

# TEMATICA INVESTING

THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES



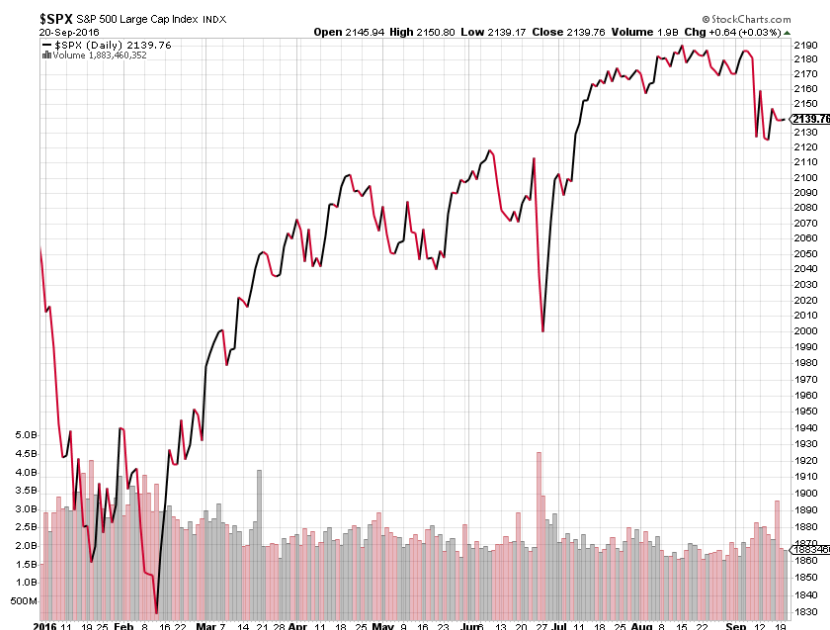
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TEMATICA RESEARCH, LLC

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## Upfront Commentary

Over the last five trading days since our last issue of *Tematica Investing*, the market has crept higher with the S&P 500 logging an additional 0.5 percent move.



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What’s responsible has been another case of “bad news is good news” as it has become increasingly clear the “soft patch” the domestic economy hit during the summer has become something more.

For our readers, none of this sure comes as a big surprise, for as we noted in this week’s [Monday Morning Kickoff](#), much like we did the week before, and the week before that, and the week before that . . . and so on (you get the point) . . . last week delivered several more pieces of fresh economic data that simply adds to the already solid case that the Fed will not raise interest rates later today when it brings its latest Federal Open Market Committee meeting to a close.

While that decision appears to be a foregone conclusion, the wording in the



*Tematica Investing*, a weekly publication by Chief Investment Officer Chris Versace, is designed for the experienced or professional investor, providing in-depth information on real-time developing thematic strategies, economic outlook, investment trading ideas, and analysis of the most pressing developments for the market, as well as forces that drive both our thematic perspectives and thematic recommendations.

statement could lead to a ruckus in the market should the Fed be less than clear... again.

We expect their words will continue to have many “ifs” and “whens” surrounding discussion of both the economy and prospects for raising interest rates in the future. We’ll be sure to count just how many times each “if” and “when” appears because we know that’s the type of analysis you’ve become accustomed to receiving from us (yes, we’re being sarcastic again!)



Based on the data we’ve seen thus far, it looks like it will be a no-go on an interest rate hike until at least December. Even so, we’d rather not get blindsided by a jumpy Wall Street that doesn’t read between the lines and fails to comprehend what Yellen and the other “Fed heads” are really communicating later today. As such, we’re holding back from adding to any positions on the **Tematica Investing Select List** and we’re going to stand back from adding a new position as well.

Instead, we’re inclined to digest all the steps we took last week, which included scaling into several positions last week, including **Sherwin Williams (SHW)**, **United Natural Foods (UNFI)**, **Whirlpool Corp. (WHR)** and adding a new position in **Dycom Industries (DY)**. Plus, with last week’s monster 18-page issue, we keep things a little more concise this week . . . you’re welcome. Here we go...

## Confirming Data Points for our Thematic Positions

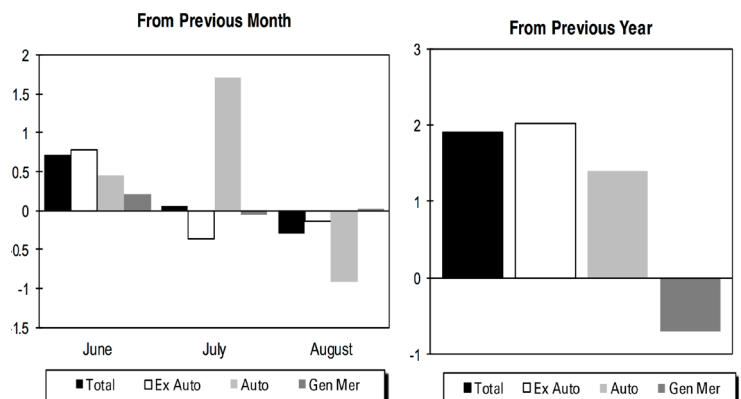
We’re pleased to report that based on the several thematic data points that we’ve uncovered for our **Rise & Fall of the Middle Class**, **Food with Integrity** and **Connected Society** investing themes, we see confirmation for those additions as well as our position in **Amazon (AMZN)**.

### While frugal, the consumer is still spending.

Last week’s **August Retail Sales** report was another swing and a miss, as results missed expectations and saw more categories contract than expand month over month. In parsing the data, however, we found Non-store Retail, which is Commerce Department mumbo jumbo for online and mobile shopping, continued to grab consumer wallet share during the month.

Looking at the two months of available data for the current quarter, Non-store Retail rose 11.9% year over year (up 12% in July and 10.9% in August) vs. 1.9% for Retail sales ex-Auto and Food.

**Percent Change in Retail and Food Services Sales**  
(Estimates adjusted for seasonal variation and holiday and trading-day differences, but not for price changes)



As you can imagine we see this as very positive and confirming news for the **Amazon (AMZN)** shares on the **Tematica Select List** and to a lesser extent the **Alphabet (GOOGL)** shares as well. Remember, aside from Search and YouTube, Alphabet has a growing online shopping business in its Google Shopping business. On the heels of that confirming data, investment firm RBC upped its price target on AMZN shares to \$1,000 from \$840. Our price target remains \$900 for now, but heading into the shopping-heavy balance of the year, we will revisit that target if we believe it appropriate.

**We continue to rate AMZN and GOOGL shares a Buy.**

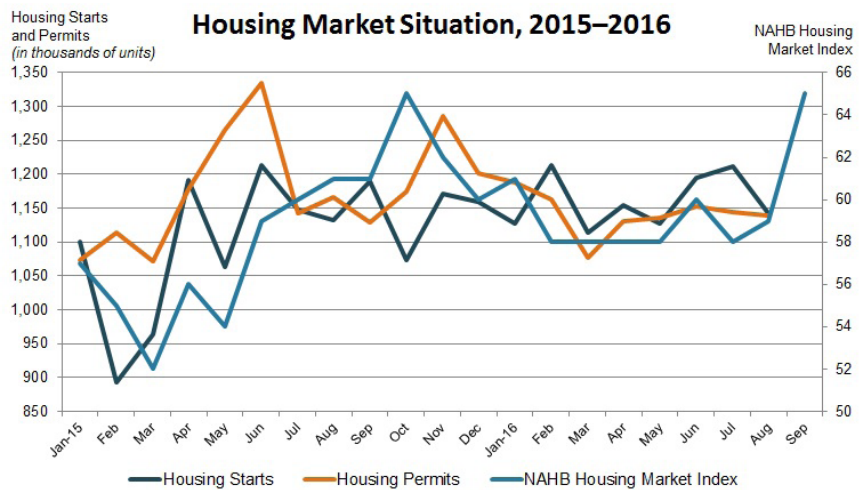
**There is a silver lining in the cloudy housing data**

Yesterday’s **August Housing Starts** came in at 1.14 million units, a miss relative to the expected 1.19 million. Inside the report, however, we find several reasons to be optimistic for our **Rise & Fall of the Middle-Class** thematic positions in Sherwin-Williams and Whirlpool holdings.

True, there was month-over-month weakness in both single-family and multifamily housing starts, but smoothing over the miss was the 3.7% increase in single-family housing permits to 737,000 vs. August single-family housing starts of 722,000. Permits for multi-family housing contracted month over month and, unlike those for single-family, came in below August multi-family housing starts.

**Our take on the overall Housing Starts report is it’s another indication that the domestic economy remains stuck in second gear despite attractive mortgage rates.**

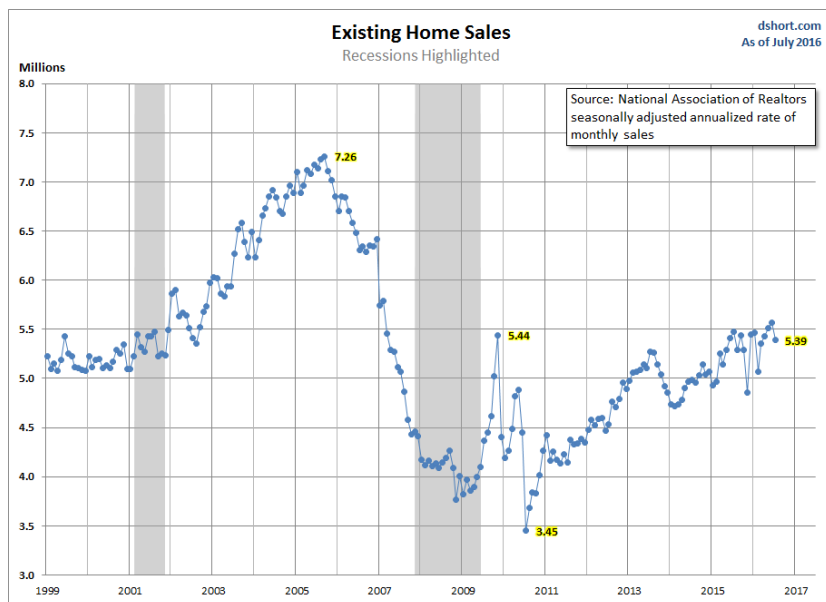
However, also inside the report was data on “New Privately-Owned Housing Units Under Construction at End of Period” showing total housing units under construction at the end of August rose 13.2 percent year over year. On a month-over-month basis, the August data was up modestly. Breaking it down, however, we found under construction single-family units rose 9.2 percent year over year to 428,000 units at the end of August, while multi-family homes under construction advanced 16.5 percent year over year.



In our view, this under construction data bodes favorably for Sherwin-Williams and Whirlpool and serves as a reminder that smart investing requires looking beyond than the headlines. When thinking of housing starts, it's natural for Sherwin-Williams and Whirlpool to come to mind, even though the repair & remodel market is a far bigger driver of their respective businesses.

Later this week (Thursday) we'll get the August read on **Existing Home Sales**, and based on the strength in the July Pending Home Sales Report from the National Association of Realtors — second highest level in more than a decade — we expect a solid report.

Consensus expectations sit at 5.44 million units vs. 5.39 million in July. Given our thesis behind both positions leans on repair & remodel spending, we'll use Thursday's data to chart our next move in these two **Tematica Select List** positions.



Aside from housing data, there was another piece of data that caught our eye — the latest from the National Restaurant Association (NRA), which showed falling same-store sales yet again in August, marking the fourth consecutive month of such declines. While we've heard of price deflation from **Sprouts Farmers Market (SFM)** and to a lesser extent **Kroger (KR)** in recent weeks, which might help explain some of the same-store sales declines, it doesn't help explain the more pronounced drop in same-store traffic over the last few months. According to data published by the NRA:

*“Same-store traffic fell 2.2%, the third straight month in which traffic fell more than 2%... Same-store sales fell in both quick service (down 0.1%) and casual dining (down 0.9%). Traffic declined at both segments, too, with the number of customers falling 1.4% at quick service and declining 2.9% at casual dining.”*

We noted this negative traffic trend when we first added shares of **United Natural Foods (UNFI)** to the **Tematica Investing Select List** at the end of August, and we see the continuation of falling restaurant sales as a sign that consumers are eating more at home. That shift, while bad for restaurants companies ranging from quick service ones like **McDonald's (MCD)**, **Shake Shack (SHAK)** and **Chipotle Mexican Grill (CMG)** as well as casual dining ones such as **Red Robin Gourmet Burgers (RRGB)** and several properties owned by **Darden (DRI)**, bodes well for **Kroger (KR)**, as well as grocery giant **Wal-Mart (WMT)**.

The bottom line is people need to and are eating (see our **Fattening of the Population** theme). If they aren't eating out, then by default they are eating more at home. Paired with the continued shift in consumer preference for natural and organic products, we see the NRA's report as rather bullish for our UNFI shares and confirms our recent addition to the position.

**We continue to have a Buy rating on UNFI shares with a \$65 price target.**

## The continued connecting of our Connected Society thematic

In a recent speech at the CTIA Super Mobility conference, Federal Communications Commission Chairman Tom Wheeler shared that the “number of wireless connections in the US has surpassed the number of connections to the electric grid, and this wireless connectivity has transformed how hundreds of millions of people live their lives.” This has led to the continued expansion and capacity buildouts at existing networks, which propels our recently added position in **Dycom Industries (DY)**, but also hastens the need for next-generation technologies to improve network capacity as well as data speeds. When discussing 5G, Wheeler stressed the need for “additional infrastructure and backhaul suitable to support” those networks, which we find as very bullish for Dycom.

Following those comments, Samsung announced it will work with **T-Mobile US (TMUS)** to build a “nearly commercially complete” 5G service next year. This follows recent comments by **Ericsson (ERIC)** that it will begin delivering components for 5G networks in 2017. In the past, we’ve seen the competitive race associated with these new network deployments and expect it to happen once again as **AT&T (T)** and **Verizon (VZ)** look to spar over network bragging rights. We see these comments as supporting the recent addition of specialty contractor Dycom Industries to the **Tematica Investing Select List**.

**We continue to have a Buy rating on DY shares with a \$115 price target.**

**Our price target on T shares remains \$45.**

## Looking forward to the week ahead

In the next few days, not only will we be analyzing the August Existing Home Sales Report, but also quarterly earnings from athletic apparel and footwear retailer **Finish Line (FINL)** given our positions in both **Nike (NKE)** and **Under Armour (UA)**. Following upbeat results and outlooks from both **Foot Locker (FL)** and **Dick’s Sporting Goods (DKS)**, we expect Finish Line will chime in accordingly. Those results will set the stage for Nike’s quarterly results that hit early next week.

Should we need to take any action following those reports, we’ll be sure to issue a special alert detailing how we are handling it on the **Tematica Investing Select List**.



**Tom Wheeler**

**Federal Communications Commission Chairman**

*the “number of wireless connections in the US has surpassed the number of connections to the electric grid, and this wireless connectivity has transformed how hundreds of millions of people live their lives.”*

## TEMATICA SELECT LIST PERFORMANCE

POSITION	DATE ADDED	ADD PRICE	CURRENT PRICE	DIV. PAID	STOP PRICE	RETURN (%)	TARGET	RATING
<b>ALPHABET, INC. (GOOGL)</b> <i>Asset-Lite</i>	6/15/16	\$733.94	\$771.41	--	--	5.10%	\$900.00	(BUY)
<b>AMAZON.COM (AMZN)</b> <i>Connected Society</i>	5/24/16	\$709.53	\$780.22	--	--	9.96%	\$900.00	(BUY)
<b>AMN HEALTHCARE SERV. (AHS)</b> <i>Scarce Res. / Aging of Population</i>	8/17/16	\$33.80	\$34.03	--	--	0.68%	\$47.00	(BUY)
<b>AT&amp;T (T)</b> <i>Connected Society</i>	7/21/15	\$34.67	\$39.96	\$1.91	\$39.00	20.77%	\$45.00	(HOLD)
<b>Consumer Disc. SPDR (XLY)</b> <i>Content is King</i>	4/20/16	\$79.57	\$78.51	--	--	-1.33%	--	(HOLD)
<b>CALAMP CORP (CAMP)</b> <i>Connected Society</i>	8/09/16	\$15.37	\$15.45	--	--	0.52%	\$21.00	(BUY)
<b>WALT DISNEY CO. (DIS)</b> <i>Content is King</i>	4/20/16	\$102.16	\$92.95	--	\$87.00	-9.02%	\$125.00	(BUY)
	5/11/16	\$101.78	\$92.95	--	\$87.00	-8.68%	\$125.00	(BUY)
<b>DYCOM INDUSTRIES (DY)</b> <i>Connected Society</i>	9/14/16	\$80.47	\$80.63	--	--	-0.20%	\$115.00	(BUY)
<b>NIKE INC. (NKE)</b> <i>Rise &amp; Fall of the Middle Class</i>	5/18/16	\$56.10	\$54.87	\$0.16	--	-1.91%	\$66.00	(BUY)
<b>PETMEDS EXPRESS (PETS)</b> <i>Connected Society</i>	5/4/16	\$17.80	\$20.36	\$0.57	--	16.52%	\$23.00	(HOLD)
<b>PHYSICIANS REALTY TRUST (DOC)</b> <i>Aging of the Population</i>	6/27/14	\$14.33	\$20.98	\$2.03	\$18.00	58.97%	\$25.00	(HOLD)
<b>PROSHARES SHORT S&amp;P 500 (SH)</b>	1/14/16	\$45.10	\$38.62	--	--	-14.37%	\$24.00	(BUY)
	3/23/16	\$41.12	\$38.62	--	--	-6.08%	\$24.00	(BUY)
<b>REGAL ENTERTAINMENT (RGC)</b> <i>Content is King</i>	11/23/15	\$18.51	\$21.64	\$0.66	\$19.00	20.48%	\$24.00	(HOLD)
<b>SHERWIN WILLIAMS (SHW)</b> <i>Rise &amp; Fall of Middle Class</i>	9/14/16	\$275.81	\$275.17	--	--	-0.23%	\$350.00	(HOLD)
	8/03/16	\$301.06	\$275.17	--	--	-8.60%	\$350.00	(HOLD)
<b>STARBUCKS (SBUX)</b> <i>Guilty Pleasures</i>	6/01/16	\$54.90	\$53.30	\$0.20	--	-2.54%	\$74.00	(BUY)
<b>UNDER ARMOUR (UA)</b> <i>Rise &amp; Fall of Middle Class</i>	7/27/16	\$39.26	\$38.61	--	--	-1.66%	\$55.00	(BUY)
<b>UNITED NATURAL FOODS (UNFI)</b> <i>Foods with Integrity</i>	8/31/16	\$47.00	\$38.55	--	--	-17.98%	\$232.00	(BUY)
	9/14/16	\$38.91	\$38.55	--	--	-0.93%	\$232.00	(BUY)
<b>WHIRLPOOL CORP (WHR)</b> <i>Rise &amp; Fall of Middle Class</i>	8/24/16	\$186.24	\$160.44	--	--	-12.34%	\$65.00	(BUY)

as of market close September 21, 2016

## STOCKS / FUNDS MENTIONED

**Alphabet (GOOGL)**  
**Amazon (AMZN)**  
**AT&T (T)**  
**Chipotle Mexican Grill (CMG)**  
**Darden (DRI)**  
**Dick's Sporting Goods (DKS)**  
**Dycom Industries (DY)**  
**Ericsson (ERIC)**  
**Foot Locker (FL)**  
**Kroger (KR)**  
**McDonald's (MCD)**  
**Nike (NKE)**  
**Red Robin Gourmet Burgers (RRGB)**  
**Shake Shack (SHAK)**  
**Sherwin-Williams (SHW)**  
**Sprouts Farmers Market (SFM)**  
**T-Mobile US (TMUS)**  
**Under Armour (UA)**  
**United Natural Foods (UNFI)**  
**Verizon (VZ)**  
**Wal-Mart (WMT)**  
**Whirlpool (WHR)**

## Analyst Positions

At the time of publication, Mr. Versace, Chief Investment Officer of Tematica Research had no positions in the shares of companies mentioned in this issue.

## Important Disclosures and Certifications

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