INVESTMENT GUIDE

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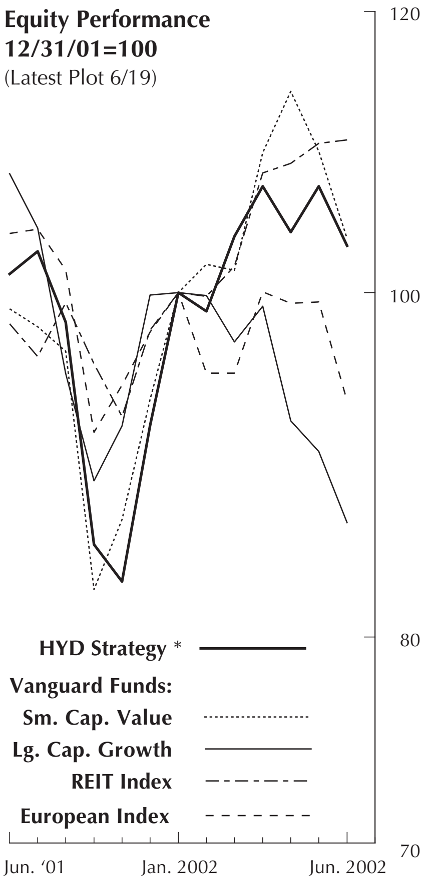


*** HYD is a hypothetical model based on back-tested results. See p. 46 for a full explanation.**

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

Investing Abroad

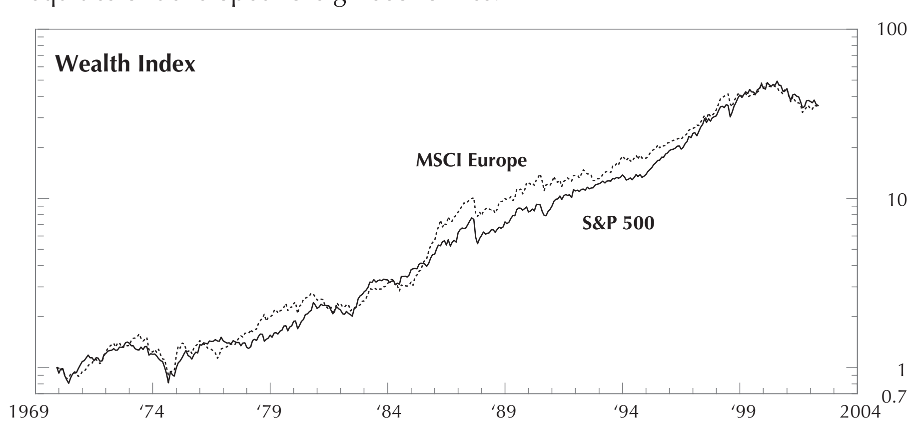
Our parent, AIER, recently reported on misapprehensions over the United States capital-account surplus and corresponding current-account deficit, which have persisted since 1982 (see *Research Reports*, No. 11, June 10, 2002).

Critics assert that the current situation reflects foreigners paying for our profligacy, but they miss the point. The capital surplus is very large because the U.S. has been regarded for more than a decade as the best place in the world to invest. Our reasonably transparent capital markets and relatively unregulated economy are highly appealing and have fostered a continuous flow of investments from abroad.

We will not speculate as to what might bring the current state of affairs to an end, but we cannot rule out a reversal in foreign investment here, so investors should have a stake in foreign assets. Indeed, the iShares Europe 350 Index fund and the MSCI EAFE Index, on which the Vanguard European Index fund is based, were up 4.82% and 7.75%, respectively, on a total return basis over the three months ending May 31. Meanwhile U.S. large-caps, the stellar performers of the 1990s, were down -0.74%. (See chart below for a long-term view.)

Many reasons are being cited supporting the notion that the current trend will persist. Wall Street produces an endless supply of "experts" ready to explain the trend du jour. Some have pointed to recent developments that might be rattling foreign confidence in U.S. markets, including meager interest rates, accounting chicanery among major corporations, and the expanded threat of terrorism. Even in the April 2002 *Investment Guide,* we pointed out that in historical terms U.S. stocks, relative to their underlying book value, were as highly valued as they have ever been. But we have no way to gauge whether we will witness substantial capital flight over the ensuing months. We continue to assert that current prices reflect the market's estimate of tomorrow's value, based on information available today.

If foreigner investors do reverse course, it is more likely that they would pare back their U.S. investments, rather than flee in panic. If so, most U.S. investors should continue to devote between 5-10% of their portfolios to the equities of developed foreign economies.



BANKRUPTCY AND THE SAFETY OF PENSION BENEFITS

The following article was adapted from "Focus On: Bankruptcy and the Safety of Pension Benefits,*" which appeared in* Market Recap*, March, 2002, a quarterly publication of Bellwether Consulting, www.bellwetherconsulting.net.*

In the wake of the Enron scandal the media have made much ado about the safety of retirement plans, citing 401(k) losses with the implication that pension plans are at risk. Given these circumstances, and a newly found scrutiny by employees, we feel it is the right time to look at the process surrounding defined benefit pension plan terminations and the organization responsible for oversight of the process. It is important to distinguish between defined benefit and defined contribution plans. Defined Benefit plans, or DB plans, are traditional pension plans where a plan sponsor guarantees to pay employees a future benefit upon retirement. The burden is on the *employer* to achieve a return on their investments that will allow them the pay retirement benefits to participants. This differs from a Defined Contribution Plan, or DC plan (such as a 401(k) plan) where no benefit is guaranteed and it is the *employee's* responsibility to choose investments and achieve investment results.

There are three ways for a defined benefit pension plan to cease. A *standard termination* occurs when a plan sponsor discontinues a plan and has sufficient assets to cover all benefits. A *distress termination* occurs when a company in financial distress voluntarily terminates its plan. An *involuntary termination* occurs when a plan has insufficient assets to cover its liabilities (participant benefit payments) and termination is initiated by the Pension Benefit Guaranty Corporation (PBGC). These last two categories are both considered "trusteed terminations." In each of the above circumstances participant's accrued benefits become 100 percent vested, and there are specific procedures that must be followed

In the case of a standard termination, for example, your plan sponsor would decide to discontinue your current plan, merge it with another plan, or convert to a defined contribution format. Under these circumstances, there are usually adequate assets available to cover your plan sponsor's pension obligations to you. The plan sponsor would purchase an annuity to cover your benefit payments. To initiate a standard termination, your plan sponsor would have to fulfill certain requirements including: notifying you of the plan to terminate, notifying you of your accrued benefits, and notice to the PBGC of intent to terminate.

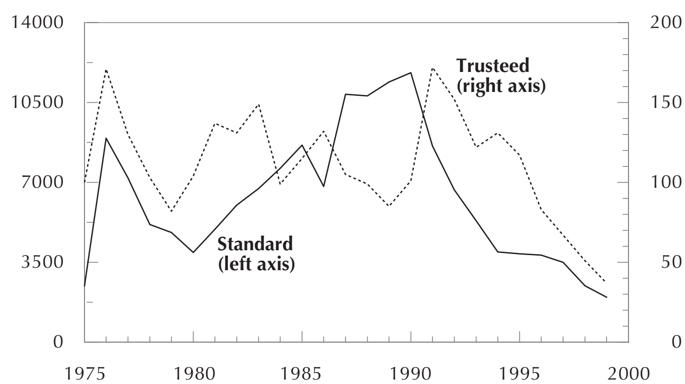
A distress termination may occur when a company enters Chapter 7 liquidation or Chapter 11 reorganization. The greater risk of termination is in the Chapter 7 liquidation. When a company liquidates its assets to pay creditors, normally the plan terminates since the corporate entity no longer exists. Many of the procedures from the standard termination, including notification, are the same for a distress termination. A company must also satisfy PBGC-defined criteria regarding bankruptcy or reorganization petitioning, or demonstration that the entity cannot continue as a viable business unless the plan is terminated.

The PBGC also has the legal authority to involuntarily terminate a pension plan if:

- The plan has not met the minimum funding requirements.
- The plan cannot pay current benefits when due.
- The loss to PBGC is expected to increase unreasonably if the plan is not terminated.

If a plan is unable to meet its obligations to participants and becomes trusteed by the PBGC, the process is straightforward. The plan's assets and liabilities are valued as of the plan's termination date and remaining plan assets are allocated across benefit priority categories to make participant benefit payments, until exhausted. Once assets are exhausted, the call against PBGC assets is made and remaining unfunded guaranteed benefits are covered. There are statutory limitations on the level of benefits provided by the agency. For the year 2001, the maximum benefit guarantee for participants in trusteed plans was $3,392.05 per month.

Defined Benefit Plan Terminations



Bankruptcies of Publicly Traded Firms

	Firms	With Funded Plans	With Underfunded Plans
1980	86	25	1
1981	76	30	2
1982	93	23	3
1983	86	22	6
1984	113	23	1
1985	128	35	1
1986	128	30	7
1987	95	20	3
1988	122	26	5
1989	150	29	8
1990	149	45	9
1991	145	41	5
1992	99	24	3
1993	114	27	6
1994	60	15	-
1995	94	20	5
1996	69	12	4
1997	105	23	1
1998	104	25	2
	2,016	495	72

Source: PBGC Databook 1999.

The PBGC was formed to help safeguard your retirement income security, ensure the continuation and maintenance of private pension plans, protect pension benefits in on-going plans and provide timely payments of benefits in the case of pension plan terminations. Currently the PBGC insures approximately 38,000 pension plans, covering roughly 1 in 4 American workers. The agency receives no tax revenues, financing its operations through insurance premiums paid by plan sponsors and through investment returns. Single-employer pension plans pay a flat-rate premium of $19 per participant per year. Underfunded plans, plans with insufficient assets to cover participant benefits, pay an additional charge of $9 per $1,000 of unfunded vested benefits. This premium structure provides strong incentive for plan sponsors to ensure that plans are fully funded.

Most claims against PBGC assets are due to bankruptcies, although most bankruptcies don't actually lead to claims. Data through 1998 shows that of the 2,016 bankruptcies reported, less than 4% of companies had underfunded pension plans. The top ten firms with claims against the PBGC through 1999 make up over 50% of the total assets being claimed.

Of these ten firms, most are in the steel and airline industries. During the first 10 years of the agency's existence, steel companies had most of the large claims. Deregulation of the airline industry in the early 1990s led to the largest claims during the next ten years. Today, claims come from many different sectors of the economy.

The PBGC has implemented an "Early Warning Program" to try to strengthen pension plans and protect participants. The program mainly looks at plans with over 5,000 participants or at least $25 million in underfunding, focusing on corporate transactions that have the potential to weaken underfunded plans. For example, PBGC would review a transaction where a company is spinning off a subsidiary with large pension liabilities. By tracking transactions such as this, the agency can preemptively enter into agreements with companies to attempt to protect participant benefits.

In summary, defined benefit pension plans have built-in, redundant, safeguards to help protect a participant's promised benefits. For most participants DB plan benefits are as secure as a bank account. Benefits are guaranteed first by the sponsor, backed by the sponsor's own solvency. Bankruptcies are rare, and when they occur the pension plan is rarely underfunded. Finally, the PBGC stands ready to backstop plans in need up to the statutory limits.

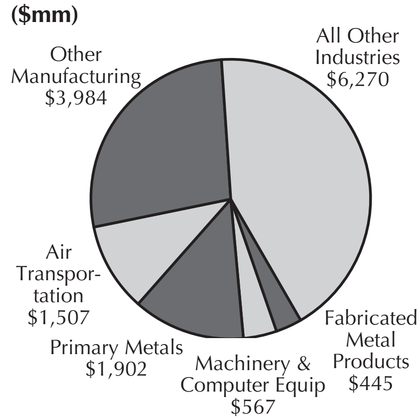
The following links can provide you with more information regarding pension plan funding, premium payments and plan terminations: Department of Labor (www.dol.gov), Pension Welfare Benefits Agency (www.dol.gov/dol/pwba), and the Pension Benefit Guaranty Corporation (www.pbgc.gov).

Firms with PBGC Claims

	Top 10 Firms	*Plans*	*Termination Years*	*Claims ($mm)*	
1	Pan American Air	3	1991,1992	841	13%
2	Eastern Air Lines	7	1991	553	9%
3	Wheeling Pitt Steel	7	1986	495	8%
4	Sharon Steel	5	1994	291	5%
5	Liv Republic Steel	1	1986	222	4%
6	Kaiser Steel	4	1987,1988	222	4%
7	Allis-Chalmers	11	1985,1986	186	3%
8	CF&l Steel	1	1992	184	3%
9	Uniroyal Plastics	1	1992	150	2%
10	Blaw-Knox	6	1992,1994	119	2%
	Top 10 Total	46		3,262	52%
	All Other Total	2,729		3,016	48%
	TOTAL	2,775		6,278	100%

Source: PBGC Databook 1999.

Total Claims s vs. PBGC 1975-1999 ($mm)



LIFE INSURANCE

Sales in many industries have been hard hit by a sluggish economy and continuing uncertainty in the aftermath of September 11. A notable exception has been the life insurance industry, where sales have been strong. In the face of this tragedy citizens have apparently turned their attention to the consequences of their own mortality. Below we address some of the key aspects of the most common types of life insurance policies (term and whole life).

Year-to-year term insurance is the basic life insurance policy. The premium is based on the insured's chance of dying during that year. The insurance automatically expires at the end of the year. If the policy is renewed or if another term policy is issued to replace it, a higher premium is charged. This is because the insured is another year older and the chance of dying during the next year is greater.

All other types of policies are a combination life insurance and investment (savings) contract. The differences in the various types of contracts involve differences in the timing and amounts of excess premiums, the crediting of interest on the accumulated excesses, and the payment of something back to the policyholder or the insured.

The Term Policy

The yearly term policy expires at the end of one year unless the policy is "renewable" and the policyholder sends the premium to the company to renew the insurance for another year. That premium will be higher in each succeeding year. No cash values accumulate with the yearly term policy, so no policyholder fund is available under the policy on which to draw to pay premiums not remitted in any year. But if a yearly term policy is a "participating" policy, it might return part of the premium as a dividend at the end of the policy year.

Term policies for periods of more than one year, with fixed premiums for the entire period of the policy, also are available. During the early years of the period, the fixed premium is higher than for yearly term insurance. Consequently, reserves (the excess paid in and accumulated at interest during the early years) for such term policies diminish as the end of the period approaches. The amount of the reserve at any time, however, is comparatively small, because the insurance is to remain in force only for a limited period rather than for the entire lifetime of the insured. Legislation in many states provides that policies issued for terms of more than 15 years or remaining in force beyond the insured's 65th birthday must have cash-surrender values if the insurance is discontinued prior to the expiration of the term period. At the end of the term period, when the insurance automatically expires, the policy has no cash-surrender value.

Term policies for periods longer than a year are available as either level-term contracts or decreasing-term contracts. The death benefit of a level-term policy remains constant throughout the period of the contract. A decreasing-term policy has a death benefit that decreases according to an established schedule during the period of the contract. A decreasing-term contract for, say, 25 years, might be appropriate for coverage of a mortgage loan balance on a house, because the coverage would decrease as the balance on the mortgage loan decreased. The insured could achieve the same result by purchasing an annual renewable term policy and reducing the insurance amount during the period of the mortgage loan. An annual renewable policy also would offer more flexibility to change coverage in the event one were to sell the house or remortgage it.

A term policy may or may not be "renewable." If it is, the insured is permitted to renew the contract for a specified number of term periods or until a specified age. Many term contracts are renewable until age 65 or so.

When the term on a renewable policy ends (be it one year, five years, or more) and the policyholder chooses to renew the coverage, the renewal-premium will depend on whether the policy has a "reentry" provision. A reentry provision requires the insured to provide fresh proof of insurability by undergoing a medical examination. If the insured meets the test, coverage continues at the standard premium rates, or possibly at lower rates (since insureds who pass the test will have a better mortality experience than implied by the standard mortality tables). If the insured does not pass the test, coverage is renewed only at a higher premium — or it may be denied altogether. A policy that does not require reentry guarantees that coverage will not be dropped and that premiums will not be increased on account of the insured's deteriorating health. Some policies offer a combination of these features, allowing the insured to take a reentry test and qualify for lower premiums, but guaranteeing that if he fails, coverage will continue and premiums will not increase. From the policyholder's perspective, it is advantageous to have a policy that offers guaranteed renewal without a reentry requirement. This ensures that coverage remains available even if the insured's health changes.

Another feature of term insurance is the option of "convertibility." A convertible policy may be exchanged for another form of life insurance without medical examination within a stipulated time before the end of the term period. A convertibility clause is useful primarily to people who think they will require insurance after age 65 or so, beyond which age some term policies are not renewable. For most people insurance needs in these later years will be minimal, and term policies renewable in these years are available (at a high renewal-premium rate, of course). The premium for a convertible policy is higher than for policies without this feature. The terms of convertibility, including restrictions on the period during which one may convert and the types of policies one can convert to, vary. Individuals who cannot find a term policy renewable past age 65, and who think they may need insurance beyond that age, should choose a policy that is convertible through at least age 60.

Many life insurance salesmen recommend term policies only for coverage of temporary needs, such as mortgage loan coverage. They actively discourage prospective buyers from using term policies for their primary coverage. They argue that other policies, such as whole-life and universal-life, enable the policyholder to avoid the higher premium of term policies at older ages when, they warn, the policyholder probably will be less able to afford them. Salesmen further suggest that term policies are less desirable because, unlike whole-life and universal-life, they do not provide the opportunity to build up "cash value," which had tax advantages.

But as pointed out earlier, most people are unlikely to need life insurance in their later years, when they are more apt to have substantial savings and no financial dependents. Thus, rising premiums for term insurance for older policyholders may not be a problem. As for cash value, this should be seen for what it is — an investment rather than insurance. Indeed, with a cash-value policy the policyholder is, in a sense, following the old advice to "buy term and invest the difference." But it is all done through the policy, and the insurance companies charge substantial fees for managing the investment component of the policy as well as for providing the life insurance. Taking the various charges into account, the investment return on cash-value policies, including universal life, may not be all that high. In practice, it is very difficult to figure out what this return is, since insurance companies do not readily provide the information. In addition, the return can be further reduced by surrender charges and tax penalties that may be assessed (in some instances) if the policyholder cancels his policy or withdraws some of the cash buildup.

These considerations make cash-value insurance less of a "deal" than it might initially appear. In any event, buying an insurance policy for its investment potential should not even be considered until insurance needs are fully met. Providing adequate death benefits should be the foremost concern. Term insurance offers the least expensive way to buy the most coverage.

For the combination of its flexibility and low cost, we believe that term insurance, particularly the annual renewable term policy, would best serve the needs — both temporary and permanent — of most life insurance buyers.

The Straight-Life Policy

The basic type of "permanent," or cash-value, life insurance is the straight-life policy,* according to which the policyholder agrees to pay a specified premium each year for as long as he or she lives. In return, the company will pay a stipulated sum at the death of the insured. The amount of the premium depends primarily on the age at which the insurance is obtained.

If the policyholder discontinues payment of premiums for a straight-life policy, several options usually are available: (1) he can take the cash-surrender value of the policy, in which event the insurance is terminated; (2) he can borrow from the cash value in order to pay future premiums (interest is charged on the loan, of course, and any outstanding amount will be subtracted from death benefits paid); (3) he can convert the contract to paid-up whole life insurance with a face amount less than that of the original policy; or (4) he can have the same amount of insurance as was involved in the original policy continued as term insurance for a specified period.

The straight-life policy is the lowest premium form of whole-life insurance, because the policyholder commits to paying premiums for his entire lifetime, or to age 99. A substantial reserve is accumulated by the insurance company during the early years of the policy in order to pay the benefits in the later years when the policyholder's chances of dying are greater. The premium is at first much higher than that for term insurance; however, the premium for a straight-life policy

* The straight-life policy is often referred to as "whole-life" insurance. It is that, but whole-life insurance generally is any type of policy that may be continued in force throughout the lifetime of the policyholder, regardless of the method of premium payment. Whole-life includes virtually all individual policies other than term, endowment, and retirement-income policies. "Ordinary" life insurance technically includes term along with the types of whole-life policies. Ordinary policies do not, however, include group policies.

remains constant throughout the policyholder's lifetime, whereas the premium for a term policy increases with each renewal.

There thus is a large investment element built into straight-life policies. The rate of return the policyholder will get on the investment element is an unknown and will be determined by a number of factors, including: the accumulation of cash values; the actual dividends, if any; and whether and when the insured or the insured's beneficiaries receive benefits. A statement of the return the straight life policyholder is receiving on the investment element never is provided to him, either before or after the purchase. His "investment" decision thus is made more or less on blind faith that the insurance company will pay him a good return.

The insurance industry's record as a whole in aggressively paying competitive rates of return on the investment component of policies is not one to reassure prospective buyers. In the late l970s, when nominal rates of return on safe investments were well up into the single digits, the average rate of return on all life-insurance policies with an investment element was roughly one to two percent depending on different assumptions used to estimate the return.* That disclosure by the Federal Trade Commission helped to push the life insurance industry into developing new types of contracts (universal life, for example) paying closer-to-competitive returns. Yet, the industry as a whole still clouds the issue of returns paid on the investment part of life insurance contracts. With respect to the rate of return on the investment component of straight life policies, the necessary information is not readily available, if available at all. This alone is reason enough for us to recommend against buying straight-life policies.

But what about the argument, often used by life-insurance salespeople, that permanent-type policies help force people to save because the premium notices are treated as bills that must be paid rather than as "optional" savings? That may be true for a small percentage of people. But those who lack the self-discipline to save probably are also more likely to fail to pay their premiums at some point and let their policies lapse. About one out of every four policies is terminated voluntarily within the first two years. Early terminations of policies are very costly to policyholders.

Variable Whole Life and Variable Universal Life

The degree to which life insurance contracts have become investment contracts is perhaps most clearly evident with variable whole life and variable universal life policies. Agents selling variable life policies must, unlike agents selling traditional life insurance, be registered with the National Association of Securities Dealers. The key feature differentiating the variable policies is a separate fund for the investment element of the policies. The fund is separate from the general investment fund of the company, and the yield on the separate fund determines the rate credited to the accumulated values of the variable policies.

We used the singular "fund" above. In fact, however, the insurance companies offering variable-life contracts have a number of side funds, each with different investment objectives. There might be a bond fund, a money-market fund, a general common stock fund, a growth-stock fund and so forth, much as mutual fund companies often have a "family" of funds. And as the investor in a family of mutual funds can move his investment to any one of the funds (with little or no charge), depending on his perception of which offers the best prospect for gain at the time, so the variable policyholder can direct the accumulated values of his policy (his investment) among the available separate funds. The performance of the selected fund determines how quickly the policy values grow — if they grow at all. **With variable policies it is possible to lose the entire investment component of the policy. There is no guaranteed return, and the insured, rather than the insurer, bears the investment risk.**

The face-amount death benefit is guaranteed, however, as long as the policyholder remits the necessary premium to keep the contract in force should the accumulated value of the policy drop to zero.

For the variable whole life policy there is a fixed schedule of premiums, as there is for other whole life policies. For variable universal life, the premium is flexible, but only as to the amount *above* that necessary to cover the cost of insurance during the year.

As with other life insurance contracts having large investment components, the decision to buy a variable whole life or variable universal life contract is primarily an investment decision. In this respect, variable life policies have an advantage over mutual funds and other investments, in that their interest earnings accrue tax-free until they are withdrawn. On the other hand, early withdrawals from these policies are subject to the insurance-related tax penalties. Sales charges and management fees also are usually significantly higher on insurance products.

Other types of traditional life insurance include limited payment, modified life, family maintenance and family income, flexible premium whole life, minimum deposit life, and single premium whole life. For a comprehensive description of these products, readers should refer to AIER's *Life Insurance from the Buyer's Point of View,* $8.00. Tel. (413) 528-1216.

LIFE INSURANCE WEB SITES: DEATH OF THE SALESMAN?

If term insurance is the best option, how can individuals find the best policy among the thousands available?

Information technology, especially the Internet, has helped immensely in this quest. Term insurance is a commodity-like product, and, to the dismay of many salesmen, price comparisons can now easily be made via numerous websites that have been created for this purpose.

But Internet life-insurance sites abound, and on-line shoppers must take care, for not all of these sites do a good job. Some are little more than promotional sites that refer web visitors to agents. The Consumer Federation of America (CFA) conducted a study of 25 insurance web sites. Of the sites evaluated, CFA concluded that one third included "inadequate and potentially misleading" information (to download the CFA study, go to www.consumerfed.org).

If you are shopping for term insurance, we recommend that you visit www.term4sale.com or www.quotesmith.com. These were among the best sites, as ranked by the CFA study. Also keep in mind that any policy is only as good as the financial strength of the firm behind it. Visit www.insure.com for rankings of insurers by state, including Standard and Poor's financial rankings.

* Staff Report to the Federal Trade Commission, "Life Insurance Cost Disclosure," July 1979, p. 3.

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 low risk (volatility) was obtained by purchasing the four 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", $12.)

The model portfolio of HYD holdings set forth in the accompanying table reflects the systematic and gradual accumulation the four 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 stocks eligible for purchase, **SBC Communications** and **JP Morgan Chase,** were not eligible for purchase 18 months earlier (in November 2000), and two issues that were eligible for purchase 18 months ago, **AT&T** and **Caterpillar**, are not eligible this month. Investors following the model should find that the indicated purchases of SBC and Morgan, and the indicated sales of Caterpillar and AT&T (as well as shares of **AT&T Wireless** that were spun-off from AT&T) are sufficiently large to warrant trading. In larger accounts, rebalancing positions in **Dupont** and **Eastman Kodak** may also generate trades.

Investors with sizable portfolios may be able to track the exact percentages month to month, but smaller accounts should trade less often to avoid excessive transactions costs, only adjusting

As of June 14, 2002

					Percent of Portfolio*	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares†*
Eastman Kodak	1	6.10%	29.53	Holding**	21.9	27.4
Philip Morris	2	4.21%	55.14	*	-0-	-0-
JP Morgan Chase	3	4.12%	33.00	Buying	19.8	22.3
General Motors	4	3.61%	55.45	*	-0-	-0-
SBC Comm.	5	3.35%	32.23	Buying	6.0	7.0
Dupont	6	3.24%	43.18	Holding**	26.4	22.7
Caterpillar	7	2.86%	48.90	Selling	17.6	13.3
Merck & Co.	8	2.67%	52.51			
General Elect.	9	2.42%	29.70			
Int'l Paper	10	2.36%	42.29	Holding	8.3	7.3
AT&T	22	1.47%	10.18	Selling	0.0	0.0
AT&T Wireless	—	0.00%	5.75	Selling	0.0	0.0
					100.0	100.0

Change in Portfolio Value‡

	1 mo.	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*From 12/63*	*Std. Dev.*
Strategy	-10.1%	-11.6%	7.9%	13.3%	15.1%	15.9%	19.0
Dow	-7.4%	-9.2%	5.7%	13.0%	12.3%	10.7	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.

their holdings toward the percentages in the table if prospective commissions will be less than, say, 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 four 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 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	Market Prices			12-Month		Latest Dividend			Indicated	
	Symbol	*6/14/02*	*5/15/02*	*6/15/01*	*High*	*Low*	*Amount*	*Record Date*	*Paid*	*Annual Dividend*	*Yield† (%)*
★ Eastman Kodak	EK	**$29.53**	33.79	46.74	49.47	24.40	0.900	6/03/02	7/16/02	1.800	6.10
Philip Morris	MO	**$55.14**	53.59	46.32	57.79 *H*	43.00	0.580	6/28/02	7/10/02	2.320	4.21
★ J. P. Morgan Chase	JPM	**$33.00**	36.96	44.90	47.23	26.70	0.340	7/05/02	7/31/02	1.360	4.12
General Motors	GM	**$55.45**	67.30	59.35	68.17	39.17	0.500	5/17/02	6/10/02	2.000	3.61
★ SBC Comm.	SBC	**$32.23**	33.41	40.31	47.50	30.14	0.270	4/10/02	5/01/02	1.080	3.35
★ DuPont	DD	**$43.18**	46.63	45.76	49.80	32.64	0.350	5/15/02	6/12/02	1.400	3.24
☆ Caterpillar	CAT	**$48.90**	56.00	54.15	59.99	40.31	0.350	7/22/02	8/20/02	1.400	2.86
Merck	MRK	**$52.51**	56.90	73.75	75.85	50.78 *L*	0.350	6/07/02	7/01/02	1.400	2.67
General Electric	GE	**$29.70**	30.93	48.81	52.61	28.40 *L*	0.180	6/28/02	7/25/02	0.720	2.42
☆ International Paper	IP	**$42.29**	44.99	37.00	46.20	30.70	0.250	5/24/02	6/14/02	1.000	2.36
Exxon Mobil (s)	XOM	**$39.15**	39.71	44.45	44.61	35.01	0.230	5/13/02	6/10/02	0.920	2.35
Honeywell Intl.	HON	**$35.60**	39.25	38.70	40.95	22.15	0.188	5/20/02	6/10/02	0.750	2.11
3M Company	MMM	**$126.05**	129.50	120.88	130.60 *H*	85.86	0.620	5/24/02	6/12/02	2.480	1.97
Alcoa	AA	**$31.37**	36.07	38.97	42.00	27.36	0.150	5/03/02	5/25/02	0.600	1.91
Hewlett-Packard	HPQ	**$17.35**	19.35	27.00	29.16	12.50	0.080	6/19/02	7/10/02	0.320	1.84
Citigroup	C	**$40.20**	45.76	49.30	53.75	34.51	0.180	5/06/02	5/24/02	0.720	1.79
Procter & Gamble	PG	**$91.55**	92.15	62.60	93.73 *H*	61.68	0.380	4/19/02	5/15/02	1.520	1.66
Boeing	BA	**$42.53**	44.55	64.25	64.99	27.60	0.170	5/17/02	6/07/02	0.680	1.60
AT&T	T	**$10.18**	13.51	21.00	23.00	9.50 *L*	0.038	6/28/02	8/01/02	0.150	1.47
Coca-Cola	KO	**$54.85**	56.69	44.26	57.91	42.59	0.200	6/15/02	7/01/02	0.800	1.46
Johnson & Johnson	JNJ	**$56.82**	60.24	52.04	65.89	49.13	0.205	5/21/02	6/11/02	0.820	1.44
United Tech.	UTX	**$68.25**	70.45	74.75	78.25	40.10	0.245	5/17/02	6/10/02	0.980	1.44
Walt Disney	DIS	**$21.03**	24.50	29.70	30.29	15.50	0.210	12/07/01	12/21/01	0.210	1.00
American Express	AXP	**$35.96**	44.87	38.94	44.91	24.20	0.080	7/05/02	8/09/02	0.320	0.89
IBM	IBM	**$76.17**	84.50	113.60	126.39	73.25 *L*	0.150	5/10/02	6/10/02	0.600	0.79
McDonald's	MCD	**$29.12**	30.06	28.67	31.00	25.00	0.225	11/15/01	12/03/01	0.225	0.77
Home Depot, Inc.	HD	**$36.98**	47.00	48.90	52.60	30.30	0.050	6/13/02	6/27/02	0.200	0.54
Wal-Mart Stores	WMT	**$56.95**	56.77	48.15	63.94	42.00	0.075	6/21/02	7/08/02	0.300	0.53
Intel Corp.	INTC	**$21.28**	30.24	27.68	36.78	18.96	0.020	5/07/02	6/01/02	0.080	0.38
Microsoft Corp.	MSFT	**$55.25**	54.75	68.02	76.15	47.50	0.000	-	-	0.000	0.00
AT&T Wireless	AWE	**$5.75**	7.94	15.67	19.92	4.99 *L*	0.000	-	-	0.000	0.00

★ BUY. ☆ HOLD. † Based on indicated dividends and market price as of 6/14/02. *H* New 52-week high. *L* New 52-week low. (s) All data adjusted for splits.

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

	6/14/02	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**322.10**	308.30	272.20
Silver, London Spot Price	**4.89**	4.60	4.45
Copper, COMEX Spot Price	**0.76**	0.74	0.72
Crude Oil, W. Texas Int. Spot	**25.94**	28.15	28.51
Dow Jones Spot Index	**125.24**	126.61	109.48
Dow Jones-AIG Futures Index	**97.84**	99.92	105.43
CRB-Bridge Futures Index	**202.61**	204.01	209.06

Interest Rates (%)

U.S. Treasury bills -	91 day	**1.70**	1.75	3.41
	182 day	**1.79**	1.90	3.37
	52 week	**2.03**	2.36	3.41
U.S. Treasury bonds -	15 year	**5.37**	5.78	5.71
Corporates:				
High Quality -	10+ year	**6.52**	7.03	7.03
Medium Quality -	10+ year	**7.33**	7.88	7.64
Federal Reserve Discount Rate		**1.25**	1.25	3.50
New York Prime Rate		**4.75**	4.75	7.00
Euro Rates	3 month	**3.47**	3.42	4.45
Government bonds -	10 year	**5.06**	5.09	4.97
Swiss Rates -	3 month	**1.25**	1.28	3.15
Government bonds -	10 year	**3.29**	3.28	3.43

Exchange Rates

British Pound	**$1.476000**	1.459400	1.402700
Canadian Dollar	**$0.645700**	0.643200	0.654200
Euro	**$0.942300**	0.912400	0.858900
Japanese Yen	**$0.008049**	0.007848	0.008110
South African Rand	**$0.094100**	0.098600	0.124300
Swiss Franc	**$0.638400**	0.626900	0.561600

Securities Markets

	6/14/02	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,007.27**	1,091.00	1,214.36
Dow Jones Industrial Average	**9,474.21**	10,243.68	10,623.64
Dow Jones Transportation Average	**2,673.14**	2,797.98	2,693.62
Dow Jones Utilities Average	**276.60**	293.90	363.73
Dow Jones Bond Average	**142.81**	138.56	102.36
Nasdaq Composite	**1,504.74**	1,725.56	2,028.43
Financial Times Gold Mines Index	**1,288.74**	1,287.90	835.15
FT African Gold Mines	**2,049.94**	2,238.18	936.86
FT Australasian Gold Mines	**1,868.62**	1,574.46	946.79
FT North American Gold Mines	**1,036.03**	1,017.02	782.94

Coin Prices

	6/14/02	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	**$326.95**	319.25	275.15	1.51
Austrian 100-Corona (0.9803)	**$311.43**	304.23	262.23	-1.37
British Sovereign (0.2354)	**$78.55**	76.85	66.55	3.60
Canadian Maple Leaf (1.00)	**$327.20**	319.50	275.40	1.58
Mexican 50-Peso (1.2057)	**$384.40**	375.40	323.70	-1.02
Mexican Ounce (1.00)	**$318.60**	311.20	268.30	-1.09
S. African Krugerrand (1.00)	**$323.95**	316.45	273.15	0.57
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$370.00**	345.00	350.00	18.73
Liberty (Type I-AU)	**$675.00**	675.00	675.00	116.60
Liberty (Type II-AU)	**$385.00**	385.00	425.00	23.54
Liberty (Type III-AU)	**$350.00**	332.50	310.00	12.31
U.S. Silver Coins ($1,000 face value)				
90% Silver (715 oz.)	**$4,600.00**	4,600.00	4,200.00	31.57
40% Silver (292 oz.)	**$1,550.00**	1,525.00	1,550.00	8.55
Silver Dollars	**$6,000.00**	6,000.00	6,075.00	58.61

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $322.10 per ounce and silver at $4.89 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	6/14/02	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	**$9.51**	9.46	9.45	9.68	9.39	0.4521	0.0000	4.75
★ USAA Short Term Bond	USSBX	**$9.38**	9.34	9.88	10.04	9.33	0.5846	0.0000	6.23
★ Vanguard Short-term Corporate	VFSTX	**$10.80**	10.71	10.81	11.03	10.69	0.6379	0.0000	5.91
Income Equity Funds									
★ Duff & Phelps Select Income[1, 2]	DNP	**$10.94**	11.24	11.04	11.62	10.20	0.7800	0.0000	7.13
★ Vanguard REIT Index	VGSIX	**$13.26**	13.02	12.29	13.69	11.17	0.6476	0.1524	4.88
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$49.97**	54.10	61.22	62.22	46.30	0.8144	0.1472	1.63
★ Vanguard Value Index	VIVAX	**$17.08**	18.47	21.16	21.38	16.41	0.3160	0.1070	1.85
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$88.25**	99.20	82.55	99.67	66.35	0.6496	0.3430	0.74
★ Vanguard Sm. Cap Value Index	VISVX	**$10.35**	11.62	9.93	11.66	8.14	0.0650	0.3810	0.63
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$50.92**	55.27	60.22	62.43	48.00	0.4555	0.1124	0.89
★ Vanguard Growth Index	VIGRX	**$22.60**	24.47	26.82	27.60	21.75	0.1970	0.0000	0.87
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$54.60**	59.98	63.48	64.02	45.52	0.9307	0.0000	1.70
★ T Rowe Price European Stock	PRESX	**$14.43**	16.11	17.13	17.25	13.07	0.3600	0.0000	2.49
★ Vanguard European Stock Index	VEURX	**$18.54**	20.46	21.81	21.92	16.85	0.4400	0.0000	2.37

Recommended Gold-Mining Companies

	Ticker Symbol	6/14/02	Month Earlier	Year Earlier	— 52-Week — High	Low	Distributions Latest 12 Months	Frequency	Yield (%)
Anglo American PLC, ADR	AAUK	**$17.43**	17.55	14.36	19.61	9.46	0.460	Semiannual	2.64
★ Anglogold Ltd., ADR	AU	**$29.55**	28.30	18.62	34.66	15.20	0.649	Semiannual	2.20
ASA Ltd.[1]	ASA	**$34.05**	35.04	19.90	40.44	16.95	0.600	Quarterly	1.76
★ Barrick Gold Corp.†	ABX	**$20.02**	20.76	16.80	23.49	13.96	0.220	Semiannual	1.10
★ Gold Fields Ltd.	GFI	**$12.37**	14.13	4.51	17.15	3.82	0.111	Semiannual	0.90
★ Newmont Mining	NEM	**$28.96**	27.67	21.89	32.75	17.97	0.120	Quarterly	0.41
★ Placer Dome†	PDG	**$12.59**	12.17	11.12	14.74	8.75	0.100	Semiannual	0.79
★ Rio Tinto PLC‡	RTP	**$77.44**	80.12	69.92	86.00	53.70	2.350	Semiannual	3.03

★ 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.

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