

Amid Market Turmoil, High-End Consumers Continue to Spend

Posted 09/14/2011 09:52 AM ET

MARTINSVILLE, N.J., Sept. 14, 2011 /PRNewswire via COMTEX/ -- Although a fierce battle over raising the United States' debt ceiling, an unprecedented downgrade of our debt, and turmoil in the equity markets have dominated the headlines this summer, Condor Capital's Ken Schapiro discusses why he believes the second half of the year still shows promise for companies catering to higher-end consumers.

For a preliminary gauge on the impact the debt ceiling impasse and equity market selloff had on consumers, we examine retail sales figures for August. While Thompson Reuters reported that retail sales gained 4.4% year-over-year in August, which was just shy of the market's expectations, a look at reports of individual companies reveals a more telling picture. In a month when some mid-tier stores struggled, with Kohl's and J.C. Penney both reporting a 1.9% drop in same-store sales, higher-end consumers appeared to be resilient, with high-end stores such as Nordstrom and Saks reporting increases of 6.7% and 6.1% respectively. Furthermore, a recent earnings report by high-end jeweler Tiffany & Co lends credence to our thesis that luxury will continue to show success despite negative headlines. The company reported a 33% jump in profit for the fiscal quarter through July 31st on the backs of strength in the U.S. and the Asia-Pacific region. In addition, Tiffany raised its outlook for the year and commented that the current quarter was tracking ahead of expectations, assuaging some fears of a drop off due to recent market turmoil.

A similar theme can be witnessed in other areas of the market, including the broader travel industry. Recent data show that so far this quarter, between June 30th and August 27th, revenue per available room (RevPAR) for the lodging industry in the U.S. is up 6.5% over last year. However, as with retail sales figures, a dissection of this figure shows a divergence between lower- and higher-end names. While RevPAR for the economy segment is up 3.6% over that period, luxury lodging has posted a much stronger 11.2% gain.

With the high-end theme still firmly intact, a number of attractive buying opportunities have arisen after the recent selloff in the equity markets. The strong report and rosy outlook provided by Tiffany also bodes well for luxury apparel retailer Coach, as both names serve similar customer bases, have strong brand images, and possess significant exposure to customers in emerging markets. This trend should also continue to be a boon for Nordstrom, which is renowned for its top-notch customer service and wide range of upscale brands. One could also look towards certain names that may not be initially associated with luxury, but also stand to benefit. American Express, a credit card company that caters to consumers in higher-income brackets, has shown resiliency in tough conditions in the past. During the market selloff of the second quarter of last year, amid many of the same fears hanging over stocks this summer, American Express managed to boost its billed business by 11.4% sequentially. Also consider membership warehouse chain Costco which, despite its discount nature, has a customer base with an average income that is well above the national average. In addition to selling food and household consumables in bulk, Costco offers a wide range of durable goods from jewelry to televisions that appeal to higher earners in search of a bargain. Echoing the trends witnessed in luxury rather than discount retailers, Costco reported same-store sales growth of 7%, excluding gasoline sales and currency effects, for the August period.

Some argue that the recent correction in the stock market may curtail spending by affluent consumers, given their greater exposure to equities. However, despite recent market turmoil and signs of slower economic growth, the economy and companies are much healthier than they were in the throes of the last recession. In addition, the S&P 500 Index is still more than 75% higher than its March 2009 lows and consumers have deleveraged considerably since then. Taken together, high-income consumers are in much better fiscal condition than they were in 2009. Furthermore, gasoline prices have come well off their recent highs, which could provide meaningful economic and psychological relief for consumers. With that being said, early indications have been positive for the back-to-school shopping season, as the MasterCard Advisors SpendingPulse report showed that such purchases in July and August increased 3.0% over last year, the fastest pace of growth since 2006. This figure may have been even stronger had it not been for the East Coast hurricane, which likely shifted some sales into September. All told, we feel that similar trends witnessed in retail sales data this summer and those following the back-to-school shopping figures will continue to manifest themselves in reports following retail's all-important holiday shopping season. Such reports will be very telling of the consumer's appetite to spend and should convince investors that this segment of the market will continue to outperform.

At the time of this article, Condor Capital Management held long positions in American Express, Coach, Nordstrom, and Costco.

Condor Capital

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