

PEARSON *Published Monthly Since 1982* Investment Letter

www.pearsoncapitalinc.com

AUGUST 2006

FEATURED STOCKS

America Movil	Lowe's Companies
Healthcare Services	Portfolio Recovery
HDFC Bank	Preferred Bank
Intervest Bancshares	Virginia Commerce

GROWTH & INCOME

IndyMac Bancorp	Johnson Controls
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ADDED VALUE *By Donald Pearson*

In today's society everyone is looking for added value. The fast food restaurants offer super sizes, the

worry if the stock price remains stagnant either, because the company can keep buying back its shares, reduce its share count, and increase Earning Per Share even faster. Another advantage is that stock buybacks will reduce the cost of distributing dividends. As fewer shares are available, the company can afford to increase its dividend per share even when the total dividend distributed remains constant.

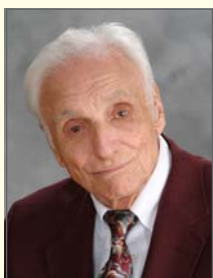
At Pearson Capital our stock research process rates stocks using multiple evaluators. We begin with quantitative research that includes several systematic analyses such as price earning ratio, growth rate, financial ratios, and trends that correlate to future investment returns. We then shift to a fundamental analysis and the process continues through the product line, cash flow, value, company management, and so on. Although it's further down the long list that we scrutinize, a company's dividend increasing strategy and share buyback program become paramount. If you can find companies that consistently increase their dividend year after year, you already know you've gotten a company that works overtime trying to send a message to its shareholders of consistency and positive performance. They never want to stop the annual increase because it has become their success signature to their shareholders. Once a company that increases its dividend year after year begins a stock buyback program, it must be given additional credit and stronger consideration. Within our process of evaluation we place an asterisk next to its name on our buying sheet and try to purchase as many shares as possible.

Today the stock market lacks a lot of the steady day in and day out performance that was the earmark of a stable market in decades past. Day traders, short buyers, hedge funds and a host of other variables have

grocery stores offer lost leaders (selling products below wholesale cost), and manufacturers distribute coupons to reduce their product's retail price. The stock market, although it doesn't distribute coupons, does occasionally put equities on sale, and it does super size some of its quality products. Like anything else, you simply have to know where and when to go shopping. Just like preparing your grocery shopping list, you've got to read the newspaper, listen to the news, and prepare properly before purchasing. How, you ask?

One way every investor can help himself is by following the example set by many of today's successful companies. When a company believes in itself, it buys back its own stock, and in many cases has been increasing its annual dividend year after year. By doing this, the company is making a statement to its shareholders. They are saying, "We do not know of any better place to bring our cash." When this occurs, all shareholders receive an additional value that doesn't immediately show up on their bottom line. The company doesn't physically change, but there are fewer owners to share profits, so we, as shareholders, will quickly realize our shares are worth more because we own a larger percentage of this company.

What companies can afford to buy back their own stock while initiating dividends? They are mainly companies which require less capital to fund their ongoing business and continue to profit. In other words, they have excess cash. Buying companies with positive net cash also helps. Investors won't have to



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Donald E. Pearson
President



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Investment Letters are complimentary to our clients with managed accounts!

Over 50 Years Of Investment Experience

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COMPUTING VALUE

One of the problems in investing is computing value. How does one determine the real value of one's holdings? Most investors think mainly of the price quoted daily by the stock market. These prices can change by large percentages in a single day, and I expect most investors realize that the actual value of a company

cannot change that much in one day. What is the answer? What causes these severe price fluctuations? Each investor should remember that he is investing in his future, his investment is long range, and daily market fluctuations are somewhat meaningless. Quotations on stocks can be affected by day traders who watch a stock's market action and who may buy or sell simply because they think the price will change in a few days, at which time they will close out the transaction. Even though these traders may affect the price of a stock for a period, this doesn't change the actual value of the company one iota.

From time to time one or more mutual funds may come across a piece of information on a particular company which makes them consider the stock as a buy, or as a sell, and this may cause them to take action. Inasmuch as mutual funds handle a great deal of money, they tend to have rather large investments. When the mutual funds buy or sell a stock, their transactions may affect the stock price. I talked with the president of one of the larger funds some years ago, and he explained to me that because they were such large investors, when they decided to buy a stock, it took them a year to complete the buy, and they would put their orders into three different markets because they didn't want to flood the New York Stock Exchange. In spite of the fact that this much buying would have made the price of the stock rise, the actual value would not have changed at all.

Another big factor that each investor must live with and cannot change is inflation. Inflation is here. It will not go away, and the rate of inflation will rise

each year. Each investor should understand inflation and how it is caused. The thing to understand is that each year the government must borrow more money, which results in the loan growing in size. The Federal Reserve prints up new money to loan the government so the amount of cash in existence grows each year. As you have more dollars chasing the same amount of goods, the dollar tends to buy less and less each year. Seventy years ago a gallon of gas was 12 cents and today it is \$2.90. A new home was \$3200 and today it is \$500,000. Gas has risen 2400% while homes have gone through the roof at 15600% in that period. This means that the people who are telling you that a new car may cost you \$1,000,000 by the time you retire may not be altogether crazy. That's only 4000%. Here again the investor should consider actual values when appraising his stock holdings. Dollars are an unstable commodity, but they are the ones we must use as our business is being done with them.

Some years ago the stock market went to pieces overnight. Everyone woke up to a stock market where prices had dropped by 50% in a single day. This was unheard of and had never happened before, and I presume could never happen again. A very strange thing had happened. Computers had come to life and the people in the mutual fund industry had discovered them. They found that putting their buys and sells on a computer could save a lot of work. The cataclysm arrived when sell orders drifted in from fund after fund. The computer was set to automatically enter sell orders if a stock dropped to a certain price. This seemed all right at the time, but when too many stocks were sold, the prices kept dropping and sells were made at prices so ridiculous that only a computer would go along. It got so bad that the market was closed for a short period and many specialists were unable to handle the sells.

To reiterate, it is important for the investor to keep his cool and think of

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Source Rating Key for PCI's featured stocks: **Pearson Investment Growth Rating** measures long-term past and future growth.

Pearson Value Rating measures current value in terms of potential for the dollar. **Investors Business Daily** measures growth and relative price strength.

S&P measures financial quality and growth potential. **Value Line** measures timeliness, value and safety.

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

Walter Pearson is the former President of First New England Securities, Co., Inc. and at that time, also managed the Statistical Department.

He is the author of the book, "Investing for the Millions" and Publisher Emeritus for the Pearson Investment Letter.

At this time, Mr. Pearson is Chairman of the Board of Pearson Capital, Inc.

He is a contributing columnist for various publications and is listed in Who's Who in America.

"Remember the Lord your God, for it is He who gives you the ability to produce wealth. Deut. 8:18"

PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

August 2006

AMERICA MOVIL (AMX) NYSE PRICE: \$35.78

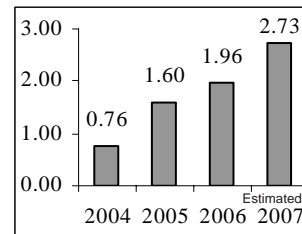
AMX through its subsidiaries, provides wireless communications services primarily in Latin America. The company provides fixed-line, wireless, and cellular telecommunications service in Mexico under the brand name Telcel; in Argentina under CTI Movil brand; in Brazil under the brand name Claro; in Guatemala, El Salvador, Nicaragua, and Honduras under Alo, Personal, and ENITEL brand names; and in Chile under Smartcom brand name. In addition, America Movil offers wireless telecommunications service in Colombia under the Comcel brand name, in Ecuador under the Porta brand, in Paraguay under the CTI Movil brand, and in Peru under the Claro brand name. As of December 31, 2005, the company had 92.7 million subscribers. America Movil was founded in 2000 and is headquartered in Mexico City, Mexico.

Type: Growth
Sector: Technology

Institutional Holdings: 347
Industry: Wireless Comm.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **44.7**
Annual Yield: **0.78%**
Annual Dividend: **\$0.28**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **A**
Pearson Value Rating: **B**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



HEALTHCARE SERVICES GROUP, INC. (HCSG) NASDAQ PRICE: \$21.61

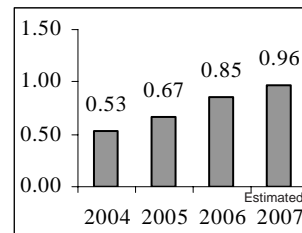
HCSG provides housekeeping, laundry, linen, facility maintenance, and food services to nursing homes, retirement complexes, rehabilitation centers, and hospitals in the United States and Canada. The company operates through two segments: Housekeeping, Laundry, Linen, and Other Services (Housekeeping); and Food Services. The Housekeeping segment offers cleaning, disinfecting, and sanitizing of patient rooms, and common areas of a client's facility. The Food Services segment develops a menu that meets the residents' dietary needs, as well as purchases and prepares the food to assure that residents receive an appetizing meal. It also participates in monitoring the residents' ongoing nutritional status. Healthcare Services Group was incorporated in 1976 and is based in Bensalem, Pennsylvania.

Type: Growth
Sector: Services

Institutional Holdings: 114
Industry: Business Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **27.7**
Annual Yield: **2.22%**
Annual Dividend: **\$0.48**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **B**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **D-**
Value Line Rating: **2-4-3**



HDFC BANK LIMITED (HDB) NYSE PRICE: \$54.15

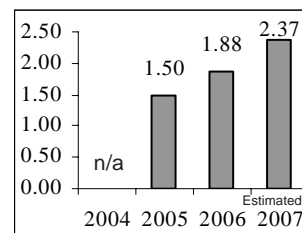
HDB, a private sector bank, provides financial services to corporations, and middle and upper-income individuals in India. It has three divisions: Wholesale Banking, Retail Banking, and Treasury Operations. The Wholesale Banking division provides loans, deposit products, documentary credits, guarantees, bullion trading, and foreign exchange and derivative products. The Retail Banking division provides various deposit products, as well as loans, bill payment services, gold and silver credit cards, debit cards, third party distribution, investment advisory services, card and automated teller machine (ATM) acquiring transactions, and depository services. The Treasury Operations division offers foreign exchange and derivative products for its clients. As of March 31, 2005, it operated 467 branches and 1,147 ATMs in 211 cities. The company was incorporated in 1994.

Type: Growth
Sector: Financial

Institutional Holdings: 30
Industry: Foreign Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **34.7**
Annual Yield: **0.66%**
Annual Dividend: **\$0.36**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **B+**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



INTERVEST BANCSHARES CORPORATION (IBCA) NASDAQ PRICE: \$44.35

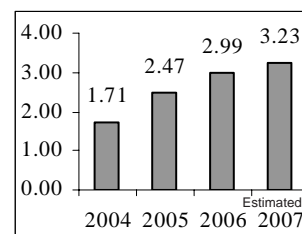
IBCA operates as the financial holding company primarily for Interwest National Bank (bank) and Interwest Mortgage Corporation. The Bank provides various personalized commercial and consumer banking services to small and middle-market businesses, and individuals primarily in New York metropolitan area and Florida. It engages in generating deposits and originating loans. The bank's deposit products include checking accounts, savings accounts, money market accounts, and certificate of deposit accounts. As of April 12, 2006, it had one banking office in One Rockefeller Plaza, New York City; and five banking offices in Clearwater and Gulfport, Florida. Interwest Mortgage Corporation focuses on the origination of first mortgage and junior mortgage loans secured by commercial and multifamily real estate properties. Interwest Bancshares is based in New York City.

Type: Growth
Sector: Financial

Institutional Holdings: 30
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **B+**
Pearson Value Rating: **A**
Stand.&Poor Rating: **B-**
Value Line Rating: **2-3-4**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

August 2006

LOWE'S COMPANIES, INC. (LOW) NYSE PRICE: \$28.35

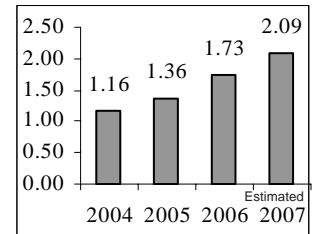
LOW operates as a home improvement retailer in the United States and Canada. It offers a line of products and services for home decorating, maintenance, repair, remodeling, and property maintenance. The company's home improvement store stocks a selection of national brand name merchandise of approximately 40,000 items. It serves homeowners, including retail do-it-yourself customers and do-it-for-me customers; renters; and commercial business customers, such as repair and remodeling contractors, electricians, landscapers, painters, plumbers, and commercial and residential property maintenance professionals. As of February 3, 2006, the company operated 1,234 stores in 49 states. Lowe's Companies was incorporated in 1952 and is based in Mooresville, North Carolina.

Type: Growth
Sector: Services

Institutional Holdings: 588
Industry: Home Improvement

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15**
Annual Yield: **0.71%**
Annual Dividend: **\$0.20**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **A**
Pearson Value Rating: **A**
Stand.&Poor Rating: **A**
Value Line Rating: **2-3-4**



PORTFOLIO RECOVERY ASSOCIATES, INC. (PRAA) NASDAQ PRICE: \$42.82

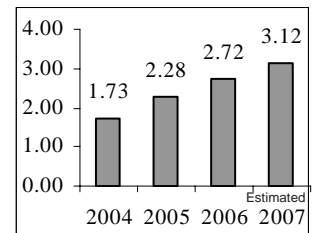
Portfolio Recovery Associates, Inc. provides outsourced receivables management and related services in the United States. It purchases, collects, and manages portfolios of defaulted consumer receivables, as well as offers various accounts receivable management services. The defaulted consumer receivables are the unpaid obligations of individuals to credit originators, including banks, credit unions, consumer and auto finance companies, and retail merchants. The company, through its subsidiaries, also provides various collection services, including collateral-location services for credit originators, fee-based collections, and audit and debt discovery/recovery services for government. Portfolio Recovery Associates was founded in 1996 and is headquartered in Norfolk, Virginia.

Type: Growth
Sector: Services

Institutional Holdings: 144
Industry: Business Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **17.9**
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: **1-2-3**



PREFERRED BANK (PFBC) NASDAQ PRICE: \$57.31

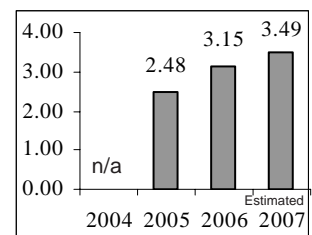
PFBC provides commercial, real estate, and international lending to customers with businesses domiciled in the state of California. It provides personalized deposit services, as well as real estate finance, commercial loans, and trade finance to small and mid-sized businesses, and their owners, entrepreneurs, real estate developers and investors, professionals, and high net worth individuals. As of December 31, 2005, the bank conducted banking business from its headquarters in Los Angeles, and through its 10 full-service branch banking offices located in Alhambra, Century City, City of Industry, Torrance, Arcadia, Irvine, Diamond Bar, Valencia, Santa Monica, and Chino in California. Preferred Bank was founded in 1991 and is headquartered in Los Angeles, California.

Type: Emerging Growth
Sector: Financial

Institutional Holdings: 48
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **20**
Annual Yield: **0.80%**
Annual Dividend: **\$1.40**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **B+**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



VIRGINIA COMMERCE BANCORP, INC. (VCBI) NASDAQ PRICE: \$23.45

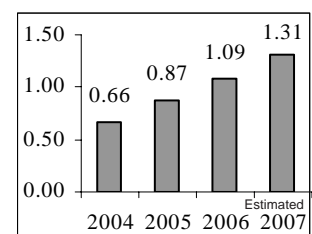
VCBI operates as the holding company for Virginia Commerce Bank, which offers various business and consumer banking services. The bank provides a range of deposit products, including NOW accounts, money market accounts, savings accounts, and time deposits. As of May 1, 2006, the bank operated 19 branch offices, 2 residential mortgage offices, and 1 investment services office in northern Virginia and the metropolitan Washington, D.C. area. Its customer base includes small-to-medium-sized businesses, including firms that have contracts with the U.S. government, associations, retailers and industrial businesses, professionals, and business executives and consumers. Virginia Commerce Bancorp was founded in 1988 and is headquartered in Arlington, Virginia.

Type: Growth
Sector: Financial

Institutional Holdings: 45
Industry: Regional Banks

Ratings & Recommendations Earnings per share

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



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

August 2006 - Growth & Income

INDYMAC BANCORP, INC. (NDE) NYSE PRICE: \$42.25

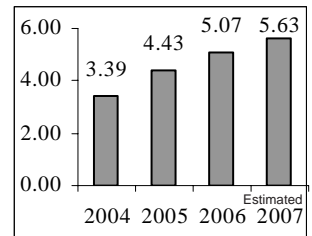
NDE operates as the holding company for IndyMac Bank, F.S.B., a thrift/mortgage bank, which provides mortgage products and services in Los Angeles County. The bank operates through two segments: Mortgage Banking and Thrift. The Mortgage Banking segment offers various products, such as adjustable-rate mortgages, fixed-rate mortgages, construction-to-permanent loans, subprime mortgages, and reverse mortgages. The Thrift segment principally invests in single-family residential mortgage loans; construction financing for single-family residences or lots provided directly to individual consumers; builder construction financing facilities for larger residential subdivision loans; home equity lines of credit; and mortgage-backed securities. As of December 31, 2005, the bank operated through a network of 26 branches in southern California.

Type: Growth & Income
Sector: Financial

Institutional Holdings: 186
Industry: Savings & Loans

Ratings & Recommendations Earnings per share

Current P/E Ratio: **8.6**
Annual Yield: **4.36%**
Annual Dividend: **\$1.84**
Investor's Bus. Daily: **C-**
Pearson Growth Rating: **A**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **B-**
Value Line Rating: **N/R**



JOHNSON CONTROLS, INC (JCI) NYSE PRICE: \$76.76

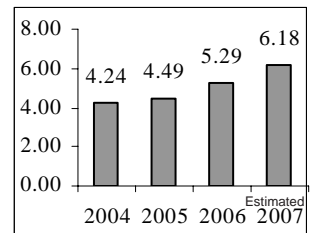
JCI provides installed building control systems and technical and facility management services for the nonresidential buildings market worldwide. It operates through three segments: Building Efficiency, Interior Experience, and Power Solutions. The Power Solutions segment manufactures automotive batteries for automotive original equipment manufacturers and the battery aftermarket. Johnson Controls has a joint venture with Saft to supply batteries for hybrid-electric vehicles and electric vehicles. JCI was founded by Warren Seymour Johnson in 1885 as Johnson Electric Service Company. It changed its name to Johnson Controls, Inc. in 1974. Johnson Controls is headquartered in Milwaukee, Wisconsin. The company completed the acquisition of York International Corporation in December 2005. York International supplies heating, ventilation, and air-conditioning.

Type: Growth & Income
Sector: Consumer Goods

Institutional Holdings: 402
Industry: Auto Parts

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15.8**
Annual Yield: **1.46%**
Annual Dividend: **\$1.12**
Investor's Bus. Daily: **C**
Pearson Growth Rating: **B**
Pearson Value Rating: **A**
Stand.&Poor Rating: **B-**
Value Line Rating: **3-2-2**



ADDED VALUE

Continued from page 1

today's market performing with a greater flux than at any other time within the last fifty years. Movements of several percentage points up or down can occur at anytime. Earnings are coming out now, and a company may have a record earnings quarter but still be short of the analysts' expectations, or they may have furnished a warning or concern for the remainder of the year or the next quarter. This can cause a stock to drop by double digits immediately. Companies increasing their dividend consistently along with stock buybacks have far less of this volatility and time after time show a more consistent performance.

As you may or may not know, we buy the same stocks for ourselves and our family that we buy for our clients. So you can see why we should draw comfort when we find and invest in these companies, knowing they are also investing their money in themselves.

With our philosophy of investing being that of combined growth and value, we continue searching for companies that we've rated their share price to be 15% or more below what they are currently selling for, while at the same time displaying the ability to continue to grow at 15% or more for the next three calendar years. Companies that show this value and growth and are buying back their shares, while increasing their dividend should be added to everyone's portfolio for growth and stability because they truly are offering us added value.

NOTE:

Our fee is extracted quarterly from the account at 25% of one percent by TD Ameritrade. Immediately following any quarterly management fee extraction, it is posted within your account's history information available on line. It is also posted in your TD Ameritrade monthly statement.

Third Quarter July-August-September-see your July statement.

WALL STREET INDEXES

Indexes	2000	2001	2002	2003	2004	2005	2006/YTD
S&P 500	(10.1%)	(13.3%)	(23.4%)	26.4%	9.0%	3.0%	2.3%
Dow Jones	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(0.61%)	4.4%
Nasdaq	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	1.37%	(5.2)%
Russell 2000	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	3.32%	4.1%
Our CD Buster	Data available on our website		8.1%	56.7%	22.8%	(Disputed)	(.83)%
CD Annual Average	5.4%	3.0%	2.3%	1.5%	1.5%	3.5%	3.5%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

ECONOMIC FLOWS:

The Fed is trying to talk down the seventeenth time it has increased the interest rate. Who knows if they will increase it again next time? I'm hoping they will stop. If not, it will continue to slow down the economy. They have already put a stop to homebuilding. Their next goal is the commodities, including gold, silver, and oil. However, if they go too far, it will affect everything else including retail, blue chip stocks, and especially technology.



Key Point: *We hope the Fed has not gone too far.*

EARNINGS FLOWS:

'Tis the season. The second earnings quarter has arrived. Earnings should actually do pretty well with the occasional problem here and there. Earnings expectations for most companies will guide conservatively lower, but not out of their guiding range. This may put onward pressure on stocks until the next quarter in October.

Key Point: *Earnings are coming in much better then expected.*

CASH FLOWS:

Companies are buying back their shares with cash. For example, the Tribune is buying back 25 percent of its own stock because it believes that the company is currently undervalued. If stocks fall low enough, many blue chip companies will use their cash option to help shareholders and create a natural floor.

Key Point: *Companies still have cash to use liberally.*

ADDITIONAL NOTES:

Additional Notes: The Fed Chairman is talking down the interest rate hikes before the next congressional mid-term election. He is doing this so he can leave the door open to increase rates in the future if they do not meet their target goals.

COMPUTING VALUE

Continued from page 2

two things: long range and value. There is no doubt that it is depressing when the stock market goes down, but it is important to remember that you do not invest in the stock market. As a matter of fact you should remember that you do not invest in stocks; you invest in companies. Think about McDonald's or Wendy's. The important thing here is how the companies are doing financially; stock prices will go along eventually.

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