In their great hunt for the consumer dollar, mutual fund managers are leaving the mall. Instead, they are buying shares of specialty retailers, such as work-gear maker Duluth Holdings Inc, handmade-crafts site Etsy Inc, and QVC-shopping network parent Liberty Interactive Corp - all strongly outperforming more mainstream stores as well as the broad Standard & Poor's 500 index.

Now, with April notching the largest jump in consumer spending in nearly seven years, fund managers say they expect the rally in specialty retailers to continue because they are the most likely to withstand competition from Amazon.com Inc and have lower fixed costs than department stores in a time of rising wages.

In contrast, shares of department stores such as Macy's Inc, and mall-dependent apparel retailers like Gap Inc, have plummeted as they report weak earnings and struggle to attract customers.

"The biggest headwind for retailers is that there are too many malls and too many places to shop. The ones that we like are going into under-served markets or have some other competitive advantage to their peers," said Chris Terry, a portfolio manager at Hodges Capital Management whose funds added new positions in Etsy and in Duluth in the first quarter.

Overall, department store sales per square foot are down nearly 20 percent since 2006 thanks to online shopping, according to real estate research firm GreenStreet Advisors.

There are approximately 1,100 enclosed malls in the United States, and GreenStreet estimates that "several hundred" of them could close over the next decade.

**FOCUS ON STRONG BRANDS**

There are no indexes that track offbeat or niche retailers as a separate group, but the success on Wall Street of
There are no indexes that track offbeat or niche retailers as a separate group, but the success on Wall Street of some companies in this space is clear.

Duluth and Lululemon Athletica each saw jumps of 10 percent or more in the number of funds owning them in the first quarter, while fund ownership of Macy's dropped 24 percent from the quarter before, according to Morningstar data.

Shares of Duluth are up 82 percent for the year through Wednesday, and shares of Etsy are up 13.8 percent over the same time, compared with a 1.2 percent gain in the S&P 500 Retailing index.

Apparel companies that have proven that they can be a draw without the support of a mall environment remain attractive, said George Maris, a portfolio manager at Janus. He began buying shares of yoga-apparel company Lululemon Athletica Inc in the first quarter after he saw a block-long line of customers waiting to enter a sale at a standalone store near his Denver office.

"In a very difficult consumer apparel environment, they are finding tremendous demand," he said.

Bob Burnstine, president of $4.9 billion fund manager Fairpointe Capital said it had bought shares of Liberty Interactive, parent of shopping network QVC. This was in large part because the company invests heavily in online retailing and focuses on impulse purchases and infomercial-style television advertising that drive customer loyalty.

Susan Bao, co-portfolio manager of the $10.4 billion JP Morgan US Large Cap Core Plus fund, said she fears fickle consumer tastes and avoids apparel retailers.

But she concedes that the right store in the right niche will reward investors, and cites Lululemon as a potential winner.

"In retail, you have a pure stockpicker's market because these companies are either going to be haves or have-nots," she said.

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