

**PEARSON** Investment Letter

Published Monthly Since 1982

[www.pearsoncapitalinc.com](http://www.pearsoncapitalinc.com)**FEATURED STOCKS**

Affiliated Computer	Ryland group
Coinstar	Stet Hellas
Coventry Health	Taro Pharma
Medical Action	WebEx Comm

**GROWTH & INCOME STOCKS**

H & Q Life	High Country
------------	--------------

**I'VE LOST THE TRUST****BY DONALD PEARSON**

I have a problem and I'm not sure how to deal with it. After I explain my problem you may know of a

personal situation as you may have one of these many funds yourself. If you do, you are probably due a significant refund. The amount owed back to the investors will be staggering when this investigation is complete and all the guilty parties have been exposed. Repayment of management fees would be in addition to restitution to shareholders of profits made from alleged improper trading.

Although we were not buying these funds, we were relying on the information they provided. In portfolio building for our clients, we were using and relying a great deal on brokerage house and individual analyst reports and recommendations, along with a mutual fund's buying and selling activity. Although to some degree there is some similarity, it is not exactly the same. They could influence us with their recommendations and performance because we were using their information as a guide to assist us in our own decision-making.

I am happy to report that when all the investigative accusations of fraud and deception among analysts and brokerage houses made the news some eighteen months ago, we agreed as a team at Pearson Capital to go it alone from a research standpoint. We currently use as our sources, Standard and Poor, Value Line, and Investor's Business Daily. From this point forward it is our research, our formulas, and our systems that place ratings on stocks for growth, performance, and safety. Since we have begun this different way of analyzing each stock selected for our clients' portfolios, we have outperformed our every expectation and the S&P significantly. I have a hard time believing the S&P is up 20% year to date because we continue to receive new clients transferring to us who are not anywhere close to this.

Everyone seems to reference how sophisticated this business is. I don't believe it for a minute. The success of this business is simply two people working together, building a relationship built on trust. It begins with listening, simply because today's investor has more complex needs. Whether it's planning for retirement, building college funds, or some type of sophisticated solution, we simply begin by communicating.

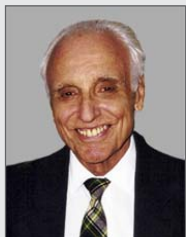
If only it would be this simple with the problem I already referenced. What do I tell the new investor with limited resources, that's looking for guidance and direction?

solution. If so, please call or e-mail, and share it with me.

Often when a new investor wants to open an account with limited resources, he or she would ask for some guidance and direction to begin investing, and I would suggest to them a mutual fund. Selecting individual stocks as we do and building a customized portfolio requires a minimum amount of capital or you do not get properly diversified. So, to prioritize safety I would send them in that direction. A new account is always nice for us to open, but knowing we cannot properly do the job expected of us to their or our expectations, it becomes the only decision that makes sense.

Unfortunately today, the mutual fund industry is being examined for investment infractions, and this affects the same people I have been trying to protect by suggesting a mutual fund. What's worse is the further the investigators dig, the more violations they find. What appeared to be an isolated but very serious problem is now turning into one that is larger than the analyst and broker scandal. What saddens me even more is the companies that I have been sending these people to, that I thought were reputable, honest, and trustworthy, are the ones making the news today. I know it's not every fund in every company, but I don't know how to tell the difference. Imagine going into Putnam Investments in the middle of October because I gave someone this advice, and within a month Putnam is charged with investment fraud. What does this do for my credibility? This did happen and within the following fourteen days their customers pulled ten billion out of their funds.

Now you can begin to understand my dilemma. In the past I have referenced Morgan Stanley, Citigroup, Fidelity, Janus, and Vanguard. This is not where the list of subpoenaed companies ends, as it is a very long list. These are merely the companies I endorsed and recommended. For those of you who currently own mutual funds, I would strongly suggest looking into your own



**Walter D. Pearson**  
*Chairman*



**Donald E. Pearson**  
*President*



**Sandra Alberti**  
*Publishing President*

**Investment Letters are complimentary to our clients with managed accounts!**

### INVEST, OR DON'T INVEST THAT IS THE QUESTION

I have lived long enough to have seen the market go down on numerous occasions. Sometimes there is a logical reason, while at other times the drop will border on the ridiculous. When the market goes down, it simply means that more stockholders are selling rather than buying. When the market has a real downward push, it usually means that a large segment of the public has bet on the negative side. Strangely enough, many of these drops are emotional, very much like the 10% drop in a single day which happened simply because the president had a heart attack.

#### INVESTMENT PROBLEMS

*One of today's problems in the field of investing is that our growth potential has been moved to other countries. The USA used to be the fastest growing country in the world, and there used to be a waiting list of people who wanted in. Now there is no more waiting list; people come in illegally and then go on relief, social security, or both. And, because of NAFTA and GATT, our manufacturers no longer have a level playing field. What this means to the investor is that his job is going to become much more difficult from here on in.*

*Investors should invest for growth because that is where the money is. Some growth companies pay dividends and some don't. The investor who needs income should be considering companies which are growing and also pay something in the way of income. The thing to remember is that a growing company is going to be worth more money the bigger it gets.*

*Different industries will have different growth patterns, just as each company is an entity by itself and will be somewhat different in the way it is run. Some companies will have better management than others. Some companies may have an expected growth pattern of 8% a year, while others may be expected to show a growth of 20% or more. A company that is growing at a rate of 15% a year should double earnings in about five years. This should also mean that the dollars you have invested in this company have doubled unless you paid too much to start with.*

*The person who requires income should concentrate on growth, with income as a secondary consideration. A withdrawal account can be set up to spin off the income required, but it is important to make sure that the account grows fast enough to supply the income needed. Most people do not look ahead when doing their planning. Some investors go into bonds because they might spin off the amount of income required this year. But, believe it or not, the cost of living rises each year and there is no end in sight. The man who needs 6% a year and buys no growth investments that will supply his future needs will rest behind the eight ball in only a single year and will see things deteriorate as time goes on. The man who invests for growth and finds only 10% a year will still be ahead of the game.*

*Because of current trends, growth stocks are fewer than they used to be, but we have been able to find them and expect to be able to continue through the foreseeable future. One of the pearls we found about a year ago was Orleans Home Builders, which was selling at \$6+ a share. The price at this writing is \$33+ which means more than 400% rise in value in a single year. Home building during the past year was one of the few areas which looked good for both growth and safety. Remember, even if you require income, you should also be looking for growth.*

Stock prices are one thing, but stock values are something else again. Because a stock sells for \$40 a share, it means that you can buy or sell at that price, but what is the real value? If that \$40 stock went up \$10 the next day, that would indicate that the market had under priced it the day before. If it dropped, that would have the same meaning in reverse. What it all comes down to is the investor should be investing at ALL times, providing only that he can locate value items. I think I shall always remember recommending Kaiser Steel at \$8 a share when the market was at a top. Two years later the market had bombed, but Kaiser was more than \$40. The stocks are there if you can find them.

It is very important to remember that we live with inflation. There is no need to discuss the rights or wrongs about it. It is here and we will live with it, like it or not. Once you realize this, it is also necessary to figure the rate of inflation and then take steps to counteract the ravages of this monster. It is because of inflation that CD's, money market funds, and the like are out of the question.

Let's examine the results of a five-year CD that is yielding 4%, even though that yield may be difficult to acquire these days. A \$10,000 investment would yield the investor \$400 each year and return him \$12,000 at the end of five years. That's how it looks on the face. Let's look a little deeper. With the inflation rate averaging 7% these days, the \$400 return would have a purchasing value of \$372 the first year, \$346 the second year, \$322 the third year, \$299 the fourth year, and \$278 at the end of the fifth year. As if that were not bad enough, the \$10,000 investment is returned five years later in one piece, but the purchasing power has shrunk to \$8,957.

This is the reason we recommend stock investments. It is simply a matter of searching for companies which are growing at a rate of 7% or better. For the investor who requires income, it may seem a bit more difficult, but the answer is to invest for income AND growth. Usually the best solution is to set up a withdrawal plan, which will keep the growth in place but will also supply an income which fits the investor's needs. Another thing to remember is that the long-term trend is up. Inflation pushes prices upward and this includes stock prices. Try to think logically; when stocks are down, they are cheaper.

---

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 DECEMBER

### AFFILIATED COMPUTER SERVICES, INC. (ACS) NYSE PRICE: \$50.14

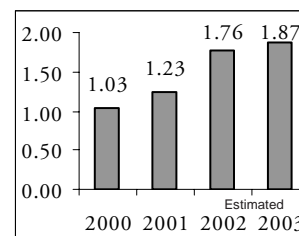
Affiliated Computer Services (ACS) is a provider of business process and information technology (IT) outsourcing services for commercial clients and government agencies around the world. ACS's business process outsourcing service offerings include processing, scanning, and analyzing company documents such as health care claims and financial transactions. ACS also provides systems integration and technology outsourcing services, including infrastructure and applications outsourcing, network management, e-business, information security, and technical support and training services. For the three months ended 9/30/03, revenues rose 17% to \$1.04 billion. Net income rose 25% to \$86.8 million. Revenues reflect an increase in sales from the Georgia and Texas Medicaid contracts. Net income also reflects an improvement in operating margins.

Type: Growth  
Sector: Technology

Institutional Holdings: 391  
Industry: Computer Services

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **21.6**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Bus. Daily: **B-**  
Pearson Growth Rating: **B+**  
Pearson Value Rating: **B-**  
Stand.&Poor Rating: **A**  
Value Line Rating: **3-3-3**



### COINSTAR, INC. (CSTR) NASDAQ PRICE: \$16.83

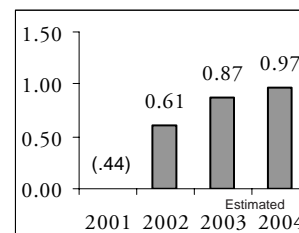
Coinstar owns and operates some 10,000 automated, freestanding machines that count coin deposits and return vouchers redeemable for cash or purchases. The units are primarily in supermarkets (such as Kroger and Albertson's) in nearly 140 regional markets in the United States and Canada. Coinstar's computerized units charge a processing fee (around 9%) and transmit information to the company daily, reducing downtime by alerting the company's field service staff when collection or maintenance is necessary. For the nine months ended September 30, 2003 sales rose 14% to \$129.8 million. Net income rose 66% to \$15.1 million. Results reflect growth in number of users and frequency of use, higher Coinstar units in service, the absence of a \$6.3 million loss on early retirement of debt and lower interest costs.

Type: Emerging Growth  
Sector: Technology

Institutional Holdings: 91  
Industry: Computer Services

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **7.0**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Bus. Daily: **C-**  
Pearson Growth Rating: **B-**  
Pearson Value Rating: **B-**  
Stand.&Poor Rating: **A+**  
Value Line Rating: **3-3-3**



### COVENTRY HEALTH CARE, INC. (CVH) NYSE PRICE: \$59.90

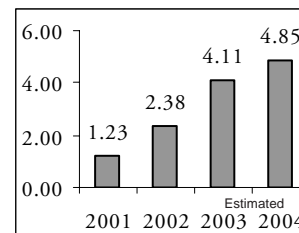
Coventry Health Care was created in 1998 when Coventry Corporation acquired Principal Financial Group's health care unit (doubling its size), the firm provides managed health care services to almost 2 million enrollees in about 15 states, primarily in the Midwest, Mid-Atlantic, and Southeast regions. Its plans include point of service, HMOs, and PPOs, as well as Medicare and Medicaid products. The company also administers self-insured health plans for large employers. Investment firm Warburg Pincus, owns more than 30% of the firm. For the nine months ended 9/30/03, revenues rose 26% to \$3.31 billion. Net income rose 71% to \$180.5 million. Results reflect organic membership growth and acquisitions, and an improved gross profit margins, and lower depreciation and amortization.

Type: Emerging Growth  
Sector: Healthcare

Institutional Holdings: 274  
Industry: Healthcare Facilities

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.4**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Bus. Daily: **A+**  
Pearson Growth Rating: **B-**  
Pearson Value Rating: **A-**  
Stand.&Poor Rating: **A**  
Value Line Rating: **2-3-3**



### MEDICAL ACTION INDUSTRIES, INC. (MDCI) NASDAQ PRICE: \$16.62

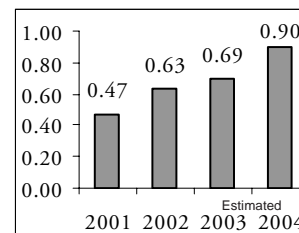
Medical Action Industries Inc. develops, manufactures, markets and supplies a variety of disposable medical products. The Company also manufactures its products under private label programs to other distributors and medical suppliers. Its products are marketed primarily to acute care facilities in domestic and certain international markets. MDCI also makes gauze sponges and dressings, which are used in medical, dental, and veterinary offices. Other medical supplies include preassembled procedure trays, eye spears, disposal systems for infectious waste, equipment covers, and surgical marking pens. The company's major customers include medical distributors Allegiance, Owens & Minor, and McKesson. For the six months ended 9/30/03, sales rose 37% to \$63.0 million. Net income rose 26% to \$4.6 million.

Type: Growth  
Sector: Healthcare

Institutional Holdings: 37  
Industry: Med. Supplies

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **18.5**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Bus. Daily: **A**  
Pearson Growth Rating: **B**  
Pearson Value Rating: **B-**  
Stand.&Poor Rating: **C**  
Value Line Rating: **N/R**



## PEARSON CAPITAL'S RECOMMENDED STOCKS FOR DECEMBER

### THE RYLAND GROUP, INC. (RYL) NYSE PRICE: \$92.15

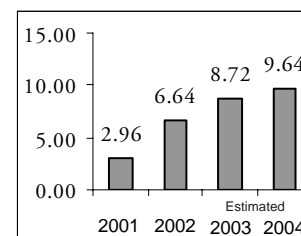
The Ryland Group constructs its homebuilding business on a firm foundation — expanding within its existing markets and targeting entry-level, first- and second-time move-up, and active retired adult buyers. As a top US homebuilder, Ryland builds homes that range in price from \$75,000 to more than \$767,000 (averaging \$210,000). The group also provides mortgage-finance services, including title search, settlement, escrow services, and homeowners insurance through Ryland Mortgage. For the nine months ended 9/30/03, revenues increased 22% to \$2.37 billion. Net income increased 32% to \$155.5 million. Revenues reflect an increase in average closing prices and closing volume. Net income also reflects an increase in gross profit margins due to reduced direct construction costs resulting from cost-savings initiatives.

Type: Growth  
Sector: Capital Goods

Institutional Holdings: 180  
Industry: Construction Serv.

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.8**  
Annual Yield: **0.1%**  
Annual Dividend: **\$0.08**  
Investor's Bus. Daily: **A+**  
Pearson Growth Rating: **B-**  
Pearson Value Rating: **A**  
Stand.&Poor Rating: **B+**  
Value Line Rating: **1-3-2**



### STET HELLAS TELECOMMUNICATIONS S.A. (STHLY) NASDAQ PRICE: \$12.60

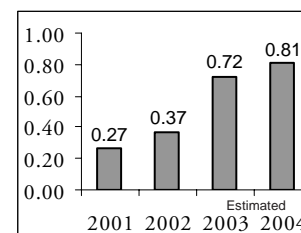
Stet Hellas Telecommunications S.A. provides GSM (global systems for mobile communication) mobile telecommunications services in Greece. STHLY is one of four operators licensed to provide mobile telecommunications services in Greece, and one of three operators licensed to provide national GSM services in the 900 Mhz (megahertz) frequency band and UMTS (universal mobile telecommunications system) services in Greece. On December 31, 2002, it signed a commercial agreement with EUROPROM Telecommunications S.A. to lease EUROPROM's fixed wireless access (FWA) license in the 25 GHz (gigahertz) frequency band. For six months ended 6/30/03, revenues increased 25% EUR380.6 million. Net income increased 48% to EUR40.7 million. Revenues reflect sustained customer and traffic growth and increased roaming charges.

Type: Growth  
Sector: Services

Institutional Holdings: 10  
Industry: Comm. Services

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **10.5**  
Annual Yield: **0.6%**  
Annual Dividend: **\$0.08**  
Investor's Bus. Daily: **A-**  
Pearson Growth Rating: **A+**  
Pearson Value Rating: **A**  
Stand.&Poor Rating: **N/R**  
Value Line Rating: **N/R**



### TARO PHARMACEUTICAL INDUSTRIES, LTD (TARO) NASDAQ PRICE: \$68.93

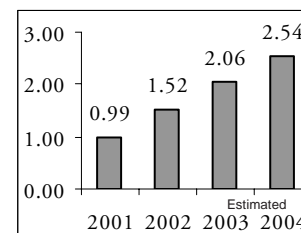
TARO is an Israeli corp. that operates in Israel and through Israeli, North American and Europ.subsidiaries (Group). All of the industrial pharmaceutical activities of the Group in Israel are performed by the Company. The activities of the Group in N. America are performed by Taro Pharmaceuticals Inc., Taro Pharmaceuticals N. America, Inc. and Taro Pharmaceuticals U.S.A., Inc. Taro Research Institute Ltd. provides research and development services to the Group. Taro International Ltd. and Taro Pharmaceuticals (UK) Ltd. are engaged in the marketing activities of the Group outside N. America. For the six months ended 6/30/03, sales rose 53% to \$143.7 mill. Net income rose 44% to \$28.8 mill. Results reflect increased product sales, partially offset by increased SG&A expenses due to costs related to new proprietary product divisions and higher R&D costs.

Type: Growth  
Sector: Healthcare

Institutional Holdings: 125  
Industry: Biotechnology

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **35.5**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Bus. Daily: **A+**  
Pearson Growth Rating: **A**  
Pearson Value Rating: **C+**  
Stand.&Poor Rating: **A**  
Value Line Rating: **N/R**



### WEBEX COMMUNICATIONS, INC. (WEBX) AMEX PRICE: \$19.76

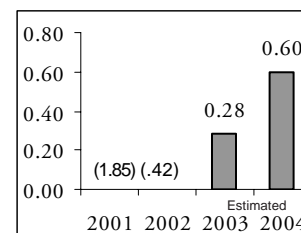
WebEx is a leading provider of Web conferencing systems that let firms conduct meetings and share information over the Internet. WebEx's hosted services enable companies to convene with employees, clients, and partners to make presentations, exchange documents, share applications, and edit documents electronically. WebEx also offers services that help businesses provide live, technical support for their customers, accessible through Web browsers. The company acquired competitor Presenter, Inc., in July 2003. Director Jan Baan (Baan Company founder) and his brother Paul own about 20% of WebEx. For the nine months ended 9/30/03, revenues increased 36% to \$135.5 million. Net income totaled \$25.3M, up from \$9.5 million. Results reflect a growth in direct subscribing customers and a lower stock compensation charge.

Type: Emerging Growth  
Sector: Technology

Institutional Holdings: 98  
Industry: Computer Sciences

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **26.0**  
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: **1-4-3**



## WALL STREET INDEXES

Indexes	1997	1998	1999	2000	2001	2002	2003/YTD
<b>S&amp;P 500</b>	31.0%	28.5%	21.1%	(10.1%)	(13.3%)	(23.4%)	20.3%
<b>Dow Jones</b>	19.7%	18.1%	25.2%	(6.2%)	(7.1%)	(16.8%)	17.3%
<b>Nasdaq</b>	21.6%	39.6%	85.6%	(39.3%)	(21.1%)	(31.5%)	46.8%
<b>Russell 2000</b>	20.5%	(2.4%)	21.3%	(4.2%)	1.0%	(21.6%)	42.7%
<b>Our CD Buster</b>	Data for 2003 is available on our website					<b>8.1%</b>	<b>52.6%</b>
<b>CD Annual Average</b>	5.2%	4.7%	4.9%	5.4%	3.0%	2.3%	1.5%

## MARKET VIEW

*Christopher Carothers - PCI's Stock Analyst*

### ECONOMIC FLOWS:

The dollar is reaching an all-time low against the Euro. Many stocks have benefited from the depreciating currency. International companies such as McDonald's, Tricon Global, and Coca-Cola have seen their bottom lines profit from the falling greenback. China has also benefited from this movement, since its currency is fixed. The lower the dollar goes, the lower its currency goes too, giving them a key leg up in the export market. As long as this connection continues consumers will benefit from the cheap Asian imports. China has become the springboard of exports for most Asian countries. It buys far more from many Asian countries than it exports to them. So far this year, China's overall imports are more than 40%, and remain open to foreign investment. China is the best market for any exports from the United States, soaring more than 35%. South Korea, Singapore, Hong Kong, Japan, and Taiwan have moved many of their own plants to China to take advantage of the cheap labor. So when we talk about China, we are actually discussing all of Asia at once. China's fixed currency, low cost of labor, and educated society has increased the profit margins for all companies that are participating, not just China alone.



### EARNINGS FLOWS:

Earnings news is starting to end at this period of time. There was less bad news than usual this time around. Many stocks have made all-time highs on good earnings reports throughout October and November, based on fantastic earnings news. Christmastime is usually a good time for the stock market. The retail season comes in full force as stocks that we own hit their highs for the year. Look for good earnings from Coach, Hot Topic, and some trendier stores as shoppers look for things other than bargains. Plasma televisions and diamonds are two things shoppers are buying. We will probably see good earnings in Home Depot and Lowes, as people still focus on buying and upgrading their homes. So, if there is any bad news it usually comes after the new year.

### CASH FLOWS:

Merger activity is on the move, with Washington Mutual and Citigroup doing some talking with one another. Only unjustified rumors abounded as the Washington Mutual sold one of their subsidiaries to Citigroup instead. Look for banks continuing to merge with each other as interest rates remain at 45 year lows. Many companies seek to take advantage of the good times as long as they last. Restaurants, homebuilders, and other interest-rate-sensitive businesses will expand outward as long as they are cash flow positive. Expansion is the name of the game for the year 2004. Companies that have done well for us we believe will keep right on rolling.



### **PCI's Management Team Continues To Grow**

**Marie Grenchik**  
*Client Associate*

We are welcoming Marie to Pearson Capital, Inc. She will assist all clients with new account openings and account transfers.

Marie was born and raised in the Chicago area. She has a Bachelor of Science in Management from St. Joseph College (Indiana), where she was also Assistant Dean for 15 years. Marie worked at Merrill Lynch in Tampa, FL as a Client Associate for the past two years before joining our management team.

**Pearson Capital, Inc.**  
[www.pearsoncapitalinc.com](http://www.pearsoncapitalinc.com)

6431 Rubia Circle  
**Apollo Beach, Florida 33572**  
Tel: (813) 641 - 7575  
Fax: (813) 641 - 7755  
Toll Free: (800) 510-0329

1628 White Arrow Drive  
**Dover, Florida 33527**  
Tel: (813) 659 - 2560

**Chairman Of The Board**  
**Head Of Investment Research**  
Walter D. Pearson  
E-mail: [PearsonCap@aol.com](mailto:PearsonCap@aol.com)

**President**  
Donald E. Pearson  
E-mail: [PearsonCapital@aol.com](mailto:PearsonCapital@aol.com)

**Stock Analyst**  
Chris Carothers  
[ChrisCarothers@pearsoncapitalinc.com](mailto:ChrisCarothers@pearsoncapitalinc.com)

**Account Manager**  
Karla Chernicky  
[PearsonCapital5@yahoo.com](mailto:PearsonCapital5@yahoo.com)

**The Pearson Investment Letter**  
published monthly since 1982  
[www.pearsoninvestmentletter.com](http://www.pearsoninvestmentletter.com)

**Publishing President**  
Sandra Alberti  
[SandraAlberti@pearsoninvestmentletter.com](mailto:SandraAlberti@pearsoninvestmentletter.com)

**Editor**  
Roberta Wilde

### **Services Provided**

Managed Accounts:  
Individual - Joint - Custodial  
Corporate - Partnership - Trust  
IRA's; Roth - Trad - College - SEP  
401(k) & 403(b) Rollovers  
Transfers

Management fee of 1% annually  
for accounts of \$25,000 or more  
(2% for smaller accounts)

**Free consultation**  
**No hidden fees**  
**Privacy Policy**

### **Table of Contents**

Walter's Wisdom:	2
Featured Stocks:	3
Featured Stocks:	4
Market Outlook / Pub.Notes:	5
Income Stocks:	6

## DECEMBER'S RECOMMENDED GROWTH & INCOME STOCKS

### H & Q LIFE SCIENCES INVESTORS (HQL) NYSE PRICE: \$15.85

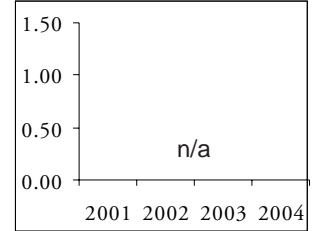
HQL (the Fund) is a Massachusetts business trust registered under the Investment Company Act of 1940 as a diversified closed-end management investment company, and invests in investment securities of companies in the life sciences industries. The Fund's investment objective is long-term capital appreciation through investment in securities of companies in the life sciences industries. It invests primarily in securities of public and private companies that may have significant potential for above-average growth. Hambrecht and Quist Capital Management LLC acts as the advisor of the Company effective July 1, 2002. For the six months ended 3/31/03, investment income totaled \$325 thousand. Net investment loss totaled \$1 million. Net increase in net assets resulting from operations totaled \$2.6 million. Net asset value per share totaled \$14.08.

Type: Growth & Income  
Sector: Financial

Institutional Holdings: 0  
Industry: Misc. Finc. Services

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **5.3**  
Annual Yield: **11.0%**  
Annual Dividend: **\$1.80**  
Investor's Bus. Daily: **N/R**  
Pearson Growth Rating: **A+**  
Pearson Value Rating: **A+**  
Stand.&Poor Rating: **N/R**  
Value Line Rating: **N/R**



### HIGH COUNTRY BANCORP, INC. (HCBC) NASDAQ PRICE: \$30.27

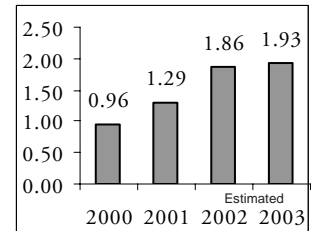
High Country Bancorp is the holding company for High Country Bank (formerly Salida Building and Loan Association), which was founded in 1886 as the first savings and loan association chartered in Colorado. Serving the state's tourist-oriented "Fourteener" region (for the number of mountain peaks exceeding 14,000 feet), the bank operates four offices in Salida, Buena Vista, and Leadville. The bank also owns High Country Title and Escrow Company. For the fiscal year ended 6/30/03, interest income fell 1% to \$12.7 million. Net interest income after LLP rose 8% to \$7 million. Net income rose 17% to \$1.9 million. Net interest income reflects reduced yields earned on interest earning assets, offset by reduced deposit costs. Net income also reflects greater gains on the sale of loans and an increased absorption of overhead expenses.

Type: Growth & Income  
Sector: Financial

Institutional Holdings: 0  
Industry: Savings Banks

#### Ratings & Recommendations Earnings per share

Current P/E Ratio: **14.8**  
Annual Yield: **1.7%**  
Annual Dividend: **\$0.50**  
Investor's Bus. Daily: **C-**  
Pearson Growth Rating: **B-**  
Pearson Value Rating: **B**  
Stand.&Poor Rating: **N/R**  
Value Line Rating: **N/R**



## YIELD - GROWTH - PERFORMANCE - SAFETY

*Occasionally I am asked why many of the stocks we select and buy for an income account have small yields in comparison to portfolios assembled by others having*

*selections with much higher yields. Although yields are important, never lose sight of growth. At year end a stock that had a 12% growth rate and a 2% yield will look a lot better in your portfolio next to the utility or income stock that's yielding 6% but has little or no growth.*

*Another misconception shared by most is thinking that a stock with the lower p/e is a better investment. Many believe this is the safest way to determine value. I can assure you this is also wrong. Every stock must be judged by its individual merits. Stocks growing at 15%, while yielding only 1%, will double every four and a half years, while the utility yielding 6% without growth will take twelve. By p/e standards, we can agree the one growing at a higher multiple is certainly worth more.*

*We will be putting another year behind us within a month. I ask you to use this time wisely and evaluate your portfolios. Do they contain what you need to get the job done? You'll probably discover that the stock giving you the best growth has the higher p/e too.*

*Finding quality stocks that exceed expectations are difficult but certainly not impossible. We place our favorite three in everyone's growth and income portfolios. They are, Doral Financial (DRL), Washington Mutual (WM), and Chelsea Property Group (CPG). For the past three years their combined averages are yielding at 3.2%, p/e at 14.7%, and their combined growth annualized at 26%. Both DRL and WM remain solid growth stocks with increased dividend yields. We will be analyzing CPG in December because it is reaching full value and may be one that should be sold. Once a stock stops or slows its growth, the yield is not enough to keep it in a portfolio, and at full value the risk exposure begins to become a factor also. CPG is currently on our "watch list" for selling.*

By Donald Pearson

**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 cannot be guaranteed.