

PEARSON Investment Letter

Published Monthly Since 1982

www.pearsoncapitalinc.com**FEATURED STOCKS**

Amsurg Corp	Encore Capital
Cantel Med	Penn National
Career Edu	SFBC Intl
Community Health	UnitedHealth

GROWTH & INCOME STOCKS

Home Depot	Centex Corp
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THE QUARTER TURN**BY DONALD PEARSON**

Stock market performance in many ways resembles a horse race.

why we are trailing the S&P, and why it is our opinion this is a temporary position that should soon correct itself.

When Mr. Greenspan raises the interest rate, the impact on the market is minimal because it's already expected, and the market has already reacted to this months ago. His negative comments pull the entire market, or certain sectors (banking), down. The banking sector is down about 15-20% this year, and if you're carrying more of these proportionately as we do, it will have an inverse effect.

Our top three Puerto Rican holdings have taken additional punishment because of their marketing positions and the portfolios they maintain. Doral Financial, W Holdings, and R&G Financial have been leaders before and should be again. It was our opinion their stock prices would not drop to the degree that they did, but panic and analysts lowering their evaluations caused additional selling. Doral Financial dropped in value 44% in three days a few weeks ago, even though the analysts tracking them, and our group, didn't see it coming, nor did we believe this would happen. Doral was up 52% last year, and 130% for the last three, along with tremendous earnings reports just three weeks earlier, as they have been for the last four years. This is another reason why we like to see portfolios with 48 to 60 stocks in them. This is the 2% rule you always hear me preach. It's another way of protecting the risk exposure within your stock portfolio. Losing 44% of 2% is losing less than 1%.

It is my opinion that, barring any unexpected market activities such as terrorist strikes, the upcoming quarters should be favorable, and we should finish the year in the black again. I am expecting the indexes to finish 7-10% favorable, and I'm expecting our portfolios to outperform once again. I don't believe we've seen the end to the oil price increases, but I also believe the market has been oversold as a reaction to this. The closing price for oil today was

Whether you check your statement when it arrives, or whether you look daily at your portfolio on line, you will note the negative year-to-date results ending the first quarter. Although they are not pleasant to see, we must understand why they are down, and, more importantly, where we are headed in the upcoming quarters.

Three months is only the turn at the first quarter pole, so the market and our stocks have nine months, or three quarters, left to turn these numbers around and make this another favorable year. Those of you who have been with us for several years can remember the last four positive year-ending performances, while those with us for only one year can recall trailing in the last March/April period, before a strong second half of the year took over and brought our year-end results up into the high double digits on average. As all market indexes are down at the end of the first quarter, we find ourselves lagging the Dow & S&P average for only the second time in this the fifth year of going head to head and comparing our performance against it. As you may or may not know, the S&P does not use 500 stocks evenly to perfectly balance their portfolio. They weigh their choices to match their expectations, with added value given to selected stocks and sectors. We also do this, but to a smaller degree.

For example, you'll find our portfolios, although well diversified, are weighted with stocks here in the United States and Puerto Rico, with a small number from other countries. You'll also notice we favor the financial, health, and home builder sectors at this time. We believe performance and safety are better served within these sectors while above-average growth can be achieved. I tell you this to help explain



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Chairman



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Publishing President

Investment Letters are complimentary to our clients with managed accounts!

Continued On Page 2

WALTER'S WISDOM

INVESTING

When investing in the stock market, most people think in terms of finding stocks that are going to go up in price, and the faster the better. Naturally, we all would like that to happen, but when investing there are certain factors to take into consideration. There is a certain amount of risk in any investment. Some investments are almost risk-free and some are rather risk-prone. But there is an element of risk in everything we do. When you cross the street with the light in your favor, it is possible to get run down by a drunken driver. And so it is in the stock market; no matter how sound an investment seems, there is always the possibility of some unseen happening changing everything.

It is our opinion that one of the first considerations in the field of investing is safety. One of the best safety factors is diversification. When the investor has all of his assets tied up in a single investment, anything can happen, and sometimes does. When his assets are diversified into fifty or more good looking situations, the odds favor the investor. Once the investor realizes the value of diversification, it now behooves him to look for value and growth. There is a certain amount of work and skill attached here, but it is imperative to research each company and decide if it meets your investment standards.

It is simple enough to divide the price of a stock by the earnings per share and come up with the price earnings ratio. If two companies are selling for \$20 a share, and one is earning twice as much as the other, it is easy enough to figure that one company is selling for twice as much, even though the price per share is the same. The growth rate of each company should be considered. If one is growing faster than the other, it now means the investor must sit down and figure out the inherent value of each, considering the difference in the growth rates. Here again, the safety factor should be taken into consideration.

The investor should not invest in a stock just because it

keeps going up in price. Why does a stock go up in price? In the first place it rises because there are more buyers than sellers. The reason for this is usually because the company is doing well, and the earnings are moving up substantially. What normally happens is buying continues to the point where the stock gets overpriced and then it reacts to the downside. If you have done your homework, you have figures showing your estimate of the price at which a good value can be received by the purchaser. The thing is to not be a follower.

The stock market does not act sensibly. There are thousands of stocks in the stock market, and if you were to average the growth rate of all of these stocks, I would imagine the figure to be somewhere in the neighborhood of 10% per year, and probably less. How is it possible to have the market averages moving up or down 1% in a single day? This daily 1% figures out to about 250% a year. This ridiculous figure does not show true value, but simply shows stock price fluctuations.

One of the most important things for an investor to understand, AND to bring under control is inflation. We are burdened with a government that spends first and borrows afterward, and the debt never gets paid. This means that each year the purchasing power of your dollar retreats a little further. What to do? Through no fault of yours, you must invest for growth, even though you need income. For those who require income, there are situations which will produce both, but the investor who does not need income today should be looking for as much growth as possible.

Some years ago I started an investment letter because I thought it would be a help for the investor who didn't have the time to work things out for himself. At a later date I found that most people would rather have us do the whole ball of wax, and it is for this reason that the letter now goes out mainly to clients who have managed accounts rather than to subscribers. I, too, agree with those who think a professional can do a better job.

THE QUARTER TURN *Continued From Page 1*

\$57.27 and the market has responded. Although we may see oil prices continue up well over \$60.00 before retreating, once they begin their decline, everything else indicates the economy should continue to strengthen. For a more complete market economy overview, turn to Page 5, and read Chris's market report. If you haven't opened or contributed to your IRA for 2004, you might read the article on Page 6 that addresses this opportunity.

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"

PEARSON CAPITAL'S RECOMMENDED STOCKS FOR APRIL

AMSURG CORPORATION (AMSG)

NASDAQ PRICE: \$25.30

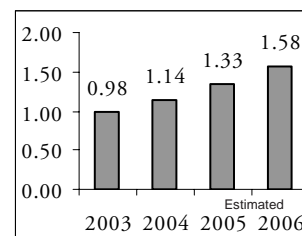
AMSG develops, acquires and operates practice-based ambulatory surgery centers in partnership with physician practice groups throughout the United States. During the year ended 12/31/04, the Company owned a majority interest in 128 surgery centers in 30 states and the District of Columbia. In 2004, it also had nine centers under development and had executed letters of intent to acquire or develop seven additional centers. Amsurg practice-based ambulatory surgery centers are outpatient surgery centers generally equipped and staffed for a single medical specialty. For the fiscal year ended 12/31/04, revenues rose 16% to \$334.3M. Net income from continuing operations rose 19% to \$33.1 million. Revenues reflect the additional surgery centers in operation and the growth in the same-center procedure.

Type: Growth
Sector: Healthcare

Institutional Holdings: 119
Industry: Healthcare Facilities

Ratings & Recommendations Earnings per share

Current P/E Ratio: **20**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **B+**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **B**
Value Line Rating: **1-3-1**



CANTEL MEDICAL CORPORATION (CMN) NYSE PRICE: \$28.96

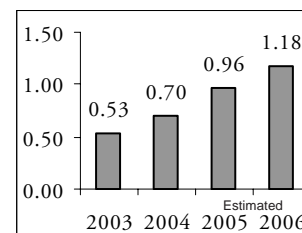
CMN is a healthcare company providing infection prevention and control products that include specialized medical device reprocessing systems for renal dialysis and endoscopy, water treatment systems, sterilants, diagnostic imaging and therapeutic medical equipment primarily focused on endoscopy, hollow fiber membrane filtration and separation technologies for medical and non-medical applications, and specialized packaging for infectious and biological specimens. The Company also sells scientific instrumentation products and provides technical maintenance and compliance training services for its products. For the six months ended 01/31/05, revenues increased 22% to \$94.9 million. Net income increased 60% to \$7 million. Revenues reflect increased sales in core businesses and acquisition of Saf-T-Pak.

Type: Growth
Sector: Healthcare

Institutional Holdings: 31
Industry: Medical Equipment

Ratings & Recommendations Earnings per share

Current P/E Ratio: **33**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **B**
Pearson Value Rating: **C**
Stand.&Poor Rating: **C**
Value Line Rating: **N/R**



CAREER EDUCATION CORPORATION (CECO) NASDAQ PRICE: \$34.26

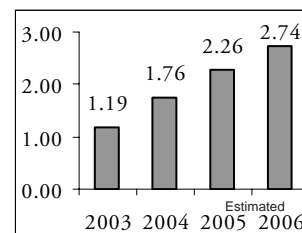
CECO is a provider of private, for-profit, post-secondary education. The Company has two operating segments: the Colleges, Schools and Universities (CSU) segment and the Online Education Group (OEG) segment. The CSU segment represents an aggregation of traditional brick-and-mortar campuses through which the Company provides educational services primarily in a classroom or laboratory setting at 82 campuses located throughout the United States and in France, Canada, the United Kingdom and the United Arab Emirates. The OEG segment operates two online educational platforms, American InterContinental University Online and Colorado Technical University Online for delivering educational services through Internet-based courses. Total student population, as of January 31, 2005, was approximately 101,500 students.

Type: Growth
Sector: Services

Institutional Holdings: 213
Industry: Schools

Ratings & Recommendations Earnings per share

Current P/E Ratio: **19.9**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **D+**
Pearson Growth Rating: **B-**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **A**
Value Line Rating: **- 3 -**



COMMUNITY HEALTH SYSTEMS, INC. (CYH) NYSE PRICE: \$34.91

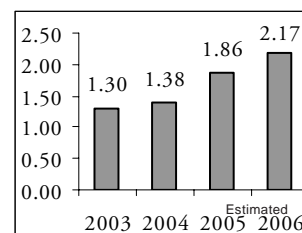
CYH is a non-urban provider of general hospital healthcare services in the United States. The Company's hospitals offer a variety of services involving a broad range of inpatient and outpatient medical and surgical services. These include orthopedics, cardiology, occupational medicine, diagnostic services, emergency services, rehabilitation treatment, home health and skilled nursing. As of December 31, 2003, the Company owned, leased or operated 72 hospitals, geographically diversified across 22 states, with an aggregate of 7,810 licensed beds. For the fiscal year ended 12/31/04, revenues rose 19% to \$3.33 billion. Net income from continuing operations rose 20% to \$158.2 million. Revenues reflect increased admissions due to newly acquired hospitals. Higher income also reflects lower salaries as a percentage of sales.

Type: Growth
Sector: Healthcare

Institutional Holdings: 214
Industry: Healthcare Facilities

Ratings & Recommendations Earnings per share

Current P/E Ratio: **23.1**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **B**
Pearson Value Rating: **B**
Stand.&Poor Rating: **B+**
Value Line Rating: **1-3-3**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR APRIL

ENCORE CAPITAL GROUP, INC. (ECPG) NASDAQ PRICE: \$14.55

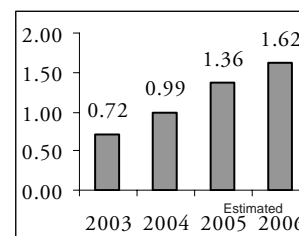
ECPG is a systems-driven purchaser and manager of charged-off consumer receivable portfolios. The receivable portfolios consist primarily of charged-off domestic consumer credit card receivables purchased from national financial institutions, retail credit corporations and resellers of such portfolios. Encore Capital acquires these portfolios at deep discounts from their face values using its proprietary valuation process that is based on the consumer attributes of the underlying accounts. For the fiscal year ended 12/31/04, revenues rose 52% to \$178.5 million. Net income applicable to Common increased 28% to \$23.2 million. Results reflect higher revenues from receivable portfolios and retained interest, partially offset by higher salaries, higher legal costs and higher interest expense.

Type: Emerging Growth
Sector: Financial

Institutional Holdings: 63
Industry: Financial Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **14.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **D+**
Pearson Growth Rating: **A**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **B-**
Value Line Rating: **2-4-4**



PENN NATIONAL GAMING, INC. (PENN) NASDAQ PRICE: \$29.38

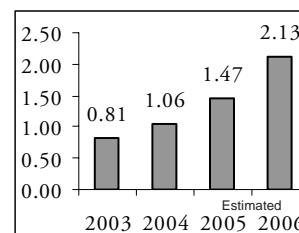
PENN is a diversified, multi-jurisdictional owner and operator of gaming properties, as well as horse racetracks and associated off-track wagering (OTW) facilities. The Company owns or operates nine gaming properties located in Colorado, Illinois, Louisiana, Mississippi, Ontario and West Virginia that are focused primarily on serving customers within driving distance of the properties. The Company also owns two racetracks and 11 OTWs in Pennsylvania, one racetrack in West Virginia, and, through a joint venture, owns and operates a racetrack in New Jersey. For the fiscal year ended 12/31/04, revenues rose 13% to \$1.14 billion. Net income from continuing operations increased 40% to \$87.3M. Revenues reflect increased sales in the gaming segment. Earnings also reflect decreased interest expenses.

Type: Growth
Sector: Services

Institutional Holdings: 152
Industry: Casino & Gaming

Ratings & Recommendations Earnings per share

Current P/E Ratio: **35.2**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **A+**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **A+**
Value Line Rating: **3-3-3**



SFBC INTERNATIONAL, INC. (SFCC) NASDAQ PRICE: \$35.24

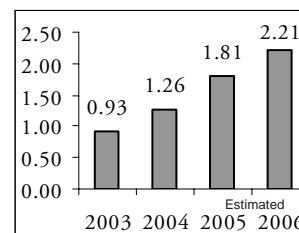
SFCC is a global drug development services company, providing a range of both early and late stage clinical drug development services to pharmaceutical, biotechnology and generic drug companies. The Company provides early clinical development services, specializing primarily in the areas of Phase I and Phase II clinical trials and bioanalytical laboratory services. In July 2004, the Company acquired Taylor Technology, Inc., a Bioanalytical Laboratory. During the year ended December 31, 2004, the Company acquired PharmaNet, Inc. For the fiscal year ended 12/31/04, revenues rose 54% to \$159.6 million. Net income rose 70% to \$19.7 million. Revenues reflect the performance and management of more clinical trials and testing more samples. Net income reflects an increase in gross profit margins.

Type: Growth
Sector: Healthcare

Institutional Holdings: 99
Industry: Biotechnology

Ratings & Recommendations Earnings per share

Current P/E Ratio: **28.2**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **A**
Pearson Value Rating: **A**
Stand.&Poor Rating: **B-**
Value Line Rating: **2-5-4**



UNITEDHEALTH GROUP, INC. (UNH) NYSE PRICE: \$95.38

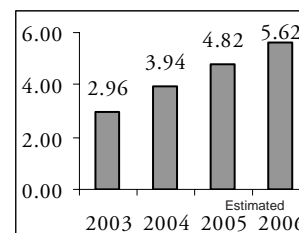
UNH is a diversified health and well-being company, serving approximately 55 million Americans. The Company provides individuals with access to healthcare services and resources through more than 460,000 physicians and other care providers, and 4,200 hospitals across the United States. It manages approximately \$60 billion in aggregate annual healthcare spending on behalf of more than 250,000 employer-customers and the consumers it serves. On July 29, 2004, the Health Care Services business segment acquired Oxford Health Plans, Inc. (Oxford). Oxford provides healthcare and benefit services for individuals and employers, principally in New York City, northern New Jersey and southern Connecticut. For the fiscal year ended 12/31/04, revenues rose 29% to \$37.22 billion. Net income rose 42% to \$2.59 billion.

Type: Growth
Sector: Financial

Institutional Holdings: 711
Industry: Insurance

Ratings & Recommendations Earnings per share

Current P/E Ratio: **24.3**
Annual Yield: **0.1%**
Annual Dividend: **\$0.03**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **B**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **B-**
Value Line Rating: **1-2-3**



WALL STREET INDEXES

Indexes	1999	2000	2001	2002	2003	2004	05/YTD
S&P 500	21.1%	(10.1%)	(13.3%)	(23.4%)	26.4%	9.0%	(2.6%)
Dow Jones	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(2.6%)
Nasdaq	85.6%	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	(8.1%)
Russell 2000	21.3%	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	(5.1%)
Our CD Buster	Data available on our website			8.1%	56.7%	22.8%	(15.8%)
CD Annual Average	4.9%	5.4%	3.0%	2.3%	1.5%	1.5%	2.0%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

ECONOMIC FLOWS:

The Federal Reserve has moved interest rates upward to 2.75 percent, causing the average money market return to move as high as 2 percent. According to CBS Marketwatch, the consumer price index also moved higher, led by higher energy costs, housing, medical care, and air fares. The Fed warned of inflationary pressures and would respond in kind with many more increases. However, housing continued to be strong, with the median price of a house rising to \$191,000. It seems that the economy is still flexible while prices continue to rise for certain costs.



Key point: *The economy keeps moving on.*

EARNINGS FLOWS:

The beginning of April is warnings season. Now most companies no longer warn ahead of time. If they do, it is usually a few days, or a few hours, ahead of time. Earnings are expected to do well. There should not be any problems overall. The economy is sound.

Key point: *Be ready for the summer rally.*

CASH FLOWS:

April mergers and deals will be very exciting. IACI bought Ask Jeeves and plans on spinning off their travel arm Expedia. Blockbuster has decided not to buy Hollywood Entertainment. I recently found out that the average company from the S&P 500 pays less than a third of earnings out as dividends. The long term range is over 50 percent. That means the mountain of cash piling up for corporations will hopefully pay out for investors.

Key point: *Cash, cash, cash.*

ADDITIONAL NOTES:

For 2005 The Fed is going to take care of investors:

- It will increase interest rates, and return them to normal.
- It has slowed the money growth rate to less than 1 percent this year.
- It has warned the Bush administration about the problems of overspending.

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(2% for smaller accounts)

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APRIL'S RECOMMENDED GROWTH & INCOME STOCKS

THE HOME DEPOT, INC. (HD) NYSE PRICE: \$38.24

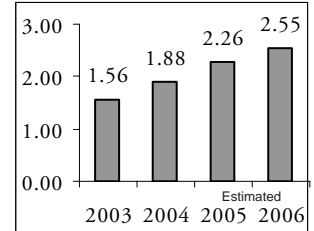
HD operates Home Depot stores, which are warehouse-style stores selling building materials, home improvement supplies and lawn and garden products, primarily to do-it-yourselfers. The Company also operates The Home Depot Floor Stores, which offer primarily flooring products and installation services. At the end of the fiscal year ended February 1, 2004 (fiscal 2003), the Company was operating 1,707 stores in total in the United States, Canada and Mexico. The Company's other businesses include The Home Depot Supply, which distributes products and sells installation services primarily to businesses and governments. For the fiscal year ended 1/30/05, revenues rose 13% to \$73.09 billion. Net income rose 16% to \$5 billion. Revenues reflect increased sales due to the opening of new stores.

Type: Growth & Income
Sector: Services

Institutional Holdings: 804
Industry: Retail

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.9**
Annual Yield: **0.2%**
Annual Dividend: **\$0.40**
Investor's Bus. Daily: **C**
Pearson Growth Rating: **B-**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **A+**
Value Line Rating: **1-2-3**



CENTEX CORPORATION (CTX) NYSE PRICE: \$57.27

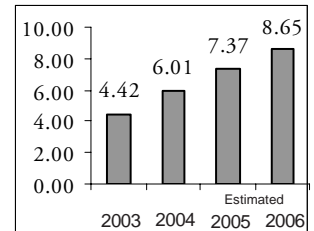
CTX is a residential construction company that has evolved into a multi-industry company. During the fiscal year ended March 31, 2004 (fiscal 2004), the Company's subsidiaries operated in four business segments: Home Building, Financial Services, Construction Services and Investment Real Estate. Centex' homebuilding subsidiary, Centex Homes, purchases and develops land or lots, and constructs and sells single-family homes, townhomes and low-rise condominiums. For the nine months ended 12/31/04, revenues rose 24% to \$8.87 billion. Net income from continuing operations and before acct. chg. increased 26% to \$641.6 million. Revenues reflect increased conventional home sale closings and higher average sales prices. Net income also reflects a decrease in interest expenses.

Type: Growth & Income
Sector: Capital Goods

Institutional Holdings: 314
Industry: Construct. Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **8**
Annual Yield: **0.2%**
Annual Dividend: **\$0.16**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **C+**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **A**
Value Line Rating: **3-2-4**



TIME IS RUNNING OUT

The best opportunity for helping ourselves today is to take all the free money someone offers to us. Would you believe me if I told you that about 24% of today's working personnel do not? I cannot tell you why. When I ask those who are missing out, they can't offer a good excuse. If your place of employment offers a 401K, or a similar plan, this gives you the best opportunity to help yourself. It allows you to use before-tax dollars from your paycheck, with your employer contributing an additional percentage for participating. As an example, if you contribute 3% of your monthly salary, and your employer matches with 3%, you have instantly made 100% on your investment. You haven't even been taxed for your contribution, and someone is giving you more. You can choose to invest in whatever selection of stocks, mutual funds, CDs, or anything else you prefer.

Another opportunity is the Roth IRA. This Individual Retirement Account opportunity is available to almost everyone working today. If you are receiving a paycheck, and you're paying taxes, you qualify if you have an adjusted gross income of less than \$110,000 filing singly, or \$160,000 filing jointly. Yes, you can have a 401K and still have a Roth IRA. The government continues to increase the amounts that can be contributed to an IRA. For 2006, the amount will be increased to \$5,000. This year it is \$4,000, and for last year it is \$3,000. Anyone 50 years of age or older can also add another \$500 to their contribution as a catch up, because they will be reaching the retirement age sooner.

The reason I am promoting the Roth versus the Traditional IRA is simply that by paying with after tax dollars now, your investments will grow for all those years tax free. When you take the money out after age fifty-nine and a half, it's all yours! If you haven't added to, or opened, one yet for last year, you still have until April 15 to do so. If you are wondering if you can have a Traditional and still have a Roth, the answer is yes. So whatever you decide to do, you must hurry to beat the April 15, deadline.

Donald Pearson

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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.