

# Your Personal Money Manager

# Pearson

## INVESTMENT LETTER

Published Monthly Since 1982  
[www.pearsoncapitalinc.com](http://www.pearsoncapitalinc.com)

### FEATURED STOCKS - APR/MAY 2018

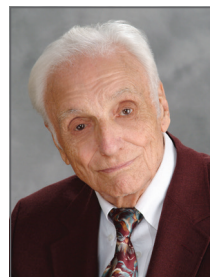
#### VALUE STOCKS:

Broadcom Ltd  
Metlife Inc.

FedEx Corp  
Morgan Stanley

#### ETFs:

iShares Select Dividend LGE Value  
iShares Morningstar LGE Blend



**Walter D. Pearson**  
*Chairman*



**Donald E. Pearson**  
*President*



**Ann Hathaway**  
*Account Manager*

## Your Financial Advisor

Your financial advisor should be one of the most important people with whom you interact. Many people believe that when they move to a different state or part of the country they should change their advisor. Or, perhaps there are other reasons to make a change. If you are considering this, talk to more than one and ask if this person is a fiduciary as I am. A fiduciary is required to make every decision maximizing your best interest. Many advisors follow the so called "suitability standard" meaning they're required to recommend investments that are appropriate, but not necessarily the best for you.

I have always advised against online advisors. The small management fee saved is not worth conceding the personal management you will receive from a good personal advisor.

You should also question management fees. Our fee at Pearson Capital is 1 percent with no additional commissions built in. Others may have additional commissions predicated on mutual funds or other products that may be built into your account.

Once you have built a quality relationship with our team, you can call us at any time. We are almost always available the same day to answer your questions, meet your needs, and make changes if necessary. We have more than 600 accounts in many states from Florida to California and all through New England. We believe these people are all a part of our "Investment Family."

Morningstar often writes articles about fund managers not owning the funds they are managing or recommending, and the expensive hidden costs built into them.

For this reason we have chosen a different route when building a portfolio. Once you and I have established your goals and risks, we build a portfolio that replicates your wishes as perfectly as possible, without any mutual funds. We do this using the very best exchange traded funds complimented with several individual stocks to better diversify the portfolio. We place into your account the same items we buy for ourselves. I would have to believe you want the very best investment choices, and this is what sets us apart from the others and makes us unique. If there is another advisor who could make this same claim, I have not met him or her yet. Almost every year we have been able to outperform the indexes using this philosophy.

Want to learn more about us? Call me.

## Happy Birthday Roth IRA

Many people do not realize the value of a Roth IRA. It is now celebrating its 20th year of existence and is something all of us, if eligible, should own. Many of us today who are still working are holding a 401(k) type of investment and should be contributing, as the plan's prospectus tells us to do. Many of these plans tell us if we contribute 6 percent pretax our employer will contribute another 3 percent into our account. This is really a no-brainer as we must secure all of the free money available to us. If your plan is one that says contribute more and receive more, this should be done to again maximize all the bonus money available. Once this has been completed, the Roth then becomes another option. If you qualify, it should be included within your investment portfolio. If you are single and making less than \$120,000, or married filing jointly, making

\$189,000 or less, this opportunity is available.

Today so many people, both young and old, have done very little, or near nothing, trying to get started on the road to investing. Had you done a Roth for the past 20 years investing the maximum, you would have well over \$200,000 saved already with an average return of 8 percent or more. The maximum that you can contribute is \$5,500 under the age of 50 and \$6,500 once you've passed 50.

A 401(k) ends once you leave your employer, as there are no more contributions coming from the company. This rolls over into a regular IRA. When the money is taken out, it is taxed as ordinary income, at your current tax rate. The reason the Roth becomes so attractive down the road is withdrawals after age 59 1/2 are tax free. So for those still working today who can have both with a contribution of \$18,500, or over age 50 with \$24,500, I would strongly suggest doing this.

For those who are self-employed and do not have access to a 401(k) type of investment, a Roth is definitely a way to get yourself started down the road to prosperity.

Also, the average tax return is around \$2,800 annually. This is the government giving you back your money which they use all year. You might consider changing your tax status and have that extra \$60 a week added to a Roth you've opened with us or on your own, making those dollars work for you all year rather than doing nothing.

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## MISCELLANEOUS THOUGHTS

Have you ever given a thought to how much another \$100 might do for you? There might be instances where it would be of no consequence, but there might be times where it would cause an unforgettable circumstance. Suppose a company happened to pop up at the same time you were adding your money to your account, and we found you now had enough cash to purchase it. Even a run of the mill would be good, but supposing it was a world beater like NTES. We might have purchased it for you at about \$25 a share, or we might have purchased it for you one year later, or we might have purchased it for you in 2009 and paid about the same price inasmuch as nothing had stirred that particular bonanza. BUT---- It has started. The price has started to go up and it hasn't stopped so far. Today we are looking at a price which is fluctuating between \$300 and \$350 per share. This also gives an inkling about what time can do for one. It is really amazing what time can do. I happened to buy less than \$1200 worth of CISCO back in 1991 and I received 25 shares. They have now split eight times since then and I now have 3500 shares. Time is one thing but patience is in there too.

One of the important things that you should have is a financial advisor whom you can trust. This is a fact that I had brought to my attention some years ago. There have been situations where an advisor has transferred accounts to the benefit of the advisor. And there have been cases where the miscreant was not an individual, but a company that you would not expect. It is vitally important that you have someone that you can trust. That is a job for you. One thing is to find someone who is good at his job, but it is also important that he be an honest person. You may not think you have to do much thinking, but it is vitally important that he be honest.

There are so many things we have today that were not even thought about in the past. When I think of the telephone, the television, the refrigerator, the radio, cell phones and computers, it just seems like there are more and more of these things which we have. Have you ever given a thought to making one of these yourself? Could you just give a thought to making an automobile or a television set? What would happen to us if we had a catastrophe, and all of these people who know how to make them were wiped out, and we were on our own? I couldn't manage, could you?

Last night we got to talking over old times and my thinking went back to the old army days. I think I should share these with you. I recall the time when we got moved into a combat battalion. This meant that we who had made it were now in Italy fighting the Germans. There was no fighting daily inasmuch as both sides were willing to hold their positions and skip the fighting, but sometimes there were higher ranks intervening and somebody advanced, and then the fighting started. We had recently come back from one of these fights and every one of our lieutenants had been knocked out. This meant we had four new looeyes and none of them had combat experience. We had to teach them. One of the new looeyes gathered six of us together and told us we were to go out on a mission. We got ourselves together and were ready to go. When we had spent about 30 minutes, he called for a rest period. During our rest period he explained to us that our mission was to reach the Arno River and then have one man cross it. We started off again but when we reached there Ramsey volunteered to cross. He took his boots off but when he came back again he put them on. Our sergeant complained because the Germans were watching and we didn't have time. The looey said "go ahead, we'll catch up with you later." Bombs were dropping so we took off. I reached our first change and the looey passed me with his eyes bugging out. Turns out that Ramsey had caught one of the bombs.

And don't think I have forgotten you guys who are scrutinizing the income register, as I know that a certain percentage of you fellows are very interested on which companies are raising the dividend this month. Enjoy this as much as you can because some months there just won't be so many. Okay, here we go: HAS, ODFL, PRU, UNP, UFS, WWW, UFS, USF.B, MFC, RIO, SU, CSX, LLL, METX, R, AGN, QSR, SNY, NPK, WU, AMAT, CSCO, SHW, BBD, FTS, ING, ABBV, KO, MPW, WEN, ABX, CP, ECA, SHPG, SIMO, SLF, VET, ITT, NYLD.A, PRGO, XL, DHR, DPZ, FL, HD, MGM, STLD, WMT, BHL, BHP, PAAS, PLD, BCS, BTI, CM, MGA, STN, HUN, NRIM, FISV, CB, RY, SIMO, BIP, MO, BBY, GPS, WYN, ETN, SSL, ADL, FFIC, PNR, TKC, VALE, DLR, LYG, SBGL, TOT, GG, ROST, AMT, KAI, USPH, MTN, JCI, MDT, ADNT. TOL, HNP, CTRE, CBI, BBD, RTN.

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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)**

**PEARSON CAPITAL'S RECOMMENDED STOCKS APR/MAY 2018**  
[www.pearsoncapitalinc.com](http://www.pearsoncapitalinc.com)

**BROADCOM LTD (AVGO) NASDAQ PRICE \$235.65**

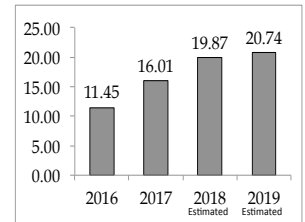
Broadcom Limited is a designer, developer and global supplier of a range of semiconductor devices with a focus on digital and mixed signal complementary metal oxide semiconductor (CMOS)-based devices and analog III-V based products. The Company operates through four segments: Wired Infrastructure, Wireless Communications, Enterprise Storage, and Industrial & Other. It offers a range of products that are used in end-products, such as enterprise and data center networking, home connectivity, set-top boxes (STBs), broadband access, telecommunication equipment, smartphones, data center servers and storage systems, factory automation, power generation and alternative energy systems, and electronic displays. Its product portfolio ranges from discrete devices to complex sub-systems that include multiple device types, and also includes firmware for interfacing between analog and digital systems. Its products include mechanical hardware that interfaces with optoelectronic or capacitive sensors.

Type: Value  
Sector: Information Technology

Institutional Holdings: 88.3%  
Industry: Semiconductors & Semiconductor Equipment

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **13.5**  
Annual Yield: **3%**  
Annual Dividend: **7.00**  
Investor's Bus. Daily: **B**  
Pearson Growth & Value: **B+**  
Morningstar Rating: **B+**  
Stand & Poor Rating: **A**  
The Street (analyst avg.): **B**



**FEDEX CORP (FDX) NYSE PRICE \$240.16**

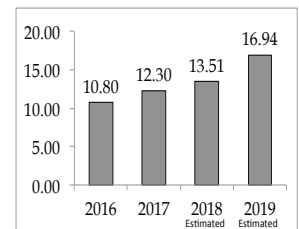
FedEx Corporation (FedEx) provides a portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the FedEx brand. The Company's segments include FedEx Express, TNT Express, FedEx Ground, FedEx Freight and FedEx Services. The FedEx Express segment offers a range of the United States domestic and international shipping services for delivery of packages and freight. TNT Express segment collects, transports and delivers documents, parcels and freight on a day-definite or time-definite basis. The FedEx Ground segment provides business and residential money-back guaranteed ground package delivery services. The FedEx Freight segment offers less-than-truckload (LTL) freight services. The FedEx Services segment provides its other companies with sales, marketing, information technology, communications, customer service and other back-office support.

Type: Value  
Sector: Industrials

Institutional Holdings: 73.6%  
Industry: Air Freight & Logistics

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **19.3**  
Annual Yield: **.9%**  
Annual Dividend: **2.00**  
Investor's Bus. Daily: **B**  
Pearson Growth & Value: **A**  
Morningstar Rating: **A**  
Stand & Poor Rating: **A**  
The Street (analyst avg.): **B+**



**METLIFE INC. (MET) NYSE PRICE \$45.89**

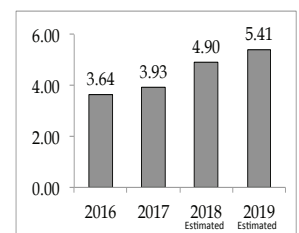
MetLife, Inc. is a provider of life insurance, annuities, employee benefits and asset management. The Company's segments include U.S.; Asia; Latin America; Europe, the Middle East and Africa (EMEA); MetLife Holdings, and Corporate & Other. Its U.S. segment is organized into Group Benefits, Retirement and Income Solutions and Property & Casualty businesses. Its Asia segment offers products, including life insurance; accident and health insurance, and retirement and savings products. Latin America offers products, including life insurance, and retirement and savings products. Life insurance includes universal, variable and term life products. EMEA offers products, including life insurance, accident and health insurance, retirement and savings products, and credit insurance.

Type: Value  
Sector: Financials

Institutional Holdings: 76.3%  
Industry: Insurance

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **10.7**  
Annual Yield: **3.5%**  
Annual Dividend: **1.60**  
Investor's Bus. Daily: **D**  
Pearson Growth & Value: **A-**  
Morningstar Rating: **A**  
Stand & Poor Rating: **A**  
The Street (analyst avg.): **A-**



**MORGAN STANLEY (MS) NYSE PRICE \$54.19**

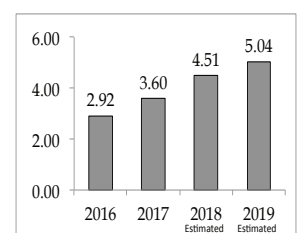
Morgan Stanley, a financial holding company, provides various financial products and services to corporations, governments, financial institutions, and individuals in the Americas, Europe, the Middle East, Africa, and Asia. The company operates through three segments: Institutional Securities, Wealth Management, and Investment Management. The Institutional Securities segment offers capital raising and financial advisory services, including services related to the underwriting of debt, equity, and other securities, as well as advice on mergers and acquisitions, restructurings, real estate, and project finance. The Wealth Management segment offers various financial services and solutions covering brokerage and investment advisory services, financial and wealth planning services, annuity and insurance products, credit and other lending products. The Investment Management segment provides various investment strategies and products comprising equity, fixed income, liquidity, and alternative/other products to defined benefit/defined contribution plans, and third-party fund sponsors and corporations.

Type: Value  
Sector: Financials

Institutional Holdings: 61.6%  
Industry: Capital Markets

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **17.3**  
Annual Yield: **1.9%**  
Annual Dividend: **1.00**  
Investor's Bus. Daily: **A**  
Pearson Growth & Value: **A**  
Morningstar Rating: **A-**  
Stand & Poor Rating: **A**  
The Street (analyst avg.): **B+**



## JUST ASK ANN

There are always ongoing updates to protect you and your assets at TD Ameritrade.

A while back, TD instituted the policy that Advisors could not change email addresses for the client. Now, they have added home and mailing addresses as well as phone numbers to the growing list of things that are out of our control. Should you need to make changes to this information you will now have to contact TD Ameritrade directly. Please call the customer service line at 800-431-3500 and press 0 (even though that's not an option on the voice messaging). This should connect you with a service rep.

Please don't forget to let Pearson Capital know of these changes so that we may update our files here as well.

Also, new to security are the updated application forms. While this won't affect most of our clients, those who opt to open new accounts will see some questions pertaining to your income, net worth, initial source of funding, and ongoing source of funding. Unfortunately, this may seem very intrusive and unnecessary; however, due to increased incidents of money laundering and terrorist financing, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) has adopted these CDDs (Consumer Due Diligence) requirements for all financial institutions. As always, you can be sure that the information on your applications is private and never shared with anyone.

### 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.  
Second Quarter April-May-June-see your April statement.*

## iShares Select Dividend ETF (DVY) NASDAQ PRICE \$95.12

The investment seeks to track the investment results of the Dow Jones U.S. Select Dividend Index composed of relatively high dividend paying U.S. equities. 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 a selected group of equity securities issued by companies that have provided relatively high dividend yields on a consistent basis over time.

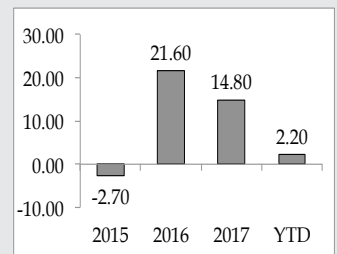
Location: USA  
Type: 100% Stocks

Category: Large Value  
Industry: Diversified

### Ratings & Recommendations

Current P/E Ratio: **N/A**  
Annual Yield: **3.9%**  
Annual Dividend: **3.74**  
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%



## iShares Morningstar Large-Cap ETF (JKD) NYSE ARCA PRICE \$153.49

The investment seeks to track the investment results of the Morningstar® Large Core IndexSM composed of large-capitalization U.S. equities. 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 stocks issued by large-capitalization companies that have exhibited average "growth" and "value" characteristics as determined by Morningstar, Inc.'s ("Morningstar" or the "index provider") proprietary index methodology.

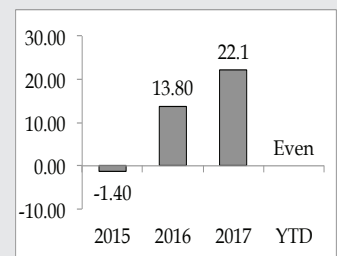
Location: USA  
Type: 100% Stocks

Category: Large Blend  
Industry: Diversified

### Ratings & Recommendations

Current P/E Ratio: **N/A**  
Annual Yield: **1.9%**  
Annual Dividend: **2.91**  
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%



**New trends that we see:**

- 1) Under the doctrine of quantitative easing (QE), and now under quantitative tightening (QT), the growth in the Fed's balance sheet can be accelerated dramatically if needed and later shrunk far less dramatically.
- 2) We will see if the European Union (EU) will have any tariffs.

**Key Point: The Fed has declared what it intends to do for near term interest rates.**

**Earnings Flows:**

Just recently, the S&P 500 closed at an all-time high. While last week's pullback has worried many investors, market fundamentals remain strong. Due to disappointing retail sales for three straight months, plus a sudden deceleration in both existing and new home sales, first-quarter GDP estimates are changing. Many analysts believe this may be weather-related, as we have had a colder than normal winter season. The good news is that the first quarter of 2018 was the first two months of one of the largest earnings estimates for companies in the last two decades. The tax bill and major corporate tax reform recently sent all three major stock market indexes to new all-time highs before the recent selloff. However, the tax reforms are an ongoing process for the upcoming year, so that will benefit corporations for the near future.

**In the most recent quarter:**

- 1) The U.S. Industrial Production Index reached an all-time high.
- 2) The government spending bill will also help with earnings growth.

**Key Point: The tax cuts and strong growth will continue even with the most recent selloff and bad weather.**

**Cash Flows:**

The \$1.3 trillion spending bill that President Trump recently signed rejected the steep cuts projected in dollars and programs that Trump proposed for domestic agencies a year ago. Across much of the government both Republican and Democratic leaders agreed to spending levels that matched or even exceeded what the previous administration asked Congress to appropriate in 2016. The \$1.3 trillion measure includes significant boosts to U.S. military spending, the biggest increase in defense funding in 15 years. This will boost the earnings for defense contractors, and other companies who benefit from government contracts.

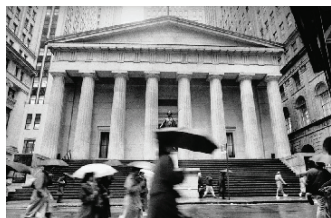
**New trends we see.**

- 1) We are still hoping that infrastructure investments will now be part of the upcoming legislature discussions this year.
- 2) Companies are bringing back manufacturing from overseas and may accelerate that by the new tariffs.

**Key point: Some companies that have money overseas will continue to keep it there.**

# 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%	(1.2%)
Dow Jones	7.3%	26.5%	7.5%	(2.2%)	7.9%	25.1%	(2.5%)
Nasdaq	15.9%	38.3%	13.4%	5.7%	4.1%	28.2%	2.3%
Market Average	12.2%	31.5%	10.8%	0.9%	5.9%	24.3%	(1.0%)



## MARKET VIEW

*Christopher Carothers - PCI's Stock Analyst*

### Economic Flows:

During the most recent Federal Reserve Board meeting, the newly-elected Fed Chair, Jerome Powell, and all the



Federal Open Market Committee members, voted unanimously to raise the target range for the Fed funds rate by 25 basis points. As part of the process, they also indicated there would be three key interest rate hikes this year. The Fed's inflation forecasts also barely changed, and the median estimate for the unemployment rate in 2019 and 2020 is about 3.5 percent. Given the low jobless rate, Powell expressed the Fed will know the labor market is getting tight when it exhibits stronger wage growth, and will act upon that accordingly. However, they will continue to use a wait-and-see approach before making any major adjustments. In fact, they may not deliver all three hikes. In some cases such as back in 2016, the Fed forecasted four key interest rate hikes but only hiked once. However, analysts believe that markets are now pricing for the Fed to raise interest rates to about 2.5 percent, and to 3 percent eventually.

Recent reports are stating that President Trump's administration is seeking to impose tariffs on up to \$60 billion worth of Chinese imports and will target the technology and telecommunications sectors. For example, they are targeting Chinese technology companies to push China away from its policies that force U.S. companies to give up their technology secrets in exchange for being allowed to operate in China. While the tariffs would chiefly target information technology, consumer electronics, and telecoms, they could be much broader in the future. All too often, those patented technologies are turned into pirated software and hardware products that are exported around the globe at a fraction of the cost while the Chinese government allows this to happen. China takes advantage of the U.S. in trade in many ways and some additional tariffs may be imposed by the administration. President Trump's goal is to shrink the U.S. trade deficit and will continue to use selective tariffs to try to protect U.S. industries, just like he did with the steel and aluminum tariffs. Some people estimate that these tariffs are merely being used so President Trump can negotiate better and more equitable trade deals for the U.S. and are not expected to adversely impact overall trade.

As far as trade and tariffs, the Fed has stated that there was no thought that changes in trade policy should have any effect on the current outlook for interest rates, at least not at the present. However, since the U.S. and China need each other, a major trade war is unlikely.

The ten-year Treasury yield came off its recent multi-year high of 2.95 percent. The current process the Fed outlined is first gradually decreasing the Fed's balance sheet as they sell more bonds and mortgage-backed securities. Given the expectation of accelerating bond selling, many people believe that we will cross 3 percent. The worries are how fast we go higher to the upside in the ten-year Treasury yield, and how far we carry above that barrier, and what may impact the performance of the stock market as a whole. This sell-off in the stock market in February was certainly catalyzed by spiking long-term interest rates. The Fed still understands 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.

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**The Pearson Investment Letter**  
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Editor  
**Roberta Wilde**

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**Privacy Policy**  
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