

# PEARSON *Published Monthly Since 1982* Investment Letter

www.pearsoncapitalinc.com

November 2006

## FEATURED STOCKS

Bed, Bath  
Fastenal Co  
Garmin, Ltd  
Home Depot

PMI Group  
Tele Norte  
USANA Health  
W. R. Berkley

## GROWTH & INCOME

Bank of America      Dreman Claymore

## NOT PERFECT *By Donald Pearson*

When anyone is faced with making a decision, he can only research the information that's available at the time,

gasoline continued to climb and we bought energy stocks because of it. The price of gas was on the increase and so were many of the stocks attributed to this sector. Once in, one must evaluate staying or leaving. Just like gas prices, the stock values began falling, and today as we look back we know we held many of these longer than we should have.

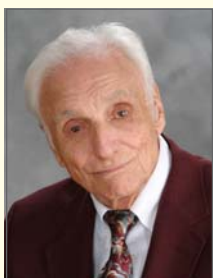
Our strength has always been using our in-house research resources to find under-valued companies with outstanding growth potential, and then buying and monitoring these investments. We will again begin focusing almost exclusively on the companies, sectors, and countries we know the best, and put our emphasis on growth and value as we always have in the past. Kind of like the experts fishing where they know the fish are.

Today's stock market is a very complex place to invest hard earned cash, trying to pursue growth for retirement, or upgrading your quality of life. With that said, it's still the only place, unless you want to deal with real estate and the headaches that go with it. On a good year in either sector one can gloat after the fact about their wisdom selecting one over the other, but if you do your homework, you'll find the stock market wins over time. There will always be that ongoing argument that collecting a sure 5 percent from your friendly neighborhood banker holding your CD, or watching your income property appreciate 15 percent while the tenants are behaving, presents a strong argument, especially when the market is going down, but remember this, nothing has outperformed the stock market over time for the past 50+ years.

The stock market is a difficult place to invest and be successful, and this is why professional assistance is always recommended. Anyone who thinks it's simply know your companies, select your stock and make your decision, trust me when I tell you it's far from that simple. If we lag with our selections at any time, we always believe the setback is merely temporary as is the case with many of today's outstanding stocks. Of more than 15,000 publicly traded companies today, less than 2

do the homework completely, and then make, what hopefully turns out to be, the right decision. Weathermen do this. They are privileged to have sophisticated equipment, yet still only make the right call about 60 percent of the time. How ironic is it that stock analysts have about the same winning percentage. They, too, work with state of the art equipment. At Pearson Capital we purchase research data from Value Line, S&P, Investors Business Daily, and Morningstar. Our research group then combines this information with our in-house rating system to determine immediate purchase possibility for short term growth, or long range profit. One must never lose sight of the fact, no matter how good you believe you are, or no matter how good you believe your systems to be, 60-70 percent is far above the average and places you on the road to sustaining a winning performance.

For the last four or five years we've beaten the index averages by a considerable amount, utilizing this philosophy and working within these parameters. For the first three quarters of 2006 our group has spent numerous hours examining and reexamining our selections, always trying to better ourselves and our future performance by learning from our past. As an example, we now know, although we left the home builders long before most others, we still remained longer than we should have. Another area where we learned a great deal by our positioning and execution was in the mineral and energy sectors. These sectors are cyclical and difficult to monitor. We bought in earlier this year because they were sectors attracting many investors. Knowing when to buy in and when to sell out is the secret to success in these types of stocks. This is the reason we rarely, if ever, purchase airline or automotive stocks. We did get cyclical stocks as



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*Continued on page 5*

# DEFINING VALUE

**How should one go about determining the value of an item owned? If one has a relic of the past, the recommended way is to check with an expert in that particular field. However, the value quoted**

**will usually be within a certain range and not a definite figure. In the final analysis the true value will be how much it can be sold for.**

In the stock market we have a situation where value can be determined immediately, simply by checking the current going rate. The point I wish to bring out at this time is that there is more than one value to be considered when owning a stock. The market quotation may be more or less than you figure the stock to be worth. This is what makes stock investing so interesting. Your job is to find situations where stock is selling for less than you consider its true worth. Many people become concerned when the market goes down. Think about it! Stocks are cheaper.

After all, one does not buy the entire market. Sometimes a company will blossom out after sitting on the sidelines for longer than one would expect. This means that the investor needs more patience. Patience is a virtue. Be virtuous. The important thing these days is not to be jittered by stock market convolutions. Think of value-value-value. Program trading is causing big problems for the conservative investor who is not aware that the stock market is different today. Program trading is the trading of huge baskets of stocks via computers. These trades can be so large that they overwhelm the market.

They are completely mechanical and have nothing to do with the true value of the companies being traded. However, they can inaugurate a psychological bent in the investor, and there are a good number who look at the buys and sells rather than the earnings picture at this point.

In 1987, when program trading first started, it created such havoc that stock market prices were cut in half in a single day. There was so much trading that the market had to be closed early because too much business was created. Subsequently, the SEC came up with some rules, but it seems that these have been relaxed lately. At any rate, I think it is important for the investor to realize that these things are going on, and to think in terms of long term growth investing. In that manner he should come out smelling like a rose while the boys are playing their daily games.

There were a couple of hedge funds that reported the other day. These are the ones that gamble with your money. One reported that it had sustained

huge losses while the other has stated that investors are unlikely to get any of their money back. All of which says—be an investor!

Stock prices have come down in this country while rising in foreign countries. I think this is somewhat normal. Our government has passed laws making it harder for our businesses and easier for the foreigners. Why else would Ford and General Motors be hanging on the ropes? Today I think we should be looking for more growth in China than here in the USA. Since the year 2000 the S&P's price/earning ratio has come down from 28 to about 15 today.

All of this means that today's investor has problems that he didn't have years ago. In the past you bought a good company and held or sold according to what was happening to that company. Today the company you have chosen may have been jumped on by the day traders and your stock price will fluctuate accordingly. If you allow these things to influence you, it may well work to your disadvantage.



Pearson Capital, Inc. is hosting the annual

Toys for Tots event  
from 5 - 9 P.M., on  
December 7th.

For more information visit our web site [www.pearsoncapitalinc.com](http://www.pearsoncapitalinc.com)

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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

November 2006

### BED, BATH & BEYOND, INC (BBBY)

NASDAQ PRICE: \$40.29

BBBY and its subsidiaries operate as a national chain of retail stores in the United States. It operates stores under the Bed Bath & Beyond (BBB), Christmas Tree Shops (CTS), and Harmon trade names. The company sells an assortment of merchandise, primarily including domestic merchandise, such as bed linens and related items, bath items, and kitchen textiles; and home furnishings, including kitchen and tabletop items, fine tabletop, basic housewares, and general home furnishings, as well as food, giftware, and health and beauty care items. As of May 27, 2006, it operated 751 BBB stores, 30 CTS stores, and 38 Harmon stores. In addition, the company maintains two e-service fulfillment centers. Bed Bath & Beyond was founded by Leonard Feinstein and Warren Eisenberg in 1971. The company is headquartered in Union, New Jersey.

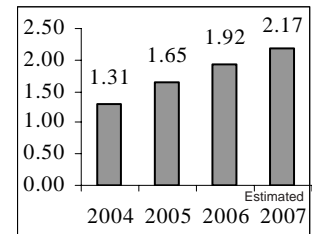
Type: Growth  
Sector: Services

Institutional Holdings: 367  
Industry: Home Furnishing

#### Ratings & Recommendations

#### Earnings per share

Current P/E Ratio: **20.4**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Business Daily: **C**  
Pearson Growth & Value: **A**  
Morningstar Rating: **3 Star**  
Standard&Poor Rating: **A**  
Value Line Rating: **2-3-3**



### FASTENAL COMPANY (FAST)

NASDAQ PRICE: \$40.24

FAST and its wholly owned subsidiaries sell industrial and construction supplies on wholesale and retail basis. The company offers threaded fasteners, such as bolts, nuts, screws, studs, and related washers, as well as miscellaneous supplies, such as paints, various pins and machinery keys, concrete anchors, batteries, sealants, metal framing systems, wire rope, strut, private-label stud anchors, rivets, and related accessories. Fastenal offers its products to the customers in construction market, including general, electrical, plumbing, sheet metal, and road contractors, as well as in manufacturing market and maintenance and repair operations. As of December 31, 2005, the company had 1,755 store sites located in the United States, Puerto Rico, Canada, Mexico, Singapore, China, and the Netherlands. Fastenal was founded in 1967 and is based in Winona, Minnesota.

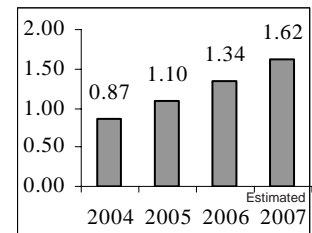
Type: Growth  
Sector: Industrial Goods

Institutional Holdings: 225  
Industry: Building Materials

#### Ratings & Recommendations

#### Earnings per share

Current P/E Ratio: **31.4**  
Annual Yield: **1.0%**  
Annual Dividend: **\$0.40**  
Investor's Business Daily: **B-**  
Pearson Growth & Value: **B+**  
Morningstar Rating: **5 Star**  
Standard&Poor Rating: **B**  
Value Line Rating: **3-3-3**



### GARMIN, LTD (GRMN)

NASDAQ PRICE: \$53.41

Garmin, Ltd through with its subsidiaries, engages in the design, manufacture, and marketing of navigation, communications, and information products, which are enabled by global positioning system (GPS) technology worldwide. It operates in two segments, Consumer and Aviation. The company also develops Web-based applications for GPS devices, as well as operates a Web site, www.motionbased.com. It sells its products to retail outlets and aircraft manufacturers through a network of approximately 3000 independent dealers and distributors in approximately 100 countries. Garmin's products are used in the aviation, marine, general recreation, land, automotive, wireless, and original equipment manufacturer applications. The company was founded in 1990 and is based in Grand Cayman, Cayman Islands.

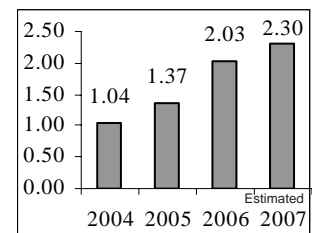
Type: Growth  
Sector: Technology

Institutional Holdings: 153  
Industry: Tech. Instruments

#### Ratings & Recommendations

#### Earnings per share

Current P/E Ratio: **29.2**  
Annual Yield: **0.9%**  
Annual Dividend: **\$0.50**  
Investor's Business Daily: **A+**  
Pearson Growth & Value: **A--**  
Morningstar Rating: **3 Star**  
Standard&Poor Rating: **A**  
Value Line Rating: **1-3-3**



### THE HOME DEPOT, INC (HD)

NYSE PRICE: \$37.33

HD operates as a home improvement retailer in the United States, Canada, and Mexico. The company operates The Home Depot Stores that offer an assortment of merchandise and services. The company also operates EXPO Design Center stores, which provides home decorating, remodeling, and installation services for middle-to upper-income DIFM customers. It offers interior design products for kitchens, baths, appliances, and flooring, as well as products for lighting, decorating, and storage and organization projects. In addition, the company provides credit purchase programs through third-party credit providers to professional, DIY, and DIFM customers. As 09/18/06, the company operated approximately 2,000 stores. It also offers products through its Web site, www.homedepot.com. HD was founded by B. Marcus and A. Blank in 1978. The company is based in Atlanta, GA.

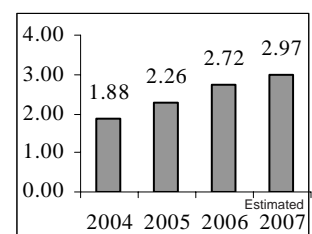
Type: Growth  
Sector: Services

Institutional Holdings: 762  
Industry: Home Improvement

#### Ratings & Recommendations

#### Earnings per share

Current P/E Ratio: **12.8**  
Annual Yield: **1.6%**  
Annual Dividend: **\$0.60**  
Investor's Business Daily: **C+**  
Pearson Growth & Value: **B**  
Morningstar Rating: **5 Star**  
Standard&Poor Rating: **A**  
Value Line Rating: **2-3-3**



## PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

November 2006

### THE PMI GROUP, INC (PMI)

NYSE PRICE: \$42.65

PMI provides credit enhancement, as well as other products that promote homeownership and facilitate mortgage transactions in the capital markets. It operates in four segments: U.S. Mortgage Insurance Operations, International Operations, Financial Guaranty, and Other. The U.S. Mortgage Insurance Operations segment offers mortgage insurance products in the U.S. that enable borrowers to buy homes with low down-payment mortgages. The International Operations segment offers mortgage insurance and other credit enhancement products in Australia, New Zealand, Europe, and Hong Kong. The Financial Guaranty provides financial guaranty insurance and financial guaranty reinsurance. The PMI Group was founded in 1972 and is headquartered in Walnut Creek, California.

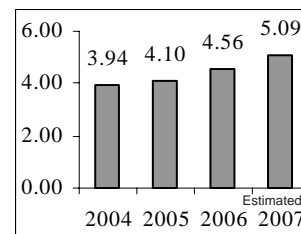
Type: Growth  
Sector: Financial

Institutional Holdings: 291  
Industry: Title Insurance

#### Ratings & Recommendations

#### Earnings per share

Current P/E Ratio: **9.9**  
Annual Yield: **0.5%**  
Annual Dividend: **\$0.21**  
Investor's Business Daily: **C+**  
Pearson Growth & Value: **B-**  
Morningstar Rating: **4 Star**  
Standard&Poor Rating: **A**  
Value Line Rating: **N/R**



### TELE NORTE LESTE PARTICIPACOES S.A. (TNE)

NYSE PRICE: \$14.47

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. The company is based in Rio de Janeiro, Brazil.

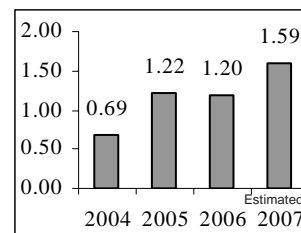
Type: Growth  
Sector: Technology

Institutional Holdings: 43  
Industry: Telecom Services

#### Ratings & Recommendations

#### Earnings per share

Current P/E Ratio: **10.9**  
Annual Yield: **6.2%**  
Annual Dividend: **\$0.90**  
Investor's Business Daily: **C**  
Pearson Growth & Value: **B+**  
Morningstar Rating: **5 Star**  
Standard&Poor Rating: **A**  
Value Line Rating: **N/R**



### USANA HEALTH SCIENCES, INC. (USNA)

NASDAQ PRICE: \$44.92

USNA engages in the development and manufacture of nutritional and personal care products in the U.S. It offers supplements and functional foods, including vitamins, minerals, antioxidants, and cofactors in chewable tablets under the 'USANA Nutritionals' product line. The company also offers a range of skin and personal care products, such as essences, daily cleansers, toners, daytime protective emulsions, eye nourishers, night renewals, serum intensives, rice bran polishers, nourishing conditioners, body nourishers, shower gels, and hand therapies under the 'Sense—beautiful science' product line. It also offers its products in Canada, Australia, New Zealand, Hong Kong, Japan, Taiwan, South Korea, Singapore, and the United Kingdom. The company is headquartered in Salt Lake City, Utah.

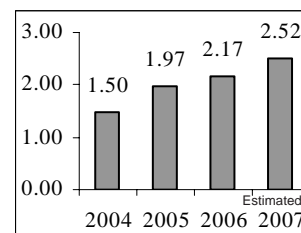
Type: Growth  
Sector: Healthcare

Institutional Holdings: 119  
Industry: Drug Products

#### Ratings & Recommendations

#### Earnings per share

Current P/E Ratio: **21**  
Annual Yield: **0%**  
Annual Dividend: **\$0**  
Investor's Business Daily: **B+**  
Pearson Growth & Value: **A+**  
Morningstar Rating: **N/R**  
Standard&Poor Rating: **N/R**  
Value Line Rating: **N/R**



### W.R. BERKLEY CORPORATION (BER)

NYSE PRICE: \$36.86

BER operates as an insurance holding company in property casualty line in the U.S. and internationally. BER operates in five segments: Specialty, Regional, Alternative Markets, Reinsurance, and International. The Specialty segment underwrites excess and surplus lines that provide coverage for hard-to-place risks and include premises operations, professional liability, commercial automobile, products liability, and property lines. The Regional segment provides commercial property casualty insurance products. The Alternative Markets segment underwrites insurance and reinsurance covering workers' compensation for self insured entities. The Reinsurance segment underwrites property casualty reinsurance on treaty and facultative basis. The International segment provides commercial and personal property casualty insurance. BER is based in Greenwich, Connecticut.

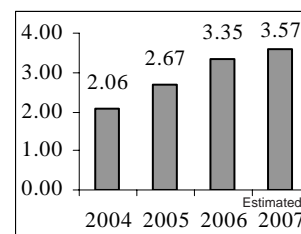
Type: Growth  
Sector: Financial

Institutional Holdings: 309  
Industry: Insurance

#### Ratings & Recommendations

#### Earnings per share

Current P/E Ratio: **11.1**  
Annual Yield: **0.43%**  
Annual Dividend: **\$0.16**  
Investor's Business Daily: **B+**  
Pearson Growth & Value: **A**  
Morningstar Rating: **2 Star**  
Standard&Poor Rating: **N/R**  
Value Line Rating: **2-3-3**



## PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

October 2006 - **Growth & Income**

### **BANK OF AMERICA CORPORATION (BAC) NYSE PRICE: \$53.87**

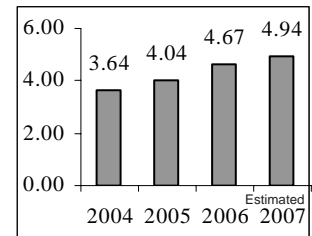
BAC, a holding company, provides banking and nonbanking financial services and products in the U.S. and internationally. It operates in three segments: Global Consumer and Small Business Banking (GCSBB), Global Corp. and Investment Banking (GCIB), and Global Wealth and Investment Management (GWIM). The GCSBB segment offers credit cards, processing services for merchant card receipts; mortgage products and services; and consumer deposit and debit products, including savings accounts, CD's, checking accounts and debit cards. The GCIB segment provides working capital management, commercial lending, investment banking, capital markets, and insurance services. The GWIM segment provides retail brokerage services. As of 12/31/05, it operated 5,873 retail banking centers. BAC was founded in 1874 and is headquartered in Charlotte, NC.

Type: Growth & Income  
Sector: Financial

Institutional Holdings: 1106  
Industry: Money Center Bank

#### **Ratings & Recommendations Earnings per share**

Current P/E Ratio: **12.3**  
Annual Yield: **4.16%**  
Annual Dividend: **\$2.24**  
Investor's Business Daily: **B+**  
Pearson Growth & Value: **A-**  
Morningstar Rating: **4 Star**  
Standard&Poor Rating: **A**  
Value Line Rating: **3-3-3**



### **DREMAN CLAYMORE DIVIDEND & INCOME FUND (DCS) AMEX PRICE: \$21.61**

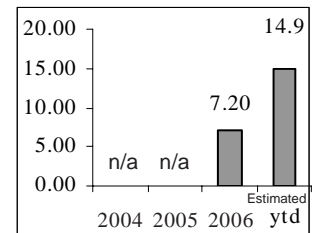
Dreman Claymore Dividend & Income Fund operates as a nondiversified, closed-end management investment company. It invests primarily dividend-paying or other income-producing securities, dividend-paying common and preferred stocks, and dollar-denominated securities of foreign issuers. The fund's investment portfolio includes investments in various companies operating in the financials, consumer staples, utilities, and energy sectors. Claymore Advisors, LLC serves as the investment adviser of the fund. Dreman Claymore Dividend & Income Fund was founded in 2003 and is based in Lisle, Illinois.

Fund Family: Investment Fund  
Category: Financial

Type: ETF  
Industry: Closed-End Fund

#### **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**



## **NOT PERFECT**

### ***Continued from page 1***

percent have raised their earnings for ten straight years or longer. If we scrutinized the list for twenty or more years, we'd find only twenty-one companies meeting this growth statistic. I cannot explain why General Electric has posted increased earnings for thirty years in row yet their stock price is down nearly 10 percent in value since late 2004 in a market that's been going up.

The index is up year to date, yet many good companies that are and should be held by us are down. Lowe's is down 10 percent, and it may be a week, or six months, before it takes off, but one must remember investing is a long range process and decisions based upon short range performance are wrong. If Lowe's and General Electric are up 40-50 percent two to three years from now, we'll all be congratulating each other for our patience and our wisdom.

I see that homes all across the country are not selling and they've all been reduced across the board by 10-15 percent, but they're still not selling. I wonder how much farther this may go and if it'll be considered a correction as is the case with the stock market when this occurs. Why is it when we see a stock market correction as a market down turn it's viewed as a real money loss, but when this happens to real estate, it is thought to be only a paper loss? When a portfolio's value grows principal and then goes down in value, it is believed to be a 10-15 percent loss of real money, yet a real loss never occurs to a landlord until the property is actually sold. I guess I don't understand this thinking. One thing I do know and understand, because I've been both a landlord and a stock portfolio owner, when it's not going well and I want to get out of my holding, I can sell the stock the same day and be done with it. A real estate investment can become your worst nightmare. It can continue to go down while you're begging to get out, yet you cannot until a buyer is found. Until that time, you must continue to hold it as it continues to lose value, and many times you must add your own cash monthly to sustain the cost associated with it.

***(Continued on page 6)***

## 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%	10.4%
Dow Jones	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(0.61%)	12.7%
Nasdaq	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	1.37%	7.3%
Russell 2000	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	3.32%	13.9%
Our CD Buster	Data available on our website		<b>8.1%</b>	<b>56.7%</b>	<b>22.8%</b>	(Disputed)	(1.1%)
CD Annual Average	5.4%	3.0%	2.3%	1.5%	1.5%	3.5%	4.2%

### MARKET VIEW

*Christopher Carothers - PCI's Stock Analyst*

#### ECONOMIC FLOWS:

The Federal Reserve is continuing to pause during this year's elections. It seems that the slowdown is just enough for the Fed to take it easy and to pursue its "wait and see" approach to interest rates. With oil and commodity prices sliding backward, it gives the governors some extra breathing room. Many people still believe there are persistent inflationary tendencies, but they are willing to let the economy go ahead and see if it takes care of itself.



**Key Point:** *Interest rate changes have been put on hold.*

#### EARNINGS FLOWS:

As oil and commodity prices steadily retreat, money that was made in energy has moved to other sectors, such as healthcare, technology, and retail. It is the belief that as oil prices decrease, people will have the extra money to spend for Christmas. Consumer spending is still the key driver of the U.S. economy. As housing prices continue to flatten, economists hope that lower commodity prices will help prevent any recession. We are in the middle of third quarter earnings and companies are hopeful of a good yearend result.

**Key Point:** *Companies are hoping for good returns at the end of the year.*

#### CASH FLOWS:

Companies are slowing down buybacks and dividends. Normally during the third quarter, companies don't plan any big moves until the beginning of next year. This is the time of the year companies will also take a "wait and see" approach and prepare for a great fourth quarter. Look for large cap stocks to continue to do well, as they use their heavy cash positions to buy back stock, or buy other companies. This Christmas will be a litmus test for most companies' expectations for 2007.

**Key Point:** *Companies are preparing to do their best for a great yearend result.*

#### NOT PERFECT

**Continued from page 5**

So for us here at PCI we'll continue to implement changes as conditions warrant with the stock market and our economy. As time marches on for the remainder of this year and into 2007 we will continue to diversify globally using ETFs and some selected individual companies. Our stock base will be reduced even more than we have reduced it already, because we are seeing the positive results to date from the smaller base. Chris, our analyst, will begin taking a much larger portion of the research responsibility, both here in the US as well as abroad, giving our group additional focus in selected areas. We see all of these changes as very positive and proactive. If interest rates continue to hold, and the companies reporting earnings have minimal negative surprises, we are poised for a favorable fourth quarter and an opportunity to begin 2007 with a strong start.

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**The Pearson Investment Letter**  
 published monthly since 1982

[www.pearsoninvestmentletter.com](http://www.pearsoninvestmentletter.com)

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#### Table of Contents

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