



David Sharek's Growth Stock Newsletter

Searching for Tomorrow's Stock Market Winners Today

July 11, 2018

Chinese Stocks & the Decline of CNY

The Chinese stock market is down 17% this year as a weak Chinese Dollar (CNY) has caused money to flow out of emerging markets. The decline in the CNY has taken the winds out from the sails of the top Chinese stocks — which were on a tear higher.

What's worse than the stocks coming down is that lots of these companies report profits in CNY, and once this profit figure is converted to USD the annual profit estimates are coming in lower than last qtr's.

Top stocks have similar characteristics: high profit growth, beating analyst profit estimates, and increasing future estimates are three of the most important.

Now we are in a situation where Chinese companies are missing estimates and future estimates are declining.

Here are some of the top Chinese stocks, along with their one-year charts. Let's take a look at how the decline in the CNY is affecting my *Fair Values*.



Current Holdings — Alibaba (BABA)

Alibaba (BABA) had a bad qtr. Although profit growth was a solid 34%, this missed estimates of 47%.

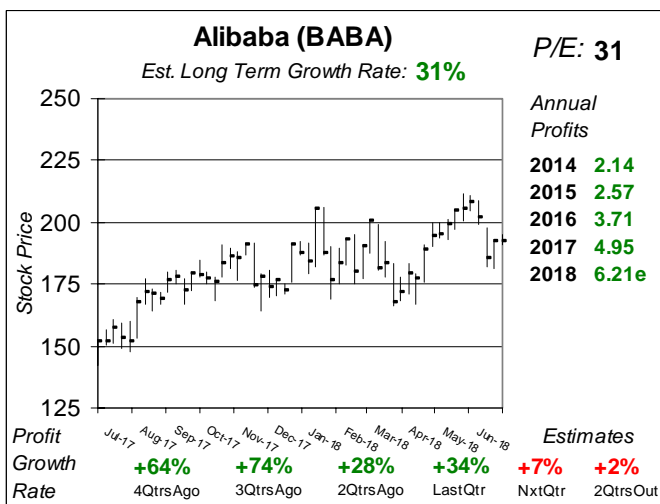
Looking forward I was expecting these *estimates* for the next 2 qtrs to be 26% and 14%. But these got cut (for the 2nd straight qtr) to just 7% and 2%. That's not good.

I believe stock growth follows profit growth over the long-term (like 10 yrs). So slowing growth isn't good.

2018 est. just declined from \$3.77 to \$6.21; thus, I'm taking my *Fair Value* P/E down from 35 to a P/E of 32, and price target from \$237 to \$199. BABA could sit here a while.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	6.21	x	31	=	\$193	
2018 Est	6.21	x	32	=	199	3%
2019 Est	8.25	x	32	=	264	37%



About David Sharek

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 14% a year,

compared to 9% for the S&P 500 (since inception in 2003).

\$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.





Current Holdings – Weibo (WB)

Weibo (WB) is the “Twitter of China” and currently holds the top spot in my Growth Portfolio *Power Rankings*. WB has been a great stock for me as I originally purchased it for clients in the \$20s. The surge in the stock's price has made WB a big position.

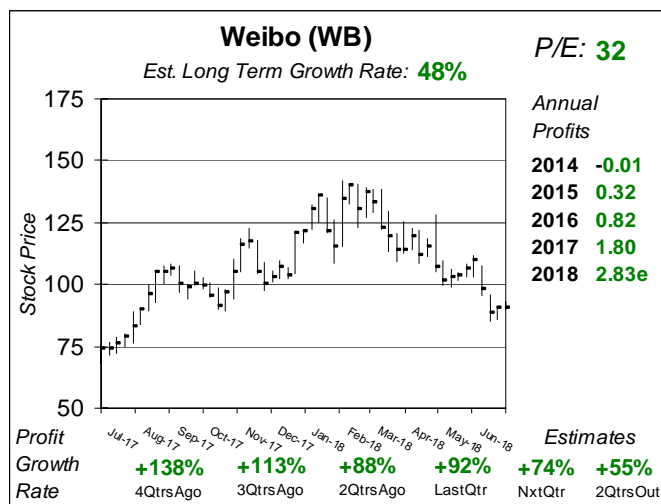
Last qtr WB had 92% profit

growth and beat estimates of 81%. Afterwards, 2018 estimates increased from \$2.81 to \$2.83. That's not much, but with the CNY in decline anything up is positive.

I'm reducing my Fair Value P/E from 60 to 55, and price target from \$169 to \$156. It looks like WB might bounce back quickly.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	2.83	x	32	=	\$90	
2018 Est	2.83	x	55	=	156	72%
2019 Est	4.05	x	55	=	223	147%



Current Holdings – TenCent (TCEHY)

Tencent (TCEHY), which owns the WeChat app, delivered 68% profit growth, and beat estimates of 41%. Good.

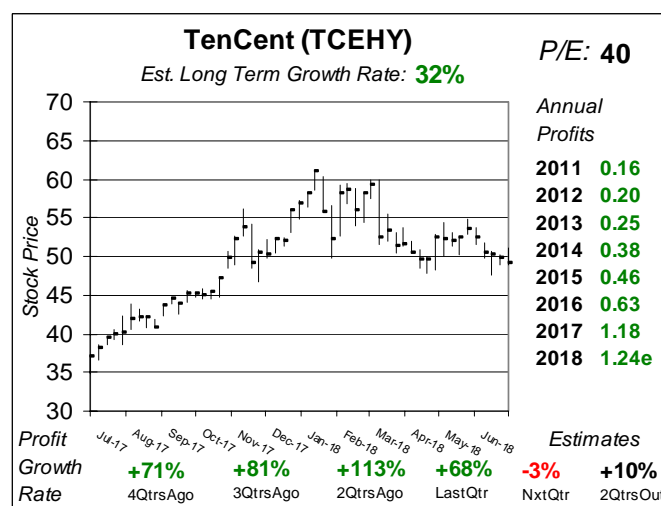
But NxtQtr's *Estimate* declined from 14% to -3%, with the 2QtrsOut *Estimate* falling from 24% to 10%. Not good.

2018 estimates got slashed, from \$1.37 to \$1.24.

Still, I'm leaving my Fair Value P/E at 40. The stock is hitting support here. \$50 may be a resting place before another move higher. Also, WeChat is China's dominant app, that's like Facebook, Amazon, Yelp and PayPal all wrapped into one. Profits are expected to climb 42% in 2019, so although this stock is down it's certainly not out.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	1.24	x	40	=	\$49	
2018 Est	1.24	x	40	=	50	1%
2019 Est	1.76	x	40	=	70	43%



Current Holdings – YY (YY)

YY (YY) is a video based social network in China that provides users with online games, online music, and live game broadcasting. YY makes revenue from advertising, online games, online dating, music (including live broadcasts) & membership programs. Live streaming is huge in China, with half the people on the web using a live-streaming app.

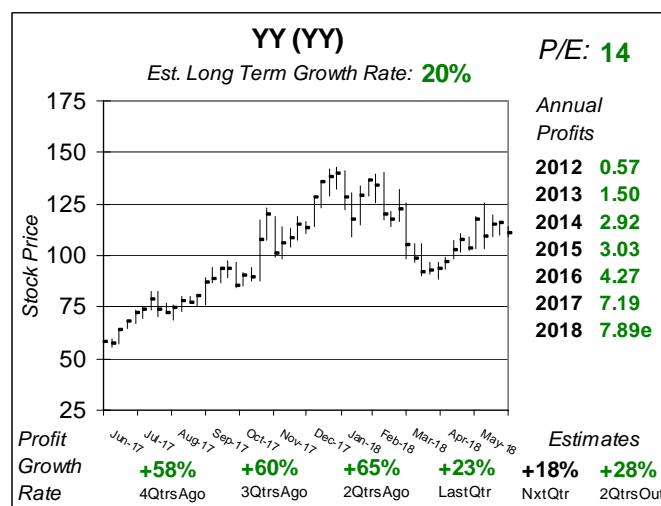
Although YY's profit growth has been great the past year, growth has now slowed to around 20%.

Still, with a P/E of 14 this stock is a bargain. 2018 profit estimates did decline from \$8.06 to \$7.89 since last qtr, but that's not too bad.

YY still has solid upside to my *Fair Values*.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	7.89	x	14	=	\$111	
2018 Est	7.89	x	20	=	158	43%
2019 Est	9.72	x	20	=	194	76%



Stocks on the Radar – Autohome (ATHM)

I have been an expert on Chinese stocks for more than a decade, and owned **Autohome (ATHM)** back in 2015.

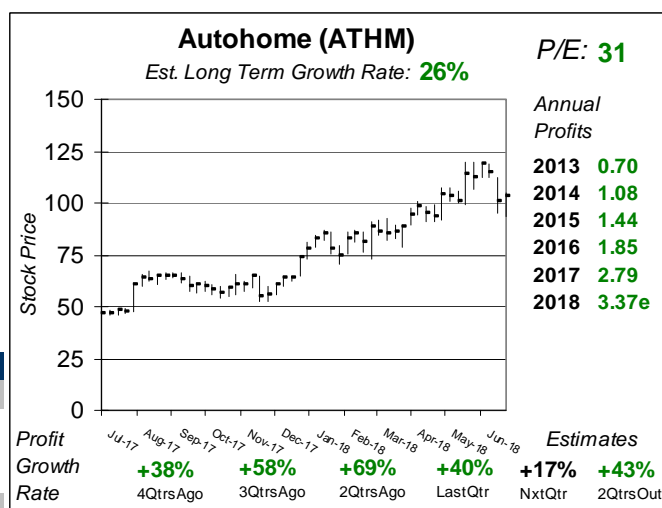
I sold ATHM in August 2015 between \$30 and \$36 — losing money on the trade. Like a true expert. The stock then hung around the \$20s and \$30s until it broke out past resistance at \$35

in 2017. To the right is the last year of the stock's move — which has been impressive.

Autohome is China's largest auto website for customers. Profits are expected to climb a solid 21% this year. I think the stock has upside.

ATHM is on my radar for the **Growth Portfolio**.

Fair Value						
Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	3.37	x	31	=	\$103	
2018 Est	3.37	x	35	=	118	14%
2019 Est	4.21	x	35	=	147	43%



New Sale – JD.COM (JD)

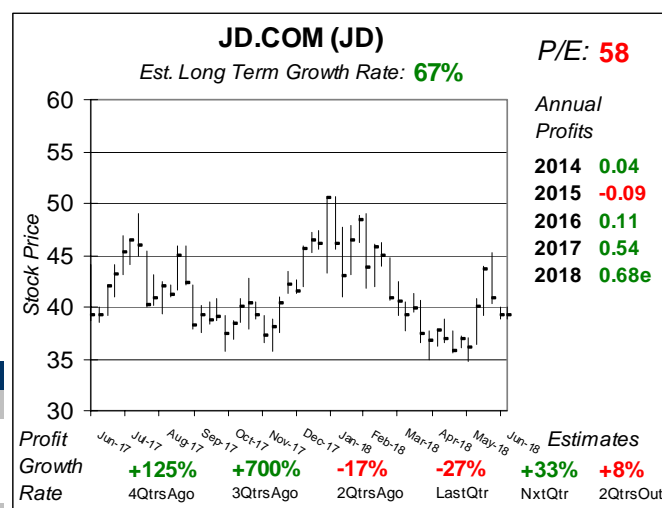
JD.com (JD) is China's largest online retailer, its biggest overall retailer, and its biggest Internet company by sales. It's like an Amazon in a way.

JD was a hot stock in 2017 as it rose from \$25 to \$41. But notice in the chart to the right that profits jumped from \$0.11 to \$0.54 — that's 390%!

JD is spending to grow — just like Amazon — but in the wake of this profits have taken a back seat to growing the business.

JD has missed qtrly profit estimates the last 2 qtrs while delivering negative profit growth as 2018 estimates have fallen from \$0.91 to \$0.68. I sold JD from the **Growth Portfolio** today.

Fair Value						
Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	0.68	x	58	=	\$39	
2018 Est	0.68	x	40	=	27	-30%
2019 Est	1.19	x	40	=	48	22%



Stock Education

During 2003-2006 David wrote the portfolio management blueprint, *The School of Hard Stocks*, and executed the plan. During those four years he used this strategy to compile a compounded return of 100.57%.

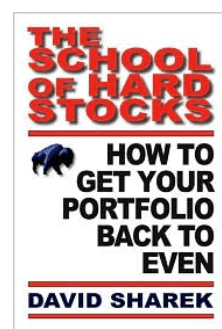
Completed at the end of 2006, Sharek used *The School of Hard Stocks* in 2007 to grow stock

portfolios 42% and beat the market (S&P 500) by 39%.

In January 2008 David wrote a postscript to the book and had *The School of Hard Stocks* published through Amazon.com and Barnes & Noble. In the postscript he wrote to hold Apple (AAPL), Baidu.com (BIDU), Google (GOOG) Intuitive Surgical

(ISRG), Priceline.com (PCLN) and Research in Motion (RIMM). Five of those six stocks continue to be stock market leaders and are in his portfolios today. Read more and look inside at schoolofhardstocks.com.

Buy it Now 
Buy it Now 



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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.

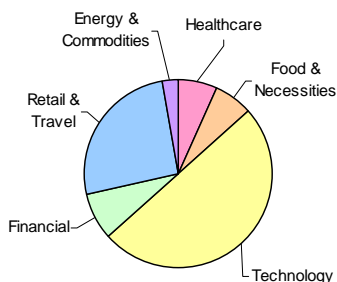
Account types include individual accounts, joint accounts and IRAs.

Clients can log online and view their accounts at any time.



Sector Key

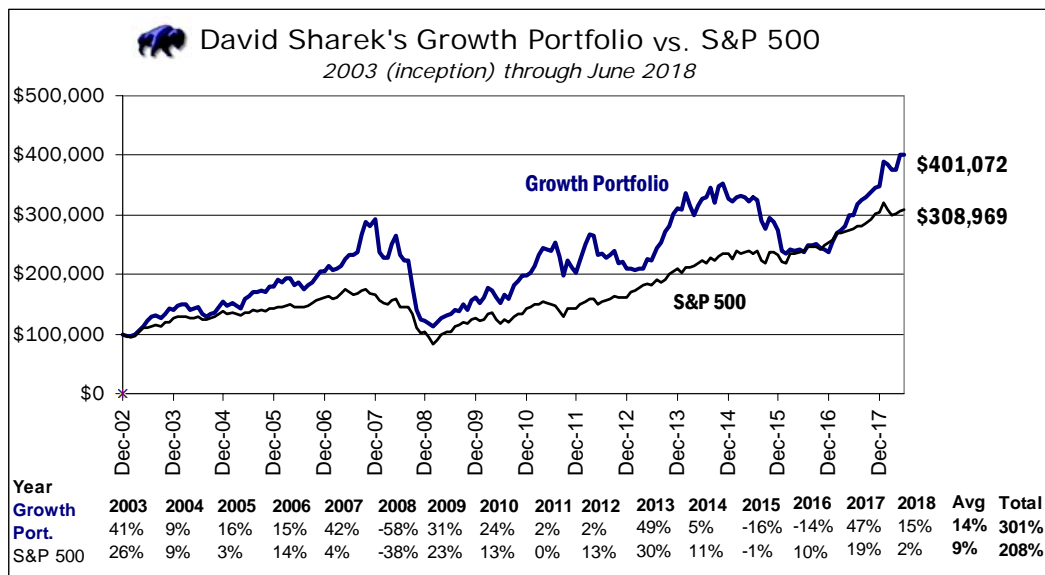
Healthcare	7%
Food & Necessities	7%
Technology	52%
Financial	8%
Retail & Travel	27%
Energy & Commodities	3%



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Growth Portfolio - Holdings as of 12/31/17

Security name	Ticker	Portfolio Percent	Est LTG	Yield	Est. Total Return	Price	2018 Fair Value	Upside/Downside to FV
1 Alibaba	BABA	7.4%	33%	0%	33%	\$172	\$270	57%
2 Facebook	FB	7.1%	27%	0%	27%	\$176	\$245	39%
3 Weibo	WB	6.5%	66%	0%	66%	\$103	\$177	71%
4 Tencent	TCEHY	6.5%	40%	0%	40%	\$52	\$61	17%
5 YY	YY	5.1%	30%	0%	30%	\$113	\$179	58%
6 Adobe Systems	ADBE	4.9%	23%	0%	23%	\$175	\$223	27%
7 PayPal	PYPL	3.4%	21%	0%	21%	\$74	\$91	24%
8 UnitedHealth	UNH	3.2%	15%	1%	16%	\$220	\$238	8%
9 Amazon	AMZN	3.2%	20%	0%	20%	\$1,169	\$1,004	-14%
10 Salesforce.com	CRM	3.0%	25%	0%	25%	\$102	\$130	27%
11 Tesla	TSLA	2.9%	35%	0%	35%	\$311	\$378	21%
12 Constellation Brands	STZ	2.9%	17%	1%	18%	\$229	\$222	-3%
13 Ollie's Bargain Outlet	OLLI	2.8%	19%	2%	21%	\$53	\$50	-6%
14 New Oriental Education	EDU	2.7%	32%	0%	32%	\$94	\$109	16%
15 Apple	AAPL	2.6%	11%	2%	13%	\$169	\$206	22%
16 Global Payments	GPN	2.6%	19%	0%	19%	\$100	\$122	22%
17 Domino's Pizza	DPZ	2.5%	19%	1%	20%	\$189	\$207	10%
18 Netflix	NFLX	2.5%	61%	0%	61%	\$192	\$181	-6%
19 Workday	WDAY	2.4%	108%	0%	108%	\$102	\$145	43%
20 Five Below	FIVE	2.4%	22%	0%	22%	\$66	\$63	-5%
21 Visa	V	2.3%	17%	1%	18%	\$114	\$114	0%
22 Paycom Software	PAYC	2.3%	28%	0%	28%	\$80	\$92	15%
23 Home Depot	HD	2.3%	13%	2%	15%	\$190	\$191	1%
24 Netease	NTES	2.2%	13%	0%	13%	\$345	\$300	-13%
25 Alphabet	GOOGL	2.1%	21%	0%	21%	\$1,053	\$1,247	18%
26 Baozun	BZUN	2.0%	69%	0%	69%	\$32	\$46	46%
27 Celgene	CELG	2.0%	21%	1%	22%	\$104	\$155	49%
28 JD.com	JD	2.0%	140%	0%	140%	\$41	\$65	57%
29 Priceline	PCLN	1.9%	16%	0%	16%	\$1,738	\$2,078	20%
30 SS&C Technologies	SSNC	1.9%	14%	1%	15%	\$40	\$49	21%
31 Ulta Salon	ULTA	1.9%	18%	0%	18%	\$224	\$266	19%
32 Regeneron	REGN	1.7%	18%	0%	18%	\$376	\$582	55%
33 Baidu	BIDU	1.7%	26%	0%	26%	\$234	\$305	30%
34 Monster Beverage	MNST	1.6%	20%	0%	20%	\$63	\$51	-19%
35 Starbucks	SBUX	1.5%	15%	2%	17%	\$57	\$59	3%
36 The Trade Desk	TTD	1.5%	35%	0%	35%	\$46	\$54	18%
Cash		-7.4%						
Total		100.0%	31%	0%	32%			21%