

# Your Personal Money Manager Pearson INVESTMENT LETTER

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## FEATURED STOCKS - OCT/NOV 2017

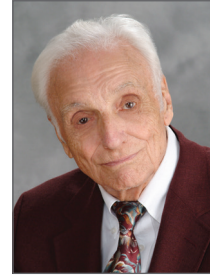
### VALUE STOCKS:

Apple Inc.  
Magna International Inc.

Anthem Inc.  
Nucor Corp

### ETFs:

Vanguard Growth Index Fund  
Vanguard High Dividend Yield Index Fund



Walter D. Pearson  
*Chairman*



Donald E. Pearson  
*President*



Ann Hathaway  
*Account Manager*

## Storm Issues & Opportunities

Here in Florida we all just went through hurricane Irma and damage in the state was horrific. Six million losing power, homes destroyed, flooding and damage that will take a long time to fix. Texans had the same problem, and Mexico had earthquakes dealing out much of the same. I live right on the water here in Tampa Bay and had to evacuate inland about 15 miles as my home was expected to flood. Fortunately the severe battering wasn't as bad as expected here. The power wasn't lost and damage was minimal - mostly branches thrown around everywhere.

When I evacuated and had two days to wait out the storm, I thought about all of us in similar situations and realized how many would be unprepared if a horrific situation strikes. When I evacuated I took a briefcase with me of important papers (insurance papers, car paperwork, investment information, etc.) needed in case the home was destroyed upon my return. In our client network I know of many who do not participate with their investment management. You would hear them say, "my husband handles that" or visa-versa. Imagine through a hurricane or other tragic event a life is lost and they have to take on that responsibility. This is one of the important reasons I always encourage people to become involved with their family investments. Whether it is with us or another firm, a quality Registered Investment Advisor can be a tremendous asset for you. Not only assisting or managing your investment portfolio, but in time of need our account manager (Ann Hathaway) will help you through all paperwork. I personally will talk with you either in person, if possible, or over the telephone to assure you we will make any and

all adjustments that will work in your best interest. We maintain important records, so if something is needed we can produce it for you.

For the many of us who want to donate in times of need, the Better Business Bureau's Wise Giving Alliance ([www.give.org](http://www.give.org)) often updates its list of BBB-accredited charities that are raising funds to aid victims of hurricanes. Rather than just writing a check, one might consider the option of giving appreciated stock or mutual funds you have held for more than a year. That way you will get a tax deduction for your donation and avoid paying capital gains taxes on the increased value of the stock over time.

If you have any questions regarding anything written above or any other investment question, please contact me as I always enjoy an opportunity to converse with you.

## Apple Updates

As many of you know, we have maintained Apple (AAPL) as our number one individual stock for close to 20 years. We have done this because of their longtime successful results. Yes, there may be a year when it under performs, but if you maintain a buy and hold strategy as we have, it will prove to be outstanding. Over this time period it has split 14 to one, and those who have been with us only a few years have enjoyed a seven to one split as the stock went over \$600. It was then priced at \$87 and today is nearly double. With the introduction of many new products, as well as others being upgraded, we are expecting continued favorable performance from our investment. Here are the products and the reasons why success is anticipated.

Apple (AAPL) continues to have a low-margined, commodified world of electronics

products geared to consumers rather than businesses and maintains extraordinary margins for this sort of business.

A 97 percent satisfaction rate for the Apple Watch was cited by ChangeWave Research who for many years has done polls for AAPL. Whatever the product is - the iPhone, iPad, Apple Watch, Mac - the satisfaction rate is stellar and better than that of any competitors. This has been going on for years and never changes. Apple has sold 33 million Watch units since the launch of the line over two years ago and 15 million in the past year. The unit sales in the past year add up to \$4.9 billion. Tim Cook recently commented that the Apple Watch has outsold Rolex and that Watch sales increased 50 percent in the past quarter. Many believe the Watch story is just beginning and compare the device to the early iPhones. Although it was intended to be a timepiece, it seems to be taking a new direction all of its own.

Apple's 64GB iPhone 8 contains \$247.51 worth of materials with a cost of \$699 compared to its 32GB iPhone 7 with \$237.94 in materials and a \$649 price tag, according to HIS data. The iPhone 8 Plus has \$288.08 in components with a \$799 price compared to the iPhone 7 Plus with \$270.88 in parts and \$769 price. The price increases help with Apple's profits especially with the forthcoming premium iPhone X model, which can drive up margins on the product mix. Analysts expect gross margins across all Apple businesses to reach 38 percent in the upcoming quarters.

If you have any questions regarding the above information, please call me.

## GOOD MORNING!

And for those of you who are looking for something to read, good morning again. As far as something for you to read, I must make my sincere apologies. I think you have already read my thinking many times.

You may wonder why we buy for you and almost never sell. That is because you will usually make bigger profits that way. If you sell just because you have a profit, then you must share those profits with the Internal Revenue. Not so if you let the profits mount and do not sell. Your profits may still be there but income taxes on it are not due.

Getting back to investments, there is one point which I would like to bring up. You are not in this business to make a quick buck. You should look upon it as if you were investing in bonds, but the difference is that in bonds there is no growth potential, which becomes altogether different when you are in stocks. You may recall the incident where I bought a stock for someone that I had bought for myself a year earlier, and it was just about the same price. One year later we both had good profits. Another thing is that many of these companies are raising their dividends. This means that as time goes on the rate of return is much better than a bond. It is also possible that one of your stocks may soar. It is usually hard to foretell these in advance but some of these just go. Time is an important factor.

Our job is to find the different companies that will make you money. It may be that one of your companies is something like mine was and it takes a year before the growth shows up. That is one reason why patience has to be one of your virtues. We will make money for you, but your job is to add money if you can. Remember what I have written to you before. The value of your currency is constantly going down, so it is just common sense to get it where it will hold its value, and will grow as well. The stock market is not perfect. It will have its ups and downs whether you like it or not. One time when stocks dropped quite a bit, I scraped and borrowed and did everything I could to buy some of those stocks that were down so much. One year later my timing proved to be exactly right. The profits were there.

Today I do not think the market is cheap. Neither do I think it is too high. The strange thing about it is that all stocks do not follow the market. Every night when I listen to my business report I find that there are two or more that are down 15 or 20 percent in just one day. There are a number of good stocks that are selling between 10 and 15 times earnings even though most stocks are selling at 20 or 30 times and even 40 times earnings. When I think of things, I realize I cannot think of the market as a whole. I must value each individual stock by itself. Ten times earnings is one thing; 40 times earnings is something else. Evidently, any stock that is selling at 40 times has a very, very good outlook, but I can think of numerous possibilities when it comes time to choose another winner.

One thing that few of us consider is the number of times a company has raised its dividend. There have been occasions where a company that was yielding 2 percent when it was first bought is yielding 10 percent after two years and two dividend raises have taken effect. Don't be too quick to make up your mind.

And for those of you who would like to see your dividends increase but who missed out last month, we have decided to list all new arrivals to the increased fold. Here you go! CSL, DOV, PRI, STN, PRGO, DAL, CBI, MFC, NVO, SLF, PAAS, NTES, SHPG, BMI, ISRG, MGA, CHL, CB, ATRI, HSIC, VET, FAF, RCI, SSL, BBD, BBL, CM, LYB, RY, MO, MLM, BHP, PTR, SIG, CEO, NRIM, HRS, SAN, BMO, BNS, SNP, MDT, CSWC, AVGO, ESV, GG, TD, SBGL, PBA, VZ, POT, TOT, GBCI, PM, ADNT, BBD, JCI, INGR, VET.

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**Source Rating Key for PCI's featured stocks:** *Pearson Investment Growth Rating measures long-term past and future growth.*

*Pearson Value Rating measures current value in terms of potential for the dollar. Investors Business Daily measures growth and relative price strength.*

*S&P measures financial quality and growth potential. Value Line measures timeliness, value and safety.*

Information & data obtained from other sources is believed to be reliable, but its accuracy and completeness can not be guaranteed.

Walter Pearson is the former President of First New England Securities, Co., Inc. and at that time, also managed the Statistical Department.

He is the author of the book, *Investing for the Millions* and Publisher Emeritus for the Pearson Investment Letter.

At this time, Mr. Pearson is Chairman of the Board of Pearson Capital, Inc.

He is a contributing columnist for various publications and is listed in *Who's Who in America*.

**"Remember the Lord your God, for it is He who gives you the ability to produce wealth." (Deut. 8:18)**

**PEARSON CAPITAL'S RECOMMENDED STOCKS APRIL/MAY 2017**

[www.pearsoncapitalinc.com](http://www.pearsoncapitalinc.com)

**APPLE INC. (AAPL) NASDAQ PRICE \$154.03**

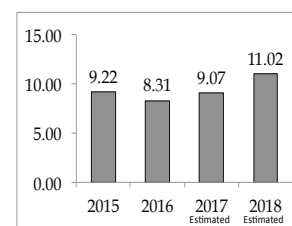
Apple Inc. designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players. The Company sells a range of related software, services, accessories, networking solutions, and third-party digital content and applications. The Company's segments include the Americas, Europe, Greater China, Japan and Rest of Asia Pacific. The Americas segment includes both North and South America. The Europe segment includes European countries, India, the Middle East and Africa. The Greater China segment includes China, Hong Kong and Taiwan. The Rest of Asia Pacific segment includes Australia and the Asian countries not included in the Company's other operating segments. Its products and services include iPhone, iPad, Mac, iPod, Apple Watch, Apple TV, a portfolio of consumer and professional software applications, iPhone OS (iOS), OS X and watchOS operating systems, iCloud, Apple Pay and a range of accessory, service and support offerings.

Type: Value  
Sector: Information Technology

Institutional Holdings: 5478  
Industry: Technology Hardware, Storage & Peripherals

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **17.4**  
Annual Yield: **1.6%**  
Annual Dividend: **2.52**  
Investor's Bus. Daily: **A**  
Pearson Growth & Value: **A+**  
Morningstar Rating: **C**  
Stand & Poor Rating: **B**  
The Street (analyst avg.): **A**



**ANTHEM INC. (ANTM) NYSE PRICE \$189.88**

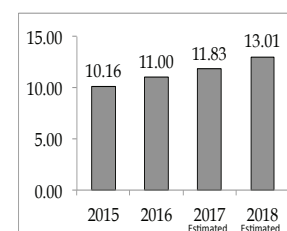
Anthem, Inc. is a health benefits company. The Company operates through three segments: Commercial and Specialty Business, Government Business and Other. It offers a spectrum of network-based managed care plans to large and small employer, individual, Medicaid and Medicare markets. Its managed care plans include preferred provider organizations; health maintenance organizations; point-of-service plans; indemnity plans and other hybrid plans, including consumer-driven health plans; and hospital only and limited benefit products. It also provides an array of managed care services to self-funded customers, including claims processing, underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs and other administrative services. It provides an array of specialty and other insurance products and services, such as dental, vision, life and disability insurance benefits and radiology benefit management.

Type: Value  
Sector: Health Care

Institutional Holdings: 2156  
Industry: Health Care Providers & Services

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **17.9**  
Annual Yield: **1.5%**  
Annual Dividend: **2.80**  
Investor's Bus. Daily: **B+**  
Pearson Growth & Value: **A-**  
Morningstar Rating: **N/A**  
Stand & Poor Rating: **B**  
The Street (analyst avg.): **A**



**MAGNA INTERNATIONAL INC. (MGA) NYSE PRICE \$53.38**

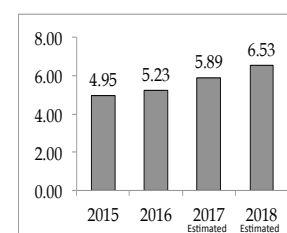
Magna International Inc. (Magna) is a global automotive supplier. The Company's segments are North America, Europe, Asia, Rest of World, and Corporate and Other. The Company's product capabilities include producing body, chassis, exterior, seating, powertrain, electronic, active driver assistance, vision, closure, and roof systems and modules, as well as vehicle engineering and contract manufacturing. The Company has over 320 manufacturing operations and approximately 100 product development, engineering and sales centers in over 30 countries. It provides a range of body, chassis and engineering solutions to its original equipment manufacturer (OEM) customers. It has capabilities in powertrain design, development, testing and manufacturing. It offers bumper fascia systems, exterior trim and modular systems. It offers exterior and interior mirror systems. It offers sealing, trim, engineered glass and module systems. It offers softtops, retractable hardtops, modular tops and hardtops.

Type: Value  
Sector: Consumer Discretionary

Institutional Holdings: 1272  
Industry: Auto Components

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **9.6**  
Annual Yield: **2.1%**  
Annual Dividend: **1.10**  
Investor's Bus. Daily: **B**  
Pearson Growth & Value: **B+**  
Morningstar Rating: **C**  
Stand & Poor Rating: **B**  
The Street (analyst avg.): **N/A**



**NUCOR CORP (NUE) NYSE PRICE \$56.04**

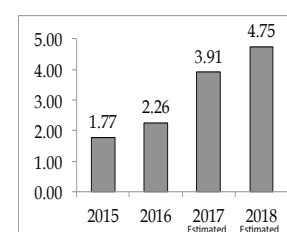
Nucor Corporation (Nucor) manufactures steel and steel products. The Company produces direct reduced iron (DRI) for use in its steel mills. It operates in three segments: steel mills, steel products and raw materials. The steel mills segment produces and distributes sheet steel (hot-rolled, cold-rolled and galvanized), plate steel, structural steel (wide-flange beams, beam blanks, H-piling and sheet piling) and bar steel (blooms, billets, concrete reinforcing bar, merchant bar, wire rod and special bar quality). The steel products segment produces steel joists and joist girders, steel deck, fabricated concrete reinforcing steel and cold finished steel. The raw materials produces DRI; brokers ferrous and nonferrous metals, pig iron, HBI and DRI; supplies ferro-alloys, and processes ferrous and nonferrous scrap metal. It also processes ferrous and nonferrous metals and brokers ferrous and nonferrous metals, pig iron, hot briquetted iron (HBI) and DRI.

Type: Value  
Sector: Materials

Institutional Holdings: 1415  
Industry: Metals & Mining

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **15.2**  
Annual Yield: **2.7%**  
Annual Dividend: **1.51**  
Investor's Bus. Daily: **D**  
Pearson Growth & Value: **A-**  
Morningstar Rating: **N/A**  
Stand & Poor Rating: **A**  
The Street (analyst avg.): **B**



## JUST ASK ANN

We are entering the fourth quarter of 2017 and here are some end of year reminders.

For our IRA (those clients over 70 ½ years of age) and Beneficiary Account clients (of ALL ages), it's time to get those Required Minimum Distributions -RMDs- satisfied. In the next few weeks, those of you who still need to do this will be contacted so that we can arrange for the paperwork to be completed and returned to Ameritrade in a timely manner. Please keep in mind, this obligation needs to be met before December 31, 2017 or the IRS will help themselves to 50% of the amount in penalties that you were supposed to take from your account!

Many of you have already set up Move Money Authorizations in your IRAs so completing this task won't require any more paperwork. If you know you are ready to take your RMD, give me a call or email me. I will let you know your exact amount and we'll get it done.

If you haven't completed a Move Money form, I will contact you and assist you in completing your obligation.

Should you have multiple IRA accounts that fall under this rule, be aware that you can take the total amount from any ONE of your accounts. It does not have to be individual to each account and should you have accounts at other firms, not just TD, you may choose which account will satisfy your RMDs.

\*\*\*

Your ROTH IRA contribution for 2017 is \$5500 per year but for those of you over 50 your maximum contribution is \$6500. Contributions to these accounts are made with after tax dollars and there are no taxes for retirement age withdrawals regardless of profit gained.

HAVE YOU FUNDED YOUR ROTH FOR 2017?

\*\*\*

Please remember to keep us and your accounts updated with any changes - address, phone numbers, email, and more importantly your beneficiaries. Also let us know if you need any adjustments to your periodic distributions.

I'm always here to assist you!

### Vanguard Growth Index FUND ETF (VUG) NYSE ARCA PRICE \$132.75

The investment seeks to track the performance of a benchmark index that measures the investment return of large-capitalization growth stocks. The fund employs an indexing investment approach designed to track the performance of the CRSP US Large Cap Growth Index, a broadly diversified index predominantly made up of growth stocks of large U.S. companies. The advisor attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.

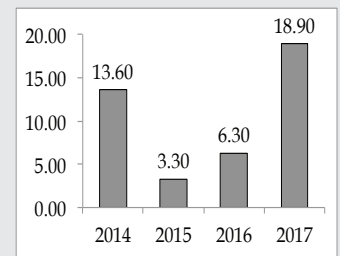
Location: USA  
Type: 100% Stocks

Category: Large Growth  
Industry: Diversified

#### Ratings & Recommendations

Current P/E Ratio: **N/A**  
Annual Yield: **1.3%**  
Annual Dividend: **1.66**  
Investor's Bus. Daily: **N/A**  
Pearson Growth & Value: **A-**  
Morningstar Rating: **B**  
Stand & Poor Rating: **N/A**  
The Street (analyst avg.): **N/A**

#### Performance by%



### Vanguard High Dividend Yield Index FUND ETF (VYM) NYSE ARCA PRICE \$81.07

The investment seeks to track the performance of a benchmark index that measures the investment return of common stocks of companies that are characterized by high dividend yield. The fund employs an indexing investment approach designed to track the performance of the FTSE High Dividend Yield Index, which consists of common stocks of companies that pay dividends that generally are higher than average. The advisor attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.

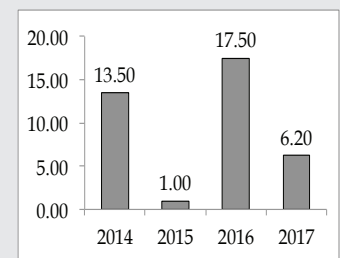
Location: USA  
Type: 100% Stocks

Category: Large Value  
Industry: Diversified

#### Ratings & Recommendations

Current P/E Ratio: **N/A**  
Annual Yield: **3%**  
Annual Dividend: **2.42**  
Investor's Bus. Daily: **N/A**  
Pearson Growth & Value: **A-**  
Morningstar Rating: **B**  
Stand & Poor Rating: **N/A**  
The Street (analyst avg.): **N/A**

#### Performance by%



## **Earnings Flows:**

November takes us to the middle of earnings season, where many companies will report their past earnings for the last quarter. Some analysts expect retail sales to rise in the next couple of months due to the demand for replacement autos and more building materials in the wake of Hurricanes Harvey, Irma, and Maria. Retail sales have risen over 3 percent in the past 12 months, so consumer spending was very robust. However, with the three back-to-back hurricanes, the interruptions may affect the outcome of the next quarter. Other companies may guide lower for their expectations as they assess the overall damage the natural disasters may have caused. Christmas sales will be a big factor toward the end of the year, and we hope the storms won't put a damper on the upcoming holiday season. With market P/E ratios still at record highs, a pullback may occur as early as next year. Analysts may revise their expectations now for the 2018 earnings season.

### **In the most recent quarter:**

- 1) Almost 70 percent of S&P 500 companies beat sales estimates.
- 2) Many companies reported two consecutive earnings growth periods and increased earnings guidance.

**Key Point: We are hoping that the recent hurricanes did not impact companies' earnings growth.**

## **Cash Flows:**

As we stated before, companies have bought fewer shares and provided less of a dividend boost this year than last, as money is still parked overseas. Congress is still debating on their tax program, and any repatriation is scheduled to be part of the overall bill. The first details reported in the press indicate \$1.5 trillion worth of tax cuts over 10 years to be offset by \$1 trillion in new government revenue due to increased economic growth. The corporate tax rate is also expected to be reduced to around 20 percent. President Trump has made tax reform a central part of his presidential mandate, and has stated that he will work with both Democrats and Republicans to pass this upcoming legislature. At this moment they are beginning debate, but it may not be decided upon until 2018. We expect that U.S. business will support and lobby Congress to help move the process forward.

### **New trends we see.**

- 1) The new legislature will help businesses grow and invest in the United States.

**Key point: The next step in Congress's legislative calendar is tax cuts.**

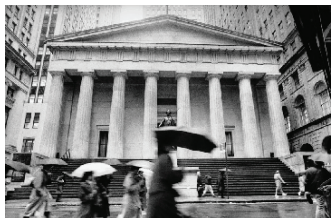
### **Management Fee:**

*Our fee is extracted quarterly from the account at 25% of one percent by TD Ameritrade. Immediately following any quarterly management fee extraction, it is posted within your account's history information available on line. It is also posted in your TD Ameritrade monthly statement.*

*Fourth Quarter October-November-December-see your October statement.*

# WALL STREET INDEXES

Indexes	2011	2012	2013	2014	2015	2016	2017
S&P 500	EVEN	13.4%	29.6%	11.4%	(0.8%)	5.8%	12.5%
Dow Jones	5.5%	7.3%	26.5%	7.5%	(2.2%)	7.9%	13.4%
Nasdaq	(1.8%)	15.9%	38.3%	13.4%	5.7%	4.1%	20.7%
Market Average	1.2%	12.2%	31.5%	10.8%	0.9%	5.9%	15.5%



## MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

### Economic Flows:

After the most recent Federal Open Market Committee (FOMC) meeting, the Federal



Reserve stated that they are still taking a "wait and see" approach before raising key interest rates, sticking with their intended goal of targeting 2 percent inflation, and maintaining the Fed funds rate at 1.25 percent. The recent slowdown in inflation and the three major hurricanes in the same month will help them prevent any decisions to tighten interest rates.

Also, the Fed confirmed that they will start shrinking their \$4.5 trillion balance sheet in October by selling \$10 billion in Treasury and mortgage-backed securities. The Fed made the decision to reinvest all maturities of Treasury securities above \$6 billion and all maturities of mortgage-backed securities above \$4 billion. This will allow the Fed to shrink its massive balance sheet that had grown more than five-fold since the 2008 financial crisis. In less than a decade, the national debt grew from \$10 trillion to \$20 trillion and the Fed's balance sheet grew from a tad over \$800 billion to \$4.5 trillion. They will also closely monitor this process so that there are no unintended consequences, as some predict a possible spike in long-term interest rates. If there are tax cuts and rising deficits, there may be more upward pressure on yields going into late next year and into 2019, as there is a limit to just how much money the U.S. government can borrow.

Since the Fed is planning to start shrinking its balance sheet by selling Treasury and mortgage-backed securities, the European Central Bank (ECB) has also recently stated that it would begin to consider how quickly it will reduce its purchases of government bonds in 2018. However, that means the ECB's quantitative easing will continue, and their goal is to buy \$71.5 billion worth of bonds per month at least through the end of the year or beyond, if needed.

### New trends that we see:

1) Europe's 2.2 percent second-quarter GDP growth was the best in over six years.

**Key Point: Because of the recent hurricanes, the Federal Reserve is halting any rate increases right now.**

Continued to page 5

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