

PEARSON Investment Letter

Published Monthly Since 1982

www.pearsoncapitalinc.com**FEATURED STOCKS**

Bed Bath & Beyond	Nicholas Finc
Biosite, Inc	Select Medical
Coventry Health	Toll Brothers
KB Home	UTStarcom

GROWTH & INCOME STOCKS

MBNA Corp	Thornburg Mortgage
-----------	--------------------

YEAR ENDING UPDATES**BY DONALD PEARSON**

For those of you who have managed, non IRA, accounts with us for quite

We refer to this as our year-end exercise of turning lemons into lemonade.

When you have mutual funds within your portfolio, you must wait for the envelope to arrive in the mail that gives you your tax consequence for the prior year's activity. We have always had a real issue with this, as so many have learned the hard way. The control lies with someone else, and their objectives are different. Many times there is short term buying and selling within a fund, simply because this makes the most sense with their agenda. And then, you may have just bought the fund, and a week later they sell something held for many years generating a large profit. Unfortunately, you share in the tax owed on the profit, although you didn't receive any of the profit.

Stocks held for twelve months or longer have a smaller tax consequence than those sold under a year. As we manage your portfolios individually, this of course becomes a part of the decision making. Our client's personalized objective is our priority, and this is what makes the difference.

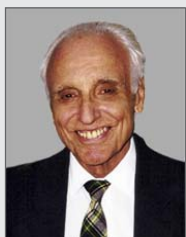
The SEC has mandated that Rule 206(4)-7 take effect October 5, 2004. I wrote about this rule earlier in the year, and simply want everyone to know briefly what and why this rule has been placed into law. Each company must name a chief compliance officer who is willing to accept the responsibility of reporting or correcting any wrongdoing. Obviously, this was done because of the shenanigans of so many of the brokerage providers. This holds someone accountable for the management of the assets. I will be the person maintaining this position for our firm, without any change of business practice. We have been meeting this higher standard for many years.

Once again I'll go on record by making the following statements: (1) We chose TD Waterhouse to hold your assets because it is our opinion they provide outstanding client representation. (2) We make the decisions in managing your account exactly the same as we do for any member of our immediate family.

some time, this reminder will be nothing new to you. For our many new clients, this will serve as an update to the activity about to begin. It's also a reminder to everyone that we only have eight weeks left in this calendar year. This is the time for everyone to review their accounts, whether personally managed or others manage, looking for tax opportunities.

When the beginning of November appears on our calendar, Bonnie will begin the first step of analyzing each taxable account to provide me with an updated status of the year-to-date results. For those accounts with negative numbers because the sells were lemons, we will look for overvalued stocks to sell. For those accounts with a profit because of sells this year, we will be looking for some lemons within the account to offset the gain and negate the year-end profit that would have pleased the IRS. For those who transferred in this year, and did not provide us with the original costs of the issues within your portfolio, we can do nothing for you, unless you call us and provide the information needed. We can load it into our system immediately, and do exactly the same for you.

This might be our best well-kept secret. I know that by reminding you of this, it could help you with additional opportunities you might find in other areas of your financial portfolio. As an example, if you made a lot of profit this year with a real estate sale and would like us to assist you by not doing this in your account, please call us as soon as possible and let us know. Within the next thirty days every account will be examined individually. From about the third week of November, and into December, we will be making these adjustments within each portfolio that provides the opportunity.



Walter D. Pearson
Chairman



Donald E. Pearson
President



Sandra Alberti
Publishing President

Investment Letters are complimentary to our clients with managed accounts!

WALTER'S WISDOM

THERE IS MONEY TO BE MADE IN THE STOCK MARKET

Way back in the 1930s legislation was passed which devastated the textile industry in this country. Japan became #1 in the industry. I can recall going from house to house in many of the mill towns and would find the man of the house on the front porch in a rocking chair as work would be nonexistent. Many New England towns were in a similar situation; the town would have a textile mill which had closed and there were no jobs left in that town.

I got into the investment business in 1952, and one of the stocks my company was recommending was Berkshire Hathaway, one of the bigger textile companies. Though they were not making money, the stock was selling well below its book value and looked to be a good value. I called on one of my customers one day and had her buy 1000 shares @ \$8.50. Warren Buffet was president of the company and, being an intelligent man, saw that there was no future in the textile industry. He suggested to the stockholders that they allow him to sell all of Berkshire's holdings and to have him reinvest the capital in forward-looking issues. The stockholders agreed and the stock today sells for about \$85,000 a share. If my client has held onto her stock, her \$8500 has now grown to \$85,000,000. Not bad even though it took fifty years to accomplish.

The point I wish to bring out here is that there is money to be made in the stock market; it is simply a matter of finding the right companies. Though none of us expect to latch onto any Berkshire Hathaways, I think we all should expect to enhance our holdings as time marches on. As our government seems to be more interested in seeing other countries prosper, we

have lowered our investment expectations. Whereas, in the past we felt we could average out to 14%-18% a year, we now figure it will be closer to 12%-14%. On that basis, using the rule of 72, one's capital should double in a six-year period.

One of the things we should be thinking about at this time of year is what we are going to give our loved ones at Christmastime. It has always been my contention that one of the best presents one could give a youngster is a managed account. In the schools today little or nothing is taught to our progeny about money. It is my opinion that this is one of the best ways for them to learn.

Any amount of money could get them started. I have one granddaughter that I started with a \$5000 account about eight or ten years ago which is now worth \$40,000 plus. Others may not have done as well, but it is a learning process nonetheless. By starting the child off in this manner the information is spoon fed to him monthly, and when he reaches maturity he should be better able to handle his fiscal responsibilities.

Some time ago I published a book on investing called Investing for the Millions. Inasmuch as Christmas is coming, I have decided to make a gift of this book to anyone who opens an account for his sibling. One of the gentlemen who bought a copy some time back was kind enough to write me and say, "Mr. Pearson, I have bought many books on this subject, and I must say that this is the best one I have ever read." If you request it, we will also send the recipient a letter explaining his million-dollar gift. If we can average 12% a year, a \$5000 gift would be worth more than \$1 million in 48 years. A \$2500 gift would take an extra six years.



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 NOVEMBER

BED BATH & BEYOND, INC (BBBY) NASDAQ PRICE: \$40.79

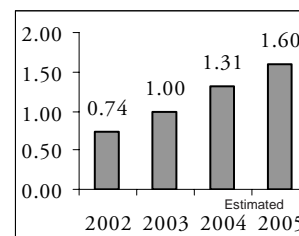
BBBY operates specialty retail stores in the United States, including Bed Bath & Beyond stores (BBB), Harmon stores and Christmas Tree Shops stores (CTS). BBB stores are almost exclusively of a big box format. BBB's domestics merchandise line includes items, such as bed linens, bath accessories and kitchen textiles and BBB's home furnishings line includes items, such as cookware, dinnerware, glassware and basic housewares. At February 28, 2004, BBB operated 575 stores in 44 states and one territory. For the 26 weeks ended 8/28/04, net sales rose 18% to \$2.37 billion. Net income rose 31% to \$202 million. Revenues reflect increased comparable store sales and the addition of new stores. Net income also benefitted from improved mark-up on the mix of product purchased.

Type: Growth
Sector: Services

Institutional Holdings: 276
Industry: Retail

Ratings & Recommendations Earnings per share

Current P/E Ratio: **27.4**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B-**
Pearson Growth Rating: **A**
Pearson Value Rating: **C**
Stand.&Poor Rating: **B-**
Value Line Rating: **2-3-3**



BIOSITE, INC (BSTE) NASDAQ PRICE: \$48.81

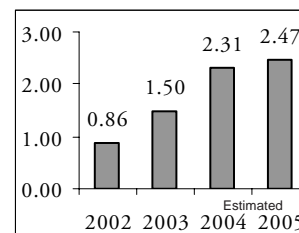
BSTE is a provider of medical diagnostics that aid a physician to diagnose diseases and health conditions. Biosite offers tests for drug screening, heart attack, congestive heart failure (CHF), acute coronary syndromes (ACS) and certain bacterial and parasitic infections. Its commercialized products include Triage MeterPlus, Triage BNP Test, Triage Cardiac Panel, Triage Cardio Profiler, Triage Drugs of Abuse and Triage Microbiology Panels. The Triage BNP Test represented 61% of the Company's total product sales during the year ended 12/31/03. For the six months ended 6/30/04, revenues rose 39% to \$117.5 million. Net income rose 44% to \$18.9 million. Revenues reflect growth in sales of the Triage BNP Test products and Triage Drugs of Abuse and TOX Drug Screen products. Earnings also reflect an increase in gross profit margins.

Type: Growth
Sector: Healthcare

Institutional Holdings: 116
Industry: Biotechnology

Ratings & Recommendations Earnings per share

Current P/E Ratio: **23.7**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **A+**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **B-**
Value Line Rating: **1-4-1**



COVENTRY HEALTH CARE, INC (CVH) NYSE PRICE: \$40.90

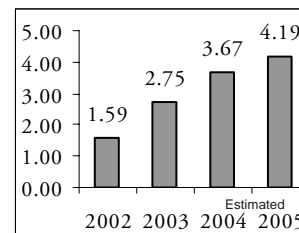
Coventry Health Care Inc. is a managed health care company operating a diversified portfolio of local market health plans serving 14 markets, primarily in the mid-Atlantic, midwest and southeast United States. Coventry's health plans are operated under the names Altius Health Plans, Carelink Health Plans, Coventry Health Care, Coventry Health and Life, Group Health Plan, HealthAmerica, HealthAssurance, HealthCare USA, PersonalCare, SouthCare, Southern Health and WellPath. The Company has three reportable segments: Commercial, Medicare and Medicaid products. For the nine months ended 9/30/04, revenues rose 19% to \$3.93 billion. Net income rose 36% to \$245.4 million. Results reflect organic membership growth and acquisitions, improved gross profit margins, and lower depreciation and amortization costs.

Type: Growth
Sector: Healthcare

Institutional Holdings: 180
Industry: Healthcare Facilities

Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.4**
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: **3-3-3**



KB HOME (KB) NYSE PRICE: \$82.25

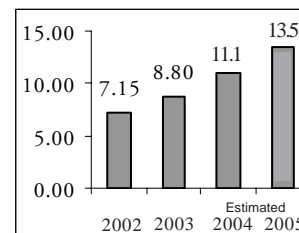
KBH is a homebuilder based in the United States with operations in CA, AZ, NV, NM, CO, IL, TX, FL, GA, and NC. In addition, Kaufman & Broad S.A., the Company's majority-owned subsidiary, is a homebuilder with operations primarily in France. During the fiscal year ended November 30, 2003 (fiscal 2003), KB Home delivered 27,331 homes in the United States and France. In fiscal 2003, the Company operated an average of 392 active communities compared with 330 communities during the fiscal year ended November 30, 2002. KB Home also provides mortgage banking services to the majority of its domestic homebuyers through its wholly owned subsidiary, KB Home Mortgage Company. For the nine months ended 8/31/04, total revenues increased 17% to \$4.67 billion. Net income rose 27% to \$294.2 million.

Type: Growth
Sector: Capital Goods

Institutional Holdings: 174
Industry: Construction Serv.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **8**
Annual Yield: **1.2%**
Annual Dividend: **\$1.00**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **A**
Pearson Value Rating: **A**
Stand.&Poor Rating: **A**
Value Line Rating: **3-3-3**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR NOVEMBER

NICHOLAS FINANCIAL, INC (NICK) NASDAQ PRICE: \$10.88

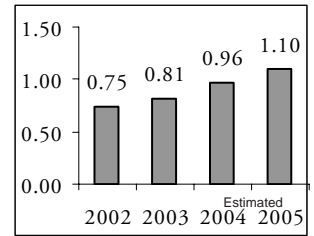
NICK is a holding company whose businesses are conducted through its two wholly owned subsidiaries, Nicholas Financial, Inc. (Nicholas Financial) and Nicholas Data Services, Inc. (NDS). NICK is a specialized consumer finance company engaged primarily in acquiring and servicing retail installment sales contracts for purchases of new and used automobiles and light trucks. NDS is engaged in supporting and updating industry-specific computer application software for small businesses located primarily in the Southeast United States. For the three months ended 6/04, revenues increased 20% to \$7.3M. Net income rose 40% to \$1.6 million. Revenues reflect the increase in the receivable base of several existing branches and the opening of three branches. Net income reflects lower depreciation and interest costs.

Type: Growth
Sector: Financial

Institutional Holdings: 2
Industry: Financial Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **9.9**
Annual Yield: **0.9%**
Annual Dividend: **\$0.10**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **B**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **B**
Value Line Rating: **N/R**



SELECT MEDICAL CORPORATION (SEM) NYSE PRICE: \$17.19

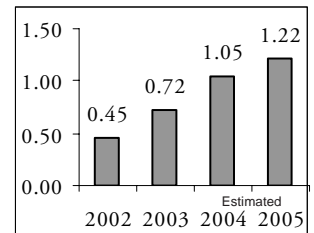
SEM provides long-term acute care hospital services and inpatient acute rehabilitative hospital care through its Select Specialty Hospital division and provides physical, occupational and speech rehabilitation services through its outpatient divisions. The Company's specialty hospital segment consists of hospitals designed to serve the needs of acute patients and patients that require intensive medical rehabilitation care. As of the year ended 12/31/03, the Company operated 79 long-term acute care hospitals in 24 states, four acute medical rehabilitation hospitals in NJ and 790 outpatient rehabilitation clinics in 29 states, the District of Columbia and seven Canadian provinces. Net income increased 83% to \$60.5 million. Revenues reflect an increase in patient days and a higher revenue per patient day.

Type: Growth
Sector: Healthcare

Institutional Holdings: 113
Industry: Health. Facilities

Ratings & Recommendations Earnings per share

Current P/E Ratio: **18.2**
Annual Yield: **0.6%**
Annual Dividend: **\$0.12**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **A-**
Pearson Value Rating: **C+**
Stand.&Poor Rating: **A**
Value Line Rating: **2-3-3**



TOLL BROTHERS, INC (TOL) NYSE PRICE: \$46.35

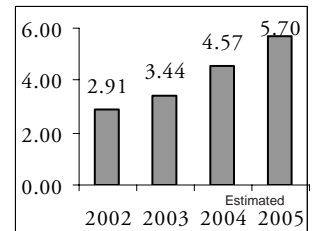
TOL designs, builds, markets and arranges financing for single-family detached and attached homes in middle-income and high-income residential communities. TOL caters to move-up, empty-nester and active-adult age-qualified home buyers in 21 states in six regions of the U.S. Its communities are generally located on land the Company has either developed or acquired fully approved and, in some cases, improved. In the five years ended 10/31/03, Toll delivered 21,199 homes from 400 communities, including 4,911 homes from 213 communities during the fiscal year ended October 31, 2003. For the nine months ended 7/31/04, revenues rose 30% to \$2.43 billion. Net income rose 37% to \$228.5 million. Revenues reflect an increase in housing units delivered and higher average prices of homes delivered. Net income also reflects higher margins.

Type: Growth
Sector: Capital Goods

Institutional Holdings: 105
Industry: Construction Serv.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.3**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **A**
Pearson Value Rating: **B**
Stand.&Poor Rating: **B-**
Value Line Rating: **2-3-4**



UTSTARCOM, INC (UTSI) NASDAQ PRICE: \$17.12

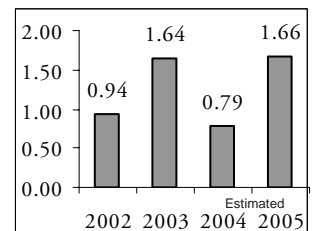
UTSI designs, manufactures and sells telecommunications equipment and products, and provides services associated with their operation. Its products and technologies, which are based on global communications standards, fall into three major categories: Wireless, a technology that enables end users, or subscribers, to send and receive voice and data while mobile and using wireless devices; Wireline, a technology that satisfies customer demand for high-speed, cost-effective data, voice and media transport and carriage, and Switching, a diverse assembly of software- and hardware-based networking elements designed to replace central office telephone switches. For the nine months ended 9/30/04, net sales rose 48% to \$1.96 billion. Net income fell 24% to \$103.6 million.

Type: Growth
Sector: Services

Institutional Holdings: 109
Industry: Com. Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **10.1**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B-**
Pearson Growth Rating: **A+**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **A**
Value Line Rating: **5-3-4**



WALL STREET INDEXES

Indexes	1998	1999	2000	2001	2002	2003	2004/YTD
S&P 500	28.5%	21.1%	(10.1%)	(13.3%)	(23.4%)	26.4%	1.6%
Dow Jones	18.1%	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	(4.1)%
Nasdaq	39.6%	85.6%	(39.3%)	(21.1%)	(31.5%)	50.0%	(1.4)%
Russell 2000	(2.4%)	21.3%	(4.2%)	1.0%	(21.6%)	45.4%	4.8%
Our CD Buster	Data for 2002/03/04 available on our website				8.1%	56.7%	6.3%
CD Annual Average	4.7%	4.9%	5.4%	3.0%	2.3%	1.5%	1.5%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

ECONOMIC FLOWS:

This time China's Fed has raised interest rates. Experts believe that the country will raise rates about 150 basis points. As I've said before, our economies are intertwined, changing the traditional business cycle. U.S. critics of China's foreign currency policy say that its peg rate, the set level it keeps its currency to the dollar, keeps the yuan artificially low, undercutting the competitiveness of U.S. goods. Maintaining the peg has also served to keep U.S. interest rates low as China's central bank buys hundreds of billions of dollars of U.S. Treasuries to keep the yuan valued at 8.28. There is widespread disagreement among economists about the effectiveness of interest rates in China's centrally controlled economy. Commodity prices are high because of China's go go economy. What's going to happen when China goes away from the peg?



Key point: We are getting too dependent on China.

EARNINGS FLOWS:

Earnings season in November usually ends the third quarter by Thanksgiving. Earnings have been pretty good for certain areas like semiconductors, certain transportation stocks, and of course, energy stocks. The new administration will lay down its own policy affecting the market. November will be the month that the market calms down and sets the end of the year for a major push upward.

Key point: The market will finally calm.

CASH FLOWS:

Once again, there are not too many companies making major deals in the news. They are also waiting for the election to pass. Once this happens, we may see many companies make mergers, stock buybacks, or increase their dividends. We would like to see many companies increase dividends. Microsoft will be giving their big dividend in December, so we will probably see other companies follow their lead by increasing value to shareholders.

Key point: Things will happen after the election.

ADDITIONAL NOTES:

As of this writing, the election has not happened and both candidates are neck and neck, let's review the past ideas.

If George Bush is elected:

- 1) Tobacco stocks will roll on, even with the DOJ lawsuit.
- 2) Military stocks will only get better.
- 3) Energy stocks may stay steady for the rest of the year.

If John Kerry is elected:

- 1) Big Pharmaceutical companies may take a dive.
- 2) Other health care stocks may do better.
- 3) Energy stocks may fall at the end of the year

Pearson Capital, Inc.
www.pearsoncapitalinc.com

6431 Rubia Circle
Apollo Beach, Florida 33572
Tel: (813) 641 - 7575
Fax: (813) 641 - 7755
Toll Free: (800) 510-0329

1628 White Arrow Drive
Dover, Florida 33527
Tel: (813) 659 - 2560

Chairman Of The Board
Head Of Investment Research

Walter D. Pearson
E-mail: PearsonCap@aol.com

President

Donald E. Pearson
E-mail: PearsonCapital@aol.com

Stock Analyst

Chris Carothers
Email: PearsonCapital2@yahoo.com

Account Manager

Marie Grenchik
Email: pearsoncapital3@aol.com

The Pearson Investment Letter

published monthly since 1982
www.pearsoninvestmentletter.com

Publishing President

Sandra Alberti
SandraAlberti@pearsoninvestmentletter.com

Editor

Roberta Wilde

Services Provided

Managed Accounts:
Individual - Joint - Custodial
Corporate - Partnership - Trust
IRA's; Roth - Trad - College - SEP
401(k) & 403(b) Rollovers
Transfers

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

Free consultation

No hidden fees

Privacy Policy

Table of Contents

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

NOVEMBER'S RECOMMENDED GROWTH & INCOME STOCKS

MBNA CORPORATION (KRB) NYSE PRICE: \$25.63

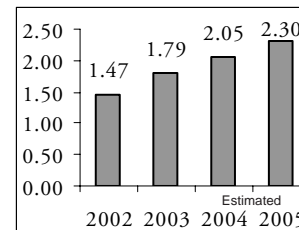
KRB is the parent company of MBNA America Bank, N.A. (the Bank). Through the Bank, the Company operates as an independent credit card lender and issuer of endorsed credit cards, marketed primarily to members of associations and customers of financial institutions and other organizations. In addition to its credit card lending, MBNA makes other consumer loans, including installment and revolving unsecured loan products, and offers insurance and deposit products. For the nine months ended 9/30/04, net interest income after loan loss provision rose 45% to \$983.6 million. Net income before Preferred Dividends rose 17% to \$1.91 billion. Net interest income reflects growth in managed loans outstanding and higher managed net interest margins. Earnings were partially offset by higher costs for services provided by 3rd-party vendors.

Type: Growth & Income
Sector: Financial

Institutional Holdings: 463
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **12.6**
Annual Yield: **1.9%**
Annual Dividend: **\$0.48**
Investor's Bus. Daily: **B-**
Pearson Growth Rating: **A-**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **N/R**
Value Line Rating: **3-3-4**



THORNBURG MORTGAGE, INC (TMA) NYSE PRICE: \$28.57

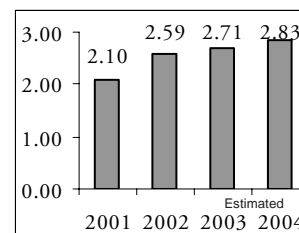
TMA is a single-family residential mortgage lender that originates, acquires and retains investments in adjustable and variable-rate mortgage (ARM) assets, thereby providing capital to the single-family residential housing market. The Company's ARM assets consist of traditional ARM securities and loans, which have interest rates that reprice in a year or less, and hybrid ARM securities and loans, which have a fixed interest rate for an initial period of three to 10 years before converting to Traditional ARMs for their remaining terms to maturity. For the nine months ended 9/30/04, revenues rose 59% to \$653.4 million. Net income applicable to Common rose 37% to \$169.3M. Revenues reflect strong loan originations due to increased marketing efforts and the growing attractiveness of ARMs. Net income was partially offset by narrowing portfolio margins.

Type: Growth & Income
Sector: Services

Institutional Holdings: 89
Industry: Real Estate Oper.

Ratings & Recommendations Earnings per share

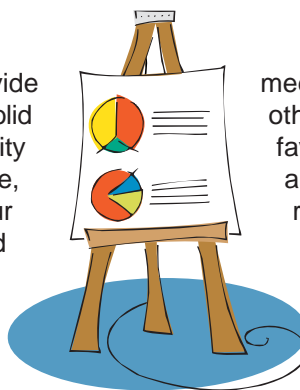
Current P/E Ratio: **10.3**
Annual Yield: **9.1%**
Annual Dividend: **\$2.62**
Investor's Bus. Daily: **B-**
Pearson Growth Rating: **A**
Pearson Value Rating: **A**
Stand.&Poor Rating: **C-**
Value Line Rating: **N/R**



GROWTH & INCOME

Many times stocks paying a high yield do not provide the necessary growth needed to be classified as a solid holding within our ranking system. If you see a utility or another company providing a yield of 4%, or more, do not believe this should be an addition to your portfolio, even if your expectations are for today and not necessarily for the future. Income without growth is a formula that will not succeed. Any issue that doesn't provide a history of double digit growth with income combined is immediately eliminated from our buying list. Inflation alone tells us maintaining a CD or an interest-bearing holding returning 4% or 5% is losing. Withdrawals exceeding 6% are another way of cannibalizing one's principal.

The financial sector is our favorite area to find stocks



meeting our standards, but there are certainly many other places to find opportunities. Some of our favorites, that you'll probably find in your portfolios, are: Redwood Trust (RWT). This company was recommended in our May letter for \$43.45, while yielding 6.1%, and again in our October letter for \$60.95, even though the yield had fallen to 4.2%. Doral Financial (DRL) only yields 1.4%, but the dividend increases every year as the stock price continues to grow. Doral is a part of our CD Buster, built at the start of this year, selling at \$31.51. DRL was recommended again in our September letter at \$40.67, and still yielding only 1.4%.

What is the lesson to be learned here? Never settle for less. When it's your money we're investing, we don't.

By Donald Pearson

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.