

Your Personal Money Manager

Pearson

INVESTMENT LETTER

Published Monthly Since 1982
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FEATURED STOCKS - MAY/JUNE 2018

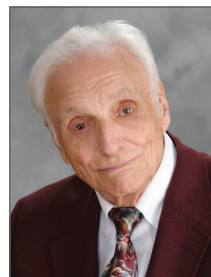
VALUE STOCKS:

Apple Inc.
Arrow Electronics Inc.

Comerica Inc.
Prologis Inc.

ETFs:

Vanguard Large-Cap Index Fund
Vanguard Value Index Fund



Walter D. Pearson
Chairman



Donald E. Pearson
President



Ann Hathaway
Account Manager

Apple and Opportunity

Apple reported their quarterly earnings last week. Many analysts were very cautious to report reasonably positive earnings projections because iPhone sales appeared to be coming in soft. But, when Apple reported their complete first quarter earnings, they said the services part of their business (watches and music, etc.) was up over 30 percent versus prior year, thus another sensational quarter. In years past most companies, when their stock prices were up significantly, chose a stock split as their route to take. The attractive buying-in prices encouraged new investors while those that were already owners had their share amount doubled as the price was cut in half. Many companies chose even larger stock splits such as three, four, or more shares as an incentive for more to purchase. Today this appears to be changing as many large companies believe there is no better place to invest their money than in their own companies. It does make sense if you believe you can continue to grow your company by investing in yourself. Apple announced after reporting their numbers they will be buying back their shares investing \$110 billion within their company. They will also increase their dividend by 16 percent as an additional incentive to those wanting to own shares in their company.

Today Apple sells at \$187 per share and many believe it is still undervalued. Will there be periodical pull backs? The answer is yes, but as they continue to introduce new products many believe the stock price may pass \$400 within five years or less. If you are on board with Warren Buffet - Berkshire Hathaway, they just purchased another \$75 million worth making Apple their largest holding. Here at Pearson Capital this is also our largest holding within investor portfolios. Even if you're a small

investor, and we chose not to purchase individual stocks as a safer way to manage your account, we will purchase through ETF's. If you look into your portfolio and see VUG or XLK or IUSG, you also own Apple as this is their largest holding through an ETF portfolio.

Within our client base we currently have over 135,000 shares totaling almost \$3 million and we continue to buy for new clients. With a P/E of 18, a yield of 1.6 percent, and their future appearing to be exceptional, we will continue holding. Apple has split multiple times in the past, and if you invested \$100, 18-20 years ago, your investment today would be worth about a quarter of a million dollars.

If you are a client, neighbor, or friend and want to talk more about this, give me a call. I would enjoy hearing from you.

Mistakes Made

About once a year I like to write about the mistakes many of us make, and I can think of no better time than this. If you received a tax return this year and you feel good about it, I must tell you the IRS is returning your money that they used all year. As I've preached forever, when you need your teeth fixed you have the dentist do it. When your annual taxes need be done the small fee paid to a tax professional should be gladly surrendered as they may find deductions that you are not aware of and your tax return is adjusted favorably for you. The same should be said for a Registered Investment Advisor such as myself, not a broker or other without the same license and requirement that I'm obligated to do for you. When I talk with others choosing to manage their own account to save a minimal 1 percent management fee, I watch as they make

many or all of the obvious mistakes we see often.

First, many believe they can maximize their profit by timing the market. Many studies have shown market timing just doesn't work.

Second, being reactive. When the market tumbles and your investments lose, you really haven't lost anything unless you've sold, as your losses at this time are only on paper. When the market dips you need to realize it will recover and eventually rise beyond prior highs.

Third, many believe a particular sector is the right place to be and load up there. History will teach everyone that a well-diversified portfolio is without question the better way to build a portfolio. One can use ETF's that are sector specific while choosing selected stocks to get the diversification wanted. This is our strategy and we spend a great deal of time with our research department working to do this successfully.

Fourth, penny stocks. If you are getting overly invested with these, know they are issued by less established companies and most times don't trade on a public exchange.

Our management strategy is more a buy and hold with companies that have shown a successful history and a P/E ratio that makes them look very attractive. Once this has been shown only then can we purchase if it has what we refer to as an impressive PEG. Simply said the growth is projected higher than their P/E. Once we have found one we believe to be a quality buy for both my portfolio and yours, we make the purchase for us both. Want to know more about our way of doing this? Just call me to discuss.

DP

STAY INVESTED

What shall we talk about here today? Shall we talk about your yearnings or mine? Shall we discuss people or money, or, perhaps both in the same context? Perhaps we should talk about your investments. We have talked about them before but there is no extra charge for this so we'll just throw it in. Let's talk about beginners. There are those people who wouldn't invest for any reason. Come into the office and we can show you the chart of the average price of the market over the last one hundred years. Surprisingly the market has been pretty much of a growing entity over this period with small dips here and there. When you have lived through these dips as I have, you would be astonished at how little these are in the long run. It screams out, invest-invest-invest! You must realize that you are investing in a growing entity which is going to be worth more as it gets bigger. Then too, we have the value of the dollar shrinking which simply adds to the value of your investments. In my opinion, the value of the dollar is shrinking much faster than it did formerly. This does not mean that it is going extra fast. What I mean is that it is going downhill faster, perhaps going downhill at 7 percent instead of 6 percent. If my thinking is correct, what this means to you is that prices will start rising faster.

I was talking to a friend about old times and all of a sudden it hit me. I remembered when there were no professional football games. There were college games which I chose to watch, but then George Halas entered the fray. He thought that all of the people would rather watch the professional games. So, he started a league. At that time I lived in Providence, Rhode Island, and they joined the league. It was a game played on the high school lot and there was no room for crowds like they have today. There was standing room only, and the only seats available were the two benches that would seat about five persons on each one. Then the football game started and the teams were fighting it out in each direction. We spectators were vividly watching the game and trying to stay off of the field. Suddenly their man grabbed the ball and came through our men until he had a clear field and it looked like a sure touchdown. That is it looked like a sure touchdown until one of the spectators ran onto the field and tackled him. I don't remember what happened at that point, but I think he was reclassified and reconsidered. What a game.

Getting back to the investment field, it matters not what stock you buy providing you have done your backup work. The important thing is to get invested, and STAY invested. Money is made by being invested and staying there. Time is one of the big factors. Growth is another one of the factors. Even when you are investing for income, you will probably find that your company has been able to raise the dividend if given enough time. Remember that being invested is the #1 priority here. The #2 priority is to stay invested. Take a look and see how many companies that you own have raised their dividend this month. On the other hand, do you own all of these? We have recommended them in the past. It is amazing to see how much these companies can do for you over the long pull. And, I do mean LONG pull. I look at some of my companies that I have had for ten years or more. Take Paychex for instance. I bought less than \$1700 worth in March of 1993, and today I have had seven splits and the value as of today is approximately \$33,000. Quite a difference compared to what the bank is paying. And, I gave away about \$2500 to a church in January of 2011. Do as I do. Buy good growing companies and try to enlarge your holdings, then, let them grow. And, looking at those companies that raised the dividend again this month, how many must you own to make you wealthy?

Here's to you guys who are hoping for your income to appreciate. Today is your day. All of these companies have noticed your yearnings and your hopes, and they have finally decided to do something with all of that money which they have accumulated, and that means the following companies will raise your dividend. Good luck to all of you: PTR, SHI, DOX, CHL, SNP, GBCI, STZ, OZRK, WSO, PBA, TJX, DB, TGP, CHA, CYOU, BPT, EPD, LKFN, PG, SKT, SAP, BBD, VET, PKBK, GS, HCSG, QCOM, WHR, INFY, KMI, AMP, FELE, NBL, WBS, SAN, CNI, LFC, SCCO, UN, BBT, COST, IBM, MET, TRV, UGI, QSR, ABX, ETN, ENB, TECK, APH, EVR, XOM, IEX, MPLX, PAYX, XLNX, CIB, DLPH, GWB, JNJ, MMP, AAPL, PEP, BP, ECA, SU, VSM, TEF, FDS, MAR, PBA, PRGO, KLAC, NHC, NYLD.A, POOL, RLI, BMA, CNQ, MFC, BAX, JCOM, JLL, MCHP, FANG.

WP

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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)

APPLE INC. (AAPL) NASDAQ PRICE \$189.65

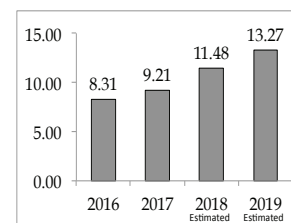
Apple Inc. designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players. The Company sells a range of related software, services, accessories, networking solutions, and third-party digital content and applications. The Company's segments 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: 61%
Industry: Technology Hardware, Storage & Peripherals

Ratings & Recommendations Earnings per share

Current P/E Ratio: **17.5**
Annual Yield: **1.5%**
Annual Dividend: **2.92**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **A+**
Morningstar Rating: **A-**
Stand & Poor Rating: **B**
The Street (analyst avg.): **A-**



ARROW ELECTRONICS INC. (ARW) NYSE PRICE \$76.52

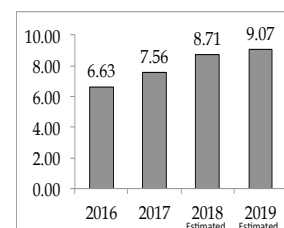
Arrow Electronics, Inc. is a provider of products, services and solutions to industrial and commercial users of electronic components and enterprise computing solutions. The Company has a portfolio of product offerings available from various electronic components and enterprise computing solutions suppliers. The Company's segments include the global components business; the global enterprise computing solutions (ECS) business, and corporate business segment. It distributes electronic components to original equipment manufacturers and contract manufacturers through its global components business segment. Through global ECS business segment, it provides enterprise computing solutions to value-added resellers. The Global components segment markets and distributes electronic components and provides a range of value-added capabilities. Global ECS' portfolio of computing solutions includes datacenter, cloud, security, and analytics solutions.

Type: Value
Sector: Information Technology

Institutional Holdings: 93%
Industry: Electronic Equipment, Instruments & Components

Ratings & Recommendations Earnings per share

Current P/E Ratio: **12.4**
Annual Yield: **N/A**
Annual Dividend: **N/A**
Investor's Bus. Daily: **B+**
Pearson Growth & Value: **A-**
Morningstar Rating: **B+**
Stand & Poor Rating: **A**
The Street (analyst avg.): **A-**



COMERICA INC. (CMA) NYSE PRICE \$97.91

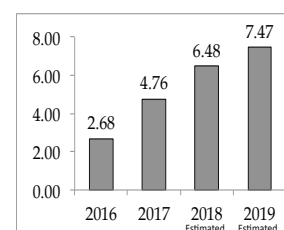
Comerica Incorporated is a financial services company. The Company's principal activity is lending to and accepting deposits from businesses and individuals. The Company's segments include the Business Bank, the Retail Bank, Wealth Management, Finance and Other. The Business Bank serves middle market businesses, multinational corporations and governmental entities by offering various products and services, including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, letters of credit, foreign exchange management services and loan syndication services. The Retail Bank includes small business banking and personal financial services, consisting of consumer lending, consumer deposit gathering and mortgage loan

Type: Value
Sector: Financials

Institutional Holdings: 84%
Industry: Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **18.7**
Annual Yield: **1.4%**
Annual Dividend: **1.36**
Investor's Bus. Daily: **A**
Pearson Growth & Value: **A**
Morningstar Rating: **A**
Stand & Poor Rating: **A**
The Street (analyst avg.): **N/A**



PROLOGIS INC. (PLD) NYSE PRICE \$65.59

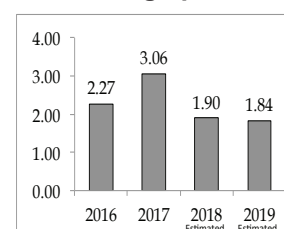
Prologis, Inc. is a real estate investment trust (REIT) company. The Company is engaged in logistics real estate business. The Company's segments include Real Estate Operations and Strategic Capital. The Real estate operations segment consists of rental operations and development. The Company's strategic capital segment includes asset management services, as well as services performed for unconsolidated co-investment ventures. Its strategic capital segment gives the Company access to third-party capital, both private and public. As of December 31, 2016, the Company owned or had investments in, on an owned basis or through co-investment ventures, properties and development projects across 676 million square feet (63 million square meters) in 20 countries spanning four continents.

Type: Value
Sector: Real Estate

Institutional Holdings: 95%
Industry: Equity Real Estate Investment Trusts (REITs)

Ratings & Recommendations Earnings per share

Current P/E Ratio: **19.6**
Annual Yield: **2.9%**
Annual Dividend: **1.92**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **A**
Morningstar Rating: **B+**
Stand & Poor Rating: **A**
The Street (analyst avg.): **B+**



JUST ASK ANN

We're often asked how accounts can be funded once they are open if there won't be a transfer in from another firm.

The simplest way is by check, made payable to TD Ameritrade and mailed in to TD offices. You simply have to write your account number on the front of the check and send it in. If you're in our area, ask Don or me for a prepaid envelope and you won't even need postage. If you're not close by, let us know and we can put some envelopes in the mail to you for deposit.

TD's address is **PO Box 650567, Dallas TX 75265-9910**

If you wish for us to make electronic payments, you can complete a Move Money form that will stay on file in your account that will verify your banking information and allow us to transfer in or out, any amount of funds that you request. This form is especially helpful when dealing with withdrawals from IRA accounts that always require written notice. You can access this form online or contact me and I will send one to you.

If you want to have funds sent directly from your paycheck, contact your HR department for their instructions. They will require your TD account number and TD's routing #021912915.

Finally, some clients prefer to handle deposits on their own, electronically. You can link your bank account directly to your Investment Account through your online access. However, this is a special feature that we need to turn on for you so a written request to us is required. Once we have your request, access is enabled and I will send you instructions for set-up.

Keep in mind; some IRA accounts have annual limits on the amount of your contribution so check to make sure you won't exceed that limit on auto-deposits.

Vanguard Large-Cap Index Fund ETF (VV) NYSE ARCA PRICE \$125.07

The investment seeks to track the performance of the CRSP US Large Cap Index that measures the investment return of large-capitalization stocks. The fund employs an indexing investment approach designed to track the performance of the CRSP US Large Cap Index, a broadly diversified index of large U.S. companies representing approximately the top 85% of the U.S. market capitalization. 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.

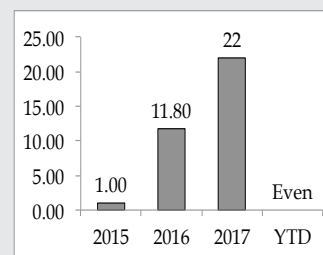
Location: USA
Type: 100% Stocks

Category: Large Blend
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **1.7%**
Annual Dividend: **2.16**
Investor's Bus. Daily: **N/A**
Pearson Growth & Value: **B+**
Morningstar Rating: **B**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **N/A**

Performance by%



Vanguard Value Index Fund ETF (VTV) NYSE ARCA PRICE \$105.12

The investment seeks to track the performance of a benchmark index that measures the investment return of large-capitalization value stocks. The fund employs an indexing investment approach designed to track the performance of the CRSP US Large Cap Value Index, a broadly diversified index predominantly made up of value 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.

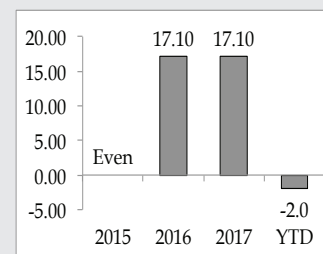
Location: USA
Type: 100% Stocks

Category: Large Value
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **2.4%**
Annual Dividend: **2.48**
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%



some companies up over 20 percent. With the best first quarter for earnings in over two decades, the stock market, like always, continues to shrug off the good numbers and instead focuses on the rising number of distractions and future fears of lower expectations. Inflation is slowing rising as raw material prices, oil prices, and home prices are increasing the overall cost of goods. Business investment is running at its highest pace since 2011 as the tax cuts are implemented over the next year.

However, with this big change analysts are still revising their 2018 earnings estimates higher. Normally they have that done by this time. The bad news is that the market believes that this is the peak earnings for many stocks, and in the future there will be more difficult year-over-year comparisons, even though right now more than half of reporting companies have beaten the consensus earnings estimates.

In the most recent quarter:

- 1) Some people believe that this economy is as good as it gets.
- 2) An all-out trade war will not happen with another country.

Key Point: Many people are afraid that earnings may be the best there is now.

Cash Flows:

Since the economy is already growing stronger, lower taxes are not only giving a boost in earnings, but additional income to the bottom line. Some aspects of the tax plan may not take hold until 2019 and beyond. Companies are now making the key decisions to pay down debt, repurchase stocks, and allow the opportunity for the financial means to create future mergers to gain market share. The most recent report that Warren Buffett's Berkshire Hathaway bought \$75 million more shares of Apple in the first quarter, confirms our viewpoint that the repatriation plan in the tax reform bill is a net positive for shareholders in the next few years. As many of these top technology companies, such as Apple (APPL), Microsoft Corp. (MSFT), and Google (GOOG), increase their earnings and revenues, they all will benefit shareholders as well in increased dividends and buybacks. As we've said before, telecommunication providers will be among the companies that benefit from the ability to immediately expense capital investments. The Sprint/T-Mobile proposed merger will be the first to take advantage of these changes.

New trends we see.

- 1) No discussion yet about infrastructure investments, as they are long term investment strategies.
- 2) We have not seen significant investment by foreign corporations.
- 3) Amazon will make a decision soon on where they will have their new headquarters.

Key Point: The tax plan is slowly going through the economy improving the cash positions of many of our favorite companies.

WALL STREET INDEXES

Indexes	2012	2013	2014	2015	2016	2017	2018
S&P 500	13.4%	29.6%	11.4%	(0.8%)	5.8%	19.6%	1.9%
Dow Jones	7.3%	26.5%	7.5%	(2.2%)	7.9%	25.1%	0.1%
Nasdaq	15.9%	38.3%	13.4%	5.7%	4.1%	28.2%	7.3%
Market Average	12.2%	31.5%	10.8%	0.9%	5.9%	24.3%	3.1%



MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:



The Federal Reserve recently left interest rates unchanged, but also signaled that a June key interest rate hike was likely. They also acknowledged that inflation was starting to increase with both overall and core inflation moving close to its target of 2 percent. We have stated before that the near-term boost of economic growth from tax cuts raises the odds that the U.S. economy will overheat, making it likely that interest rates will rise at a more rapid rate in 2018 and 2019. However, a temporary crisis, or an abrupt decline in Treasury yields, could postpone more Fed rate increases later this year.

As their normal routine, the Fed will be very cautious going forward. It is their intention to make very few, if any, increases in interest rates until they see the full effects of any economic expansion. The Fed intends to raise key interest rates slowly, but surely, as market rates rise on their own.

While the Fed sees upcoming inflation, many economists believe the economy is beginning to slow down, but not enough for a recession this year unless something drastic happens. This leaves open future speculation of a recession. Also, many people disagree with the decision that the Fed has made in reducing the assets on their books at the same time they are raising rates, as this may increase the overall risk in the bond market. The estimate of the amount of assets they are presently selling is \$30 billion a month. Previously it had been \$20 billion a month, and the expectation is that it will eventually be \$50 billion a month.

New trends that we see:

- 1) The dollar may start to move rather aggressively higher.
- 2) The current tariffs on steel and other goods may also create higher inflation.

Key Point: Many are worried that the Federal Reserve will tighten interest rates too much and too fast.

Earnings Flows:

As reported before, the good news about the tax bill and major corporate tax reform has recently sent all three major stock market indexes to new all-time highs. Earnings announcements are coming in even better than anticipated, with

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