

# TEMATICA INVESTING

THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES



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*Tematica Investing*, a weekly publication by 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.

## Economics & Commentary:

### FUNDAMENTALS DO MATTER

Over the last few days, we've seen volatility creep back into the markets as more investors focus on its stretched valuation and weakening economic fundamentals. We have discussed this in recent editions of our [Monday Morning Kick Off](#) and spotlighted the disparity in this week's edition. With the investment community realizing there is a high probability of the Fed will now only boost interest rates maybe twice in 2016 if at all, fundamentals are starting to once again take center stage. Hardly surprising given that we are just days away from kicking off March quarter earnings, and as you've heard from us previously there are a number of headwinds facing domestic companies, especially when we consider what's expected for the back half of 2016.

Odds are the noise level with fundamentals will be deafening in the coming days, good thing for us we're ahead of the curve and able to focus on other changes that rippling through the economic, demographic, psychographic, technology and others landscapes.

This mismatch between valuations and fundamentals was part of the reason we stayed largely on the sidelines during the month of March. While we realize some subscribers are wondering if we have been asleep at the switch this past month, we would much rather be adding positions when fundamentals are improving, valuations offer more upside than downside over the coming quarters, and we aren't relying simply on market momentum. We are out to make you money with the Tematica Select List, and along the way avoid generating excessive losses. As you can gather from our recent commentary, there is a high probability we are in for another bout of volatility, and we rather would be owners of quality companies backed by thematic tailwinds for the longer haul than whipsawing positions around just to say we were active.



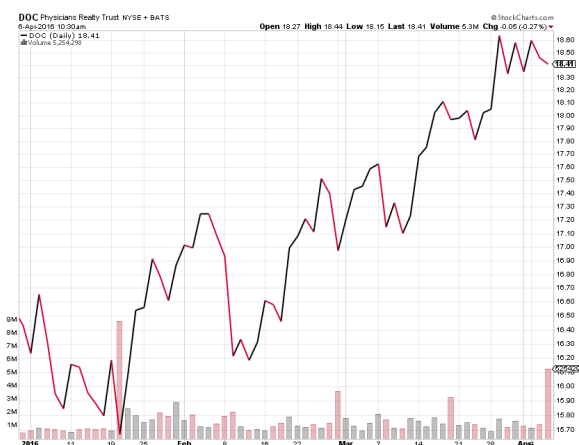
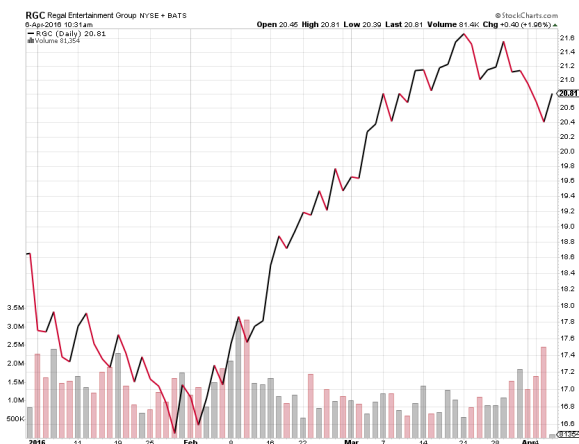
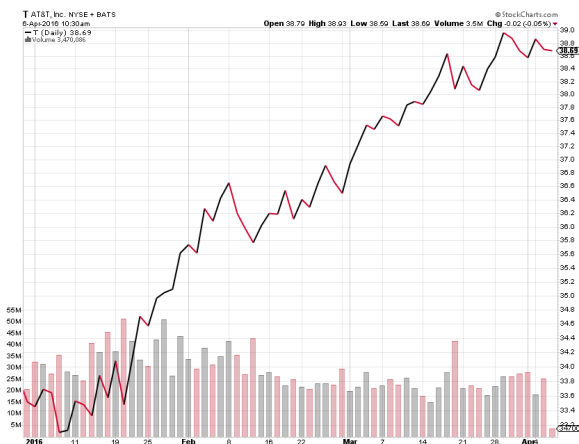
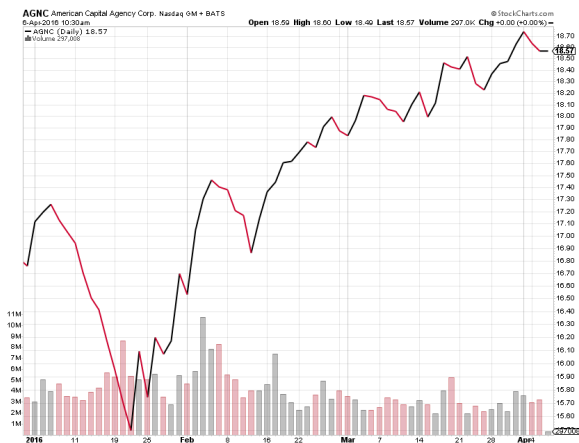
## Checking in on the Tematica Select List

As noted above, the S&P 500 has started to crack with the index dropping 0.5 percent over the last week. While this generally takes a toll, we saw our **ProShares Short S&P 500 (SH)** and **American Capital Agency Corp. (AGNC)** shares climb over the last several trading days, while **AT&T (T)** shares dipped inline with the market. SH shares are a buy at current levels, you should continue to hold your rich dividend yielding T shares, and despite its enviable dividend yield of almost 13 percent we continue to evaluate the merits of AGNC shares at current levels.

Turning to **Regal Entertainment Group (RGC)**, despite mixed reviews “Batman v. Superman” killed at the box office and is helping put people in theater seats. We see that continuing with the rich slate of movies coming from **Disney (DIS)** and others in the coming weeks and months as we start to head into summer blockbuster season. Much like AT&T shares, we can clip our dividends as the investment community eventually realizes the robustness of the 2016 movie box office. We’ll be eating popcorn and Twizzlers in the mean time. If you’re wondering why we didn’t mention any chocolate candy, be sure you read today’s installment of Thematic Signals down near the end.

Finally, our **Aging of the Population** holding, **Physicians Realty Trust (DOC)** is trading down today on the news it has agreed to purchase 52 medical office facilities from Catholic Health Initiative (the fifth-largest non-profit healthcare system in the US) for roughly \$725 million. As reported this morning, Physicians has sold 22.5 million shares at \$17.85 (vs. last night’s market close at \$18.45) with potentially another 3.375 million shares as part of the greenshoe (“greenshoe” is a Wall Street term for the over allotment option that underwriters can sell if demand on an offering is strong i.e. Over subscribed.) Per the company’s December quarter earnings release, it had 87.9 million shares outstanding at the end of the quarter, and the news the company will increase it’s share count by possibly 29 percent likely means some dilution to forecasted earnings. That’s the short-term view. The longer-term view is DOC is acquiring quality assets that will propel its business as more of the population skews older (again, see today’s Thematic Signals on page 4 for more on this) with DOC shareholders benefitting from the company’s real-estate investor trust status that demands it pay out at least 90 percent of its income per IRS guidelines.

**We would look to take advantage of any material weakness in DOC shares to scale back into the position near \$16.**



## Busting out a new investing theme – the Fountain of Youth

With the debut of Tematica, you've probably noticed that we've significantly expanded the number of investing themes to more than a dozen, up from what I used to refer to as "The Great 8 PowerTrends." We've always been of the mindset that there are more than 8 thematic drivers, with a group coming into favor and a few going out of favor from time to time.

One of our investing themes that is coming into vogue is **Cashless Consumption**, and as you'll see below in this week's edition of Thematic Signals that theme is really catching fire. Every so often, there is a new investing theme to be had and that's the case with what we call **The Fountain of Youth**.



In some respect **The Fountain of Youth** spins out of our **Aging of the Population** investing theme, but upon closer reflection there is far more going on than that, and let's be honest Aging of the Population is a pretty fertile theme already. When we think of the Fountain of Youth, we tend to think of Ponce de Leon, who was in search of "a magical water source supposedly capable of reversing the aging process and curing sickness."

While we certainly encourage the drinking of water, there is no shortage of companies that aim to help slow if not potentially reverse the impact of aging. From supplement and vitamin companies like **GNC Holdings (GNC)**, **Vitamin Shoppe (VSI)** and **Nu Skin Enterprises (NUS)** to companies that offer aesthetic treatment systems, such as **Cynosure (CYNO)**, **Cutera (CUTR)**, and **Zeltiq Aesthetics (ZLTQ)** that remove hair, tattoos, remove body fat and other procedures. Let's not forget skin care and cosmetics companies like **Proctor & Gamble (PG)**, **Estee Lauder (EL)**, **Revlon (REV)** and **L'Oreal SA (LRLCY)**, and specialty retailers like **Ulta Cosmetics and Salon (ULTA)** that carry them, or some that might blur the line of health & wellness like **Lifetime Brands (LCUT)**, **Time Sports International (CLUB)** and **Nautilus (NLS)**, a consumer fitness products company.

Generally speaking, and while we realize that some of the female subscribers might scold us because they see some of their favorite must-have cosmetics as an **Affordable Luxury**, we see these companies as more discretionary in nature. Given the demographic shift that is driving our **Aging of the Population** theme, we see an expanding target market for Fountain of Youth companies.

We've just started rolling up our sleeves on this theme and are still digging into the data on the many companies that fall under this lens. Expect to see some prospects join the Tematica Contender List in the coming weeks, and hopefully opportunities to put some of our money to work.

## Thematic Signals: Ripped from the Headlines

We've had great response to the real world confirmation of our Tematica investing themes, so much so that we have some plans for Thematic Signals that we will be sharing with you soon. With that said, here are this week's Ripped from the Headlines...



### ***Affordable Luxury/Guilty Pleasure***

- Emerging markets such as China and India are whetting their appetite for chocolate. Market research firm Euromonitor International expects chocolate sales volumes to skyrocket by over 500 percent in India between 2005 and 2017, and over 140 percent in China. At the same time, cocoa prices have more than doubled in the last 10 years.
- Globalization and the advent of technology have brought luxury to an inflection point, and the tried-and-true process that has guided the industry for decades or more will no longer work on its own. As the priorities of tomorrow's consumers shift, luxury's must shift with them and deliver a genuine transformation from the inside out.
- British shoemaker Jimmy Choo said strong demand in Asia would help it grow faster than the overall luxury market this year, after it posted a 7.2 percent rise in underlying revenue in 2015.

### ***Aging of the Population***

- According to a new report the U.S. Census, by 2050 the global population rate of citizens who are 65 and above will double.
- The United States faces a shortage of as many as 90,000 physicians by 2025, including a critical need for specialists to treat an aging population that will increasingly live with chronic disease, according to the Association of American Medical Colleges report.

### ***Cash Strapped Consumer***

- According to Pew, a decade ago a poor family in the lower third of the scale, had about \$1,500 per year in extra income. Today, they are \$2,300 in debt, and that figure is rising. This matches reports that credit card debt is rising rapidly.
- Teen apparel retailer **PacSun (PSUN)** is the latest casualty of sluggish retail spending and shifting consumer tastes, which have pushed chains such as American Apparel Inc. and Quiksilver Inc. into bankruptcy court during the past year. PSUN is expected to file bankruptcy as soon as this week.

### **Cashless Consumption**

- **Apple (AAPL)** Pay announced that it has added another 32 banks and credit unions across the US.
- The Cookies app wants to become the Venmo of Europe with a consumer app to pay back your friends in no time and with no fees. Venmo is a free digital wallet app that lets users make and share payments with friends, but only in the US. With Cookies, users can send or request money, chat directly inside the app and confirm payments with the Touch ID sensor or a PIN code.
- **Amazon (AMZN)** is launching a new program called the Amazon Payments Partner Program that enables e-commerce platforms to provide Amazon Payments functionality to their users. The program will allow e-commerce retailers using hosted platforms to let their customers make digital payments with existing Amazon accounts, rather than have to create new payment accounts with new user names and passwords.

### **Connected Society**

- **Adidas (ADDYY)** wants to put its Zone fitness trackers on every kid in PE class. The athletic-goods company announced plans to equip whole classrooms with its Zone system, which include standardized heart-rate trackers.
- Intel acquires Italy's Yogitech to improve functional safety of autonomous cars, IoT systems.

### **Content is King**

- Starz launches a streaming service for cord cutters with support for downloads.
- **Yahoo (YHOO)** is offering free live streams of one Major League Baseball game every day this season.
- **Twitter (TWTR)** Wins NFL Deal To Stream 2016 Thursday Night Football.

### **Economic Acceleration/Deceleration**

- Data from the Commerce Department showed New orders for U.S. factory goods fell in February and business spending on capital goods was much weaker than initially thought, the latest indications that economic growth slowed further in the first quarter.
- Euro zone business growth edged up in March from February's 13-month low as demand weakened, particularly for services, despite deep price cuts.
- "The euro zone economy failed to show any significant gain in momentum in March. With the PMI barely rising from February's 13-month low, the region looks to have grown by just 0.3 percent again in the first quarter." - Chris Williamson, chief economist at Markit Economics.

### **Food with Integrity**

- Starting today, those who hold certain life insurance policies with John Hancock will be able to earn

discounts, cash back on groceries and dollars off their premiums in return for filling their grocery carts with fruits, vegetables and other nutritious foods. The healthy foods initiative is an extension of the life insurer's year-old Vitality program, in which some policyholders receive rewards for actions like working out, or heading to the doctor for an annual physical.

- Almond milk is now America's favorite milk substitute, boasting sales growth of 250% over the past five years. During that same period, however, the total milk market shrunk by more than \$1 billion.
- **Walmart (WMT)**, the largest grocer in the United States with control of a quarter of the market, is aiming to phase out the sale of eggs from caged hens by 2025, becoming the largest and most influential food retailer to set a deadline for switching to cage-free eggs.
- **Kroger Co. (KR)** is making a "meaningful" investment in specialty natural/organic grocery chain Lucky's Market that could expand the supermarket giant's product assortment.

### ***Rise & Fall of the Middle Class***

- In 2015, tourism in Israel grew 43 percent from China to some 50,000 visitors and the ministry sees that doubling by 2018.
- A new study from the Pew Charitable Trusts reveals that the middle class isn't just a minority, it's also shrinking fast. Between 2004 and 2014, household spending increased by 14 percent, while income declined by 13 percent. Both figures were adjusted for inflation. However, the increased spending isn't because the shrinking middle class is spending their money on "bling-bling" and vacations, it's because their costs for things like food, healthcare and other costs of living have increased...

### ***Safety & Security***

- Global military spending has begun rising in real terms for the first time since the U.S. began its withdrawal of troops from wars in Iraq and Afghanistan, according to the Stockholm International Peace Research Institute. Defense budgets rose 1 percent to \$1.68 trillion in 2015, making up about 2.3 percent of the world's gross domestic product.
- The Health Information Trust Alliance conducted a study of some 30 mid-sized U.S. hospitals late last year and found that 52 percent of them were infected with malicious software.

***If you have a news item or three that you think we should be reviewing or that other subscribers may find helpful, be sure to send it our way at [insights@tematicagroup.com](mailto:insights@tematicagroup.com).***

## TEMATICA SELECT LIST PERFORMANCE

as of market close April 5, 2017

### (AGNC) AMERICAN CAPITAL AGENCY CORP

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
7/17/15	\$18.98	\$18.57	\$1.60	\$17.00	6.3%	\$23.00	(BUY)

### (DOC) PHYSICIANS REALTY TRUST

*Aging of Population*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
6/27/14	\$14.33	\$18.46	\$1.58	\$16.00	39.8%	\$18.00	(HOLD)

### (SH) PROSHARES SHORT S&P 500 (ETF)

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
1/14/16	\$22.55	\$20.54	--	--	-8.9%	\$24.00	(BUY)
3/23/16	\$20.56	\$20.54	--	--	-0.1%	\$24.00	(BUY)

### (RGC) REGAL ENTERTAINMENT GROUP

*Content is King*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
11/23/15	\$18.51	\$20.41	\$0.44	\$19.00	12.6%	\$24.00	(BUY)

### (T) AT&T, INC.

*Connected Society*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
7/21/15	\$34.67	\$39.19	\$0.95	\$36.00	15.8%	\$42.00	(BUY)

## Companies Mentioned

**Adidas (ADDYY)**  
**Amazon (AMZN)**  
**American Capital Agency Corp. (AGNC)**  
**Apple (AAPL)**  
**AT&T (T)**  
**Cutera (CUTR)**  
**Cynosure (CYNO)**  
**Disney (DIS)**  
**Estee Lauder (EL)**  
**GNC Holdings (GNC)**  
**Kroger Co. (KR)**  
**L'Oreal SA (LRLCY)**  
**Lifetime Brands (LCUT)**  
**Nautilus (NLS)**  
**Nu Skin Enterprises (NUS)**  
**PacSun (PSUN)**  
**Physicians Realty Trust (DOC)**  
**Proctor & Gamble (PG)**  
**ProShares Short S&P500 (SH)**  
**Regal Entertainment Group (RGC)**  
**Revlon (REV)**  
**Time Sports International (CLUB)**  
**Twitter (TWTR)**  
**Ulta Cosmetics and Salon (ULTA)**  
**Vitamin Shoppe (VSI)**  
**Walmart (WMT)**  
**Yahoo (YHOO)**  
**Zeltiq Aesthetics (ZLTQ)**

## 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

**Analyst Certification** - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/ her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Investment opinions are based on each stock's 6-12 month return potential. Our ratings are not based on formal price targets, however our analysts will discuss fair value and/or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor's investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst's views.

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