

Your Personal Money Manager

Pearson

INVESTMENT LETTER

Published Monthly Since 1982
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FEATURED STOCKS & ETF'S - JULY 2008

China Direct
Cubist Pharm
InnerWorkings
Shengda Tech

Siemens AG
Superior Energy
Transocean
Trina Solar

Bristol-Myers
VypelKom

OPPORTUNITY

If I told you today as you're reading this article that this might be the best day of the year for buying stocks, you might think I'm crazy. Everything we read in the paper, or hear on the news, or see on TV, says gloom is upon us and it's not going anywhere. Historically, the stock market knows before anyone else, and it'll begin climbing long before we know the corner has been turned. Year to date the market is ending the first half of the year down around 14% depending on which index you're referencing. This is far worse than our leading prognosticators were expecting. They are still forecasting an up year for 2008, so if this is to occur, our second half should be opportunistic. Warren Buffett has repeatedly said, "More times than not I am buying when others are selling."

Once you remove emotion from the equation and work with facts, prior performance, and analytical data reviewed carefully, you'll find many quality companies can be purchased at bargain prices. As we do our research, we continue to find more and more. One only needs patience to reap the rewards. Last month we featured Johnson Controls as a perfect example. JCI is continuing to grow and prosper, yet down in stock price 18% YTD. As their

bottom line improves, the value increases. This month we've featured in our selections for those needing income, Bristol Myer. BMY is down 24% YTD although the earnings are sound. Here's another buying opportunity with a quality company yielding over 6%.

I could fill this page with many others, but it's the message I want to focus on, not the list of stocks. The stock market, like the housing market, will adjust prices as it goes up in value, but there will be occasional corrections. Many believe, as I do, the housing market is in this correction mode today because of prices rising too quickly. The stock market doesn't have this problem. The market's problem today is based on inflationary issues that are driving up prices everywhere. Even with the rate cuts we've had of 3.25%, it hasn't been able to slow down this problem. Oil closed over \$140 a barrel and the everyday foods that we all consume are up about 15-20% YTD on average. With gas at the pumps passing \$4.00, and heating oil in New England costing \$2.72 a gallon last year to \$4.69 this year, prices are out of control. That's an increase of 70+%.

When I read the articles posted by our politicians that inflation is holding around 3-4%, I'm convinced they don't drive a car and

they don't eat, and don't spend winters in NE. When someone tells me the price of computers, TVs, and digital cameras are coming down, and this helps to adjust the inflationary number, I can only think, they don't get it. With CDs, bonds, and treasuries paying out around 3-4% it's imperative we remember the market has averaged over 10% for the last 60 years. Trying to guess which years will be positive and which negative is in my opinion a sure recipe for failure. If we review quality companies or ETFs over an extended period, one will see the same bleeps along the way, but large profits have been made over the longer period. One share of Coca-Cola stock bought in 1919 at a cost of \$40.00 and held today with the dividends reinvested, adjusted for splits, would be worth five million dollars.

By understanding these issues one can adjust accordingly as we do. At our house we've learned to conserve gas by running all our errands with one trip, and we eat at home more, and out less. Our portfolios, yours and mine, are adjusted for this also. The direction today is into value companies with outstanding bottom lines, ETFs that are in international areas, or sectors that profit from these issues such as commodities.

By Donald Pearson



Walter D. Pearson
Chairman



Donald E. Pearson
President



Sandra Alberti
Publishing President

Investment Letters are complimentary to our clients with managed accounts!

THINGS HAVE CHANGED

As things stand today we have many clients who are interested in safety above everything else. Not too long ago I could nod in acquiescence and choose a portfolio with which I was comfortable. However, my selections would not be nearly the same as they might have been some years ago. The problem that we all face is that things are different today and changes have been brought about. In simple language it means that we must change our investing strategy in order for us to attain the best results.

Years ago we did not have paper money. We had paper money in essence, but at any time one could go to the bank and turn it in for the face amount in gold or silver. Those days are long gone, and there is no longer any true value to our currency, nor to that of any other country. Wars cost money, and if cash is short, it is a simple matter to publish more currency. This may seem simple enough, but it does have a way of bringing down the value of the existing currency. The more you have, the more it takes. The nomenclature is inflation. Our forefathers existed with this problem which is why our Constitution explicitly states that the dollar shall be backed by gold. ALAS! Them days are gone forever!

As someone once stated, "Things that can't be changed, must be rearranged." If we are to look for safety these days, where do we go? With the rate of inflation being calculated as being somewhere between 5 percent and 8 percent and still rising, it does not make sense to think in terms of a CD or bank deposit that earns less than that. People used to laugh at old grannies who kept their savings in the cookie jar, but their only chance of losing was by theft. Today the loss comes from your government. Each time more dollars are printed, some of your dollar value has disappeared.

I think there is a risk factor in all directions. Let me have you read an excerpt from some gentleman's letter. "Like millions of other investors, I parked my cash in something that was sold to me as a money market fund. It appears on my account statement under the heading 'other cash.' I've owned shares for years, withdrawing cash as needed. There are several varieties of these cash alternatives; in my case they were called auction rate preferred shares (ARPS), which are shares traded in a closed-end mutual fund that owns various kinds of triple-A-rated bonds. There was little or no risk to the principal, because rates were set at regular auctions. There's never been a default on an interest payment. For twenty years the auctions continued without incident. Then in February the auctions failed. Goldman Sachs and Citigroup stopped bidding, and every other Wall Street firm followed their lead. Liquidity evaporated."

After taking all of these things into consideration, I have come to the conclusion that investing is still the only way to go. There is risk but that can be brought down. Change has come about, and we must consider this in our investment thinking. We have decided that because our companies are moving out of the United States and into foreign countries, we as investors must also be looking into these foreign countries for investment opportunities. A big factor, and one which we have brought about for our clients, is diversification - the more entities, the less risk.

In Conclusion:

Inflation is with us;
It is here to stay;
With inflation everything goes up in price; and,
That includes stock prices.

By Walter 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.

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 JULY 2008
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CHINA DIRECT, INC (CDS) NASDAQ PRICE: \$7.34

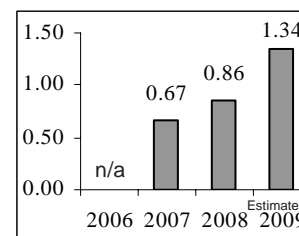
China Direct, Inc. is a management and advisory services organization, which owns and consults business entities operating in the People's Republic of China. The Company operates in two divisions: Management Services and Advisory Services. Its Management Services division acquires controlling interests of Chinese business entities, which it consolidate as either its wholly or majority owned subsidiaries. Advisory Services provides consulting services to both Chinese entities seeking access to the United States capital markets and North American entities seeking business opportunities in the People's Republic of China. As of December 31, 2007, the Management Services division included 16 subsidiaries in various industries and the Advisory Services division had five clients, which trade publicly in the United States markets.

Type: Emerging Growth
Sector: Services

Institutional Holdings: 5
Industry: Management Serv.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **14.8**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **C**
Pearson Growth & Value: **A-**
Morningstar Rating: **C**
Standard&Poor Rating: **N/R**
Value Line Rating: **N/R**



CUBIST PHARMACEUTICALS, INC (CBST) NASDAQ PRICE: \$17.86

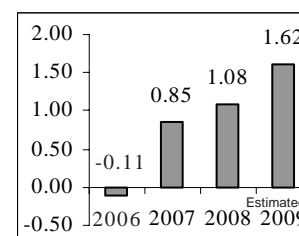
CBST is a biopharmaceutical company focused on the research, development and commercialization of pharmaceutical products that address unmet medical needs in the acute care environment. CBST focuses on developing products for the anti-infective marketplace. Cubist has one marketed product, an intravenous (IV) antibiotic, CUBICIN (daptomycin for injection). CUBICIN is approved in the U. S. for the treatment of complicated skin and skin structure infections, caused by Staphylococcus aureus and certain other Gram-positive bacteria, and for blood-stream infections (bacteremia), including right-sided infective endocarditis, caused by methicillin susceptible and methicillin resistant S. aureus (MSSA and MRSA). The Company has two anti-infective programs approaching the investigational new drug application (IND), filing stage preparatory to clinical trials.

Type: Growth
Sector: Healthcare

Institutional Holdings: 222
Industry: Drug Manufact.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **18.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **C+**
Pearson Growth & Value: **A**
Morningstar Rating: **B**
Standard&Poor Rating: **N/R**
Value Line Rating: **B**



INNERWORKINGS, INC (INWK) NASDAQ PRICE: \$11.96

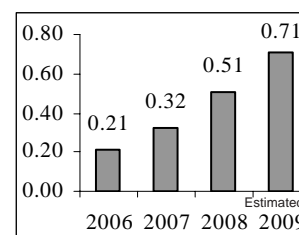
INWK is a provider of managed print and promotional procurement solutions to corporate clients across a range of industries, such as advertising, consumer products, publishing and retail in the United States. The Company procures, manages and delivers printed products as part of an outsourced enterprise solution through its technology and supplier network. Its software applications and database, PPM4, create an integrated solution that stores, analyzes and tracks the production capabilities of its supplier network, as well as quote and price data for print jobs. Through a network of over 6,000 suppliers, InnerWorkings offers a range of print, fulfillment and logistics services that enable the Company to procure printed products on various substrates. In May 2008, the Company acquired United Kingdom-based etrinsic.

Type: Emerging Growth
Sector: Services

Institutional Holdings: 86
Industry: Business Services

Ratings & Recommendations Earnings per share

Current P/E Ratio: **25.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **C**
Pearson Growth & Value: **B-**
Morningstar Rating: **D**
Standard&Poor Rating: **N/R**
Value Line Rating: **B**



SHENGDA TECH, INC (SDTH) NYSE PRICE: \$9.93

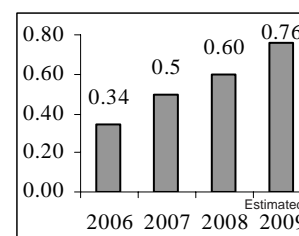
SDTH formerly Zeolite Exploration Company, is engaged in developing, manufacturing and marketing nano precipitated calcium carbonate (NPCC), as well as manufacturing and marketing coal-based chemicals, including ammonium bicarbonate, liquid ammonia, methanol and melamine. The Company sells its chemical products to plants and farmers mainly through a direct sales force. Geographic markets cover several provinces in North China, among which Shandong Province accounts for a large share of sales. The Company markets and sells the coal-based products mainly as chemical fertilizers and raw materials for the production of organic and inorganic chemical products, including formaldehyde and pesticides. The Company owns the only exclusive NPCC development and research lab in China.

Type: Emerging Growth
Sector: Basic Materials

Institutional Holdings: 0
Industry: Specialty Chemicals

Ratings & Recommendations Earnings per share

Current P/E Ratio: **18.5**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A**
Pearson Growth & Value: **A**
Morningstar Rating: **N/R**
Standard&Poor Rating: **N/R**
Value Line Rating: **N/R**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR JULY 2008
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SIEMENS AG (SI) NYSE PRICE: \$110.13

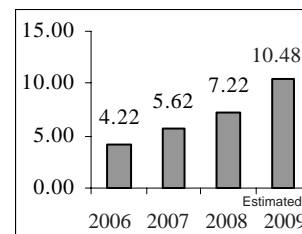
SI is engaged in electronics and electrical engineering. The majority of the Company's business is focused on providing products and services to customers-based on Siemens' expertise in electrical engineering. The Company's segments include its Groups, Financing and Real Estate business, as well as its Strategic Equity Investments. In December 2007, Continental AG completed the purchase of Siemens's Siemens VDO Automotive AG. In January 2008, Siemens and Nokia Oyj's joint venture, Nokia Siemens Networks, completed acquisition of Carrier Ethernet Specialist Atrica Inc. In February 2008, Nokia Siemens Networks completed the acquisition of Apertio Ltd., a provider of open real-time subscriber data platforms and applications built for mobiles, fixed and converged telecommunications operators.

Type: Growth
Sector: Technology

Institutional Holdings: 83
Industry: Telecom Serv.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **7.4**
Annual Yield: **1.70%**
Annual Dividend: **\$1.84**
Investor's Business Daily: **B-**
Pearson Growth & Value: **B**
Morningstar Rating: **N/R**
Standard&Poor Rating: **D**
Value Line Rating: **N/R**



SUPERIOR ENERGY SERVICES, INC (SPN) NYSE PRICE: \$55.14

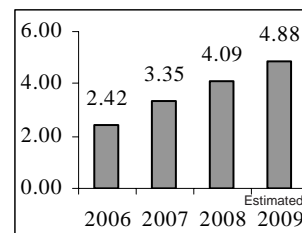
SPN is a diversified provider of specialized oilfield services and equipment. The Company focuses on serving the drilling-related needs of oil and gas companies primarily through its rental tools segment, and the production-related needs of oil and gas companies through its well intervention, rental tools and marine segments. Superior Energy Services, Inc. also owns and operates mature oil and gas properties in the Gulf of Mexico. It operates in four business segments: well intervention services, rental tools, marine services, and oil and gas operations. In Jan.2007, the Company acquired Duffy & McGovern Accommodation Services Ltd, a provider of offshore accommodation rentals operating in deep water oil and gas territories with major operations in Europe, Africa, the Americas and South East Asia. In April 2007, the Company acquired Advanced Oilwell Services, Inc.

Type: Growth
Sector: Basic Materials

Institutional Holdings: 283
Industry: Oil & Gas

Ratings & Recommendations Earnings per share

Current P/E Ratio: **14.2**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A+**
Pearson Growth & Value: **A+**
Morningstar Rating: **N/R**
Standard&Poor Rating: **A**
Value Line Rating: **A**



TRANSOCEAN, INC (RIG) NYSE PRICE: \$152.39

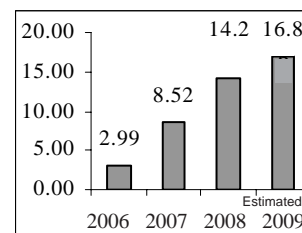
RIG is an international provider of offshore contract drilling services for oil and gas wells. As of February 20, 2008, the Company owned, had partial ownership interests in or operated 139 mobile offshore drilling units. Its fleet included 39 high-specification floaters (ultra-deepwater, deepwater and harsh environment semisubmersibles, and drillships), 29 midwater floaters, 10 high-specification jackups, 57 standard jackups and four other rigs. As of February 20, 2008, the Company also has eight ultra-deepwater floaters contracted for or under construction. The Company's primary business is to contract these drilling rigs, related equipment and work crews primarily on a day rate basis to drill oil and gas wells. In November 2007, the Company completed its merger transaction with GlobalSantaFe Corporation (GlobalSantaFe).

Type: Growth
Sector: Basic Materials

Institutional Holdings: 734
Industry: Oil & Gas

Ratings & Recommendations Earnings per share

Current P/E Ratio: **10.1**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A+**
Pearson Growth & Value: **A**
Morningstar Rating: **C**
Standard&Poor Rating: **A**
Value Line Rating: **A**



TRINA SOLAR LIMITED (TSL) NYSE PRICE: \$30.64

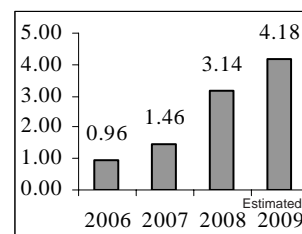
Trina Solar Limited (Trina), is an integrated solar power products manufacturer based in China. The Company produces standard solar modules ranging from 160 watts to 185 watts in power output. Its solar modules are built to general specifications, as well as to customers' specifications. Trina sells and markets its products worldwide, including in a number of European countries, such as Germany, Spain and Italy. The Company sells most of its products to wholesalers and system integrators, including Corporación Zigor S.A., Scatec AS, SKR Energie GmbH, Schüco International KG, Conergy AG and Phönix SonnenStrom AG. As of December 31, 2006, the Company had an annual module manufacturing capacity of 59.8 megawatts (MW).

Type: Emerging Growth
Sector: Technology

Institutional Holdings: 18
Industry: Semiconductors

Ratings & Recommendations Earnings per share

Current P/E Ratio: **17.6**
Annual Yield: **0%**
Annual Dividend: **\$0**
Investor's Business Daily: **A-**
Pearson Growth & Value: **B+**
Morningstar Rating: **C**
Standard&Poor Rating: **N/R**
Value Line Rating: **N/R**



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR JULY 2008
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BRISTOL-MYERS SQUIBB COMPANY (BMY) NYSE PRICE: \$20.53

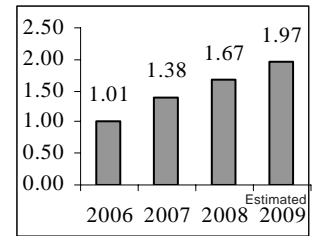
BMY incorporated in August 1933, is engaged in the discovery, development, licensing, manufacturing, marketing, distribution and sale of pharmaceuticals and other healthcare-related products. The Company has three segments: Pharmaceuticals, Nutritionals and ConvaTec. The Pharmaceuticals segment is made up of the global pharmaceutical and international consumer medicines business. The other two segments – Nutritionals and ConvaTec – comprise the Company's Health Care Group. The Nutritionals segment consists of Mead Johnson Nutritionals, primarily an infant formula and children's nutritionals business. The ConvaTec segment consists of the ostomy, wound and skin care business. On 01/07/08, the Company completed the sale of its Med. Imaging business to Avista Capital Partners L.P. In Oct. 07, BMS completed the acquisition of Adnexus Therapeutics, Inc.

Type: Growth
Sector: Healthcare

Institutional Holdings: 610
Industry: Drug Manufact.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **19.1**
Annual Yield: **6.1%**
Annual Dividend: **\$1.24**
Investor's Business Daily: **C**
Pearson Growth & Value: **B+**
Morningstar Rating: **N/R**
Standard&Poor Rating: **B**
Value Line Rating: **B**



VYMPELKOM OAO (VIP) NYSE PRICE: \$29.68

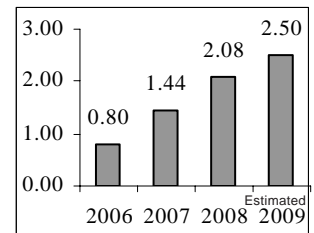
VIP is a telecommunications operator, providing voice and data services through a range of wireless, fixed and broadband technologies. The VimpelCom group of companies includes companies operating in Russia, Kazakhstan, Ukraine, Uzbekistan, Armenia, Tajikistan and Georgia. The Company operates its mobile telecommunications services in Russia, Kazakhstan, Ukraine, Armenia, Tajikistan, Uzbekistan and Georgia primarily under the Beeline brand name. On 02/28/08, the Company completed the acquisition of Golden Telecom, Inc. a provider of fixed-line telecomm. and Internet services in population centers throughout Russia and other countries in the Commonwealth of Independent States. The Company offers many of its other fixed-line telecommunications and related services, and Internet services under the Golden Telecom brand name.

Type: Growth
Sector: Technology

Institutional Holdings: 138
Industry: Wireless Comm.

Ratings & Recommendations Earnings per share

Current P/E Ratio: **16.9**
Annual Yield: **1.9**
Annual Dividend: **\$0.58**
Investor's Business Daily: **B**
Pearson Growth & Value: **A-**
Morningstar Rating: **C**
Standard&Poor Rating: **C**
Value Line Rating: **N/R**



Direct Deposit

When funds are wired to or from your bank account, they cannot be lost in the mail, they will arrive faster, and one is saved the trouble of taking checks to the bank for deposit. It's now hurricane season here in Florida, and if mail service is disrupted because of one, or a disaster occurs in another part of the country, the direct deposit is not affected and the funds arrive on time when needed the most. Call us if you'd like to get set up for this. We can assist you with getting it done at TD Ameritrade.

IRA Beneficiary Update

From time to time one should review their beneficiaries to make certain your hard earned IRA assets are distributed correctly upon your death. Naming your estate as the beneficiary, or failing to name one at all, can cost your heirs the benefit of extended tax deferral. The individual, or individuals who inherit the IRA assets by law would have to empty the tax deferred account much more rapidly than might be the case.

WALL STREET INDEXES

Indexes	2002	2003	2004	2005	2006	2007	YTD
S&P 500	(23.4%)	26.4%	9.0%	3.0%	13.6%	3.6%	(12.8%)
Dow Jones	(16.8%)	25.3%	3.2%	(0.6%)	16.3%	6.4%	(14.4%)
Nasdaq	(31.5%)	50.0%	8.6%	1.4%	9.5%	9.8%	(13.6%)
Russell 2000	(21.6%)	45.4%	17.0%	3.3%	17.0%	(2.8%)	(10.0%)
Market Average	(23.3%)	36.8%	9.4%	1.8%	14.1%	5.6%	(12.7%)



MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

Economic Flows: The Federal Reserve is now stuck between a rock and a hard place by trying to keep interest rates low to help the banks and also trying to prevent a run up in inflation. So far, on the surface, it is having a hard time with both. Time will tell if these preventative measures will have a positive effect on the future, as many economists now expect the current recession to be at its worst early next year. Congress's stimulus package should keep the economy somewhat firm over the summer, but when the spending ends, the economy will slowly recede again. However mild the recession may be, the expectations are that it will likely continue at least until the middle of 2009, brought about by lower consumer spending over coming quarters.



Key Point: *The Federal Reserve is leaving things be for right now.*

Earnings Flows: July is in the middle of earnings season, with summertime slowing down until September. Usually there is a summer rally, however this year the market may do the opposite. Rising oil prices have put downward pressure on the stock market, as consumers cut back on expenditures. However, companies have not come out and lowered expectations at this time. Economic dislocations though are apparent, as expectations for the future dim prospects for the majority of the market, while a small minority, mainly commodity stocks, continues to soar. This market action mirrors that of the technology market during 1999-2000 where investors sold off financial and other stocks and switched into a small sector of the market. Although we do not expect energy stocks and commodities to reach the same zenith highs, we note that the market always reverts back to the mean. In the long run the mean may rise, but many believe that these groups have run up too much too fast.

Key Point: *Oil prices are putting a downward pressure on the stock market, while showing a small sector of prosperity.*

Cash Flows: The Fed lowering interest rates has created a supply of money for institutional investors and an opportunity for foreign companies to use their currencies to buy American goods, services, and companies. At the same time, investors holding dollars are pouring billions of dollars into commodities such as precious metals and oil, as a hedge against its continuing decline. The more the dollar goes down, the more attractive are oil and other commodities, which, in turn, drive prices higher. Investment in commodities by institutions has risen from approximately \$10 billion at the end of 2003 to almost \$300 billion at the end of March 2008. Domestically, companies are raising prices while others such as airlines, are suffering as costs continue to rise. Rising expenditures divert needed cash flows for growth, and, in turn, slow down the economy and further fuel price inflation.

Key Point: *Increasing demands for commodities will be an important subject to deal with.*

Additional Note:

Many value investors are now making inroads into financial and even airline stocks as they predict the dollar will strengthen in value and oil prices will decline.

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