PEARSON Published Monthly Since 1982

Investment Letter

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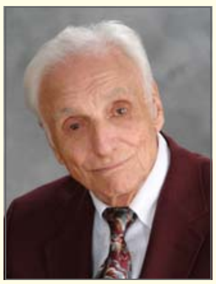
September 2006

FEATURED STOCKS

EZCORP, Inc	Pinnacle Financial
j2 Global	Staples, Inc
optionsXpress	TierOne Corp
Oshkosh Truck	USANA Health

GROWTH & INCOME

iShares MSCI (ETF)	PowerShares (ETF)



Walter D. Pearson
Chairman

Donald E. Pearson
President

Sandra Alberti
Publishing President

Investment Letters are complimentary to our clients with managed accounts!

IMPROVING THE PROCESS

By Donald Pearson

Investment strategies must continue to change because market conditions have always changed. One can only be successful if he or she understands the current market, and then, and only then, is prepared to react. Not only must one know what is changing, but also where the opportunities are, and how to invest for growth while minimizing exposure to loss of principle.

For several years we have been tracking many categories and sectors both here in the U.S. as well as abroad, always trying to better learn and understand today's complex global market. Although no person or system is perfect, our team truly believes the changes we are currently making will showcase the results to substantiate the time invested. Countless graphs, recorded software results, volume charts, and many hours reviewing a great deal of individual companies, as well as global economies, has convinced us, as we convert the accounts we manage and adopt the necessary portfolio changes, that we are going to see positive results to support our efforts.

We still continue looking for stocks that show double digit growth potential while currently selling at a reduced value, knowing this strategy will continue to be successful. In today's market the best values appear to be within the stocks that have been taken down in price. In many cases a company didn't change, it was simply the analyst's perception, or the company didn't exceed its earnings forecast to the level of acceptance expected. Many times this is all it takes to negatively impact the stock's price and future performance for many months, or in some cases even longer.

It's unfortunate to say, but many CEO's and company managers have their incentives and bonuses tied to the performance of their company stock. Because of this, decisions may be made which impact the stock favorably in the short range, rather than be in the company's best interest over time. Many of these fine companies are taken down in value, and there is not a clear foreseeable timeline as to when they'll begin to climb back to their past levels. We have always waited over time, knowing they would return to their past selling price and eventually reach new highs; but, in today's changing market, many times the downside is lower and the turnaround time can also be longer. Our research department will decide which stocks will have the opportunity to reenter the buying process and when to be brought back to our buying roundtable. We will then treat them as new stocks for purchase and make decisions based on the way they look with their new statistics.

Our second and most important policy change will be to place stops upon the selected "growth group" of stocks that we've evaluated and determined to have outstanding growth potential but carry an above-average downside risk. For those not familiar with stops, they are placed upon selected stocks and given a value to sell at a pre-determined price. If we choose a stock and place it into our growth group, we will then place a stop on it to protect it from the downside drop referenced above. If it does stop-sell itself out of our portfolio base, we will reevaluate it as earlier explained. After two to three years of tracking this process on selected stocks, we've found the success to be worth implementing. The volatility of the issue, the sector it's in, and the country it is a part of, will all have a determining factor as to where the stop is initiated. Many times we have passed on stocks we wanted to add to selected client

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MY VIEWS

From time to time I listen to one of the sages of Wall Street on TV, or I read what they have to say in newspaper or magazine articles, and I must say that I am constantly appalled by what I read and hear. Over and over again I hear that our president has things well in hand or that Mr. Bernanke is holding inflation to the 2% or smaller level. Are these seers aware that gasoline is approaching the $3 a gallon level? Are they aware that baseball players are getting paid one or more million dollars a season? Do they know it costs about $500 an hour to hire a lawyer? Are these prices reasonable? Is inflation well in hand? These people talk like inflation is just a necessary evil and can be contained. If these people are the financial wizards they pretend to be, they should know better.

Would you believe that prices are actually going down? Think about it! Business men should be thinking of ways and means to cut their costs, and when they do some of the savings should revert to the buyer. When this country was founded, one of the most important things our founders did was to make gold the money system for the country. Here are some figures that may astound you. In 1971 a compact Chrysler cost about $2300; today the price is $14,000. A starter home was $24,000; today it is $236,000. The Dow Jones stood at 890 compared to 10,500 at year-end 2005. As for gold it was $35 an ounce compared to $513 at year-end 2005.

If you convert these dollar prices to ounces of gold, you see that they have actually declined. For instance, the car that used to cost 66 ounces of gold in 1971 now costs only 30 ounces. The house that cost 703 ounces of gold now costs 431. In fact you can buy almost twice as many cars or houses with your gold. Are the producers of gasoline gouging us, or is the dollar value shrinking that much faster?

Inflation is not necessary! It is caused by the Federal Reserve bankers taking over our money system and printing up more and more new money each year. It makes little or no difference whether or not you agree with the system; you are stuck with it and you will live with it, like it or not. The important thing is that you understand how it works. I think it is easy enough to understand that each time the bankers print up more money for our government to borrow, they enrich themselves. They may never get the principal back; but if they didn't have it in the first place, they have lost nothing, and they still collect the interest. This is how the bankers profit. The important thing to understand is how to make the game work so that some of the fruits will fall in your direction.

As long as you understand that more and more currency is and will be printed as time goes on, you should grasp the fact that the real value will be going downhill each and every day. It should be simple enough to realize that currency should be transferred to something that will hold its value. Gold, silver and the likes will do the job. Looking back, you will usually find that an ounce of gold will buy about the same amount of whatever it did years ago. Gasoline may be ten, twenty, or thirty times as much in terms of dollars, but the gold will buy approximately the same amount as it did in times past. This factor will prove out regarding clothing, haircuts, or almost anything you buy.

The better alternative is to invest in companies that are growing in size and earnings. After all, it is easy enough to realize that it would have been wise to invest in Wal-Mart some years ago. Wal-Mart is doing four times the business they were doing ten years ago. Their earnings have increased 300% as well, and your investment would have followed suit. Here you have two things working for you. Not only have the earnings grown and shown up in the price of the stock, but the actual value of the company in terms of dollars has risen because Wal-Mart would be worth more in terms of dollars even if their earnings had remained stable. The only dollars that should be held are those one can expect to use for everyday expenses. Anything over and above nearby needs should be invested.

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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"

EZCORP, INC. (EZPW) NASDAQ PRICE: $39.27

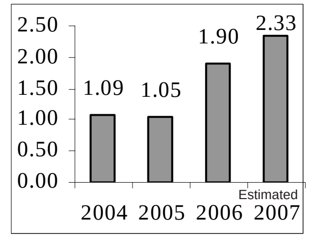
EZPW operates pawnshops and signature loan stores that function as sources of short-term cash. The signature loan stores offer payday loans or credit services. The company lends or provides credit services to individuals who do not have cash resources or access to credit to meet short-term cash needs. EZPW, through its subsidiaries, offers nonrecourse loans collateralized by tangible personal property, generally jewelry, consumer electronics, tools, sporting goods, and musical instruments, as well as sells merchandise from its pawn lending operations to consumers. It also offers short-term noncollateralized loans, such as payday loans, and fee based credit services to customers seeking loans. The company serves specialty consumer finance industry. EZCORP was founded in 1989 and is headquartered in Austin, Texas.

Type: Growth
Sector: Services
Institutional Holdings: 46
Industry: Specialty Retail

Ratings & Recommendations

Current P/E Ratio: **22.7**
Annual Yield: **0%**
Annual Dividend: **$0**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **A**
Pearson Value Rating: **B**
Stand.&Poor Rating: **D**
Value Line Rating: **2-1-4**

Earnings per share



j2 GLOBAL COMMUNICATIONS, INC. (JCOM) NASDAQ PRICE: $25.13

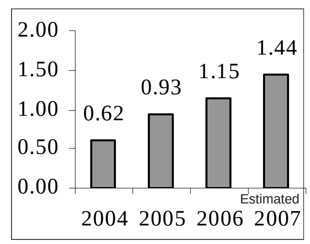
JCOM provides outsourced, value added messaging and communications services to individuals and businesses worldwide. It offers an array of faxing solutions, including Web-based fax and fax broadcasting at eFax.com; and a suite of unified communications services, including fax, Web-based voicemail, and conference calling at j2.com; as well as a conference calling service to its business services at consensus.com and a unified communications service through Onebox.com. As of December 31, 2005, it had 54 physical points of presence, as well as delivered its services through its global telephony/Internet protocol network that covered approximately 2,000 cities in 26 countries across 5 continents. j2 Global Communications was co-founded by Jaye Muller and Jack Riley in 1995 and is headquartered in Los Angeles, California.

Type: Growth
Sector: Technology
Institutional Holdings: 172
Industry: Internet Software

Ratings & Recommendations

Current P/E Ratio: **22.6**
Annual Yield: **0%**
Annual Dividend: **$0**
Investor's Bus. Daily: **B-**
Pearson Growth Rating: **A**
Pearson Value Rating: **A**
Stand.&Poor Rating: **A-**
Value Line Rating: **2-4-3**

Earnings per share



OPTIONSXPRESS HOLDINGS, INC (OXPS) NASDAQ PRICE: $26.12

optionsXpress Holdings, Inc. offers online retail brokerage platform that provides brokerage services for option, stock, futures, mutual fund, and fixed-income investors in the United States and internationally. Its browser-based technology provides trading tools, enabling retail and professional investors to identify, analyze, and execute a range of investment strategies. optionsXpress was founded in 2000 and is headquartered in Chicago, Illinois.
CORPORATE GOVERNANCE
optionsXpress Holdings Inc.'s Corporate Governance Quotient (CGQ®) as of 1-Aug-06 is better than 30.1% of Russell 3000 companies and 36% of Diversified Financials companies.

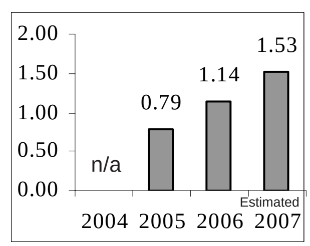
Web Site: http://www.optionsxpress.com

Type: Growth
Sector: Financial
Institutional Holdings: 144
Industry: Invest. Brokerage

Ratings & Recommendations

Current P/E Ratio: **25.4**
Annual Yield: **0.77%**
Annual Dividend: **$0.20**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **A**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**

Earnings per share



OSHKOSH TRUCK CORP (OSK) NYSE PRICE: $51.7

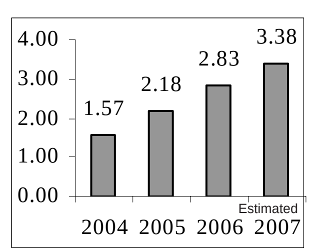
OSK engages in the design, manufacture, and marketing of various specialty commercial, fire and emergency, and military trucks; truck bodies; mobile and stationary compactors, and transfer stations; and portable and stationary concrete batch plants worldwide. Its Defense segment produces heavy-payload tactical trucks, such as the Heavy Expanded Mobility Tactical Truck, the Heavy Equipment Transporter, the Palletized Load System, the Common Bridge Transporter, and the Logistic Vehicle System to various militaries. The Commercial segment provides concrete mixer systems, refuse truck bodies, mobile and stationary compactors and waste transfer units, portable and stationary concrete batch plants, and truck components to ready-mix companies, and commercial and municipal waste haulers. OSK was founded in 1917 and is headquartered in Oshkosh, Wisconsin.

Type: Growth
Sector: Consumer Goods
Institutional Holdings: 254
Industry: Trucks

Ratings & Recommendations

Current P/E Ratio: **19.2**
Annual Yield: **0.77%**
Annual Dividend: **$0.40**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **A**
Pearson Value Rating: **A**
Stand.&Poor Rating: **A**
Value Line Rating: **N/R**

Earnings per share



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

September 2006

PINNACLE FINANCIAL PARTNERS, INC. (PFNP) NASDAQ PRICE: $35.35

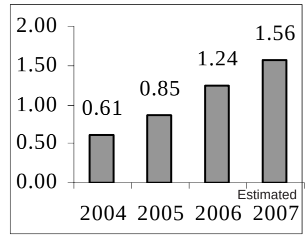
PNFP operates as the holding company for Pinnacle National Bank (bank). The bank primarily provides commercial banking services in its primary market area of Davidson County and the surrounding counties. It offers a line of financial services that include traditional depository and credit products, as well as investment and insurance products to individuals and small-to medium-sized businesses, and professional entities.The company also offers and sells various securities and other financial products to the public, as well as provides an array of convenience-centered products and services, including 24 hour telephone and Internet banking, debit cards, direct deposit, and cash management services for small to medium-sized businesses. PNFP was founded in 2000 and is headquartered in Nashville, TN.

Type: Growth
Sector: Financial
Institutional Holdings: 41
Industry: Regional Banks

Ratings & Recommendations

Current P/E Ratio: **36.8**
Annual Yield: **0%**
Annual Dividend: **$0**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **A**
Pearson Value Rating: **B**
Stand.&Poor Rating: **A**
Value Line Rating: **N/R**

Earnings per share



STAPLES, INC. (SPLS) NASDAQ PRICE: $22.26

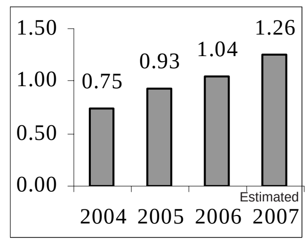
Staples, Inc. and its subsidiaries distribute office products in North America and internationally. The company offers business machines, computers and related products, and office furniture. It also offers an array of services, including high-speed, color and self-service copying, other printing services, faxing, and pack and ship services. As of June 26, 2006, the company operated 1,786 office superstores. The company also sells its products through mail order catalog, e-commerce, and contract businesses. Staples, Inc. was founded by Tom Stemberg and Leo Kahn in 1985. The company is based in Framingham, Massachusetts. Staples Inc.'s Corporate Governance Quotient (CGQ®) as of 1-Aug-06 is better than 44.7% of S&P 500 companies and 85.9% of Retailing companies.

Type: Growth
Sector: Consumer Goods
Institutional Holdings: 496
Industry: Office Supplies

Ratings & Recommendations

Current P/E Ratio: **19.1**
Annual Yield: **1.0%**
Annual Dividend: **$0.22**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **B-**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **B+**
Value Line Rating: **2-2-2**

Earnings per share



TIERONE CORPORATION (TONE) NASDAQ PRICE: $34.11

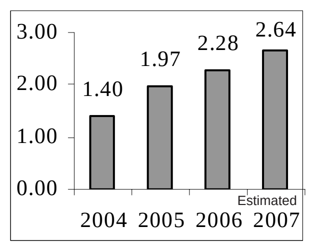
TONE operates as the holding company for TierOne Bank (bank) that provides consumer, commercial, and agricultural banking products and services in the U.S. The bank offers a range of short-term and long-term deposits that consist of interest and noninterest-bearing checking, money market, savings, and individual retirement accounts. Its lending activities comprise construction, business, commercial real estate and land, consumer, multifamily residential, and agricultural loans, as well as warehouse mortgage lines of credit. It also sells securities and insurance products, such as investment and insurance products, equity securities, mutual funds, and annuities, as well as reinsures credit life and disability insurance policies. The company was founded in 1907 and is headquartered in Lincoln, Nebraska.

Type: Emerging Growth
Sector: Financial
Institutional Holdings: 78
Industry: Regional Banks

Ratings & Recommendations

Current P/E Ratio: **15.7**
Annual Yield: **0.82%**
Annual Dividend: **$0.28**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **A**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **N/R**
Value Line Rating: **1-2-3**

Earnings per share



USANA HEALTH SCIENCES, INC. (USNA) NASDAQ PRICE: $44.76

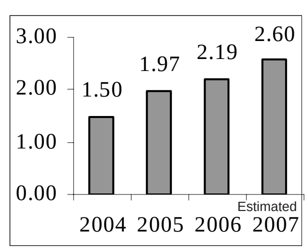
USANA Health Sciences, Inc. engages in the development and manufacture of nutritional and personal care products in the United States. It offers supplements and functional foods, including vitamins, minerals, antioxidants, and cofactors in chewable tablets under the 'USANA Nutritionals' product line. 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, 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 U.K. The company was founded by Myron W. Wentz in 1992. USANA Health is headquartered in Salt Lake City, Utah.

Type: Growth
Sector: Healthcare
Institutional Holdings: 102
Industry: Drug Products

Ratings & Recommendations

Current P/E Ratio: **21.3**
Annual Yield: **0%**
Annual Dividend: **$0**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **B**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **B**
Value Line Rating: **3-3-4**

Earnings per share



ISHARES MSCI JAPAN IN (EWJ) XNYS PRICE: $13.71

iShares MSCI Japan Index Fund is an exchange-traded fund incorporated in the USA. The Fund's objective seeks to provide investment results that correspond to the performance of the Japanese market, as measured by the MSCI Japan Index. The Fund invests in a representative sample of index stocks using a "portfolio sampling" technique.

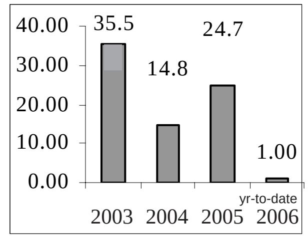
Overview
The fund uses a representative sampling strategy to try to track the index. The index consists of stocks traded primarily on the Tokyo Stock Exchange. It is nondiversified.

Fund Family: Large Cap
Category: Japan Stock
Type: ETF
EWJ Started 03/12/1996

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **0.42%**
Annual Dividend: **$0.06**
Investor's Bus. Daily: **N/A**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **N/A**
Value Line Rating: **N/A**

Performance by %



POWERSHARES INTL DIVIDEND ACHIEVERS (PID) AMEX PRICE: $17.08

PowerShares International Dividend Achievers Portfolio is an exchange-traded fund incorporated in the USA. The Index itself seeks to identify an international group of American Depository Receipts that have qualified as International Dividend Achievers.

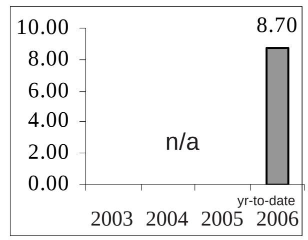
Overview: The investment seeks investment results that correspond generally to the price and yield, before fees and expenses, of the International Dividend Achievers Index. The fund will normally invest at leats 80% of its total assets in ADRs and non-US common or ordinary stocks of companies that have increased their aggregate annual regular dividend payments consistently over the course of the last five calendar or fiscal years. The fund will normally invest at leats 90% of its assets in dividend paying common stocks that comprise the index.

Fund Family: Large Cap
Category: Foreign Large Value
Type: ETF
PID Started 09/15/2005

Ratings & Recommendations

Current P/E Ratio: **N/A**
Annual Yield: **2.52%**
Annual Dividend: **$0.43**
Investor's Bus. Daily: **N/A**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A**
Stand.&Poor Rating: **N/A**
Value Line Rating: **N/A**

Performance by %



IMPROVING THE PROCESS

Continued from page 1

portfolios, but didn't because the down side risk exposure was higher than what we felt acceptable. In many cases the stocks did perform to our expectations, and we missed the wealth attributed to their performance. As we implement this new process, it may generate additional trades within one's portfolio, but our history has shown us the upside reward will more than cover the minimal costs attributed. This is not a day trading event we're initiating; this will simply be a back door safety mechanism that will allow us to purchase stocks that have higher growth potential. This is a small change in one respect, but it will allow us to select many additional stocks that in the past we've passed on.

If you would like to know more about our selection process, please call me personally, and I'd be glad to talk to you about it on an individual basis as it will affect each portfolio differently. The bottom line is we expect better returns while not increasing the exposure to risk. We have also elevated the stocks selected for this by reviewing and prioritizing their past performance history. This simply means without a quality track record the possibilities of being selected are slim. We will be able to monitor the chosen stocks better than we ever have before, and the stops will sell them out once a problem appears on the horizon. This will also reduce the stocks within our current base by about 25 percent.

NOTE:

Our fee is extracted quarterly from the account at 25% of one percent by TD Ameritrade. Immediately following any quarterly management fee extraction, it is posted within your account's history information available on line. It is also posted in your TD Ameritrade monthly statement.

Fourth quarter: October - November - December - see your October statement.

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%	4.5%
Dow Jones	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(0.6%)	6.2%
Nasdaq	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	1.4%	(1.0)%
Russell 2000	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	3.3%	7.0%
Our CD Buster	Data available on our website		**8.1%**	**56.7%**	**22.8%**	(Disputed)	(3.0)%
CD Annual Average	5.4%	3.0%	2.3%	1.5%	1.5%	3.5%	3.4%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

ECONOMIC FLOWS:

The time has finally come! The Federal Reserve has put a halt to increasing interest rates but has left the door open for increases in the future. This will make some breathing room in the market and allow stocks to move higher for the rest of the year. The Fed will eventually go back to raising or lowering interest rates after the national mid-term elections. Its focus for the rest of the year is to target commodity prices.

EARNINGS FLOWS:

Second quarter earnings have came through with many stocks warning or guiding lower. Interest rates have risen to their normal long-term average, putting a crimp in many people's monthly housing payments. Add in higher gas prices, and you have a natural slowdown. However, dividend payouts on stocks continue to rise, even those on the battered down housing stocks. Higher payouts continue.

CASH FLOWS:

Microsoft wanted to buy back over $10 billion of its own stock, but could not find enough takers for its Dutch auction. It only bought back a small amount. Investors believe that Microsoft is such a good value that they are willing to hold their shares. So, it decided to up its buyback to 36 billion dollars. We shall wait and see if more things will happen. Many companies are going to continue to reward shareholders by returning cash to them.

Key Point: *Overseas growth stocks and ETF's have rebounded from their May lows while dividend stocks have increased their payouts.*

MY VIEWS
Continued from page 2

One of the mistakes made by some stock buyers is that they remain as poker players rather than becoming investors. Gambling is one thing and investing is another. You have one group that is called day traders, and they have been sold a bill of goods that some certain system will work for them if they spend all day at the computer buying and selling stocks. They are to play small rises and drops. They may prosper or not, but it is certainly good for the brokers. According to a study performed in 2004, eighty-two percent of day traders lose money. I would think those figures might be on the conservative side inasmuch as I would expect almost all of them to lose. The odds are definitely against them. There are also other methods of gambling in the stock market, but it has been my experience that the long term investor is a winner. As with anything else in this world nothing is perfect, but the long term investor just about has it made.

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