Guide to Investing with Cabot Stock of the Week

The Top Growth, Momentum, International, Undervalued, Dividend and Small-Cap Stocks

By Chris Preston, Vice President of Content and Chief Analyst of Cabot Stock of the Week
It's my pleasure to welcome you to *Cabot Stock of the Week*.

I’m Chris Preston, Vice President of Content with Cabot and Chief Analyst of *Cabot Stock of the Week*. Cabot was founded in 1970 by Carlton Lutts, and over the decades (five and counting!), hundreds of thousands of subscribers have benefited from Cabot’s investment advice—in fact, we have many third-generation Cabot subscribers who follow our advice to grow their wealth.

I joined Cabot more than seven years ago. Today, as VP of Content, I’m the overseer of all the stocks selected for the Cabot advisories, which gives me a unique view of what our analysts believe are their best stocks. It’s that overarching perspective that allows me to pick the best stock for the current investing environment. And that’s exactly what you’ll receive in *Cabot Stock of the Week*, every week.

As a subscriber, you’ll get the collective Cabot wisdom from nine of our premium advisories: *Cabot Growth Investor, Cabot Top Ten Trader, Cabot Explorer, Cabot Undervalued Stocks Advisor, Cabot Dividend Investor, Cabot Early Opportunities, Sector Xpress Cannabis Advisor, Sector Xpress Greentech Advisor and Sector Xpress Gold & Metals Advisor*.

Your investing success is my goal. By following my weekly advice, you will create a well-diversified portfolio of great stocks and learn about successful investing systems along the way. I look forward to a long and profitable relationship.

Your guide to successful investing,

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How to Invest with *Cabot Stock of the Week*

*Cabot Stock of the Week* is a great way to build a diversified portfolio of top growth, momentum, international, value, dividend and small-cap stocks selected from nine Cabot investment advisories.

To start, I recommend that you invest equal amounts in the stocks I have rated Buy. But don’t buy them all at once. Diversify by spreading your buying over time. Then hold them until the stocks are rated Sell.

One new stock is recommended each week, selected for the current market conditions. If it fits your portfolio, I recommend that you buy the recommended stock as directed, and then hold it until the stock is rated Sell.

Each week, you’ll receive email Updates on all the stocks in the portfolio. Ratings can change, so don’t overlook these updates.

By diversifying your portfolio, you reduce your risk. Over time, you will build a diversified portfolio of leading stocks in the following investing strategies: growth, momentum, international stocks, value, dividends and small-cap. Also, with our three Sector Xpress advisories – *SX Cannabis Advisor*, *SX Greentech Advisor*, and *SX Gold & Metals Advisor* – you also gain access to specific sectors that, in the case of Greentech stocks (solar, wind, ESG, etc.) and cannabis stocks, have long runways for future growth, or in the case of gold and other metals, can be essential safe havens in times of market turmoil.
Seven investing strategies help you create a diversified portfolio

Stocks selected from these cabot advisories will be recommended each month, so you will build a strong, diversified portfolio.

**Growth stocks** are selected from the Cabot growth investor. These stocks have strong charts, but very importantly, excellent current growth and big potential, often because of revolutionary new products and services. The average growth stock is held for four months; some are held for years, others only a few weeks.

**Momentum stocks** are the hottest stocks in the market. They’re selected from Cabot top ten trader, which every week profiles the market’s strongest stocks. For Cabot stock of the week, I select those that have the most attractive fundamentals, as well as stock price momentum. When we buy one of these stocks, I watch it like a hawk—if it rolls over, we’ll sell it, recognizing that any stock that climbs fast can fall fast.

**International stocks** can provide great diversification as well as profit opportunities for all investors, and ours are selected from Cabot explorer, which scours the globe for fast-growing opportunities, many of which (though not all) exist outside U.S. borders. All Cabot explorer stocks are traded on U.S. exchanges, regardless of country of origin. The stocks are selected for both their fundamental and technical characteristics but sold mainly when the charts show that investors are no longer supportive.

**Value stocks** are selected from Cabot undervalued stocks advisor, which seeks to buy stocks when they’re dirt cheap, and sell when they’ve reached full valuation.

**Dividend stocks** are selected from Cabot dividend investor, which is designed to help investors who want to generate income from their investments. The CDI portfolio is divided into three income categories: High Yield, Dividend Growth and Dividend Safety.

**Small-cap stocks** are selected from Cabot early opportunities. These stocks are selected because they offer 100% or greater upside potential. Because some of these stocks have little or no research coverage, we can acquire significant positions more cheaply than if their stocks were widely followed.

**Marijuana stocks** add a little zip to the portfolio for investors who can tolerate the volatility of two fast-growing sectors with immense future potential. Cabot cannabis advisor uses Cabot’s proven growth stock methodology to construct a diversified portfolio of marijuana stocks, and I add them to the Cabot stock of the week portfolio as I see appropriate. Sector Xpress Greentech advisor does the same with cleantech plays – solar companies, wind companies, ESG companies – any industry that stands to benefit as the world becomes increasingly less dependent on fossil fuels.

All these systems have their strengths and weaknesses; none is inherently better than another. If, after some time, you find yourself more comfortable with some systems than others, we’ll be happy to sign you up for those specific advisory services.
Sample Cabot Stock of the Week Portfolio Stocks

These are some examples of the types of stocks featured in *Cabot Stock of the Week*.

**Green Mountain Coffee Roasters (GMCR)—October 2009**
From *Cabot Growth Investor*

Green Mountain’s business, of course, is coffee, a true global mass-market product. When the stock was selected, company earnings were growing rapidly, actually accelerating—a characteristic of many great growth companies. And its stock was hitting new highs, as more and more investors recognized the growth potential of this company and climbed on board. In the second quarter 2009, revenues grew 61% from the year before. The biggest reason for the company’s growth was its Keurig Single-Cup Brewing System, which led a revolution in the way consumers prepare their coffee. Green Mountain was raking in the money (six cents for each K-Cup sold by its licensees, and even more profit when its own coffee is purchased), at an accelerating rate.

**Netflix (NFLX)—March 2010**
From *Cabot Top Ten Trader*

Netflix, with its revolutionary approach to DVD rental delivery, has been one of our most-frequently featured companies in *Cabot Top Ten Trader*. There were several reasons that Netflix was featured. First, the company made a lot of money with its DVD-by-mail service—the business plan that enabled Netflix to rip the heart out of previously dominant Blockbuster. The second reason for Netflix’s success was its move to allow consumers to stream movies, TV shows and other content to their televisions and computers. This move gave Netflix a first-mover advantage in streaming video and further reduced delivery costs for its enormous catalogue of content. The third reason was CEO Reed Hastings, who consistently found new delivery strategies, and has the revenue and earnings numbers to back up his reputation for leadership. It was a huge winner for us.

**Baidu (BIDU)—August 2010**
From *Cabot Explorer*

When Internet search giant Google moved out of China rather than comply with government censoring, it allowed Baidu to increase its market share to 71% of the Chinese search market. Experts say Baidu has superior search programming, which can interpret both native Chinese language search terms and phonetic or “pinyin” search, which allows users to type in Chinese keywords using the English alphabet. Additionally, Baidu has been an agile adapter, taking services offered by U.S. companies like Google, Yahoo, Microsoft, Apple and Facebook and tweaking them for the Chinese
market, all with the goal of getting users to make Baidu their default Internet destination.
Other reasons: it’s a well-sponsored, institutional growth stock, it was still a small company, meaning growth could remain rapid for many quarters; it had triple-digit earnings growth for
the past two quarters ... a great indicator of upside stock potential; the company’s revenue
growth was accelerating coming out of the recession and it had strong profit margins.

Qualcomm (QCOM)—February 2014
From Cabot Dividend Investor

Qualcomm is a good example of a Cabot Dividend Investor stock: Qualcomm is a leader
in wireless technology; the company’s processors and technologies are used in millions of smartphones and
other network-connected devices. The stock was added to the Cabot Dividend Investor portfolio for its rapidly growing dividend, which is well supported
by increasing revenues. Qualcomm began paying quarterly dividends in 2003, and has
increased its dividend every year since. The magnitude of the dividend increases is particularly
impressive, averaging 29% per year since 2003. Revenues should continue to support similar
or greater increases going forward. Qualcomm’s current payout ratio is 33%, which is in the
range that we consider good. It shows that the company is generous toward shareholders
without spending more on dividends than it can afford to.

Whirlpool (WHR)—November 2015
From Cabot Undervalued Stocks Advisor

Whirlpool (WHR) is a good example of a Cabot Undervalued Stocks Advisor stock.
Global appliance manufacturer Whirlpool encountered serious problems caused by the strong U.S.
dollar, but the company is expanding margins via cost controls, an improved product mix and benefits from
acquisition integration. Wall Street expects Whirlpool’s EPS to grow 6.9%, 18.9% and 15.2%
in 2015 through 2017 (December year-end). The 2016 P/E is 11.1, which is ridiculously low
compared to WHR’s typical P/E range and its expected 25% EPS growth, making the stock
dramatically undervalued. What’s more, WHR shares have a dividend yield of 2.2%. Whirlpool
had a very slow year in 2015, which explains the drop in the share price, but will have strong
earnings growth in the next two years. That earnings growth, combined with an extremely low
2016 P/E, will attract tons of institutional investors.
USA Technologies (USAT)–February 2016
From Cabot Early Opportunities

USA Technologies (USAT) is a good example of a Cabot Small-Cap Confidential stock. USA Technologies is a pure-play provider of small ticket electronic payment solutions for the unattended point-of-sale (POS) market. Until recently, vending machines have only accepted cash, coins and tokens. But there is a revolution going on within this relatively unknown market, and USA Tech is leading the charge. Consumers have already moved to electronic payments at retailers across the country. Many are embracing mobile payment technologies, including Apple Pay and Android Pay, as the $23 billion mobile payment market heats up. Yet vending machines, kiosks and other similar terminals have been slow to adapt. That’s changing. The opportunity in the unattended POS market is huge. And with 40% revenue growth in the latest quarter, USAT is showing that it means business. The stock could easily surpass 25% revenue growth over the next two years as it expands its leadership position in this dynamic market.

Aurora Cannabis (ACBFF) (ABC in Canada)—February 2018
From Cabot Marijuana Investor

Thanks to a talent for deal-making and strategic thinking, Aurora aims to be the largest producer of marijuana in Europe! Aurora Vie, located in Pointe-Claire, Quebec, has been fully operational since late 2017. The world’s largest purpose-built cannabis facility, Aurora Sky totals 800,000 sq. ft. and is designed to produce at least 100,000 kg of cannabis per year. Aurora Lachute is a second facility in Quebec, nearing completion. Aurora Nordic, located in Odense, Denmark, will be Europe’s largest cannabis facility, measuring 1,000,000 sq. ft. For the second quarter of fiscal 2018, ended December 31, Aurora saw revenues grow to $11.7 million, up 201% from the year before and up 42% from the first fiscal quarter of 2018. The average selling price per gram rose 1.7% from the previous quarter to $8.36, while the cost to produce a gram fell 24.6% from the previous quarter to $1.41 per gram. The stock’s average trading volume is 4,400,000 shares per day, and Aurora’s market capitalization is about $4.3 billion.
Growth Investing versus Value Investing
It's important to handle growth and value stocks differently.

Growth Stocks
(Stocks recommended from Cabot Growth Investor, Cabot Top Ten Trader, Cabot Explorer and SX Greentech Advisor)

Growth investing is all about finding fast growing companies by applying rigorous analysis of the company and the action of its stock.

1. **Find stocks with strong stories, numbers and charts**: Fast-growing companies with revolutionary products in mass markets, a clear competitive advantage and strong stock performance relative to the overall stock market.

2. **Apply the Cabot Market Timing indicators** that are summarized in Cabot Stock of the Week (but not discussed in detail as they are in the original services) to make sure that you’re investing with the market trend.

3. **Cut losses short**, never letting the loss of your original investment exceed 20%, preferably 15% or even less.

4. **Sell when the stock loses positive price momentum over a few weeks**, which is a sign that other investors are selling.

5. **Let your profits run as long as the story, numbers and chart are positive**—the power of compound growth can swell your account dramatically, not by taking 10% or 20% profits but by thinking in terms of 100%, 200% and larger profits.

Value Stocks
(Stocks recommended from Cabot Undervalued Stocks Advisor)

Value investing has been proven to work well over time if you buy carefully and hold for the long term. Many people have made fortunes using a value-based approach—Warren Buffett is one of the best known.

1. **Find stocks that the market has under-priced**—in other words, stocks that are worth more than what is reflected in their current prices.

2. **Apply theories of value investing** to select quality stocks with the potential to achieve steady, above-average returns with low risk.
3. **Select companies with strong fundamentals** including earnings growth, dividends, cash flow and book value.

4. **Buy stocks at their recommended prices**, which are based on a combination of estimates derived from intrinsic value and historic value. **Sell your stocks when they reach their full value.**

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**How to Get the Most from Cabot Stock of the Week**

As a subscriber to *Cabot Stock of the Week*, you'll receive your new stock recommendation every Monday as well as an Update on the market and all current stocks including detailed Buy and Sell instructions.

Special Bulletins are sent via email whenever there’s important news on the markets or rapid action is necessary on one of our stocks.

All this information can also be viewed anytime on www.cabotwealth.com by entering your username and password.

1. **General market overview**
   Here’s what I see happening in the market right now, which shapes my investing advice.

2. **Cabot Stock of the Week recommendation**
   This stock is selected each month from the seven Cabot advisories because I think it’s the best stock for the current market conditions.

3. **Stock chart**
   I provide the stock’s chart and comment on its technical strength.

4. **Stock information**
   The company name, stock symbol, company address and relevant financial statistics on the company.

5. **Updates on all current recommendations**
   Each issue includes updates on all the stocks in the portfolio and specific Buy, Sell or Hold advice.