

PEARSON Investment Letter

Published Monthly Since 1982

www.pearsoncapitalinc.com**FEATURED STOCKS**

| | |
|------------------------|---------------------|
| City Telecom | Rangold&Exploration |
| Headwaters, Inc | Select Medical |
| Madison Bancshares | Security National |
| Interinvest Bancshares | UTStarcom, Inc |

GROWTH & INCOME STOCKS

| | |
|---------------|---------------|
| America First | NovaStar Finc |
|---------------|---------------|

WORKING TOGETHER**BY DONALD PEARSON**

Last month I tried to define how stocks are selected and assigned

a rollover Traditional IRA that can be kept apart and managed separately. In this case knowledge is definitely power. Surveys consistently tell us many people are forced to select stocks, bonds, or other investment choices, and many really do not have any idea what to do. When you go to a human resource department, your may be told to read the plan being offered, choose your options, and send it in, thus signing up.

A survey recently conducted by Harris Interactive found that 48% of the women and 24% of the men surveyed think that investing is "scary." This really shows the lack of confidence people have in their ability to select investments, based on their lack of understanding the complexity of the stock market.

Although there are many financial websites and books written to help and educate, most do not choose to go this route because of the time investment or the difficulty of learning. After all, the "experts" also have a hard time selecting winners. Today women make up 46% of the work force, and if a large percentage of them find this "scary," I have to believe our help could be a real asset for them. For the other 54% (men), knowing that one out of every four have the same dilemma, we could be a real help to them too. Simply call me and I can give you a quick top line overview of how to make your selections based on you defining your aspirations. This can be done in a very short period of time, and I would be happy to assist you. I talk to people every day who stay out of the stock market for fear of losing any more of their principal. Think of investing in the stock market like watching the Dow Jones Industrial Average. When everyone talks about it going over 11,000 it is never with the word "if," it is always with the word "when."

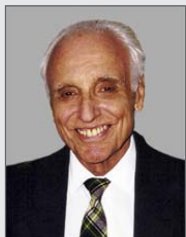
Take a few minutes now, and review your total portfolio. If you are eligible for a Roth IRA, you might consider this too. All the pertinent information can be found on our website www.pearsoncapitalinc.com or within this issue on page five.

risk and growth projections. The next step is to then match them up with each client's profile. Simply said, we strive to select the right stocks to meet each portfolio's objectives. Although it sounds pretty simple, I can assure you it's not. For us to maximize your portfolio's growth, we continue to monitor the guidelines you have given us.

We will be contacting several of our clients in the next few weeks to review their portfolios' risk tolerance agreements. In many cases the agreements were completed and filed twenty or more years ago. Because circumstances change over the years, I want to be certain we continue to manage your accounts exactly the way you have instructed us. We may also decide to make changes that will benefit you. We take the responsibility you place with us very seriously and continually work to meet or surpass your expectations. I know from talking with some of you personally, that many of you have been planning to call and make some strategy changes, yet continue to put it off for another day. This might be a good time to take a few minutes out of your schedules and assess your total asset base.

If I can help any of you with this, please call. As an example, if you feel your 401k is not aggressive enough, or perhaps is too aggressive, I would be happy to give you my opinion as to what your choices currently represent, as well as making suggestions as to how better meet your objectives. There is no charge to our clients for this.

One of the reasons I am offering this opportunity is because of the changes taking place in the work force today. Some of our clients have started new careers, or are working in new places, and do not know whether they should roll their money into the new company, leave it in the old company, or create



Walter D. Pearson
Chairman



Donald E. Pearson
President



Sandra Alberti
Publishing President

Investment Letters are complimentary to our clients with managed accounts!

OUR PROGENY

Some time ago I decided to open accounts for each of our children, then our grandchildren, and great grandchildren. Some of those involved have withdrawn all their money, some have withdrawn a part, and some have left their accounts alone to grow.

Recently, I received an investment letter from one of my colleagues, and it started me thinking about our results with these accounts. The letter tells about mutual funds, and some of the information was a complete surprise to me. I presume we all know about the recent scandals in that industry, but I am quite sure that each of you has been as much in the dark as I have been in relation to the expenses of having one's wherewithal invested in a mutual fund.

My colleague mentioned that one good-sized fund disclosed its annual expenses as 1.5%. However, he pointed out that if trading costs were included, it would have been 4.5%. Another fund claimed 1.16% when its trading costs alone were 7.45%, so the total was actually 8.59%. The average annual expense for a stock mutual fund is about 1.5%. Trading costs add on average another 0.43%. If the fund has "high turnover" (lots of trading), you can bet the number is much more than 0.43%. Some brokers charge a fee to put a fund on their recommended list. Many funds also add a 12-b1 fee, which is a charge to the investors and covers a fund's cost of advertising for new clients.

After reading all of this, I thought I would check the account of one of my grandchildren who has left her nest egg unscathed. My wife and I gave her a \$5,000 account in January, 1995. That is a little less than nine years ago. At today's reading, the account totals \$41,527.00, which means that it has doubled three times in less than nine years. I also checked her expense ratio. I was only able to check back for the last five years, but in that period we made 82 trades, or less than 16 per year, which would average her costs just over \$200 per year. With all the trading costs and management fees built in, this account has an average net profit of 24%.

One of the things we do differently than the mutual fund industry is to take into consideration a person's tax situation. We constantly search for growing companies that will never stop growing. When we are successful, it means that we can invest in a company and hopefully never have to sell it. If the company is growing and continues to grow, it means our client saves not only on sales commissions but also on capital gains taxes. With IRA accounts we do not have to worry about tax problems, but we still try to hold down trading costs. Most financial advisors will not consider an account that is less than one million dollars because there is not enough profit in smaller accounts.

From the beginning we have had the credo of, "No Account Too Small." We feel that the smaller the account, the more they need us. When I see people handling their own accounts, I think of how foolish this is. Most of these people do not cut their own hair, nor would they consider performing an appendectomy on their beloved. In these areas they seek professional help. Here are the things I think of when I see people doing their "own thing."

1. We spend a lot of time and money searching for "situations." We have one man who spends much of his time in this area.
2. We subscribe to numerous publications looking for more "buys."
3. We trade publications with others in our business to discover more potential. One company we had already discovered ourselves. This was BLTI which we have been buying for our clients ever since. We started purchasing this at \$6+ a bit more than a year ago, and it is now selling for about three times that price.
4. When we get a list of potential buys correlated, we have one man sift through, throwing out all of the companies that do not measure up to our standards.
5. We check each of the remaining companies for rate of growth, present day earnings, next year's expected earnings, and expected results for the next five years.
6. At this point we check the price of each company and discard each company that appears to be overpriced.
7. We now have a number of companies that appear to be sure winners, but we check one more area to investigate each company's steadiness in re to growth of earnings.

Each week we meet, and we choose the companies that we agree will meet the needs and desires of each client. When you add it all up, I think you will agree with me that it doesn't make sense for the amateur investor to try to compete. In comparison to mutual funds I think our results are superior to most, and I also believe the costs are less. One of the tremendous advantages that the individual investor has over a mutual is the size of his account. I will always remember when Fidelity started a new fund and called it Fidelity Capital. As a broker we had numerous people in a stock called N H Balled Bearing, and I was pleased to see that Fid Cap held it. However, in the next report I saw they had cleaned out their position and this troubled me. I phoned to find the reason and was told that Fid Cap had grown so large, and NHBB was so small, that there was no way to get enough money invested to make it worthwhile, so they closed out their position. My clients held tight, and one year later had doubled their equity in the stock. The fact remains that the bigger the fund, the bigger must be the companies in which they invest.

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 MARCH

CITY TELECOM (H.K.) LTD. (CTEL) NASDAQ PRICE: \$6.97

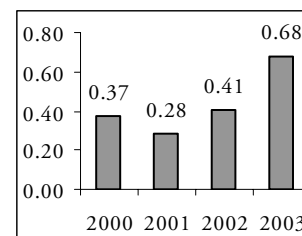
City Telecom is engaged in the provision of international telecommunications services in Hong Kong, Japan and Canada, and fixed telecommunications network services in Hong Kong and Canada. CTEL's International Telecommunications segment primarily provides international long distance calls services, while its Fixed Telecommunications segment offers dial-up and broadband Internet access services, as well as local Internet protocol tel. services. Operation of the Fixed Telecom. segment is handled by the Company's wholly owned subsidiary, Hong Kong Broadband Network Limited. In Japan, the Company offers its services through City Telecom (Japan) Co. Ltd., and in Canada through City Telecom Inc. and City Telecom (B.C.) Inc. For the 6 months ended 2/28/02, revenues rose 7% to HK\$544.9M.

Type: Growth
Sector: Services

Institutional Holdings: 3
Industry: Com. Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **6.6**
Annual Yield: **4.0%**
Annual Dividend: **\$0.29**
Investor's Bus. Daily: **C+**
Pearson Growth Rating: **B**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



HEADWATERS, INC. (HDWR) NASDAQ PRICE: \$23.79

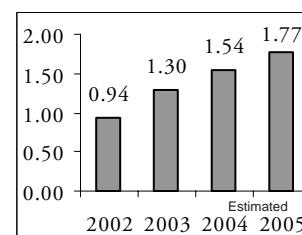
Headwaters, Inc. develops and commercializes technologies that enhance the value of coal, gas, oil and other natural resources. Through its proprietary Covol Fuels process, the Company adds value to the production of coal-based solid synthetic fuels primarily for use in electric power generation plants. The Company wholly owns Industrial Services Group, Inc. (ISG) and Headwaters Technology Innovation Group, Inc. (HTI). ISG is a manager and marketer of coal combustion products in the United States and Canada. For the three months ended 12/03, revenues rose 14% to \$101.5 million. Net income rose 25% to \$10.1 million. Results reflect higher sales of chemical reagents, increased license fees received, higher coal combustion products revenues, and improved operating margins during the period.

Type: Emerging Growth
Sector: Energy

Institutional Holdings: 107
Industry: Coal

Ratings & Recommendations Earnings per share

Current P/E Ratio: **17.2**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **A+**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **B**
Value Line Rating: **N/R**



INTERVEST BANCSHARES, INC. (IBCA) NASDAQ PRICE: \$17.86

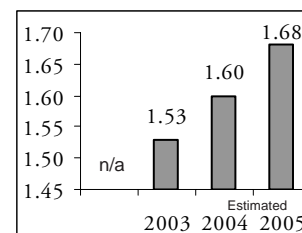
Interinvest Bancshares Corporation is a registered bank holding company. IBCA owns Interinvest National Bank (the Bank), Interinvest Mortgage Corporation and Interinvest Statutory Trust I. The Bank provides a range of banking services to small and middle-market businesses and individuals. It conducts a personalized commercial and consumer banking business and attracts deposits from the areas served by its banking offices. The deposits, together with funds derived from other sources, are used to originate a variety of real estate, commercial and consumer loans and to purchase investment securities. For the fiscal year ended 12/31/03, interest income rose 16% to \$50.5 million. Net interest income after loan loss provision rose 26% to \$19.9 million. Net income increased 32% to \$9.1 million.

Type: Growth
Sector: Financial

Institutional Holdings: 7
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.8**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **C**
Pearson Growth Rating: **C**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



MADISON BANCSHARES, INC. (MDBS) NASDAQ PRICE: \$17.95

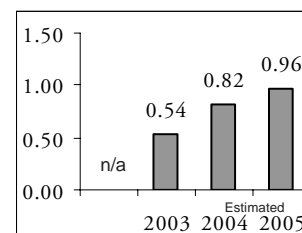
Madison BancShares, Inc., incorporated in 2001, serves as the holding company for Madison Bank (the Bank). MDBS conducts business as a state commercial bank holding company and its principal asset is the capital stock of Madison Bank. The Bank is a state-chartered commercial bank that provides a variety of banking services to small and middle-market businesses and individuals through its three banking offices located in Pinellas County, Florida, and one banking office in Pasco County, Florida. Madison Bank's primary business is attracting deposits from the general public and using those deposits, together with borrowings and other funds, to originate loans and purchase investments. For the nine months ended 9/30/03, total interest income rose less than 1% to \$9.2 million.

Type: Emerging Growth
Sector: Financial

Institutional Holdings: 0
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **17.6**
Annual Yield: **0.2%**
Annual Dividend: **\$0.05**
Investor's Bus. Daily: **C**
Pearson Growth Rating: **C**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR MARCH

RANGOLD & EXPLORATION COMPANY, LTD. (RANGY) NASDAQ PRICE: \$11.40

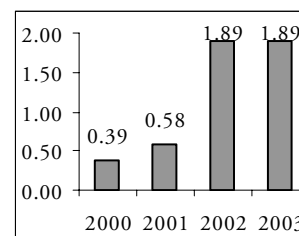
RANGY is engaged in the gold mining and exploration business in Africa. The company has an indirect equity interest in one operating mine in Mali, W. Africa, called the Morila Gold Mine, which commenced production in October 2000, and one operation in Mali under care and maintenance, called the Syama mine. Gold bullion, the principal product of the Company's subsidiaries and associates, is produced and sold in Mali. The main focus of exploration work is undertaken by the Company's associate, Randgold Resources Ltd., particularly on the advanced projects in Mali West, and in Northern Cote d'Ivoire. For the fiscal year ended 12/31/02, revenues decreased 92% to \$1.6 million. Net income totaled \$27.5 million vs. a loss of \$407 thousand. Results reflect the suspension of operations at Syama, offset by a \$25.4 million equity income of associate.

Type: Emerging Growth
Sector: Basic Materials

Institutional Holdings: 2
Industry: Gold/Silver

Ratings & Recommendations Earnings per share

Current P/E Ratio: **6.1**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **D**
Pearson Growth Rating: **C-**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



SELECT MEDICAL CORPORATION (SEM) NYSE PRICE: \$15.97

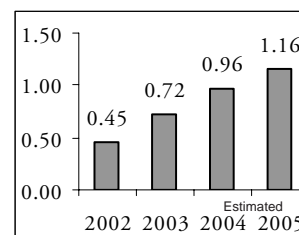
SEM operates specialty acute care hospitals for long-term-stay patients in the US. The Company also operates outpatient rehabilitation clinics in the US and Canada. As of Dec. 31, 2002, the Company operated 72 specialty acute care hospitals in 24 states and 737 outpatient rehabilitation clinics in 32 states, the District of Columbia and seven Canadian provinces. The Company's hospitals generally have 30 to 40 beds. In its clinics and through its contractual relationships, the Company provides physical, occupational and speech rehabilitation programs and services. Its patients are typically diagnosed with musculoskeletal impairments that restrict their ability to perform normal activities of daily living. Net income increased 68% to \$74.5 million. Revenues reflect an increase in patient days and a higher revenue per patient day.

Type: Emerging Growth
Sector: Healthcare

Institutional Holdings: 204
Industry: Health. Facilities

Ratings & Recommendations Earnings per share

Current P/E Ratio: **22.4**
Annual Yield: **0.7%**
Annual Dividend: **\$0.12**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **C**
Pearson Value Rating: **C**
Stand.&Poor Rating: **N/R**
Value Line Rating: **2-3-3**



SECURITY NATIONAL FINANCIAL CORPORATION (SNFCA) NASDAQ PRICE: \$7.80

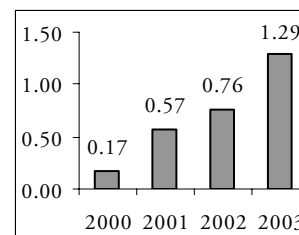
SNFCA operates through its three main business segments: life insurance, cemetery and mortuary and mortgage loans. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products and accident and health insurance products that are marketed in 35 states. The cemetery and mortuary segment consists of five cemeteries in the state of Utah and one in the state of California, as well as eight mortuaries in the state of Utah and five in the state of Arizona. For the nine months ended 9/30/03, revenues increased 85% to \$116.2 million. Net income totaled \$6.4 million, up from \$2.5 million. Revenues reflect an increase in mortgage fee income attributable to a greater number of loans originated. Higher net income also reflects improved margins.

Type: Growth
Sector: Financial

Institutional Holdings: 3
Industry: Insurance (Life)

Ratings & Recommendations Earnings per share

Current P/E Ratio: **5.6**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **C+**
Pearson Growth Rating: **B-**
Pearson Value Rating: **A**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



UTSTARCOM, INC. (UTSI) NASDAQ PRICE: \$33.13

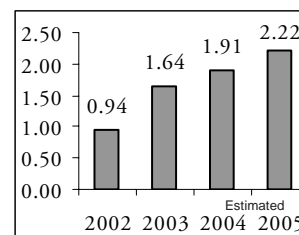
UTStarcom, Inc., headquartered in Alameda, California, is a global provider of wireless and wireline access and Internet protocol (IP) switching solutions. The Company designs, manufactures, sells and installs an integrated suite of future-ready access network and next-generation switching solutions. 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. UTStarcom's products provide a seamless migration from wireline to wireless, from narrowband to broadband and from circuit- to packet-based networks by employing next-generation network technology. For the fiscal year ended 12/31/03, net sales totalled \$1.96 billion, up from \$981.8 million. Net income rose 88% to \$202.3M.

Type: Emerging Growth
Sector: Services

Institutional Holdings: 275
Industry: Com. Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **19.8**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **A**
Pearson Value Rating: **B**
Stand.&Poor Rating: **B+**
Value Line Rating: **3-3-4**



WALL STREET INDEXES

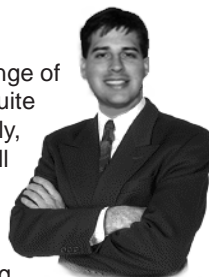
| Indexes | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004/YTD |
|--------------------------|--|-------|---------|---------|-------------|--------------|--------------|
| S&P 500 | 28.5% | 21.1% | (10.1%) | (13.3%) | (23.4%) | 26.4% | 3.0% |
| Dow Jones | 18.1% | 25.2% | (6.2%) | (7.1%) | (16.8%) | 25.3% | 1.2% |
| Nasdaq | 39.6% | 85.6% | (39.3%) | (21.1%) | (31.5%) | 50.0% | 1.3% |
| Russell 2000 | (2.4%) | 21.3% | (4.2%) | 1.0% | (21.6%) | 45.4% | 5.1% |
| Our CD Buster | Data for 02/03/04 available on our website | | | | 8.1% | 56.7% | 12.2% |
| 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

ECONOMIC FLOWS:

After the G7 meeting, the dollar has been allowed to devalue to a range of about 1.25 to 1.30 vs. the euro. I don't think this will change for quite some time. U.S exports will increase to the other countries. Conversely, the multinational countries who get a lot of their profits overseas will also do well. Gold prices will probably stabilize at this level for the next few months. However, demand will increase from the Asian countries, notably China, for more natural resources such as oil, steel, copper, and other goods. China and many other countries peg their currencies to the dollar. So, if the United States does well and grows, Southeast Asia will do well too. What does that leave the EU with?



Key point: Europe and Japan will have to restructure to compete.

EARNINGS FLOWS:

First quarter earnings started off slowly. Earnings reports have energized many of our key stocks. However, the stock market has stalled, preventing it from going higher. Stock prices will still have to wait to catch up with earnings. And once again, stocks that are fairly priced and will beat expectations by a wide margin will continue to move higher. Those that miss their earnings and even miss expectations will be punished. Some people call this time "March Madness," not just because of college basketball games, but because of the uneasiness of the market. March is often a preannouncement time for many companies that wish to air their problems ahead of earnings time in April.

Key point: The stocks in our collection with good earnings potential will hold their own during March, and accelerate during April.

CASH FLOWS:

So far in 2004, mergers are really big news. Now the question will be will they overpay? Cingular buying AT&T wireless: I think they overpaid. Comcast offering to buy Disney? At this price, a great deal. Will Oracle go through with a hostile takeover? Who knows what the future will hold. Banks will continue to merge to prepare themselves for future growth.

Key point: Mergers are exciting, because certain things you would never expect could happen will happen.

Why A Roth IRA? *(By Donald Pearson)*

The Traditional IRA has a tax deduction for your contribution, but you'll owe the tax when you cash it in. Every time funds are drawn from the Traditional, the proceeds are added to your ordinary income and taxed accordingly. The Roth IRA has no tax deduction when contributing, but the bonanza is on the other end. The Roth allows your contribution to grow tax-free, and if you don't use it all, future generations can enjoy the money tax-free too. The maximum that you can put into either IRA this year is \$3,000 unless you are fifty years of age or older, then it's \$3,500. If you didn't contribute to your IRA for 2003 you can still do this up until April 15, 2004. The Traditional IRA has forced "Required Minimum Distributions" at age seventy and a half, but the Roth does not. When you reach age fifty-nine and a half, and you have had the Roth for five or more years, you can begin to withdraw at any time you choose with no tax consequence. Contributing to a 401k does not prevent anyone from having a Roth.

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Table of Contents

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

MARCH'S RECOMMENDED GROWTH & INCOME STOCKS

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS LP (AFREZ) NASDAQ PRICE: \$8.95

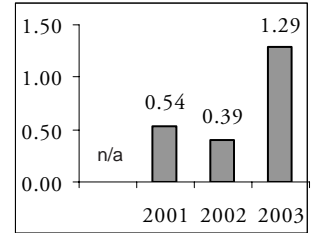
AFREZ was formed for the purpose of acquiring, holding, operating, selling and otherwise dealing primarily with multi-family residential properties, including the acquisition of debt and equity securities of entities engaged in similar activities. As of Dec. 31/02, the Company owned, directly or indirectly, 14 multi-family apartment complexes containing a total of 2,788 rental units. These properties are located in FL, NC, MI, TN, OH, IL and Virginia. AFREZ also holds investments in Government Nat. Mortgage Association (GNMA) certificates backed by pools of first mortgage loans on residential properties and corporate equity securities of other companies engaged in similar activities. The general partner of the Company is America First Capital Source I L.L.C. For the nine months ended 9/03, net revenue rose 63% to \$21.8 million.

Type: Growth & Income
Sector: Services

Institutional Holdings: 0
Industry: Real Estate Oper.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **6.8**
Annual Yield: **7.8%**
Annual Dividend: **\$0.70**
Investor's Bus. Daily: **D**
Pearson Growth Rating: **A+**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



NOVASTAR FINANCIAL, INC. (NFI) NYSE PRICE: \$52.86

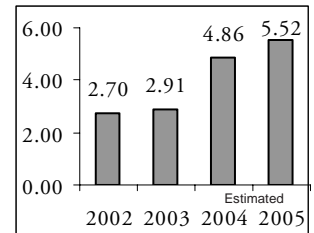
NovaStar Financial Inc. invests in mortgage assets, with a focus on non-conforming mortgage loans. The Company also originates single-family non-conforming loans under the name of NovaStar Mortgage, Inc. and manages retail brokers operating under the name NovaStar Home Mortgage, Inc. Loan servicing is also a critical part of its business operation. By servicing loans, the Company strives to identify problems with borrowers early and take quick action to address problems. As of December 31, 2002, NovaStar had 216 active branches in 35 states. For the nine months ended 9/30/03, revenues increased 76% to \$124.1 million. Net income totalled \$69.7 million, up from \$31.5 million. Revenues reflect higher volume of average mortgage securities held, and increased accrual rates. Earnings also reflect higher gains on mortgage asset sales.

Type: Growth & Income
Sector: Services

Institutional Holdings: 63
Industry: Real Estate Oper.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **10.8**
Annual Yield: **8.4%**
Annual Dividend: **\$4.42**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



Yields or Growth -- or Both

By Donald Pearson

Many times I have discussions with people who believe stocks returning high yields are a necessary part of their portfolio. A good example of this would be utilities with above average high yields and little or no growth. With the change in the tax law last year for dividends, it is very difficult to maintain a discipline that prevents you from buying a stock simply because it looks attractive with its high yield. Until the change in this law, dividends were taxed as high as 35%, and now the maximum is 15% - the same as the capital gains rate on profits from the sale of a stock you've owned for a year or more.

Even with this change, I still believe the winning strategy is to continue focusing on buying growth stocks. Why? Because you will not face any capital gains tax, simply because you can continue to hold on to your winners. Our strategy has not changed for our withdrawal accounts.

Another option to consider is finding those stocks that provide you with both. Last year 1,630 publicly traded stocks increased their dividends. This is a 14% increase over the prior year. Microsoft paid a dividend to its shareholders for the first time since going public in

1986. While this company can no longer sustain the growth numbers they were posting in the nineties, they would still be a welcome addition to one's portfolio today using a strategy of protecting the principle while trying to achieve double-digit growth. Citigroup has recently raised their dividend 75% and becomes another that could be placed in this portfolio. One might also consider McDonald's, because their dividend was recently raised 70%. Although we believe stocks with high yields are great, especially now with the new tax laws in place, this does not mean every company can sustain the growth necessary we are seeking for this winning portfolio. It is for this reason we have decided at this time not to purchase McDonald's stock.

Many times these decisions are difficult and not always correct. The bottom line here is simply cumulative results. Our favorites in the growth and income sector that we are currently purchasing for our clients are: Doral Financial (DRL) yielding 1.4%, Washington Mutual (WM) yielding 3.7%, and H&Q Life and Sciences (HQL) yielding 7.7%.

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.

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