Don’t Miss Out on the Most Underappreciated Sector in the Market Today

Description

To earn above-average returns, sometimes you have to take a little added risk.

Brick-and-mortar retailers have been under attack from the threat of e-commerce for years, and the idea is nothing new, but it seems like the market has finally come to a point where the fear is being overdone.

Even retailers who are leaders in their respective industries, like **Bed Bath & Beyond Inc.** (NASDAQ:BBBY) and **Dicks Sporting Goods Inc.** (NYSE:DKS) have been taking heat; both stocks are currently trading at 52-week lows as of late.

And while it’s taken some time, the retail industry has started to fight back.

Many retailers are now referring to themselves as “omni-channel experiences,” offering customers the option to order products online to have them delivered direct from a nearby location or, alternatively, have the customers pick them up in store.

Best Buy Co Inc. (NYSE:BBY) has had some success with this approach in recent years and now generates more than 5% of sales from its e-commerce segment with that business improving more than 20% in the most recent quarter.

GNC Holdings Inc. (NYSE:GNC) has also undergone changes to its retail experience as of late, including aggressive price cuts to match online competitors and giving e-tablets to employees to use when serving customers to give customers greater access to products not held in stores.

Canadian retail giant **Canadian Tire Corporation Limited** (TSX:CTC.A), meanwhile, has fared better than most.

While many retailers are seeing year-over-year declines in sales, Canadian Tire grew the top line by more than 5.6% last quarter. The company has also done well fending off margin pressures that have plagued so many other retailers.

Canadian Tire's net margin for the past 12-month period was 5.39%, which was actually an improvement over its performance from the previous two years.

Yet Canadian Tire doesn't pay much of a dividend at the moment, with shares yielding just 1.52%.

Income investors may favour a company like **Foot Locker, Inc.** (NYSE:FL), which pays a dividend yield of 2.86%. It has a very healthy payout ratio, which sits under 30%, meaning the company has a runway ahead of it to grow that distribution. Foot Locker also has the added advantage of having hardly any debt on its balance sheet.

Bed Bath and Beyond and Dick's Sporting Goods also have little to no debt as well.

In a transformative environment, like we are seeing today in retail, companies that have fewer financial obligations, like Bed Bath and Beyond, Foot Locker, and Dick's, should have the leg up when it comes to making investments in technology and outlasting the competition in a drawn-out and nasty price war.

Bottom line

There's no denying that **Amazon.com, Inc.** (NASDAQ:AMZN) and e-commerce has forever changed the landscape of North American retail.

Yet, in an ironic twist, Amazon itself is now embarking on a plan to open its own chain of physical locations as it sets out to expand its physical footprint.

Perhaps this is a telling sign that finally the pendulum has swung too far in the other direction.

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