

PEARSON Investment Letter

Published Monthly Since 1982

www.pearsoncapitalinc.com**FEATURED STOCKS**

WR Berkley Corp	Petrokzakhstn, Inc
Coventry Health	Select Medical
Escalade, Inc	Severn Bancorp
LifeCell Corp	UTStarcom

GROWTH & INCOME STOCKS

Old Second Banc	MBNA Corp
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BEING WELL INFORMED**BY DONALD PEARSON**

Last week I had the opportunity to attend a real estate seminar here

search of the right investment to review the material and the person presenting it very carefully. Talk to others, and get a second opinion. The great deal, if it truly is, will be there waiting for you tomorrow. One more day is not going to make the difference.

The Compliance Spotlight recently published the "top ten" list of scams being used in 2004. I want to familiarize you with this list hoping that anyone approached or solicited has learned enough to investigate the opportunity thoroughly before investing any money. What saddens me most is meeting people personally who have become victims to some of these scams.

Ponzi Schemes: Named for swindler Charles Ponzi, who in the early 1900s took investors for \$10 million by promising 40% returns, these schemes are perennial favorites among con artists. The premise is simple: promise high returns to investors and use money from previous investors to pay new investors. Inevitably the schemes collapse and the only people to consistently make money are the promoters who set the Ponzi scheme in motion.

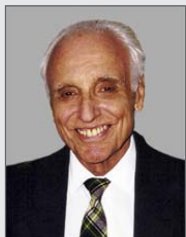
Senior Investment Fraud: A complex investment scam involving unregistered securities, promissory notes, charitable gift annuities, and Ponzi schemes, all promising inflated returns. These schemes offer products and pitches that may sound tempting to many seniors who've seen their retirement accounts and income dwindle in recent years.

Promissory Notes: These are short term debt instruments often sold by independent insurance agents and issued by little known or nonexistent companies promising high returns - upward of 15% monthly - with little or no risk. When interest rates are low, investors are often lured by the higher, fixed returns that promissory notes offer. These notes, however, can become vehicles for fraud when the issuer of the note has no intention or capability of ever delivering the returns promised by the salesperson.

Unscrupulous Brokers: Despite the rebound of the stock market in 2003, state securities regulators say they are still receiving a high level of complaints from investors of brokers cutting corners or resorting to outright fraud to fatten their wallets.

in Tampa, Florida. It was a four-day event that started at 8:00 A.M. and lasted until 5:00 P.M. every day. The cost of a ticket was \$500 per person, and I left the seminar on Sunday thinking to myself what a bargain these people received. The room was filled with close to 300 people eagerly awaiting the message of the host and four additional speakers. All of these speakers were sharing their life experiences with the group and all are considered to be experts in their field. As the financial advisor for one of the speakers, I was an invited guest, and merely sat in the back of the room to listen and observe. The most important message I heard repeatedly was, become well informed before making that all-important decision in the real estate endeavor you are about to start. I couldn't help but think how similar this is with securities, as well as most other areas of our lives.

With investments it is important to select the right advisor or broker. There are scam artists who prey upon people every day in the investment world. It is much wiser to do the research before selecting, rather than wait until you realize a mistake has been made and then try to find an exit strategy that carries the smallest penalty. As one of the speakers said, the best time to evict a bad tenant is before you rent to them. The same is true of your investment advisor. Good questions to ask when you begin looking are: How long have you been doing this? Will you share with me your past results? May I have references? What fees do you charge? How do you get paid? Because your situation in life may change, a most important question that should also be asked, but never, or rarely, is: **Am I going to be penalized if I decide at anytime this is not for me?** If the answer is, oh yes, your penalty is 3, 5, or 7 percent of your assets or more, excuse yourself and walk away. Better yet, excuse yourself and run. If it's such a good deal for you, and your agent is receiving a healthy commission for placing you there, why should you be penalized for leaving? I appeal to everyone in



Walter D. Pearson
Chairman



Donald E. Pearson
President



Sandra Alberti
Publishing President

Investment Letters are complimentary to our clients with managed accounts!

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DICK DAVIS DIGEST



Investment Ideas From The Best Minds On Wall Street

Twenty-three years in publication

June 21, 2004

Volume 23, Issue 530

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In keeping with our 24-issue-per-year schedule, there will be a three-week break between this issue and the next Dick Davis Digest. Issue 531 will be published on July 12, 2004.

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IN PERSPECTIVE

BEING WELL INFORMED

"Last week I had the opportunity to attend a real estate seminar here in Tampa, Florida," says Donald Pearson (Pearson Investment Letter, www.pearsoncapitalinc.com, (800) 510-0329, 12 issues, \$150, 6/04). "All of the speakers were sharing their life experiences with the group and all are considered to be experts in their field. As the financial advisor for one of the speakers, I was an invited guest, and merely sat in the back of the room to listen and observe. The most important message I heard repeatedly was, become well informed before making that all-important decision in the real estate endeavor you are about to start. I couldn't help but think how similar this is with securities, as well as most other areas of our lives.

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SPOTLIGHT ON MIDCAPS

"Investors often look past midcap stocks in favor of small- or large-company stocks," says Richard Moroney, CFA (Upside, www.upsidestocks.com, (219) 931-6480, 12 issues plus twice weekly hotline updates, \$239, 6/7/04). "That's a mistake, as the second tier of corporate America includes many of today's best growth stories. Definitions of midcap vary. Ibbotson Associates divides all common stocks on the NYSE into 10 equal-numbered deciles based on stock-market value, with midcaps comprising deciles three, four and five. Based on that definition, today's midcaps have stock-market values of \$1.5 billion to \$5.7 billion. Among the roughly 5,000 stocks in our Quadrix universe, 734 are midcaps. According to Ibbotson, midcap stocks returned an annualized 11.3% from 1926 through 2003. Among large stocks, decile one returned 9.6% and decile two returned 10.8%.

"Small stocks (deciles six, seven and eight) returned a combined 11.7%, while microcap stocks (deciles nine and ten) returned 12.7%. By some measures, midcaps outperform small stocks on a risk-adjusted basis. A useful metric is excess return per unit of risk, calculated by subtracting Treasury bill returns from stock returns and dividing by standard deviation (a measure of volatility). The higher the ratio, the better the risk-adjusted performance. For midcaps, which from 1926 to 2003 had an annual standard deviation of 25.1%,

(continued on page 4)

have references? What fees do you charge? How do you get paid? Because your situation in life may change, a most important question that should also be asked, but never, or rarely is: Am I going to be penalized if I decide at anytime this is not for me? If the answer is, oh yes, your penalty is 3, 5 or 7% of your assets or more, excuse yourself and walk away. Better yet, run. If it's such a good deal for you, and your agent is receiving a healthy commission for placing you there, why should you be penalized for leaving? I appeal to everyone in search of the right investment to review the material and the person presenting it very carefully. Talk to others, and get a second opinion. The great deal, if it truly is, will be there waiting for you tomorrow. One more day is not going to make the difference. *The Compliance Spotlight* recently published the 'top ten' list of scams being used in 2004.

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"Affinity Fraud: Con artists know that it is only human nature to trust people who are like yourself. That's why scammers often use their victim's religious or ethnic identity to gain their trust, and then steal their savings. No group seems to be immune from fraud.

"Insurance Agents and other Unlicensed Securities Sellers: While most independent insurance agents are honest professionals, too many are lured by high commissions into selling

fraudulent or high-risk investments such as promissory notes and ATM and pay phone investment contracts. The person running the scam instructs the independent sales force, usually insurance agents, but sometimes investment advisors and accountants, to promise high returns with little or no risk.

"Prime Bank Schemes: A personal favorite of con artists who promise investors triple digit returns through access to the investment portfolios of the world's elite banks. The negative publicity attached to these schemes has caused promoters to avoid explicitly referring to Prime Banks. Now it's common to avoid the term altogether and underplay the role of banks by referring to these schemes as 'risk free guaranteed high yield instruments' or something equally as deceptive.

"Internet Fraud: With the Internet becoming a common part of daily life for increasing numbers of people, it should be no surprise that con artists have made cyberspace a prime hunting ground for victims. The most recent figures show cyber-fraudsters took in \$122 million in 2002, according to the Federal Trade Commission. The Internet has made it simple for con artists to reach millions of potential victims at minimal cost. Many of the online scams that regulators see today are merely new versions of schemes that have been fleecing offline investors for years.

"Mutual Fund Business Practices: The mutual fund industry continuously puts its own interests before that of its shareholders. State and federal regulators have uncovered sales contests where investors have been steered to funds paying higher commissions to brokers and other abusive trading practices, such as market timing, that will most likely cost the buy and hold investors more than \$5 billion each year. Other illegal trading practices are too numerous to cover in this article.

"Variable Annuities: Sales of variable annuities have increased dramatically over the past decade. As the sales have risen, so too have complaints from investors. Regulators are concerned that investors are not being told about high surrender charges and the steep sales commission agents often earn when they move investors into variable annuities. Some investors are also misled with claims of guaranteed returns when variable annuity returns are actually vulnerable to the volatility of the stock market. High commissions often are the driving force for the sale of variable annuities.

"The SEC has determined that on or before Oct. 5, each company must designate a Chief Compliance Officer to administer its compliance responsibilities, placing the full burden of the law on that individual. With the code of ethics we maintain, this will have little or no change at Pearson Capital, as I am accepting this responsibility. Our code of ethics has always placed the needs of our clients first, and any fee received secondary, without loads or penalties."

Donald Pearson - Continued from page 1

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Internet Fraud: With the Internet becoming a common part of daily life for increasing numbers of people, it should be no surprise that con artists have made cyberspace a prime hunting ground for victims. Internet fraud has become a booming business. The most recent figures show cyber-fraudsters took in \$122 million in 2002, according to the Federal Trade Commission. The Internet has made it simple for a con artist to reach millions of potential victims at minimal cost. Many of the online scams that regulators see today are merely new versions of schemes that have been fleecing offline investors for years.

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Because of the shenanigans we all are aware of in the investment business today, the SEC has determined that on or before October 5, each company must designate a Chief Compliance Officer to administer its compliance responsibilities. This will place the full burden of the law on that individual. With the code of ethics we maintain, this will have little or no change at PCI, as I am the person accepting this responsibility. Our code of ethics has always placed the needs of our clients first, and any fee received secondary, without any loads or penalties.

THE INVESTOR

I think every investor should consider why he is an investor. With the way things have been going in today's market, one tends to lose sight of certain factors, and it is possible to lose one's way if not careful. An investor can be investing for income, or for growth, or it could be that he can't figure out any better place to keep his money, so it winds up in the stock market. Those who don't understand inflation may wind up purchasing bonds. Before the Federal Reserve was born, there was a reasonably good explanation for going the bond route. Bonds were reasonably safe and gave a good return, and, when the investor cashed them in, he didn't find that his dollars bought only one half, or one-third, as much as when he had made the original investment. Like everything else, investing has changed, and the bond investor today may be unaware that he is fighting a losing war. As long as he receives his check each month, he doesn't bother checking out his principal. The investor who understands the rapidity with which inflation can decimate one's savings is the fellow who looks elsewhere to place his wherewithal.

It is very easy to lose sight of the trees because of the size of the forest. Each of us should be looking for companies which will be spinning off healthy dividend checks. With the advent of the Internet, companies are selling for hundreds of dollars per share in spite of the fact that they not only don't pay dividends, but they are, and have been operating at a loss. The point I wish to make here is that one should be careful when investing. There is no point in investing in a company that is never going to earn enough to pay a dividend some time in the future. Most companies that pay dividends have been around for a long time. As their earnings grow and they expand their business, there comes the time when they have more money than they need, and some of the excess is spun off to the shareholders in the form of dividends.

In the main, we stress growth stocks because they usually do a better job for the investor. As they grow through the years, they will become income stocks. The time will be reached where the company's earnings will have mounted to a point where not much growth is left. It is at this time that your company will decide that you deserve some of the fruits, and you will start receiving your dividend checks.

For example, years ago McDonald's stock was much cheaper and no dividends were paid. The company has now grown to such a size that growth potential in this country is well nigh exhausted, and it is necessary to consider opening stores in foreign countries. However, they now pay dividends.

Today we are sitting with a batch of new industries, all having come out of the computer industry. The growth potential in this area is fabulous, and it is my opinion that each of us should be involved. There is no time like the present. It doesn't make sense to look at Microsoft and wring one's hands because he didn't invest in it two, five, or eight years ago. One should be looking at the future, not the past. If I didn't own Microsoft, I might even buy it. The important thing is to get started. Looking back, it is easy to see that one should have invested in McDonald's, or Microsoft, or Oracle, or Wal-Mart. The list is endless. In choosing, one can think in terms of dividends. Wal-Mart and McDonald's both pay dividends whereas Oracle does not. This simply means that Oracle has better places to put the money. Dividends will start when its growth potential becomes more limited. Presently, this company is using ALL of its profits and still expanding.

The bond holder should start thinking about his position after a period of time has expired. If the inflation rate is 9% and his dividend yield is 5%, this represents a 4% annual loss of capital, with no return. In other words he has netted not 5% a year, but minus 4%. It is a gradual thing and this is the reason that so many are taken in. A simple way to check on inflation is to go to the library and look up the price of cars ten years ago. If you find the price of cars has doubled in that period, it is easy enough to see that the bond you could have bought at that time has lost 50% of its purchasing power.

Another insidious factor that goes unnoticed by most income investors is that through the years one's income is going down hill, even though the same dollar

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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 JUNE

WR BERKLEY CORP (BER)

NYSE PRICE: \$41.65

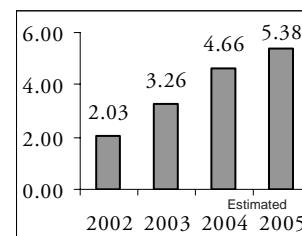
BER is an insurance holding company that, through its subsidiaries, operates in 5 segments of the property casualty insurance business: specialty lines of insurance, including excess and surplus lines and commercial transportation; alternative markets, including workers comp. and the management of self-insurance programs; reinsurance; regional commercial property casualty insurance, and international. International operations are conducted in Argentina and Asia. In addition, BER owns a majority interest in Peyton Street Independent Fincl Services, a unitary thrift holding company. For the three months ended 3/31/04, revenues rose 36% to \$1.08 billion. Net income before accounting change rose 62% to \$116.2 million. Results reflect growth in specialty and alternative market premiums earned and an improved loss ratio due to higher prices.

Type: Growth
Sector: Financial

Institutional Holdings: 158
Industry: Insurance

Ratings & Recommendations Earnings per share

Current P/E Ratio: **9.6**
Annual Yield: **0.7%**
Annual Dividend: **\$0.28**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **A**
Pearson Value Rating: **A**
Stand.&Poor Rating: **C-**
Value Line Rating: **2-3-3**



COVENTRY HEALTH CARE, INC (CVH) NYSE PRICE: \$46.08

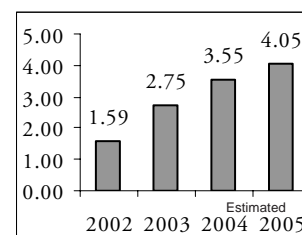
CVH is a managed health care company operating a diversified portfolio of local market health plans serving 14 markets, primarily in the mid-Atlantic, midwest and southeast. Coventry's health plans are operated under the names Altius Health Plans, Carelink Health Plans, Coventry Health Care, Coventry Health and Life, Group Health Plan, HealthAmerica, HealthAssurance, HealthCare USA, PersonalCare, SouthCare, Southern Health and WellPath. CVH has three reportable segments: Commercial, Medicare and Medicaid products. Coventry also offers management services and access to its provider networks. For the three months ended 3/31/04, revenues rose 21% to \$1.29 billion. Net income rose 50% to \$74.3M. Results reflect organic membership growth and acquisitions, improved gross profit margins, and higher other income.

Type: Growth
Sector: Healthcare

Institutional Holdings: 270
Industry: Healthcare Facilities

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15.3**
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: **2-3-3**



ESCALADE, INC (ESCA) NASDAQ PRICE: \$18.24

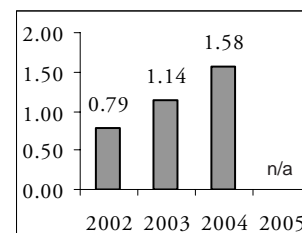
Escalade, Inc. operated in two business segments: sporting goods and office products. Escalade and its predecessors have manufactured and sold sporting goods products. The Company's Sporting goods segment contributed 63%, 82% and 80% to its net sales as of the year ended December 27, 2003, 2002 and 2001, respectively. The office/graphic arts segment contributed 37%, 18% and 20%. Operating under the Martin Yale name, the office product business gained a worldwide presence with the 2003 acquisition of Schleicher & Co. International, AG, a manufacturer and distributor of data shredding equipment headquartered in Germany. For the 13 weeks ended 3/20/04, revenues rose 21% to \$35.3M. Net income totaled \$598 thousand, up from \$7 thousand. Revenues reflect increased sales of sporting goods.

Type: Growth
Sector: Consumer Cyclical

Institutional Holdings: 11
Industry: Recreational Prod.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15.6**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **A**
Pearson Value Rating: **B**
Stand.&Poor Rating: **N/R**
Value Line Rating: **3-3-3**



LIFECELL CORPORATION (LIFC) NASDAQ PRICE: \$10.22

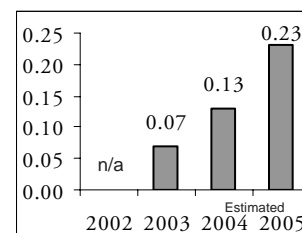
LifeCell Corp develops and market biological products for the repair and replacement of damaged or inadequate human tissue in numerous different clinical applications. The Company's proprietary tissue matrix technology removes all cells from the tissue and preserves the tissue without damaging the essential biochemical and structural components necessary for normal tissue regeneration. The Company markets four proprietary human tissue-based products: AlloDerm, Cymetra, Repliform, and Graft Jacket. For the three months ended 3/31/04, revenues increased 53% to \$13.8 million. Net income increased 57% to \$883 thousand. Revenues reflect increased sales of products in reconstructive surgical procedures. Earnings also benefitted from decreased research and development expenses as a percentage of sales.

Type: Growth
Sector: Healthcare

Institutional Holdings: 15
Industry: Biotechnology

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.6**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B-**
Pearson Growth Rating: **B**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **B-**
Value Line Rating: **N/R**



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PETROKZAKHSTN, INC (PKZ) NYSE PRICE: \$26.67

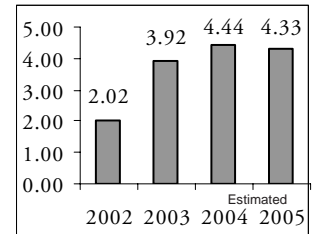
PetroKazakhstan Inc., formerly Hurricane Hydrocarbons Ltd. is an integrated, international energy group engaged in the exploration for, development and production of oil and gas, the refining of oil and the sale of oil and refined products. For 2003, production averaged 151,349 barrels of oil per day (bopd), an increase of 11% over 2002. During 2003, the Company completed a number of key projects, drilled five appraisal wells and hydraulically fracture stimulated one additional well. Further fracture stimulation is planned on two other wells in 2004. For the three months ended 3/31/04, revenues rose 29% to \$321.5 million. Net income applicable to Common increased 28% to \$87.5 million. Revenues reflect higher average production volumes. Net income was partially offset by higher crude oil and refined product purchases.

Type: Growth
Sector: Energy

Institutional Holdings: 48
Industry: Oil Well/Equipment

Ratings & Recommendations Earnings per share

Current P/E Ratio: **6.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



SELECT MEDICAL CORPORATION (SEM) NYSE PRICE: \$13.41

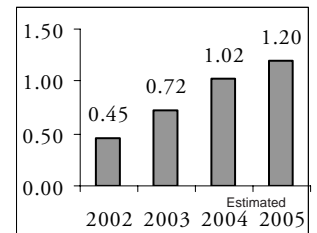
Select Medical Corp. provides long-term acute care hospital services and inpatient acute rehabilitative hospital care through its Select Specialty Hospital division and provides physical, occupational and speech rehabilitation services through its outpatient divisions. The Company's outpatient rehabilitation business consists of clinics and contract services that provide physical, occupational and speech rehabilitation services. As of the year ended Dec. 31, 2003, SEM operated 79 long-term acute care hospitals in 24 states, four acute medical rehabilitation hospitals in New Jersey and 790 outpatient rehabilitation clinics in 29 states, the District of Columbia and seven Canadian provinces. Net income totaled \$29.6 million, up from \$29.6 million. Revenues reflect an increase in patient days and a higher revenue per patient day.

Type: Emerging Growth
Sector: Healthcare

Institutional Holdings: 198
Industry: Healthc. Facilities

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15.9**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **C-**
Pearson Growth Rating: **B**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **3-3-3**



SEVERN BANCORP, INC (SVBI) NASDAQ PRICE: \$29.33

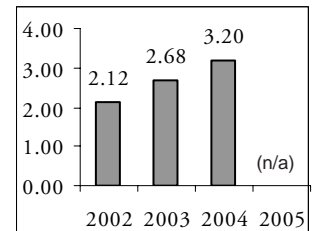
Severn Bancorp, Inc. is a savings and loan holding company. It conducts business through three subsidiaries: Severn Savings Bank, FSB (the Bank), its principal subsidiary; Louis Hyatt, Inc., doing business as Hyatt Real Estate, a real estate brokerage and property management company, which it acquired in June 2001, and SBI Mortgage Company, which engages in the origination of mortgages not suitable to the Bank, and to a lesser extent, owns investment real estate through subsidiary limited liability companies. For the three months ended 3/31/04, total interest income rose 13% to \$10 million. Net interest income after loan loss provision rose 20% to \$6.6 million. Net income applicable to Common rose 14% to \$3M. Net interest income reflects an increase in interest-earning assets. Earnings also reflect an increase in real estate commissions.

Type: Growth
Sector: Financial

Institutional Holdings: 4
Industry: Savings Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **10.6**
Annual Yield: **1.4%**
Annual Dividend: **\$0.40**
Investor's Bus. Daily: **D+**
Pearson Growth Rating: **B-**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



UTSTARCOM, INC (UTSI) NASDAQ PRICE: \$31.12

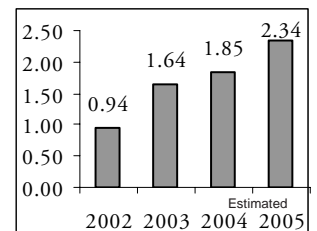
UTStarcom, Inc., headquartered in Alameda, CA, is a global provider of wireless and wireline access and Internet protocol (IP) switching solutions. The Company designs, manufactures, sells and installs an integrated suite of future-ready access network and next-generation switching solutions. It enables wireless and wireline operators in fast-growth markets worldwide to offer voice, data and Internet access services rapidly and cost effectively by utilizing their existing infrastructure. UTSI's customers include public telecom. service providers that operate wireless and wireline voice and data networks in rapidly growing communications markets worldwide. For the three months ended 3/31/04, net sales rose 88% to \$622.3M. Net income rose 47% to \$54.8 million. Revenues reflect continued growth in spending on telecommunications infrastructure in China.

Type: Emerging Growth
Sector: Technology

Institutional Holdings: 187
Industry: Computer Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **A+**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **B+**
Value Line Rating: **3-3-4**



WALL STREET INDEXES

Indexes	1998	1999	2000	2001	2002	2003	2004/YTD
S&P 500	28.5%	21.1%	(10.1%)	(13.3%)	(23.4%)	26.4%	0.8%
Dow Jones	18.1%	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	(2.5)%
Nasdaq	39.6%	85.6%	(39.3%)	(21.1%)	(31.5%)	50.0%	(0.8)%
Russell 2000	(2.4%)	21.3%	(4.2%)	1.0%	(21.6%)	45.4%	2.0%
Our CD Buster	Data for 2002/03/04 available on our website				8.1%	56.7%	9.8%
CD Annual Average	4.7%	4.9%	5.4%	3.0%	2.3%	1.5%	1.5%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

EARNINGS FLOWS:

Wall Street believes that profits and earnings are likely to slow down for the rest of the year. The huge gain in 2003's earnings is not likely to be repeated in 2004. Earnings will still grow about 15 percent, but will slow. They are shooting for high quality names in defensive areas such as drugs, and key blue chip names that can beat out a slowdown in growth. They are partially correct; certain key elements of the S&P are slowing, but "trend" areas such as outsourcing, generic drugs, and new technology stocks will still continue to do well. Stocks like cognizant technology do not show any signs of slowing, and may actually increase due to the heavy demand for outsourcing labor from India. Teva Pharmaceuticals does not look like it will slow down either, as people and companies alike are choosing generic drugs as a critical substitute for their prescriptions.



Key point: *Looks like we are slowing down, so don't expect robust earnings from the overall market. Keep hold of the growing stocks that follow the trend.*

ECONOMIC FLOWS:

It seems that tightening interest rates will take place in the financial markets over the coming months. On the other hand, Wall Street is also predicting a slowdown in earnings. mmmm...We would be faced with the odd combination of rising interest rates AND slowing profits growth—that, to me, sounds very crazy.

However, I think the Fed may use this time to raise interest rates in order to restore their powers to accelerate or decelerate the market. They really can't issue interest rate cuts when rates are as low as they can go; so they will see that rates "regress toward the mean" and push them up toward their average levels. This will continue the slowdown in the market. If the market goes recessionary, they have the "power" to accelerate the market again.

We need to look for:

- 1) The 30 year bond: That may have a big impact on housing and bank stocks.
- 2) Dollar vs. euro vs. yen exchange rate: This will have an impact on earnings from outside the U.S. and of course, my favorite, gold!
- 3) Share prices: This action may cause severe "undervaluation" of certain stocks.

Key point: *Fed tightening will give them back their magic powers.*

CASH FLOWS:

Looks like Washington Mutual, one of my favorite stocks, may be bought out by a British bank. Almost all of our clients have this stock, so we will have to evaluate the takeover in detail. Takeovers have a good side/bad side. The British are smart; they will use the higher valued currency to buy up cheaper dollar-denominated assets in the U.S. to expand their position.

Google is going public soon. Will I go against my good judgment and actually bid on shares? Statistically most big IPO's always hurt the little guy. The smaller ones usually don't have a chance.

Key point: *Takeovers and IPOs are big in the news.*

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JUNE'S RECOMMENDED GROWTH & INCOME STOCKS

OLD SECOND BANCORP, INC (OSBC) NASDAQ PRICE: \$48.10

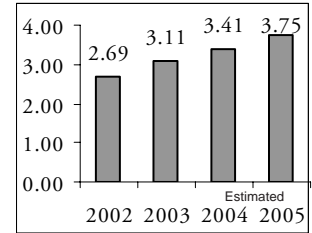
OSBC is a holding company that conducts a full service community banking and trust business through its wholly owned subsidiaries, The Old Second National Bank of Aurora, Old Second Bank-Yorkville, Old Second Bank-Kane County and Old Second Financial Inc., as well as through Old Second Mortgage Company, a wholly owned subsidiary of Old Second Bank. The Company provides financial services through its 23 banking locations and four mortgage banking offices in Illinois. During the year ended December 31, 2003, the Company formed Old Second Trust I for the exclusive purpose of issuing trust preferred securities in a transaction completed in July 2003. For the three months ended 3/31/04, total interest income rose 10% to \$23.3M. Net interest income after loan loss prov. rose 22% to \$16.8 million. Net income rose 17% to \$6.1 million.

Type: Growth & Income
Sector: Financial

Institutional Holdings: 31
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **14.5**
Annual Yield: **1.7%**
Annual Dividend: **\$0.80**
Investor's Bus. Daily: **D+**
Pearson Growth Rating: **C+**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **A**
Value Line Rating: **3-2-1**



MBNA CORPORATION (KRB) NYSE PRICE: \$25.40

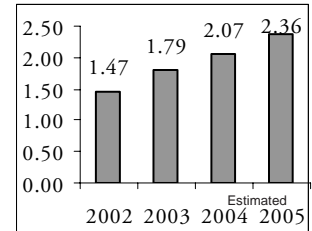
MBNA Corporation is the parent company of MBNA America Bank, N.A. (the Bank). Through the Bank, the Company operates as an independent credit card lender and issuer of endorsed credit cards, marketed primarily to members of associations and customers of financial institutions and other organizations. In addition to its credit card lending, MBNA makes other consumer loans, including installment and revolving unsecured loan products, and offers insurance and deposit products. For the three months ended 3/31/04, interest income rose 9% to \$1.03 billion. Net interest income after LLP rose 71% to \$302.6 million. Net income appl. to Common rose 20% to \$516.2 million. Net interest income reflects growth in managed loans outstanding and better managed net interest margins.

Type: Growth & Income
Sector: Financial

Institutional Holdings: 687
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **13.7**
Annual Yield: **1.9%**
Annual Dividend: **\$0.48**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **B-**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **B**
Value Line Rating: **2-3-3**



THE INVESTOR

Walter Pearson - Continued from page 2

amounts continue to roll in. It is simple enough to see that if the cost of living has doubled over a period of time but ones' income has remained the same, the investor can figure that his buying power has degenerated to half of what it once was. What this all comes down to is that if one is investing in dollar-denominated non-growth investments, it is almost mandatory to expect a guaranteed loss of both income and principal down through the years. There is no way to stop this or to stem the tide as long as the Federal Reserve System continues to operate in the same manner it now does. Nor, is there any indication that Congress will take any action whatsoever along the lines of correction.

Sindlinger is a company that, among other things, tracks the inflation rate in the country each year. According to their estimates, it usually runs 7% or more per year. By investing in growing companies, the investor can usually come out on top. By investing in our newer industries one can usually do better than better. Let's look at a few figures:

If you invested \$1000 in Microsoft 10 years ago, your holdings would be worth about \$9,000.00 today. With Sun Microsystems, you would have reached \$7,000; in Oracle you might have \$14,000.00. From these figures I think you should realize that it isn't necessary to choose the best one, but it is important to choose one or more and get the ball rolling. Some people will tell you that you should try to time the market but, in my opinion this is practically an impossibility. I believe there are always good looking issues around; it is only necessary to search for them.

As things stand today, the stock market has had a major drop, affecting issues in the high tech area to a great degree. Some portions of the market do not even realize that a major drop has taken place. What this means to me is that bargain day is at hand. Now is the time. If you have done everything right so far, it is still an excellent time to reach in and pick up some of those that you have missed. On the other hand, if you bought good stocks too high, it is a simple matter to pick up more of the same at these reduced prices. This will enable you to average down your original price. And, if you are one of those people who waited on the sidelines, this period represents an opportunity to get invested in this brand new economy.

The computer and its numerous offshoots represent a whole new style of living. This will, if it doesn't already, affect each and every citizen in the world today. Remember what the automobile did to the horse and wagon; what television did to radio. Become a part of the new age. Whether you like it or not you will become a part of it; the important thing at this point is to realize the profits inherent in this new marvel.

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.