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Retail stocks - let's go shopping!

Yes, Wal-Mart's numbers were weak. But there are retail stocks worth buying for investors willing to look past short-term pain and focus on the long haul.

By Paul R. La Monica, CNNMoney.com editor at large
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About the author

NEW YORK (CNNMoney.com) -- Consumers are feeling pinched and big retailers are paying the price. Wal-Mart (WMT, Fortune 500) reported weak sales growth for January this morning. Several other retailers posted sales declines.

But if you are an investor looking to buy stocks for the long haul, today is a great day - many top retail stocks are now on sale.

Wendell Perkins, chief investment officer of Optique Capital Management, an investment firm that runs three value mutual funds, told me last week that even though times are tough for retailers, conditions will improve sooner than some skeptics think.

Perkins believes consumer spending will bounce back later this year thanks to more Fed rate cuts and the tax rebates that people should get as part of the government stimulus package.

With that in mind, Perkins said his firm has been recently buying shares of department store chain Kohl's (KSS, Fortune 500). The stock has plunged nearly 40% in the past 12 months and now trades at just 12 times earnings estimates for this fiscal year.

How can you identify retail bargains? Brian Hamilton, CEO of Sageworks, a financial information research firm that values public and private companies, did some number-crunching for me and came up with a list of top retailers that are trading at attractive valuations, have ample amounts of cash and are projected to report healthy increases in operating cash flow.

TalkBack: Are you spending less at big retailers like Wal-Mart?

"There is still growth with some retailers and that's important,"



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Hamilton said.

Hamilton identified The Men's Wearhouse (MW), AnnTaylor (ANN) and American Eagle Outfitters (AEO) as companies with positive long-term fundamentals despite concerns about consumers being "queasy." They all trade for less than 15 times earnings estimates and have debt to equity ratios below 1. Kohl's also made the cut.

Matthew Kaufler, portfolio manager with Clover Capital Management, which runs the Touchstone Value Opportunities fund, agreed that there are some prime buying opportunities.

"Make no mistake. Retailers will be announcing atrocious results. But as a value guy, this is exactly the type of situation we like to buy into," Kaufler said.

Kaufler said his firm has been scooping up jewelry retailer Zale (ZLC). He likes the fact that there is a new CEO who Kaufler expects will be looking to close underperforming stores and buy back more stock.

What's more, activist investor and former SEC chairman Richard Breeden now has a board seat on Zale. Breeden's firm owns more than 18% of the company.

The firm was in merger discussions with rival Signet two years ago but the deal collapsed. Still, Kaufler said it would not be a surprise if the company eventually got taken over. And with shares trading at slightly less than book value, he sees little downside.

CVS Caremark (CVS, Fortune 500) is also a big holding in Kaufler's fund. The company is more than just a drug store chain after last year's acquisition of pharmacy benefits manager Caremark. But nearly 60% of the company's sales last year came from its retail business.

So yes, even though the headlines are all making it sound as if nobody is going shopping anymore, this is a good time for smart investors to ignore the worrywarts and buy the right retailers.

Update Yesterday, I wrote about how investors were hoping Cisco CEO John Chambers could [give the tech sector a boost](#) if he talked confidently about Cisco's outlook. He [failed to do so](#) and the stock is set to tank today as a result.

Fund manager Ted Parrish perfectly called it: I quoted him saying that Cisco would report good numbers but that Chambers would take the "oomph" out of the report with cautious guidance.

And finally, it's worth noting that the markets [turned tail yesterday](#) after Philadelphia Federal Reserve Bank President Charles Plosser talked about inflation "creeping up."

I wrote two columns last week pointing out that the Fed [still needed to be worried about inflation](#) and that investors should not expect many [more aggressive rate cuts](#). Plosser's comments indicate that the Fed may not have wiggle room to cut rates as drastically as some on Wall Street were hoping for.

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