



State of the Economy and the Retail Apocalypse

By David Toms

Graphics by Cindy Kalkwarf

Aug 28, 2019

Agenda

- State of the economy
- What's the probability of recession? Let's take a poll
- Retail apocalypse – real, or imagined?
- Dive into Tanger Factory Outlets – value opportunity, or value trap?
- Garrett Ruhl comments
- Bob Baker comments
- Bonus slides, time permitting
 - Fidelity Buy/Sell list, deflation, GDP expectations



My Financial Goals and Objectives











- Goal: Make sure my money outlives me!
(With a little left over for the grandkids)
- Beat Fidelity's Managed Brokerage return
- My investing style:
 - Moderate level of risk
 - Dividend growth
 - Mostly high-quality REITs and BDCs
 - 5% speculation



Recession coming??

Let's look at the indicators

LEI
Component
Trends
Jan-Jul 2019

	Average work week, production manufacturing
	Unemployment claims
	Manufacturer's new orders, consumer goods
	Manufacturer's new orders, defense and durables
	Building permits
	S&P 500 stock prices
	Leading credit index
	Yield spreads (<u>10 year</u> vs Fed Funds rate)
	Consumer expectations for business conditions
	M2 Money supply

Economic Cross Currents!

Rising Retail, Falling Factories

Retail sales have grown for five straight months, while manufacturing is down since hitting a peak in December.



Note: Data are seasonally adjusted. 100 represents 2012 levels

Sources: Commerce Department via St. Louis Fed (retail sales); Federal Reserve (industrial index)

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Source: WSJ, Aug 21, 2019

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TEXT

22

Cooling Confidence

Index of Consumer Sentiment



Source: University of Michigan Surveys of Consumers

The Michigan survey found that the Federal Reserve’s recent rate cut and the prospect of higher prices due to trade tariffs on Chinese imports spooked U.S. consumers in early August.

“Consumers concluded, following the Fed’s lead, that they may need to reduce spending in anticipation of a potential recession,” said Richard Curtin, the survey’s chief economist.

Consumer Confidence Dips

☆ 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity (T10Y3M)

DOWNLOAD 

Observation:

2019-08-05: **-0.30** (+ more)

Updated: Aug 8, 2019

Units:

Percent,
Not Seasonally Adjusted

Frequency:

Daily

1Y | 5Y | 10Y | Max

2018-08-05

to

2019-08-05

EDIT GRAPH 

FRED 

— 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity



Shaded areas indicate U.S. recessions

Source: Federal Reserve Bank of St. Louis

fred.stlouisfed.org

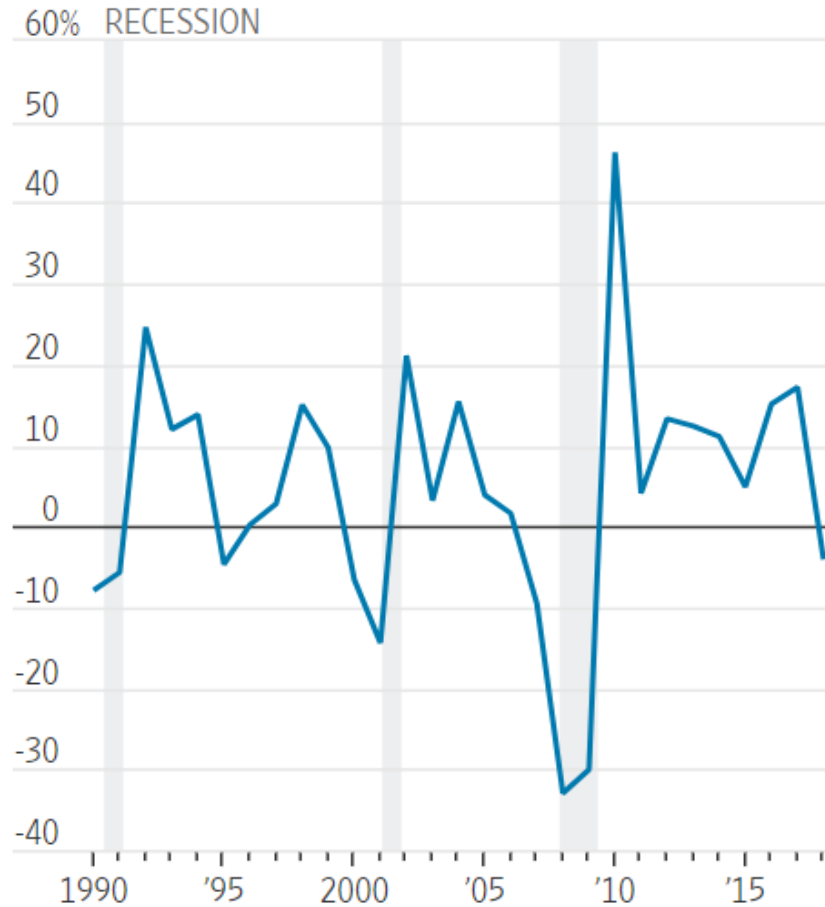
Yield Curve - not good!

Source: Federal Reserve Bank of St Louis

RV Shipments: Canary in the Coalmine?



RV shipments, change from a year earlier



THE WALL STREET JOURNAL

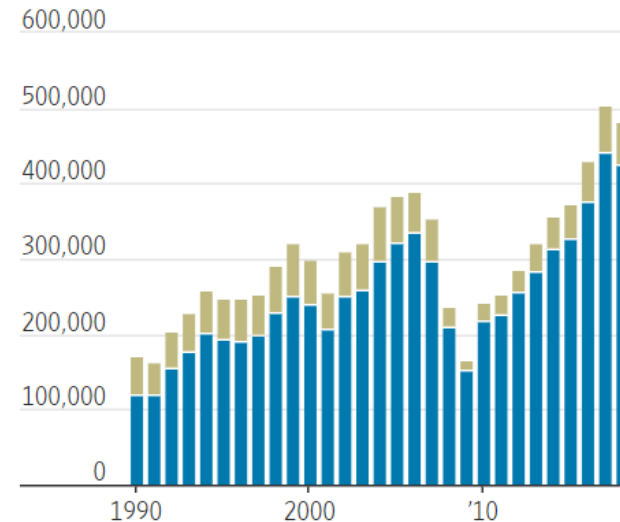
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RVs and the Economy

While RV shipments have generally been steadily rising this decade, past multiyear drops have preceded a recession.

RV shipments, by type

■ Travel trailers ■ Motor homes



Shipments of recreational vehicles to dealers have fallen about 20% so far this year after a 4.1% drop last year, according to data from the RV Industry Association. Multiyear drops in shipments have preceded the last three recessions.

“The RV industry is better at calling recessions than economists are,” said Michael Hicks, an economist at Ball State University, in Muncie, Ind.



9 Countries in or near Economic Recession

- Germany
- UK
- Italy
- Argentina
- Mexico
- Brazil
- South Korea
- Singapore
- Russia



Global uncertainties leading to investment uncertainties

Tweetstorms

China trade war

Brexit

Fed funds policy

\$16T of negative interest sovereign bonds

Argentina default on \$56B of IMF loans?

Japan vs. South Korea

Iran oil disruption

North Korea

Bloomberg Survey: Probability of Recession

Source: Bloomberg, Aug 15, 2019

Flashing Yellow

Two measures of possible U.S. recession show odds are increasing



Source: Federal Reserve Bank of New York, U.S. Treasury, Bloomberg



Let's Take A Poll!

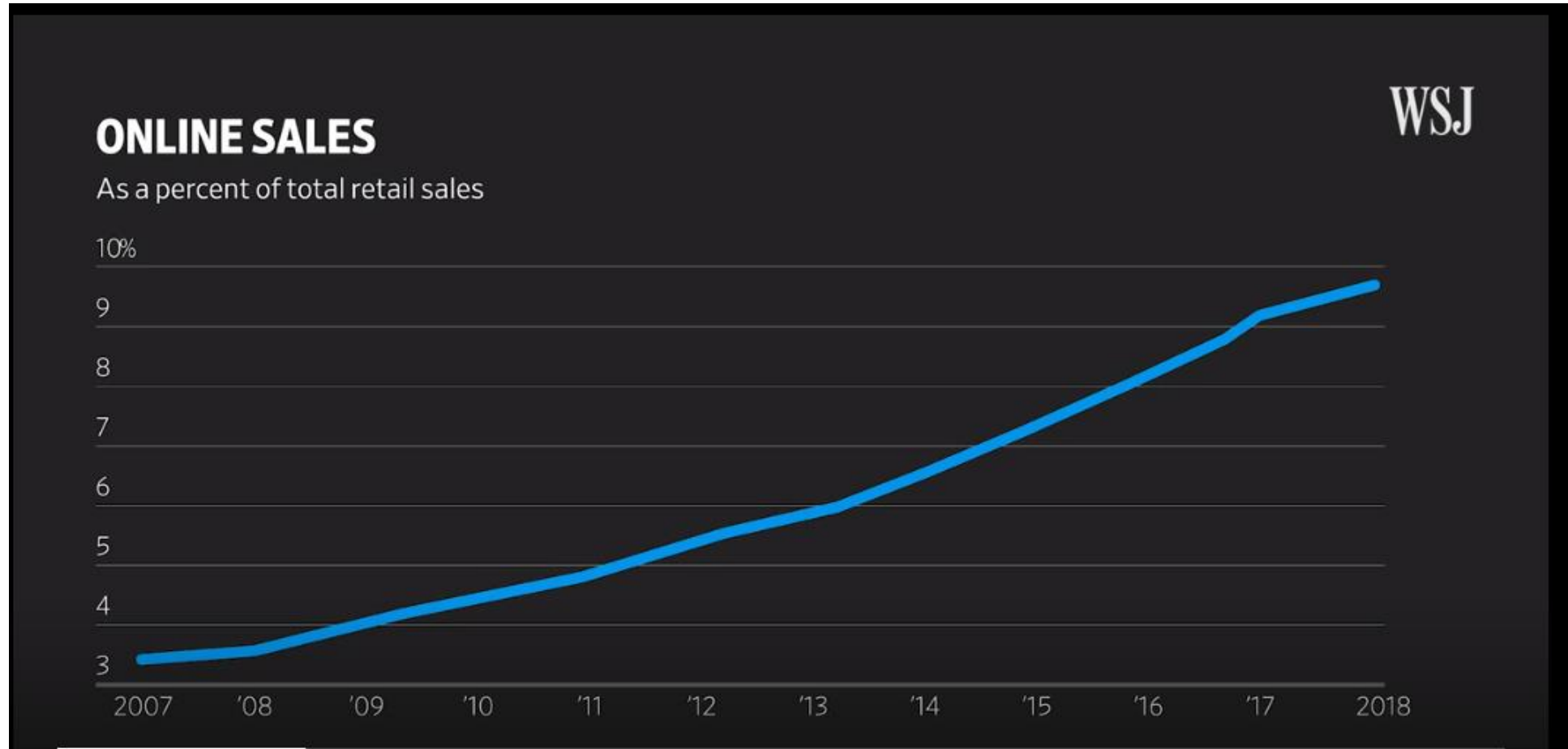
- Probability of recession in next year:
 - Greater than 50%?
 - Between 25% and 50%?
 - Less than 25%?
 - No clue?

Retail Apocalypse – real or imagined?



- There's a transformation going on in retail
- Only 10% of shopping is done online
- Out-Mall retailers are adapting to competition from online shopping: BOPIS and BORIS
- Low-price perception of a brand is critical – Walmart
- Last-mile delivery is in contention
- Note Amazon is buying into brick and mortar:
 - 503 Whole Foods stores
 - 24 retail locations, “4-Star” stores selling only highly rated products
 - Converting distressed malls into warehouses

Online Sales less than 10% of market



In-Mall Retailers are Struggling

Macy's, Inc. (M)

NYSE - NYSE Delayed Price. Currency in USD

[Add to watchlist](#)

[Visitors trend](#) 2W ↓ 10W ↑ 9M ↑

19.43 -0.89 (-4.38%)

At close: August 9 4:01PM EDT

Buy

Sell

Summary Company Outlook **NEW** Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holdings

Previous Close	20.32	Market Cap	6.001B	1D 5D 1M 6M YTD 1Y 5Y Max	Full screen
Open	20.28	Beta (3Y Monthly)	0.52		
Bid	19.41 x 1000	PE Ratio (TTM)	5.48		
Ask	19.45 x 4000	EPS (TTM)	3.55		
Day's Range	19.36 - 20.34	Earnings Date	Aug 14, 2019		
52 Week Range	19.36 - 41.99	Forward Dividend & Yield	1.51 (7.43%)		
Volume	11,737,447	Ex-Dividend Date	2019-06-13		

J. C. Penney Company, Inc. (JCP)

NYSE - NYSE Delayed Price. Currency in USD

[Add to watchlist](#)

[Visitors trend](#) 2W ↓ 10W ↑ 9M ↑

0.6001 -0.0940 (-13.54%)

At close: August 9 4:04PM EDT

Buy

Sell

Summary Company Outlook **NEW** Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holdings

Previous Close	0.6941	Market Cap	190.122M	1D 5D 1M 6M YTD 1Y 5Y Max	Full screen
Open	0.6663	Beta (3Y Monthly)	2.58		
Bid	0.6120 x 29200	PE Ratio (TTM)	N/A		
Ask	0.6001 x 312600	EPS (TTM)	-1.0450		
Day's Range	0.6000 - 0.6663	Earnings Date	Aug 15, 2019		
52 Week Range	0.6000 - 2.6500	Forward Dividend & Yield	N/A (N/A)		
Volume	8,234,025	Ex-Dividend Date	2012-04-05		
Avg. Volume	8,975,426	1y Target Est	1.06		

Analyst Recommendation **SELL** Fair Value **Overvalued**
by Argus Research [View details](#)

All [Short Term](#) [Mid Term](#) [Long Term](#)

All [News](#) [Press Releases](#) [Research Reports](#) **NEW**

Sears Holdings Corporation (SHLDQ)

Other OTC - Other OTC Delayed Price. Currency in USD

[Add to watchlist](#)

0.2800 +0.0016 (+0.57%)

At close: August 9 3:57PM EDT

Buy

Sell

Summary Company Outlook **NEW** Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holdings

Previous Close	0.2784	Market Cap	30.586M	1D 5D 1M 6M YTD 1Y 5Y Max	Full screen
Open	0.2710	Beta (3Y Monthly)	3.64		
Bid	0.0000 x 0	PE Ratio (TTM)	N/A		
Ask	0.0000 x 0	EPS (TTM)	-15.7410		
Day's Range	0.2700 - 0.2849	Earnings Date	Aug 7, 2019 - Aug 9, 2019		
52 Week Range	0.1200 - 2.7700	Forward Dividend & Yield	N/A (N/A)		
Volume	267,348	Ex-Dividend Date	N/A		
Avg. Volume	556,106	1y Target Est	2.00		

Analyst Recommendation **N/A** Fair Value **Overvalued**
[View details](#)

All [Short Term](#) [Mid Term](#) [Long Term](#)

L Brands, Inc. (LB)

NYSE - NYSE Delayed Price. Currency in USD

[Add to watchlist](#)

[Visitors trend](#) 2W ↑ 10W ↑ 9M ↑

22.82 -0.86 (-3.63%)

At close: August 9 4:01PM EDT

Buy

Sell

Summary Company Outlook **NEW** Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holdings

Previous Close	23.68	Market Cap	6.306B	1D 5D 1M 6M YTD 1Y 5Y Max	Full screen
Open	23.63	Beta (3Y Monthly)	0.83		
Bid	22.90 x 3200	PE Ratio (TTM)	9.98		
Ask	22.82 x 900	EPS (TTM)	2.29		
Day's Range	22.68 - 23.65	Earnings Date	Aug 21, 2019		
52 Week Range	21.45 - 38.00	Forward Dividend & Yield	1.20 (5.07%)		
Volume	3,166,202	Ex-Dividend Date	2019-05-30		
Avg. Volume	5,033,580	1y Target Est	28.57		

Analyst Recommendation **HOLD** Fair Value **Near Fair Value**
by Argus Research [View details](#)

All [Short Term](#) [Mid Term](#) [Long Term](#)

Adaptable, Free-standing Retailers Doing Fine

Walmart Inc. (WMT)

NYSE - NYSE Delayed Price. Currency in USD

107.28 -1.24 (-1.14%)

At close: August 9 4:00PM EDT

Summary Company Outlook Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holders

Previous Close	108.52	Market Cap	306.254B	1D 5D 1M 6M YTD 1Y 5Y Max	Full screen
Open	108.06	Beta (3Y Monthly)	0.67		
Bid	107.20 x 900	PE Ratio (TTM)	37.54		
Ask	107.28 x 800	EPS (TTM)	2.86		
Day's Range	106.71 - 108.46	Earnings Date	Aug 15, 2019		
52 Week Range	85.78 - 115.49	Forward Dividend & Yield	2.12 (1.96%)		
Volume	4,193,498	Ex-Dividend Date	2019-12-05		
Avg. Volume	5,815,574	1y Target Est	111.93		

Analyst Recommendation **BUY** Fair Value **Overvalued**

The Home Depot, Inc. (HD)

NYSE - NYSE Delayed Price. Currency in USD

210.02 -1.55 (-0.73%)

At close: August 9 4:01PM EDT

Summary Company Outlook Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holders

Previous Close	211.57	Market Cap	231.083B	1D 5D 1M 6M YTD 1Y 5Y Max	Full screen
Open	211.45	Beta (3Y Monthly)	1.24		
Bid	210.05 x 800	PE Ratio (TTM)	21.15		
Ask	210.63 x 900	EPS (TTM)	9.93		
Day's Range	207.95 - 212.41	Earnings Date	Aug 20, 2019		
52 Week Range	158.09 - 219.30	Forward Dividend & Yield	5.44 (2.56%)		
Volume	2,912,078	Ex-Dividend Date	2019-06-05		
Avg. Volume	3,898,768	1y Target Est	210.52		

Analyst Recommendation **BUY** Fair Value **Near Fair Value**

4,916.00 -19.44 (-0.66%) 40,257.44 -90.76 (-0.34%) 1,959.14 -80.02 (-1.00%) 1,013.04 -19.09 (-1.25%) **TGT** -1.39 (-1.66%)

Target Corporation (TGT)

NYSE - NYSE Delayed Price. Currency in USD

82.39 -1.41 (-1.68%)

As of August 9 3:59PM EDT. Market open.

Summary Company Outlook Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holders

Previous Close	83.80	Market Cap	42.221B	1D 5D 1M 6M YTD 1Y 5Y Max	Full screen
Open	83.50	Beta (3Y Monthly)	0.80		
Bid	82.45 x 800	PE Ratio (TTM)	14.42		
Ask	82.55 x 800	EPS (TTM)	5.72		
Day's Range	82.06 - 84.3661	Earnings Date	Aug 21, 2019		
52 Week Range	60.15 - 90.39	Forward Dividend & Yield	2.64 (3.15%)		
Volume	4,966,336	Ex-Dividend Date	2019-08-20		

Costco Wholesale Corporation (COST)

NasdaqGS - NasdaqGS Real Time Price. Currency in USD

273.94 -0.86 (-0.31%)

At close: August 9 4:00PM EDT

Summary Company Outlook Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holder

Previous Close	274.80	Market Cap	120.476B	1D 5D 1M 6M YTD 1Y 5Y Max	Full screen
Open	274.58	Beta (3Y Monthly)	1.01		
Bid	273.80 x 1100	PE Ratio (TTM)	33.66		
Ask	275.70 x 900	EPS (TTM)	8.14		
Day's Range	271.91 - 275.40	Earnings Date	Oct 3, 2019		
52 Week Range	189.51 - 284.31	Forward Dividend & Yield	2.60 (0.95%)		
Volume	1,284,267	Ex-Dividend Date	2019-05-09		
Avg. Volume	1,757,141	1y Target Est	271.38		

Analyst Recommendation **BUY** Fair Value **Overvalued**

SKT: Tanger Factory Outlets – value, or value trap?



- A REIT that owns 39 outlet malls in US and Canada
- Market cap: \$1.37B
- Dividend yield: 10.2%: Raised 26 years in a row - excellent
- Occupancy: 96% and climbing - excellent: Sales per sq foot and tenant profits are climbing
- Payout ratio: 56% - excellent
- Beta: 0.51 - excellent
- P/AFFO: 5.7 vs 16.9 average REIT - excellent: FFO projected to rise
- Net asset value per share: \$5.40 or approx. 3X SP - good
- S&P rating: BBB, stable - good
- Insiders have bought shares recently
- Short ratio: 21 – huge! 45% of shares are sold short

Tanger (SKT)
 – a beaten
 down REIT

Tanger Factory Outlet Centers, Inc. (SKT)

NYSE - NYSE Delayed Price. Currency in USD

★ In watchlist

👤 Visitors trend 2W ↑ 10W ↑ 9M ↑

13.96 -0.19 (-1.34%)

Buy

Sell

At close: August 26 4:02PM EDT

- Summary
- Company Outlook NEW
- Chart
- Conversations
- Statistics
- Historical Data
- Profile
- Financials
- Analysis
- Options
- Holder

Previous Close	14.15	Market Cap	1.306B
Open	14.25	Beta (3Y Monthly)	0.79
Bid	13.96 x 3200	PE Ratio (TTM)	17.94
Ask	14.79 x 1300	EPS (TTM)	0.78
Day's Range	13.81 - 14.25	Earnings Date	Oct 30, 2019 - Nov 4, 2019
52 Week Range	13.81 - 24.65	Forward Dividend & Yield	1.42 (10.17%)
Volume	2,336,467	Ex-Dividend Date	2019-07-30
Avg. Volume	2,110,173	1y Target Est	15.17

1D 5D 1M 6M YTD 1Y 5Y Max Full screen



Analyst Recommendation **HOLD** Fair Value **Overvalued**
 by Argus Research [View details](#)

- [View more ideas](#)
- All
 - Short Term
 - Mid Term
 - Long Term

NYSE: SKT

Real Estate > Retail REITs

Tanger Factory Outlet Centers

Dividend Yield

10.17%



Dividend Safety

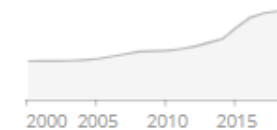
52

Borderline Safe

Dividend Growth

1% this year

Very Slow



Price

\$13.96 ▼ 1.3%

Mon, Aug 26

Market Cap

\$1.3 billion

Small Cap

Beta (Volatility)

0.52

Low

Simply Safe Dividends opinion
simplysafedividends.com

Dividend Growth

This Year

1%

Very Slow

Last 5 Years

8% per year

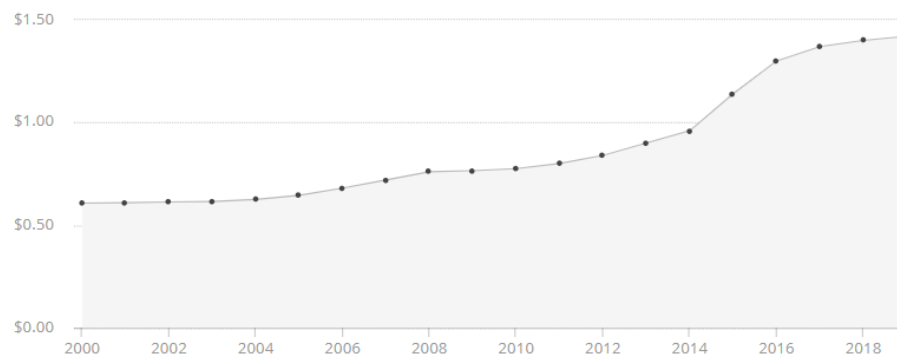
Fast

Last 20 Years

4% per year

Slow

Annual Dividends Per Share



Dividend Growth Streak

26 years

of consecutive increases

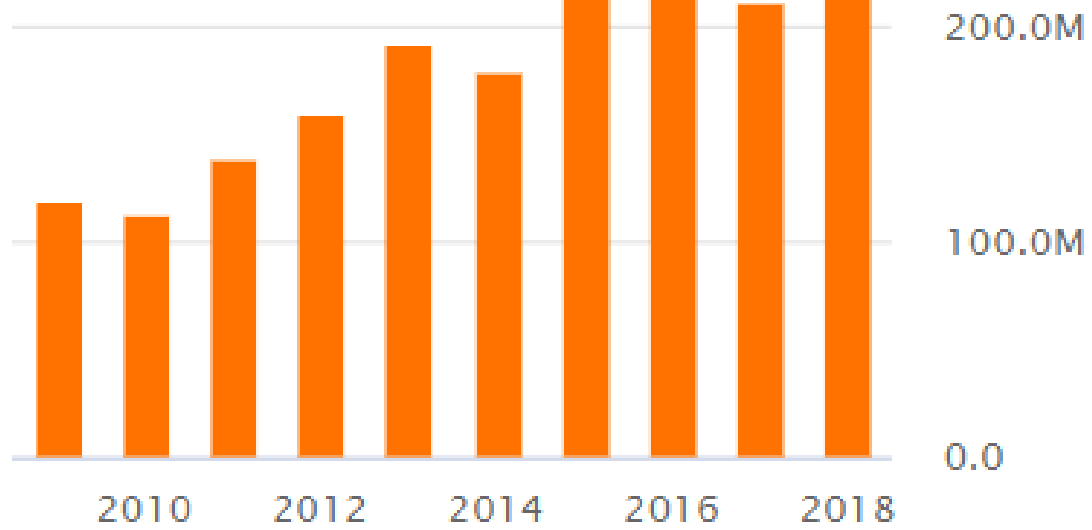
Uninterrupted Dividend Streak

26+ years

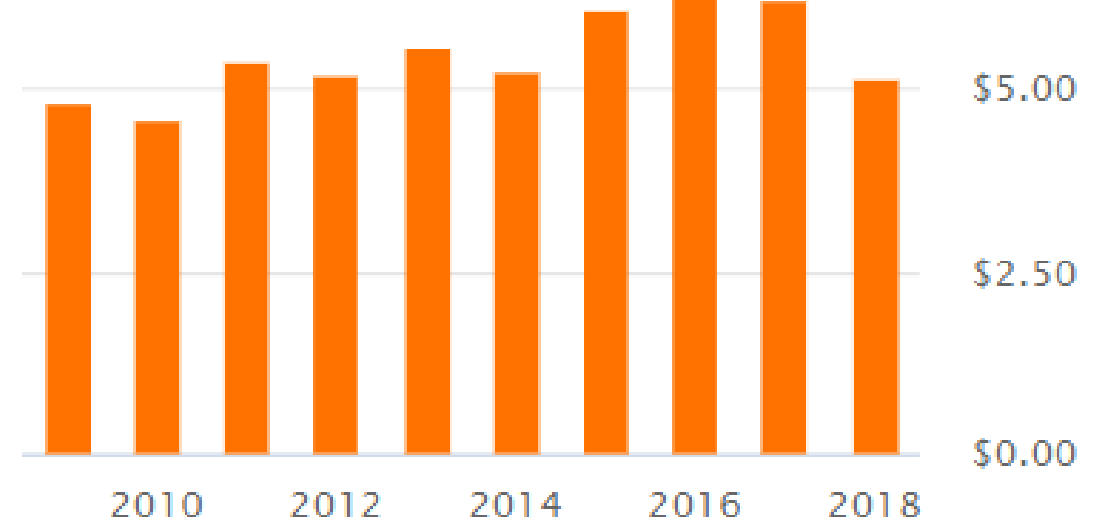
without a dividend cut

Strong Dividend Track Record
simplysafedividends.com

FFO



NAV per share



Funds from Operations (FFO) and Net Asset Value (NAV)
Good Track Records

SKT Valuation

Source: Simply Safe Dividends

- 10.17% current dividend yield 161% above its 3.89% 5-year average
 - **The stock may be undervalued** unless you believe that the company's outlook has weakened.
- 7.5 forward P/AFFO ratio well below its 5-year average of 15.5 and the Real Estate sector average of 16.7.
 - An unusually low P/AFFO ratio means that **investors may have become pessimistic about SKT's prospects** for growth.
- But if you believe that SKT's health and long-term outlook remain solid, then the stock could be attractively priced.



Bonus Slides

Fidelity fee-managed
taxable account – what
are the pros doing?

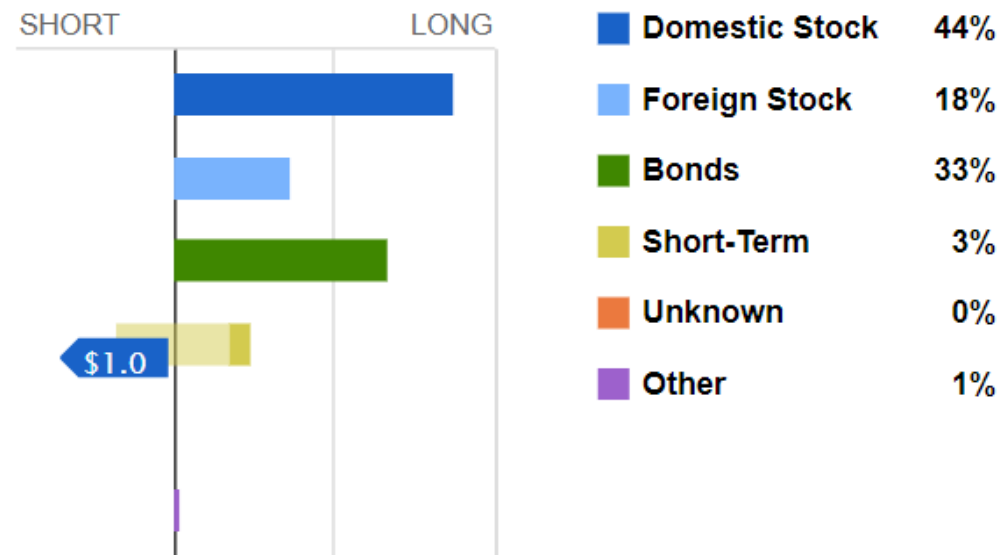
Are we in danger of
deflation?

What are the pros doing?

Fidelity allocations for a Moderate Growth with Income portfolio, in a tax-managed account

Your Asset Allocation

Below is a representation of your current asset allocation.



[Learn more about your asset allocation](#)

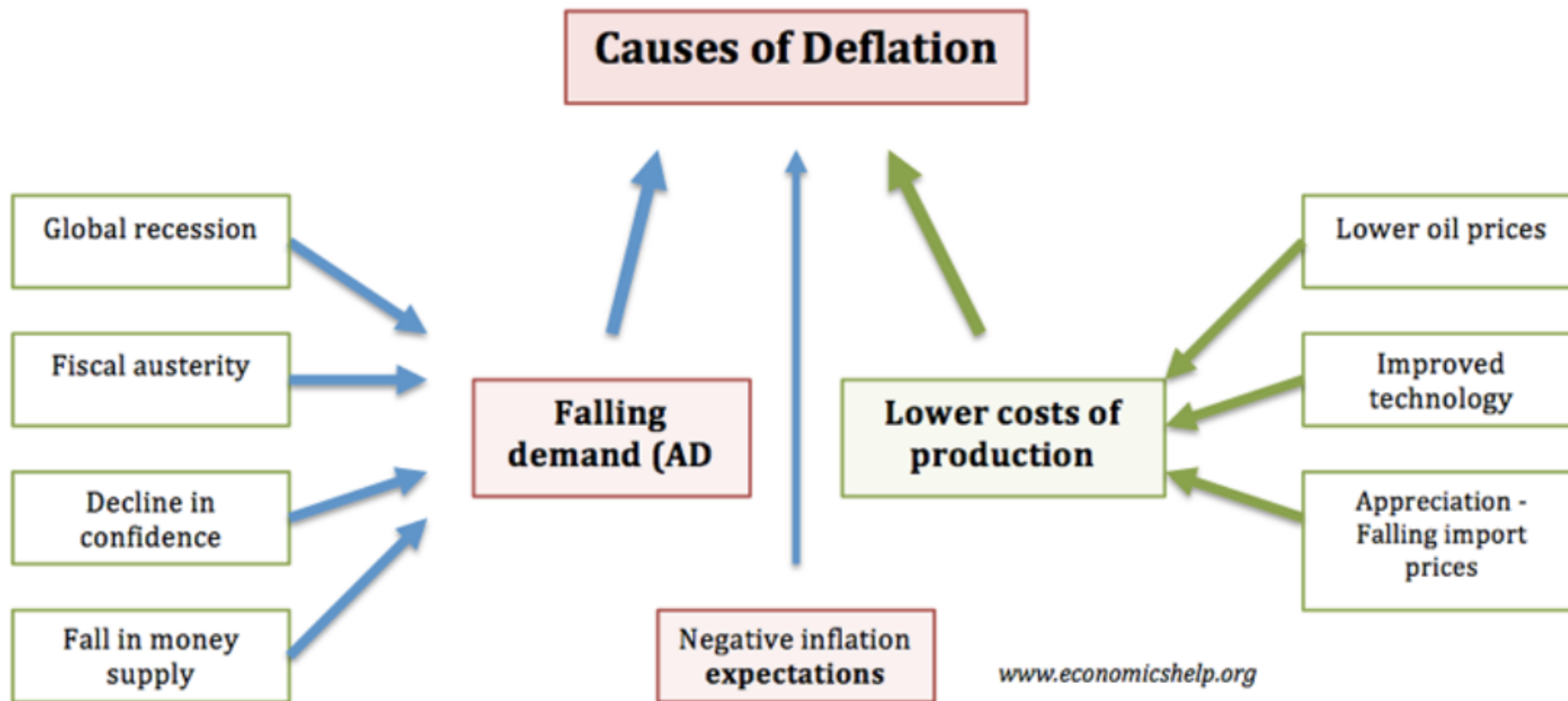
Your Investment Team actively researches, selects, and monitors investments over time.

Fidelity Buy/Sell List 8/1 – 8/16/19: Buys

A tax-managed account, growth with income risk profile

Action	Symbol	Security Description	Type	Size	Characteristic	
YOU BOUGHT	IJT	ISHARES TR S&P SMALL CAP 600 GROWTH ETF	Stock	small	growth	
YOU BOUGHT	EEM	ISHARES TRUST MSCI EMG MKTS ETF USD DIS	stock	large	blend	emerging
YOU BOUGHT	PXH	INVESCO EXCHNG TRADED FD TR II FTSE RAF	stock	large	value	
YOU BOUGHT	PXH	INVESCO EXCHNG TRADED FD TR II FTSE RAF	stock	large	value	
YOU BOUGHT	PRNEX	T ROWE PRICE NEW ERA	Stock	large	blend	
YOU BOUGHT	HWLIX	HOTCHKIS & WILEY LARGE CAP VALUE CL I	Stock	large	value	
YOU BOUGHT	OAKMX	OAKMARK FUND INVESTOR CLASS	Stock	large	blend	
YOU BOUGHT	PZFX	JOHN HANCOCK CLASSIC VALUE CL A	Stock	large	value	
YOU BOUGHT	DODFX	DODGE & COX INTERNATL STOCK FUND	Stock	large	value	intl
YOU BOUGHT	CIVVX	CAUSEWAY INTERNATNAL VALUE INVESTOR	Stock	large	value	
YOU BOUGHT	AEMSX	ABERDEEN EMERGING MRKTS FD INSTL SV CL	Stock	large	growth	emerging
YOU BOUGHT	PRZIX	T ROWE PRICE EMERG MARKETS STOCK FUND I	Stock	large	blend	emerging
YOU BOUGHT	DODFX	DODGE & COX INTERNATL STOCK FUND	Stock	large	value	intl
YOU BOUGHT	AEMSX	ABERDEEN EMERGING MRKTS FD INSTL SV CL	Stock	large	growth	emerging
YOU BOUGHT	PRVAX	T ROWE PRICE VA TAX FREE BOND	Bond	tax free	virginia	
YOU BOUGHT	LVAQX	LSV SMALL CAP VALUE FUND INVESTOR	Stock	small	value	


Are we in danger of deflation?

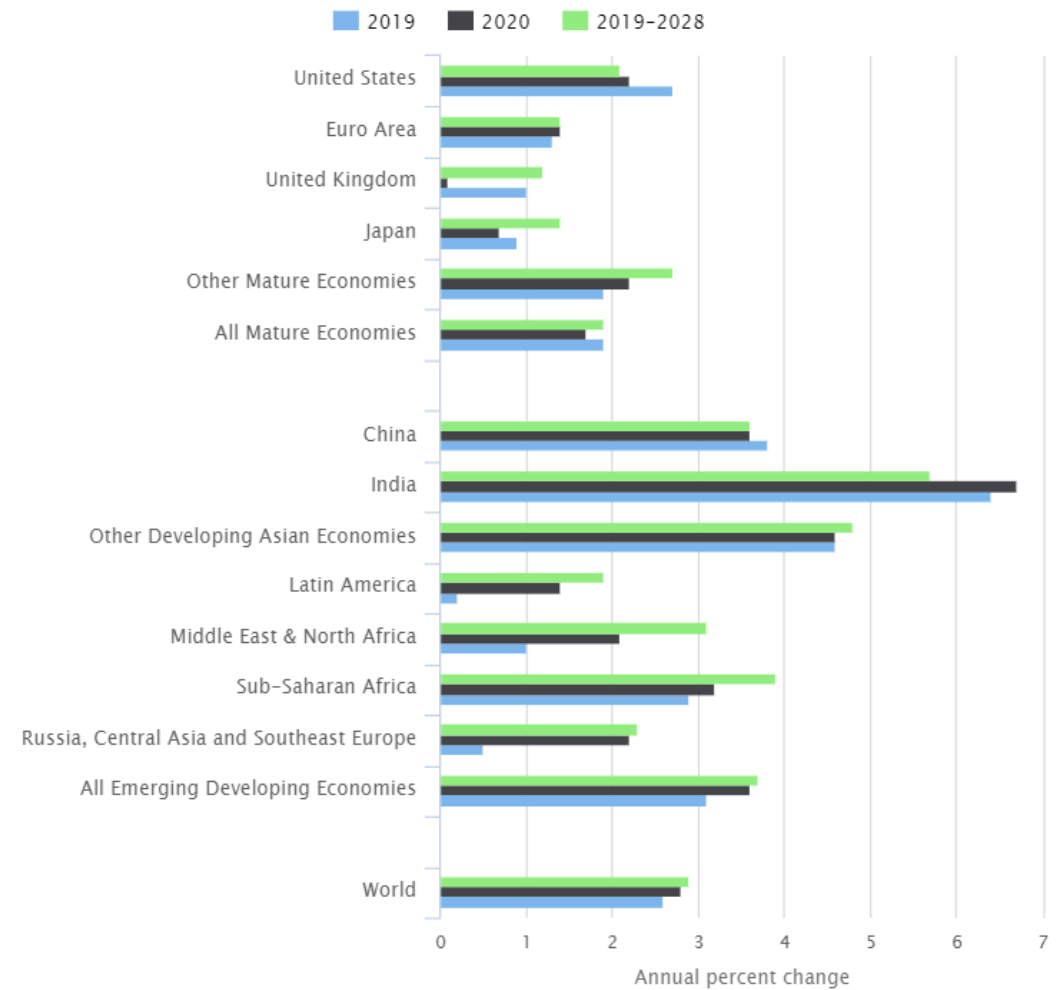


GDP Expectations

India GDP Strong
ETF Ideas: IIF, INDA

Growth of Gross Domestic Product, 2019–2028

 Download Chart



Notes: For more details regarding deviations from officially reported GDP growth rates, as well as a list of countries included in each region, please refer to the methodology tab.

Source: The Conference Board Global Economic Outlook 2019, July 2019 update.