

Your Personal Money Manager

Pearson

INVESTMENT LETTER

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FEATURED STOCKS - JULY/AUG 2018

VALUE STOCKS:

Celanese Corp
Lear Corp

INCOME STOCKS:

Prudential Financial Inc.
United Parcel Service Inc.

ETFs:

iShares Core S&P U.S. Growth
iShares Core S&P U.S. Value



Walter D. Pearson
Chairman



Donald E. Pearson
President



Ann Hathaway
Account Manager

Exchange Traded Funds

Exchange traded funds (ETFs) have been in existence since 1993. This makes these investments relatively new as compared with mutual funds. The older traditional way of investing has been finding mutual funds yourself, or hiring a pro to do it for you, and selecting a handful of them. Those chosen are either category-specific or balanced to meet all your needs while at the same time distributing the risk that you've requested. Some of the problems that are not disclosed with mutual funds are the hidden costs that can be as high as 5-6% and in some cases even higher. A study done by Morningstar disclosed most fund managers do not own their own fund or have a minimal investment with their own money. Many times the fund management has a different objective. It is important to ask questions and consider past performance and how long the fund manager has been in this position. Fund managers are changed from time to time, and the person making the decisions may not be the person deserving the credit if it is or was performing above the average. The yardstick for measurement is the S&P 500, because this can be purchased as is with a lower cost. Morningstar has found that not many managed funds are able to consistently reach the top quartile of performance over five successive years. At the end of 2016 it reported 88.44% of large-cap fund managers underperformed the benchmark over a one-year period. Over five and ten-year periods, respectively, 88.65% and 82.07% of large-cap managers failed to deliver

incremental returns over the benchmark. Most mid-cap, small-cap, and international managed funds also lagged their benchmarks.

Since the startup of the first ETF in 1993, ETFs have continued to grow and improve, and now we believe can better outperform the index if and when selected properly. Today there are more than 3,500 from which to choose. Many are category specific, while others are balanced to try to fit almost everyone's portfolio. Today's ETF investments total over \$5 trillion and are growing. Because we do not use mutual funds, it is our belief that a properly diversified portfolio should have many ETFs along with individual standout stocks. This strategy allows us exposure to various segments of the U.S. and international equity markets, and to various trading and investing strategies that require more flexibility than mutual funds provide. Those producing the most are Blackrock (iShares), State Street (SPDRs), Vanguard, Guggenheim, Wisdom Tree, and PowerShares. Two other reasons to add these to portfolios are first, ETFs trade like a stock so the tax consequences are better. One would immediately know the cost basis and not have to worry about any hidden surprises when something within the fund has been sold, and this is not the case with mutual funds. Second, the costs for most ETFs are well under 1% and that's a large savings compared to the alternative. Most have 40-60 individual stocks built within their portfolio.

401(k)s and IRAs

Today most Americans do not save and invest as they should. We try to educate everyone about time being a thief and it stealing your retirement. When we get to 65-70 years of age many will want to retire but unfortunately will not be able. A quarter of middle class households earning between \$50,000 and \$75,000 each year put away more than 15% of their income annually. Only 8% of lower-earning households, and 17% of wealthier households, save that much of their earnings.

Many employers offer 401(k) plans and others have similar programs. Most offer free money as an incentive to participate. The first thing you must do is meet the terms of your plan to receive the free money offered. If you invest 3-6% and your employer matches another 3%, you've immediately made 50-100% on your investment. What you choose to invest in becomes your decision. If you are a client of ours, I would be happy to assist you with your selections.

401(k)s are primarily mutual funds provided by whomever your employer selected to be the administrator, so we cannot manage these until you change jobs or retire, but then they can be rolled over.

Roth and Traditional IRAs we can assist you with right from the start. Even if you have very little money to start, or you think you're too old to get started, just read what I wrote about Apple (AAPL) last month on the front page. Review your situation, and improve your position.

DP

CHOICES, TIME, AND PATIENCE

Well, the time has come to talk stocks. I believe it is in everybody's interest to put one's money where it will do you the most good. What choices do we have? Should I say the banks and the stock markets and preferred stocks? Let us take preferred stocks into consideration. There is a risk here. It is not only minimal but almost nonexistent because the company must go bankrupt before you can lose. Now if a company goes bankrupt, stockholders lose before the preferred stockholders. On the other hand preferred stockholders do not share in any of the profits that are made. An example is Kellogg which has raised their dividend 50 times in the last 53 years.

Another very important consideration is time. Just consider one of the growing issues and put time into it. I bought Wendy's in April of 1979 for \$18 and four months later it had slipped to \$14 so I bought another 100 shares. It has split eight or nine times since then, so now I have 4,875 shares plus the fact that I received another company from them as a spinoff. This is just one of the things that time will do. There is one more thing to take into consideration here and that is patience. Again, take Wendy's into consideration. It had come down a few dollars so I bought it again. PATIENCE. That is the word you must learn.

If immediate cash is not a necessary item, I would suggest that you leave the way open for us to buy anything available. In other words it is not necessary for us to buy you only companies that pay dividends. There are occasions where a company that pays no dividends should be bought, and that is the way I handle my own portfolio. The only thing I take into consideration is whether or not the item should be bought. I care not whether or not they pay dividends. Sometimes a company that never paid a dividend before will start paying. It usually happens that your return will be quite high when calculated on your original price. Sometimes a company will have a slow growth, sometimes an intermediate one, and sometimes better than expected, and then there comes that door buster that you did not expect. Again, take Wendy's for example. We owned Wendy's for a number of years and watched it grow from the 200 shares we had bought in 1979 to the 4,875 shares we own today. We bought it for \$3,740 and today it is worth about \$85,000. Then too, we must remember that we were given about 1,193 shares of Restaurant Brands which is worth about \$70,000 today.

This will simply show you the possible probability about buying and holding. It doesn't always work, but we do a good deal of studying and thinking before we choose an investment. Another one of these which are covered by the buy and hold thesis is Netflix. You might have bought this and using the buy and hold technique you are still holding. You did not give up during those dry periods but you stayed with it even though it did not work right away. Congratulations! Your \$1,000 investment eight years ago is now thumping the till and trying to tell you that it now has a value of more than \$100,000. Something like this may be unbelievable but these things can happen just as happened with Netflix.

Here we go again, trying to make everybody wealthy just by raising your monthly dividend. This may be something you look forward to or maybe not, but regardless you're going to get each of these dividends raised: CNO, EXPD, HY, KEY, PSX, TRU, UFS, PAAS, CAH, XL, STN, MGA, FMS, CP, PAG, TSCO, UCBI, BBD, LUV, NTES, MNRO, CB, OMAB, CBRL, HDB, TOT, BBD, ABEV, DE, BMO, LOW, PRSP, GG, UNH, AVGO, HP, CSWC, PM, LGF.B PBA, FDX, NFG, CAT, IBN, RNR, TSM, VET, FITB, SBUX, CHT, GPMT, BBD, INFY.

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)

CELANESE CORP (CE) NYSE PRICE \$110.69

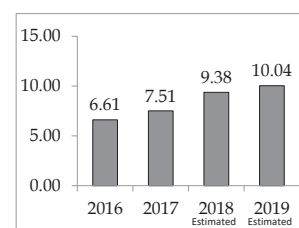
Celanese Corporation (Celanese) is a technology and specialty materials company. The Company's segments include Advanced Engineered Materials, Consumer Specialties, Industrial Specialties, Acetyl Intermediates and Other Activities. The Advanced Engineered Materials segment includes the Company's engineered materials business and certain affiliates. The Consumer Specialties segment includes the Company's cellulose derivatives and food ingredients businesses, which serve consumer-driven applications. The Industrial Specialties segment includes the Company's emulsion polymers and ethylene vinyl acetate (EVA) polymers businesses. The Acetyl Intermediates segment includes the Company's intermediate chemistry business, which produces and supplies acetyl products, including acetic acid, vinyl acetate monomer (VAM), acetic anhydride and acetate esters. The Company has operations in North America, Europe and Asia. As of December 31, 2016, the Company had 30 global production facilities.

Type: Value
Sector: Materials

Institutional Holdings: 94.7%
Industry: Chemicals

Ratings & Recommendations Earnings per share

Current P/E Ratio: **13.8**
Annual Yield: **1.9%**
Annual Dividend: **2.16**
Investor's Bus. Daily: **A**
Pearson Growth & Value: **A**
Morningstar Rating: **A-**
Stand & Poor Rating: **A**
The Street (analyst avg.): **A-**



LEAR CORP (LEA) NYSE PRICE \$187.17

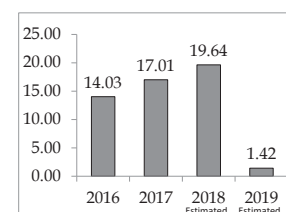
Lear Corporation (Lear) is a supplier to the global automotive industry. The Company is engaged in supplying seating, electrical distribution systems and electronic modules, as well as related sub-systems, components and software, to automotive manufacturers. The Company's segments include Seating and E-Systems. The Company serves the automotive and light truck market. The Seating segment consists of the design, development, engineering, just-in-time assembly and delivery of complete seat systems, as well as the design, development, engineering and manufacture of all seat components, including seat covers and surface materials, such as leather and fabric, seat structures and mechanisms, seat foam and headrests. The E-Systems segment consists of the design, development, engineering, manufacture, assembly and supply of electrical distribution systems, electronic modules and related components and software for light vehicles across the world.

Type: Value
Sector: Consumer Discretionary

Institutional Holdings: 92.5%
Industry: Auto Components

Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.2**
Annual Yield: **1.4%**
Annual Dividend: **2.8**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **A**
Morningstar Rating: **A**
Stand & Poor Rating: **A**
The Street (analyst avg.): **A+**



PRUDENTIAL FINANCIAL INC. (PRU) NYSE PRICE \$93.59

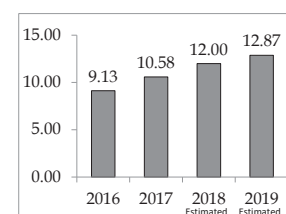
Prudential Financial, Inc., is a financial services company. The Company, through its subsidiaries, offers a range of financial products and services, which includes life insurance, annuities, retirement-related services, mutual funds and investment management. The Company's operations consist of four 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: Income
Sector: Financials

Institutional Holdings: 65.1%
Industry: Insurance

Ratings & Recommendations Earnings per share

Current P/E Ratio: **8.5**
Annual Yield: **3.9%**
Annual Dividend: **3.60**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **A**
Morningstar Rating: **A-**
Stand & Poor Rating: **A**
The Street (analyst avg.): **B**



UNITED PARCEL SERVICES INC. (UPS) NYSE PRICE \$105.88

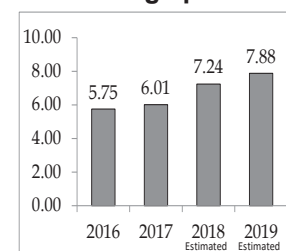
United Parcel Service, Inc. (UPS) is a package delivery company. The Company is a provider of global supply chain management solutions. The Company operates through three segments: U.S. Domestic Package operations, International Package operations, and Supply Chain & Freight operations. As of December 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: Income
Sector: Industrials

Institutional Holdings: 64.8%
Industry: Air Freight & Logistics

Ratings & Recommendations Earnings per share

Current P/E Ratio: **19.8**
Annual Yield: **3.4%**
Annual Dividend: **3.64**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **A**
Morningstar Rating: **A-**
Stand & Poor Rating: **A**
The Street (analyst avg.): **B**



JUST ASK ANN

We are beginning the second half of the year, and it's a good time to check in on the RMD accounts. This applies to all our IRA clients who will have reached the age of 70½ by end of 2018 as well as those holding Beneficiary accounts. Failure to take this can result in a 50% penalty of the RMD.

If you take a monthly distribution, check to see if you are taking enough to cover the required amount so that by year end, you will have fulfilled your obligation. If you have doubts or questions about this, call me or email me for information. Be aware that the amount does change every year.

If you have not taken any funds from your account as yet, take a moment and decide when the best time would be to withdraw the funds. Remember this is a yearly requirement and must be completed by December 31st. If you have a target date, let me know and I will put it on the calendar and follow your instructions automatically. This will also help me make sure that the proper paperwork is in place ahead of time.

Taxes are levied on this distribution. You may choose to have them withheld with your distribution, or you may defer paying them until you file your tax return for 2018. Note that these funds will be taxed as regular income, so be sure to calculate enough to be withheld or you will need to adjust at tax time.

Some clients prefer to keep their money invested so they simply move the funds to a non-IRA account for reinvestment. If you wish to do this and don't have a non-IRA account, we can certainly help set one up for you!

iShares Core S&P U.S. Growth ETF (IUSG) NYSE ARCA PRICE \$57.14

The investment seeks to track the investment results of the S&P 900 Growth Index (the "underlying index"). The fund generally invests at least 90% of its assets in securities of the underlying index and in depositary receipts representing securities of the underlying index. The underlying index measures the performance of the large- and mid- capitalization growth sector of the U.S. equity market.

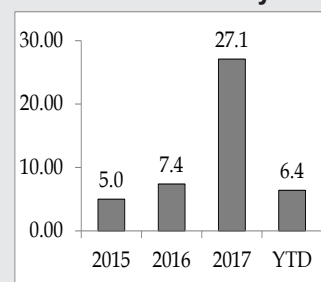
Location: USA
Type: 100% Stock

Category: Large Growth
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **1.3%**
Annual Dividend: **0.71**
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%



iShares Core S&P U.S. Value ETF (IUSV) NYSE ARCA PRICE \$53.64

The investment seeks to track the investment results of the S&P 900 Value Index (the "underlying index"), which measures the performance of the large- and mid-capitalization value sector of the U.S. equity market. The fund generally invests at least 90% of its assets in securities of the underlying index and in depositary receipts representing securities of the underlying index. It may invest the remainder of its assets in certain futures, options and swap contracts, cash and cash equivalents, as well as in securities not included in the underlying index, but which the advisor believes will help the fund track the underlying index.

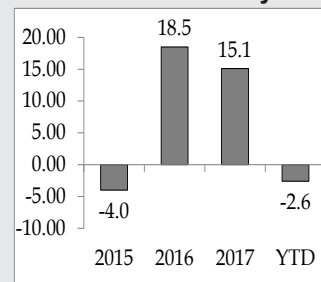
Location: USA
Type: 100% Stock

Category: Large Value
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **2.3%**
Annual Dividend: **1.23**
Investor's Bus. Daily: **N/A**
Pearson Growth & Value: **A-**
Morningstar Rating: **C**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **N/A**

Performance by%



Earnings Flows:

As stated previously, most earnings announcements are coming in even better than anticipated, with some companies up over 20 percent. Good news is reaching near term high levels of positive sentiment. Both manufacturers and consumers have reported a huge positive outlook for their future, with some indicators reaching record highs as well. Between a robust manufacturing sector and higher consumer spending based on retail sales, this quarter's GDP growth is shaping up to be the strongest in several years. We expect to see many stocks surging as domestic small and mid-capitalization companies with strong forecasted sales and earnings lead the way. The tax cuts that have been implemented are slowly showing in the earnings outlook. We feel that this quarter analysts will still revise their 2018 earnings estimates higher.

In the most recent quarter:

- 1) Amazon has bought a mail order pharmaceutical company.
- 2) Earnings have improved in many retail sectors.

Key Point: Earnings estimates may rise throughout this year.

Cash Flows:

As we stated before, some aspects of the tax plan may not take hold until 2019 and beyond, so 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. However, Trump's protectionism move leaves many to feel that this will lead to a sour market for rest of 2018. Auto stocks and other exporting stocks such as Boeing and Caterpillar fell on concern that tariffs will dent profitability. This recently led the market to over a week of consecutive losses.

There are fears that many of these top technology and branded companies, such as Apple (APPL), Microsoft Corp. (MSFT), and Nike (NKE), will be next. However, the U.S. has the leverage, since China and the E.U. need the U.S. because it is its biggest export market.

New trends we see:

- 1) No discussion yet about infrastructure investments, as they are long term investment strategies.
- 2) The merger between Disney and Fox will likely go through.
- 3) New mega mergers will continue.

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

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.
Third Quarter July-August-September-see your July statement.*

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%	1.6%
Dow Jones	7.3%	26.5%	7.5%	(2.2%)	7.9%	25.1%	(2.1%)
Nasdaq	15.9%	38.3%	13.4%	5.7%	4.1%	28.2%	8.7%
Market Average	12.2%	31.5%	10.8%	0.9%	5.9%	24.3%	2.7%



MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:



The Federal Reserve, during the most recent Federal Open Market Committee (FOMC) meeting, raised key interest rates to a quarter-point, which was widely anticipated. Inflation was starting to increase with core inflation moving close to its target of 2 percent. However, a temporary crisis overseas, or an abrupt decline in Treasury yields, could postpone more Fed rate increases later this year. As usual, they will take a wait-and-see approach before making any changes. Right now capital flight from Brazil and Argentina is helping to cause the 10-year Treasury bond yield to decline.

During the most recent G7 meeting the negotiations were intense. President Trump has offered to negotiate all trade tariffs. At this time the United States and the rest of the world are going back and forth on adjusting tariffs for various goods and services. The "G6" countries in the G7 have a smaller combined economy than the U.S., so when President Trump questioned trade, they did not have a good response, since they have multiple tariffs on U.S. goods and a massive trade surplus. They all have a lot more to lose, so we feel they will likely work back and forth with us on a revised trade solution.

So, the White House announced an array of various tariffs on Chinese goods amounting to \$50 billion that could escalate higher by some estimates. As expected, the Chinese government said they would retaliate by the same dollar amount. Countries with big trade surpluses, like China and Germany, do not want to jeopardize their lucrative trade relationships, so right now they are doing strategic targets, such as Harley Davidson motorcycles, pork, and bourbon, which are in the American heartland.

Based on these new changes, the Fed will remain divided on whether it should raise key interest rates one or two more times in the rest of 2018 due to the lack of a consensus on how high inflation will rise and whether new tariffs will hinder economic growth. We remain optimistic that tariff negotiations will happen and the Fed will limit the tightening.

New trends we see:

- 1) The dollar may hold steady for the rest of the year.
- 2) Other countries may continue to do strategic tariffs on goods and services.

Key Point: We feel that the Federal Reserve will hold off on a huge rate increase.

Continued to page 5

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