Your Personal Money Manager

Pearson INVESTMENT LETTER

Published Monthly Since 1982

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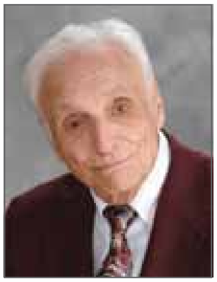
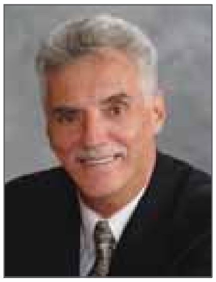
FEATURED STOCKS - SEPTEMBER 2009

AMCON Distributing Co.
CKE Restaurants Inc.
The Coca Cola Co.
CR Bard Inc.
Denny's Corporation
Jinpan International Limited
MasterCard Inc.
Northrop Grumman Corp.
Amerigas Partners LP
Plains All American Pipeline LP



Walter D. Pearson
Chairman



Donald E. Pearson
President

Ann Hathaway
Account Manager

We're Convinced - It's the Way

By Donald Pearson

It will soon be a year since the wild roller coaster ride started in the stock market. Down, down it went through last March, and then a partial recovery began. Many say a new bull market has now begun. I disagree. Many others are calling for another bottoming, with significant downside. Again I disagree. One thing I think we will all agree upon is that in one to two years we will look back at this time as one of the best buying times, if not the best, since the great depression. I believe we will continue to move with uncertainty for another six to nine months. Good strong companies will fare well while others go out of business. This period will give us additional time to work through the problems we currently face with today's housing and unemployment issues. Both appear to be bottoming, and some reports indicate they are turning slightly to the positive. The foreign markets continue to grow, and they are going to continue to get bigger and be more of an influence. The world's leading emerging countries, China, Brazil, Russia, and India, held their first summit in June, hoping to shift or become a major part of global power. These emerging economies are poised to grow at a much faster rate than our United States. This is why asset allocation must be diversified properly. These emerging economies can make a portfolio riskier, but with this risk comes an increasing opportunity for reward. Many U.S. companies today depend on these countries for growth, and manage their business accordingly. A good example of this is Coca-Cola. Coke generates 80 percent of its sales, and more than 95 percent of its operating profit abroad.

One can also feel more confident with their selections when better understanding this philosophy. With that said stock buy back is another signal that one should continue to search for. Company stock buybacks increase earnings per share, and send to the shareholders a very positive message. As we went through this downside period, companies were buying back less, and many stopped completely, because of unforeseen issues. Two companies that continued buying through this period were IBM and Johnson & Johnson. Both are stocks we continue to purchase.

We are always searching for stocks with quality yields. Today protection and safety should be paramount. This is not to say that, depending on one's risk level, stocks of high risk and volatility shouldn't be a part of a portfolio; it simply dictates to what degree. But every portfolio should have yields built in, and many companies have been taken down so far their yields are huge. A year or two from now I will refer back to this tremendous buying period, and we will see what we could have bought them for. Several that we have already purchased have contributed to our double digit lead over the indexes year to date.

Another lesson that should be learned quickly is a great dividend doesn't make a great stock. A good dividend doesn't guarantee safety either. But a good company paying a quality dividend, with projected double digit growth for the next five years, adds to their value. As an example, last month we recommended Merck, (MRK) at $30.01 yielding 5.1 percent.

Today it is selling at $32.43 and the yield becomes a bonus. Most people are not aware that dividends are taxed at a maximum of 15 percent, while interest from bonds is taxed as regular income. The Dow Jones average for dividends is 3 percent. It is our opinion one can sustain better growth and superior yields by doing the research and selecting them individually. It should also be said companies that do not cut their dividends are companies making positive statements to their investors. They are saying that we are making money. Accounting shenanigans as we've seen in the news again recently can cover up a great deal of stuff, but they cannot generate the funds necessary to pay dividends.

So in this time of uncertainty and challenge we must develop a prudent course of action. We're convinced; this is the way.

DP

ANOTHER CALAMITY?

Do you understand what is going on? Do you happen to be befuddled at the way business has fallen apart, jobs have disappeared, and the stock market has almost fallen out of being in no time at all? If you have been sitting in wonder, wonder no more. Believe it or not this has been a planned event. If you will think back to the period just before the big bang, you will remember that prices were soaring astronomically. Gasoline was one of the issues that you could see rising until it was getting out of sight. Something had to be done. So, the Federal Reserve pulled the plug. Now you may not be as well off as you were, but prices have come down.

One of the things that each of us should understand is that we have a Constitution and that instrument is the law of the land. Find a copy and read it. One of the items states that only Congress can issue money and regulate the value thereof. The Federal Reserve is not Congress. The Federal Reserve is no different in actuality than the little bank that you are now doing business with. The difference is that the "Fed" has grown, and grown, and groan. That last groan came from those who understand what is happening. The Federal Reserve Bank is the largest in the country, makes scads of money, and is the ONLY operation that pays NO income taxes.

How can this be so? I would say that this comes about because the "Fed" is actually in control of the whole ball of wax. Things had gotten to the point where just about anyone could see that prices were rising, and it was getting to the point that analysts were prognosticating 10 percent or more price inflation in the near future. Your good old "Fed" came in and saved you from all of that. In the good old days there was no Fed, no price inflation, and paper money was backed by gold held at Fort Knox under guard. I wonder where all that gold is today.

Some years back the Fed was just another bank, and it started getting other banks to join its operation as members. After a period of time most banks had joined, and those that hadn't were put under such pressure that they either joined or were not heard from again. Eventually, all banks were members of the Federal Reserve and operated under their orders and restrictions. The banks loved the whole thing because they were allowed to lend more money than they had. It has been so long ago that I can't remember the figures, but let's say 50 for 1, which I believe is an understatement.

Now that everyone is a member, the "Fed" is actually in control. They set interest rates for the member banks and also dictate reserves. That's where the tricky part comes in. Let's say that the Fed allows the banks to lend $50 for each dollar they have on deposit. They also state that the banks shall keep a 2 percent reserve. Our country becomes flooded with money and inflation starts to get out of hand. So the Fed changes the reserve rule. Instead of 2 percent it is changed to 3 percent. Bingo! Those banks that had loaned right up to their limit were caught, and they had to pull the plug on many of their outstanding loans. In other words, they now must have more cash backing than they had yesterday.

Overnight we had banks going broke; we had banks calling in loans; we had people losing homes; we had business after business having problems. We had a shortage of money. The Fed had money but no one else did. Overnight inflation vanished. Prices went down. Think about it. Cash had not vanished. There was just as much cash around as there was yesterday, but credit had vanished. This country has been running on debt for years and the minute there was no credit available everything stopped. Even those banks that had taken a conservative stance and had kept a 3 percent reserve when only 2 percent was called for had no reserves on which they could rely.

Then there was the stock market. Like everything else it went under. The outlook for business was bad and that became reflected in prices in the stock market. Companies that had sold for 30-50 or more dollars per share dropped to 1-3 or 5 dollars and in some cases were even down as low as 12 cents. Never in my more than 50 years in the business have I seen anything anywhere near it. I tried my best to get people to come in and take advantage, but it seemed that everyone was broke and had not a farthing to spare. I too was broke, but I could see that stocks were there at giveaway prices, so I dug down real deep and bought. After all, at one dollar a share one can buy 1000 shares for $1000.

Just to quote one example: I bought Satyam Computer in August 2005 for $27 a share. In January of 2009 it was $1.18. Originally, I had purchased 36 shares and now had 72 because of a split. So I bought 700 shares for $835. As I write this, the shares are $3.60, giving me a 200 percent profit in five months, which I never would have found except for my 90 percent loss. There are still similar opportunities available in this marketplace today in spite of the fact that many have made partial comebacks as with Satyam. The problems are twofold. One problem is to find the right one, and the other problem is to find the capital with which to purchase.

WP

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 SEPTEMBER 2009

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AMCON DISTRIBUTING CO (DIT) AMEX PRICE: $55.75

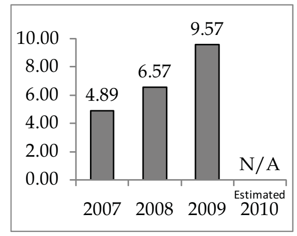
AMCON Distributing Company (AMCON) is engaged in the wholesale distribution of consumer products in the Great Plains and Rocky Mountain regions. The Company operates two business segments: wholesale distribution segment (ADC) and retail health food segment. Under ADC, the Company distributes consumer products, such as cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, and health and beauty care products. Under the retail health food segment, it operates 13 retail health food stores in Florida and the Midwest.

Type: Growth
Sector: Retail
Institutional Holdings: 0
Industry: Grocery

Ratings & Recommendations

Current P/E Ratio: 3.70
Annual Yield: **0.70%**
Annual Dividend: **$0.40**
Investor's Bus. Daily: **A+**
Pearson Growth & Value: **A**
Morningstar Rating: **N/A**
Stand & Poor Rating: **N/A**
Value Line Rating: **N/A**

Earnings per share



CKE RESTAURANTS INC (CKR) NYSE PRICE: $9.67

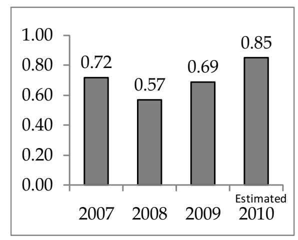
CKE Restaurants, Inc. (CKE) owns, operates, franchises or licenses 3,116 quick-service restaurants, which are referred to in the Company's industry as QSRs, primarily under the brand names Carl's Jr. and Hardee's. Carl's Jr. restaurants are primarily located in the Western United States. The Hardee's restaurants are located in the Southeastern and Midwestern United States. During the fiscal year ended January 26, 2009 (fiscal 2009), CKE opened seven company operated restaurants, acquired 37 restaurants from franchisees, sold 102 restaurants to franchisees and closed 20 restaurants.

Type: Growth
Sector: Service
Institutional Holdings: 131
Industry: Restaurants

Ratings & Recommendations

Current P/E Ratio: 15.0
Annual Yield: **2.50%**
Annual Dividend: **$.24**
Investor's Bus. Daily: **C+**
Pearson Growth & Value: **B**
Morningstar Rating: **C**
Stand & Poor Rating: **N/A**
Value Line Rating: **C**

Earnings per share



THE COCA COLA CO (KO) NYSE PRICE: $48.77

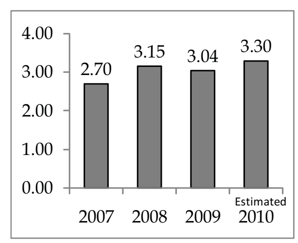
The Coca-Cola Company is a manufacturer, distributor and marketer of nonalcoholic beverage concentrates and syrups in the world. Finished beverage products bearing its trademarks are sold in more than 200 countries. The Company markets nonalcoholic sparkling brands, which include Diet Coke, Fanta and Sprite. The Company manufactures beverage concentrates and syrups, which it sells to bottling and canning operations, fountain wholesalers and some fountain retailers, as well as finished beverages, which it sells primarily to distributors. The Company owns or licenses approximately 500 brands, including diet and light beverages, waters, enhanced waters, juices and juice drinks, teas, coffees, and energy and sports drinks. During 2008, the Company acquired the brands and licenses in Denmark and Finland from Carlsberg Group Beverages (Carlsberg).

Type: Growth & Income
Sector: Consumer/Non-Cyc.
Institutional Holdings: 718
Industry: Beverages

Ratings & Recommendations

Current P/E Ratio: 18.10
Annual Yield: **3.40%**
Annual Dividend: **$1.64**
Investor's Bus. Daily: **C**
Pearson Growth & Value: **B+**
Morningstar Rating: **B**
Stand & Poor Rating: **A**
Value Line Rating: **B**

Earnings per share



CR BARD INC (BCR) NYSE PRICE: $80.58

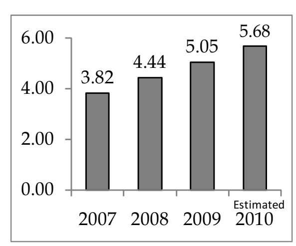
C. R. Bard, Inc. (Bard) is engaged in the design, manufacture, packaging, distribution and sale of medical, surgical, diagnostic and patient care devices. The Company sells a range of products worldwide to hospitals, individual healthcare professionals, extended care facilities and alternate site facilities. Bard has four product group categories: vascular, urology, oncology and surgical specialties. On January 11, 2008, Bard acquired LifeStent family of stents from Edwards Lifesciences Corporation. On June 5, 2008, the Company acquired Specialized Health Products International, Inc.

Type: Growth
Sector: Healthcare
Institutional Holdings: 406
Industry: Medical Equip. & Sup.

Ratings & Recommendations

Current P/E Ratio: 16.90
Annual Yield: **.90%**
Annual Dividend: **$.68**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **B**
Morningstar Rating: **N/A**
Stand & Poor Rating: **B**
Value Line Rating: **C**

Earnings per share



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR SEPTEMBER 2009
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DENNY'S CORPORATION (DENN) NASDAQ PRICE: $2.55

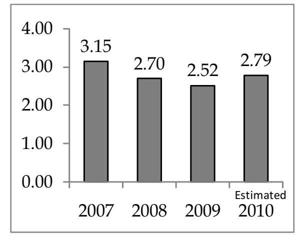
Denny's Corporation (Denny's) is a family-style restaurant chain that owns and operates the Denny's restaurant brand through its wholly owned subsidiaries, Denny's Holdings, Inc. and Denny's, Inc. As of December 26, 2008, the Denny's brand consisted of 1,541 restaurants, 1,226 (80%) of which were franchised/licensed restaurants and 315 (20%), of which were Company-owned and operated. These Denny's restaurants operated in 49 states, the District of Columbia, two United States territories and five foreign countries with concentrations in California (26% of total restaurants), Florida (10%) and Texas (10%).

Type: Growth
Sector: Services
Institutional Holdings: 64
Industry: Restaurants

Ratings & Recommendations

Current P/E Ratio: 11.9
Annual Yield: **0%**
Annual Dividend: **$0**
Investor's Bus. Daily: **C-**
Pearson Growth & Value: **B+**
Morningstar Rating: **N/A**
Stand & Poor Rating: **N/A**
Value Line Rating: **N/A**

Earnings per share



JINPAN INTERNATIONAL LIMITED (JST) NASDAQ PRICE: $25.05

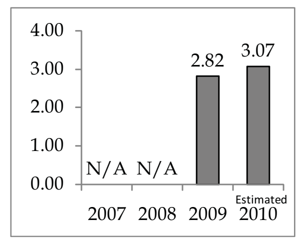
Jinpan International Limited (Jinpan International) designs, manufactures and markets cast resin transformers for voltage distribution equipment in China. The Company's resin transformers allow high-voltage transmissions of electricity to be distributed to various locations in lower, more usable voltages and are used in a range of industrial, infrastructure, commercial and residential applications. The Company's products include Cast Resin Transformers, Switchgears, Unit Substations and Line Reactors. The Company's sells its products in the People's Republic of China, the United States and Europe. The Company's subsidiaries include Hainan Jinpan Electric Co., Ltd., Jinpan International (USA) Limited (Jinpan USA) and Jinpan Electric (China) Co. Ltd. Jinpan USA is primarily engaged the sale of cast resin transformers and wind energy products to customers in the United S and worldwide.

Type: Emerging Growth
Sector: Technology
Institutional Holdings: 10
Industry: Elec. Inst. & Contrls.

Ratings & Recommendations

Current P/E Ratio: 8.0
Annual Yield: **0.90%**
Annual Dividend: **$0.24**
Investor's Bus. Daily: **C-**
Pearson Growth & Value: **B+**
Morningstar Rating: **N/A**
Stand & Poor Rating: **N/A**
Value Line Rating: **N/A**

Earnings per share



MASTERCARD INC (MA) NYSE PRICE: $202.63

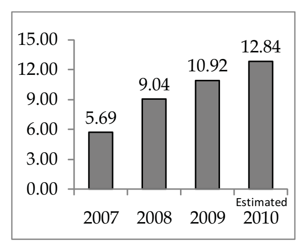
MasterCard Incorporated (MasterCard) is a global payment solutions company that provides a variety of services in support of the credit, debit and related payment programs of over 24,000 financial institutions and other entities that are its customers. Through its three-tiered business model as franchisor, processor and advisor, the Company develops and markets payment solutions, process payment transactions, and provides support services to its customers and, depending upon the service, to merchants and other clients. It manages a family of payment card brands, including MasterCard, MasterCard Electronic, Maestro and Cirrus, which it license to its customers. The Company conducts its business principally through MasterCard Incorporated's principal operating subsidiary, MasterCard International Incorporated (MasterCard International). In December 2008, it acquired Orbiscom Ltd., a payments solutions software provider for financial institutions.

Type: Growth
Sector: Services
Institutional Holdings: 510
Industry: Business Services

Ratings & Recommendations

Current P/E Ratio: 34.8
Annual Yield: **.30%**
Annual Dividend: **$.60**
Investor's Bus. Daily: **A+**
Pearson Growth & Value: **B-**
Morningstar Rating: **C**
Stand & Poor Rating: **A**
Value Line Rating: **B**

Earnings per share



NORTHROP GRUMMAN CORP (NOC) NYSE PRICE: $48.81

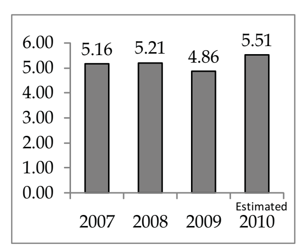
Northrop Grumman Corporation (Northrop Grumman) is an integrated enterprise consisting of businesses that cover the entire defense spectrum, from undersea to outer space and into cyberspace. The Company is aligned into seven segments categorized into four primary businesses. The Mission Systems, Information Technology, and Technical Services segments are presented as Information and Services. The Integrated Systems and Space Technology segments are presented as Aerospace. The Electronics and Ships segments are each presented as separate businesses. In January 2008, the Newport News and Ship Systems businesses were realigned into a single operating segment called Northrop Grumman Shipbuilding. In April 2008, the Company announced that it has completed the sale of its Electro-Optical Systems business to L-3 Communications. In October 2008, the Company acquired 3001 International, Inc. (3001).

Type: Growth
Sector: Capital Goods
Institutional Holdings: 492
Industry: Aerospace & Def.

Ratings & Recommendations

Current P/E Ratio: 10.0
Annual Yield: **3.50%**
Annual Dividend: **$1.72**
Investor's Bus. Daily: **D**
Pearson Growth & Value: **B**
Morningstar Rating: **C**
Stand & Poor Rating: **C**
Value Line Rating: **C**

Earnings per share



AMERIGAS PARTNERS LP (APU) NYSE PRICE: $34.57

AmeriGas Partners, L.P. (AmeriGas Partners) is a retail propane distributor in the United States based on the volume of propane gallons distributed annually. As of September 30, 2008, the Company served approximately 1.3 million residential, commercial, industrial, agricultural and motor fuel customers from approximately 600 district locations in 46 states. AmeriGas Partners is a holding company and it conducts its business principally through its subsidiary, AmeriGas Propane, L.P. (AmeriGas OLP) and its subsidiary, AmeriGas Eagle Propane, L.P. (Eagle OLP and together with AmeriGas OLP, the Operating Partnership). The Partnership also sells, installs and services propane appliances, including heating systems. AmeriGas Propane, Inc. is its general partner (the General Partner), which is responsible for managing the Company's operations. The General Partner is a wholly owned subsidiary of UGI Corporation (UGI).

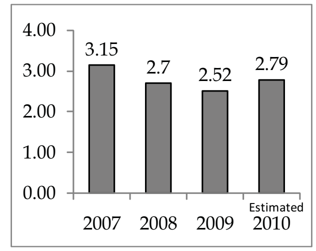
Type: Value & Income
Sector: Energy

Institutional Holdings: 12
Industry: Oil & Gas

Ratings & Recommendations

Current P/E Ratio: 8.4
Annual Yield: **9.7%**
Annual Dividend: **$3.36**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **A-**
Morningstar Rating: **C**
Stand & Poor Rating: **C**
Value Line Rating: **N/A**

Earnings per share



PLAINS ALL AMERICAN PIPELINE LP (PAA) NYSE PRICE: $47.44

Plains All American Pipeline, L.P. (Plains) is engaged in the transportation, storage, terminalling and marketing of crude oil, refined products and liquefied petroleum gas and other natural gas-related petroleum products. The Company refers to liquefied petroleum gas and other natural gas related petroleum products, collectively as (LPG). Through its 50% equity ownership in PAA/Vulcan Gas Storage, LLC (PAA/Vulcan), Plains is also involved in the development and operation of natural gas storage facilities. The Company manages its operations through three business segments: Transportation, Facilities and Marketing. It has a network of transportation, terminalling and storage facilities at major market hubs and in key oil producing basins and crude oil, refined product and liquefied petroleum gas (LPG) transportation corridors in the United States and Canada.

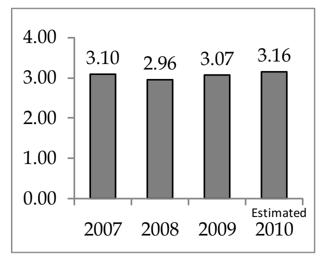
Type: Value & Income
Sector: Energy

Institutional Holdings: 37
Industry: Oil & Gas Operations

Ratings & Recommendations

Current P/E Ratio: 11.3
Annual Yield: **7.6%**
Annual Dividend: **$3.62**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **B**
Morningstar Rating: **C**
Stand & Poor Rating: **B**
Value Line Rating: **B**

Earnings per share



Index CDs – Pros & Cons

Index CDs are available now as a way of investing without the risk. One can buy a CD for several years that is tied to the performance of the index selected. The principal is guaranteed, but they also carry some restrictions. If anyone would like to know more about these, please contact me personally. We can discuss them together and decide if they are right for you. Below is a brief outline of each index. Although the three are very different in their makeup, they all follow the same format. All three add and delete stocks at their discretion.

The Standard & Poor 500 is the most widely used because of the diversity. The size of the firms determines the weight. This index was heavily into the financial sector and got hurt more than the others during the downside.

The NASDAQ has more than 3,000 firms within it, and it focuses on fast-growing technology firms. Fifty percent of the index is made up of tech firms, and the other 50 percent is comprised of other broadly diversified companies.

The Dow Jones is made up of 30 companies. These are considered industrials and carry the term "blue chip." The companies with the higher share price have more sway. Because the emphasis is on large stocks, the index is the least volatile.

When you hear us compare our performance to the indexes, we do this by combining them together.

WALL STREET INDEXES

Indexes	2003	2004	2005	2006	2007	2008	YTD
S&P 500	26.4%	9.0%	3.0%	13.6%	3.6%	(40.0%)	13.0%
Dow Jones	25.3%	3.2%	(0.6%)	16.3%	6.4%	(33.4%)	8.2%
Nasdaq	50.0%	8.6%	1.4%	9.5%	9.8%	(42.1%)	27.4%
Russell 2000	45.4%	17.0%	3.3%	17.0%	(2.8%)	(38.2%)	14.5%
Market Average	36.8%	9.4%	1.8%	14.1%	5.6%	(38.4%)	15.8%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:
The Federal Reserve has decided to hold off on raising interest rates, stating that this is not the opportune time because of the continued threat of inflation. The FDIC is now taking the main role as key decision-maker in the banking crisis. While the large banks seem to have been bailed out, the regional and smaller banks have been left to fend for themselves.

Key Point: *Rates are being held steady in the expectations of continued deflation.*

Earnings Flows:
Second quarter earnings reports come to an end in September, and stock market volume starts to decline. Normally, it does not bode well for performance, but expectations are high enough that this month may actually turn out to be a positive one. This is also the time when people are coming back from vacations and returning to school. Companies also take this time to warn investors before third quarter earnings begin in October, especially if they expect any negative future projections. Analysts may also take this time to readjust their end-of-the-year forecasts.

Key Point: *High expectations may bode well for a traditionally negative September.*

Cash Flows:
Many corporations are still producing a reasonable amount of money, but they are doing so by cutting back on expenses, not by increasing sales. Even though people are being laid off, productivity per worker is actually still increasing. However, future earnings for these same companies will eventually decline or flatten out if sales do not show any positive increase either organically or by acquisitions.

Key Point:
Companies need to increase sales to show any future improvement in earnings.

Note: The P/E ratio of the value line survey is now at approximately 16. Its recent peak is around 19. Even though the market has surged 53 percent so far, there are still some market sectors that to us are undervalued - healthcare, for-profit education, some financials, and military contractors. Each sector is depressed because of the Obama administration's future intentions of either cutting back the budget or imposing more strict regulations. Either way, in my opinion, much of these fears are unwarranted.

Pearson Capital, Inc.

P.O. Box 3739
Apollo Beach, Florida 33572
Tel: (813) 641 - 7575
Fax: (813) 641 - 7755
Toll Free: (800) 510-0329
www.pearsoncapitalinc.com

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
PearsonCapital2@yahoo.com

Account Manager
Ann Hathaway
PearsonCapital7@gmail.com

The Pearson Investment Letter
published monthly since 1982

Editor
Roberta Wilde

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