BUSINESS & FINANCE

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A Macy's store in Bowling Green, Ky., in March. Other retailers reported disappointing results, sending their shares down.

Department Store Sales Slide

Dwindling foot traffic takes a toll; 'Don't count us out,' says finance chief at Macy's

BY SUZANNE KAPNER AND ANNE STEELE

Macy's Inc.'s troubles showed no sign of abating as the department store reported another quarter of falling sales, ahead of a flurry of results from other retailers battling similar problems with store traffic and online competition.

During the April quarter, sales at Macy's stores open at least a year declined 5.2%, more than the 3% decrease analysts expected, according to Consensus Metrix, marking the ninth straight quarter that same-store sales have fallen.

Shares of the company sank 17% to $24.35 on Thursday as profit also dropped. The stock has been pummeled this year, already falling 18% through Wednesday's close.

"Don't count us out, we're not dead," Karen Hoguet, Macy's chief financial officer, said in an interview. The company is rolling out several initiatives that it expects to lift sales, including reconfigured shoe and fine-jewelry departments, she added. "While we'll be operating fewer stores, we have the opportunity to make our stores better."

The government is expected on Friday to release its monthly retail sales data, with economists expecting a 0.5% increase for April following two months of declines. Ms. Hoguet said that despite an uptick in sales in March and April from an unusually weak February, Macy's wasn't banking on a rebound in consumer spending this year.

Kohl's Corp., **Nordstrom** Inc. and **Hudson's Bay** Co., which owns Saks Fifth Avenue and Lord & Taylor, also reported declines in same-store sales for the three months ended April 29. Kohl's Chief Executive Kevin Mansell said sales and traffic improved as the quarter progressed.

Retail Drop

Macy's shares fell 17% Thursday as the retailer reported another quarter of falling sales.

Source: FactSet
THE WALL STREET JOURNAL.

February same-store sales declined around 8%, while same-store sales in the combined March-April period were down just 1%. Mr. Mansell said February could have been affected by the slower-than-usual receipt of tax refunds.

Nordstrom's total sales rose 2.7% to $3.3 billion for the period. Same-store sales fell 2.8% at its department stores and Nordstrom.com. But the measure rose 2.3% at Nordstrom Rack, its off-price chain. Profits increased to $63 million from $46 million a year ago.

The retail sector is in focus on Wall Street over the next few days, with **J.C. Penney** Co. scheduled to report results on Friday and **Home Depot** Inc., **Target** Corp. and **Wal-Mart** Stores Inc. next week.

Foot traffic continues to dwindle at brick-and-mortar stores as shoppers increasingly opt to make purchases online. Retailers have responded by shutting stores and cutting jobs.

"The past year will be re-

Please see RETAIL page B2

◆ Heard: Tougher fixes needed at department stores........ B12

Weak Stock Puts Ford Executives On the Hot Seat

BY CHRISTINA ROGERS

Ford Motor Co. shareholders put heat on Chief Executive Mark Fields and Chairman Bill Ford during their annual meeting Thursday, pressing the executives about the stock's loss of more than a third of its value during Mr. Fields's tenure.

The auto maker, like its Detroit rival General Motors Co., has booked substantial profits during a seven-year hot streak for U.S. car sales and, especially, lucrative trucks—but shares in domestic auto companies have been battered. Ford and GM have long been subject to the industry's boom-and-bust cycle, and have struggled to sell investors on a strategy to escape that trend.

"We are as frustrated as you are about the stock price," Mr. Ford told shareholders. "The stock price matters a lot to us."

Tesla Inc., the Palo Alto, Calif., electric-car maker run by billionaire Elon Musk, surpassed Ford's and GM's market capitalization earlier this year, underscoring Wall Street's concerns about Detroit's ability to outgun Silicon Valley in developing must-have electric cars or autonomous driving capabilities. Tesla sells a fraction of what Ford or GM delivers, yet has captivated investors with its prospects for growth.

Mr. Fields, who became CEO in 2014, faced heightened scrutiny from the board of the 114-year-old company this week, as directors added a day of meetings to press the executive for clarity on strategy.

Ford investors, submitting questions ahead of time for Thursday's shareholders meeting—which was held exclusively online—described the share price as "pathetic." Ford's earnings have resulted in hefty bonuses to its top executives, including Mr. Fields, and some shareholders feel left behind.

Several shareholders, who weren't named, asked why Ford isn't boosting share repurchases. Mr. Ford said the company has a mixed record with share buybacks, and while not ruling them out, is more focused on sustaining enough of a cash cushion to weather a downturn.

Other holders' questions ranged from vehicle quality to details on future products.

Messrs. Ford and Fields defended the Dearborn, Mich., auto maker's performance, saying the focus is on strengthening the core automotive business, while investing heavily in future technologies that will help drive growth.

"The bottom line is the biggest strategic shift in the history of our company is well under way and gaining momentum," Mr. Fields told investors.

STREETWISE | By James Mackintosh

Kicking the Tires Of Market Anomalies

Tie together an algorithm, an exchange-traded fund and an academic study finding an anomaly in the markets, and voilà! You have a formula for making money. The trouble is, it turns out that most of the supposed anomalies academics have identified don't exist, or are too small to matter.

A new study making waves in quantitative finance tested 447 anomalies identified by academics and found more than eight out of 10 vanish when rigorous tests are applied. Among those failing to reach statistical significance: one anomaly recently set out by the godfathers of quantitative finance, Nobel-winning economist Eugene Fama and his colleague Kenneth French.

The study, "Replicating Anomalies," published this week by Kewei Hou and Lu Zhang at Ohio State University and Chen Xue at the University of Cincinnati, is the biggest test of examples of inefficient markets carried out so far. The trio applied consistent analysis to the supposed anomalies, used the same database of stocks and set higher standards for statistical significance. Simply reducing the influence of the plethora of rarely traded penny stocks—which make up just 3% of market value but 60% of all listings—by using market capitalization weightings made more than half of past findings no longer significant.

Messrs. Hou, Xue and Zhang warn that academics have been fiddling the statistics to come up with interesting findings, known to statisticians as data mining or p-hacking. "The anomalies literature is infested with widespread p-hacking," they write.

It isn't all bad news for investors and those trying to make a living flogging what have become known as "factors." The research confirmed that the most popular factors have indeed outperformed the market over long periods even when faced with rigorous tests, but found much smaller returns than previous studies estimated.

Market anomalies that passed the new study's tests included several of the biggest. Cheap stocks indeed beat expensive ones; share prices have momentum; companies that invest a lot underperform, and quality of

Please see STREET page B2

Fast-Food Franchises Get Offer Of Help

BY JULIE JARGON

McDonald's Corp. really wants its franchisees to help change everything from the way customers order their food to the way employees provide service.

When McDonald's imposes changes on its restaurants, it normally expects its franchisees to bear the brunt of the expenses. But in an effort to regain the core customers it has lost to rivals, the company is trying to get franchisees on board by ponying up a big chunk of the money for upgrades that can cost anywhere from $150,000 to $700,000 per location.

The burger giant recently

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An aluminum plant in Anyang, China. A metal cache tied to a billionaire has captivated the market.

China State Money Linked To Massive Metal Cache

Following the paper trail of aluminum around the world

A McDonald's franchisee, who asked not to be identified because of company policy prohibiting franchisees from speaking publicly, said the company's move is "unprecedented," not only because of the level of investment McDonald's is kicking in but because the upgrades are part of a "holistic" plan, rather than a piecemeal approach to upgrading equipment or décor.

Another McDonald's franchisee estimates about half of the company's U.S. restaurants upgrades, according to people familiar with the matter.

Underpinning the upgrades is the renewed emphasis that McDonald's is placing on offering its food at affordable prices.

The company is making its funding dependent on franchisees' approval of national advertising to support a new value menu of items priced at $1, $2 and $3 set to launch in January. And McDonald's said in the commitment letter that the efforts won't work unless a significant number of franchisees sign it. If franchisees representing 67% of McDonald's more than 14,000 U.S. restaurants don't sign the letter by October, the company won't help fund the upgrades.

In the letter, McDonald's said it would reduce or eliminate regional value deals as it develops the one national value program. It has experimented with a number of value meals at different price points around the country, but found it was too confusing for customers to compare their deals with those offered by ri-

Customers use the digital screen to order at a McDonald's.

STREET

Continued from the prior page

earnings matters. Known as value, momentum, investment and quality, these have become the biggest of the so-called "smart beta" ETFs sucking in tens of billions of dollars.

A lot depends on exactly how the factors are implemented, though, and the researchers dismissed one of the industry-standard Fama-French factors as statistically insignificant: Companies with high operating return on equity don't outperform meaningfully on their tests. Other measures of return on equity did outperform sufficiently, however, underlining the sensitivity of some factors to exactly how they are defined.

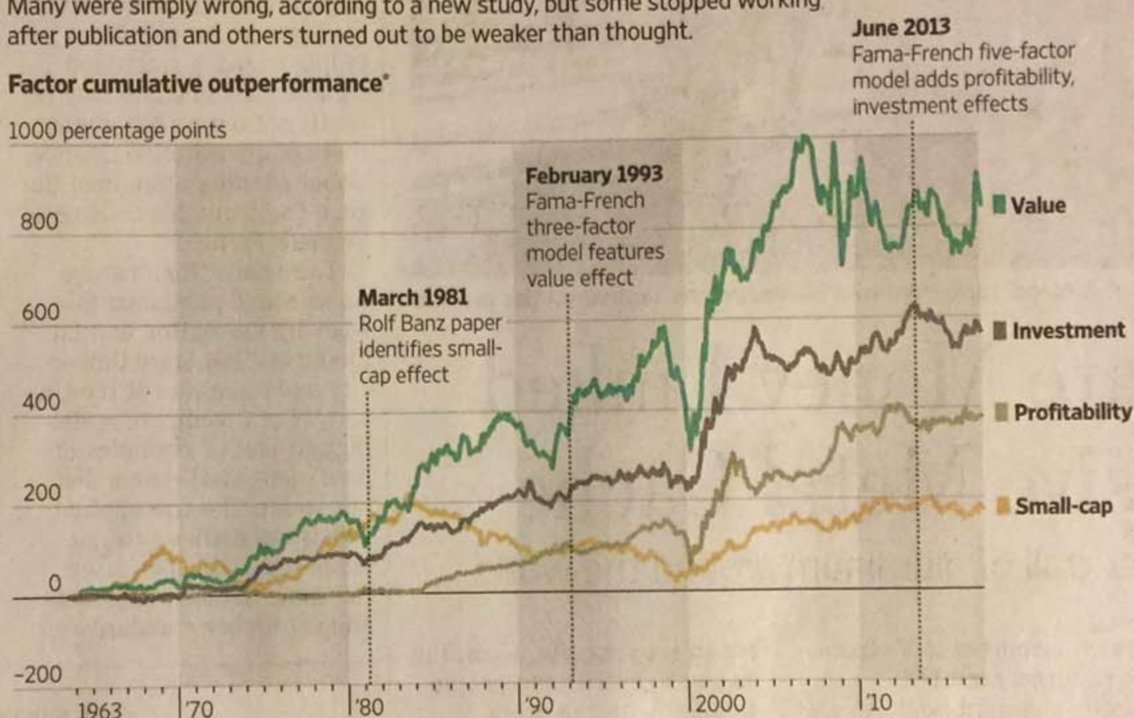
One lesson for investors is to be careful about trying to make money by repeating what seems to have worked in the past. If it was so easy, everyone would do it and it would stop working.

A former student of Mr. Fama, Cliff Asness, founder of quantitative hedge-fund manager AQR Capital Management, said he tries to avoid being caught out by false findings by trading on anomalies he can explain, economically or through investor behavior. To assess whether the market anomalies will continue, he looks for ones which carried on after being identified, can be

Factors to Beat the U.S. Market

Academics often identify stock anomalies that have beaten the market in the past. Many were simply wrong, according to a new study, but some stopped working after publication and others turned out to be weaker than thought.

Factor cumulative outperformance*



*Performance of long-short portfolios on each factor. Investment factor is long companies which invest little, short companies which invest a lot. Note: Through March 31

Source: Kenneth French

THE WALL STREET JOURNAL.

seen in other markets or asset classes, and where minor changes to how they are defined don't much affect the result. These include most famously value, momentum and corporate quality, among others.

Still, he worries that the "awesome effort" in the new paper might lead some to overreact and reject all factors, even those which Messrs. Hou, Xue and Zhang found evidence for.

"Many factors are demonstrably silly, or are highly correlated versions of the same idea," he said. "Where I get worried is about overreaction [to the paper] and the cynicism it breeds."

Investors are still likely to be confused. There are well over 100 value and high-dividend ETFs in the U.S. alone, tracking large, small or mid-size stocks, based on different definitions and often combined with other factors such as momentum, quality or low volatility. Intelligently choosing between them would mean examining how indexes are constructed and comparing to the long-term academic studies to see which methodology was best; in practice, for most investors, there is little more to go on than a few years of performance data and fees.

Messrs. Hou, Xue and Zhang provide a handy dismissal of factors that didn't even work that well in the past. But ultimately no one knows whether even previously robust factors like value and momentum will keep working.