

# Your Personal Money Manager Pearson INVESTMENT LETTER

Published Monthly Since 1982

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## FEATURED STOCKS - NOVEMBER/DECEMBER 2019

### GROWTH STOCK:

Baidu Inc.

### VALUE STOCKS:

Credit Acceptance Corp.

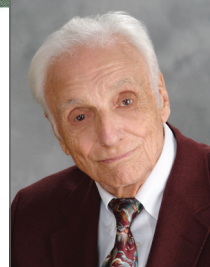
D.R. Horton Inc.

O'Reilly Automotive Inc.

### ETFs:

Consumer Discretionary  
Select Sector

First Trust Preferred  
Securities and Income



Walter D. Pearson  
Chairman



Donald E. Pearson  
President



Ann Hathaway  
Account Manager

*Below is an article that was printed mid-October on the front page of the business section within our Tampa, FL newspaper. I thought by sharing you would enjoy learning a bit more about us.*

## At Pearson Capital, Inc., your goals & interests are top priorities

While achieving greater financial security and independence is a wonderful goal to set for your household, it certainly isn't without its challenges. Extensive research takes a lot of time and patience, and the myriad fees can diminish investment gains.

Don Pearson, president of Pearson Capital, Inc., offers a different approach: invest through his Apollo Beach-based firm and the only fees you'll pay are a management fee of one percent on assets over \$1,500.

"If your portfolio goes up, we get paid more," Pearson said. "If it doesn't, we don't."

As a Registered Investment Advisor, Pearson makes it his mission and obligation to always put client interests above his own. "I must provide you with financial advice that works best for you," he added. "Brokers often make decisions based on their individual interests."

Unlike many personal financial advising firms, Pearson Capital doesn't require large sums of money for investments – clients can start with what they're able to afford.

"We have no minimums," said Ann Hathaway, Pearson Capital's account manager for the past 15 years. "We encourage people to start with anything they can."

Pearson Capital's clients aren't the only people that Pearson and Hathaway help in the community: every holiday season, the duo coordinates the collection of children's



Above: Pearson Capital, Inc.'s account manager, Ann Hathaway, and president, Don Pearson. Visit [PearsonCapitalInc.com](http://PearsonCapitalInc.com) to learn more about the company's services, or call (813) 641-7575.

toys for the annual Marine Toys for Tots Program in the SouthShore area.

For the past 15 years, Pearson and Hathaway have grown the local Toys for Tots drive into a major joy-giver for Hillsborough County kids. They originally started out with 25 collection boxes in the SouthShore area; there are now 100 of them. According to Hathaway, their most recent drive amassed over 6,000 toys (including 100 bicycles) and more than \$9,000 in cash donations.

In recognition of their sponsorship

and tireless efforts for the Toys for Tots campaign, Pearson was given a Special Recognition Award by the SouthShore Chamber of Commerce in January.

To learn more about how Pearson Capital can help guide you toward financial security, call (813) 641-7575. For more information, visit [PearsonCapitalInc.com](http://PearsonCapitalInc.com), where you can read the Pearson Investment Letter and "Walter's Wisdom," which was written by the firm's founder and WWII veteran, Walter Pearson.

*I have written to you in the past, but what I have to say bears repeating. The information I have is no doubt repetitious, but it is necessary to repeat, and repeat, and to say it again. **THE DOLLAR IS GOING DOWN IN VALUE EACH YEAR AT A RATE OF 5% OR BETTER.** Those of you who have been with us for a number of years can understand, but it is important that those of you who are newcomers, and those of you who are subscribers to our paper, understand this, too. The next thing to understand is how to counteract the dollar's demise, and each of you old-timers understands this fully. **Buy Stocks! Stocks will go up as the dollar goes down. But then there is an added momentum; your stocks will not only go up in relation to the dollar's drop, but the actual growth of your stock gives you another added value.***

*To show you what this means, let's take a look at some of the things in the past. In January of 1992 I bought \$840 worth of Fastenal. This stock has split five times since then and I now have 800 shares with a value approximating \$37,000. This will show you what time can accomplish when given the opportunity. McDonald's was bought in October of 1987 for \$1500 giving me 40 shares. I now have 320 shares with a value of \$62,080. Isn't this much better than placing it in the bank and accepting the interest payments? This has happened over and over depending on how much growth has been inherent in the stock. Perhaps I should show you one that has not done as well. Okay! Here goes! I bought 17 shares of RLI back in December of 2010 for \$894 or approximately \$52 a share. Today it is selling for \$52 a share so I imagine your first impulse is to say, "I told you so." But, hold it! They have split two for one and I now have 34 shares, so they have doubled in value.*

*You should notice that you have more than one thing working for you here: growth of your company, time, and the demise of the value of the dollar. You may not realize that bread used to sell for only 5 cents a loaf about seventy-five years ago, and now it is more than \$2. The bread is no different now than it was then which means the dollar value has gone down that much. You can do this same thing with gasoline or anything else, but the answer comes out just the same. **YOUR DOLLAR IS LOSING VALUE!** Do something to correct it, now that you know the truth.*

*One of the things I have mentioned that you have working for you is time. You cannot imagine what this can do for you. Take a look at some of these stocks and imagine what you would have if you had purchased and held them during that period. Apple, if you had bought during 2008 and had waited you would have bought at about \$30 a share and today we are still recommending it at \$262 a share. Look at Hershey; it was about \$40 dollars a share ten years ago but is \$146 today. Or take a look at McDonald's, which has gone from about \$50 to \$194 in the same period. The necessary thing is to buy good growing companies and then wait. Patience is a necessity. I say this because it has happened to me. When I just couldn't wait any longer I sold out, but shouldn't have.*

**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 DECEMBER 2019

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

### BAIDU INC. (BIDU) NASDAQ PRICE \$119.22

Baidu, Inc. is a Chinese language Internet search provider. The Company offers a Chinese language search platform on its Baidu.com Website that enables users to find information online, including Webpages, news, images, documents and multimedia files, through links provided on its Website. In addition to serving individual Internet search users, the Company provides a platform for businesses to reach customers. Its business consists of three segments: search services, transaction services and iQiyi. Search services are keyword-based marketing services targeted at and triggered by Internet users' search queries, which mainly include its pay-for-performance (P4P) services and other online marketing services. Its transaction services include Baidu Nuomi, Baidu Takeout Delivery, Baidu Maps, Baidu Connect, Baidu Wallet and others. iQiyi is an online video platform with a content library that includes licensed movies, television series, cartoons, variety shows and other programs.

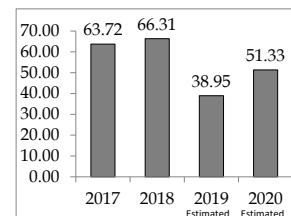
Type: Growth  
Sector: Communication Services

Institutional Holdings: 68%  
Industry: Interactive Media & Services

#### Ratings & Recommendations

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

#### Earnings per share



### CREDIT ACCEPTANCE CORP (CACC) NASDAQ PRICE \$437.64

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.

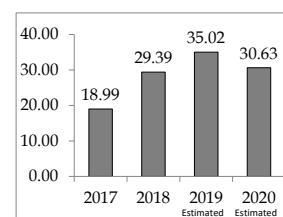
Type: Value  
Sector: Financials

Institutional Holdings: 60%  
Industry: Consumer Finance

#### Ratings & Recommendations

Current P/E Ratio: **12.9**  
Annual Yield: **N/A**  
Annual Dividend: **N/A**  
Investor's Bus. Daily: **C**  
Pearson Growth & Value: **B**  
Stand & Poor Rating: **A**  
The Street (analyst avg.): **B**

#### Earnings per share



### D.R. HORTON INC. (DHI) NYSE PRICE \$54.13

D.R. Horton, Inc. is a homebuilding company. The Company has operations in 84 markets in 29 states across the United States. The Company's segments include its 44 homebuilding divisions, its financial services operations and its other business activities. In the homebuilding segment, the Company builds and sells single-family detached homes and attached homes, such as town homes, duplexes, triplexes and condominiums. The Company's 44 homebuilding divisions are aggregated into six segments: East Region, South Central Region, Midwest Region, West Region, Southwest Region and Southeast Region. In the financial services segment, the Company sells mortgages and collects fees for title insurance agency and closing services. The Company has subsidiaries that conduct insurance-related operations; construct and own income-producing rental properties; own non-residential real estate, including ranch land and improvements, and own and operate oil and gas-related assets.

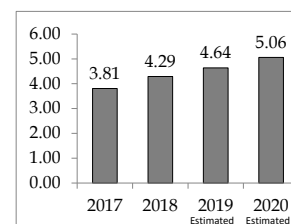
Type: Value  
Sector: Consumer Discretionary

Institutional Holdings: 85%  
Industry: Household Durables

#### Ratings & Recommendations

Current P/E Ratio: **12.7**  
Annual Yield: **1.3%**  
Annual Dividend: **0.7**  
Investor's Bus. Daily: **B**  
Pearson Growth & Value: **B+**  
Stand & Poor Rating: **C**  
The Street (analyst avg.): **A-**

#### Earnings per share



### O'REILLY AUTOMOTIVE INC. (ORLY) NASDAQ PRICE \$441.41

O'Reilly Automotive, Inc. is a specialty retailer of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States. The Company sells its products to both do-it-yourself (DIY) and professional service provider customers. The Company's product line includes new and remanufactured automotive hard parts, such as alternators, starters, fuel pumps, water pumps, brake system components, batteries, belts, hoses, temperature control, chassis parts, driveline parts and engine parts; maintenance items, such as oil, antifreeze, fluids, filters, wiper blades, lighting, engine additives and appearance products, and accessories, such as floor mats, seat covers and truck accessories. The Company's stores offer various services and programs to its customers, such as used oil, oil filter and battery recycling; battery diagnostic testing; electrical and module testing; check engine light code extraction; loaner tool program; custom hydraulic hoses, and machine shops.

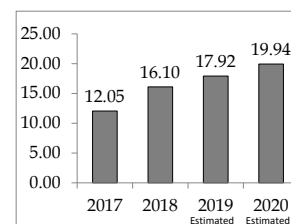
Type: Value  
Sector: Consumer Discretionary

Institutional Holdings: 86.5%  
Industry: Specialty Retail

#### Ratings & Recommendations

Current P/E Ratio: **25.5**  
Annual Yield: **N/A**  
Annual Dividend: **N/A**  
Investor's Bus. Daily: **B**  
Pearson Growth & Value: **B+**  
Stand & Poor Rating: **A**  
The Street (analyst avg.): **B**

#### Earnings per share



## JUST ASK ANN

I'm passing on this notice from TD to those of you who use TD's online access.

### The AdvisorClient experience is about to become easier

More than anything, the experience you give your clients matters. Providing them with easily-accessible account information is paramount, and that's why AdvisorClient® from TD Ameritrade Institutional is getting an upgrade. Starting **November 21, 2019**, all new clients will be automatically set up on the redesigned, user-friendly platform.\*

This streamlined AdvisorClient experience will allow clients to efficiently find:

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Plus, they'll continue to enjoy secure access to account values, positions, balances, and more on accounts held in custody by TD Ameritrade Institutional, anytime, anywhere.

Questions? Contact TD Ameritrade Institutional Technology Services at 800-400-6288, option 3.

\*Note that new clients with trading or cash management permissions will see links redirecting them to the previous version of the AdvisorClient platform to accomplish these tasks for now. All clients, including those new to AdvisorClient, will have access to both versions of the platform by clicking on embedded banners throughout the sites, until further notice.

### Consumer Discretionary Select Sector SPDR® Fund (XLY) NYSE ARCA PRICE \$121.22

The investment seeks investment results that, before expenses, correspond to the price and yield performance of publicly traded equity securities of companies in the Consumer Discretionary Select Sector Index. The fund employs a replication strategy. It generally invests substantially all, but at least 95%, of its total assets in the securities comprising the index. The index includes securities of companies from the following industries: retail; hotels, restaurants and leisure; textiles, apparel and luxury goods; household durables; automobiles; auto components; distributors; leisure products; and diversified consumer services.

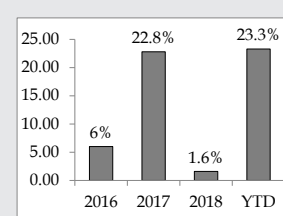
Location: USA  
Type: 100% Stock

#### Ratings & Recommendations

Current P/E Ratio: **N/A**  
Annual Yield: **1.3%**  
Annual Dividend: **1.57**  
Investor's Bus. Daily: **N/A**  
Pearson Growth & Value: **A**  
Morningstar: **A**  
The Street (analyst avg.): **N/A**

Category: Value  
Industry: Diversified

#### Performance by%



### First Trust Preferred Securities and Income ETF (FPE) NYSE ARCA PRICE \$19.95

The investment seeks total return and to provide current income. Under normal market conditions, the fund invests at least 80% of its net assets (including investment borrowings) in preferred securities ("Preferred Securities") and income-producing debt securities ("Income Securities"). The fund invests in securities that are traded over-the-counter or listed on an exchange.

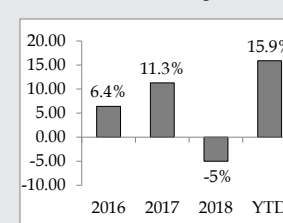
Location: USA  
Type: 100% Stock

#### Ratings & Recommendations

Current P/E Ratio: **N/A**  
Annual Yield: **5.5%**  
Annual Dividend: **1.09**  
Investor's Bus. Daily: **N/A**  
Pearson Growth & Value: **A**  
Morningstar: **A**  
The Street (analyst avg.): **N/A**

Category: Income  
Industry: Diversified

#### Performance by%



-- The current Brexit situation in Great Britain has recently changed as the new Prime Minister, Boris Johnson, has been forced to call elections for a new parliament. Its October 31 deadline to leave has now been postponed to next year.

**New trends we see:**

- 1) America is now a net exporter of oil.
- 2) Germany is showing better than expected growth this quarter.
- 3) Protests in Hong Kong have continued, for more than five months now, and are not stopping soon.

**Key Point: We are doing better than expected based on the most recent economic indicators, so another interest rate cut may not be needed for the near future.**

**Earnings Flows:**

October is the beginning of this quarter's earnings season. Many companies in the S&P 500 have reported earnings above analyst estimates, well above their historical averages. Company sales are also up, with over half of companies in that same group beating sales estimates. The market is still expecting that the next quarter will beat expectations, but there are some who are skeptical that the good news about earnings can continue into next year. We think some growth stocks will flatten out when this quarter's earnings end, and remain range-bound until the next quarter earnings begin.

**New trends we see:**

- 1) Oil stocks focused on shale drilling are having a hard time getting financed.
- 2) Silver is slowly trending downward.
- 3) Corporate spending may slow down while they wait for this round of trade talks to end.

**Key Point: Earnings have been better than expected, but stocks may be range bound for the remainder of the year.**

**Cash Flows:**

Companies that come up with new innovations and ideas will be clear winners this upcoming year. Apple's (APPL) and Disney's (DIS) new streaming services will bring new customers and keep its current ones happy by using each one's other products and services. Both companies are poised to do well in the upcoming future.

Apple is continuing its stock buyback; however, we may see a slowdown as its stock reaches new highs by the end of the year. With low interest rates, many companies may seek debt to merge with another company or go from a public company to a private one. For example, Walgreens (WBA) is possibly seeking a leveraged buyout to become a private company.

**New trends we see:**

- 1) Xerox (XRX) has made a bid to purchase HP (HPQ), a company much larger than its own.
- 2) We expect more mergers in the next year.

**Key Point: We believe that stock buybacks will continue even if some companies move to new highs.**



## 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%)	24%
Dow Jones	26.5%	7.5%	(2.2%)	7.9%	25.1%	(6.7%)	19.6%
Nasdaq	38.3%	13.4%	5.7%	4.1%	28.2%	(4.7%)	28.5%
Market Average	31.5%	10.8%	0.9%	5.9%	24.3%	(6.0%)	24%



### MARKET VIEW

*Christopher Carothers - PCI's Stock Analyst*

#### Economic Flows:

Since the Federal Reserve recently chose to make a 25% basis point cut in interest rates at its September meeting, there is a good chance they will hold out on more changes until they see a slowdown in the economy. Critics, including the president, however, will still maintain lowering interest rates to lower the dollar to compete with the rest of the world. The president recently stated that the economy is at an all-time high, with unemployment at record levels. His goal is to put American companies on a better footing compared to the rest of the world.



--We originally predicted that the Fed would decide to take the more dramatic move of a more pronounced rate cut of 50 basis points, but the last time we heard from the Fed, they had cut interest rates for the third time this year, and Chairman Powell signaled that moves to ease monetary policy could be nearing a pause. This most recent rate cut, as expected, has effectively adjusted the yield curve from its previous inverted state back to normal.

-- The comments from President Trump, who spoke at the Economic Club of New York, didn't deliver any specifics on trade developments. He said a "significant Phase One" deal could happen soon, but reiterated that the U.S. will substantially raise tariffs on Chinese goods if no agreement is struck between the two countries. Talks between Washington and Beijing are thought to have hit a snag over agricultural purchases.

-- Fed Chairman Powell, in a recent speech, further warned that the federal budget is on "an unsustainable path." With the national debt now topping \$23 trillion, it could make it difficult for the economy to recover from future market downturns. According to the Treasury Department, the federal deficit reached \$134 billion in October.

*Continued on page 5*

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