

Your Personal Money Manager

Pearson

INVESTMENT LETTER

Published Monthly Since 1982
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FEATURED STOCKS - JULY/AUGUST 2014

GROWTH STOCKS

Dollar Tree Inc.
Gilead Sciences, Inc.

INCOME STOCKS

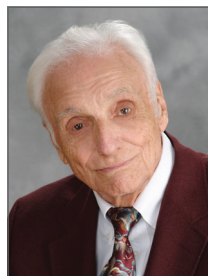
Banco Latinoamericano de Comercio Exterior, SA
Philip Morris International, Inc

VALUE STOCKS

Alaska Air Group, Inc.
Hyster-Yale Materials Handling, Inc.

ETFs

WisdomTree Equity Income Fund
Energy Select Sector SPDR®



Walter D. Pearson
Chairman



Donald E. Pearson
President



Ann Hathaway
Account Manager

HOLD 'EM OR FOLD 'EM *By Donald Pearson*

The definition for change, according to Webster's Dictionary, is as follows: to exchange, to alter, or make different, a variation, or a substitution. As we continue managing portfolios, I can tell you something I learned long ago, the only thing permanent is change.

For example, many analysts can be quoted telling you your portfolio should be 20-40-60 percent bonds, and we disagree. Another might be is that holding a quality investment when purchased for the long haul will reward you. In some cases this can be true, but in other cases, not so. Look at Kodak. Not so many years ago it was the leader in photos, with photo development and photo paper. It is now working through bankruptcy with its stock having little or no value. Today your cell phone takes the picture and their development paper is not needed. If you owned the stock, once you realized the company was going down significantly it was time to jump ship.

I believe the next company to face the same problem is Radio Shack. It wasn't all that long ago this was recommended by many analysts as a buy. In a bull market this was over \$12 and now it's down to ninety cents. This simply proves that change is sometimes the proper route and the navigator or investment advisor must decide if and when. This is the reason we continue to tell you a professional will probably make better decisions. We have systems in place to monitor what is in the portfolio today, trying to detect those investments about to have issues and decide when to retreat.

As written often, what's in your portfolio is in ours also, so selling might be what's

best for all of us. On the other hand, some companies may be there forever because they continue to make changes to their business to grow with the times. A perfect example of this is Baidu (BIDU) which was spotlighted again last month at \$154.77 and today at \$183.71. For this reason we have an ongoing in-house monitoring system to be ahead of any downturn of these companies within our portfolios. When a stock looks good to us we read about what's going on internally, trying to find those that appear to have a potential breakout coming. We did this with Jazz Pharmaceutical (JAZZ) and Questcor (QCOR). We think we now have another, featured in this letter that I will write a bit about.

Gilead Sciences Inc. (GILD), @ 82.91, is a Biotechnology company that has a new drug offered with tremendous upside potential. Gilead submitted a New Drug Application to Japan's Pharmaceutical and Medical Devices Agency for Sofosbuvir for Chronic Hepatitis C. Primarily due to HCV, Japan has one of the highest rates of liver cancer of any industrialized country. Of the more than one million people chronically infected with HCV, 20-30 percent have the genotype 2 strain of the virus. Currently approved therapies in Japan for genotype 2 HCV infection involve 24-48 weeks of injections with pegylated interferon, which may not be suitable for certain patients. GILD believes that sofosbuvir has the potential to provide high cure rates among genotype 2 patients in just 12 weeks of interferon-free therapy. If this drug is approved and successful, GILD will have outstanding growth potential.

Here's another change that's worth writing

about. We always pass on what we call cyclical investments. Those are stocks one must follow and try to decide when to buy in and when to sell out. Airline stocks fit the criteria, but we are taking one on now believing this is being run like a business and must be monitored like all others but may be moving from cyclical to growth. This is also featured inside and I'll share a bit more here.

Alaska Air (ALK), @ 95.05, has increased nearly 30% year to date and is still tremendously undervalued. A new flight has been added that appears to be one that is going to do exceptionally well and continue to boost profits. Alaska Airlines is the only carrier offering nonstop service between Seattle and Tampa, which will save hours of travel time and get people to their destination faster. Flights will operate daily, year-round. The Seattle-Tampa flights also will connect customers with cruise ships in opposite corners of the country: Pacific Northwest residents headed to Caribbean cruises out of Tampa, and Southern residents destined for Alaska cruises out of Seattle. The Tampa service contributes to a plan to increase Alaska Airlines departures out of Seattle 11 percent by next spring.

Alaska's daily flights from Seattle-Tacoma International Airport will increase from 253 to 280, giving travelers more options to the places they want to fly most. Other new services started this year from Seattle to Baltimore, Maryland; Detroit, Michigan; Albuquerque, New Mexico; and Cancun, Mexico. A flight between Seattle and New Orleans started June 12. All of this added activity should add huge profits to their bottom line. **DP**

FINDING GROWTH

Have you given much thought to growth and the things that it can do for you? As you know, there are many kinds of growth, and the things it can do for you are numerous and varied. First, as a child, you have grown. You are no longer as small as you used to be. Some of us have also grown sideways no matter what we try. Then we might consider the automobile. Some are no longer as small as they once were, nor do they cost as little. If you have planted a tree, you will notice that every day shows growth until it reaches maturity at which time the growth slows and stabilizes. Growth is just about everywhere, and as investors it is our job to find it. How does one go about this search?

In looking for a growth of capital, one must not be looking for a stock that might be profitable, but for a company that will grow both in size and value. When you find this you simply have to decide whether or not this company is worth the purchase price. Sometimes it is, and sometimes it is not. Sometimes you might have to pay more for a company than is the usual case because everything that you might consider purchasing is selling at a high price. Sometimes you will find just the opposite to be true. The way the market is today, I consider the former to be true, but a few years ago it was just like someone was yelling from the rafters: BUY, BUY. This does not mean that the investor should not invest in stock today. It just means that he must be more careful. The strange thing about the stock market is that when you look at the market averages over ten years you will find that the stock market has continued to rise. This proves that time is on your side.

Another thing that is necessary to have on your side is imagination. This is just one of the many reasons that we suggest an advisor handle your account. Back a number of years ago the high tech industry was born, and before that was the quick meal industry. We bought Wendy's, among others. Wendy's turned out very well and is still going strong. We purchased 200 shares for \$3100 back in 1979. Today the shares have grown to about 4100 because of splits and are worth about \$41,000. But that's not all. Along the way Wendy's gave a distribution of Tim Horton stock to their shareholders. If you were that shareholder you would have received 1489 shares which have a value today of about \$82,000.

Later on when the high tech industry came along we bought Cisco, Microsoft and many others at much lower prices than they are today. This was an industry in which Warren Buffet did not participate because he did not understand it. His approach is different from ours although very similar in many respects.

What does this mean to the person who is handling your account? One of the outstanding things is that he must be working every hour of the day. He may be watching TV or kissing his wife when a bit of news comes up, and it is important to investigate. Sometimes it will be for naught, and sometimes it may turn out to be a positive investment. It may even turn out to be the BIG winner, similar in some respects to Green Mountain Coffee. That stock not only doubled in price in one year but it looks like a very good buy at these higher prices.

Perhaps you have noticed that the dividend has been increased on the following: HPQ, VMI, WAB, PTR, FSRV, NOV, MMC, OZRK, VOD, JPM, DCI, FLO, NTAP, HDB, BG, RY, TD, DE, BMO, SDRL, CM, LOW, MIDD, MELI. UN, HP, GG, TGT, NFG, MDT, LGF, ENSG, FITB, NRZ. **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 JULY/AUGUST 2014

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DOLLAR TREE, INC. (DLTR) NASDAQ PRICE \$54.46

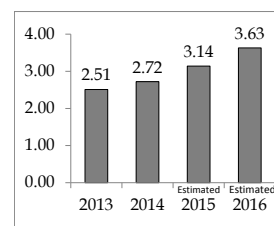
Dollar Tree, Inc. (Dollar Tree) is an operator of discount variety stores offering merchandise at the fixed price. As of January 28, 2012, the Company operated 4,351 discount variety retail stores. Its stores operate under the names of Dollar Tree, Deal\$, Dollar Tree Deal\$, Dollar Giant and Dollar 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
Sector: Consumer Discretionary

Institutional Holdings: 1216
Industry: Multiline Retail

Ratings & Recommendations Earnings per share

Current P/E Ratio: **18.9**
Annual Yield: **0%**
Annual Dividend: **0**
Investor's Bus. Daily: **D**
Pearson Growth & Value: **A-**
Morningstar Rating: **N/A**
Stand & Poor Rating: **B**
The Street (analyst avg.): **B+**



GILEAD SCIENCES, INC. (GILD) NASDAQ PRICE \$82.91

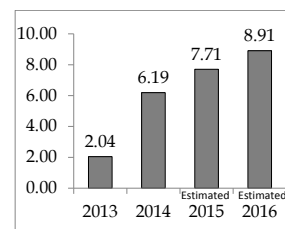
Gilead Sciences, Inc. (Gilead) is a research-based biopharmaceutical company that discovers, develops and commercializes medicines. Gilead's primary areas of focus include human immunodeficiency virus (HIV)/AIDS, liver diseases, such as hepatitis B and C and cardiovascular/metabolic and respiratory conditions. The Company has operations in North America, Europe and Asia Pacific. The Company's products include Atripla, Truvada, Viread, Complera/Eviplera, Emtriva, Hepsera, Letairis, Ranexa, Lexiscan/Rapiscan, AmBisome, Vistide, Macugen, Cayston and Tamiflu. In January 2012, the Company acquired Pharmasset, Inc. On February 8, 2013, its subsidiary, acquired YM BioSciences Inc.

Type: Growth
Sector: Healthcare

Institutional Holdings: 3199
Industry: Biotechnology

Ratings & Recommendations Earnings per share

Current P/E Ratio: **30.6**
Annual Yield: **0%**
Annual Dividend: **0**
Investor's Bus. Daily: **A+**
Pearson Growth & Value: **A+**
Morningstar Rating: **C**
Stand & Poor Rating: **A**
The Street (analyst avg.): **A-**



ALASKA AIR GROUP, INC. (ALK) NYSE PRICE \$95.05

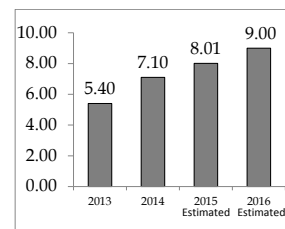
Alaska Air Group, Inc. is a holding company of Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon), which together with its partner regional airlines, serve 95 cities through an expansive network in Alaska, the Lower 48, Hawaii, Canada and Mexico. The Company operates two airlines: Alaska Airlines and Horizon Air. The Company operates in three segments: Alaska Mainline, Alaska Regional and Horizon. Alaska Mainline is the Boeing 737 part of Alaska's business. Alaska Regional is Alaska's shorter distance network. Horizon operates regional aircraft. During the year ended December 31, 2012, the Company carried 26 million passengers. Alaska operates a fleet of passenger jets (mainline) and contracts with Horizon, SkyWest Airlines, Inc. (SkyWest) and Peninsula Airways, Inc. (PenAir) for regional capacity under, which Alaska receives all passenger revenue from those flights. Horizon operates a fleet of turboprop aircraft and sells all of its capacity to Alaska

Type: Value
Sector: Industrials

Institutional Holdings: 795
Industry: Airlines

Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.9**
Annual Yield: **1.05%**
Annual Dividend: **1.00**
Investor's Bus. Daily: **A+**
Pearson Growth & Value: **A+**
Morningstar Rating: **N/A**
Stand & Poor Rating: **B**
The Street (analyst avg.): **A+**



HYSTER-YALE MATERIALS HANDLING, INC. (HY) NYSE PRICE \$88.54

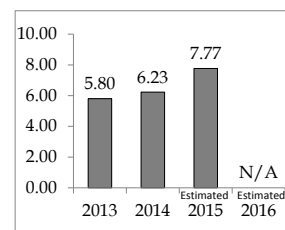
Hyster-Yale Materials Handling, Inc. (Hyster-Yale), formerly NMHG Holding Co., , designs, engineers, manufactures, sells and services a line of lift trucks and aftermarket parts. The Company's products are marketed globally under the Hyster and Yale brand names. The Company segments include three management units: Americas, Europe and Asia-Pacific. Americas includes its operations in the United States, Canada, Mexico, Brazil and Latin America. Europe includes its operations in Europe, the Middle East and Africa. Asia-Pacific includes its operations in the Asia-Pacific region and China. Lift trucks and component parts are manufactured in the United States, Northern Ireland, Mexico, The Netherlands, the Philippines, Italy, Japan, Vietnam, Brazil and China. Hyster-Yale has a 20% ownership interest in Hyster-Yale Financial Services, Inc. (NFS). Hyster-Yale is a wholly owned subsidiary of NACCO Industries, Inc. (NACCO).

Type: Value
Sector: Industrials

Institutional Holdings: 380
Industry: Machinery

Ratings & Recommendations Earnings per share

Current P/E Ratio: **13.8**
Annual Yield: **1.3%**
Annual Dividend: **1.10**
Investor's Bus. Daily: **C**
Pearson Growth & Value: **B+**
Morningstar Rating: **N/A**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **C**



PEARSON CAPITAL'S RECOMMENDED STOCKS JULY/AUGUST 2014

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BANCO LATINOAMERICANO DE COMERCIO EXTERIOR SA (BLX) NYSE PRICE \$29.67

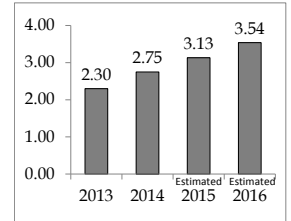
Banco Latinoamericano de Comercio Exterior, S.A. (the Bank or Bladex) a supranational bank established by central banks of Latin American and Caribbean countries to promote trade finance in Latin America and the Caribbean (the Region). The Bank is principally engaged in providing trade financing to selected commercial banks, middle-market companies and corporations in the Region. The Commercial Division and The Treasury Division. The Bank's lending and investing activities are funded by interbank deposits, primarily from central banks and financial institutions in the Region, by borrowings from international commercial banks and, to a lesser extent, by sales of the Bank's debt securities to financial institutions and investors in Asia, Europe, North America and the Region. The Bank does not provide retail banking services to the general public, such as retail savings accounts or checking accounts, and does not take retail deposits.

Type: Income
Sector: Financials

Institutional Holdings: 211
Industry: Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **12.4**
Annual Yield: **4.7%**
Annual Dividend: **1.40**
Investor's Bus. Daily: **A**
Pearson Growth & Value: **A-**
Morningstar Rating: **N/A**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **B-**



PHILIP MORRIS INTERNATIONAL, INC. (PM) NYSE PRICE \$84.31

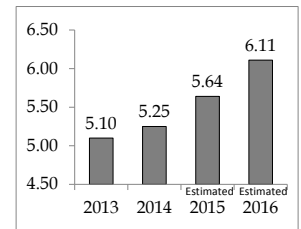
Philip Morris International Inc. (PMI) is a holding company. PMI's subsidiaries and affiliates and their licensees are engaged in the manufacture and sale of cigarettes and other tobacco products in markets outside of the United States of America. Its products are sold in approximately 180 countries. The Company divides its markets into four geographic segments: The European Union (EU) Region, The Eastern Europe, Middle East & Africa (EEMA) Region, The Asia Region and The Latin America & Canada Region. In June 2011, it completed the acquisition of a cigarette business in Jordan, consisting primarily of cigarette manufacturing assets and inventories. January 1, 2011, it established a business structure with Vietnam National Tobacco Corporation (Vinataba) in Vietnam, further developing its joint venture with Vinataba through the licensing of Marlboro and establishing a PMI-controlled branch for the building of its brands.

Type: Income
Sector: Consumer Staples

Institutional Holdings: 2769
Industry: Tobacco

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.5**
Annual Yield: **4.4%**
Annual Dividend: **3.76**
Investor's Bus. Daily: **D**
Pearson Growth & Value: **B+**
Morningstar Rating: **C**
Stand & Poor Rating: **C**
The Street (analyst avg.): **C+**



WISDOMTREE EQUITY INCOME FUND (DHS) NYSE ARCA PRICE \$59.40

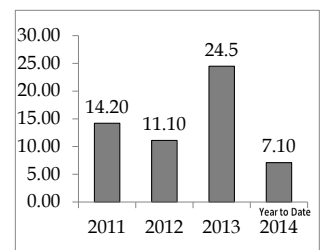
The investment seeks to track the price and yield performance, before fees and expenses, of the WisdomTree Equity Income Index. Under normal circumstances, at least 95% of the fund's total assets (exclusive of collateral held from securities lending) will be invested in component securities of the index and investments that have economic characteristics that are substantially identical to the economic characteristics of such component securities. The index is a fundamentally weighted index that is comprised of companies with high dividend yields selected from the WisdomTree Dividend Index.

Location: USA
Type: 100% Stocks

Category: Large Value
Industry: Diversified

Ratings & Recommendations Performance by %

Current P/E Ratio: **N/A**
Annual Yield: **3.2%**
Annual Dividend: **1.88**
Investor's Bus. Daily: **N/A**
Pearson Growth & Value: **A**
Morningstar Rating: **A**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **N/A**



ENERGY SELECT SECTOR SPDR® FUND (XLE) NYSE ARCA PRICE \$100.10

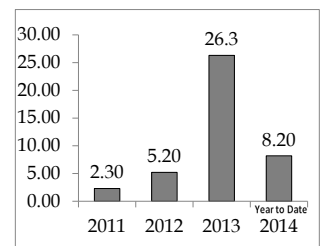
The investment seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of publicly traded equity securities of companies in the Energy Select Sector Index. In seeking to track the performance of the index, the fund employs a replication strategy. It generally invests substantially all, but at least 95%, of its total assets in the securities comprising the index. The index includes companies from the following industries: oil, gas & consumable fuels; and energy equipment & services.

Location: USA
Type: 100% Stocks

Category: Large Value
Industry: Diversified

Ratings & Recommendations Performance by %

Current P/E Ratio: **N/A**
Annual Yield: **1.7%**
Annual Dividend: **1.69**
Investor's Bus. Daily: **N/A**
Pearson Growth & Value: **A**
Morningstar Rating: **A**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **N/A**



Don often speaks about the benefits of having a ROTH IRA. I found a great article on ROTHIRA.com by Matthew Malone that clearly explains what it is and its advantages. Next month, I'll reprint some other benefits of this type of IRA (not enough space here!).

A Roth IRA is an individual retirement account that offers a valuable future tax break: Tax-free income in retirement. Like beauty, the benefit of a Roth IRA is in the eye of the beholder, and it all depends on the beholder's tax bracket—both now and when he or she retires.

Although there is no up-front tax deduction for Roth IRA contributions as there is with a traditional IRA, Roth distributions are tax-free when you follow the rules. And because every penny you stash in a Roth IRA is your money—not a tax-subsidized gift from Uncle Sam—you can tap your contributions (but not your earnings) any time tax-free and penalty-free.

Roth IRAs make the most sense if you expect your tax rate to be higher during retirement than your current rate. That makes Roth IRAs ideal savings vehicles for young, lower-income workers who won't miss the upfront tax deduction and who will benefit from decades of tax-free, compounded growth. Roth IRAs also appeal to anyone who wants to minimize their tax bite in retirement as well as older, wealthier taxpayers who want to leave assets to their heirs tax-free.

You can contribute to a Roth IRA at any age as long as you have earned income from a job. That means they are appropriate for everyone from child actors to septuagenarian Wal-Mart greeters.

Are You Eligible?

First things first. There are income eligibility limits, so if you make too much money, you can't contribute to a Roth IRA. But with a median household income of about \$50,000, most Americans qualify for Roth IRA contributions. (If your income is too high, you can convert some or all of the assets in your traditional IRA to a Roth IRA, but you'll have to pay taxes on the entire amount you convert.)

For 2014, you can contribute the maximum \$5,500 to a Roth IRA (\$6,500 if you are age 50 or older by the end of the year) if you are single or the single head of a household and your modified adjusted gross income (MAGI) is less than \$114,000. Or, if you are married filing jointly, you can contribute the maximum amount to a Roth IRA if your income is less than \$181,000. You may make a partial contribution to a Roth IRA if you are single and your income is between \$114,000 and \$129,000 or if you are married filing jointly and your income is between \$181,000 and \$191,000. You can't contribute to a Roth IRA if your income is above those levels. (Special rules apply to married couples who live together at any time during the year but who file separate tax returns. Neither can contribute to a Roth IRA if their income exceeds \$10,000.)¹

One caveat: If you earn less than the maximum contribution limit, you can contribute only as much as you earned. So if, for example, you earned just \$3,000, you could contribute only \$3,000 to a Roth IRA for the year. Nonworking spouses can contribute the maximum amount to a Roth IRA as long as the working spouse earns enough to contribute to both accounts and the household income doesn't exceed the IRS income-eligibility limits.

¹Roth income eligibility limits are not affected by coverage by an employer retirement plan. Those limitations apply only to tax-deductible contributions to traditional IRAs.

MARKET VIEW *Continued from page 6*

The new trends continue:

- 1) Once again, stock yield growth is very important.
- 2) We could have high volatility in the market this quarter.
- 3) Companies will continue to buy back their stocks this year.

Key Point: We are expecting an improved earnings quarter in July.

Cash Flows:

After five years of buying back stock, companies in the S&P 500 still have almost a trillion dollars to buy back stock either through cash or debt. These same companies are still wary from the 2008-2009 crash and are being conservative, for they see the current economy in a deflationary glut of capacity, where adding additional investment would not recoup a good return of their money. I expect that this money will continue to be returned to shareholders, either through stock buybacks or rising dividends.

New trends that are happening:

- 1) Stock dividends are still increasing.
- 2) Companies still have great balance sheets.
- 3) Growth continues in the Natural Gas and Oil industry.
- 4) Companies we favor will continue to have high profit margins.

Key Point: Money is still available for stock buybacks.

Please note:

1. Alibaba's IPO is coming out soon.
2. Money is still on the sidelines waiting to come in the market.

WALL STREET INDEXES

Indexes	2008	2009	2010	2011	2012	2013	2014 YTD
S&P 500	(40.0%)	23.5%	12.9%	EVEN	13.4%	29.6%	6.1%
Dow Jones	(33.4%)	18.8%	11.0%	5.5%	7.3%	26.5%	1.5%
Nasdaq	(42.1%)	43.9%	16.9%	(1.8%)	15.9%	38.3%	5.5%
Market Average	(38.4%)	27.9%	13.8%	1.2%	12.2%	31.5%	4.4%



MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:

The Federal Reserve is not going to let economic fluctuations interfere with its long term goals.



It will not tighten interest rates if

inflation increases in the next few quarters. It is slowly cutting its tapering back, possibly stopping it by the end of the year.

It is still trying to prevent a recession in a soon-to-be period of rising interest rates. However, skeptics believe the Fed has printed too much money. I had previously thought that there would be a bubble in treasuries, and would cause a ripple effect in the whole bond market. But the Fed has made an

orderly move to slowly finish the tapering process. Interest rates have not moved up quickly, and in fact continue to be in a neutral trend. A surprise would be the increase of rates in the next two years.

The Fed's goal continues to be a gradual move in interest rates toward a more inflationary environment. Over the last five years, it has stabilized the banking system and is now on its way of doing its part to continue to stabilize the world economy. However, there may be some outside forces that put a crimp in their planning. For example, the European Central Bank (ECB) has already cut overnight rates, causing their sovereign bonds interest rates to be lower than ours. With too much money in bond funds or on the sidelines, this continues to be the fuel to the stock market, as people are forced to move to a riskier asset. As we discussed before, we believe that the biggest driver of stock market share prices in 2013 was not just earnings growth but the continued Price-Earnings-Ratio (P/E) contraction in the market as investors continue to shift from bonds and CD's to stocks. At the same time, any European financial instability, or Russian aggression, may push people back into bonds, causing turbulence in the market.

The Fed's goal continues to be a gradual move in interest rates toward a more inflationary environment. Over the last five years, it has stabilized the banking system and is now on its way of doing its part to continue to stabilize the world economy. However, there may be some outside forces that put a crimp in their planning. For example, the European Central Bank (ECB) has already cut overnight rates, causing their sovereign bonds interest rates to be lower than ours. With too much money in bond funds or on the sidelines, this continues to be the fuel to the stock market, as people are forced to move to a riskier asset. As we discussed before, we believe that the biggest driver of stock market share prices in 2013 was not just earnings growth but the continued Price-Earnings-Ratio (P/E) contraction in the market as investors continue to shift from bonds and CD's to stocks. At the same time, any European financial instability, or Russian aggression, may push people back into bonds, causing turbulence in the market.

New trends we see:

- 1) Pimco has stated that this financial environment is the "New Neutral."
- 2) Government, consumers, and banks will continue to de-leverage and pay off debt.
- 3) Our government at this time has gone from a budget deficit to a surplus.

Key Point: The Fed is not preventing inflation to reach its long term goals.

Earnings Flows:

This quarter's earnings are closing. As stated before, earnings are coming in, with the largest companies continuing to borrow money in bonds to buy back its own shares and increasing the stock market overall. Also the weak dollar is bringing more money from abroad, translating into higher earnings. Expectations for the next quarter will begin at the end of the month, as the market begins to drift into August and September. Companies that miss earnings or lower expectations will be treated far differently and may see violent negative reactions, especially after buying back stock or raising dividends the previous quarters. I am hoping to see a nice summer rally in the month of July, as the winter issues that we had in the last quarter have dissipated and the delayed buying of goods, services, and housing has shifted forward to the spring and summer months.

Continued to page 5

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