David Sharek's Growth Stock Newsletter

Searching for Tomorrow's Stock Market Winners Today

September 19, 2019

Value Stocks Aren't the Values They Seem to Be

Stock market pundits are telling investors that value stocks are a deal compared to growth stocks, and that investors should move money from growth to value.

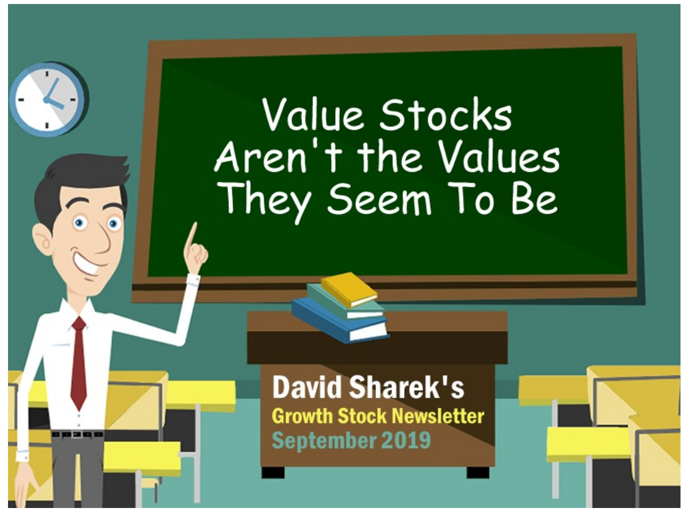
This month I will take a deep look into the "value is better than growth thesis" and analyze if that is actually the case.

But first, let's define growth stocks and value stocks, in my own words:

Growth Stocks are companies with opportunity to grow fairly rapidly over the long-term (3-5 years). Typically smaller and in up-and-coming industries. Profit growth rates are 15% and above.

Value stocks are companies that have already grown up, perhaps over a period of decades. Profit growth might be 10% a year (or less) and these stocks often pay dividends. These can also be termed Blue Chip stocks.

Now let's look at the valuations of some popular value stocks, and see if they really are the deals some claim they are.



Current Holding — Pepsico (PEP)

To the right is a Profit History table for **Pepsico (PEP)**, which includes both Pepsi beverages and Frito-Lay snacks.

Shares of Pepsico have jumped 18% from $112 to $132 since my research report a year-ago (PEP 2018 Q2). That gain might not sound great, but it is when you consider this stock is really a 6% grower, I would expect the stock grow 6% a year (or around that).

PEP's earnings are expected to be down 2% this year due to foreign exchange, a higher than expected tax rate, and refranchising costs. That's not good.

And in return, investors have given the stock a higher valuation (P/E ratio) than its had all decade (when compared to the median P/E of prior years).

To me, this stock is overvalued. I wouldn't be selling a faster-grower to buy a slower–grower that's overpriced. PEP is part of my Conservative Growth Portfolio. I've been selling some shares recently.

Profit History								
Year	Profits	x	P/E	=	MedPrice		Dividend	Yield
2009	$3.71	x	17	=	$63		$1.86	2.9%
2010	4.13	x	16	=	65		$1.99	3.1%
2011	4.40	x	15	=	68		$2.11	3.1%
2012	4.10	x	19	=	78		$2.21	2.8%
2013	4.37	x	20	=	89		$2.45	2.8%
2014	4.63	x	19	=	90		$2.71	3.0%
2015	4.57	x	22	=	102		$2.91	2.9%
2016	4.85	x	21	=	102		$2.96	2.9%
2017	5.23	x	21	=	111		$3.17	2.9%
2018	5.66	x	19	=	109		$3.59	3.3%
Fair Value								
					Upside/Downside			TotRetrn
This Qtr	$5.52	x	24	=	$132			
2019 Est	5.52	x	22	=	121	**-8%**		**-5%**
2020 Est	5.97	x	22	=	131	**-1%**		**6%**

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.

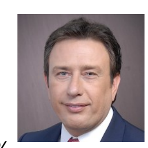
Although his clients were diversified in different things, the 2000 stock market crash still hurt his investors. This left David leery of Wall Street recommendations as well as mutual funds. Sharek decided to find a better way. He became a student of stocks, and discovered the best stocks had the highest profit growth.

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

During his first five years as a portfolio manager (2003—2007) Sharek's Growth Portfolio averaged a return of 24%, 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.



Through June 2019, Sharek's Growth Portfolio has grown an average of 13% a year, compared to 9% for the S&P 500 (since 2003).

$100,000 invested in the Growth Portfolio at inception would have grown to $421,561 vs $334,359 in the S&P 500.

David's posted four years of +40% returns in his 16 year career.

Current Holding — Ecolab (ECL)

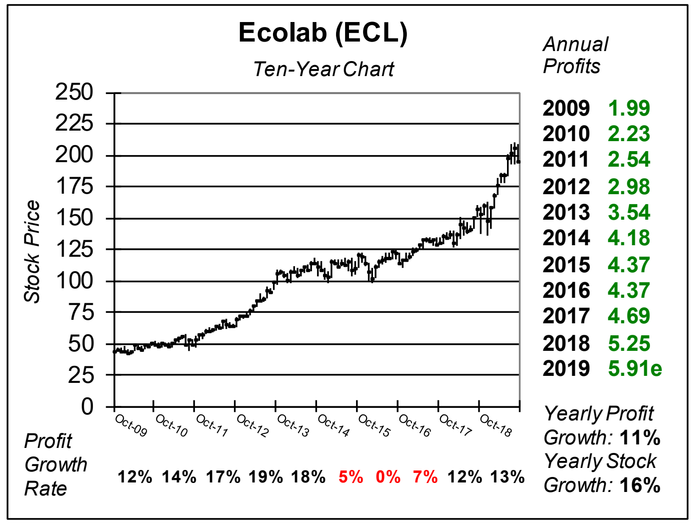
Ecolab (ECL)'s ten-year chart is to the right. The company develops cleaning agents for the following industries:
(1) Food and beverage plants
(2) Water purifying plants
(3) Housekeeping
(4) Food retailers/supermarkets
(5) Hospitals & healthcare clinics
(6) Power plants & oil refineries
(7) Pest elimination.

ECL is one of the safest stocks in America, with 1 year of negative profit growth since 1992. This quality stock always has a high P/E — around double its growth rate. Right now the *Est. LTG* is 14% a year and the P/E is 33. I think ECL's P/E should be 30.

I've been selling some (not all) ECL in the Conservative Portfolio.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	5.91	x	33	=	$196	
2019 Est	5.91	x	30	=	177	-9%
2020 Est	6.63	x	30	=	199	2%



Current Holding — M&T Bank (MTB)

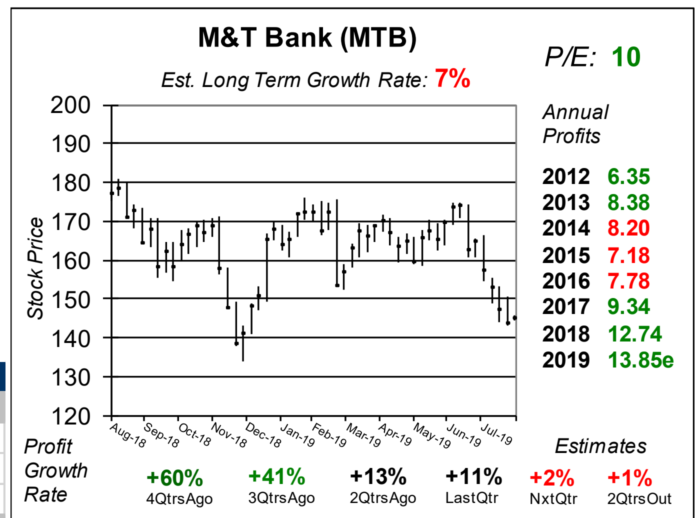
M&T Bank (MTB) got creamed after the Federal Reserves decision to cut interest rates took profits estimates down big time.

2019 estimates just dropped from $14.54 to $13.85, with 2019's expected growth rate going from 13% to 9%.

MTB is now around its 52-week lows, and with a P/E of just 10 MTB is a good value, but we might have to wait a while for that value to be realized. MTB's one-year chart is to the right, with qtrly profits at the bottom. Lower rates just zapped qtrly profit rate *Estimates* down to 2%, 1%, -4% and 0% the next 4 qtrs. I purchased MTB at a higher level and will continue to hold it in the Conservative Portfolio, smh.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	13.85	x	10	=	$145	
2019 Est	13.85	x	12	=	166	14%
2020 Est	14.24	x	12	=	171	18%



Current Holding — JP Morgan (JPM)

From the looks of M&T, regional bank stocks look like dead money. **JP Morgan (JPM)**, the largest bank in the US, is looking good.

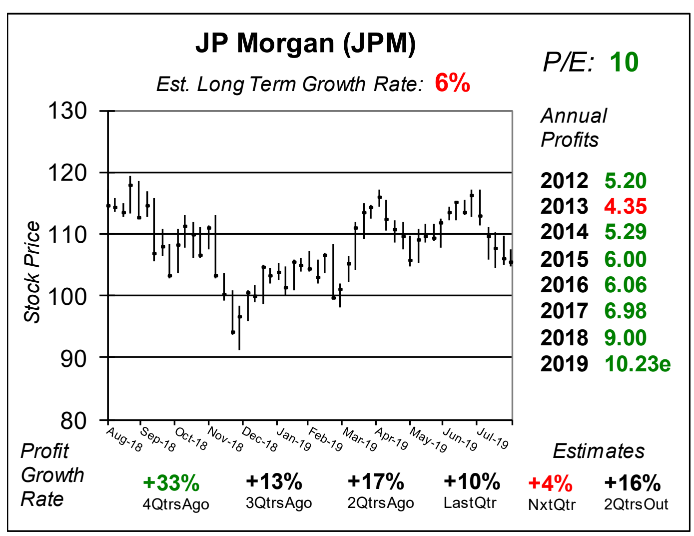
All these charts are from 2019 Q3. After I did MTB I did JPM thinking the worst. To my surprise, JPM didn't look too bad. 2019 estimates increased a bit from $10.06 to $10.23.

But, like MTB, JPM has a 10 P/E. I think a quality stock should have a minimum P/E of 12, so JP Morgan looks like a deal.

JPM, part of the Conservative Portfolio, has a yield of almost 3% and an *Est. LTG* of 6% per year. *Est. LTG* is what analysts think profits (or perhaps the stock) will grow at over 3-5 years.

Fair Value

Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	10.23	x	10	=	$105	
2019 Est	10.23	x	12	=	123	16%
2020 Est	10.53	x	12	=	126	20%



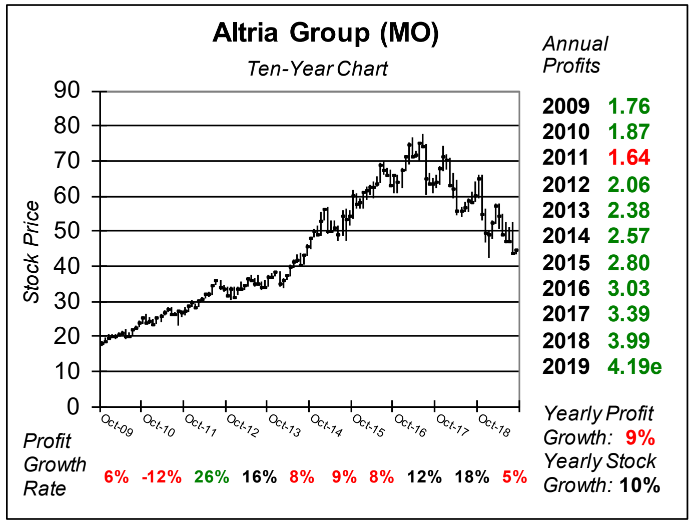
Current Holding — Altria (MO)

Another value stock that seems like a deal is **Altria (MO)**, the parent of Philip Morris USA.

Last December, Altria paid billions to take stakes in cannabis company Cronos and e-cigarette company Juul Labs. This qtr, there's lots of negative news that e-cigarettes may cause health issues, including comas. So, with cigarette sales deteriorating 6% a year, does this company have any growth opportunity? Yes in cannabis. Will that be enough?

MO was one of my favorite stocks going into 2019. And its been a bad investment for the Conservative Portfolio. Yes, it looks like a deal, but is profits decline in the coming years the stock could too.

Fair Value						
Year	Profits	x	P/E	=	Price	Upside/Downside
This Qtr	4.19	x	11	=	$45	
2019 Est	4.19	x	13	=	54	22%
2020 Est	4.50	x	13	=	59	31%



Current Holding — McDonald's (MCD)

McDonald's (MCD), part of the Conservative Portfolio, continues to climb even though profit growth has slowed to a snail's pace.

Management is doing a fantastic job bringing the restaurants into the digital age. Locations being modernized in its Experience the Future remodeling campaign, kiosks, apps, and food delivery are all enhancing sales.

Profits are expected to climb just 2% this year, from $7.90 to $8.02. That's not good.

MCD is a Blue Chip stock with an *Est. LTG* of 7% and a yield of 2%. I think the P/E should be 23. The stock has a P/E of 27 (as of this qtr.).

Look at the last ten year's of McDonald's history. Notice that the P/E is WAY above where it usually is. While growth is slow.

I don't think value stocks are the values some people think they are. Yes, there are some deals out here, but the "deals" have issues. Growth stocks are still the place to be.

Profit History								
Year	Profits	x	P/E	=	MedPrice		Dividend	Yield
2009	**$4.11**	x	14	=	$58		$1.61	2.8%
2010	**4.58**	x	16	=	71		2.05	2.9%
2011	**5.27**	x	17	=	87		2.26	2.6%
2012	**5.36**	x	17	=	93		2.53	2.7%
2013	**5.55**	x	17	=	96		2.87	3.0%
2014	**4.82**	x	20	=	96		3.12	3.3%
2015	**4.98**	x	21	=	104		3.28	3.2%
2016	**5.71**	x	21	=	121		3.44	2.8%
2017	**6.66**	x	22	=	147		3.83	2.6%
2018	**7.90**	x	21	=	169		4.19	2.5%
Fair Value								
					Upside/Downside			TotRetrn
This Qtr	**$8.02**	x	27	=	$217			
2019 Est	**8.02**	x	23	=	184	**-15%**		**-13%**
2020 Est	**8.76**	x	23	=	201	**-7%**		**-2%**

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.

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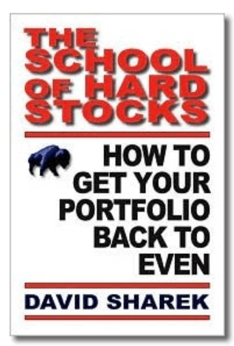


Portfolio Management

Let us manage your stock portfolio

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

You own the stocks

David 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 0.50 to 0.75% per quarter (2-3% per year). Fees may be tax deductible.

Also, clients are charged commissions by their brokerage firm when trades are made, usually $1 to $7 per trade.

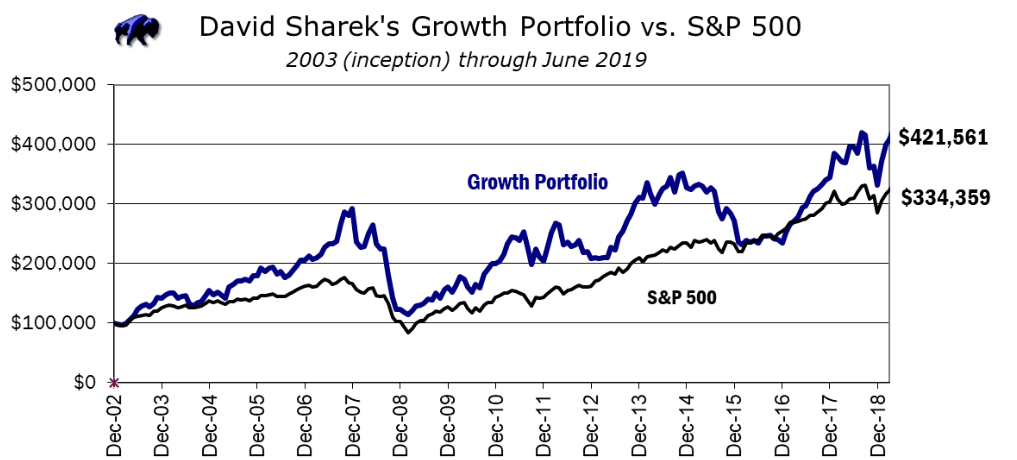
Watch your account

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 brokers such as TD Ameritrade and Interactive Brokers and are insured by SIPC.



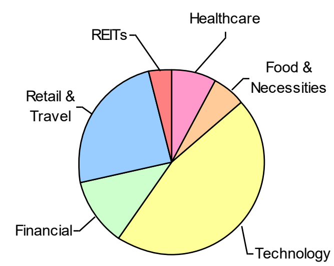
Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg	Total
Growth Port.	41%	9%	16%	15%	42%	-58%	31%	24%	2%	2%	49%	5%	-16%	-14%	47%	-4%	28%	13%	322%
S&P 500	26%	9%	3%	14%	4%	-38%	23%	13%	0%	13%	30%	11%	-1%	10%	19%	-6%	17%	9%	234%

Growth Portfolio - Holdings as of 12/31/18

	Security name	Ticker	Portfolio Percent	Est LTG	Yield	Est. Total Return
1	Tesla	TSLA	3.9%	35%	0%	35%
2	TenCent	TCEHY	3.7%	18%	0%	18%
3	Amazon	AMZN	3.7%	44%	0%	44%
4	Adobe Systems	ADBE	3.6%	23%	0%	23%
5	Servicenow	NOW	3.5%	45%	0%	45%
6	Salesforce.com	CRM	3.4%	32%	0%	32%
7	Weibo	WB	3.4%	33%	0%	33%
8	The Trade Desk	TTD	2.9%	24%	0%	24%
9	Microsoft	MSFT	2.8%	14%	2%	16%
10	Domino's Pizza	DPZ	2.7%	21%	1%	22%
11	UnitedHealth	UNH	2.7%	16%	2%	18%
12	Global Payments	GPN	2.7%	21%	0%	21%
13	Lululemon	LULU	2.6%	25%	0%	25%
14	Palo Alto Networks	PANW	2.5%	26%	0%	26%
15	Five Below	FIVE	2.4%	29%	0%	29%
16	Workday	WDAY	2.4%	39%	0%	39%
17	PayPal	PYPL	2.4%	20%	0%	20%
18	Netflix	NFLX	2.4%	62%	0%	62%
19	Paycom Software	PAYC	2.1%	22%	0%	22%
20	Alphabet	GOOGL	2.1%	15%	0%	15%
21	Sherwin-Williams	SHW	2.1%	17%	1%	18%
22	Ollie's Bargain Outlet	OLLI	2.0%	25%	0%	25%
23	Alibaba	BABA	2.0%	28%	0%	28%
24	Square	SQ	2.0%	52%	0%	52%
25	Booking Holdings	BKNG	2.0%	16%	0%	16%
26	MasterCard	MA	1.9%	23%	1%	24%
27	Upland Software	UPLD	1.8%	20%	0%	20%
28	Veeva Systems	VEEV	1.8%	21%	0%	21%
29	NVIDIA	NVDA	1.8%	12%	2%	14%
30	Ultimate Software	ULTI	1.8%	23%	0%	23%
31	Grubhub	GRUB	1.8%	27%	0%	27%
32	Ulta Salon	ULTA	1.7%	19%	0%	19%
33	Illumina	ILMN	1.7%	22%	0%	22%
34	Constellation Brands	STZ	1.7%	12%	1%	13%
35	Visa	V	1.6%	18%	1%	19%
36	Home Depot	HD	1.6%	14%	2%	16%
37	Apple	AAPL	1.6%	13%	2%	15%
38	Twitter	TWTR	1.6%	43%	2%	45%
39	SS&C Technologies	SSNC	1.6%	26%	1%	27%
40	Align Technology	ALGN	1.5%	24%	0%	24%
41	Huazhu Group	HTHT	1.5%	25%	1%	26%
42	HubSpot	HUBS	1.5%	74%	0%	74%
43	Baozun	BZUN	1.3%	51%	0%	51%
44	Facebook	FB	1.1%	18%	0%	18%
45	Floor & Décor Holdings	FND	1.1%	29%	0%	29%
46	Funko	FNKO	1.0%	N/A	0%	N/A
47	PetIQ	PETQ	0.2%	25%	0%	25%
		Cash	-1.4%			0%
		Total	**100%**	**27%**	**0%**	**27%**

Sector Key

Healthcare	8%
Food & Necessities	6%
Technology	46%
Financial	12%
Retail & Travel	25%
Energy & Commodities	4%



Shareks Stock Portfolios
230 East 30th St, Suite 15G
New York, NY 10016
+1 646 430 5641

School of Hard Stocks
99 Madison, 5th Floor
New York, NY 10037
+1 646 430 5641
info@schoolofhardstocks.com