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# *OBSERVATIONS ON THE MARKET*

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*By Greg Denewiler, CFA*

Last Monday was a sad day, unless you are under 40, and then you probably didn't notice or care. Back in the 60's the Christmas holiday seemed to officially begin when the Sears catalog showed up in the mailbox. It was several inches thick and contained everything that any kid could ever want. If it wasn't in there, you probably didn't really want it anyway. As you grew up, Sears was still part of your life. There was a certain pride to be able to work on your own car at the age of 16 in the 70's, and if you had a set of Craftsmen tools, you were qualified to do the job. By the 80's, Sears started to lose its edge.

They began life over 125 years ago, and eventually attempted to become everything to everybody. In the 80's they bought Dean Witter, the stock brokerage firm. Sears sold insurance through Allstate. However, high net worth investors didn't associate the Sears brand with premium services. It became known as the socks to stocks brand. Dean Witter placed brokers in stores attempting to find new clients, the only problem was that it was not the client the firm was looking for. Management never seemed to respond to the Walmart threat, and buying K Mart did nothing to slow the decline. Their ultimate downfall was probably their website, or lack of one. Have you ever been to the Sears website? Few people have. What kept them alive for 20 years, long after they probably should have closed, was their real estate. They owned a lot of valuable real estate. In Denver, they owned a property in Cherry Creek that was one of the better locations in Denver for commercial real estate. The stock lost its appeal as a retail investment more than a decade ago, and it transitioned into a value investment due to the value of its real estate portfolio. Eddie Lampert also knew this.

The liquidation of Sears began about a decade ago. Stores were closed, and real estate was sold to keep the patient on life support. On Monday, there was nothing left to sell so after 125 years, Sears declared bankruptcy. The company appears to be trying to reorganize, but one would have to ask why? Maybe Eddie Lampert is trying to hang on to those days of bookmarking the pages in the Sears catalog so that his parents would know what he wanted for Christmas. Fortunately, or unfortunately, depending on your perspective, those days are gone. There is a lesson to be learned here.

Even 100-year old companies can lose their way. IBM and GE are two examples of companies attempting to reinvent themselves after realizing the old business model needs to change. Some make it, and some don't. It is common to see a company rely on what they originally did well for too long, only to find out that the world around them has changed. The transition to new products or services can be difficult. Microsoft almost fell into that trap. Five years ago, Microsoft was heavily reliant on their windows operating system, but they have now transitioned to the cloud and have found an entirely new source of growth. This brings us to Amazon.

There was a time when Sears was the one store that tried to take care of everything that you might need. Does that sound familiar? Amazon is now going into markets that are not their core business. Books and socks are one thing, food and health insurance are another. Can the Amazon brand stay relevant beyond what they do best - selling commodity type products over the internet? Sears didn't become irrelevant in a few years, and if Amazon's strategy to become all things to all people doesn't work, you won't know it in the next six months. There does seem to be some similarities between Sears at its high and Amazon now. Bezos is a focused visionary, so we will see if he can pull off trying to be all things to all people.

It would be nice to have one of those old Sears catalogs, maybe put it under the Christmas tree for some nostalgia. That is something a 60-year old would say. Would you find one of those on Amazon, or is that E Bay or Craig's List?