

PEARSON *Published Monthly Since 1982* Investment Letter

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JANUARY 2006

FEATURED STOCKS

Coventry Health	Nicholas Financial
D.R.Horton	United Health
j2 Global	Vineyard National
Lowe's Companies	Washington Mutual

GROWTH & INCOME

DVY (ETF)	EFA (ETF)
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2005 & 2006 *By Donald Pearson*

At year end we review every stock market indicator's position, along with the decisions we've made. Thus, our year end results can be

properly evaluated, and our strategy for 2006 can be better defined. Because we do not purchase mutual funds, but instead create an individualized portfolio of equities, the results for everyone are seldom the same. The amount of money one starts with, the date of startup, and the risk vs. reward assigned to each account will create a performance variance. We do track more than fifty different portfolios using all risks and dollar size so that we can receive a true performance average to judge ourselves throughout the year. The market (index) average for this year was a favorable 1.2% when combining the Dow, NASDAQ & S&P. Our tracking numbers were considerably higher for our group of fifty-five.

The market this year had to overcome skyrocketing energy prices, a slowing economy, hot and cold inflation threats, and the Federal Reserve constantly raising interest rates. That coupled with hurricanes and other disasters made investors nervous, and ultimately little changed since the end of 2004. Looking at the year in review through the eyes of Pearson Capital, if we could redo anything, it would be not placing so much trust and emphasis on selected stocks for growth and safety. Doral Financial and others that appeared to be year after year safe and high return anchors taught us a good lesson. We lost a great deal of growth from our year-end performance trying to emphasize safety and performance and relying heavily on individual selected issues. This is especially true in smaller accounts where safety is paramount.

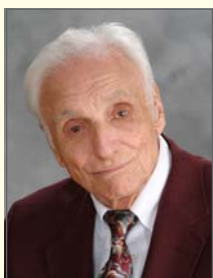
Every time the prior year is reviewed, opportunities to learn and grow are created. As we continue to reevaluate the economy and other variables for next year, we also do the same with our in-house research process. Simply said, we have raised the performance standards for equities that will make it to our buying

sessions. We believe with our formula change for equity evaluation we will improve upon our performance and outdistance the indexes by an even wider margin next year. You will also find more Exchange Traded Funds (ETFs) added to every portfolio next year. We have been using different ones since 2004 as a means of better diversifying portfolios, but beginning in 2006 they will play a larger part.

Looking forward for 2006 it appears the Fed rate hikes are completed, or perhaps Mr. Greenspan may add one more before his departure. The housing market will continue to slow down for many months and corporate earnings are going to grow at a 15-18% year-over-year rate. International markets will attract a surge of new cash as investors seek higher returns than U.S. stocks can deliver. As we move into next year, our research personnel and I share the opinion that the medical sector could be the most dominant sector for growth. Other sectors in which we see tremendous upside potential are minerals, with gold and silver as solid contributors, and the energy sector. We will also increase our foreign investments as they continue to become more and more attractive. As market conditions at home or abroad dictate where to find the best opportunities, we'll move immediately into a particular sector, or part of the globe, with an ETF or an individual company stock.

On Page 5 we have built our CD Buster for 2006. This portfolio contains ten investments consisting of two ETFs and eight individual stocks. Many of these equities will become a part of everyone's portfolio next year if they are not already. This report will be featured quarterly trying to illustrate how a well-built, well-diversified portfolio can perform. With CDs returning around 4% today, one must place a portion of his savings into a growth vehicle that can outperform inflation. As you examine our portfolio, note the yields that are also built in. Investing in growth holdings returning substantial yields is another way of maximizing your returns.

As we proceed into 2006 remember you can now contribute to your retirement portfolio, and you have until April 15 of this year if you haven't taken advantage of the opportunity for 2005.



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

THINGS HAVE CHANGED

As an investor it is important to remember that as time goes on things are prone to change. We no longer even think of taking a trolley car to get to where we are going in spite of the fact that some years back that was a normal everyday occurrence. Men no longer use those long sharp razors that cut the face at the slightest provocation. If any youngster today found his father shaving in such a dangerous manner, he would no doubt spend much time and effort in getting dad to see the error of his ways.

Think about it! The reason why the trolley cars no longer exist is that better ways have been discovered in which to transport today's people. No one uses a straight razor today simply because better ways to shave have been discovered. No one uses ink wells and blotters because the fountain pen was discovered, and each pen carries its own supply of ink which dries upon contact with the paper.

In the investment field certain changes have come about, but the sad thing is that many investors are almost completely unaware of how these changes are affecting their investments. Prior to 1913 we had a gold standard, and we had a repository for the gold owned by our country. Today that is a thing of the past. Many of our younger people have never even heard of Fort Knox which is where our gold is supposed to be stored. The United States Dollar is no longer the United States Dollar; it is now a Federal Reserve Note. Even though it still passes as money, it has no backing and in actuality has no value.

I imagine everyone knows who Alan Greenspan is, and the position he has held for a number of years. I think the man has done a fabulous job managing the unmanageable. I would like you to hear his words from an earlier era - 1966 to be exact. Here is his statement when he was not working for the government:

In the absence of the gold standard there is no way to protect savings from confiscation. Through inflation there is no safe store of value. If there were, the government would have to make its holding illegal as was done in the case of gold. The financial policy of the welfare state is that there is no way for the owners of wealth to protect themselves. This is the shabby secret of the welfare statistic tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth.

The Federal Reserve Act was passed in 1913, and at the same time the income tax act was put through. The income tax was necessary in order to pay the interest charges on the federal debt that would be incurred over the coming years. Each year our country turns to the Federal Reserve bankers and borrows more and more money, and each year the interest charges grow as more and more dollars are printed to do the job. The name of the game is inflation. The Fed runs the game and you must play. Once you understand the situation you are in a position to take advantage.

In years gone by, the dollar was a dollar and the value was constant. If you were traveling to England and you wished to change your dollars into British currency, your dollars would be converted to pounds at the rate of one pound for \$4.80. This rate did not change year after year because of the fact that you were dealing in real money. By the same token if you wished to invest safely, you could go into bonds or other types of stable investments which were quite safe and spun off income each year. Investors looking for safety today must look elsewhere. According to government figures, salaries have increased by 2.5% in the last year. According to our figures the rate of inflation is at least 8% which means that the worker did not get a 2.5% pay raise, he received a 5% pay cut.

It is our opinion that the rate of inflation, though about 8% a year, is increasing. It is easy enough to realize that if our figures are correct, you must put your money to work at a rate of 8% a year just to stay even. By investing at a rate of 12% a year you would be in the same position of that investor some years back who invested safely for a 4% return.

We suggest that if you do not need income today, you invest for growth. If you require income now, we suggest investing for income and growth. In spite of the fact that the investment field is not simple and mistakes can and will be made, if you diversify, you should find that you now have the Fed working for you. One of our past and present recommendations for growth is Lowes Co. Four years ago you might have bought this company for \$30 a share, and it is now \$60. No doubt you would be pleased, and in actuality you have doubled your money, but not your purchasing power. The thing to remember is that you cannot go for safety today as there is no such thing. A gilt edge bond today that is yielding 4% is still a guaranteed loser. The only question is how much.

Owning stocks is not a guaranteed way of protecting one's assets, but in our opinion it is almost the only way to go these days.

Be an Investor!

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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

January 2006

COVENTRY HEALTH CARE, INC (CVH) NYSE PRICE: \$56.96

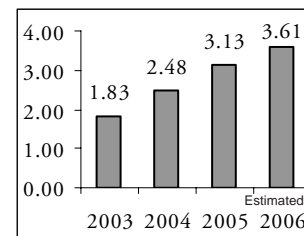
CVH operates as a managed health care company. It offers a range of commercial risk products, such as health maintenance organization products, preferred provider organizations, and point of service products, workers' compensation, and network rental to a cross section of employer and government-funded groups, government agencies, and other insurance carriers and administrators. The company also provides management services, such as network management, claims processing, utilization review, and quality assurance; and access to its provider networks to employers that self-insure their employee health benefits. In addition, it offers risk products, such as Medicare and managed Medicaid programs in selected markets; as well as rents network of providers, including claims repricing and utilization review to other managed care plans.

Type: Growth
Sector: Healthcare

Institutional Holdings: 452
Industry: Health Care Plans

Ratings & Recommendations Earnings per share

Current P/E Ratio: **19**
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: **1-3-3**



D.R. HORTON, INC (DHI) NYSE PRICE: \$35.73

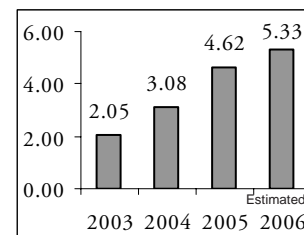
DHI is a homebuilding company in the U.S. The Company constructs and sells single-family homes through its operating divisions in 25 states and 74 metropolitan markets of the United States, under the name of D.R. Horton, America's Builder. The Company's homes range in size from 1,000 to 5,000 square feet. Through its financial services operations, DHI provides mortgage banking and title agency services to homebuyers in its homebuilding markets. DHI Mortgage, the Company's wholly owned subsidiary, provides mortgage financing services to purchasers of homes the Company builds and sells. D.R. Horton's subsidiary title companies serve as title insurance agents by providing title insurance policies, examination and closing services to purchasers of homes the Company builds and sells. DHI was founded in 1978 and is based in Fort Worth, Texas.

Type: Growth
Sector: Industrial Goods

Institutional Holdings: 352
Industry: Residential Constr.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **7.7**
Annual Yield: **1.00%**
Annual Dividend: **\$0.36**
Investor's Bus. Daily: **C**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **A**
Value Line Rating: **1-3-2**



j2 GLOBAL COMMUNICATIONS, INC (JCOM) NASDAQ PRICE: \$42.74

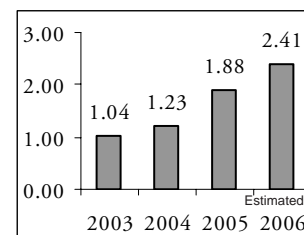
JCOM provides outsourced and value-added messaging and communications services worldwide. It offers faxing and voicemail solutions; document management solutions; hosted email, email perimeter protection, and email marketing services; call management; and conference calling services. The company also offers integrated solutions to replace or augment individual and corporate messaging and communications services. As of April 19, 2005, j2 Global Communications delivered its services through its global telephony/Internet protocol network that covered approximately 1,500 cities in 22 countries across 5 continents. The company serves individuals, small to medium-sized businesses, enterprises, and government organizations. j2 Global Comm. was co-founded by Jaye Muller and Jack Riley in 1995. JCOM is headquartered in Hollywood, California.

Type: Growth
Sector: Technology

Institutional Holdings: 162
Industry: Internet

Ratings & Recommendations Earnings per share

Current P/E Ratio: **21.6**
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: **3-3-3**



LOWE'S COMPANIES, INC (LOW) NYSE PRICE: \$66.66

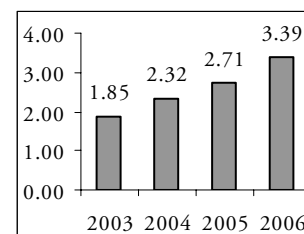
LOW operates as a home improvement retailer in the U.S. It offers products and services for home improvement, home decor, home maintenance, home repair, and remodeling and maintenance of commercial buildings. The company serves retail customers, including DIY homeowners, and others buying for personal and family use; and commercial business customers, including repair and remodeling contractors, electricians, landscapers, painters, plumbers, and commercial and residential building maintenance professionals. The company also operates a facility to handle special order plumbing products. As of October 28, 2005, Lowe's Companies operated 1,170 stores in 49 states. The company was incorporated in 1952 and is based in Mooresville, North Carolina.

Type: Growth
Sector: Services

Institutional Holdings: 583
Industry: Home Improvement

Ratings & Recommendations Earnings per share

Current P/E Ratio: **20.7**
Annual Yield: **0.30%**
Annual Dividend: **\$0.24**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A**
Stand.&Poor Rating: **A**
Value Line Rating: **2-3-1**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

January 2006

NICHOLAS FINANCIAL, INC. (NICK) NASDAQ PRICE: \$10.51

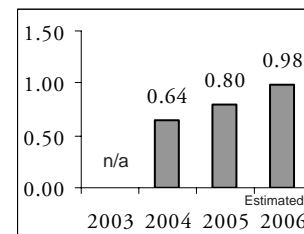
Nicholas Financial, Inc., a holding company, operates in the specialty consumer finance industry in the United States. The company acquires and services retail installment sales contracts for purchasing new and used automobiles and light trucks. It also makes direct loans and sells consumer finance-related products. The company, through Nicholas Data Services, Inc., designs, develops, and supports systems related to the finance company and sells proprietary accounting software to small businesses. As of October 20, 2005, the company operated 40 branch offices located in Florida, Ohio, North Carolina, Georgia, Virginia, South Carolina, Michigan, Indiana, and Kentucky. Nicholas Financial was incorporated in 1986 and is headquartered in Clearwater, Florida.

Type: Growth
Sector: Financial

Institutional Holdings: 10
Industry: Credit Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.6**
Annual Yield: **0.60%**
Annual Dividend: **\$0.07**
Investor's Bus. Daily: **C**
Pearson Growth Rating: **B**
Pearson Value Rating: **A**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



UNITED HEALTH GROUP, INC (UNH) NYSE PRICE: \$62.14

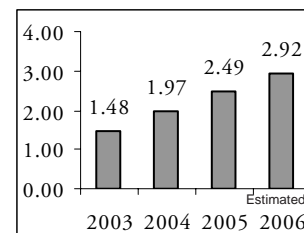
UNH provides health care services in the U.S. It operates in four segments: Uniprise, Health Care Services, Specialized Care Services, and Ingenix. The company's customers include pharmaceutical, biotechnology, and medical device companies; health insurers and other payers; physicians and other health care providers; large employers; and government agencies. As of December 31, 2004, the company provided health care services and resources to individuals through approximately 460,000 physicians and 4,200 hospitals. UnitedHealth Group was founded in 1974 under the name United HealthCare Corporation and changed its name to UnitedHealth Group Incorporated in 1998. UnitedHealth Group is based in Minnetonka, Minnesota.

Type: Growth
Sector: Healthcare

Institutional Holdings: 816
Industry: Health Care Plans

Ratings & Recommendations Earnings per share

Current P/E Ratio: **26.2**
Annual Yield: **0%**
Annual Dividend: **\$0.02**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **B+**
Value Line Rating: **1-2-3**



VINEYARD NATIONAL BANCORP (VNBC) NASDAQ PRICE: \$30.84

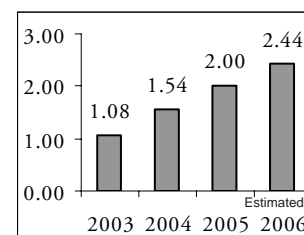
VNBC operates as the holding company for Vineyard Bank that offers community banking services in California. The bank engages in generating deposits and originating loans. Its deposit products include demand deposits, savings deposits, and time deposits. VNBC provides commercial business and commercial real estate loans; single-family construction loans, such as tract and coastal loans; small business administration loans; income property loans; and consumer loans, such as personal loans, automobile loans, and individual lines of credit. It primarily invests in U.S. agency securities, mortgage-backed securities, and mutual funds. As of 10/19/05, the bank operated 11 branch offices in LA, Orange, Riverside, San Bernardino, and San Diego counties of CA and a loan production office in Anaheim, CA.

Type: Growth
Sector: Financial

Institutional Holdings: 39
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.4**
Annual Yield: **1.00%**
Annual Dividend: **\$0.32**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **C**
Value Line Rating: **N/R**



WASHINGTON MUTUAL, INC (WM) NYSE PRICE: \$43.50

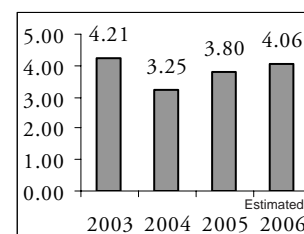
WM a thrift holding company, provides various financial services to consumers and small to mid-sized businesses in the U.S. The company primarily operates through three segments: the Retail Banking and Financial Services, the Mortgage Banking, and the Commercial. The Retail Banking and Financial Services segment's principal activities include originating, managing, and servicing home equity loans and lines of credit. The Mortgage Banking segment primarily engages in originating and servicing home loans. The Commercial segment provides financing to developers and investors for the acquisition or construction of multifamily dwellings and other commercial properties. The company was founded in 1889 and is headquartered in Seattle, Washington.

Type: Growth & Income
Sector: Financial

Institutional Holdings: 528
Industry: Savings & Loans

Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.9**
Annual Yield: **4.50%**
Annual Dividend: **\$1.96**
Investor's Bus. Daily: **C-**
Pearson Growth Rating: **B+**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **B-**
Value Line Rating: **3-2-3**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

January 2006 - ETF's

iShares Dow Jones Select Dividend Index Fund - ETF (DVY) NYSE PRICE: \$61.26

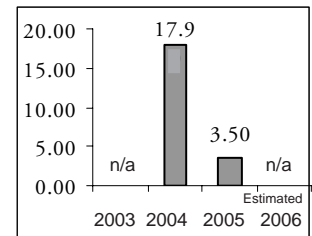
DVY is an ETF that seeks investment results that correspond generally to the price and yield performance of the Dow Jones Select Dividend Index (the Index). The Index is comprised of 100 of the highest dividend-yielding securities (excluding real estate investment trusts) in the Dow U.S. Total Market Index. The ETF invests in a representative sample of securities in the Index, which have a similar profile as the Index. During the fiscal year ended April 30, 2005 (fiscal 2005), the ETF returned 14.81%, while the Index returned 14.86%. In fiscal 2005, the ETF invested in industries, such as financial, utilities, consumer non-cyclical, basic materials, energy, consumer cyclical, communications, industrial and technology, and short term and other net assets, which represented 38.93%, 21.07%, 15.2%, 7.32%, 6.15%, 4.74%, 3.61%, 1.8%, 0.73% and 0.45%, respectively, of total net assets of the ETF.

Fund Family: Ishares Trust
Category: Foreign Large Blend

Type: Growth & Income
DVY Started 11/03/2003

Ratings & Recommendations Performance by %

Current P/E Ratio: **N/A**
Annual Yield: **3.10%**
Annual Dividend: **\$1.91**
Investor's Bus. Daily: **n/a**
Pearson Growth Rating: **A-**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **N/A**
Value Line Rating: **N/A**



iShares MSCI EAFE Index Fund - ETF (EFA) AMEX PRICE: \$59.43

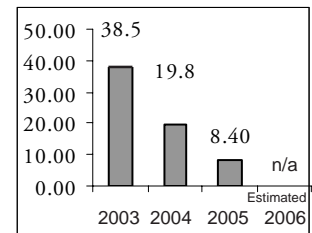
iShares MSCI EAFE Index Fund is an index ETF that seeks investment results that correspond generally to the price and yield performance of the MSCI EAFE Index (the Index). The Index has been developed by Morgan Stanley Capital International Inc. (MCSI) as an equity benchmark for international stock performance. The Index includes stocks from Europe, Australasia (Australia and Asia) and the Far East. The ETF invests in a representative sample of securities in the Index, which have a similar investment profile as the Index. During the fiscal year ended July 31, 2005, the ETF returned 20.53%, while the Index returned 21.06%.

Fund Family: Ishares Trust
Category: Foreign Large Blend

Type: Growth
EFA Started 08/14/2001

Ratings & Recommendations Performance by %

Current P/E Ratio: **N/A**
Annual Yield: **1.80%**
Annual Dividend: **\$1.11**
Investor's Bus. Daily: **N/A**
Pearson Growth Rating: **B+**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **N/A**
Value Line Rating: **N/A**



Through the end of November, the MSCI EAFE has pulled in \$6.5 billion, while the Emerging Markets has taken in \$4.0 billion and the Japan Fund has taken in \$3.8 billion.

CD BUSTER 2006

Stock Name	Symbol	Yield	Shares	Price/Sh	\$ Invested	Current-\$	YTD-Total \$
Coventry Health	CVH	n/a	44	\$56.96	\$2,506.24	\$56.96	\$2,506.24
D.H. Horton	DHI	1.0%	70	\$35.73	\$2,501.10	\$35.73	\$2,501.10
Dow Jones Select	DVY	3.1%	41	\$61.26	\$2,511.66	\$61.26	\$2,511.66
EAFE Index	EFA	1.8%	42	\$59.43	\$2,496.06	\$59.43	\$2,496.06
j2 Global	JCOM	n/a	60	\$42.74	\$2,564.40	\$42.74	\$2,564.40
Lowe's Companies	LOW	0.3%	38	\$66.66	\$2,533.08	\$66.66	\$2,533.08
Nicholas Financial	NICK	0.6%	239	\$10.51	\$2,511.89	\$10.51	\$2,511.89
United Health	UNH	n/a	40	\$62.14	\$2,485.60	\$62.14	\$2,485.60
Vineyard National	VNBC	1.0%	81	\$30.84	\$2,498.04	\$30.84	\$2,498.04
Washington Mutual	WM	4.5%	55	\$43.50	\$2,392.50	\$43.50	\$2,392.50
Total:	-	AVG 1.8%	-	-	\$25,000.57	-	\$25,000.57

The 2006 CD Buster

portfolio was created from our "top ten" list of growth, growth & income stocks, and ETF's, published in our January 2006 Investment Letter. The start up prices were taken from the market's closing price on December 30, 2005. This diversified portfolio demonstrates how selected stocks could outperform the regular bank CD yielding 4.0% annually. This example does not include trading fees and management fees as well as dividends earned. Current performance does not indicate or guarantee future performance. All

A \$25,000 CD returning 4% annually would have a year-end value of: \$26,000.
For additional updates go to www.pearsoncapitalinc.com Go to: "CD Buster 06"

DISCLAIMER:

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client portfolios are customized differently to meet their individual growth objectives and goals. There are no guarantees as to the profit of each - some may lose money.

CD Buster is a stock simulation portfolio created by Pearson Capital, Inc. for informational/educational purposes only.

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WALL STREET INDEXES

Indexes	1999	2000	2001	2002	2003	2004	2005
S&P 500	21.1%	(10.1%)	(13.3%)	(23.4%)	26.4%	9.0%	3.0%
Dow Jones	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(0.61)%
Nasdaq	85.6%	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	1.37%
Russell 2000	21.3%	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	3.32%
Our CD Buster	Data available on our website			8.1%	56.7%	22.8%	(Disputed)
CD Annual Average	4.9%	5.4%	3.0%	2.3%	1.5%	1.5%	3.5%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

ECONOMIC FLOWS:

The new year is here and the dollar is strong. Standard and Poors is expecting the S&P 500 will rise about 7 percent. The Fed is expected to go slow with any increases when Chairman Greenspan is replaced. Long term rates are also expected to moderate or decline.



Key point: Expect the market to rise modestly.

EARNINGS FLOWS:

January is the reporting month for the fourth quarter. This is usually the best quarter of the year as companies get a lot of year-end business, and are able to put their best foot forward for the next year. The market also punishes companies that warn they may not have a good year forward. Standard and Poors believes that earnings overall will slow but move to an all-time record high.

Key point: Expect mainly good news for the January earnings.

CASH FLOWS:

S&P also noted that cash balances for its grouping of companies are also at an all-time high, giving shareholders an opportunity for buybacks, dividends, and merger opportunities. Companies are expected to increase their yearly dividends about 10 percent. At least 61 of the S&P companies will decrease their share count by about 4 percent.

Key point: A company that yields about 2 percent and buys back about for 4 percent can make the S&P average.

Solid yield earning stocks that are also buying back shares will be the key producers of the year.

**THE PEARSON CAPITAL TEAM
WISHES ALL OUR CLIENTS A HAPPY
AND PROSPEROUS
NEW YEAR!**



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