

## **A Structured, Large Cap Value Strategy**

Our High Yield Dow (HYD) service provides a cost-effective alternative for investors seeking management of the U.S. large cap-value segment of their portfolio. The HYD strategy is based on research conducted by our parent organization, the American Institute for Economic Research, which examined the historical returns of the stocks that comprise the Dow Jones Industrials Index.

### **FEATURES**

- An experienced AIS portfolio manager will work with you to determine the allocation to the HYD strategy that is appropriate for you in the context of your overall investment portfolio.
- We will help you to set up an account with a qualified, independent third-party custodian (Charles Schwab Institutional, TD Ameritrade Institutional or Fidelity Institutional Wealth Services) where we will have discretionary authority to manage your assets on your behalf. You will receive trade confirmations and monthly statements from the custodian, and quarterly performance reports from us.
- You will have convenient, 24-hour access to your account positions, balances, and transaction history.
- We will invest your assets promptly and monitor your portfolio continuously. We will trade within your account to ensure your holdings are consistent with the HYD model portfolio.
- You will retain all rights to your account. Only you will have the right to remove assets from the account with the exception of the quarterly deduction of our advisory fee.
- We will work with your broker on your behalf to address any administrative issues that might arise.
- In taxable accounts the model's 18-month holding period ensures that realized capital gains will be classified as long-term.

Over the long term large cap value stocks have generated annualized returns in excess of those of the overall stock market. This is explained by the inherent trade-off between risk and return. Value companies are in a distressed state and have a higher cost of capital relative to financially sound growth companies. A firm's cost of capital is also the investor's expected return; in order to invest in these shares potential investors insist upon a lower stock price.

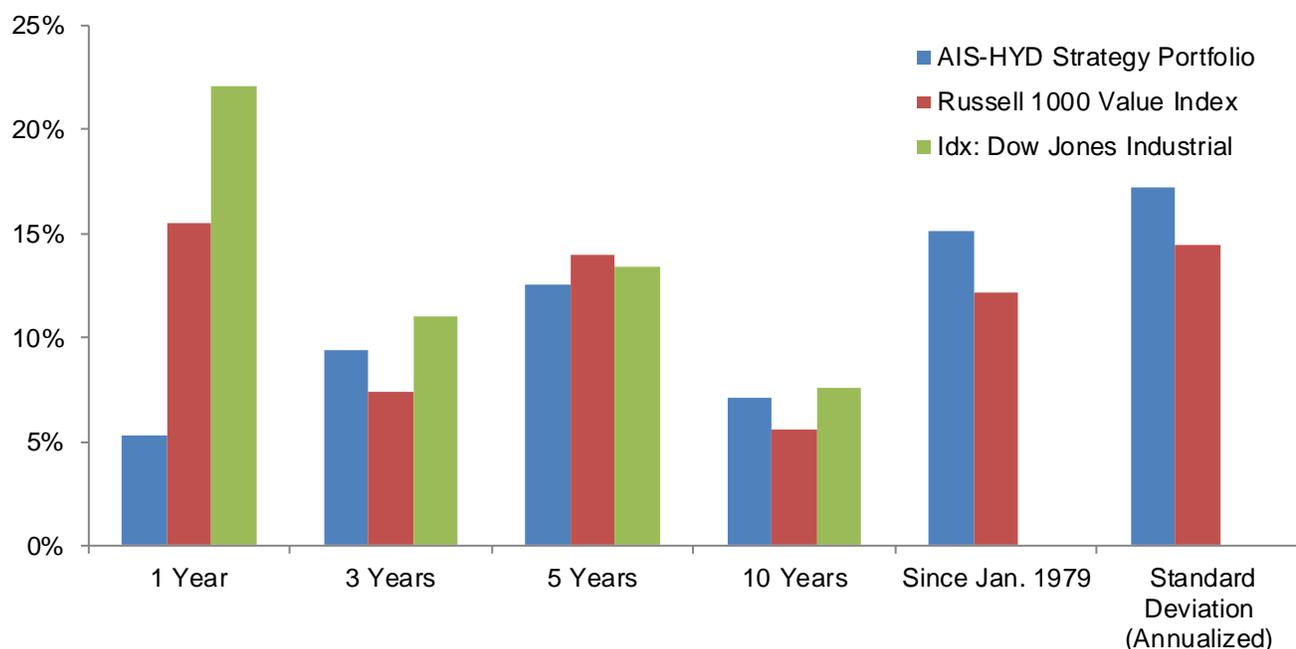
One way to identify lower priced shares is by ranking stocks based on their dividend yield. High-yielding stocks have higher expected returns versus lower yielding stocks because they bear greater risk. For larger accounts, especially those with an explicit need for investment income (such as certain trust accounts) we form portfolios of high-yielding stocks through our HYD approach.

Our HYD model is similar to an index approach because it relies on a "rules-based" selection strategy rather than subjective analysis. We began the strategy by incrementally "investing" a hypothetical sum of \$1 million over 18 months. Specifically, one eighteenth of \$1 million (\$55,000) was invested equally in each of the 4 highest-yielding issues in the Dow Jones Industrial Average each month, beginning in July 1962. Once fully invested (January 1964) the model began a regular monthly process of considering for sale only those shares purchased 18 months earlier, and replacing them with the shares of the four highest-yielding shares at that time. The model each month "purchases" shares that are relatively low in price (with a high dividend yield) and sells shares that are relatively high in price (with a low dividend yield), all the while garnering a relatively high level of dividend income.

Our "4-for-18" high-yield Dow approach (HYD) provides highly volatile returns that warrant only a limited allocation for most investors. As a rule of thumb we recommend the HYD strategy only for investors who can devote at least \$100,000 to an HYD portfolio. In addition investors should limit their allocation to large-cap value stocks to a range of 15 to 30 percent of their total investment portfolio. In many situations it is prudent to further diversify this large cap value allocation by also investing in a large cap value index fund.

## HYD Model for the Period Ending June 30, 2017

### Hypothetical Total Returns and Volatility (annualized)



\*Data assume all purchases and sales at mid-month prices (+/- \$0.125 per share commissions), reinvestment of all dividends and interest, and no taxes. Model HYD calculations are based on hypothetical trades following a very exacting stock-selection strategy. They do not reflect returns on actual investments or previous recommendations of AIS. Past performance may differ from future results. Historical performance results for the Russell 1000 Value Index and the Dow Jones Industrial Index do not reflect the deduction of transaction and/or custodial charges, or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. HYD Strategy results reflect the deduction of 0.55% management fee, the annual rate assessed to a \$500,000 account managed through our High Yield Dow service. A maximum annual management fee for the HYD service of 1.35% applies to accounts of \$100,000 (our minimum account size) in Assets Under Management (AUM). The fee decreases thereafter, as AUM increases. Accounts with AUM less than \$500,000 would incur a fee greater than 0.55% and therefore returns would be lower than indicated. See AIS ADV Part 2 for full detail, available at [http://www.americaninvestment.com/images/pdf/ADV\\_Part\\_2A.pdf](http://www.americaninvestment.com/images/pdf/ADV_Part_2A.pdf).

#### HYD INVESTMENT RELATED COSTS

The total investment related costs assessed under HYD are extremely competitive.

As a client of our HYD program you will encounter two types of expenses:

1. AIS HYD advisory fee.
2. Transaction fees (brokerage commissions)

Example: The following summary provides an estimate of total annual costs incurred by a HYD client with a portfolio valued at \$500,000.

PAM Advisory Fee <sup>1</sup>	\$2,750	0.55%
Transaction Fees <sup>2</sup>	\$500	0.10%
<b>Total</b>	<b>\$3,250</b>	<b>0.65%</b>

#### AIS HYD ADVISORY FEE

Our effective annual advisory fees range from 0.65% for AUM of \$300,000 to 0.275% for AUM of \$20,000,001 or more.

We have a tiered, cumulative fee structure based on assets under management (AUM) where AUM is the combined market value of all the accounts under our management. Our only source of revenue is the fee we charge to you directly. We do not earn any commissions or other compensation from any third party.

#### TRANSACTION FEES

We have established transaction fee schedules with discount brokers Charles Schwab Institutional, TD Ameritrade Institutional and Fidelity Institutional Wealth Services, who compete for our business. These fees are generally equal to or below retail fees offered by these firms.

1. For our complete fee schedule see our SEC filing (ADV Part 2A), available at [www.americaninvestment.com](http://www.americaninvestment.com). 2. This estimate includes an estimate for first-year transaction fees, in which we assume full reinvestment of an initial \$500,000 portfolio. For a complete transaction fee schedule, see our Overview of Fees insert, or visit our web site [www.americaninvestment.com](http://www.americaninvestment.com).

