David Sharek's Growth Stock Newsletter

Searching for Tomorrow's Stock Market Winners Today

February 19, 2018

My Top Ten Conservative Stocks for 2018

In the world of conservative stocks, the Retail, Financial and Technology sectors will rule the roost in 2018.

In Retail, people are spending on their homes, Which in many cases is a senior's biggest asset. Home improvement stocks should continue to shine. And I'm seeing clothing stores are having accelerating profit growth. Malls are losing big retailers, and consumers are going to discounters.

In Finance, the stock market is rising, and people are utilizing ETFs and S&P 500 Index funds to manage investments. Rising rates make it easy for them to grow profits, and worldwide credit cards adoption continues to thrive.

And in Technology, the big everyday names are becoming more dominant. So we have to own these stocks, as they have the early lead on Artificial Intelligence (AI), the next phase of growth.

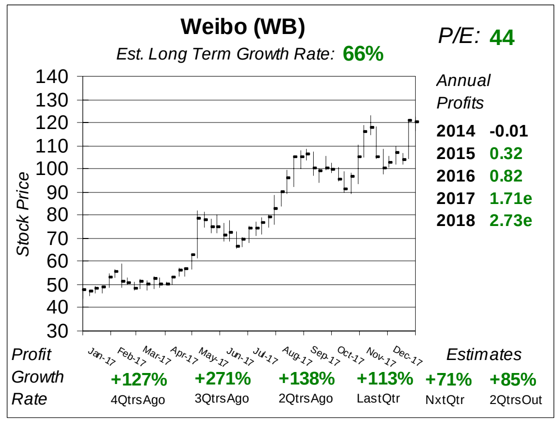
Here are my Top Ten Conservative Stocks for 2018. Eat 'em up.

1 Facebook (FB) — Sector: Technology

FB stock was fantastic in 2017, but the stock is still undervalued with a P/E of just 28. Meanwhile management continues to deliver rapid profit growth while beating the street every qtr. Facebook continues to be a juggernaut for advertising, and Instagram is becoming the next great thing. Later, management can put ads on whatsapp for even more growth opportunity into the future and beyond.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	1.71	x	70	=	$120	
2018 Est	2.73	x	65	=	177	48%
2019 Est	3.87	x	65	=	252	110%

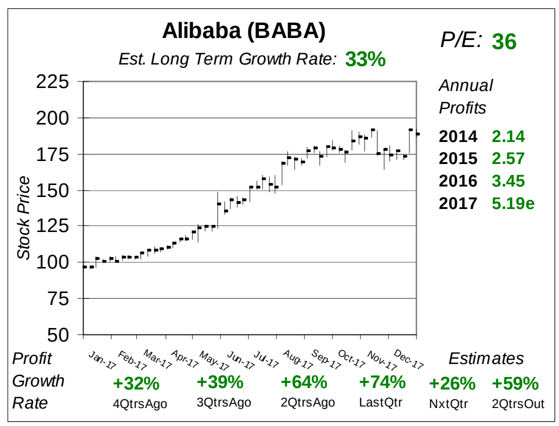


2 BlackRock (BLK) — Sector: Financial

BlackRock is the world's largest asset manager, with assets evenly divided into active management, index funds (think S&P 500) and ETFs. Those last two types are in high demand from investors, thus BLK recognized this and moved to have greater emphasis on computer models. This is the AI of financial services.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	5.19	x	36	=	$189	
2017 Est	5.19	x	40	=	208	10%
2018 Est	6.75	x	40	=	270	43%

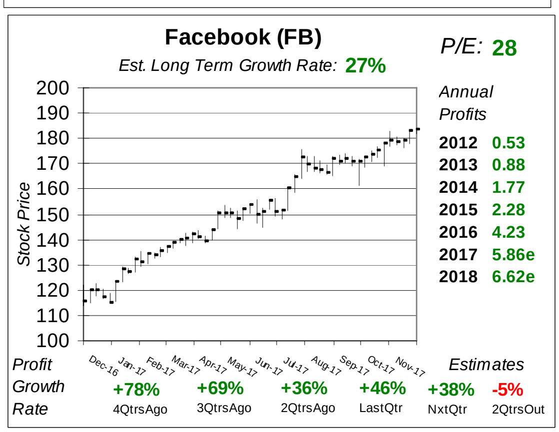


3 Sherwin-Williams (SHW) — Sector: Retail & Travel

Sherwin-Williams has the #1 brand in paint (Sherwin-Williams), stain (Minwax), spray pain (Krylon), auto paint (Dupli-Color) and water sealer (Thompson's). It has a marvelous end-to-end supply chain with manufacturing sites, distribution centers, trucks and trailers to get paint and other goods to home improvement centers and company stores. SHW grew 20% a year on avg the last 10yrs.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	5.86	x	31	=	$183	
2018 Est	6.62	x	37	=	245	34%
2019 Est	8.13	x	37	=	301	64%



David started his career as a Financial Consultant at *A.G.Edwards & Sons* in 1999, investing clients in mutual funds, stocks, bonds & annuities.

The 2000 stock market crash crushed his investors and left David leery of Wall Street & mutual funds. Sharek became a student of stocks, and discovered the best stocks had the highest profit growth.

In 2002 David accepted a position of Vice President—Investments at *Wunderlich Securities* and developed his Growth Stock Portfolio.

Sharek's Growth Portfolio averaged a return of 24% his first five years as a portfolio manager (2003-2007), more than double the market's (S&P 500) average of 11%.

In 2008 David Sharek founded Sharek's Stock Portfolios. But another stock market crash took the Growth Portfolio down 58% that year. Still, by 2013 client accounts hit new highs.

Today, David continues to do his own stock research and manages portfolios on a fee basis from his offices in Midtown Manhattan.

Sharek's Growth Portfolio has grown an average of 13% a year, compared to 9% for the S&P 500. $100,000 invested in the Growth Portfolio at inception would have made a profit of almost $250,000 vs. just over $200,000 in the S&P. David's posted four years of +40% returns in his 15 year career.

4 Home Depot (HD) — Sector: Retail & Travel

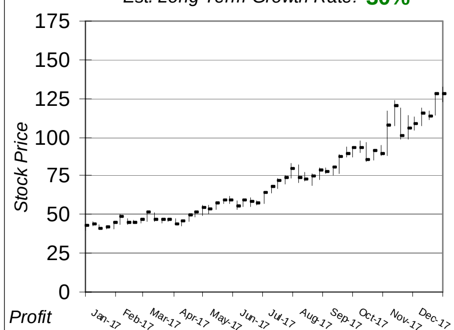
Home Depot — along with Sherwin-Williams — is in the perfect environment as people are staying and home, ordering in, and watching Neflix. HD doesn't grow its store count much anymore (+4 stores in 2016) but management is getting more people to do big projects at the Home Depot. Contracters (home builders and home remodelers) are driving sales too. HD can grow sales 5% a qtr and get 15% profit growth via share buybacks.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	6.38	x	20	=	$128	
2018 Est	7.79	x	23	=	179	40%
2019 Est	10.63	x	23	=	244	92%

YY (YY)

Est. Long Term Growth Rate: 30% — P/E: 16



Annual Profits	
2012	0.57
2013	1.50
2014	2.92
2015	3.03
2016	4.27
2017	6.38e
2018	7.79e

Profit Growth Rate	4QtrsAgo	3QtrsAgo	2QtrsAgo	LastQtr	NxtQtr (Estimates)	2QtrsOut (Estimates)
	+47%	+89%	+58%	+60%	+25%	+16%

5 Ross Stores (ROST) — Sector: Retail & Travel

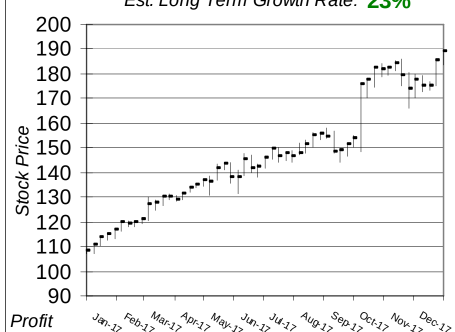
Ross Stores is a discount clothing store with 1600 locations company-wide. ROST has been a great stock the last decade, with profit growth of 21% a year and stock growth of 28% a year. Although that is bound to slow 10% growth would be fine as this is a safe stock that's grown profits in each of the last ten years. In 2018 I'm expecting profit growth of 20%, and I think the stock will follow that path as well.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	5.57	x	34	=	$189	
2018 Est	5.57	x	40	=	223	18%
2019 Est	6.78	x	40	=	271	44%

Adobe Systems (ADBE)

Est. Long Term Growth Rate: 23% — P/E: 34



Annual Profits	
2011	1.93
2012	2.35
2013	1.34
2014	1.29
2015	2.08
2016	3.01
2017	4.31
2018	5.57e

Profit Growth Rate	4QtrsAgo	3QtrsAgo	2QtrsAgo	LastQtr	NxtQtr (Estimates)	2QtrsOut (Estimates)
	+42%	+44%	+47%	+40%	+35%	+30%

6 Apple (AAPL) — Sector: Technology

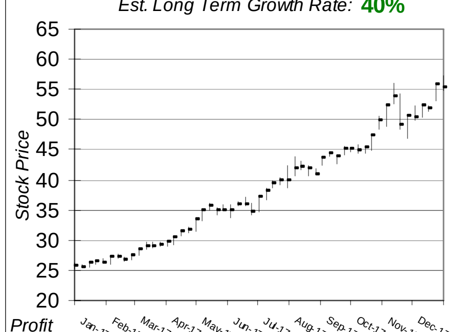
Apple doesn't have a catalyst to take sales and profits to the next level. The next growth phase for this company is to advance the of services it offers in a digital-world. That means investors should lower their expectations on this stock, and donsider this a 1-% to 15% grower. Still, with a P/E of just 15, this stock is undervalued. Note you're probably not going to get a 20 P/E here, as hardware developers like RCA, Xerox, Research in Motion, and Dell faded.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	1.07	x	52	=	$55	
2018 Est	1.36	x	45	=	61	11%
2019 Est	1.77	x	45	=	80	44%

TenCent (TCEHY)

Est. Long Term Growth Rate: 40% — P/E: 41



Annual Profits	
2011	0.16
2012	0.20
2013	0.25
2014	0.38
2015	0.46
2016	0.63
2017	1.07e
2018	1.36e

Profit Growth Rate	4QtrsAgo	3QtrsAgo	2QtrsAgo	LastQtr	NxtQtr (Estimates)	2QtrsOut (Estimates)
	+45%	+47%	+71%	+81%	+69%	+41%

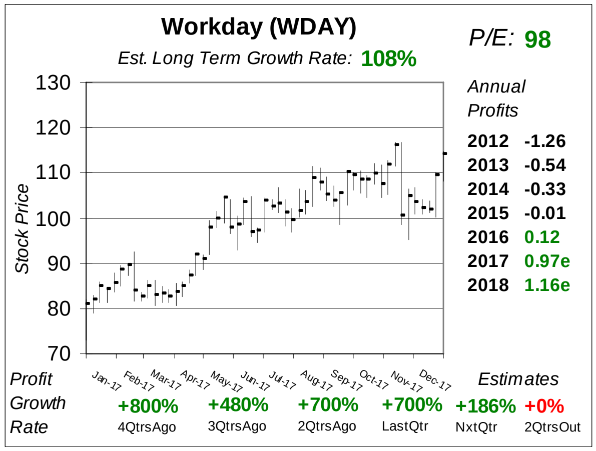
7 Alphabet (GOOGL)

Sector: Technology

Alphabet changed its accounting standards last year, which took down profit growth when sales growth was coming in ~20% a qtr. That's solid. Now profit growth should be back to normal, and with tech heavyweights like GOOGL continuing to gobble up ad dollars. Alphabet (with these other Techs mentioned here) will be a leader in AI.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	0.97	x	118	=	$114	
2018 Est	1.16	x	125	=	145	27%
2019 Est	1.57	x	125	=	196	72%



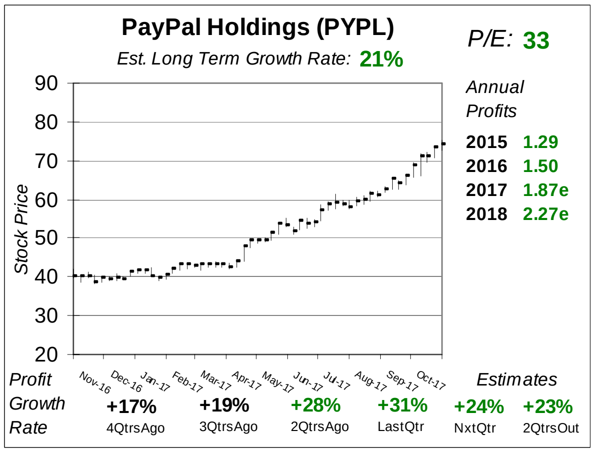
8 JP Morgan (JPM)

Sector: Financial

JP Morgan's CEO Jamie Dimon is a big fan of Trump's initiatives that allow business to flow freely — thus promoting growth. Not only does JPM do better when rates are rising (like now), the company is seeing BlackRock's success and is looking into getting its own ETFs. And in my opinion, JP Morgan will be a leader in cyber-currency someday. All this, plus a 2% yield, for a P/E of just 13.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	1.87	x	40	=	$74	
2018 Est	2.27	x	40	=	91	23%
2019 Est	2.73	x	40	=	109	48%



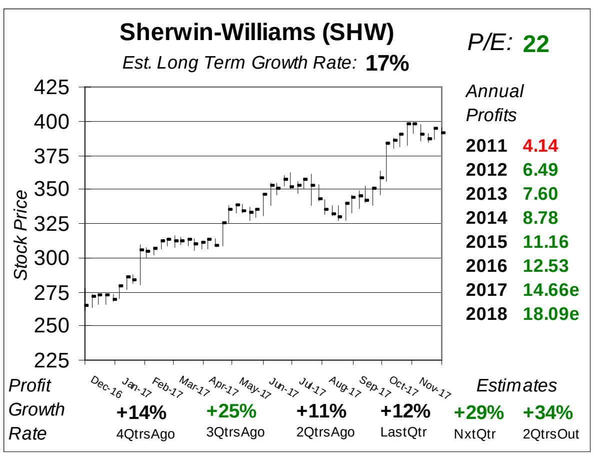
9 Sherwin- Williams (SHW)

Sector: Financial

During the last few years I've been reading qtrly earnings reports from Blue Chip American companies that show sales growth 15% while F/X charges were cutting profit growth from 20% to 10%. Now the declining USD has released these Dot-type stocks from this restraint and has allowed profit growth to come back. In 2016 MA grew profits 10%, in 2017 and 2018 it should be over 20%.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	14.66	x	27	=	$392	
2018 Est	18.09	x	24	=	434	11%
2019 Est	21.12	x	24	=	507	29%



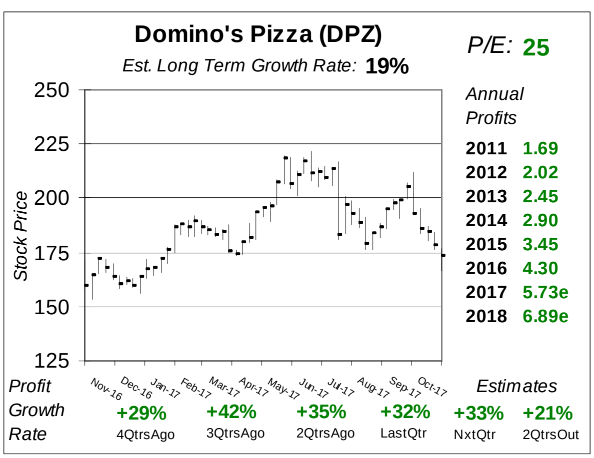
10 UnitedHealth (UNH)

Sector: Healthcare

UnitedHealth is the only Healthcare stock in this list because drug stocks and the companies that deliver drugs to consumers are all under regulatory pressure. The price of healthcare is too high. UNH's Optum division uses preventative measures to lower healthcare costs by focusing on the health of the plan participant. UnitedHealth is the dominant force in healthcare today.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	5.73	x	30	=	$173	
2018 Est	6.89	x	30	=	207	19%
2019 Est	8.14	x	30	=	244	41%



My *Top Ten Conservative Stocks* for 2017 rose 23% in 2017, beating the S&P 500's return of 19%.

I was pleased with the outcome, but to be frank it was an easy year to make money in stocks. I'm not trying to beat the S&P with this portfolio. These are safe, dependable stocks. I would have been happy with half that return.

Notables from the list included **Alphabet** (GOOGL), which gained 33%, **UnitedHealth** (UNH) which rose 38%, and a 46% jump in **Visa** (V).

CR Bard (BCR) was acquired by **Becton, Dickinson** (BD) for $332 a share ($223 in cash plus 1/2 share of BD stock) which made its gain $48%.

The worst performing stocks were **Celgene** (CELG) and **AutoZone** (AZO) which each lost 10%.

2017 Top Ten Results	
Alphabet (GOOGL)	+33%
Celgene (CELG)	-10%
UnitedHealth (UNH)	+38%
Home Depot (HD)	+42%
Visa (V)	+46%
CR Bard (BCR)	+48%
Dollar General (DG)	+26%
AutoZone (AZO)	-10%
Factset Data (FDS)	+18%
Starbucks (SBUX)	+2%
Average	+23%
S&P 500	+19%

Portfolio Management

Let us manage your stock portfolio

David Sharek manages brokerage accounts and IRAs on a fee-basis. Returns shown here are after fees. Minimum account size: $100,000.

David Sharek personally manages each stock portfolio individually.

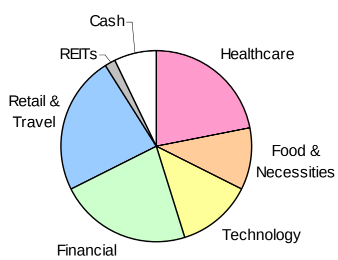
Account types include individual accounts, joint accounts and IRAs.

Clients can log online and view their accounts at anytime.

Scottrade
More broker for your money.

Interactive Brokers
The Professional's Gateway to the World's Markets

Healthcare	22%
Food & Necessities	10%
Technology	13%
Financial	22%
Retail & Travel	24%
REITs	2%
Cash	7%



Conservative Growth Portfolio

	Security name	Ticker	Portfolio Percent	Est LTG	Yield	Est. Total Return	Price	2018 Fair Value	Upside/ Downside (FV + Yield)	Div Incr Since
1	United Health	UNH	7.3%	15%	1%	16%	$220	$238	9%	2010
2	Visa	V	6.5%	17%	1%	18%	$114	$114	1%	2009
3	Facebook	FB	5.4%	27%		27%	$176	$245	39%	
4	Celgene	CELG	4.1%	21%		21%	$104	$131	26%	
5	Sherwin-Williams	SHW	4.0%	17%	1%	18%	$410	$434	7%	1979
6	Home Depot	HD	3.7%	13%	2%	15%	$190	$191	3%	2010
7	Factset Research	FDS	3.7%	12%	1%	13%	$193	$213	12%	2006
8	MasterCard	MA	3.7%	18%	1%	19%	$151	$162	8%	2012
9	BlackRock	BLK	3.5%	15%	2%	17%	$513	$559	11%	2010
10	Apple	AAPL	3.4%	11%	1%	12%	$169	$206	23%	2013
11	McDonald's	MCD	3.4%	9%	2%	11%	$172	$168	0%	1977
12	Becton, Dickinson	BDX	3.1%	15%	1%	16%	$214	$250	18%	1972
13	TJX Companies	TJX	3.0%	10%	2%	12%	$76	$99	31%	1997
14	Ball	BLL	2.9%	11%	1%	12%	$38	$46	23%	2017
15	Starbucks	SBUX	2.8%	14%	2%	16%	$57	$59	5%	2011
16	Fiserv	FISV	2.6%	12%		12%	$131	$126	-4%	
17	Amgen	AMGN	2.5%	4%	3%	7%	$174	$179	6%	2012
18	Alphabet	GOOGL	2.5%	21%		21%	$1,053	$1,247	18%	
19	TD Bank	TD	2.3%	9%	3%	12%	$59	$71	24%	2011
20	Ross Stores	ROST	2.0%	10%	1%	11%	$80	$101	27%	2007
21	Tractor Supply	TSCO	1.9%	14%	1%	15%	$75	$72	-3%	2011
22	Public Storage	PSA	1.7%	17%	4%	21%	$209	$233	15%	2010
23	Express Scripts	ESRX	1.7%	12%		12%	$75	$102	37%	
24	Pepsico	PEP	1.7%	6%	3%	9%	$120	$126	8%	1973
25	Illinois Tool Works	ITW	1.7%	10%	2%	12%	$167	$158	-3%	1964
26	Ecolab	ECL	1.6%	12%	1%	13%	$134	$138	4%	1986
27	Stryker	SYK	1.6%	10%	1%	11%	$155	$157	2%	2010
28	Johnson & Johnson	JNJ	1.5%	7%	3%	10%	$140	$149	10%	1963
29	Costco Wholesale	COST	1.5%	10%	1%	11%	$186	$186	1%	2004
30	Walgreen's	WBA	1.5%	15%	2%	17%	$73	$83	16%	1976
31	Microsoft	MSFT	1.5%	11%	2%	13%	$86	$75	-10%	2004
32	Disney	DIS	1.3%	8%	2%	10%	$108	$123	16%	2011
33	McCormick	MKC	1.0%	11%	2%	13%	$102	$107	7%	1987
34	CR Bard	BCR	0.2%	11%	1%	12%	$331	$331	1%	1972
		Cash	7.3%							
	Average	**Total**	**100.0%**	**13%**	**2%**	**15%**			**11%**	

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School of Hard Stocks

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