

# Your Personal Money Manager

# Pearson

## INVESTMENT LETTER

Published Monthly Since 1982  
[www.pearsoncapitalinc.com](http://www.pearsoncapitalinc.com)

### FEATURED STOCKS - APRIL/MAY 2015

#### GROWTH STOCKS:

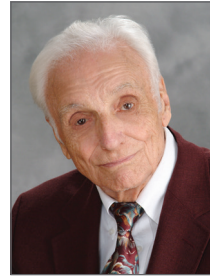
PRA Group Inc  
UBIQITI Networks Inc

#### VALUE STOCKS:

CBS Corp  
GameStop Corp

#### FEATURED CORE INVESTMENTS

Featured Stock - Cognizant Technologies Solutions Corp  
Featured ETF - Energy Select Sector SPDR®



Walter D. Pearson  
*Chairman*



Donald E. Pearson  
*President*



Ann Hathaway  
*Account Manager*

## MY OPINION - YOU DECIDE *By Donald Pearson*

From 2007-2009 an effort was made to change the rules on investing standards with both sides making formidable arguments trying to prove their point. The measure was defeated then and business as usual continued as it does today. The motion has surfaced again and it's back on the front burner getting attention. I'll try to explain both positions, give you my opinion, and then you decide.

The current decisions made by many brokers and agents carry what is referred to as a "suitability standard." This means the decisions made for the client must fit their financial objective, and their time horizon. If the investment turns out to be a less-than-the-best choice or performer but carries a high commission, it's OK within this portfolio. The people making this decision also believe if the bar was raised and they had to take more responsibility, many smaller investors would not be able to have them as their decision maker because of the fees charged. Smaller accounts might have to do their own investments.

The other side of this argument says decisions should be made with a "fiduciary standard." This means one with this type of license must make decisions that are in the client's best interest without exception. Commissions, fees, other charges and/or incentives are irrelevant. A good commission could

not come in to play, only what's the best decision for the portfolio and the client.

The license we maintain at Pearson Capital Inc. is one of a Fiduciary. This means that every decision we make has to be in our client's best interest without exception. As far as hidden commissions, or hidden fees, we have none. We don't even buy mutual funds because of the hidden charges built into funds. Often costs can run 6%, or in some cases with additional loads, even more. By building it ourselves these savings can be added to the portfolio and have additional funds working for you. Our policy of buying the same things for you that we purchase for ourselves sends a pretty strong message too. Our partnership has begun.

So let me share my opinion. I don't care whether they change the rule or not because we're already at the higher standard and have been since our company started. What I might suggest for those who have an advisor, broker, agent, or someone else whose returns are disappointing or below market average: you might consider interviewing others. Also, we have a policy that no account is too small. One can open an account and add to it as often as one can, and we'll help you to get on the road to prosperity. We do this because, even though we don't make any money, helping each other pays dividends in many other ways. Now you know, now you decide.

### Apple Update AAPL, (\$124.43)

If I were going to buy only one stock and hold it for the next ten years, it would be Apple. Recent quarterly earnings of \$18 billion, the most of any company ever, were, to say the least, impressive. Over the past decade they have averaged 36% growth. New products will continue to be introduced and, even if only modestly successful, they'll continue to grow. AAPL has so many irons in the fire it's very difficult to bet against them. Of their \$183 billion in revenue in its latest fiscal year, 90% came from hardware sales. If you're purchasing headphones, or buying an Apple Watch, or begin using their Apple Pay payment system, or their Apple Car Play, you'll be running on their software. Apple's P/E based upon projected profits today trades at a 13.8%. That's a 16% discount to the S&P 500 technology index. The company's earnings continue to grow 33% faster than the average big tech stock. Two other factors helping to make this decision for me are, they are the leaders in creating new and exciting technologies that people want to buy, and, with the money they have on hand, ongoing increases with their dividends seem imminent too. Currently at 1.8%, look for ongoing stock buy backs at any time too, thus improving our ownership positions.

DP

## Think of This

What do you think of time? Is this something you can use to your advantage? Is this something you ARE using to your advantage? In the field of investing it is a necessary component which is something you definitely must take into consideration. Let's look back at some of my past history which may make it plain to those who do not take TIME into consideration.

One day I bought a stock at a certain price and a year later it was selling at the same price. I did not lose confidence in it. I bought it for someone else at the same price I had paid for it. One year later it was double. Perhaps the necessary statement here should be patience, but in addition we have to have time.

Another picture of how time can work for you: In January of 1990 I bought Apple for \$35 a share. Seven years later I bought more at \$20 a share and sold the other for a tax loss. Today almost 20 years have passed but my \$1200 investment is now worth about \$212,000.00. This shows the value of both time and patience.

Let's look at another: About two years ago I looked at Green Mountain Coffee, and it seemed to me that everyone should have it. We have some investors who are interested in income, but, although this one was paying no dividend, we bought it for everyone who had cash available. GMCR was selling for about \$39 a share at that time, about January of 2013. Today it is going for about \$118. Where do you think it will be in the next ten or twenty years? The thing to remember is to give it time. Have patience.

The time has come to check McDonald's. Perhaps you are aware of the trouble they are having nowadays. There was a time when this was just a small growing company. Have things changed today? Let's take a look. I bought this for myself and some of you in October of 1987. I bought \$1500 worth and it is now worth about \$30,000.00. This is the time to come to a decision on whether or not the time has come to sell. I commend each of you greatly because you have given the decision to us. You cannot make a mistake here. It is our decision. WE are the ones to be right or wrong. AND, don't think we won't hear about it if we are wrong. What goes around comes around. At any rate I have given it due consideration, and I have come to the conclusion that the stock should be traded for something with more potential. I think good management will come through once again and it can then be re-purchased.

One thing is real. It is something that pervades the investment business and that is possibility. Many times we will look at a stock and think that it is all right, but nothing in it stands out or even tilts the ball a little bit in its direction. In June of 2012 I saw MGA and it looked good enough to own, so I bought a few shares. I did not think it good enough for anyone else, but that stock which I bought for \$40 a share is now selling for \$110. There definitely is no sure thing. You may think you have found a standout, but there is no way to be absolutely sure, and that should be remembered in this business. What it does come down to is it is a matter of both time and patience. Here's one that may convince you. Back in October of 1971, I put \$1420 into a stock which was later taken over by Emerson Electric. In January of 2009 I gave away \$4000 worth to my church. I am now receiving over \$400 quarterly in dividends. Most of us have the time, but some of us have to learn to have patience. Think of your doctor. He may not spell it the same but PATIENTS he has plenty of.

One of the very important things to remember is to add cash whenever possible. It doesn't matter whether it's a lot or a little. The big thing is that it just might make the difference in whether or not we were able to buy something on that particular day. Time and patience are important entities, but we must also have money. Be that as it may I'll see you again next month. In the meantime you can check to see if any of your companies have raised the payout this month. Good Luck!

CME, RL, TE, BP, NUS, UNP, BCE, SU, FLIR, LB, FSRV, WU, CCE, UPS, CSCO, AB, MHFI, MFC, RIO, JWN, FLS, GPC, JKHY, LEA, NYLD, JCOM, FL, GPI, AEG, CP, ABBV, KO, FTR, LO, SCG, WMT, STJ, BMO, HSBC, CMCSA, HD, ABEV, LYB, DPZ, RY, SNY, DHR, PKG, ROST, CM, TD, ARCC, CAPL, AMRK, GG, GME, INT, BNS, BCS, SYT, BAP, LYG, MELI, KAI, CTCM, MR, PUK, RESI.

WP

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**Source Rating Key for PCI's featured stocks:** **Pearson Investment Growth Rating** measures long-term past and future growth.

**Pearson Value Rating** measures current value in terms of potential for the dollar. **Investors Business Daily** measures growth and relative price strength.

**S&P** measures financial quality and growth potential. **Value Line** measures timeliness, value and safety.

Information & data obtained from other sources is believed to be reliable, but its accuracy and completeness can not be guaranteed.

Walter Pearson is the former President of First New England Securities, Co., Inc. and at that time, also managed the Statistical Department.

He is the author of the book, Investing for the Millions and Publisher Emeritus for the Pearson Investment Letter.

At this time, Mr. Pearson is Chairman of the Board of Pearson Capital, Inc.

He is a contributing columnist for various publications and is listed in Who's Who in America.

**"Remember the Lord your God, for it is He who gives you the ability to produce wealth." (Deut. 8:18)**

**PRA GROUP INC (PRAA) NASDAQ PRICE \$54.33**

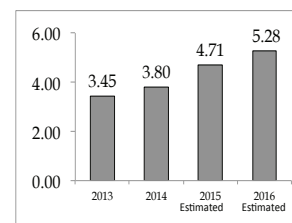
PRA Group, Inc. (PRA Group), formerly Portfolio Recovery Associates, Inc., and its subsidiaries, is a financial and business service company. The Company's primary business is the purchase, collection and management of portfolios of defaulted consumer receivables. These are the unpaid obligations of individuals to credit originators, which include banks, credit unions, consumer and auto finance companies and retail merchants. The Company also provides fee-based services, including vehicle location, skip tracing and collateral recovery services for auto lenders, Governments and law enforcement through PRA Location Services, LLC (PLS), revenue administration, audit and debt discovery or recovery services for local Government entities through PRA Government Services, LLC and MuniServices, LLC (PGS) and class action claims recovery services and related payment processing through Claims Compensation Bureau, LLC (CCB).

Type: Growth  
Sector: Financials

Institutional Holdings: 493  
Industry: Consumer Finance

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **15.6**  
Annual Yield: **0%**  
Annual Dividend: **0**  
Investor's Bus. Daily: **C**  
Pearson Growth & Value: **A-**  
Morningstar Rating: **N/A**  
Stand & Poor Rating: **B**  
The Street (analyst avg.): **B**



**UBIQITI NETWORKS INC (UBNT) NASDAQ PRICE \$29.54**

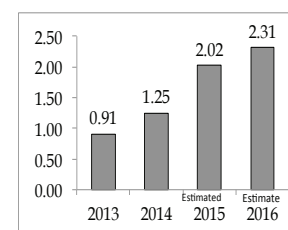
Ubiquiti Networks, Inc., develops high performance networking technology for service providers and enterprises. The Company's technology platforms for service providers enable carrier-class network infrastructure for fixed wireless broadband, wireless backhaul systems and routing. The Company's technology platforms for enterprises enable wireless local area network (WLAN) infrastructure, video surveillance products, and machine-to-machine communications. The Company offers products and solutions based on its proprietary technology with disruptive price-performance characteristics across multiple markets.

Type: Growth  
Sector: Information Technology

Institutional Holdings: 304  
Industry: Communications Equipment

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **15.1**  
Annual Yield: **0%**  
Annual Dividend: **0**  
Investor's Bus. Daily: **C-**  
Pearson Growth & Value: **B-**  
Morningstar Rating: **N/A**  
Stand & Poor Rating: **N/A**  
The Street (analyst avg.): **C+**



**CBS CORP (CBS) NYSE PRICE \$60.63**

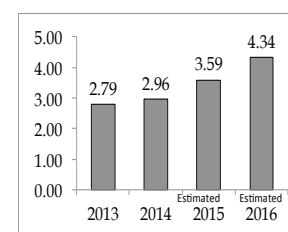
CBS Corporation operates businesses which span the media and entertainment industries. The Company operates in four segments. The Entertainment segment includes the CBS Television Network; CBS Television Studios; CBS Global Distribution Group (composed of CBS Studios International and CBS Television Distribution); CBS Films, and CBS Interactive. The Cable Networks segment includes Showtime Networks, the Company's subscription program services; CBS Sports Network, the Company's cable network focused on college athletics and other sports; and Smithsonian Networks, which operates Smithsonian Channel, a basic cable program service. The Publishing segment is composed of Simon & Schuster, which publishes and distributes consumer books. The Local Broadcasting segment includes CBS Television Stations, the Company's 30 owned broadcast television stations, and CBS Radio, through which the Company owns and operates 126 radio stations in 27 United States markets.

Type: Value  
Sector: Consumer Discretionary

Institutional Holdings: 1492  
Industry: Media

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **25.7**  
Annual Yield: **1%**  
Annual Dividend: **0.60**  
Investor's Bus. Daily: **A**  
Pearson Growth & Value: **A**  
Morningstar Rating: **C**  
Stand & Poor Rating: **A**  
The Street (analyst avg.): **B+**



**GAMESTOP CORP (GME) NYSE PRICE \$37.96**

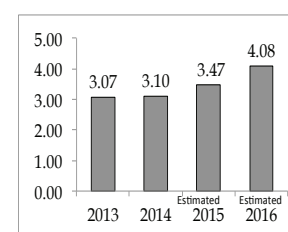
GameStop Corp. (GameStop) is a multichannel video game, consumer electronics and wireless services retailer. The Company operates its business in four Video Game Brands segments: United States, Canada, Australia and Europe, and a Technology Brands segment. The Video Game Brands segments include 6,457 stores, 4,249 of which are included in the United States segment. Each of the Video Game Brands segments consists of retail operations, with all stores engaged in the sale of new and pre-owned video game systems, software and accessories. The Company's Video Game Brands stores sell various types of digital products, including downloadable content, network points cards, prepaid digital, online timecards and digitally downloadable software. The Technology Brands segment includes all of its Simply Mac, Spring Mobile and Aio Wireless stores.

Type: Value  
Sector: Consumer Discretionary

Institutional Holdings: 1246  
Industry: Specialty Retail

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **11.8**  
Annual Yield: **3.8%**  
Annual Dividend: **1.44**  
Investor's Bus. Daily: **C-**  
Pearson Growth & Value: **B+**  
Morningstar Rating: **N/A**  
Stand & Poor Rating: **B**  
The Street (analyst avg.): **B-**



## CORE STOCK

### COGNIZANT TECHNOLOGY SOLUTIONS CORP (CTSH) NASDAQ PRICE \$62.39

For the current newsletter, we are highlighting one of our long-term holdings, Cognizant Technology, (CTSH). CTSH was founded in 1994 as a technology development center for the management consulting firm Dun & Bradstreet. The company took it public in 1998 at \$10 per share. CTSH provides custom information technology services in North America, Europe, and Asia by providing IT consulting and outsourcing services to its business clients. North America provides over three quarters of its total sales. After the tech-bubble crash in 2000, broadband technology, especially fiber optic cables, became very inexpensive, allowing CTSH to help customers outsource their IT business to India and Asia. This wave of globalization has allowed the company to expand and grow, and it is now one of the major IT service providers worldwide. For its future, it is

focusing on digital transformations in many different industries, but the biggest being healthcare. Currently, health care related sales make up over 25 percent of its revenue. Cognizant now counts 16 of the top 20 U.S. health plans among its customers, along with four of the top five pharmacy benefit management companies. We do not see this trend changing, as companies are working directly with CTSH to help transform their businesses for the digital era. We recommended it in our December 2011 letter at \$67.35, our August 2013 letter at \$73.16, and continue to recommend it as a long-term hold. The company had a two for one stock split in February 2014. Currently, the price is \$62.39.

Cognizant Technology Solutions Corporation is a provider of information technology (IT), consulting and business process services, dedicated to helping the world's leading companies build stronger businesses. The Company operates in four segments: Financial Services; Healthcare; Manufacturing, Retail and Logistics and Other, which include Communications, Information, Media and Entertainment, and High Technology. The Company's service area consists of Consulting and Technology Services and Outsourcing Services. The Company's consulting and technology services include: business, process, operations and it consulting, application development and systems integration and application testing. The Company's outsourcing services include: application maintenance, IT infrastructure services (IT IS), and business process services (BPS).

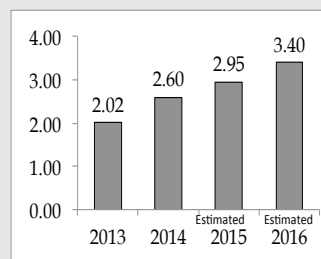
Type: Growth  
Sector: Information Technology

Institutional Holdings: 2086  
Industry: IT Services

#### Ratings & Recommendations

Current P/E Ratio: **26.9**  
Annual Yield: **0%**  
Annual Dividend: **0**  
Investor's Bus. Daily: **B+**  
Pearson Growth & Value: **A-**  
Morningstar Rating: **B+**  
Stand & Poor Rating: **A-**  
The Street (analyst avg.): **A-**

#### Earnings per share



## CORE ETF (EXCHANGE TRADED FUND)

### ENERGY SELECT SECTOR SPDR® FUND (XLE) NYSE ARCA PRICE \$77.58

ETFs are baskets of securities that may track a sector-specific, country-specific, or a narrow/broad-market index. ETFs trade on an exchange like a stock. ETFs are subject to risk similar to those of their underlying securities, including, but not limited to, market, sector, or industry risks. We use this particular ETF as a way to maximize the energy sector while minimizing the risks within the sector. As the oil and gas sector has gone through difficult times, this ETF has minimized the recent loss, while having a long range very bright outlook. XLE also carries a five star rating with Morningstar and Pearson Capital.

Since their inception date of December 16, 1998, this ETF has averaged just under 10% growth annually.

Included are their top ten holdings with returns YTD and the percentage of assets within the ETF. As you can see, almost one-third of their holdings

are Exxon Mobil and Chevron.

	YTD	% Held
Exxon Mobil Corporation	-3.48%	16.01%
Chevron Corp.	-3.95%	13.03%
Schlumberger NV	-0.88%	7.15%
Kinder Morgan, Inc.	-2.01%	4.41%
EOG Resources Inc.	-2.37%	3.79%
ConocoPhillips	-4.53%	3.75%
Occidental Petroleum Corp.	-3.39%	3.34%
Pioneer Natural Resources Co.	+2.47%	3.26%
Anadarko Petroleum Corp.	+2.10%	3.14%
Williams Companies Inc.	+9.12%	2.95%

The investment seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of publicly traded equity securities of companies in the Energy Select Sector Index. In seeking to track the performance of the index, the fund employs a replication strategy. It generally invests substantially all, but at least 95%, of its total assets in the securities comprising the index. The index includes companies from the following industries: oil, gas & consumable fuels; and energy equipment & services.

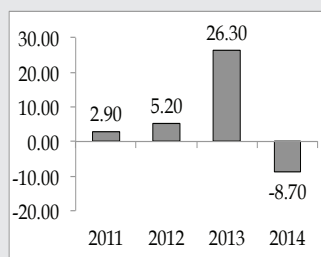
Location: USA  
Type: 100% Stocks

Category: Growth / Value  
Industry: 100% Energy

#### Ratings & Recommendations

Current P/E Ratio: **N/A**  
Annual Yield: **3.1%**  
Annual Dividend: **2.37**  
Investor's Bus. Daily: **N/A**  
Pearson Growth & Value: **A**  
Morningstar Rating: **A**  
Stand & Poor Rating: **N/A**  
The Street (analyst avg.): **N/A**

#### Performance by%



# JUST ASK ANN

Recently I was asked how to stop the sometimes overwhelming deluge of annual reports, and proxy ballots clients receive.

Unfortunately there is no way to stop this.

The companies of the stocks you hold within your portfolio(s) are required by law to provide each stockholder an opportunity to voice his or her opinions when it comes to changes and elections through proxy voting notifications. They also keep you up to speed on their personnel, budgets, and company information with their annual reports.

On the up side, now that most clients opt for electronic statements and confirmations, you only need to delete these unwanted messages from your inbox.

It used to be that this information clogged your USPS mail box with, literally, pounds of catalogs, annual reports, and proxy notifications, often encased in industrial strength plastic wrappers! Hopefully, most of us recycled this mess.

Pearson Capital tried to intercept these notifications for our clients but, since we do not vote proxies on behalf of our clients, all these notifications must come to you one way or another. Electronically is the lesser of two evils!

If you are receiving these notices through the USPS and wish to update your account to receive these electronically, just let me know and I can have this changed for you.

### **Management Fee:**

*Our fee is extracted quarterly from the account at 25% of one percent by TD Ameritrade. Immediately following any quarterly management fee extraction, it is posted within your account's history information available on line. It is also posted in your TD Ameritrade monthly statement. Second Quarter April-May-June-see your April statement.*

## **MARKET VIEW** *Continued from page 6*

from globalization will do poorly; however, much of the issues are due to the dollar increase. Earnings expectations for many other companies will remain muted. This year the dollar is at a 12-year high against the Euro. Although multinational companies will face headwinds with the strong dollar, the good news is that other currencies are also appreciating at the same time. Weakness is showing in traditional PC companies such as Intel and IBM, as more and more people are moving from traditional computers to tablets and phones. As owners of Apple, we are pleased, as the company takes the largest share of this profit from the trend.

### **The new trends continue:**

- 1) Companies that mainly do business in the U.S. will do well.
- 2) We expect continued growth in airline stocks.
- 3) We expect some volatility, as bad news comes out first in the month of April.

**Key Point: We are hoping that the strong dollar will not have a major impact in this quarter's earnings.**

### **Cash Flows:**

Although buybacks enhance a stock's overall return, in some cases they also hide problems. If a stock is facing severe competition and losing its competitive edge, the stock buyback in itself may temporarily hide the problem. This leads to a major correction later, as institutional investors flee the stock once the problem flourishes. Intel (INTC) is a good example. The company is coming up with new innovations, but its core business is based on the Personal Computer (PC) market. In its place, it is maintaining a massive buyback of its stock. Buybacks can serve the investor and/or management. These buybacks give the management time to address their competition, and come up with new ways to stay ahead. This will either work out well, or management will be forced to leave. Either way, many investors may not see this risk and have an eventual negative return with their money.

### **New trends that are happening:**

- 1) We see more stocks move from growth to income investments.
- 2) Drug stocks will still do well this quarter.

**Key Point: Stock buybacks may hold future problems.**

### **Please note:**

- 1) **We expect the market to move sideways into the summer.**
- 2) **Europe is starting its turnaround.**

# WALL STREET INDEXES

Indexes	2009	2010	2011	2012	2013	2014	2015
S&P 500	23.5%	12.9%	EVEN	13.4%	29.6%	11.4%	0.6%
Dow Jones	18.8%	11.0%	5.5%	7.3%	26.5%	7.5%	(0.3%)
Nasdaq	43.9%	16.9%	(1.8%)	15.9%	38.3%	13.4%	3.5%
Market Average	27.9%	13.8%	1.2%	12.2%	31.5%	10.8%	1.3%



## MARKET VIEW

*Christopher Carothers - PCI's Stock Analyst*

### Economic Flows:



As we have stated before, the European Central bank is now using massive amounts of Quantitative Easing (QE) in order to stimulate growth. The Federal Reserve is holding interest rates steady for this quarter as it takes a "wait and see" approach. Europe is just beginning this road of easing. If it follows the Fed's playbook, it will take years to adjust. Although the Fed removed the word patient from their wording, it is still keeping an eye on deflation, as commodity prices, including oil, continue to remain at recent lows, with U.S. inventories at an 80-year high. I believe that they are waiting to see what the European Union (EU) does to resolve its crisis, before taking steps to raise interest rates. Either way, once the interest rate increases begin, it will be a gradual long-term process only if inflation truly shows. With expected low commodity and oil prices, that may be quite a long time. With this low interest rate environment, there are two other major factors affecting the market. First, the banks are still muddling their way forward by slowly making loans to people. They do not want to provide mortgages and other loans at all-time-low interest rates, so this is slowing down the credit activity in the economy. At the same time, the second factor is that these low interest rates are still providing the fuel for stock buybacks as companies also see tepid economic growth. Instead of investing in future projects, they are buying back their own stock at a record pace.

### New trends we see:

- 1) We do not see oil prices making a sharp rebound yet even with Middle East tensions.
- 2) High dividend stocks and companies with great earnings will remain strong.
- 3) The European Union will face political tensions as its bank becomes more centralized.

**Key Point: The EU is starting its quantitative easing program.**

### Earnings Flows:

The next quarter earnings season is already starting. Analysts have already slashed earning projections for the rest of the year, so companies will strive to beat their conservative estimates. Either way there will be a few areas within the economy, like oil and other commodities, which will continue to go sideways or somewhat lower. We expect the market leadership will change as well, as many multinational companies are facing currency headwinds. Companies that benefit

Continued to page 5

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**Roberta Wilde**

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**No hidden fees**

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