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INDICES

(Close as of 9/29/17)

DJIA	22405.09
S&P 500	2519.36
NASDAQ	6495.96
10-YR TREAS	2.328%
GOLD	\$1,281.50



Our Proprietary Award-Winning* Stock-Picking Model, *The Cassandra Stock Selection Model*, Was Established In 1994.

Teaching English At An Orphanage in Thailand

Renee and I recently returned from a wonderful trip to Thailand. The purpose of our trip was to teach English at an orphanage and school in Angthong Province. It was one of the most rewarding experiences I have ever had.

For me, this was an expedition for the [Value Driver Institute and Research and Educational Expedition Programs \(VDI/REEP\)](#). Our hosts in Thailand were members of Rotary International. The host contacts were

arranged through Renee's Oceanside Rotary Club, of which she is a two-time past president.

The majority of our time was spent in Angthong Province at the school and orphanage, which is run by a Buddhist Temple, the Taljedcho Temple, in Angthong. It was so wonderful to see the level of passion that the abbot of the temple and the teachers at the school have for the teaching and well-being of the students. For many of the students at the school, this is the

only home that they have. The students all wore uniforms and were very courteous and respectful. It was so refreshing to see that and to know how happy they are in their environment.

We did see other parts of Thailand during our two week stay. We spent a couple of days in Bangkok. While in Bangkok, we attended a large wedding with over 1,000 guests. We also visited the old capital of Thailand, the ancient city of Ayutthaya.

Economic and Investment Review

The U.S. economy, as measured by Gross Domestic Product (GDP), grew at a seasonally inflation-adjusted rate of 3.1% in the second quarter, which was revised up 0.1% from a previous report. This was the strongest growth in more than two years. The economy is in its ninth year of what has been a very slow growth cycle, growing at only a 2% per year average growth rate.

Business investment has been picking up, with the second quarter showing

its second consecutive month of growth. Nonresidential fixed investment increased at a 6.7% rate in the second quarter. While dropping somewhat from the first quarter, corporate profits were still 7.4% higher than a year earlier. Consumers increased their spending at a 3.3% rate in the second quarter. Consumer spending has risen every month this year. However, wage growth has remained stubbornly low. Reflecting an improving global economic environment,

U.S. exports grew 3.5% in the second quarter. There has been stronger consumer, business, and investor optimism, which have all increased since the election. Businesses in particular have been encouraged by the Trump Administration's pursuing a rollback in regulations; an overhaul of the tax code; and other pro-business policy changes.

It is still too early to tell if the strong second quarter results represent a trend, or just a short-term aberration.

(continued on back page)



Above, the school and orphanage in Thailand where we taught English.

Focus List

The Cassandra Stock Selection Model **Focus List** spreadsheet and notes can be found in the [Supplemental Materials](#) section of this newsletter.

Cassandra Stock Selection Model Candidate List

The Cassandra Stock Selection Model spreadsheet and notes can be found in the [Supplemental Materials](#) section of this newsletter.

A good way to think about this spreadsheet is that it is a list of pre-screened and ranked stocks that are in raw data form and can be “mined” by the user of the research.

Stock Market Valuation

Our estimates of the market valuations for two stock market indices, the Dow Jones Industrial Average (DJIA) and the Standard & Poor’s 500 (S&P 500), can be found in the [Supplemental Materials](#) section.

Stock Highlight: Alaska Air Group (ALK)

Alaska Air Group (ALK) owns Alaska Airlines, Horizon Air, and newly acquired Virgin America. It serves cities in the United States, Canada, and Mexico. The company has over 14,000 employees.

Our estimate of the fair value (intrinsic value) of this stock is \$104 per share. Given the current price (as of 9/22/17) of \$74.75 per share, the stock is currently undervalued about 39% by our estimate. The company's fundamentals look attractive. The P/E ratio of 12.1 is slightly above its three year average of 11.1; but is still attractive relative to other companies in the currently overvalued stock market climate. Its current ROE of 25.3% and its 5-year average ROE of 30.2% are very attractive. The company has strong operating and net profit margins of 18.7% and 11.0%, respectively.

Alaska Air Group reported better than expected results in the second quarter. Revenue at \$2.1 billion was up 40.7% from a year ago. Adjusted earnings of \$312 million (\$2.51 per share) were up 18% from the year earlier period. The company said that the second quarter results reflected an increase in passenger traffic, which was due in

part to the recent acquisition of Virgin America.

The assimilation of Virgin America appears to be ahead of schedule. This could boost earnings attractively in 2018 if the company can continue on this track. Alaska Air Group has been an industry leader in controlling expenses. On the negative side, the company is operating at a much higher debt level than it has in the past. And, Alaska Air Group is in arbitration proceedings with its pilots union. An arbitration ruling is expected in October. Regardless of the outcome of the arbitration proceedings, though, it is expected that the company can still keep expenses under control.

The airline industry looks attractive at the present time. Overall, there are fewer airlines as a result of mergers and bankruptcies in recent years; so the competitive landscape has improved. Additionally, an ongoing economic recovery and increasing levels of consumer disposable income should help the airline industry. Fuel costs are one of the bigger uncertainties facing the airline industry at the present time. Airline stocks had a sell-off in the summer period, creating buying opportunities for investors.

With Alaska Air Group's leading position in the industry and strong financials, we like this company for the long-haul. The 1.5% dividend yield is attractive as well and should cushion some of the downside that might be experienced in this stock if the markets decline. We have assigned this company a very attractive Multi-Factor Score (MFS) of 36.0%.



“The 1.5% dividend yield is attractive... We have assigned this company a very attractive Multi-Factor Score (MFS) of 36.0%.”

Convertible Securities

“Because of the convertibility feature, these ‘hybrid’ securities reflect movements in both stock prices and interest rates.”

Convertible securities include financial instruments such as convertible bonds, convertible preferred stocks, and warrants. Convertible securities can be converted into common stock at the holder's option. Because of the convertibility feature, these "hybrid" securities reflect movements in both stock prices and interest

rates. To learn more about convertible securities, there are many excellent articles and books on the subject. One reference that we have found particularly helpful is: Knecht, L. and McCowin, M. (1989). Valuing Convertible Securities. In Fabozzi, F. (Ed), Advances & Innovations in the Bond and Mortgage Markets (pp. 97-116).

Chicago: Probus. Periodically, we choose a convertible security to highlight in this newsletter. The stocks underlying the convertibles we review are ranked by the Cassandra Model in the same manner as other stocks in our Cassandra Stock Selection Model Candidate List. You can find our highlighted convertible securities in the [Supplemental Materials](#).

The Wealth Creation Pyramid

The Wealth Creation Pyramid is designed to show some of the major categories for building wealth. It is the result of many years of study of the wealth building process; experience working with clients who have built considerable wealth; and my own personal

experience building wealth.

Newsletter subscribers should consult *The Wealth Creation Pyramid* as one of many useful investment tools while considering their investment plans. *The Wealth Creation Pyramid* can be found in

the [Supplemental Materials](#) section of the newsletter.

Financial Planning Tip of the Month

“The most important first step in financial planning and wealth building is to construct some basic financial statements.”

The most important first step in financial planning and wealth building is to construct some basic financial statements. The four most important financial statements to begin with are: (1) Goal Setting Statement; (2) Balance Sheet; (3) Income Statement(s); and (4) Budgeting Worksheet. These four financial statements can be found on the Intrinsic Value Wealth Report website at the following link: [Financial Planning](#)

[Worksheets](#).

The *Goal Setting Statement* is designed to make you sit down and really think about what it is that is important to you and how you need to prepare financially to reach your goals. The *Balance Sheet* gives you a detailed snapshot of where you stand financially at the present time. It can also be used to project where you would like to be and/or think you will be in the

future. Similar to the balance sheet for a company, it shows you your own personal assets, liabilities, and net worth. The *Income Statement* details your income and expenses for monthly and yearly periods. Finally, the *Budgeting Worksheet* helps you budget and plan for your financial needs. All of these financial statements are important and careful thought and consideration should be given to completing these statements.

Alternative Investments

Alternative Investments can provide very attractive returns, but also generally carry a much higher level of risk. Accordingly, they are placed higher on *The Intrinsic Value Wealth Creation Pyramid (TM)*. There are many different asset classes that are considered Alternative Investments. The following are some of the more common Alternative Investment asset classes:

Alternative Investment Asset Classes

- Real Estate
- Oil and Gas
- Private Equity

Potential Benefits of Alternative Investments

- May reduce the overall volatility of your investment portfolio
- May provide greater investment returns
- May provide greater diversification
- May provide greater investment flexibility

Please see [Book #4 – The Intrinsic Value Wealth Creation Pyramid](#) for a listing of some Alternative Investment sponsors. Also included in this listing are some other considerations that one should make before investing in these types of investments.



*Dr. Wendee regularly attends meetings with **The National Due Diligence Alliance (TNDDA)** to review Alternative Investments. Pictured above is Dove Mountain Resort, the location of the July 2017 TNDDA meeting in Tucson, AZ.*

Announcements

The new San Diego Chapter of **Private Capital Networks/ArchAngels** held its inaugural meeting on August 30, 2017 and its second meeting on September 27, 2017 at the offices of Mintz Levin in San Diego. The next meeting is scheduled for October 24, 2017 from 2 pm to 5 pm at the offices of Mintz Levin in San Diego. **Private Capital Networks/ArchAngels** is a group of angel investors that review earlier stage companies in which to make a possible investment. Dr. Wendee

is the co-founder of the San Diego chapter.

Dr. Wendee will be attending **The National Due Diligence Alliance (TNDDA)** meeting in Florida in November to review Alternative Investments.

Dr. Wendee will be speaking at the San Diego Chapter of the **American Association of Individual Investors (AAII)** on January 13, 2018. The subject of his talk will be *quantitative investing*.

Supplemental Materials

The Intrinsic Value Wealth Report is published in two parts: (1) the main newsletter; and (2) a supplemental materials section. *The Intrinsic Value Wealth Report* is packed with useful investment information for investors. Because there is so much content in the newsletter, we publish it in two parts comprised of several PDF files to make it easier to access the material.

Be sure to review all of the supplemental material, as a great deal of the useful information in this newsletter is found in the [Supplemental Materials](#) section of this newsletter. You can find these materials at the [Supplemental Materials](#) link or by signing into IVWealthReport.com.

Intrinsic Value Wealth Report

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Economic and Investment Review (continued from page 1)

In its nine years of expansion, the U.S. economy has had many false starts. In a recent poll of economists conducted by the Federal Reserve Bank of Philadelphia, the forecasters expect growth of 2.1% in 2017, and lowered their outlook for growth in the U.S. economy to 2.4% in 2018, 2.2% in 2019, and 2.0% in 2020. All of these targets are far below the 3% growth rate in the second quarter, indicating non-sustainability of the second quarter trend. Sagging inflation over the past few months, which can be an indicator of slower economic growth, has split the Fed on deciding when to next raise interest rates.

On a longer term basis, there are two trends which have been a drag on the economy; and which don't appear to be improving anytime soon. The first is U.S. worker productivity, which has been sluggish for more than a decade. Slow productivity growth can prevent wages from rising and can slow

economic growth. The second disturbing trend is the labor force participation rate, which is currently around 63%, having declined from above 67% in early 2000. A low labor force participation rate holds the economy back from achieving its full potential. Going forward, two further trends pose long term concerns. The first is a sharp increase in lending to the most highly leverage companies, not just in the U.S., but worldwide. Such lending has risen by more than half this year. The risk of such excessive lending can be seen in the recent Toys "R" Us, Inc. bankruptcy filing. Toys "R" Us, Inc. had been significantly leveraged. The second major trend posing a possible risk to the economy is the unwinding of the Fed's \$4.2 trillion bond portfolio, which was bought to stabilize the economy after the 2008 financial crisis.

As shown in our section on **Stock Market Valuation**, the markets

are, in our opinion, very overvalued (but they have been for a very long time!). And, as discussed above, the economy's long-term prospects are still very uncertain. The stock market is up significantly for the year. It is wise to remember that markets don't rise uninterrupted forever. Examples are aplenty: October 1929; October 1987; May 2010; August 2015; a steady decline from October 2007 to March 2009; and many more. Accordingly, in this overvalued market we would recommend caution in making new investments. We believe it is important to maintain a long-term view toward investing. This means that you should continue building your investment portfolios; but keep in mind that because of the market's overvaluation, the market overall is not in a bargain state. As always, use the Cassandra Model to select individual securities that do offer growth and value opportunities in this market. Please see the economic charts in the [Supplemental Materials](#).

DISCLAIMERS AND NOTICES:

* *The Cassandra Stock Selection Model*™ picked the winning stock in the Wall Street Journal's 1999 Experts vs. Darts Stock-Picking Contest (January 12 – June 30, 1999).

IMPORTANT: Please carefully read our Disclaimers and other Notices regarding investments. You can find them at [Disclaimers](#) and in the other sections of the Intrinsic Value Wealth Report. By accessing and using the various sections of the Intrinsic Value Wealth Report, you are acknowledging that you have read, understand, and agree to these Disclaimers, Notices, and the general risks inherent in investing and that you will seek outside, professional investment advice if you do not completely understand the risks and mechanics of investing, or if you believe that you need additional help with your financial planning needs. The material provided on this newsletter is intended only to provide you some additional tools and resources as you make your own investment decisions. It is up to you to make your own investment decisions and to seek professional advice when needed.

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