PEARSON Published Monthly Since 1982
Investment Letter
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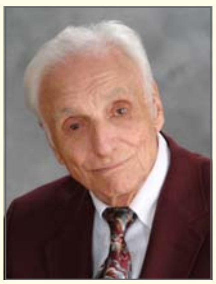
October 2006

FEATURED STOCKS

Coach, Inc.	Middleby Corp.
Digital River, Inc.	Ness Technologies
LoJack Corp.	Quality Systems
Men's Wearhouse	Smithtown Bancorp

GROWTH & INCOME

American Capital	Global Finc. (ETF)



Walter D. Pearson
Chairman

Donald E. Pearson
President

Sandra Alberti
Publishing President

Investment Letters are complimentary to our clients with managed accounts!

ANALYZING VALUE

By Donald Pearson

It doesn't matter if you're a fund manager, an individual investor, or an investment advisor, establishing value, along with growth and performance, is a difficult job. Whether it is a home, a car, or a company's stock, putting value on an asset that is subjective through the eyes of many is a difficult task.

How many different ways can one measure any of these and then try to establish a fair buying price? It doesn't matter if we are everyday working people, or professionals in the real estate market or the investment field, we will not always agree what the "fair market value" is. The reason being we will analyze a company differently much the same as we would view a home to purchase. It has to fit our needs at the time, and we must feel comfortable that it can continue to do so even if our needs change.

Companies are large, complex entities, and each seems to have its own nuance. So how are you supposed to look at all of the operations of a company and determine what it is worth? One step is to figure out how much cash will come our way in the future, and then put a price tag on it today. We must always remember, no matter how good we believe the prospects of a company might be, there exists a price at which that company is too expensive. To determine whether a stock is an attractive investment, you must be able to calculate the value of that company. One way a company can be valued is to determine its net asset values (NAV) by calculating how much money would be available after the sale of all its buildings and payment of all its debt.

We have our own system of determining value and it's very complex. As you look for bargains, remember that share price alone means nothing. When you're doing your company evaluation you must clearly understand the distinction between price and value. Don't let yourself think that a stock is cheap just because it trades for $6, or that it's too pricey just because it'll currently cost you $70 per share. People tend to think that lower-priced stocks are better investments. This is simply not true.

You need to compare the selling price of a stock to other figures. I believe a good place to start would be to review the company's one-year and five-year projected growth estimates along with analyzing its prior three years earnings and future forecasted three year earnings. A company that has met or exceeded its prior forecasts is given more credibility for its future forecasts. Insider buying by the company's management is always a confidence builder, as is increasing dividends every year. You might read the company's annual report to determine if it is run by a superior management group, and if their service or product is one that you know and understand. If this company contains all these ingredients, most times this is a recipe for success.

If you have completed your process and you still believe the company has tremendous upside potential but it is over-valued, here is an opportunity to place a stop to prevent downside loss larger than what you're willing to accept. This selection is then viewed as a growth company that carries additional risk but one you may decide is worth taking. We had some of these within the last few weeks that sold out and were assessed an additional $3.00 trading fee by TD Ameritrade. Those who had that additional charge added to their accounts will be receiving the credit back before the end of September. It was an oversight and is being corrected immediately.

MONEY! MONEY! MONEY!

What to do? Consider the individual who wants no risk. That person wants to invest his capital in areas where it cannot possibly decrease in value. What should he do? Where should he go? If we could go back in time 100 years, he would have no problem as there were differences then that do not exist today. It may seem unbelievable to most people, but in those days prices went down rather than up. Henry Ford came out with the automobile, and as time went on he was able to cut the price of a new car because he found ways of saving money in the construction, and these savings were passed on to the customers. Today we have ersatz currency and any cuts in costs are usually wiped out by the decreasing value of our currency. As time passes, prices rise.

Perhaps we should discuss that issue here. When this country was formed the Constitution was written by men who understood our problems of today and they fixed it so that we would never have to suffer with bogus currency - or so they thought. The Constitution, the law of our land, clearly states that only Congress shall issue money or regulate the value thereof. Paper money shall be backed by gold or other specie. However, in 1913 the Federal Reserve Bankers were allowed to step in. Little by little they have taken over until they now more or less control our very existence.

When our government needs money, they borrow from the Federal Reserve Bank. The Fed doesn't have it, so they print it up. Each time new currency is printed in this manner debt is created for our government and interest must be paid. As more and more debt is accumulated, more and more interest accrues. Soon our entire income tax payments will be required to pay these interest charges. Some years ago a newspaper correspondent asked the president of National City Bank how long it would be before our government had the debt repaid. The president told him it would never be repaid, it would just be inflated away. I think we can now see what he meant.

From this I think we should be able to see that when considering investments we cannot consider anything that is going to be dollar backed. When we buy a gallon of gasoline today we are paying twice as much as last year. That is NOT the fault of the gasoline producers. Gasoline did not keep up with inflation, but has caught up in a hurry. Your dollar buys less bread, gasoline, butter, etc. The fault lies with the fact that you do not own money; you are holding Federal Reserve I O U's. The investor who wishes absolute safety cannot consider investing in the U. S. Dollar.

Let's go a step further. Today there is nothing that can give you absolute safety in the investment field. When you invest in a government bond you have chosen a guaranteed loser. If the bond pays 4% and the inflation rate is 6 or 8% you have chosen a guaranteed loser. Things were different when the dollar was a dollar, but to protect your capital today you must look elsewhere.

My suggestion is twofold. I strongly suggest having a trusted professional do the job for you. That is why we're here. If you prefer doing the job yourself and wish to be ultra careful, I suggest looking for companies that have long term dividend records. There are many companies that have paid dividends for 25 or even 50 years without a break, and there are many that have even increased those dividends each year in the process. Now doesn't that make more sense than investing in scrap paper?

For the investor who wants to build his capital, I cannot overemphasize growth stocks. I do not think I have to tell you that new industries or new ventures will pop up from time to time. Each of us should investigate these as the occasion arises. When the automobile industry came along, one could have done well by investing in Ford, Buick or one of the others. One of the others might have been wrong, but that is why we diversify. Nobody is perfect. Think of when Gillette started his safety razor. I imagine a fortune could have come from not too many dollars. Did you catch McDonald's or Wendy's when they started up? In later years Microsoft came along. A kid named Bill Gates made himself the wealthiest man in the world. In fact he built up so much moola he had to get Warren Buffet to help him give half of it away. Did you participate or did you buy bonds?

One of the things to bear in mind is that you are not investing for the short term. It really makes no difference what happens to the stock price over the intermediate term. Today there are gamblers in the market and their actions can affect your stocks' price without affecting the quality of the issue. You should be looking two, three, or five years down the line. If your company is going to double earnings in that period, you should find that the price will follow. Try to spot

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.*

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"

COACH, INC (COH) NYSE PRICE: $34.40

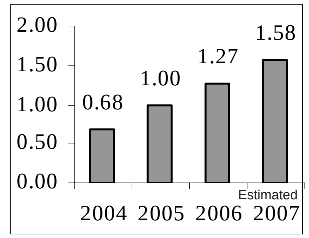
COH engages in the design and marketing of handbags and accessories in North America and internationally. Its primary product offerings include handbags; women's and men's accessories, such as money pieces, wristlets, cosmetic cases, key fobs, belts, electronic accessories, wallets, and other leather accessories; outerwear, gloves, hats, and scarves; men's computer bags, messenger-style bags, and totes; and luggage and travel accessories. The company's product offerings also comprise watches, footwear, and eyewear. Its products are sold through direct-to-consumer channels, including company-operated retail and factory stores in North America and Japan; and its online store and catalogs. As of July 1, 2006, COH operated 218 retail stores and 86 factory stores in North America; and 118 department store shop-in-shops, retail stores, and factory stores in Japan.

Type: Growth
Sector: Consumer Goods
Institutional Holdings: 492
Industry: Textile-Apparel

Ratings & Recommendations

Current P/E Ratio: **26.9**
Annual Yield: **0%**
Annual Dividend: **$0**
Investor's Bus. Daily: **B+**
Pearson Growth Rating: **A-**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **N/R**
Value Line Rating: **3-3-3**

Earnings per share



DIGITAL RIVER, INC. (DRIV) NASDAQ PRICE: $51.12

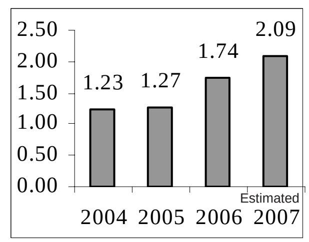
DRIV provides e-commerce outsourcing solutions primarily to the software and high-tech products markets. Its services include online store design, development and hosting, store merchandising and optimization, order management, fraud prevention screening, export controls and management, tax management, digital product delivery via download, physical product fulfillment, multilingual customer service, email marketing, Website optimization, Web analytics, and reporting. In addition, the company also offers paid search advertising, search engine optimization, affiliate marketing, store optimization, and email optimization. Digital River was founded by J.A. Ronning in 1994 and is based in Eden Prairie, Minnesota. DRIV's Corporate Governance Quotient (CGQ®) as of 1-Sep-06 is better than 74.8% of Russell 3000 companies and 82.1% of Software & Services companies.

Type: Growth
Sector: Technology
Institutional Holdings: 161
Industry: Internet Software

Ratings & Recommendations

Current P/E Ratio: **35**
Annual Yield: **0%**
Annual Dividend: **$0**
Investor's Bus. Daily: **A+**
Pearson Growth Rating: **A**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **A-**
Value Line Rating: **3-4-4**

Earnings per share



LOJACK CORPORATION (LOJN) NASDAQ PRICE: $19.59

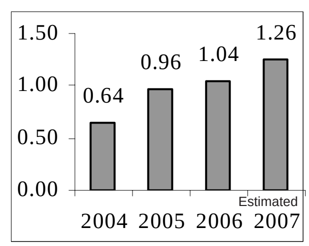
LOJN, together with its subsidiaries, provides technology products and services for the tracking and recovery of mobile assets worldwide. Its wireless network technology offers a means for the tracking and recovery of stolen vehicles, motorcycles, and construction equipment. The company also offers LoJack Early Warning recovery system, which provides early notification to vehicle owners in the event of unauthorized user operating the vehicle. In addition, the company offers Boomerang Tracking System, which consists of a cellular band radio frequency transponder with antenna, microprocessor, and power supply to locate and recover stolen vehicles. The company markets its products through its sales force, telemarketing representatives, direct mail, and automobile dealers. LoJack Corporation was founded in 1978 and is headquartered in Westwood, Massachusetts.

Type: Growth
Sector: Services
Institutional Holdings: 93
Industry: Security & Protect.

Ratings & Recommendations

Current P/E Ratio: **19.8**
Annual Yield: **0%**
Annual Dividend: **$0**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **A-**
Pearson Value Rating: **B+**
Stand.&Poor Rating: **B-**
Value Line Rating: **3-3-3**

Earnings per share



THE MEN'S WEARHOUSE, INC (MW) NYSE PRICE: $37.21

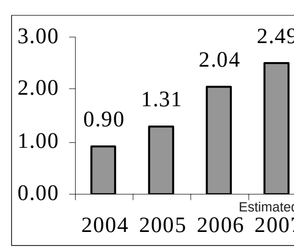
The Men's Wearhouse, Inc. operates as a specialty retailer of menswear. It operates throughout the United States primarily under the brand names of Men's Wearhouse and K&G, and under the brand name of Moores in Canada. The company's stores offers designer, brand name, and private label merchandise, including suits, sport coats, slacks, navy blazers, tuxedos, business casual, sportswear, outerwear, dress shirts, shoes, and accessories. Its K&G stores also offer ladies' career apparel. In addition, the company offers tuxedo rentals in its Men's Wearhouse stores. As of January 29, 2005, The Men's Wearhouse operated 593 retail apparel stores in 44 states and the District of Columbia. The company was incorporated in 1974 and is based in Houston, Texas.

Type: Growth
Sector: Services
Institutional Holdings: 211
Industry: Apparel Stores

Ratings & Recommendations

Current P/E Ratio: **16.8**
Annual Yield: **0.54%**
Annual Dividend: **$0.20**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **B+**
Pearson Value Rating: **A**
Stand.&Poor Rating: **B+**
Value Line Rating: **2-3-1**

Earnings per share



PEARSON CAPITAL'S RECOMMENDED STOCKS FOR
October 2006

THE MIDDLEBY CORPORATION (MIDD) NASDAQ PRICE: $77.06

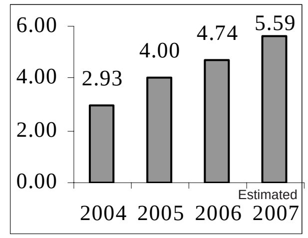
MIDD, through its subsidiaries, engages in the design, manufacture, marketing, distribution, and service of a broad line of cooking equipment and related products in the United States. The company operates in three segments: Commercial Foodservice Equipment, Industrial Foodservice Equipment, and International Distribution. The company markets its products through dealers, distributors, sales personnel, and network of independent manufacturer's representatives. The Middleby operates in Asia, Europe, Latin America, Canada, China, India, South Korea, Mexico, the Philippines, Spain, Taiwan, and the United Kingdom. The company was founded as Middleby Marshall Oven Company in 1888 and changed its name to The Middleby Corporation in 1985. Middleby is based in Elgin, Illinois.

Type: Growth
Sector: Industrial Goods
Institutional Holdings: 100
Industry: Machinery

Ratings & Recommendations

Current P/E Ratio: **17.6**
Annual Yield: **0%**
Annual Dividend: **$0**
Investor's Bus. Daily: **C-**
Pearson Growth Rating: **A-**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **C-**
Value Line Rating: **3-4-3**

Earnings per share



NESS TECHNOLOGIES, INC. (NSTC) NASDAQ PRICE: $13.35

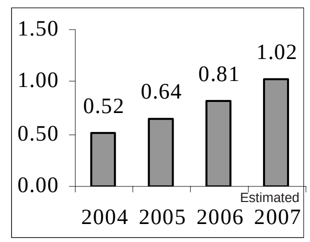
NSTC, through its subsidiaries, provides information technology (IT) services and end-to-end business solutions in Israel, the US, Europe, and Asia. Its portfolio of solutions and services includes outsourcing, system integration and application development, software and consulting, and quality assurance and training. Ness Technologies serves various industries, including defense and homeland security; education; financial services; government and public sector; healthcare; independent software vendors; life sciences; media; entertainment; nonprofit organizations; retail; telecommunications; transportation, and utilities. NSTC has strategic alliances with BEA Systems, EMC Documentum, IBM, Mercury Interactive, Microsoft, SAP, APERE, Inc., and Unisys. Ness was founded in 1999 and is based in Tel Aviv, Israel.

Type: Growth
Sector: Technology
Institutional Holdings: 52
Industry: Info-Technology

Ratings & Recommendations

Current P/E Ratio: **19.4**
Annual Yield: **0%**
Annual Dividend: **$0**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **B+**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **1-3-3**

Earnings per share



QUALITY SYSTEMS, INC. (QSII) NASDAQ PRICE: $38.79

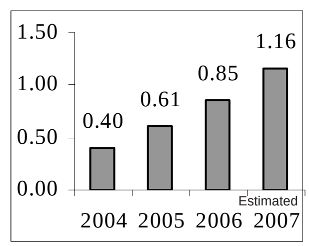
QSII and its subsidiary NextGen Healthcare Information Systems, Inc. engage in the development and marketing of healthcare information systems that automate medical and dental practices, physician hospital organizations and management service organizations, ambulatory care centers, community health centers, and medical and dental schools. It offers proprietary electronic medical records software and practice management systems under the NextGen3 product name. Quality Systems offers hardware and software maintenance and support services, system training services, and electronic data interchange services, which provide various connectivity services to and between patients, providers, and payors. Quality Systems was founded in 1974 by S.Razin and is headquartered in Irvine, California.

Type: Growth
Sector: Technology
Institutional Holdings: 119
Industry: Healthcare Info/Serv.

Ratings & Recommendations

Current P/E Ratio: **40.8**
Annual Yield: **2.26%**
Annual Dividend: **$0.88**
Investor's Bus. Daily: **A-**
Pearson Growth Rating: **A**
Pearson Value Rating: **B-**
Stand.&Poor Rating: **D**
Value Line Rating: **3-3-3**

Earnings per share



SMITHTOWN BANCORP, INC. (SMTB) NASDAQ PRICE: $26.99

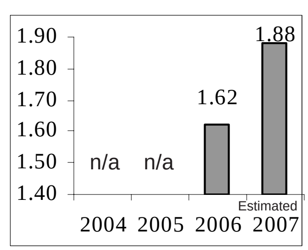
SMTB operates as the holding company for Bank of Smithtown that provides various financial products and services in the state of New York. Its deposit products include demand, savings, and time deposits. The bank's loan portfolio comprises residential and commercial mortgages, construction and land loans, secured and unsecured commercial loans, and secured and unsecured consumer loans. It also offers merchant credit and debit card processing, safe deposit boxes, online banking, including bill pay, telephone banking, automated teller machines, and individual retirement accounts. As of December 31, 2005, the bank operated 13 branches in Northport and Wading River region in New York. The company was formed in 1910 and is headquartered in Hauppauge, New York.

Type: Growth
Sector: Financial
Institutional Holdings: 15
Industry: Regional NE Banks

Ratings & Recommendations

Current P/E Ratio: **18.9**
Annual Yield: **0.59%**
Annual Dividend: **$0.16**
Investor's Bus. Daily: **B**
Pearson Growth Rating: **B+**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **N/R**
Value Line Rating: **N/R**

Earnings per share



October 2006 - **Growth & Income**

AMERICAN CAPITAL STRATEGIES, LTD. (ACAS) NASDAQ PRICE: $39.47

ACAS is a principal investment firm specializing in management and employee buyouts, recapitalization, special situations, middle market, and growth capital investments.The firm invests in manufacturing, services, and distribution companies with a special focus on energy sector. In the energy production sector, it invests in lower risk oil and gas exploration. In energy transmission sector, the firm invests in oil and gas pipelines. In the energy services sector, the firm invests in oil and gas services and utility services. It also targets investments in companies that provide services or products to federal, state, or local governments. The firm structures its investments in the form of senior debt, subordinated debt, or equity. It seeks to acquire minority stakes in its portfolio companies. ACAS was founded in 1986 by Mr. Malon Wilkus and is based in Bethesda, Maryland.

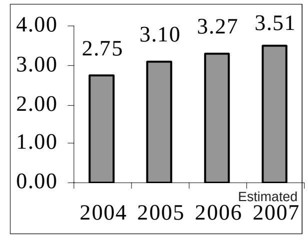
Type: Growth & Income
Sector: Financial

Institutional Holdings: 93
Industry: Div. Investments

Ratings & Recommendations

Current P/E Ratio: **7.7**
Annual Yield: **8.49%**
Annual Dividend: **$3.35**
Investor's Bus. Daily: **A**
Pearson Growth Rating: **A**
Pearson Value Rating: **A-**
Stand.&Poor Rating: **B**
Value Line Rating: **3-3-3**

Earnings per share



iSHARES GLOBAL FINANCIALS (IXG) AMEX PRICE: $84.25

IXG is the only financial ETF with a global focus. While other financial ETFs keep at least 99% of their assets in domestic stocks, almost 60% of this fund's portfolio consists of foreign holdings. In addition, the fund limits its exposure to any one stock by thinly spreading its assets over 228 stocks. As a result, its top 10 holdings carry only 25% of the fund's assets, while other ETFs in this category average 51% in their top holdings. The fund has outperformed peers, including Financial Select Sector SPDR XLF and iShares Dow Jones U.S. Financial Sector IYF , by holding fewer assets in underperforming domestic stocks. Instead, it has profited from international holdings. For instance, Banco Itau ITU and Banco Santander-Chile SAN , emerging markets banks that have benefited from mortgage growth over the past three years, have boosted the fund's returns.

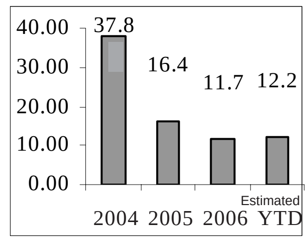
Fund Family: Large Cap
Category:

Type: ETF
IXG Started: N/A

Ratings & Recommendations

Current P/E Ratio: **N/R**
Annual Yield: **1.42%**
Annual Dividend: **$1.20**
Investor's Bus. Daily: **N/R**
Pearson Growth Rating: **A**
Pearson Value Rating: **A**
Stand.&Poor Rating: **N/R**
Morning Star: **5-Star**

Performance by %



2006

PEARSON CAPITAL, INC. PRESENTS

SPECIAL APPEARANCE FROM SANTA CLAUS

FOOD • FUN • ENTERTAINMENT
OPEN TO THE PUBLIC

Pearson Capital Inc. will present again this year to the greater South Shore community our second Toy's for Tots event which is open to everyone living in Apollo Beach, Brandon, Riverview, Ruskin, Sun City, and beyond. Our company and our local VFW will co-host this event on December 7, 2006.

Fun, food, nonalcoholic beverages, and entertainment will be offered to everyone from 5:00-9:00 PM. The price of admission will be a new unwrapped toy for the children whom we wish to reach out to on Christmas Day. Those wishing to donate money should write their checks to the US Marines - Toys for Tots. Please come and shake hands with our VFW veterans, our Marines, and Santa Claus at VFW Ruskin, 5120 US HWY 41 N., Ruskin, FL on December 7.

NOTE:

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.

Fourth Quarter: October-November-December-see your October statement.

WALL STREET INDEXES

Indexes	2000	2001	2002	2003	2004	2005	2006/YTD
S&P 500	(10.1%)	(13.3%)	(23.4%)	26.4%	9.0%	3.0%	7.0%
Dow Jones	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(0.61%)	9.0%
Nasdaq	(39.3%)	(21.1%)	(31.5%)	50.0%	8.6%	1.37%	2.4%
Russell 2000	(4.2%)	1.0%	(21.6%)	45.4%	17.0%	3.32%	8.8%
Our CD Buster	Data available on our website		**8.1%**	**56.7%**	**22.8%**	(Disputed)	even
CD Annual Average	5.4%	3.0%	2.3%	1.5%	1.5%	3.5%	3.8%

MARKET VIEW

Christopher Carothers - PCI's Stock Analyst

ECONOMIC FLOWS:

The Federal Reserve has left interest rates stable for the month of September. They will continue to keep things the same until they see that there is an increase in inflation rates. This "wait and see" approach will leave the market in a constant flux until a new trend emerges. Many Fed governors fear this trend is an inflationary one that will erode the dollar over time. However, this relaxation of rates will leave open the traditional fall rally.

Key Point: *The Fed is allowing the stock market to have its traditional fall rally.*

EARNINGS FLOWS:

Finally! Higher oil prices have broken and are heading downward. Gold, silver, and other commodities have also retreated. Retail and consumer stocks have risen in response. Gas prices are a lot cheaper than a year ago. This will lead to improved earnings for many companies and continuous growth. The economy will slow down, but still move on.

Key Point: *Commodity prices will continue to fall giving consumers some breathing room.*

CASH FLOWS:

Companies and hedge funds have tons of money to buy up public companies. Both Freescale Semiconductor and Symbol Technology had viable offers. Look for more to continue over the next year. Many of these buys will be great for current investors. However, time will tell if these investments will return the value they were purchased for in the first place. However, companies like Google need to merge or buy other pieces to continue to dominate its position.

Key Point: *Companies will be bought by others to increase value. Investors will be pleased.*

Money! Money! Money!
Continued from page 2

the up and coming companies as they move along. Even if you didn't catch McDonald's at the beginning, there was money to be made. By purchasing it in January of 1973, you would have a profit of 1800% today. If you caught Microsoft early in January of 1987, you would show a 9500% profit. Banks are usually good to own. Profits may no be fantastic, but they usually come through. TCF Financial could have been bought for less than $1 a share in January of 1988, and is now worth $27.

These stories can go on and on, and you will also find that there will be mistakes along the way, but the important thing is to be there and have patience. Rome was not built in one day, but that madman was able to burn it down in one. It is the same thing with your portfolio. Do not let your emotions rule your investments. Remember that every day the market goes down stocks become that much cheaper. Think long term!

Pearson Capital, Inc.

P.O. Box 3739
Apollo Beach, Florida 33572
Tel: (813) 641 - 7575
Fax: (813) 641 - 7755
Toll Free: (800) 510-0329

1628 White Arrow Drive
Dover, Florida 33527
Tel: (813) 659 - 2560

www.pearsoncapitalinc.com

Chairman Of The Board
Head Of Investment Research
Walter D. Pearson
E-mail: PearsonCap@aol.com

President
Donald E. Pearson
E-mail: PearsonCapital@aol.com

Stock Analyst
Chris Carothers
PearsonCapital2@yahoo.com

Client Specialist
Ann Hathaway
PearsonCapital7@gmail.com

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published monthly since 1982

www.pearsoninvestmentletter.com

Publishing President
Sandra Alberti
PearsonCapital@aol.com

Editor
Roberta Wilde

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