



140 BROADWAY NEW YORK, NY 10005

ALAN M. SILVERMAN,
Ph. D. CFA
(212) 320-3060

January 16, 2004

RETAILING REPORT

Retailing- Current Observations:

Retailers remain committed to ever-tighter inventory controls, which will continue to produce profit margins. As a result, however, in-store inventories are below last year's levels and sales in January are likely to be less than street expectations.

Prices for merchandise from China could continue to fall, holding down total consumer price levels; stable to lower prices also in part reflect well above-average growth by **Wal-Mart (WMT - \$53.49)**. Competition is intense, particularly in certain product lines, such as toys. Weeding out of weaker store chains, as evidenced by recent bankruptcies such as KB Toys, is occurring.

A significant change in product mix is likely to become evident during the next few months, with apparel sales rising more strongly than other merchandise categories. Men's clothing probably will recover significantly from the depressed levels of the past few years. Suppliers such as **Tommy Hilfiger (TOM - \$14.79)** may benefit from this upturn.

Although internet sales are growing at a rapid rate, the total portion of goods sold on-line remains miniscule. A number of retailers, however, are operating successfully on the internet, particularly **J.C. Penney (JCP - \$26.45)**.

The range of multiples accorded retail stocks is unusually wide, and stock selection is considered critical. For example, the premium multiples accorded companies, which are regarded as reliable growth stocks, seem excessive. Sustained growth in this highly seasonal and intensely competitive industry is difficult to maintain, with **Kohl's (KSS - \$43.36)** and **Christopher & Banks (CBK - \$18.78)** prime examples. On the other hand, financially strong firms which have sustained temporary setbacks, such as **Talbots (TLB - \$32.88)** could prove rewarding investments.

Consumers spend income, not wealth, despite widely held views to the contrary. Income is stimulated by monetary growth, after a lag of approximately nine months. Therefore, the most important factor in current spending is the rate of growth in the money supply, which took place in the six-month period ended May, 2003.

Government statistics attempting to measure consumer-related items such as total employment and savings rates are especially flawed. Moreover, they tend to be repeatedly and significantly revised in the months after they are first reported. Therefore, conclusions based on these unreliable numbers are almost certain to be incorrect.

Analyst's Certification: I Alan M. Silverman certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. I have a long position in the shares of J.C. Penney.

SHIELDS AND COMPANY, ITS AFFILIATES AND SUBSIDIARIES AND/OR THEIR OFFICERS AND EMPLOYEES MAY FROM TIME TO TIME ACQUIRE, HOLD OR SELL A POSITION IN THE SECURITIES MENTIONED HEREIN. WHILE THIS REPORT HAS BEEN PREPARED FROM ORIGINAL SOURCES AND DATA WE BELIEVE TO BE RELIABLE, WE MAKE NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS, AND OUR OPINION IS SUBJECT TO CHANGE WITHOUT NOTICE. ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST