

PEARSON Investment Letter

Published Monthly Since 1982

www.pearsoncapitalinc.com**FEATURED STOCKS**

Bentley Pharm	Joy Global
Capital One Finc	Pinnacle Finc
Dawson Geophysical	The Sportsman's
Interwest Bancshares	Youbet.com

GROWTH & INCOME STOCKS

First Community	Washington Mutual
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PROFIT TAKING**BY DONALD PEARSON**

The stock market is heading into the final quarter of the

we've complimented ourselves with our brilliance for selecting them. Unfortunately, we've all had others that have made these gains and then retreated below their original purchase price. Once you realize a 50% loss must be supported by a 100% gain to return to even, protecting profit becomes even more important. As an example, \$100,000 losing 50% of its value becomes \$50,000. For this to regain its original value, it must double or grow 100% to return to \$100,000.

year, and it's still not in favorable territory. The fourth quarter historically has been the best for stocks. Many analysts believe history will repeat itself, and we will finish the year in the black. At PCI we focus on the individual stocks we've selected and read the signals that the market is sending out to us, letting others worry about the overall market as it continues to climb or fall while different stocks and sectors move in and out of favor.

When we build a portfolio for someone, our objective is to place 50-60 individual selections within it. This is done to spread the investments into many different sectors. The amount of each entity purchased is approximately 2% or less so that safety is again the priority. When a particular sector outperforms others, or an individual company grows faster than all others, the percentage of the portfolio becomes unbalanced. Once out of alignment our risk exposure is higher than where we want it to be. This is not an immediate, let's get out of here now, situation, but it certainly creates an area of concern. We are now in this position with our home builder sector. Many of our so-called experts have said for two years the sector was going to collapse and everyone should sell, sell, sell. We maintained a position then, as we do now, that the sector is undervalued and has life left in it. The question to ask ourselves now is, how much longer will this continue? Some of the most recent information forecasted, printed, and reported is that Home Builders continue to soar! A few examples of this are: KB Homes last week beat analysts' views by 15 cents. They reported \$2.55 vs. \$1.42 of a year ago. Home sales are also up 17% from a year ago. Lennar for the third quarter will exceed \$2.00 a share, beating its forecast of \$1.85 a share and analysts' views of \$1.92. New home orders are also up over 20% from the same period of one year ago. Meritage boosted their 2005 outlook on continued demand for new

As these changes occur, for reasons beyond our control, we as decision makers must be ready to react accordingly. Being proactive and making well-thought-through decisions can many times be the difference between success and failure. This is true in our everyday lives, and it's also true in our investments. As an example, it's easier to know when to sell a stock that's performing poorly with a bleak outlook, rather than sell all or part of a well-performing equity, especially when it has outperformed your expectations for a longer period of time than one thought, and is projecting the possibility of continuing. Should it be sold? Can you sell a part of it? Should you wait?

History has taught us that taking profit many times is the right thing to do within a portfolio. That said, the difficult decision is calculating correctly when to do it, and from what sectors or individual stocks. Although we'll never know until months, or years, later if we were right with our decision, where we can take satisfaction is if where we have taken it to outperforms where we took it from. IRAs are not exposed to any yearly tax consequence, but individual and joint accounts are, and this weighs heavily upon the final decision. We all have had stocks that have climbed 100% or more, and with this performance



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Chairman



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Investment Letters are complimentary to our clients with managed accounts!

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MONEY MARKETS

By Walter Pearson

It's happening again and it brings the tears to my eyes. Some of our clients insist that we invest a portion of their capital in losing issues. This has happened before, and I presume it will continue to happen, but it still saddens me when I am unable to make people understand the situation. There are still some investors who insist on having a portion of their holdings invested in (safe) money markets or the like. I believe these people all understand the ravages of inflation, but perhaps they do not grasp the full picture. It is for that reason I shall go into it more deeply at this time.

As the market gets higher, some people become a bit nervous, expecting that there will be a drop and that it may reach a magnitude that wipes out a good portion of their holdings. The simple answer to this is that each stock is an entity unto itself and has almost nothing to do with the convolutions of the market. Each stock has a value and often this has nothing to do with price. The price of a stock simply denotes the amount of cash that can be acquired at the time it is sold. The stock could be selling for considerably more or less than it is actually worth. As time goes on, the price action tends to fall in line with actual value.

A few years ago we had some clients who had fallen in love with General Electric and desired its purchase, which we did. GE is a great company, but the stock was selling too high and later the price corrected by coming down. This is what will happen when the market turns downward and you bought a stock at an overvalued figure. People who are nervous about price changes should think not about the market but about each stock holding. If you have some Nervous Nellie money, it is my opinion that it should be put into a separate account which should be labeled for ultra conservative investments only. Is this better than government bonds? Read a bit further and see if you don't agree that bonds are GUARANTEED losers.

I've told this story before, but I think it needs to be retold. Back in 1982 I invested a few dollars for a member of my bridge club. One of the stocks that I bought for her doubled in price in a single year and I sold it. Before I could reinvest the proceeds for her, she informed me that she and her husband were retired and they wanted income, so she put the money into the money market which was paying 18% at the time. I had made the same purchase for myself, but I took my money and bought a very conservative issue, Merchants National Bank. The yield was only about 6%, but it had underlying value in my opinion. She could have purchased 100 shares for \$1600. Today her money market would be yielding about one-tenth of the amount being paid at that time, and of course the dollars would buy a lot less. If she had also invested her 100 shares in MNB, she would now have 1344 shares of National City Corp. which would be yielding \$1989 per year which is better than a 100% return. Then too, the value of the holdings today would run about \$50,000+.

Let's look at a few figures. In 1982 a gallon of gas was \$1.22, a loaf of bread was 56 cents, and a new Ford was \$8,577. In today's market a gallon of gas, a loaf of bread, and a new Ford have more than doubled or tripled the costs of 1982. It also means that when you go to the bank to turn in that (safe) \$10,000 bond you bought 23 years ago you are only getting back \$5000 in value. It is really no different from buying a stock and selling it later for half what you paid for it. Almost everyone knows these things, but there are still some people willing to play their losing game. The Federal Reserve bankers are in business to make money. Guess where the \$5000 went that you lost on that bond purchase.

In actuality there is no safe and sure investment. Years ago when we were operating with real money as set up by our founding fathers, bonds represented a safe way to go. Today things are different and bonds should be avoided. Investing in stocks is not guaranteed, but if you know what you are doing, you are almost certain to come out ahead. Time is of the essence and the rate of inflation may be increasing.

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 OCTOBER 2005

BENTLEY PHARMACEUTICALS, INC. (BNT) NYSE PRICE: \$11.95

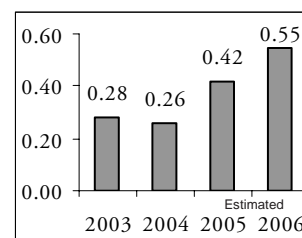
BNT focuses on developing, licensing, and sale of generic and branded pharmaceutical products and active pharmaceutical ingredients, and the manufacturing of pharmaceuticals for others; and research, development, and licensing/commercialization of advanced drug delivery technologies and pharmaceutical products. In addition, the company offers biodegradable Nanocaplet technology for the delivery of macromolecule therapeutics. It has a strategic alliance with Teva Pharmaceutical Ind., Ltd. granting Bentley the right to register and market certain of Teva's pharm. products in Spain; and with Perrigo Company to codevelop and market generic pharmaceutical products; as well as an agreement with Dong Sung Pharm. Co., Ltd. for the development of an intranasal spray formulation of insulin for the South Korean market.

Type: Growth
Sector: Healthcare

Institutional Holdings: 38
Industry: Drug Delivery

Ratings & Recommendations Earnings per share

Current P/E Ratio: **33.2**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **A**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **A**
Value Line Rating: **1-3-3**



CAPITAL ONE FINANCIAL CORPORATION (COF) NYSE PRICE: \$79.52

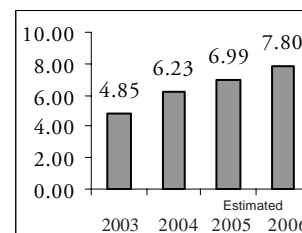
COF operates as a holding company, which provides various consumer financial products and services, primarily in the United States. The company, through its subsidiary, Capital One Bank, offers credit card products and accepts retail deposits, including CD's, money market accounts, and individual retirement accounts. Its other subsidiary, Capital One, F.S.B. offers consumer and commercial lending, and consumer deposit products. The company, through Capital One Auto Finance, Inc., offers automobile and other motor vehicle financing. Capital One Financial also manages installment lending, healthcare financing, and small business lending activities. In addition, the company invests in the U.S. Treasury and other U.S. government agency obligations, collateralized mortgage obligations, and mortgage backed securities.

Type: Growth
Sector: Financial

Institutional Holdings: 514
Industry: Credit Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.8**
Annual Yield: **0.10%**
Annual Dividend: **\$0.11**
Investor's Bus. Daily: **C+**
Pearson Growth Rating: **B**
Pearson Value Rating: **B**
Stand.&Poor Rating: **B+**
Value Line Rating: **3-3-3**



DAWSON GEOPHYSICAL CO (DWSN) NASDAQ PRICE: \$30.25

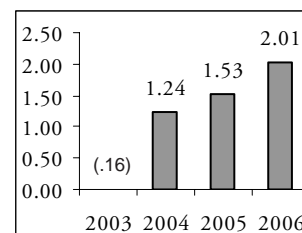
Dawson Geophysical Company provides onshore seismic data acquisition services primarily to major oil, gas companies independent oil and gas operators, as well as providers of multi-client data libraries in the United States. The company acquires and processes two dimensional, (2-D) three dimensional, (3-D) and multicomponent seismic data for its clients. The clients rely on seismic data to identify new areas where subsurface condition are favorable for the accumulation of hydrocarbons, as well as to optimize the development and production of hydrocarbon reservoirs. As of February 28, 2005, it operated 10 seismic data acquisition crews and a seismic data processing center. Dawson Geophysical Company was founded by L. Decker Dawson in 1952. The company is headquartered in Midland, Texas.

Type: Emerging Growth
Sector: Basic Materials

Institutional Holdings: 23
Industry: Oil & Gas Equip.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.4**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **B+**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **D-**
Value Line Rating: **1-3-3**



INTERVEST BANCSHARES CORPORATION (IBCA) NASDAQ PRICE: \$22.01

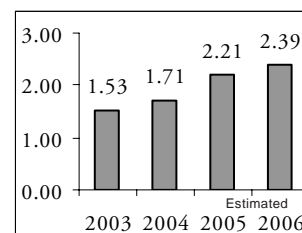
IBCA operates as the holding company for Intervest National Bank (bank). The bank provides various banking services to small and middle-market businesses and individuals. Its deposit services include CD's, individual retirement accounts, checking and other demand deposit accounts, negotiable order of withdrawal accounts, savings accounts, and money market accounts. The bank's lending activities include loans on commercial and multifamily real estate properties, and single-family residential mortgage lending. In addition, it offers safe deposit boxes to its customers in Florida. As of September 20, 2004, the bank had five full-service banking offices in Florida, four in Clearwater, and one in South Pasadena, in addition to its main office in Rockefeller Plaza, in New York City. The company was incorporated in 1993 and is based in New York City.

Type: Growth
Sector: Financial

Institutional Holdings: 6
Industry: NE Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **10.6**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **A**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **B+**
Value Line Rating: **N/R**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR OCTOBER 2005

JOY GLOBAL, INC. (JOYG) NASDAQ PRICE: \$50.37

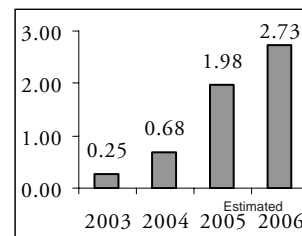
JOYG engages in manufacturing, servicing, and distributing mining equipment for the extraction of coal and other minerals and ores worldwide. The company operates in two segments, Underground Mining Machinery (Joy) and Surface Mining Equipment (P&H). The Joy segment manufactures underground mining equipment for the extraction of coal and other bedded minerals. It also offers comprehensive service locations near mining regions. Joy's products and services include continuous miners, longwall shearers, roof supports, armored face conveyors, shuttle cars, flexible conveyor trains, and continuous haulage systems, as well as roof supports, armored face conveyor, longwall shearer, and roof bolters. The P&H segment produces surface mining equipment for the extraction of ores and minerals.

Type: Growth
Sector: Industrial Goods

Institutional Holdings: 210
Industry: Farm & Machinery

Ratings & Recommendations Earnings per share

Current P/E Ratio: **37.1**
Annual Yield: **0.80%**
Annual Dividend: **\$0.45**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **B**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **A-**
Value Line Rating: **1-3-2**



PINNACLE FINANCIAL PARTNERS, INC. (PNFP) NASDAQ PRICE: \$25.18

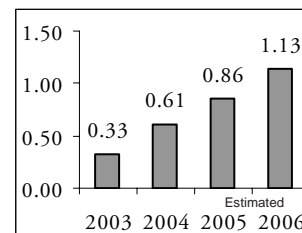
PNFP operates as the holding company for Pinnacle National Bank that serves individuals and businesses located within the Nashville area. PNFP offers various lending products, including commercial, real estate, and consumer loans. It also makes various loans to individuals for personal, investment, and household purposes, including secured and unsecured installment and term loans, residential first mortgage, and home equity loans. It contracts with Raymond James Financial Service, Inc., a registered broker-dealer and investment adviser, PNFP offer and sell various securities and other financial products to the public. Pinnacle National also offers various convenience-centered products and services, including telephone and Internet banking, debit cards, direct deposit, and cash management services for small to medium-sized businesses.

Type: Emerging Growth
Sector: Financial

Institutional Holdings: 25
Industry: Regional SE Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **34**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **C+**
Pearson Growth Rating: **B**
Pearson Value Rating: **B**
Stand.&Poor Rating: **A**
Value Line Rating: **N/R**



THE SPORTSMAN'S GUIDE, INC. (SGDE) NASDAQ PRICE: \$27.30

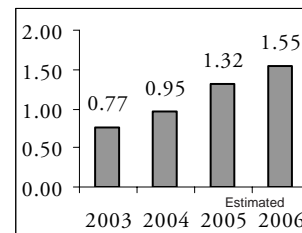
SGDE engages in multichannel direct marketing of outdoor gear, general merchandise, and golf equipment/accessories in the United States. The company operates in two segments, The Sportsman's Guide (TSG) and The Golf Warehouse (TGW). The TSG segment markets and sells outdoor gear and general merchandise, such as hunting and shooting accessories, footwear, clothing and accessories, domestics and furniture, optics, government surplus, tools and truck/SUV accessories, camping and outdoor recreation equipment, lawn and garden, gifts, electronics, and a range of additional offerings, through catalogs and two e-commerce Web sites. The TGW segment offers golf equipment, apparel, and accessories through e-commerce Web site, catalogs, and a retail store. The company is based in South St. Paul, Minnesota.

Type: Emerging Growth
Sector: Services

Institutional Holdings: 22
Industry: Catalog / Mail Order

Ratings & Recommendations Earnings per share

Current P/E Ratio: **22.4**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **A**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **1-2-4**



YOBET.COM, INC. (UBET) NASDAQ PRICE: \$5.73

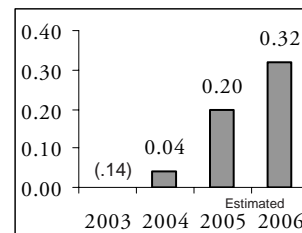
UBET offers live events and focuses on entertainment services, network deployment, and event management via a cross-platform environment. It provides its members with the ability to watch and wager on a selection of live thoroughbred and harness horse racing from North America and abroad through its private and secure closed-loop network. Yobet.com, through its product, Yobet Express, offers its customers interactive and real-time audio/video broadcasts, access to a database of handicapping information, and the ability to wager on a selection of horse races in the US, Canada, Australia, South Africa, and Hong Kong. UBET covers action at approximately 100 domestic and international horse tracks, and offers dozens of races daily. The company has strategic relationship with Television Games Network. Yobet.com was founded in 1987.

Type: Emerging Growth
Sector: Technology

Institutional Holdings: 10
Industry: Internet Software

Ratings & Recommendations Earnings per share

Current P/E Ratio: **27.3**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **A+**
Pearson Value Rating: **A**
Stand.&Poor Rating: **N/R**
Value Line Rating: **2-3-4**



WALL STREET INDEXES

Indexes	1999	2000	2001	2002	2003	2004	05/YTD
S&P 500	21.1%	(10.1%)	(13.3%)	(23.4%)	26.4%	9.0%	1.4%
Dow Jones	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(2.0%)
Nasdaq	85.6%	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	(1.1%)
Russell 2000	21.3%	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	2.5%
Our CD Buster	Data available on our website			8.1%	56.7%	22.8%	(In Dispute)
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 Federal Reserve increased interest rates during its September meeting despite the fact that hurricane Katrina had slammed New Orleans and another hurricane was on the way. Everyone thought Greenspan would hold off for at least this meeting to find out what the repercussions were. Instead, he called the hurricane a "short term episode" and not a problem for the long term. I think that observation hides the true meaning. Katrina will be felt for months, not just days or weeks. George W's \$200 million injection of cold hard cash will be felt throughout the economy and possibly bring on a dose of inflation. The Fed believes that by taking a tightening stance, the inflation disease will not creep into peoples' wallets, at least for now; but too much tightening at one time may also lead into what's known as a stalled market.



Key point: *The Fed tightens and raises interest rates despite two hurricanes.*

EARNINGS FLOWS:

Third quarter earnings season is about to start. October is usually the scariest time of the market. Warnings will be all over the place, with this time of the year the best time to make them. This year the main excuse will definitely be Katrina. However, once the negative news is out of the way, there is usually time to rally right before Christmas.

Key point: *Once warnings end, the market will rebound.*

CASH FLOWS:

Many stocks are doing very well. With the market flat, good earnings reports are bringing the p/e ratio of the market back to its normal long term levels. Cash positions are at all time highs. When you combine the power of earnings potential and the power of cash potential, many large capitalization stocks look very inexpensive. These companies are, or will be, using their large cash positions to leverage themselves and increase value to shareholders (a good example is Oracle). Besides dividends, companies with large cash hoards often take advantage, especially in this type of market, to make a strategic move. Many other companies are using this time to streamline or change to move forward (Microsoft).

Key point: *Large stocks look inexpensive given their potential.*

Additional notes:

- Look for companies that have a lot of cash on hand.
- Energy stocks will increase due to the price of heating oil, but then will decline.
- The middle of October is the beginning of a year-end rally.

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OCTOBER'S RECOMMENDED GROWTH & INCOME STOCKS

FIRST COMMUNITY BANCORP (FCBP) NASDAQ PRICE: \$47.83

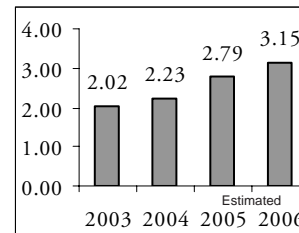
FCBP operates as the holding company for First National Bank and Pacific Western National Bank. The banks are service community banks offering a range of banking products and services, including accepting time and demand deposits; originating commercial loans, including asset-based lending and factoring of accounts receivable; real estate and construction loans; Small Business Administration guaranteed loans; consumer loans; mortgage loans; international loans for trade finance; and other business-oriented products. As of March 1, 2004, the company had a total of 51 properties consisting of 32 branch offices, 3 annex offices, 3 operations centers, and 13 other properties. First Community was organized in 1999 as a California corporation. The company is based in Rancho Santa Fe, California.

Type: Growth & Income
Sector: Financial

Institutional Holdings: 79
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **18.3**
Annual Yield: **2.00%**
Annual Dividend: **\$1.00**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **B-**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **D-**
Value Line Rating: **1-3-3**



WASHINGTON MUTUAL, INC. (WM) NYSE PRICE: \$39.22

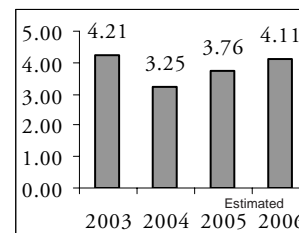
WM provides various financial services to consumers and small to mid-sized businesses in the US. The company has three operating segments: the Retail Banking and Financial Services Group, the Mortgage Banking Group and the Commercial Group. The Retail Banking and Financial Services segment's principal activities include originating, managing, and servicing home equity loans and lines of credit; offering various deposit and other retail banking products and services. 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: 485
Industry: Savings & Loans

Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.2**
Annual Yield: **4.80%**
Annual Dividend: **\$1.92**
Investor's Bus. Daily: **D+**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **B-**
Value Line Rating: **3-2-3**



Continued From Page 1: PROFIT TAKING By Donald Pearson

homes and at the same time boosted their 2006 projected profits above those of the analysts' following their performance. I could continue to write about other home builders we have within our client base, but the message would be the same. They as a group are touting prosperity and growth and no problems on the horizon.

Here are a few more facts that we should strongly consider before agreeing all is well today and for the future. Home prices were higher by 2.5% this year vs. the prior year, but sales for August were below forecast by 10% to an annualized 1.24 million units. New home sales continue to be good, and this means the sector is still solid, yet on the flip side of this statistic the new homes for sale inventory has jumped to a five year high of 4.7 month's worth. This statistic means it will take that many months to sell all available homes at the current sales pace. The number of new homes on the market has reached new records totaling just under a half million. To complicate the equation let me add a few more statistics before a decision is made. Builders are beginning to face a limited supply of land, and new home prices rose only 1% in August vs. a year earlier. Obviously, location will change these numbers drastically. States such as California and Florida enjoy the greatest increases, but they may have to give up the most if and when the growth cannot be sustained. Mortgages also continue to be easier to obtain. Adjustable mortgages two years ago were at 22.7% and today they are 30% of our base.

So what exactly does all of this mean for us and our profits within this sector? It is possible the home building sector might slow down and lose the momentum growth it has portrayed for years. Perhaps it now makes sense to move profits out. If there is still life left in this sector, and I believe there is, I can't help but remember what I wrote earlier regarding the rule of two percent. Perhaps the answer is to remove some of our profit and remain within the home building sector with the original investment. If you were my investment advisor you wouldn't have to call me and apologize for taking a 25-50% profit and redirecting it somewhere else where you thought the growth opportunities were superior. I'm not sure whether we've reached that time in the housing market yet, but like everyone else, I'm very concerned. With any superior trading strategy, discipline and patience are paramount, yet execution is made based on research of fact and opinion. Within our decision making group this is the one topic discussed most often. Don't be alarmed or surprised if you see this occurring within your portfolio sometime in the foreseeable future. It will not be because of our disappointment within the home builder sector, it will be simply to protect your profit, while trying to grow your account base. Many times leaving your profits in a sector or a stock too long can be compared to house guests overstaying their welcome.

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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.