

Your Personal Money Manager

Pearson

INVESTMENT LETTER

Published Monthly Since 1982
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FEATURED STOCKS - NOV/DEC 2018

VALUE STOCKS:

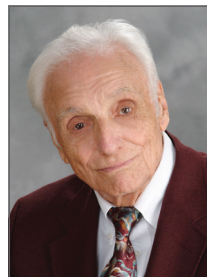
Apple Inc.
Landstar Systems Inc.

GROWTH STOCKS:

Celgene Corp
Credit Acceptance Corp

ETFs:

iShares North American Tech-Software
SPDR® S&P Dividend



Walter D. Pearson
Chairman



Donald E. Pearson
President



Ann Hathaway
Account Manager

We Are Teammates

Once we have had our initial conversation, either in person or over the phone, and we both have decided you are a good fit for our team, the work begins. A management agreement is given to you to be completed with the information needed to open your account or accounts. You are also asked to describe your personal risk level. I always like to discuss this in detail with applicants so my choices replicate your requests.

Our way of doing this is very different from brokerage houses that fill your portfolio with several mutual funds and then move on to their next client. We do not purchase any mutual funds or bonds unless requested by the client. We purchase many exchange traded funds that diversify us well. The ones we purchase for our clients are the same ones we purchase for ourselves, as we want the very best for you too. As an example you'll find featured in this month's newsletter on Page 4, S&P Dividend, Symbol SDY. SDY only selects companies that have increased their dividend for 20 years or more.

When we build the set up portfolio, about two-thirds of the choices are the same for everyone. When we begin diversifying with individual stocks, almost all portfolios have Apple, AAPL, featured in this letter on Page 3. Within our client base we have several million dollars of Apple. Once we have built what I refer to as the core, we begin purchasing individual stocks that we can choose to best align to your risk level. We have been doing this for a very long

time, and we've found it to work very well as we consistently outperform the S&P 500. Over 80 percent of mutual funds cannot make that statement on a five-year average.

With us being teammates and working together, you have a responsibility also. When there are changes in your life that will alter your investments, you must let us know. As an example, if you receive a promotion and a significant pay raise, more should be invested. If you are sending in by bank, Ann can increase your monthly deposit. If you're having medical issues or loss of pay and money problems have arisen, if we know that, we can change and reduce the risk so as to protect the money under management. We all want to make the most profit possible, but safety should always be the priority, because once things improve we can always increase it again.



The Change with Apple

Apple has recently made the news again as they are changing the way they report their numbers. Analysts do not care for this and have downgraded them, thus a dip in the stock, off about 18% from its high of \$233.47 to a price around \$190 today. With their iPhone sales not continuing to increase at the numbers they have been, but their other businesses continuing to grow and prosper, they want to be looked upon more as a consumer discretionary name with a growing high margin tech business on the side. Hardware continues to make up the vast majority of Apple sales, yet the size of the

services segment is growing quarter by quarter. For the third quarter of this year just reported, AAPL posted \$9.5 billion which was good for a 31% increase growth year over year. The service segment consists of app-store sales, use of Apple Pay, AppleCare, and music streaming subscriptions. Services presently contribute about \$9.98 billion, or 15.87%, to total revenue. It is Apple's second-largest revenue source after iPhone sales, and grew 17% year over year.

Another reason to find Apple favorable in the third quarter is they spent another \$20 billion with share repurchasing. This amount should continue to stay steady moving forward. In 2019 estimates on repurchasing could be as high as 350 million shares or 7.2% of its total float. With this pullback of the stock price, the P/E is now under 16, so this dip provides a real buying opportunity for those looking for a quality long range investment. Even with the 18% pullback, AAPL is still up double digits for 2018. For 2019 they have forecasted another 10% increase, and, with their buyback program and the services business growing as they are, their estimate is probably low, and Apple historically has always offered conservative future guidance. This is featured this month on Page 3 for those who would like to examine it. So my advice to those who are looking for a long-range standout, this is the one to purchase. It also has a dividend that increases every year too, currently at 1.53% or \$2.92 per share.

DP

WALTER'S WISDOM
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And now we need something to talk about. Are we going to discuss stocks or men and women? If we are going to discuss stocks, we are going to look for a long life with very much productivity along the way, with a background that looks safe, and a company that looks as if there are no situations that can burst out along the way. That covers it. However, that covers both sides. What you are looking for in a stock are the same assets you are looking for in a man or a woman. What a surprise! Everything comes out roses! And roses are just about the prettiest flowers you can conjure up during this period.

One thing that bothers me in this business is a certain type of person who has no interest in owning stocks, and he or she will not even discuss the reasons why. It makes no difference to this person that I can show him or her various reasons why they should own stocks. Not that they should own stock - but they "MUST". And, because they won't listen, they never get the message. Think of it this way: Netflix might have been bought fifteen years ago at the same time \$1,000 was placed in the bank getting a 5% yield. Has that 5% mounted enough to counteract the value of Netflix right now? And Netflix just came down 9% yesterday. The value today of \$1,000 then is somewhere about \$85,000. Good reason for staying in the bank?

Think about the value of your spare currency. Does its value remain constant or does its value go up or down if you do nothing with it? One of the important things to consider is a company that has taken to raising the dividend each month. This can amount to a very good income payout after a number of years have gone by. Johnson & Johnson has been known as a company that has raised the dividend each month for the last 50 or so years, and you might have considered a purchase 10 years ago at an average price then which would have paid you 3% in the way of dividends. However, if you kept it until now, 10 years have gone by and your dividend return is now 5.5%. The things you must consider: Is this stock growing, or has the company grown to its ultimate, or do you consider whether partial growth is still in here?

And to those of you who have been waiting, here they are: A number of these have raised their dividend again, and sometimes again and again. But go ahead and enjoy every minute of it! CLB, EV, THO, VET, BC, MMS, TGE, PAG, V, INFY, BX, MSM, ETFC, UN, RCI, VFC, SCCD, CNI, AB, DLB, DRE, PB, BBD, QSR, COP, MPLX, MAC, MMP, ARLP, SIMO, BJRI, FUN, BP, CDW, EL, VSM, YUMC, ECA, GIL.

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 \$191.41

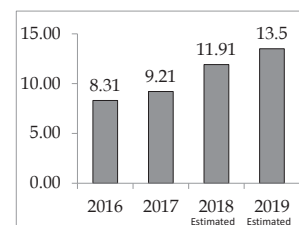
Apple Inc. designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players. The Company sells a range of related software, services, accessories, networking solutions, and third-party digital content and applications. The Company's segments 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: 59%
Industry: Technology Hardware, Storage & Peripherals

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15.7**
Annual Yield: **1.56%**
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**



CELGENE CORP (CELG) NASDAQ PRICE \$69.98

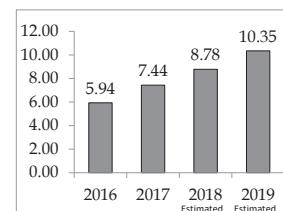
Celgene Corporation is an integrated global biopharmaceutical company. The Company, together with its subsidiaries, is engaged in the discovery, development and commercialization of therapies for the treatment of cancer and inflammatory diseases through solutions in protein homeostasis, immuno-oncology, epigenetics, immunology and neuro-inflammation. Its commercial-stage products include REVLIMID (lenalidomide), POMALYST/IMNOVID (pomalidomide), OTEZLA (apremilast), ABRAXANE (paclitaxel albumin-bound particles for injectable suspension), VIDAZA, azacitidine for injection (generic version of VIDAZA) and THALOMID (thalidomide). Its clinical trial activity includes trials across the disease areas of hematology, solid tumors, and inflammation and immunology. The Company also markets ISTODAX, which is an epigenetic modifier. The Company is also evaluating AG-221 (enasidenib) in combination with VIDAZA in newly diagnosed acute myeloid leukemia with isocitrate dehydrogenase-2 mutations.

Type: Growth
Sector: Health Care

Institutional Holdings: 74%
Industry: Biotechnology

Ratings & Recommendations Earnings per share

Current P/E Ratio: **17.5**
Annual Yield: **0%**
Annual Dividend: **0**
Investor's Bus. Daily: **C-**
Pearson Growth & Value: **B+**
Morningstar Rating: **B**
Stand & Poor Rating: **A**
The Street (analyst avg.): **C+**



CREDIT ACCEPTANCE CORP (CACC) NASDAQ PRICE \$418.70

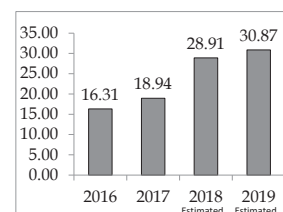
Credit Acceptance Corporation offers financing programs that enable automobile dealers to sell vehicles to consumers. The Company's financing programs are offered through a network of automobile dealers. The Company has two Dealers financing programs: the Portfolio Program and the Purchase Program. Under the Portfolio Program, the Company advances money to dealers (Dealer Loan) in exchange for the right to service the underlying consumer loans. Under the Purchase Program, the Company buys the consumer loans from the dealers (Purchased Loan) and keeps the amounts collected from the consumer. Dealer Loans and Purchased Loans are collectively referred to as Loans. As of December 31, 2016, the Company's target market included approximately 60,000 independent and franchised automobile dealers in the United States. The Company has market area managers located throughout the United States that market its programs to dealers, enroll new dealers and support active dealers.

Type: Growth
Sector: Financials

Institutional Holdings: 67%
Industry: Consumer Finance

Ratings & Recommendations Earnings per share

Current P/E Ratio: **13.4**
Annual Yield: **0%**
Annual Dividend: **0**
Investor's Bus. Daily: **A**
Pearson Growth & Value: **B+**
Morningstar Rating: **N/A**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **B+**



LANDSTAR SYSTEM INC. (LSTR) NASDAQ PRICE \$106.15

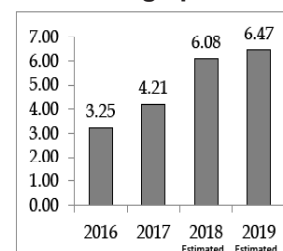
Landstar System, Inc. (Landstar) is an asset-light provider of integrated transportation management solutions. The Company offers services to its customers across multiple transportation modes, with the ability to arrange for individual shipments of freight to enterprise solutions to manage customer's transportation needs. It operates in two segments: the Transportation Logistics segment and the Insurance segment. The Transportation Logistics segment provides a range of integrated transportation management solutions. Transportation services offered by it include truckload and less-than-truckload transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul or specialized, the United States-Canada and the United States-Mexico cross-border, project cargo and customs brokerage. The insurance segment consists of Signature Insurance Company, which is an offshore insurance subsidiary, and Risk Management Claim Services, Inc.

Type: Value
Sector: Industrials

Institutional Holdings: 100%
Industry: Road & Rail

Ratings & Recommendations Earnings per share

Current P/E Ratio: **17.2**
Annual Yield: **0.6%**
Annual Dividend: **0.66**
Investor's Bus. Daily: **A**
Pearson Growth & Value: **A**
Morningstar Rating: **N/A**
Stand & Poor Rating: **A**
The Street (analyst avg.): **A+**



JUST ASK ANN

For our IRA (those clients over 70 ½ years of age) and Beneficiary Account clients (of ALL ages), it's time to get those Required Minimum Distributions -RMDs- satisfied. In the next few weeks, those of you who still need to do this will be contacted so that we can arrange for the paperwork to be completed and returned to Ameritrade in a timely manner. Please keep in mind, this obligation needs to be met before December 31, 2018, or the IRS will help themselves to 50% of the amount you were supposed to take from your account in penalties!

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

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

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

Christmas is just around the corner! For those of you who live in our local area, you may have begun noticing the big Toys for Tots boxes popping up in local businesses. It's happening across the country as well.

This is a small reminder to all of us that many families are struggling to give their children a happy Christmas morning. If you can help, please place a NEW, UNWRAPPED TOY into a box near you or make a cash donation to the organization.

Here in Southshore, Pearson Capital, along with The Alley in Riverview will again host the 2018 Toys for Tots collection party on December 15th from 1-5 pm. Santa will be here from 2-4 pm and the Marines will be in attendance to accept your donations. Join us if you can.

Last year over 19,000 kids got toys in Hillsborough County, FL, and our local campaign provided almost 60% of the 66,623 toys and \$82,731.00 collected county wide!

iShares North American Tech-Software ETF (IGV) CBOE PRICE \$181.60

The investment seeks to track the investment results of the S&P North American Technology Software Index composed of North American equities in the software sector. 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 index measures the performance of U.S.-traded stocks of software-related companies in the U.S. and Canada.

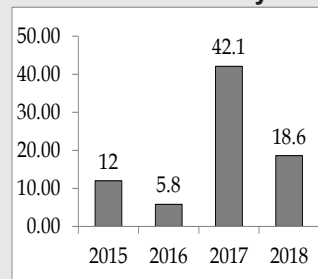
Location: USA
Type: 100% Stock

Category: Technology
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **0%**
Annual Dividend: **0**
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%



SPDR® S&P Dividend ETF (SDY) NYSE ARCA PRICE \$96.65

The investment seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of the S&P High Yield Dividend Aristocrats Index. The fund generally invests substantially all, but at least 80%, of its total assets in the securities comprising the index. The index is designed to measure the performance of the highest dividend yielding S&P Composite 1500® Index constituents that have followed a managed-dividends policy of consistently increasing dividends every year for at least 20 consecutive years.

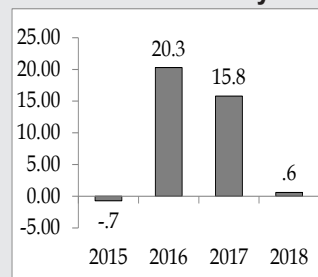
Location: USA
Type: 100% Stock

Category: Value Stocks
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **2.5%**
Annual Dividend: **2.4**
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%



Key Point: Even with near term uncertainties, the Federal Reserve may increase rates by the end of the year.

Earnings Flows:

The leading stocks in the indexes, Facebook, Amazon, Google, and Apple are not doing as well as expected. We are in the middle of this quarter's earnings season. December normally is the time the mutual funds' quarter ends, creating a traditional Santa Claus rally and leaving room for the market to reach new highs at the end of this year. However, with higher interest rate expectations and the fear of more tariffs with China, stocks cannot keep going higher all the time and expectations need to be reset. The market has been rallying ever since Trump was elected and gave a big tax cut along with his agenda of deregulation. The bad news started coming in after he started targeting China for their trade practices. That was combined with fears of inflation which led to a wave of rising interest rates.

In the most recent quarter:

- 1) The government is still providing relief to those affected by the hurricanes, and now it is set to help with the wildfires.
- 2) The price of oil has rebounded from recent highs and is heading lower in November.

Key Point: Many companies are reassessing future earnings growth.

Cash Flows:

The good news about the stock market is that the S&P 500 is on track for at least \$800 billion in stock buybacks in 2018. Many analysts are expecting that companies will accelerate their stock buyback pace by the end of this year, as the market is experiencing a pullback at this time. If the negotiations with China have some sort of reconciliation by the end of this year, we may see a stock market turnaround, as well as better-than-expected sales and earnings expectations for the future. Also, many acquisitions may be announced in the upcoming weeks, now that many stocks are trading at bargain prices. We expect to see more positive news on trade negotiations as that issue weighs heavily on the market at this time.

New trends we see:

- 1) Once the tariff issues have subsided, companies will then start planning future investments.
- 2) Dividend increases continue even though we have had a pullback in the market.

Key Point: Buybacks will continue well into next year.

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%	2.1%
Dow Jones	7.3%	26.5%	7.5%	(2.2%)	7.9%	25.1%	2.3%
Nasdaq	15.9%	38.3%	13.4%	5.7%	4.1%	28.2%	5.2%
Market Average	12.2%	31.5%	10.8%	0.9%	5.9%	24.3%	3.2%



MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:



As we discussed before, at the last Federal Open Market Committee (FOMC) meeting, the Federal Reserve announced that it has left key short-term rates unchanged. In a statement that was recently sent, the same indicators were discussed as last time: that the labor market has continued to strengthen and economic activity has been rising at a strong rate; job gains have been strong, on average, in recent months, and the unemployment rate has declined. Household spending has also continued to grow. However, the Fed did in fact say something that was unexpected. It acknowledged there may be a deteriorating business climate due to a slowdown in business spending.

But, instead of its wait and see approach, we believe they will still raise rates in December. Many analysts feel that as of today the Fed's rate hikes, and its reversal of Quantitative Easing (QE), have already been enough, or too much, for the economy to handle. Just as we reported last year, the Fed would raise the Federal Funds rate again in December, as current signs of consumer spending and wage growth are rising in a robust fashion.

Also, during the most recent midterm elections, the Democratic Party has gained control of the House of Representatives, with the Republican Party maintaining a slim majority in the Senate. Many political analysts believe that the divide in the House and Senate will result in a gridlock which could be bad for President Trump's agenda, but can actually be good for stocks. Democrats will not have enough votes to stop a trade war with China or change the Fed's interest rate plans, but they may be able to work together on other ideas such as infrastructure and 5G wireless technology for future government spending.

Many people continue to wonder if the Fed is too bullish and is deciding on policy by looking too much at coincidental or backward-looking indicators, ignoring the future potential of the tariffs with China and the potential that their economy may slip into a recession. That is one more risk to investors in equities beside the effects of higher interest rates alone. As far as company guidance is concerned, even though companies keep beating sales and earnings estimates, the overwhelming concern of tariffs and trade disputes will keep companies continuing to be cautious on guidance. Many companies fear that trade problems will dilute their bottom lines in the future. China accounted for a large part of global growth last year, and it is the largest trading nation in the world. Any slowdown in the economy may impact future growth.

New trends we see:

- 1) Brexit is now becoming a major issue of debate in Great Britain.
- 2) The most recent elections in Brazil may cause a bull market in that country.
- 3) The bank crisis in Italy may cause a problem throughout the EU economy.

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