INVESTMENT GUIDE

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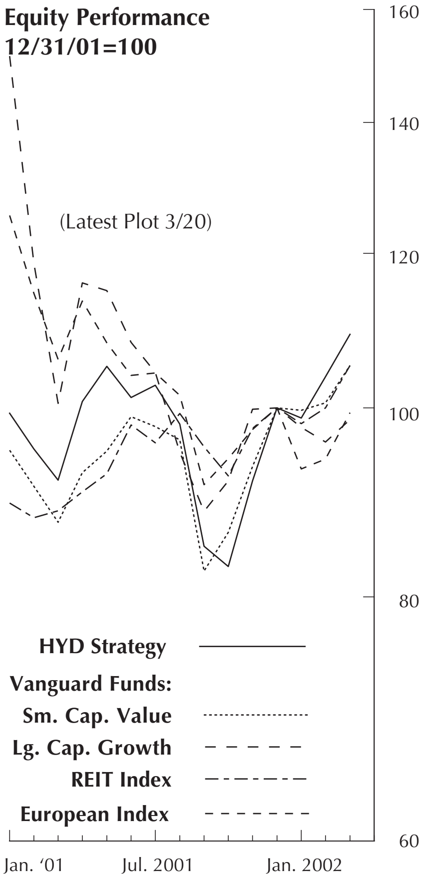

We offer two discretionary management services: Our Professional Asset Management (PAM) service covers all of our recommended assets and allows us to place trades in stocks, bonds, and mutual funds directly in our clients' accounts. (The accounts remain the property of our clients at all times—we are 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.

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Six Months Later

The table below is an update to the table we published immediately following the attacks on the World Trade Center and the Pentagon.

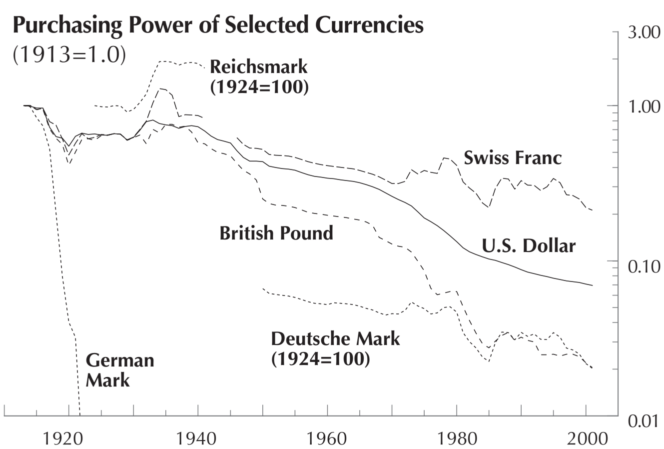
Market Reaction

Date	*Event*	*First Trading Session Response to Event DJIA % Change*	*Subsequent Market Behavior Six Months*
September 17, 2001	World Trade Center towers destroyed	-7.13%	10.47%
January 16, 1991	U.S. launches bombing attack on Iraq	4.57%	14.97%
August 2, 1990	Iraq invades Kuwait	-1.20%	-3.22%
March 30, 1981	President Reagan shot by John Hinckley Jr.	-0.26%	-14.33%
August 9, 1974	President Nixon resigns	-0.97%	-8.87%
November 22, 1963	President Kennedy assassinated in Dallas	-2.89%	15.37%
October 22, 1962	Cuban missile crisis	-1.85%	27.41%
September 24, 1955	President Eisenhower heart attack	-6.54%	12.48%
June 25, 1950	North Korea invades South Korea	-4.65%	7.36%
December 7, 1941	Japan attacks Pearl Harbor, Hawaii	-3.50%	-6.19%

The stock market has bounced back sharply, as it often has following dramatic events in history, but this is hardly a signal to "buy on bad news." The fact is, stock price changes are driven by news, which by definition comes randomly. Investors hoping to profit by outguessing the market will be disappointed.

Most investors who follow our investment approach would have owned common stocks prior to September 11, and would not have altered their portfolios in response. Rather than speculating about prospects for further disruption, disciplined investors will instead focus on maintaining an asset allocation appropriate to their tolerance for risk.

Rather than focusing on spectacular events, our approach is to examine long-term empirical evidence to help develop sound portfolios. For example, we know that historically certain asset classes have provided strong returns, and that several are not strongly correlated, and therefore merit a place in many portfolios. We also know that since the gold standard was abandoned, monetary inflating and the loss of purchasing power of the dollar and other fiat currencies has been dramatic, as demonstrated in the chart. There is little to suggest that the future holds hope for anything different.



The almost certain prospect of monetary inflating underlies the inclusion of common stocks, gold and REITs in our recommendations. These are time-tested inflation hedges and therefore remain invaluable for most investors, regardless of the many disruptions that might occur over their planning horizon.

USING CREDIT CARDS WISELY

In the aftermath of September 11, automakers attempted to jumpstart inert car buyers with the stimulus of 0% financing. By now, those attractive credit terms for car buyers have almost completely disappeared from America's car lots. But 0% interest rates are proliferating elsewhere. Increasingly, people who have established good credit records are being greeted at their mailboxes with offers for credit cards carrying 0% interest rates. These offers are good for introductory periods ranging from a few months to an entire year. 0% credit cards often provide the opportunity not only to make purchases, but also to transfer balances from high-interest rate cards at no cost.

The 0%, or interest-free, credit card provides obvious opportunities, all of which derive from the economic advantages of using "free money" to gain financial leverage. But caution should be exercised. Virtually all of the current 0% terms are immediately cancelled if the cardholder makes a payment late, or in less than the required minimum amount, or if the cardholder in any other way violates the cardholder agreement. Cancelled 0% rates are almost always replaced by double-digit interest rates. These high, unanticipated interest rates are often applied to higher-than-planned balances, encouraged by the convenience and presumed cost-savings of 0% credit. And as good as 0% credit-card interest sounds, not everyone can get it.

While there are many less attractive credit card offers—the 0% solicitations unarguably offer the best introductory interest rate arrangement—credit cards, if properly understood and managed, offer a number of helpful financial options.

Credit card companies send out approximately two billion unsolicited offers a year. Despite the abundance of these offers, credit can be difficult to obtain for those who have never established it. It's a classic catch-22; to get credit, you need to have established credit. Ironically, college students with little income often have an easier time getting a credit card than many other individuals seeking credit for the first time. Card companies court students as customers, seeing them as potentially high-earning, long-term customers with good repayment records—especially since parents are likely to pay the bills initially if their children don't. In any event, possessing a credit card can provide definite financial advantages because credit cards offer ease and convenience for many everyday financial transactions, and knowing how to use credit cards wisely is worth real money.

Whether a cardholder gains the advantages of 0% interest, or incurs the typical interest-rate expenses of conventional credit cards, the key ingredient for successful credit card management is an understanding of the basic cost-generating variables associated with credit card accounts. The most important basics to understand are the annual percentage rate (APR), the periodic rate, how outstanding balances are computed, how to use the grace period, and the added costs of annual fees, penalties, and special transaction fees. (An excellent compilation of this and other relevant information is available at the website http://www.federalreserve.gov/pubs/shop/, which also served as a resource for this article.)

How are APRs determined? APRs fall into three categories: fixed-rate, variable-rate, and tiered-rate. Fixed-rate cards carry an APR that stays the same from month to month, although even a "fixed" APR can be changed when the card issuer (the bank or financial institution) notifies the cardholder according to the terms and conditions agreed to when the card was issued. To arrive at a variable rate, credit card issuers choose an index (most commonly, the prime rate; a Treasury bill rate, the Federal funds rate; or the Federal Reserve's discount rate) and then either add a margin (a number of percentage points), or choose a multiple, or both. Most cards use one of the following formulas to determine a variable APR:

Index + Margin = the Variable Rate.
Index x Multiple = the Variable Rate.
(Index + Margin) x Multiple = the Variable Rate.

Cards with tiered-rates charge APRs that change depending on the outstanding balance. For example, an APR of 14 percent could apply to balances of $500 and under, and an APR of 18 percent could apply to balances above $500.

What is the difference between the periodic rate and the APR? The periodic rate is the interest rate you are charged for each billing period. The periodic rate can usually be determined by dividing the APR by 12. For example, a credit card with an APR of 18% has a periodic rate of 1.5%.

How is the outstanding balance computed? The actual outstanding balance that appears on a credit-card statement can be calculated in various ways, and the formula used can have a big impact on the interest paid by the cardholder. Prevalent methods used for determining the outstanding balance include:

Average daily balance including new purchases—the sum of the balance on every day of the billing cycle, with new charges and credits included, divided by the number of days in the cycle.

Average daily balance excluding new purchases—the sum of the balance on every day of the billing cycle, with new charges and credits excluded, divided by the number of days in the cycle.

Two-cycle average daily balance—this method computes the outstanding balance by combining average daily balances from two consecutive billing cycles. The two-cycle average daily balance can be computed either to include or exclude new charges and credits. This method can lead to higher than anticipated finance charges, as many users find tracking their average daily balance more complicated and confusing when the two-cycle method is applied.

Adjusted-balance method—the adjusted balance is the outstanding balance at the start of the billing cycle, with credits made during the billing cycle deducted.

Previous-balance method—the previous balance is simply the outstanding balance at the beginning of the billing cycle.

How is the finance charge computed? The finance charge is equal to the outstanding balance multiplied by the periodic rate.

What is the Grace Period? The grace period is the number of days, often from 20-25, available to the cardholder between the date of the monthly statement and the payment due date. If the outstanding balance is paid in full by the payment due date, the cardholder avoids finance charges for that statement period. The grace period, if handled to its full advantage, provides for an effective 0% interest rate on purchases on a continuing basis, regardless of the card's APR. Most credit cards do not provide a grace period for cash advances. These transactions typically begin accruing finance charges from the transaction date, and interest continues accruing until the balance is paid in full. It's also important to count the days of the grace period carefully. Grace periods often seem shorter than cardholders anticipate, since the grace period begins from the statement date, not from the date the cardholder receives the statement. The time between the statement date and when it arrives in the mailbox can be two weeks in some instances.

What about Annual Fees? Some credit card offers promising a low, fixed APR look good, but the fine print may indicate a substantial annual fee. Annual fees are typically assessed whether the cardholder uses the credit card or not. Computing the anticipated savings from a low APR and comparing those projected savings to the cost of the annual fee will help to evaluate whether the annual fee is a sensible expense. Other benefits of the credit card, such as airline miles or cash rebates should also be taken into account when judging the overall value of a credit card that assesses an annual fee.

What penalties or additional fees are cardholders liable for? The most common are late-payment fees and over-the-credit-limit fees. These penalty fees can be high. Penalties of $19-$29 per incident are not unusual. Some credit cards also assess a minimum finance charge when a balance is carried from cycle to cycle. These charges are usually nominal, typically in the range of $0.50 to a few dollars per billing cycle.

What special transaction fees might apply to a credit card account? Credit card issuers usually charge fees for balance transfers and for cash advances. These fees often are computed as a percentage of the transaction amount, for example, three percent of the cash advance or balance transfer total, with a maximum fee per transaction, for example, $40.

What other credit card features are available? Credit-card issuers often offer incentives to make their cards more attractive. Cash rebates; warranty coverage of purchases; travel, auto, or accident insurance; airline miles; and other discounts and offers are often available. Depending on the habits and priorities of the cardholder, these features can add significant value to a credit-card account. Even credit-card users who rarely, if ever, carry a balance, and who use their cards only sparingly can enjoy these benefits.

With a good appreciation of these fundamental aspects of credit-card use, individual users can better determine what type of credit card to obtain. It is helpful to deliberate carefully, and then make the best choice from among the credit-card options available. Choosing the best type of credit-card account for particular uses offers optimal cost-effectiveness and convenience.

Credit Cards and Credit-Card Rates

Not all credit cards are alike. Comparison shopping for credit cards can save you money, since there are differences in annual fees, grace periods before interest accrues, and interest-rate charges—and even different methods for calculating balances and finance charges. Some cards have no annual fees, but do not allow you a grace period before interest is charged. Others have high annual fees but relatively low interest rates. Still others entice consumers with low "teaser" rates for the first six months that jump to high rates after the introductory period. Adding to the mix, an increasing number of companies now sponsor cards that offer "rebates" on charges—for example, airline miles or a rebate that can be applied toward the purchase of a new car. What combination is best for you depends on how you plan to use your credit card.

Although each person has his or her own spending habits, there are three common ways people tend to use credit cards: (1) revolving a balance from month to month, (2) having a card for convenience instead of extended credit, and (3) combining a revolving balance with convenience usage. Here is what each type of user should look for when shopping for a card.

The "revolver" generally pays only part of the outstanding balance each month, often just the minimum payment required by the credit-card company or bank. This minimum payment frequently is as low as 2 percent of the outstanding monthly balance. For these credit users, the card's APR is most important. Revolvers with high balances could benefit in the short term from a card with a temporarily low "teaser" APR—*if* they transfer a balance from a higher-rate card and pay it off during the time the low rate is in effect.

Convenience users pay in full every billing cycle (usually monthly) or before the grace period is up. For this type of user, the APR is not the most important attribute. Rather, he or she benefits most from a low or no-annual-fee term and a long grace period, which allows as much as 25 days before interest accrues on purchases. A convenience user who typically charges high balances might benefit from a rebate card, if the value of the rebate is likely to outweigh any annual fee charged.

The combination user varies his or her behavior, often paying the entire outstanding balance, but sometimes paying just part of it. All three card characteristics—the APR, annual fee, and grace period—are important for this type of user. If you fall within this category, look for the card with a low—or no—annual fee and a low APR. A long grace period is preferable for those times when the balance has been paid in full. (In most instances, whenever you carry any part of a balance over from month to month, interest is charged on new purchases immediately, eliminating the grace period.) Since rebate cards generally have high APRs, a combination user could find that the interest charges would be higher than the rebate offered.

How to Choose the Right Credit Card

Table 1 can serve as a rough guide to helping you decide which credit card might be right for you. To illustrate its use, a hypothetical sample of credit cards is shown in Table 2. Of course, you will have to go through the actual selection process to make the best use of this guide. Also note that applicants with a limited credit card history are less likely to qualify for the lower-rate cards.

If you are a revolver, pick Bank A's credit card. It has the lowest APR among the available cards. Although Bank B's card has a slightly lower annual fee than Bank A's, the variability of its interest rate poses some risk if market rates increase. It is unlikely that the smaller annual fee would compensate for potentially higher

Table 1
Credit Card User Type and Card Attribute Guide

Type of Credit Card User	*Most Important Card Attribute(s) to Consider*	*Least Important Card Attribute(s) to Consider*
Revolver	APR	Annual Fee, Grace Period
Convenience User	Annual Fee, Grace Period	APR
Combination User	APR, Annual Fee, Grace Period	

Table 2
A Hypothetical Sample of Credit Cards

Card Issuer	*APR*	*Annual Fee*	*Grace Period*
Bank A	12.0%	$20	25 days
Bank B	13.0*	$18	25 days
Bank C	14.0	none	none
Bank D	15.0	none	none
Bank E	14.0	none	25 days
Bank F	15.0	none	25 days
Bank G	18.5	none	25 days
Bank H	19.0	none	25 days

* Variable rate.

interest charges. It should be noted, though, that in recent years, credit card companies have been much more likely to issue variable rate cards. Consequently, finding a fixed-rate card—particularly one that also carries a lower rate—has become more difficult.

If you are a convenience user, choose Bank E's card. It has no annual fee, a long grace period, and its APR is lower than Bank F's. Among the cards with no annual fee, four have long grace periods—E, F, G and H. Of these four, Bank E's has the lowest APR.

If you are a combination user, Bank E's card is also your best choice. Applying the annual-fee criterion first, cards from Banks A and B are eliminated. Of the remainder, only four—E, F, G and H—have long grace periods. Bank E's card has the lowest APR among these.

This illustration is rather simplified and does not take into account other factors explained earlier that, in one way or another, could affect a cardholder's cost of using a credit card. Examples are fees for cash advances, late payments, and exceeding credit limits. Many of these costs are tucked away in fine print. A credit-card shopper should certainly read the credit contract agreement carefully before accepting its terms.

The table below offers a sampling of current or recent 0% credit-card offers. Specific features of these types of offers vary from issuer to issuer, and some issuers offer multiple variations on their current 0% credit card offers. The information in the table below is accurate for the survey completed, but it is important to verify the specific terms of the offer you discuss with these and any other providers. Terms and features are subject to change, and our experience is that they change often.

Table 3: A Sampling of Zero Percent Credit Card Offers

	MBNA	**CapitalOne**	**Citibank**	**Chase**
Customer Service Phone Number	800-932-2775	800-955-7070	800-950-5114	800-432-3117
Name of Card	Multiple offers available. Names of cards vary.	MilesOne (Other 0% offers under other card names may be available.)	Platinum Select	Chase Platinum MasterCard
Name of Bank	MBNA America Bank, N.A.	Capital One Bank	Citibank, N.A.	Chase Manhattan Bank USA, National Association
Length of 0% Introductory Rate	Varies with card. Generally five to six months.	Capital One' s offers vary. Generally six to nine months.	Twelve months	Twelve months
0% on Balance Transfers?	Yes	Yes	Yes	Yes
0% on Purchases?	No	Varies with offer.	No	No
0% on Cash Advances?	Yes	Varies with offer.	No	No
Transaction Fees	Balance transfer fees vary. 3% on cash advances, with minimum of $5, maximum of $40.	Balance transfers available with no fee in some cases. 3% on cash advances, with minimum of $5, no maximum.	No balance transfer fee.	3% on balance transfers, with maximum of $45 during the introductory period.
Annual Fee	Varies with offer. Some available with no fee.	Varies with offer.	No	No
Other Features or Benefits	Various features and benefits available, depending on offer.	Airline miles rewarded on MilesOne card. Rebates may be available with other offers.	Not in the promotion reviewed for this article.	Not in the promotion reviewed for this article.

TAX RELIEF ACT: PROCEED WITH CAUTION

As Americans complete their 2001 tax filings and turn their full attention to this year's best financial strategies, they can take advantage of some new tax breaks provided by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA, or Tax Relief Act). This legislation, signed in to law by President Bush in 2001, became effective January 1, 2002. It provides United States taxpayers with higher contribution limits for IRAs and Coverdell Education Savings Accounts (ESAs), greater flexibility in the use of ESA distributions, and portability among more types of retirement accounts. Unfortunately, 19 states and the District of Columbia have maintained tax codes that do not conform to these new Federal provisions. These tax code discrepancies create potential traps for unwary or less-than-careful taxpayers in the nonconforming states.

Among the new opportunities presented to taxpayers by the Act are:

- The IRA contribution limit increased from \$2,000 to \$3,000, and workers age 50 or older may make additional "catch-up" contributions of up to \$500.
- 2002 salary deferral limits for 401(k) plans increased from \$10,500 to \$11,000.
- 2002 salary deferral limits for SIMPLE IRAs increased from \$6,500 to \$7000.
- Effective in all states offering 529 college savings plans, withdrawals from these plans are now Federally tax-free.
- ESA contribution limits raised from \$500 to \$2,000 for qualifying taxpayers.
- ESA distributions are now permitted for primary- and secondary-school education expenses, and for computer and internet-related expenditures.
- Eligibility limits for ESAs have been raised to an Adjusted Gross Income (AGI) of \$190,000 for married couples filing jointly.

As mentioned above, 20 states (including Washington, D.C.) maintain tax rules that do not conform to the provisions of the Tax Relief Act, and taxpayers from these jurisdictions should pay special attention to avoid potentially costly pitfalls.

Nonconforming States

There are twenty nonconforming states that may change their tax codes (Alabama, Arizona, Arkansas, California, District of Columbia, Georgia, Hawaii, Idaho, Indiana, Iowa, Kentucky, Maine, Massachusetts, Minnesota, New Jersey, North Carolina, Oregon, South Carolina, West Virginia, Wisconsin), but in the meantime, taxpayers from these states must be aware of the rules that affect their particular situations. Residents of the nonconforming states remain bound by the limits and strictures on IRAs and ESAs that preceded passage of the Tax Relief Act.

Residents of nonconforming states should pay special attention to the tax snares created by their state's adherence to pre-2002 tax codes. In particular:

- IRA and 401(k) contributions made according to the new Federal limits may be considered taxable state income.
- Nonconforming states may tax "catch-up" contributions by taxpayers age 50 and older as state income.
- To avoid double taxation on their eventual distributions from IRAs and ESAs, residents of nonconforming states should keep records of state taxes paid on contributions in excess of pre-2002 limits.
- Some rollovers from governmental plans into private-sector plans could create state tax liabilities for individual taxpayers.
- Participants in IRAs that are disqualified at the state level could be exposed to tax liabilities and penalties.

Residents of nonconforming states can take measures to avoid additional taxes and associated costs. These taxpayers may simply find it preferable to wait until their state gets in step with the Tax Relief Act before attempting to capture any of the benefits of the new Federal provisions. Obtaining the new Federal tax breaks in their states—if they're even available—will require significant work, due to the increased complexity of record keeping and verification necessitated by competing tax codes. In essence, the common sense principle of *"when in doubt, don't,"* is broadly applicable here. By staying within the boundaries of 2001 limits, taxpayers in nonconforming states can avoid unnecessary additional state taxes.

Until a nonconforming state clearly establishes tax-code changes that accommodate the higher contribution limits and greater flexibility of the Tax Relief Act, taxpayers in that state can play it safe by practicing the following suggestions:

- If you live in a nonconforming jurisdiction, it might make sense to limit your IRA contributions to \$2,000 until your state takes definitive action to come into conformance with the new Federal limit of \$3,000.
- When considering salary deferrals for 401(k) plans and SIMPLE IRAs, including "catch-up" contributions, residents of nonconforming states risk incurring additional state taxes if they assume the new higher Federal limits. In addition, employers in nonconforming states should carefully consider the higher Federal levels for their company plans. These plans could be disqualified at the state level in states where the Tax Relief Act's higher limits are at odds with that state's tax code.
- Until the more generous \$2,000 ESA contribution limit is allowed by nonconforming states, residents of these states should consider limiting their ESA contributions to \$500.
- Although the Tax Relief Act allows ESA distributions for primary- and secondary-school expenses, as well as computer and internet-related expenses, residents of nonconforming states should avoid taking distributions for expenses in these education categories. The safe approach is to use ESA distributions for qualified costs relating to higher education only. Qualified expenses include the costs of tuition, books, supplies, fees, and equipment.
- The Tax Relief Act allows more couples to qualify for ESAs by raising the AGI for married couples filing jointly to \$190,000, but this new AGI benchmark may not apply to couples living in nonconforming states. High-income couples in those states may want to delay opening an ESA until state tax codes embrace the new, higher allowance.

Attention to these simple strategies can help taxpayers in nonconforming states avoid additional state taxes. Until comprehensive adoption of all provisions of the Tax Relief Act of 2001 has been completed in the nonconforming states and the District of Columbia, requisite vigilance will continue to be required in the management of IRAs and ESAs.

You should assess the specifics of your situation carefully, ask questions and seek clarifications with your accountant, and review your overall tax decisions and filings with a tax professional.

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 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", pp. $12.)

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 more than eight years, Philip Morris has never ranked lower than fourth on the list, whatever its ups and downs, and, given the circumstances, using Philip Morris in the strategy amounts to a buy-and-hold approach. 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 months 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, two of the four eligible stocks, **SBC Communications** and **JP Morgan Chase,** were not eligible for purchase 18 months earlier (in September, 2000), while two of the issues purchased 18 mos. ago, **Caterpillar** and **International Paper**, both of which reached 52-week highs, are not eligible this month. Most investors following the model should find that only these indicated purchases of SBC and Morgan and sales of International Paper and Caterpillar are sufficiently large to warrant trading. However, rebalancing could also make purchases of additional **Eastman Kodak,** which has markedly underperformed the others over recent 18-month spans, warranted.

The model treats spin-offs as remaining a part of the commitment to the shares from which they originated. This means that the **AT&T Wireless** shares issued to AT&T stockholders last year should be sold off as the AT&T shares are sold.

Investors with sizable portfolios should be able to track the exact percentages month to month, but to avoid

As of March 15, 2002

					——*Percent of Portfolio**——	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares†*
Eastman Kodak	1	5.63%	32.00	Holding**	20.0	25.5
Philip Morris	2	4.44%	52.29	*	-0-	-0-
JP Morgan Chase	3	3.78%	36.01	Buying	15.3	17.3
General Motors	4	3.29%	60.75	*	-0-	-0-
Dupont	5	2.89%	48.47	Holding**	25.2	21.2
SBC Comm.	6	2.63%	39.00	Buying	1.5	1.6
Merck & Co.	7	2.34%	59.75			
Caterpillar	8	2.34%	59.79	Selling	25.3	17.2
Int'l Paper	9	2.24%	44.61	Selling	9.7	8.9
Exxon Mobil	10	2.11%	43.61			
AT&T	22	0.95%	15.81	Holding	2.4	6.2
AT&T Wireless	—	0.00%	9.15	Holding	0.5	2.0
					100.0	100.0

Change in Portfolio Value‡

	1 mo.	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*From 12/63*	*Std. Dev.*
Strategy	11.8%	7.7%	13.1%	15.5%	16.9%	16.4%	19.0
Dow	7.3%	7.8%	10.7%	14.7%	13.6%	11.1%	17.0

* 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 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.

excessive transaction costs, investors should adjust their holdings toward the percentages in the table only when commissions are less than one percent 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., buying all at once could be construed as a prediction that (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 in 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 waiting.

Accordingly, for new HYD clients, we usually purchase the full complement of the currently eligible stocks without delay. (This month, the four eligible issues—SBC Communications, Dupont, Eastman Kodak, and J.P. Morgan Chase—account for roughly 65% 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.

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 3/15/02	2/15/02	3/15/01	12-Month High	Low	Latest Dividend Amount	Record Date	Paid	Indicated Annual Dividend	Yield† (%)
★ Eastman Kodak	EK	**$32.00**	29.59	43.21	49.95	24.40	0.450	12/03/01	12/20/01	1.800	5.63
Philip Morris	MO	**$52.29**	51.45	47.26	54.48 *H*	41.47	0.580	3/15/02	4/10/02	2.320	4.44
★ J. P. Morgan Chase	JPM	**$36.01**	30.05	45.26	50.60	26.70 *L*	0.340	4/05/02	4/30/02	1.360	3.78
General Motors	GM	**$60.75**	50.32	54.60	67.80	39.17	0.500	2/15/02	3/09/02	2.000	3.29
★ DuPont	DD	**$48.47**	44.90	43.00	49.88	32.64	0.350	2/15/02	3/14/02	1.400	2.89
★ SBC Comm.	SBC	**$39.00**	37.12	42.82	47.50	34.29	0.256	1/10/02	2/01/02	1.025	2.63
Merck	MRK	**$59.75**	59.81	74.05	80.85	56.71	0.350	3/08/02	4/01/02	1.400	2.34
☆ Caterpillar	CAT	**$59.79**	49.93	45.00	59.99 *H*	40.15	0.350	1/22/02	2/20/02	1.400	2.34
☆ International Paper	IP	**$44.61**	43.53	34.92	46.20 *H*	30.70	0.250	2/22/02	3/15/02	1.000	2.24
Exxon Mobil (s)	XOM	**$43.61**	38.90	41.48	45.84	35.01	0.230	2/11/02	3/11/02	0.920	2.11
Minn. Min. & Mfg.	MMM	**$121.40**	115.52	109.24	127.00	85.86	0.620	2/22/02	3/12/02	2.480	2.04
Honeywell Intl.	HON	**$40.00**	33.64	40.51	53.90	22.15	0.188	2/20/02	3/08/02	0.750	1.88
General Electric	GE	**$40.19**	37.11	41.08	53.55	28.50	0.180	3/01/02	4/25/02	0.720	1.79
Procter & Gamble	PG	**$87.07**	84.99	64.94	87.85 *H*	55.96	0.380	1/18/02	2/15/02	1.520	1.75
Hewlett-Packard	HWP	**$19.05**	20.36	30.70	34.00	12.50	0.080	3/06/02	4/10/02	0.320	1.68
Coca-Cola	KO	**$48.64**	46.95	47.65	50.70	42.37	0.200	3/15/02	4/01/02	0.800	1.64
Alcoa	AA	**$39.03**	36.40	35.77	45.71	27.36	0.150•	5/03/02	5/25/02	0.600•	1.54
Boeing	BA	**$47.98**	44.90	56.10	69.85	27.60	0.170	2/08/02	3/01/02	0.680	1.42
United Tech.	UTX	**$74.35**	69.27	75.75	87.50	40.10	0.245	2/15/02	3/10/02	0.980	1.32
Citigroup	C	**$49.69**	44.13	46.40	53.75	34.51	0.160	2/04/02	2/22/02	0.640	1.29
Johnson & Johnson (s)	JNJ	**$64.60**	57.24	46.68	65.47 *H*	40.25	0.180	2/19/02	3/12/02	0.720	1.11
☆ AT&T	T	**$15.81**	14.80	23.35	23.49	14.18	0.038	12/31/01	2/01/02	0.150	0.95
Walt Disney	DIS	**$24.32**	23.90	28.00	34.80	15.50	0.210	12/07/01	12/21/01	0.210	0.86
McDonald's	MCD	**$28.72**	26.75	27.24	31.00	24.75	0.225	11/15/01	12/03/01	0.225	0.78
American Express	AXP	**$42.15**	33.68	39.80	46.55	24.20	0.080	1/04/02	2/08/02	0.320	0.76
IBM	IBM	**$106.79**	102.89	95.56	126.39	87.49	0.140	2/08/02	3/09/02	0.560	0.52
Wal-Mart Stores	WMT	**$63.75**	60.03	47.85	63.75 *H*	42.00	0.075	3/22/02	4/18/02	0.300	0.47
Home Depot, Inc.	HD	**$48.92**	50.52	43.20	53.73	30.30	0.050	3/14/02	3/28/02	0.200	0.41
Intel Corp.	INTC	**$31.74**	32.29	28.50	36.78	18.96	0.020	2/07/02	3/01/02	0.080	0.25
Microsoft Corp.	MSFT	**$62.49**	60.23	53.69	76.15	47.50	0.000	-	-	0.000	0.00
☆ AT&T Wireless	AWE	**$9.15**	10.12	18.90	21.10	7.67 *L*	0.000	-	-	0.000	0.00

★ BUY. ☆ HOLD. † Based on indicated dividends and market price as of 3/15/02. *H* New 52-week high. *L* New 52-week low. (s) All data adjusted for splits. • Excludes extras.

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

	3/15/02	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**290.30**	299.85	262.05
Silver, London Spot Price	**4.49**	4.58	4.42
Copper, COMEX Spot Price	**0.75**	0.73	0.80
Crude Oil, W. Texas Int. Spot	**24.51**	21.50	26.55
Dow Jones Spot Index	**107.53**	103.44	109.02
Dow Jones-AIG Futures Index	**97.95**	90.49	107.49
CRB-Bridge Futures Index	**203.49**	191.58	215.76

Interest Rates (%)

U.S. Treasury bills -	91 day	**1.84**	1.73	4.50
	182 day	**2.07**	1.83	4.40
	52 week	**2.58**	2.11	4.18
U.S. Treasury bonds -	15 year	**5.91**	5.40	5.28
Corporates:				
High Quality -	10+ year	**7.01**	6.63	6.82
Medium Quality -	10+ year	**7.77**	7.43	7.61
Federal Reserve Discount Rate		**1.25**	1.25	5.00
New York Prime Rate		**4.75**	4.75	8.50
Euro Rates	3 month	**3.37**	3.35	4.70
Government bonds -	10 year	**5.09**	4.76	4.69
Swiss Rates -	3 month	**1.77**	1.67	3.45
Government bonds -	10 year	**3.58**	3.37	3.35

Exchange Rates

British Pound	**$1.423100**	1.431600	1.431600
Canadian Dollar	**$0.630700**	0.628300	0.638300
Euro	**$0.878600**	0.868200	0.895000
Japanese Yen	**$0.007619**	0.007539	0.008136
South African Rand	**$0.083400**	0.086400	0.126600
Swiss Franc	**$0.600400**	0.588400	0.582300

Securities Markets

	3/15/02	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,166.14**	1,104.18	1,173.56
Dow Jones Industrial Average	**10,607.23**	9,903.04	10,031.28
Dow Jones Transportation Average	**2,951.54**	2,684.23	2,703.01
Dow Jones Utilities Average	**295.93**	279.45	375.50
Dow Jones Bond Average	**102.02**	102.72	101.49
Nasdaq Composite	**1,868.30**	1,805.20	1,940.71
Financial Times Gold Mines Index	**995.47**	1,071.01	694.88
FT African Gold Mines	**1,370.01**	1,537.77	797.16
FT Australasian Gold Mines	**1,357.56**	1,408.92	740.83
FT North American Gold Mines	**847.49**	899.39	652.55

Coin Prices

	3/15/02	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	**$298.75**	307.95	269.65	2.91
Austrian 100-Corona (0.9803)	**$284.73**	293.43	257.03	0.05
British Sovereign (0.2354)	**$72.05**	74.15	65.35	5.43
Canadian Maple Leaf (1.00)	**$299.00**	308.20	269.90	3.00
Mexican 50-Peso (1.2057)	**$351.40**	362.20	317.30	0.40
Mexican Ounce (1.00)	**$291.30**	300.20	263.00	0.34
S. African Krugerrand (1.00)	**$296.35**	305.35	267.75	2.08
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$340.00**	335.00	342.50	21.05
Liberty (Type I-AU)	**$675.00**	675.00	675.00	140.33
Liberty (Type II-AU)	**$385.00**	385.00	425.00	37.08
Liberty (Type III-AU)	**$321.00**	317.50	312.50	14.29
U.S. Silver Coins ($1,000 face value)				
90% Silver (715 oz.)	**$4,650.00**	4,500.00	4,100.00	44.84
40% Silver (292 oz.)	**$1,525.00**	1,525.00	1,550.00	16.32
Silver Dollars	**$6,000.00**	5,850.00	5,700.00	72.74

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $290.30 per ounce and silver at $4.49 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	3/15/02	Month Earlier	Year Earlier	— 52-Week — High	Low	Distributions Latest 12 Months Income	Capital Gains	Yield (%)
Short-Term Bond Funds									
★ Fidelity Target Time Line 2003	FTARX	**$9.43**	9.52	9.44	9.68	9.38	0.4877	0.0000	5.17
★ USAA Short Term Bond	USSBX	**$9.41**	9.45	9.83	10.04	9.40	0.6072	0.0000	6.45
★ Vanguard Short-term Corporate	VFSTX	**$10.72**	10.82	10.82	11.03	10.70	0.6583	0.0000	6.14
Income Equity Funds									
★ Duff & Phelps Utilities Income[1, 2]	DNP	**$11.21**	11.26	10.66	11.36	10.20	0.7800	0.0000	6.96
★ Vanguard REIT Index	VGSIX	**$12.94**	12.27	11.41	12.94	11.13	0.6311	0.1789	4.88
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$56.38**	52.49	59.90	66.14	46.30	0.8413	0.1472	1.49
★ Vanguard Value Index	VIVAX	**$19.37**	17.93	21.63	22.68	16.41	0.3160	0.9770	1.63
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$92.61**	85.35	76.65	92.91	66.35	0.6010	0.3430	0.65
★ Vanguard Sm. Cap Value Index	VISVX	**$10.86**	10.28	9.72	11.12	8.14	0.0650	0.8210	0.60
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$59.98**	58.23	57.25	65.87	48.00	0.4091	0.1124	0.68
★ Vanguard Growth Index	VIGRX	**$26.74**	25.85	25.48	29.23	21.75	0.1870	0.0000	0.70
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$59.39**	56.39	65.00	69.63	45.52	0.9307	0.0000	1.57
★ T Rowe Price European Stock	PRESX	**$16.07**	15.32	17.72	18.57	13.07	0.3600	0.0000	2.24
★ Vanguard European Stock Index	VEURX	**$20.30**	19.33	22.64	23.52	16.85	0.4500	0.0000	2.22

Recommended Gold-Mining Companies

	Ticker Symbol	3/15/02	Month Earlier	Year Earlier	— 52-Week — High	Low	Distributions Latest 12 Months Income	Capital Gains	Yield (%)
Anglo American PLC, ADR (s)	AAUK	**$16.34**	18.29	15.31	18.63	9.46	0.460	Semiannual	2.82
★ Anglogold Ltd., ADR	AU	**$21.15**	24.40	15.26	25.35	13.97	0.649	Semiannual	3.07
ASA Ltd.[1]	ASA	**$23.54**	24.80	17.80	27.50	15.66	0.600	Quarterly	2.55
★ Barrick Gold Corp.†	ABX	**$17.46**	18.45	15.36	19.50	13.69	0.220	Semiannual	1.26
★ Gold Fields Ltd.ADR	GOLD	**$8.01**	8.68	3.88	9.09	3.50	0.111	Semiannual	1.39
★ Newmont Mining	NEM	**$23.50**	24.33	16.71	25.90	15.16	0.120	Quarterly	0.51
★ Placer Dome†	PDG	**$10.86**	12.52	9.38	13.85	8.32	0.100	Semiannual	0.92
★ Rio Tinto PLC‡	RTP	**$81.90**	83.22	69.95	86.00	53.70	2.350	Semiannual	2.87

★ 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. [1] Closed-end fund, traded on the NYSE. [2] Dividends paid monthly. [3] Exchange traded fund, traded on ASE.