

# Your Personal Money Manager

# Pearson

## INVESTMENT LETTER

Published Monthly Since 1982  
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### FEATURED STOCKS - JULY/AUGUST 2013

#### GROWTH STOCKS:

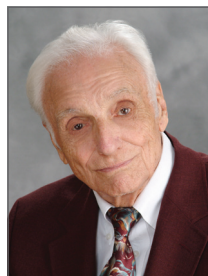
Bed Bath & Beyond, Inc.  
Dollar Tree, Inc.  
Rite Aid Corp.

#### VALUE STOCKS:

CVS Caremark Corp.  
NU Skin Enterprises, Inc.  
Walgreen Co.

#### INCOME STOCKS:

General Electric Co.  
Herbalife Ltd



Walter D. Pearson  
Chairman



Donald E. Pearson  
President



Ann Hathaway  
Account Manager

## DRUG CHOICES

By Donald Pearson

It appears demand will rise in the medical sector as more consumers get health insurance with the implementation of the Patient Protection and Affordable Care Act that begins in 2014. As an investment, the health care sector has always been thought of as one that is somewhat defensive, but today, knowing that implementation of Obamacare is right around the corner, this sector may provide an opportunity for all investors. Last month we featured two pharmaceuticals (JAZZ and QCOR) that we thought were outstanding additions to both growth and income portfolios. Both have grown by double digits and the profit earned is impressive, JAZZ by over 20% and QCOR by over 30%. This month we are featuring drug store chains where prescription and other medical needs can be purchased. As our population continues to age, the need for medical supplies continues to increase. With the baby boomer category producing about 7,000 new retirees daily, care, service, and product needs continue to increase, thus an opportunity for these chains. We write and recommend both Walgreens (WAG) and CVS regularly. Add Rite Aid to this group and we believe we've got something for most if not all portfolios.

We have continuously recommended WAG and CVS and consider them to be core holdings. Rite Aid is a new addition and must be considered a growth stock without yield, but excellent upside potential. Rite Aid (RAD) appears cheap compared to the others simply because of the run up both have enjoyed over the last year or two. RAD is the third largest chain with close to 5,000 stores in thirty-one states. In

2007 RAD acquired Brooks and Eckerd and became a dominant chain on the east coast. With their P/E under 12 and the wellness programs they've put in place, double digit growth appears imminent as the company management is focused on increasing in-store profitability rather than the number of stores. RAD is currently a \$2.82 per share.

CVS Caremark operates one of the largest drug store chains in the U.S. As of December 2012, the company had stores in 92 of the top 100 U.S. drug store markets and held the largest or second largest share in 74 of these markets. It filled more than 718 million prescriptions in 2012, accounting for about 21% of the U.S. retail pharmacy market. We believe CVS is well positioned to benefit from the retention of the majority of its recent retail market share gains, increased drug use by an aging population, and increased sales of generic drugs. CVS stock has moved higher this year and is trading around its 52-week high. The company boosted their dividend 38% to a quarterly rate of \$0.225 per share. The current yield is 1.6%. Today CVS trades at \$57.26. We have recommended this many times and featured it in December 2012 at \$46.51, thus generating a profit of 23% in only six months.

Walgreens has been written about often as a core holding that is currently trading at \$44.90 and also supplies a yield of 2.5% that increases annually. On the earnings front, per-share profits excluding acquisition costs rose 9% to \$0.96 per share in the quarter ended February 28. The results beat the consensus estimate by \$0.02. Investors also liked what they heard concerning strategic alliances Walgreens announced with Alliance Boots and AmerisourceBergen. Alliance

Boots is a leading international health and beauty retailer in which Walgreens has an equity position. AmerisourceBergen is one of North America's largest pharmaceutical services companies. Under the agreement, Walgreens will expand its existing relationship with AmerisourceBergen into a 10-year primary distribution agreement for branded and generic pharmaceutical products.

The strategic alliance with AmerisourceBergen should help expand Walgreens international footprint, especially in generic drugs, an area expected to see ample growth. We recommended this in July of last year at \$29.58 and again in January of this year at \$37.01. This featured choice produced an 11-month return of 50%. Although 50% growth is most likely unsustainable, with an increasing annual yield, and probable double digit growth foreseeable, both WAG and CVS will remain core holdings within our portfolio base.

As we head into the second half of this year, the stock market continues to offer opportunity in different sectors. We are disappointed with the pullbacks of gold and silver and Apple Computer, yet believe these to be short range issues. All three have been a part of most portfolios and have had long range growth. Each is off over 20% YTD. AAPL has several new product introductions scheduled for the second half of this year, and with their current P/E under 10, we believe we'll look back in a few months and wonder why we didn't purchase more because of the tremendous value they were at their current price as they dipped below \$400.

DP

## METHODS OF INVESTING

If you have thought about investing, and have finally come around to doing the job, you have one more thing to consider, and that is your method of investing. One of the methods to consider is timing the market. This means that you would buy stocks when the market is low and sell them when the market is high. Another way is to buy a stock when it looks good, and sell it when you have a decent profit. There are numerous branches that you could consider, but I am convinced that the buy and hold philosophy is best in the long run. I recall that one of our financial gurus, who published and sold an investment letter, some years ago advised his clients to sell everything they owned because the market was going to hit new lows and there was no doubt about it. That was exactly the time when the market started moving up, and it even made new highs.

The following will show you what I have been able to accomplish using my buy and hold philosophy.

On August 5, 1997 I bought 60 shares of Apple Computer for \$1208. I now have 240 shares worth about \$96,000. I could have taken a profit along the way, but I believe I was better off by holding. A short while ago I could have sold it for well over \$600 a share, and now it is \$400, but I expect it to be a growth stock and will continue to hold.

On May 8, 1990 I bought 100 shares of BMC Software for \$2413, and I now own 800 shares worth \$35,200.

On Dec 27, 1982 I bought 100 shares of Capital Southwest for \$1125, and this is now 200 shares worth \$23,400.

On Aug 28, 1991 I bought 25 shares of Cisco Systems for \$1178, and it is now 3600 shares worth about \$75,600.

Just to show that they all don't work out the same, let's take Communications System which was bought Dec 15, 1981, 100 shares for \$1100. I am now holding 450 shares worth \$4500. Even though the growth was slower, the company grew at a rate of about 5% a year and is yielding more than 6% a year, and that is on \$500, not on \$1100.

Another method I have found to be profitable is to take advantage of the income tax. Make it work for you. If you have an account that is not an IRA, you must pay an income tax every time you take a profit. On the other hand, you may take any losses off of your income tax. VOILA! What this comes down to is that it is more beneficial to hold for long term profits that continue to accumulate and take your losses, a part of which will be shared by the IRS. Personally, I do not like to take losses, and I usually expect my stock which has gone down to come back and set new highs, so here is what I like to do. I bought Newcastle Investments March 5, 2007, 200 shares for \$5774, and in one year it went down from \$29 a share to \$8.33. So I bought 300 shares for \$2500, and after 31 days sold the original for a loss of \$4500 which was tax deductible. Horror of horrors, by May 1, 2009 it was down to 70 cents a share so I reexamined it, and found I still believed in it, so I bought 2000 shares for \$1400, and after 31 days sold the others for a loss of \$2280 which my friend, the IRS, helped with. Today, my 2000 shares are worth more than \$10 a share, or more than \$21,000. This not only makes up for my almost \$7000 loss, but gives me a substantial profit as well. And, my friend the IRS is not participating.

One more thing I think I should bring up at this time. Sometimes the market is up and sometimes it is down. Believe it or not it is better to buy when it is down. Believe it or not most people won't buy then. I suggest buying whenever you have the money to invest. There are almost always good buys. BUT, when the market has a big break you should do your best to come up with extra cash because the bargains are afloat. In the year 2009 the market had a tremendous drop. Stocks went below any normal expectation. My Comstock Homebuilder which I had bought at \$16 a share was down to 22 cents, so I bought 5000 shares. Sunrise Assisted Living which I had bought for \$15 a share was down to 81 cents, so I bought 1000 shares, and that was taken from me in January of this year for just under \$13,000. This is simply a matter of taking advantage of the sales that are run by the stock market from time to time. Sometimes it is difficult to raise the money, but do your best.

And, you may own one or two of these companies that have just announced an increase in their dividend: AMP, CLMT, EPB, AAPL, MET, OII, SXL, WFC, XOM, STSA, RF, HUM, JNJ, MMP, MMLP, PH, HEP, APU, NRF, IBM, PEP, ARG, TSCO, CAH, JKHY, FELE, BAX, TRN, CNO, JCOM, FDS, COH, NOC, KEY, NOV, NTAP, JPM, DCI, HPQ, BG, ALTR, CBRL, FDX, NCT, UNH, GG, TGT, CAT, BCR.

**WP**

### **Management Fee:**

*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.*

*Third Quarter July-August-September-see your July statement.*

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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 JULY 2013**  
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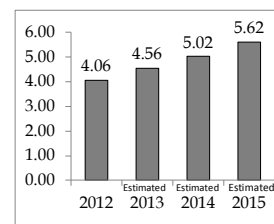
**BED BATH & BEYOND, INC (BBBY) NASDAQ PRICE \$70.95**

Bed Bath & Beyond Inc. is a chain of retail stores, operating under the names Bed Bath & Beyond (BBB), Christmas Tree Shops (CTS), Harmon and Harmon Face Values (Harmon), buybuy BABY and World Market or Cost Plus World Market (World Market). In addition, it is a partner in a joint venture, which operates three stores in the Mexico City market under the name Bed Bath & Beyond. The Company sells a range of domestics merchandise and home furnishings. Domestics merchandise includes categories, such as bed linens and related items, bath items and kitchen textiles. Home furnishings include categories, such as kitchen and tabletop items, fine tabletop, basic housewares and general home. During fiscal year ended March 2, 2013 (fiscal 2012), the Company opened a total of 38 stores, including 12 BBB stores throughout the United States and Canada, five CTS stores, one Harmon store and 18 buybuy BABY stores, and six World Market stores throughout the United States and closed one BBB store.

Type: Growth Institutional Holdings: 1457  
 Sector: Consumer Discretionary Industry: Specialty Retail

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **15.3**  
 Annual Yield: **N/A**  
 Annual Dividend: **N/A**  
 Investor's Bus. Daily: **A**  
 Pearson Growth & Value: **A-**  
 Morningstar Rating: **C**  
 Stand & Poor Rating: **B**  
 The Street (analyst avg.): **A-**



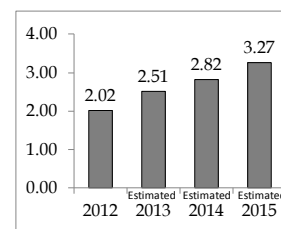
**DOLLAR TREE INC (DLTR) NASDAQ PRICE \$50.83**

Dollar Tree, Inc. (Dollar Tree) is an operator of discount variety stores offering merchandise at the fixed price. As of January 28, 2012, the Company operated 4,351 discount variety retail stores. Its stores operate under the names of Dollar Tree, Deal\$, Dollar Tree Deal\$, Dollar Giant and Dollar Bills. As of January 28, 2012, it operated 4,252 stores in 48 states and the District of Columbia, as well as 99 stores in Canada. It buys approximately 58% to 60% of its merchandise domestically and imports the remaining 40% to 42%. Its domestic purchases include basic, seasonal, closeouts and promotional merchandise. It maintains a selection of products within variety store categories. During the fiscal year ended January 28, 2012 (fiscal 2011), the Company opened 278 new stores.

Type: Growth Institutional Holdings: 1230  
 Sector: Consumer Discretionary Industry: Multiline Retail

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **18.1**  
 Annual Yield: **N/A**  
 Annual Dividend: **N/A**  
 Investor's Bus. Daily: **C**  
 Pearson Growth & Value: **A-**  
 Morningstar Rating: **N/A**  
 Stand & Poor Rating: **C**  
 The Street (analyst avg.): **B+**



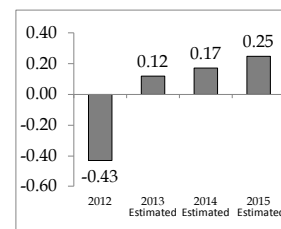
**RITE AID CORP (RAD) NYSE PRICE \$2.86**

Rite Aid Corporation is a retail drugstore chain in the United States. As of March 3, 2012, the Company operated drugstores in 31 states across the country and in the District of Columbia. As of March 3, 2012, it operated 4,667 stores. In the Company's stores, it sells prescription drugs and a range of other merchandise, which it calls front end products. During the fiscal year ended March 3, 2012 (fiscal 2012), prescription drug sales accounted for 68.1% of its total sales. The Company carries a range of front end products, which accounted for 31.9% of its total sales in fiscal 2012. Front end products include over-the-counter medications, health and beauty aids, personal care items, cosmetics, household items, beverages, convenience foods, greeting cards, seasonal merchandise and other everyday and convenience products, as well as photo processing.

Type: Growth Institutional Holdings: 264  
 Sector: Consumer Staples Industry: Food & Staples Retailing

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **11.8**  
 Annual Yield: **N/A**  
 Annual Dividend: **N/A**  
 Investor's Bus. Daily: **C**  
 Pearson Growth & Value: **B+**  
 Morningstar Rating: **N/A**  
 Stand & Poor Rating: **B**  
 The Street (analyst avg.): **C**



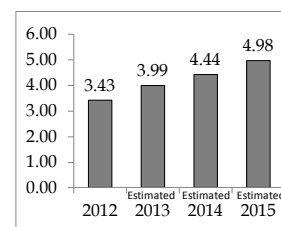
**CVS CAREMARK CORP (CVS) NYSE PRICE \$57.18**

CVS Caremark Corporation (CVS Caremark), together with its subsidiaries, is a pharmacy health care provider in the United States. CVS Caremark provides pharmacy services through its pharmacy benefit management (PBM), mail order and specialty pharmacy division, CVS Caremark Pharmacy Services; approximately 7,300 CVS/pharmacy retail stores; retail-based health clinic subsidiary, MinuteClinic, and its online retail pharmacy, CVS.com. The Company operates in three business segments: Pharmacy Services, Retail Pharmacy and Corporate. Its corporate segment provides management and administrative services to support the overall operations of the Company. In April 2012, Health Net, Inc.'s subsidiary, Health Net Life Insurance Company, sold its Medicare stand-alone Prescription Drug Plan (Medicare PDP) business to a subsidiary of CVS Caremark. In February 2013, it bought Drogaria Onofre.

Type: Value Institutional Holdings: 2956  
 Sector: Consumer Staples Industry: Food & Staples Retailing

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **17.8**  
 Annual Yield: **1.57%**  
 Annual Dividend: **\$0.90**  
 Investor's Bus. Daily: **A**  
 Pearson Growth & Value: **A**  
 Morningstar Rating: **C**  
 Stand & Poor Rating: **A**  
 The Street (analyst avg.): **A+**



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**NU SKIN ENTERPRISES INC (NUS) NYSE PRICE \$61.12**

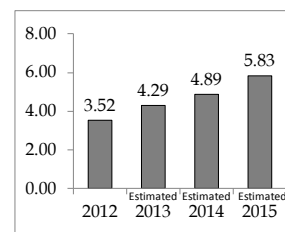
Nu Skin Enterprises, Inc. is a global direct selling company with operations in 53 markets worldwide. The Company develops and distributes anti-aging personal care products and nutritional supplements under its Nu Skin and Pharmanex brands, respectively. As of December 31, 2012, the Company had more than 950,000 distributors. The Company has two primary product categories, each operating under its own brand. It markets its personal care products under the Nu Skin brand and its nutritional supplements under the Pharmanex brand. During the year ended December 31, 2012, approximately 89% of its revenues came from its markets outside of the United States. The Company's ageLOC skin care products accounted for 23% of its total revenue and 43% of Nu Skin sales during the year ended December 31, 2012.

Type: Value  
Sector: Consumer Staples

Institutional Holdings: 502  
Industry: Personal Products

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **16.9**  
Annual Yield: **1.93%**  
Annual Dividend: **\$1.20**  
Investor's Bus. Daily: **A+**  
Pearson Growth & Value: **A**  
Morningstar Rating: **N/A**  
Stand & Poor Rating: **N/A**  
The Street (analyst avg.): **A**



**WALGREEN CO (WAG) NYSE PRICE \$44.20**

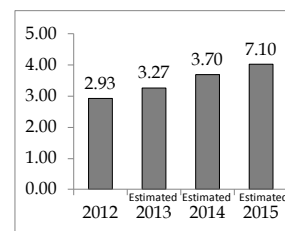
Walgreen Co. (Walgreens), together with its subsidiaries, operates the drugstore chain in the United States. The Company provides its customers with access to consumer goods and services, pharmacy, and health and wellness services in communities across America. The Company offers its products and services through drugstores, as well as through mails, by telephone and online. The Company sells prescription and non-prescription drugs, as well as general merchandises, including household items, convenience and fresh foods, photofinishing and candy. On August 2, 2012, it acquired 45% interest in Alliance Boots GmbH (Alliance Boots). In September 2012, the Company completed the purchase of a regional drugstore chain in the mid-South region of the United States. In September 2012, WP Carey & Co LLC acquired five retail stores leased to Walgreen Co. In December 2012, the Company completed a transaction giving company a ownership stake in Cystic Fibrosis Foundation Pharmacy LLC.

Type: Value  
Sector: Consumer Staples

Institutional Holdings: 1777  
Industry: Food & Staples Retailing

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **19.8**  
Annual Yield: **2.45%**  
Annual Dividend: **\$1.10**  
Investor's Bus. Daily: **B**  
Pearson Growth & Value: **B+**  
Morningstar Rating: **C**  
Stand & Poor Rating: **C**  
The Street (analyst avg.): **A**



**GENERAL ELECTRIC CO (GE) NYSE PRICE \$23.19**

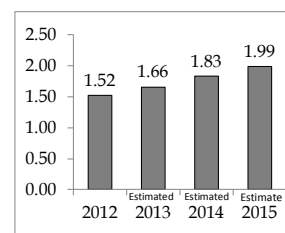
General Electric Company (GE) is a diversified technology and financial services company. The products and services of the Company range from aircraft engines, power generation, water processing, and household appliances to medical imaging, business and consumer financing and industrial products. It serves customers in more than 100 countries. Its segments include Energy Infrastructure, Aviation, Healthcare, Transportation, Home & Business Solutions and GE Capital. Effective January 1, 2011, it reorganized the Technology Infrastructure segment into three segments: Aviation, Healthcare and Transportation. In December 2012, the Company acquired 19% interest in Morpho Detection Inc. In February 2013, it announced the sale of its remaining 49% interest in its joint venture with Comcast, which includes NBCUniversal (NBCU), as well as the NBCU floors in 30 Rockefeller Center. In June 2013, GE Oil & Gas of Italy, a unit of GE's GE Infrastructure Inc subsidiary, acquired Salof Cos.

Type: Income  
Sector: Industrials

Institutional Holdings: 3294  
Industry: Conglomerates

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **16.3**  
Annual Yield: **3.26%**  
Annual Dividend: **\$0.76**  
Investor's Bus. Daily: **D**  
Pearson Growth & Value: **B+**  
Morningstar Rating: **B**  
Stand & Poor Rating: **B**  
The Street (analyst avg.): **B**



**HERBALIFE LTD (HLF) NYSE PRICE \$45.14**

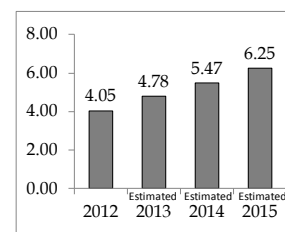
Herbalife Ltd. is a global network marketing company that sells weight management, nutritional supplements, energy, sports and fitness products and personal care products through a network of approximately 2.7 million independent distributors, except in China, where the Company sells its products through retail stores. The Company is a network marketing company that sells a range of weight management products, nutritional supplements and personal care products. As of December 31, 2011, the Company sold products in 79 countries throughout the world. Herbalife's products are grouped in four principal categories: weight management, targeted nutrition, energy, sports and fitness and Outer Nutrition, along with literature and promotional items. On December 31, 2012, the Company acquired a manufacturing facility in Winston-Salem, North Carolina.

Type: Income  
Sector: Consumer Staples

Institutional Holdings: 698  
Industry: Personal Products

**Ratings & Recommendations Earnings per share**

Current P/E Ratio: **10.7**  
Annual Yield: **2.63%**  
Annual Dividend: **\$1.20**  
Investor's Bus. Daily: **B**  
Pearson Growth & Value: **B+**  
Morningstar Rating: **N/A**  
Stand & Poor Rating: **C**  
The Street (analyst avg.): **B**



# JUST ASK ANN

In the past year, Pearson Capital has undergone some changes with regard to the government oversight of Financial Services. Based on the amount of money under management, we have been moved from the auspices of the SEC to the Florida Office of Financial Regulation.

It is for this reason that you may notice an insert in this newsletter notifying you of this quarter's Management Fee. In the past, we have notified you through our newsletter when your fees were taken and that you could access this information through your TD Ameritrade statement for the corresponding month.

The information will continue to be found on that statement but you will also receive this additional notification. You will be able to see the ending balance in your account for the quarter and the formula that is used to calculate your fee based on the rate charged.

As always, accounts over \$25,000 are charged at 1% annually, smaller accounts at 2%.

As stated in our previous newsletter, there are a few exceptions to this rule. Pearson Capital only charges 1% for all Custodial Accounts, enabling our younger generation to begin saving for their future. At age 18 the account should be converted to an individual account and at that time, fees are applied as above.

Since we have a rule of 'no minimums' to invest with us, we encourage all potential investors to just get started! Accounts under \$1000.00 have no fees in order to help the account grow. Once the account reaches this threshold, either by added funding or market appreciation, the 2% fee is applied.

If you do not find a notification in this letter, you can assume that no fees have been taken this quarter. If you have any questions regarding this new procedure, please call us!

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## **MARKET VIEW** *Continued from page 6*

starting to strain. We now see issues all over the world, with countries heavily dependent on natural resources, such as Australia and Brazil, being affected too. On the other hand, if global commodity prices start to slow down, the American consumer would definitely benefit. Even with these new serious issues, we should still see good news and bad news in what I see as an excellent July summer rally. Summer rallies do not need to be broad based, with only a few leaders needed to move the entire market forward. But, I expect this summer to be more broad-based.

### **New trends continue:**

- 1) Automobile companies are still doing well this year as growth continues.
- 2) S&P 500 companies as a group should do well this summer.
- 3) Insurance companies will benefit by the increase of interest rates.
- 4) Coal vs. Natural gas will be a point of future contention in the economy.

**Key Point: The July rally should be more broad-based than normal.**

### **Cash Flows:**

With the end of quantitative easing, low interest rates given to corporations will eventually end, leading back to their long term average. Rising interest rates compete with dividends, but should help other companies' earnings such as banks and financial companies. Yes, values are getting stretched, but as long as earnings back them up, there is sufficient liquidity for new stocks. Corporations are still buying stocks with borrowed money, and still have \$2 Trillion in cash in the bank. The loans they are buying will eventually end at this low rate, so many are still taking advantage and using this opportunity to support the stock market. As long as healthy cash flows are supported, companies are willing to take on additional debt to support the purchasing of stock. On the other hand as interest rates move back to normal levels, the cost of debt will increase, and these stock buybacks will eventually start to slow, but will not end entirely.

### **New trends that are happening:**

- 1) The ending of low interest rates will tend to accelerate corporate decision making.
- 2) Low interest rates are accelerating the idea of privatization of public companies, i.e., Men's Warehouse (MW).
- 3) S&P 500 companies are increasing their dividends.
- 4) More stocks are increasing their dividends.
- 5) Money is still being put in the markets.

**Key Point: Stock buybacks are still taking place in record amounts.**

### **Please note:**

1. The market may peak at a new high this summer.
2. July will be a very busy month for earnings expectations.
3. I still expect the market to be higher by year end.

# WALL STREET INDEXES

Indexes	2007	2008	2009	2010	2011	2012	2013 YTD
S&P 500	3.6%	(40.0%)	23.5%	12.9%	EVEN	13.4%	12.6%
Dow Jones	6.4%	(33.4%)	18.8%	11.0%	5.5%	7.3%	13.8%
Nasdaq	9.8%	(42.1%)	43.9%	16.9%	(1.8%)	15.9%	12.7%
Market Average	5.6%	(38.4%)	27.9%	13.8%	1.2%	12.2%	13.1%



## MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

### Economic Flows:

The Fed has finally made the decision to put the brakes on its constant use of quantitative easing, otherwise known as "QE." Fed Chairman Ben Bernanke took everyone by surprise when he said that the Fed could begin to wind down its \$85 billion per month QE later this year and end its bond buying program entirely by mid-2014. This last point was the biggest change of rhetoric, since it had been widely understood that the Fed would keep its program on until mid-2015, or until the jobless rate falls to 6.5%, a long held target for the last 40 years. Now, the Fed Chairman seems to be saying QE will end within a year "no matter what." However, after the most recent market mania days, the Fed has slowly come back to saying its actions will be more long term than short term. We all knew that there had to be a time when this scenario was going to end, and the Fed was kind enough to give us an idea about how it is going to let the yield curve revert back to its long term average. This in turn would give investors some sort of "road map" of what will eventually happen. Now is not the time to make a huge change, because of the liquidity problems still ongoing worldwide: Europe is still having serious problems, and now there is a serious liquidity crunch in China. Many economists see this "knee jerk" reaction by the Fed as being timid and reactionary, while they wait to see if there is any lowering of the expected number in future GDP growth in the next quarter. In turn, this would lead us to believe that the economy has clearly less growth momentum than previously suggested. While he was at it, he could have also said that bond funds might not be as safe as people think they are, as long as there is going to be this back and forth "muddle through" decision making. However, by taking this stance, the Fed is now much more optimistic about the economy than are most private economists. The markets, at the very least, almost always discount well in advance of the event and this surprise will cause an extreme amount of volatility. Foreign investors are also unloading U.S. Treasury bonds in record amounts, causing rising bond yields and starting the dollar to weaken. With the Japanese bank pushing to devalue its currency, we are going back to the long road of devaluing our own dollar.



### New trends we see:

- 1) Commodity stocks, especially miners, are still in a bear market.
- 2) The housing market is doing extremely well in certain select markets.
- 3) Worldwide fears are now driving treasury yields up.
- 4) Banks are going to accelerate loan creation with higher expected interest rates.
- 5) Asia's economy is starting to falter, instead of rebounding.

**Key Point: The Fed is going to end quantitative easing, but not all at one time.**

### Earnings Flows:

We have moved past this quarter's earnings season and are preparing for the next one. Some companies are already pre-warning for next earnings season which starts in July. June is usually one of the worst months of the year, as stocks start to drift until the July earnings season, but the market has held its own provided by money pushing from the sidelines into the market. The good news is the dollar once again is starting to weaken. Since 2001, the weakening dollar has benefited the S&P 500 companies that depend on their profits from overseas growth, especially in Europe, as the Euro has usually been stronger than the dollar, even with its structural problems. The fears now are the liquidity problems that have been surfacing in China, as a near term slowdown is starting to show, and the relationship of trade with the other Asian and North and South American partners is

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