

# Your Personal Money Manager

# Pearson

## INVESTMENT LETTER

Published Monthly Since 1982  
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### FEATURED STOCKS & ETF'S - MAY 2008

Annaly Capital  
Avnet, Inc  
Creditcorp Ltd  
ENSCO Intl

Natural Gas  
Smith Intl  
SYNNEX Corp  
Time Warner

ETFs  
Transportation  
India



Walter D. Pearson  
Chairman



Donald E. Pearson  
President



Sandra Alberti  
Publishing President

## LONG RANGE PLANNING

By Donald Pearson

When investing today one must look down the road and make decisions based upon how things will appear next month and in the years ahead. With the US economy slowing down it will become increasingly difficult to sustain double digit profits from the US market for the foreseeable future. Food and gas prices continue to climb and inflation will negate any CD return. You might ask, is there any way one can offset this cannibalization? I believe there is. I believe we've set our traps accordingly, and now we've simply got to wait. Four changes have been made with most, if not all, portfolios, and these changes should continue to sustain growth, although some are negative right now year to date. Our belief for a winning long range strategy is Commodities, China, India, and Emerging Markets. Today one's portfolio must maintain this to be successful.

**Commodities:** Presently this sector appears to be in a bull market, and it may continue for many years. This rally is fueled by supply and demand. As many countries continue to raise their standards of living,

they will continue to demand more raw materials. Russia, China, India, and other countries will continue importing for many years to come. As the world's need continues to increase, it will help defer a global pullback or downturn. Gold is another way to hedge rising inflation. Today as we face economic instability this strategy becomes paramount. The price of gold in the 1980's and '90's remained somewhat stable, but today it continues to increase. Many believe, as we do, that it will continue for many years. We have added both raw materials and gold into portfolios using ETFs. In some cases we have added individual holdings, but our primary resource has been XME and GLD, and both are up in value year to date.

**Emerging Markets:** Today one must invest around the world, simply because many countries have rapidly growing economies that look considerably different than they did a few years ago. The World Bank may classify many as low or middle income but this continues to change. More than sixty of Fortune's top 500 global corporations are based in emerging markets. These

countries make up 20 percent of today's world economy and 25 years from now they'll grow to 50 percent. Although one might think these countries increase one's risk, if done properly, the opportunity should far outweigh the risk. There is the possibility that these markets may not decline at the same rate as the US. We continue to add individual companies when we see those we believe superior, but our primary objective is building the group utilizing ETFs. For example, we purchase Brazil as a country by purchasing EWZ because of the merits of the country. Another strategy of ours, to minimize risk while pursuing double digit returns, is to track an index of emerging market stocks displaying broad diversification. EEM has an annualized increase of more than 30 percent for the last three years. Many of our other selections include developed countries following the same format. As an example, EFA tracks large cap stocks in developed foreign markets.

**China & India:** Although both of these markets have pulled back considerably this

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Investment Letters are complimentary to our clients with managed accounts!

# DIFFERENT AVENUES

What should we be looking for in the field of investment? The first thing that comes to mind is growth, but perhaps safety, with another perhaps, maybe income. These are all factors that should enter into one's mind when considering an investment. One of the things that is largely overlooked is the income tax. Whether you like it or not the tax is there and you must pay. Your company may have made a profit for the year and paid a tax on that profit, but if a part of that profit is spun off to you in the form of a dividend, you must pay a tax on that as well. Whether or not you consider this double taxation is not the issue in question. You owe and you must pay. If at a later date you decide to sell your stock because you have a profit, you must return a portion of your profit to the government.

If you do not like paying these taxes, you can plan your investments so that the government is no longer your partner. After all, it's your money! Why share it with the tax man? Here is the way to get around the issue. If you are young enough that you do not require income from your investments in order to pay your living expenses, you simply search for those companies that are young and in their early stages of growth. Looking back fifteen or twenty years you can see Cisco, Microsoft, and others that came along about that time. A bit earlier you might have considered Wendy's, McDonald's, or one of the other quick restaurant chains. By investing in issues of this kind, you should see your investment grow in much the same manner a child reaches maturity. It is not a straight road forward. There will be problems of a minor sort along the way, but in the long run you should have a good strong healthy child and/or investment.

Another of the goodies that exudes from this style of investing is the fact that you can be a nice guy at the government's expense. If you give a few thousand dollars to your church or to a charity, the government allows you to credit your income tax with that amount. If you have a \$500 investment that has grown to a value of \$3000, the government will allow you to give it away and get credit for the full value of the gift; and neither you nor the church will owe any taxes on the profit that has accrued. Let me give you an actual happening as an illustration. It was 1971, which was 37 years ago, and I was playing bridge when two girls asked me to recommend a stock to them. I recommended Fed Guar Life, which has since changed its name to Alfa, at a price of \$25. At a later date one of the girls asked me if I had sold mine as it had gone to \$30 and she took her profit. I had bought 30 shares which cost me \$750. The stock has split a few times, and I have just given 200 shares to two different churches which credits me with two \$4400 gifts. This leaves me with 2400 shares.

This is a clear picture of the value of long term investing. I could go over similar scenarios with other stocks, but the long term outcome is similar each time. Fed Guar Life was not an outstanding growth stock in my opinion at the time, but it looked good and has proven out. There are others that have done better, but the important thing is to learn how to invest and exclude the government from participating in your successes. Think of it this way: I can sell my shares for \$52,800 leaving me a profit of \$52000. After paying the government \$7800, the rest is mine. Then I look for another investment to share with my partner.

Or - I hold and play my own game!

*By Walter Pearson*

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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 MAY 2008**  
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**ANNALY CAPITAL MANAGEMENT, INC (NLY) NYSE PRICE: \$16.76**

NLY, a real estate investment trust, engages in the ownership, management, and financing of a portfolio of investment securities. The company invests primarily in mortgage pass-through certificates, collateralized mortgage obligations, agency callable debentures, and other mortgage-backed securities representing interests in or obligations backed by pools of mortgage loans. The company has elected to be taxed as a real estate investment trust (REIT). As a REIT, the company would not be subject to federal corporate income tax, provided it distributes at least 90% of its taxable income to its stockholders. It was formerly known as Annaly Mortgage Management, Inc. and changed its name to Annaly Capital Management, Inc. in August 2006. Annaly Capital Management was incorporated in 1996 and is based in New York City.

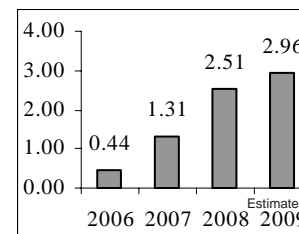
Type: Growth  
Sector: Financial

Institutional Holdings: 311  
Industry: Mortgage Investm.

**Ratings & Recommendations**

**Earnings per share**

Current P/E Ratio: **12.8**  
Annual Yield: **11.2%**  
Annual Dividend: **\$1.92**  
Investor's Business Daily: **B-**  
Pearson Growth & Value: **A**  
Morningstar Rating: **C**  
Standard&Poor Rating: **B**  
Value Line Rating: **B**



**AVNET, INC (AVT) NYSE PRICE: \$26.19**

AVT is an industrial distributor of electronic components, enterprise computer and storage products and embedded subsystems. Avnet distributes electronic components, computer products and software as received from its suppliers or with assembly or other value added by Avnet. AVT provides engineering design, materials management and logistics services. The company has two primary operating groups: Electronics Marketing (EM) and Technology Solutions (TS). Both operating groups have operations in the Americas, Europe, the Middle East and Africa (EMEA), and Asia/Pacific, consisting of Asia, Australia and New Zealand. In November 2007, Avnet acquired ChannelWorx Pty Ltd. In Nov. 07, Avnet completed the acquisition of Betronik GmbH. In Jan. 08, Avnet acquired YEL Electronics Hong Kong Ltd. In April 08, Avnet acquired Azzurri Technology Ltd.

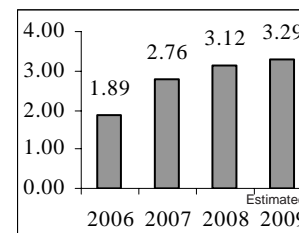
Type: Growth  
Sector: Services

Institutional Holdings: 420  
Industry: Electr. Wholesale

**Ratings & Recommendations**

**Earnings per share**

Current P/E Ratio: **8.3**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Business Daily: **C+**  
Pearson Growth & Value: **A**  
Morningstar Rating: **C**  
Standard&Poor Rating: **C**  
Value Line Rating: **C**



**CREDITCORP LTD (BAP) NYSE PRICE: \$80.36**

BAP is a financial services holding company. The Company operates primarily through its four principal subsidiaries, Banco de Credito del Peru (BCP), Atlantic Security Holding Corporation (ASHC), El Pacifico-Peruano Suiza Compania de Seguros y Reaseguros (PPS) and Grupo Credito S.A (Grupo Credito). Credicorp is engaged principally in commercial banking (including trade finance, corporate finance and leasing services), insurance (including commercial property, transportation and marine hull, automobile, life, health and pension fund underwriting insurance) and investment banking (including brokerage services, asset management, and trust, custody and securitization services, and proprietary trading and investment). The Company conducts its commercial banking and investment banking activities primarily through BCP and ASHC.

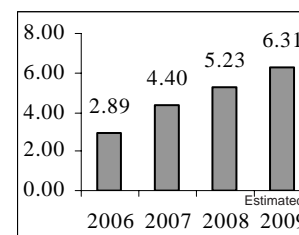
Type: Growth  
Sector: Financial

Institutional Holdings: 67  
Industry: Foreign Banks

**Ratings & Recommendations**

**Earnings per share**

Current P/E Ratio: **18.3**  
Annual Yield: **1.90%**  
Annual Dividend: **\$1.50**  
Investor's Business Daily: **A**  
Pearson Growth & Value: **B-**  
Morningstar Rating: **N/R**  
Standard&Poor Rating: **C**  
Value Line Rating: **A**



**ENSCO INTERNATIONAL INCORPORATED (ESV) NYSE PRICE: \$63.73**

ESV is an international offshore contract drilling company. Its operations consist of one segment: contract drilling services. ENSCO engages in the drilling of offshore oil and gas wells in domestic and international markets by providing its drilling rigs and crews under contracts with major international, government-owned, and independent oil and gas companies. As of 02/15/08, the Company's offshore rig fleet included 44 jackup rigs, one ultra-deepwater semisubmersible rig and one barge rig. In addition, it has four ultra-deepwater semisubmersible rigs under construction. The Company is a provider of offshore contract drilling services to the international oil and gas industry. Its operations are concentrated in the geographic regions of Asia Pacific (which includes Asia, the Middle East, Australia and New Zealand), Europe/Africa, and North and South America.

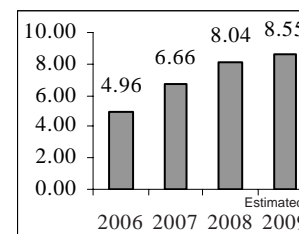
Type: Growth  
Sector: Basic Materials

Institutional Holdings: 382  
Industry: Oil & Gas

**Ratings & Recommendations**

**Earnings per share**

Current P/E Ratio: **9**  
Annual Yield: **0.20%**  
Annual Dividend: **\$0.10**  
Investor's Business Daily: **A+**  
Pearson Growth & Value: **A-**  
Morningstar Rating: **N/R**  
Standard&Poor Rating: **B**  
Value Line Rating: **C**



**PEARSON CAPITAL'S RECOMMENDED STOCKS FOR MAY 2008**  
**www.pearsoncapitalinc.com**

**NATURAL GAS SERVICES GROUP, INC (NGS) AMEX PRICE: \$24.90**

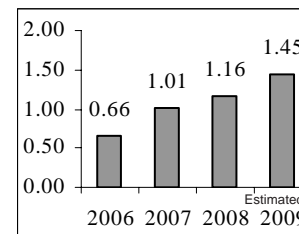
NGS is a provider of small to medium horsepower compression equipment to the natural gas industry in the United States. The Company focuses on non-conventional natural gas production business, such as coalbed methane, gas shales and tight gas. It manufactures, fabricates and rents natural gas compressors that enhance the production of natural gas wells and provide maintenance services for those compressors. Natural Gas Services Group also manufactures and sells flare systems for oil and gas plant and production facilities. The business operates in units, such as Gas Compressor Rental, Engineered Equipment Sales, Service and Maintenance, and Corporate. The Company's customers include XTO Energy, Inc., Energen Resources Corporation, and Devon Energy Inc.

Type: Growth  
Sector: Basic Materials

Institutional Holdings: 39  
Industry: Oil & Gas

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **24.6**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Business Daily: **A+**  
Pearson Growth & Value: **B+**  
Morningstar Rating: **N/R**  
Standard&Poor Rating: **N/R**  
Value Line Rating: **C**



**SMITH INTERNATIONAL, INC (SII) NYSE PRICE: \$76.51**

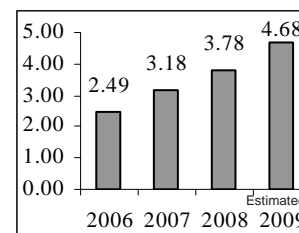
SII is a global provider of products and services to the oil and gas exploration and production industry. The Company provides a line of technologically-advanced products and engineering services, including drilling and completion fluid systems, solids-control and separation equipment, waste-management services, oilfield production chemicals, three-cone and diamond drill bits, turbine products, tubulars, fishing services, drilling tools, underreamers, casing exit and multilateral systems, packers and liner hangers. The Company also offers supply-chain management solutions through an extensive North American branch network providing pipe, valves and fittings as well as mill, safety and other maintenance products. Smith operates in two segments: Oilfield and Distribution. On May 16, 2007, Smith Services acquired D.S.I. Inspection Services, Inc. (DSI).

Type: Growth  
Sector: Basic Materials

Institutional Holdings: 435  
Industry: Oil & Gas

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **23.4**  
Annual Yield: **0.60%**  
Annual Dividend: **\$0.48**  
Investor's Business Daily: **A**  
Pearson Growth & Value: **B-**  
Morningstar Rating: **N/R**  
Standard&Poor Rating: **D**  
Value Line Rating: **B**



**SYNNEX CORPORATION (SNX) NYSE PRICE: \$23.88**

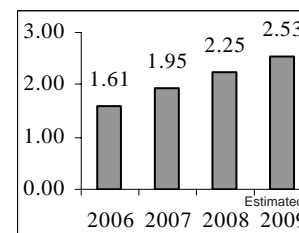
SNX is a global information technology (IT) supply chain services company. SNX provides services in IT distribution, supply chain management, contract assembly and business process outsourcing (BPO). The BPO services solutions include demand generation, pre-sales support, product marketing, print and fulfillment, back office outsourcing and post-sales technical support. The company distributes approximately 15,000 tech. products in more than 20 distribution facilities throughout the U.S., Canada and Mexico. Approximately 97% of the Company's total revenue was from North America for the fiscal 2007. The Company's customers include Apptis, CDW, Sun Microsystems and Insight Enterprises, Inc. In April 2008, the Company completed the acquisition of substantially all the assets of New Age Electronics, Inc.

Type: Growth  
Sector: Services

Institutional Holdings: 128  
Industry: Business Services

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **11.9**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Business Daily: **B**  
Pearson Growth & Value: **A**  
Morningstar Rating: **N/R**  
Standard&Poor Rating: **C**  
Value Line Rating: **B**



**TIME WARNER, INC (TWX) NYSE PRICE: \$14.85**

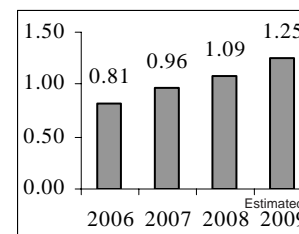
Time Warner Inc. (Time Warner) is a media and entertainment company. The Company operates in five business segments: AOL LLC (AOL), consisting principally of interactive consumer and advertising services; Cable, consisting principally of cable systems that provide video, high-speed data and voice services; Filmed Entertainment, consisting principally of feature film, television and home video production and distribution; Networks, consisting principally of cable television networks that provide programming, and Publishing, consisting principally of magazine publishing.

Type: Growth  
Sector: Services

Institutional Holdings: 657  
Industry: Entertainment

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **12.7**  
Annual Yield: **1.70%**  
Annual Dividend: **\$0.25**  
Investor's Business Daily: **D+**  
Pearson Growth & Value: **B+**  
Morningstar Rating: **A**  
Standard&Poor Rating: **C**  
Value Line Rating: **N/R**



**PEARSON CAPITAL'S RECOMMENDED ETF'S FOR MAY 2008**  
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**ISHARES DOW JONES TRANSPORTATION AVERAGE INDEX FUND (IYT) NYSE PRICE: \$93.14**

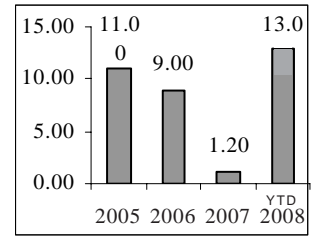
The investment seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones Transportation Average index. The fund uses a representative sampling strategy to try to track the index. The index measures the performance of the transportation sector of the U.S. equity market. The index includes companies in the following primary groups: airlines, trucking, railroads, air freight, transportation services and industrial services. It is nondiversified.

Fund Family: iShare  
 Category: Mid-Cap Growth

Type: Blended-ETF  
 Industry: Transport-US

**Ratings & Recommendations      Performance by %**

Current P/E Ratio: **N/R**  
 Annual Yield: **1.01%**  
 Annual Dividend: **\$0.94**  
 Investor's Business Daily: **N/R**  
 Pearson Growth & Value: **A-**  
 Morningstar Rating: **B**  
 Standard&Poor Rating: **N/R**  
 Value Line Rating: **N/R**



Fund Inception Date: October 6, 2003.

**MORGAN STANLEY INDIA INVESTMENT FUND, INC (IIF) NYSE PRICE: \$44.57**

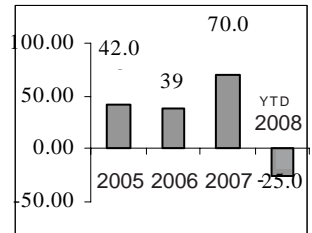
The Morgan Stanley India Investment Fund, Inc. (the Fund) is a non-diversified, closed-end management investment company. The Fund's investment objective is long-term capital appreciation through investments primarily in equity securities of Indian Issuers. The Fund's investment advisor is Morgan Stanley Investment Management Inc. The Fund invests in various holdings, including electrical equipment, commercial banks, information technology services, construction materials, wireless telecommunication services and short-term investments.

Fund Family: iShare  
 Category: Large Growth

Type: Blended-ETF  
 Industry: Diversified India

**Ratings & Recommendations      Performance by %**

Current P/E Ratio: **N/R**  
 Annual Yield: **0.28**  
 Annual Dividend: **\$0.12**  
 Investor's Business Daily: **N/R**  
 Pearson Growth & Value: **A**  
 Morningstar Rating: **A**  
 Standard&Poor Rating: **N/R**  
 Value Line Rating: **N/R**



Morgan Stanley India Investment Fund was incorporated in 1993 and is New York, New York.

**Continued from page 1  
 LONG RANGE PLANING**

year, almost everyone will agree long range these are the markets to remain committed to. I wish I had a crystal ball telling us when to get out and when to get back in, but I do not. I do know if we choose wisely, using value investing, we will prevail. Last year the gross domestic product in China grew at 11 percent. Even with a US slowdown, China's economic growth is expected to be around 10 percent in 2008. Growing affluence in the middle class will continue, and their exports to other emerging markets will continue to grow. Today more than half their products go to other countries, and this was not the case ten years ago. The story for India is very similar. Purchasing these countries or both economies has been very successful by adding FXI & IIF to our portfolios. Both are down year to date but their long range outlooks are strong. We expect a second half correction for both.

**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.*

*Second Quarter April-May-June-see your April statement.*

# WALL STREET INDEXES

Indexes	2002	2003	2004	2005	2006	2007	YTD
S&P 500	(23.4%)	26.4%	9.0%	3.0%	13.6%	3.6%	(5.6%)
Dow Jones	(16.8%)	25.3%	3.2%	(0.6%)	16.3%	6.4%	(3.4%)
Nasdaq	(31.5%)	50.0%	8.6%	1.4%	9.5%	9.8%	(9.0%)
Russell 2000	(21.6%)	45.4%	17.0%	3.3%	17.0%	(2.8%)	(6.5%)
Market Average	(23.3%)	36.8%	9.4%	1.8%	14.1%	5.6%	(6.1%)



## MARKET VIEW

*Christopher Carothers - PCI's Stock Analyst*

**Economic Flows:** The Federal Reserve and the government have finally used the dreaded recession word this month, only being seven months too late. The markets already declared one in October, as they were reaching higher, only to fall downward. The good news is that to prevent catastrophe, the Fed has taken steps to limit the economic pain. This temporary "recession" is producing falling inflation, a margin squeeze on corporate profits, eroding stock prices, and declining interest rates. The biggest question for investors is not what is happening now, but rather how long will the downturn last. We estimate that these economic difficulties will persist for at least two years. Going forward, the main problem for the U.S. economy is likely to be a protracted period of restrained consumer spending, as consumers borrowed against the value of their homes in virtual direct proportion to their wealth gains. People either can't or won't borrow as much and thus we get negative results from housing prices. Declining wealth, rising unemployment, and poor economic conditions may or may not cause consumers to save, but they will cut back on future expenditures to pay down existing bills.



**Key Point:** *Expect a slowdown to continue to ripple through the economy.*

**Earnings Flows:** First quarter earnings season has already begun. Analysts have already slashed earnings projections for the rest of the year, so companies will strive to beat their conservative estimates. Either way, there will be a few areas within the economy like oil and other commodities that will continue to rally. Companies that benefit from globalization are doing well; however, much of the benefits are due to the depreciation of the dollar. Once the dollar finally firms, look for these same companies to trend lower. Earnings expectations for many other companies will remain muted. Investors who seek companies with low p/e ratios vs. their growth rate, a small but rising dividend, and willingness to buy back stock, will do well in this time frame.

**Key Point:** *Look for companies for their long steady growth.*

**Cash Flows:** Companies that produce healthy cash flows are wonderful long term investments. What they do with that cash is entirely up to management's discretion. Take in point the huge story of Microsoft buying Yahoo. Instead of returning its cash horde directly to its shareholders, Microsoft has decided it needs to pay a huge sum to purchase its competitor Yahoo. Critics are already deriding the decision, wondering if Microsoft is truly in trouble. Either way, paying too much for a company leads to big expectations.

**Key Point:** *Management is a key determinant in a company's ability to use its cash wisely.*

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Editor  
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## **Services Provided**

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Management fee of 1% annually  
 for accounts of \$25,000 or more  
 (2% for smaller accounts)

**Free consultation**  
**No hidden fees**

**Privacy Policy**

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