

# PEARSON *Published Monthly Since 1982* Investment Letter

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MAY 2006

## FEATURED STOCKS

AmSurg Corp  
Bright Horizons  
Caremark Rx  
Fiserv, Inc  
Helix Energy  
Interinvest Bancshares  
SEI Investments  
WellPoint, Inc

## GROWTH & INCOME

Wells Fargo  
MS India (ETF)

## INFLATED GROWTH *By Donald Pearson*

What exactly is inflated growth? Inflated growth is the money that's not there when I want to use it. When I hear about how well I'm doing by

someone else's measurement, I tally the results to a point of execution, and surprisingly find it can't purchase what I thought. Simply said, it can't get the job done.

Today banks are peddling a 5 percent certificate of deposit, while I'm observing my gasoline price at the pump, and I am quickly aware that the price of gasoline has increased by 62 percent for the first quarter. My healthcare costs are going up almost as fast, and many other real-world expenses are following suit. When I read a politician's message telling me how much better off I am today, I know his message says, "Vote for me because I'm running for re-election." I'm not sure anyone who is in a decision-making position understands my problem (and your problem) as well as I do. If I have any chance of surviving in this economic fiasco, I've got to grow my principal faster than others can take it from me. I also know by being realistic, a 5 percent on average return is not going to get the job done.

With that said, what exactly are our options? Go back in time as far as you wish and learn what history has taught us. Know and understand what inflation really is and how it impacts you personally. If gas has gone up 62 percent in the last quarter and you own a car, these numbers strangle us. If real estate taxes are going through the roof in your state, you're impacted by these, too. I think you're going to find that no matter what your personal scenario is, you are going to be taxed or financially captured, and our system is going to get you. If you believe this, as most of us do, then whatever type of growth we target to stay ahead of this inflationary nightmare that's eating up our worth, becomes paramount. Sometimes I think our team at PCI might consider having our heads examined because we see this as an opportunity and have chosen to take on the

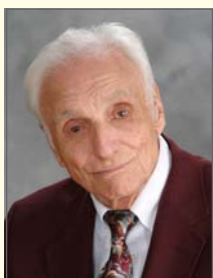
challenge. What is the answer you ask? Growth stocks! As investors we must learn to develop a long-range winning strategy. Once done, we then plan our work, and work our plan. If planned properly, we should be on a course destined to be successful. When you read that gasoline will probably hit \$4-\$5 per gallon at the pumps, or housing has slowed down, it really becomes irrelevant if you have a properly diversified growth portfolio that requires minimal annual adjusting.

Imagine how many tales of woe have been encountered throughout the last sixty years. How many times have we had gas shortages or prices shoot up at the pump? How many times has housing been in the news with opportunities for the buyer, or as the clique says, it's now a seller's market. Let's also factor in the inflated prices on new cars, and new homes. The message here is always the same: get a part of your investments into growth stocks and you're going to be successful.

Over the last 60 years you will find the results have been the same as I believe they are today. Invest in growth stock, quality companies, and let the performance of these companies provide you with the results necessary to be successful. Since 1944, postage rates have grown at 1200% — A gallon of gas has grown at 1900% — A new car has grown at 2800% — A new three-bedroom home has grown at 6200% — while salaries have only grown at 1800%.

Once armed with this information I believe I'm ready to place an assault on inflation and inflated growth. Running to my neighborhood bank to secure a 5 percent CD with all of my assets will not get the job done. Some type of annuity will not do the job either. I cannot guarantee the stock market will solve the problem, but I can suggest it's an alternative worth considering. Why do I suggest this as an alternative? In the same sixty years referenced earlier, the Dow Jones returned 7800% of actual growth for your initial investment. In 1944 the Dow registered at 143 while today it resides above 11,000. Knowing these facts, one must invest principal for the long haul and capitalize on inflated growth.

DP



Walter D. Pearson  
Chairman



Donald E. Pearson  
President



Sandra Alberti  
Publishing President

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Over 50 Years Of Investment Experience

# SAVE THE SALT

**If you were in the fortunate position of becoming an heir to \$1 million worth of gold, I am quite sure that you would see to it that your equity was protected.**

There is no doubt that the donor had a protection system set up well in advance. On the other hand let's say that the inheritance came in the form of salt. I know it is hard to imagine \$1 million worth of salt, but the point is that if you did get it, you would certainly take care of it.

The first thing you might contemplate would be to examine the storage place to ensure that no rain could get to it and melt the fortune down. Having that much salt would require a certain amount of care to ensure that the value remained constant. The problem would not be large, nor would it be costly. It would be simple enough maintain a satisfactory storage place and then pay the storage fee. In that manner your inheritance would be fully protected. Both the labor involved and the cost would be minor in relation to the end result.

Today we are sitting in a very similar circumstance. The difference

is that the salt is probably not inherited, but earned, and it is actually what passes for money in our society. We may as well allude to our currency as salt, inasmuch as it has a way of melting away unless it is taken care of. Our forefathers set up our money system years ago so that our money would be safeguarded, but little by little changes have been wrought, so that today there is no comparison. We no longer even have dollar bills. We have Federal Reserve notes.

I believe it is unnecessary to go into all of the problems and reasons, but it is necessary to understand that the purchasing power of one's savings will diminish day after day unless steps are taken to protect it. It is not much different from protecting one's salt holdings. The warehouse fee can be compared to the fee charged by the money manager who endeavors to provide a roof over the currency to protect it

from the inroads of inflation.

As we continue to do our job to the best of our ability, it does happen that now and again we come into contact with someone who has decided to manage his own investments. Years ago I thought this was all right, but I have changed my mind after seeing some of the experiences. The thing that really puzzles me is to see a doctor handling his own portfolio. Here is a professional, who has spent years learning his trade, hiring an amateur to do this very important work. I may be wrong, but when I have a health problem I go to the doctor.

It was a few years ago that I saw the need for professionals in this business who would not rule out the small investor. One of the problems in hiring a professional is that most of the pros will only consider large accounts. We do it differently. We have NO minimums, and I do believe that we have performed well.

WP

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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.**

Information & data obtained from other sources is believed to be reliable, but its accuracy and completeness can not be guaranteed.

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

May 2006

### AMSURG CORP (AMSG) NASDAQ PRICE: \$25.54

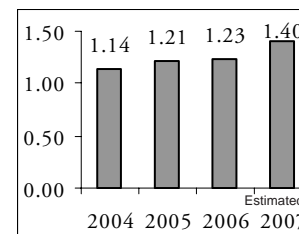
AMSG through its wholly owned subsidiaries, engages in the development, acquisition, and operation of practice-based ambulatory surgery centers in partnership with physician practice groups in the U.S. As of 12/31/05, the company had interest 149 surgery centers, of which 97 centers performed gastrointestinal endoscopy procedures; 41 centers performed ophthalmology surgery procedures; 5 centers performed orthoped. procedures; and 6 centers performed procedures in more than one specialty. It markets its surgery centers directly to patients; referring physicians; and third-party payors, including health maintenance organizations, preferred provider organizations, other managed care organizations, and employers. The company was founded in 1992 and is headquartered in Nashville, Tennessee.

Type: Growth  
Sector: Healthcare

Institutional Holdings: 122  
Industry: Hospitals

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **21.8**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Bus. Daily: **C**  
Pearson Growth Rating: **B-**  
Pearson Value Rating: **B+**  
Stand.&Poor Rating: **B+**  
Value Line Rating: **1-3-1**



### BRIGHT HORIZONS FAMILY SOLUTIONS, INC (BFAM) NASDAQ PRICE: \$39.72

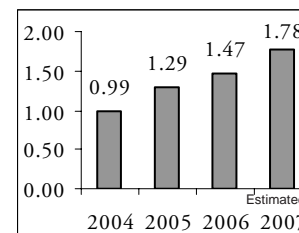
BFAM provides workplace services for employers and families, including early care and education, and strategic work/life consulting. The company offers center-based child care, education and enrichment programs, elementary school education, backup care, before and after school care for school age children, summer camps, vacation care, and other family support services. As of February 13, 2006, it operated 616 early care and education centers in the District of Columbia, Puerto Rico, Canada, Ireland, and the UK. Bright Horizons markets its services to both employer sponsors and parents. The company announced it will be launching the new Bright Horizons Back-Up Care Advantage Program in the summer of 2006, offering a comprehensive array of emergency care services to clients across the U.S. Bright Horizons was founded in 1986 and is headquartered in Watertown, MA.

Type: Growth  
Sector: Services

Institutional Holdings: 136  
Industry: Personal Services

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **29.2**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Bus. Daily: **C+**  
Pearson Growth Rating: **B**  
Pearson Value Rating: **B**  
Stand.&Poor Rating: **D-**  
Value Line Rating: **3-3-2**



### CAREMARK RX, INC (CMX) NYSE PRICE: \$45.55

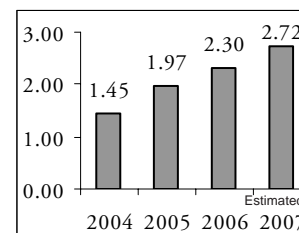
Caremark Rx, Inc. operates as a pharmaceutical services company in the United States. It offers pharmacy benefit management services that involve the design and administration of programs for prescription drug use. It provides prescription drugs both directly, through its own mail service pharmacies, and indirectly through a network of third-party retail pharmacies. As of December 31, 2005, the company operated 7 automated mail service pharmacies and 21 smaller regional mail service pharmacies. It managed 536 million prescriptions from nearly 2,000 organizations, as of the above date. The company's customers include employers, unions, government employee groups, insurance companies, managed care organizations, and individuals. Caremark Rx was founded in 1993 and is headquartered in Nashville, Tennessee.

Type: Growth  
Sector: Healthcare

Institutional Holdings: 673  
Industry: Health Services

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **22.2**  
Annual Yield: **0.88%**  
Annual Dividend: **\$0.40**  
Investor's Bus. Daily: **B+**  
Pearson Growth Rating: **B+**  
Pearson Value Rating: **A-**  
Stand.&Poor Rating: **A-**  
Value Line Rating: **2-3-3**



### FISERV, INC (FISV) NASDAQ PRICE: \$45.07

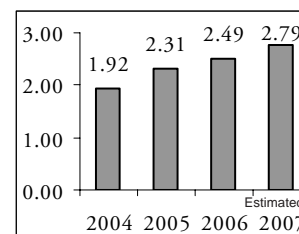
FISV offers financial services and solutions to financial institutions, including banks, credit unions, leasing and finance companies, mortgage lenders and savings institutions, and insurance companies; and health plan management services, including claim adjudication and payment, customer service, reporting, and other related services. It also offers investment support services, such as securities custody, transaction processing, client reporting, and retirement plan administration services, as well as advisor services, financial institution services, institutional retirement plan services, and investment administration services to individual investors. In addition, Fiserv provides plastic card issuance, design, personalization, and mailing services. Fiserv was formed in 1984 and is headquartered in Brookfield, Wisconsin.

Type: Growth  
Sector: Technology

Institutional Holdings: 391  
Industry: Business Software

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **17.1**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Bus. Daily: **C+**  
Pearson Growth Rating: **A-**  
Pearson Value Rating: **A-**  
Stand.&Poor Rating: **B+**  
Value Line Rating: **3-3-3**



## PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

May 2006

### HELIX ENERGY SOLUTIONS GROUP, INC (HELX) NASDAQ PRICE: \$38.82

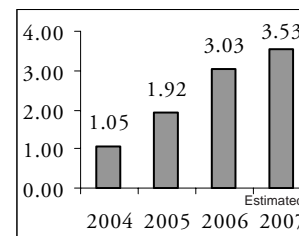
HELX operates as an energy services company. The company provides alternative solutions for marginal field development, alternative development plans, field life extension, and abandonment to the oil and gas industry worldwide. HELX, with its fleet of 33 vessels and 29 remotely operated vehicles and trencher systems, performs various services that support drilling, well completion, intervention, construction, and decommissioning projects involving pipelines, production platforms, risers, and subsea production systems. As of 12/31/05, it had estimated proved reserves of 136,073 MMcf of natural gas and 14,873 MBbls of oil and condensate. The company was founded in 1990. It was formerly known as Cal Dive International, Inc. and changed its name to Helix Energy Solutions Group, Inc. in 2006. The company is headquartered in Houston, Texas.

Type: Growth  
Sector: Basic Materials

Institutional Holdings: 253  
Industry: Oil & Gas

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **20.9**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Bus. Daily: **B+**  
Pearson Growth Rating: **A-**  
Pearson Value Rating: **C+**  
Stand.&Poor Rating: **A**  
Value Line Rating: **1-3-2**



### INTERVEST BANCSHARES CORPORATION (IBCA) NASDAQ PRICE: \$39.99

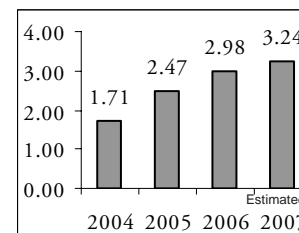
IBCA operates as the holding company for Interwest National Bank, which provides commercial and consumer banking services in New York and Florida. The bank accepts certificates of deposit, individual retirement accounts, checking and other demand deposit accounts, negotiable order of withdrawal accounts, savings accounts, and money market accounts. It also offers commercial loans, including term loans, lines of credit and equipment financing, loans for working capital needs, business expansion loans, and the loans for purchasing equipment and machinery; and 504 loans that are secured by commercial and multifamily real estate, including rental and cooperative apartment buildings, office buildings, mix-used properties, shopping centers, hotels, industrial properties, and vacant land. Interwest Bancshares was incorporated in 1993 and is based in New York City.

Type: Growth  
Sector: Financial

Institutional Holdings: 17  
Industry: Regional Banks

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **14.5**  
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: **3-4-3**



### SEI INVESTMENTS COMPANY (SEIC) NASDAQ PRICE: \$42.94

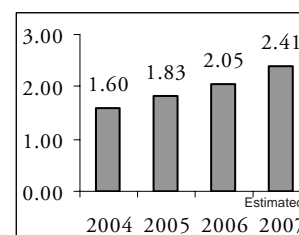
SEIC provides outsourced asset management services and investment technology solutions to the financial services industry. The company operates in five segments: Private Banking and Trust, Investment Advisors, Enterprises, Money Managers, and Investments in New Businesses. The Private Banking and Trust segment provides investment processing, and fund processing to banks located in the U.S. and Canada. The Investment Advisors segment offers investment management programs to affluent investors. The Enterprises segment provides retirement solutions. The Money Managers segment offers fund investment processing to investment managers located in the U.S. The Investments in New Businesses segment provides investment management programs and fund processing to investment advisors, and corporations located outside the U.S.

Type: Growth  
Sector: Services

Institutional Holdings: 141  
Industry: Business Services

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **23.5**  
Annual Yield: **0.51%**  
Annual Dividend: **\$0.22**  
Investor's Bus. Daily: **B+**  
Pearson Growth Rating: **A-**  
Pearson Value Rating: **A**  
Stand.&Poor Rating: **A+**  
Value Line Rating: **2-3-2**



### WELLPOINT, INC (WLP) NYSE PRICE: \$71.00

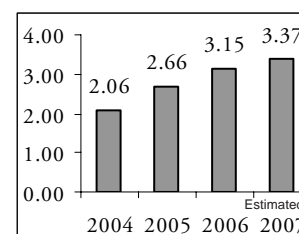
WLP through its subsidiaries, operates as a commercial health benefits company in the United States. It offers various network-based managed care plans to the large and small employer, individual, Medicaid, and senior markets. The company's products are marketed through a network of independent agents and brokers, and through in-house sales force. It serves individuals and small employers, large employers, and seniors and Medicaid recipients, as well as the needs of educational and public entities, federal employee health and benefit programs, national employers and state-run programs servicing low-income, and high-risk and under-served markets. WellPoint, formerly known as formerly Anthem, Inc., was founded in 1944 and is headquartered in Indianapolis, Indiana.

Type: Growth  
Sector: Healthcare

Institutional Holdings: 777  
Industry: Health Care Plans

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **17.5**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Bus. Daily: **C**  
Pearson Growth Rating: **B**  
Pearson Value Rating: **A-**  
Stand.&Poor Rating: **A-**  
Value Line Rating: **1-2-3**



## PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

May 2006 - **INCOME STOCK & ETF**

### WELLS FARGO & COMPANY (WFC) NYSE PRICE: \$68.69

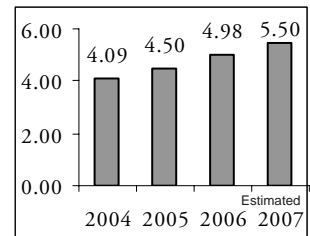
WFC operates in three segments: Community Banking, Wholesale Banking, and Wells Fargo Financial. Community Banking segment offers various products and services, including mutual funds, as well as personal trust and agency assets. Its loan products include lines of credit, equity lines and loans, equipment and transportation loans, education loans, origination and purchase of residential mortgage loans. Wholesale Banking segment provides traditional commercial loans and lines of credit. Wells Fargo Financial segment offers consumer and real estate loans to individuals; purchases sales finance contracts from retail merchants and automobile dealers; and makes loans secured by automobiles. It also provides credit cards and lease and other commercial financing. As of 12/31/05, the Company provided its services through approximately 6,200 stores.

Type: Growth & Income  
Sector: Financial

Institutional Holdings: 769  
Industry: Money Center Banks

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **14.9**  
Annual Yield: **3.03%**  
Annual Dividend: **\$2.08**  
Investor's Bus. Daily: **C+**  
Pearson Growth Rating: **A**  
Pearson Value Rating: **A**  
Stand.&Poor Rating: **B**  
Value Line Rating: **3-1-3**



### MS INDIA INV FUND - ETF (IIF) NYSE PRICE: \$50.50

#### ANALYST

No analyst data available for IIF.

#### BUSINESS SUMMARY

No business summary available for IIF.

#### Sector breakdown (percentage of stocks):

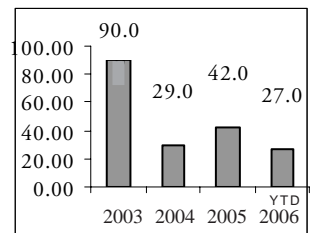
Information: 11.8 %  
Service: 35.4%  
Manufacturing: 52.8%

Fund Family: ETF  
Category: India

Type: Large Blend  
Started: N/A

#### Ratings & Recommendations Performance by %

Current P/E Ratio: **N/A**  
Annual Yield: **0.06%**  
Annual Dividend: **\$0.28**  
Investor's Bus. Daily: **N/R**  
Pearson Growth Rating: **N/R**  
Pearson Value Rating: **N/R**  
Stand.&Poor Rating: **N/R**  
Value Line Rating: **N/R**



### CD BUSTER 2006

Stock Name	Symbol	Yield	Shares	Price/Sh	\$ Invested	Current-\$	YTD-Total \$
Coventry Health	CVH	n/a	44	\$56.96	\$2,506.24	\$49.67	\$2,185.48
D.H. Horton	DHI	1.0%	70	\$35.73	\$2,501.10	\$30.02	\$2,101.40
Dow Jones Select	DVY	3.1%	41	\$61.26	\$2,511.66	\$64.00	\$2,624.00
EAFE Index	EFA	1.8%	42	\$59.43	\$2,496.06	\$68.03	\$2,857.26
j2 Global	JCOM	n/a	60	\$42.74	\$2,564.40	\$49.09	\$2,945.40
Lowe's Companies	LOW	0.3%	38	\$66.66	\$2,533.08	\$63.05	\$2,395.90
Nicholas Financial	NICK	0.6%	239	\$10.51	\$2,511.89	\$13.28	\$3,173.92
United Health	UNH	n/a	40	\$62.14	\$2,485.60	\$49.74	\$1,989.60
Vineyard National	VNBC	1.0%	81	\$30.84	\$2,498.04	\$27.92	\$2,261.52
Washington Mutual	WM	4.5%	55	\$43.50	\$2,392.50	\$49.06	\$2,478.30
Total:	-	AVG 1.8%	-	-	\$25,000.57	-	\$25,012.78

A \$25,000 CD returning 5% annually would have a year-end value of: \$26,250.  
For additional updates go to [www.pearsoncapitalinc.com](http://www.pearsoncapitalinc.com) Go to: "CD Buster 06"

**The same \$25,000.57 invested in our CD Buster December,30 2005 would have a value of \$25,012.78 on April 30, 2006 -- Profit: \$12.21 = + 0.05%**

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Pearson Capital, Inc. makes no guarantee as to the accuracy or completeness of this data. Information is provided for informational purposes only, and Pearson Capital, Inc. shall not be liable for any errors or omissions, or for any actions taken in reliance thereon.

#### The 2006 CD Buster

portfolio was created from our "top ten" list of growth, growth & income stocks, and ETF's, published in our January 2006 Investment Letter. The start up prices were taken from the market's closing price on December 30, 2005. This diversified portfolio demonstrates how selected stocks could outperform the regular bank CD yielding 5.0% annually. This example does not include trading fees and management fees as well as dividends earned. Current performance does not indicate or guarantee future performance. All



client portfolios are customized differently to meet their individual growth objectives and goals. There are no guarantees as to the profit of each - some may lose money.

**CD Buster is a stock simulation portfolio created by Pearson Capital, Inc. for informational/educational purposes only.**

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## WALL STREET INDEXES

Indexes	2000	2001	2002	2003	2004	2005	2006/YTD
S&P 500	(10.1%)	(13.3%)	(23.4%)	26.4%	9.0%	3.0%	5.0%
Dow Jones	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(0.61%)	6.1%
Nasdaq	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	1.37%	5.3%
Russell 2000	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	3.32%	13.6%
Our CD Buster	Data available on our website		8.1%	56.7%	22.8%	(Disputed)	0.05%
CD Annual Average	5.4%	3.0%	2.3%	1.5%	1.5%	3.5%	1.7%

### MARKET VIEW

*Christopher Carothers - PCI's Stock Analyst*

#### ECONOMIC FLOWS:

Most experts believe that the Federal Reserve will raise interest rates to 5 percent in May. However, that's where the agreement ends. Some economists believe that the Fed will take a "watch and see" approach to the economy. If the Fed tightens too much, it will cause the economy to slow to a crawl, increasing unemployment and causing housing prices to fall. If it does nothing, prices of key items, such as basic materials and oil, may quickly go higher. This will spread inflation throughout the entire economy.



**Key point:** *The Fed will wait and see to decide on rates.*

#### EARNINGS FLOWS:

May is the middle of first quarter earnings season. Some companies, like Google, have already put their best foot forward and reported great earnings. Others are waiting until it is their time to report. Some companies have come out and met their earnings but have reported a toned down or very conservative estimate for the future. Standard and Poors has lowered its expectations for the S&P 500 for both the quarter and the rest of 2006. Many analysts are subdued about the New Year because of the high prices in gasoline and other commodities. These commodities increase costs and put a crimp in future sales and earnings growth.

**Key point:** *Companies are looking for slower growth in the second quarter.*

#### CASH FLOWS:

The price of crude oil has increased 20 percent in the last four weeks. Gold and silver are reaching highs not seen in 25 years. Companies are very cautious in their business outlooks. As the price of oil continues to go higher, Wall Street believes that there will be some stock market weakness as earnings may take a hit. However, a lot of businesses hedge their risk to oil or do not depend as much on the price of crude as they did in the past. Many companies also still have a very large cash position, and will use it judiciously if any weakness persists in their corresponding stock price.

**Key point:** *Gas prices may slow the summer down.*

#### ADDITIONAL NOTES:

Any weakness in stocks presents a buying opportunity.

International stocks are not showing signs of weakness as of yet.

#### California update:

**Our visit this year was an over the top success! Thank you to everyone who joined us for dinner or attended our gatherings, especially those bringing other guests. Chris and I had a wonderful visit because of the hospitality and extra effort of so many. A special thank you to Clyde W., Skip T., and Mr. and Mrs. Kean G.**

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