

# Your Personal Money Manager

# Pearson

## INVESTMENT LETTER

Published Monthly Since 1982  
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### FEATURED STOCKS - OCTOBER/NOVEMBER 2019

#### VALUE STOCKS:

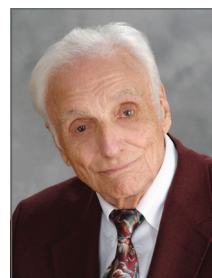
Apple Inc.  
McDonald's Corp  
Walmart Inc.

#### INCOME STOCKS:

AT&T Inc.

#### ETFs:

iShares Core Dividend Growth ETF  
Virtus InfraCap U.S. Preferred Stock ETF



Walter D. Pearson  
Chairman



Donald E. Pearson  
President



Ann Hathaway  
Account Manager

### All Financial Advisers

Many people do not realize how different financial advisers can be. I always tell people when they are starting out to meet with more than one adviser before choosing. It is important to find one that you feel comfortable with, who understands your risk tolerance, and knows exactly what you want. You and your adviser should be on the same page because, unfortunately, there may be times when a decision being made for you by your adviser might be influenced by commissions or a bonus.

The Security & Exchange Commission is putting into law a new rule called Regulation Best Interest. This will be enacted in June of 2020. This new regulation is being adopted with the intention of preventing your adviser from making decisions which may not be in your best interest. Many critics, including myself, do not believe this is going to change how decisions are being made. I encourage our clients to call me anytime with any questions or comments. To protect yourself, I encourage you to have ongoing conversations with yours. I especially encourage contacting your adviser when your situation changes. Perhaps you inherit some money, or your employment changes, or there's a death in the family that is affecting you, or your portfolio is off track with performance. This is where good ongoing dialog with your adviser becomes important. When you contact your adviser, I believe you should get a reply the same day or the next day whenever possible. If you're not getting a reply for several days or weeks, it might be time for a change. Any adviser can have an off year, even the Warren Buffets of this business. Your return might be lower than wanted, but your risk tolerance might warrant this. Again good ongoing conversation should help to prevent

this. A good report card for comparison would be the S&P 500 annual results.

Here at Pearson Capital I maintain the license of Registered Investment Adviser. Within this industry there are so many different licenses that listing them all would have little or no value. My license as an RIA states that every decision I make for you MUST be in your best interest without exception. We have found a very simple way of doing this. We accept no commissions or bonuses, and everything we purchase for you and your account are the same things we purchase for ours. I can honestly tell you we want the very best performance and results. This strategy has proven over time to be a huge success. You are a member of our investment family and we truly are partners.

### Making Good Investment Decisions

Paying off debt should be a top priority but you should not neglect your long-term goals. If your employer offers a matching 401(k) contribution, contribute at least enough to capture the match. If you don't you'll be walking away from free money.

Do It Yourself: Individual 401(k): If you're self-employed you can contribute up to 25 percent of compensation plus \$18,000 in salary deferrals for a maximum contribution of \$54,000. There is also a \$6,000 catch up contribution for those who are age 50 and older. You can also take loans from your account just as you could from a traditional 401(k).

401(k) rollovers: If you're employed at a company and you decide to retire or change employment, the 401(k) is no longer in effect, the reason being the employer will no longer be contributing funds into your account. Many employers will allow you to leave it there, but I always suggest this should be taken and

rolled over into a Traditional IRA. Simply said, a small amount of paperwork is necessary, and, if you're using our services, it is moved to TD Ameritrade. Where it was your employer who dictated the investment choices, which are a limited number of mutual funds, we will manage it for you. The choices we have are an endless supply of individual stocks and bonds as well as an enormous supply of ETFs.

Roth IRA: It is my opinion that everyone who is eligible should own a Roth IRA. Currently, if you have an adjusted gross income of \$160,000 or more (\$110,000 for singles), you cannot make a contribution. For those who are eligible, you can contribute \$6,000 annually, and for those 50 and older you can contribute \$7,000. It has always been the traditional rule of tax planning to never pay a tax bill today that you can put off until tomorrow, but the Roth IRA is the exception. With the Roth you forgo the up-front tax break, but withdrawals in retirement are tax-free. As we age, tax rates will probably rise and the Roth could become a financial lifesaver. Another benefit with this is you never are forced to withdraw any money until you make that determination. At age 70 1/2, other IRAs force you to begin making withdrawals from it, and all monies coming out are taxed as ordinary income. In many cases where the amount being taken is significant, it will probably push you up into a higher tax bracket.

If any of these recommendations are something you'd like to talk with us about, please contact me as I would love helping you. As we tell everyone we are partnering with, you are now a part of our investment family.

DP

## **Ups and Downs**

***What should we write about today? The one thing that always upsets me is that individual who is afraid of the stock market. Owning stocks is very much like starting your own business. Choose a business that is growing and then let it grow. Look back one hundred years ago when they first decided to track the stock market. Believe it or not the market has only gone up. There are downsides, but in looking long range you hardly see the downs. In other words now is the time to get in. If your timing is imperfect, wait awhile and you will be straightened out.***

***One of the vitally important things you should have learned already is there is no dollar of real value. The country that is backing your currency is some number of trillions of dollars in debt. What you should have learned by now is that as the value of your dollar depreciates, the cost of everything else rises. Bread is no longer 5 cents per loaf as it was when I was a boy. Shave and a haircut is no longer 25 cents.***

***The name of the game is inflation. You must play as you have already been dealt in. All of your costs will rise as there is no longer a dollar that is backed by gold. One of the best ways to go is in the stock market. As the value of your currency depreciates, the value of your stocks goes up, but there is something else. Your stock is very likely growing which means there are two drivers here. One is the actual growth of your company; the other is inflation. Remember this! The value of the dollar goes down as everything else goes up.***

***Last night I was watching the nightly business report when I heard that a beginner in some industry was going to receive \$11 an hour. My memory came to work and I remembered when we hired new men in the banking industry back in 1931, we paid them by the week and not by the hour. A man was expected to work twelve hours a day and received \$8 a week and that was for six days not five. That was just about the time when the gold backing was removed from your currency. Can you grasp the idea that the value of your currency is moving and it's going downhill not up? One of the reasons you should be a stock investor is that as the value of your dollar goes down, the value of your stockholding goes up.***

***I really don't know why I spend my time trying to get through to those of you who will not listen. Look back and you will see that everything has gone up in price. Has everything improved or has the purchasing power of your dollar gone down? Even your stocks have to rise in price as the value of the dollar decreases. It used to be different when the dollar had gold backing. Back in those days we used to wait for prices to go down. Today it is different. If you wait too long, the price will go up. My parents used to invest in the market. As companies grew in size they would make money. Today you have two things working for you: the growth of your company plus the depreciating value of the dollar. Good luck to those of you who are listening. Send Money!***

**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.

# PEARSON CAPITAL'S RECOMMENDED STOCKS OCTOBER/NOVEMBER 2019

[www.pearsoncapitalinc.com](http://www.pearsoncapitalinc.com)

## APPLE INC. (AAPL) NASDAQ PRICE \$223.97

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.

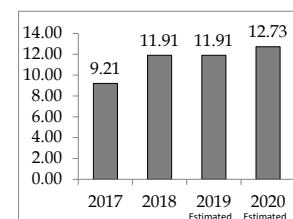
Type: Value  
Sector: Information Technology

### Ratings & Recommendations

Current P/E Ratio: **18.6**  
Annual Yield: **1.5%**  
Annual Dividend: **3.08**  
Investor's Bus. Daily: **B**  
Pearson Growth & Value: **A-**  
Stand & Poor Rating: **B**  
The Street (analyst avg.): **B+**

Institutional Holdings: 59%  
Industry: Technology  
Hardware, Storage & Peripherals

### Earnings per share



## MCDONALD'S CORP (MCD) NYSE PRICE \$214.71

McDonald's Corporation (McDonald's) operates and franchises McDonald's restaurants. The Company's restaurants serve a locally relevant menu of food and drinks sold at various price points in over 100 countries. The Company's segments include U.S., International Lead Markets, High Growth Markets, and Foundational Markets and Corporate. The U.S. segment focuses on offering a platform for authentic ingredients that allows customers to customize their sandwiches. Its High Growth Markets segment includes its operations in markets, such as China, Italy, Korea, Poland, Russia, Spain, Switzerland, the Netherlands and related markets. The International Lead markets segment includes the Company's operations in various markets, such as Australia, Canada, France, Germany, the United Kingdom and related markets. The Foundational markets and Corporate segment is engaged in operating restaurants and increasing convenience to customers, including through drive-thru and delivery.

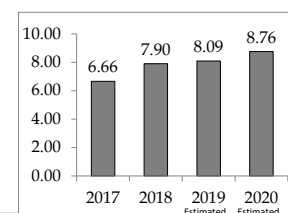
Type: Value  
Sector: Consumer Discretionary

### Ratings & Recommendations

Current P/E Ratio: **28**  
Annual Yield: **2.2**  
Annual Dividend: **4.64**  
Investor's Bus. Daily: **B**  
Pearson Growth & Value: **B+**  
Stand & Poor Rating: **B**  
The Street (analyst avg.): **C+**

Institutional Holdings: 67%  
Industry: Hotels, Restaurants & Leisure

### Earnings per share



## WALMART INC. (WMT) NYSE PRICE \$118.68

Walmart Inc., formerly Wal-Mart Stores, Inc., is engaged in the operation of retail, wholesale and other units in various formats around the world. The Company offers an assortment of merchandise and services at everyday low prices (EDLP). The Company operates through three segments: Walmart U.S., Walmart International and Sam's Club. The Walmart U.S. segment includes the Company's mass merchant concept in the United States operating under the Walmart brands, as well as digital retail. The Walmart International segment consists of the Company's operations outside of the United States, including various retail Websites. The Sam's Club segment includes the warehouse membership clubs in the United States, as well as samsclub.com. The Company operates approximately 11,600 stores under 59 banners in 28 countries and e-commerce Websites in 11 countries.

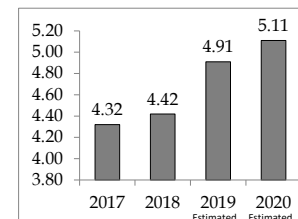
Type: Value  
Sector: Consumer Staples

### Ratings & Recommendations

Current P/E Ratio: **26.7**  
Annual Yield: **1.9%**  
Annual Dividend: **2.12**  
Investor's Bus. Daily: **B**  
Pearson Growth & Value: **B+**  
Stand & Poor Rating: **B**  
The Street (analyst avg.): **A-**

Institutional Holdings: 29%  
Industry: Food & Staples Retailing

### Earnings per share



## AT&T INC. (T) NYSE PRICE \$37.84

SVB Financial Group is a financial services company, as well as a bank holding and a financial holding company. The Company's segments include Global Commercial Bank, SVB Private Bank and SVB Capital. The Global Commercial Bank segment consists of the operations of its Commercial Bank, and of SVB Wine, SVB Analytics and its Debt Fund Investments. SVB Private Bank is the private banking division of the Bank, which provides a range of personal financial solutions for consumers. SVB Capital is the venture capital investment arm of SVB Financial Group, which focuses primarily on funds management. The Company, through its subsidiaries and divisions, offers a range of banking and financial products and services to clients across the United States. It offers services in the technology, life science/healthcare, private equity/venture capital and wine industries. The Bank and its subsidiaries, also offer asset management, private wealth management, brokerage and other investment services.

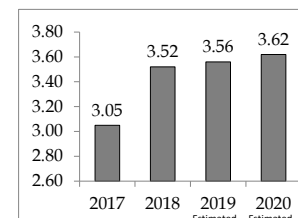
Type: Income  
Sector: Communication Services

### Ratings & Recommendations

Current P/E Ratio: **15.8**  
Annual Yield: **5.9%**  
Annual Dividend: **2.04**  
Investor's Bus. Daily: **B+**  
Pearson Growth & Value: **A-**  
Stand & Poor Rating: **B**  
The Street (analyst avg.): **B-**

Institutional Holdings: 53%  
Industry: Diversified Telecommunication Services

### Earnings per share





## JUST ASK ANN

Last newsletter I wrote a reminder to check your beneficiaries on your policies so that you are sure that they are up to date. Since that issue, I found a very informative article from the New York Times and author, Susan B. Garland, about inheritance. While the article is too long to print here, I thought I'd include a few bullet points for you to consider should you inherit from someone or before you set up your estate.

- One study found that adults who receive an inheritance save just half, while spending, donating or losing the rest; nearly 20 percent of baby boomers who received \$100,000 or more spend their entire gift.
- Many beneficiaries view their inheritances as free money, experts say, and some run through their sudden wealth on cars, major house renovations and large gifts to children. Other mistakes, not anticipating a tax hit on inherited retirement plans, or making unwise investments, can also chip away at the money pot.
- When someone gets an inheritance, "there can be a feeling of invincibility, and when people feel invincible, they don't make good decisions." It's recommended that new heirs enter "a decision-free zone" for at least several months to a year to think through options. During that time, the author suggests creating what she calls a brain trust of professionals, such as a financial adviser, an accountant and a lawyer.
- Though there are no rules of thumb for the best uses of sudden wealth, experts say new heirs should set aside cash, enough to cover six months of expenses, in an emergency fund. Retirees, for example, could use this stash to avoid tapping investments in a market downturn.
- A large chunk of an inheritance is likely to be in an Individual Retirement Account, and heirs can lose much of the money if they do not follow the complex rules for handling IRAs. A traditional IRA, which holds tax-deferred contributions, is a great tax shelter for heirs. Non-spouse beneficiaries can allow the assets to grow over their lifetimes, paying income taxes only on the distribution they are required to take each year after the original owner dies. But Beneficiaries could inadvertently end up with a big tax bill. If an heir moves the IRA money into a brokerage account or his or her own IRA, the entire account becomes taxable immediately.

You can read the entire article here:

<https://www.nytimes.com/2019/09/20/business/inheritance-financial-planning.html>

### iShares Core Dividend Growth ETF (DGRO) NYSE ARCA PRICE \$39.14

The investment seeks to track the investment results of the Morningstar® US Dividend Growth IndexSM. The fund generally will invest at least 90% of its assets in the component securities of the underlying index. The underlying index is a subset of the Morningstar® US Market IndexSM, which is a diversified broad market index that represents approximately 97% of the market capitalization of publicly-traded U.S. stocks.

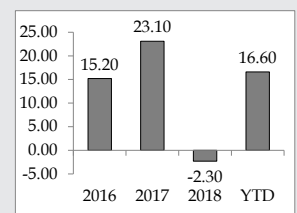
Location: USA  
Type: 100% Stock

#### Ratings & Recommendations

Current P/E Ratio: **N/A**  
Annual Yield: **2.9%**  
Annual Dividend: **1.12**  
Investor's Bus. Daily: **N/A**  
Pearson Growth & Value: **A**  
Morningstar: **A**  
The Street (analyst avg.): **N/A**

Category: Value  
Industry: Diversified

#### Performance by%



### Virtus InfraCap U.S. Preferred Stock ETF (PFFA) NYSE ARCA PRICE \$26.34

The investment seeks current income and, secondarily, capital appreciation. Under normal market conditions, the fund will invest not less than 80% of its net assets (plus the amount of any borrowings for investment purposes) in U.S. preferred stock, and in derivatives and other instruments that have economic characteristics similar to such investments. The Sub-Adviser actively manages the fund's assets pursuant to a variety of quantitative, qualitative and relative valuation factors.

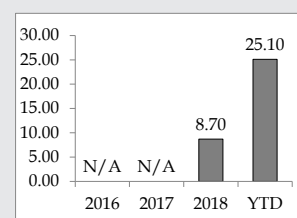
Location: USA  
Type: Preferred Stocks

#### Ratings & Recommendations

Current P/E Ratio: **N/A**  
Annual Yield: **8.7**  
Annual Dividend: **2.78**  
Investor's Bus. Daily: **N/A**  
Pearson Growth & Value: **A**  
Morningstar: **A**  
The Street (analyst avg.): **N/A**

Category: Value  
Industry: Diversified

#### Performance by%



**New trends we see:**

- 1) Housing starts are now growing at the fastest pace in about a decade.
- 2) The Euro may move lower as their economy slowly goes into a recession.
- 3) Protests in Hong Kong have continued, even after tensions have subsided.

**Key Point:** We expected a higher rate cut for September, but still expect more in the next few meetings.

**Earnings Flows:**

October is the beginning of this quarter's earnings season, and we should start seeing any recurring effects that are starting throughout the economy due to the recent trade wars and strong dollar. REITS, utilities, consumer staples, and assorted high-dividend stocks and ETFs that were positive year-to-date for investors, have been subject to widespread selling pressure since the beginning of September. These moves will rotate safety stocks to those companies that will perform well this quarter. A good example is the company Nike (NKE), which reported earnings better than expected and continued growth in its sales in China. We expect that growth stocks will rebound when this quarter's earnings end.

**New trends we see:**

- 1) We will see earnings surprises start the earnings season in a positive note.
- 2) Silver continues its upward move from its yearly low of \$13.50.
- 3) The U.S. will decisively become the largest crude oil exporter worldwide in upcoming future.

**Key Point:** Earnings may come in better than expected with growth stocks leading the way.

**Cash Flows:**

When October's earnings reports come out for many of the listed companies on the exchanges, we will be able to view the impact of the continued stock buybacks for the remainder of the year. The current ultralow interest rate environment will likely fuel more stock buy-backs for this year and next, which is very bullish for the overall stock market. However, many critics believe that this year's buybacks will taper off, as the world economy starts to slow and many companies are forced to spend more on making changes. For example, this trade war that is hurting China will also affect many companies that trade with it, especially after President Trump encouraged companies to change their supply chains. Many of those same companies will need to spend additional money to make adjustments to avoid or reduce their exposure to the current tariffs imposed.

We still believe that many S&P 500 companies are on pace to continue stock buy-backs in 2019. As we stated before, many of the big banks such as Bank of America (BAC) and Citigroup (C) are scheduled to purchase billions of dollars of their own stock over the next year. We do not expect that to change anytime soon, and we hope that they will also be able to issue more stock buybacks next year during their summer announcements in 2020.

**New trends we see:**

- 1) The IPO Wework will postpone its debut on the stock market for the near future.
- 2) We have seen continued dividend increases by many companies this past quarter.

**Key Point:** We believe that stock buybacks will continue even if there is a slowdown in the world economy.

**Management Fee:**

*Our fee is extracted quarterly from the account at 25% of one% 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. Fourth Quarter October-November-December-see your October statement.*

# WALL STREET INDEXES

Indexes	2013	2014	2015	2016	2017	2018	2019
S&P 500	29.6%	11.4%	(0.8%)	5.8%	19.6%	(7.1%)	18.7%
Dow Jones	26.5%	7.5%	(2.2%)	7.9%	25.1%	(6.7%)	15.4%
Nasdaq	38.3%	13.4%	5.7%	4.1%	28.2%	(4.7%)	20.6%
Market Average	31.5%	10.8%	0.9%	5.9%	24.3%	(6.0%)	18.2%



## MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

### Economic Flows:

After the Federal Reserve decided that there was the possibility of a broad global



slowdown in the economy, the Federal Open Market Committee (FOMC) chose to make a 25% basis point cut in interest rates at its September meeting. This move was the same based on the decision made in July. Once again, they cited global developments, a slowdown in business investment, and muted inflation as reasons for its second key interest rate cut in 11 years. However, critics, including the President, maintain that its decisive stand to lower interest rates was not good enough and should have been 50 basis points instead. Others have cited that no additional easing is needed and this current move is way too much for the current economic status in our country.

We originally predicted that the Fed would decide to take the more dramatic move of a rate cut of 50 basis points, but instead they have moved forward with a more cautious approach. However, there are still many issues that might happen in the next few meetings to change their minds.

-- The Chinese trade delegation, which visited Washington for talks, abruptly canceled a planned visit to Montana. This move has prompted renewed worries about how much progress really has been made in U.S.-China trade talks. Without renewed progress, this is causing concern of a slowdown throughout Asia. In that environment, we still expect further gains in the dollar and further lows in many other countries in the world including the Euro.

-- Recent drone strikes on the heart of the Saudi oil industry forced the kingdom to shut down half its crude production, amounting to a loss of 5.7M barrels a day, or roughly 5% of the world's daily production of crude oil. This caught the world's energy market off guard. Oil prices spiked by nearly 15%, the biggest daily jump in 30 years. The price of WTI crude shot up from \$55 to \$62.80 per barrel in reaction to the attack. Increased tensions in the Middle East may increase oil prices to a new level that can also help a slowdown in global growth.

-- The Brexit situation in Great Britain has recently changed as Prime Minister Boris Johnson has been forced to recall parliament by its supreme court. Its political parties are now in debate of what happens before the October 31 deadline.

*Continued on page 5*

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### **Services Provided**

Managed Accounts:  
Individual - Joint - Custodial  
Corporate - Partnership - Trust  
IRA's; Roth - Trad - College - SEP  
401(k) & 403(b) Rollovers - Transfers

**Free consultation**  
**No hidden fees**

**Privacy Policy**  
Available online or mailed upon request.

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