Your Personal Money Manager

Pearson INVESTMENT LETTER

FEATURED STOCKS - JANUARY/FEBRUARY 2023

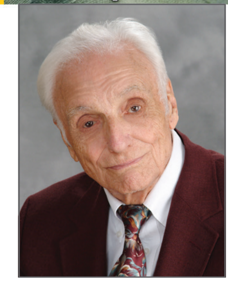
VALUE ETFs:

iShares Select Dividend ETF

SPDR® S&P Dividend ETF

Health Care Select Sector SPDR® Fund

Financial Select Sector SPDR® Fund



Walter D. Pearson
Chairman 1998-2021

Donald E. Pearson
President

Ann Hathaway
Account Manager

2022 Results

This year has been difficult in many ways. We have had to deal with ongoing viruses, wars, inflation, and an under performing stock market. The saddest part of all of this is we can't be sure if it is behind us yet.

Inflation has surged above 9%, and this is the highest rate in more than 40 years. Household budgets are being strained, and this, coupled with steep stock market losses, is a year we look forward to putting behind us. In 2020 the inflation rate was 1.7% and rates had remained largely below 2% for a decade. That has created the impression that today's steep inflation is entirely the result of everything that has happened since 2020 - this being a global pandemic that disrupted supply chains, pandemic government programs that dumped massive amounts of money into the economy, and the war in Ukraine that undermined commodity markets.

The US Federal Reserve has raised interest rates seven times this year with the intent of lowering inflation and hopefully holding off a recession which many of our so-called experts say will occur in 2023, if we are not in one already. House sales and car sales appear to be slowing as interest rates are now above 6%.

Let us all hope that at the beginning of 2023, when all the newly elected officials begin their terms in Congress, working together and finding solutions for these ongoing issues will prevail.

This is always a good time to review your financial goals and retirement issues and to just go over any and all issues or changes that may affect your plans. If you have a financial advisor, you might call and set up a meeting as we also encourage our clients to do.

Beginning 2023

As we begin this year, trying to predict or guess what may occur and how we will get there is going to be very difficult. I have been listening to and reading the predictions of many of the thought-to-be experts with this subject matter. Even though 2022 has come to a close, many of the issues and problems have yet to be resolved, and it appears the first quarter of this year will be needed to get this done.

The Federal Reserve has said it will continue to raise interest rates in the first quarter to maintain control over inflation. The year-ending inflation rate between 8-9% should be taken down to less than 5% within the first six months of this year. This will have a positive effect on the stock market. It will not be as it was before 2022 with very high returns because the inflation rate was about 2% on average, but it should still be modestly positive. I believe the stock market should have high single digit increases and selecting the right investments and categories will be most important.

I think Health Care will be one of the best sectors as insurers pass on higher costs to consumers thus lowering inflation costs in their field.

I also believe technology will be difficult and needs to be monitored carefully.

Another difficult sector will be home sales as interest rates continue to climb and are now above 6%

When we build portfolios we try to blend Growth and Value together, and this is done on a percentage predicated on age, instructions, and risk chosen. We will again be favoring Value stocks and ETFs because of the lack of volatility that goes along with growth choices. I also own these choices.

Exchange Traded Funds

I am a huge proponent for purchasing ETFs rather than mutual funds for our investment portfolios. Occasionally I read reports in the Wall Street Journal, referenced by Morning Star and others, of the many disadvantages to mutual funds. For example, the advisor pushing the fund may get a commission sometimes as high as 5.75%. Does the fund manager own the fund himself? Most times they do not. Many mutual funds have 300-600 stocks within their management. ETFs are considerably smaller and are often category specific. With only about 50-60 choices within the category, they search for the very best.

Here's a brief description of the four being featured in this newsletter that you can review on page 4.

The first two are DVY & SDY. Both of these are diversified with their selections while pursuing dividend growth and ongoing upside success. They both have an upside average for the past 12 years of 12%. SDY selects the most profitable companies within the S&P that have increased their dividends for ten consecutive years or more.

XLF has been a choice we have maintained for many years and this is sector specific. Within their portfolio of choice are financial institutions and banks. As interest rates continue to climb, this will continue to become more successful. XLF has also maintained a return of 12% on average for the past ten years.

XLV Is an ETF that is category specific within healthcare. They also select what they believe to be the best 50-60 choices within this category. Over the past ten years their average return has been 15%.

I might also add while we are trying to get many issues behind us, buying value selections should be better for us all with less volatility.

DP

PEARSON CAPITAL'S RECOMMENDED STOCKS JANUARY/FEBRUARY 2023
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ISHARES SELECT DIVIDEND ETF (DVY) NASDAQ PRICE $120.60

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 will invest at least 80% of its assets in the component securities of its underlying index and in investments that have economic characteristics that are substantially identical to the component securities of its underlying index. The underlying index measures the performance of the U.S.'s leading stocks by dividend yield.

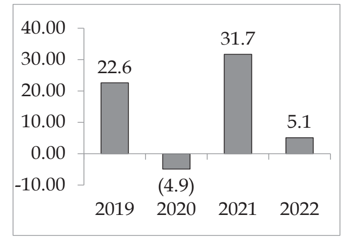
Location: USA
Type: 100% Stock

Category: Value
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **3.4**
Annual Dividend: **4.14**
Morningstar: **B**
Pearson Growth & Value: **A**
Stand & Poor Rating: **B**
The Street (analyst avg.): **N/A**

Earnings per share



SPDR® S&P DIVIDEND ETF (SDY) NYSE ARCA PRICE $125.11

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.

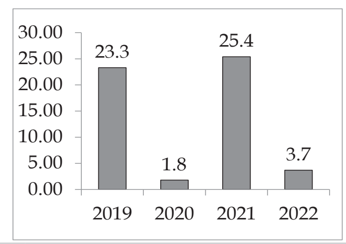
Location: USA
Type: 100% Stock

Category: Value
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **3.3**
Annual Dividend: **4.16**
Morningstar: **A**
Pearson Growth & Value: **A**
Stand & Poor Rating: **A**
The Street (analyst avg.): **N/A**

Earnings per share



FINANCIAL SELECT SECTOR SPDR® FUND (XLF) NYSE ARCA PRICE $34.20

The investment seeks investment results that, before expenses, correspond generally to the price and yield performance of publicly traded equity securities of companies in the Financial Select Sector Index. The fund 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: diversified financial services; insurance; banks; capital markets; mortgage real estate investment trusts ("REITs"); consumer finance; and thrifts and mortgage finance.

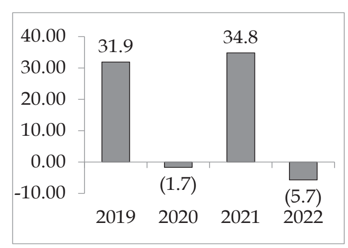
Location: USA
Type: 100% Stock

Category: Value
Industry: Financial

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **2.1**
Annual Dividend: **0.70**
Morningstar: **B**
Pearson Growth & Value: **A**
Stand & Poor Rating: **B**
The Street (analyst avg.): **N/A**

Performance by %



HEALTH CARE SELECT SECTOR SPDR® FUND (XLV) NYSE ARCA PRICE $135.85

The investment seeks investment results that, before expenses, correspond generally to the price and yield performance of publicly traded equity securities of companies in the Health Care Select Sector Index. In seeking to track the performance of the 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 companies from the following industries: pharmaceuticals; health care equipment & supplies; health care providers & services; biotechnology; life sciences tools & services; and health care technology.

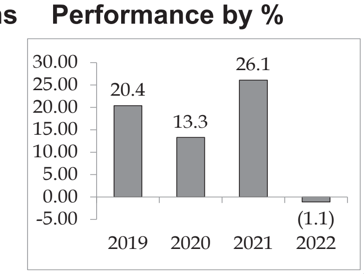
Location: USA
Type: 100% Stock

Category: Value
Industry: Health Care

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **1.5**
Annual Dividend: **1.99**
Morningstar: **A**
Pearson Growth & Value: **A**
Stand & Poor Rating: **A**
The Street (analyst avg.): **N/A**

Performance by %



JUST ASK ANN

WOW. It's 2023!

Years go flying by and we sometimes keep putting off those little things that don't seem important until we can't go back and fix 'em!

We all know to check the fire alarm batteries when we reset our clocks so why not remind ourselves to do some financial maintenance after the fireworks end and the New Year begins.

Go through ALL your bank accounts, investment accounts, insurance policies and credit cards and make sure everything is up-to-date. Have joint owners changed? Are your beneficiaries still as you want them? Did you marry, divorce, have a death in your family that will change your Will, Trust, or other legal entities? If so, correct that now! Be sure also to let loved ones or responsible parties know where you keep all this information.

Many of us have switched to using just our cell phones and losing the landline. Did you notify companies and contacts that you did this? Did your address change?

I know I ask these questions several times during the year, but I can't stress enough about how it impacts situations when things don't add up. Pearson Capital cannot change any personal information on your accounts at TD. YOU must call or write to TD to make these changes.

One important request due to the TD/SCHWAB merger! If you haven't established an online access to your TD account, now is a good time to do so. We have been advised that doing this will make the transition much easier. If you need assistance with this, let me know.

Don't wait, UPDATE!

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.
First Quarter January-February-March-see your January statement.

MARKET VIEW *Continued from page 4*

For this month, I am recommending an ETF that we own called iShares Select Dividend ETF (DVY). This index is composed of relatively high dividend paying U.S. equities, and it has over 100 U.S. stocks with five-year records of paying continuous dividends. Companies included are: Exxon (XOM), IBM (IBM), and Merck (MRK). So far, at the time of this writing this ETF has lost less than 5% this year. Unless there is a massive drop in overall demand, this ETF should continue to do well in this volatile market.

In the most recent quarter:

1) Used vehicle prices declined 2.9% in November and they have now fallen 3.3% in the past year.

2) China's new COVID policy has moved from lockdowns to one that is fully open, leading to part of the population getting COVID all at once.

Key Point: We should still see good earnings for this coming quarter, so we are looking for companies' next year's expectations.

Cash Flows:

Due to the Federal Reserve's increasing interest rates and the expected tax on buybacks, we expect many major companies to cut back on share buybacks. We should still see companies continue to either fully fund or increase their respective dividends for the foreseeable future. The majority of companies do not cut their dividends unless the market dictates that they do so.

New trends we see:

1) Many companies refinanced their long term debt last year when interest rates were low.

Key Point: The stock buybacks for this year may be cut back in order for companies to brace for a possible recession.

WALL STREET INDEXES

Indexes	2016	2017	2018	2019	2020	2021	2022
S&P 500	5.8%	19.6%	(7.1%)	28.9%	16.4%	26.9%	(19.4)%
Dow Jones	7.9%	25.1%	(6.7%)	22.3%	7.2%	18.7%	(8.8)%
Nasdaq	4.1%	28.2%	(4.7%)	35.2%	43.7%	21.4%	(33.1)%
Market Average	5.9%	24.3%	(6.0%)	28.8%	22.4%	22.3%	(26.3)%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:

The Federal Reserve in December ordered another interest hike of 0.5%, meeting what most people predicted for this last interest rate hike for this year. Chairman Powell emphasized in a press conference after the hike that there would be no pivoting from its decisions, and they will increase the Fed funds rate to over 5% and hold it at least over the next year meeting their goal of keeping interest rates "higher for longer." As we noted before, the Fed has stated that they will continue forward until data shows otherwise.

As of November, the inflation data has gone down even further. The core part of the Consumer Price Index (CPI), excluding food and energy, rose just 0.2% in November. Energy prices plunged 1.6% as well, while food prices rose 0.5%. Many economists think that the Fed will hike the federal funds rate another 50 basis points in February to a level of 4.75%-5.00%, and then one more time in the first half of 2023. However, many also believe that the Fed will potentially cut rates near the end of next year, throwing out the notion that the Federal Reserve will be able to keep rates at a high level for a long period of time. In fact, some argue that prices of goods and services will deflate right away in this next quarter, bringing us back in line with the prior inflation rate. Whether the rate of inflation can drop right away remains to be seen, as growth at least for this past quarter remains intact. Once again, it is up to the Fed to determine how hard of an economic landing it wants to achieve in its battle against inflation.

In Great Britain, the new Prime Minister Rishi Sunak, has decided to keep the status quo for right now and is supportive of the current initiatives that support the bond market. However, there are many households in that country that are on an adjustable rate mortgage. These mortgages will reset next year increasing overall costs. This may also hamper any future growth in the economy next year. Canada also has a large number of homeowners who hold them as well. Here in America, we have learned our lesson from the 2008 financial crisis. There are very few homeowners who have that type of mortgage.

New trends we see:

1) Ever since July the treasury yield curve has been inverted and is still indicating a possible recession in the future.

2) Credit card balances in the U.S. are now back to pre-pandemic levels.

Key Point: The Federal Reserve is resolved to keep raising interest rates until inflation is under control, and it is up to them to figure out when to stop.

Earnings Flows:

The month of January takes us into the beginning of this next quarter's earnings season. With the Fed targeting its federal funds rate at 5% and attempting to hold it for 2023, we expect that many companies will lower their earnings projection for next year due to the higher cost of capital that they will need. Also, if the economy starts to slow down as the Fed wishes to happen due to lower inflation, this may also cause lower demand for goods and services, which in turn may lead to lower earnings. For this upcoming quarter, we should still see good earnings results as the Fed's tightening has not taken effect for most of the economy. Normally the Fed tightening process takes from 12 to 18 months to fully show.

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