

PEARSON Investment Letter

Published Monthly Since 1982

www.pearsoncapitalinc.com**FEATURED STOCKS**

Bed Bath & Beyond	Portfolio Recovery
Community Bancorp	SFBC Intl
KB Home	Swift Transport.
Laboratory Corp	Vineyard National

GROWTH & INCOME STOCKS

IndyMac Bancorp	Wal-Mart Stores
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UNDERSTANDING DIVERSIFICATION**BY DONALD PEARSON**

Although every management company today tries to compete for

based upon personal changes within their life or the volatility of the market, determined by the indicators we use to judge upcoming growth or market conditions. If you call me, we will discuss this, make the right decisions together, and then redesign the portfolio. Retirement, added income, or additional family members are a few examples of what could make you want to rethink yours. Changing them in any way is no more difficult than investing itself. Investing can be as complex as one wants to make it, or as simple.

Sometimes I get too excited and tout to people how beneficial investing can be, and I forget to tell them how long and tedious the journey. Based upon historical data, we quickly learn the three categories available to diversify our investment, and how everyone's personal age, along with life's variances, will create significant differences. Reward me now with income and minimal risk, or reward me in ten plus years with 100% or more knowing I did take higher risk. Building a portfolio is a true skill that 80 to 90 percent of the architects cannot do with the same degree of success as the S&P.

Our team enjoys the challenge of being the decision makers, and owning the responsibility. We first decide, with your help and guidance, exactly how to slice the pie, even before we begin deciding what flavors we will be working with. As an example, money is one type we could choose, such as a CD or Treasury Notes. History teaches us that this is the safest, and in many cases the investment is guaranteed, but the return averages around 3-4 percent. Bonds of different types can be included to make up a percentage of our holdings, too. Bonds carry different ratings from triple A to junk, and the risk is assigned in the same manner. Bonds may not be in favor today, because their performance usually works in reverse of interest rates. When interest rates are going up, bond yields are coming down.

Continued On Page 6

your investment dollar, I'm not sure every company places the client's welfare and personalized results before that of their company, their own bonus, commission, or incentive. Today every brokerage house, discount broker, and investment advisor (including ours) creates brochures and advertisements, uses impressionable testimonials, and promotes their management as the save-all for everyone. When you read through the various material and it's time to make the important decision as to whom to partner with, ask of them as I would ask you to ask of me, "How exactly will you diversify my holdings?"

One cannot enjoy double digit returns without risk exposure and some volatility. Performance results have to be the most important commodity, followed closely with communication and personal hands-on management. A good example of this is having me available on Monday and Thursday nights until 11:00 P.M., EST, for consultation with our clients on the west coast. We personally answer our own phones, even when we trail the S&P as we have twice in the last few years. Last year we trailed the S&P in April and addressed it in print and in person, as we did again this year. We finished last year ahead significantly and believe we will again this year. If we can, it'll be our fifth in a row.

I believe what gives us the opportunity and the advantage to outperform is our own personalized portfolio management system which cannot be duplicated. We review the holdings that make up these portfolios on a daily basis and individual portfolios monthly, bimonthly, or even weekly when special situations are in place. As an example, someone might want to change their risk exposure,



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Chairman



Donald E. Pearson
President



Sandra Alberti
Publishing President

Investment Letters are complimentary to our clients with managed accounts!

WALTER'S WISDOM

BE AN INVESTOR

One MUST be an investor today. Our government spends money it doesn't have, and is constantly thinking up new ways of borrowing more. This means that each year the government debt becomes greater, making interest payments greater each year. It is a never-ending cycle, and the end result is that every year one's savings goes down in value even though the dollar amount remains the same. The last year that I read a Sindlinger report it seemed that it would be necessary to invest for a 7% annual growth just to maintain one's actual equity.

The stock market was created many years ago just to make it easier to become an investor. At one time if a person wished to invest in a company, it was necessary to find out who owned it and if he would sell some to the potential buyer. Through the years this all changed and now we have a very professional system of buying and selling stocks. At one time the American Stock Exchange was called the Curb, because all of the business was transacted right there on the curb of Wall Street in New York City.

In the stock market of today we are not consigned to investors only. We have speculators and gamblers who see different ways of turning a profit by buying and selling stocks in the market. My advice to everyone is to be an investor. What this means is that one is not troubled with the day to day fluctuations in the stock market. Stocks will go up and stocks will go down, but the important thing is to invest in companies that are growing and that are not overpriced. Do not be overly concerned with price. Companies have value, and these values are reflected in the price as time goes on. Day to day fluctuations are many times out of line with true value and are often caused by short sellers in the market who are striving for a quick buck.

Some people let stock market convolutions upset them and this is entirely wrong. Think of it this way: A stock represents a company, and the company was bought as an investment. This does not mean that the stock will sell for more than you paid for it in the next day or two. What it does mean is that this company is growing and that over a period of time it should be bigger, doing more business and making more money. ERGO! When this happens, I can almost assure you that the stock representing this company will be selling for more money.

When you plant a garden, you do not go out to pick the crop the next day. As a matter of fact you may find that due to inclement weather you do not harvest as much as expected. However, after a reasonable period of time you can expect to reap a harvest. I am reminded of a story told by my father. When he was a young man he and another fellow went 50-50 on planting some peas. Shortly after planting one of them went out and saw all the peas shooting up and he spent some time pushing them back down again. I'm not a farmer but I guess I know better than that.

At any rate the thing to remember is that you are an investor, not a gambler. You are investing in growing companies, and, just like children, they do not become adults overnight. It takes a period of time. If a company can increase its profits by 10% a year, this company's earnings will have doubled in seven years because of compounding. This does not mean the price of the stock will have doubled. Sometimes it will have done a great deal more than that. Sometimes it will sell on a more conservative basis. It matters little inasmuch as the job has been done and whether the profit is 100% or 150% is not to be worried about.

Some people today are worried about the market. I tell these people to look at the figures. Through the years the market has gone nowhere but up. Different companies will publish charts showing the stock market action over a period of time, and it really is a lesson in patience. The twenty-year charts are the same as the fifty-year charts. Up, up and away. These charts do not go straight up. There are ups and downs along the way, but the comical thing is to look at the really bad periods that you have lived through. It seemed so bad at the time, but on the chart it is hardly noticeable as having been a down period.

Patience is a virtue. Be Virtuous. I know of so many people who have lost money simply because they couldn't wait. I can recall one of the companies that we bought for people that remained at just about the same price for a year. A woman at my bridge club opened an account, and I bought it for her too. One year later another company bought it out and paid double what it was selling for. She made 100% profit in a year while the rest of us made 100% in two years. The stock was the same. Her timing was better. The story goes a bit further and gives another lesson to the investor.

I told her that we had another good-looking issue where we were going to place those proceeds. Then she told me that because they were older, needed income, and the money markets were paying 18%, she would prefer placing it there. I believe in growth, so my money went into the bank stock I had selected. The yield at the time was about 6%, which did not compare too strongly with the money markets. However, that was back in 1982. My dividends have been raised repeatedly. I am now receiving more than 114% on my original investment, and my equity has grown more than 2900% over that 23-year period. The profits remain tax free unless I sell.

As an investor, try to see things as the successful doctor does. A successful doctor has patients and therefore income. The more patience, consequently the more income. The unsuccessful doctor has little or no patience, thus he has few patients and the fewer patients, the less income.

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 JUNE

BED BATH & BEYOND, INC. (BBBY) NASDAQ PRICE: \$40.65

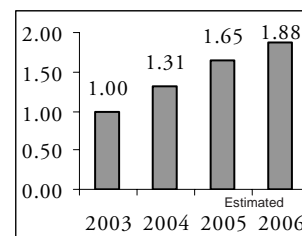
BBBY operates a chain of superstores in the US. Its stores include Bed Bath & Beyond stores (BBB), Harmon stores (Harmon), and Christmas Tree Shops stores (CTS). BBB's domestics merchandise line includes bed linens, bath accessories, and kitchen textiles; and home furnishings line includes items, such as cookware, dinnerware, glassware, and basic housewares. As of 02/28/04, BBB operated 575 stores in 44 states and 1 territory. CTS, a retailer of giftware and household items, sells various domestics merchandise and home furnishings, including home décor, giftware, housewares, food, and seasonal products. As of 02/28/04, CTS operated 24 stores in 6 states. Bed Bath was co-founded by Leonard Feinstein and Warren Eisenberg in 1971. The company is headquartered in Union, New Jersey.

Type: Growth
Sector: Services

Institutional Holdings: 391
Industry: Home Furnishing

Ratings & Recommendations Earnings per share

Current P/E Ratio: **24.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **C**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **A**
Value Line Rating: **1-2-3**



COMMUNITY BANCORP, INC (CMBC) NASDAQ PRICE: \$30.24

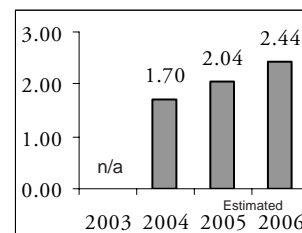
CMBC operates as the holding company for Community National Bank, which offers commercial banking services in CA. The bank offers various deposit accounts, including checking accounts, money market accounts, savings accounts, and certificates of deposit. It provides commercial, real estate, and SBA loans to small and medium sized businesses. The bank also offers other services, such as Internet banking, online lockbox, online check ordering, check imaging, and phone banking. It serves northern San Diego county and southwest Riverside county with retail banking offices in Bonsall, Escondido, Fallbrook, Temecula, and Vista; and has additional SBA loan production offices that originate loans in CA, AZ, NV, and Oregon. The company invests in mortgage backed securities, the U.S. government, and agency securities.

Type: Growth
Sector: Financial

Institutional Holdings: 2
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **17**
Annual Yield: **1.3%**
Annual Dividend: **\$0.40**
Investor's Bus. Daily: **B-**
Pearson Growth Rating: **B+**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



KB HOME (KBH) NYSE PRICE: \$67.54

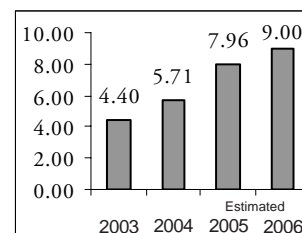
KBH operates as a homebuilder primarily in the US and France. It engages in the acquisition and development of land primarily for residential purposes; and offers various homes that are designed to appeal to a range of buyers, including first-time, move-up homebuyers, luxury, and active adult homebuyers. In the United States, the company sells homes in AZ, CA, CO, FL, GA, IL, IN, NV, NM, NC, SC, and Texas. In France, the company, through its subsidiary, Kaufman & Broad S.A., develops commercial and residential projects, such as condominium complexes. In addition, its wholly owned subsidiary, KB Home Mortgage Company (KBHMC), originates, processes, and sells mortgages to third-party investors. The company delivered approximately 31,646 homes in the United States and France, as of February 14, 2005.

Type: Emerging Growth
Sector: Industrial Goods

Institutional Holdings: 307
Industry: Residential Constr.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **10.6**
Annual Yield: **1.1%**
Annual Dividend: **\$0.75**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A**
Stand.&Poor Rating: **A**
Value Line Rating: **1-3-1**



LABORATORY CORPORATION OF AMERICA HOLDINGS (LH) NYSE PRICE: \$48.45

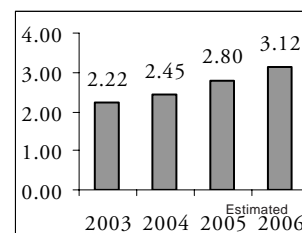
LH together with its subsidiaries, operates as an independent clinical laboratory company in the United States. It offers a range of clinical laboratory tests, which are used by the medical profession in routine testing, patient diagnosis, and in the monitoring and treatment of disease. The company offers routine testing services, such as blood chemistry analyses, urinalyses, blood cell counts, Pap tests, HIV tests, microbiology cultures and procedures, and alcohol and other substance-abuse tests. It also offers specialty services, including allergy testing; clinical trials testing; oncology testing in which it diagnoses and monitors certain cancers. As of 12/31/04, the company had 32 primary laboratories and approximately 1,300 service sites. LH was founded in 1971 and is headquartered in Burlington, North Carolina.

Type: Growth
Sector: Healthcare

Institutional Holdings: 342
Industry: Med. Research

Ratings & Recommendations Earnings per share

Current P/E Ratio: **19.2**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A**
Stand.&Poor Rating: **B+**
Value Line Rating: **2-3-3**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR JUNE

PORTFOLIO RECOVERY ASSOCIATES, INC. (PRAA) NASDAQ PRICE: \$39.41

Portfolio Recovery Associates, Inc. provides outsourced receivables management and related services in the United States. The company purchases, collects, and manages portfolios of defaulted consumer receivables, which include providing collateral location services for credit originators and other debt owners. The defaulted consumer receivables are the unpaid obligations of individuals to credit originators, including banks, credit unions, consumer and auto finance companies, retail merchants, and other providers of goods and services. Portfolio Recovery Associates was founded in 1996 and is headquartered in Norfolk, Virginia.

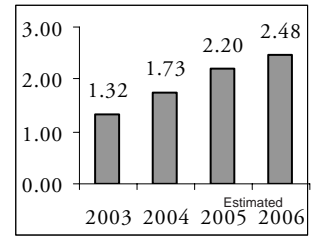
More than half of Portfolio Recovery Associates' stock is owned by investment firm Angelo, Gordon & Co. and entities associated with it.

Type: Growth
Sector: Services

Institutional Holdings: 82
Industry: Business Serv.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **20.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **A-**
Value Line Rating: **3-3-3**



SFCC INTERNATIONA, INC. (SFCC) NASDAQ PRICE: \$35.01

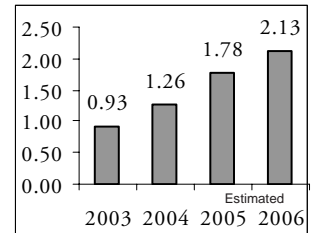
SFCC a drug development services company, provides a range of early and late stage clinical drug development services to branded pharmaceutical, biotechnology, generic drug, and medical device companies worldwide. In early clinical development services, SFCC specializes primarily in the areas of Phase I and early Phase II clinical trials and bio-analytical laboratory services, including early clinical pharmacology. The company also provides late stage clinical development services that focus on Phase II through Phase IV clinical trials. It also offers a range of complementary services, including data management and biostatistics, clinical laboratory services, medical and scientific affairs, regulatory affairs and submissions, and clinical IT solutions. SFCC has approximately 30 offices in N. America, Europe, S. America, India, and Australia.

Type: Growth
Sector: Services

Institutional Holdings: 110
Industry: Research Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **26.9**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **A+**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **A-**
Value Line Rating: **1-2-4**



SWIFT TRANSPORTATION CO., INC. (SWFT) NASDAQ PRICE: \$24.55

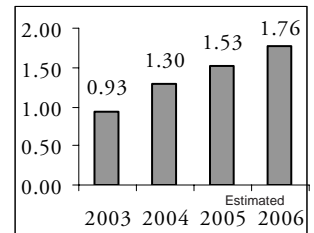
Swift Transportation Co., Inc., a holding company, operates as a truckload carrier in the United States. The company principally transports retail and discount department store merchandise, manufactured goods, paper products, nonperishable and perishable food, beverages and beverage containers, and building materials. It offers dry van, refrigerated, flat-bed, heavy-haul, and auto-haul van offerings to its customers. As of December 31, 2004, the company operated a fleet of approximately 18,500 tractors and 51,700 trailers. Swift Transportation was founded in 1965 and is headquartered in Phoenix, Arizona. Swift Transportation Co Inc's Corporate Governance Quotient (CGQ®) as of 1-May-05 is better than 31.2% of S&P 400 companies and 61.5% of Transportation companies.

Type: Emerging Growth
Sector: Services

Institutional Holdings: 155
Industry: Trucking

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.9**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **A+**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **B+**
Value Line Rating: **1-3-1**



VINEYARD NATIONAL BANCORP (VNBC) NASDAQ PRICE: \$31.50

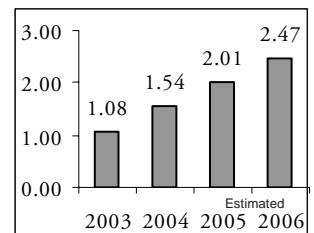
VNBC operates as the holding company of Vineyard Bank. The bank's services include checking, such as personal, business, analyzed business, and NOW; money markets, including personal, business, and treasury plus; savings, such as personal, business, and kid's club; and time deposits. The loan services include home loans, auto loans, boat and RV loan, secured personal loans, equity lines of credit, revolving lines of credit, asset-based loans, term loans, commercial real estate loans, income property loans, single family residence, construction loans, small business administration loans, and religious financial loans. As of June 30, 2004, the bank operated nine banking centers in San Bernardino, Riverside, and Los Angeles counties of California. Vineyard was incorporated in 1988 and is headquartered in Rancho Cucamonga, California.

Type: Growth
Sector: Financial

Institutional Holdings: 16
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **18.5**
Annual Yield: **0.7%**
Annual Dividend: **\$0.24**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **A**
Pearson Value Rating: **A**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



WALL STREET INDEXES

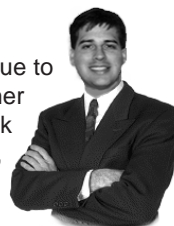
Indexes	1999	2000	2001	2002	2003	2004	05/YTD
S&P 500	21.1%	(10.1%)	(13.3%)	(23.4%)	26.4%	9.0%	(1.7%)
Dow Jones	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(2.9%)
Nasdaq	85.6%	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	(4.9%)
Russell 2000	21.3%	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	(5.4%)
Our CD Buster	Data available on our website			8.1%	56.7%	22.8%	(In Dispute)
CD Annual Average	4.9%	5.4%	3.0%	2.3%	1.5%	1.5%	2.5%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

ECONOMIC FLOWS:

The Federal Reserve is still tightening rates, believing it must continue to fight inflation. This will strengthen the dollar as we go into the summer and hopefully bring the deficit in line. The Fed is also willing to talk down the current upward movement of the housing market. At first, Greenspan stated that there was no bubble in real estate, but now has labeled some areas as "frothy." It remains to be seen whether or not this will slow down the housing market, and is a step in the right direction. Elsewhere in Washington, the balance of the trade deficit now represents at least 6 percent of GDP. Politicians are trying to alleviate the pressure by threatening the Chinese to change their fixed peg to the dollar or face the consequences of major tariffs. Washington may go too far by trying to impose its will.



Key point: *Some areas in the housing market are now considered "frothy."*

EARNINGS FLOWS:

June is the end of earnings season and companies are beginning their warnings for the next quarter. Companies that are not going to meet their stock predictions usually try to report bad news as early as they can to get it out of the way for the rest of the summer. Expectations usually then fall in line with reality in the stock market. Analysts then try to make grand predictions for the rest of the year. Earnings come through in July and then a summer rally takes off.

Key point: *June is usually the backdrop for the summer rally.*

CASH FLOWS:

Because of the reduction in the capital gains tax, companies are increasing their dividends. It has always been believed that the logic behind this is because of tax purposes. I also take the opinion of others that in the long term, the growth rate of many companies will slow dramatically. By adding dividends, investors will look for more stable returns with less volatility. As demographics move toward an aging population, companies will respond and do what is needed to create shareholder value.

Key point: *As the economy ages, dividends will play a key role.*

ADDITIONAL NOTES:

- Energy companies will continue to slide.
- Surprises will be on the upside rather than the downside

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JUNE'S RECOMMENDED GROWTH & INCOME STOCKS

INDYMAC BANCORP, INC. (NDE) NYSE PRICE: \$41.15

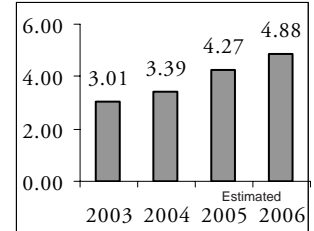
NDE a holding company, through IndyMac Bank, F.S.B., engages in designing, manufacturing, and distributing financing for the acquisition, development, and improvement of single-family homes. It also provides financing secured by single-family homes and invests in single-family related assets. The company facilitates the acquisition, development, and improvement of single-family homes through its Electronic Mortgage Information and Transaction System platform that automates underwriting, risk-based pricing, and ratelocking on a nationwide basis via the Internet. It offers single-family residential mortgage products in all 50 states. The company's product line includes adjustable-rate mortgages offering borrowers multiple payment options, and fixed-rate mortgages. IndyMac was founded in 1985. NDE has its headquarters in Pasadena, California.

Type: Growth & Income
Sector: Financial

Institutional Holdings: 162
Industry: Savings & Loans

Ratings & Recommendations Earnings per share

Current P/E Ratio: **13.5**
Annual Yield: **3.6%**
Annual Dividend: **\$1.52**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **B+**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **C**
Value Line Rating: **N/R**



WAL-MART STORES, INC. (WMT) NYSE PRICE: \$47.23

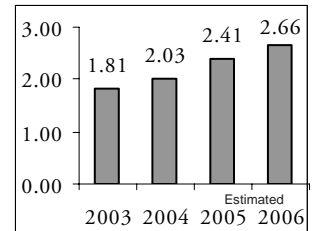
Wal-Mart Stores, Inc. operates retail stores in various formats. The company primarily operates in two segments, The Wal-Mart Stores and The SAM'S CLUB. The Wal-Mart Stores segment includes its Discount Stores, Supercenters, and Neighborhood Markets in the United States, as well as Walmart.com. The SAM'S CLUB segment comprises the warehouse membership clubs in the United States, and samsclub.com. This segment offers bulk displays of brand name merchandise, including hardgoods, softgoods, software, electronics, jewelry, sporting goods, toys, tires, stationery and books. As of 02/28/05, it operated 1,353 Wal-Mart stores, 1,713 Supercenters, 552 SAM'S CLUBS, and 85 Neighborhood Markets in the US. Wal-Mart has operations in Argentina, Brazil, Canada, China, Germany, Mexico, Puerto Rico, South Korea, and the United Kingdom.

Type: Growth & Income
Sector: Services

Institutional Holdings: 779
Industry: Discount Stores

Ratings & Recommendations Earnings per share

Current P/E Ratio: **19**
Annual Yield: **1.2%**
Annual Dividend: **\$0.6**
Investor's Bus. Daily: **C+**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **D**
Value Line Rating: **3-1-3**



UNDERSTANDING DIVERSIFICATION

Continuing From Page 1

Quality bonds of safer magnitude (double & triple A rated) average 5-7 percent over time and they are not guaranteed.

The final option is equities. This is the area that provides more risk but it also provides the opportunity for reaching one's goal and objective. Once you learn that individual stocks (S&P) average around 10-11 percent annually, you quickly realize in almost every case one must have

these as a part, and in many cases the largest part, of their portfolio. Whether it is done with mutual funds, ETFs, or individual equities, one cannot stay ahead of inflation and get the job done without them.

This might be a good place to draw a distinct difference between us and many other firms. We have always believed that if we did the research ourselves, and made the choices ourselves, we could outperform the index average of 10-11 percent, by 3, 4, or 5 percent. By accomplishing this, we can double the client's portfolio value every five or six years if the index performs at average, and we maintain our performance targets. If you're familiar with the rule of 72, you'll know by dividing the rate of annual return into 72, you'll discover how many years it will take to double your money with compounding interest. That's the problem with CDs and bonds today returning 3-7 percent, even though it's guaranteed it'll take 10-24 years to double your original investment.

The stock market can be a very difficult place at any time, and it may remain like this for months, quarters, or even years. It can also turn quickly and produce returns of 20% or more annually at any given period, without any advance warning. Disciplined investors understand their portfolios are on a 5-6 year mission, and they should do as the Greyhound commercial says, sit back, relax, and leave the driving to us.

Donald Pearson

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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.