Cabot
# GROWTH INVESTOR
Helping Investors Build Wealth Since 1970

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## A Key Test

To say it's been a hectic past few months would be an understatement—following a beautiful advance from November of last year into March, the market has seen a sharp correction in the spring, an extremely narrow rally into July, a mini-crash into early August and then, of course, a steep comeback where many indexes recouped most or all of their losses.

When looking at the big picture, we continue to think the odds strongly favor the market's next big, susatained move being up for many reasons, not least of which is the long-term view—by our measures, growth stocks only emerged from a horrific bear phase last November and have essentially had one persistent uptrend (November 2023 into March 2024), so another leg up (if not two or three more) is likely at some point.

Of course, there's also our still-bullish Cabot Trend Lines, numerous studies of the market's action (including breadth) and the August recovery itself, which was unexpectedly strong for many indexes and lots of growth stocks outside the chip and networking areas. Indeed, it certainly seems like a lot of future leadership was declaring itself, with many names running toward or out to new highs. All of it suggests higher prices down the road.

However, the timing of when that next upmove will get underway, though, was far less certain. It was possible the V bottom seen last month would simply carry the market higher, as we've seen a couple of other times in recent years. But as we wrote on this page in the last issue, there have been some flies in the ointment (defensive stocks leading the rally; our Growth Tides never quite able to turn positive), which hinted the market might need more time to build a bottom and raise the fear level before getting going.

All of that leads us to this week, which has seen the market and growth stocks suffer some sharp post-Labor Day selling—led by the Nasdaq and former chip stock leaders (Semiconductor Index is down 8% this week; **Nvidia (NVDA)** is off 11%) that are pulling down everything else. That hasn't changed our big-picture view, but it sets up a key near-term test: If the recent pattern continues (weak Nasdaq, strong defensive stocks), it's likely we're in for some September-October shenanigans, especially with the presential election coming up (see more on that later in this issue)—but strong support soon would hint to this being a final shakeout before fresh leadership emerges.

## What to Do Now

Stay alert and take things on a stock-by-stock basis. In the Model Portfolio, we never got overly aggressive, and thankfully most names we own have pulled back normally this week—hence, we mostly advise patience as we see whether this selling wave gains power, or whether the bulls are about to step up. That said, we do have one name to sell: **TransMedics (TMDX),** which has gone from new highs to breaking down in just a few days, giving up all of its post-earnings move. We'll take our small profit and hold the cash, leaving us with around 44% on the sideline.

## Model Portfolio Update

The biggest question in recent weeks was whether the market's V-bottom off the mini-panic low of early August would continue or, as many V bottoms do, run into some turbulence.

The evidence on that front was mixed: We saw a lot to like among individual stocks but also saw some flies in the ointment (defensive stocks ramping) as growth measures lagged. Thus, we put money to work in a measured way, while retaining about one-third in cash.

And now we see a "test" of the uptrend this week, with a good-sized selloff that's been led by the former chip and AI infrastructure stock leaders that remain iffy—though most stocks that have had good recoveries in the past month have taken on water, too

So what are we doing about it? We're not making any broad calls at this point—a big move of a few days in either direction would be telling—so we're focusing on individual stocks, making sure we kick out any that show abnormal action. Thankfully, most of our names are still in fine shape, but we are going to sell **TransMedics (TMDX)**, which has gone from looking great to breaking down in just a few days. That will leave us with around 44% in cash, providing us plenty of buying power if new leaders emerge ... but lots of cushion if they don't.

## CURRENT RECOMMENDATIONS

| Stock | No. of Shares | Portfolio Weightings | Price Bought | Date Bought | Price on 9/5/24 | Profit | Rating |
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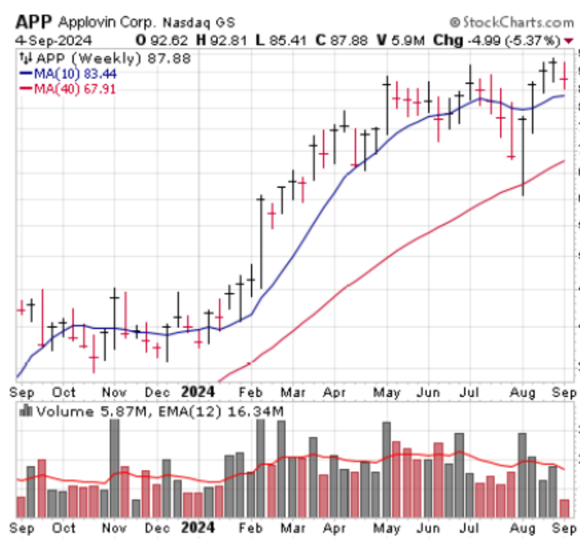
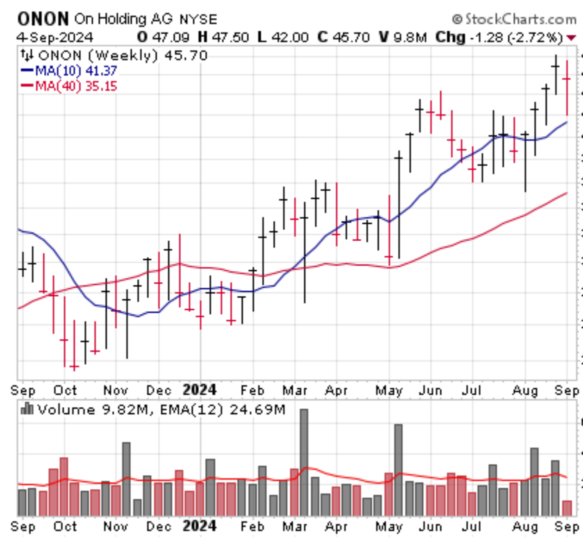
**Axon Enterprises (AXON)**—AXON has pulled back with the market of late, so it's showing us a modest loss—that said, the stock continues to look fine, basically tagging its 25-day line yesterday before finding some support; as with so many names, the latest action (326 in July, 279 in August, 379 two weeks ago, 350 this week) is tedious but normal, with much higher highs and lows. Obviously, if the market unravels, all bets are off here, but we like to look at things from an odds perspective, and we continue to think just about all factors—the overall fundamental story, the latest catalyst with its Draft One offering (leading to a direct pickup in business, as well as ancillary sales of things like transcription services and the like) and the powerful breakout in the stock and RP line from a five-month consolidation—tell us the odds favor a sustained advance. A drop all the way down to the 325 to 330 area would be iffy, but right here, we're sticking with our Buy rating. **BUY**

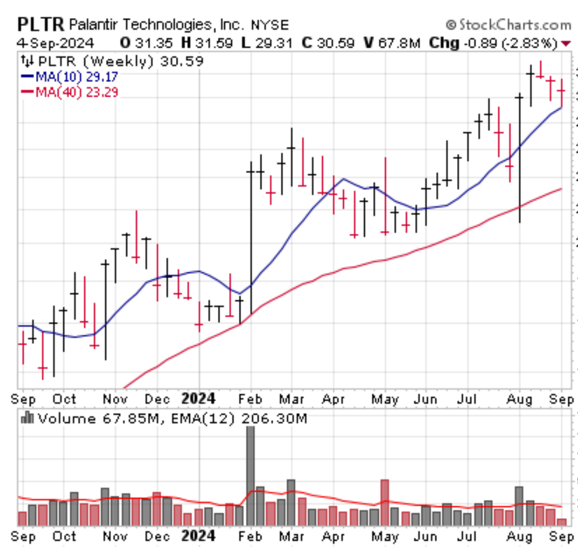


**Cava Group (CAVA)**—CAVA has pulled back of late, partially as a result of the sale of some closely held shares and partly due to a valuation-based analyst downgrade. None of this is super surprising—at this point, the retreat remains normal (CAVA is holding above the low of its big earnings gap day, never mind its moving averages), though, frankly, we wouldn't be surprised if shares need some time to digest its dramatic upmove of late. Of course, long-term, this is still one of the best growth stories out there: The firm ended Q2 with 341 restaurants, which by comparison is about 10% of what Chipotle has. To be fair, we doubt that Mediterranean cuisine will be as popular as Mexican, but the point is that Cava should have at least a decade of consistent expansion ahead of it, and that doesn't even include a benefit of improved margins over time. If you really want in, we wouldn't argue with a nibble here or on dips of a couple of points—but given the stock's positioning and the market's latest retrenchment, we'll stay on Hold for now and see how things develops. **HOLD**


**On Holding (ONON)**—ONON had a big wobble earlier this week on no news (we assume some big investor threw shares overboard at the open), though the stock steadied itself right quick and remains in the vicinity of new high ground. In a retail business like this, a lot of it comes down to management and execution—if the top brass pulls the right levers, which they have in recent years, the firm should continue to gain lots of share from firms like Nike and Adidas (in footwear but also apparel and accessories), while margins (which are already at or near the top of the industry) have upside due to scale and efficiencies (a fully-automated facility in Atlanta should come fully online next year). Speaking of the top brass, they see full-year sales growth of 30% or more on a currency-neutral basis, and many analysts see sustainable 20% to 30% growth in 2025 and beyond. We'll stay on Buy, though further gyrations are to be expected. **BUY**

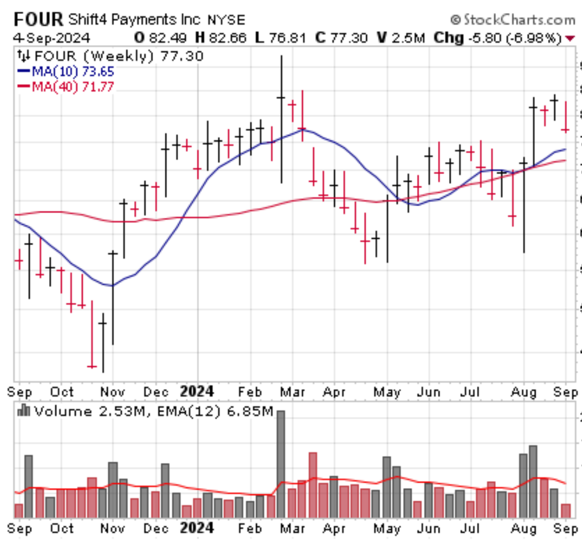



**Palantir (PLTR)**— We'll see what comes, but PLTR's two-week, low-volume dip looks like a normal exhale to this point. In fact, on a very short-term basis, while the Nasdaq nosedived well below last week's low on Tuesday, PLTR barely broke the equivalent level on its chart before bouncing back. We like the accelerating revenue growth here (27%, 21%, 20%, 17% the past four quarters), led by the U.S. commercial revenue from AI (up 55% in Q2; remaining deal value up 103%!), though other areas are doing well, too (strongest bookings for U.S. government business since 2022)—all of which should produce a big jump in free cash flow in the quarters to come. That said, the 28 area looks like a key level for the stock, and a meaningful break of that would have us going to Hold … if not selling outright to cut the loss. At this point, though, we're still thinking optimistically; we're holding onto our shares and are OK grabbing some here if you're not yet in. **BUY**

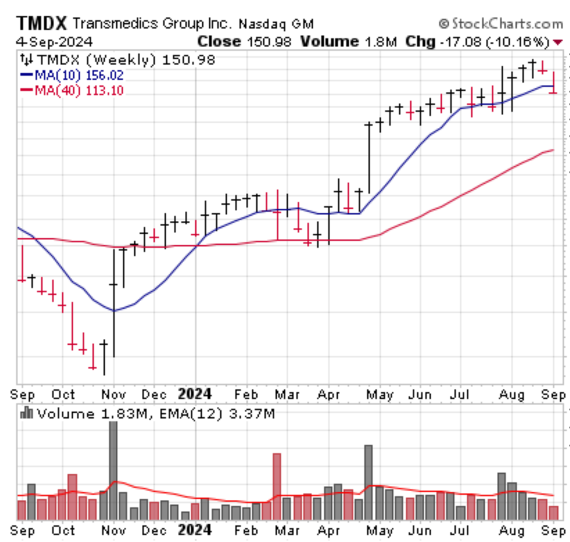


**ProShares Ultra Russell 2000 Fund (UWM)**—While big-cap tech stocks like chips and networkers have been the focus of this week's dip, the broad market hasn't escaped the pain, with the Russell 2000 falling back to its 50-day line (which lines up well with its prior highs), meaning UWM has done the same—all in all, it's almost exactly smack dab in the middle of its recent range. For now, we're happy to hold on, and deep down we do think a fresh round of Fed easing, likely starting later this month, could be the tonic that propels small-cap stocks out of their multi-year funk. That said, our patience isn't limitless—we held through the August maelstrom and recovery, but we're still showing a loss on our half-sized position and much more downside from here (the 37 to 38 area looks important) wouldn't be a good look. Hold for now. **HOLD**


**Shift4 Payments (FOUR)**—We entered FOUR at the end of last week, which was obviously unfortunate short-term timing given what growth stocks have done this week—that said, we have a half-sized position and are willing to give it some rope due to the terrific story and numbers as well as the humungous buying volume that showed up after earnings (compared to the low-volume dip this week). Overall, we have high hopes that investor perception is finally turning up after more than a year of wild gyrations as the company continues to crank out excellent results, is providing more precise guidance (fewer unwanted surprises) and, of course, as it continues to sign up many big stadiums and hospitality outfits to go along with its core restaurant business. A move all the way down to the low 70s would be a concern, but at this point, we're viewing this week's retreat as a shakeout after the prior big-volume rally. **BUY A HALF**



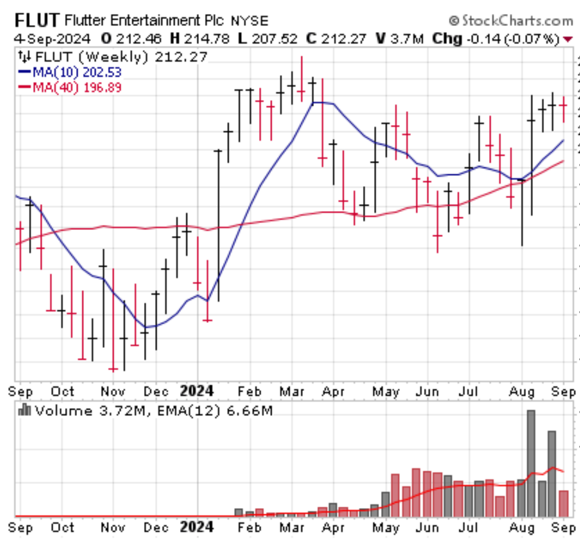

**TransMedics (TMDX)**—We still love TransMedics' story, but we're always on the lookout for abnormal action (especially when the market is iffy) and that's what we think we're seeing from TMDX of late—thanks to a great Q2 report, shares held up well during the market's correction a month ago and then moved to new highs on good volume, and some giveback was reasonable from there. But all of a sudden, the buyers have vanished, with shares giving back all of their earnings move and more as the stock retreats near its July lows. In terms of news, there hasn't been anything official, but at a healthcare conference this week that the company presented at, there were some rumblings about future competition; the top brass says it's far in the lead, especially given its entire operation (logistics, transportation), but it seems like some are concerned. Honestly, it's a close call for us—we could easily envision TMDX rallying back from here, especially if growth stocks turn up, and if that happens, we could revisit the stock. But we're putting more emphasis on the fact that growth stocks as a whole never kicked into gear, and our decent profit is shrinking quickly; we'll sell our position and hold the cash. **SELL**



## Watch List

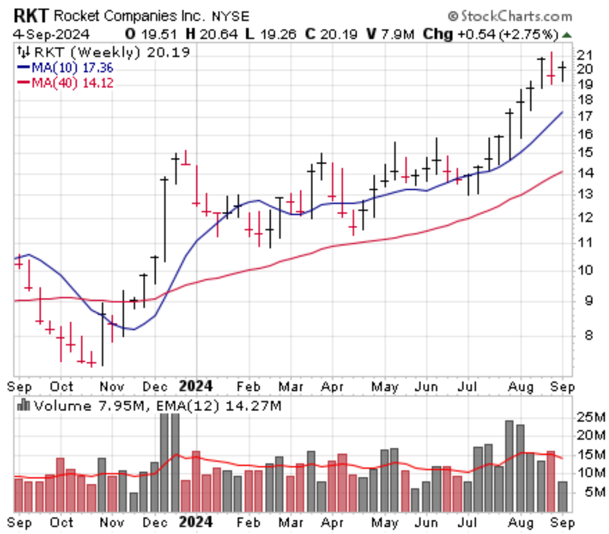
- **Argenx (ARGX 550)**: Biotechs are tough, as trial results for even well-situated firms can cause hectic moves in the stock—but as we wrote about in the last issue, Argenx has a mega-blockbuster drug on the market, big growth potential and huge profits likely in the quarters to come. The stock tagged new recent highs today.
- **Flutter Entertainment (FLUT 214)**: While former holding **DraftKings (DKNG)** remains in a downtrend, FLUT (which owns most of FanDuel) is set up nicely after a solid earnings gap last month. See more below.
- **Freshpet (FRPT 138)**: FRPT's story remains strong and is only going to get better as the firm ramps up new manufacturing facilities and broadens its name recognition. Shares are hitting resistance near their prior highs, but are in good overall shape.
- **Halozyme (HALO 61)**: HALO had a big, persistent advance and is now shaking out with the market—though it's still in fine shape, above its 25-day line. We would say that earnings estimates for next year (up 21%) are good but not amazing, but overall, the story, numbers and chart remain enticing.
- **Rocket Cos. (RKT 20)**: RKT is basically a cyclical stock (mortgage lending) that's just come through a huge downwave the past couple of years—but now it's lean and mean, taking share and ready for what could be a fresh sector upturn. See more below.
- **Samsara (IOT 39)**: IOT has backed off after testing its old highs, which is par for the course for this stock—but what we're really keying off is tonight's quarterly report (analysts are looking for $290 million of revenue and a penny per share of earnings), watching to see if investor perception can truly turn up. The story remains as good as ever.

## Other Stocks of Interest




**Flutter Entertainment (FLUT 214)**—There's no doubt that online sports betting (as well as online casino play, known as iGaming) is in a long-term growth phase, but there have been a couple of worries that have hit the group in recent years before the major uptrend reasserted itself. The first, of course, was the fear of competition and wild incentive marketing (gigantic sign-on bonuses, etc.) that, combined with the bear market, caused a huge reset in the sector. More recently, the uncertainty has stemmed from the states, where many are looking to hike taxes on any winnings, which has caused some (like DraftKings) to start imposing surcharges on winnings. That uncertainty is still playing out—but we're starting to see a dichotomy out there, with DraftKings' stock languishing as it battles with states, but Flutter Entertainment—which owns the vast majority of FanDuel—is setting up well. We think there are a few reasons for that: First is that the underlying business leads the U.S. market, with FanDuel having a 51% online sports betting and 25% iGaming revenue share in the states where it's up and running, while U.S. growth remains rapid, with a 27% bump in monthly players in Q2 leading to a 39% gain in revenue. (Very encouragingly, even states that have been open for business for years are still growing rapidly; those that launched before 2020 saw revenues expand 27% in Q2, a sign that there's years of growth ahead for those areas and even more for locations that launched just in the past year or two.) Second, though, is that the firm has a slower-growing but very profitable overseas business; Flutter is based in Ireland and actually earns more EBITDA from international operations, throwing off cash to invest in the faster-growing U.S. market … and, eventually, to enhance shareholder returns, as management said leverage is quickly coming down to its target (it'll update capital allocation plans at its Investor Day on September 25). Of course, any major tax or regulatory changes in the U.S. will have an impact here, but big investors seem to be growing more comfortable those headwinds are under control: FLUT topped in March and fell into the 175 to 180 area three separate times, but it gapped up on earnings last month and has traded tightly since. Like many growth stocks, there's still overhead to contend with, but any powerful breakout would be enticing.

**Rocket Cos. (RKT 20)**—It's been nearly three years since the Fed began to turn hawkish, three years of rates either headed higher or standing at multi-decade highs, bringing about a historic bust in the mortgage industry—this spring, purchase applications fell to a three-decade low and mortgage-related employment was down by 36%. But now that is set to change with the Fed expected to start an easing campaign later this month, which should bolster Rocket Cos., one of the big dogs of the mortgage sector—it's #1 in refinance lending (12% share last year) and #2 in purchase lending (3.7%), and yet it cleearly has just a fraction of the market (the top 10 players combined, in fact, only have 24% share), meaning there's plenty of room for gains as the company pioneers technology-forward solutions. One way it's aiming to take share is via AI, where the firm has been leading the sector with a platform that powers its client interactions (one worker can handle multiple chat sessions simultaneously) and back-end processing, which is leading to faster loan approvals, automatic call transcription (up to 300,000 per week!) and even no human intervention on 10% of home appraisals. In terms of technology overall, the firm thinks its new-school approach and app will appeal more to younger millennial buyers—who, of course, are set to make up a bigger share of the industry. Beyond mortgage origination the firm has many ancillary businesses, including real estate agency services and mortgage servicing rights (valued at about $7 billion right now), too—but all of Rocket's business comes down to the health of the lending industry, which has started to turn up a bit (EBITDA has been positive five quarters in a row, with big gains the past two quarters) and should continue to do so going forward. Bigger picture, back in the boom times of 2020 and 2021, the firm earned $4.11 per share and $2.26 per share, respectively, and while no one expects an immediate return to the good old days right quick, Rocket is clearly leaner and more efficient these days, so if purchasing intentions take off and refinancing picks up with lower rates, we think current estimates (28 cents per share this year, 58 cents per share next) could prove extremely conservative. RKT will definitely be pushed and pulled by interest rates and economic reports, but the persistent (eight weeks up in a row), big-volume breakout of late bodes well. The firm does have an Investor Day on September 10 (next Tuesday), which could move the stock, but we think Rocket is essentially an early-stage cyclical stock that could have a big move.




**Reddit (RDDT 58)**—Admittedly, Reddit is newly public (March) and is currently in correction mode, so this idea isn't for the immediate future—but we think the story and numbers will attract more big investors in the months ahead. The company is essentially the Wild West when it comes to message boards, with the secret sauce being its scale—there are more than 100,000 communities (dubbed sub-reddits) that allow users to learn and engage in just about any topic you can think of, whether it's dumb jokes, travel, the ins and outs of a city or hobby, etc. (Yes, there are many not-safe-for-work sub-reddits, though all are marked as such.) The usefulness of the communities is generally top-notch, aided by moderators (most are fine, some are strict, but AI is helping on this front) that keep the discussion going and on-topic, and that's attracted a gargantuan number of users—a whopping 342 million weekly active users (and more than 91 million daily active users) as of June, up a huge 57% from a year ago—and, of course, that's led to all sorts of advertising opportunities, which the firm is better able to target based on user interest (especially for sub-reddits that involve shopping, traveling, product reviews and the like). There's also an interesting data licensing side business that could be big given what's sure to be its treasure of data from user activity. The firm has a lot going on technology-wise to make the site easier to use (machine translation is improving and leading to great growth overseas; 45 million daily active users, up 44% from a year ago), and if it succeeds, there's no reason user growth and (just as important) engagement can continue to rise—and with advertising revenue per user of just $3, there's huge upside (Meta's is around $40 per user by comparison).

As it stands now, Reddit is growing rapidly, with sales up 54% in Q2, though analysts see top-line growth slowing to 22% next year (which is almost surely conservative). Earnings are still in the red, but EBITDA and free cash flow are ramping quickly. As we said at the outset, RDDT needs some work after a recent dip from 80 to 50, but we'll be keeping a distant eye on it to see if it can round out a proper launching pad in the weeks ahead.

## Here Comes the Presidential Election

If you've read us for any length of time, you know that we don't touch politics with a 100-foot pole. Part of that is simply an effort to avoid hitting a hornet's nest—pretty much no matter what anyone says, half-ish the people are going to be upset about it these days—but the far more important reason is that it really doesn't help you make or keep money in the market. If investing were as simple as "buy when XYZ party wins the White House or holds Congress" we'd be all over it, but simply put, life isn't that easy.

However, what has become apparent in recent election cycles is that the result can often cause a big move—at least in the short term—which causes an avalanche of questions about the election and how to prepare for it, be it via hedging, rotating into certain sectors or something similar.

Indeed, taking a look at the last two presidential elections (2016 and 2020), we see a couple of basic patterns. First, the market was relatively weak heading into the election—and then, after the results, the market moved quickly, with the Nasdaq adding about 7% over a couple of weeks following the vote. Of course, each instance has other things going on that investors were concerned about, too, but the consistency of the recent pattern is noteworthy.



So, is the idea to remain lightly invested heading into the election and then to buy with both fists? Maybe, but remember we're talking about just two instances, which isn't exactly a broad sample—for instance, take a look at the Nasdaq in late 2004 and you see the opposite—the breakout came in late October and kept on going afterwards. Not shown is the 2012 example, where the market tanked for a few days after the result.

Put it together, and we like to think about what's coming in November as a market-wide earnings report: There's likely to be some positioning before the big event and then a big reaction afterwards … but that's about all you can know. Thus, like earnings season, a lot of it simply comes down to portfolio management—not being crazy-heavy in one or two stocks or sectors and avoiding throwing caution to the wind right ahead of the vote.

For our part, we've always stuck to our usual plan and will continue to do that—following the evidence, bullish or bearish, both before and after the report. We would anticipate being quicker on the draw than usual (if a stock roars ahead or bombs after the election, we'd probably take quick action), but other than that, we'll stick with what's in front of us.

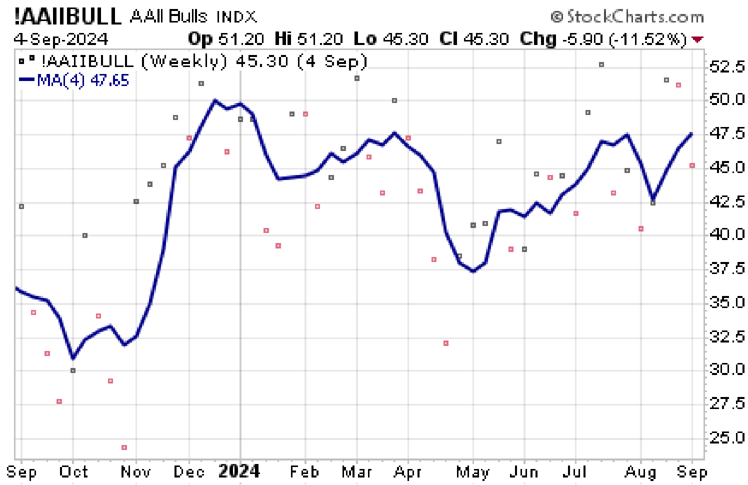
Our last and possibly most important point: We're not aware of any election that changed the market's underlying tone. Thus, while the election run-up and results are likely to produce volatility, the overall bull market is likely to persist.

## Did the Market's Shakeout Scare Enough People?

As students of the market, we often think in terms of what we call the sentiment pendulum, where investors go from fearful to greedy and back to fearful as the market moves up and down. There are many ways to measure it and different time frames, too, but most big uptrends start when many investors are worried, whereas jubilant, bragging investors often pop up near market tops.

From a big-picture perspective, we continue to see sentiment as mundane—and thus, very supportive of this bull phase. One of our favorite measures is simply IPO activity—shown here is a chart from Renaissance Capital (the keeper of the keys of IPO statistics) that depicts the number and value of IPOs by year for the past decade. You can see that 2020 and 2021 saw a massive boomlet (thanks to easy money), but since the start of 2022, Wall Street has had a tough time pumping out offerings. There are many other examples that show something similar; suffice it to say that the man on the street is far from enamored of the market.


However, near-term sentiment measures are in a different stance. We don't swear by them but we do track them from a distance, and one thought we have right now is whether the quick, sharp shakeout into August scared enough people to lead to a fresh, sustained advance—or whether more corrective activity (like we've seen this week) is needed. Shown here is the four-week average of the bullish respondents to the AAII survey—you can see that it never fell much and is already back near its highs for the year, which isn't ideal.



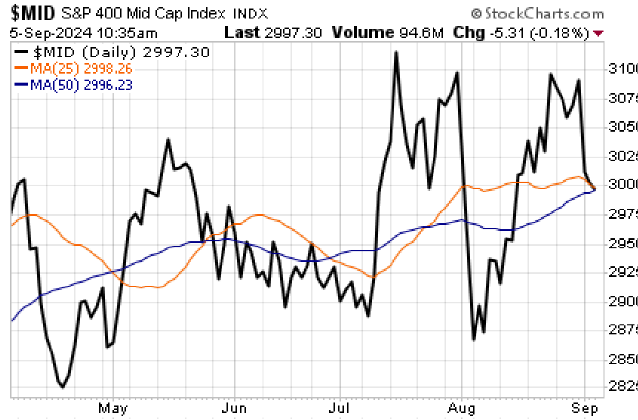

That's why we wrote what we did on page 1: Bigger picture, we think the market's snapback from the August dip and the action of many potential leaders is a good thing, telling us the next big move is up. But for the here and now, the renewed complacency combined with other factors (Growth Tides, Aggression Index not yet bullish; defensive stocks ramping) tell us to stay alert and to keep some powder dry.

## Cabot Market Timing Indicators

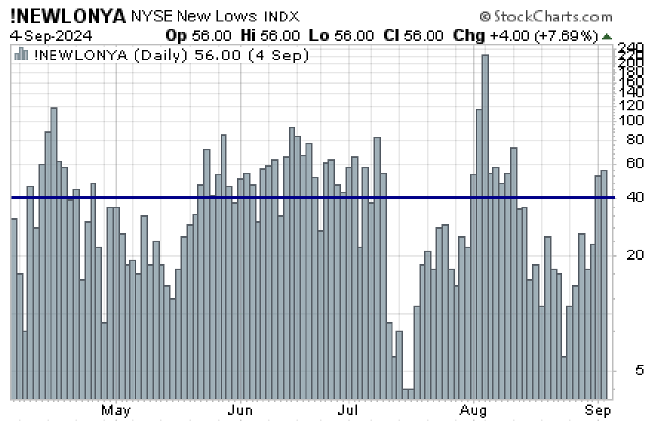
The evidence is mixed, with many bigger-picture indicators and signposts pointing higher—the odds still definitely favor the next major move being up—but the near-term is obviously less certain, with this week's selling putting a dent in the bull case. We're on alert and holding a good-sized chunk of cash, but we're also giving our resilient names a chance to consolidate normally as we see which way the market heads.

**Cabot Trend Lines – Bullish**
Our **Cabot Trend Lines** remain in good shape, with the S&P 500 (by nearly 5%) and Nasdaq (by 3%) still above their respective 35-week moving averages—and with a sell signal requiring both indexes to close two straight weeks south of those trend lines, the long-term uptrend is still firmly intact. Until proven otherwise, the odds favor higher prices down the road.


**Cabot Tides – Neutral**
Our **Cabot Tides** technically perked up to a buy signal last week, but our Growth Tides never did and the selling since Labor Day has most indexes back in neutral territory. The S&P 400 MidCap is probably the best example, with this week's dip leaving it stuck in the middle of a multi-month range. A good few days from here could make a big difference, but at this point the intermediate-term path is mostly sideways.




**Two-Second Indicator – Neutral**
Our **Two-Second Indicator** has been on and off for a while now, cycling between encouraging and worrisome readings, and it might be doing that again—after a positive stretch in August, today was the third straight trading day of greater than 40 new lows, though none of the readings have been crazy. Like so much other evidence, we see the indicator as neutral here as the broad market (and everything else) seeks near-term direction.

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