INVESTMENT GUIDE

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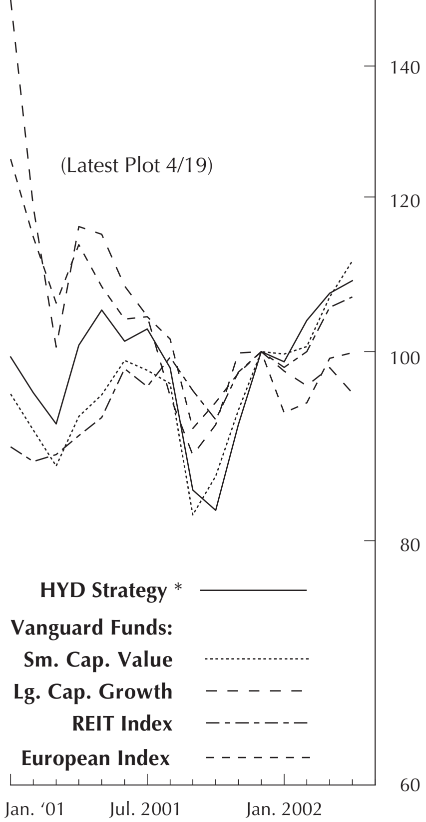

*** HYD is a hypothetical model based on back-tested results.** **See p. 30 for a full explanation.**

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

Investment Intuition

U.S. economic activity reached a peak in March 2001. Conventional wisdom suggests that at the onset of recession, investors should avoid the stocks of companies selling big-ticket items because nervous consumers or businesses might defer these purchases and instead focus on firms that are ostensibly unaffected by GDP trends. Following this logic, an investor would have avoided companies selling homes, jets, computers, and pricey motorcycles in favor of soft drinks, lipstick, movies, and cough drops.

The financial media is quick to exploit this by presenting "experts" who exhort investors to pursue sectors that are "bargains" or to avoid stocks in industries that are "too pricey" in light of recent macroeconomic trends.

The table below depicts the performance of these widely-held stocks in 2001 and demonstrates the challenge of using short-term economic forecasts to enhance portfolio returns. Investors who shunned technology stalwarts Dell Computer and IBM in favor of "safety-net" stocks Campbell Soup and Merck would have been sorely disappointed.

2001 Total Return	
Best Buy (retailing)	151.94%
Ryland Group (housing)	80.19%
Dell Computer	55.87%
Genuine Parts (auto parts)	45.37%
Intl. Business Machines	43.04%
Norfolk Southern	39.00%
Lockheed Martin (aerospace)	39.00%
Harley-Davidson	36.98%
Air Products & Chemicals (indust. Gas)	16.58%
Illinois Tool Works (indust. prod.)	15.29%

2001 Total Return	
Campbell Soup	-11.29%
Starbucks Inc.	-13.90%
Walgreen (drugstores)	-19.19%
Coca-Cola	-21.41%
Bristol-Myers Squibb	-25.98%
Estee Lauder (cosmetics)	-26.41%
Disney	-27.67%
Safeway	-33.20%
Merck & Co.	-35.90%
Adelphia Comm. (cable TV)	-39.60%

Source: Dimensional Fund Advisors/Center for Research in Security Prices, Univ. of Chicago.

Investors should avoid the temptation to alter their portfolios in anticipation of economic trends. The articles that follow provide our recommended portfolio allocations and describe our reasoning in formulating these guidelines. These are not based on short-term prognostications, although we carefully weigh long-term trends in overall market valuations in setting these allocations.

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QUARTERLY REVIEW OF INVESTMENT POLICY

We have made no changes to our recommended portfolio allocations, which are provided in the table below. These allocations are based on our research into the historical behavior of different asset classes. We have attempted to construct portfolios that include assets that have had strong appreciation historically, but which move independently of one another. By holding these assets in proportions consistent with your tolerance for risk, you can build a portfolio with reasonable prospects for strong returns over time, with minimal volatility.

The first quarter brought mixed results for investors, though generally those who follow our recommendations would have fared reasonably well. Large-cap stock returns were generally flat during the quarter, while small-cap shares did well. Value stocks outpaced growth stocks, while the bond market suffered a mild reversal. Gold-related investments were up sharply; after years of languishing, gold surged during the first quarter and by mid-April stood at $304 per ounce.

The performance of these various assets during the quarter does not provide an argument to buy, hold, or sell any particular asset per se. However, we believe that the general performance of our recommended asset classes since mid-2000, when we first broadened our list of recommended assets, provides vindication for our *investment approach*. Though this is a brief time frame, clients in our Professional Asset Management program have generally had positive results in terms of overall portfolio growth. Moreover, as we had hoped, during different moments of this period, a variety of asset classes have carried the day by offsetting declines in other asset classes. The strong performance of gold during the first quarter is only the most recent example of the merits of constructing and maintaining a properly allocated portfolio. The accompanying table provides total quarterly returns for a variety of investment vehicles since mid-1999.

Our recommended allocations do not seek to identify the latest hot investment, nor do we attempt to forecast the market trend over the short-term. However, our recommendations are considered to be more conservative than those of many other advisors, in that we weight cash-equivalent assets, short-term bonds and gold more heavily than others. To repeat, these allocations are not an attempt to time the market over the short-term and we expect that any changes to our recommendations will be modest and infrequent. However, these do reflect the long-term outlook for general market trends, based on research conducted by the staff economists of our parent, AIER. Readers should review the accompanying article (Common Stocks: An Update) for a synopsis of that outlook.

Below we provide an overview of each of our recommended asset classes and our rationale for holding each one.

Money Market Funds

We have found that many investors fail to realize that money-market funds and other cash-equivalent assets are in fact an investment that performs an important role in maintaining a portfolio's value. Short-term cash-equivalent assets are providing paltry returns, especially after adjusting for the effects of price inflation. Nevertheless, liquidity remains extremely important. Uncertainty, after all, applies not only to how your investments are valued in the market, but also to your personal circumstances. Unforeseen events could force you to liquidate securities during a downturn in the market if your cash position is inadequate, so you should not be tempted to reduce your cash allocations in order to seek a higher yield. The added return from extending maturities is very modest, yet the added price volatility is significant.

Money-market funds are mutual funds that invest in short-term securities such as Treasury bills, bankers' acceptances, commercial paper, or negotiable certificates of deposit of major commercial banks. The shares of money-market funds are issued and redeemed at a Net Asset Value (NAV) of $1.00 per share. They should not be confused with money market deposit accounts offered by banks, which are essentially interest-bearing checking accounts insured by the Federal Deposit Insurance Corporation (FDIC) and subject to minimum balance requirements and limited check-writing privileges.

Most brokers offer their customers a money-market fund for a sweep account. Dividends, interest, and deposits are used to purchase additional shares in this fund, which may be redeemed to pay for purchases and withdrawals from the account. Similarly, mutual funds in "families," which have the same sponsors and management companies *(e.g.*, Vanguard), will include several money-market funds among their offerings. These typically include municipal money market funds, which earn income that is exempt from Federal and sometimes state and local income taxes.

Investors may also consider certificates of deposit (CDs) or Treasury bills. While these do not offer the convenience of money-market funds, they are considered to provide the ultimate safety in terms of credit risk, since treasury securities are direct obligations of the U.S. Treasury, while CDs are insured for up to $100,000 by the FDIC.

RECOMMENDED PORTFOLIO ALLOCATION PERCENTAGES

	Conservative	*Moderate*	*Aggressive*
Money Market Funds	30	20	10
Intermediate-Term Bonds	35	25	15
Income Equities	10	5	0
Large-Cap Value Stocks	20	30	35
Small-Cap Value Stocks	0	5	10
Growth Stocks	5	5	10
Foreign Equities	0	5	10
Gold-Related	0	5	10
	100	100	100

Note: Most investors should adopt values between the extreme conservative and aggressive percentages shown above. What is best for an individual investor will depend on individual circumstances and one's tolerance for risk.

Yields on U.S. Treasury Securities

	12/31/01	*3/31/02*
3-month	1.73 %	1.77 %
6-month	1.82 %	2.09 %
1-year	2.19 %	2.65 %
10-year	5.41 %	5.03 %
30-year	5.49 %	5.82 %

Intermediate-Term Bonds

Most investors should include intermediate-term securities in their portfolios. In

Total Returns (%)*

	—1999—		—2000—				—2001—				2002	Total Return Entire Period
	3q	4q	1q	2q	3q	4q	1q	2q	3q	4q	1q	3q 1999-1q 2002
Vanguard Short-Term Corporate	1.01	1.03	1.45	1.22	2.78	2.50	**3.18**	1.25	3.34	0.17	0.26	19.69
Vanguard REIT Index	-7.84	-0.76	2.56	**10.50**	7.49	3.71	-0.50	10.66	-2.56	4.72	8.08	40.32
Vanguard Value Index	-9.24	8.96	0.17	-4.30	**8.80**	1.70	-6.58	4.41	-16.26	7.89	1.32	-6.33
High-Yield Dow 4-for-18	-3.60	-9.93	**5.96**	-6.90	6.26	**12.70**	-2.89	10.42	-16.09	9.19	6.90	7.57
Vanguard Small Cap Value Index	-7.41	2.71	3.06	2.01	7.76	7.58	-0.78	**13.25**	-16.63	**21.22**	**9.59**	**44.24**
Vanguard Growth Index	-3.44	**20.20**	4.03	-1.40	-8.80	-16.90	-17.50	7.70	-13.26	12.97	-0.87	-22.10
Vanguard European Stock Index	1.09	17.60	0.13	-2.70	-7.50	1.85	-15.60	-1.87	-12.09	9.48	0.05	-13.00
Gold (London PM Fix)	**14.56**	-2.93	-4.70	4.12	-5.00	0.20	-6.10	5.01	**8.31**	-5.66	9.01	15.38

* In each period, the highest returns provided are in **Bold Face Type**.

addition to providing an income stream that is reasonably reliable, these holdings can stabilize the overall returns of one's portfolio.

Our research indicates that investors have little to gain, in terms of risk-adjusted returns, by extending maturities beyond five years. Bond prices and interest rates are inversely related, and long-term bonds, because they are locked into a fixed rate for a longer period, are more interest-rate sensitive than shorter-term bonds. Although price inflation has been relatively mild in recent years, long-term bonds are especially vulnerable to inflating because their coupon payments are fixe, and at maturity an investor receives only the nominal value of a bond's face value.

We also recommend that investors adopt a passive approach when selecting fixed-income investments. Ideally, investors should utilize a variable-maturity approach. This amounts to "riding the yield curve" by being invested at the steepest part of the yield curve at any given moment. This strategy makes no attempt to predict rates, but instead assumes that the present yield curve is the best estimate of the future yield curve. The strategy provides the greatest potential for maximizing risk-adjusted returns, but it requires a great deal of information and diligence, so a mutual fund is the best method of utilizing this strategy. However, the only fund family that we are aware of that employs such an approach at a low cost is the Dimensional Fund Advisors group (DFA). But the DFA funds are only available to institutional clients or to individuals through investment advisors (we offer these funds through our Professional Asset Management program). Fidelity, Vanguard, and USAA offer reasonable alternatives. These mutual funds are indicated with a ★ on the back page. An alternative though somewhat less effective approach would be for investors to maintain their own "laddered" portfolio of bonds with maturities between one and five years.

Bonds had a difficult first quarter. Positive economic data suggested that the Federal Reserve might tighten credit, and perhaps revived fears of inflation, which boosted rates and pushed down bond values. Though rates have risen, investors should avoid the temptation to increase their allocations beyond those specified in the table.

Income Equities

We currently have two recommendations in this category. The first is Duff & Phelps Utilities Income Inc., a closed-end, diversified investment company that is traded on the New York Stock Exchange (symbol DNP). The primary investment objective of the fund is current income and long-term growth of income. Dividends are paid monthly and its current yield is about 6.8%. The company invests mainly in the securities of public utilities. Research suggests that common stocks of utilities behave very much like bonds, so these would not normally merit a place in investors' portfolios. However, the fund is unique in two respects. First, it pays a monthly dividend, which many investors find convenient. Secondly, it offers an exceptionally strong yield, typically well above the average yield of utility stocks. The fund achieves this by issuing short-term remarketable securities, thus leveraging its earnings. The fund appears to have a relatively high expense ratio, but this includes the interest paid on those short-term remarketable shares.

REITs are another class of income-generating equities we recommend. Specifically, we recommend Vanguard REIT Index Fund (symbol VGSIX) that invests in the equity Real Estate Investment Trusts that comprise the Morgan Stanley REIT index. REITs are obligated to pay out 95% of their earnings as dividends in order to avoid taxation at the corporate level. Though REITs are largely creatures of the tax code, we believe it is unlikely that their preferential tax treatment will be altered any time soon. The current yield on the Vanguard fund is 5.4%. In addition to providing an attractive yield, REITs are not strongly correlated with those of other income-producing securities such as bonds, nor any other of our recommended assets, so they deserve inclusion in most portfolios by virtue of their qualification as a unique asset class.

Large-Capitalization Value Stocks

During the past 3 months, our Top 4-for-18-Months High-Yield Dow stock selection strategy provided a total return of 6.9%, giving the strategy an impressive 6-month run following a 9.2% total return during the final quarter 2001.* The model's long-term hypothetical risk/return profile is presented on page 30.

Although the strategy involves picking stocks from the 30 listed in the Dow Jones Industrial Average (the Dow), it is a passive investment approach. We select the stocks and numbers of shares to purchase or sell based on two additional pieces of data: the company's most recent indicated dividend and its current market price. Though far from infallible, this technique often provides a mechanical means of buying low and selling high. A relatively high yield indicates a stock that is perceived as carrying higher-than-usual risk, and therefore higher-than-normal potential returns. Shares are sold when their relative yield has fallen, most

* These results reflect the total returns on a hypothetical model that utilizes our 4-for-18 investment strategy and therefore does not reflect actual investment results, but the results an investor could have achieved had he followed the model during this period. The results are gross of any investment advisory fees.

often as a result of an appreciated share price.

Where the size of one's account permits, we recommend using our Top 4-for-18-months High-Yield Dow stock selection strategy. We recommend the strategy only for those investors who utilize a discount broker and are willing to commit at least $100,000 to this plan; the strategy involves relatively little trading, but trades occur on a monthly basis, so these costs can become prohibitive in smaller accounts.

For smaller accounts we recommend the iShares S&P 500 BARRA Value Index Fund (IVE) or the Vanguard S&P 500 BARRA Value Index Fund (VIVAX). Both of these are based on the same index, which is composed of the companies with the lowest price-to-book value ratios included in the S&P 500 Index.

Small-Capitalization Value Stocks

Our research indicates that small-capitalization stocks have historically provided the strongest returns among equity classes when stock returns are segregated on a market-cap basis. Small-cap prices also fluctuate differently from large-capitalization stock prices. For this component we recommend two vehicles for our readers, both based on the S&P 600 BARRA Small Cap Index, which consists of 600 domestic stocks chosen for market size, liquidity, and industry-group representation. It is a market-value-weighted index.

The funds we recommend hold the issues in the index with the lowest price-to-book value ratios whose aggregate market capitalization equals half of the entire index. They are the exchange-traded iShares S&P 600 BARRA Small Cap Value Index Fund (IJS) and the Vanguard S&P 600 BARRA Small Cap Value Index Fund (VISVX).

The patterns of returns attributable to small-cap value stocks are unique and therefore valuable. Because their price changes tend to be weakly correlated with large-cap stocks, such as the Dow high-yield shares, investors can derive strong returns with relative stability by holding both asset classes in their portfolio.

In our view, the Vanguard fund and the iShares are a good way to invest in small-caps, but the most profound "small-cap effect" is found among the very smallest stocks traded, the so-called "micro-caps." These provide the greatest "bang for the buck" in terms of risk and return and are the least correlated with our other assets. The only cost-effective means of holding this class that we are aware of are via the DFA funds, offered only through investment advisors.

Large-Capitalization Growth Stocks

Many investors will want to invest a portion of their portfolio to this asset class. History suggests that large-cap value stocks have outperformed growth stocks over the very long term, but during certain periods (most recently during the end of the previous decade) large-cap growth stocks have surged far ahead of value. Since these periods are not predictable, a modest commitment to this asset class is warranted for investors who have a low tolerance for watching their portfolio's returns stray to far from those of the overall market.

For this component we recommend two vehicles, both based on the S&P 500 BARRA Growth Index. This index is composed of the companies with the highest price-to-book ratios that are included in the S&P 500 Index. This index has consistently outperformed most large growth stock funds under active management. Over the past 5, 10, and 15 years at least two-thirds of large-cap growth funds have failed to better the index. If you want large-cap growth stocks in your portfolio, we recommend indexing as the most cost-effective means of gaining this exposure.

Our recommendations include the exchange-traded iShares S&P 500 BARRA Growth Index Fund (IVW) and the Vanguard S&P 500 BARRA Growth Index Fund (VIGRX).

Foreign Equities

For our readers we recommend funds with exposure to the equities of Western Europe. Again we have two recommendations: the exchange-traded iShares S&P Europe 350 (IEV), which tracks the index of that name, and the Vanguard European Stock Index Fund (VEURX), which is based on the Morgan Stanley Capital International (MSCI) Europe Index. In addition to reflecting the fluctuations of European markets, which often diverge from the U.S. market, the dollar value of these funds will reflect the fluctuations of European currencies, notably the Euro, against the dollar.

Investors who have held foreign equities for the past several years would have seen those securities far outpaced by domestic equities. However, they should not be discouraged. History demonstrates that foreign capital markets have enjoyed many periods of robust growth that were not matched by similar growth in the U.S. stock market. Foreign equities remain an important asset class for most investors.

Gold-Related Investments

Total Returns: 12/31/01-3/31/02	
Anglogold	41.0%
Barrick Gold	16.4%
Goldfields	117.1%
Newmont Mining	45.1%
Placer Dome	12.8%
Rio Tinto	3.5%

The gold price surged to over $300 per ounce by the end of the first quarter, where it had not been since September 1999. Many forces appear to have had an impact. The heightened threat of terrorism, or perhaps greater apprehension regarding the world economy, may have accelerated buying on the part of individuals. On the supply side, central bank selling appears to have abated, and even the Bundesbank's allusion to possible sales did nothing to thwart the advance of the gold price. At the same time, many mines that were shut down in recent years because of the low price are no longer contributing to world supply. Higher prices may also have induced mining companies to reduce their hedging, which reduction would further sustain a rising price.

We have long recommended direct ownership of gold coins for individuals. This is not so much to make money as to have money in all circumstances. Unlike other financial assets that depend on explicit or implicit contracts and can be voided "with the stroke of a pen," gold coins have no obligor. Gold ownership provides some insurance against the day when general price inflation accelerates once again. Readers should be aware that coin dealers' margins are very high on numismatic and newly minted fractional ounce coins, which should be avoided.

Investors can receive the benefits of indirect ownership of gold in the ground via shares of precious-metals mining companies. Our recommended shares include only well established, producing, dividend-paying companies. For these companies, any increase in the price of gold flows almost entirely to the bottom line. However, the gold price is extremely volatile. Investors will be best served by restricting their allocations to those indicated in the table above.

COMMON STOCKS: AN UPDATE

The stock market is a leading indicator of business-cycle conditions and it now seems to be signaling a business recovery. Although the major stock indexes have decreased in recent weeks, they remain above the lows reached last September. Since 1949 there have been eight recessions, and the constant-dollar S&P index of 500 common stocks, one of AIER's leading indicators, began to increase on average five months before they ended. Each business cycle is different, the stock market could yet decrease to a new low, and it will probably be months before the National Bureau of Economic Research (NBER), the recognized arbiter of business-cycle turning points, identifies the trough month of this cycle.

Stock prices still are below their peak, of course. In March the monthly average of the Dow was 9.5 percent below its peak. The S&P 500 was 24.4 percent off its peak, and, after adjusting for inflation, was at roughly the same level it was in 1998. The NASDAQ was still a remarkable 60.7 percent below its high. This index has increased more than the others have since September, rising 23.1 percent, but it has the longest way to go to match its prior peak. If it increased 23.1 per year, it would take more than four years for the NASDAQ to return to the level it reached in February 2000.

Given that stock prices have increased from last year's lows and business activity is picking up, investors may be expecting the stock market to resume the strong upward trend of the late 1990s. Investors should set aside their intuition and consider our latest analysis of stock valuation.

The most comprehensive measure of stock values is the total market value of common stocks as estimated by the Federal Reserve Board. This series includes equities of mutual funds and other financial intermediaries that hold common stocks themselves. To avoid double counting and to facilitate comparisons with other series published by the Fed, we focus on the market value of the equity in nonfinancial corporate businesses (NFCBs). At the end of 2001, this was estimated to total $10.89 trillion. This is $4.8 trillion, or 31 percent, lower than the peak value recorded in the first quarter of 2000.

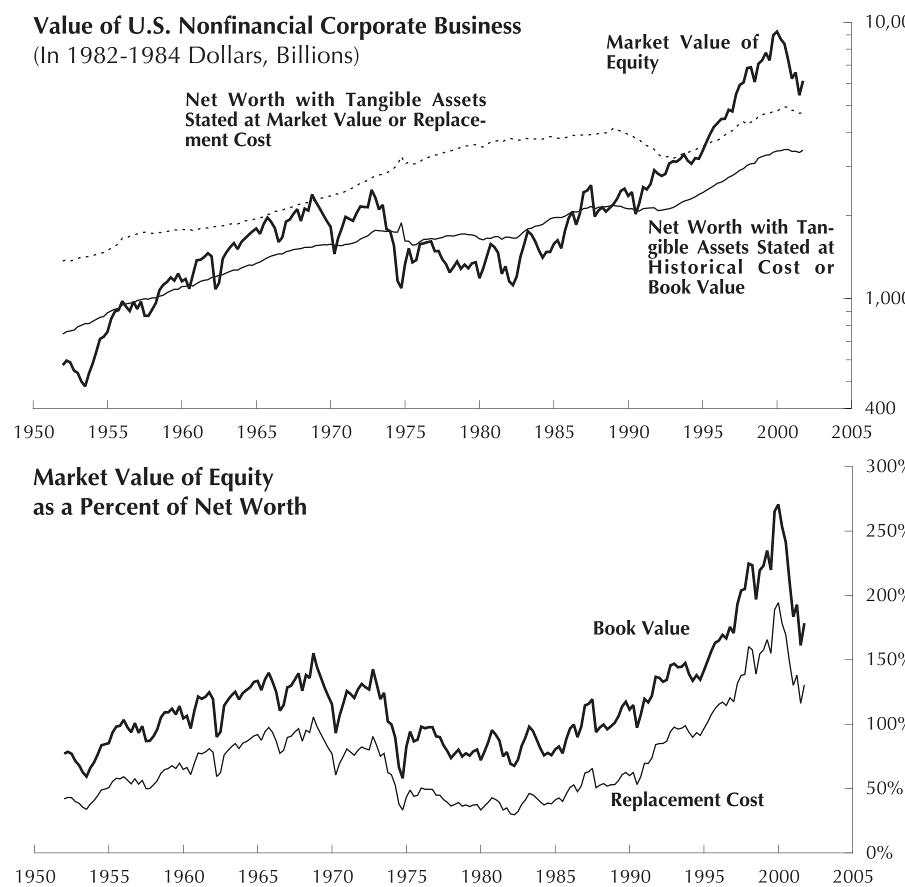
Common Stocks and Net Worth

A share of common stock ultimately is a claim on the assets held by the corporation. Such claims are subject to prior claims, mainly any indebtedness of the company. The accompanying chart shows, in constant dollars, the total of such "net worth" of NFCBs, measured in two ways. One, using the historical cost of assets less prior claims, is the "book value" of the net worth of NFCBs. The other uses the "market value or replacement cost" of tangible assets to determine net worth. Presumably, these series reflect not how much a company "should" be worth as a going concern, but how much would be left for shareholders if its assets were sold and its debts repaid.

The market value of the stocks of nonfinancial corporate businesses, in constant dollars, also is shown. For extended periods, such as the mid-1950s through the early 1970s, and from the late 1980s to the present, this market value exceeded the book value of the net worth of NFCBs. However, from the end of World War II until 1995, the value of stocks was never higher than the net worth computed with assets valued at their replacement cost, except for a brief period in 1968. Six years later, at the end of 1974, the market value of stocks had plunged to a level less than even the book value of NFCB's net worth. As shown in the bottom panel of the chart below, stocks decreased to just 33 percent of replacement-cost net worth.

In 1995, the market value of the stocks of nonfinancial corporations increased above the market value of their assets less their liabilities. It has remained higher ever since. This unprecedented rise peaked in 2000, when stocks were worth nearly twice replacement-cost net worth. Given the steep decline in prices during the past two years, we might expect this ratio to have fallen back within its historical range, but it has not. In fact, the value of stocks remains higher than either measure of corporate net worth.

We are extremely reluctant to second-guess the wisdom of the market. Nevertheless, the allocations on page 30 reflect our view that the 1990s were an exceptional period in the history of the stock market, and that a repeat performance over the next 10-15 years would be extraordinary. Investors should hold common stocks, favoring value over growth, but these should be held alongside the alternative asset classes listed in the table.



Source: Federal Reserve Board, *Flow of Funds Accounts*. Latest plots are for fourth quarter 2001.

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, three of the four stocks eligible for purchase, **SBC Communications, JP Morgan Chase** and **Dupont,** were not eligible for purchase 18 months earlier (in September, 2000), and three issues that were eligible for purchase 18 months ago, **AT&T**, **Caterpillar** and **International Paper**, are not eligible this month. Most investors following the model should find that the former group's indicated purchases, and the latter's indicated sales (plus sales of shares of **AT&T Wireless** that were spun-off from AT&T) 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.

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 in the table only when pro-

As of April 15, 2002

	Rank	Yield	Price	Status	Percent of Portfolio* Value	Percent of Portfolio* No. Shares†
Eastman Kodak	1	5.29%	34.01	Holding**	22.2	26.1
Philip Morris	2	4.39%	52.85	*	-0-	-0-
JP Morgan Chase	3	3.95%	34.40	Buying	16.4	19.0
General Motors	4	3.27%	61.10	*	-0-	-0-
SBC Comm.	5	3.23%	33.47	Buying	2.9	3.4
Dupont	6	2.99%	46.86	Buying	26.3	22.4
Merck & Co.	7	2.57%	54.53			
Int'l Paper	8	2.48%	40.40	Selling	7.4	7.3
Caterpillar	9	2.41%	57.99	Selling	23.0	15.8
General Electric	10	2.26%	31.85			
AT&T	22	1.11%	13.55	Selling	1.5	4.5
AT&T Wireless	—	0.00%	8.25	Selling	0.3	1.5
					100.0	100.0

Change in Portfolio Value‡

	1 mo.	1 yr.	5 yrs.	10 yrs.	15 yrs.	From 12/63	Std. Dev.
Strategy	-2.5%	3.2%	13.0%	14.5%	16.5%	16.3%	19.0
Dow	-4.8%	1.7%	10.6%	13.8%	13.1%	11.0%	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.

spective commissions will be 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 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 that 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 4/15/02	Market Prices 3/15/02	Market Prices 4/12/01	12-Month High	12-Month Low	Latest Dividend Amount	Latest Dividend Record Date	Latest Dividend Paid	Indicated Annual Dividend	Indicated Yield† (%)
★ Eastman Kodak	EK	**$34.01**	32.00	42.48	49.95	24.40	0.900	6/03/02	7/16/02	1.800	5.29
Philip Morris	MO	**$52.85**	52.29	45.89	54.48	43.00	0.580	3/15/02	4/10/02	2.320	4.39
★ J. P. Morgan Chase	JPM	**$34.40**	36.01	45.37	50.60	26.70	0.340	4/05/02	4/30/02	1.360	3.95
General Motors	GM	**$61.10**	60.75	53.10	67.80	39.17	0.500	2/15/02	3/09/02	2.000	3.27
★ SBC Comm.	SBC	**$33.47**	39.00	41.18	47.50	33.20 *L*	0.270	4/10/02	5/01/02	1.080	3.23
★ DuPont	DD	**$46.86**	48.47	45.65	49.88	32.64	0.350	2/15/02	3/14/02	1.400	2.99
Merck	MRK	**$54.53**	59.75	79.50	80.85	51.00 *L*	0.350	3/08/02	4/01/02	1.400	2.57
☆ International Paper	IP	**$40.40**	44.61	36.48	46.20	30.70	0.250	2/22/02	3/15/02	1.000	2.48
☆ Caterpillar	CAT	**$57.99**	59.79	47.01	59.99	40.31	0.350	4/22/02	5/20/02	1.400	2.41
General Electric	GE	**$31.85**	40.19	44.70	53.55	28.50	0.180	3/01/02	4/25/02	0.720	2.26
Exxon Mobil (s)	XOM	**$41.60**	43.61	41.00	45.84	35.01	0.230	2/11/02	3/11/02	0.920	2.21
3M Company	MMM	**$121.55**	121.40	107.73	127.00	85.86	0.620	2/22/02	3/12/02	2.480	2.04
Honeywell Intl.	HON	**$40.00**	40.00	43.45	53.90	22.15	0.188	2/20/02	3/08/02	0.750	1.88
Hewlett-Packard	HWP	**$17.88**	19.05	30.62	34.00	12.50	0.080	3/06/02	4/10/02	0.320	1.79
Procter & Gamble	PG	**$90.55**	87.07	58.80	92.74 *H*	55.96	0.380	4/19/02	5/15/02	1.520	1.68
Alcoa	AA	**$36.71**	39.03	38.99	45.71	27.36	0.150•	5/03/02	5/25/02	0.600•	1.63
Citigroup	C	**$45.92**	49.69	47.30	53.75	34.51	0.180	5/06/02	5/25/02	0.720	1.56
Coca-Cola	KO	**$52.39**	48.64	44.57	54.45 *H*	42.59	0.200	6/15/02	7/01/02	0.800	1.53
Boeing	BA	**$47.65**	47.98	60.50	69.85	27.60	0.170	2/08/02	3/01/02	0.680	1.43
United Tech.	UTX	**$71.85**	74.35	75.38	87.50	40.10	0.245	5/17/02	6/10/02	0.980	1.36
Johnson & Johnson (s)	JNJ	**$62.16**	64.60	45.48	65.89 *H*	45.44	0.180	2/19/02	3/12/02	0.720	1.16
☆ AT&T	T	**$13.55**	15.81	21.78	23.27	13.19 *L*	0.038	3/28/02	5/01/02	0.150	1.11
Walt Disney	DIS	**$23.64**	24.32	29.09	34.80	15.50	0.210	12/07/01	12/21/01	0.210	0.89
McDonald's	MCD	**$27.40**	28.72	26.89	31.00	25.00	0.225	11/15/01	12/03/01	0.225	0.82
American Express	AXP	**$40.16**	42.15	39.19	46.55	24.20	0.080	4/05/02	5/10/02	0.320	0.80
IBM	IBM	**$85.35**	106.79	96.20	126.39	83.34 *L*	0.140	2/08/02	3/09/02	0.560	0.66
Wal-Mart Stores	WMT	**$59.93**	63.75	49.70	63.94 *H*	42.00	0.075	3/22/02	4/18/02	0.300	0.50
Home Depot, Inc.	HD	**$49.20**	48.92	41.65	53.73	30.30	0.050	3/14/02	3/28/02	0.200	0.41
Intel Corp.	INTC	**$28.11**	31.74	28.12	36.78	18.96	0.020	5/07/02	6/01/02	0.080	0.28
Microsoft Corp.	MSFT	**$55.69**	62.49	62.18	76.15	47.50	0.000	-	-	0.000	0.00
☆ AT&T Wireless	AWE	**$8.25**	9.15	19.75	21.10	7.37 *L*	0.000	-	-	0.000	0.00

★ BUY. ☆ HOLD. † Based on indicated dividends and market price as of 4/15/02. *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

	4/15/02	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**300.10**	290.30	259.25
Silver, London Spot Price	**4.58**	4.49	4.37
Copper, COMEX Spot Price	**0.71**	0.75	0.76
Crude Oil, W. Texas Int. Spot	**24.57**	24.51	28.25
Dow Jones Spot Index	**121.68**	107.53	106.15
Dow Jones-AIG Futures Index	**96.15**	97.95	109.20
CRB-Bridge Futures Index	**197.30**	203.49	214.35

Interest Rates (%)

		4/15/02	Mo. Earlier	Yr. Earlier
U.S. Treasury bills -	91 day	**1.70**	1.84	3.98
	182 day	**1.92**	2.07	4.09
	52 week	**2.41**	2.58	4.11
U.S. Treasury bonds -	15 year	**5.68**	5.91	5.66
Corporates:				
High Quality -	10+ year	**6.81**	7.01	7.11
Medium Quality -	10+ year	**7.63**	7.77	7.89
Federal Reserve Discount Rate		**1.25**	1.25	4.50
New York Prime Rate		**4.75**	4.75	8.00
Euro Rates	3 month	**3.41**	3.37	4.56
Government bonds -	10 year	**5.12**	5.09	4.70
Swiss Rates -	3 month	**1.60**	1.77	3.24
Government bonds -	10 year	**3.44**	3.58	3.21

Exchange Rates

	4/15/02	Mo. Earlier	Yr. Earlier
British Pound	**$1.436600**	1.423100	1.438600
Canadian Dollar	**$0.629700**	0.630700	0.641500
Euro	**$0.879500**	0.878600	0.890800
Japanese Yen	**$0.007609**	0.007619	0.008083
South African Rand	**$0.089300**	0.083400	0.124500
Swiss Franc	**$0.598900**	0.600400	0.585800

Securities Markets

	4/15/02	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,102.36**	1,166.14	1,183.50
Dow Jones Industrial Average	**10,093.67**	10,607.23	10,126.94
Dow Jones Transportation Average	**2,802.65**	2,951.54	2,766.59
Dow Jones Utilities Average	**298.26**	295.93	383.53
Dow Jones Bond Average	**141.82**	102.02	101.15
Nasdaq Composite	**1,753.78**	1,868.30	1,961.43
Financial Times Gold Mines Index	**1,144.40**	995.47	696.39
FT African Gold Mines	**1,760.13**	1,370.01	813.67
FT Australasian Gold Mines	**1,343.61**	1,357.56	713.32
FT North American Gold Mines	**951.62**	847.49	653.37

Coin Prices

	4/15/02	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	**$308.35**	298.75	265.35	2.75
Austrian 100-Corona (0.9803)	**$293.83**	284.73	252.93	-0.12
British Sovereign (0.2354)	**$74.25**	72.05	64.35	5.11
Canadian Maple Leaf (1.00)	**$308.60**	299.00	265.60	2.83
Mexican 50-Peso (1.2057)	**$362.60**	351.40	312.30	0.21
Mexican Ounce (1.00)	**$300.60**	291.30	258.80	0.17
S. African Krugerrand (1.00)	**$305.75**	296.35	263.55	1.88
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$340.00**	340.00	345.00	17.10
Liberty (Type I-AU)	**$675.00**	675.00	675.00	132.48
Liberty (Type II-AU)	**$385.00**	385.00	425.00	32.60
Liberty (Type III-AU)	**$325.00**	321.00	312.50	11.94
U.S. Silver Coins ($1,000 face value)				
90% Silver (715 oz.)	**$4,600.00**	4,650.00	4,200.00	40.47
40% Silver (292 oz.)	**$1,525.00**	1,525.00	1,550.00	14.03
Silver Dollars	**$6,000.00**	6,000.00	5,675.00	69.34

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $300.10 per ounce and silver at $4.58 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	4/15/02	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	**$9.46**	9.43	9.41	9.68	9.38	0.4758	0.0000	5.03
★ USAA Short Term Bond	USSBX	**$9.44**	9.41	9.80	10.04	9.40	0.6000	0.0000	6.36
★ Vanguard Short-term Corporate	VFSTX	**$10.75**	10.72	10.72	11.03	10.69	0.6505	0.0000	6.05
Income Equity Funds									
★ Duff & Phelps Utilities Income[1, 2]	DNP	**$11.32**	11.21	10.77	11.49	10.20	0.7800	0.0000	6.89
★ Vanguard REIT Index	VGSIX	**$13.55**	12.94	11.16	13.69	11.13	0.6476	0.1524	4.78
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$54.11**	56.38	60.38	66.14	46.30	0.8413	0.1472	1.55
★ Vanguard Value Index	VIVAX	**$18.49**	19.37	20.79	22.68	16.41	0.3160	0.1070	1.71
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$97.19**	92.61	76.24	98.06	66.35	0.6010	0.3430	0.62
★ Vanguard Sm. Cap Value Index	VISVX	**$11.42**	10.86	9.16	11.43	8.14	0.0650	0.3810	0.57
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$56.09**	59.98	57.88	65.87	48.00	0.4091	0.1124	0.73
★ Vanguard Growth Index	VIGRX	**$24.93**	26.74	25.78	29.23	21.75	0.1970	0.0000	0.79
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$59.05**	59.39	66.80	69.63	45.52	0.9307	0.0000	1.58
★ T Rowe Price European Stock	PRESX	**$15.77**	16.07	17.84	18.57	13.07	0.3600	0.0000	2.28
★ Vanguard European Stock Index	VEURX	**$19.99**	20.30	22.78	23.52	16.85	0.4400	0.0000	2.20

Recommended Gold-Mining Companies

	Ticker Symbol	4/15/02	Month Earlier	Year Earlier	— 52-Week — High	Low	Distributions Latest 12 Months	Frequency	Yield (%)
Anglo American PLC, ADR [(s)]	AAUK	**$16.10**	16.34	15.45	18.63	9.46	0.460	Semiannual	2.86
★ Anglogold Ltd., ADR	AU	**$23.65**	21.15	16.38	26.02	15.20	0.649	Semiannual	2.74
ASA Ltd.[1]	ASA	**$28.15**	23.54	16.70	29.50	16.90	0.600	Quarterly	2.13
★ Barrick Gold Corp.†	ABX	**$17.62**	17.46	15.45	19.50	13.96	0.220	Semiannual	1.25
★ Gold Fields Ltd.ADR	GOLD	**$10.45**	8.01	4.21	11.07	3.82	0.111	Semiannual	1.06
★ Newmont Mining	NEM	**$28.30**	23.50	16.55	29.25	16.22	0.120	Quarterly	0.42
★ Placer Dome†	PDG	**$11.82**	10.86	9.60	13.85	8.75	0.100	Semiannual	0.85
★ Rio Tinto PLC‡	RTP	**$79.50**	81.90	76.20	86.00	53.70	2.350	Semiannual	2.96

★ 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.