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# 5<sup>th</sup> Avenue MEETS WALL STREET

Mall Walking Pays  
Dividends for Retail  
Analyst Dana Telsey



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## 5th Avenue Meets Wall Street

by: *Patricia Campbell*

Retail analyst Dana Telsey points to unique issues to consider for this sector.

From the office of Telsey Advisory Group (TAG) at the tony corner of Fifth Avenue and 44th Street in New York, Dana Telsey, CEO of Telsey Advisory Group, has a superb view for a shopaholic. It took real discipline for SFO's crew not to look inside the new Prada shoeboxes and Hermes shopping bags while we waited for Telsey to surface from a TV appearance before our interview.

Once she sprinted in, Telsey wore a signature black suit—this one from Kiton—and a silk menswear blouse custom cut for her by London-based tailor Emma Willis. Making a sure-fire entry into our very hearts, she admitted, "All the other girls want the highest heels, but I wear Prada for the rubber soles—more comfort!" And it was sentimental, yet amusing, to see her bookcase adorned with "wall of fame" photos of both Dana and her grandmother with the Abercrombie-naked-from-the-waist-up-six-pack model.

Shopping and playful intensity aside, the term "hard worker" does not begin to describe Telsey's core values. She may look like a co-ed, but she's 45. When she was in college, she worked summers and weekends as a secretary for neighbor and family friend Ron Baron at Baron Asset Fund, part of the \$17 billion Baron Capital Inc. After earning her bachelor's degree, she worked her way quickly to vice president/retail analyst, while attending graduate school for her MBA at night.

Her career progressed to retail analyst at C.J. Lawrence and, then in 1994, to the spotlight as a star and senior managing director at Bear Stearns until 2006.

Afire with ambition, she left the giant brokerage firm and spent millions of her own money to open TAG. The original team of three has grown to 38 employees in less than two years. A dozen of them are high-caliber, specialized equity research analysts. The TAG retail index is a leading indicator of great value; consumers represent more than two-thirds of the U.S. gross domestic product, and the index reflects that sway.

Telsey has achieved renown as a research analyst, ranked for 13 consecutive years as a member of the Institutional Investor All-America Research Team. The close of 2007 brought her further honors as the winner of Institutional Investor Best Independents in four separate categories.

Telsey credits Ron Baron for her savoir faire in asking the right questions to obtain the intelligence she needs. She gleans absolute recall of retail history and command of an insane amount of factual minutiae from note taking. "I love typing. I'm a big believer in typing. It helps me remember everything. I take all my own notes in every single meeting and type them up at night. I never stop writing," she says.

Because it combines SFO's goals to bring you thought leaders from many walks of life and more penetrating coverage of equity sectors, we proudly present this interview with Dana Telsey—the most knowledgeable shopper ever.

PC: Why did you go into the retail stock sector?

DT: That's what I like, and that's what my family did. My mom worked at Fred the Furrier; my grandmother worked at Bergdorf Goodman, and we had a bookstore on Madison Avenue. It's always been something that we have enjoyed. The most enjoyable thing is scoring! "How many shopping bags did you come home with at night? Did you buy something? Did you score?"

PC: Tell us what TAG is all about.

DT: We have a consuming passion for being best in class. It is very important in all that we do. We represent a better way to conduct consumer research. Another consuming factor is that we never take "no" for an answer. "No" does not mean no; it just means later. We break down doors to deliver the most insightful perspective on the consumer sector and the best services to our customers. There are people out there who may be brighter, but they will never outwork me. We strive for perfection by working the hardest and smartest.

PC: Are you an only child or an eldest child? You sure sound like one.

DT: Yes, I'm the oldest of two. I've never been asked that before.

PC: Your client base—who do you consult for and what do you provide for them?

DT: Our clients are money managers with institutional assets. We have a sales force with offices in Boston, San Francisco and New York who are on the phone constantly. Our consulting clients may be seeking information for a leveraged buyout or valuation analysis—any kind of analysis on where retail companies fit in the competitive landscape. They'll want a deep dive into the landscape or a look at privately held companies, analyzing opportunities for growth. Or real estate developers of malls who want to get the right tenant mix.

PC: How do your findings on consumer behaviors and sentiment apply to other investments?

DT: There are always peaks and valleys with every sector, with every company. Each has its own life cycle. The ability to extend that life cycle—whether by reinvention or new concepts or by being more efficient in the supply chain—requires constant re-evaluation of the business to figure out what's next.

PC: What are the big trends in retail today?

DT: One of the biggest changes is the heavy flow of tourists coming into the U.S. with currency that's worth more than ours. They come with open wallets and empty suitcases. That's been a driver for the fourth quarter of 2007 and will continue to be a driver into the first quarter of 2008.

PC: Who's hot and who's not?

DT: Hot: Abercrombie & Fitch, J. Crew, Tiffany; these are what the tourists flock to. There is only one Abercrombie store in Europe—in London. And there are a couple of markets in Europe that have Tiffanys, but they are nothing like the flagship on 57th Street—it's a whole different experience. Even its new store at 37 Wall Street is not the same. I also like Lululemon!

PC: What is Lululemon?

DT: It's a brand new yoga apparel retailer that started in Canada. Also hot is anything Wii and consumer electronics—at Best Buy, though at the expense of Circuit City.

PC: Reflecting on timing, or seasonality, what is happening?

DT: The fourth quarter and first quarter are typically the best times of the year for retail stock performance. Then, you go into a lull, which can provide trading opportunities—the shifts in the dates of holidays provide many of these opportunities. For example, what month does Easter fall in, March or April? And is Christmas on a weekend or in the middle of the week? Weather is always an unknown. You need to practically be a meteorologist in your analysis, too—weather affects whether or not people can get to the stores.

PC: Biggest developments in the sector this year?

DT: Department stores were very strong in early 2007, but by the end of the year, they had too much inventory. Second, the whole luxury boom has moderated. These retailers were growing at an annual rate of 6 percent to 8 percent for the year, down from a comparable double-digit rate in the past several years. And women's apparel retailers have continued to struggle.

PC: What has been the literal impact of high energy costs on the retail sector and the impact of the subprime mortgage lending crisis?

DT: It is hard to separate these two. Energy is the item that factors most into the spending pattern of low- and middle-income consumers. Paying for gasoline leaves them less money to spend on other discretionary items. The subprime problem has also affected a wider array of consumers. However, you are always going to have these various obstacles, and what I look at is how retailers manage around them. Whether it's Wal-Mart returning to its "everyday low prices" or whether it's Kohl's putting in its own brand to differentiate the product, the consumer will still be there.

PC: What are some of your company's challenges?

DT: Determining whether we are at a retail bottom yet. We have seen 11 different cycles going back to 1980. On average looking at those various cycles, retail stocks reach bottom when they trade about 26 percent off of their 52-week highs. They were lower than that at the close of 2007, and these steep declines point to a possible rebound in the first half of 2008.

PC: Key moments with CEOs?

DT: Every meeting is special, and each informs all of the rest of the meetings. Whether it is with Rosemary Bravo at Burberry, Les Wexner at The Limited Brands or Mike Jeffries at Abercrombie & Fitch, there is a reason why these brand leaders are who they are. The meetings work based on the questions that you ask them and how you use the time in order to gain the most insight.

PC: How great is it to know the designers of luxury goods and be involved in the latest fashion trends? And do you get a front-row seat at the shows?

DT: I get invited to fashion shows—Bryant Park, where all of the Fashion Week activity takes place, is only a few blocks from here. I may attend one or two shows a year, but my time is spent with my clients. It is all about serving my clients. I don't shop during the mall tours—my time is not best spent trying on clothes. But my clients may shop. And we look with our buy-side clients to see where the fashion disasters are.

PC: What are the trends that are becoming exaggerated?

DT: The women's apparel business is very challenging and becoming more so. We have a theory that everyone wants to be 30. If you're 20, you want to be 30; and if you are 40 or 50, you think you are 30. That's the active lifestyle and personality of 40- to 50-year-olds, which are not of the same mindset of their parents. The retailers of the moment must capture that customer. A couple that are doing it well are J. Crew and Urban Outfitters.

PC: How about Gap in regards to that? Are they getting there with their current advertising, etc.?

DT: Gap is getting better! They are more targeted and have gone a bit older. The inventory levels are cleaner, and they have a point of view now. In addition, the quality is better.

PC: What is their point of view?

DT: Older! They are now catering more to 25- to 35-year-olds, not kids anymore. And one of the big questions is the cannibalization of the Gap brand by Banana Republic.

PC: Goals for TAG?

DT: We want to be the preeminent global consumer research firm. There are five verticals that we are focused on now: hardlines, luxury goods, broadlines, restaurants and specialty stores. We have 13 different consumer verticals in which to expand. We want to be the thought leader in this space and to focus fully on what clients want to know and what they are looking for from us to be most informed about the consumer.

PC: Who do you most admire and emulate?

DT: Joe Ellis, who is now retired from Goldman Sachs. I have known him for years. When I was on the buy side, I would call him and go on all of his shopping tours, and I learned about being the best in class from him, and about how to make the clients want to hear what you have to say. Ed Hyman, who founded and built ISI, is a model for this business and for independent research generally.

PC: How about the need to be a math prodigy?

DT: I majored in history and Spanish and minored in sociology. Anyone can figure out the rate of growth in sales and margins, and analyze inventory calculations. It's about what you know and what you experience that comes from walking the stores. There's nothing that can replace feet on the street. Numbers are only one part of the story. The mosaic is always changing.

PC: Thank you so much for the opportunity to interview you.