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BALANCE SHEET – Winners and Losers on the Fiscal Battlefield —EVAN CLARK

If money is power, Wall Street, which has always fancied itself as more or less running the world, has been power drunk for years and is now feeling the inevitable effects of the hangover. After the bailouts of Freddie Mac, Fannie Mae and American Insurance Group, the Lehman Brothers bankruptcy, and more than a few harrowing days of near-panic selling, the Street has been forced to seek help from Washington lawmakers. Even as Washington debated a \$700 billion bailout to buy up questionable mortgage debt, the Street began to wonder what they'd got themselves into, and fretted over additional and unwanted, if not unwarranted, oversight. Both Washington and Wall Street are to blame for the crisis, as are the average citizens who recklessly took on more debt than they could reasonably manage. How well the politicians and the bankers will fare in fixing the mess they made will most likely remain an open question for some time.

Retailers and fashion brands, though, are among those who are going to have to deal with the economic consequences. Luxury stores are in for a hit as bank and brokerage layoffs take hold and the well-heeled look warily at their shrinking portfolios. Everybody else has to deal with a consumer who's sweating out rising unemployment, sinking home values and reduced access to credit. Still, something good might eventually come of all of this. "We're going to go back to a 1950/1960—type mentality, where you save a percentage of your take-home pay to start and you live within your means beyond that," said Paul Nolte, director of investments at Hinsdale Associates. A little bit of financial caution can go a long way in times like these, and it would be nice if that was the lesson consumers and businesses take away from this disaster.

The weakening luxury sector was plain to see in Neiman Marcus Inc.'s fourth-quarter losses, which widened to \$35.6 million, from \$15.9 million a year ago, thanks in part to higher tax costs. Sales for the three months ended Aug. 2 rose 5.2 percent to \$1.03 billion. Operating profits at the Dallas-based firm's stores plummeted 28.2 percent to \$31.9 million. "The aspirational shopper has been impacted most by the downturn," said Burt Tansky, chairman and chief executive officer. The pure luxury customer, he said, is becoming more focused, but isn't trading down. Right now, it's hard to imagine high-end shoppers roaring back anytime soon.

The world of regional department stores—one of the most forlorn of the industry's forgotten corners—got an unexpected vote of confidence last week. Gottschalks Inc. signed a letter of agreement with Everbright Development Overseas Ltd., giving the China sourcing specialist an equity stake that could exceed 50 percent of the firm's stock in return for an initial \$30 million investment. The capital infusion and relationship with Everbright might help the department store change its business in dramatic ways, for instance, by boosting its private brand penetration, which is less than 10 percent. It's the type of deal that could eventually cut out Seventh Avenue players, but it might be something fashion just has to acclimate itself to. **"It's the perfect time for foreign investors to come in and buy U.S. distribution," said Jack Hendler, president of Net Worth Solutions Inc. "Regional chains and department stores clearly are very attractive. Their product is diverse, the trademark and identity are there."**