Retail stocks, 'decimated' by tech, could fall even further

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Wednesday, 1 Mar 2017 | 7:00 AM ET

Just because something has become less expensive, that doesn't make it a bargain.

As a group, traditional retail stocks have long faltered against competition from e-retailers like Amazon; the S&P 500 multiline retailing group is nearly 21 percent off its 52-week highs and down nearly 16 percent over the last year, while the S&P 500 Internet & Catalog Retail industry group is up 46 percent in the same time. And some strategists see further weakness ahead for the group.

Target on Tuesday posted its worst day of trading in years following a disappointing earnings announcement. The multinational earnings announcement fell short on revenue, comparable store sales and its full-year 2017 forecast. Sales also declined for its sixth straight quarter. Target is down nearly 19 percent year to date.

Boris Schlossberg, managing director of foreign exchange strategy at BK Asset Management, sees several signs flashing "sell" on Target shares.

"They're getting decimated by tech, and today's announcement from Target was to me especially disappointing because Target is basically hanging all of their strategy on price competition, and going down-market on lower price, and I think that's going to destroy them because Amazon will kill them on lower price anytime, anywhere," Schlossberg said Tuesday on CNBC's "Trading Nation."

"In fact, I think the only thing that works in retail right now is improving experience; ironically enough maybe taking a page from Amazon to create an experience where you never see a cashier, where it's just friction-free shopping," he said, adding that more traditional retailers

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One of its competitors, Wal-Mart, is doing a much better job in drawing customers online, he noted, citing its August 2016 acquisition of e-retailer Jet. Wal-Mart is outperforming Target by about 31 percent year over year.

From a technical perspective, retailers as a group appears on shaky ground, according to Oppenheimer's head of technical analysis Ari Wald.

"We recommend staying away from the traditional retailers; we think they continue to underperform," Wald said Tuesday on CNBC's "Trading Nation," examining a chart of the XRT relative to the S&P 500 over the last decade.

Wald noted its downtrend indicative of underperformance, and believes retail is headed for another 5 percent of underperforming the market.

One "bright spot" in Target's earnings report, Moody's lead retail analyst Charlie O'Shea wrote in a note Tuesday morning, was its 34 percent online sales growth.

"We also believe that Target's decision to absorb some hits to profits in 2017 due to price investments, and the acceleration of investments in physical assets and new brands, as well as online, are sensible long-term strategic moves to enhance its competitive position, and recognize the changing landscape of retail," O'Shea wrote.

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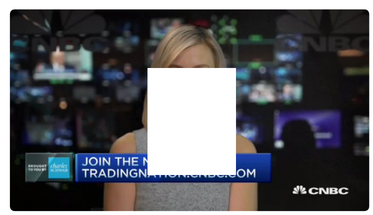

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