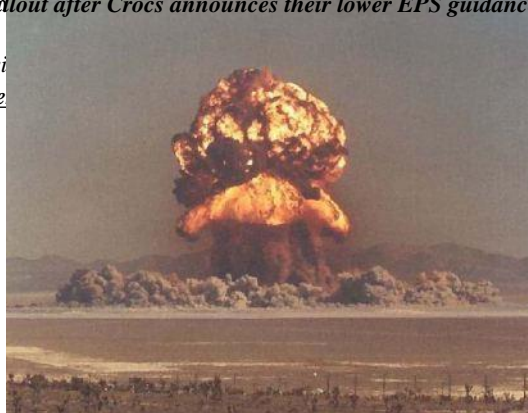
According to the Crocs web site, their shoes were originally intended to be a boating or outdoor shoe, because of the slip resistant, non marking soles. But by 2003, Crocs had become widely accepted as an all purpose shoe that was both comfortable and fashionable. Those who bought this stock in early 2006, paid about \$11 a share. By November, 2007, the stock (and probably the fashion) had peaked at \$75.21. It was all down hill in November, as the stock fell to \$35 within two weeks. Today it sells for less than \$5. Is it cheap? Most certainly. So should we buy it now?

ABSOLUTELY NOT!

Let's face it, most Crocs are basically funny looking, but people did like them. Crocs were a highly successful and stylish fad, but now the always fickle fashion world may be moving on to other things. As my wife likes to say, "That was so five minutes ago!" Does anyone believe they will sustain their growth long term? To be fair, they are expanding their product line of shoes, and are manufacturing everything from apparel to gardening knee pads to pillows. Plus, they are expanding their sales to overseas markets. But I remain skeptical, at least for the short term.

Last Thursday, the stock was mysteriously down about 9%, to close at 8.95. Then after the bell, they dropped the guidance bomb. Crocs announced lower EPS guidance, from \$0.45 to \$0.05, a serious decline. Furthermore, they said the latest sales figures from Asia and Europe were below previous company projections. The CEO, **Rollout after Crocs announces their lower EPS guidance.....**

"While we did experience solid sell-through with our reorders, choosing to operate with leaner inventories



ard were extremely cautious with their level of

Immediately, the stock began to fall and the trading was halted. A short while later, trading resumed, and the stock was blasted, opening Friday morning at only 4.98. Intraday, CROX traded between 4.72 and 5.40, and closed at 4.95, down 44.69% from Thursday's close.

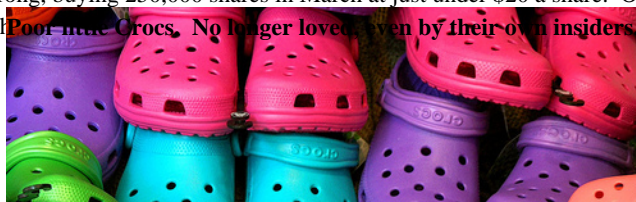
OUCH!

"Leaner inventories", my Croc-less foot. Translation: declining sales orders.

Does that sound like a stock to buy now? Talk about catching the falling knife!

Here's what's really amazing. The Wall Street Journal.com reported on July 9th that trading in Crocs options was heavy, with bullish investors buying four times as many calls as puts. **Wrong!**

Even one of the Crocs insiders got it wrong, buying 250,000 shares in March at just under \$20 a share. Of course many of their insiders, including the aforementioned Mr. Snyder, knew w



a trip to Europe, or maybe even his Mistress is blackmailing him! You can pretty much ignore the significance of that sale.

But when you see four or five insiders dumping millions of shares in a short time frame, and it isn't just exercise of stock options or automatic planned sales, you need to pay attention. That's the time to consider selling some or all of your shares, or perhaps to sell short.

So unless you are a very short term trader, looking for an oversold bounce, I think we need to stay away from CROX for quite awhile. Congratulations to anyone who was smart enough to short the stock the day before the melt down. I tip my hat to you!

Now lets take a look at Skechers (SKX):

Skechers is an American footwear company, with headquarters in California. They sell a line of shoes, sneakers, boots, and sandals. They even make roller skates. Skechers is not just a Johnny Come Lately style. The company has actually been around since the early 1990's. Their CEO, Robert Greenberg, was also the founder of L.A. Gear in the 1980's.

Compared to Crocs, Skechers is both a shoe and a stock with a better recent track record (no pun intended). In my opinion, Skechers is far more aesthetic, lovable, maybe even... dare I say... sexy? Heck, even popular young stars like Tori Spelling, Ashlee Simpson and Christina Aguilera have recently appeared in ads for Skechers. **Christina shows off her Skechers. What's not to like?**

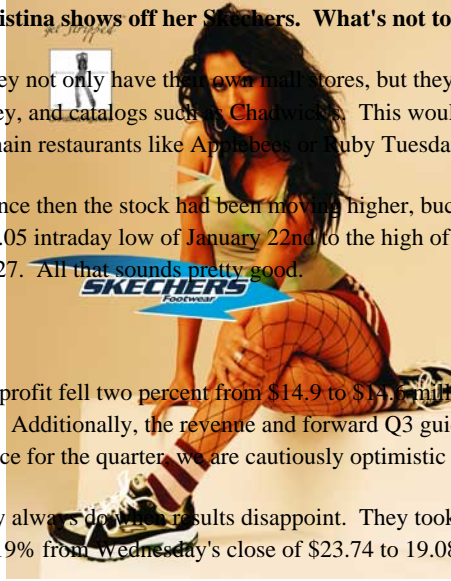
The thing you have to admire about Skechers is they not only have their own multi stores, but they also sell their shoes and sneakers in many other retail shoe outlets, department stores like JC Penney, and catalogs such as Chadwicks. This would be like McDonald's selling their own brand of hamburgers at Wendy's, Burger King, and large chain restaurants like Applebees or Ruby Tuesday!

SKX bottomed below \$17 this past January, but since then the stock had been moving higher, bucking the trend of an economic environment that was disastrous for most retail stocks. From the 16.05 intraday low of January 22nd to the high of \$24 on July 23rd, the stock was up almost 50%. Current estimates give a one year target price of \$27. All that sounds pretty good.

But something wicked this way comes!

Last Thursday, Skechers said their second quarter profit fell two percent from \$14.9 to \$14.5 million from a year ago. Analysts had expected 34 cents per share, but SKX came in at only 32 cents. Additionally, the revenue and forward Q3 guidance were below expectations. The company stated, "While we are satisfied with our performance for the quarter, we are cautiously optimistic about the second half of the year..."

So as with Crocs, Wall Street traders did what they always do when results disappoint. They took Skechers stock out in the back alley and roughed it up good. The stock gapped down and fell over 19% from wednesday's close of \$23.74 to 19.08 by day's end. Then on Friday it was down another 5.35% to close at 18.06.



Traders at "Bada Bing and Company." give Skechers a NY education about what happens when you miss estimates...

nice bear market play! However, SKX dropped as low as 5.65 by 2003, before once again making its ascent to current day levels.

Comparing the two in the past year, although both stocks are down, SKX has outperformed CROX by about 75%. So it's obvious that right now Skechers is clearly superior to Crocs.

One has to be a bit cautious here, because when stocks gap lower, after initially filling the gap, they often continue their decline, surpassing the previous low. So I am NOT recommending that you buy SKX today. I am simply suggesting to put it on your list of stocks to buy in the near future. I think it will be one to acquire at a lower price, when the current economic climate begins to change. Because Wall Street looks at least six months ahead, stocks often begin to recover in the middle of a recession. When the retail sector begins to recover, SKX could be one of the retail stocks that will do very well.

So thanks, Ethel. Yes, there is no business like "shoe business" of a patient investor to truly prosper!



If Ethel Merman were still with us today, unlike the Sopranos, she'd be singing the praises of Skechers!

Have a great weekend, everybody!

Ethan Roberts

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