

Your Personal Money Manager

Pearson

INVESTMENT LETTER

Published Monthly Since 1982
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FEATURED STOCKS - SEPTEMBER 2008

Baidu.com
Brasil Telecom
EZCORP, Inc
Fiserv, Inc

Johnson Controls
Sciele Pharma
Shengdatech
World Acceptance

ETFs:
PowerShares Water
Claymore MAC Solar

FUTURE GROWTH

Many analysts have said they didn't see this downturn in the economy or the stock market coming at this magnitude, and their research never thought it would impact our economy as it has. The price of gasoline has nearly doubled, and home equity values in the past 15 months have fallen more than 20% in San Francisco and Los Angeles, and 30% in Miami and other parts of Florida. Other areas have posted similar or even higher reductions. The stock market has not been spared from this diminishing value reduction. The S&P and Dow are currently about 25% off their highs of last October. With over 70% of the US economy attributed to consumer spending, it's hard to foresee this problem correcting itself in the immediate future if food and gasoline prices continue to increase. If we take what we've learned from this and apply it properly, we should be able to find favorable investment opportunities. As the sector for investing today is commodities, alternative energy will be the sector of tomorrow, and our future for investing must follow where the growth leads us. Everyone knows we must reduce our dependency for oil from other nations, and to do this alternative solutions can and will be met here at home on US soil.

Our country is the world's largest owner of natural gas, and we can also claim this title for coal. Utilizing these alternative fuels along with nuclear, wind, and solar, we could and will be able to provide ourselves with all the energy we need. Offshore drilling will continue and probably increase at some time in the foreseeable future creating another opportunity. When our legislators debate our country's future, everyone agrees that the dependency of foreign oil must end and exploring the alternatives must be tested, and then these opportunities must be put into motion.

We continue to hear about wind as an alternative because of the wind corridor that stretches from Texas to the Canadian border. We also hear of solar power because it's more readily available, and the cost of wind is more expensive. With electrical demands continuing to grow, solar may be the better alternative. Electricity is needed more in the hot summer months when solar is strongest and the wind is not consistently blowing. Solar today is not widely used to power cars, but future research and development may change in the months and years ahead. Solar can be stored when the sun is not shining. To make your home solar

heated today is expensive, and perhaps not practical, but as technology improves, it may become the way of the future. Here in the Northeast the price of home heating oil increased 75% this year. A home costing \$4,000 to heat last year will now cost over \$7,000. Claymore/Mac Global Solar Energy (TAN) is an ETF for alternative energy, utilizing many different companies. Primarily solar based, it may be volatile as are energy stocks, but one with a bright long-range outlook.

In last month's newsletter I also wrote about drinking water and the increasing demand we are going to be seeing in the not-to-distant future. Only 3% of the world's water is drinkable, and unlike oil we cannot find an alternative. Water will be in short supply with a huge demand within the foreseeable future. This is an excellent sector to diversify into and we will be adding it to every portfolio in the near future. The risk appears exceptionally low, and the potential reward significant. If PowersShares Water Resources (PHO) isn't in your portfolio yet, it will be. Both are featured on Page 5 this month for further review.

By Donald Pearson



Walter D. Pearson
Chairman



Donald E. Pearson
President



Sandra Alberti
Publishing President

Investment Letters are complimentary to our clients with managed accounts!

BANK STOCKS

In my opinion the time has come to consider bank stocks quite favorably as investments. One big reason is that many of them have come down in price to what I consider to be more than on the bargain counter. One of the things to constantly remember in this business is that there are two different measurements of value in the stock market. Each day you can see the value of your stock as quoted in the market place. That may be more or less than you yourself consider it. I think each of us has the same understanding here. If the market price quoted is more than you think it is worth you might consider selling. If the market price on the other hand is less than you believe the true value to be, this can be considered as a purchase. If you follow the market closely, you will see stocks going up 30% or more in a single day. This simply means that yesterday's quote was simply the trading price but not the true value.

Where are we today? The stock market is down. But not all stocks have participated. However, most stocks are down and the financial sector has been beaten down more than any of the other groups. I have never tried to predict or

time the market, as I believe there are values to be found no matter whether the market is soaring or dragging its feet, but I strongly believe that bank stocks have been beaten down to the point where many of them are vastly undervalued. If you check the market on a daily basis, you could notice that there are numerous bank stocks that move up in price by 15% more or less, and this usually happens each day



regardless of which way the market has turned.

Some of us may be in the position of having purchased some banks at a higher price. If you have purchased in a non-IRA account, I would strongly suggest buying more and selling the original after 31 days. In this manner one can increase profits and let the government share in the loss. Let's say you had bought 50 shares of a \$30 stock some time ago for \$1500 and you

have checked the stock out and find things looking good, but the price is down to \$10. This would be a good time to add cash and purchase 150 shares for that same \$1500. After 31 days you could sell your original purchase and show a \$1000 loss. Your friendly government will allow you to deduct this from your income tax and in this manner will share your loss. However you do not have to tell them that you have reconditioned yourself and have decided to triple your profits instead.

If your investment is in an IRA account, you simply buy more shares and average down on your original price. Either way, as I see it, this is the time to get involved in the drop. I cannot tell you that the down side is over, but I can tell you that due to the problems in the banking fraternity, many banks were hit that really had little or no problems, and even those that were in trouble have gone down so far that they too should be considered. If you are a woman there should be no need to alert you to the national sale going on these days. If on the other hand you are a male, I can only say, "Listen to her!" If it doesn't work, it's her fault!

By Walter Pearson

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Source Rating Key for PCI's featured stocks: **Pearson Investment Growth Rating** measures long-term past and future growth.

Pearson Value Rating measures current value in terms of potential for the dollar. **Investors Business Daily** measures growth and relative price strength.

S&P measures financial quality and growth potential. **Value Line** measures timeliness, value and safety.

Information & data obtained from other sources is believed to be reliable, but its accuracy and completeness can not be guaranteed.

Walter Pearson is the former President of First New England Securities, Co., Inc. and at that time, also managed the Statistical Department.

He is the author of the book, "Investing for the Millions" and Publisher Emeritus for the Pearson Investment Letter.

At this time, Mr. Pearson is Chairman of the Board of Pearson Capital, Inc.

He is a contributing columnist for various publications and is listed in Who's Who in America.

"Remember the Lord your God, for it is He who gives you the ability to produce wealth. Deut. 8:18"

PEARSON CAPITAL'S RECOMMENDED STOCKS FOR SEPTEMBER 2008

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BAIDU.COM (BIDU) NASDAQ PRICE: \$313.72

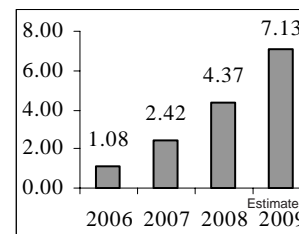
BIDU is a Chinese-language Internet search provider. The company conducts its operations principally through Baidu Online Network Tech. (Beijing) Co., Ltd. (Baidu Online), its wholly owned subsidiary in Beijing, the People's Republic of China. In addition, it conducts part of its operations through Baidu Netcom Science Tech. Co., Ltd. (Baidu Netcom), which holds the licenses and approvals necessary to operate Baidu's Websites. In Nov. 2007, Baidu established Baidu (Hong Kong) Ltd. (Baidu Hong Kong), a wholly owned subsidiary in Hong Kong, which became the sole shareholder of Baidu (China) Co., Ltd. (Baidu China) and Baidu.com Times Tech. (Beijing) Co., Ltd. (Baidu Times). In Feb. 2008, it assisted in establishing Beijing BaiduPay Science and Technology Co., Ltd. (BaiduPay), jointly owned by Baidu Netcom. BaiduPay will operate an online payment platform.

Type: Growth
Sector: Technology

Institutional Holdings: 104
Industry: Internet Providers

Ratings & Recommendations Earnings per share

Current P/E Ratio: **91.8**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A**
Pearson Growth & Value: **A-**
Morningstar Rating: **C**
Standard&Poor Rating: **C**
Value Line Rating: **N/R**



BRASIL TELECOM PARTICIPACOES S.A. (BRP) NYSE PRICE: \$66.54

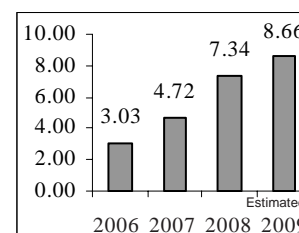
BRP, through its subsidiaries, provides fixed-line telecom. services in Brazil. It offers various fixed telephony and data transmission services, such as local services, including various calls that originate and terminate within a single local area in the region, as well as installation, monthly subscription, public telephones, and supplemental local services. The company also provides 1-900 calling, call forwarding, voice mail, caller ID, call waiting, and directory inquiry voice service, as well as advertising on public telephone cards. In addition, Brasil Telecom offers various mobile telephony services; and Internet services. As of December 31, 2007, it had approximately 8,034 million lines in service; and 281,800 public telephones. The company was founded in 1998 and is based in Brasilia, Brazil. Brasil Telecom Participacoes S.A. is a subsidiary of Solpart Participacoes S.A.

Type: Growth
Sector: Technology

Institutional Holdings: 33
Industry: Telecom Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **9.0**
Annual Yield: **5.1%**
Annual Dividend: **\$3.36**
Investor's Business Daily: **B**
Pearson Growth & Value: **A**
Morningstar Rating: **C**
Standard&Poor Rating: **N/R**
Value Line Rating: **N/R**



EZCORP, INC (EZPW) NASDAQ PRICE: \$15.59

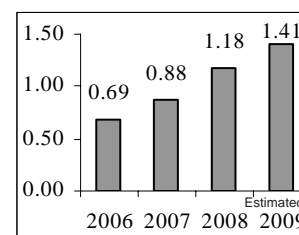
EZPW together with its subsidiaries, lends or provides credit services to individuals who do not have cash resources or access to credit to meet their short-term cash needs. The company makes pawn loans, which are non recourse loans collateralized by tangible personal property, including jewelry, consumer electronics, tools, sporting goods, and musical instruments. The company also offers signature loans, consisting of payday loans or fee-based credit services, to customers seeking loans from unaffiliated lenders. In addition, EZCORP provides credit services, including advice and assistance to customers in obtaining loans from unaffiliated lenders, in Texas and Florida. As of Sept. 30, 2007, it offered pawn related activities from 298 pawn stores, and signature loans from 75 pawn stores and 433 EZMONEY stores. The company was founded in 1989 and is based in Austin, TX.

Type: Growth
Sector: Financial

Institutional Holdings: 120
Industry: Credit Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **14.2**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A+**
Pearson Growth & Value: **A**
Morningstar Rating: **N/R**
Standard&Poor Rating: **N/R**
Value Line Rating: **B+**



FISERV, INC (FISV) NASDAQ PRICE: \$58.86

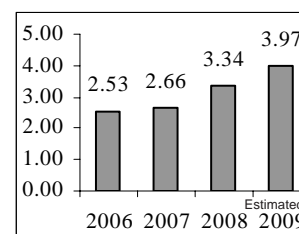
Fiserv, Inc. provides integrated information management systems and services, including transaction processing, electronic commerce products and services, business process outsourcing, document distribution services, and software and systems solutions. Its operations are classified into three segments: its financial institution services business segment; its insurance services business segment and its CheckFree business segment. In December 2007, it acquired CheckFree Corporation and sold CredStar. In 2008, it sold Fiserv Health, Inc. to UnitedHealthcare Services, Inc., the majority of its Fiserv Investment Support Services business to TD Ameritrade Online Holdings, Inc. and Del Mar Database. In July 2008, Trident IV, a private equity fund managed by Stone Point Capital LLC, acquired a 51% interest in the Company's insurance business.

Type: Growth
Sector: Technology

Institutional Holdings: 366
Industry: Software & Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **13.3**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A-**
Pearson Growth & Value: **B**
Morningstar Rating: **B**
Standard&Poor Rating: **C**
Value Line Rating: **B**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR SEPTEMBER 2008

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JOHNSON CONTROLS, INC (JCI) NYSE PRICE: \$30.92

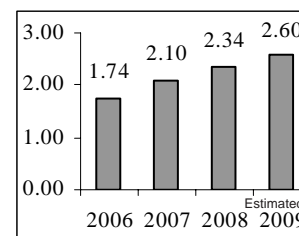
JCI provides automotive interiors, products and services that optimize energy usage in buildings and batteries for automobiles and hybrid electric vehicles, along with related systems engineering, marketing and service expertise. The Company operates in three businesses: building efficiency, automotive experience and power solutions. The building efficiency business is engaged in designing, producing, marketing and installing integrated heating, ventilating and air conditioning (HVAC) systems, building management systems, controls, security and mechanical equipment. The automotive experience business provides interior systems to more than 30 million vehicles annually. The power solutions business is a producer of lead-acid automotive batteries, serving both automotive original equipment manufacturers (OEMs) and the general vehicle battery aftermarket.

Type: Growth
Sector: Consumer Goods

Institutional Holdings: 514
Industry: Auto Parts

Ratings & Recommendations Earnings per share

Current P/E Ratio: **13.0**
Annual Yield: **1.70%**
Annual Dividend: **\$0.52**
Investor's Business Daily: **C**
Pearson Growth & Value: **B+**
Morningstar Rating: **A**
Standard&Poor Rating: **B**
Value Line Rating: **C**



SCIELE PHARMA, INC (SCRX) NASDAQ PRICE: \$19.27

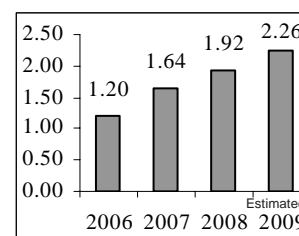
Sciele Pharma, Inc. is a pharmaceutical company specializing in sales, marketing and development of branded prescription products focused on Cardiovascular, Diabetes, Women's Health, And Pediatric treatment. The Company's Cardiovascular, Diabetes products treat patients with high cholesterol, hypertension, high triglycerides, unstable angina and Type 2 Diabetes. Its Women's Health products are designed to improve the health and well-being of women of all ages, as well as expectant and nursing mothers and their babies. Its Pediatric product focuses on the sub-specialties of allergy and immunology, psychiatry, neurology, urology and infectious diseases. As of December 31, 2007, the Company marketed and sold 21 products.

Type: Growth
Sector: Healthcare

Institutional Holdings: 233
Industry: Drug Manufacturers

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15.1**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A-**
Pearson Growth & Value: **B+**
Morningstar Rating: **N/R**
Standard&Poor Rating: **B**
Value Line Rating: **N/R**



SHENGDATECH, INC (SDTH) NASDAQ PRICE: \$9.50

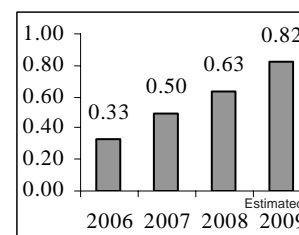
SDTH formerly Zeolite Exploration Co., is engaged in developing, manufacturing and marketing nano precipitated calcium carbonate (NPCC), as well as manufacturing and marketing coal-based chemicals, including ammonium bicarbonate, liquid ammonia, methanol and melamine. The Company sells its chemical products to plants and farmers mainly through a direct sales force. The Company's NPCC products are sold through its sales and marketing staff. Geographic markets cover several provinces in North China, among which Shandong Province accounts for a large share of sales. The Company markets and sells the coal-based products mainly as chemical fertilizers and raw materials for the production of organic and inorganic chemical products. SDTH owns the only exclusive NPCC development and research lab in China.

Type: Growth
Sector: Basic Materials

Institutional Holdings: 0
Industry: Chemicals

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15.7**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A**
Pearson Growth & Value: **B+**
Morningstar Rating: **N/R**
Standard&Poor Rating: **N/R**
Value Line Rating: **N/R**



WORLD ACCEPTANCE CORPORATION (WRLD) NASDAQ PRICE: \$39.20

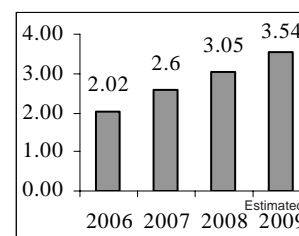
WRLD is engaged in the small-loan consumer finance business, offering short-term small loans, medium-term larger loans, related credit insurance and ancillary products and services to individuals. The Company offers standardized installment loans through 838 offices in SC, GA, TX, OK, LA, TN, IL, MO, NM, KY, AL and Mexico as of 03/31/08. World Acceptance Corporation serves individuals with limited access to consumer credit from banks, savings and loans, other consumer finance businesses and credit card lenders. The Company also offers income tax return preparation services and access to refund anticipation loans through a third party bank to its customers and others. During the fiscal year ended March 31, 2008 (fiscal 2008), the Company opened 95 new offices, 13 other offices were purchased and two offices were closed or merged into other existing offices.

Type: Growth
Sector: Financial

Institutional Holdings: 161
Industry: Credit Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **12.3**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **B-**
Pearson Growth & Value: **B-**
Morningstar Rating: **N/R**
Standard&Poor Rating: **N/R**
Value Line Rating: **C**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR SEPTEMBER 2008

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POWERSHARES WATER RESOURCES PORTFOLIO (PHO) AMEX PRICE: \$21.70

The investment seeks results that correspond generally to the price and yield (before the Fund's fees and expenses) of an equity index called the Palisades Water index. The fund normally invests at least 80% of total assets in American Depositary Receipts and common stocks of companies in the water industry. In pursuit of its objective, it may invest at least 90% of total assets in American Depositary Receipts and common stocks that comprise the Palisades Water index. It is nondiversified. TAN info: The investment seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the MAC Global Solar Energy index. The fund normally invests at least 90% of total assets in common stock, ADRs and GDRs that comprise the index. It generally will invest in all of the stocks comprising the index in proportion to their weightings in the index.

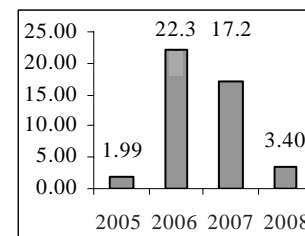
Fund Family: PowerShares
Category: Medium Growth

Type: Blended-ETF
Industry: Water

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **0.32%**
Annual Dividend: **\$0.07**
Investor's Business Daily: **N/R**
Pearson Growth & Value: **A+**
Morningstar Rating: **N/R**
Standard&Poor Rating: **N/R**
Value Line Rating: **N/R**

Performance by %



CLAYMORE MAC GLOBAL SOLAR ENERGY INDEX (TAN) NYSE PRICE: \$26.02

About this ETF:

The investment seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the MAC Global Solar Energy index. The fund normally invests at least 90% of total assets in common stock, ADRs and GDRs that comprise the index. It generally will invest in all of the stocks comprising the index in proportion to their weightings in the index. This fund is nondiversified.

Fund Inception Date: 15-Apr-08

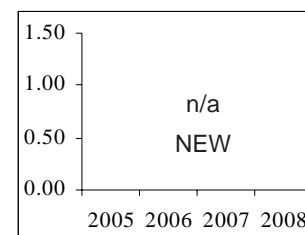
Fund Family: Exch. Fund Trust
Category: Medium Growth

Type: Solar Energy
Industry: Natural Resources

Ratings & Recommendations

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

Performance by %



UNDERSTANDING ETFs

As I am often asked to explain ETFs, I will try to define them as clearly as possible. Two or three years ago these were not seriously considered as a strategic way to define or diversify one's portfolio, but today they are an intricate part. Not so long ago we had about 50 to select from and today there are over 800. Mutual funds in the fifties had only a handful available to the investor, today there are over 15,000. The difference with an ETF is one can move into a sector, a country, a commodity, or almost anything, just like a stock purchase, and sell out the same way with a minimal trading fee. Another benefit is you know your cost basis for the buy and sell, and any tax implications, unlike the mutual fund. These are excellent tools for total diversification anywhere in the world, in any sector, at anytime. As they continue to grow in popularity, our work will intensify as we research our way through the new and old. As new ETFs are being offered, and in many cases in direct competition to those already in play for a few years or longer, everyone's performance will be held to a higher standard. ETFs are not meant to replace individual stock selecting, they are meant to compliment the portfolio by creating better diversification. In some cases when one believes the country is a great place to invest, and the ETF has 28-40 individual companies, and one is thought to be superior, we can and will purchase the five-star standout as a single purchase too.

By Donald Pearson

WALL STREET INDEXES

Indexes	2002	2003	2004	2005	2006	2007	YTD
S&P 500	(23.4%)	26.4%	9.0%	3.0%	13.6%	3.6%	(12.6%)
Dow Jones	(16.8%)	25.3%	3.2%	(0.6%)	16.3%	6.4%	(13.0%)
Nasdaq	(31.5%)	50.0%	8.6%	1.4%	9.5%	9.8%	(10.8%)
Russell 2000	(21.6%)	45.4%	17.0%	3.3%	17.0%	(2.8%)	(3.5%)
Market Average	(23.3%)	36.8%	9.4%	1.8%	14.1%	5.6%	(10.0%)



MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows: The Federal Reserve at this time is holding steady on interest rates. Both they and the treasury are probably trying to figure out what to do with Fannie Mae and Freddie Mac, for they both desperately need help. Once this crisis is stabilized, mortgage rates could go dramatically lower, causing a resurging boom in the housing market, but that could be at least one year away.



Key Point: *The Fed will put the brakes on any rate increase for quite some time until they sort out the financial mess.*

Earnings Flows: Over the last month money moved out of energy and commodities into financials, partially because consumers started to revolt in paying \$4 a gallon for gasoline. The main reason was the government put a temporary halt on naked short selling of banks, and jawboned the use of leverage in the commodity market. These two actions caused a short squeeze all over the market, with those stocks that were severely punished rebounding. At the same time, stocks that had previously been market leaders, such as those in agricultural, energy, and technology, were hit with relentless profit-taking when institutions and hedge funds rotated into these surging financials, even in the face of good earning reports. Coming up, I believe that the month of September will be quite volatile, since investors will be reluctant to invest in stocks long term until they see some sort of balance back into the economy.

Key Point: *Look for September to start sorting things out for the stock market.*

Cash Flows: Sovereign wealth funds and overseas investors are buying up US assets as their valuations continue to slide downward. This forces the dollar into a recovery, which makes US assets perform better for investors. While in the long run, the dollar will continue to erode, many people believe that in the short term it will rebound. These same capital inflows are going to help the deficit in the near term, giving the next president an easier time with the economy.

Key Point: *Foreign capital is helping the US go into a recovery mode.*

Additional Note: I think that this has created a long-term opportunity to buy precious metals, basic materials, energy and natural resource stocks, as growth will continue to move forward worldwide.

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