# David Sharek's Growth Stock Newsletter

Searching for Tomorrow's Stock Market Winners Today

**September 24, 2020**


## Blue Chip Stocks are Singing the Blues

Growth stocks have been on a tear higher this year, while value stocks have lagged behind. Is now the time to take some money and put it into Blue Chip stocks?

My Growth Portfolio has given our investors a 71% return year-to-date through August. That's a big gain, and I'm on pace for a career year. But that also means I should probably do something to protect these gains. If I return 40% or better this year, it would be the 5th 40% or better year in my 18 year career.

My Conservative Growth Portfolio is only up 11% this year. Perhaps we can fine some values in conservative growth names, which I consider to be value stocks.

So this month we look at some Blue Chips such as **PepsiCo (PEP)**, **Starbucks (SBUX)**, **JP Morgan (JPM)**, **MasterCard (MA)**, **McDonald's (MCD)**, and **Costco (COST)**.

Let's see if these value stocks are really values after all.


## Current Holding — PepsiCo (PEP)

**PepsiCo (PEP)** has great worldwide brands such as Pepsi, Lays, Tropicana, Quaker and Gatorade, and most of its brands occupy the #1 and #2 spots in their respective categories. Here's a rundown of PepsiCo's two main divisions, food and beverage.

PepsiCo's one of the safest stocks in the world, but investors need to be OK if this stock delivers <10% a year in total returns. With an *Estimated Long Term Growth Rate* of 5% per year and a dividend yield of 3%, that's only an 8% estimated total return.

PepsiCo is a S&P Dividend Aristocrat and has raised the payout each year since 1973. This past April PEP raised the annual payout from $3.82 to $4.09.

This stock seems to be selling for around what it's worth. There is 8% upside to my 2021 *Fair Value* (plus 3% per year in potential dividends).

PEP is a core holding in the Conservative Growth Portfolio. But its a small holding that I expect to grow around as fast as the S&P 500.

**Profit History**

| Year | Profits | x | P/E | = | MedPrice | | Dividend | Yield |
|---|---|---|---|---|---|---|---|---|
| **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% |
| **2019** | 5.53 | x | 22 | = | 124 | | $3.79 | 3.1% |

**Fair Value**

| | | | | | | Upside/Downside | | TotRetrn |
|---|---|---|---|---|---|---|---|---|
| **Current** | $5.36 | x | 26 | = | $138 | | | |
| **2020 Est** | 5.36 | x | 25 | = | 134 | **-3%** | | **0%** |
| **2021 Est** | 5.94 | x | 25 | = | 149 | **8%** | | **14%** |

## 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 15% a year, compared to 9% for the S&P 500 (2003-2019 Q2). David's posted four years of +40% returns in his 17 year career as a portfolio manager.**

## Current Holding — Starbucks (SBUX)

**Starbucks (SBUX)** continues to be fairly valued, and the stock might be this price a year from now.

In fact, back in December 2019 with the stock at $88 I felt it could be around that price 1-2 years later. Here we are 9 months later and the stock is $88.

COVID-19 has changed economies worldwide. In NYC, the stores are slow as many who worked in the city are still staying at home. I'm afraid that locations won't be back to peak demand until a COVID-19 vaccine is distributed.

SBUX ends its Fiscal Year on September 30th. So these estimates for 2021 are for the year-ahead.

Note there is only 1% upside to my 2021 *Fair Value*. The stock could be this price a year from now. The 2022 estimate is a year after this one, thus it's 1-2 years out — to possibly make 20%.

SBUX is part of the Conservative Growth Portfolio.

| Profit History | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Profits | x | P/E | = | MedPrice | | Dividend | Yield |
| 2010 | $0.64 | x | 18 | = | $12 | | $0.00 | 0.0% |
| 2011 | 0.76 | x | 22 | = | 17 | | 0.18 | 1.1% |
| 2012 | 0.90 | x | 27 | = | 24 | | 0.28 | 1.2% |
| 2013 | 1.13 | x | 27 | = | 31 | | 0.36 | 1.2% |
| 2014 | 1.34 | x | 28 | = | 38 | | 0.45 | 1.2% |
| 2015 | 1.58 | x | 30 | = | 47 | | 0.55 | 1.2% |
| 2016 | 1.91 | x | 31 | = | 58 | | 0.68 | 1.2% |
| 2017 | 2.06 | x | 28 | = | 58 | | 0.85 | 1.5% |
| 2018 | 2.42 | x | 23 | = | 55 | | 1.32 | 2.4% |
| 2019 | 2.83 | x | 27 | = | 77 | | 1.44 | 1.9% |
| Fair Value | | | | | | | | |
| | | | | | | Upside/Downside | | TotRetrn |
| This Qtr | $0.95 | x | 92 | = | $88 | | | |
| 2021 Est | 2.68 | x | 33 | = | 88 | 1% | | 3% |
| 2022 Est | 3.20 | x | 33 | = | 106 | 20% | | 24% |

## Current Holding — JP Morgan (JPM)

**JP Morgan's (JPM)** profits are down because the company built up its credit card reserves to account for the impact of COVID-19.

The credit reserve build was $8.9 billion last qtr and $6.8 billion two qtrs ago to get reserves up to $34 billion firmwide. Most of these added reserves, $23 million, were in anticipation of consumer credit card defaults.

But revenue hit a record high last qtr as the investment banking division revenues soared higher with companies accessing credit markets for loans to get them through the turmoil. Investment banking fees jumped 54%.

JOM made $10.72 last year and now 2020profit estimates are just $5.76. Profits are expected to climb to $8.77 in 2021, but that wouldn't be a record high.

JPM is part of the Conservative Growth Portfolio. I'm not happy about profits not hitting all-time highs until maybe 2022. Although JPM seems like a deal, I wouldn't buy due to uncertainty.

| Profit History | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Profits | x | P/E | = | MedPrice | | Dividend | Yield |
| 2010 | $3.96 | x | 11 | = | $42 | | $0.20 | 0.5% |
| 2011 | 4.48 | x | 9 | = | 38 | | 1.00 | 2.6% |
| 2012 | 5.20 | x | 7 | = | 39 | | 1.20 | 3.1% |
| 2013 | 4.35 | x | 12 | = | 51 | | 1.44 | 2.8% |
| 2014 | 5.29 | x | 11 | = | 58 | | 1.58 | 2.7% |
| 2015 | 6.00 | x | 10 | = | 60 | | 1.72 | 2.9% |
| 2016 | 6.06 | x | 12 | = | 70 | | 1.88 | 2.7% |
| 2017 | 6.98 | x | 14 | = | 95 | | 2.12 | 2.2% |
| 2018 | 9.00 | x | 12 | = | 107 | | 2.72 | 2.5% |
| 2019 | 10.72 | x | 11 | = | 118 | | 3.40 | 2.9% |
| Fair Value | | | | | | | | |
| | | | | | | Upside/Downside | | TotRetrn |
| This Qtr | $5.76 | x | 17 | = | $97 | | | |
| 2020 Est | 5.76 | x | 14 | = | 81 | -17% | | -14% |
| 2021 Est | 8.77 | x | 14 | = | 123 | 26% | | 32% |

## Current Holding — MasterCard (MA)

**MasterCard (MA)** has been negatively affected by the Coronavirus, and although the stock recently hit new All-Time highs, the profit picture still doesn't look bright.

Last qtr, profit growth was -28% and revenue was -17%. And looking ahead, profit growth is expected to be -23% this qtr.

Meanwhile, Square and PayPal are doing well. So perhaps MasterCard is now more of a slow-growing Blue Chip? I just don't see any revolutionary changes going on in this company. Meanwhile PayPal and Square are moving more into banking in a big way, with these companies having a plethora of catalysts.

Looking at the Profit History table, profits are expected to decline this year, and rebound to all-time highs next year.

The problem is I have a 2021 *Fair Value* on the stock of $322, which is below the recent price of $338 (note all these tables are from 2020 Q3). MA is part of the Conservative Growth Portfolio.

| Profit History | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Profits | x | P/E | = | MedPrice | | Dividend | Yield |
| 2010 | $1.41 | x | 16 | = | $23 | | $0.06 | 0.3% |
| 2011 | 1.87 | x | 16 | = | 30 | | 0.06 | 0.2% |
| 2012 | 2.20 | x | 19 | = | 42 | | 0.12 | 0.3% |
| 2013 | 2.61 | x | 26 | = | 67 | | 0.29 | 0.4% |
| 2014 | 3.10 | x | 26 | = | 79 | | 0.49 | 0.6% |
| 2015 | 3.43 | x | 26 | = | 88 | | 0.67 | 0.8% |
| 2016 | 3.77 | x | 25 | = | 94 | | 0.79 | 0.8% |
| 2017 | 4.58 | x | 28 | = | 129 | | 0.91 | 0.7% |
| 2018 | 6.49 | x | 29 | = | 188 | | 1.08 | 0.6% |
| 2019 | 7.77 | x | 31 | = | 241 | | 1.32 | 0.5% |
| Fair Value | | | | | | | | |
| | | | | | | Upside/Downside | | TotRetrn |
| Current | $6.69 | x | 50 | = | $338 | | | |
| 2020 Est | 6.69 | x | 37 | = | 248 | -27% | | -26% |
| 2021 Est | 8.71 | x | 37 | = | 322 | -5% | | -3% |

# Current Holding — McDonalds (MCD)

**McDonalds (MCD)** had safely reopened nearly all its McDonald's restaurants that temporarily closed in Late March. But some dining rooms are still closed and that continues to hamper results.

Pre-covid, nearly 70% of orders were in-restaurant in the company's larger markets. Closing and limiting dine-in has had a substantial impact on results. As of the latest earnings call, 2/3rds of dining rooms have reopened, but some are operating with limited hours.

Drive thru accounted for 90% of sales last qtr, but the company had only an uptick in delivery and digital transactions in the qtr. It seems like McDonald's isn't doing as good as Chipotle or Domino's.

MCD stock was $219 when this table was created earlier this qtr. Note the 2021 *Fair Value* is $220, equating to 0% upside. Like many of the Blue Chips shown here, McDonald's doesn't seem like a value. MCD is in the Conservative Growth Portfolio.

**Profit History**

| Year | Profits | x | P/E | = | MedPrice | | Dividend | Yield |
|---|---|---|---|---|---|---|---|---|
| **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% |
| **2019** | **7.84** | x | 25 | = | 198 | | 4.73 | 2.4% |

**Fair Value**

| | | | | | | Upside/Downside | | TotRetrn |
|---|---|---|---|---|---|---|---|---|
| **Current** | **$5.82** | x | 38 | = | $219 | | | |
| **2020 Est** | **5.82** | x | 27 | = | 157 | **-28%** | | **-26%** |
| **2021 Est** | **8.13** | x | 27 | = | 220 | **0%** | | **5%** |

# Current Holding — Costco (COST)

**Costco (COST)**, the 2nd largest global retailer with 101 million members, seems like one of the companies that should be benefiting most from the Coronavirus. The stores have had lines outside with people waiting to get in.

But profit growth was 0% last qtr. The biggest reason profits were flat was higher wages as well as safety and sanitation costs related to having a clean store during the COVID-19 outbreak. Without those added expenses, profits would have jumped 25%. Also, management gave employees an additional $2 an hour for working through COVID-19 conditions, and that cut into profits.

COST has a fiscal year end August 31. So now I'm looking ahead to 2021 and 2022 estimates, which shows the stock having no upside for 2021 and just 9% upside for 2022. This stock isn't a bargain. COST is part of the Conservative Growth Portfolio.

**In conclusion, value stocks aren't the values they seem to be. Growth stocks are better buys.**

**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** | **$8.45** | x | 39 | = | $326 | | | |
| **2021 Est** | **9.29** | x | 35 | = | 325 | **0%** | | **1%** |
| **2022 Est** | **10.16** | x | 35 | = | 356 | **9%** | | **11%** |

# Stock Research

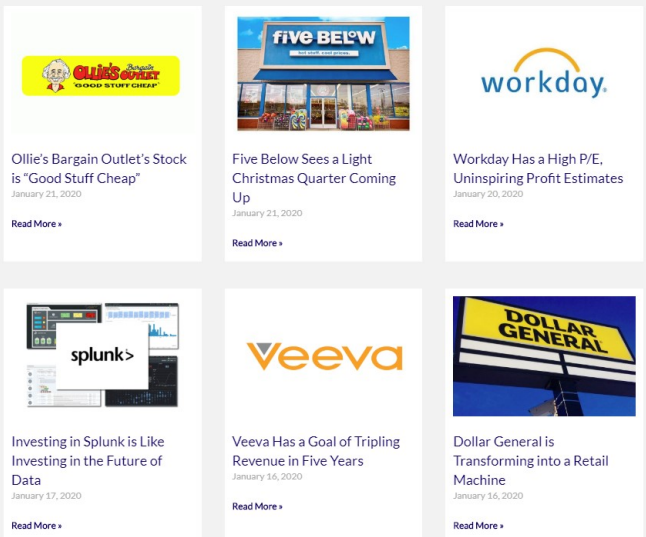
If you're a finance professional or online investor, our **Research Reports** are a great resource in searching for tomorrow's stock market winners today.

We monitor 75-100 growth stocks and value stocks in the stock market, and prepare research reports on a qtrly basis. Each research report comes with our proprietary charts (like you saw here), *Sharek's Take* on the stock, and a *Fair Value* of what we believe the stock is worth this year and next. Stocks are then ranked in two *Power Rankings*:

Growth Portfolio *Power Rankings* consists of 35-50 stocks with *Estimated Long Term Growth Rates* of 15% or greater.

Conservative Growth *Power Rankings* consists of stocks with estimated total returns (*Est. LTG* + dividend yield) of 10% or greater. These are safer stocks with higher **certainty** and **consistency** that sometimes pay dividends.

**Research Reports** and *Power Rankings* are available with a paid subscription to the ***School of Hard Stocks*** ($297 USD per year).



# 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.

TD Ameritrade

Interactive Brokers

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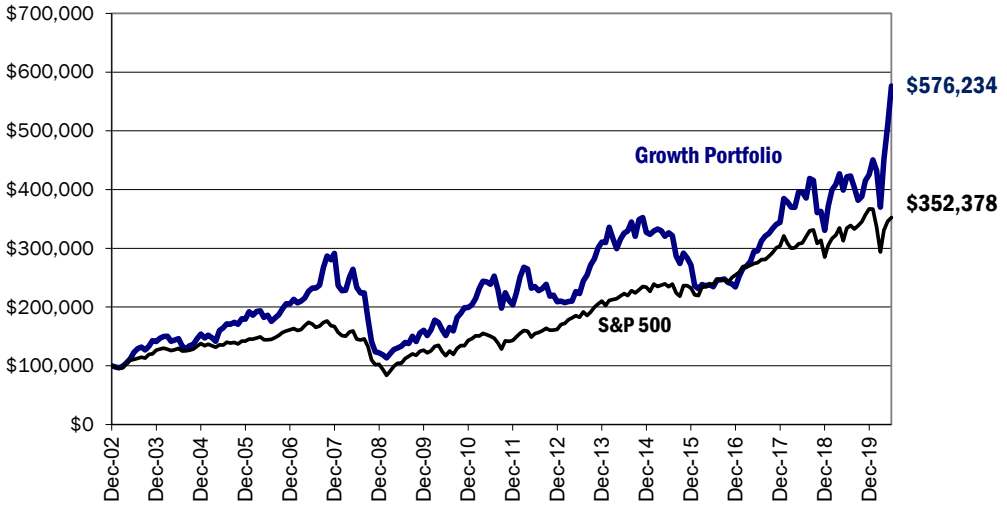
## Sharek's Growth Portfolio vs. S&P 500

*2003 (inception) through June 2020*




| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Growth Port. | 41% | 9% | 16% | 15% | 42% | -58% | 31% | 24% | 2% | 2% | 49% | 5% | -16% | -14% | 47% | -4% | 29% | 35% | 15% |
| S&P 500 | 26% | 9% | 3% | 14% | 4% | -38% | 23% | 13% | 0% | 13% | 30% | 11% | -1% | 10% | 19% | -6% | 29% | -4% | 9% |

## Growth Portfolio

### Returns

+35% in 2020 (through Q2)
+29% in 2019
+15% 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

+34% in 2020 (through Q2)
+22% in 2019
+13% 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

-1% in 2020 (through Q2)
+32% in 2019
+10% 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)