TEMATICA INVESTING

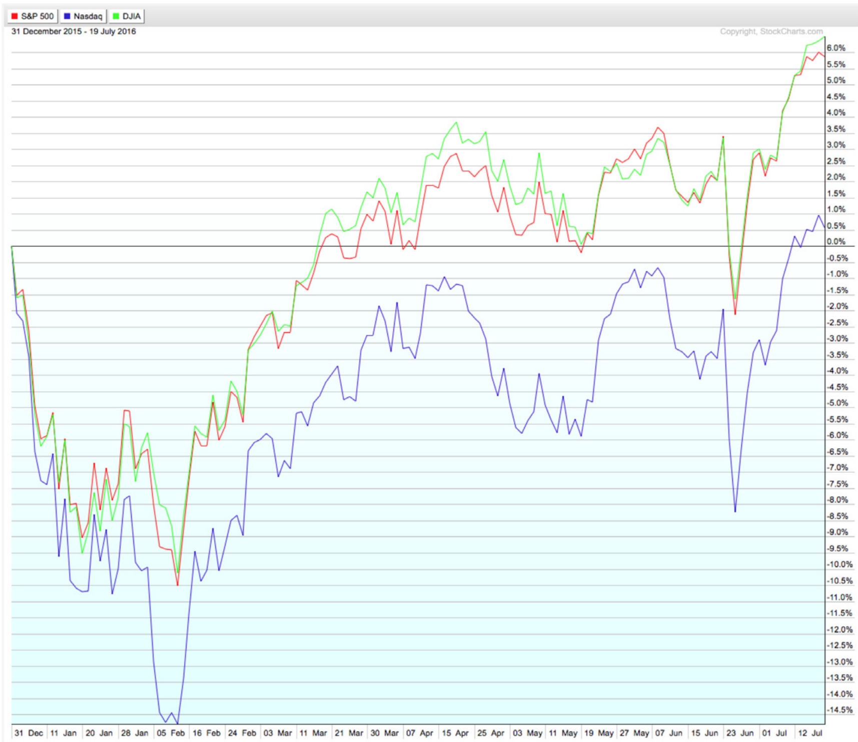
THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES

Christopher Versace
CHIEF INVESTMENT OFFICER, TEMATICA RESEARCH, LLC

INSIDE THIS ISSUE

Economics & Expectations

Over the last week all of the major market indices trended higher, with new highs being put in place once again for the Dow Jones Industrial Average and the S&P 500.



On its face, one would think this to be a good thing; however, it's looking increasingly like the calm before the earnings storm. We saw this soon after Monday's market closing bell rang and the June quarter earnings season kicked up a notch or two compared to last week with far weaker than expected subscriber growth punishing **Netflix (NFLX)** shares.

There have been some positive results, like those from potential ***Aging of the Population*** contender **Johnson & Johnson (JNJ)** that reported a better-than-expected rise in quarterly sales bumped up its 2016 sales forecast modestly. On the other hand however, companies like **Goldman Sachs (GS)** have seen their shares drop after reporting results that were not as impressive as expected.

TEMATICA RESEARCH

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.

www.tematicaresearch.com

One of the things we can conclude is the market is will likely move day by day, earnings report by earnings report near-term. Much the way a 500 piece jigsaw puzzle comes into focus as more and more pieces are placed in their correct position, by the time the closing bell rings this Friday, 175 companies or 35 percent of the S&P 500 will have reported earnings for the June quarter, giving us a much clearer picture of the overall health of June quarter earnings.

S&P 500: REVENUE

Exhibit 5. 2016Q2 Revenue Scorecard

Sector	Above %	Match %	Below %	Surprise Factor	Reported Total #	Index Total #
Consumer Discretionary	22%	0%	78%	-0.4%	9	83
Consumer Staples	57%	0%	43%	-0.5%	7	36
Energy	-	-	-	-	0	37
Financials	50%	0%	50%	4.0%	2	92
Health Care	-	-	-	-	0	57
Industrials	60%	0%	40%	0.6%	5	68
Materials	50%	0%	50%	-2.2%	2	27
Technology	67%	0%	33%	0.6%	6	67
Telecom	-	-	-	-	0	5
Utilities	-	-	-	-	0	28
S&P 500	48%	0%	52%	0.3%	31	500

Source: Thomson Reuters I/B/E/S

The same goes for the earnings expectations for the back half of 2016. The bulk of that filling in between the lines of the coloring book for this week will occur today and tomorrow, as almost 250 companies report their quarterly results compared to just under 100 between Monday and yesterday.

Like any good math major knows — and lucky for you Versace was a Math & Economics double major in college (lucky for you, maybe sad for him?) — if by the end of the week 35 percent of the index will have reported, it means there is still roughly two-thirds to go. With nearly 1,100 companies reporting earnings next week, including some heavy weights such as **Alphabet (GOOGL), Amazon (AMZN), Apple (AAPL), Facebook (FB)** and dozens more, the picture of June quarter earnings and its level of quality vs. financial shenanigans (buybacks, tax rates and one time gains) should come into far greater focus.

As any early explorer would probably say, the more detailed the map one has the more likely she or he is to avoid getting lost and potentially dangerous mishaps. The last thing we want is to end up like Daniel Boone who once said, "I have never been lost, but I will admit to being confused for several weeks." The last thing we want is to be confused in the earnings storm, especially when the S&P 500 is trading at lofty levels with more than a few uncertainties ahead.

Introducing Our Thematic Index

So we have to come clean with you. A few weeks back, while we were taking some time off we were also working on a skunkworks type project that we've come to call our Thematic Index. We know you're familiar with the Dow Jones Industrial Average, an index of 30 stocks, and the S&P 500, a grouping of 500 companies across 10 industry verticals.

Given our experience in equity research departments at bulge bracket investment banks, we were well aware of the shortcomings associated with that vertical and siloed perspective. That was one of the reasons why we developed our horizontal thematic approach that currently has 17 investment themes.

Full well knowing that comparing the S&P 500 with those companies that are seeing the benefits with thematic tailwinds would be like comparing oranges and milkshakes, we set out to develop our own index — the **Thematic Index**. We suspected the results would be favorable relative to the S&P 500, but even we were surprised by the outcome:

- **Over the first six months of 2016, our proprietary index of 170 companies across our 17 investment themes rose 9.28 percent versus the S&P 500's gain of just 2.69 percent.**
- **Strong performance on an absolute and relative basis was driven by a number of Tematica's proprietary investing themes including *Affordable Luxury, Aging of the Population, Cash-strapped Consumer, Content is King,* and *Scarce Resources*.**
- **This performance continued the Thematic Index's market-beating streak vs. the S&P 500 on a pro-forma basis from 2011 to 2015.**

We'll continue to update you on the progress of the index over the coming months, as well as any new partnerships that will allow subscribers as well as other individuals and institutional investors to invest in the Thematic Index.

In the meantime, you can read the official press release announcing the **Thematic Index by Tematica Research** here.

Tematica Select List Earnings this Week

This week we only have two ***Tematica Select List*** companies reporting earnings. Here's a quick view on what's expected in those reports, as well as what we'll be looking for and our game plan:

AT&T (T)

Connected Society

On Thursday, AT&T will report its June quarter earnings after the market closes. Wall Street expects the company to deliver EPS of $0.72 on revenue of $40.63 billion, up from EPS of $0.69 on revenue of $33.02 billion in the year ago quarter. Looking at the 23% increase in revenue growth year over year, we have to remember that a meaningful portion of that improvement reflects AT&T's acquisition of DirecTV that was completed in July of last year. AT&T has already started to aggressively cross promote its wireless services with DirecTV, but we'll be breaking down both businesses from a revenue growth and profit generation perspective.

Aside from the usual quarterly metrics, we'll be listening for any meaningful developments on AT&T's Internet of Things and 5G strategies. With bidding results on **Yahoo! (YHOO)** not likely to be shared until next week, we do not expect AT&T to discuss what it would do with the company should it win the bid. Since adding T shares to the Tematica Select List, they have risen more than 27 percent and our protective stop loss remains at $39. On the housekeeping front, the company recently paid its quarterly dividend of $0.48 per share.

Starbucks (SBUX)

Guilty Pleasures

After the market closes on Thursday we will also get Starbucks' June quarter results. Consensus expectations for the quarter have the coffee, tea and food company earning $0.49 per share on revenue of $5.34 billion, up from $0.41 in the year ago quarter on $4.88 billion in revenue. Three key things that we'll be watching in the results are:

- The attach rate of food, which has been a key driver of same store revenue and new menu additions bode should bode well for attach rate improvement;
- International expansion, particularly in China, which also means bracing for continued foreign currency headwinds; and
- Margin improvement given the rebound in coffee prices over the last few months.

The SBUX position on the Tematica Select List is up modestly since we added it in on June 1, and we'll look to use any short-term hiccups ahead of the company's seasonally strong second half of the year to scale into the shares, while improving the cost basis. Should we decide to act ahead of next week's Tematica Investing, we'll be sure to issue a special alert to subscribers.

As finalized reporting dates have trickled in, we've also updated the earnings calendar for the rest of the Tematica Select List. As you'll see below, next week is a doozy, with four companies — PetMeds Express, Regal Entertainment Group, Alphabet and Amazon — reporting, which leaves a few stragglers over the following weeks.

CURRENT HOLDINGS EARNINGS ANNOUNCEMENTS

COMPANY	THEME	TICKER	REPORTING DATE
PetMeds Express	*Aging of the Population*	**PETS**	25-Jul
Regal Entertainment Group	*Content is King*	**RGC**	26-Jul
Alphabet	*Asset-Lite*	**GOOGL**	28-Jul
Amazon	*Connected Society*	**AMZN**	28-Jul
The Walt Disney Co.	*Content is King*	**DIS**	9-Aug
Nike, Inc.	*Rise & Fall of the Middle Class*	**NKE**	TBD
Physicians Realty Trust	*Aging of the Population*	**DOC**	TBD

Source: Company reports

Updates, Updates, Updates

Alphabet (GOOGL) ***Asset-Lite Business Models***

GOOGL shares were the best performer on the Tematica Select List this past week, climbing another 2.9 percent, putting us into a profitable position. Though there is much uncertainty facing the stock market, we rather doubt people will stop searching, watching video and shopping online. As we discussed in this week's Monday Morning Kickoff, June Retail Sales showed consumers are increasingly shifting to digital commerce, and that benefits Alphabet from both a search and shopping perspective.

We continue to see this ***Asset-Lite Business Model*** company's service as sticky and inelastic (search, video) as well as pointed in the direction that both consumers and businesses are headed (online shopping, online advertising). These drivers have not changed over the last few weeks, nor do we expect them to in the short and medium term.

- **We would look to use any market volatility during earnings season to improve our cost basis in the coming days and weeks.**
- **We continue to have a Buy rating on GOOGL shares, and our price target remains $880.**

Amazon.com (AMZN) ***Connected Society***

Shares of the e-commerce and cloud solutions company that sits at the heart of our ***Connected Society*** investing theme dipped modestly last week. The bulk of that dip occurred early in the week before Friday's bullish June Retail Sales Report for Amazon as investors digested record Prime Day results that, in our view, were rather solid, but fell short of some uber-aggressive expectations.

As we detailed in our June Retail Sales report analysis, and summed up above with our commentary on Alphabet earlier, the key for Amazon was the accelerating strength in non-retail stores sales, which confirms the continued shift to digital commerce. Another confirming data point was found in this year's back-to-school sales forecast from retail consultant Customer Growth Partners (CGP). Per CGP, back-to-school sales this year are expected to climb 3.3 percent to $540 billion (the back-to-school shopping period is defined as July through September). Digging into the data, online sales (roughly 18 percent of overall back-to-school sales) are expected to grow far faster, 11 percent year over year, meaning this area once again will take consumer wallet share. Much like we do, CGP expects Amazon to be a strong beneficiary, with the company accounting for "at least a quarter of back-to-school's projected $17 billion rise this year." We will look for further confirmation in the soon-to-be released 2016 Back to School forecast from the National Retail Federation.

Heading into the seasonally strong shopping season in the back half of year, we see Amazon benefiting from the accelerating shift toward digital commerce as it continues to expand its offerings and geographic footprint. The next few signposts to watch will be Amazon's quarterly earnings report on July 28 as well as **United Parcel Service's (UPS)** on July 29.

Our price target remains $880.

Walt Disney Company (DIS) ***Content is King***

After rising more than 6 percent over the last few weeks thanks in part to the box office smash "Finding Dory," Disney shares dipped modestly over the last five days. We continue to see favorable prospects in its key parks, film and merchandising businesses. Those prospects include new tent-pole rides and movies as well as the fade in Disney Shanghai opening costs over the coming quarters.

We are inclined to be patient with Disney, as we see it as THE ***Content is King*** company, with its international efforts propelled by rising disposable incomes and a brand-conscious rising middle class. Factor in the millennial preference for experiences over goods that is part of the Fear Of Missing Out (FOMO) and You Only Live Once (YOLO) mindset and Disney looks to be a strong beneficiary. Additionally, Disney is one of, if not the largest licensing businesses in the world, making it a key player in our ***Asset-Lite Business Models*** thematic. As we've discussed here often, when a company is benefitting from two thematic tailwinds — in this case ***Content is King*** and ***Asset-Lite Business Models*** — the future is generally bright. The House of Mouse will report its June quarter earnings on Aug. 9.

Our price target on DIS shares remains $125 and we continue to have a Buy rating on the shares.

Nike (NKE) ***Rise & Fall of the Middle Class***

The June Retail Sales report, as well as recent data from SportScan that we discussed in this weeks's ***Monday Morning Kickoff***, showed athletic apparel and footwear demand continues to be robust. On the international front, the company has been targeting China and recent China retail sales imply a strong market for Nike's branded apparel and footwear. According to China's National Bureau of Statistics, retail sales rose 10.3 percent year over year in the second quarter of 2016, keeping pace with the year-over-year growth in the first quarter, and June retail sales advancing 10.6 percent year over year, up from 10 percent in May.

We expect the soon-to-be published NRF 2016 Back to School spending forecast to be bullish for Nike as students continue to embrace branded athletic wear. Nike's business should also see a boost from the upcoming Olympic games.

Our price target on NKE shares remains $66.

PetMed Express (PETS) ***Connected Society***

Shares of this online pet pharmacy company rose just under 1 percent over the last five days. We remain encouraged by June Retail Sales report data that points to the accelerating shift to online and mobile spending during the company's seasonally strongest quarter. That shift, along with the company's more focused spending, bode well for additional margin expansion in the current (June) quarter. The current 3.9 percent dividend yield continues to make the shares a favored source of income among dividend hungry investors, and who are we to argue? PETS will report its June quarter results July 25. Ahead of that event we are boosting our price target on PETS shares to $22 from $20; however we would not commit fresh capital at current levels.

We will look for opportunities to add to the Tematica Select List position in PETS position below $18 should they arise.

Physicians Realty Trust (DOC) — *Aging of the Population*

Over the last 90 days, healthcare REITs rose nearly 12 percent, which we attribute to the rising global macro as well as the core thematic tailwind of the ***Aging of the Population***. This 12 percent rise compares to the S&P 500, which increased by 4.5 percent in the same period. The fact that the Fed keeps pushing back its interest rate hike timetable has also been a positive for our DOC position, which has climbed 25 percent year to date. We recently upped our price target to $25, but while we continue to see DOC shares as a long-term holding, we are likely to see more attractive pricing in the coming weeks as the market digests June quarter earnings.

We recommend newer subscribers or those underweight in the shares hold off for now from adding to the position.

Regal Entertainment Group (RGC) — *Content is King*

Hard to believe, but after the juggernaut that has been *Finding Dory*, the box office strength continued with *The Secret Life of Pets*. The 3Q 2016 box office is off to an impressive start, up 17 percent through July 17 and the movie release schedule over the coming weeks looks rather impressive — *Star Trek Beyond, Ice Age: Collision Course, Jason Bourne, Suicide Squad, Pete's Dragon* and *The Magnificent Seven*.

As RGC shares creep toward our $24 price target, based on the company's outlook next week, we intend to revisit that price target to see how much additional upside is to be had in the shares.

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 tradeoff to reach more appetizing levels.

AHS	AMN Healthcare Services	*Aging Population / Scarce Resources*
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*
PANW	Palo Alto Networks	*Safety & Security*
SYNA	Synaptics Inc.	*Disruptive Technologies*
UNFI	United Natural Foods	*Foods with Integrity*
VZ	Verizon Communications	*Content is King / Connected Society*
XYL	Xylem, Inc	*Scare Resources*

TEMATICA SELECT LIST PERFORMANCE

as of market close July 19, 2017

(AMZN) AMAZON.COM — *Connected Society*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
5/24/16	$709.53	$739.95	--	--	4.29%	$880.00	(BUY)

(GOOGL) ALPHABET, INC. — *Asset Lite*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
6/15/16	$733.94	$753.41	--	--	2.65%	$880.00	(BUY)

(XLY) CONSUMER DISCRETIONARY SPDR (ETF) — *Content is King*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
4/20/16	$79.57	$81.14	--	--	1.97%	--	(HOLD)

(DIS) THE WALT DISNEY CO. — *Content is King*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
4/20/16	$102.16	$99.47	--	$87.00	-2.63%	$125.00	(BUY)
5/11/16	$101.78	$99.47	--	$87.00	-2.27%	$125.00	(BUY)

(DOC) PHYSICIANS REALTY TRUST — *Aging of the Population*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
6/27/14	$14.33	$21.10	$2.03	$18.00	61.37%	$25.00	(HOLD)

(NKE) NIKE INC — *Rise & Fall of the Middle Class*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
5/18/2016	$56.10	$57.76	$0.16	--	3.24%	$66	(BUY)

(PETS) PETMEDS EXPRESS — *Connected Society*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
5/4/14	$17.80	$19.50	$0.19	--	10.62%	$22.00	(BUY)

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

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
1/14/16	$41.12	$38.40	--	--	-6.61%	$24.00	(BUY)
3/23/16	$45.10	$38.40	--	--	-14.86%	$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	$23.20	$0.66	$19.00	28.90%	$24.00	(HOLD)

(SBUX) STARBUCKS CORPORATION — *Guilty Pleasure*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
6/1/16	$54.90	$56.76	--	--	3.39%	$74.00	(BUY)

(T) AT&T, INC. — *Connected Society*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
7/21/15	$34.67	$42.77	$1.91	$39.00	28.87%	$45.00	(HOLD)

STOCKS / FUNDS MENTIONED

Alphabet (GOOGL)
Amazon (AMZN)
Apple (AAPL),
Facebook (FB)
Goldman Sachs (GS)
Johnson & Johnson (JNJ)
Netflix (NFLX)
Nike (NKE)
PetMed Express (PETS)
Physicians Realty Trust (DOC)
Regal Entertainment Group (RGC)
United Parcel Service (UPS)
Walt Disney Company (DIS)
Yahoo! (YHOO)

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.

This research report is provided for informational purposes only and shall in no event be construed as an offer to sell or a solicitation of an offer to buy any securities. The information described herein is taken from sources, which we believe to be reliable, but the accuracy and completeness of such information is not guaranteed by us. The opinions expressed herein may be given only such weight as opinions warrant. This firm, its officers, directors, employees, third party data providers or members of their families may have positions in the securities mentioned and may make purchases or sales of such securities from time to time in the open market.