Your Personal Money Manager

Pearson INVESTMENT LETTER

Published Monthly Since 1982

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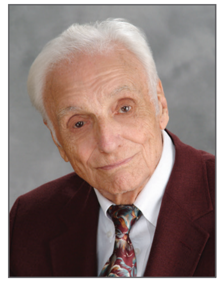
FEATURED STOCKS - AUG/SEPT 2018

VALUE STOCKS:	ETFs:
Apple Inc.	iShares Edge MCSI USA Momentum
Bank of America Corp	
Prudential Financial Inc.	
United Parcel Service Inc.	Energy Select Sector



Walter D. Pearson
Chairman

Donald E. Pearson
President

Ann Hathaway
Account Manager

Year Ending Results

Many times I am asked what my prediction was for the market at the beginning of the year, and now, being a bit more than half way through the year, and the blended S&P-Nasdaq-Dow up on average about 7 percent, would I change my original forecast? My answer is no. I will stay with my original prediction of a plus double digit increase including dividends.

I thought then, and I believe now, that the second half of the year will be better than the first for many reasons.

First, the gross domestic product that has continuously hovered at or barely above 2 percent for the past eight years will probably finish this year well over 3 percent. Already we have seen the last reporting quarter above 4 percent, and this should continue into next year. We have not seen this type of growth for 18 years.

Second, our unemployment rate is the lowest it has ever been, and it continues to go lower. We have not seen these types of impressive numbers since the 1950s. New jobs hover around 160,000 per month and should continue right into 2019.

Third, the federal government has increased their discretionary spending by over $300 billion over the next two years.

Fourth is the massive income tax cut of $1.5 trillion over the next ten years. This started earlier this year, and many did not see the benefit in their paychecks immediately. The real impact began in some cases several months later. It is working today and many are now spending more. With these tax cuts many companies returned a significant amount to employees and others bought their own stock back, while others were increasing or paying out special dividends. However spent, the companies in the S&P for the first quarter of 2018 had earnings that were more than 20 percent higher than last year. This is the strongest gain in seven years and continues to look favorable for next year.

With the stock market there is never a direct climb without occasional pullbacks and corrections. If you have the right portfolio balanced and diversified, I would see this, if a pullback occurs, as a buying opportunity rather than the time to jump ship and begin selling. Note the 2007-2009 pullback when many lost around 40 percent. In two years most had all of that back and then continued to climb consistently. Now eight years later the market has provided us with an opportunity to prosper. I believe this year will produce double digit growth, and again in 2019 another favorable opportunity. I'm very concerned regarding 2020 and would like to do extensive homework as we get closer before making my prediction as to results.

Good Decisions

Good decisions are usually made when one invests the time to research the issue by drawing information from every source available and then confirming the credibility of the sources being utilized. In my business, research is mandatory if one expects to be successful selecting quality investments. When selecting a company in which to invest long range, you should first understand the product or service being offered. It is also important to know if they can continuously generate an ongoing revenue stream of steady profits with a promising road ahead. This should be something already proven and the future will continue with ongoing success. Also, check out the executives who make the decisions. Once you have done your homework and you believe you have a company that meets all the issues referenced, then it becomes the time to crunch all the numbers that will bring us to the final decision. I have chosen Apple (AAPL) as a company to use as an example as they meet all the challenges I reference above. It is our largest individual holding in our client portfolio base with $3 million within client accounts.

AAPL selling today at $209 per share is in my opinion a value investment that everyone should own in their investment portfolio. Value is finding a company with a modest P/E ratio (18) and a (PEG) that outperforms. Simply said, growth outperforms the P/E. AAPL has a projected growth rate for 2018 of 27.3 percent and for 2019 of 15.5 percent. Their year to date performance is favorable with a plus 23 percent.

Many stocks today pay dividends with yields that are fairly impressive. This can and should be included in the decision making as it improves the bottom line. APPL has a yield of 1.4 percent paying out in cash $2.92 per share. Also AAPL increases their dividend every year as well, and it continues to buy back their own shares. This is their way of telling us the profit dollars they have generated are best invested in themselves rather than somewhere else. This is a very strong statement to make, and it reassures me they will continue to meet the numbers and profits being forecasted.

I know Warren Buffet of Berkshire Hathaway believes it too, as he just bought an additional $50 million worth of AAPL stock, making it their largest holding. At the same time AAPL was repurchasing $1 billion worth of their own company stock.

For small accounts we can do the same investing using exchange traded funds with AAPL as their largest holding. If you'd like to know more, please call me and I will answer any questions you might have.

DP

WALTER'S WISDOM

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Well, good morning. I was recently considering a trip to Italy again - perhaps a trip to Caserta, Naples, and all of those other places that have an outstanding appeal. Actually to me, it is something like going home again. My fighting experience was spent just briefly in the war. Most of my time was spent readdressing envelopes, or going to Rome, or Naples or elsewhere. The difference between Rome and Naples wasn't much, except we could sell a package of cigarettes for $2.00 in Rome, but it would only bring $1.50 in Naples. Never could understand the difference.

Perhaps we should discuss the advantage of long term investing. Most stocks which we consider are long term, but some are longer term. As I have often mentioned, look at Wendy's for instance. I bought it in 1972 and I haven't sold it since. I paid $3,100 for 200 shares and they have grown to more than 4,000 shares today. In addition to that I was given shares of a stock that was owned by Wendy's. I received more than 1,100 shares. My original $3,100 has grown to more than $70,000 and the other company that was given to us has grown to more than $70,000 also. These figures will only show what time and patience can do for you. Patience and time go together. But then, too, it is more than helpful to consider growth. If all of these come together, you will come out better than you went in. Consider how much you would be worth today if you put that $3,100 in the bank? With 3 percent interest you might have doubled your money. What a difference! See what waiting will do!

Not all things will do as well as Wendy's, but you do need a good one, plus patience. I can recall the time we had found a group of these companies that looked like they might be world beaters. One of these companies was Apple. I had two investments in Mr. Apple. One was in my regular account and the other was in my IRA. I had a speaking engagement and when I had finished I asked some of the other speakers what they thought of Apple. Not one of them gave me a positive comment. One of them said it's no good, throw it out. So I kept one and threw the other one out. Good thing I kept one anyway.

Another thing to think of is that every once in a while one of these world beaters will come to our attention, and we will try our best to buy it for everybody. The problem that arises is that not everyone has money. This is a good reason to continue to add money. One way to add money is to have dividend payers. There are a good number of these that are notorious for raising the dividend each month. Let's look at Lockheed Martin, which is the company we recommended for income last month. You might have bought it ten years ago at $67 or $120. Let's figure you bought at $100. Your dividend at that time was just under 2 percent. However that dividend was raised each year until the $1.83 dividend is now $7.46. Your rate of return has gone from less than 2 percent then to plus 7 percent now. Then too, your equity has grown substantially.

It wasn't enough that all of those increased their dividends last month, but here you are looking for more increases even yet. Here we go again: GBCI, PKBK, PFBC, MBT, DPS,KR, WBA, SAN ,OZRK, PNC, CP, DUK, PBA, TGP, EPD, TGE, CMI, R, TWO, VET, HCSG, BLK, HBAN, PAG, UN, WTR, C, DFS, EWBC, STT,BMTC, PPG, SWKS, SBNY, BBD, PETS, SCCO, BBT, FFBC, WFC, SPB, CNL, BOKF, CMA, DM, LSTR, MDLZ, MMP, MXIM, RGA, AZN, DEO, RDS.A, VALE, XL, ARLP, CBOE, LFUS, QSR, RIO, SIG, EOG, NYLD.A, RMD, CNQ, GIL, ING, PRGO, RNR.

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)

Investment letters are complimentary to our clients with managed accounts!

APPLE INC. (AAPL) NASDAQ PRICE $208.63

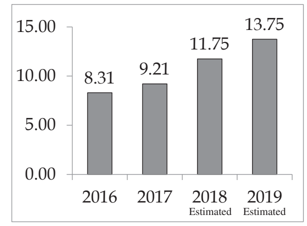
Apple Inc. designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players. The Company sells a range of related software, services, accessories, networking solutions, and third-party digital content and applications. The Company's segments 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: 60%
Industry: Technology Hardware, Storage & Peripherals

Ratings & Recommendations

Current P/E Ratio: **18.8**
Annual Yield: **1.4%**
Annual Dividend: **2.92**
Investor's Bus. Daily: **A**
Pearson Growth & Value: **A**
Morningstar Rating: **A**
Stand & Poor Rating: **B**
The Street (analyst avg.): **A**

Earnings per share



BANK OF AMERICA CORP (BAC) NYSE PRICE $31.77

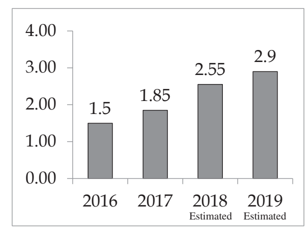
Bank of America Corporation is a bank holding company and a financial holding company. The Company is a financial institution, serving individual consumers and others with a range of banking, investing, asset management and other financial and risk management products and services. The Company, through its banking and various non-bank subsidiaries, throughout the United States and in international markets, provides a range of banking and non-bank financial services and products through four business segments: Consumer Banking, which comprises Deposits and Consumer Lending; Global Wealth & Investment Management, which consists of two primary businesses: Merrill Lynch Global Wealth Management and U.S. Trust, Bank of America Private Wealth Management; Global Banking, which provides a range of lending-related products and services; Global Markets, which offers sales and trading services, and All Other, which consists of equity investments, residual expense allocations and other.

Type: Value
Sector: Financials
Institutional Holdings: 69%
Industry: Banks

Ratings & Recommendations

Current P/E Ratio: **16.4**
Annual Yield: **1.9%**
Annual Dividend: **.60**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **A-**
Morningstar Rating: **B**
Stand & Poor Rating: **A**
The Street (analyst avg.): **A**

Earnings per share



PRUDENTIAL FINANCIAL INC. (PRU) NYSE PRICE $100.56

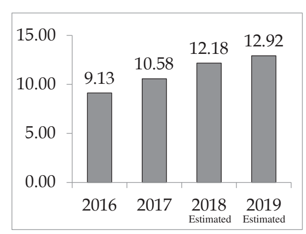
Prudential Financial, Inc., is a financial services company. The Company, through its subsidiaries, offers a range of financial products and services, which includes life insurance, annuities, retirement-related services, mutual funds and investment management. The Company's operations consist of four divisions, which together encompass seven segments. The U.S. Retirement Solutions and Investment Management division consists of Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division consists of Individual Life and Group Insurance segments. The International Insurance division consists of International Insurance segment. The Closed Block division consists of Closed Block segment. The Company has operations in the United States, Asia, Europe and Latin America.

Type: Value
Sector: Financials
Institutional Holdings: 65%
Industry: Insurance

Ratings & Recommendations

Current P/E Ratio: **5.9**
Annual Yield: **3.6%**
Annual Dividend: **3.60**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **B+**
Morningstar Rating: **B**
Stand & Poor Rating: **A**
The Street (analyst avg.): **A**

Earnings per share



UNITED PARCEL SERVICES INC. (UPS) NYSE PRICE $121.46

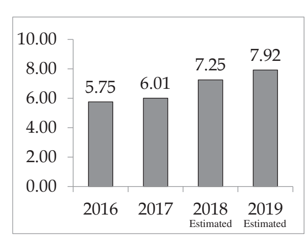
United Parcel Service, Inc. (UPS) is a package delivery company. The Company is a provider of global supply chain management solutions. The Company operates through three segments: U.S. Domestic Package operations, International Package operations, and Supply Chain & Freight operations. As of December 31, 2016, the Company delivered packages in over 220 countries and territories. The Company offers a spectrum of the United States domestic guaranteed ground and air package transportation services. The International Package segment includes the small package operations in Europe, Asia-Pacific, Canada and Latin America, the Indian sub-continent, the Middle East and Africa. The Supply Chain & Freight segment includes its forwarding and logistics services, truckload freight brokerage, UPS Freight and its financial offerings through UPS Capital. The Company serves the global market for logistics services, which include transportation, distribution, contract logistics and ground freight.

Type: Value
Sector: Industrials
Institutional Holdings: 65%
Industry: Air Freight & Logistics

Ratings & Recommendations

Current P/E Ratio: **20.2**
Annual Yield: **3.1%**
Annual Dividend: **3.64**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **B+**
Morningstar Rating: **B-**
Stand & Poor Rating: **A**
The Street (analyst avg.): **A**

Earnings per share



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- Position level gain/loss information: Sourced directly from their cost basis engine, Gainskeeper
- Tax document e-delivery enrollment: You will have the ability to opt into electronic delivery of tax statements in lieu of receiving a paper mailing

Coming soon:

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- Balance history chart: Will provide a historical depiction of your account value over time

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Right now you have the opportunity to try the new AdvisorClient experience by logging into the current website and clicking the "Try the new AdvisorClient® now!" banner. You can make the new AdvisorClient experience your default setting while still having access to the legacy platform as you learn the new website.

TD is excited to provide you with this new, improved online experience and they hope that you will take the time to share your feedback with them. Let them know what works, what doesn't, and what you would like to see as the building of this platform is a work in progress. No timeline has been established for the final conversion.

iShares Edge MSCI USA Momentum Factor ETF (MTUM) NYSE ARCA price $114.61

The investment seeks to track the investment results of the MSCI USA Momentum Index. The fund generally will invest at least 90% of its assets in the component securities of the underlying index and may invest up to 10% of its assets in certain futures, options and swap contracts, cash and cash equivalents. The index consists of stocks exhibiting relatively higher momentum characteristics than the traditional market capitalization-weighted parent index, the MSCI USA Index, which includes U.S. large- and mid-capitalization stocks.

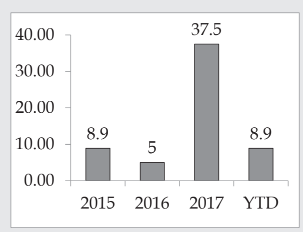
Location: USA
Type: 100% Stock

Category: Large Growth
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **1.1%**
Annual Dividend: **1.19**
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%



Energy Select Sector SPDR® Fund (XLE) NYSE ARCA PRICE $75.20

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.

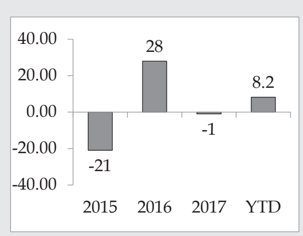
Location: USA
Type: 100% Stock

Category: Large Blend
Industry: Energy

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **3.1%**
Annual Dividend: **2.31**
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%



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Earnings Flows:

China has retaliated in kind against tariffs that President Donald Trump imposed recently. In response many Chinese-made goods are slated to face the new 10 percent to 25 percent tariff in the near future. The list includes building supplies, such as plywood and floor panels; wool products; cotton fabric, yarns and threads; and certain automobile parts, including tires. The new tariff list will broaden the types of goods including items like seafood; minerals; chemicals; and personal care items, such as shampoo and soap. It also includes a number of consumer items such as handbags, luggage, gloves, and paper.

Both of those moves are the result of a U.S. investigation that stated that the United States was losing about $50 billion annually through the theft of intellectual property by Chinese companies and practices that force U.S. companies to turn over valuable technology to Chinese partners to do business in that market.

So far, this quarter's earnings announcements are much better than expected. With over 50 percent of S&P 500 companies reporting results, over 80 percent have delivered a positive earnings surprise, and 75 percent have a positive sales surprise. Earnings are more than 20 percent above last year's level. If these results hold, they will be one of the highest ever on record.

Despite a higher dollar for many multinational companies, we believe this growth rate will continue to go on till at least the year end. The S&P 500 earnings may decelerate a bit, but if the past quarters are indicators, this upcoming quarter will be a record-high earnings announcement season as well.

In the most recent quarter:

1) Amazon is a main driver of the current S&P 500 growth rate.
2) Earnings have improved in many retail sectors in spite of Amazon's growth.

Key Point: Earnings estimates may continue to rise to the end of this year.

Cash Flows:

One of our biggest holdings, Apple (AAPL), was the first publicly traded U.S. company to hit a market cap of $1 trillion. The company posted record revenues as well for the June quarter.

So far, 2018 is on track to be the biggest year for corporate stock buy backs, which reduces the number of outstanding shares. The recent tax reform has allowed a record amount of overseas cash to come home for favorable tax treatment. This caused a boom of companies buying back their own shares.

In the first part of 2018, companies completed almost $200 billion buybacks, more than the first period last year. In the beginning of summer, U.S. companies announced more billions in stock buybacks and cash takeovers, a record amount, with half of that being our company Apple. We believe as long as interest rates remain relatively low, buybacks should persist, and we expect another wave of corporate stock buybacks for the rest of this year. As the number of outstanding shares dwindles, their P/E ratios tend to go up, pushing share prices up, and providing a floor for the market as well.

New trends we see:

1) Banks are buying back stock this quarter.
2) We expect future dividend increases at the end of this year.
3) Tesla is in discussion about becoming a private company.

Key point: We still believe that tariffs will not present a huge impact on the economy.

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%	7.1%
Dow Jones	7.3%	26.5%	7.5%	(2.2%)	7.9%	25.1%	3.4%
Nasdaq	15.9%	38.3%	13.4%	5.7%	4.1%	28.2%	14.6%
Market Average	12.2%	31.5%	10.8%	0.9%	5.9%	24.3%	8.4%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:

During the most recent meeting, the Federal Reserve held on raising interest rates, but characterized the economy as strong, and signaled that two more rate hikes are possible in the near future. Some experts believe that this move was made based on some tariff concerns. We would agree with that option as American penalties on China will be set in two stages in August and November. When information about tariffs first came out, this may have helped cause the most recent stock market decline in early February. That move startled investors, causing an over 10 percent fall in the market and resulting in the market's first correction in more than two years.

Rising bond yields, a spike in the dollar, and worries of market overvaluation merging with the fear of a slowdown in China due to tariffs are making people slightly worried in the midst of a fantastic earning season. This worry creates a lot of debate in the markets, where there is disagreement on how many more rate hikes the central bank will be able to carry through this year because of the flattening yield curve, as well as the lack of a consensus on how high inflation will rise and whether new tariffs will hinder economic growth. We still remain optimistic that tariff negotiations will happen and the Fed will limit tightening at the same time, as it will take additional time to negotiate trade agreements with the Chinese.

The Bank of Japan vowed to maintain low interest rates in the near future. But, it will allow long-term rates to fluctuate, depending on economic and price developments and conducting asset purchases more flexibly. The BOJ also stated that it is maintaining its price forecasts but conceded inflation could fall short of its target for three more years. We believe that the bank wishes to inflate its economy to keep its status quo.

New trends we see:

1) Europe is negotiating with us directly on future tariffs.
2) China may start new trade negotiations with other Asian partners.

Key Point: We still feel that the Federal Reserve will hold off on a huge rate increase due to tariff uncertainties.

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The Pearson Investment Letter
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