Your Personal Money Manager

Pearson INVESTMENT LETTER

Published Monthly Since 1982

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FEATURED STOCKS - FEBRUARY/MARCH 2023

VALUE ETFs:

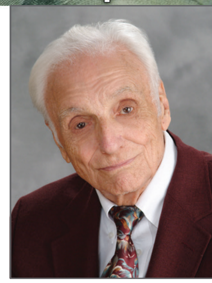
iShares Core Dividend Growth ETF

iShares Core Dividend ETF

Vanguard High Dividend Yield Index Fund ETF Shares

INCOME ETF:

Virtus InfraCap U.S. Preferred Stock ETF



Walter D. Pearson
Chairman 1998-2021

Donald E. Pearson
President

Ann Hathaway
Account Manager

Startup 2023

As we begin this year, we have only six weeks of history to report, but we also have a great deal of 2022 carryover. It's really too soon to know exactly where we are headed and how we will get there, but here are a few facts that we can use to estimate ongoing issues.

The latest consumer price report shows inflation is down to 6.5% from the high of 9% last June. As this continues, employment is making headlines as many businesses are laying off workers. Many have explained that when the pandemic began, they hired many more workers and now they are no longer needed. For example, in the tech sector, cutbacks at Alphabet, Meta, Microsoft, and Amazon now exceed over 50,000 jobs. All have blamed their overzealous hiring during the pandemic. But these layoffs have more to do with investors pressuring companies on costs in response to slowing growth.

Other areas of concern are home sales and auto sales. With the Fed making eight rate increases since last March, the cost of borrowing money has risen to about 7%. This is working out well for the banks but not the everyday people. With many things still costing more, many people are borrowing to maintain their family life style and are forced to dip into their savings or investments.

Most experts who follow inflation still believe we will be in a recession sometime this year, but it will be softer than thought to be six months ago.

To end these past six weeks on a positive note, the stock market has been up over 8% and tech has been even better.

As we tell our clients often, under these conditions we will continue favoring value.

2023 – Forward

Investors looking ahead to 2023 are asking one question. Will we leave the bear market of 2022 behind us? We don't pretend to know exactly when we will emerge from the market bottom, but it has been doing well for the first six weeks of 2023. All the investment strategists believe this year will be positive and considerably better than last year. Many are predicting a year-end performance of 8-12% with dividends included. I believe this is doable and it's what I would say if asked.

As we continue with what we've inherited from last year, our current inflation rate is about 6.5%, down from 9% last June. We must also be prepared for a recession and hope it will be mild with the assistance of the Fed. Analysts are predicting lower earnings for most companies when they declare their profits for the first quarter, and this will keep stock prices with slow growth. Many believe as the year continues forward the next three quarters will be better.

As I've been saying for quite some time now, a quality portfolio should be well diversified, and this is to include growth stocks as well as value selections and might also have some preferred ETFs too. ETFs have improved so much. It's an opportunity to buy about fifty stocks in one sector or with one objective that gives quality, safety, and performance versus a single stock.

Last month we featured four value selections, and this time I'm displaying three value ETFs and one preferred ETF (PFFA) yielding about 9%. Our skill in building portfolios is blending ETFs of value and growth and adding favorable individual stocks such as Apple and others to better diversify the portfolio.

Value Choices

I write often about ETFs, how they work, how they are built, and why we should all own them. There are usually around fifty companies in each, and they pursue a particular sector, or they represent a group of companies with a particular target. Last month we featured Financials (XLF) and Health Care (XLV). These are sector specific. This month you'll find featured three ETFs that are not sector specific, but all three do a great job by owning a diversified portfolio of large, profitable, and very successful U.S. companies, all paying dividends and all classified as value opportunity.

iShare Dividends (DGRO), another iShare Dividends (DIVB), and Vanguard High Dividends (VYM), all of these have within their portfolios companies such as Exxon, Home Depot, General Mills, Merck, Procter & Gamble, Johnson & Johnson and so many more similar companies. When you look on page 2 you'll see the dividend they pay and the consistency of quality performance they have maintained for many years.

We have also included as our fourth choice a preferred ETF, Virtus (PFFA), with an exceptional year-over-year performance and a 9% yield. Although down quite a bit in 2022, it is currently up 17% in just six weeks this year. It is made up of preferred companies with names most of us are not familiar with. Preferred ETFs are usually slower with growth but are more stable and safe. We buy this for accounts looking for lower risk and wanting additional yield.

Again, our portfolio management is to blend growth ETFs into a well-diversified portfolio. The percentage of growth and value will depend upon the risk assessment chosen. In many cases when one has a Roth and another account, we would build the Roth to be more aggressive.

DP

ISHARES CORE DIVIDEND GROWTH ETF (DGRO) NYSE ARCA PRICE $51.58

The investment seeks to track the investment results of the Morningstar® US Dividend Growth IndexSM. 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 is a subset of the Morningstar® US Market IndexSM, which is a broad market index that represents approximately 97% of the market capitalization of publicly-traded U.S. stocks.

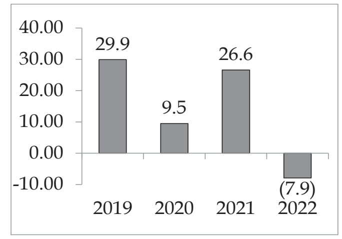
Location: USA
Type: 100% Stock

Category: Value
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **2.3**
Annual Dividend: **1.17**
Morningstar: **A**
Pearson Growth & Value: **A**
Stand & Poor Rating: **A**
The Street (analyst avg.): **N/A**

Performance by %



SPDR® S&P DIVIDEND ETF (DIVB) CBOE CONSOLIDATED LISTINGS PRICE $39.26

The investment seeks to track the investment results of the Morningstar® US Dividend and Buyback IndexSM. 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 is designed to provide exposure to U.S.-based companies that return capital to shareholders through either dividend payments or share buybacks.

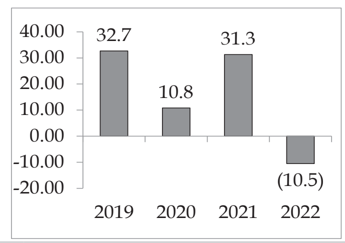
Location: USA
Type: 100% Stock

Category: Value
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **1.9**
Annual Dividend: **0.75**
Morningstar: **A**
Pearson Growth & Value: **A**
Stand & Poor Rating: **A**
The Street (analyst avg.): **N/A**

Performance by %



VANGUARD HIGH DIVIDEND YIELD INDEX FUND ETF SHARES (VYM) NYSE ARCA PRICE $109.89

The investment seeks to track the performance of the FTSE High Dividend Yield Index that measures the investment return of common stocks of companies that are characterized by high dividend yield. The manager employs an indexing investment approach designed to track the performance of the index, which consists of common stocks of companies that pay dividends that generally are higher than average. The adviser attempts to replicate the target index by investing all, or substantially all, of the fund's assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.

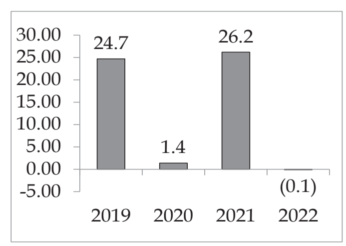
Location: USA
Type: 100% Stock

Category: Value
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **3.8**
Annual Dividend: **4.19**
Morningstar: **A**
Pearson Growth & Value: **A**
Stand & Poor Rating: **B**
The Street (analyst avg.): **N/A**

Performance by %



VIRTUS INFRACAP U.S. PREFERRED STOCK ETF (PFFA) NYSE ARCA PRICE $21.19

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.

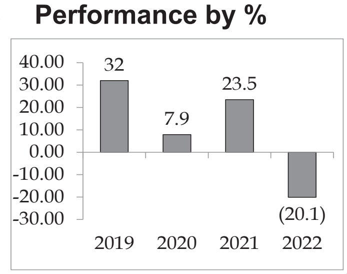
Location: USA
Type: 100% Stock

Category: Income
Industry: Diversified

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **9.2**
Annual Dividend: **1.95**
Morningstar: **C**
Pearson Growth & Value: **B**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **N/A**

Performance by %



JUST ASK ANN

Tax documents.
I have received several inquiries as to when clients should expect to see their 2022 tax documents or 1099s.

A very few clients have been issued them already, but most are still waiting. TD Ameritrade has told us that all notifications should be out by end of business on February 24th. They will alert all clients who have a valid email address on file once their 2022 Consolidated Form 1099(s) and corrected 2022 Form 1099(s) (if issued) are available to be accessed online.

You are encouraged to sign up for electronic tax form delivery (the fastest way to get these forms) on **www.advisorclient.com.** You can sign up for e-delivery of tax documents by logging into to the AdvisorClient site, then click **My Profile > Communication Preferences**.

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Information Update.
We are diligently working with TD/Schwab to make sure that the merger moves forward as seamlessly as possible. It has come to my attention that some of our longer-term clients, particularly those with us prior to the Waterhouse/TD Ameritrade merger (around 2006-7), do not have updated contact information on file. Over the years we have sent out requests by mail or through our newsletters for these updates but we still have gaps in our database. Not having current phone numbers is our primary issue!

I would appreciate your assistance in helping us bring things up to date. If you use the online account access, please log on and verify that all your information is correct. IF YOU ARE NOT online, please call me at **813-645-6392** or email me at pearsoncapital7@gmail.com so that I may assist you with this process.

Thanks in advance!

Ann

MARKET VIEW *Continued from page 4*

In the most recent quarter:

1) Loan demand is flagging in all major categories and, at the same time, bankers are raising the bar on who qualifies for credit, setting the stage for slower growth in 2023.

2) China's new COVID policy has now exposed most of its 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 increasing interest rates and the expected tax on buybacks, we expected many major companies to cut back on share buybacks. So far they have not and instead for the last month proposed over $132 billion worth. This has helped the stock market fuel its current rally. We shall see if companies slow or stop as the Federal Reserve reaches its 5% goal.

We have not seen companies cut their respective dividends and in fact companies such as Disney (DIS) have talked about bringing the dividend back after cutting it recently, while others are continuing to hike theirs. This means that so far, even though the monetary environment is tightening, many respective companies are not fully tightening money to shareholders.

New trends we see:

1) Stock markets worldwide have rebounded since the beginning of this year.

Key Point: The stock buybacks for this year are still going strong, as this is the fuel for a growing stock market.

WALL STREET INDEXES

Indexes	2017	2018	2019	2020	2021	2022	2023
S&P 500	19.6%	(7.1%)	28.9%	16.4%	26.9%	(19.4)%	6.6%
Dow Jones	25.1%	(6.7%)	22.3%	7.2%	18.7%	(8.8)%	2.1%
Nasdaq	28.2%	(4.7%)	35.2%	43.7%	21.4%	(33.1)%	13.8%
Market Average	24.3%	(6.0%)	28.8%	22.4%	22.3%	(26.3)%	10.2%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:

The Federal Reserve lowered its next rate hike in February to 0.25% and stated that they are on track to meet its range of over 5%. Once again Chairman Powell emphasized in a press conference after the hike that there would be no pivoting from its decisions and will hold them for at least the next year. He stated that they will continue forward until data shows otherwise. The chairman talked through many points that they already see disinflation through the economy. The stock market over the next two days after the speech went on a massive rally, with the NASDAQ climbing over 4%. However, the day after the massive rally the jobs report came out with readjustments to its numbers, causing the rally to fade as unemployment went to a new low. The Chairman came back a week later in an interview re-emphasizing their current stance, that they anticipate interest rate increases will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive.

However, in both speeches he said that there are indications of disinflation, especially when relating to goods sold. He focused his attention on the restrictions from the service sectors, as that would be the toughest area for inflation to go down. Most economists now think that the Fed will hike the federal funds rate another 25 basis points in March and also May, and then they differ on how many more times in 2023. Some have indicated that the Fed will extend its rate increases toward the end of the year. As of this writing, many economists speculate that there could also be an increase of 50 basis points if inflation does not subside quickly enough.

New trends we see:

1) The unemployment rate declined to 3.4%, the lowest rate in over 50 years.

2) The European Central Bank (ECB) raised its key interest rate 0.5% to 2.5%.

3) Wholesale inflation continues to hold higher for longer as well.

Key Point: The Federal Reserve is still keeping its stance on raising interest rates, even though we are going through a period of disinflation.

Earnings Flows:

The month of February takes us into the middle of this quarter's earnings season. With the Fed targeting its federal funds rate at 5% and attempting to hold it for 2023, we had expected that many companies would lower their earnings projection for the next year due to the higher cost of capital and less demand. While both remain true, the results have been less terrible than expected allowing a stock market rebound in especially depressed sectors.

We should also still see for this current earnings quarter good 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 any negative effects, so it will take a few earnings quarters to get the full effects on the stock market. Technically, the Dow, NASDAQ, and S&P 500 are all up over 15% from their October lows and are near their 200-day moving averages, so the overall stock market has a better tone than it has had for a long time.

For this month, I am recommending an ETF that we own called Vanguard Growth ETF (VUG). Much of this index is focused on large cap growth equities, with 13% in Apple (APPL) and 12% in Microsoft (MSFT). It also has growth stocks such as Visa (V) and MasterCard (MA). So far this year, this ETF has gained over 14%. Unless there is a massive drop in overall demand, this ETF should continue to do well in this volatile market.

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