INVESTMENT GUIDE

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Equity Performance
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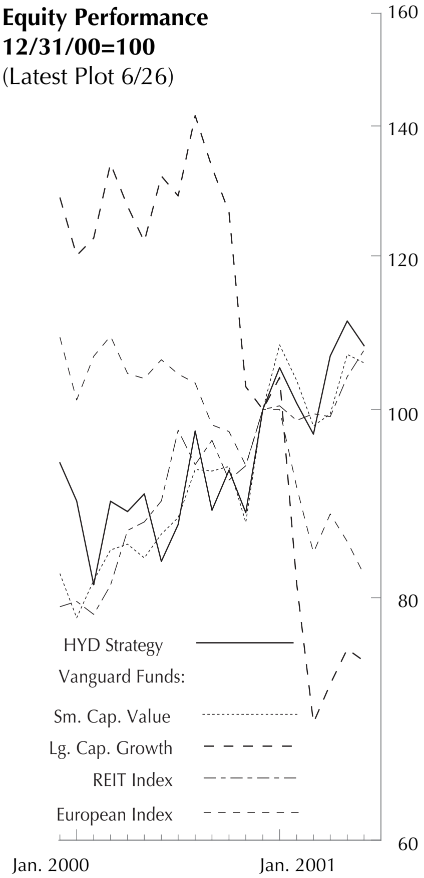
(Latest Plot 6/26)



We offer two discretionary management services: Our Professional Asset Management (PAM) service covers all of our recommended assets and allows us to place trades in stocks, bonds, and mutual funds directly in our clients' accounts. (The accounts remain the property of our clients at all times—we are only authorized to trade on their behalf.) Our High-Yield Dow (HYD) service operates similarly, except it invests only in the highest-yielding Dow stocks, using the 4-for-18 model on a fully invested basis. Investors interested in these low-cost services should contact us at 413-528-1216 or Fax 413-528-0103.

Online: www.americaninvestment.com

Portfolio Performance

We have received many inquiries recently regarding our Professional Asset Management (PAM) program. Callers frequently ask for our "total returns." The entire premise of PAM, and of the ***Investment Guide*** is that each investor is unique with regard to their personal circumstances (i.e. age, children, financial goals, etc.) and tolerance for risk. It is therefore our aim to provide a *range* of portfolios suitable for a variety of circumstances. We are not a "one-size-fits-all" mutual fund. We have therefore struggled with providing a meaningful answer.

We can, however, look at past hypothetical portfolio returns under different assumptions. The table below presents outcomes for our recommended asset classes, as well as for our "conservative," "moderate," and "aggressive" portfolios.

We gathered month-end data for indices that correspond to these recommended classes. We were constrained by our own 4-for-18 high-yield Dow plan; though we have mid-month data going back as far as 1963, we have month-end data beginning only in January 1986. We are continuing to gather month-end prices for earlier periods, and we will publish our findings as we update our database.

It is important to understand that these data present what our *current* allocations would have rendered *had they been in place* at the beginning of 1986, and remained fixed through out that period. Our recommended asset classes have been expanded considerably over the past 14 years, and our recommended allocations might have varied from time to time, as conditions changed.

Except for the high-yield Dow plan, the data presented below make no allowance for transaction costs, so commissions, fund expenses, and trading costs are not reflected. We assumed that the three portfolios were rebalanced if in any given quarter at least one asset class exceeded its target allocation by more than 1%. These historical data do not represent actual results and future results will almost certainly vary.

Summary Statistics: Hypothetical Results of AIS Recommended Asset Classes and Recommended Portfolios
January 1986-May 2001 (184 months)

Proxy Used for Recommended Asset Class	*Total Annualized Return (%)*	*Annualized Standard Deviation (%)*	*Number of Negative Months*	*Lowest Monthly Return (%)*	*Highest Monthly Return (%)*
U.S. 30 Day Treasury Bill	5.43	0.44	0	0.21	0.79
U.S. Intermediate-Term Govt. Bond	8.03	4.83	55	-2.62	3.69
Wilshire Real Estate Securities Index	6.93	14.93	81	-18.71	10.67
HYD 4-for-18 Model	19.86	20.62	57	-15.57	17.51
U.S. Small Stock (9-10 Deciles)	11.86	23.02	69	-29.19	23.58
S&P/BARRA 500 Growth Index	14.98	20.31	65	-22.71	14.09
MSCI Europe Index	13.82	18.86	64	-18.98	11.92
Gold (London PM Fix)	-1.40	12.63	98	-9.62	17.35
AIS Conservative	**10.17**	**5.88**	**51**	**-5.03**	**5.24**
AIS Moderate	**11.77**	**8.26**	**50**	**-8.37**	**7.54**
AIS Aggressive	**13.15**	**10.83**	**49**	**-12.04**	**9.21**

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THE 2001 TAX ACT: WHAT IT MEANS TO YOU

The recently enacted 2001 Tax Act (H.R. 1836) provides several benefits for investors, but many opportunities for meaningful change were not pursued. Not the least among these was simplification; we would like to have presented for our readers a concise portrayal of the new law, with specific recommendations with regard to actions that should be taken. However, the final product that emerged was, yet again, Byzantine. While we have attempted to provide a general overview of the most pertinent features of the Act, the applicability of these opportunities depend a great deal on individual circumstances; investors will have to visit their accountants to take full advantage of these changes.

Income Taxes and Attempts at Reform

The imposition of withholding of income taxes from wages and salaries during World War II meant not only that the tax was due from a majority of citizens, but also that the Federal government's share of National Income could increase markedly. Federal receipts have remained far above the levels that prevailed during most of U.S. history, fluctuating around an average of about 18 percent of GDP since 1946.

Nearly every Congress of the post-war era has tinkered with income taxes in one way or another. Sometimes taxes have been raised to pay for wars or to reduce budget deficits but more commonly such changes have been portrayed as providing some sort of tax "relief." Because the progressive structure of the income tax takes a larger proportion of higher incomes, income tax payments tend to increase faster than incomes. This "tax buoyancy" is typically what has enabled politicians to take credit for "tax cuts," even when taxpayers' burdens have changed little over the years. However, there have been relatively few measures that have attempted to reshape the income tax in a meaningful way.

The 2001 Tax Act that was signed by President Bush on June 7, 2001, was described by the Society of Tax Professionals as a "landmark tax measure that will provide the largest tax cut since the early days of former President Ronald Reagan's administration." Other "landmark" tax measures of the post-war years presumably would include the 1964 Act that was proposed by President Kennedy and enacted after his death, and the 1986 Act.

President Kennedy wanted to reduce taxes to "get the country moving again." President Reagan's measure similarly was designed to stimulate the "supply side" in an effort to foster sound and sustainable economic growth rather than attempt to stimulate demand via government spending and special tax breaks. The 1986 Act was designed to be "revenue neutral." Its principal purpose was to simplify the tax code. H.R. 1836 differs from these earlier efforts in important ways.

With respect to rates, the 2001 law will cut the 28, 31, and 36 percent brackets in stages by a total of 3 percentage points by 2006. It creates a new 10-percent tax bracket for a portion of the income now taxed at 15 percent, effective this year. The top rate will decrease by 4.6 percentage points (from 39.6 to 35 percent) by 2006. The rate reductions are thus more evenly distributed among income levels than the 1964 and 1981 rate cuts that reduced rates proportionally, *i.e.*, by similar percentage changes (say, 10 percent across the board, as in 36 from 40 percent and 18 instead of 20 percent) rather than percentage *point* changes.

The new law also creates a new 10-percent income bracket that covers a part of the bracket that was previously subject to a 15-percent levy. This 5-percent reduction is effective retroactively to January 1, 2001; as a result, taxpayers can expect the following refunds this year: $300 for single taxpayers, $500 for single heads of households, and $600 for married couples filing joint returns.

With respect to the "marriage penalty"—instances in which couples pay more taxes if married than the total of what they would pay if they were taxed as individuals—H.R. 1836 also calls for increases in the standard deduction for joint filers to double that of a single filer, as well as enlargement of the 15-percent bracket for couples to twice the amount for a single person. These increases will take full effect in 2005. Beyond this, the Act appears to offer little marriage penalty relief in situations where both spouses have substantial incomes because the brackets for joint filers above the 15-percent bracket remain less than twice those for single persons. The Act does appear to partially address an issue that creates the proportionately largest "marriage penalty"—the earned income tax credits available to low-income workers. In many instances, a couple's combined income can render them ineligible for the credits and/or they both have dependents and their total puts them over the limit on how many can be claimed. The changes in this regard seem to add additional complexity to what is arguably the least comprehensible portion of the current tax code. In addition, H.R. 1836 offers some relief to parents by enlarging credits for children, their care, and for adoption.

Benefits for the "Rich"

The eventual 4.6-percentage-point de-

New Opportunities for Retirement Planning

IRA Accounts (Roth and Traditional)	Increased annual contribution limits: 2002-2004: $3,000. 2005-2007: $4,000. 2008 and thereafter: $5,000. Indexed after 2008. IRA "catch-up": Individuals age 50 and above have higher contribution limits. 2002-2005: Limit increased by $500. 2006 and thereafter: Limit increased by $1000. No indexing.
Defined Contribution Plans	Current limit: Lesser of $35,000 or 25% of compensation. 2002 and thereafter: Lesser of $40,000 or 100% of compensation. Indexing increment reduced from $5,000 to $1,000.
401(k) 403(b) Plans	Elective Deferral limits increased, phased in from $10,500 to $15,000 by 2006.
SIMPLE Plans	Employee contribution limit increased to $10,000 from $6,500, phased in between 2002 and 2005. Indexed thereafter.

crease in the highest income tax rate is larger than those in the lower brackets. However it is markedly less than the 1964 Act's 20-percentage-point cut (from 90 to 70 percent) in the maximum rate, the further 20-percentage-point reduction of the 1981 Act (from 70 to 50 percent), or the 22-percentage-point reduction of the 1986 Act (from 50 to 28 percent). However, H.R. 1836 contains several other benefits for higher-income taxpayers.

High-income taxpayers may eventually benefit from a repeal of the phase-outs of personal exemptions and itemized deductions. Under current law, and through 2005, the amounts that can be deducted from taxable income for personal exemptions and itemized deductions are gradually reduced to zero (phased out) as income increases. In 2006 and 2007, H.R. 1836 calls for 1/3 of these reductions to be restored to such taxpayers and for 2/3 to be restored in 2008 and 2009, and for such phaseouts to be eliminated in 2010.

The net impact of changes to the Alternative Minimum Tax (AMT) is unclear. The AMT is a "backup" method of calculating income taxes, designed to ensure that "the rich" do not take advantage of certain tax breaks, such as oil depletion allowances, to sharply reduce their tax bill. The AMT is particularly onerous because it disallows many itemized deductions available under the regular tax code, and many provisions available under the regular income tax, such as indexing of income tax brackets, do not apply to the AMT. Every year thousands of taxpayers are forced to calculate their tax liability under both the regular income tax and the AMT and pay the greater of the two.

The new tax bill could subject many taxpayers to the AMT because while regular rates will be cut, AMT rates will not be. Certain tax credits are actually lost under the AMT under the new tax bill. On the other hand, the new law raises the AMT exemption through 2004. The net result of these changes is expected to increase the number of AMT filers nearly five-fold, to 13 million over the next four years. We doubt that Congress will leave the AMT unchanged in the face of these numbers.

Generally, the AMT is triggered by when deductions and credits become "excessive" under the regular tax code. In light of the new tax law, taxpayers therefore might be better served by minimizing their gross income by taking advantage of new, higher contribution limits on their retirement plans (see table) and taking full advantage of employer-sponsored pretax accounts rather than claiming deductions and credits.

New Benefits for College Savings Plans

Education IRAs	Annual contribution limit raised form$500 per year to $2,000 beginning in 2002. Accounts expanded to cover costs associated with primary and secondary schools.
State-sponsored Section 529 college plans	Beginning 2002 earnings are federally tax-free; previously taxable income to student.

Taxpayers of above-average means can take advantage of a bewildering array of H.R. 1836's approximately 50 tax-law changes relating to funds set aside for retirement and additional provisions enlarging the ability to set aside funds for educational expenses on a tax-favored basis. The accompanying tables highlight some of the new opportunities.

Despite the complexity of these changes, there are clearly opportunities to reduce your tax bill. However, the most highly publicized changes in the new law relate not to the income tax but to estate taxes.

Estate Taxes

H.R 1836 calls for the eventual repeal of Federal estate taxes (in 2010). Meanwhile the top estate tax rate is to decrease from 50 percent in 2002 to 45 percent in 2009 and the surcharge rate on estates in excess of $10 million is to be eliminated. The amounts not subject to taxes in estates will increase from the current $675,000, to $1 million in 2002, $1.5 million in 2004, $2 million in 2006, and to $3.5 million in 2009. These amounts also will apply to the lifetime exclusion from the gift tax, however the gift tax will be continued at a top rate of 35 percent (the top income tax rate) after the estate tax is repealed. The marital deduction for estates remains unchanged—assets left to a surviving spouse will not be subject to tax. With the repeal of the estate tax, the "stepped up basis" on assets transferred to heirs will be limited to a "step up" of $1.3 million (an additional $3 million will be allowed on assets transferred to surviving spouses). Curiously, this would mean that heirs of estates that would owe no taxes as a result of the increase in the overall exemption to $3.5 million in 2009 could inherit a substantial capital-gains-tax liability from the estates of persons who die in 2010. The reduction in the "step up" makes certain tax shelters more attractive for investors with assets that carry substantial unrealized capital gains.

H.R. 1836: A Mixed Bag

There is much to applaud in H.R. 1836. First and foremost, anything that can serve to curtail the amounts available for government spending and increase the amount available for private decision-making would no doubt foster an allocation of resources that better satisfies the needs and wants of the public. It should be clear that Federal spending has long been out of control. As Milton Friedman once remarked, "I have long concluded that the government will spend all it takes in and then some."

The Federal Budget involves mind-boggling numbers and no one can fully comprehend its intricacies. Once started, government programs tend to develop their own constituencies that make them impossible to kill off. If a program fails in its stated purpose, more often than not, the failure is taken as evidence that more money is needed. If it somehow succeeds, then it is evidence that we need more of it. Often there seems to be little inclination or means to evaluate a program for efficacy even on its own terms, let alone in relation to its utility in relation to the dollars spent or in relation to alternative uses for the money.

The measures to address the marriage penalty as well as the expenses of child rearing do advance the cause of tax equity, and the changes in the tax treatment of savings for retirement and education might serve to increase overall savings. Finally, the Act does appear to be mercifully free of the sort of "Christmas tree" provisions, largely related to various special interests and largely relating to the corporate income tax, that Congress added to President Reagan's bill.

As we described in *Research Reports* for February 12, 2001, the estate tax has failed in its two stated purposes. It is neither an important revenue source nor has it been noticeably effective in limiting concentrations of wealth—there are sim-

The Hidden Tax: Cost of Tax Complexity
(Source: Internal Revenue Service)

	1990	1998
Assistance from IRS: Number of Telephone Inquiries	64 mill	110 mill
Assistance from Private Sector:		
Number of Returns with paid preparer signature	54.5 mill	66.5 mill
Estate Tax Returns:		
Attorney fee deductions (nominal dollars)	$747 mill	$1.2 bill

ply too many ways to get around it. According to the IRS, between 1970 and 1999 the estate tax, on average accounted for only 1.36% of total IRS collections, and it never accounted for more than 2.6% in any given year**.** Eventual repeal of the estate tax could end the largely unproductive financial maneuvering now undertaken to limit or avoid taxes, which many analysts believe ultimately costs the government more in other taxes that the estate tax generates. Some indications of the cost of tax complexity appear in the accompanying table.

Given that most large and ultra-large estates hold substantially appreciated assets, heirs could still face a large tax liability, but it would not be due until the asset is sold, which should eliminate the complaints of the farmers and small business owners—they would not have to pay if they kept the asset in the family.

These things said, the Act leaves much to be desired. The best parts take effect slowly, and it will not take full effect until 2010. And in its most bizarre provision, *all* of H.R. 1836 expires in 2011, when the code reverts to what it was before the Act. This provision appears to have been designed to be amended if not repealed. This means that any useful incentives in the Act will be blunted by uncertainty.

In many respects, the income tax rate reductions appear similar to changes of the 1950s or 1970s that simply offset "tax buoyancy." Buoyancy induced by price inflation was curtailed by the 1981 Act's indexing of brackets, but higher real incomes mean that income taxes grow even faster. Much of the surge in Federal receipts of recent years reflects economic growth.

In stark contrast to the 1964 and 1981 acts, supporters of H.R. 1836 had little to say about changing incentives to favor growth except as an afterthought. Then it was only touted as a means of forestalling recession even though such short-term considerations, akin to Keynesian "pump priming," have never been shown to be an effective counter-cyclical tool. The acceleration of the 2001 rate reductions in the form of a $300 check for every taxpayer will probably sink without a trace.

Aside from the amazing complexity of some of the provisions of H.R. 1836, which are piled on top of the already incomprehensible tax code, its greatest failing is that it has essentially squandered the opportunity for genuine tax reform that the current budget surpluses presented.

The Road Not Taken

The income tax does not tax income in any economic sense. Rather it is a tax on cash receipts that is subject to a mind-boggling array of adjustments. The arbitrariness of these adjustments—what receipts are excluded, which outlays are deductible from the amount to be taxed, what outlays qualify for a credit against taxes due, etc.—is apparent to all, which leads to the general perception that the income tax is not fair.The most promising way of overcoming this would be to eliminate most deductions, exclusions, and credits and have a "flat" tax at a low rate, which would also serve to decrease the actual or potential value of most special provisions. But even without such a grand reform, it would be possible to end glaring inequities such as taxation of inflation-induced capital gains and of the "inflation premium" included in interest income. Indexing the cost basis of assets and excluding the portion of interest that compensates for the loss of purchasing power on the principal is what is needed in this regard.

Similarly, although H.R. 1836 addresses the marriage penalty, it does nothing to resolve the issue. Single persons may soon begin to complain that they are over-taxed relative to married ones. The only fair and lasting solution would be to let married individuals file a joint return or two separate returns as they see fit. The fact that state and local interest is not taxable by the Federal government may defy economic logic, but it is a part of our system. So too is the fact that some states deem the incomes of husbands and wives to be "community property," jointly owned by both, which is why we have joint returns in the first place.

A major reason that such reforms have not been made has been that the "bean counters" do not have a clear idea of what their effect would be on Federal revenue. This may have had some cogency when the government was facing huge deficits, but it has none in an era of huge surpluses.

Cynics said at the time that the 1986 Act's simplification of the tax code came about because the politicians needed to wipe the slate clean so that they could have room to write new favors for their supporters. The cynics were proven correct. The tax code is now even more complex that it was in 1986. This has shown how little interest the politicians have in tax simplification, and how much they love to serve their special interests.

CHARITABLE REMAINDER PLANS: AS ATTRACTIVE AS EVER

Charitable Remainder Plans remain among the most effective tax shelters available. In a nutshell, they allow taxpayers with highly appreciated assets a means of liquidating these assets and realizing the income generated from reinvesting the full value of the proceeds; capital gains tax are avoided. An immediate tax deduction is also generated. At the death of the last designated income beneficiary the underlying assets in the plan become available for the charity's use.

HR 1836 made no direct changes to these so-called "split-interest donations" to charities, and arguably made these tax shelters more attractive, by reducing investors' future ability to utilize the "step up" of appreciated assets left in their estate. We recommend pooled income funds and Charitable Remainder Unitrusts (CRUTs).

"Pooled income funds" are similar to mutual funds. The donor is assigned a number of units, according to the value of the donated assets. The income received by the fund (dividends, interest, etc.) is pooled, and distributed among the income beneficiaries according to the number of units so assigned. When no further income distributions are due because the last income beneficiary named by the donor has died, the value of the units will be "severed" from the fund for the charities use.

In a CRUT, the assets are held in a separate account and not "pooled" with other donations. It is required that the donor stipulate a fixed percentage (not less than 5 percent) of the value of the fund to be distributed annually to income beneficiaries. The donor may also stipulate that distributions are to be up to "income only," with or without a further stipulation that any shortfall of actual income received by the funds from the fixed percentage be "carried forward," and be available for distribution in subsequent years in which the actual income is in excess of the fixed percentage.

No Gains Taxes

Although there are many sound and useful reasons for making split-interest charitable remainder gifts, perhaps the most practical is that, when the gift is of appreciated property, no gains taxes are due even though the property may be sold shortly thereafter by the pooled income fund or CRUT. This means that the donor can donate highly appreciated, but low-yielding, investments and receive the income from the investment of the *entire value* of the donated assets.

Income Tax Deductions

Donors of charitable remainder gifts receive an income tax deduction in the year that the gift is made, but the deduction is less than the full value of the donated assets, because the value of funds to be received by the charity at a future date is less than that of funds that can be used immediately.

Donations of intangible property (such as common stocks) and real property are valued for the purpose of the charitable deduction at fair market value at the time of the gift. Deductions for charitable donations of such appreciated property are limited to 30 percent of income (as compared to 50 percent for other donations), but any unused portion may be carried forward up to 5 subsequent tax years. The valuation of tangible property (such as artwork) may be limited to the donor's cost.

The value of the deduction that can be claimed is determined by 1) the value of the gift, 2) the expected rate of return on the fund, and 3) the expected lifetimes of the named income beneficiaries.

The values of pooled income funds and CRUTs are included in the donor's taxable estate. However, the estate will receive a charitable deduction for the estimated value of the charity's remainder interest at the time. If there are no additional income beneficiaries living at the time of the donor's death, because none were named to begin with, because the named beneficiaries predeceased the donor, or because the donor revoked their income interest by will, the estate will receive a deduction for the full value of the fund or CRU going to the charity.

Investors with highly appreciated assets may wish to contact their alma mater or other favorite charity to establish a charitable remainder plan.

Our parent, AIER, offers especially generous charitable remainder plans. AIER has both a pooled income fund (the Reserved Life Income or "RLI" fund), and CRUTs, but *unlike most other charitable organizations, AIER accepts charitable remainders into its RLI funds with no restrictions on the ages or number of named income beneficiaries beyond the statutory requirement that they be living at the time the gift is made*. This provides a sound way to provide a long-term source of income for your family (perhaps as long as 75 years). The individuals you designate as beneficiaries will receive quarterly payments from the RLI and you will have the assurance of knowing that their future income needs will be met in whole or in part.

Many donors have indicated that they have confidence in AIER's charitable remainder programs as a means of providing for loved ones, not only because administration costs are low, especially in comparison to bank-administered trust funds, but also because of AIER's long-term investment perspective.

An Example

Mr. & Mrs. Jones, ages 65 and 63, need more income in retirement. They hold 1,000 shares of XYZ Corp., purchased many years ago for $5 per share. The stock now sells for $50 per share, but pays an annual dividend of only $0.50 per share, providing annual income of $500.

If they were to sell the stock to reinvest for higher income, they would owe $9,000 in Federal income taxes at 20 percent (and additional state taxes if applicable) on their $45,000 capital gain. This would leave them $41,000 (or less) to reinvest. By donating the stock to AIER's RLI Fund II, the entire $50,000 could be reinvested.

In addition, Mr. & Mrs. Jones would receive a Federal income tax deduction in the year that their charitable gift is made. The amount of this deduction depends on the number of persons named as income beneficiaries, their ages at the time of the gift, and the historical rate of return paid out by the Fund. The deduction is for the estimated present value of AIER's remainder interest, based on the expected lives of the income beneficiaries, discounted at the historical rate of return paid out by the Fund. If the gift were made in 2001 and the income beneficiaries included only Mr. & Mrs. Jones, their deduction would be $16,967.

If Mr. & Mrs. Jones also named their two children, ages 44 and 40 as second tier income beneficiaries, their deduction would be $8,691, and if they added five grandchildren, ages 18, 16, 12, 11, and 4, as third tier income beneficiaries, the deduction would be roughly $2,529. In the latter instances, the Jones's heirs would receive the income generated from the $50,000 gift to AIER for possibly several decades.

Interested investors can contact Mr. Ed Welker, AIER Vice President for Charitable Affairs, at 413-528-1216, extension 3111, for more information.

NEWLY RECOMMENDED FUNDS

	Ticker Symbol	***6/15/01***	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Distributions Latest 12 Months Income*	*Capital Gains*	*Yield (%)*
iShares Index Funds:									
S&P SmallCap 600/BARRA Value	IJS	**82.55**	81.60	na	85.62	66.63	0.48	0.34	0.58
S&P 500/BARRA Value	IVE	**60.69**	63.25	na	67.00	55.00	0.64	0.15	1.05
S&P 500/BARRA Growth	IVW	**60.22**	61.95	na	94.25	52.88	0.36	0.11	0.60
S&P Europe 350	IEV	**63.48**	68.08	na	80.75	59.02	0.36	0.00	0.57
Vanguard Value Index	VIVAX	**21.16**	21.79	22.59	23.89	19.55	0.35	1.44	0.16
Vanguard Sm. Cap. Value Index	VISVX	**9.93**	9.84	8.58	10.70	7.93	0.08	0.69	0.38

THE HIGH-YIELD DOW INVESTMENT STRATEGY

We are convinced that long-term common stock investors will receive superior returns on the "large-capitalization value stocks" component of their holdings when they consistently hold the highest yielding Dow stocks. The fact that a given company's stock is included in the Dow Jones Industrial Average is evidence that the company is a mature and well-established going concern. When a Dow stock comes on the list of the highest-yielding issues in the Average, it will be because the company is out of favor with the investing public for one reason or another (disappointing earnings, unfavorable news developments, etc.) and its stock price is depressed. A High Yield Dow (HYD) strategy derives much of its effectiveness because it "forces" the investor to purchase sound companies when they are out of favor and to sell them when they return to relative popularity.

Selecting from the list will not be "cut and dried" if the timing of purchases and sales reflects individual prejudices or other *ad hoc* considerations. These usually come down to "I'm not going to buy *that*" or "goody goody, this fine company has finally come on the list and I'm going to load up." Our experience with investing in the highest-yielding Dow stocks has shown that attempts to "pick and choose" usually do not work as well as a disciplined approach.

Our parent has exhaustively researched many possible High-Yield Dow approaches, "backtesting" various possible selections from the DJIA ranked by yield for various holding periods. For the 35 years ended in December 1998, they found that the best combination of total return and risk (volatility) was obtained by purchasing the 4 highest-yielding issues and holding them for 18 months. (For a thorough discussion of the strategy for investing in the highest-yielding stocks in the DJIA, please read AIER's booklet, "How to Invest Wisely, with Toward an Optimal Stock Selection Strategy," 139 pp. $9.)

The model portfolio of HYD holdings set forth in the accompanying table reflects the systematic and gradual accumulation the 4 highest-yielding Dow issues that are neither General Motors nor Philip Morris. We exclude GM because its erratic dividend history has usually rendered its relative yield ineffective as a means of signaling timely purchases, especially when it has ranked no. 4 or higher on the list. We exclude Philip Morris because, in present circumstances, it seems unlikely that there will be sufficient "good news" for it to be sold out of the portfolio. For nearly 8 years, Philip Morris has never ranked lower than fourth on the list whatever its ups and downs. Using Philip Morris in the strategy amounts to a "buy-and-hold" approach under these conditions. The HYD strategy, to repeat, derives much of its superior performance from "buying cheap and selling dear."

In the construction of the model, shares purchased 18 month earlier that are no longer eligible for purchase are sold. The hypothetical trades used to compute the composition of the model (as well as the returns on the model and on the full list of 30 Dow stocks) are based on mid-month closing prices, plus or minus $0.125 per share. This month, the strategy calls for selling the portion of the holdings of **Caterpillar** and **Minnesota Mining and Manufacturing** that were purchased in December 1999 to add to holdings of **Dupont** and **International Paper**. The other two issues eligible for purchase this month, **Eastman Kodak** and **JP Morgan Chase,** were also eligible for purchase 18 months ago, and they are retained in the strategy, after some minor purchases and sales to ensure that this month's commitment to each of the four eligible issues is of equal value.

Investors with sizable portfolios should be able to track the exact percentages month to month, but to avoid excessive transaction costs, investors should adjust their holdings toward the percentages below only when commissions are less than 1% of the value of a trade. By making such adjustments from time to time, investors should achieve results roughly equal to the future performance of the model.

The process of *starting* to use the strategy is not as straightforward. The two most extreme approaches are: 1) buy all the indicated positions at once or 2) spread purchases out over 18 months. Either choice could be said to represent an attempt at "market timing," i.e., "all at once" could be construed as a prediction that,

As of June 15, 2001

					——Percent of Portfolio——*	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares‡‡*
Philip Morris	1	4.58%	46.32	*	-0-	-0-
Eastman Kodak	2	3.77%	46.74	Holding*	19.5	18.8
General Motors	3	3.37%	59.35	*	-0-	-0-
Dupont	4	3.06%	45.76	Buying	17.3	16.9
JP Morgan Chase	5	3.03%	44.90	Holding**	15.2	15.1
Int'l Paper	6	2.70%	37.00	Buying	13.0	15.7
SBC Comm.	7	2.53%	40.31	Holding	1.1	1.2
Caterpillar	8	2.51%	54.15	Selling	26.4	22.0
Proctor and Gamble	9	2.24%	62.60	—	—	—
Minn.Mng.& Mfg.	10	1.99%	120.88	Selling	3.2	1.2
A.T.&T.	24	0.71%	21.00	Holding	4.3	9.1
					100.0	100.0

Change in Portfolio Value‡

	1 mo.	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*From 12/63*	*Std. Dev.*
Strategy	-0.9%	20.4%	18.0%	18.7%	19.0%	16.8%	19.0
Dow	-5.0%	1.1%	14.37%	15.4%	14.9%	11.3%	17.2

* The strategy excludes Philip Morris and General Motors. ** Indicated purchases approximately offset by sales of shares purchased 18 months ago. ‡ Assuming 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 15-year total returns are annualized as are the total returns and the standard deviations of those returns since December 1963. ‡‡ 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.

Note: These calculations are based on hypothetical trades following very exacting stock selection strategies. They do not reflect returns on actual investments or previous recommendations of AIS. Past performance may differ from future results.

and will look good in retrospect only if, the prices of the shares go up after the purchases are made. On the other hand, if purchases are stretched out and stock prices increase, the value of the investor's holdings will lag behind the strategy's performance. We believe that most attempts to time the market are futile, and the best course lies somewhere between the extremes.

Some portion of the shares now held in the strategy will be sold within a few months. The shares most likely to be sold are those whose indicated yields are too low to make them currently eligible for purchase. This usually means that their prices have risen (and their yields have fallen) in relative if not absolute terms, since they were purchased. If such stocks are purchased now and are sold within a few months, the investor will receive only a portion of the profit, or sustain a greater loss, than the strategy. On the other hand, if the stocks not currently eligible for purchase are bought and the strategy does not call for selling them soon, it will usually be because their prices have decreased so that their indicated yields render them again eligible for purchase. In other words, buying a stock that is not currently among the top 4 means that it will very likely be sold during the months ahead (perhaps at a gain, perhaps not, but with payment of two commissions either way). Alternatively, if the price decreases so that the issue again becomes eligible for purchase, then the investor's initial purchase would be likely to be held in the portfolio at a loss for some period of time. In the latter situation, the investor would have been better off if he had waited.

Accordingly, for new HYD clients, we usually purchase the full complement of the currently eligible stocks immediately. (This month, the four eligible issues—DuPont, Eastman Kodak, International Paper and JP Morgan Chase—account for about five-eighths of the total portfolio value). Any remaining cash will be held in a money market fund pending subsequent purchases, which will be made whenever the client's holdings of each month's eligible stocks are below the percentages indicated by the strategy by an amount sufficient to warrant a trade.

AT&T is something of a special situation. The current holdings in the strategy were acquired last fall, before the company slashed its dividend. The company's problems (see the December *INVESTMENT GUIDE*) continue to be reflected in its stock price. Yet, when the time comes to sell the strategy's holdings in the spring of 2002, it is quite possible that the shares (including prospective spin-offs) will be worth more than they are now. We have been buying AT&T for new clients but, because it is not now eligible for purchase, a case could be made that it should be left out of an initial commitment at this time.

Our **HYD Investment Management Program** provides professional and disciplined application of this strategy for individual accounts. For accounts of $100,000 or more, the fees and expenses of AIS's discretionary portfolio management programs are comparable to those of many index mutual funds. Contact us for information on this and our other discretionary investment management services.

THE DOW JONES INDUSTRIALS RANKED BY YIELD

	Ticker Symbol	Market Prices 6/15/01	5/15/01	6/15/00	12-Month High	Low	Latest Dividend Amount	Record Date	Paid	Indicated Annual Dividend	Yield† (%)
Philip Morris	MO	**$46.32**	50.92	27.56	53.88	23.00	0.530	6/15/01	7/10/01	2.120	4.58
★ Eastman Kodak	EK	**$46.74**	47.27	60.81	65.69	35.31	0.440	6/01/01	7/02/01	1.760	3.77
‡ General Motors	GM	**$59.35**	54.61	65.06	76.63	48.44	0.500	5/11/01	6/09/01	2.000	3.37
★ DuPont	DD	**$45.76**	46.75	47.88	50.69	38.19	0.350	5/15/01	6/12/01	1.400	3.06
☆ J. P. Morgan Chase	JPM	**$44.90**	47.28	34.19	58.38	32.38	0.340	7/06/01	7/31/01	1.360	3.03
★ International Paper	IP	**$37.00**	37.70	32.75	43.31	26.31	0.250	5/18/01	6/15/01	1.000	2.70
★ Caterpillar	CAT	**$54.15**	53.14	37.00	56.83 *H*	29.00	0.350	7/20/01	8/20/01	1.400	2.59
☆ SBC Comm.	SBC	**$40.31**	43.35	48.69	59.00	38.38	0.256	4/10/01	5/01/01	1.025	2.54
Procter & Gamble	PG	**$62.60**	65.98	56.75	79.31	53.25	0.350	4/20/01	5/15/01	1.400	2.24
☆ Minn. Min. & Mfg.	MMM	**$120.88**	118.15	86.44	127.00 *H*	80.50	0.600	5/180/1	6/12/01	2.400	1.99
‡ Exxon Mobil	XOM	**$88.90**	89.45	82.44	95.44	75.13	0.440	5/14/01	6/11/01	1.760	1.98
Honeywell Intl.	HON	**$38.70**	50.31	50.88	55.69	32.13	0.188	7/09/01	7/25/01	0.750	1.94
Merck	MRK	**$73.75**	75.90	72.81	96.69	63.00	0.340	6/04/01	7/02/01	1.360	1.84
Coca-Cola	KO	**$44.26**	45.90	55.88	64.00	42.37	0.180	6/15/01	7/01/01	0.720	1.63
Alcoa (s)	AA	**$38.97**	42.00	30.63	45.71 *H*	23.13	0.150•	5/04/01	5/25/01	0.600•	1.54
General Electric	GE	**$48.81**	50.15	51.88	60.50	36.42	0.160	7/09/01	7/25/01	0.640	1.31
United Tech.	UTX	**$74.75**	79.40	59.63	87.50 *H*	54.00	0.225	5/18/01	6/10/01	0.900	1.20
Hewlett-Packard (s)	HWP	**$27.00**	25.40	58.50	68.09	25.00	0.080	6/20/01	7/11/01	0.320	1.19
Citigroup (s)	C	**$49.30**	50.55	64.88	59.13	39.00	0.140	5/07/01	5/25/01	0.560	1.14
Boeing	BA	**$64.25**	66.59	40.38	70.94	38.31	0.170	8/17/01	9/07/01	0.680	1.06
American Express	AXP	**$38.94**	41.84	55.50	63.00	34.00	0.080	7/06/01	8/10/01	0.320	0.82
McDonald's	MCD	**$28.67**	27.50	32.13	35.06	24.75	0.215	11/15/00	12/01/00	0.215	0.75
Johnson & Johnson	JNJ	**$52.04**	48.54	45.32	52.97	40.25 *L*	0.360	5/22/01	6/12/01	1.440	0.72
☆ AT&T	T	**$21.00**	21.55	34.19	37.25	16.50	0.038	6/29/01	8/01/01	0.150	0.71
Walt Disney	DIS	**$29.70**	31.10	42.00	43.00	26.00	0.210	12/08/00	12/22/00	0.210	0.71
Wal-Mart Stores	WMT	**$48.15**	52.00	55.50	62.94	41.44	0.070	6/22/01	7/09/01	0.280	0.58
IBM	IBM	**$113.60**	113.58	116.81	134.94	80.06	0.140	5/10/01	6/09/01	0.560	0.49
Home Depot, Inc.	HD	**$48.90**	50.10	50.88	60.00	34.69	0.040	6/14/01	6/28/01	0.160	0.33
Intel Corp. (s)	INTC	**$27.68**	27.20	64.13	75.81	22.25	0.020	5/07/01	6/01/01	0.080	0.29
Microsoft Corp.	MSFT	**$68.02**	68.27	72.38	82.88	40.25	0.000	-	-	0.000	0.00
Chevron	CHV	Chevron and Goodyear and Sears, Roebuck are no longer DJIA components and therefore have been sold from the 4-for-18 model during the previous 18 months. Investors following the model should have no shares remaining at this time.									
Goodyear	GT										
Sears, Roebuck	S										

★ BUY. ☆ HOLD. † Based on indicated dividends and market price as of 6/15/01. *H* New 52-week high. *L* New 52-week low. (s) All data adjusted for splits. • Excludes extras. ‡ This issue had been recommended for purchase under our original HYD stock selection strategy because it had ranked among the 10 highest yielding issues for more then 12 months. Shares should be retained by readers who currently hold them.

Note: The issues indicated for purchase (★) are the 4 highest yielding issues (other than Philip Morris and General Motors) qualifying for purchase in the top 4-for-18 months model portfolio. The issues indicated for retention (☆) have similarly qualified for purchase during one or more of the preceding 17 months, but do not qualify for purchase this month.

RECENT MARKET STATISTICS

Precious Metals & Commodity Prices

	6/15/01	*Mo. Earlier*	*Yr. Earlier*
Gold, London p.m. fixing	**272.20**	266.60	287.40
Silver, London Spot Price	**4.45**	4.34	5.06
Copper, COMEX Spot Price	**0.72**	0.75	0.82
Crude Oil, W. Texas Int. Spot	**28.51**	28.98	32.95
Dow Jones Spot Index	**109.48**	114.32	116.98
Dow Jones-AIG Futures Index	**105.43**	108.59	104.75
CRB-Bridge Futures Index	**209.06**	216.00	224.27

Interest Rates (%)

U.S. Treasury bills -	91 day	**3.41**	3.62	5.82
	182 day	**3.37**	3.69	6.22
	52 week	**3.41**	3.70	6.12
U.S. Treasury bonds -	15 year	**5.71**	5.92	6.28
Corporates:				
High Quality -	10+ year	**7.03**	7.24	7.90
Medium Quality -	10+ year	**7.64**	7.96	8.40
Federal Reserve Discount Rate		**3.50**	3.50	6.00
New York Prime Rate		**7.00**	7.50	9.50
Euro Rates	3 month	**4.45**	4.79	4.69
Government bonds -	10 year	**4.97**	4.87	5.08
Swiss Rates -	3 month	**3.15**	3.19	3.39
Government bonds -	10 year	**3.43**	3.31	na

Exchange Rates

British Pound	**$1.402700**	1.427400	1.511200
Canadian Dollar	**$0.654200**	0.646700	0.678300
Euro	**$0.858900**	0.883100	0.956400
Japanese Yen	**$0.008110**	0.008087	0.009410
South African Rand	**$0.124300**	0.125200	0.145800
Swiss Franc	**$0.561600**	0.576400	0.612900

Securities Markets

	6/15/01	*Mo. Earlier*	*Yr. Earlier*
S & P 500 Stock Composite	**1,214.36**	1,249.44	1,478.73
Dow Jones Industrial Average	**10,623.64**	10,872.97	10,714.82
Dow Jones Transportation Average	**2,693.62**	2,880.24	2,704.53
Dow Jones Utilities Average	**363.73**	385.70	327.32
Dow Jones Bond Average	**102.36**	101.16	95.15
Nasdaq Composite	**2,028.43**	2,085.58	3,845.74
Financial Times Gold Mines Index	**835.15**	807.87	833.37
FT African Gold Mines	**936.86**	928.24	938.43
FT Australasian Gold Mines	**946.79**	858.45	795.71
FT North American Gold Mines	**782.94**	758.59	802.92

Coin Prices

	6/15/01	*Mo. Earlier*	*Yr. Earlier*	*Premium*
American Eagle (1.00)	**$275.15**	273.35	294.05	1.08
Austrian 100-Corona (0.9803)	**$262.23**	260.53	280.23	-1.73
British Sovereign (0.2354)	**$66.55**	66.15	70.95	3.86
Canadian Maple Leaf (1.00)	**$275.40**	273.60	294.30	1.18
Mexican 50-Peso (1.2057)	**$323.70**	321.60	345.90	-1.37
Mexican Ounce (1.00)	**$268.30**	266.50	286.70	-1.43
S. African Krugerrand (1.00)	**$273.15**	271.35	291.75	0.35
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$350.00**	340.00	370.00	32.90
Liberty (Type I-AU)	**$675.00**	675.00	675.00	156.31
Liberty (Type II-AU)	**$425.00**	425.00	435.00	61.38
Liberty (Type III-AU)	**$310.00**	307.50	335.00	17.71
U.S. Silver Coins ($1,000 face value)				
90% Silver (715 oz.)	**$4,200.00**	4,200.00	4,200.00	32.00
40% Silver (292 oz.)	**$1,550.00**	1,550.00	1,610.00	19.29
Silver Dollars	**$6,075.00**	6,025.00	6,200.00	76.47

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $272.20 per ounce and silver at $4.45 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Selected Mutual Funds

	Ticker Symbol	*6/15/01*	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Distributions Latest 12 Months Income*	*Capital Gains*	*Yield (%)*
★ Duff & Phelps Utilities Income[1]	DNP	**$11.04**	11.04	9.56	11.14	10.94	0.7800	0.0000	7.07
★ T Rowe Price European Stock	PRESX	**$17.13**	18.13	23.94	24.17	16.09	0.1600	1.4200	0.93
★ Vanguard European Stk Index	VEURX	**$21.81**	23.01	28.65	28.80	20.46	0.4330	0.0000	1.99
★ Vanguard REIT Index	VGSIX	**$12.29**	11.61	11.18	12.30	10.67	0.8000	0.0000	6.51
★ Vanguard Growth Index	VIGRX	**$26.82**	27.49	39.94	41.81	23.76	0.1250	0.0000	0.47
★ Fidelity Target Timeline 2003	FTARX	**$9.45**	9.40	9.03	9.47	9.00	0.6230	0.0000	6.59
★ USAA Short Term Bond	USSBX	**$9.88**	9.82	9.68	9.88	9.55	0.6508	0.0003	6.59
★ Vanguard Short Term Corp	VFSTX	**$10.81**	10.75	10.45	10.83	10.42	0.7122	0.0000	6.59

North American and Diversified Mining Companies

	Ticker Symbol	*6/15/01*	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Indicated Annual Net Dividends*	*Payment Schedule*	*Yield (%)*
Agnico-Eagle†	AEM	**$8.35**	8.19	6.56	9.63	4.88	0.020	Annual	0.24
★ Barrick Gold Corp.†	ABX	**$16.80**	17.12	18.88	19.83	12.31	0.220	Semiannual	1.31
Freeport-McMoran C&G, Cl.A	FCXA	**$13.17**	13.03	9.00	15.40	6.75	0.000	-	0.00
★ Homestake Mining	HM	**$7.30**	6.65	7.38	8.25	3.50	0.050	Semiannual	0.68
★ Newmont Mining	NEM	**$21.89**	20.81	24.25	24.60	12.75	0.120	Quarterly	0.55
★ Placer Dome†	PDG	**$11.12**	11.02	9.44	12.48	7.25	0.100	Semiannual	0.90
★ Rio Tinto PLC‡	RTP	**$69.92**	79.00	63.50	85.00	55.13	2.300	Semiannual	3.29

South African Mining Companies, Finance Houses and Investment Trusts

	Ticker Symbol	*6/15/01*	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*ADR Net Dividends• and Ex-Dividend Dates*				*Yield (%)*
ASA Ltd.	ASA	**$19.90**	20.02	16.56	22.90	14.06	-	-	-	0.600°	3.02
Anglo American PLC[2]	AAUK	**$14.36**	16.35	11.69	18.25	11.36	9/20/00	0.580	3/21/01	1.280	12.95
« Anglogold Ltd.[3]	AU	**$18.62**	19.40	21.13	22.34	12.25	8/09/00	0.511	2/21/01	0.399	4.89
Avgold Ltd.	AVGLY	**$6.03**	6.18	5.05	6.25	3.11	No Dividends Declared				
De Beers Consolidated Mines	DBRSY	**$44.03**	44.27	23.25	47.75	21.63	9/13/00	0.345	3/21/01	0.928	2.89
Gencor Ltd.	GNCRY	**$4.14**	4.18	2.86	4.90	2.48	9/13/00	0.164	3/07/01	0.461	15.10
« Gold Fields Ltd.[4]	GOLD	**$4.51**	4.39	4.06	5.25	2.56	2/16/00	0.026	2/16/01	0.119	3.21

★ Buy. ☆ Hold. (s) All data adjusted for splits. † Dividend shown is after 15% Canadian tax withholding. ‡ Dividend shown is after 15% U.K. tax withholding on a portion of the total. na Not applicable. • Paid or announced last 12 months. ° Total dividend paid in latest 12 months. [1] Closed-end fund—traded on the NYSE. Dividends paid monthly. [2] Anglo American Gold Inv. Co. merger in Anglo American plc. [3] Formerly Vaal Reefs plus interests in Free State, Western Deep, Ergo, Elandsrand and others. 2 ADRs = 1 ordinary share. [4] Gold Fields Ltd. and Driefontonein Consolidated merged to form Gold Fields, Ltd. e Estimated.