

PEARSON *Published Monthly Since 1982* Investment Letter

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January 2007

FEATURED STOCKS

| | |
|----------------|---------------|
| Cognizant Tech | Infosys Tech |
| Diodes Inc | J & J Snack |
| FactSet Inc | Nicholas Finc |
| Graco, Inc | Unitedhealth |

GROWTH & INCOME

| | |
|---------------|---------------------|
| Belgium (ETF) | Foreign Value (ETF) |
|---------------|---------------------|

INVESTING 2007 AND BEYOND

By Donald Pearson

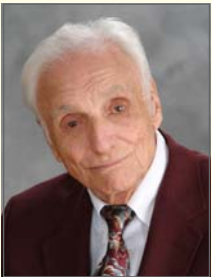
At the end of every year we analyze the market's performance,

This realignment for many has been completed, and for those accounts we will be trading a great deal less as has been our past practice. To many it might appear we have been aggressive, but we couldn't make this transition without generating the trades necessary to free up the funds to make the purchases. Investing for the "long haul," or investing to achieve growth, many times requires this type of transition. As we have referenced in the past; a person owning stock in the best company making the best buggy whips that just had a great year but sold all their stock. Why? Henry Ford just invented the automobile and one can see the handwriting on the wall. Be proactive and get in front of the crowd. As Warren Buffet says, "I'm usually buying when others are selling."

As labor costs continue to skyrocket here in the US, it's unfortunate that businesses continue to pack up and head abroad. We are simply bowing to momentum and acting accordingly. In most cases with a large account we would diversify about 20-35% around the world, depending on the risk parameters of the individual. We believe 2006 in some cases was a transition year, but one that's going to produce for all of us. As your advisor we are not buying fads, or what's in today. As you know, there never can be any guarantees with the stock market, but investing with proper diversification and minimal risk, in domestic and international companies strong both financially and in management, should be a formula to minimize exposure to loss while projecting an opportunity for success. Our strategy has always been, and continues to be, buy and own what's going to be the future no matter where it is, or why. Simply try to make the best decisions, based upon research of domestic and international activity. We believe we've done this and can now monitor the everyday decision making that's needed.

knowing this will help us improve our future selections. Many of the conclusions we reached earlier this year have not changed, so we will continue on the same path, believing we are on the road to future success. Our research team, with their many years of experience, have drawn the same conclusion that I share. Future growth will come from international holdings, and investors must have a strong global portfolio. This in no way advocates leaving domestic holdings. This simply says every portfolio must be globally diversified to achieve above-average market success. We have spent much of the last six months heading in this direction.

By our standards we have made many more trades than normal in all accounts. But this was necessary to position our accounts with an internationally diverse portfolio. In 2007 the S&P is forecasting growth in the neighborhood of 7%, while international growth is forecasted considerably higher. Most experts are expecting China and India to be in the forefront of this growth. Depending upon the individual risk of each, we have already built in these countries in the form of ETFs. China's ETF is FXI and India's is IIF. As I have written many times, these are conglomerates of companies rather than individual equities. Several other countries and sectors will also be built into our portfolios if they haven't been already. If you are reviewing yours, looking to see if either of these has been added, you might check for others. We have and are continuing to add Singapore and Australia, while favoring sectors internationally featuring value and financials. If you want to know or learn more about these, please contact me and we will share additional information with you.



Walter D. Pearson
Chairman



Donald E. Pearson
President



Sandra Alberti
Publishing President

Investment Letters are complimentary to our clients with managed accounts!

Over 50 Years Of Investment Experience

THE WORLD CHANGES

One of the facts of life is that this world does not remain the same. There are constant changes, and it is necessary for each of us to recognize these changes as they come about and make the necessary adjustments. Years ago the woman of the house stayed at home and worked very hard

because there were not the "modern conveniences" that the lady of the house has today. In the old days she kneaded the bread dough and spent a good deal of time baking bread and other goodies. That is all in the past. Almost all housewives today buy their bread at the store. They don't even have to slice it. It comes all sliced and ready to go.

The man of the house would usually shave each morning. This would require bringing out the soap cup and brush and lathering up. Then it would be necessary to strop the razor until it was sharp enough to do the job. But today all he does is plug in his electric razor and run it over his face. Presto! He is shaved. The job is done.

In days gone by, the stock market was a different animal. It was a place where one could go to buy a company that looked like a good investment, and that was all there was to it. Today many wrinkles have been added. It was about 80 years ago that mutual funds came into the field. Today there are thousands of them. You also have short selling, margin buying, and many other variations that will affect stock prices.

The one thing that hasn't changed is true value. This is an important thing for each investor to recognize and remember. The price of the stock he owns may fluctuate in the stock market, but as an investor, he should remain cognizant of its real value and judge his moves accordingly.

An article in this week's issue of Barron's tells about the money manager who advised shorting American Power Conversion. A few days later a French company decided to buy the company and offered about 25% more than the stock was selling for at the time. That meant a substantial loss to his followers. Then we have the story of Amaranth Advisors who decided to take a shot. In spite of the fact that they advertised themselves as a low volatility fund, they went for the bundle. In a short period they went from \$9.5 billion down to \$3.5 billion. What makes this even worse is that these men are professional investors taking a "shot" with other peoples' money.

What I am trying to bring out here is that it is important to remember to be an investor! Do not gamble via the stock market. Gambling is the reason Las Vegas was invented. Each investor should be looking long term. It is certainly nice to see your stock moving up in the market but the real thing to be looking at is the future potential of your company. A stock should be bought because the prospects over the next five years or more look very good, and the price of the stock is somewhat reasonable based on your research.

If a stock goes down in price, it may be a good time to sell. On the other hand, it may be a good time to buy more. This is where your research comes in. I can remember the time I bought a stock at \$15 which the mutual fund manager had suggested. The fund had bought it at \$30. When my wife came into the office about six months later looking for a cheapie, I suggested this one as it had gone down to \$7. She bought it and in less than six months she had quadrupled her investment. Mine had doubled in a year. I had not sold out just because it went down in price. It was a fine company, doing well, but a one-time problem had occurred. They fixed it and everything went back to normal.

Learn to be patient. On another occasion I bought a good looking issue, and one year later it was at the same price. A girl at the bridge club had some money, so I suggested she buy the same one, which she did. One year later another company bought them out and paid double what we had paid for the stock. I doubled my money in two years, she only took one. The fact of the matter is that the company was obviously worth more than it was selling for. Just because it is under priced doesn't mean that it is going to move up in the stock market each day.

Remember to look for value and growth and then WAIT.

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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

January 2007

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION (CTSH) NASDAQ PRICE: \$77.16

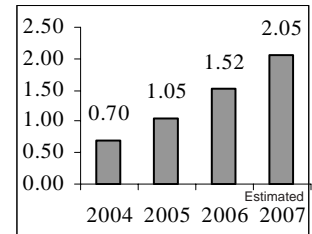
CTSH provides custom information technology (IT) consulting and technology services in North America, Europe, and Asia. Its services include technology strategy consulting, enterprise software package implementation and maintenance, data warehousing and business intelligence, application testing, application maintenance, and infrastructure management. The company also offers outsourcing services, which include application maintenance, IT infrastructure outsourcing, and business process outsourcing. Its IT consulting and technology services comprise business process consulting; IT strategy consulting; technology consulting; software testing services; and application design, development, integration, and re-engineering. The company was founded in 1994 and is headquartered in Teaneck, New Jersey.

Type: Growth
Sector: Technology

Institutional Holdings: 434
Industry: Software/Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **55.1**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A**
Pearson Growth & Value: **A**
Morningstar Rating: **3Star**
Standard&Poor Rating: **N/R**
Value Line Rating: **1-3-3**



DIODES INCORPORATED (DIOD) NASDAQ PRICE: \$35.48

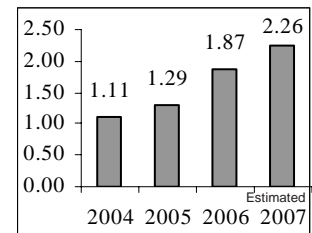
DIOD engages in the design, manufacture, and marketing of discrete and analog semiconductor products worldwide focusing on various end user applications in the consumer electronics, computing, industrial, communications, and automotive sectors. Its products include discrete semiconductor products, including performance Schottky rectifiers; performance Schottky diodes; Zener diodes and performance Zener diodes, such as tight tolerance and low operating current types; and standard, fast, super-fast and ultra-fast recovery rectifiers. The company offers its products primarily to original equipment manufacturers, electronic manufacturing services, and distributors through a combination of direct sales and marketing personnel, independent sales representatives, and distributors. DIOD was founded in 1959 and is headquartered in Westlake Village, CA.

Type: Growth
Sector: Technology

Institutional Holdings: 176
Industry: Semiconductors

Ratings & Recommendations Earnings per share

Current P/E Ratio: **21.1**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A+**
Pearson Growth & Value: **B**
Morningstar Rating: **N/R**
Standard&Poor Rating: **C-**
Value Line Rating: **2-3-3**



FACTSET RESEARCH SYSTEMS, INC (FDS) NYSE PRICE: \$56.48

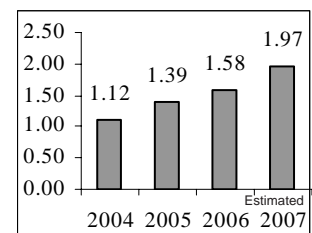
FDS provides financial and economic information, and analytical applications to the investment community worldwide. It provides various tools to download, combine, and manipulate financial data for investment analysis. The company's applications provide users access to company analysis, multicompany comparisons, industry analysis, company screening, portfolio analysis, predictive risk measurements, alphatesting, portfolio optimization and simulation, real-time news and quotes, and tools to value and analyze fixed income securities and portfolios. The company offers financial data and analytics to investment professionals. It conducts operations from various locations worldwide, including Boston, New York, Chicago, San Mateo, London, Frankfurt, Paris, Tokyo, Hong Kong, and Sydney. FactSet Research Systems was founded in 1978 and is headquartered in Norwalk, CT.

Type: Growth
Sector: Technology

Institutional Holdings: 221
Industry: Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **32.8**
Annual Yield: **0.42%**
Annual Dividend: **\$0.24**
Investor's Business Daily: **A+**
Pearson Growth & Value: **A**
Morningstar Rating: **4 Star**
Standard&Poor Rating: **A-**
Value Line Rating: **2-3-3**



GRACO, INC (GGG) NYSE PRICE: \$39.62

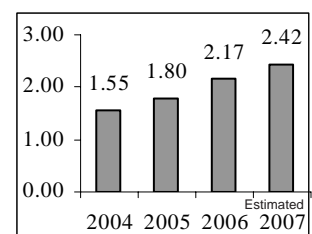
GGG engages in the design, manufacture, and marketing of systems and equipment to move, measure, control, dispense, and spray fluid materials for industrial and commercial applications. The company operates through three segments: Industrial/Automotive Equipment, Contractor Equipment, and Lubrication Equipment. Industrial/Automotive Equipment segment provides air, electric, and hydraulically-powered pumps. Contractor Equipment segment engages in providing sprayers for the application of paints and other architectural coatings, as well as the high-pressure cleaning of equipments and structures. Lubrication Equipment segment offers a line of lubrication pumps. The company sells its products directly to end users, as well as through retail stores, and independent distributors. Graco was founded in 1926 and is headquartered in Minneapolis, Minnesota.

Type: Growth
Sector: Industrial Goods

Institutional Holdings: 201
Industry: Machinery

Ratings & Recommendations Earnings per share

Current P/E Ratio: **18.8**
Annual Yield: **1.67%**
Annual Dividend: **\$0.66**
Investor's Business Daily: **B-**
Pearson Growth & Value: **B+**
Morningstar Rating: **3 Star**
Standard&Poor Rating: **A**
Value Line Rating: **3-3-3**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

January 2007

INFOSYS TECHNOLOGIES LIMITED (INFY) NASDAQ PRICE: \$54.56

INFY, a technology services company, together with its subsidiaries, engages in the design and delivery of information technology (IT) enabled business solutions. It provides various services, including consulting, design, custom application development, software reengineering, maintenance and production support, systems integration, package evaluation and implementation, testing services, operations and business process consulting, engineering services, and infrastructure management services. It serves clients in financial services, manufacturing, telecommunications, retail, utilities, logistics, and other industries in North America, Europe, and the Asia-Pacific region. INFY was formerly known as Infosys Consultants Private Limited. The company is headquartered in Bangalore, India.

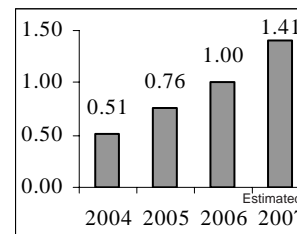
Type: Growth
Sector: Technology

Institutional Holdings: 105
Industry: Software

Ratings & Recommendations

Current P/E Ratio: **46**
Annual Yield: **0.93%**
Annual Dividend: **\$0.51**
Investor's Business Daily: **A**
Pearson Growth & Value: **A**
Morningstar Rating: **1 Star**
Standard&Poor Rating: **N/R**
Value Line Rating: **1-3-3**

Earnings per share



J & J SNACK FOODS CORP (JJSF) NASDAQ PRICE: \$41.40

JJSF, together with its subsidiaries, engages in the manufacture, marketing, and distribution of various nutritional snack foods and beverages to the food service and retail supermarket industries primarily in the United States, Mexico, and Canada. It sells soft pretzels, frozen juice treats and desserts, churros, and baked goods to snack bars and food stands in chain, department, and discount stores; malls and shopping centers; fast food outlets; stadiums and sports arenas; leisure and theme parks; convenience stores; movie theatres; warehouse club stores; and schools, colleges, and other institutions. As of September 30, 2006, the company had 13 stores. J & J Snack Foods was founded in 1971 and is headquartered in Pennsauken, New Jersey.

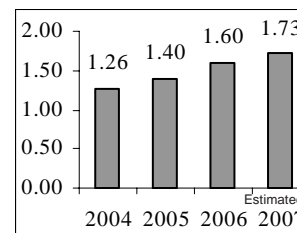
Type: Growth
Sector: Consumer Goods

Institutional Holdings: 118
Industry: Packaged Goods

Ratings & Recommendations

Current P/E Ratio: **25.8**
Annual Yield: **0.82%**
Annual Dividend: **\$0.34**
Investor's Business Daily: **B**
Pearson Growth & Value: **A-**
Morningstar Rating: **N/R**
Standard&Poor Rating: **B+**
Value Line Rating: **1-3-3**

Earnings per share



NICHOLAS FINANCIAL, INC (NICK) NASDAQ PRICE: \$11.80

Nicholas Financial, Inc., through its subsidiaries, engages in acquiring and servicing retail installment sales contracts for purchases of new and used automobiles and light trucks. It also makes direct loans and sells consumer finance-related products. In addition, the company engages in supporting and updating industry-specific computer application software, as well as sells proprietary accounting software to small businesses. As of October 18, 2006, it operated 45 branch offices located in Florida, Georgia, North Carolina, South Carolina, Ohio, Michigan, Virginia, Kentucky, Indiana, and Maryland. Nicholas Financial was incorporated in 1986 and is headquartered in Clearwater, Florida.

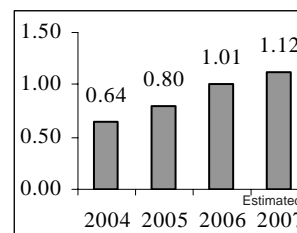
Type: Growth
Sector: Financial

Institutional Holdings: 11
Industry: Credit Services

Ratings & Recommendations

Current P/E Ratio: **10.7**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **D-**
Pearson Growth & Value: **A-**
Morningstar Rating: **N/R**
Standard&Poor Rating: **C**
Value Line Rating: **N/R**

Earnings per share



UNITEDHEALTH GROUP INCORPORATED (UNH) NYSE PRICE: \$53.73

UNH provides healthcare services in the United States. It operates through four segments: Uniprise, Health Care Services, Specialized Care Services, and Ingenix. The Uniprise segment delivers health care and well-being services to employers, individual consumers, and other health care organizations. The Health Care Services segment provides health benefit plans and services, addressing the needs for preventative and acute health care services. The Specialized Care Services segment offers a platform of specialty health and wellness, and ancillary benefits. The Ingenix segment offers database and data management services. As of 12/31/05, the company provided health care services and resources to individuals through approximately 500,000 physicians and other care providers, and 4,600 hospitals. UnitedHealth Group was founded in 1974.

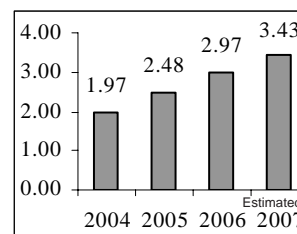
Type: Growth
Sector: Healthcare

Institutional Holdings: 807
Industry: Health Care Plans

Ratings & Recommendations

Current P/E Ratio: **19.4**
Annual Yield: **0.06%**
Annual Dividend: **\$0.03**
Investor's Business Daily: **C+**
Pearson Growth & Value: **A**
Morningstar Rating: **5 Star**
Standard&Poor Rating: **N/R**
Value Line Rating: **3-3-3**

Earnings per share



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR

January 2007 - ETF's

ISHARES MSCI BELGIUM INDEX (EWK) AMEX PRICE: \$25.61

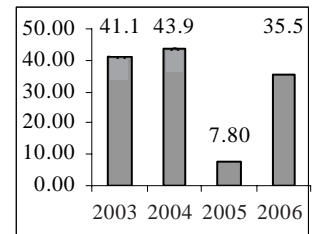
The investment seeks to provide investment results that correspond generally to the price and yield performance of publicly traded securities in the Belgian market, as measured by the MSCI Belgium index. The fund uses a representative sampling strategy to try to track the index. The index consists of stocks traded primarily on the Brussels Stock Exchange. It is nondiversified.

Fund Family: iShares, Inc
Category: Large Cap/Value

Type: ETF
Industry: Diversified

Ratings & Recommendations Performance by %

Current P/E Ratio: **N/R**
Annual Yield: **3.32%**
Annual Dividend: **\$0.81**
Investor's Business Daily: **N/R**
Pearson Growth & Value: **A-**
Morningstar Rating: **3 Star**
Standard&Poor Rating: **N/R**
Value Line Rating: **N/R**



ISHARES MSCI EAFE VALUE INDEX (EFV) NYSE PRICE: \$72.20

It's encouraging to note that unlike some other ETFs that divide the foreign markets into narrower slices, with a few exceptions this one is not heavily skewed toward particular countries or sectors. Its country weightings look much like those of MSCI EAFE. And it is not overly tilted toward the energy or industrial-materials sectors, as one might suspect a value fund could be. Its 40% financials stake is rather high, though, as is its utilities weighting, which at just below 9% is nearly twice the EAFE norm.

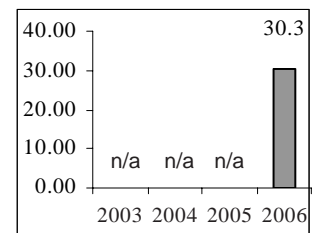
That's not to say this fund is an all-purpose vehicle. Like the EAFE fund, it has no exposure to emerging markets or small companies and excludes Canada. Also, value stocks (and European currencies) have been strong recently.

Fund Family: Foreign
Category: Large Cap/Value

Type: ETF
Industry: Diversified

Ratings & Recommendations Performance by %

Current P/E Ratio: **N/R**
Annual Yield: **0.37%**
Annual Dividend: **\$0.25**
Investor's Business Daily: **N/R**
Pearson Growth & Value: **A-**
Morningstar Rating: **N/R**
Standard&Poor Rating: **N/R**
Value Line Rating: **N/R**



TRADING FOR LESS

As an advisory company with many accounts at TD Ameritrade, I have continued to ask that they hear and react to the needs of our clients. They have informed me that, effective immediately, all trading costs will be \$9.95. I have been guaranteed this price will remain in place for at least one year and probably longer. Prior to this, a trading fee of \$15.00 was charged for accounts below \$500,000. As you may or may not know, our company does not receive any part of this trading cost, but we are especially pleased to bring you this news. The new trading fee has already been implemented, and you should see it on any future paperwork. TD Ameritrade may in the future ask that paper statements be converted to online to cover some of their costs and help them with our client's trading fee savings. I have also been informed this is not a company-wide blanket trading fee pullback; this is for the clients of Pearson Capital Inc.

I wish to personally thank our representative, Derrick Butterfield, for his effort with this.

TOYS FOR TOTS FOLLOW-UP

Our 2nd annual "Toys for Tots" was another large success for the needy boys and girls within our community, not to mention the war veterans to whom we paid our respects. Space will not allow us to showcase the event properly, but you can visit our web site soon to read the wonderful newspaper editorials and see many of the event photos. We look forward to December 7, 2007, for the opportunity to work with our area VFW, and the entire community, to do this again.

WALL STREET INDEXES

| Indexes | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-------------------|-------------------------------|---------|-------------|--------------|--------------|------------|-------------|
| S&P 500 | (10.1%) | (13.3%) | (23.4%) | 26.4% | 9.0% | 3.0% | 13.6% |
| Dow Jones | (6.2%) | (7.1%) | (16.8%) | 25.3% | 3.2% | (0.61%) | 16.3% |
| Nasdaq | (39.3%) | (21.1%) | (31.5%) | 50.0% | 8.6% | 1.37% | 9.5% |
| Russell 2000 | (4.2%) | 1.0% | (21.6%) | 45.4% | 17.0% | 3.32% | 17.0% |
| Our CD Buster | Data available on our website | | 8.1% | 56.7% | 22.8% | (Disputed) | 1.8% |
| CD Annual Average | 5.4% | 3.0% | 2.3% | 1.5% | 1.5% | 3.5% | 5.0% |

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows:

For the beginning of the year, the Federal Reserve will continue with its "wait and see" approach. The dollar seems to be bottoming out, giving our global blue chip stocks, such as McDonald's, a boost in earnings. Large cap stocks will do well for the next six months as they are positioned to take advantage of this slow growth environment.

Key Point: *The Fed will put the brakes on any rate increase for the first of the year.*



Earnings Flows:

Money continues to move out of energy and commodities into large cap stocks. Healthcare has rebounded, and the market is bracing for fourth quarter earnings that start in the middle of the month. During this time, companies report their annual predictions for earnings and sales growth for the coming year. Standard and Poor's predicts that 2007 will bring about a 7 percent growth rate for the S&P 500 and a little more for the NASDAQ. The economic slowdown will moderate any growth of the economy. International markets will show higher growth but more volatility as they are still dependent on the U.S. market.

Key Point: *Fourth quarter earnings set the tempo for the New Year.*

Cash Flows:

Leverage buyouts will continue into 2007. Some people like it as the new bubble since housing has fallen out of favor. Huge amounts of money from China and other countries continue to flow into the U.S. hedge funds, and LBO firms borrow money to go after cash-rich companies to add to their portfolios. Rumors will continue to circulate about the next buyout or takeover. In response, cash laden companies will return more money to shareholders. Pfizer already has increased its dividend by 21 percent for the next quarter.

Key Point: *Cash rich companies are being pressured to return money to shareholders.*

Management Fee:

Our fee is extracted quarterly from the account at 25% of one percent by TD Ameritrade. Immediately following any quarterly management fee extraction, it is posted within your account's history information available on line. It is also posted in your TD Ameritrade monthly statement.

First Quarter January-February-March-see your January statement.

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