



David Sharek's Growth Stock Newsletter

Searching for Tomorrow's Stock Market Winners Today

November 25, 2019

The Rise of Discount Retail Stocks

Amazon has been putting mall-based retailers out of commission, but a slew of discount retailers continue to drive sales and profits higher.

Big-box retailers **Walmart (WMT)** and **Costco (COST)** have had great stocks, but in both cases the stock surge has been better than the data has been. WMT might not even grow profits this year. COST stock has been super, but the stock's P/E ratio is higher than it has been historically.

Five Below (FIVE) and **Olli's Bargain Outlet (OLLI)** are a new breed of specialty retailers that are growing rapidly. Both stores have benefited from the demise of Toys-R-Us.

And of course, old school discounters **Dollar General (DG)** and **TJX (TJX)** — the parent of TJ Maxx and Marshalls — continue to deliver investor returns (and dividends as well).

Here's our take on the top discount stocks in America:

The Rise of the



See Our
Top Picks!



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Current Holding — Amazon (AMZN)

Amazon's (AMZN) 1-Day shipping has helped boost qtrly revenue growth from 17% to 20% and 24% the past 3 qtrs, but AMZN is spending big on transportation costs, the cost of forward deploying inventory closer to customers, and expanding capacity, which is adding additional pulls in shifts in the warehouses.

This has taken a toll on profits, which declined 26% last qtr. Annual profit estimates have gotten slashed the past 2 qtrs:

2020 was \$27.11, now \$20.65
2021 was \$37.93, now \$27.26
2022 was \$51.77, now \$39.42

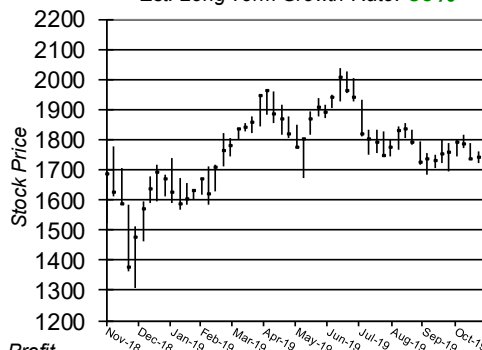
AMZN, in the **Growth Portfolio**, might be dead money for a while.

Fair Value

| Year | Profits | x | P/E | = | Price | Upside/Downside |
|----------|---------|---|-----|---|-------|-----------------|
| This Qtr | 20.65 | x | 86 | = | 1773 | |
| 2020 Est | 27.26 | x | 70 | = | 1908 | 8% |
| 2021 Est | 39.42 | x | 70 | = | 2759 | 56% |

Amazon.com (AMZN)

Est. Long Term Growth Rate: **50%**



P/E: **65**

Annual
Profits

| | |
|------|--------|
| 2012 | -0.09 |
| 2013 | 0.59 |
| 2014 | -0.52 |
| 2015 | 1.25 |
| 2016 | 4.90 |
| 2017 | 4.56 |
| 2018 | 20.14 |
| 2019 | 20.65e |
| 2020 | 27.26e |

Estimates

| | |
|----------|------|
| NxtQtr | +7% |
| 2QtrsOut | -34% |



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.

Sharek produces 75 to 100 stock research reports every qtr, and has published more than 2500 research reports during the past decade.

Sharek's **Growth Portfolio** has grown an average of 12% a year, compared to 9% for the S&P 500 (since 2003). David's posted four years of +40% returns in his 16 year career.



Current Holding – TJX Companies (TJX)

TJX Companies (TJX) operates T.J. Maxx, HomeGoods, Marshalls and Sierra Trading Post. TJX the largest major international off-price retailer in the world, operating in the U.S since 1976, in Canada since 1990 (Winners), in the U.K and Ireland since 1994 (where its stores are named as T.K. Maxx). The company is a powerhouse, with 1100 buyers in 10 countries around the world buying from 21,000 vendors in over 100 countries.

TJX has been an All-Time stock

market winner as its soared from \$0.05 to more than \$50 since 1980. Although a more mature TJX is unlikely to grow as fast as it used to. Analysts give the stock an *Estimated Long-Term Growth Rate* of 9% per year. The stock also pays investors a 1% dividend yield.

To the right is a *Profit History* table and shows profits and the median stock price during the past ten years.

TJX is part of my **Conservative Growth Portfolio**.

| Profit History | | | | | | | |
|----------------|---------|---|-----|---|----------|----------|-------|
| Year | Profits | x | P/E | = | MedPrice | Dividend | Yield |
| 2009 | \$0.71 | x | 11 | = | \$7 | \$0.11 | 1.5% |
| 2010 | 0.83 | x | 13 | = | 11 | 0.12 | 1.1% |
| 2011 | 0.97 | x | 14 | = | 14 | 0.14 | 1.0% |
| 2012 | 1.28 | x | 15 | = | 20 | 0.18 | 0.9% |
| 2013 | 1.42 | x | 19 | = | 27 | 0.22 | 0.8% |
| 2014 | 1.58 | x | 19 | = | 30 | 0.28 | 0.9% |
| 2015 | 1.67 | x | 21 | = | 35 | 0.34 | 1.0% |
| 2016 | 1.77 | x | 21 | = | 37 | 0.41 | 1.1% |
| 2017 | 1.98 | x | 19 | = | 37 | 0.50 | 1.4% |
| 2018 | 2.43 | x | 19 | = | 47 | 0.64 | 1.4% |

| Fair Value | | | | | | | |
|------------|------|---|----|---|-----------------|-----|----------|
| | | | | | Upside/Downside | | TotRetrn |
| Currently | 2.61 | x | 21 | = | \$54 | | |
| 2019 Est | 2.61 | x | 21 | = | 55 | 2% | 3% |
| 2020 Est | 2.83 | x | 21 | = | 59 | 10% | 13% |

Stocks on the Radar – Walmart (WMT)

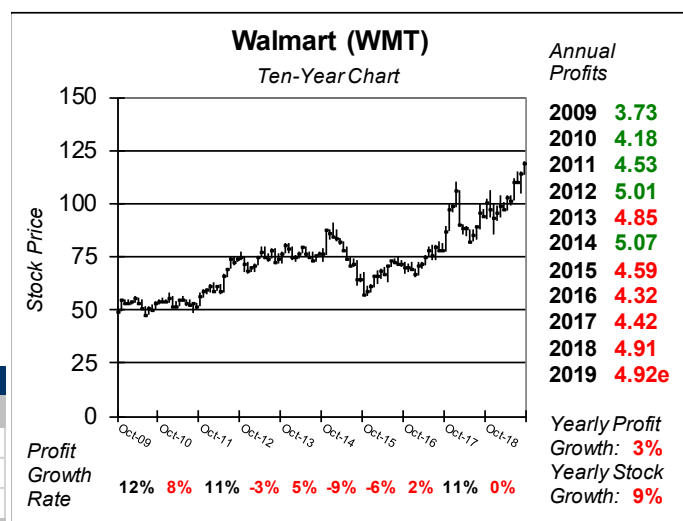
Walmart (WMT) stock has been in the headlines recently for doing a good job of getting its online sales in order. But I think a lot of the news is all hype.

First, the company isn't growing profits right now. The stock is rising as profit growth is expected to be 0% this year. That means the P/E ratio is rising.

WMT had a median P/E of 16 during 2014, 2015, and 2016. In 2017 it jumped to 19, and in 2018 it was 20. Last qtr the P/E got to 24, but note in the ten-year chart how profit growth isn't up to par compared to other discounters. I'm not impressed.

WMT is on the radar for my **Conservative Growth Portfolio**.

| Fair Value | | | | | | | |
|------------|---------|---|-----|---|-------|-----------------|--|
| Year | Profits | x | P/E | = | Price | Upside/Downside | |
| This Qtr | 4.92 | x | 24 | = | \$119 | | |
| 2019 Est | 4.92 | x | 25 | = | 123 | 3% | |
| 2020 Est | 5.11 | x | 25 | = | 128 | 7% | |



Current Holding – Ollie's Bargain Outlet (OLLI)

Ollie's (OLLI) delivers a treasure-hunt shopping experience in offering closeout products bought at a discount and then selling them for 20-70% off retail and still making a healthy 15% pre-tax profit.

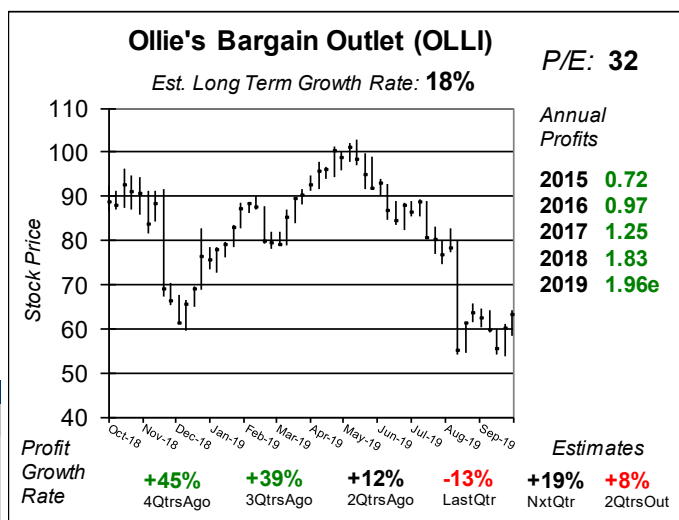
Ollie's was founded in 1982 in Pennsylvania but didn't go public until July 2015 at \$16 a share. Since 2011 the company

has gone from 100 stores to 303 in 23 states with a total opportunity of 950 in the US.

OLLI had a great 2018 as it got a lot of Toys-R-Us closeouts. Now in 2019, year-over-year comparisons are tougher. Note in the one-year chart that qtrly profit growth (bottom) has weakened recently.

OLLI is in my **Growth Portfolio**.

| Fair Value | | | | | | | |
|------------|---------|---|-----|---|-------|-----------------|--|
| Year | Profits | x | P/E | = | Price | Upside/Downside | |
| This Qtr | 1.96 | x | 32 | = | \$64 | | |
| 2019 Est | 1.96 | x | 32 | = | 63 | -1% | |
| 2020 Est | 2.29 | x | 32 | = | 73 | 15% | |





Current Holding – Five Below (FIVE)

During the past four years **Five Below (FIVE)** has grown its store count at a rate of 20% per year from 366 to 437, 522, 625 and added 125 stores in 2018 to bring the total to an even 750.

Five Below plans to open 150 stores in 2019 and remodel 50.

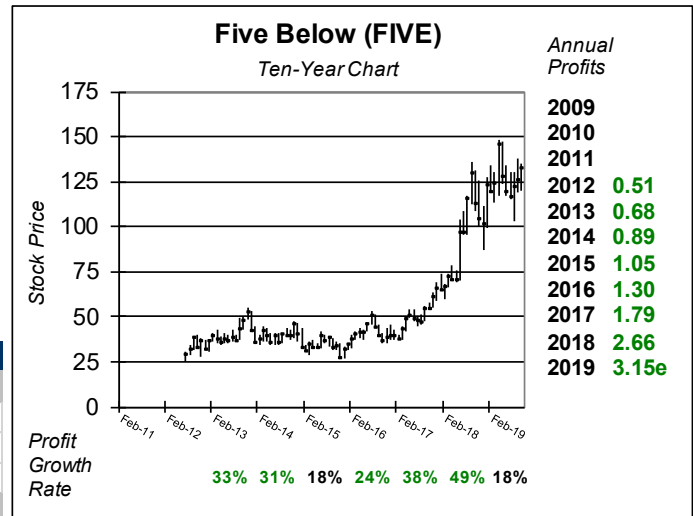
Management thinks it can have

2500 stores nationwide, which would be around 3.5x where it is now, which in my book means the stock has the opportunity to rise at least 3.5x long-term.

FIVE is in my **Growth Portfolio**. The Est. LTG is 20% per year. It's a good stock for the long-term. But with a P/E of 42, the stock's slightly overvalued in my opinion.

Fair Value

| Year | Profits | x | P/E | = | Price | Upside/Downside |
|----------|---------|---|-----|---|-------|-----------------|
| This Qtr | 3.15 | x | 42 | = | \$133 | |
| 2019 Est | 3.15 | x | 40 | = | 126 | -5% |
| 2020 Est | 3.77 | x | 40 | = | 151 | 13% |



Current Holding – Dollar General (DG)

Dollar General (DG) is one of the hottest stocks in the land — and for good reason. The company was expected to be saddled with a tariff increase from Chinese imports that went into effect on May 10th, and despite those headwinds the “local store” delivered solid profit growth of 14% last qtr while also increasing

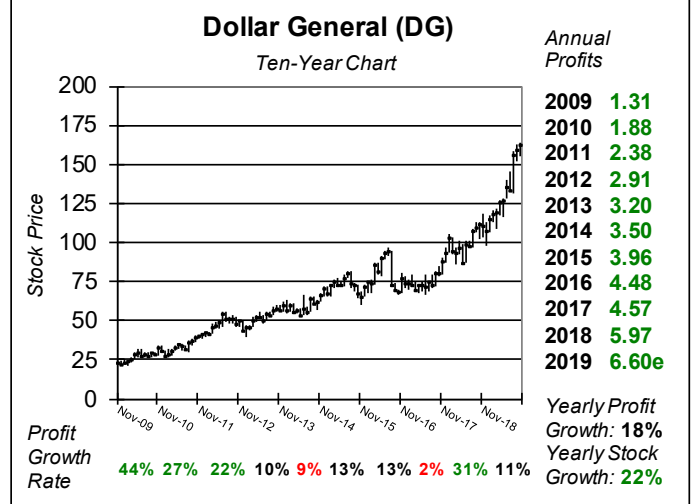
sales and profit guidance for 2019.

Dollar General stores are getting refurbished, with self-service checkouts, and better distribution for fresh and frozen foods.

DG has an Est. LTG of 10% per year, in addition to a 1% yield and is in the **Conservative Portfolio**.

Fair Value

| Year | Profits | x | P/E | = | Price | Upside/Downside |
|----------|---------|---|-----|---|-------|-----------------|
| This Qtr | 6.60 | x | 25 | = | \$162 | |
| 2019 Est | 6.60 | x | 25 | = | 165 | 2% |
| 2020 Est | 7.36 | x | 25 | = | 184 | 13% |



Current Holding – Costco (COST)

Costco is a juggernaut of a stock because low prices ensure a strong and steady legion of customers as 9 of 10 renew their memberships each year.

COST has high certainty that customers will keep buying — just look at the lines — so the stock market gives the stock a high P/E ratio. This 10% to 12% grower usually gets a P/E between 27 and 30. But currently the stock has a P/E of 35.

Costco opened its first China store in August, with demand so

strong the store closed after 4 hours on opening day. 200,000 households signed up for the new Costco, way more than the 68,000 the average Costco has. China gives the company growth opportunity for the future.

COST is part of the **Conservative Growth Portfolio**. It's *Estimated Long Term Growth Rate* of 7% per year is less than the 10% I like, but the 1% dividend yield helps. Still, with a P/E of 35 this stock is overvalued in my opinion. I sold some of my Costco position earlier this year.

| Profit History | | | | | | | |
|----------------|---------|---|-----|---|----------|-----------------|----------|
| Year | Profits | x | P/E | = | MedPrice | Dividend | Yield |
| 2010 | \$2.92 | x | 18 | = | \$54 | \$0.77 | 1.4% |
| 2011 | 3.30 | x | 20 | = | 65 | 0.89 | 1.4% |
| 2012 | 3.97 | x | 21 | = | 82 | 1.03 | 1.3% |
| 2013 | 4.49 | x | 22 | = | 99 | 8.17 | 8.2% |
| 2014 | 4.65 | x | 24 | = | 110 | 1.33 | 1.2% |
| 2015 | 5.27 | x | 25 | = | 130 | 6.51 | 5.0% |
| 2016 | 5.33 | x | 28 | = | 148 | 1.70 | 1.2% |
| 2017 | 5.82 | x | 27 | = | 160 | 8.90 | 5.6% |
| 2018 | 7.09 | x | 27 | = | 194 | 2.14 | 1.1% |
| 2019 | 8.19 | x | 30 | = | 245 | 2.44 | 1.0% |
| Fair Value | | | | | | | |
| | | | | | | Upside/Downside | TotRetrn |
| Current | \$8.61 | x | 35 | = | \$300 | | |
| 2020 Est | 8.61 | x | 31 | = | 267 | -11% | -10% |
| 2021 Est | 9.30 | x | 31 | = | 288 | -4% | -2% |

**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 any time.

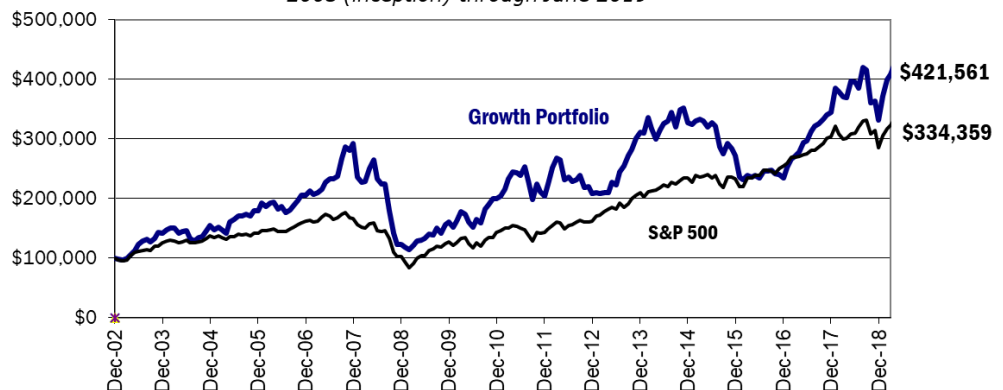
Security

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

Accounts are kept safe at

**Ameritrade****Interactive Brokers****David Sharek's Growth Portfolio vs. S&P 500**

2003 (inception) through June 2019



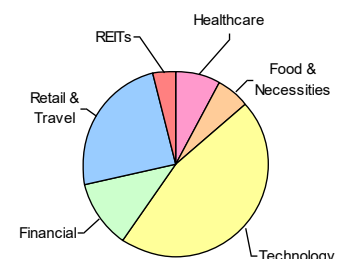
| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Avg | Total |
|--------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-----|-------|
| Growth 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 | GPV | 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% |

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