AIS
American Investment Services, Inc.

Investment Strategy Overview

Markets Work: Don't Overpay for Returns

Market prices reflect the consensus estimate of millions of market participants – professional traders, retail investors, pension funds, high-frequency traders, speculators, and everything in between. Although it is alluring to believe that we can "beat the market," academic and empirical research shows there is no effective means of consistently identifying "bargain priced" securities or predicting future prices. In other words, "markets work."

Rather than try to "beat the market" or "time the market" we identify *asset classes*, which provide robust historical returns that are not strongly correlated with one another. We then select from these classes to design a portfolio tailored to each client's situation and tolerance for risk.

Too many investors are sold a strategy that promises to beat the market, only to find themselves consistently lagging, especially after accounting for fees. We strongly believe that any cost that comes between an investor and the returns of the market are an explicit hurdle that must be minimized.

Diversification

There is no such thing as a free lunch when it comes to investing. However, through prudent diversification, we believe that we can maximize return for a given level of risk – the closest thing to a free lunch we know of.

The idea of diversification is that when one asset class is losing value, another is often gaining, or at least losing less. For instance, during the financial crisis in 2008, many of our clients held high-quality bonds and gold which helped offset the poor performance of stocks.

We identify index-type mutual funds and ETFs that allow us to optimize the risk-return tradeoff:

- We invest across the entire U.S. stock market to "diversify away" both *company-specific* and *industry-specific risk*, neither of which provide higher expected returns as compensation.
- We provide exposure to international stocks in order to similarly "diversify away" *country-specific* risk.
- To offset the volatility in these global stock markets, we utilize cash, gold, fixed income and global real estate (REITs).

Discipline

Our primary function as your investment adviser is to provide the discipline to stay the course. Inevitably, portfolios values are going to fluctuate between good times and bad. The worst thing an investor can do is to behave the way our primal brains have taught us – that is, to run away when markets are falling. As your investment adviser, we aim to prevent this tendency in two ways:

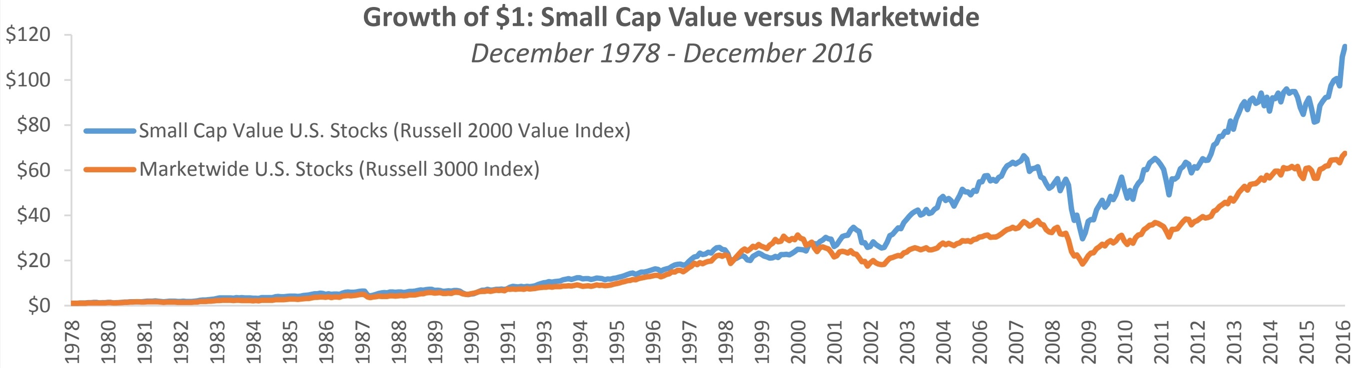
1. We assess your risk tolerance in advance and put you in a portfolio that is only as risky as you can tolerate.
2. During periods of duress, we help you re-focus on your long-term financial goals instead of short-term market fluctuations. We urge you to call us to discuss market fluctuations, the economy, and anything else that is on your mind, so that we can help you cope with the anxiety. We take pride in our composure and discipline in the face of turmoil.

Stock Portfolio "Tilts"

For clients willing to embrace greater risk, we can "tilt" toward factors that have historically provided additional return to compensate the additional risk assumed.

Academics have identified several prominent "factors" that help explain equity (stock) returns. We focus on two of these factors that can be readily captured and implemented within a portfolio without adding significant costs: size and value. These return factors appear repeatedly across time spans and in different countries, meaning we are confident in their long-term ability to provide higher expected returns.

Factor "tilts" can be achieved by using mutual funds provided by our primary fund provider, Dimensional Fund Advisors, which places greater weight on these factors in their mutual funds. The appropriate amount of "tilt" depends on each client's ability to withstand market volatility and to accept returns that deviate from major market indices such as the Dow Jones Industrial Average or S&P 500.



Source: Russell total returns in USD. DFA Returns 2.0.
Past performance may not be indicative of future results. Therefore, no current or prospective investor should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by AIS), or product made reference to directly or indirectly, will be profitable or equal to past performance levels. Historical performance results for individual investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges, the deduction of mutual fund fees, or the deduction of advisory fees, the incurrence of which would have the effect of decreasing historical performance. The results portrayed above reflect the reinvestment of dividends and capital gains.

Bond Portfolio "Vectors of Return"

Bonds serve as a source of stability to counter the volatility of stocks. Generally, we restrict our fixed income holdings to government securities and investment-grade bonds, which have low risk of default, and bonds with short-term maturities, which are not highly sensitive to interest-rate changes.

For investors willing to take on incrementally more risk in the bond portion of their portfolios, we will consider using longer duration and/or "extended quality" issues. For investors that are more sensitive to inflation risk, we also incorporate Treasury Inflation-Protected Securities ("TIPS"). The primary bond funds we use maintain average maturities that range from less than 3 years to more than 6 years and range in average credit rating from BBB to AA.

Gold

We often employ gold in portfolios for investors who are sensitive to the potential for major market disruption or extreme price inflation. Many of our clients have found that owning gold can be a source of comfort during periods of financial distress. Gold appreciated sharply during the darkest moments of the market meltdown of 2008. This helped some investors avoid the fate of others who panicked and sold their stocks near the stock market bottom.