AIS INVESTMENT GUIDE

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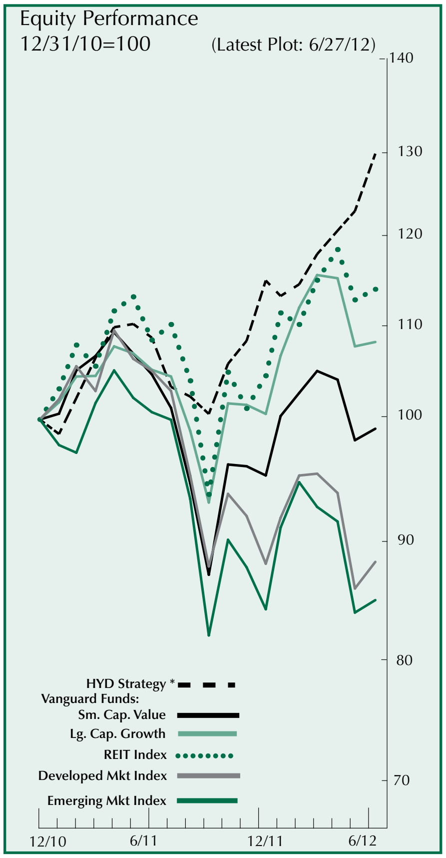



* HYD is a hypothetical model based on back-tested results. See p.46 for full explanation.



# Retirement: The Income Conundrum

*Retirees are facing perhaps their greatest financial challenge at any time since the Great Depression. Life expectancies are increasing, Social Security income may be curtailed, and traditional pension plans are disappearing. Seniors can no longer rely on positive real returns from traditional cash equivalent assets such as certificates of deposit and Treasury bills. Meanwhile current monetary and fiscal policy does not bode well for the future purchasing power of the dollar.*

*Millions of older Americans are worried, justifiably, that their financial resources might fall short of their spending plans, and that they may even outlive their savings altogether. In this environment, money managers, planners and insurance companies have stepped up their efforts to push products that are often inconsistent with investors' best interests. Retirees are faced with a daunting and often confusing array of alternatives that go well beyond simply "spending down" an investment portfolio. Options range from plain-vanilla immediate annuities to far more exotic notions such as reverse mortgages and viatical settlements.*

*Here we set the stage for a series of follow-on articles in which we will attempt to cut through the clutter and help our readers, both young and old, to approach retirement planning in a rational manner.*

*The second article in this month's issue takes the first step by examining immediate annuities in detail.*

## Brave New World

Over the last several decades defined-contribution plans such as 401(k)s have replaced the traditional defined-benefit pension plans for many Americans. With 401(k)s replacing traditional pensions as a primary source of retirement income, a growing number of retirees face a new challenge: Deciding what to do with a large lump-sum of retirement money. In the past, retirees received a monthly pension check from their former employer. Now many have a large sum in their 401(k) or IRA, but have no assurance of a steady income and

(continued next page)

are concerned about inflation and how to make their savings last.

Many advisors, including AIS, have recommended investing retirement assets in portfolios of stocks and bonds, and making systematic withdrawals from the portfolio. The allocation to stocks is reduced for individuals who fear stock market fluctuations. Upon retirement, many have recommended an annual withdrawal equal to four percent of the starting portfolio value, adjusted for inflation. Previous studies have shown this rate would usually work, even for investors living well into their 90's.

This approach is coming under increasing scrutiny. For example, Joe Tomlinson of *Advisor Perspectives* analyzed the four percent rule by applying it to a portfolio of 35 percent TIPs and 65 stocks utilizing a Monte Carlo simulation. Such simulations allow both longevity and investment returns to vary. His results indicated nearly a 20 percent failure rate (defined as running out of money before death) under the assumption that historically low interest rates will continue and lower stock returns will prevail. He also analyzed the data using inflation-adjusted single-premium immediate annuities (SPIAs) rather than bonds. This reduced the failure probability. However, only when the entire portfolio was annuitized (immediate annuity) was failure eliminated. He concludes that**:** "When we update the return data to consider the current interest rate environment and incorporate lower future stock returns, a bleaker picture emerges. To make the 4 percent rule work prospectively, it may be necessary to include products like SPIAs that provide longevity guarantees."

Of course much depends on the assumptions used with respect to future returns. However, considering the many other challenges facing seniors, especially longer life expectancy, price inflation and uncertainty regarding social security, it is time to re-examine conventional wisdom. A review of annuities and other alternatives is well justified.

In the coming months we will analyze various ways to address the retiree conundrum. We will focus on those solutions that appear most viable, as well as those that are dubious but promoted heavily. Inevitably, any alternative will involve trade-offs. Our goal is not to proclaim a perfect solution, but to make these choices evident so you can choose the optimal path consistent with your circumstances.

## A CLOSER LOOK AT IMMEDIATE ANNUITIES

*Immediate annuities involve giving up control of your money in exchange for the security of a steady income for the rest of your life. These annuities closely mimic the traditional defined-benefit pension. The monthly income amount depends on your age and the payout option you choose. The payout rates available today are roughly 11 percent lower than they were in July 2005, reflecting today's historically low interest rates. However, by comparison the 10 year Treasury note yield is currently some 60 percent lower than its yield in 2005.*

*Though they are not without risk, immediate annuities are viewed increasingly as an effective supplement to a well-diversified portfolio. For certain investors, they can be attractive as a source of steady cash for the remainder of one's life.*

Defined contribution plans such as 401(k)s are rapidly replacing traditional pensions. In the past, many workers retired with little in the bank but received monthly pension checks from their former employers. Now they are more likely to retire with substantial savings in a 401(k) or IRA, but with no assurance of a steady income.

Many investors are considering immediate annuities, which mimic the traditional pension. Economists have shown that converting a significant portion of one's retirement assets to an immediate annuity is an effective strategy. The conundrum is why so few actually do so. Unlike the more common deferred annuities, which require you to invest money early on and "defer" taking any out for a long time, an immediate annuity provides you with income right away. You pay a single large premium (typically $50,000 or more), and in return you receive regular monthly income, usually for the rest of your life. In effect, an annuity allows you to turn your 401(k) (or any other large sum of money) into something resembling a traditional pension.

The main attraction of a single-premium immediate annuity (SPIA) is that, as long as the insurer remains solvent, an annuitant can never "run out of money." This is no small matter for today's retirees given the vagaries of the stock market and the low level of interest rates. Another feature is that current payout rates, while lower than in 2005, are relatively attractive compared to bonds, which also promise a fixed income stream. For instance, the table on page 43 shows that an age 65 joint 100 percent survivorship annuity payout is $496 per month, which converts to 5.95 percent annual payout rate. Annuity payout rates have fallen less than bond rates because they also reflect return of principal and returns from mortality. The Fed's recent efforts to lower interest rates have caused bonds and CDs to pay much lower rates of return than they did five or 10 years ago. Indeed, the 10-year Treasury was in the 1.6 percent range recently, some 60 percent lower than the 4 percent earned in 2005.

Immediate annuities, however, have several vulnerabilities. The first is that is that payout rates are currently at historic lows, reflecting the historically low level of interest rates. If interest rates will rise in coming years, annuity rates will likely follow. Delaying annuitization would also reflect higher payout rates associated with older ages, as shown in the table. Another drawback is that you may die before you "get your money back." In the worst-case scenario, you might hand over a large premium to the insurance company, perhaps $100,000, in exchange for monthly income guaranteed for life—and then die a few months later. However, this can be mitigated by time certain or installment refund options; these options yield somewhat lower payout rates, as shown in the table.

The third major drawback is that an annuity payout is usually fixed. It is unlike Social Security benefits, which are adjusted to the Consumer Price Index (CPI) to help keep pace with changes in the cost of living. As discussed below, one way to avoid this risk is to buy an immediate annuity with payments expected to change with the CPI.

A fourth drawback, which is more one of perception, involves timing. Retirees hope to purchase an annuity when the market for their 401(k) assets is up and when annuity payout rates are also high. Of course there is no way to predict either security prices or interest rates. Guaranteed Lifetime

Withdrawal Benefit (GLWB) deferred annuities attempt to address this issue, by providing continual step-up reflecting peak market performance for annuitization. GLWBs will be analyzed in a future issue.

Immediate annuities have not proven popular with retirees. Many are fearful of parting with even a portion of their savings in exchange for an income stream that is fixed and which leaves open the possibility that they might never "recover" their original investment. Also, until recently, many retirees had both traditional pension plans and Social Security, so they already had a considerable portion of their "retirement wealth" annuitized. They also did not have large sums in 401(k)s and IRA savings, which limited the pool of potential annuity buyers. In addition, many financial advisors have little incentive to recommend immediate annuities because their compensation is often based on a percentage of the assets they manage. If you cash in your account to buy an annuity the advisor is left with nothing to manage. On the flip side, insurance companies have a growing incentive to market annuities aggresively, as the pool of accumulated retirement assets has grown. This makes it all the more important for prospective buyers to look beyond the sales pitch and shop carefully before buying a policy.

## Income Options

The accompanying table shows how the rate of income provided by an annuity varies according to age at the time of purchase and the income option chosen. The rates shown are averages based on quotes from 26 insurance companies. In many cases current rates are about 11 percent lower versus 2005. In a few cases the change has been much less; for example, Joint Survivorship Lifetime 100 percent survivor at age 75 is only 5.87 percent lower.

A "lifetime only" (or "straight life") annuity pays income only until the annuitant's death. Lifetime only provides the highest monthly income of any payout option and is therefore thought to be the best payout option in many circumstances. While lower than it was in 2005, the male age 65 payout of $579 per month, or $6,948 per year; this is equal to 6.95 percent of the original $100,000 investment. Many people are reluctant to choose this option out of fear that they will die before getting their "money's worth." This is indeed a possibility. However, if no others need the income, its cutoff upon your death is no hardship to anyone. On the other hand, should you live longer than expected, you might receive income payments totaling much more than your original investment—and you would have the peace of mind that the income is highly unlikely to run out no matter how long you live. This is the very scenario that makes annuities a viable way to protect yourself against outliving your money.

A popular alternative is the "lifetime with 10 years certain" income option. This guarantees that you will receive income for as long as you live, and further provides that if you die within 10 years, your beneficiary will receive income payments for the remainder of that period. For example, if you die after receiving income for three years, your beneficiary will receive income for seven more years. As shown in the table, that guarantee of 10 years of income comes at a price, in the form of a lower income rate. For a 70- year old male paying a $100,000 premium, the surveyed companies provide, on average, $663 in monthly income if he chooses a "lifetime only" policy, compared with $622 per month for a "lifetime with 10 years certain" policy. Longer guaranteed periods are available, with correspondingly lower payouts.

Another popular income option for couples is the "joint survivorship" annuity. This continues to pay income as long as either spouse is living. Depending on the contract, the monthly income amount may be reduced when one spouse dies, but if the option is for "100 percent survivorship," the income remains the same. A "50 percent survivorship" annuity cuts the income by half when the primary annuitant dies.

*(continued next page)*

| | **Single-Premium Immediate Annuities (Average Monthly Income Payments for $100,000 Premium)** | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Age 60** | | | **Age 65** | | | **Age 70** | | | **Age 75** | | |
| Monthly Income Options | Current | Jul-05 | Change | Current | Jul-05 | Change | Current | Jul-05 | Change | Current | Jul-05 | Change |
| Male | | | | | | | | | | | | |
| Lifetime only | $518 | $585 | -11.45% | $579 | $654 | -11.47% | $663 | $747 | -11.24% | $786 | $889 | -11.59% |
| Lifetime w/10 years certain | 513 | 573 | -10.47% | 562 | 632 | -11.08% | 622 | 698 | -10.89% | 695 | 779 | -10.78% |
| Female | | | | | | | | | | | | |
| Lifetime only | 494 | 558 | -11.47% | 540 | 616 | -12.34% | 603 | 691 | -12.74% | 720 | 807 | -10.78% |
| lifetime w/10 years certain | 488 | 551 | -11.43% | 533 | 603 | -11.61% | 578 | 662 | -12.69% | 654 | 740 | -11.62% |
| Joint Survivorship | | | | | | | | | | | | |
| Lifetime 100% survivor | 459 | 507 | -9.47% | 496 | 541 | -8.32% | 543 | 599 | -9.35% | 641 | 681 | -5.87% |
| Lifetime 100% survivor w/10 yrs certain | 464 | 507 | -8.48% | 493 | 541 | -8.87% | 532 | 599 | -11.19% | 608 | 666 | -8.71% |
| Source: ImmediateAnnuities.com, June 2012. The July 2005 data are from AIER's Research Report from October 10, 2005. | | | | | | | | | | | | |

The table also shows that the income provided by joint annuities is lower than for single-life annuities. For example, the "100 percent survivorship" annuities currently on the market pay a monthly income of $496, on average, to a 65-year old husband and wife paying a $100,000 premium— compared with $579 for a policy that covers only the husband's life and $540 for one that covers only the wife's life. The joint annuity pays less because the couple's joint life expectancy is longer than that of the husband or wife alone.

The table highlights another key feature of payout rates: at any given age, men can usually buy a higher annuity income than women. This is because men have a shorter life expectancy. However, some insurance companies use unisex income rates. Women will find it to their advantage to buy from such companies, all else equal. Men will find the opposite.

Other income options include an "installment refund" annuity, which provides that if you die before the total income you receive equals or exceeds your premium, the difference will be paid in installments to a beneficiary. For example, if you paid $100,000 and received income totaling $30,000, your beneficiary will continue to receive periodic income payouts until the remaining $70,000 has been paid out. A "cash refund" annuity is similar, except that any remaining premium is paid to the beneficiary in a lump sum rather than a series of installments.

## Choosing a Sound Company

The guarantee of a lifetime flow of income from an insurance company is not much of a promise if the company is, or becomes, financially unsound. And, unlike other investments, you are locked into an annuity. If you buy a bond and its credit rating is downgraded, you can sell it (probably at a loss); but once you buy an annuity, you cannot change insurers.

Investors often liquidate an investment portfolio that is diversified across thousands of securities in order to purchase an immediate annuity. By purchasing a series of fixed payments for life, you eliminate the risk that at some point you may have to liquidate your holdings when the stock and bond markets are down in order to meet your spending needs. However, you greatly increase your exposure to the risk that a single firm (the insurance company backing the annuity) might fail. The benefits of diversification are effectively eliminated.

Fortunately, the insurance industry has historically done a good job of paying promised claims. It is nonetheless important to check out a company's financial standing. Look for one with a high credit rating. A. M. Best, Standard & Poor's and Moody's all provide ratings for insurance companies. An insurance company's claims paying rating reflects its ability to pay debts and other claims—such as promised annuity payments. Ratings are available from insurance agents, from websites that provide insurance and annuity policy quotes, and from moodys.com and standardandpoors.com.

## What if a Company Defaults?

While insurance companies rarely fail, it has happened. In the early 1990s, Executive Life and Mutual Benefit became insolvent, severely impairing their ability to pay their insurance and annuities claims. In such cases, each state has a guaranty fund to help pay claims. Most states protect up to $100,000 of the present value of the annuity income stream, but some cover as much as $500,000. For each state's limits, see www.annuity.com.

State guaranty funds are not comparable to the FDIC insurance that protects your bank account, however. They are typically funded with money that is collected from other insurance companies after a default occurs, so reimbursement may be delayed.

## The Risk of Price Inflation

Traditional annuities provide a fixed-dollar income, which has one big drawback: in inflationary times, the purchasing power of the income is eaten away by rising consumer prices. Even a relatively low rate of price inflation takes its toll over long periods. For instance, an annual price inflation rate of just three percent would cut the buying power of the dollar to just 74 cents in ten years. Based on history and recent monetary policy, accelerated inflating is as real a threat as ever.

One alternative is to purchase an inflation-adjusted annuity. While few companies offer them, Vanguard markets one from American General and Principal insurance companies. However, the initial monthly payout (from the American General product) for a 65-year-old male, for a lifetime-only annuity with a $100,000 is only $409. This is nearly 27 percent below the payout from its traditional fixed-dollar annuity. Nevertheless, this payout would increase at the rate of price inflation over time, protecting one from the unexpected erosion of purchasing power.

## Getting a Quote

While price quotes for some insurance products, such as term life insurance, are widely available on the Internet, quotes for immediate annuities are more cumbersome to obtain. For instance, ImmediateAnnuities.com, the source for the information in the accompanying table, readily provides free quotes for various ages and payout options—but the quotes are averages from a dozen or more companies rather than specific quotes from individual companies. To get the latter, you must provide personal information and submit a request.

For a table of comparative quotes gathered recently from 21 insurance companies, see our website www.americaninvestment.com.

## Paltry Interest Rates, Paltry Payouts

Annuity income rates broadly track long-term interest rates. When AIER surveyed rates in 1999 the median monthly annuity income on a straight lifetime annuity for 65-year old male paying a $100,000 premium, was $718. This dropped roughly to $654 in 2005, and the average now is $579, roughly 19 percent and 11 percent below the payouts in 1999 and 2005 respectively. Compared with bonds, however, the drop is not as dramatic. The 10-year Treasury yield was 6 percent in 1999, 4 percent in 2005, and it now stands at 1.6 percent, marking a 73 percent and 60 percent drop, respectively, from these prior years.

When long-term rates eventually increase, annuity payout rates are likely to increase too. This might suggest that one should be cautious about making a long-term investment in an annuity right now, when long-term interest rates remain close to historic lows. But no one can say when interest rates will rise. In the meantime retirees are struggling to generate retirement income.[1]

## A Risk-Managed Annuity Plan

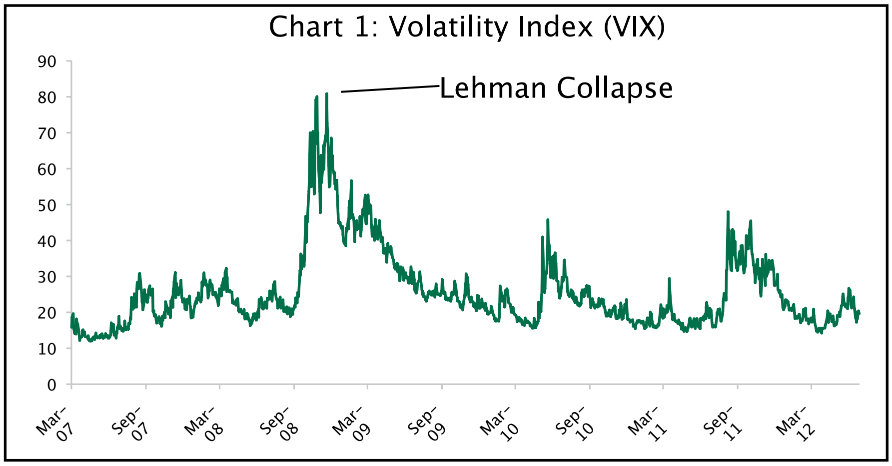
Financial planners are beginning to recommend immediate annuities, especially inflation-adjusted, as a substitute for the bond portion of a retirement portfolio. Immediate annuities increase cash flow and reduce the chance of outliving your financial resources. Given the paucity of alternatives now, it might make sense for certain investors to consider purchasing an immediate annuity. This subset of investors, however, should only devote a portion of their assets to an annuity, leaving the majority of assets invested in a manner consistent with our published allocation plans.

Two primary risks associated with annuities are the risk of locking in currently low interest rates for life, especially if price inflation should accelerate, and the chance that the issuing insurance company might default. The best tool to manage risk is diversification. Instead of purchasing one large annuity from a single insurer at a single point in time, retirees might consider purchasing several smaller annuities issued by different insurers and staggering these purchases over three to four years, during which time interest rates, and payouts, might increase.

1 Some question locking into immediate annuities at these historically low rates. They suggest that while bondholders can sell their bonds, there is no ready market for annuities so annuitants are effectively locked into the contractual rate promised when they purchased the annuity. Nevertheless, selling a long-term bond after rates have risen can result in large capital losses (bond duration can be used to estimate the potential loss). There are, moreover, firms that will purchase the stream of annuity payments for an immediate lump sum. The margins on such transactions are probably wide, so one must be judicious dealing with such firms. The main point is that while both paths can be reversed, neither is without cost.

# GREECE, EUROPE AND YOUR PORTFOLIO

*European woes, in particular Greece's ability to remain within the monetary union, have dominated the headlines. The Greek economy is small, but the fear is that Greece's withdrawal from the euro might trigger sovereign defaults throughout Europe. Below we put the current crisis in perspective for investors.[1]*




Greece's gross debt is equal to roughly 160 percent of GDP and its unemployment rate stands at over 20 percent. Earlier in the year Greece avoided an outright default on its bonds by agreeing to a bond swap with private lenders. Elections this month installed a government that favors monetary union, which renewed the hopes of European policymakers. But substantial political obstacles remain and no obvious solution is in sight.

As usual there is no shortage of prognosticators eager to tell investors what to think. Some pundits believe Greece will hold on and stay within the Eurozone, while others say a complete break-up of the euro is unavoidable.

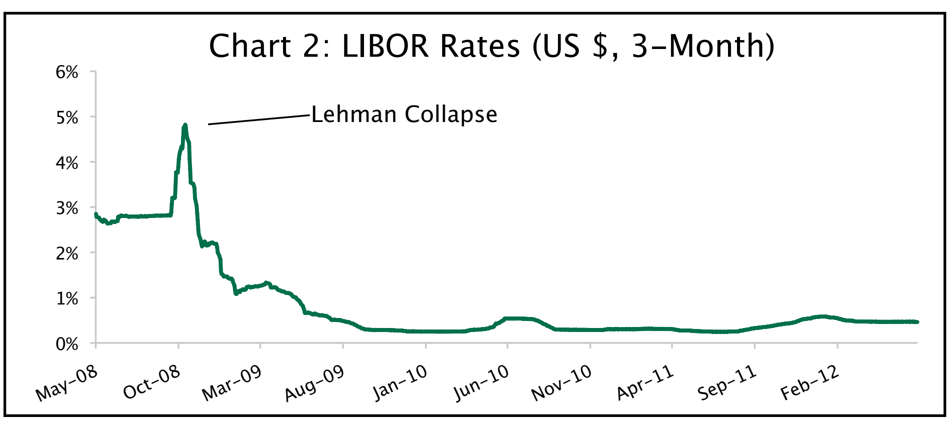
The truth is no one knows what will happen, but we do know that investors who shift their portfolios in light of such predictions are often disappointed. Capital markets react to new information. There is no reason to think markets do not reflect risks that are already known.

Bond markets appear to have fully discounted the current situation in Greece, as well as the possibility that Spain and Italy could be the next to fall. Ten-year sovereign debt yields in those countries currently stand at 26.6 percent, 6.9 percent and 6.21 percent, respectively, versus 1.62 percent in the U.S. and 1.55 percent in Germany.

Some pundits have drawn parallels between the European monetary crisis and the crisis in the U.S. markets that led to the collapse of Lehman Brothers in October 2008. But current barometers suggest that the markets do not reflect these fears.

The Chicago Board Option Exchange's volatility index, or "VIX", provides a 30-day forecast of U.S. stock market volatility. Chart 1 shows that the VIX has remained in a fairly narrow range even as the Eurozone crisis has grown more severe, and is well below its peak reached in late 2008.

Credit markets paint a similar picture. The three-month London Interbank Offered Rate, or LIBOR, is the interest rate banks charge each other in the wholesale money markets in London for ninety-day loans. LIBOR serves as a gauge of



overall stress in credit markets. Chart 2 reveals the Eurozone crisis thus far has had far less impact than the financial crisis in the U.S. four years ago.

We cite these data not in an effort to predict what will happen. Nor are we suggesting that the market is always "right". Our only point is that the consensus view of millions of investors is built into prices and provides the best estimate of likely outcomes given current information. Investors who bet against the market by relying on "expert opinion" do so at great peril.

1 This article draws on data and observations from "Why We Still Believe in Europe". *Research and Commentary* June 20, 2012, The Vanguard Group. "The Eurozone and Greece: A Client Update", June 2012. Dimensional Fund Advisors. "Europe: A Tale of Many Nations" The Blackrock Investment Institute.

## A READER INQUIRES

**Reader: *I noticed a graph of the CRUT historical returns in the AIER Annual Report. How does this compare to a Personal Asset Management (PAM) rate of return?***

AIS: The returns depicted in the graph are a composite of all the individual CRUTs that AIS manages for AIER. Because these are "split-interest" trusts, the trustee must account for the interests of both the income beneficiary and remainderman (the charity, in this case AIER). Most CRUT accounts are invested to reflect a moderate to aggressive risk allocation.

There is no single rate of return for our PAM clients because PAM accounts are constructed according to each client's particular needs (time horizon, risk preference, liquidity needs). PAM portfolios are, however, invested in investment vehicles similar to those used in the CRUTs. Therefore for those PAM clients with a similar "moderate to aggressive" risk profile, we would expect historical returns to be similar to those of this CRUT composite.

**Reader: *Would an AIS advisory client have a High Yield Dow or PAM but not both?***

AIS: We manage "HYD only" portfolios, which are invested exclusively in the HYD model, for clients who manage the remainder of their portfolio independently from our advisory services. However, we also employ the HYD model *within* the large-cap value segment of our more comprehensive PAM service. Depending on the size of the account HYD may or may not be appropriate as a component of the large-cap value allocation.

**Reader: *Finally, what if I move to Canada and become resident and I have a Roth IRA with you. Can you still service that?***

While we do extend our services to non-U.S. resident clients, this still requires that we have access to a U.S.-based brokerage account. Charles Schwab Institutional for example offers Schwab One International accounts for non-US residents.

## THE HIGH-YIELD DOW INVESTMENT STRATEGY

### Recommended HYD Portfolio

*As of June 15, 2012*

| | Rank | Yield (%) | Price ($) | Status | —Percent of Portfolio— Value (%) | No. Shares (%)[1] |
|---|---|---|---|---|---|---|
| AT&T | 1 | 4.93 | 35.71 | Holding** | 26.04 | 24.23 |
| Verizon | 2 | 4.59 | 43.55 | Holding** | 25.50 | 19.46 |
| Merck | 3 | 4.31 | 38.94 | Holding** | 24.09 | 20.56 |
| Pfizer | 4 | 3.89 | 22.61 | Holding** | 24.33 | 35.76 |
| Cash (6-mo. T-Bill) | -- | -- | -- | -- | 0.04 | -- |
| Totals | | | | | 100.00 | 100.00 |

**Currently indicated purchases approximately equal to indicated purchases 18 months ago. [1] Because the percentage of each issue in the portfolio by value reflects the prices shown in the table, we are also showing the number of *shares* of each stock as a percentage of the total number of shares in the entire portfolio.

**Subscribers can find a full description of the strategy and methodology in the "Subscribers Only" (Log in required) section of our website: www.americaninvestment.com.**

The total returns presented in the table below represent changes in the value of a hypothetical HYD portfolio with a beginning date of January 1979 (the longest period for which data was available for the HYD model and relevant indexes) through May 31, 2012*.

| | 1 mo. | 1 yr. | 5 yrs. | 10 yrs. | 20 yrs. | Since 1/79 | Std. Dev. |
|---|---|---|---|---|---|---|---|
| HYD Strategy | 1.76 | 13.80 | 0.53 | 6.79 | 11.64 | 15.95 | 17.89 |
| Russell 1000 Value Index | -5.86 | -3.88 | -3.59 | 4.15 | 8.78 | 11.76 | 15.05 |
| Dow | -5.82 | 1.35 | 0.89 | 4.86 | 9.19 | NA | NA |

*Data assume all purchases and sales at mid-month prices (+/–$0.125 per share commissions), reinvestment of all dividends and interest, and no taxes. The 5-, 10- and 20-year total returns are annualized, as is the standard deviation of those returns since January 1979, where available. Model HYD calculations are based on hypothetical trades following a very exacting stock-selection strategy, and are gross of any management fees. They do not reflect returns on actual investments or previous recommendations of AIS. Past performance may differ from future results. Historical performance results for investment indexes and/or categories generally 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.

## RECENT MARKET STATISTICS

### Precious Metals & Commodity Prices ($)

| | *6/15/12* | *Mo. Earlier* | *Yr. Earlier* |
|---|---|---|---|
| Gold, London p.m. fixing | **1627.25** | 1556.50 | 1529.75 |
| Silver, London Spot Price | **28.66** | 28.28 | 35.26 |
| Copper, COMEX Spot Price | **3.39** | 3.52 | 4.12 |
| Crude Oil, W. Texas Int. Spot | **84.02** | 93.97 | 94.80 |
| Dow Jones Spot Index | **393.90** | 412.60 | 471.82 |
| Dow Jones-UBS Commodity Index | **128.79** | 133.88 | 161.32 |
| Reuters-Jefferies CRB Index | **272.23** | 289.14 | 338.96 |

### Interest Rates (%)

| | | | | |
|---|---|---|---|---|
| U.S. Treasury bills - | 91 day | **0.09** | 0.09 | 0.05 |
| | 182 day | **0.15** | 0.15 | 0.11 |
| | 52 week | **0.17** | 0.18 | 0.18 |
| U.S. Treasury bonds - | 10 year | **1.60** | 1.76 | 2.98 |
| Corporates: | | | | |
| High Quality - | 10+ year | **3.64** | 3.76 | 4.96 |
| Medium Quality - | 10+ year | **5.02** | 5.00 | 5.72 |
| Federal Reserve Discount Rate | | **0.75** | 0.75 | 0.75 |
| New York Prime Rate | | **3.25** | 3.25 | 3.25 |
| Euro Rates | 3 month | **0.66** | 0.69 | 1.45 |
| Government bonds - | 10 year | **1.46** | 1.46 | 3.06 |
| Swiss Rates - | 3 month | **0.09** | 0.11 | 0.18 |
| Government bonds - | 10 year | **0.58** | 0.65 | 1.66 |

### Exchange Rates ($)

| | | | |
|---|---|---|---|
| British Pound | **1.565400** | 1.602500 | 1.621800 |
| Canadian Dollar | **0.976200** | 0.997000 | 1.022700 |
| Euro | **1.263300** | 1.276900 | 1.422100 |
| Japanese Yen | **0.012700** | 0.012500 | 0.012390 |
| South African Rand | **0.119560** | 0.121000 | 0.146587 |
| Swiss Franc | **1.052000** | 1.063300 | 1.175364 |

### Securities Markets

| | *6/15/12* | *Mo. Earlier* | *Yr. Earlier* |
|---|---|---|---|
| S & P 500 Stock Composite | **1,342.84** | 1,330.66 | 1,265.42 |
| Dow Jones Industrial Average | **12,767.17** | 12,632.00 | 11,897.27 |
| Dow Jones Bond Average | **303.43** | 303.40 | 277.81 |
| Nasdaq Composite | **2,872.80** | 2,893.76 | 2,631.46 |
| Financial Times Gold Mines Index | **2,931.72** | 2,532.65 | 3,509.32 |
| FT EMEA (African) Gold Mines | **2,812.51** | 2,409.28 | 3,182.87 |
| FT Asia Pacific Gold Mines | **11,423.94** | 11,356.97 | 17,706.57 |
| FT Americas Gold Mines | **2,526.23** | 2,140.07 | 2,938.36 |

### Coin Prices ($)

| | *6/15/12* | *Mo. Earlier* | *Yr. Earlier* | *Prem (%)* |
|---|---|---|---|---|
| American Eagle (1.00) | **1,661.70** | 1,653.00 | 1,562.47 | 2.12 |
| Austrian 100-Corona (0.9803) | **1,565.32** | 1,556.93 | 1,470.72 | -1.87 |
| British Sovereign (0.2354) | **389.20** | 387.70 | 369.20 | 1.60 |
| Canadian Maple Leaf (1.00) | **1,635.80** | 1,627.10 | 1,544.30 | 0.53 |
| Mexican 50-Peso (1.2057) | **1,928.80** | 1,918.40 | 1,812.30 | -1.69 |
| Mexican Ounce (1.00) | **1,620.20** | 1,611.60 | 1,523.60 | -0.43 |
| S. African Krugerrand (1.00) | **1,630.28** | 1,621.57 | 1,542.57 | 0.19 |
| U.S. Double Eagle-$20 (0.9675) | | | | |
| St. Gaudens (MS-60) | **1,665.00** | 1,645.00 | 1,580.00 | 5.76 |
| Liberty (Type I-AU50) | **2,025.00** | 2,025.00 | 1,705.00 | 28.62 |
| Liberty (Type II-AU50) | **1,700.00** | 1,785.00 | 1,655.00 | 7.98 |
| Liberty (Type III-AU50) | **1,640.00** | 1,630.00 | 1,560.00 | 4.17 |
| U.S. Silver Coins ($1,000 face value, circulated) | | | | |
| 90% Silver Circ. (715 oz.) | **20,475.00** | 20,637.50 | 24,300.00 | -0.08 |
| 40% Silver Circ. (292 oz.) | **8,237.50** | 8,325.00 | 9,950.00 | -1.57 |
| Silver Dollars Circ. | **25,575.00** | 24,625.00 | 28,000.00 | 15.35 |

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $1,627.25 per ounce and silver at $28.66 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

## THE DOW JONES INDUSTRIALS RANKED BY YIELD*

| | *Ticker Symbol* | | *Market Prices ($) 6/15/12* | *5/15/12* | *6/15/11* | *12-Month ($) High* | *Low* | *Latest Dividend Amount ($)* | *Record Date* | *Paid* | *Indicated Annual Dividend ($)* | *Yield† (%)* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AT&T | T | | 35.71 | 33.35 | 30.35 | 36.00 *H* | 27.29 | 0.440 | 4/10/12 | 5/1/12 | 1.760 | 4.93 |
| Verizon | VZ | | 43.55 | 41.05 | 35.12 | 44.14 *H* | 32.28 | 0.500 | 7/10/12 | 8/1/12 | 2.000 | 4.59 |
| Merck | MRK | | 38.94 | 37.74 | 35.17 | 39.50 | 29.47 | 0.420 | 6/15/12 | 7/9/12 | 1.680 | 4.31 |
| Pfizer | PFE | | 22.61 | 22.30 | 20.19 | 23.30 | 16.63 | 0.220 | 5/11/12 | 6/5/12 | 0.880 | 3.89 |
| Johnson & Johnson | JNJ | | 66.01 | 63.61 | 66.16 | 68.05 | 59.08 | 0.610 | 5/29/12 | 6/12/12 | 2.440 | 3.70 |
| Procter and Gamble | PG | | 62.88 | 63.72 | 63.76 | 67.95 | 57.56 | 0.562 | 4/27/12 | 5/15/12 | 2.248 | 3.58 |
| Chevron | CVX | | 104.33 | 100.90 | 98.41 | 112.28 | 86.68 | 0.900 | 5/18/12 | 6/11/12 | 3.600 | 3.45 |
| J P Morgan | JPM | | 35.03 | 36.24 | 40.68 | 46.49 | 27.85 | 0.300 | 7/06/12 | 7/31/12 | 1.200 | 3.43 |
| Dupont | DD | | 50.24 | 50.15 | 49.54 | 56.20 | 37.10 | 0.430 | 5/15/12 | 6/12/12 | 1.720 | 3.42 |
| General Electric | GE | | 20.00 | 18.40 | 18.39 | 20.36 | 14.02 | 0.170 | 6/25/12 | 7/25/12 | 0.680 | 3.40 |
| McDonald's | MCD | | 90.50 | 91.01 | 81.24 | 102.22 | 80.90 | 0.700 | 6/04/12 | 6/15/12 | 2.800 | 3.09 |
| Intel Corp | INTC | | 27.34 | 26.88 | 21.42 | 29.27 | 19.16 | 0.210 | 5/07/12 | 6/1/12 | 0.840 | 3.07 |
| Kraft | KFT | | 38.64 | 38.82 | 34.02 | 39.99 | 31.88 | 0.290 | 6/29/12 | 7/16/12 | 1.160 | 3.00 |
| Travelers | TRV | | 63.41 | 64.15 | 57.54 | 65.27 | 45.97 | 0.460 | 6/08/12 | 6/29/12 | 1.840 | 2.90 |
| United Tech. | UTX | *I* | 74.49 | 76.17 | 83.27 | 91.83 | 66.87 | 0.535 | 8/17/12 | 9/10/12 | 2.140 | 2.87 |
| Exxon Mobil | XOM | | 83.22 | 81.79 | 78.66 | 87.94 | 67.03 | 0.570 | 5/14/12 | 6/11/12 | 2.280 | 2.74 |
| 3M Company | MMM | | 87.44 | 85.78 | 91.03 | 98.19 | 68.63 | 0.590 | 5/18/12 | 6/12/12 | 2.360 | 2.70 |
| Coca-Cola | KO | | 76.09 | 76.57 | 64.97 | 77.82 | 63.34 | 0.510 | 6/15/12 | 7/1/12 | 2.040 | 2.68 |
| Microsoft Corp. | MSFT | | 30.02 | 30.21 | 23.74 | 32.95 | 23.65 | 0.200 | 8/16/12 | 9/13/12 | 0.800 | 2.66 |
| Boeing | BA | | 71.99 | 72.58 | 73.85 | 77.83 | 56.01 | 0.440 | 5/11/12 | 6/1/12 | 1.760 | 2.44 |
| Hewlett-Packard | HPQ | | 21.64 | 22.40 | 34.26 | 37.70 | 20.57 *L* | 0.132 | 6/13/12 | 7/5/12 | 0.528 | 2.44 |
| Caterpillar | CAT | *I* | 86.93 | 92.68 | 95.65 | 116.95 | 67.54 | 0.520 | 7/20/12 | 8/20/12 | 2.080 | 2.39 |
| Wal-Mart Stores | WMT | | 67.75 | 59.35 | 52.32 | 68.48 *H* | 48.31 | 0.398 | 12/07/12 | 1/2/13 | 1.590 | 2.35 |
| Home Depot, Inc. | HD | | 51.87 | 48.67 | 33.88 | 52.88 | 28.13 | 0.290 | 5/31/12 | 6/14/12 | 1.160 | 2.24 |
| Cisco | CSCO | | 17.10 | 16.54 | 14.84 | 21.30 | 13.30 | 0.080 | 7/05/12 | 7/25/12 | 0.320 | 1.87 |
| IBM | IBM | | 199.10 | 199.04 | 162.33 | 210.69 | 157.13 | 0.850 | 5/10/12 | 6/9/12 | 3.400 | 1.71 |
| American Express | AXP | | 56.28 | 57.94 | 47.28 | 61.42 | 41.30 | 0.200 | 7/06/12 | 8/10/12 | 0.800 | 1.42 |
| Alcoa | AA | | 8.82 | 8.71 | 14.96 | 16.60 | 8.21 *L* | 0.030 | 5/14/12 | 5/25/12 | 0.120 | 1.36 |
| Walt Disney | DIS | | 47.05 | 45.01 | 38.39 | 47.45 *H* | 28.19 | 0.600 | 12/16/11 | 1/18/12 | 0.600 | 1.28 |
| Bank of America | BAC | | 7.90 | 7.30 | 10.50 | 11.25 | 4.92 | 0.010 | 6/01/12 | 6/22/12 | 0.040 | 0.51 |

* See the Recommended HYD Portfolio table on page 46 for current recommendations. † Based on indicated dividends and market price as of 6/15/12.
Extra dividends are not included in annual yields. *H* New 52-week high. *L* New 52-week low. (s) All data adjusted for splits and spin-offs. 12-month data begins 6/16/11.
*I* Dividend increased since 5/15/12 *D* Dividend decreased since 5/15/12

## RECOMMENDED INVESTMENT VEHICLES

| | Security Symbol | Avg. Market Cap. / Avg. Maturity | Descriptive Quarterly Statistics, as of 3/31/12 No. of Holdings | Ratios Expense[3] (%) | Ratios Sharpe | Turnover (%) | P/B | 12 Mo. Yield (%) | Annualized Returns[4] (%), as of 5/31/12 Total 1 yr. | Total 3 yr. | Total 5 yr. | After Tax* 1 yr. | After Tax* 3 yr. | After Tax* 5 yr. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Short/Intermediate Fixed Income*** | | | | | | | | | | | | | | |
| Vanguard Short-Term Bond Index | BSV[1]/ VBISX | 2.80 Yrs. | 1354 | 0.22 | 2.08 | 67 | -- | 1.71 | 2.27 | 3.43 | 4.62 | 1.59 | 2.62 | 3.56 |
| iShares Barclays 1-3 Yr. Credit Bond | CSJ[1] | 1.91 Yrs. | 682 | 0.20 | 2.00 | 12 | -- | 1.81 | 1.26 | 3.92 | 4.14 | 0.64 | 3.04 | 2.99 |
| iShares Barclays 1-3 Year Treasury | SHY[1] | 1.91 Yrs. | 61 | 0.15 | 1.20 | 85 | -- | 0.74 | 0.75 | 1.45 | 3.28 | 0.52 | 1.05 | 2.53 |
| Vanguard Limited-Term Tax-Exempt | VMLTX | 2.70 Yrs. | 1611 | 0.20 | 1.99 | 14 | -- | 2.10 | 2.98 | 3.16 | 3.69 | 2.98 | 3.16 | 3.69 |
| SPDR Short-Term Municipal Bond | SHM[1] | 3.07 Yrs. | 374 | 0.20 | 1.24 | 25 | -- | 1.42 | 2.60 | 2.79 | -- | 2.07 | 2.53 | -- |
| ***Inflation-Protected Fixed Income*** | | | | | | | | | | | | | | |
| iShares Barclays TIPS Bond | TIP[1] | 9.25 Yrs. | 35 | 0.20 | 1.66 | 15 | -- | 3.70 | 13.04 | 9.83 | 8.39 | 11.68 | 8.57 | 6.88 |
| Vanguard Inflation-Protected Securities | VIPSX | 9.20 Yrs. | 32 | 0.20 | 1.65 | 28 | -- | 3.68 | 13.19 | 9.83 | 8.19 | 11.69 | 8.74 | 6.84 |
| ***Real Estate*** | | | | | | | | | | | | | | |
| Vanguard REIT Index | VNQ[1]/ VGSIX | 6.59 B | 115 | 0.24 | 1.49 | 10 | 1.7 | 3.23 | 3.34 | 29.00 | -0.03 | 2.39 | 27.59 | -1.24 |
| SPDR Dow Jones REIT | RWR[1] | 8.43 B | 83 | 0.25 | 1.49 | 10 | 2.2 | 2.92 | 3.53 | 29.31 | -1.11 | 2.38 | 27.73 | -2.38 |
| ***U.S. Large Cap Value*** | | | | | | | | | | | | | | |
| Vanguard Value Index | VTV[1]/ VIVAX | 42.5 B | 422 | 0.24 | 1.30 | 23 | 1.5 | 2.32 | -4.26 | 13.04 | -3.51 | -4.62 | 12.61 | -3.91 |
| iShares Russell 1000 Value Index | IWD[1] | 36.46 B | 659 | 0.20 | 1.27 | 24 | 1.5 | 2.16 | -4.03 | 13.47 | -3.69 | -4.46 | 13.04 | -4.07 |
| ***U.S. Small Cap Value*** | | | | | | | | | | | | | | |
| iShares Russell Microcap Index | IWC[1] | 0.28 B | 1380 | 0.60 | 1.08 | 35 | 1.5 | 1.20 | -9.48 | 15.05 | -4.13 | -9.76 | 14.82 | -4.31 |
| Vanguard Small-Cap Value Index | VBR[1]/ VISVX | 1.29 B | 1010 | 0.24 | 1.22 | 30 | 1.2 | 1.84 | -6.88 | 16.95 | -0.99 | -7.27 | 16.50 | -1.43 |
| ***U.S. Large Cap Growth*** | | | | | | | | | | | | | | |
| iShares Russell 1000 Growth Index | IWF[1] | 44.10 B | 586 | 0.20 | 1.44 | 24 | 4.0 | 1.22 | 1.32 | 16.68 | 1.85 | 1.06 | 16.41 | 1.63 |
| Vanguard Growth Index | VUG[1]/ VIGRX | 38.73 B | 403 | 0.24 | 1.40 | 23 | 3.3 | 0.98 | 1.83 | 16.90 | 2.07 | 1.66 | 16.71 | 1.91 |
| ***U.S. Marketwide*** | | | | | | | | | | | | | | |
| Vanguard Total Stock Market Index | VTI[1]/ VTSMX | 27.49 B | 3326 | 0.17 | 1.37 | 5 | 2.0 | 1.63 | -1.90 | 15.43 | -0.56 | -2.16 | 15.11 | -0.84 |
| Fidelity Spartan Total Market Index | FSTMX[2] | 29.77 B | 3272 | 0.10 | 1.37 | 4 | 2.1 | 1.60 | -1.81 | 15.50 | -0.57 | na | na | na |
| ***Foreign- Developed Markets*** | | | | | | | | | | | | | | |
| iShares MSCI Growth Index | EFG[1] | 26.62 B | 559 | 0.40 | 0.87 | 27 | 2.0 | 2.21 | -18.43 | 5.45 | -5.62 | -18.57 | 5.28 | -5.74 |
| iShares MSCI Value Index | EFV[1] | 35.03 B | 490 | 0.40 | 0.77 | 29 | 1.0 | 4.13 | -22.57 | 1.00 | -9.19 | -22.81 | 0.72 | -9.49 |
| Vanguard Europe Pacific Index | VEA[1]/ VTMGX | 28.53 B | 899 | 0.12 | 0.84 | 5 | 1.2 | 3.11 | -20.66 | 3.20 | -7.13 | -20.92 | 2.94 | -7.36 |
| Vanguard Developed Markets Index | VDMIX | 27.90 B | 940 | 0.20 | 0.84 | 5 | 1.2 | 3.25 | -20.53 | 3.29 | -7.21 | -20.98 | 2.84 | -7.73 |
| SPDR S&P International Small Cap | GWX[1] | 1.04 B | 730 | 0.61 | 1.09 | 22 | 1.1 | 2.13 | -19.00 | 8.54 | -5.08 | -19.27 | 8.13 | -5.44 |
| ***Foreign- Emerging Markets*** | | | | | | | | | | | | | | |
| Vanguard Emerging Market Index | VWO[1]/ VEIEX | 17.27 B | 900 | 0.33 | 0.98 | 10 | 1.7 | 1.93 | -21.00 | 7.19 | -0.36 | -21.23 | 6.93 | -0.70 |
| ***Gold-Related Funds*** | | | | | | | | | | | | | | |
| iShares COMEX Gold Trust | IAU[1] | -- | 1 | 0.25 | 1.04 | -- | -- | 0.00 | 1.20 | 16.42 | 18.31 | 1.20 | 16.42 | 18.31 |
| SPDR Gold Shares | GLD[1] | -- | 1 | 0.40 | 1.04 | -- | -- | 0.00 | 1.00 | 16.43 | 18.31 | 1.00 | 16.43 | 18.31 |

### Recommended Gold-Mining Companies ($)

| | Ticker Symbol | 6/15/12 | Month Earlier | Year Earlier | --- 52-Week --- High | Low | Dividends Paid Last 12 Months | Payment Schedule | Yield (%) |
|---|---|---|---|---|---|---|---|---|---|
| Anglogold Ltd., ADR | AU | 36.84 | 30.81 | 42.79 | 49.14 | 30.70 | 0.6116 | Semiannual | 1.6602 |
| Barrick Gold Corp. † | ABX | 39.51 | 34.99 | 43.93 | 55.95 | 34.82 | 0.5270 | Quarterly | 1.3338 |
| Gold Fields Ltd. | GFI | 13.57 | 11.75 | 14.53 | 18.49 | 11.71 | 0.4423 | Semiannual | 3.2594 |
| Goldcorp, Inc. † | GG | 39.54 | 32.54 | 47.77 | 56.31 | 32.16 | 0.4123 | Monthly | 1.0426 |
| Newmont Mining | NEM | 50.28 | 43.39 | 52.31 | 72.42 | 43.23 | 1.3500 | Quarterly | 2.6850 |

Data provided by the funds and Morningstar. [1]Exchange Traded Fund, traded on NYSE. [2]0.5% fee for redemption in 90 days. [3]For Vanguard funds, Expense Ratios shown are for Mutual Funds. ETFs have lower expenses. [4]For Vanguard Funds, returns shown are for Mutual Funds; ETFs' returns may deviate *Pre-liquidation. Calculated using the highest individual federal income tax rates in effect at the time of each distribution and do not reflect the impact of state anTd local taxes and individual tax situations. † Dividend shown is after 15% Canadian tax withholding.

The information herein is derived from generally reliable sources, but cannot be guaranteed. American Investment Services, the American Institute for Economic Research, and the officers, employees, or other persons affiliated with either organization may from time to time have positions in the investments referred to herein.