

2018 Portfolio Summation and Strategies

We're excited to bring to you our 2018 Growth portfolio and our 2018 Dividend Growth and Income portfolio. This letter is to show you the comparisons between our portfolio statistics and those statistics of the other 800 or so stocks in our database which includes all the stocks in the Dow Jones Industrials and also the S&P 500 index.

Investing: Please be aware that our portfolios are constructed by investing the same amount of money into each stock position.

We have 3 basic strategies for our portfolios:

- 1) A buy and hold portfolio of all the stocks in either or both of our portfolios***
- 2) And/or Protect your portfolio(s) using our Friday portfolio protection letter in which we buy index put options approximately 12-15% below the market. We call this disaster insurance with a 12-15% deductible.***
- 3) And/or As you add money to your portfolios, use our daily repositioning letter for low risk entry points. Some of you may want to trade our portfolios using the buy and sell signals (cycles) in this daily letter.***

We don't know which of our stocks will outperform any other stock in our portfolio over the next year. Our research and actual portfolio implementation shows that investing the same amount of money into each position far outperforms any other method of distribution of funds in the overall portfolio.

(For those of you just beginning with smaller accounts: In order to emulate our model portfolio(s), you may want to check out FolioInvesting which allows you to buy fractional shares. This means you can put the same exact amount of money into each stock position. Thus, you can begin a 30 stock portfolio with just several thousand dollars. You may add any amount of money as you go along and have that money divided equally into each of 30 positions. However, they do not have the ability to buy or sell options through their platform.)

GROWTH PORTFOLIO

			Proj 2018	3 yr	Div %	Years to	EPS GR	Rev GR
			ROE	ROE		pay debt	2018	2018
	Our Portfolio	Average	28.6%	26.9%	0.7%	2.3	24.9%	15.5%
	Average Stock	Average	12.1%	12.1%	2.0%	7.0	2.1%	5.5%

RETURN ON EQUITY (ROE): Growth Portfolio

The Clean Surplus ROE is both a comparable ratio and also a predictability ratio. As a comparable ratio, it compares the operating efficiency of a company measured in a Clean Surplus condition. It measures the percentage of money a company makes on the Clean Surplus Equity investors have put into the company. If the company is in a sector of our economy that is growing, and the management is good at managing, then the Return on Equity should be high. As Buffett says, if you invest in a growing company and management is good at its job, then some day you will become rich.

As a predictability ratio, the research (and actual portfolio implementation) shows that over time, a company's growth in price can be measured by the Clean Surplus ROE. If a portfolio such as our portfolio above, shows a 28.6% ROE, we would expect that over time on a compounded basis, we should outperform the average stock (14.1% ROE) by almost 2:1. Our performance since the beginning of 2003 show a 603% compounded return relative to the compounded return of 199% for the S&P 500 index.

As you can see from the above table, the projected average 2018 Clean Surplus Return on Equity for our Growth portfolio is more than double that of the average stock as is the past 3 year average Return on Equity. This means we should expect much more growth in stock price from our Growth portfolio over the longer term than we would see from the market averages.

DIVIDENDS: Growth Portfolio

The dividend for our Growth portfolio is just 0.7% relative to the average stock which is 2%. The key to a growth portfolio is to select stocks that pay out no or very little in dividends. The reason is that for every dollar that is paid out in dividends in any one year period, potential growth of that stock is reduced by the return that could be generated on that \$1 each and every year into the future on a compounded basis.

YEARS TO PAY DEBT

The years to pay debt is Buffett's rule of thumb. His formula is used to determine how many years it will take to pay off all debt if the company takes all the earnings it makes each year and uses it just to pay the debt. His rule of thumb is 5 years or less. As you can see from the table, our portfolio averages just 2.3 years while the average stock in our database is 7 years. Thus, considering debt, our portfolio is much safer than the average stock.

			Proj 2018	3 yr	Div %	Years to	EPS GR	Rev GR
			ROE	ROE		pay debt	2018	2018
	Our Portfolio	Average	28.6%	26.9%	0.7%	2.3	24.9%	15.5%
	Average Stock	Average	12.1%	12.1%	2.0%	7.0	2.1%	5.5%

Growth table repeated

PROJECTED EARNINGS PER SHARE (EPS) GROWTH FOR 2018

The average stock has a paltry EPS growth for 2018 of just 2.1% while the average stock in our portfolio is projected to grow their EPS at almost a 25% rate. The reason the average stock in our data base shows such a low amount is that many stocks are projected to lose money in 2018. We certainly don't want to be near those stocks.

PROJECTED REVENUE GROWTH FOR 2018

Revenue growth is a driver of earnings and thus, the return on equity. We want to select stocks that have a high revenue growth rate and if management is doing its job, then revenue growth should fuel the earnings growth which in turn would increase the Return on your invested Equity.

DIVIDEND GROWTH AND INCOME PORTFOLIO

		Proj 2018	3 yr	Div	Div Gr	EPS Gr	Rev Gr
		ROE	ROE		2018	2018	2018
Our Portfolio	Average	22.9%	20.9%	3.5%	9.6%	10.3%	6.9%
Average Stock	Average	12.1%	12.1%	2.0%	5.0%	2.1%	5.5%

When we look at a combination of both growth and income, we develop a portfolio that can do it all for us. AT&T has almost no potential stock growth (2%), but has a very high dividend of 5.4% as I write this. Home Depot on the other hand has good stock growth potential (22%), but a relatively low dividend of 2.5%. However, Home Depot's dividend is growing at a rate of 23% a year. The two stocks together average a 3.95% dividend with the dividend average growth rate of 12.5% and an average stock growth appreciation rate of 12%. AT&T shouldn't be in a dividend and growth portfolio, but combined with Home Depot, the combination fits in very well with our goals of overall dividend growth of 8% and stock appreciation of 8%.

SUMMARY

The Clean Surplus ROE (return on equity) is the main statistic in the Buffett and Beyond Research stock selection methodology. We feel a stock must have a relatively high or rising and consistent ROE with an emphasis on consistent. A stock must also have a long time frame in which we can measure the consistency of management performance and sustainability of earnings growth.

Structuring a portfolio is a bit more complicated than just picking stocks. Each stock must be analyzed to see if it meets the criteria of each portfolio. If the bar is set high, then there may be few stocks which can be used. However, the combination of certain stocks as in our example above of AT&T and Home Depot, may enable you to form a well, diversified portfolio that can exceed the performance of any of the portfolios that the professional money managers may structure. We have accomplished this in the past and we expect to continue to do so in the future as our stock selection method allows us to select the fastest and most consistent growing stocks for our Growth portfolio and also for our Dividend Growth and Income portfolio.

Respectfully Submitted,

Dr. Joseph Belmonte, DBA

Growth Portfolio for 2018

				Proj 2018	Price	
				ROE	12/29/17	
1	ABIOMED	ABMD	55.0%	\$187.41		
2	ADOBE SYSTEMS, INC.	ADBE	16.6%	\$175.24		
3	ALIGN TECHNOLOGY	ALGN	21.8%	\$222.19		
4	ALPHABET INC.	GOOGL	18.3%	\$1,053.40		
5	AMAZON.COM	AMZN	46.7%	\$1,169.47		
6	APPLE COMPUTER	AAPL	24.4%	\$169.23		
7	APPLIED MATERIALS	AMAT	24.2%	\$51.12		
8	BAIDU	BIDU	18.2%	\$234.21		
9	BLACKROCK	BLK	24.2%	\$513.71		
10	BOOKING HOLDINGS	BKNG	23.8%	\$1,737.74		
11	BROADCOM LTD	AVGO	63.2%	\$256.90		
12	CBOE HOLDINGS	CBOE	31.9%	\$124.59		
13	CHARTER COMM. INC	CHTR	66.0%	\$335.96		
14	COGNIZANT TECH	CTSH	19.6%	\$71.02		
15	CONSTELLATION	STZ	19.9%	\$228.57		
16	FACEBOOK	FB	35.8%	\$176.46		
17	FIVE BELOW	FIVE	25.7%	\$66.32		
18	HEALTHCARE SERVICES	HCSG	36.7%	\$52.72		
19	HOME DEPOT, INC.	HD	21.7%	\$189.53		
20	MASTERCARD INC	MA	21.5%	\$151.36		
21	MONSTER BEVERAGE	MNST	20.0%	\$63.29		
22	NETFLIX	NFLX	45.4%	\$191.96		
23	O'REILLY AUTO	ORLY	18.4%	\$240.54		
24	ROSS STORES	ROST	18.9%	\$80.25		
25	SCHWAB (CHARLES)	SCHW	16.1%	\$51.37		
26	SKYWORKS SOLUTIONS	SWKS	26.6%	\$94.95		
	STARBUCKS CORP.	SBUX	25.5%	\$57.43		sold 6/18/
27	ULTA BEAUTY	ULTA	26.3%	\$223.66		
28	ULTIMATE SOFTWARE	ULTI	31.5%	\$218.23		
29	VISA	V	15.6%	\$114.02		
30	ZOETIS	ZTS	31.0%	\$85.19		Added 7/2

Dividend Growth & Income Portfolio

			Proj 2018	Div
			ROE	12/31/17
1	ALTRIA GROUP, INC.	MO	12.4%	4.1%
2	AT&T CORP.	T	6.8%	5.4%
3	CISCO SYSTEMS	CSCO	12.3%	3.4%
4	DIGITAL REALTY	DLR	24.1%	3.7%
5	EXTRA SPACE STORAGE	EXR	31.4%	4.2%
6	HOME DEPOT, INC.	HD	21.7%	2.5%
7	JOHNSON & JOHNSON	JNJ	14.6%	2.5%
8	KKR & Co	KKR	27.1%	3.4%
9	MICROSOFT CORP.	MSFT	12.9%	2.0%
10	NEXTERA ENERGY	NEE	14.3%	2.8%
11	PACKAGING CORP	PKG	28.3%	2.1%
12	PAYCHEX, INC.	PAYX	33.9%	3.2%
13	PHILIP MORRIS INT'L	PM	37.9%	3.7%
14	PUBLIC STORAGE	PSA	18.6%	3.9%
15	CVS HEALTH	CVS	14.6%	2.8%
16	TELUS	TU	15.8%	4.7%
17	SIX FLAGS ENT.	SIX	62.7%	4.7%