

INSIDE THIS ISSUE:

3 Retail Plays p. 3

KEY TAKEAWAYS

- ⇒ *Origins of Black Friday may surprise you*
- ⇒ *Recent employment figures not really so strong*
- ⇒ *Holiday sales forecasts achievable*
- ⇒ *Two big names in retail have demonstrated recent history of stock price growth in this season*
- ⇒ *China stocks are on the move again*
- ⇒ *Valuations pretty attractive, even for this small cap stock play*

KEY STATISTICS

<u>Index</u>	<u>Close</u>	<u>2013</u>
DJIA	15762	20.3%
S&P 500	1771	24.2%
NASDAQ	3918	29.7%
Russell 2K	1100	29.6%

(figures are rounded)

3 Ways to Play Black Friday

First things first, we would like to wish a happy Veterans Day to all of the past and present U.S. servicemen and women. Your sacrifice and commitment make this country great and allow us freedoms and opportunities that are unparalleled in human history. Thanks!

Like it or not, the Holidays are approaching along with some of the less jovial parts of the season that include crowded malls and jammed roadways. It just sometimes seems the stores put up the decorations the day after Labor Day. In any event, 'Black Friday' is just over two weeks away so now is a good time to prepare.

In doing a *wiki* search on the origins on the name 'Black Friday' we discovered that the name originated in Philly to describe the bad auto and pedestrian traffic that occurred due to the heavy shopping the day after Thanksgiving. Later, the reference was applied to the retail industry in general to describe the initial turning of a profit, or operating 'in the black' historically on the day. This phenomenon in the retail sector represents true seasonality.

It is tough to get a read on how well the overall industry will fare for the most important quarter of the fiscal year which started on November 1 for most companies. The Obamacare rollout fiasco has a fairly significant portion of consumers worried about the economic impact of losing health coverage. This might have a secondary derivative effect on spending during the season. Additionally, a couple of important reports came out last Friday that offered some mixed signals at best.

For example, the monthly jobs report from the Department of Labor for the month of October came out a week late due to the government shutdown last month. While the 204,000 jobs added was well ahead than the estimates, unemployment actually ticked up from 7.2% to 7.3%. The government shutdown was used as an explanation of this figure as over 400,000 workers were technically out of work during the data collection period for the month. But the alarming and continual trend of a declining labor participation percentage still hovers at rates not seen since the Carter Administration and stagflation. The metric dropped again from September at 63.2% to October 62.8%.



The Goldman Guide

VOLUME 4 | ISSUE 27 | NOVEMBER 10, 2013

Deeper Look at Holiday Season Prospects

Along these lines, the number of part-time jobs with limited benefits is on the rise as well as is the number of people losing jobs and not counted in these Department of Labor statistics. There was some great analysis on a deep dive into the figures from the *Small Cap Network* with the link below.

<http://www.smallcapnetwork.com/The-Rest-of-the-Employment-Picture-Isnt-as-Pretty/s/article/view/p/mid/7/id/1446/>

The conclusion we draw is that the number of people looking for better paying jobs still outnumbers the number of these jobs that are available although the situation is gradually improving. This is definitely not a big bullish signal for holiday retail sales but may not have a detrimental impact on the right stock play.

The second economic indicator that was reported last Friday was the University of Michigan's Consumer Confidence Survey. The top index fell to 72.0 from 73.2 month over month. While this survey is very subjective, it no doubt makes both retailers and those looking to invest in retail a little nervous going into the holidays. Additionally, the purchase expectations for durables, or big ticket items, continues the slide from peaking over 150 in June to just over 130 for October. No doubt, it is a signal that consumers are hesitant to commit to large purchases in at best mediocre economic times, another factor that may stunt sales.

There is no mistaking the fact that this is not exactly a booming economy. However, even with the somewhat gloomy indicators mentioned above, there is still money to be made in trading stocks in the retail sector and playing the seasonal effect because, as the current market has shown, a rough economy does not necessarily mean a bear market.

In fact, the money printing continues from Uncle Ben with no end of the threatened 'taper' in sight. Also, in an effort to boost sales and counteract the late start to the holiday shopping season, many stores are pushing 'Black Friday' up and opening their doors on Thanksgiving Day. These efforts should aid in meeting expectations in revenue and EPS reporting for the quarter. Additionally, recently published expert analysis indicates that seasonal sales will grow from last year. The table below is from the **2013 Retail Compass Survey of Chief Marketing Officers** generated by BDO USA, LLC. It illustrates that retailers are still optimistic about the coming season and the five year trend for increased comparable store sales should continue since the dismal year in 2008.

Holiday Season Comparable Store Sales Forecasts

2013	2012	2011	2010	2009	2008	2007
+2.5%	+3.7%	+2.1%	+2.8%	+1.6%	-2.7%	+5.0%



The Goldman Guide

VOLUME 4 | ISSUE 27 | NOVEMBER 10, 2013

Three Retail Picks

In our opinion, there are three ways to play the upcoming season for a nice pop in the retail sector. We applied our 3-tiered recipe for success in today's market for these picks, some macroeconomic factors along with demonstrated recent historical success. (Note: Usual disclaimer applies, i.e. past performance does not indicate future success.)

The first stock the king of retail, **Wal-Mart Stores (NYSE – WMT - \$77.96)**. The stock has averaged just over a 7% return from November 1 to the peak sometime in the late first quarter or early part of the second the following year for its seasonal run since 2009. We like this stock as a mega-cap play in this sideways economy as consumers look for bargains. The stock has begun an accumulation phase and still remains very bullish out to the 50-day Daily Moving Average. Look for a 5-10% pop over the next three months.

While the economy is not getting much better for the middle class and there are a record number of people on some sort of government assistance, the affluent have withered the downturn and are spending again. **Macy's (NYSE – M - \$46.18)** is a great play on this macro trend with a great recent track record for a holiday bounce. Starting on November 1 through March 1 the stock has averaged nearly a 12% holiday pop over the last 4 years, with a huge 26% spike in 2011-2012. The forecast for revenue for the next year makes M an attractive value prospect as the current P/E of 13 to drops to 10 for the FY P/E next year. Additionally, the charts look very bullish which should be an impetus for traders to continue piling in on the current accumulation phase. Look for a price level of \$52 in calendar Q1 or early Q2 in 2014.

Finally, our small cap stock for the Holidays is one we featured in the *Market Monitor* back in April and was a 30-30 pick in February of this year and is up 53% and 72% respectively since each highlight. **ValueVision Media, Inc. (NASDAQ – VVTV - \$5.30)** is a niche home shopping and internet network that continues to be accumulated and is still very bullish relative to DMA over the next few months. Revenue is expected to rise over 7% in FY 2015 from FY 2014, and over 3% from this holiday season (Q4FY14) versus last year (Q4FY13). This is nice small cap and relatively inexpensive play which in which we see the potential for at least a 10% holiday pop.

Be mindful of the November jobs report in particular when tracking and making decisions on these and other stocks in the sector. Set a limit for gains and stick to it. This will make life a little cheerier when the stocks pull back and you have made your money. Additionally, all of the stocks have options contracts available to either implement a covered call strategy or as an opportunity to purchase some inexpensive naked out of the money long calls for higher priced stocks.

Take a deep breath and embrace the season, because it is coming whether you like it or not.

Until next week....



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VOLUME 4 | ISSUE 27 | NOVEMBER 10, 2013

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