TEMATICA INVESTING
THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES

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Update Update Updates

With less than a week to go until the conclusion of the 2016 presidential contest, and having closed the books on an October that saw the S&P 500 fall just over 1.9 percent — marking its third consecutive monthly decline — the stock market is likely to tread water as the brouhaha that is the latest Clinton email scandal plays out. With just days to go, what was looking like a sure Clinton win that would result in a "more of the same" and at least a somewhat predictable environment is now all being called into question once again.

We know the stock market, like most individuals, is not a fan of uncertainty. Best case, the market moves sideways until all is resolved one way or another; worst case it trades lower should the uncertainty build further ahead of next Tuesday. Potentially adding fuel to that uncertainty fire, we still have several hundred companies issuing quarterly reports this week, the outcome of the **Fed's November FOMC** meeting this afternoon and the **October Employment Report** hitting the wires on Friday.

Put it all together and it's a recipe that calls for staying on the sidelines for the time being. While we continue to see thematic tailwinds blowing, these market headwinds are likely to restrain much of any progress in the coming days. We'll continue to keep our "insurance" position — **the ProShares Short S&P 500 ETF (SH)** — on the ***Tematica Investing Select List*** until the stock market is in calmer waters.

As crazy as it may seem, we have just nine weeks until 2017. We know... so hard to believe, but as we have all learned there is no stopping the clock — if there was, where would our ***Fountain of Youth*** investing theme be? No doubt once the election has come and gone, it will be the usual sprint to the holidays and the end of 2016. If it's like years past, it will be a blur.

With that in mind, we are going to do a little house cleaning today to make some room for newer positions in the coming weeks that will better position us for 2017. As we do this, we're also going to trade out of our **Nike (NKE)** shares for a greater position in **Under Armour (UA)**. Here we go...

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.

Closing out PetMed Express (PETS) and Regal Entertainment Group (RGC)

We've loved having **PetMed Express (PETS)** and **Regal Entertainment Group (RGC)** on the ***Tematica Select List*** as they've benefitted from their respective thematic tailwinds, but also because of their enviable dividend yields. Not to mention how we feel like we're helping out own cause each time we hit the local Regal Theatres to catch the latest flick — complete with the large bucket of popcorn!

Alas, the time has come to move on from these dividend dynamos. With the latest economic data that is the **Flash October Manufacturing PMI** from Markit Economics showing a pronounced pickup in China and in the US, the odds of the Fed hiking interest rates continues to shift more to the "will do" camp for the December FOMC meeting. As this likelihood increases, so too will the headwinds for these two higher dividend yielding stocks, which means we're inclined to pull the rip cord sooner than later.

Therefore, after you receive this email, having both delivered double-digit returns for the ***Tematica Select List***, we will:

- **Close out our *Connected Society* thematic position in PetMed Express (PETS).**
- **Close our our position in *Content is King* thematic company Regal Entertainment Group (RGC).**

For those wondering, we will continue to hold shares of **Physicians Realty Trust (DOC)**, an ***Aging of the Population*** thematic position that is also a higher dividend yielding stock given the pronounced demographic tailwind at the back of the company's business model.

Exiting Nike (NKE) and Doubling Down on Under Armour (UA)

In addition to shedding out positions in RGC and DOC, the tea leaves are showing its time to move on from our position in **Nike (NKE)**, which with last night's market close was down 11 percent from when we added it this past May.

We continue to see the Rising Middle Class — the upside of our ***Rise & Fall of the Middle Class*** investing thematic — snapping up branded athletic wear and apparel; however we find **Under Armour (UA)** has far more room for share gains than Nike as it attacks the International, women's, footwear and sportswear markets. As we noted last week, UA is stepping up its game to hit its $7.5 billion revenue target by 2018, and odds are high those added marketing efforts that impacted UA's margin outlook will also hit Nike's business and its shares. We expect Under Armour to be in the penalty box with investors, a position that takes time for a company to work itself out of. The silver lining is that while its growth rate has been reset, Under Armour is still poised to continue to grow revenue and operating income in the coming quarters as its initiatives take hold.

Between the two companies, the upside is not only far greater at Under Armour, but the odds are far better "the bad news" has been priced into UA shares over the last week vs. what could be a continued slow leak in Nike shares over the coming quarters as UA and Adidas step up their game. All of this has us:

- **Exiting the Tematica Investing Select List position in Nike (NKE) and . . .**
- **Using the proceeds from that trade as well as the ones from RGC and PETS to scale further into the Under Armour (UA) position on the Select List.**
- **We will set a protective stop loss in all of our UA shares at $25, but we would look to scale further into the shares below $27.**

Update Update Updates

Alphabet (GOOGL) *Connected Society*

Last week, Alphabet reported better-than-expected September-quarter with shares up roughly 2 percent for the month of October. We attribute the upside in its report to the tailwinds propelling its business — specifically, the increasing shift toward a digital lifestyle that is driving incremental advertising dollars to online and mobile; streaming video consumption; and online shopping.

The core Google Site business delivered a 25 percent revenue increase, excluding the impact of foreign currency, due to continued strength in mobile search and YouTube. The Cloud business continues to gain share on overall Cloud adoption, which offers longer-term growth prospects as do newer hardware initiatives (Pixel, Google Home). We see Alphabet continuing to invest in these newer businesses in the coming quarters, which is likely to limit margin expansion. Even so, the company continues to grow more than 20 percent and the shares are trading at 19.8x consensus 2017 EPS expectations of $40.56.

We'd also note the board of directors authorized a new $7 billion share repurchase program following completion of the prior program. We suspect investors will welcome that news as it has the potential to shrink the share count by up to 8.5 million shares at the current share price.

Our price target on GOOGL shares remains $975.

Amazon.com (AMZN) *Connected Society*

Last week we used the drop in Amazon's share price post-earnings to increase our position in AMZN shares on the ***Tematica Investing Select List***. The decline was brought on by the largely unexpected pick-up in capital-investment spending during the company's September quarter (bleeding into October), which resulted in lower-than-expected earnings.

As we discussed, Amazon's stepped-up investment in distribution centers shows the company is strategically adding capacity ahead of this year's holiday season, which per Deloitte, is expected to see digital shopping rival bricks-and-mortar shopping. These new distribution centers will also benefit the company as it continues to expand offerings (Prime, Prime Now, Prime Fresh, and fashion to name a few) both in the U.S. and abroad, which should lead to improved utilization and subsequently better retail margins over the coming quarters.

Over the weekend, Amazon announced it has entered China with its Amazon Prime service, and we see this as a further step in the company expanding its global footprint, as well as one of the reasons behind Amazon's wide guidance range that rattled investors last week — you remember, somewhere between "$0 and $1.25 billion!"

The bottom line is that from time to time, market indigestion offers a favorable entry point into a company's shares, especially if the long-term drivers and tailwinds remain intact. We've seen this several times with Amazon, and believe last week's decline was the latest example. We see no slowdown in the shift to digital commerce, streaming video consumption, and other drivers behind Amazon's business.

With upside of more than 20 percent to our recently revised $975 price target, we continue to rate Amazon shares, which closed last night at $785.14, as a Buy.

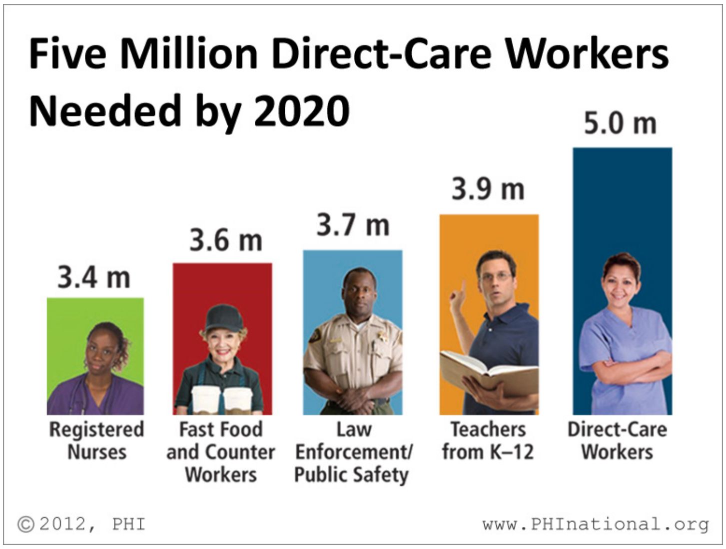
AMN Healthcare Services (AMN) *Aging of the Population*

Last week, the company changed its ticker symbol for the shares to "AMN" from "AHS". Let's just say it was a less-than-smooth transition, considering that several stock quote sites did not register the change, but showed AHS shares as no longer trading.

Fantastic! (yes, that would be more than a bit of sarcasm there!)

Amid the confusion, the stock fell just under 4 percent last week and has continued to trend lower this week. The company will report its September-quarter results this Thursday (Nov. 3) after the market close — let's hope at that point all of these so-called investing websites have caught up — as all Consensus expectations call for AMN to deliver EPS of $0.54 on revenue of $468.6 million for the quarter.

A recent report from the New York-based Paraprofessional Healthcare Institute showed that by 2020 the U.S. will require 1.6 million more direct-care workers than in 2010, which equates to a 48 percent increase for nursing, home-health and personal-care aides over the decade. And this shortage is expected to get worse near term, as the 78 million aging baby boomers (roughly 24 percent of the domestic population) will require increasingly more health-care services.



Next week, we'll get the September JOLTS report, which like those in prior months, is likely to show a continuing gap between demand for health-care workers and supply.

We will watch this post earnings later this week as we continue to rate the shares a Buy with a $47 price target.

CalAmp (CAMP) *Connected Society*

Last week CAMP shares fell 4 percent without anything on the news front. Rather, we took comments from **United Parcel Service (UPS)**, which is moving to phase 2 in deploying its telematics-based ORION safety and routing solution as a positive data point for CAMP. The same is true for the increase in technology spending by **ServiceMaster Global (SERV)** as part of its ServSmart initiative and the rollout of enhanced route management and scheduling tools at **Rollins (ROL)**. These examples and others point to fleet management companies embracing telematics and other technology to drive productivity, which confirms our thesis on the shares. On Nov. 7, CAMP management will hold a webcast to discuss its LoJack-branded LotSmart and SureDrive applications.

Ahead of that event, we continue to rate CAMP a Buy with a $20 price target.

Dycom Industries (DY) *Connected Society*

Last week, **Alphabet (GOOGL)** officially said it was hitting the pause button on Google Fiber in terms of entering new markets as it revisits its technology of choice from fiber to high-speed wireless. Even though this had been talked about as far back as August, the news, shared via a blogpost on Google, led to a sharp fall in DY to near $72.50 from just shy of $85.

In our special alert last Thursday, we noted customer analysis showed Google Fiber has been a modest customer, which, in our view, meant the price drop from last week was overdone. As such, we scaled into DY shares, after which the shares moved over the last few days to close last night at $76.88 — a 5.5 percent gain from last week's scale in price.

While capital spending and related deployments can be lumpy, we see the ongoing shift toward the digital lifestyle straining network capacity, forcing incremental spending on existing networks and the deployment of newer, higher speed ones.

We continue to rate DY a Buy with a $115 price target.

United Natural Foods (UNFI) Foods with Integrity

Recent data points to the continued weakening of restaurant traffic as consumers take advantage of food price deflation to return to grocery stores and eat in rather than out. This bodes well for United Natural's expanding footprint as consumers continue to shift toward natural, organic and similar products.

We'll look for confirming data on grocery traffic and volume as well as shifting consumer preferences when **Kellogg (K)** and key UNFI customer **Whole Foods Market (WFM)** report their earnings this week. Our thesis on UNFI shares has been that the winding down of the overly competitive grocery-store pricing environment, paired with internal cost-reduction efforts, should drive margin expansion in the coming quarters, particularly net margins. As such, we will be patient with UNFI shares as the company regains investor confidence after stubbing its toe during 2015. We are not forecasting any additional acquisitions even though the company has been an active acquirer.

Our price target on UNFI remains $65.

Universal Display (OLED) *Disruptive Technology*

While **Apple's (AAPL)** Toolbar feature on its revamped MacBook Pro models features retina display technology, over the weekend Japan's Nikkei ran a report citing the CEO of Foxconn/Sharp, one of Apple's key suppliers, that Apple will be "switching from LTPS (low-temperature poly-silicon) to organic light emitting diode panels" with the iPhone 8.

As we have said, any move by Apple to utilize that display technology would be a positive for its overall adoption. Other signposts we'll be watching include OLED equipment order activity at A**pplied Materials (AMAT), Aixtron (AIXG)** and **Veeco Instruments (VECO)** as well as new product announcements and OLED applications from consumer electronics companies ahead of the holiday shopping season and after at events such as CES 2017.

These and other data points should help track the expected growth in the OLED market, which is expected to grow at a 16 percent compound annual rate over the 2014-20 period to roughly $44 billion. Our price target on OLED shares is $68, which offers potential upside of more than 30 percent. Given the volatile nature of the stock, we have dipped our toe in the water with OLED shares and our strategy will be to add to the position on dips so as to improve our cost basis. As such, we are rating OLED a Buy

Later this week Universal Display will issue its September-quarter guidance and updated outlook, which we expect to be affected by Samsung's Galaxy Note 7 issues. This has already been at least partially baked into expectations, though, with consensus EPS forecasts for 2016 falling to $0.87 from $1.08 over the last several weeks and 2017 expectations drifting lower to $1.34 from $1.53.

Our price target on OLED shares remains $68.

Tematica Investing Select List - Upcoming Earnings Dates

COMPANY	TICKER	DATE	THEME
Physicians Realty Trust	DOC	16-Nov	***Aging of the Population***
Starbucks	SBUX	3-Nov-16	***Guilty Pleasure***
Walt Disney	DIS	10-Nov-16	***Content is King***
Dycom Industries	DY	15-Nov-16	***Connected Society***
United Natural Foods	UNFI	5-Dec-16	***Foods with Integrity***
Costco Wholesale	COST	7-Dec-16	***Cash-strapped Consumer***

Source: Company reports and Zacks Earnings Calendar

Tematica Contenders

As we roll up our sleeves each week we add companies and discard others to our list of ***Tematica Select Contenders***. These are companies that we're doing more work on and in some cases we're waiting for the risk to reward trade-off to reach more appetizing levels.

AWK	American Water Works	***Scarce Resources***
WTR	Aqua America	***Scare Resources***
CHGG	Chegg Inc.	***Tooling & Retooling***
CMG	Chipotle Mexican Grill	***Foods with Integrity***
SCOR	Comscore	***Connected Society***
GLW	Corning Inc.	***Disruptive Technologies***
EPR	EPR Properties	***Content is King***
IMMR	Immersion Corp.	***Disruptive Technologies***
KIM	Kimco Realty	***Rise & Fall of the Middle Class***
LOCK	Lifelock	***Safety & Security***
MKC	McCormick & Co.	***Cashstrapped Consumer / Middle Class***
MRK	Merk & Co.	***Aging of the Population***
NLSN	Nielson NV	***Connected Society***
OME	Omega Protein Corp.	***Fountain of Youth***
PANW	Palo Alto Networks	***Safety & Security***
SYNA	Synaptics Inc.	***Disruptive Technologies***
VZ	Verizon Communications	***Content is King / Connected Society***
XYL	Xylem, Inc	***Scare Resources***

TEMATICA SELECT LIST PERFORMANCE

POSITION	DATE ADDED	ADD PRICE	CURRENT PRICE	DIV. PAID	STOP PRICE	RETURN (%)	TARGET	RATING
ALPHABET, INC. (GOOGL) *Asset-Lite*	6/15/16	$733.94	$805.03	--	--	9.69%	$900.00	(BUY)
AMAZON.COM (AMZN) *Connected Society*	5/24/16	$709.53	$785.14	--	--	10.66%	$950.00	(BUY)
	10/28/16	$709.53	$785.14	--	--	0.45%	$950.00	(BUY)
AMN HEALTHCARE SERV. (AMN) *Scarce Res. / Aging of Population*	8/17/16	$33.80	$31.70	--	--	-6.21%	$47.00	(BUY)
	10/5/16	$31.18	$31.70	--	--	1.67%	$47.00	(BUY)
AT&T (T) *Connected Society*	10/12/16	$39.29	$36.56	--	--	-6.71%	$45.00	(HOLD)
Consumer Disc. SPDR (XLY) *Content is King*	4/20/16	$79.57	$79.22	--	--	-1.02%	--	(HOLD)
CALAMP CORP (CAMP) *Connected Society*	8/09/16	$15.37	$12.45	--	--	-19.00%	$21.00	(BUY)
	10/05/16	$13.70	$12.45	--	--	-9.12%	$21.00	(BUY)
COSTCO WHOLESALE (COST) *Cash-strapped Consumer*	9/28/16	$149.67	$146.66	--	--	0.88%	$170.00	(BUY)
WALT DISNEY CO. (DIS) *Content is King*	4/20/16	$102.16	$92.39	$0.71	$87.00	-8.87%	$125.00	(BUY)
	5/11/16	$101.78	$92.39	$0.71	$87.00	-8.53%	$125.00	(BUY)
DYCOM INDUSTRIES (DY) *Connected Society*	9/14/16	$80.47	$76.88	--	--	-4.46%	$115.00	(BUY)
	10/29/16	$72.89	$76.88	--	--	5.47%	$115.00	(BUY)
INTER. FLAVORS & FRAGRANCES (IFF) *Rise & Fall of the Middle Class*	10/19/16	$129.23	$133.84	--	--	3.57%	$145.00	(BUY)
NIKE INC. (NKE) *Rise & Fall of the Middle Class*	5/18/16	$56.10	$49.62	$0.32	--	-10.98%	$66.00	(BUY)
PETMEDS EXPRESS (PETS) *Connected Society*	5/4/16	$17.80	$19.41	$0.38	--	14.66%	$23.00	(HOLD)
PHYSICIANS REALTY TRUST (DOC) *Aging of the Population*	6/27/14	$14.33	$19.40	$2.03	$18.00	49.51%	$25.00	(HOLD)
PROSHARES SHORT S&P 500 (SH)	1/14/16	$45.10	$39.03	--	--	-13.46%	$24.00	(BUY)
	3/23/16	$41.12	$39.03	--	--	-5.08%	$24.00	(BUY)
REGAL ENTERTAINMENT (RGC) *Content is King*	11/23/15	$18.51	$21.60	$0.66	$19.00	20.26%	$24.00	(HOLD)
STARBUCKS (SBUX) *Guilty Pleasures*	6/01/16	$54.90	$52.46	$0.20	--	-4.07%	$74.00	(BUY)
UNDER ARMOUR (UA) *Rise & Fall of Middle Class*	7/27/16	$39.26	$30.31	--	--	-22.80%	$55.00	(BUY)
UNITED NATURAL FOODS (UNFI) *Foods with Integrity*	8/31/16	$47.00	$42.91	--	--	-8.70%	$232.00	(BUY)
	9/14/16	$38.91	$42.91	--	--	10.28%	$232.00	(BUY)
UNIVERSAL DISPLAY (OLED) *Disruptive Technology / Connected Society*	10/5/16	$53.09	$51.60	--	--	-2.81%	$68.00	(BUY)

as of market close November 2, 2016

STOCKS / FUNDS MENTIONED

Aixtron (AIXG)
Alphabet (GOOGL)
Amazon.com (AMZN)
AMN Healthcare Services (AMN)
Apple (AAPL)
Applied Materials (AMAT)
CalAmp (CAMP)
Dycom Industries (DY)
Kellogg (K)
Nike (NKE)
PetMed Express (PETS)
Physicians Realty Trust (DOC)
Regal Entertainment Group (RGC)
Rollins (ROL)
Under Armour (UA)
United Natural Foods (UNFI)
United Parcel Service (UPS
Universal Display (OLED)
Veeco Instruments (VECO)
Whole Foods Market (WFM)

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.

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