David Sharek's
The School of Hard Stocks

Searching for Tomorrow's Stock Market Winners Today

The Definitive Guide to Growth Stocks

I have always been intrigued by stocks that made the biggest gains. So around the turn of the century I spent countless evenings researching the biggest winners, trying to spot trends or characteristics these stocks had.

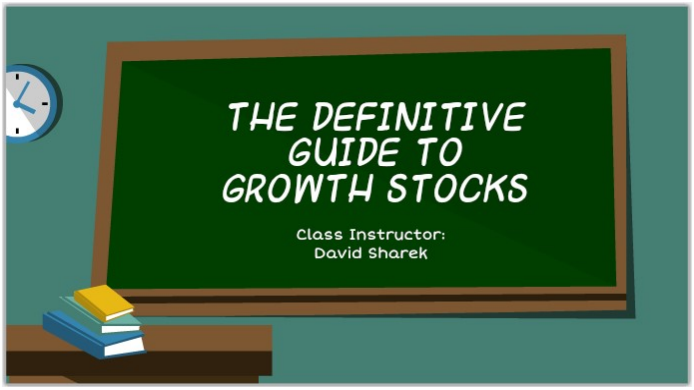
Eventually, I was able to spot the pattern, or theme, many superstar stocks possessed.

I started to uncover secrets only the smartest minds in the money management business knew; tips they shrewdly kept to themselves.

From **Walmart (WMT)** during the 1970s to **Starbucks (SBUX)** during the 1990s, most great stocks had lots in common as they trounced the market. It was as if they were all poured from the same mold.

Armed with this knowledge, I went to work to find one stock after another that "fit the mold".

Here are the characteristics of stocks that give investors the largest gains over extended periods of time — stocks that compound in value.



Buy Stocks With High Profit Growth

To the right are some of the most recognized stocks in America with their average annual *Profit Growth* rates and *Stock Growth* rates for the past ten years (as of 2019 Q4).

I sorted the stocks by the rate of *Profit Growth*, and split the stocks into two columns.

Notice the stocks on the left had the highest *Profit Growth* rates. These companies also often delivered the fastest *Stock Growth*.

My research points to profit growth driving stock growth. To locate stocks that grow the fastest, look for companies growing profits rapidly. **The faster the profit growth, the better.**

Profit growth equals stock growth over the long-term if the stock's P/E ratio is the same at the beginning and the end of the period (more on this later).

So hypothetically, a company that grows profits 20% per year might deliver 20% stock growth.

Leaders of the 2010's	Stock Growth	Profit Growth
Salesforce	28%	34%
Tencent	27%	33%
NVIDIA	29%	30%
Lululemon	33%	28%
Netflix	52%	28%
Booking	25%	28%
Domino's	42%	27%
Amazon	29%	26%
Illumina	26%	23%
New Oriental Ed.	22%	22%
MasterCard	28%	21%
Visa	25%	20%
Apple	24%	20%
Sherwin-Williams	25%	19%
Cintas	28%	19%
Dollar General	21%	18%
Average	**29%**	**25%**

Laggards of the 2010's	Stock Growth	Profit Growth
JP Morgan	12%	17%
Alphabet	16%	15%
TJX	21%	14%
Stryker	15%	12%
Costco	19%	11%
Microsoft	17%	10%
Walt Disney	17%	10%
Becton Dickenson	14%	10%
American Express	13%	10%
Altria	10%	9%
McCormick	17%	9%
Target	9%	7%
McDonalds	12%	7%
J&J	8%	6%
Pepsico	8%	4%
Walmart	8%	3%
Average	**14%**	**10%**

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 13% a year, compared to 9% for the S&P 500 (2003-2019). David's posted four years of +40% returns in his 17 year career as a portfolio manager.

Buy Stocks with Catalysts

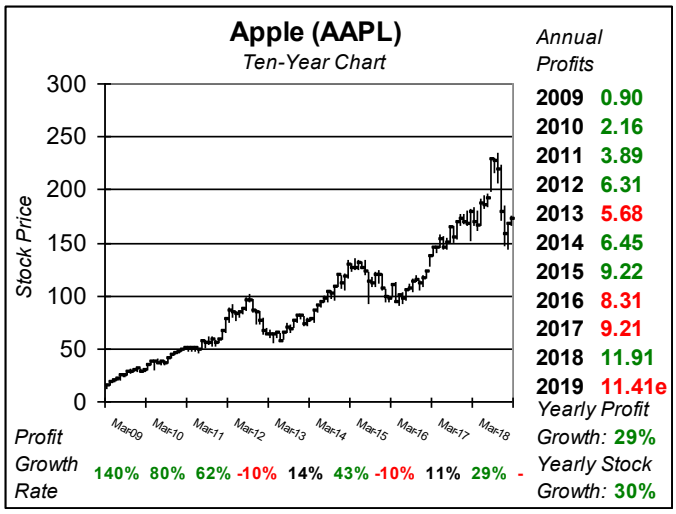
Explosive profit growth is usually caused by a company having an immensely profitable **catalyst.** Catalysts are unique products or services that transform an industry, and are the fuel for rapid profit growth.

To the right is a ten-year chart of **Apple (AAPL)** as of 2019 Q4. The stock went from $28 to $271 during this time period. So pretty much a ten-fold gain. *Annual Profits* also climbed around ten-fold during the decade. Below this chart is the annual profit growth rate.

Prior to this period, AAPL's qtrly profit growth rate had just climbed from +1% to +15%, +13% and +53% the last 4 qtrs.

The iPhone was introduced in 2007, and proved to be a **catalyst** for Apple stock:

Below is number of iPhone units sold and the iPhones percentage of total company revenue:
2008 12 million, 6% of revenue.
2009 21 mill sold, 30% of rev.
2010 40 mill sold, 38% of rev.
2011 72 mill sold, 43% of rev.
2012 125 mill sold, 51% of rev.
2013 150 mill sold, 53% of rev.



Buy Stocks that Beat the Street

The term "beat the street" is used when a company beats analyst, or Wall Street, profit estimates.

Companies that beat the street have many good things going for them. The growth rate is better than expected. Thus, the stock might be worthy of a higher P/E. Annual profit estimates should rise. Investors are confident business is good, better than expected actually.

Companies that keep beating the street and upping estimates might earn *much* more than we are thinking at the time.

Here's **Google (GOOG)** right after the company went public. Column 1 is the qtr of the calendar I did my **Research Report**. Columns 2 & 3 are Estimated qtrly profit growth vs. Actual qtrly profit growth (+20% or more in green).

The other columns are annual profit estimates. New estimates are in normal font. Increasing est. in green, decreasing in red.

GOOG was an animal. Notice 2006 profits came in *double* original estimates. Also, 2007 Q3 GOOG only met estimates. That was during the Financial Crisis.

Google (GOOG) Qtrly Profits vs. Estimates

Year	Est.	Act.	2004	2005	2006	2007	2008	2009
Start			$2.27	$2.81				
2004 Q4		94%	2.52	3.39	$5.07			
2005 Q1	81%	119%	2.73	3.92	5.07			
2005 Q2	72%	143%		5.17	6.59			
2005 Q3	105%	134%		5.61	7.35			
2005 Q4	91%	121%		5.88	8.47			
2006 Q1	87%	100%		5.70	8.86	$12.07		
2006 Q2	54%	78%			9.43	12.55	$15.04	
2006 Q3	61%	87%			9.94	13.13	16.94	
2006 Q4	60%	74%			10.29	13.68	17.52	
2007 Q1	87%	106%			10.58	14.25	14.72	$23.29
2007 Q2	43%	87%				15.12	19.25	23.49
2007 Q3	43%	43%				15.27	19.25	23.30

Buy Stocks in Hot Sectors

One thing many top stocks have in common is they come from a hot sector.

The reason is there is often a revolutionary change going on that changes people's lives for the better.

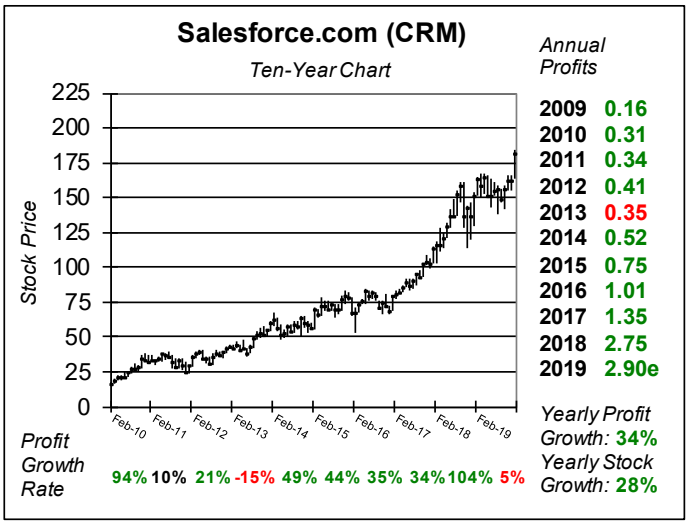
Currently, the biggest revolutionary change going on is cloud computing.

Cloud computing allows us to save our data and or software on computer systems outside the home or office. No more big refrigerator sized hard drives from **IBM (IBM)** and **EMC (EMC)**.

Companies like **Salesforce (CRM)** are now what organizations look to for software applications and data storage.

Salesforce originated in 1999 as a software for sales teams to hold contact data. Today, Salesforce is used to perform advanced online marketing, perform analytics on data, and run e-commerce stores.

To the right is a ten-year chart of CRM as of 2019 Q4.



Hold Stocks With Certainty

After rapid profit growth, the three main traits I look for in stocks are Certainty, Consistency and Growth Opportunity.

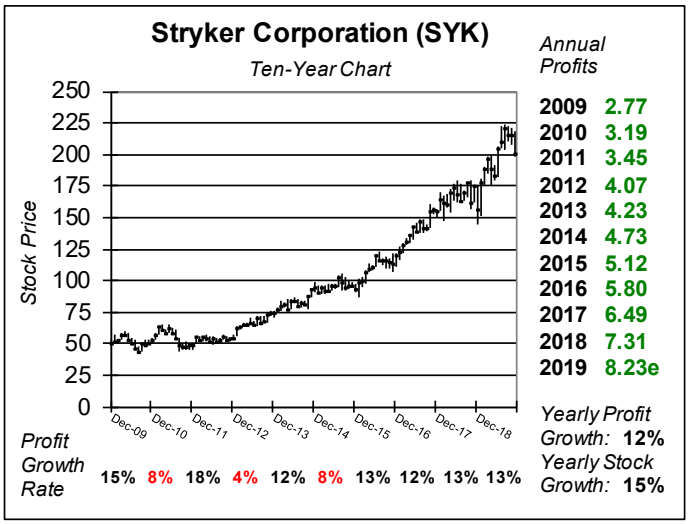
Stocks with certainty are companies you can depend on and are often in sectors that don't get pinched in recessions.

When we lose money in stocks it's often because we bought without enough certainty.

You can look in checkbook for stocks with certainty. What's a necessity and what's not? You have to eat, so food stocks and are safe havens. As are medical supply companies.

Stryker (SYK) develops orthopedic implants, surgical equipment, neurotechnology and spine products, and is known for its hospital beds and hip replacements. To the right is my SYK 2019 Q4 ten-year chart.

Stryker has had record annual sales growth every year since it went public in 1979, and profits have grown in nineteen of the last twenty years.



Hold Stocks With Consistency

The best stocks grow profits consecutively every year. They provide consistent growth, year-in year-out.

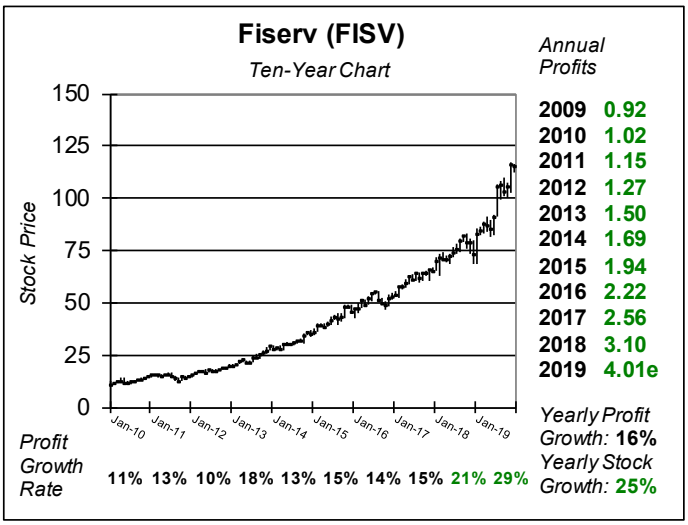
The cream-of-the-crop companies will grow earnings each year and never incur a down year in profits. They grow profits consistently.

But not all stocks are that lucky. Some have a down year or two. That may be ok to hold through.

Fiserv (FISV) is a high quality stock that has delivered double-digit profit growth every year since 1986. That's 34 consecutive years of double-digit profit growth. Here's my FISV 2019 Q4 ten-year chart.

Fiserv provides technology to run ATM transactions, money transfers and mobile banking to more than 13,000 banks/credit unions around the world. It integrates banks with billers to make paying online easy.

On July 29, 2019 Fiserv acquired **First Data (FDC)** which handles almost half the credit and debit transactions in the US.



Hold Stocks With Growth Opportunity

One factor that's usually overlooked when buying a stock is the company's growth opportunity.

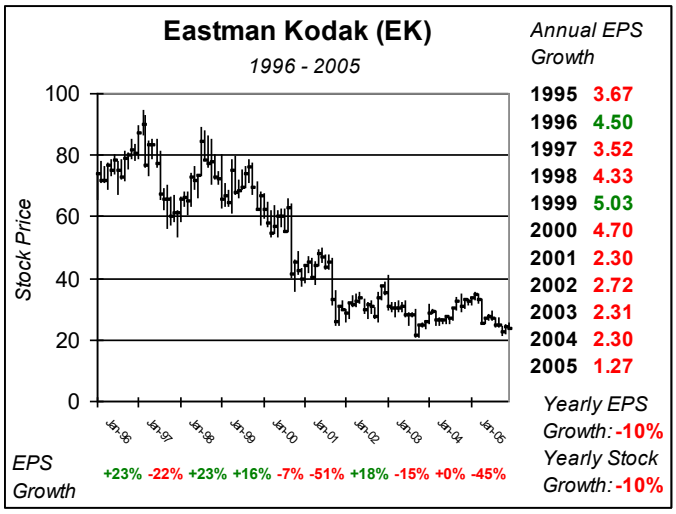
Growth opportunity is the ability to grow sales into the future over a long period of time. Is the company in a young and growing industry? Can you imagine the company selling more products years from now?

For a stock to compound in value over-and-over again, it has to grow sales and profits exponentially. That often requires a growing industry.

Founded in 1888, **Eastman Kodak (EK)** is known for cameras and photographic film. The company developed the 1st digital camera in 1975, but didn't sell them until 2001 because most of Kodak's profits came from film.

Here is a ten-year chart of EK during 1996-2005 as digital cameras and smart phones started to take off in popularity.

Smart investors saw there was no **growth opportunity** in Kodak anymore, and sold the stock.



How to Value a Stock

Publicly traded companies are often worth a lot and have big profits. Ownership is divided among shares, with profits also divided into Earnings Per Share (EPS).

If you take a stock price and divide it by profits in EPS, you get the "multiple" or P/E ratio.

To figure out what you think a stock might be worth, take the estimated profits in EPS for the upcoming year and put a multiple on it to get a hypothetical stock price.

What should the multiple be? That's where your analysis comes in.

A rule of thumb to start with is the multiple is the rate profits are growing currently or the analysts *Estimated Long Term Growth Rate (Est. LTG).* Then, add a premium for **certainty** and **consistency**. When the stock market's P/E is high (like it is now), individual stocks will also have higher P/Es.

Here's my Profit History table on Visa from 2019 Q4. At the time, profits grew 21% in the latest qtr and I felt it the stock was worthy of a 33 multiple.

Visa Profit History — 2019 Q4						
Year	Profits	x	Multiple	=	Med Price	
2010	$1.00	x	20	=	$20	
2011	1.25	x	16	=	20	
2012	1.55	x	18	=	27	
2013	1.90	x	22	=	42	
2014	2.27	x	23	=	52	
2015	2.62	x	24	=	63	
2016	2.84	x	26	=	75	
2017	3.48	x	26	=	91	
2018	4.61	x	28	=	128	
2019	5.44	x	28	=	154	
Fair Value						
						Upside
Current	$6.22	x	29	=	$182	
2020Est	6.22	x	33	=	205	**14%**
2021Est	7.24	x	33	=	239	**32%**

Case Study: Walmart (WMT)

It's easy to think the big stock market winners are impossible to find. But in fact, the best stocks are often easy to find. One of the best no-brainers was **Walmart (WMT)**.

In 1962, Sam L. Walton and his brother J. L. "Bud" Walton opened the first Wal-Mart store in Rogers, Arkansas. By 1967, WMT had grown to 24 stores with annual sales of $12.6 million. In 1970, it became a publicly traded company, offering 300,000 shares to the public at $16.50 per share.

In the early 1970s, shoppers clearly saw the concept was a success and would drive out of their way to shop at Wal-Mart. The company grew profits at 57% in 1971, then it backed up this growth with 49% growth in 1972 and 33% in 1973. An accounting change resulted in only a slight increase in profits in 1974.

1975 was the year to buy Walmart since profits that year would grow at an astounding 67%. In 1975 the company — opening in states one by one — had 125 stores in operation and went through its third two-for-one stock split. **By this time, annual profit growth was averaging better than 40% a year.** The table to the right shows WMT from 1975-2013, adjusted for stock splits.

A fair P/E ratio might be the rate profits are growing at. Thus 12% growers would be worth 12x profits in EPS, or worthy of a 12 P/E. If stocks are higher quality they are rewarded with P/Es higher than the growth rate. Notice during the '70s WMT had a low P/E ratio, then a higher one as the concept proved itself.

If you failed to buy Wal-Mart in the 1970s, you would still have many opportunities.

By early 1982, it was obvious that Walmart was a leader for the ages. Its ten-year profit growth rate was 39%. Forbes had ranked it the number-one general retailer for seven years straight. Even after missing a twenty-fold gain since 1975, new investors would still make 100 times their original investment, had they bought. And held.

$1,000 invested in Wal-Mart in 1975, when profits were rising 67%, eventually would grow to $2,000,000 25 years later — had you held.

2000 was a good time to take profits in WMT, as profits rose just 9% yet the stock had a 39 P/E. In 2013 profits fell, and this was the real sell signal.

Fair Value					
Year	Profits	x	P/E	=	Median Price
1974	$0.002				
1975	0.003	x	12	=	$0.03
1976	0.004	x	12	=	0.05
1977	0.006	x	11	=	0.06
1978	0.008	x	12	=	0.09
1979	0.011	x	10	=	0.11
1980	0.014	x	12	=	0.17
1981	0.02	x	14	=	0.28
1982	0.03	x	20	=	0.57
1983	0.05	x	24	=	1.06
1984	0.06	x	20	=	1.20
1985	0.07	x	24	=	1.66
1986	0.10	x	26	=	2.59
1987	0.14	x	28	=	3.92
1988	0.19	x	19	=	3.63
1989	0.24	x	19	=	4.67
1990	0.29	x	25	=	7
1991	0.35	x	31	=	11
1992	0.44	x	34	=	15
1993	0.51	x	29	=	15
1994	0.59	x	22	=	13
1995	0.60	x	20	=	12
1996	0.67	x	18	=	12
1997	0.78	x	21	=	16
1998	0.99	x	30	=	30
1999	1.28	x	42	=	54
2000	1.40	x	39	=	55
2001	1.50	x	33	=	50
2002	1.81	x	30	=	54
2003	2.03	x	26	=	53
2004	2.41	x	23	=	56
2005	2.68	x	18	=	48
2006	2.71	x	17	=	47
2007	3.13	x	15	=	47
2008	3.39	x	16	=	55
2009	3.72	x	14	=	52
2010	4.18	x	12	=	52
2011	4.54	x	12	=	54
2012	5.02	x	13	=	67
2013	$4.85	x	15	=	$75

Sell When Profits Decline

One of the benefits of owning mutual funds, ETFs, and annuities is diversification.

Diversification is a strategy for people who don't know what they're doing.

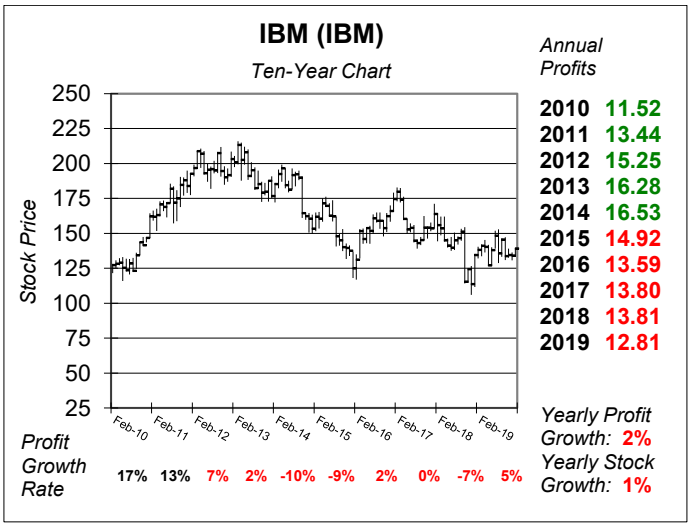
The S&P 500 has five hundred stocks in it. How many stocks will grow 10% or more?

Sell stocks when annual profits decline. But, one to four qtrs of negative growth is ok, if it's a short term issue and there's still **growth opportunity**.

Here's a look at the ten-year chart of IBM as of 2020 Q1. As we just saw, IBM used to be a top holding in the S&P 500. Notice how profits peaked in 2014 and the stock's been trending down ever since.

IBM stock went from $131 to $139 during the 2010's as profits grow from $11.52 to $12.81. That's profit growth of 2% a year and stock growth of 1% a year.

It's obvious IBM isn't a stock market leader. But if you own the S&P 500 you own this stock.



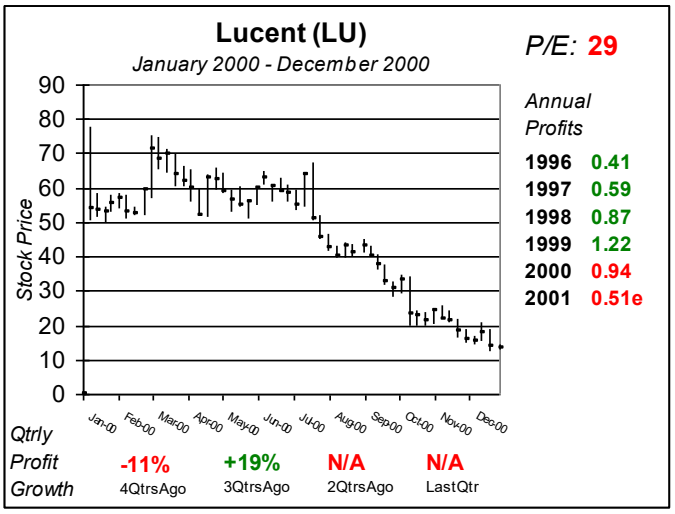
Sell When Profits Miss Estimates

Around the turn of the century, **Lucent Technologies (LU)** was the most heavily owned stock in America. Spun off from AT&T, Lucent was one of the world's leading developers of telecommunications equipment. The stock was beloved because older investors were familiar with AT&T and younger investors were into fiber optics and networking.

Here's a one-year chart of LU during 2000. On January 6th with the stock at $73, management issued a press release stating LU would not only miss profit estimates, but have negative profit growth as well. LU fell to $52 that day. On the chart this is the left-most vertical line.

On April 20th LU got back on track with 19% profit growth, but lowered year 2000 estimates from 20-25% growth to 17%.

The next qtr, on July 20th, LU missed profit estimates, reported a loss, fell through support at $50 (in the middle of the chart) and was $20 by October. At the time, many investors refused to sell as their brokers said "it'll be back". It didn't. LU was on its way to $1.



Sell When the Sector Turns Down

As we saw with the top stocks in the S&P 500, strong sectors often show top stocks. And when an industry turns down for the long-term, it's often time to sell.

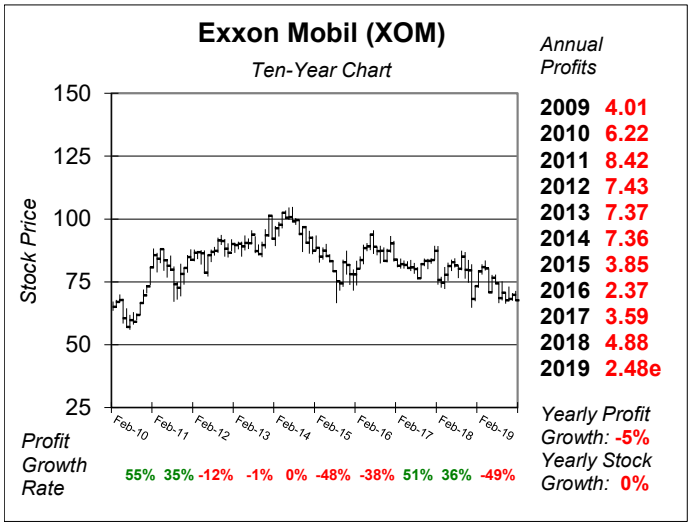
In 1980, the S&P 500 Top Ten Holdings were: IBM, AT&T, **Exxon (XOM)**, six other oil companies, and GE. That's 7 of 10 oil stocks.

Today, technology runs the world. Technology so advanced companies can make cars that do not require gasoline. Oil companies are now having trouble growing profits.

Here's a ten-year chart of **Exxon (XOM)** from 2019 Q4. Recall, Exxon the S&P 500's largest holding in 2010.

Fracking has made it easier to get oil from the ground, thus there's a lot of supply. And **growth opportunity** isn't good as more electric cars are coming.

This stock is another reason why it's better to know what you own. XOM made $8.47 in 2008 and hasn't made that much since. In 2016 Q1 this stock had an *Est. LTG* of –1%, so many investors saw this coming — and sold XOM.



Money Management

Let us manage your stock portfolio

David Sharek manages brokerage accounts and IRAs of $50,000 or greater on a fee-basis. Returns shown here are after fees.

You own the stocks

Sharek manages each account individually. This isn't a mutual fund — you own the stocks. Your account is in your name and is not commingled with other clients.

Fee-based account management

We grow when you grow. Shareks, LLC bills client accounts 0.25% to 0.75% per quarter (1% to 3% per year). Fees may be tax deductible.

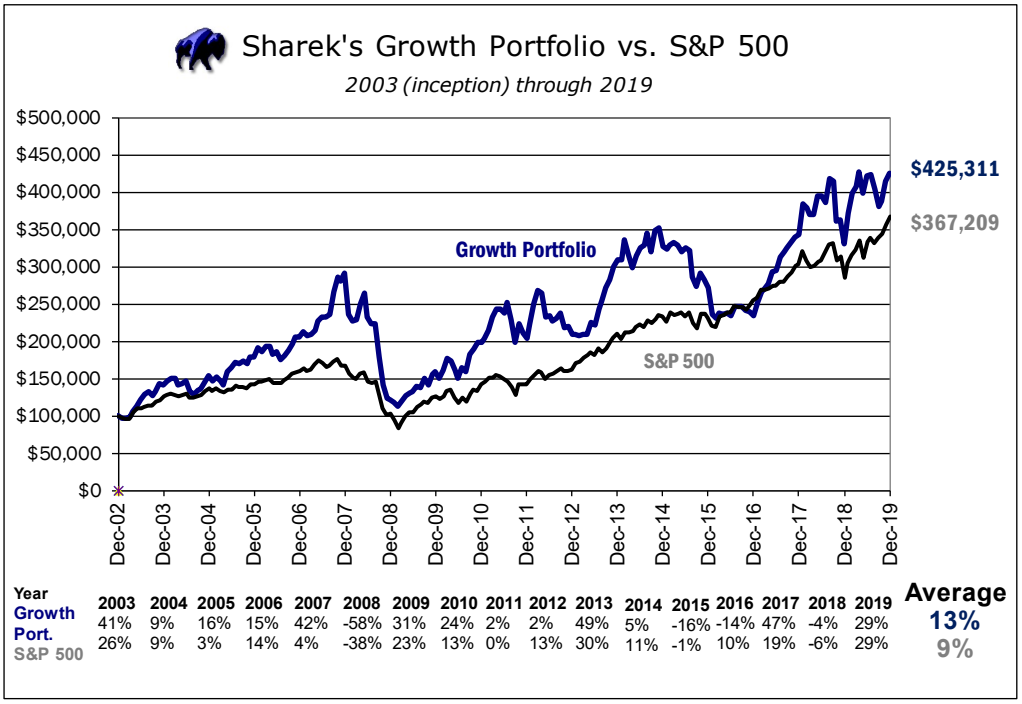
Watch your account

Clients can log online and view their accounts at anytime.

Security

Shareks, LLC is registered with the State of New York as an investment advisor (RIA).

Accounts are kept safe at brokerage firms TD Ameritrade and Interactive Brokers.



Growth Portfolio

Returns

29% in 2019, 13% avg. annual return since inception (2003).

Description

Our flagship portfolio is comprised with large and small companies with estimated long-term growth rates (*EST. LTG*) of 15% or greater.

Number of Stocks:

35 to 50

Types of Accounts Managed:

Individual and Joint brokerage accounts, IRAs, Rollover IRAs, and SEPs.

Minimum Account Size:

$100,000

Management Fee:

2% to 3% per year (billed quarterly)

Aggressive Growth Portfolio

Returns

22% in 2019, 12% avg. annual return since inception (2003).

Description

A more focused portfolio comprise of stocks from the Growth Portfolio which have more rapid profit growth and/or are timely.

Number of Stocks:

10 to 25

Types of Accounts Managed:

Individual and Joint brokerage accounts, IRAs, Rollover IRAs, and SEPs.

Minimum Account Size:

$50,000

Management Fee:

3% per year (billed quarterly)

Conservative Growth Portfolio

Returns

32% in 2019, 11% avg. annual return since inception (2015).

Description

A portfolio consisting of safer stocks (often Blue Chips) that may pay dividends. Comprised of stocks with *Est. LTG* + dividend yield of 10% or greater.

Number of Stocks:

35 to 50

Types of Accounts Managed:

Individual and Joint brokerage accounts, IRAs, Rollover IRAs, Trusts and SEPs.

Minimum Account Size:

$100,000

Management Fee:

1% to 2% per year (billed quarterly)

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