

PEARSON *Published Monthly Since 1982* Investment Letter

www.pearsoncapitalinc.com

December 2006

FEATURED STOCKS

Alliance Data	Marlin Bus Serv
Devon Energy	Novartis AG
Franklin Electric	Walgreen Co
Healthcare Services	WellPoint Inc

GROWTH & INCOME

Tele Norte	Australia ETF
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2006-2007 *By Donald Pearson*

As we continue to build and monitor portfolios, our primary objective is building and maintaining with

exceed their expectations. If you're reading this now, you are probably a client of ours, and I thank you for choosing us and placing your trust with our ability to do the job for you. Please read on now and see what we're planning for the upcoming year to better serve you and your account needs.

We believe the answer to success in the future will be through Exchange Traded Funds (ETFs). This doesn't mean we will be abandoning individual stocks, but the selection will be reduced considerably, and the choices will still be the best individual selections that compliment the overall portfolio. ETFs will be bought in larger increments, because of the individual diversification available within each of them.

For those who are not familiar with ETFs, they are not mutual funds. They are conglomerates of stocks that trade under one symbol. We can shift our focus at any time to wherever we believe is the right place to be by simply investing in one that meets our objectives. ETFs have been around for several years, but they needed time to improve their product and to generate a performance history. One can invest in different parts of the world or right here in the United States. Any sector that one believes is the right place to be at any given time can be obtained with a simple buy.

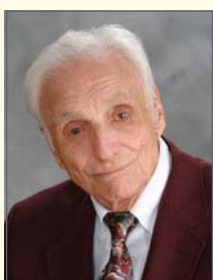
While our research team continued selecting stocks for purchase this year, I spent my time researching and evaluating ETFs both here in the US as well as abroad. We all believe with the information I've presented that we are ready to build, add additional ETFs, and restructure some portfolios to better improve the overall performance of all accounts.

Some ETFs have as few as 15-30 companies while others hold as many as 100 within their base. This will allow us to purchase them in larger increments. As an example, the Dow Jones Dividend select (symbol DVY)

safety. In reviewing this year's decisions, I can see that in many cases, although a stock dipped below the level of acceptance and we sold, holding for a longer period would have proven to be the better decision. Many of these have bounced back, and patience (although with additional risk attached), would have provided better results. It's always easier to assess performance after the fact rather than before, but this is always our best way of learning and improving. Although selling and trading are a part of the process, they also affect the bottom line, and we try to do as little as possible. In 2007 one of our goals will be to reduce account activity considerably, and I will explain how this can and will be accomplished.

We have continued to reduce our stock base through the year, believing this will provide us with a better handle on those within the portfolios. This has proven to be a good decision as we are able to better monitor this smaller group. One of our long standing rules has been to buy in small increments of about two percent when possible to diversify a portfolio. This carries an additional cost, but it is necessary to build a portfolio properly. This also can be reduced considerably as I outline our strategy for 2007 for new and existing accounts.

Several years ago index funds were made available to investors because they were an alternative for those not wanting the responsibility of doing the management themselves. Brokers and advisors were another option, and most tried this route hoping to find one they felt had the ethics, experience, and ability to meet and



Walter D. Pearson
Chairman



Donald E. Pearson
President



Sandra Alberti
Publishing President

Investment Letters are complimentary to our clients with managed accounts!

Over 50 Years Of Investment Experience

Continued on page 5

WHERE'S THE M A R K E T G O I N G ?

Now that we have a new money manager in Washington there is a great amount of anxiety about interest rates and the effect of higher rates on the stock market. Let me give you my opinion here and now. I am convinced that interest rates will continue to be increased and that, in turn, will have a negative effect on the stock market. I could be wrong, but the way I see it there is no difference to the investor one way or the other. Whether the stock market is

going to be strong or weak is not the thing to worry about. The important thing is to find companies that are going to be able to double their earnings in the next three, four, or five years. When a company doubles its earnings, it is pretty definite that the share price will have doubled as well.

Let's go back to the days of Alan Greenspan. I think the man did a fantastic job in a rather impossible situation. I do not think his predecessor did as well, and I doubt if our new lad can equal his performance. As more and more currency is published, it is necessary to come up with extra dollars to purchase the same goods. The price of gasoline hasn't really changed, but the purchasing power of the dollar has. Some years ago, before he was working for the government, Mr. Greenspan had this to say: "The abandonment of the gold standard made it possible for the welfare statists to use the banking system as a means to unlimited expansion of credit. In the absence of a gold standard there is no way to protect savings from confiscation through inflation. There is no safe store of value. Deficit spending is simply a scheme for "hidden" confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rites. If one grasps this, one has no difficulty in understanding statist antagonism towards the gold standard."

Some years later when Mr. Greenspan was working for the government, Congressman Ron Paul asked him if he still believed in his former statement and his reply was: "I wouldn't change one word." I think each investor should reread what Mr. Greenspan stated above because not only is it true, but it tells each investor - no, it screams to him - you must be an investor. Money is ersatz; stocks are actual companies which will protect your holdings in good times and bad. Market fluctuations may make us feel good or bad from time to time, but over the long haul your purchasing power is being protected.

I can recall a personal experience that might be of interest here. In 1981 I bought \$1300 worth of Liz Claiborne, and by 1998 it had appreciated to \$40,000. At that time we had a severe break in the market and the value of Liz went down to \$20,000. A bridge player said to me that she felt rather bad for me as she knew I had money invested and the market had gone down so far. I explained that market drops didn't bother me and that I looked upon it as \$18,500 profit rather than a \$20,000 loss.

To go a little further on that same subject, suppose you had bought Liz at the absolute top in 1998, just before that horrendous drop. If you had done your research, you would realize that the stock was quite overpriced, but, even so, you bought a good company and the stock is worth about 30% more than you paid at the time. That means that your poor investment has averaged you about 3 or 4% a year besides the dividends that have been thrown off. Still better than having your savings idling in the bank vault. If you do not have an IRA, I believe you are better off buying and holding, but sometimes a company will appear which seems to be a "must" buy, at which time you might consider taking some profits.



**MERRY CHRISTMAS
HAPPY NEW YEAR**

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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

December 2006

ALLIANCE DATA SYSTEMS CORPORATION (ADS) NYSE PRICE: \$64.71

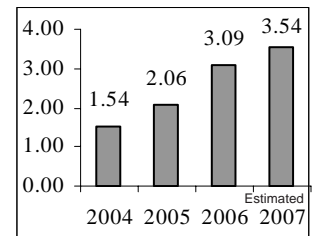
Alliance Data Syst. and its subsidiaries provide transaction services, credit services, and marketing services in North America. The company facilitates and manages interactions between its clients and customers through multiple distribution channels, including instore, catalog, and online. Its transaction services comprise issuer services, such as card processing, billing and payment processing, and customer care; utility services consisting of customer information system hosting, customer care, and billing and payment processing; and merchant services, such as point-of-sale services and merchant bankcard services. The company offers its services to specialty retailers, petroleum retailers, utilities, supermarkets, and financial services companies. Alliance Data Systems was founded in 1996 and is headquartered in Dallas, Texas.

Type: Growth
Sector: Financial

Institutional Holdings: 257
Industry: Credit Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **29.2**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A+**
Pearson Growth & Value: **A-**
Morningstar Rating: **N/R**
Standard&Poor Rating: **N/R**
Value Line Rating: **N/R**



DEVON ENERGY CORPORATION (DVN) NYSE PRICE: \$73.37

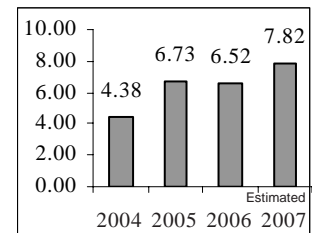
DVN primarily engages in the exploration, development, production of oil and gas. It owns oil and gas properties located principally the U.S. and Canada. The company's U.S. operations are focused in the Permian Basin, the Mid-Continent, the Rocky Mountains, and onshore and offshore Gulf Coast regions; and Canadian properties are focused in the western Canadian sedimentary basin in Alberta and British Columbia. DVN also owns properties located in Azerbaijan, China, and Egypt, as well as areas in West Africa, including Equatorial Guinea, Gabon, and Cote d'Ivoire. As of 12/31/05, its estimated proved reserves were 2,112 million barrel of oil equivalent. DVN sells its gas production to various customers, including pipelines, utilities, gas marketing firms, industrial users, and local distribution companies. The company was founded in 1971 and is based in Oklahoma City, Oklahoma.

Type: Growth
Sector: Basic Materials

Institutional Holdings: 473
Industry: Oil & Gas

Ratings & Recommendations Earnings per share

Current P/E Ratio: **10.2**
Annual Yield: **0.61%**
Annual Dividend: **\$0.45**
Investor's Business Daily: **B-**
Pearson Growth & Value: **A**
Morningstar Rating: **5 Star**
Standard&Poor Rating: **A**
Value Line Rating: **3-3-3**



FRANKLIN ELECTRIC CO., INC (FELE) NASDAQ PRICE: \$51.77

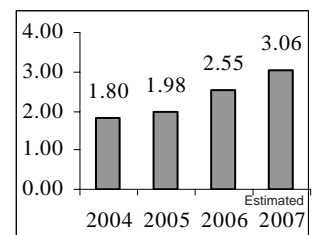
FELE together with its subsidiaries, engages in the design, manufacture, and distribution of groundwater and fuel pumping systems, electronic controls, and related parts and equipment. The company offers submersible motors, drives, pumps, controls, and monitoring devices. Its motors and pumps are used in submersible applications for pumping fresh water, fuel, wastewater, and other liquids in various applications, including residential, industrial, agriculture, fueling, off-shore drilling, and mining. The company's products are sold through sales force, manufacturing representatives, and repair shops in North America, Europe, the Middle East, South Africa, Australia, Mexico, Japan, China, and other world markets. Franklin Electric was co-founded by Edward J. Schaefer and T. Wayne. Kehoe in 1944 and is based in Bluffton, Indiana.

Type: Growth
Sector: Industrial Goods

Institutional Holdings: 89
Industry: Electrical Equip.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **21.4**
Annual Yield: **0.85%**
Annual Dividend: **\$0.44**
Investor's Business Daily: **C+**
Pearson Growth & Value: **A+**
Morningstar Rating: **N/R**
Standard&Poor Rating: **N/R**
Value Line Rating: **3-3-3**



HEALTHCARE SERVICES GROUP, INC (HCSG) NASDAQ PRICE: \$25.01

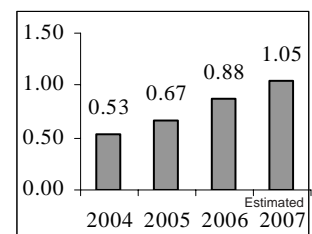
HCSG provides housekeeping, laundry, linen, facility maintenance, and food services to nursing homes, retirement complexes, rehabilitation centers, and hospitals in the United States and Canada. The company operates through two segments: Housekeeping, Laundry, Linen, and Other Services (Housekeeping); 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. It also participates in monitoring the residents' ongoing nutritional status. In addition, this segment provides consulting services to facilities in updating their food service operations. Healthcare Services Group was incorporated in 1976 and is based in Bensalem, Pennsylvania.

Type: Growth
Sector: Services

Institutional Holdings: 109
Industry: Business Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **29.8**
Annual Yield: **2.08%**
Annual Dividend: **\$0.52**
Investor's Business Daily: **B+**
Pearson Growth & Value: **A+**
Morningstar Rating: **N/R**
Standard&Poor Rating: **B+**
Value Line Rating: **N/R**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

December 2006

MARLIN BUSINESS SERVICES CORP (MRLN) NASDAQ PRICE: \$21.68

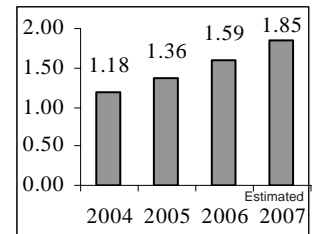
Marlin Business Services Corp. provides equipment financing solutions in the United States. It finances approximately 60 categories of commercial equipment, including copiers, telecommunications equipment, water filtration systems, computers, and certain commercial and industrial equipment. The company accesses its end user customers through its network of independent equipment dealers and relationships with lease brokers, as well as through direct solicitation of its end user customers. Marlin Business Services focuses primarily on the segment of the market consisting of the small and mid-size independent equipment dealers. The company was founded in 1997 and is based in Mount Laurel, New Jersey.

Type: Growth
Sector: Services

Institutional Holdings: 59
Industry: Rental & Leasing

Ratings & Recommendations Earnings per share

Current P/E Ratio: **13.7**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **C**
Pearson Growth & Value: **B-**
Morningstar Rating: **N/R**
Standard&Poor Rating: **A-**
Value Line Rating: **N/R**



NOVARTIS AG (NVS) NYSE PRICE: \$58.41

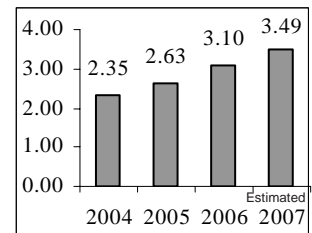
NVS engages in the research, development, manufacture, and marketing of health care products. It operates in three divisions: Pharmaceuticals, Sandoz, and Consumer Health. The Pharmaceuticals division develops and markets pharmaceuticals in various therapeutic areas. The Sandoz division supplies generic pharmaceuticals that develops, produces, and markets these drugs along with pharmaceutical and biotechnological active substances intermediates to wholesalers, pharmacies, hospitals, and other healthcare outlets. The Consumer Health division operates five units, such as over-the-counter self-medication products, animal health, medical nutrition, gerber, and lens and vision care. Novartis was founded in 1895 and is headquartered in Basel, Switzerland.

Type: Growth
Sector: Healthcare

Institutional Holdings: 344
Industry: Drug Manufactur.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **20**
Annual Yield: **1.28%**
Annual Dividend: **\$0.75**
Investor's Business Daily: **A**
Pearson Growth & Value: **A-**
Morningstar Rating: **5 Star**
Standard&Poor Rating: **A**
Value Line Rating: **N/R**



WALGREEN CO (WAG) NYSE PRICE: \$40.49

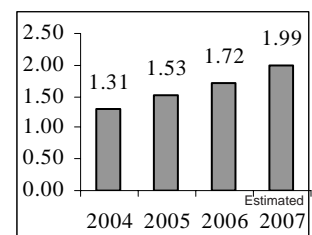
WAG operates a chain of drugstores in the United States. These drugstores sell prescription and non-prescription drugs, and general merchandise. General merchandise includes beauty care, personal care, household items, candy, photofinishing, greeting cards, seasonal items, and convenience food. The company provides its services through drugstore counters, as well as through the mail, by telephone, and on the Internet. As of November 6, 2006, Walgreen operated 5,515 stores in 47 states and Puerto Rico, including 76 Happy Harry's stores in Delaware and surrounding states. The company was founded in 1901 and is based in Deerfield, Illinois. WAG's Corp.Governance Quotient (CGQ®) as of 01/12/06 is better than 18.4% of S&P 500 companies and 63.6% of Food & Staples Retailing companies.

Type: Growth
Sector: Services

Institutional Holdings: 473
Industry: Drug Stores

Ratings & Recommendations Earnings per share

Current P/E Ratio: **23.5**
Annual Yield: **0.77%**
Annual Dividend: **\$0.31**
Investor's Business Daily: **C-**
Pearson Growth & Value: **B**
Morningstar Rating: **4 Star**
Standard&Poor Rating: **B**
Value Line Rating: **1-3-3**



WELLPOINT INC (WLP) NYSE PRICE: \$75.67

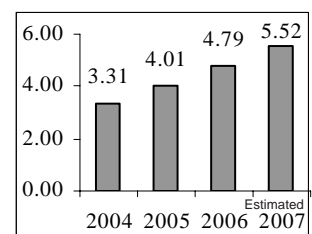
WLP through its subsidiaries, operates as a commercial health benefits company in the U.S.. It offers various network-based managed care plans to the large and small employer, individual, Medicaid, and senior markets. The company's products are marketed through a network of independent agents and brokers,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

Type: Growth
Sector: Financial

Institutional Holdings: 687
Industry: Insurance

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **B+**
Pearson Growth & Value: **B+**
Morningstar Rating: **4 Star**
Standard&Poor Rating: **C**
Value Line Rating: **2-3-3**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

December 2006 - **Growth & Income/ETF**

TELE NORTE LESTE PARTICIPACOES S.A. (TNE) NYSE PRICE: \$14.93

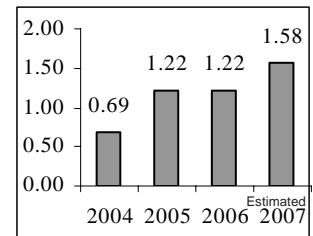
TNE, through its subsidiaries, provides telecommunications services in Brazil. It operates in three segments: Fixed-line Telecommunications, Mobile Telecommunications, and Contact Center. Fixed-line Telecommunications segment provides fixed-line telecommunications services. Mobile Telecommunications segment offers mobile telecommunication services under the 'Oi' brand name primarily in Region I, which comprises the states of Maranhao, Piaui, Ceara, Rio Grande do Norte, Paraiba, Pernambuco, Alagoas, Sergipe, Bahia, Roraima, Amapa, Amazonas, Para, Rio de Janeiro, Minas Gerais, and Espirito Santo in Brazil. Contact Center segment provides inbound contact center services, including sales, market research, tele-sales, and collection. Tele Norte was founded in 1998 and is based in Rio de Janeiro, Brazil.

Type: Growth & Income
Sector: Technology

Institutional Holdings: 36
Industry: Foreign Telecom

Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.2**
Annual Yield: **6.02%**
Annual Dividend: **\$0.90**
Investor's Business Daily: **C**
Pearson Growth & Value: **A-**
Morningstar Rating: **5 Star**
Standard&Poor Rating: **A**
Value Line Rating: **N/R**



ISHARES MSCI AUSTRALIA INDEX (EWA) AMEX PRICE: \$24.02

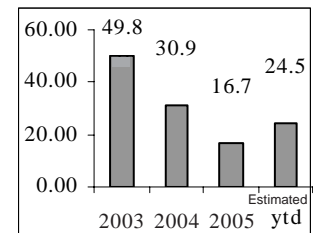
The investment seeks to provide investment results that correspond generally to the price and yield performance of publicly traded securities in the Australian market, as measured by the MSCI Australia index. The fund uses a representative sampling strategy to try to track the index. The index consists of stocks traded primarily on the Australian Stock Exchange. It is nondiversified. Financial institutions are repeatedly showing up as major assets across the globe, and this product is heavily weighted toward the banking sector; this is another reason The fund's stake in the mining sector is another strength, as Australia is a resource-based economy — that is, it is rich in minerals and commodities, items that rapidly expanding Asian economies, especially China, will demand for years to come. The portfolio's real estate holdings are still very good overall in Australia.

Fund Family: Investment Fund
Category: Diversified

Type: ETF
Industry: Diversified

Ratings & Recommendations Performance by %

Current P/E Ratio: **N/R**
Annual Yield: **6.02%**
Annual Dividend: **\$1.30**
Investor's Business Daily: **N/R**
Pearson Growth & Value: **B+**
Morningstar Rating: **N/R**
Standard&Poor Rating: **N/R**
Value Line Rating: **N/R**



Continued from page 1

2006-2007

started three years ago with 50 large US companies and grew to 100. The criteria for this are increasing sales and dividends annually. We believe with their performance history and their yield of almost 3%, this will be a great addition to every portfolio if it isn't in there already. We now have about 18 of these in different sectors and parts of the world which have different objectives. We believe these will prove to be a welcome addition to almost everyone.

We have written many times that growth and opportunity will be in China and India in the immediate future. China's ETF is FXI and India's is IIF. If they are not yet in your portfolios, you may find them there soon. Some carry more risk than others, and all will be determined on an individual basis. ETFs continue to grow in number today because of their success. With stocks and mutual funds you can find a list of over 15,000 for each, while ETFs total around 200. This number will continue to grow as they attract more investors. We will continue to be proactive with this strategy throughout 2007.

I wish to thank everyone for selecting PCI as their Investment Advisor and I would like to wish you and your family a

Merry Christmas & a Happy New Year.

Management Fee:

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.

Fourth Quarter October-November-December-see your January 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%	12.2%
Dow Jones	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(0.61%)	14.0%
Nasdaq	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	1.37%	10.3%
Russell 2000	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	3.32%	16.8%
Our CD Buster	Data available on our website		8.1%	56.7%	22.8%	(Disputed)	(1.25%)
CD Annual Average	5.4%	3.0%	2.3%	1.5%	1.5%	3.5%	4.6%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:

For the rest of the year, the Federal Reserve will not take a stance on interest rates, and instead continue with its "wait and see" approach. Many people think that a continued slowdown in housing will force the Fed to lower rates as early as next summer. I think that there is a 50 percent chance they may have to. The dollar continues to tread lower however, limiting the central bank to make any drastic cuts if the economy suddenly halts or breaks down. In the long run, continued depreciation of the dollar will create moderate inflation. Blue chip stocks that have a large international presence such as McDonalds and Wal-Mart will benefit from a US slowdown.



Key Point: *The Fed is taking the rest of the year off until they see any change.*

Earnings Flows:

Money that has moved from energy and commodities has been flowing to technology and retail sectors bidding them up dramatically. This has pushed the market up to fair value including most large cap blue chips. Healthcare and big pharmaceuticals were passed up because of the Democratic victories in Congress. In December there is usually a slight pull back for year end tax selling until Christmas, then the market will continue to rise.

Key Point: *Most companies are fairly valued.*

Cash Flows:

Huge amounts of money are being used by leveraged buyout firms to take companies private. In the past many of these firms looked toward distressed companies close to bankruptcy, or those in stagnant markets. However, many are bidding for companies at their current market value. Some companies are putting themselves up for sale, or are more willing to merge with others, to cash out of the public market. We will continue to look toward companies, such as Microsoft or Home Depot, which will continue to reward public shareholders with buybacks and increasing dividends.

Key Point: *Look for companies that buy back companies and increase dividends.*

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