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Your Personal Money Manager

Pearson INVESTMENT LETTER

Published Monthly Since 1982

www.pearsoncapitalinc.com

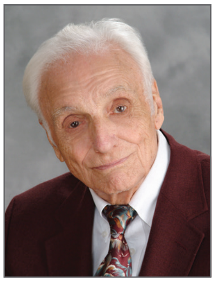
FEATURED STOCKS - MAY/JUNE 2016

VALUE STOCKS:	INCOME STOCKS:
AbbVie Inc	Qualcomm Inc
CVS Health Corp	Verizon Communications Inc

FEATURED ETF INVESTMENTS

Energy Select Sector SPDR® Fund

Technology Select Sector SPDR® Fund



Walter D. Pearson
Chairman

Donald E. Pearson
President

Ann Hathaway
Account Manager

WHY DIVIDEND STOCKS

As the bull market continues, and the price earnings ratios continue to climb, volatility increases. This makes stocks more expensive, and as we continue to research we realize we must pay more for them. This year already we've seen huge swings in the market both favorable and unfavorable. Through this period we have seen stocks paying and increasing their dividends as exceptionally attractive, and we have watched the technology sector going through some difficult times. People are reducing their holdings in this sector as it's down year to date.

We often purchase an ETF, S&P Divided, (SDY). All the companies within this ETF have raised their dividend continuously for 20 or more years while remaining profitable. The top 10 companies within this ETF and their percentage of holdings are as follows;
AT&T Inc. - 2.00%; Chevron Corp. - 1.89%; Caterpillar Inc. - 1.88%; Questar Corp. - 1.80%; HCP Inc. - 1.76%; Nucor Corp. - 1.70%; Realty Income Corp. - 1.64%; Cullen/Frost Bankers Inc. - 1.64%; Emerson Electric Co. - 1.63%; National Fuel Gas Co. - 1.51%.

We also purchase some of these companies as standalone and add additional shares to portfolios because we believe they are superior. A good example of this would be AT&T (T) because of their yield exceeding 5% and continuously increasing, and their stellar performance over time. Another standalone dividend income stock we like very much is Verizon (VZ). Again, year after year, showing ongoing large growth and profit; the yield is steady at over 4%. Both AT&T and Verizon are up over 10% year to date.

Doing the research is key because many companies that are doing the job today, might, because of issues they're facing, cut their dividend tomorrow. Last year 394 companies cut their dividends. This is an increase of 38% over the prior year. We continue to monitor the cash-flow of a company trying to avoid this. As an example, within the energy sector, yields have been going up, but stock prices have been falling rapidly and many companies are in danger of going out of business.

So far this year companies in the S&P 500 have raised their dividends by an average of 10.4%, the lowest increase in more than five years. Many companies today believe uncertainty is in their immediate future and are holding back to be prepared for what the economy throws at them.

PLANNING PROPERLY

Proper planning is making important decisions now to meet your needs at a later time in your life. As an example, you are recently retired and your income has down sized, or you will soon be retired and making ends meet appears to be challenging. I have suggestions for these situations and would be happy to meet with you to discuss the options and decisions that could help improve where you are today and going forward for a very long time.

For younger people in the early stages of planning, decisions made today could mean the difference between a successful retirement and working many years longer than planned. Today about 10% of workers save for a successful retirement while 80% save with short range planning, and 10% do not save at all. Short range planners may be targeting vacations, new cars, etc., while many who own their own business put any leftover income back into the business and again miss the opportunity of compounding growth. For those willing to save the suggested 15% of their gross income for retirement, the following is applicable and should provide a successful retirement income.

If a 20-year-old puts $1.00 today in a 401(k) or IRA, it should be worth $18.50 at age 65, assuming the stock market's average rate of return. The same dollar invested by a 30-year-old will be worth half as much. Even those saving only 3% of their income for five years will still do better than those waiting ten years without saving anything, and then putting in 20% of their income to catch up. A 25-year-old who earns $40,000 a year and saves 1% a month, will receive $190 a month in retirement, but if he or she raises the saving rate by 1% each year for 12 years the retirement income will rise to $1,930 a month. A 15% saving rate should be the goal but getting started should be the key, because it pays to start somewhere.

For those with younger family members beginning employment it's imperative we share this type of information with them. Many of our older generation can look back and realize we should've done more with our own. We can justify not doing more because of higher rent or mortgage, medical bills, or a host of other reasons, but the bottom line might be: Wish I could do it over knowing what I do now.

DP

THINKING ABOUT INVESTING AND DIVIDENDS

Maybe the time has come to think about dividends. They may not seem important, but then again, I guess it depends upon who is looking. Let's look back a little bit. Cincinnati Financial has not only raised their dividend many times during the last forty years, but twenty shares bought in 1989 have grown today to more than two hundred shares. It is important to decide if you are more interested in growth or income. It is all right to go either way--growth or income--but it is important for YOU to make this decision. Sometimes your growth stock may decide to pay dividends and that may be a surprise. For one reason or another, your company may have more cash than they need and decide to let you have it. Take Intel for example. You might have bought twenty shares in 1993 for about $1200. It was a growth company paying no dividends. Today they are now paying dividends, the value has increased to more than $10,000, and you are receiving a return of 3.29 percent on this investment. This is one outstanding reason to concentrate on growth if you can manage it.

Sometime in your lifetime something special comes along, and it is necessary to catch it before it is too late. Maybe you can remember, or maybe you can't, but when the fast food industry started to take a foothold they were very good investments. You might have bought two hundred shares of Wendy's twenty-five years ago for about $3000. Today you would have more than one thousand shares with a value exceeding $50,000, but that's not all. Somewhere along the line the management decided to give the investment in Tim Horton's to the Wendy's shareholders, and that comes up with a value exceeding another $50,000. It just seems that in this business you can do something right some of the time.

In searching for investments it is necessary to look ahead. Do not think in a hurry-up manner. Time is on your side. Something that doesn't work out right away may work out if given more time. I remember where Apple was. I asked a speaker who preceded me on a platform what he thought of Apple, and he informed me that his opinion was shared by many, and that he thought the management was poor, that future prospects were less than dim, and that I should sell. Fortunately for me I kept one lot inasmuch as I had bought it twice. I kept the one I had in the IRA account and I believe it is not necessary to categorize how well it has done as I believe everybody knows.

Think back in time when the fast food industry came alive. Were you one of those people who latched on to McDonald's, Wendy's, and some of the other winners? Or did you just give them a ho hum as you went about other business? When an industry comes alive it is possible to get more than one company and still do very well. This calls to mind the high-tech industry that blossomed about the year 2000. Did you buy Microsoft, Oracle, or any of those which looked promising, or did you miss the patter of little feet as they went whizzing by? During your lifetime things will happen and investing is the way to go. The "Oracle" missed the high-tech industry because he didn't understand it, so he missed it. I believe you should have faith as well as an understanding of the figures.

I know you've been waiting for this, so here you are. If it's money you want, you've come to the right place. Here are the companies that have raised your take home pay this time once more: PTR, BBBY, STZ, QCOM, PG, SAP, SAN, COST, OHI, TEF, CCL, RCI,MPLX, CP, SSFN, CE, SCHW, FELE, TRV, AAPL, EXC,IBM, MET, WFC, BP, AMP, XOM, GWW, SU, GILD, JNJ, BCE, ADC, TSCO, PEP, CAH, HY, NYLD/A, JCOM.

WP

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.*

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 MAY/JUNE 2016
www.pearsoncapitalinc.com

ABBVIE INC (ABBV) NYSE PRICE $62.49

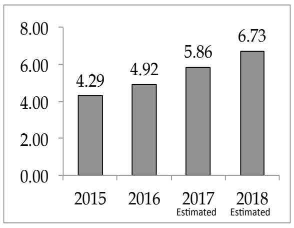
AbbVie Inc. (AbbVie) is a research-based biopharmaceutical company. The Company develops and markets therapies that address a range of diseases. The Company operates in pharmaceutical products segment. Its products are focused on treating conditions, such as chronic autoimmune diseases, in rheumatology, gastroenterology and dermatology; oncology, including blood cancers; virology, including hepatitis C (HCV) and human immunodeficiency virus (HIV); neurological disorders, such as Parkinson's disease; metabolic diseases, including thyroid disease and complications associated with cystic fibrosis, as well as other serious health conditions. AbbVie also has a pipeline of new medicines, including over 50 compounds or indications, such as immunology, virology/liver disease, oncology, neurological diseases and women's health. Its product portfolio includes HUMIRA, IMBRUVICA, HCV products, additional virology products, metabolics/hormones products, endocrinology products and other products.

Type: Value
Sector: Health Care
Institutional Holdings: 2658
Industry: Pharmaceuticals

Ratings & Recommendations

Current P/E Ratio: **18.8**
Annual Yield: **3.6%**
Annual Dividend: **2.28**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **A-**
Morningstar Rating: **C**
Stand & Poor Rating: **B**
The Street (analyst avg.): **A**

Earnings per share



CVS HEALTH CORP (CVS) NYSE PRICE $104.85

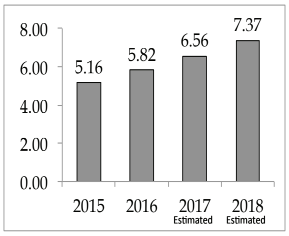
CVS Health Corporation, together with its subsidiaries, is a pharmacy company. The Company operates through three business segments: Pharmacy Services, Retail Pharmacy and Corporate. The Pharmacy Services segment provides a range of pharmacy benefit management (PBM) services and operates under the CVS/Caremark Pharmacy Services, Novologix and Navarro Health Services names. The Retail Pharmacy segment sells prescription drugs and an assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, photo finishing, seasonal merchandise and greeting cards through the Company's retail stores, online retail pharmacy Websites and retail healthcare clinics. The Corporate segment provides management and administrative services to support the overall operations of the Company. The Company, through its wholly owned subsidiary, Omnicare, Inc., provides pharmacy services to long term care facilities.

Type: Value
Sector: Consumer Staples
Institutional Holdings: 3684
Industry: Food & Staples Retailing

Ratings & Recommendations

Current P/E Ratio: **22.6**
Annual Yield: **1.6%**
Annual Dividend: **1.70**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **A**
Morningstar Rating: **C**
Stand & Poor Rating: **A**
The Street (analyst avg.): **A**

Earnings per share



QUALCOMM INC (QCOM) NASDAQ PRICE $51.50

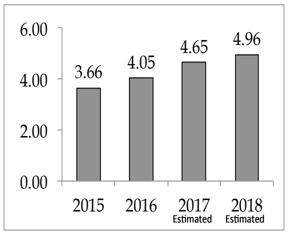
QUALCOMM Incorporated is engaged in the development and commercialization of a digital communication technology called code division multiple access (CDMA). The Company is engaged in the development and commercialization of the orthogonal frequency division multiple access (OFDMA) family of technologies, including long-term evolution (LTE), which is an Orthogonal Frequency Division Multiplexing (OFDM)-based standard that uses OFDMA and single-carrier Frequency Division Multiple Access (FDMA), for cellular wireless communication applications. The Company's segments include QCT (Qualcomm CDMA Technologies), QTL (Qualcomm Technology Licensing) and QSI (Qualcomm Strategic Initiatives). The Company also develops and commercializes a range of other technologies used in handsets and tablets that contribute to end user demand. The Company's products principally consist of integrated circuits (chips or chipsets) and system software used in mobile devices and in wireless networks.

Type: Income
Sector: Information Technology
Institutional Holdings: 2969
Industry: Communications Equipment

Ratings & Recommendations

Current P/E Ratio: **16.5**
Annual Yield: **3.7%**
Annual Dividend: **1.92**
Investor's Bus. Daily: **C**
Pearson Growth & Value: **A-**
Morningstar Rating: **B**
Stand & Poor Rating: **B**
The Street (analyst avg.): **C+**

Earnings per share



VERIZON COMMUNICATIONS INC (VZ) NYSE PRICE $51.47

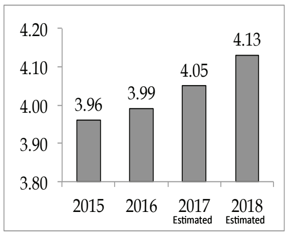
Verizon Communications Inc. (Verizon) is a holding company that, acting through its subsidiaries, provides communications, information and entertainment products and services to consumers, businesses and governmental agencies. Its segments include Wireless and Wireline. The Wireless segment includes the Cellco Partnership doing business as Verizon Wireless. Wireless' communications products and services include wireless voice and data services and equipment sales, which are provided to consumer, business and government customers across the United States. Wireline's voice, data and video communications products and services include broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice services. Verizon provides these products and services to consumers in the United States, as well as to carriers, businesses and government customers both in the United States and around the world.

Type: Income
Sector: Telecommunications Services
Institutional Holdings: 3725
Industry: Telecommunication Services

Ratings & Recommendations

Current P/E Ratio: **11.6**
Annual Yield: **4.4**
Annual Dividend: **2.26**
Investor's Bus. Daily: **A+**
Pearson Growth & Value: **A-**
Morningstar Rating: **C**
Stand & Poor Rating: **C**
The Street (analyst avg.): **N/A**

Earnings per share



JUST ASK ANN

The following email was sent to a client in response to a request for us to take over voting proxies so that the email notifications would stop. Here is my reply and I hope you find it informative.

We have been advised by TD that you have requested that Pearson Capital vote proxies on your behalf. I understand that the amount of emails you receive on this can be overwhelming and if it weren't for electronic delivery; your mailbox would be overflowing with the stuff!

Unfortunately, our management agreement specifically states that we do not vote proxies:

6. Proxy Voting; Advisor will not be required to take any action or render any advice with respect to the voting of securities in the Account, and Advisor is specifically precluded from doing so. The Advisor is hereby expressly precluded from voting proxies. Client understands and agrees that Client retains the right to vote all proxies, which are solicited for securities held in the Portfolio. Any proxy solicitation received at the Advisors place of business will be immediately forwarded to the Client for their evaluation and decision.

I'm sorry to say you will have to continue receiving these proxies and annual reports. As a shareholder, companies are obligated to give you an opportunity to voice your opinion on voting matters as well as keeping you up to date on company performance and personnel.

The only upside to this is when you receive them electronically, it's just hitting a delete button.

Needless to say you are not the only one who is miffed about this rule, many clients have asked us to stop the deluge but we can't (and I can't tell you how many times we have tried). At one point we did allow clients to choose that we do the voting but back then all was physically mailed and we were receiving pounds of mail on a daily basis. Hence the notice in our agreement.

I'm sorry we can't do more for you on this. Hope you understand.

CORE ETF (EXCHANGE TRADED FUND)

ENERGY SELECT SECTOR SPDR® FUND (XLE) NYSE ARCA PRICE $65.83

The investment seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of publicly traded equity securities of companies in the Energy Select Sector Index. In seeking to track the performance of the index, the fund employs a replication strategy. It generally invests substantially all, but at least 95%, of its total assets in the securities comprising the index. The index includes securities of companies from the following industries: oil, gas and consumable fuels; and energy equipment and services.

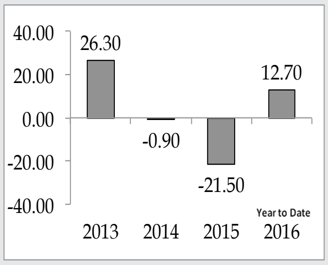
Location: USA
Type: 100% Stocks

Category: Growth
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **3.8%**
Annual Dividend: **2.50**
Investor's Bus. Daily: **N/A**
Pearson Growth & Value: **A-**
Morningstar Rating: **A**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **N/A**

Performance by%



CORE ETF (EXCHANGE TRADED FUND)

TECHNOLOGY SELECT SECTOR SPDR® FUND (XLK) NYSE ARCA PRICE $42.37

The investment seeks investment results that, before expenses, correspond generally to the price and yield performance of publicly traded equity securities of companies in the Technology Select Sector Index. In seeking to track the performance of the index, the fund employs a replication strategy, which means that the fund typically invests in substantially all of the securities represented in the index in approximately the same proportions as the index. It generally invests substantially all, but at least 95%, of its total assets in the securities comprising the index.

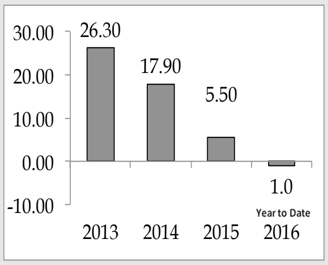
Location: USA
Type: 100% Stocks

Category: Growth
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **2.3%**
Annual Dividend: **0.99**
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%



Investment letters are complimentary to our clients with managed accounts!

Earnings Flows:

May is the end of this quarter's earnings reports, as many report all at one time before the Memorial weekend holiday. Earnings continue to slow down as many companies are making earnings and revenue misses. This quarter's earnings are under pressure. As Apple and Netflix have proved in the previous weeks, the leadership of the stock market is changing fast. The stock market may look calm on the surface, but we're constantly seeing various groups and sectors and stock market components churning wildly under the surface. The biggest stock that was talked about the most last week was Apple, which posted negative first-quarter sales and earnings growth; its first drop in revenues in 13 years. But others, such as Macy's and even Disney's earnings warnings are overturning the previous leadership of the market. The bright spot in the U.S. economy remains the service sector, with dividend stocks such as Johnson and Johnson leading the way. We expect earnings to flatten out for the market as a whole, and even though that may happen, if people are willing to pay for these earnings, the market can either go higher or continue to move sideways for the remainder of the year. Companies will continue to remain conservative with future guidance and maintain full valuation.

The new trends continue:

1) We continue to see a shift in retail from the brick and mortar stores to those online.
2) We expect dividend stocks to continue to do well as many are reaching new highs.
3) We expect more companies to merge together.

Key Point: As earnings are under pressure, the market will continue to flatten out.

Cash Flows:

According to some people, one should sell in May and go away, returning in October. But in recent years, many miss out as rallies continue throughout the summer now. Low interest rates have forced investors to be in the equities market, and many companies take advantage of any swoon to buy back their own shares. One example is a stock that we recently purchased called Qualcomm, (QCOM). The stock was as high as $73 dollars a share and then had an earnings warning. It fell back to about $42 and now it is about $52. It recently raised its dividend and has bought back shares. With about 20 billion dollars in cash on hand, its management has decided to use this opportunity to increase its share value. We will continue to see many more companies use their excess cash to improve shareholder returns.

New trends that are happening:

1) Many favorable companies are still increasing their dividends.
2) Activists continue to be the headliners in the news.
3) Europe and Asia will worry many investors.

Key point: If we have another pullback, companies will buy back shares.

WALL STREET INDEXES

Indexes	2010	2011	2012	2013	2014	2015	2016
S&P 500	12.9%	EVEN	13.4%	29.6%	11.4%	(0.8%)	1%
Dow Jones	11.0%	5.5%	7.3%	26.5%	7.5%	(2.2%)	1.7%
Nasdaq	16.9%	(1.8%)	15.9%	38.3%	13.4%	5.7%	(5.4%)
Market Average	13.8%	1.2%	12.2%	31.5%	10.8%	0.9%	(.09%)

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:

At the least of what we can see, we expect the Fed to hold its course. Due to weak worldwide growth and deflation fears, central banks around the world are likely to remain accommodative. Adding that to the great uncertainty in this Presidential election year, many Federal Reserve officials will still hold the line on the possibility of another rate hike in the future. Since the European Central Bank (ECB) and the Bank of Japan (BOJ) are still pushing for negative interest rates to reignite their respective economies, we are waiting for these regions to continue to work through their differences.

According to one analyst, UBS's Daniel Waldman, "We find that the most significant driver of changes in the Fed dots from one meeting to the next is changes in equity prices." The second half of 2015 was helpful in thinking about this idea, as October's had an 8 percent rally in the S&P 500. The belief was that this rally was an important driver of the Fed's December hike, though the economic data wasn't overall better in December than it had been in September.

The manufacturing slowdown is now a worldwide problem, since Japan is especially weak and Canada, China, and the Euro-zone continue to struggle. The Obama Administration, via the Treasury Department, warned China, Japan, South Korea, Taiwan, and even Germany, about alleged policies designed to weaken their currencies to capture more worldwide market shares at the expense of the U.S. as steel, aluminum, and other commodity products are flooding the markets.

New trends that we see:

1) Outside of large cities, prices for homes are peaking.
2) OPEC may no longer exist as the Saudi's plan to sell their oil company.
3) Fears once again abound about the Chinese economy.

Key Point: Economic issues are creating another choppy summer market.

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The Pearson Investment Letter
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