



These Stocks Will Be Winners This Holiday Season

The strong dollar and low oil prices will do more for retail stocks than Black Friday's frenzied sales.

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The holiday season could be good for investors this year as consumers seem to have found their spending mojo. But it pays to understand where the dollars will likely flow so that investors can target stocks that should outperform analysts' expectations.

"The improving condition of the U.S. consumer implies a fairly brisk holiday shopping season ahead," says Joe Brusuelas, chief economist at professional services firm RSM.

Brusuelas is expecting retail spending to jump as much as 5 percent versus a year ago, driven by jobs gains, rising wages and lower gasoline prices. Lower fuel prices mean consumers have more money in their pockets – and as the price of gas has stayed relatively low for a while, consumers are more confident about spending extra money on discretionary items.

Imports and luxury brands should rule. The strong dollar should contribute to a greater demand for imports, Brusuelas says. A stronger dollar allows importers to buy the same goods for less money, or spend the same amount and purchase more imports.

The retailing segments that have done well so far this year include health and beauty, jewelry sales and casino gambling. They're all up between 5 percent and 10 percent from last year.

"Perhaps the swing factor in the holiday season will be outlays on luxury items, such as jewelry and watches," Brusuelas says. Such goods tend to reflect how upper income households spend their money.

However, if markets repeat their August swoon, holiday spending among the wealthy may be crimped. The Standard & Poor's 500 index fell 10 percent in August on fears about the Chinese economy. And while it rebounded, another drop may present a problem for improved spending by the affluent, Brusuelas says.

Black Friday is not a strong indicator. One fourth-quarter tradition that seems to have outstayed its welcome, at least from an investor standpoint, is the intense focus on Black Friday sales.

"It's irrelevant in terms of forecasting where [gross domestic product] is going," says Steve Hanke, a professor of economics at Johns Hopkins University and a fellow at the Cato Institute.

Even worse, it doesn't necessarily tell you where stocks are going.

"There is little, if any, relationship between Black Friday/Cyber Monday sales estimates [or actual reported sales results] and the performance of the S&P Retail Select industry index in the fourth quarter [or the S&P 500 as a whole] since 2008," according to a recent report from LPL Financial, a Boston-based financial advisory.

But there are plenty of winners on the board as the holiday season arrives. Kristin Bentz, president of Talented Blonde, an advisory firm in Phoenix, likes Tiffany & Co. (ticker: TIF) because it should benefit from the strong dollar. Stronger greenbacks make gold and diamonds cheaper because both are priced in dollars. When a diamond ring is manufactured, the costs are lower, and there are more profits for the company.

Other stocks in the sector are Kering (PPRUF), which owns luxury brand names such as Gucci and Alexander McQueen, and LVMH (LVMUY), which includes spirits, Champagne and cosmetics.

Bentz says Apple (AAPL) is another luxury product company, although it's not known for diversification. "But it's always a solid gift under the tree," Bentz says, noting that there are always waiting lists for the company's newest iPhone, iPad Air or MacBook.

Millennial shoppers are making their mark. There are other trends to follow, notably that shopping is moving to the Web.

"Amazon (AMZN) is stealing market share from retailers within the apparel business," Bentz says. Smaller, independent companies are listing their clothing items on Amazon.com and selling them directly to consumers. When a sale is made, Amazon gets a cut.

Another big trend is the spending habits of millennials, which number more than 80 million, according to the U.S. Census Bureau.

Bentz says PayPal Holdings (PYPL) is a good bet because millennials are shying away from traditional banking in favor of virtual wallet services such as Venmo [which is owned by PayPal]. Likewise, point-of-sale provider Square (SQ), which just held its initial public offering, will benefit from the millennial-led trend.

Separately, the acquisition of Starwood Hotels & Resorts Worldwide (HOT) by Marriott International (MAR) may be particularly well-timed.

Going to a hotel for a great experience and meeting other like-minded people is compelling for millennials, Bentz says. "Experience and sharing is everything is to millennials. Travel has become a great status symbol for them."