

Markets at a glance

Trendspotter

Signals (click on links to obtain up to-date signal)

[Dow Jones \(DJ\)](#)

[S&P 500 \(SP\)](#)

[FTSE 100 \(X\)](#)

[DAX \(DY\)](#)

[£/US\\$ \(BP\)](#)

[US Dollar Index \(DX\)](#)

[Crude Oil \(CL\)](#)

[Gold \(GC\)](#)

[Coffee \(KC\)](#)

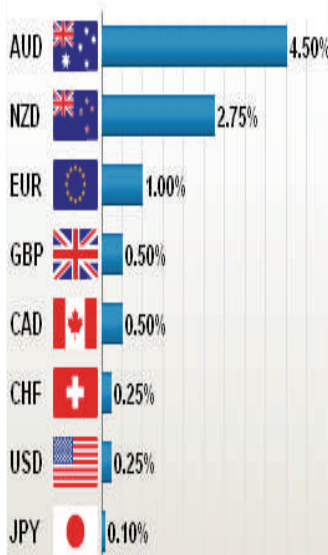
[Orange Juice \(OJ\)](#)

[Sugar \(SB\)](#)

[Wheat](#)

[Cotton](#)

[Rough Rice](#)



The Insider Trader

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US Consumers Shopped Out?

Whilst many focus on the headline indices like the FTSE 100 and S&P500 I also like to drill down below the surface and see which sectors are strong and weak. I have to say I am not finding anything spectacular on the strong side but have plenty on the weak side with one sector really flashing a massive sell signal and that is US Retail.

I take the view that whilst the US consumer is still spending, they are certainly being far more careful and the idea that spending will return to anywhere near the 2007 levels are pure fantasy. Shares in retail companies have had a fantastic bounce since the March 2009 lows with some such as GAP and Bed Bath & Beyond getting back to bull market highs before recently selling off.

The problem is that most consumers are tapped out – credit cards and store credit are much harder to obtain

leading to lower sales. So even if consumers want to spend more they can't, also with job uncertainty, consumers are saving more money and doing without non essential items.

If you look at **Costco Wholesale** the chart continues to look very weak. Margins are being squeezed and they need to offer big discounts to get the consumer to buy. Contrast this to a few years ago where you would have traffic jams on a Saturday to get into most Costco car parks. The stock peaked in 2008 at \$72 then crashed to \$37 in 2009 recently recovering to \$60 before restarting a down move to the current \$55 level.



Below S&P Retail ETF which is fairly broad and has a 31% exposure to Apparel (clothing) retail. You can see the 150/16 has now given a sell cross.



Don't get me wrong, Costco is a well run business and currently operates 569 warehouses, including 415 in the United States and Puerto Rico, 78 in Canada, 21 in the United Kingdom, 7 in Korea, 6 in Taiwan, 9 in Japan, 1 in Australia and 32 in Mexico. With the majority of earnings coming from the US the business is just so sensitive to US Non Farm payrolls. I see the shares drifting down to \$45 by the year end.

Upscale jewellers **Tiffany & Co** (NYSE:TIF) whilst they has some international exposure, it does still depend on US spending and the chart has turned negative again. Whilst they have some massive profit margins they also have heavy fixed costs and are highly dependent on gifts and the holiday season.

Clothing company **Phillips Van Heusen** (NYSE:PVH) has just given a sell signal. PVH own the Calvin Klein brand, T Bass, Tommy Hilfiger and other premium clothing - If retail is not doing well then its bad news for them and do you really need to buy a pair of premium CK underwear when a perfectly good alternative can be found? Of course these brands are being marketed around the world and the idea is that the "new affluent consumers" of emerging markets will help to pick up the slowdown in the West but I think this going to be a slow transition.

In a similar field **Ralph Lauren Polo** has had a great bounce back of over 160% from the March 2009 lows but has now seen some selling, also the founder Ralph Lauren has wisely used the recent strength to sell over 9 million shares at \$78.

Retailer **GAP (GPS)** which is also struggling with many looking for cheaper alternatives such as those offered by Primark (which is owned by UK listed Associated British Foods LSE: ABF) Gap shares have recently broken the uptrend and whilst they may hang around the \$20 level I see the next major move will be down and I am

COST - Costco Wholesale Corporation (NASDAQ) - Monthly OHLC Chart



Above: Monthly chart of **Costco** with 20 month MA and trendspotter system which is now short. Below: **GAP Inc** going back to 1990— Baring a major revamp the days of \$50 a share are gone for ever! The last chart being office supplies superstore **Staples** earnings are out 19th Aug—looks like its peaked out.

GPS - Gap Inc. (NYSE) - Monthly OHLC Chart



SPLS - Staples Inc. (NASDAQ) - Monthly OHLC Chart



looking for the share to move to \$13 to \$14 so this is a good short candidate. The majority of stores are in the USA (1085), followed by UK (138), Japan (120) and Canada (88) The majority of clothing inventory comes from China- Far East and with fluctuating exchange rates and manufactures trying to push up prices this will be another drag on earnings.

On the long side **99c Only Stores (NDN)** continues in a steady up trend as the deep discount value stores hold up better. **Ross Stores (ROST)** whose tag line is “dress for less” is also doing well with shares not far from a 52 week high.

A stock which is not retail but relates to price conscious consumers is **Del Monte Foods (DLM)** which I have featured in the past is the market leader in canned fruit/veg and the pet food side continues to do well. Currently at \$14 and on a P/E13 and paying a 2.4% yield this is a great defensive place to have some money.

Risk Warning

All trading and investing involves risk and you should only invest what risk capital that you can afford to lose. These trading ideas are based on buying Exchange Trading Funds outright, should you decide to spread bet then other risks will be present. Only speculate with money you can afford to lose. Spread betting may not be suitable for all readers, therefore ensure you fully understand the risks involved. Past performance is not necessarily a guide to future performance. Ultimately all investment decisions are made by you. Insider Trader does not advise when to open or close a transaction. If you choose to open a transaction it is based on your own judgement and research and at your own risk. It is the responsibility of visitors to this Site to ascertain the terms of and comply with any local law or regulation to which they are subject.

NDN - 99 Cents Only Stores (NYSE) - Monthly OHLC Chart



About 99¢ Only Stores®

Founded over 25 years ago, 99¢ Only Stores® currently operates 276 extreme value retail stores consisting of 206 stores in California, 33 in Texas, 25 in Arizona, and 12 in Nevada. 99¢ Only Stores® emphasizes quality name-brand consumables, priced at an excellent value, in convenient, attractively merchandised stores. Over half of the Company’s sales come from food and beverages, including produce, dairy, deli and frozen foods, along with organic and gourmet foods. The Company’s New York Stock Exchange symbol is NDN.

The stores whilst offering deep discount are still well presented (see photo below) and I see big potential in middle class consumers downshifting. The long term chart is building a nice saucer and we could see price go from \$15 to \$30 in the next 2 to 3 years. Its certainly a stock I would look to buy and hold. Next earnings are out 4th August 2010

