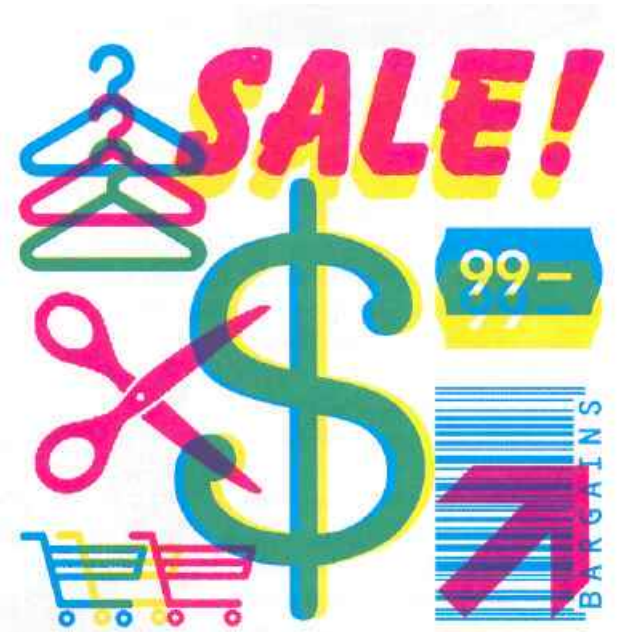
INVESTING

YOUR MONEY AT WORK



Recession Watch

The stock market wobbles with every hint of a slowdown. A big recent blow was the report that the service sector contracted in January for the first time in nearly five years.

RETAIL SALES

0.3%

Spending on cars and gasoline helped lift this key indicator; analysts had expected a decline.

1.7%

Top analysts' consensus forecast of economic growth in 2008 fell from 2.2% in January to 1.7% in February, according to Blue Chip Economic Indicators.

Retailers in the Bargain Bin

Store stocks *are often the first to fall on recession fears*—and *the first to bounce back when growth picks up again.* **BY SUZANNE KAPNER**

ON A RECENT TRIP to Saks, I loaded up on a tomato-red Diane von Furstenberg dress and a pair of black wool Tory Burch pants—at deeply discounted prices. Turns out investors are starting to do the same with battered retail stocks, which have limped through one of the worst years in recent history and are now trading near historically low prices.

Here's why the worst may be behind retailers: The combination of interest rate cuts and an economic stimulus package promises to jump-start the economy in the second half of this year. "When interest rates drop, retail usually wins," says Lance Helfert, a founder of West Coast Asset Management. "Retail stocks tend to lead the way into a recession, but they also lead the way out," says industry consultant Maggie Gilliam. Indeed, Wall Street, which fell out of love with retailers last fall, is beginning to warm to the group. After lagging the broader market for the last quarter of 2007, the Morgan Stanley retail index has outperformed the S&P 500 since Jan. 21.

Even so, the sector may still have some rough patches ahead. Following a dismal holiday shopping season, fourth-quarter earnings are likely to fall short even of lowered expectations. So

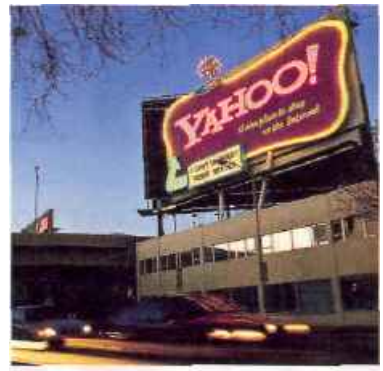
Brian Rauscher, director of portfolio strategy at Brown Brothers Harriman, is not encouraging clients to load up yet. But he predicts that the group will turn at some point in 2008. "These are 'when' trades, not 'if trades," he says.

There's no doubt that the slump has pushed many retail stocks into bargain territory. On a price-to-sales basis, relative to the broader market, large retailers are trading at levels not seen since 1994. As for price/earnings, the only time the group had a lower valuation was during the double-dip recession of 1990-91. "'Even if you think these stocks have further to fall, it's hard to make the case that they are overvalued," Rauscher says. "At worst they are fully valued."

One stock that has a lot of fans among Wall Street pros is **Target** (TGT, $54). The bull case has little to do with consumer spending—it's based on Target's real estate portfolio and credit card business. Whitney Tilson, whose $140 million T2 Partners counts Target as its largest holding, values those assets conservatively at $38 billion, which is close to the company's $45 billion market capitalization. While Target is unlikely to sell any of those assets just now, thanks to a downturn in commercial property and the credit crisis, activist investor William Ackman, who owns 9.7% of Target shares, is sure to keep up the pressure on the company to raise the stock price. At only one-fifth the size of Wal-Mart, Target has plenty of room to grow. And it is in the midst of a stock buyback that could reduce its outstanding float by as much as 25% over the next few years.

AN UPTURN IS COMING: THESE ARE 'WHEN' TRADES, NOT 'IF' TRADES."

Another stock getting a second look is **Whole Foods Market (WFMI, $41).** Shares took a beating late last year on



UPDATE

YOU MAY WANT TO SELL YOUR YAHOO AND HOLD YOUR CISCO.

YAHOO When we recommended Yahoo back in early December, shares of the troubled company were trading at around $25. We suggested two scenarios for a profitable investment: Yahoo stages a turnaround, or Yahoo sucks more wind and gets bought at a premium. Of course, the latter now looks to be correct.

After a lackluster fourth quarterand no further signs of meaningful change under co-founder and newly installed CEO Jerry Yang, Yahoo shares dropped to just under $19 by late January. That was when Microsoft pounced, making its unsolicited cash and stock offer, now worth about $42 billion.

On Feb. 11, the Yahoo board rejected Microsoft's offer, essentially calling it too cheap. In the week-plus between the offer and the rejection, Yahoo's share price quickly climbed to within a nickel of $30 a share, and almost half of Yahoo's stock switched hands. So either you took the money and got out, or you are betting that YHOO will manage to pry more out of MSFT. It's not a bad bet, but it's not for the faint of heart.

How much could you gain by hanging on? Some reports suggest Yahoo won't settle for less than $40 a share, but analysts peg a likely second offer somewhere above $35 and below $40. That would give plucky Yahoo stockholders something to smile about. And although it doesn't seem likely, Microsoft could also just walk away. If it does, you would probably see all the Yahoo gains wiped away as fast as they came. —*Michael V.* Cope/and

CISCO Things have been rough in tech since we recommended Cisco a few weeks ago; this year the stock has dropped from about $26 to $23. The culprit? Economic headwinds have led to slower orders of the company's networking gear. Adding to the malaise, CEO John Chambers (below) said this month that in the short term he expects about 10% growth from the company, which is less than the 12% to 17% Cisco still targets for long-term growth. So what's an investor to do?

Don't abandon ship: Trends in online video and collaboration still favor the

company. Cisco's unified communications division, highlighted in our recommendation, grew 60% in the latest quarter, and Cisco will benefit as Hollywood embraces digital video.

You might even consider adding to your stake. If the economy settles down and overseas markets remain strong, Cisco shareholders could benefit. That's the scenario Chambers seemed to be hoping for when he recently called this turmoil "a relatively short-term challenge" and told analysts that Cisco would use it "as a chance to gain market share and to be aggressive" about moving into new areas. —*JonFortt*

Anúncio

PRICEY PRODUCE WHOLE FOODS DOMINATES THE LUCRATIVE HIGH-END GROCERY MARKET, AND ITS STOCK LOOKS MORE EXPENSIVE THAN IT REALLY IS.

fears that cash-strapped consumers would curtail purchases of pricier organic fruits and vegetables and other gourmet foods. Also weighing on the stock is Whole Foods' purchase of rival Wild Oats. Though the deal made it the undisputed leader in the healthy-foods category, costs related to the merger are expected to depress earnings this year.

Whole Foods carries a P/E ratio of 32—not exactly cheap—but is trading at a more palatable 12 times the cash generated by its stores. Another potential plus: Wild Oats has operating profit margins of 2% of sales, less than a third of Whole Foods' 7%. "If they can close that gap, there will be a huge amount of added profitability," says Zeke Ashton, whose Centaur Capital owns Whole Foods shares. And despite those recession-fueled worries, Whole Foods reported strong sales in its most recent quarter and boosted its dividend by 11%.

With many of these stocks well off their recent highs, now is the time to cherry-pick names that have always been alluring but too expensive. **Tiffany** (TIP, **$40)** is one example. The stock is down 33% from a high of $57 in October, and yet because the retailer does half its business overseas, the weak dollar is a boon. Activist investor Nelson Peltz owns 8.5% of the company's stock and has been talking to management about marketing the brand more aggressively, potentially by adding new categories like handbags and ties. A plan to boost watch sales through a partnership with Swatch is already in the works.

Not all retail stocks are bargains. Costco, for instance, is up 14% from its September trough. "Costco is one of our favorites, because it's a good defensive play in tough times, but it's gotten a bit expensive," says Ashton of Centaur Capital. And not all retailers are suffering. Sales are brisk at specialty-apparel companies J. Crew and Urban Outfitters. As for Saks, the only bargains are on the racks. The stock trades at an eye-popping 89 times earnings, largely because it is considered a takeover target. A likely suitor is the Baugur group, an Icelandic company that owns 8.5% of Saks' shares. ■.

TARGET HAS AN ATTRACTIVE REAL ESTATE PORTFOLIO AND A THRIVING CREDIT CARD BUSINESS GOING FOR IT.

Fonte: Fortune, n. 4, p. 29-32, 10 Mar. 2008.