

Your Personal Money Manager

Pearson

INVESTMENT LETTER

Published Monthly Since 1982

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FEATURED STOCKS - DECEMBER 2012

Growth Stocks:

Apple Comp
Autozone
Google
Reliance Steel

Value Stocks:

CVS Drug
Key Corp
Illinois Tool
Procter Gamble



Walter D. Pearson
Chairman



Donald E. Pearson
President



Ann Hathaway
Account Manager

PERMANENT CONTINUES TO CHANGE

By Donald Pearson

One of the most difficult things we do is make important decisions that will impact us for many years, if not change our lives and that of our immediate family for generations. Our politicians in Washington are facing similar challenges, and we can only hope they compromise and make the right choices. So many people have lost jobs, lost homes, been relocated, taken two or three jobs to stay afloat, and in many cases watched things we thought were untouchable or unstoppable change right in front of us. In some ways investing is the same, and much can be learned from this. It will not get your job back, but watching the changes taking place, and understanding the ramifications of the decisions one is forced to make, can in some ways provide upside opportunity. If every time we learn from these encounters, even when the decision turned out to be a mistake, before we cross the finish line we will probably finish successfully. Let me give you some examples regarding investments, especially those in the technology field, because those seem to replicate most of us in this ever changing world. As so often said, "the only thing permanent today, is change."

Apple, our number one holding, continues to sit in the cat bird seat, appearing to be unstoppable with another banner year of creation and performance. I continue to write about this as, again this year, its stock price is up 45 percent year to date. As many competitors continue to improve their product lines, acquire companies, and add personnel,

Apple's position as technology leader will continue to be challenged. It would seem near impossible for Apple, or anyone, to maintain the growth rate they have continuously recorded. If history is any example, one can learn.

If asked which company's stock was the best performer in the S&P 500 for the decade of the nineties, most wouldn't know. The answer is Dell Computer. Dell was at \$55, retreated to \$18 last February, and trades under \$10 today. When computers were the rage, Dell was number one. Today you can do similar things with iPads and iPhones, and save your data in the clouds, making desktop computers somewhat obsolete. HP is in the same boat with the same problem. As Dell was number three in computer sales, HP is number one. They are also number one in printers, and this keeps them somewhat more stable. From a high of \$69 a share, today they rest around \$50 with little or no upside forecast in the short term. Both companies are in the third year of a five-year transformation.

I can cite other examples too. Sun Microsystems was our top holding at one time, reaching a high of \$55. After we knew we were in a tech bubble and these companies were declining, we sold all. The stock continued to decline, falling below \$2, and acquired by Oracle. Microsoft was another that seemed unstoppable at one time because of their software. No longer the one stock everyone should have, they did transition and continue to be a quality performer. We recommended this in May of 2011

at \$25.92 and today it is over \$27 while yielding 3.4%. RIMM was another company that we positioned in our top three holdings. Another that climbed really high, was exceptionally profitable with their Blackberry phone, and fell off the same cliff as the others. Two years ago this was selling at \$58 a share. RIMM is currently trading around \$11 a share with a very bleak forecast in their short term future. So our mission here is to stay focused on Apple and not believe any company can remain there forever. With that said, we can also say that with a P/E around 12, and a bright forecast for their short and long range future, they still appear to be the number one, and we'll continue to purchase for the foreseeable future. With a dividend now being added, this fits into our strategy for successful investing. We search for companies that appear to have superior products and management, increasing yield, presently undervalued, with a five-year performance forecast that meets our expectations. Obviously the strategy is working as we near another year end with success.

To our many clients, again I want to thank you for your business and the trust you have in us. All of us here at PCI truly believe you are a wonderful addition to the Pearson Investment Family.

I wish you all a Merry Merry Christmas and a Happy New Year.

DP

AHEAD OF THE CURVE

Investing is it is not a matter of picking stocks and watching the market. These are the things the gambler does. He's a buyer and seller of stocks, and I say good luck to him. As an investor, one should be looking for companies, not stocks. The stock market is simply a way of purchasing a piece of a company. As an investor one should be looking for companies that are going to be worth more as time goes on. Usually this is brought about by finding companies that are growing in size, and, unless one has paid too much for the company, profits should show up as time marches on. Another way to bring profits in is to find a company that has had a problem which has made it go down in price. When the turnaround comes, the profits will appear. Of course the easy way to do all this is to have a professional do all the work for you, and that is why most of you just read the letter and sit back and enjoy the profits.

When investing, remember our children. Most people would like their children to attend college, but the costs have climbed considerably, and that makes it doubly important to think about coming events early in the show. I have repeatedly suggested opening an account for each of your children. By doing this at an early stage you have time on your side. I recently read a piece alluding to this subject which I think everyone should read---here it is word for word:

"Compounding at a good rate of return over a long period of time makes it really easy to create millions. Here is an example: A child who invests \$50 a month from age eight to 13 (a total investment of \$3600 over the six years) will end up with more money at the age of 65 (\$1,302,154) than someone who starts investing at age 26 and invests \$2000 every year until he or she retires at that age. These results are based on an 11 percent annual return."

That piece not only shows the reason for investing but also the reason to get started early, and the earlier the better. Christmas will soon be here, and if your children do not have an account, this is a good time to open one for them. It is my opinion that parents should do this for each of their children, school them on what is going on, and advise them to add to it from time to time. As you can see from that added piece, it isn't so much the amount as it is the working time. I wish that my parents had done this for me.

Remember what was stated above. You are not buying stocks, you are investing in your future. Each company that you purchase should have a good outlook and should be selling for a reasonable price. If you own a company like McDonald's everything becomes twice as good. First of all when you go in there for a meal you can think about the bargain you are getting, but you can also realize that you have contributed to your company's profits. You may also want to sit back and be waited on by the people who are your employees. Although this is not guaranteed, most of time the success is achieved, and in many cases surpasses the original goal set.

I want to congratulate those of you who have added additional cash. This sometimes makes it possible for us to purchase a stock for you that you do not own and has just been added to the buy list. Remember that no amount is too small.

The following companies have raised their dividends again and they are owned by some of you: ARLP, EXPE, CAH, HEP, ABC, COM, NRF, BDX, SNA ,HFC, EMR, T, AAN, LNC, SYY, JCI, OV, UNP, BDX.

WP



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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 DECEMBER 2012

www.pearsoncapitalinc.com

APPLE INC (AAPL)

NASDAQ PRICE: \$585.28

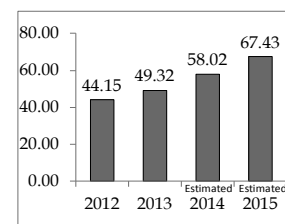
Apple Inc. (Apple), along with its subsidiaries, is engaged in designing, manufacturing and marketing mobile communication and media devices, personal computers, and portable digital music players. It also sells a range of related software, services, peripherals, networking solutions, and third-party digital content and applications. The Company's products and services include iPhone, iPad, Mac, iPod, Apple TV, a portfolio of consumer and professional software applications, the iOS and Mac OS X operating systems, iCloud, and a range of accessory, service and support offerings. It also sells and delivers digital content and applications through the iTunes Store, App Store, iBookstore, and Mac App Store. During the year ended November 24, 2011, the Company, as part of a consortium, acquired Nortel Networks Corporation's patent portfolio. In February 2012, the Company acquired app-search engine Chomp.

Type: Growth
Sector: Technology

Institutional Holdings: 5035
Industry: Computer Hardware

Ratings & Recommendations Earnings per share

Current P/E Ratio: **13.3**
Annual Yield: **1.81%**
Annual Dividend: **\$10.60**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **A**
Morningstar Rating: **B**
Stand & Poor Rating: **B**
The Street (analyst avg.): **A**



AUTOZONE INC (AZO)

NYSE PRICE: \$383.77

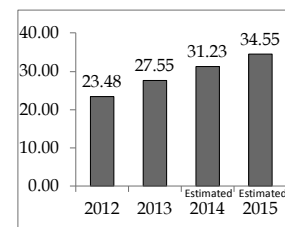
AutoZone, Inc. (AutoZone) is a retailer and a distributor of automotive replacement parts and accessories in the United States. As of August 25, 2012, AutoZone operated 4,685 stores in the United States, including Puerto Rico, and 321 in Mexico. The Company operates in two segments: Auto Parts Stores and Other. The Auto Parts Stores segment is a retailer and distributor of automotive parts and accessories through the Company's 5,006 stores in the United States, Puerto Rico, and Mexico. The Other category reflects business activities that are not separately reportable, including ALLDATA which produces, sells and maintains diagnostic and repair information software used in the automotive repair industry, and e-Commerce, which includes direct sales to customers through www.autozone.com. During the fiscal year ended August 25, 2012 (fiscal 2012), the Company opened 193 stores and relocated 10 stores.

Type: Growth
Sector: Consumer Cyclical

Institutional Holdings: 1346
Industry: Auto & Truck Parts

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.3**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **C**
Pearson Growth & Value: **A**
Morningstar Rating: **C**
Stand & Poor Rating: **C**
The Street (analyst avg.): **B-**



GOOGLE INC (GOOG)

NASDAQ PRICE: \$698.37

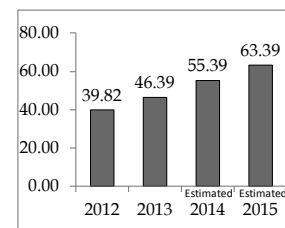
Google Inc. (Google) is a global technology company focused on improving the ways people connect with information. The Company generates revenue primarily by delivering online advertising. As of December 31, 2011, the Company's business was focused on areas, such as search, advertising, operating systems and platforms, and enterprise. Businesses use its AdWords program to promote their products and services with targeted advertising. In addition, the third parties that comprise the Google Network use its AdSense program to deliver relevant advertisements that generate revenue. In June 2011, it launched Google+. In September 2011, the Company acquired Zagat. In May 2012, Google acquired Motorola Mobility Holdings, Inc. As of January 2012, over 90 million people had joined Google+. In April 2011, the Company acquired PushLife. On July 31, 2012, it acquired marketing start-up Wildfire. In September 2012, it acquired VirusTotal and Nik Software.

Type: Growth
Sector: Technology

Institutional Holdings: 4372
Industry: Computer Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **21.9**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A-**
Pearson Growth & Value: **A-**
Morningstar Rating: **C**
Stand & Poor Rating: **C**
The Street (analyst avg.): **A**



RELIANCE STEEL AND ALUMINUM CO (RS)

NYSE PRICE: \$56.40

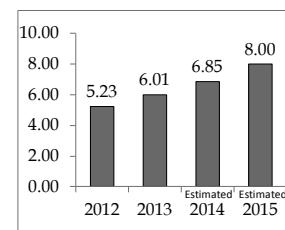
Reliance Steel & Aluminum Co. (Reliance) is a metals service center company in North America (the United States and Canada). The Company's network of metals service centers operates more than 220 locations in 38 states, Belgium, Canada, China, Malaysia, Mexico, Singapore, South Korea, the United Arab Emirates and the United Kingdom. Through this network, the Company provides metals processing services and distributes a range of more than 100,000 metal products. Many of its metals service centers process and distribute only specialty metals. In July 2012, the Company, through its subsidiary Bralco Metals (Australia) Pty Ltd, acquired substantially all of the assets of Airport Metals (Australia) Pty Ltd, a subsidiary of Samuel Son & Co., Limited. On October 1, 2012, it acquired all the outstanding limited liability company interests of Sunbelt Steel Texas, LLC., and through its wholly owned subsidiary, Feralloy Corporation, it acquired GH Metal Solutions, Inc.

Type: Growth
Sector: Basic Materials

Institutional Holdings: 571
Industry: Misc. Fabricated Products

Ratings & Recommendations Earnings per share

Current P/E Ratio: **10.9**
Annual Yield: **1.77%**
Annual Dividend: **\$1.00**
Investor's Bus. Daily: **C+**
Pearson Growth & Value: **B+**
Morningstar Rating: **C**
Stand & Poor Rating: **A**
The Street (analyst avg.): **B**



PEARSON CAPITAL'S RECOMMENDED STOCKS DECEMBER 2012

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CVS CAREMARK CORP (CVS)

NYSE PRICE: \$46.51

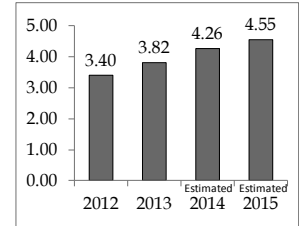
CVS Caremark Corporation (CVS Caremark), together with its subsidiaries, is a pharmacy health care provider in the United States. CVS Caremark provides pharmacy services through its pharmacy benefit management (PBM), mail order and specialty pharmacy division, CVS Caremark Pharmacy Services; approximately 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. On April 29, 2011, it acquired the Medicare prescription drug business of Universal American Corp. (the UAM Medicare Part D Business). 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.

Type: Value
Sector: Services

Institutional Holdings: 2841
Industry: Retail (Drugs)

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15.6**
Annual Yield: **1.40%**
Annual Dividend: **\$0.65**
Investor's Bus. Daily: **C**
Pearson Growth & Value: **A**
Morningstar Rating: **C**
Stand & Poor Rating: **A**
The Street (analyst avg.): **A-**



KEYCORP (KEY)

NYSE PRICE: \$8.08

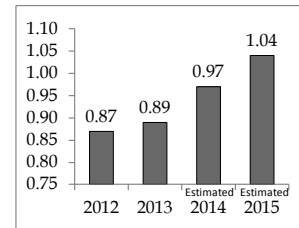
KeyCorp is a bank holding company for KeyBank National Association (KeyBank). Through KeyBank and certain other subsidiaries, the Company provides a range of retail and commercial banking, commercial leasing, investment management, consumer finance and investment banking products and services to individual, corporate and institutional clients through two business segments: Key Community Bank and Key Corporate Bank. As of December 31, 2011, these services were provided through KeyBank's 1,058 full-service retail banking branches in 14 states, additional offices, a telephone banking call center services group and a network of 1,579 automated teller machines (ATMs) in 15 states. On January 17, 2012, the Company opened another national bank subsidiary.

Type: Value
Sector: Financial

Institutional Holdings: 1373
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **9.2**
Annual Yield: **2.48%**
Annual Dividend: **\$0.20**
Investor's Bus. Daily: **D**
Pearson Growth & Value: **B**
Morningstar Rating: **B**
Stand & Poor Rating: **B**
The Street (analyst avg.): **B**



ILLINOIS TOOL WORKS INC (ITW)

NYSE PRICE: \$61.57

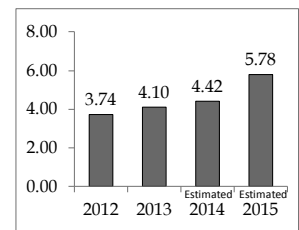
Illinois Tool Works Inc. (ITW) is a multinational manufacturer of a diversified range of industrial products and equipment with operations in 58 countries. The Company operates in eight business segments: Transportation; Power Systems & Electronics; Industrial Packaging; Food Equipment; Construction Products; Polymers & Fluids; Decorative Surfaces, and All Other. The Company primarily serves the construction, general industrial, automotive, food institutional/restaurant and service, food and beverage, electronics, consumer durables, primary metals, and others markets. In March 2011, the Company acquired SOPUS Products' Car Care business. In July 2011, the Company acquired Despatch Industries. In April 2012, Graco Inc. acquired the Company's finishing businesses. The acquisition includes complementary powder and liquid finishing equipment operations, technologies and brands.

Type: Value
Sector: Consumer Cyclical

Institutional Holdings: 1349
Industry: Auto & Truck Parts

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15.0**
Annual Yield: **2.47%**
Annual Dividend: **\$1.52**
Investor's Bus. Daily: **B**
Pearson Growth & Value: **A-**
Morningstar Rating: **C**
Stand & Poor Rating: **B**
The Street (analyst avg.): **B+**



PROCTER & GAMBLE CO (PG)

NYSE PRICE: \$69.83

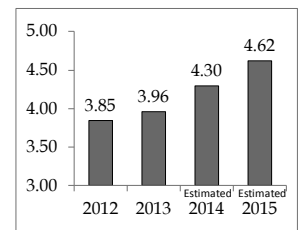
The Procter & Gamble Company (P&G), is focused on providing consumer packaged goods. The Company's products are sold in more than 180 countries primarily through mass merchandisers, grocery stores, membership club stores, drug stores and high-frequency stores. As of June 30, 2012, P&G was organized into two Global Business Units (GBUs): Beauty and Grooming and Household Care. The GBUs contain a total of five segments: Beauty; Grooming; Health Care; Fabric Care and Home Care and Baby Care and Family Care. Sales to Wal-Mart Stores, Inc. and its affiliates represent approximately 14% of its total revenue during the fiscal year ended June 30, 2012 (fiscal 2012). On December 30, 2011, Helen of Troy Ltd. acquired PUR water purification products business (PUR) from the Company. Effective June 1, 2012, P&G announced that it has completed the sale of its Pringles business to Kellogg Company.

Type: Value
Sector: Consumer/Non-Cyclical

Institutional Holdings: 3146
Industry: Personal & Household Products

Ratings & Recommendations Earnings per share

Current P/E Ratio: **22.8**
Annual Yield: **3.22%**
Annual Dividend: **\$2.25**
Investor's Bus. Daily: **C+**
Pearson Growth & Value: **B+**
Morningstar Rating: **C**
Stand & Poor Rating: **C**
The Street (analyst avg.): **A-**



JUST ASK ANN

It's December already and next thing you know we'll be starting a whole new year. With that comes resolutions, and for many of us it means resolving to get things in order!

Now might be a great time to look over your accounts and make sure all your information is up to date. Are your phone numbers and email addresses correct? Maybe you forgot that you cancelled the land line and now only use your cell phone. Or, has your internet provider changed and now you have a different email address? We always seem to let friends and family know about these changes, but we often overlook the accounts sitting in the file drawer.

Why not take a few minutes to check your Ameritrade accounts to see if this information needs to be altered? If you access your accounts online, you can make these changes yourself. Go to the Account Center and click on 'Profile', then 'Edit' and type in the new information. If you don't use the online access, you can call TD Ameritrade at 800-431-3500, option 2, for the service team, and they will be glad to help you make any changes.

You can also call us and we can correct home or mailing addresses and phone numbers, but we cannot update your email address. TD Ameritrade must update this for you.

Another thing we tend to forget about is the beneficiaries on our accounts. You might want to make sure that your gift will get to the right person when it needs to. If your marital status has changed, a new baby or grandchild has arrived, or perhaps a beneficiary has predeceased you, it may be time to rethink where your money will end up. There is a form available to help you make these changes as they do have to be in writing. Again, you can find this on-line or call me, and I'll email or send you the form.

This is one resolution that is easy to keep!

Ann
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MARKET VIEW *Continued from page 6*

from desktop and laptop personal computer manufacturers such as Dell (DELL), and Hewlett-Packard (HP). This also hurts component and software makers Intel (INTC) and Microsoft (MSFT) who are racing to keep up with Apple's achievements.

Once again some of the new trends are:

- 1) Retail will show some areas to be very strong, especially online stores.
- 2) Some manufacturing stocks will rebound.
- 3) We will see continued declines in technology stocks.
- 4) We will see a continued rebound in American car purchases.

Key Point: *The fiscal cliff may cause a sell off in the market.*

Cash Flows:

If there is a "fiscal cliff" calamity, in which dividend and capital gains taxes will be raised dramatically, there will be many companies making special dividends at the beginning of 2013. Companies are run by people who have to make decisions and plan for the future. They will do what is in the best interest of their shareholders now, not what the federal government can do for them once they negotiate through their problems. With the president reelected, the next big political calamity is the fiscal cliff, with both parties stuck in gridlock until the end of the year. If Congress does nothing, the capital gains will rise from 15 percent to 20 percent and the dividend tax rate will skyrocket with the maximum rate at about 40 percent. The administration would like the dividend tax rate to be at 25 percent, at the same time there is a 3.8 percent tax on investment income for the new health care program. With that said, the market has done some profit taking as some people fear that this issue would cause the stock market participants to sell off in droves. We believe that the government will make a decision by the end of the year.

New trends that are happening.

- 1) Stocks are accelerating their dividend payouts.
- 2) Companies' balance sheets are still pristine.
- 3) We still wish to see the lowest dividend tax rate for individual investors.
- 4) We like to see constant growth in dividend payouts.
- 5) The sectors we favor will continue to have high profit margins.

Key Point: *The market may be reaching a peak.*

Please note:

1. Politics are now starting to affect market volatility.
2. January will also have sudden market activity.
3. The Fed may play an active role in 2013.

WALL STREET INDEXES

Indexes	2006	2007	2008	2009	2010	2011	2012 YTD
S&P 500	13.6%	3.6%	(40.0%)	23.5%	12.9%	EVEN	12.6%
Dow Jones	16.3%	6.4%	(33.4%)	18.8%	11.0%	5.5%	6.6%
Nasdaq	9.5%	9.8%	(42.1%)	43.9%	16.9%	(1.8%)	15.6%
Market Average	14.1%	5.6%	(38.4%)	27.9%	13.8%	1.2%	11.6%



MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:

As we have stated before, the Federal Reserve has kept short term interest rates near zero allowing the banks an



easy environment to repair their over-leveraged balance sheets and help stimulate growth. It has already been four years since the 2008 crash, and many banks like Bank of America (BAC) are trying to mend, while others such as Wells Fargo (WFC) are actually starting to grow business. We will see that one of the strongest sectors for 2013 will be in banks and financials, as earnings will continue to rise for that group. The market for December will focus on the negotiations between the White House and Congress on the topic of the fiscal cliff, in which both sides have been going back and forth for months on what taxes will be raised and what deductions will be removed, the raising of the debt limit, and the longer-term budget situation. For the past few years, investors have been looking for the Fed to intervene to provide liquidity when needed, especially of late with Europe sliding into another year of recession, but this time the leadership position has fallen into Congress's lap. However, since this "fiscal cliff" needs political drama, I would bet that both sides will argue and wait till the last possible moment (right before midnight of the due date!) in order to get an agreement hammered out. Already stocks in the traditional dividend sectors such as utilities and energy have started to sell off as investors lock in long term profits. Other companies are taking special dividends, such as Las Vegas Sands (LVS), in order for the owners to benefit before the rise in taxes.

New trends we see:

- 1) China may have a new year stock market rebound.
- 2) The housing market will look very good next year.
- 3) Major construction in the United States will flourish.
- 4) Low natural gas prices are attracting manufacturing from all over the world.
- 5) The financial sector will start driving the market.

Key Point: Congress will take center stage for the new year.

Earnings Flows:

December is the usual time for a "Santa Claus" rally, in which the "good" stocks are bought up by mutual funds and the "bad" stocks are sold off for a tax loss. Mutual funds like to end their yearly performances on a good note, and will use excess cash to help cause a year end rally. Also, the quarter is about to end and most earnings reports have been finished by the year end. Retail stocks are always looked at with close scrutiny, as this month is the biggest time of the year for the "consumer discretionary" sector. However, Santa may give us coal this year, as we will watch the political drama of the "Fiscal Cliff" take center stage. As news leaks out toward the end of the year, investors may decide to sell stocks they have had for years to get a lower tax break, as lawmakers have already talked about changing the dividend tax rate for individual investors to as high as 36 percent. But, again, we may not see any changes happen well into next year, as these changes may not come into effect immediately. This, combined with a depressed Europe, may put another damper on a happy stock market season. With this quarter's earnings almost behind us, analysts have established that this quarter's results have been weak. The market may also be expecting lower earnings in the future, as many companies' sales have come in lighter than expected (overall sales decreased 0.6 percent), and have lowered guidance for the next few quarters. Only 40 percent of companies beat analysts' revenue estimates. We see lower earnings in the technology sector, since Apple (APPL) has dominated in their field in phones and tablets, and are now taking away market share

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