

PEARSON Investment Letter

Published Monthly Since 1982

www.pearsoncapitalinc.com**FEATURED STOCKS**

Accredo Health	Virginia Commerce
Anthem, Inc	WellPoint Health
Eon Labs, Inc	Wilshire State
Laboratory Corp	Ubet.com, Inc

GROWTH & INCOME STOCKS

Arthur J. Gallagher	Citigroup, Inc
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LOOKING AHEAD**BY DONALD PEARSON**

When it comes to meeting your financial goals,

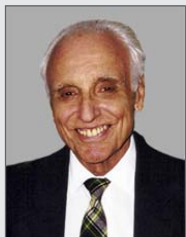
done your homework, you can find exceptional values in different sectors. And if you do, this does not mean they are going to go up the day you select them. A good example of this is within the medical sector. People continue to age, and additional drugs and services are needed. Many companies meeting these needs are reporting their earnings above where they are forecasted, yet their stock is going down in price. What does this mean to me? Opportunity is knocking!

The hardest part of a strategy, even a good one, is staying the course when you see your principal or your profit declining. Even though we are again in a period of market floundering, it is important to remember a principle we all know only too well: A strong economy will help the market in spite of short-term interest hikes. If I asked you to name the top-performing sector for the past five years, and the gain that sector returned, could you do it? The answer is the casino and gaming stocks, returning 28%. Will they continue this leadership? I don't believe they will. Although the medical sector is also getting punished at the time of this writing, I believe this is an area where tremendous opportunity awaits those who do their homework and search out the quality companies. Remember we are planning for at least the next five years and in most cases even further. So as important as the next twelve months are, and we all want to be winning all the time, never lose sight of the long-range objective. Corporate profit projections continue to be bullish through 2006, and most forecasters believe they will probably continue even further.

When I am asked what my personal thoughts are for the market, I always reply that my opinion, as that of so many others, is nothing more than an opinion. Last year I thought, along with many others, that the index would go up 8-12%, and it went up around 23%. Almost every one of our

knowing what's ahead is only the beginning. Today we are concerned with presidential elections, inflation, oil prices, rising interest rates, and even terrorism. Fixed income investments appear to be less attractive now than they have been in a decade. Ten year bond yields are already down a percentage point from their 2003 lows and will probably drop at least another half point in the near future. This is not good news for those with fixed income investments. Bonds perform well only when we are in a period when interest rates are in a downward cycle. We are also more than halfway through the earnings season, and we are receiving more than the normal number of surprises. What is most concerning, corporate profits for many are hitting record highs, yet their stocks do not receive the lift expected. In many cases this does explain why the stock market is down for the year. When this type of reporting occurs, the price-earning ratios of their stocks continues to go down and in some cases, significantly.

I must admit it requires a discipline on one's part to watch an individual stock, or an entire portfolio, shrink in value, while at the same time realize a buying opportunity is presenting itself. The twelve months trailing P-E ratio for the S&P 500 is currently around 17, and this is the lowest it has been since 1996. We may have more to give up before the market turns, but at some point the turn will come. The S&P has fallen 4.8%, and the NASDAQ 9.7% this month already, and that represents a nine-month low. Many stocks are still not cheap, but many others are definitely fairly priced, or in some cases undervalued. If you have



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Chairman



Donald E. Pearson
President



Sandra Alberti
Publishing President

Investment Letters are complimentary to our clients with managed accounts!

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INVESTING FOR INCOME?

What good is a stock if you own it for a number of years and it never pays a dividend? Most investors think only in terms of making money, and as long as the stock price shows higher in the marketplace they are satisfied. However, when one gets down to basics, the plain facts are that if a company isn't able to earn enough money to pay a dividend, it isn't worth bothering with. Think of it this way: If you were to consider going into business for yourself, you would either buy a going business or start a new one. If you were to buy one that was going already, you wouldn't consider it if it wasn't earning enough income to spin off enough to give you necessary cash each week. If you were to start a company, you might expect losses for a period of time, but sooner or later you would expect that necessary income after a period of gestation.

For some time now, investors have treated income stocks as they might second rate citizens. The market used to treat them with disdain. Lately however, things have begun to change. With interest rates down to almost nothing, investors are coming forth with a new outlook on these issues. If you think about it, a company that you buy today which doesn't pay a dividend in the next twenty years has been of absolutely no value to you, unless, of course, the stock has gone up in price. There are two different ways of making money by investing in the stock market: One can buy for income, or for stock appreciation. We recommend going both routes. The stock that you might purchase that pays no dividend and was purchased only for appreciation might just possibly turn out to be a strong dividend payer. Things change and so does the market.

Before purchasing a stock one should perform a certain amount of investigation. The first thing to check is what business the company is in. Is it a good business? Is it a growing business? Is there foreign competition? If the stock passes this test, it is necessary to check its fundamentals. How has the company performed in relation to its peers? Has the growth been constant? Has the growth rate been good enough to warrant a purchase? Is this a company that has its ups and downs or is the growth constant? How much is the stock selling for? Is the price-earning ratio attractive?

No one is perfect and this also holds true for stocks. No matter how good a doctor may be, he is bound to lose a patient occasionally. No matter how good a stock may look, the same holds true here. There may be something you have overlooked, or in our changing times something has come up that affects your company adversely. If something like that happens to a company of yours that you have carefully researched, you should give the company a recheck to see whether it should be sold. On the other hand, it may be wise to consider buying more of the same.

Years ago the brokerage house for which I worked was recommending a stock called Kaiser Steel. During a strong market the price hit over \$80 a share. They decided to start doing business in Japan and signed a three-year contract to produce steel at a certain price. Shortly after they got into operation, the price of coal escalated and Kaiser lost so much money on the deal that it wiped out their earnings from the rest of the world. This went on for three years and the stock, which had sold for more than \$80 a share, hit a low of \$6+. The company then announced they had signed a new contract with Japan which contained a clause which would consider any price increases. Two years later the market took a big tumble and just about everything was down in price. However, Kaiser stock had now recovered to a price of \$40+.

If you had bought Kaiser at a higher price, I think you would have been smart enough to pick it up at its lower figure. One very important thing is not to let market convolutions sway you. A cow is a cow is a cow. It doesn't change even though its price was quoted daily in the market. It is important to have a solid understanding of what a cow is actually worth. It is then when you can make an intelligent decision on whether to hold, buy, or sell.

Continued from page 1

LOOKING AHEAD *By Donald Pearson*

clients had a performance return of near 40% or more. Although all of the indexes are down year to date, I still believe ending the year favorably is still a reality. As my father has said so many times, one does not buy the stock market when one buys individual stocks. Research, and many hours of ongoing commitment are the key. Throughout this time period (earnings season) we are hard at work using the company's reporting information, and our in house formulas to make important short and long-range decisions.

Our task is more challenging because we actually build and maintain each portfolio for all of our clients. This makes the satisfaction of outperforming the index truly more gratifying because of our hands on approach. Even though we did outperform last year's S&P index of plus 23% by more than 17% on average, this is now a history lesson. We are now hard at work trying to do it again, and if we can it will be our fourth consecutive year.

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 AUGUST

ACCEDO HEALTH, INC (ACDO)

NASDAQ PRICE: \$32.40

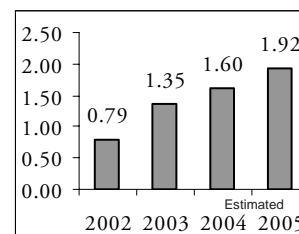
ACDO provides specialty retail pharmacy services, clinical services, reimbursement services and delivery services, pursuant to agreements with biotechnology drug manufacturers, relating to the treatment of patients with certain costly chronic diseases. It has designed its specialty retail pharmacy services to focus primarily on biotechnology injectable drugs that are used on a recurring basis to treat chronic and potentially life threatening diseases, are expensive and require temperature control or other specialized handling as part of their distribution process. For the nine months ended 3/31/04, revenues increased 9% to \$1.13 billion. Net income totaled \$58.5 million, up from \$12.3M. Results reflect volume growth in products for the treatment of multiple sclerosis and lower bad debts expenses.

Type: Growth
Sector: Healthcare

Institutional Holdings: 191
Industry: Healthcare Facilities

Ratings & Recommendations Earnings per share

Current P/E Ratio: **20.3**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **A**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **A+**
Value Line Rating: **2-3-3**



ANTHEM, INC (ATH) NYSE PRICE: \$82.47

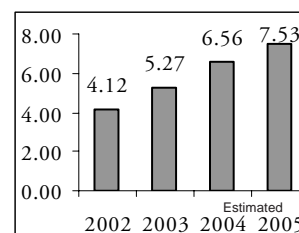
ATH is a health benefits company operating in the United States serving more than 11.9 million members (customers), primarily in IN, KY, OH, CT, NH, CO, NV and VA, excluding the immediate suburbs of Washington, D.C. ATH owns the exclusive right to market its products and services using the Blue Cross and Blue Shield (BCBS) names, and marks in all nine states under license agreements with the Blue Cross Blue Shield Association (BCBSA), an association of independent BCBS plans. Anthem's product portfolio includes a diversified mix of managed care products, including preferred provider organizations (PPOs), health maintenance organizations (HMOs) and point-of-service (POS) plans, as well as traditional indemnity products. For the three months ended 3/31/04, revenues rose 12% to \$4.57 billion.

Type: Emerging Growth
Sector: Financial

Institutional Holdings: 580
Industry: Insurance

Ratings & Recommendations Earnings per share

Current P/E Ratio: **12.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **BA+**
Pearson Growth Rating: **A**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **A**
Value Line Rating: **1-2-2**



EON LAB, INC (ELAB) NASDAQ PRICE: \$29.12

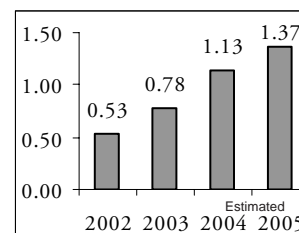
ELAB is a generic pharmaceutical company engaged in developing, licensing, manufacturing, selling and distributing a range of prescription pharmaceutical products primarily in the United States. The Company focuses primarily on drugs in a broad range of solid oral dosage forms, utilizing both immediate and sustained release delivery, in tablet, multiple layer tablet, film-coated tablet and capsule forms. Eon Labs obtains new generic pharmaceutical products primarily through internal product development and from strategic licensing or co-development arrangements with Hexal AG, as well as with other companies. For the three months ended 3/31/04, revenues rose 47% to \$104.2 million. Net income totaled \$32.3M, up from \$15.1 million. Revenues reflect sales growth due to the introduction of new products.

Type: Emerging Growth
Sector: Healthcare

Institutional Holdings: 133
Industry: Biotechnology

Ratings & Recommendations Earnings per share

Current P/E Ratio: **27.7**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **C**
Pearson Growth Rating: **A**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **C**
Value Line Rating: **2-3-3**



LABORATORY CORPORATION OF AMERICA HOLDINGS (LH) NYSE PRICE: \$39.16

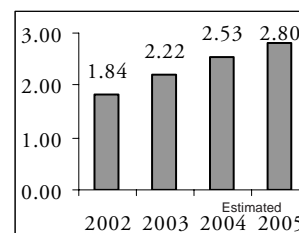
LH, together with its subsidiaries, is an independent clinical laboratory company. Through a national network of laboratories, the Company offers more than 4,400 different clinical laboratory tests that are used by the medical profession in routine testing, patient diagnosis and the monitoring and treatment of disease. In addition, the Company has developed specialty and niche businesses based on certain types of specialized testing capabilities and client requirements, such as oncology testing, Human Immunodeficiency Virus (HIV) genotyping and phenotyping, diagnostic genetics and clinical research trials. For the six months ended 6/04, revenues increased 6% to \$1.54 billion. Net income increased 16% to \$185.6 million. Revenues reflect volume growth in genomic and esoteric testing.

Type: Emerging Growth
Sector: Healthcare

Institutional Holdings: 199
Industry: Healthcare Facilities

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.2**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **A**
Pearson Value Rating: **B**
Stand.&Poor Rating: **C**
Value Line Rating: **3-3-1**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR AUGUST

VIRGINIA COMMERCE BANCORP, INC (VCBI) NASDAQ PRICE: \$24.07

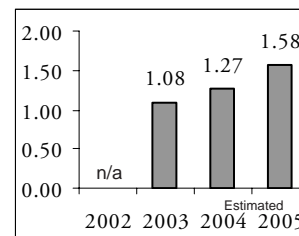
VCBI serves as the bank holding company for Virginia Commerce Bank (the Bank). The Bank pursues a traditional community banking strategy, offering a range of business and consumer banking services through thirteen branch offices, two residential mortgage offices and one investment services office. The Bank's customer base includes small-to-medium size businesses including firms that have contracts with the United States government, associations, retailers and industrial businesses, professionals and their firms, business executives, investors and consumers. In addition, the Bank engages in commercial real estate, construction and residential mortgage lending. For the three months ended 3/31/04, interest income rose 18% to \$12.5 million. Net interest income after LLP rose 24% to \$8.5 million. Net income rose 28% to \$3.1 million.

Type: Growth
Sector: Financial

Institutional Holdings: 31
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **20.6**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **A-**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



WELLPOINT HEALTH NETWORKS, INC (WLP) NYSE PRICE: \$101.10

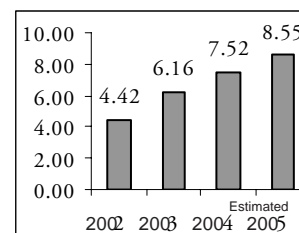
WLP is a managed healthcare company that, as of December 31, 2003, had approximately 15 million medical members and approximately 45.6 million specialty members. Through its subsidiaries, the Company offers network-based managed care plans to the large and small employer, individual, Medicaid and senior markets. Its managed care plans include preferred provider organizations, health maintenance organizations, point-of-service plans, other hybrid plans and traditional indemnity plans. For the three months ended 3/31/04, revenues rose 17% to \$5.65 billion. Net income rose 53% to \$295.2 million. Revenues reflect the acquisition of Cobalt Corporation, membership growth in key geographies, and premium rate increases. Net income also reflects an increased absorption of overhead expenses.

Type: Growth
Sector: Financial

Institutional Holdings: 479
Industry: Insurance

Ratings & Recommendations Earnings per share

Current P/E Ratio: **14.2**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **C-**
Value Line Rating: **N/R**



WILSHIRE STATE BANK (WSBK) NASDAQ PRICE: \$27.41

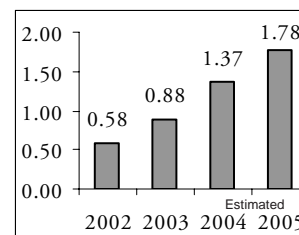
WSBK serves the financial needs of small businesses and multi-ethnic communities. The Bank has nine branch offices in southern California. It also has three loan production offices utilized primarily in connection with origination of loans under its Small Business Administration (SBA) lending program in Seattle, Washington; Dallas, Texas, and the San Jose, California, area. Wilshire State Bank offers personal and money market checking accounts, individual retirement accounts (IRAs), Super Negotiable Order of Withdrawal (NOW) accounts, installment savings accounts and time certificates of deposit (CDs). For the three months ended 3/31/04, interest income rose 40% to \$12.7 million. Net interest income after LLP rose 41% to \$8.2 million. Net income rose 58% to \$4.3M. Results reflect higher loans, and higher interest margins.

Type: Emerging Growth
Sector: Financial

Institutional Holdings: 20
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **27.8**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **A**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



UBET.COM, INC (UBET) NASDAQ PRICE: \$3.48

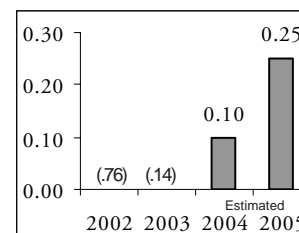
UBET is an online, live event, sports entertainment and wagering. The Company has focused on the US horse race wagering market through its main product, Youbet Express, which features online wagering, simulcast and information on horse racing. The Company is working to expand the Youbet.com brand, its products and its services throughout the United States and select international markets. It provides its customers with the ability to receive interactive, real-time audio/video broadcasts directly into their computers, access a comprehensive database of handicapping information, and, in most states, wager on a selection of United States, Canadian, Australian and South African horse races. For the three months ended 3/31/04, revenues rose 32% to \$14.5 million. Net income totaled \$15 thousand vs. a loss of \$1.2 million.

Type: Emerging Growth
Sector: Services

Institutional Holdings: 10
Industry: Casinos & Gaming

Ratings & Recommendations Earnings per share

Current P/E Ratio: **(37)**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **D-**
Pearson Growth Rating: **A+**
Pearson Value Rating: **C**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



WALL STREET INDEXES

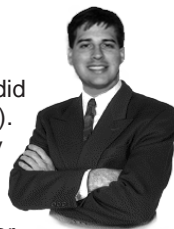
Indexes	1998	1999	2000	2001	2002	2003	2004/YTD
S&P 500	28.5%	21.1%	(10.1%)	(13.3%)	(23.4%)	26.4%	(1.0)%
Dow Jones	18.1%	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	(3.0)%
Nasdaq	39.6%	85.6%	(39.3%)	(21.1%)	(31.5%)	50.0%	(5.8)%
Russell 2000	(2.4%)	21.3%	(4.2%)	1.0%	(21.6%)	45.4%	(1.0)%
Our CD Buster	Data for 2002/03/04 available on our website				8.1%	56.7%	7.5%
CD Annual Average	4.7%	4.9%	5.4%	3.0%	2.3%	1.5%	1.5%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

ECONOMIC FLOWS:

Will interest rates rise again? I'm hoping not. The first interest rate hike did not give a positive boost in the market (on average, it is about 5 percent). In fact, the market has traded slightly downward. So much for the economy speeding up! The Fed is supposed to continue to increase interest rates in the near future. I'm guessing that the Fed will hold off on interest rates and move to a "wait and see" attitude. If the economy does stall or even slide backward, the government will not have enough silver bullets to re-inflate.



Key point: This interest rate hike may help reveal if this economy is truly moving forward or slip sliding away.

EARNINGS FLOWS:

Earnings season is back in full gear. The Fed has raised its interest rates at the same time many companies are warning of slowing earnings growth in the future. Intel, Microsoft, and other companies are warning to be "cautious." Earnings are good, but they did not quite meet the analysts' expectations. Then on top of that, important key companies gave a cloudy expectation of the future. This puts a downward pressure on many stocks.

Key point: Important companies fail to meet expectations and give a slower outlook for the future.

CASH FLOWS:

Hurray for Microsoft! Even though earnings are slowing, cash flow is still growing. Microsoft will issue a three dollar special dividend and increase their yearly dividend. Even though Microsoft is maturing, it is still a powerful company. Improvements in productivity allow more companies to increase cash flows. Companies like Harrah's are taking advantage of this and buying out competitors to increase market share.

Key point: Microsoft is finally giving a good dividend!

Additional note:

I believe that the economy is slowing, and therefore companies' growth rates are also going lower. That is not a bad thing!

- 1) Companies will use technology to improve productivity.
- 2) They will use excess cash to buy back stock.
- 3) They will increase their existing dividends in future payouts.
- 4) Future payout potential increases the transparency of companies allowing better predictions of the future.

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AUGUST'S RECOMMENDED GROWTH & INCOME STOCKS

ARTHUR J. GALLAGHER & CO (AJG) NYSE PRICE: \$30.97

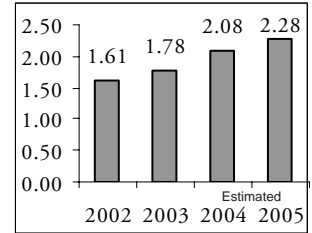
AJG is engaged in providing insurance brokerage, risk management and related services to clients in the United States and abroad. Its principal activity is the negotiation and placement of insurance for its clients. Gallagher also specializes in furnishing risk management services. Risk management involves assisting clients in analyzing risks and determining whether proper protection is best obtained through the purchase of insurance or through retention of all or a portion of those risks and the adoption of corporate risk management policies and cost-effective loss control and prevention programs. In addition, Gallagher has a financial services operation that manages its investment portfolio. For the three months ended 3/04, revenues rose 34% to \$341.5 million. Net income totaled \$38.9 million, up from \$11.9 million.

Type: Growth & Income
Sector: Financial

Institutional Holdings: 154
Industry: Insurance

Ratings & Recommendations Earnings per share

Current P/E Ratio: **15.8**
Annual Yield: **3.2%**
Annual Dividend: **\$1.00**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **A**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **B**
Value Line Rating: **2-1-3**



CITIGROUP, INC (C) NYSE PRICE: \$44.09

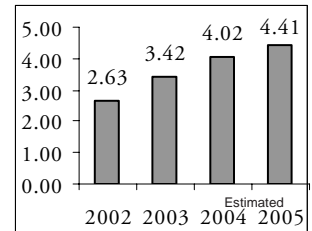
Citigroup Inc. is a financial services holding company that conducts its activities through the Global Consumer, Global Corporate and Investment Bank (GCIB), Private Client Services, Global Investment Management (GIM) and Proprietary Investment Activities segments. Global Consumer includes a global, full-service consumer franchise delivering banking, lending, insurance and investment services through a network of branches, offices and electronic delivery systems. The businesses included in the GCIB segment provide a range of banking and financial products and services. Private Client Services provides investment advice, financial planning and brokerage services to affluent individuals, small and mid-size companies, non-profits and large corporations. GIM offers life insurance, annuity, and asset management.

Type: Growth & Income
Sector: Financial

Institutional Holdings: 1331
Industry: Money Center Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **14.6**
Annual Yield: **3.6%**
Annual Dividend: **\$1.60**
Investor's Bus. Daily: **D**
Pearson Growth Rating: **A**
Pearson Value Rating: **B**
Stand.&Poor Rating: **C-**
Value Line Rating: **3-3-3**



SHORTING EXPLAINED *By Sandra Alberti*

The conventional investor's target is to buy low and sell high. The short-selling investment strategy is reversed; the investor buys high and sells low.

As an example, if you believe that the XYZ Company's stock price, selling for \$10.00, is overvalued, you could short XYZ, guessing it's price will go down.

You call a broker and ask him to short 100 shares of XYZ at \$10.00 per share. The broker lends you the shares, borrowing them from his firm's own inventory or other sources, and sells them receiving \$1,000 in proceeds that is held by the brokerage to secure the loan.

Assuming that in the upcoming months, XYZ drifts down to \$5.00 per share and at that point, you buy 100 shares for \$500.00 to replace the borrowed shares. The \$500.00 profit is the difference between the sale price \$1,000, and the cost of purchasing stock to replace the borrowed shares.

What happens if you misjudged XYZ and the stock's price climbs to \$15.00? You'll probably decide that it's time to limit your exposure and buy 100 shares for \$1,500 to pay back the broker. Your investment mistake would cost you \$500.00. In both cases you still would need to pay the brokerage fees.

We do not believe in shorting, simply because of the risk exposure.

Example: In a worst case scenario, if you had invested \$1,000 conventionally as described above, and this company went out of business, you would lose your \$1,000 investment. This is the maximum loss you could endure.

On the other hand, if you had used the short-selling strategy, made a wrong decision, and the price of the XYZ Company stock went up, and for whatever reason continued to go up, your loss would be unlimited. Many companies today are being bought up and taken over without any prior notice to investors because of the opportunity they present to the parent company. Many times the stock prices are bid up 30 to 50 percent almost instantly. This could cause a loss to the investor of three to five times, or more, the original investment.

We at PCI do not short any stocks simply because of the high risk placed upon your account. It doesn't make a lot of sense to me to invest in something where the potential loss is significantly more than the opportunity to succeed. We say this often, but perhaps never often enough: We structure every portfolio to meet the individual client's objective with a strategy of buying undervalued companies with outstanding growth potential. These stocks are chosen after many long hours of research by our advisory staff. We also purchase the same stocks for our family, our friends, and ourselves.

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.