David Sharek's Growth Stock Newsletter

Searching for Tomorrow's Stock Market Winners Today

November 19, 2018

FAANG After the Fall

FANG stocks are in a rut right now, and the question I have is will they rally back?

The answer? Some will and some won't.

Some of the profit estimates for these FAANG stocks — **Facebook** (FB), **Apple** (AAPL), **Adobe** (ADBE), **Amazon** (AMZN), **Netflix** (NFLX) and **Alphabet** (GOOGL) — are poor. I mean bad.

These companies used to deliver 20% to 35% profit growth or better. Now some of them are expecting around 10% growth next year. Ten percent isn't enough to light a fire under a growth stock, which means some of these names might spend the next 6-12 months around their current levels, and those levels are around their 52-week lows.

But not all is bad. Adobe, Amazon and Netflix look especially good here. The other names will have to beat expectations to get back to growing profits above 20% in 2019.

Current Holding — Facebook (FB)

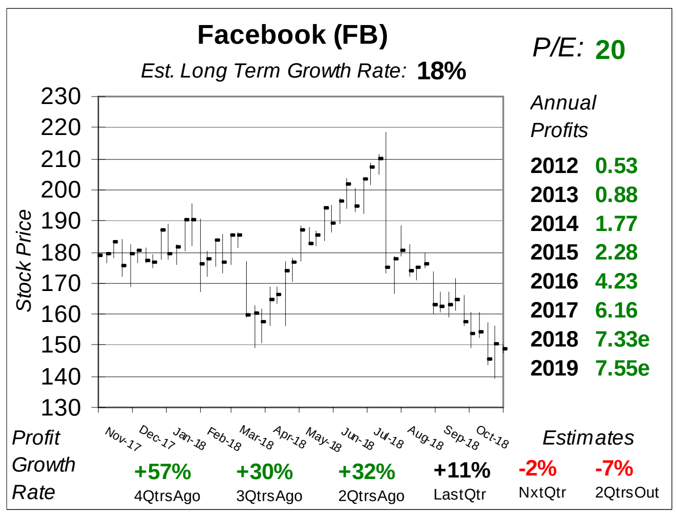
Facebook (FB) is spending on heightened security to protect its users, and that's taking a bite out of profits.

Last qtr, profit growth slowed from 32% to 11%, but that was better than the −7% analysts had expected.

Sales grew 33%. It stinks profits couldn't keep pace.

Profit growth estimates for the next 4 qtrs are: -2%, -7%, -1% and 1%. Not good.

FB was sold from the Aggressive Growth Portfolio this month, and I sold half my already reduced position in the Growth Portfolio. Instagram and WhatsApp will soon be the growth drivers, so I continue to like FB long-term.



Fair Value						
Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	7.33	x	20	=	$149	
2019 Est	7.55	x	24	=	181	22%
2020 Est	8.80	x	24	=	211	42%

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 more than $300,000 vs. just over $200,000 in the S&P.

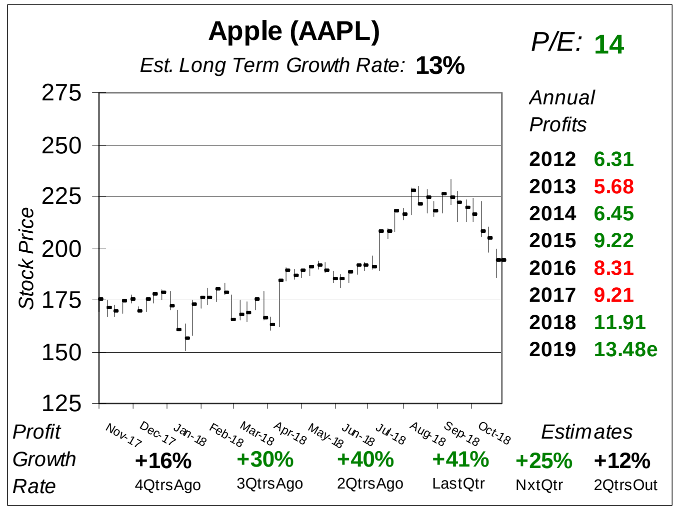
David's posted four years of +40% returns in his 15 year career.

Current Holding — Apple (AAPL)

Apple (AAPL) just delivered a strong qtr, with 20% sales growth. Leading the way was iPhone revenue, which jumped 29%. But the iPhone growth was from a higher average selling price ($793 vs $618 a year ago) with 0% unit growth. If AAPL wouldn't have had a more expensive phone, iPhone revenue would have been flat, which would have reduced AAPL sales growth from 20% to 4%. AAPL buys back stock, so if it does 4% sales growth, that might be 10% profit growth in the near future.

As it stands now qtrly profit est for the next 4 qtrs are 25%, 12%, 8% and 7%. Thus, I will sell most of my AAPL shares in my managed accounts. This stock's recent decline is justified.

Fair Value						
Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	13.48	x	14	=	$194	
2019 Est	13.48	x	16	=	216	11%
2020 Est	14.82	x	16	=	237	23%



Current Holding — Adobe Systems (ADBE)

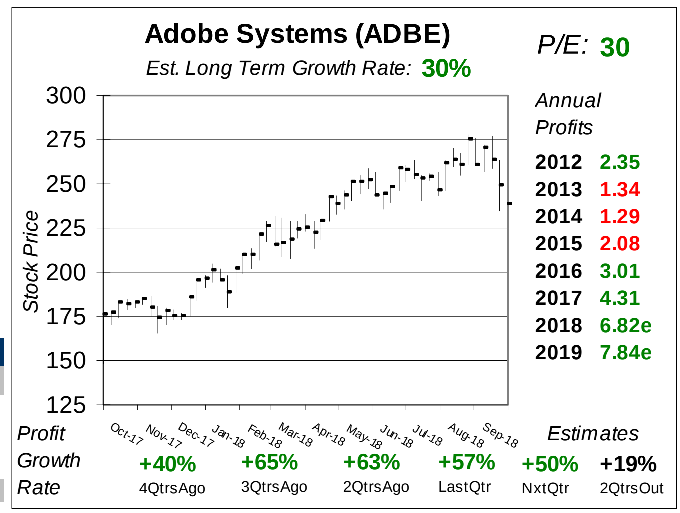
Adobe Systems (ADBE) is doing phenomenally well, and could be my top tech stock for 2019.

Adobe's Creative Cloud (2/3rds of sales) is the gold standard for creativity & design that's used by tens of millions of people.

Adobe's Marketing Cloud (1/3rd of sales) is the best-in-class solution for digital marketers that allows them to analyze data, build campaigns, and manage content.

ADBE just acquired Marketo, the world's #1 e-commerce platform. I think this will help boost profits 40% in 2019 — way above analyst's estimates. Adobe is one of my favorite stocks right now.

Fair Value						
Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	6.82	x	35	=	$238	
2019 Est	7.84	x	42	=	329	38%
2020 Est	9.38	x	42	=	394	66%



Current Holding — Amazon (AMZN)

Amazon (AMZN) is minting money right now. After spending bushels of cash on building warehouses, the company is now rolling in the profits.

And, estimates have been surging higher. 2018 profit estimates from $8.31 to $12.52, $17.35 and now $19.80 the past 4 qtrs. Think about that. This company was expected to make eight bucks and now might make more than twenty this year.

What does that mean for next year? And the year after? 2020 estimates are for almost $40 in profits. Could that be $60? $80?

AMZN stock may be down, but I think it will be a juggernaut when the market turns higher.

Fair Value						
Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	19.80	x	77	=	1523	
2019 Est	26.65	x	100	=	2665	75%
2020 Est	39.34	x	100	=	3934	158%

Current Holding — Netflix (NFLX)

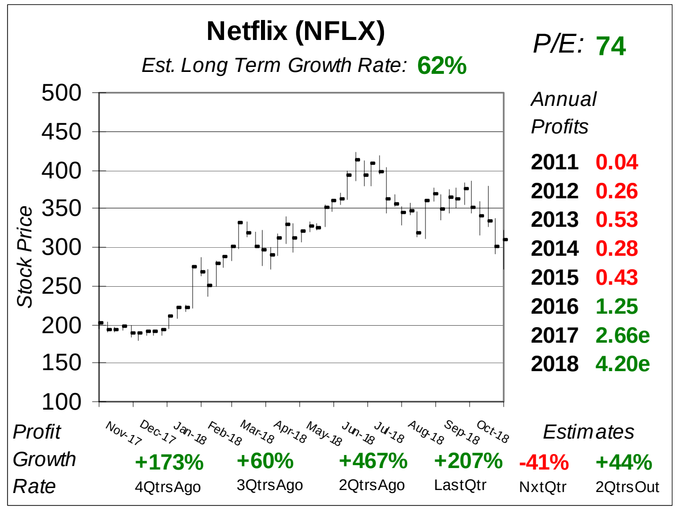
Netflix (NFLX) has been spending to grow Internationally for years now, and the company is finally profiting from this venture.

Notice on this chart to the right now profits are expected to double this year, and almost double next year. Profits could hit $7 in 2020, then perhaps $10 a year or two later.

And since stock growth follows profit growth, NFLX looks good heading into 2019. Note next qtr's expected decline in profits is a one-time thing, which is OK. Profits are expected to climb 44%, 24% and 35% the following qtrs.

NFLX should always be looked at as a long-term investment, and this looks like a good time to buy.

Fair Value						
Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	2.66	x	116	=	$309	
2019 Est	4.20	x	100	=	420	36%
2020 Est	6.96	x	100	=	696	125%



Current Holding — Alphabet (GOOGL)

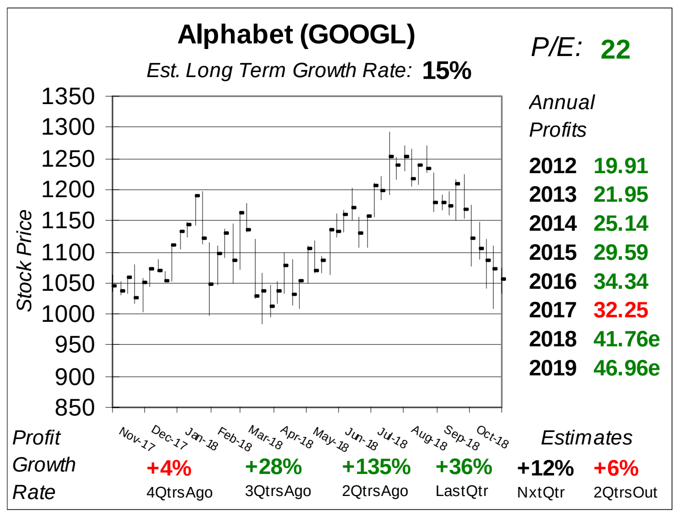
Alphabet (GOOGL) is another company that is expected to deliver disappointing profit growth in 2019.

Right now, profit growth estimates for the next 4 qtrs are 12%, 6%, -3% and –8%. With Google, Facebook, and Alibaba all expected to have poor growth going forward, its no wonder FANG's out of favor.

But, GOOGL did beat profit estimates last qtr (36% vs 9% est) so perhaps current estimates are too low. Sales are growing ~20%, that's a solid number.

But that's not enough for me to keep a big investment in the stock. Google looks good, but not great. The P/E is low, so this stock could be a good value.

Fair Value						
Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	41.76	x	25	=	1056	
2019 Est	46.96	x	26	=	1221	16%
2020 Est	54.70	x	26	=	1422	35%

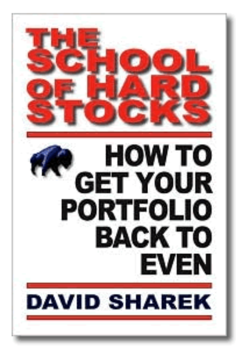


Stock Education

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 (GOOGL) 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.



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.

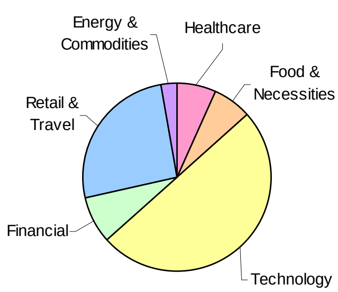
David Sharek personally manages each stock portfolio individually.

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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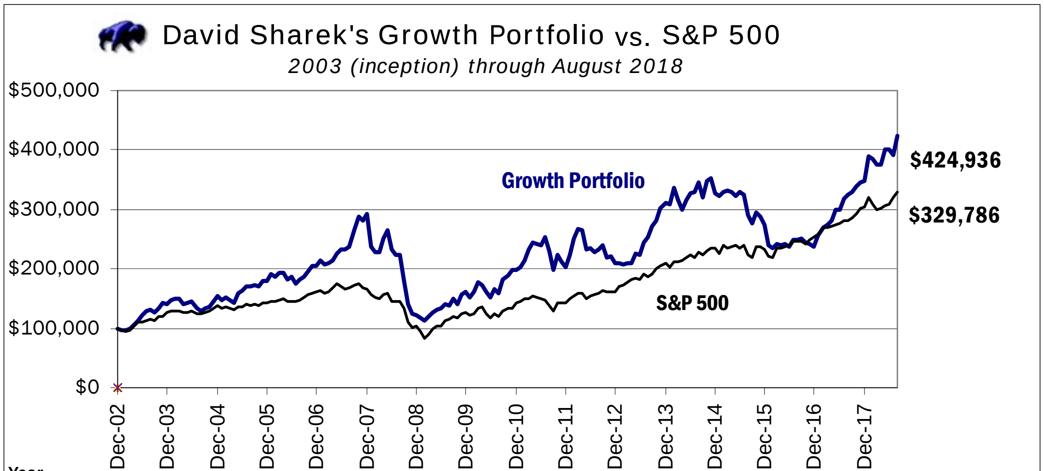

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Avg	Total
Growth Port.	41%	9%	16%	15%	42%	-58%	31%	24%	2%	2%	49%	5%	-16%	-14%	47%	22%	14%	325%
S&P 500	26%	9%	3%	14%	4%	-38%	23%	13%	0%	13%	30%	11%	-1%	10%	19%	9%	9%	230%

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%**