

Intrinsic Value Wealth Report

Editor: Dr. Paul M. Wendee

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INDICES

(Close as of 8/30/17)

DJIA	21892.43
S&P 500	2457.59
NASDAQ	6368.31
10-YR TREAS	2.145%
GOLD	\$1,308.10

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

New Print Edition of Intrinsic Value Wealth Report

We are pleased to provide you with the first print edition of the *Intrinsic Value Wealth Report*.

The *Intrinsic Value Wealth Report* has been published since February 2012 as an online newsletter. However, it was not the first publication with a focus on identifying great companies; with excellent growth prospects; and that could be acquired at reasonable or even value prices. The predecessor publication to the *Intrinsic*

Value Wealth Report, which also had this important investment focus, was an investment newsletter I published in the early 2000s. It was called *Review and Outlook*, and was first published in May 2001.

Take a look at the **Inside This Issue** section on the left side of this page. We have included many of the things that we find useful as investors; and believe that you will find useful as well. We hope you enjoy this new print format.

Send us an email and let us know what you think about this new format and how we can make improvements.

All the best,

Dr. Paul M. Wendee
Editor and Publisher

Economic and Investment Review

The U.S. economy, as measured by Gross Domestic Product (GDP), grew at a seasonally inflation-adjusted rate of 3% in the second quarter. 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.

Leading the second quarter growth was strong consumer spending, fueled by rising employment; and a pickup

in business investment, supported by recent strong corporate profit growth. Other favorable trends have been increasing global economic growth, which potentially supports U.S. exports; and 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.

A negative trend which partially offsets the above favorable trends is a curtailment of government spending at

(continued on back page)



Focus List

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



Above, Dr. Wendee spoke at FreedomFest in July on the subject of Quantitative Investing.

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: Verizon Communications (VZ)

Verizon Communications (VZ), which was created with the June 2000 merger of Bell Atlantic and GTE, is a diversified telecom company and is the leader in the wireless industry, with about 114 million retail customers and coverage of more than 98% of the U.S. population. Verizon has one of the most loyal customer bases in the industry.

Our estimate of the fair value (intrinsic value) of this stock is \$56 per share. Given the current price (as of 8/4/17) of \$48.91 per share, the stock is currently undervalued 14.5% by our estimate. The company's fundamentals look attractive as well. The P/E ratio of 12.5 is below the three-year average P/E ratio of 15.4, and well below the five-year average P/E ratio of 39.6. The company generates substantial free cash flow, which can be used for continued dividend payments and acquisitions. Verizon currently has a strong cash position. Its current ROE of 69.5% and its 5-year average ROE of 52.8% place it well ahead of most other companies. The company has strong operating and net profit margins of 24.2% and 12.9%, respectively.

Verizon's revenues in the second quarter were relatively flat from the year ago period. Quarterly revenue rose to \$30.55 in the second quarter from \$30.53 in the second quarter of last year. Margins remain under pressure across the telecom industries with increased price competition among all of the carriers. These trends are expected to continue as the industry matures. Verizon bought AOL in 2015 and recently closed on its purchase of Yahoo! The company acquired XO Communications in the first quarter. These and other acquisitions give Verizon one of the largest portfolios of global brands and should help it distinguish itself on things other than price.

Going forward, investors should watch for continued margin pressures and competition among the carriers. Management seems committed, though, to maintaining and even improving the company's strategic position; enhancing its portfolio of assets; and investing in and developing 5G.

With Verizon's leading position in the industry and strong financials, we like this company for the long-haul. And, with a still uncertain economic outlook and recent tensions between the US and North Korea, we

believe that this could be a relatively safe haven for investors. The nearly 5% dividend is attractive as well and should cushion much 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 37.5%.



“The nearly 5% dividend is attractive... We have assigned this company a very attractive Multi-Factor Score (MFS) of 37.5%.”

Convertible Securities

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** section.

"Because of the convertibility feature, these 'hybrid' securities reflect movements in both stock prices and interest rates."

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

There are many retirement planning calculators that can be found on the Internet and elsewhere. They range from very simple retirement planning calculators to very sophisticated calculators that may use tools such as Monte Carlo Simulation. You should look at all of these calculators and others that you might find when planning for your retirement, as they each

offer a different perspective on your retirement planning.

We have constructed a simple and straightforward retirement planning calculator that offers one useful perspective and is a good place to start in planning for your retirement. [Go to Book #9 - Four Easy and Powerful Steps to Building Wealth](#), on the online version of the Intrinsic Value Wealth Report to access this

retirement planning calculator. Book #9 has links to other good retirement planning calculators as well.

"We have constructed a simple and straightforward retirement planning calculator that offers one useful perspective and is a good place to start in planning for your retirement."

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** will hold its inaugural meeting on August 30, 2017, from 2 pm to 5 pm at the offices of Mintz Levin in San Diego. Dr. Wendee is the co-founder of the San Diego chapter.

Dr. and Mrs. Wendee will be travelling to **Thailand** in September 2017 to help students at an orphanage learn and practice their English language skills.

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.

Intrinsic Value Wealth Report

P.O. Box 3632
Dana Point, CA 92629

PHONE:
(949) 218-7942

E-MAIL:
pwendee@pmwassoc.com

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Economic and Investment Review (continued from page 1)

at the state and local levels.

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

As shown in our section on **Stock Market Valuation**, the markets are, in our opinion, very overvalued. And, as discussed above, the economy's long-term prospects are still very uncertain. Accordingly, 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).

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