

Your Personal Money Manager

Pearson

INVESTMENT LETTER

Published Monthly Since 1982

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FEATURED STOCKS - FEBRUARY 2013

GROWTH STOCKS:

Caterpillar, Inc.
Green Mountain Coffee Roasters, Inc

VALUE STOCKS:

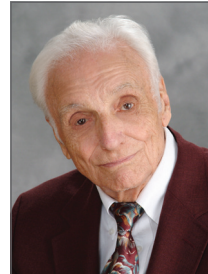
CVS Caremark Corp.
General Electric

INCOME STOCKS:

Merck & Co, Inc.
Toronto Dominion Bank

ETFs

MSCI Canada Index Fund
Latin America 40 Index Fund



Walter D. Pearson
Chairman



Donald E. Pearson
President



Ann Hathaway
Account Manager

PROSPECTING FOR PROFIT

By Donald Pearson

In our ever-changing world nothing is permanent. Whether our personal, business, or social lives are affected, events cause change. One could get a poor medical exam, win a lottery, get a promotion at work, or learn that their job may be in jeopardy or ending. Simply said your world could change overnight. Some people may become angry and upset, others may look at an event as a challenge, and for others it becomes an opportunity.

Investing is the same. Only you, or your investment advisor, can decide which path to take. We, at Pearson Capital, buy the same selections for our personal accounts as we do for our clients. As everyone knows, we invest for profit, growth, and income. During earnings season, we closely watch the companies we have selected, waiting to hear how they are going to fare. We believe if they do well, we will see their stock prices climb, and, we, the people making the decisions, will reward ourselves with investment profits. It should work like this, but analysts following a company may at any time announce their thoughts, and this will impact the stock price and performance. In some cases they are right, other times not, but their perception often becomes reality.

In the last few days Amazon missed their profit numbers of prior year, yet the stock climbed immediately. Ford Auto, within the same time period, announced record profits, their best quarter in a decade, and the stock price declined 7 percent immediately. Boeing reported within the same week, and although forecasting what was thought to be a sub-par year for them with very low earnings, they have beaten

analysts' forecasts for the last three quarters. Their newest airliner, the Dreamliner, has been grounded until further inspection, and this has hurt their bottom line significantly. I thought today the stock price would drop by 5 percent or more, but it has held near even. The lesson here is one must continuously check and recheck what is thought to be a wise investment. Tough decisions must be made, and all means to help with this

become necessary. This is why we chart them, review earning periods, and follow their management and product mix. A registered investment advisor, correctly making selections 65 percent of the time and knowing when to sell more times than not, can become exceptionally successful. Although not always right, I believe we are very good at this.

DP

APPLE'S CORE

Apple is held in everyone's account as a "core" investment, and this means ongoing watching. We have had tremendous success with this for years and are now being challenged with a tough decision because of their adjusted drop in stock price of 35 percent within a short period. Obviously, if we knew this would happen we would have sold yours and mine and looked at repurchasing. We have continued to check and still find AAPL to be a real VALUE investment, and worth keeping for the long haul. I know they face tougher competition with phones, iPads etc., but they still have a niche with their product mix, and they are scheduled to introduce five or six new products this year. We can expect upgraded iPads. One has been introduced this week, and upgraded iPhones and an Apple TV may be coming later this year. Profit margins, although shrinking a bit, remain around 38 percent. These were as high as 44 percent, but the introduction of new products has shrunk this. Still, most companies wish they had the ongoing success of new product introductions at 38 percent and the volume of sales they enjoy. Analysts projected sales of their new phone

to exceed 50 million, but they only sold 48 million. AAPL enjoyed a record setting quarter, but one falling short of analysts' forecasts and the stock was punished. Earlier this year AAPL started to pay a dividend of 2 percent to shareholders. Usually this shows a company transitioning their stock from one of growth to one of growth and income. AAPL has a staggering \$125 Billion in cash reserves and doesn't know what to do with all of the money they are earning and how to reward their investors. Personally, I would like to see them announce a very large stock buyback program. If they took a significant amount of that cash reserve and invested it in their stock, it would drive up our stock value at the same time.

So our thought on APPL is as follows: We still believe they are a solid growth company, undervalued, and a strong buy. At the same time they may be in the early stages of converting into a value investment that will take another year or two for conversion. Remember Coca-Cola, Microsoft, Cisco, and many others, they were here once too.

DP

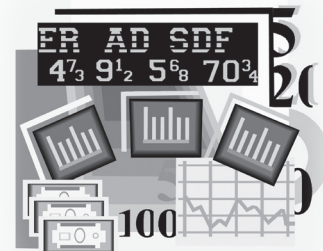
THINGS I HAVE LEARNED

One of the things that has irritated me in later life is that I discovered that my parents understood a great deal about investing but never imparted any of that knowledge to me. I found the stock market all by myself, and made numerous beginner mistakes, but that's all behind me now. The things I have learned are these:

1. Study a stock carefully. In most cases you should look for growth. If in search of income, it is wise to have a bit of growth potential visible both in earnings and yield. Things are different today than in the past. It is necessary to have an element of growth just to make up for the inflation that has been built into our economy. This is not something that should be done in a hurry. Take time out and study your investment possibilities before buying. After purchase, study them again from time to time so that you can detect any changes which should lead you to sell, or possibly buy more. If you don't have time for all of this, read further down for a solution.
2. Value should be carefully calculated. The company should be showing a certain amount of earnings as of the present day and then an estimate should be ascertained as to the coming periods. After all that, the price should be calculated as to the value as related to the other actualities. There is quite a bit to this, and that is exactly the reason that we strongly recommend hiring a professional for the job.
3. Safety should be a consideration.

4. I have come to believe that the definition of safety has changed. In the old days one bought a bond for safety. Simple enough! Put \$1000 into a bond and get a 3 percent yield for two years and then turn it in for your original \$1000. However, that was in the old days. If you bought a \$1000 bond two years ago, received your 3 percent yield, and turned in your bond today for \$1000, in fact, you have lost money. That \$1000 will buy you only half as much gas as it did two years ago.

There is nothing you can do about it. However there is something you can do to protect your investments. Perhaps it is at this point you have come to realize that inflation actually amounts to a hidden tax. It goes on year after year and the inflation tax is raised regularly without any advance warning. If you didn't recognize it before, you should certainly catch it now. The government prints money on a regular basis which means that your money is being devalued daily. You can sit still and take it, or you can invest in a manner which combines safety and tends to make up for the loss inflicted by your government. As you can see by going to the grocery store, it isn't only gas that is going up in price. You are having a constant rise in your cost of living. Here is what we suggest:



When you make an investment, it is necessary to think ahead. One important thing to consider is your age. You should be thinking of your investments as pertaining to your retirement age. The younger you are, the more time you have left. Now we come to the point where you are going to make selections. Some people think 10 percent should be in bonds for safety. Some say 20 percent. I say none! Suppose you had a ten-year bond and cashed it in. Think of what you could buy with the money compared to ten years ago. NO! Your bond is guaranteed - a guaranteed loser. There are numerous companies that you can locate that have paid dividends for 20, 30 or 40 years without a break and have probably raised the dividend most years as well. This type of investment is relatively safe and should increase in value as well. The solution to investing is to think positive rather than negative. Instead of thinking, "How much can I lose?" your thinking could be, "How much can I earn without taking unnecessary risk?"

Here are some companies which have increased the dividend this month and some of you may own: OZRK, ABBV, CLMT, EPD, EPB, KMP, OHI, NGLS, BLK, SLB, OKS GLP, HCSG, MMP, ROL, WFC, WPZ, SPH,

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 FEBRUARY 2013

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CATERPILLAR, INC. (CAT) NYSE PRICE \$ 98.39

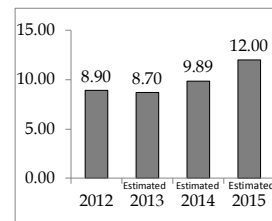
Caterpillar Inc. (Caterpillar) is a manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives. It operates in two segments: Machinery and Power Systems, and Financial Products. Machinery and Power Systems represents a total of Construction Industries, Resource Industries, Power Systems and All Other segments and related corporate items and eliminations. Financial Products includes the Company's Financial Products Segment. This category includes Cat Financial and Caterpillar Insurance Holdings Inc. Effective March 1, 2012, it announced that Caterpillar Japan Ltd. acquired Caterpillar Tohoku Ltd. In August 2012, Platinum Equity, LLC. acquired a majority interest in Caterpillar Logistics Services. Caterpillar will retain a 35% interest in the business. In October 2012, Finning International Inc acquired from Caterpillar of the former Bucyrus distribution and support business in its dealership territory.

Type: Growth
Sector: Capital Goods :

Institutional Holdings: 1956
Industry: Constr. & Agric.
Machinery

Ratings & Recommendations Earnings per share

Current P/E Ratio: **11.6**
Annual Yield: **2.1%**
Annual Dividend: **\$2.08**
Investor's Bus. Daily: **A-**
Pearson Growth & Value: **A-**
Morningstar Rating: **B**
Stand & Poor Rating: **B**
The Street (analyst avg.): **B-**



GREEN MOUNTAIN COFFEE ROASTERS, INC. (GMCR) NASDAQ PRICE \$45.53

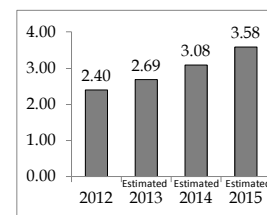
Green Mountain Coffee Roasters, Inc. (GMCR) is engaged in the specialty coffee and coffee maker businesses. The Company roasts Arabica bean coffees, including single-origin, Fair Trade Certified, certified organic, flavored, limited edition and blends offered in K-Cup portion packs, whole bean and ground coffee selections, as well as other specialty beverages, including tea, hot apple cider and hot cocoa also offered in K-Cup portion packs. The Company operates in three segments: the Specialty Coffee business unit (SCBU), the Keurig business unit (KBU) and the Canadian business unit (CBU). On December 17, 2010, the Company acquired LJVH Holdings Inc. (Van Houtte). In October 3, 2011, the Company sold Van Houtte USA Holdings, Inc. to ARAMARK Refreshment Services, LLC.

Type: Growth
Sector: Consumer/Non-Cyclical

Institutional Holdings: 760
Industry: Food Processing

Ratings & Recommendations Earnings per share

Current P/E Ratio: **19.9**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A+**
Pearson Growth & Value: **A-**
Morningstar Rating: **N/A**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **C**



CVS CAREMARK CORP. (CVS) NYSE PRICE \$51.20

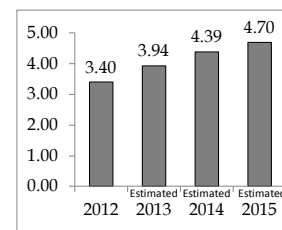
CVS Caremark Corporation (CVS Caremark), together with its subsidiaries, is a pharmacy health care provider in the United States. CVS Caremark provides pharmacy services through its pharmacy benefit management (PBM), mail order and specialty pharmacy division, CVS Caremark Pharmacy Services; approximately 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: 2794
Industry: Retail (Drugs)

Ratings & Recommendations Earnings per share

Current P/E Ratio: **17.2**
Annual Yield: **1.8%**
Annual Dividend: **\$0.90**
Investor's Bus. Daily: **C**
Pearson Growth & Value: **A**
Morningstar Rating: **C**
Stand & Poor Rating: **A**
The Street (analyst avg.): **A+**



GENERAL ELECTRIC CO. (GE) NYSE PRICE \$22.28

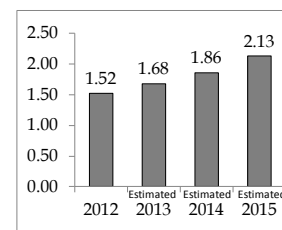
General Electric Company (GE) is a diversified technology and financial services company. The products and services of the Company range from aircraft engines, power generation, water processing, and household appliances to medical imaging, business and consumer financing and industrial products. It 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 April 2012, GE Healthcare acquired SeqWright, Inc. In May 2012, GE Healthcare, the healthcare business of GE, acquired Xcellerex, Inc., a supplier of manufacturing technologies for the biopharmaceutical industry. In June 2012, GE Healthcare acquired XPRO. In August 2012, it acquired PRESENS. In December 2012, the Company acquired 19% interest in Morpho Detection Inc.

Type: Value
Sector: Financial

Institutional Holdings: 3588
Industry: Consumer Financial Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.1**
Annual Yield: **3.4%**
Annual Dividend: **\$0.76**
Investor's Bus. Daily: **D**
Pearson Growth & Value: **A-**
Morningstar Rating: **B**
Stand & Poor Rating: **C**
The Street (analyst avg.): **B**



Over 50 Years of Investment Experience

PEARSON CAPITAL'S RECOMMENDED STOCKS FEBRUARY 2013

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MERCK & CO, INC. (MRK) NYSE PRICE \$43.25

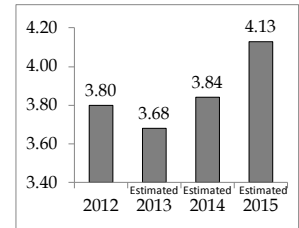
Merck & Co., Inc. (Merck) is a global health care company that delivers health solutions through its prescription medicines, vaccines, biologic therapies, animal health, and consumer care products, which it markets directly and through its joint ventures. The Company's operations are principally managed on a products basis and consists of four segments: the Pharmaceutical, Animal Health, Consumer Care and Alliances segments, and one reportable segment: the Pharmaceutical segment. The Pharmaceutical segment includes human health pharmaceutical and vaccine products marketed either directly by the Company or through joint ventures. In May 2011, it acquired Inspire Pharmaceuticals, Inc. In September 2011, the Company sold its 50% interest in the Johnson & Johnson Merck Consumer Pharmaceuticals Company joint venture. In December 2011, the Company established an Asia Research & Development (R&D) headquarters for drug discovery and development located in Beijing, China.

Type: Income
Sector: Healthcare

Institutional Holdings: 3427
Industry: Biotechnology & Drugs

Ratings & Recommendations Earnings per share

Current P/E Ratio: **19.7**
Annual Yield: **4%**
Annual Dividend: **\$1.72**
Investor's Bus. Daily: **D**
Pearson Growth & Value: **B+**
Morningstar Rating: **B**
Stand & Poor Rating: **B**
The Street (analyst avg.): **A-**



TORONTO-DOMINION BANK (TD) NYSE PRICE \$83.54

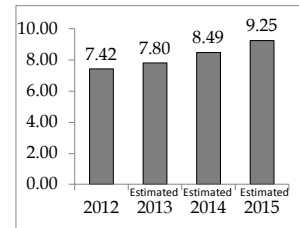
The Toronto-Dominion Bank is a Canada-based bank. The Toronto-Dominion Bank and its subsidiaries are collectively known as TD Bank Group (the Bank or TD). The Bank serves approximately 20.5 million customers in four businesses operating in a number of locations in financial centers worldwide: Canadian Personal and Commercial Banking, including TD Canada Trust, TD Insurance, and TD Auto Finance Canada; Wealth Management, including TD Waterhouse and an investment in TD Ameritrade; U.S. Personal and Commercial Banking, including TD Bank, and TD Auto Finance U.S.; and Wholesale Banking, including TD Securities. On April 1, 2011, the Bank acquired 100% of the outstanding equity of Chrysler Financial. On December 1, 2011, the Company announced that it completed the acquisition of substantially all of MBNA Canada's credit card portfolio, as well as certain other assets and liabilities, from Bank of America Corporation.

Type: Income
Sector: Financial

Institutional Holdings: 1388
Industry: Money Center Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **12.3**
Annual Yield: **3.7%**
Annual Dividend: **\$3.13**
Investor's Bus. Daily: **C**
Pearson Growth & Value: **B+**
Morningstar Rating: **C**
Stand & Poor Rating: **B**
The Street (analyst avg.): **B-**



ISHARES MSCI CANADA INDEX FUND (EWC) NYSE ARCA PRICE 28.87

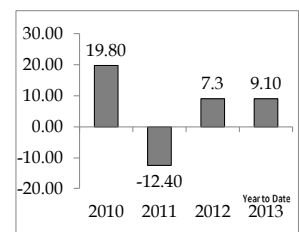
The investment seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the MSCI Canada Index. The fund normally invests at least 95% of its assets in the securities of the underlying index or in depositary receipts (DRs) representing securities in the underlying index. It invests at least 90% of its assets in the securities of the underlying index or in DRs representing securities in the underlying index. The underlying index consists of stocks traded primarily on the Toronto Stock Exchange.

Location: Canada
Type: 100% Stocks

Category: Large Growth
Industry: Diversified

Ratings & Recommendations Performance by %

Current P/E Ratio: **N/A**
Annual Yield: **2.1%**
Annual Dividend: **\$0.59**
Investor's Bus. Daily: **N/A**
Pearson Growth & Value: **A-**
Morningstar Rating: **A+**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **N/A**



ISHARES S&P LATIN AMERICA 40 INDEX FUND (ILF) NYSE ARCA PRICE 45.49

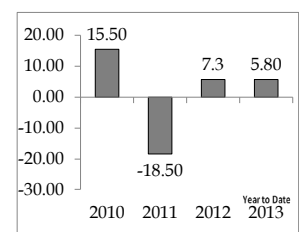
The investment seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the S&P Latin America 40TM (the "underlying index"). The fund generally invests at least 90% of its assets in securities of the underlying index and in depositary receipts representing securities of the underlying index. The underlying index is comprised of selected equities trading on the exchanges of five Latin American countries.

Location: Latin America
Type: 100% Stocks

Category: Large Blend
Industry: Diversified

Ratings & Recommendations Performance by %

Current P/E Ratio: **N/A**
Annual Yield: **2.2%**
Annual Dividend: **\$0.99**
Investor's Bus. Daily: **N/A**
Pearson Growth & Value: **A+**
Morningstar Rating: **A+**
Stand & Poor Rating: **N/A**
The Street (analyst avg.): **N/A**



JUST ASK ANN

Once January rolls around many clients are looking to get their finances in order. While we have until April 15 to file our taxes it is not unusual for some to want to get this chore out of the way as quickly as possible. This, however, does require documentation such as w-2s, and 1099s.

TD Ameritrade has sent a brochure "Understanding the New Consolidated Form 1099" to all their clients explaining the updated 1099s which will have much information to help you prepare your 2012 tax form.

It is important to note that TD Ameritrade has until February 15th to issue the 1099 form to the client. It should also be noted that revisions to these forms may occur after the initial mailing. I have been informed that the cycle of corrections will occur 2/23, 3/11, 3/24, 4/8, 4/19 and 5/11 (yes, even after the deadline for filing your taxes!). While these corrections are a nuisance, the government puts no deadlines on companies and corporations for making corrections to year end information. Hopefully, you will see very few, if any, of these corrected 1099s but know that it can happen and that there is nothing we or TD Ameritrade can do about it.

On another note; we now have the Required Minimum Distribution (RMD) figures available for 2013 for those clients over 70 ½ this year and those with Beneficiary accounts. If you would like to have this information, you can find it in your on-line account access or contact me and I'll be happy to look it up for you.

Remember, you need to take this amount from your IRA, in full, prior to December 31, 2013. Failure to do so can result in a 50% tax penalty of the amount required. If you wish to take this out in monthly payments or in part or full at any time during the year, just let us know and we can set you up with the correct paperwork to get it done!

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MARKET VIEW *Continued from page 6*

As the stock market moves higher, it will overextend and be ripe for a pullback. Global growth will remain tepid with Europe, still the only area slowly contracting.

Once again some of the new trends are:

- 1) Housing stocks will take a breather for the first quarter.
- 2) I am seeing earnings warnings from companies affected by commodity prices.
- 3) Retail and restaurants have stalled during this quarter's earnings.
- 4) Natural gas prices have risen upwards dramatically.

Key Point: Higher commodity prices are affecting earnings.

Cash Flows:

As discussed last month, we are seeing earnings, sales, and cash flows missing expectations as commodity prices are starting to inch higher. Some companies like Coca-Cola (KO) can easily raise prices to catch up with commodity price increases, while others are not so lucky and will have to lower earnings and margins. We are right now seeing a divergence, with some companies that are ahead of their competition in dealing with higher prices, while others are striving to keep up. The good news, with lower interest rates and good balance sheets, American companies will attempt to grow through acquisition and gaining market share. By buying their competitors, they can also retain pricing power, especially if their customers need their respective products. The good news is that dividend tax rates are not going up as expected, so as companies try to increase prices, they will try to protect the downside of their stock prices by instituting a more generous dividend plan, thus creating a floor in case they have earnings problems. We see that in Intel (INTC) and Microsoft (MSFT) as both companies have huge monopoly power, but slower earnings growth.

New trends that are happening:

- 1) Stock dividend payouts are continuing to be raised.
- 2) Expect earnings warnings and slower revenue growth.
- 3) The tax increases are not as bad as we thought.
- 4) We like to see continued consolidation in slow growing markets.

Key point: Companies are increasing dividends to set a floor in case they have earnings problems.

Please note:

1. Politics will start to increase in March due to the debt situation.
2. Earnings will be very bumpy this quarter.
3. China's growth is starting to pick up again.

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%	5.1%
Dow Jones	6.4%	(33.4%)	18.8%	11.0%	5.5%	7.3%	5.8%
Nasdaq	9.8%	(42.1%)	43.9%	16.9%	(1.8%)	15.9%	4.1%
Market Average	5.6%	(38.4%)	27.9%	13.8%	1.2%	12.2%	5.0%



MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:

The Fed is vowing to keep rates near zero to stimulate growth. At the same time, any monetary scare in Europe or Japan is keeping up demand for treasuries and



keeping rates low. The Federal Open Market Committee (FOMC) has made it clear that it will continue to purchase its QE3 (mortgage backed securities) until unemployment rates decline to 6.5 percent, (which I believe is a hopeless task). They also think that they can slowly raise interest rates in the future, preventing creeping inflation once it lights up like a flame in a fire. Unfortunately, to my dismay, the Fed's actions have given Japan the same idea to enact its own quantitative easing plans. It's QE will definitely weaken the Yen and allow more exports to generate growth. Since the Japanese government's debt is more than 250 percent of nominal GDP, it is the only out of its 20-year recession. This move, in turn, will cause the Fed to increase its own quantitative easing and weaken the dollar in a competitive race to increase its own exports. Both currencies will begin their long trend of destruction and leave the Euro temporarily the strongest one standing. Many people have stated that this is a currency war. I do not call it that, we should call it like it truly is, a tax on the investor and saver. We savers will be affected, as commodity prices will increase over time. I believe that gasoline prices are the primary indicator of the health of the dollar, as oil is the primary commodity of exchange worldwide. As the dollar devalues, this will stretch many household budgets in the United States. This also puts our government in an eventual bind. Once the Fed raises interest rates, it will increase the overall government debt and cause the government to make drastic changes. Most economists scoff at the idea that competitive devaluations will take hold, and that it is not a rational response to an overall healthy economic system. But, they do not take into consideration that this is not the decision of rational common citizenry, but the politics of the U.S. Congress, which would love to see devaluation, rather than making the hard decisions of increasing taxes and making spending cuts to appease their electorate back home. The American electorate prefers this option as well, as it serves his or her best interest. We, as investors and savers, need to be aware of this at all times and keep investing in assets that grow or produce enough income that will keep ahead of this new currency devaluation.

New trends we see:

- 1) Growth in construction, especially apartment buildings.
- 2) The housing market is gaining strength.
- 3) Bank earnings are flattening out for the next several quarters due to the Fed's low interest rate decision.
- 4) My prediction last month was wrong; the Fed is keeping the same direction.
- 5) The leasing sector is gaining strength.

Key Point: Keep investing to get ahead of currency devaluation.

Earnings Flows:

February puts us in the middle of earnings season, and so far so good. Expectations continue to be tepid, so it is best for companies to under-promise and over-deliver during the first part of the year. To me, valuations of growth stocks are starting to get stretched, and market reactions are showing that this news already is discounted. Companies must show increasing revenue and earnings in order to move higher. There is too much uncertainty to make any aggressive moves right now. Fiscal cliff 2, the "debt ceiling" debates, will be in March, with both the Democratic and Republican parties fighting back and forth. This may cause a pull-back in the market.

Continued to page 5

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Table of Contents

Walter's Wisdom:.....	2
Featured Stocks:	3
Featured Stocks:	4
Just Ask Ann	5
Market Outlook	6