

PEARSON Investment Letter

Published Monthly Since 1982

www.pearsoncapitalinc.com**FEATURED STOCKS**

AmSurg Corp	JoS A Bank
Commerce Bancorp	Mobile TeleSyst
D.R. Horton	Old Dominion
First Cash	Somanetics Corp

GROWTH & INCOME STOCKS

American Finc Gr	H&Q Sciences
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REAL ESTATE VS. STOCK MARKET**BY DONALD PEARSON**

As an investor in the stock market I am continuously asked, or

found a replacement yet for hard work, time investment, and research.

brought into the debate, whether owning stocks or investing in real estate is the best formula for success today. The first lesson to learn is that no one can predict the future or guarantee his opinion will be the right answer. What I can share with you are statistics and facts along with some of my own personal experiences, and that may help you to decide for yourself.

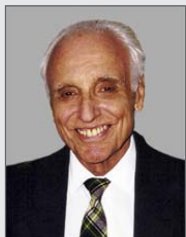
A real estate investor is not the same as a homeowner. The homeowner's primary residence becomes his castle and is viewed as an exception. Rentals must be treated differently as their primary responsibility is to generate profit. It would appear, if one does his research and has the time to invest, opportunities abound in many areas. With interest rates as low as they are and have been, this is the early eighties in Massachusetts all over again. Anyone doing his or her homework today will become better prepared and have the opportunity to prosper. A lesson to always remember, and quickly learned by the experienced investor, is that real estate can be hard, or impossible, to unload when the going gets tough. On the other hand, when the right opportunities present themselves, you have to get on a waiting list to participate while the initial investment continues to climb. One thing is for certain with both real estate and the stock market, nothing continues as is forever.

Real Estate:

Using a past thirty-year timetable, research tells me that single-family residential homes have appreciated 5 percent on average throughout the country, with Massachusetts at 7 percent as the leader. Income property and commercial property have such a variance of range that space doesn't allow me to quantify them. Investment properties and commercial opportunities many times carry more risk, but when this is the case, more often than not they also offer more reward. Any smart investor also knows that his researched investment opportunity is not the market average if it's a good one. As an example, homes in the area where I currently reside are appreciating at or over 20 percent per year. If you are buying income property, you'll have an opportunity to do very well as long as the real estate market here, or wherever it is you're operating, continues to grow. I owned quite a bit of income property in Massachusetts in the early eighties and for many years continued making a great deal of equity growth. Then we reached the bad time toward the end of the eighties, and I couldn't keep my apartments rented. In some properties I had a negative cash flow along with tenant problems and issues. This lesson taught me that making money wasn't as easy as it appeared, or as easy as the speakers on TV tell us. No one has

Stock Market:

Depending on how you choose to pursue investments in the stock market, your degree of work and effort will greatly differ. If you choose to do it all yourself, many hours of research will go into every decision. For the past thirty years the stock market indexes show us the average return has been in the neighborhood of 10.4 percent, but just like with a good real estate deal, one can do better. I can give you an example, although one stock purchase or one real estate deal can never win this debate. Warren Buffet sixteen years ago bought Gillette stock and placed it in his portfolio with only one objective. Hold and not sell as long as the company continued to appreciate. He still has it today and it is worth 8.6 times his original investment. His investment's annualized growth has sustained 54 percent, and this is without any costly repairs or property taxes.

Continued On Page 2

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President



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Publishing President

Investment Letters are complimentary to our clients with managed accounts!

*Continued From Page 1***INVESTING FOR THE FUTURE**

There is definitely something to be said for this. A well-built portfolio of stocks or mutual funds can also be exchanged or traded quickly. A poorly performing stock in many ways is similar to a poor property purchase. If you owned Merck three months ago, you would have seen your investment drop 30 percent because of some bad press and then continue to drop with additional bad news. One way to manage this problem, because one cannot always see it coming, is to become well diversified. The way to do this is by making one investment such as Merck a small percentage of the overall portfolio. It's definitely harder to do this in real estate because one can't find fifty good pieces of property as easily as diversifying a stock portfolio.

Recap:

In my opinion diversification is always going to be the better way. That means having both will work for almost everyone. For those currently investing only in real estate, I suggest you strongly consider the stock market with a managed account. We will continue to go through periods of time when both sectors do well, and we'll continue to go through other periods when one is significantly outperforming the other. Guessing when and jumping in and out of each is not the road to success either. The only winner then is Uncle Sam with his tax collection. In real estate, investments sometimes can be purchased and sold quickly, but in the stock market holding a quality growth company is more the objective that's going to win over time. Another example of this would be Coca-Cola stock even though it hasn't performed well for several years. If you bought one share in 1919 for \$40.00 and put it under the mattress until now, and today you decided to cash it in, your investment would be returning just over five million without any tenants to deal with. I don't know whether I've convinced you or not, but it's certainly going to give you something to think about.

In the field of investing one should be thinking of the future. The mistake most people make is they tend to think in terms of the present. It is very pleasant to purchase a stock and find that the price has risen an appreciable amount in not too long a period, but in actuality the reason for investing should be to take care of one's finances in time to come. Buying stocks because they are expected to rise in price should not be the compelling reason for investing. The investor should be looking at a company and its fundamentals. What happens in the stock market price-wise is simply what other investors think of the stock. If a stock rises immediately after you have bought it, this means that others agree with your decision, yet, all of you could still be wrong.

It is our opinion that the best way to go is to purchase the McDonald's or the Microsoft's of yesterday. It isn't necessary to hit the nail on the head, so to speak. It isn't necessary to get the most outstanding companies, nor is it necessary to catch them when they are just beginning. The important thing is to find companies that have a forward-looking outlook, check the price to make sure it is not out of line, make a purchase and wait. Rome wasn't built in a day and a garden doesn't bloom overnight. Time is of the essence.

Looking back here is how you might have fared if you followed our thinking:

On 12-23-81 you might have bought 200 shares of Fed Guar Life for \$1850. This is now Alfa Corp. The stock has split so that you now would own 3200 shares, and the value is \$46,000. Your annual return in the form of dividends is \$1088. One of the girls at the bridge club bought this stock then on my recommendation and sold it shortly after because she had a 20% profit.

On 2-20-90 you might have purchased 50 shares of Amer Power Conversion for \$1025. Today you would hold 2400 shares, with a value of \$50,000 and an annual return of \$864.

On 4-18-90 you might have bought 50 shares of Microsoft for \$2950. After splits you would hold 3584 shares with a value of \$90,000 and last year would have received more than \$11,000 in dividends.

On 8-6-91 you might have bought 25 shares of Adobe Systems for \$1087. You would now own 100 shares with a value of \$5700 and an annual dividend of \$6.00.

On 8-28-91 you might have chosen 25 shares of Cisco Systems for \$1143. You would now hold 3600 shares with a value of \$65,000 with no dividend return.

On 8-18-99 you might have bought 16 shares of ADC Telecom for \$710. Today you would hold 16 shares worth \$151 and receive no dividends.

These names and figures tend to show how our thinking works out over a period of time. Everything doesn't work, but, in the final analysis, you should do quite well over time. The important thing to remember in the field of investing is that there is no hurry. It takes money, work, time, and patience. We supply the work; the rest is up to the investor.

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.

PEARSON CAPITAL'S RECOMMENDED STOCKS FOR FEBRUARY

AMSURG CORPORATION (AMSG)

NASDAQ PRICE: \$26.41

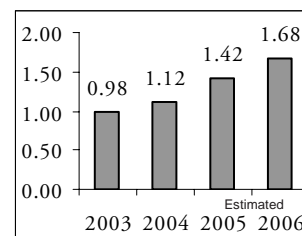
AmSurg Corp. develops, acquires and operates practice-based ambulatory surgery centers in partnership with physician practice groups throughout the United States. Each of the surgery centers provides a narrow range of high volume, lower-risk surgical procedures, generally in a single specialty, and has been designed with a cost structure that enables the Company to charge fees that are less than those charged by hospitals and freestanding outpatient surgery centers for similar services performed on an outpatient basis. For the 9 months ended 9/30/04, revenues rose 17% to \$246 million. Net income from continuing operations rose 21% to \$24.4 million. Revenues reflect the additional surgery centers in operation and the growth in the same-center procedure. Earnings also reflect improved operating margins and higher minority interest received.

Type: Growth
Sector: Healthcare

Institutional Holdings: 117
Industry: Healthcare Facilities

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: **C**
Value Line Rating: **1-3-1**



COMMERCE BANCORP, INC (CBH)

NYSE PRICE: \$57.54

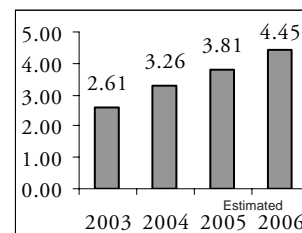
CBH is a bank holding company that operates four nationally chartered bank subsidiaries: Commerce Bank, N.A. (Commerce NJ), Commerce Bank/Pennsylvania, N.A., Commerce Bank/Shore, N.A. and Commerce Bank/Delaware, N.A., and one state chartered bank subsidiary, Commerce Bank/North. As of December 31, 2003, the banks had 270 full-service retail branch offices located in the states of New Jersey, Pennsylvania, Delaware and New York. For the fiscal year ended 12/31/04, total interest income rose 35% to \$1.24 billion. Net interest income after loan loss provision rose 35% to \$978.5 million. Net income rose 41% to \$273.4 million. Net interest income reflects higher interest income on investments and improved interest margins. Earnings also reflect higher deposit charges and service fees.

Type: Growth
Sector: Financial

Institutional Holdings: 169
Industry: Regional Banks

Ratings & Recommendations Earnings per share

Current P/E Ratio: **17.6**
Annual Yield: **1.5%**
Annual Dividend: **\$0.88**
Investor's Bus. Daily: **C-**
Pearson Growth Rating: **A-**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **B-**
Value Line Rating: **3-2-5**



D.R. HORTON, INC (DHI)

NYSE PRICE: \$39.78

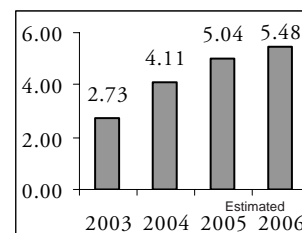
DHI is a national builder. The Company constructs and sells single-family homes designed principally for first-time and move-up homebuyers through its operating divisions in 21 states and 63 metropolitan markets of the United States. The homes range in size from 1,000 to 5,000 square feet, and range in price from \$80,000 to \$900,000. During the fiscal year ended September 30, 2004 (fiscal 2004), the Company closed 43,567 homes with an average sales price approximating \$240,800. Through its financial services operations, the Company provides mortgage banking and title agency services to homebuyers in many of its homebuilding markets. For the three months ended 12/31/04, revenues rose 14% to \$2.52 billion. Net income rose 30% to \$241 million. Revenues reflect an increase in homes closed.

Type: Growth
Sector: Capital Goods

Institutional Holdings: 271
Industry: Construction Serv.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **9**
Annual Yield: **0.9%**
Annual Dividend: **\$0.36**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **A**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **B+**
Value Line Rating: **2-3-1**



FIRST CASH FIN SVC (FCFS)

NASDAQ PRICE: \$25.92

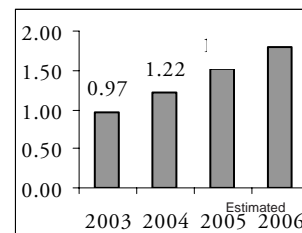
FCFS is engaged in the operation of pawn stores that lend money on the collateral of pledged personal property and retail previously owned merchandise acquired through pawn forfeitures. In addition to making short-term secured pawns, most of the Company's pawn stores offer short-term unsecured advances (short-term advances), which are also known as payday loans. First Cash also operates check cashing/short-term advance stores that provide short-term advances, check cashing services and other related financial services. For the nine months ended 9/30/04, revenues rose 23% to \$128.7 million. Net income rose 39% to \$14.6 million. Revenues reflect newly-opened pawn and check cash/short-term advance stores and higher same store revenues. Net income also reflects decreased interest expense.

Type: Growth
Sector: Services

Institutional Holdings: 66
Industry: Retail

Ratings & Recommendations Earnings per share

Current P/E Ratio: **20.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **B-**
Pearson Value Rating: **C+**
Stand.&Poor Rating: **D**
Value Line Rating: **N/R**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR FEBRUARY

JOS A BANK CLOTHIERS, INC (JOSB) NASDAQ PRICE: \$28.70

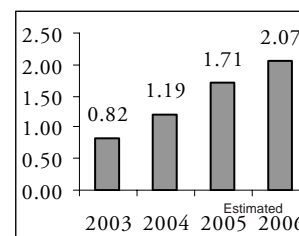
JOSB is a designer, retailer and direct marketer, through stores, catalog and the Internet, of men's tailored and casual clothing and accessories. The Company sells substantially all of its products exclusively under the Jos. A. Bank label through its 214 retail stores, including seven outlet stores and 10 franchise stores, located throughout 35 states and the District of Columbia in the United States, as well as through the Company's nationwide catalog and Internet operations, www.josbank.com. Jos. A. Bank's products are targeted at the male career professional. The Company's products are offered at three Levels of Luxury, which include the opening Jos. A. Bank Collection, as well as the more luxurious Signature and Signature Gold Collections. For the nine months ended 10/30/04, net sales increased 23% to \$244.6 million.

Type: Growth
Sector: Services

Institutional Holdings: 95
Industry: Retail

Ratings & Recommendations Earnings per share

Current P/E Ratio: **18.5**
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**



MOBILE TELESYSTEMS OJSC (MBT) NYSE PRICE: \$35.98

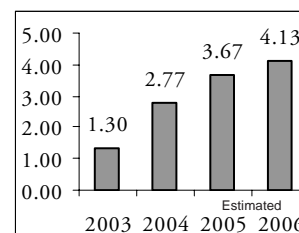
MBT is a provider of mobile cellular communications services in the Russian Federation and Ukraine, employing technology based primarily on Global System for Mobile Communications (GSM). In addition to standard voice services, the Company offers its subscribers value-added services, including voice mail, short message service (SMS), general packet radio service (GPRS), various SMS- and GPRS-based information and entertainment services (including multimedia messaging service), and data and fax transmission. It also offers its subscribers the ability to roam automatically throughout Europe and in much of the rest of the world. At year-end 2003, the Company's subscriber base was 16.7 million. For the nine months ended 9/30/04, revenues rose 58% to \$2.81 billion. Net income totaled \$813.6 million, up from \$364.5 million.

Type: Growth
Sector: Services

Institutional Holdings: 126
Industry: Communication

Ratings & Recommendations Earnings per share

Current P/E Ratio: **14.5**
Annual Yield: **0.6%**
Annual Dividend: **\$0.23**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **2-3- -**



OLD DOMINION FREIGHT LINE, INC (ODFL) NASDAQ PRICE: \$35.35

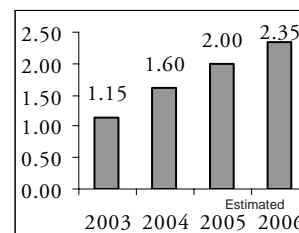
ODFL is a less-than-truckload (LTL) multi-regional motor carrier providing one- to five-day service among five regions in the United States and next-day and second-day service within these regions. Through its four branded product groups, OD-Domestic, OD-Expedited, OD-Global and OD-Technology, the Company offers an array of products and services. As of December 31, 2003, it provided full-state coverage to 27 of the 38 states that it serves directly within the Southeast, South Central, Northeast, Midwest and West regions of the country. For the nine months ended 9/30/04, revenues rose 22% to \$600 million. Net income rose 43% to \$28.4 million. Revenues reflect volume increases in LTL tonnage and LTL shipments. Earnings also reflect a decrease in interest expense on long term debt.

Type: Emerging Growth
Sector: Transporting

Institutional Holdings: 123
Industry: Trucking

Ratings & Recommendations Earnings per share

Current P/E Ratio: **21.6**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **B-**
Pearson Value Rating: **C**
Stand.&Poor Rating: **D-**
Value Line Rating: **2-2-3**



SOMANETICS CORPORATION (SMTS) NASDAQ PRICE: \$13.92

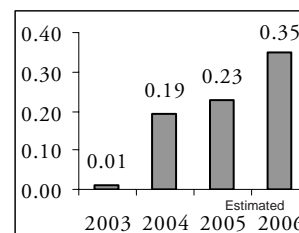
SMTS develops, manufactures and markets the INVOS Cerebral Oximeter, the only non-invasive patient monitoring system commercially available in the United States that continuously measures changes in the blood oxygen level in the brain. The Cerebral Oximeter is based on the Company's proprietary In Vivo Optical Spectroscopy (INVOS) technology. The Company also develops and markets the CorRestore System for use in cardiac repair and reconstruction, including heart surgeries called surgical ventricular restoration. For the fiscal year ended 11/30/04, revenues rose 35% to \$12.6 million. Net income rose from \$73 thousand to \$8.7 million. Revenues reflect increased domestic sales of the disposable SomaSensor and higher average selling prices. Net income also reflects significantly improved gross profit margins.

Type: Emerging Growth
Sector: Healthcare

Institutional Holdings: 13
Industry: Med. Equipment

Ratings & Recommendations Earnings per share

Current P/E Ratio: **18**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **D**
Pearson Value Rating: **D**
Stand.&Poor Rating: **N/R**
Value Line Rating: **3-4-4**



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%	(2.5%)
Dow Jones	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(2.7%)
Nasdaq	85.6%	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	(5.2%)
Russell 2000	21.3%	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	(4.2%)
Our CD Buster	Data available on our website			8.1%	56.7%	22.8%	(6.1%)
CD Annual Average	4.9%	5.4%	3.0%	2.3%	1.5%	1.5%	2.0%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

ECONOMIC FLOWS:

The U.S. economy is slowing and at the same time Greenspan is continuing on his course of raising interest rates. The Fed's goal is to return interest rates back to a normal range. I call that term regression to the mean. When that occurs, many industries benefitting from abnormal profit returns will also regress. We shall keep an eye on them. The dollar will then strengthen and begin a "tug of war" to compete with the euro.



Key point: Hey, it looks like we are slowing.

EARNINGS FLOWS:

Most earnings warnings did not come early this quarter, so the rally that starts in the middle of the month has some potholes. As I've said before, the better companies will come out and shine. The old leaders of last year have hit their earnings marks, but many have fallen because their reports are still not good enough (i.e., Ebay). Many old leaders are fully priced, so as they slow, the expectations can never be fulfilled. Many people lose money on these "can't miss" stocks because they buy them when expectations are at their peak. February continues on with earnings, and for the most part, we will be searching those that are growing their earnings.

Key point: Stocks got punished because they did not meet expectations.

CASH FLOWS:

February will have mergers and rumors. Oracle and Peoplesoft - merger. AT&T and SBC Communications - rumor. Federated Department Stores - merger. Sirius and XM Satellite - rumor. Many companies that have the cash are itching to buy things to take advantage of their current situation. But, we have to ask ourselves, is this the best way to increase shareholder wealth? Maybe it would be better to pass the money directly to the shareholders through buybacks and special dividends. However they do it, its going to happen in a big way.

Key point: Companies will buy, buy, buy!

Additional notes:

In February 2005,

- The market will swing back and forth.
- Iraq may help drag the market down.
- Our stocks will have good earnings.
- New leaders will emerge.

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The Pearson Investment Letter

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FEBRUARY'S RECOMMENDED GROWTH & INCOME STOCKS

AMERICAN FINANCIAL GROUP, INC (AFG) NYSE PRICE: \$30.79

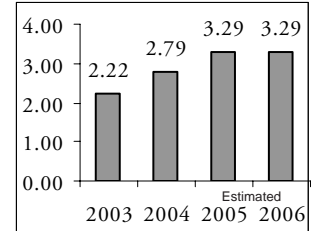
AFG is a holding company that, through subsidiaries, is engaged primarily in property and casualty insurance, focusing on commercial products for businesses, and in the sale of retirement annuities, life and supplemental health insurance products. The Company sells life and supplemental health products in Puerto Rico and property and casualty products in Mexico, Canada and Europe. Less than 4% of its revenues, costs and expenses are derived from sources outside of the United States. In Nov. 03, the Company merged with its subsidiary, American Financial Corporation. For the 9 months ended 9/30/04, revenues rose 19% to \$2.93 bil. Net income from continuing operations and before acct. chg totaled \$273.7 million, up from \$96 million. Results reflect higher net premiums earned, increased gains on investments and an improved loss ratio.

Type: Growth & Income
Sector: Financial

Institutional Holdings: 139
Industry: Insurance

Ratings & Recommendations Earnings per share

Current P/E Ratio: **4.8**
Annual Yield: **1.6%**
Annual Dividend: **\$0.50**
Investor's Bus. Daily: **C**
Pearson Growth Rating: **A**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **B-**
Value Line Rating: **2-3-3**



H & Q SCIENCES INVESTORS (HQL) NYSE PRICE: \$15.94

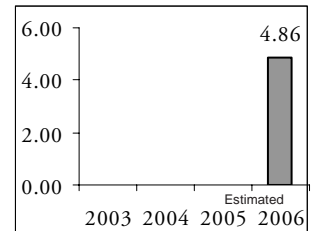
HQL (the Fund) is a Massachusetts business trust registered under the Investment Company Act of 1940 as a diversified closed-end management investment company. The Fund's investment objective is long-term capital appreciation through investment in securities of companies in the healthcare industries. The Fund invests primarily in securities of public and private companies that are believed to have significant potential for above-average growth. As of Sept. 30, 03, the Fund's largest holdings were Gilead Sciences, Cubist Pharmaceuticals, Impax Laboratories, Celgene, Telik, IDEXX Laboratories, MedImmune, Pfizer, CV Therapeutics and Vicuron Pharmaceuticals. For the 6 months ended 3/31/04, investment income totaled \$158 thousand. Net investment income totaled \$22.3M.

Type: Growth & Income
Sector: Financial

Institutional Holdings: n/a
Industry: Financial Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **3.3**
Annual Yield: **8.5%**
Annual Dividend: **\$1.36**
Investor's Bus. Daily: **N/R**
Pearson Growth Rating: **N/R**
Pearson Value Rating: **A+**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**



INDIVIDUAL STOCKS VS THE CD

CD BUSTER 2005 (6.11%)

Year To Date Results through Monday, 01/31/05

Stocks Name	Symbol	Yield	Shares	Price/Share	Total Invested	Current/Price	Current
Affiliated Computer	ACS	n/a	40	\$60.19	\$2,407.60	\$54.19	\$2,167.60
Cash America	CSH	0.2%	80	\$29.73	\$2,378.40	\$28.60	\$2,288.00
Coventry Health	CVH	n/a	47	\$53.08	\$2,494.76	\$56.90	\$2,674.30
Doral Finc	DRL	1.4%	75	\$49.25	\$3,693.75	\$43.25	\$3,243.75
Lowe's	LOW	0.2%	41	\$57.59	\$2,361.19	\$56.99	\$2,336.59
R&G Financial	RGF	0.9%	60	\$38.88	\$2,332.80	\$36.87	\$2,212.20
Redwood Trust	RWT	4.3%	38	\$62.09	\$2,359.42	\$56.66	\$2,153.08
WebEx	WEBX	n/a	100	\$23.78	\$2,378.00	\$20.10	\$2,010.00
W Holding Company*	WHI*	0.9%	150	\$15.293	\$2,293.95	\$13.04	\$1,956.00
WellPoint	WLP	n/a	20	\$115.00	\$2,300.00	\$121.50	\$2,430.00
Total:		AVG 0.8%			\$24,999.87		\$23,471.52

*W Holding Co. Adjusted for 3:2 Split - 01/10/05

For additional updates go to www.pearsoncapitalinc.com Go to: "CD Buster 05"

The 2005 CD Buster portfolio was created from our January 2005 Investment Letter. The start up prices were taken from the market's closing price on December 31, 2004. This portfolio demonstrates how selected stocks could outperform the regular bank CD yielding 2.0% annually. This example does not include trading fees and management fees as well as dividends earned. Current performance does not indicate or guarantee future performance. All client portfolios are **customized** differently to meet their individual objectives and goals. There are no guarantees as to the profit of each - some may lose money.

A \$25,000 CD returning 2.0% annually would have a year-end value of: \$25,500.

The same \$25,000 (\$24,999.87) invested in our CD Buster in January 2005 would have a value today (Monday, 01/31/05) of \$23,471.52 (- \$1,528.40 = - 6.11%)

DISCLAIMER: The CD Buster is a stock simulation portfolio created by Pearson Capital, Inc. for informational/educational purposes only. Pearson Capital, Inc. makes no guarantee as to the accuracy or completeness of this data. Pearson Capital, Inc. shall not be liable for any errors or omissions, or for any actions taken in reliance thereon.