INVESTMENT GUIDE

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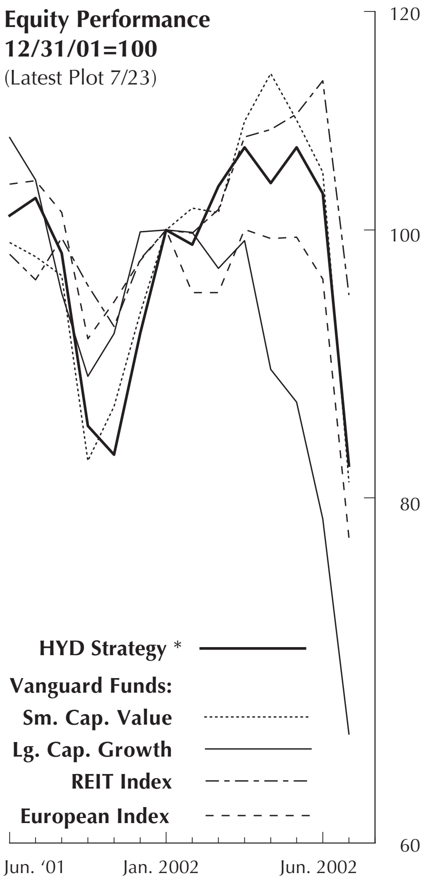

*** HYD is a hypothetical model based on back-tested results. See p. 54 for a full explanation.**

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

Bear Market Insights

It does little good for investors to dwell on large paper losses they might currently be witnessing, and in fact wise investors can take advantage of the occasion to derive valuable insights. We can point to two important lessons.

With the markets in turmoil, the mettle of investors' is being tested, and we continue to preach the virtues of firmly sticking to one's allocation plan. A portfolio, after all, should be designed to accommodate one's circumstances and tolerance for risk and it should be allocated without consideration for current market fluctuations or sentiment regarding the short-term direction the markets might take.

Nevertheless one's risk tolerance can be very difficult to gauge accurately. For most investors the 1980s and 1990s offered no real opportunity to assess their ability to wait out a sustained bear market. If the recent market slide has genuinely prompted you to conclude that you have overestimated your ability to tolerate risk, you might adopt a more conservative portfolio (our recommended allocations are provided in the table below). In that rare circumstance, you should simply move to those new suggested allocations rather than trying to predict the "right time" to make the required changes. To repeat: a portfolio change is warranted only if, upon introspection, you realize that your previous assessment of your personal tolerance for risk was inaccurate. If you are merely nervous about what might happen, join the crowd, but stay the course.

Investors should also be wary of looking back. When faced with substantial losses, it can be tempting to allow the price you paid for an asset to influence your current investment decision. This is irrational. Except when realized gains or losses are an issue in taxable accounts, you should never allow your purchase cost to influence your decision to hold or to sell—no one else knows or cares about your cost. What you have paid for an asset is a sunk cost, and is irretrievable. Its future price will change only in response to new information, so the only relevant information you should consider is whether it still the optimal investment vehicle in an asset class appropriate for your circumstances, in light of alternative investment vehicles and asset classes that are available.

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.

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QUARTERLY REVIEW OF INVESTMENT POLICY

The second quarter brought a dramatic drop in the value of common stocks, and no equity asset class was spared. The U.S. economy, meanwhile, appears to be forging ahead; first quarter GDP growth registered 6.1%, and currently nine out of ten leading indicators with an apparent trend are appraised as expanding.

We have not altered our recommended allocations. The table on p. 49 provides recommended portfolio allocations for investors with different tolerances for risk.

The accompanying table provides total returns for several of our recommended investment vehicles. Though the period covered in the table is brief, the data reveal that each of these vehicles represents a distinct asset class, and that the "best" performing asset class in any period is unpredictable. A well-designed portfolio will therefore include many or all of the asset classes represented in the table.

Money-Market Funds

Cash-equivalent assets continue to provide very low returns. As of mid-July, taxable money-market funds were yielding roughly 1.3% on average, barely enough to keep pace with price inflation.

Money-market funds, however, are issued and redeemed at Net Asset Value (NAV) of $1.00 per share, and the stability this provides can prove invaluable. Investors who have held cash in proportion with our recommended allocations would have had a substantial portion of their financial wealth dedicated to this reliable, if unspectacular asset class.

Any number of unforeseen events can occur that require sudden unplanned expenditures. By holding a substantial balance in a money-market fund you can avoid a situation that would require a necessary sale of common stocks during a market downturn.

Yields on U.S. Treasury Securities

	3/31/02	*6/28/02*
3-month	1.77 %	1.65 %
6-month	2.09 %	1.66 %
1-year	2.65 %	1.83 %
10-year	5.03 %	4.80 %
30-year	5.82 %	5.50 %

Intermediate-Term Bonds

The Federal Reserve's Board of Governors took no action to change short-term interest rates in their June 26 meeting, apparently taking a wait-and-see approach to economic expansion. The Fed's reluctance to expand credit also allayed fears of higher price inflation, which in turn helped lift bond prices. Bonds also benefited from an apparent flight to safety during the second quarter. Interest rates move in the opposite direction of bond prices, so as investors flocked to bonds, prices rose and interest rates fell. This "downward shift" in the yield curve can be seen in the table above.

The purpose of holding fixed-income securities is to enhance the stability of an investment portfolio. However, bond prices can change in response to a variety of factors. The expected returns from bonds with maturities of more than five years is more than offset by the volatility they would add to a portfolio, so investors should generally not hold securities with maturities that exceed that time frame.

For many investors, any of the three fixed-income mutual funds on p. 56 will provide a suitable means of holding bonds. While these funds do not follow an investment approach that is strictly passive, they meet our investment parameters for cost and diversification, and have adopted a sound investment approach.

Investors with more substantial investment portfolios might consider building a bond ladder. Equal amounts should be invested in bonds with maturities ranging from six months to five years, in six to twelve month intervals. As these bonds mature, the proceeds can simply be reinvested in new five-year bonds. This will provide constant exposure to the "short end" of the yield curve.

Our preferred approach to fixed-income investing follows a "variable maturity" strategy. This amounts to holding a portfolio of bonds with an aggregate yield-to-maturity that is at the steepest portion of the yield curve. This provides the highest expected return per unit of volatility assumed. The strategy, however, is not simple to implement, and though it is passive in that it requires no forecast of interest rates, it does require active implementation because the yield curve changes over time. The only cost-effective means of implementing this approach is offered through the mutual funds of Dimensional Fund Advisors (DFA). The DFA funds are not available to "retail" investors, but may be purchased through our Professional Asset Management (PAM) program.

Income Equities

We recommend Real Estate Investment Trusts (REITs) and the Duff and Phelps Select Income fund for investors seeking to add investment income and relative stability to their holdings.

The Duff and Phelps Select Income fund (symbol DNP) suffered an uncharacteristically large drop in share price during the second quarter. Our discussion with management revealed no significant bad news that might have precipitated this drop. The fund is a closed-end fund, so its market value can deviate significantly from its Net Asset Value (NAV), or the value of its underlying investments. The fund has traditionally traded at a premium to its NAV, but before the price drop that premium had become quite high. It could be possible that a single large investor simply decided to sell a position in this environment.

We continue to recommend DNP. It pays a monthly dividend and it currently is yielding a very attractive 8.8%. This is well above the yield of most utilities, which form the bulk of its holdings. The fund is able to maintain this high payout because, in addition to its common shares, management issues relatively low-cost remarketable preferred stock, which leverages the earnings available for common shareholders.

REITs, along with gold-mining stocks, were the star performers during an otherwise abysmal second quarter. The Vanguard REIT Index fund (symbol VGSIX) garnered an impressive 4.8% total return during the period. The fund is currently yielding 6.1%

REITs are obligated to pay out 95% of their earnings as dividends in order to avoid taxation at the corporate level. In addition to providing an attractive yield, REITs are not strongly correlated with those of other income-producing securities such as bonds, so they deserve inclusion in many portfolios.

Common Stocks

Corporate scandal rocked the U.S. stock market during the second quarter. Worldcom and Xerox were added to the growing list of large U.S. companies (many were darlings during the late 1990s) that have been implicated in accounting improprieties.

The uncertainty carried over to the larger market, though small-cap and value stocks

Total Returns (%)*

	1999	2000				2001				2002		*Total Return Entire Period*
	4q	*1q*	*2q*	*3q*	*4q*	*1q*	*2q*	*3q*	*4q*	*1q*	*2q*	*4q 1999-2q 2002*
Vanguard Short-Term Corporate	1.03	1.45	1.22	2.78	2.50	**3.18**	1.25	**3.34**	0.17	0.26	1.25	19.97
Vanguard REIT Index	-0.76	2.56	**10.50**	7.49	3.71	-0.50	10.66	-2.56	4.72	8.08	4.79	**59.55**
Vanguard Value Index	8.96	0.17	-4.30	**8.80**	1.70	-6.58	4.41	-16.26	7.89	1.32	-10.69	-7.83
High-Yield Dow 4-for-18	-9.93	**5.96**	-6.90	6.26	**12.70**	-2.89	10.42	-16.09	9.19	6.90	-6.21	4.66
Vanguard Small Cap Value Index	2.71	3.06	2.01	7.76	7.58	-0.78	**13.25**	-16.63	**21.22**	**9.59**	-4.15	49.31
Vanguard Growth Index	**20.20**	4.03	-1.40	-8.80	-16.90	-17.50	7.70	-13.26	12.97	-0.87	-16.30	-32.47
Vanguard European Stock Index	17.60	0.13	-2.70	-7.50	1.85	-15.60	-1.87	-12.09	9.48	0.05	-4.05	-17.42
Gold (London PM Fix)	-2.93	-4.70	4.12	-5.00	0.20	-6.10	5.01	**8.31**	-5.66	9.01	**7.33**	6.52

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

held up best. The Russell 2000 (small-cap) index fell 2.1%, while the Vanguard Small-Cap Value Index fund fell 4.2%. The Vanguard Value Index fund (large cap) was off 10.7%, while our high-yield Dow 4-for-18 model lost 6.2%.[1] Large-cap growth stocks were hit hardest of all, as the Vanguard Growth Index fund tumbled 16.3%. Foreign stocks fared reasonably well, as the Vanguard European Stock Index fund lost a comparatively modest 4.1%. As of mid-July the euro was close to nominal parity with the dollar, marking the first sustained period of strength for the currency since its inception.

On July 23rd J.P. Morgan (symbol JPM) became entangled in the accounting fiasco, not with regard to its own bookkeeping, but as its role in the Enron debacle came into question. On that day the banking giant's share price fell 18% and its dividend yield rose to over 7%.

Dividends provided roughly 30% of the total returns of the 4-for-18 model during the period 1964-1995. During the bull market of the late 1990s, dividends accounted for less than 20% of the total returns, as dividend yields decreased to less than 3%. As of mid July, the four current "buys" in the model had an average dividend yield of over 5%.

Between January and June the 4-for-18 model had held up significantly better than the overall market, and even much better than the S&P/Barra Large-Cap Value Index. It is unclear to what this trend is attributable, or whether it will continue. However, it is worth noting that this has occurred while accounting practices are in question, and that the 4-for-18 model is a passive investment approach based solely upon a firm's indicated dividend, its share price, and its inclusion in the Dow Jones Industrials Average. This methodology does not rely on accounting assumptions as does the S&P/Barra Large Cap Value Index, which assesses value based on a firm's book value and total market capitalization.

It is worth revisiting the last significant bear market in the U.S. to examine the performance of the 4-for-18 model over a longer time frame. While the Dow Jones Industrial Average was declining 33.9% during the first two years of the brutal bear market of the mid-1970s, a 4-for-18 portfolio had a total return of 3% over the same period. There is certainly no assurance that the model will prove equally resilient in today's bear market, but the past is all we have as a guide to the future. We continue to recommend holding shares in accordance with the 4-for-18 model as a portion of a sound overall portfolio.

[1] 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 the period. The results are gross of any investment advisory fees.

THE ROLE OF GOLD

One of 92 naturally occurring chemical elements, gold does not easily combine with other materials. Unlike silver, gold will not tarnish or will not lose its yellow luster. Gold is also one of the heaviest of the elements. Archimedes used this property to his advantage when he measured the density of a golden crown to check its authenticity. A counterfeit that was fabricated of base metals clad with gold would have less weight for a given volume.

These properties alone would make gold a valuable commodity but there is one more characteristic that is the key to its unique role as a monetary metal. Gold is one of the scarcest of the metals and has only been found in a limited number of regions of the world.

Almost all of the gold that has ever been mined still exists as part of the total world supply. Unlike materials that are subject to corrosion, such as iron, gold does not deteriorate and, because of its value, is virtually never discarded or lost. Even when gold is lost in shipwrecks or natural disasters, it will often be recovered. This made gold ideal for use as money for many centuries. As the world economy grew with increasing population, the money supply represented by the total world supply of gold grew as well. It is only in the last half-century that gold has been abandoned in its role as an official monetary standard.

The Ultimate Money

In spite of this, gold remains the ultimate form of money. It is valued everywhere and is a compact storehouse of value. When the U.S. experienced its last round of accelerating inflation, gold prices advanced and more than kept pace with rising prices. For the prudent investor, this remains the most important function of gold.

As a modest but significant share of one's total portfolio, gold provides a form of insurance that is hard to match using any other investment vehicle. There are other forms of hard-asset investment. Gemstones such as diamonds are an even more concentrated store of monetary value and, at times of great political turbulence, have enabled refugees to carry substantial assets away from regions of conflict, tyranny, and political persecution.

But only gold is fungible, easily assayed, and universally valued. Diamonds, on the other hand, must be evaluated by experts and may not always have a willing buyer at a fair price.

Given that an investor has decided to hold some gold in a well-diversified portfolio, there remains the decision as to how to invest. We recommend the common stock of high-quality gold mines as a means of holding gold "in the ground." The companies listed on page 56 provide liquidity, a modest dividend, and the potential for growth independent of the gold price through exploration and the establishment of new mines. These shares should be used to satisfy the allotments recommended in the allocation table on the first page.

Some investors may also wish to hold bullion coins. Coins provide the advantage of being readily accessible, and because they are minted by trusted national governments in standard troy ounces, they can be traded without assay. While counterfeiting of bullion coins is a theoretical possibility, fake coins can be detected simply by weighing them.

Fakes and Frauds

In some cases, a coin may be nearly worthless without being technically counterfeit. The recent resurgence of strength in the gold price has led to a number of products aimed at unsophisticated investors. One of these, currently being marketed using direct response spots on television, shows an oversize picture of what appears to be a brilliant uncirculated U.S. gold coin. The accompanying voice-over speaks of a rare coin that could bring up to $1 million at auction. Then viewers are asked to call a toll-free number to purchase up to five newly minted "proofs" of the rare coin. The necessary legal disclaimers are buried in phrases such as gold-clad and 10-mil. In other words, for about $25 the customer can get a base-metal medallion, lightly plated with gold of unspecified purity.

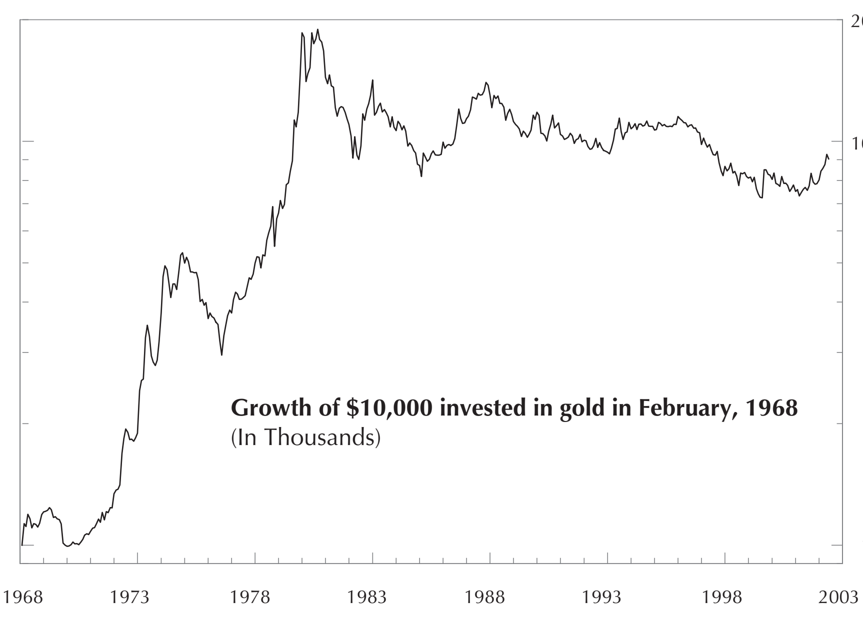
The ad calls to mind an incident that occurred during the bull market of 1979-1980. A young high school dropout who was employed by a Boston firm selling precious metals investments over the telephone ran into someone who had a set of what appeared to be one-ounce bullion coins for sale. Gold was trading at well over $600 an ounce so the price of $100 a coin seemed to be a bargain and the young man snapped up the 20-coin set over the weekend. On Monday, he brought the set into the office to show off his big score. He was chagrined to find that what he had purchased were one-ounce silver medallions plated with gold.

Indignantly forgetting that he had been trying to scam the seller, he brought the coins back. "No problem," said the seller, "leave the coins with me and I'll have your money in a couple of days." So he did and that was the last he saw of the coins or his $2,000. The point is that the more active the gold market, the more scams and downright poor investment vehicles appear in the marketplace.

Strategies for Holding Gold

Among coins, your best choice is bullion coins or 10-ounce bars. The coins should be minted by a major national government; the bars should bear appropriate proof marks. Coins are preferable. The only advantage of bars is their lower cost for a given amount of gold.

There is also the alternative of gold stored in a bonded warehouse. This provides protection against runaway inflation or a catastrophic collapse of the markets and banking system. These are extremely unlikely, but the purpose of insurance, after all, is to protect against the unlikely. What gold stored in a warehouse will not protect against is a situation due to war or terrorist attack where assets become inaccessible. The only hedge against this eventuality is a hard asset you store yourself in a way that makes it accessible to you and yours and unknown to anyone else. Many investors use a safe-deposit box at their local bank. The peace of mind such an arrangement provides is a major value in itself.



Growth of $10,000 invested in gold in February, 1968
(In Thousands)

Factors Impacting Gold

The highest value of the yellow metal was reached in January 1980 and was followed by a precipitous decline. Since then there have been rallies but the trend has been down until recently, as indicated in the accompanying chart. Even so, the recent rally does not necessarily portend higher prices in the near term.

Bull markets occur from time to time in different asset classes. As long as the bull is in charge, more and more investors jump on for the ride. Should the bears rout the bulls, analysts with the benefit of hindsight will relabel the late lamented bull market as a "bubble."

Many have labeled the precious metals boom of 1979 a bubble. Before the market collapsed, more and more individuals were buying into it. Many of those investors had never before invested in gold, much as the recent bull market in stocks attracted many who never before were tempted by Wall Street.

The old saw, "Once burned, twice shy," applies here. Many of those who were burned by entering the precious metals market late in 1979 only to be buried by its collapse never ventured into precious metals again. But that was nearly a quarter century ago.

Experience also shows that the wisdom (or caution) gained by living through mistakes rarely passes from one generation to the next. Many of today's younger active investors might guess that the Hunt brothers invented ketchup. If the gold market continues to show strength it is entirely possible that more and more investors might buy into it.

The traditional fundamentals favoring a rising gold price are certainly present. In 1979 we had the Ayatollah Khomeini; today we have Usama bin Laden. Back then we had immense budgetary deficits, something that until recently was absent. But as of mid-July we have a projected deficit of $165 billion that is dramatically higher than what was anticipated.

Interest rates are the biggest difference between then and now. In 1979 money-market and mortgage rates soared to as much as 20%. Today we are at the opposite end of the scale with interest rates at the lowest levels some have seen at any time in their lives.

Because current prices are not that much higher than the lowest prices we have seen in a quarter century, the downside might appear relatively small. The combination of weakness in stocks and some faltering in the recent strength of the dollar could lead to a significant reduction in foreign investment in U.S. equities. In fact this may already have started. Where will these foreign assets end up? Some could end up in precious metals.

For perhaps 5,500 years gold has occupied a unique position in the investment spectrum. Gold is a commodity, but no other commodity has played such an important monetary role. Today the Euro is showing renewed strength but that is a very recent development. From the day of its issue the Euro began to fall against the dollar, losing nearly 20% of its value.

Now that it has recovered to nominal parity with the U.S. dollar, Europeans are looking at it both closely and hopefully. If it maintains its strength, confidence will grow, but if it begins another decline, many will look for a way to hedge and gold could be an attractive alternative.

Until recently, gold had no utilitarian functions other than jewelry and dentistry. Today, of course, the yellow metal plays an important role in the electronics industry because of two important properties. First, gold does not combine easily with any other element. Second, gold is an excellent electrical conductor. Those two properties make gold the material of choice for electrical contact surfaces and for interconnections on high-density large-scale integrated circuits. The industrial and technological importance of gold is one more factor on the side of the bulls.

For the first time in many years, gold is no longer being eclipsed by the stock market. Gold prices have risen as stock prices continue to fall. Last year saw the beginning of what may well be a new bull market in gold. While September 11 may have provided a good deal of impetus, gold was showing signs of promise well in advance of the terrorist attack.

Mine production is not a significant factor as there has been minimal fluctuation in newly mined supplies for many years (see accompanying table). The same can be said of other components of the total world supply of the noble metal. For at least ten years there has been no strong supply trend, up or down.

Demand has also remained relatively steady for the last decade. However, Japanese investment in physical gold began to ramp up in 2001 and has been strong since early 2002, largely because of the weakness in the Japanese banking system.

Until the early 1990s the Japanese equities market was enjoying the strongest bull market the world had ever seen. During what the Japanese themselves now call the "bubble economy," share prices skyrocketed and the euphoria spilled over into other areas including paintings by Van Gogh and Manhattan office buildings. Owners of sizable areas of Tokyo real estate suddenly found themselves not just rich, but among the richest in the world.

But the situation reversed and as Japan entered the 1990s common stocks imploded. In comparison, recent declines in U.S. share prices are little more than a minor correction. The Japanese investor, more than ten years later seems disinclined to move vigorously back to equities.

The interest rates paid by Japanese banks have always been extremely low, but Japan still had the highest savings rate in the world. But now the bad loans that Japanese banks made during the rapid expansion have come home to roost. Should lack of confidence in an increasingly shaky banking system lead to an exodus from low-interest savings accounts, precious-metals prices could be the major beneficiary.

Using Gold Wisely

All of these arguments would support a rising gold price. However, this information is widely disseminated and the gold price has already risen sharply in response. The price of gold was $272.05 per ounce on September 6, 2001, and $280.25 per ounce on September 13, 2001. The first big advance well above $290 per ounce occurred during the first week of February 2002. The price peaked near $330 in late May, and in mid-July stood at $319. Investors who have maintained our recommended allocation of gold-related assets have benefited accordingly. The temptation to chase gold might be strong, but it should be avoided.

To repeat: We see no evidence to suggest that the market has not already discounted the factors that support a strong gold price. Markets work, and we contend that gold has done precisely what we would expect it to do in difficult times. Should more ominous news develop, we expect that gold will rise, but investing in gold beyond our recommended levels amounts to little more than a gamble that more bad news is on the horizon.

World Gold Supply and Demand
(million ounces)

	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Supply										
Mine Production	71.9	73.7	73.4	73.2	75.9	79.7	81.6	82.5	83.1	83.7
Offical Sector Sales	20.0	15.0	4.2	5.4	9.0	10.5	12.2	15.4	15.7	16.2
Procucer Hedging (net)	4.3	4.6	3.5	15.3	4.6	16.3	3.1	16.3	-0.5	-4.7
Total Supply	96.3	93.3	81.0	93.8	89.4	106.5	96.9	114.2	98.3	95.2
Demand										
Frabrication										
Jewelry	89.1	82.3	84.5	90.2	91.8	107.7	101.5	101.0	102.1	96.6
Other	14.3	15.7	14.7	16.2	15.6	17.1	18.3	19.0	18.1	15.6
Less: Old Gold Scrap	-15.7	-18.5	-19.9	-20.2	-20.6	-20.1	-35.0	-19.5	-19.5	-22.7
Net Fabrication	87.8	79.5	79.2	86.1	86.8	104.7	84.8	100.5	100.7	89.5
Implied Net Investment	8.5	13.8	1.8	7.7	2.6	1.8	12.1	13.6	-2.4	5.7
Total Demand	96.3	93.3	81.0	93.8	89.4	106.5	96.9	114.2	98.3	95.2

Source: Gold Fields Mineral Services, Ltd.

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, **Caterpillar** and **International Paper**, 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 International Paper are sufficiently large to warrant trading. In larger accounts, rebalancing positions in **Eastman Kodak** may generate additional purchases, inasmuch as the model calls for adding to positions that have lagged the entire portfolio.

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 their

As of July 15, 2002

	Rank	Yield	Price	Status	Percent of Portfolio* Value	Percent of Portfolio* No. Shares†
Eastman Kodak	1	6.11%	29.46	Holding**	23.2	27.6
Philip Morris	2	5.47%	42.40	*	-0-	-0-
JP Morgan Chase	3	4.52%	30.08	Buying	20.5	23.6
General Motors	4	4.17%	47.92	*	-0-	-0-
SBC Comm.	5	3.66%	29.51	Buying	7.3	8.7
Dupont	6	3.33%	45.19	Holding**	27.0	22.4
Caterpillar	7	3.10%	42.05	Selling	15.4	11.9
Merck & Co.	8	3.06%	45.70			
Exxon	9	2.57%	35.75			
General Elect.	10	2.55%	28.25			
Int'l Paper	11	2.51%	39.87	Selling	6.6	5.8
					100.0	100.0

Change in Portfolio Value‡

	1 mo.	1 yr.	5 yrs.	10 yrs.	15 yrs.	From 12/63	Std. Dev.
Strategy	-4.6%	-15.1%	7.3%	13.0%	14.0%	15.7%	19.0
Dow	-8.7%	-16.5%	3.3%	12.0%	11.4%	10.4	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.

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 75% of the total portfolio value). Any remaining cash will be held in a money-market fund pending subsequent purchases, which will be made whenever the client's holdings of each month's eligible stocks are below the percentages indicated by the strategy by an amount sufficient to warrant a trade.

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

THE DOW JONES INDUSTRIALS RANKED BY YIELD

	Ticker Symbol	*Market Prices 7/15/02*	*6/14/02*	*7/13/01*	*12-Month High*	*Low*	*Latest Dividend Amount*	*Record Date*	*Paid*	*Indicated Annual Dividend*	*Yield† (%)*
★ Eastman Kodak	EK	**$29.46**	29.53	45.73	47.30	24.40	0.900	6/03/02	7/16/02	1.800	6.11
Philip Morris	MO	**$42.40**	55.14	44.99	57.79	40.30 *L*	0.580	6/28/02	7/10/02	2.320	5.47
★ J. P. Morgan Chase	JPM	**$30.08**	33.00	42.55	44.25	26.70	0.340	7/05/02	7/31/02	1.360	4.52
General Motors	GM	**$47.92**	55.45	66.19	68.17	39.17	0.500	5/17/02	6/10/02	2.000	4.17
★ SBC Comm.	SBC	**$29.51**	32.23	41.95	47.50	27.85 *L*	0.270	7/10/02	8/01/02	1.080	3.66
★ DuPont	DD	**$42.05**	43.18	45.47	49.80	32.64	0.350	5/15/02	6/12/02	1.400	3.33
☆ Caterpillar	CAT	**$45.19**	48.90	52.48	59.99	40.31	0.350	7/22/02	8/20/02	1.400	3.10
Merck	MRK	**$45.70**	52.51	61.50	71.50	42.10 *L*	0.350	6/07/02	7/01/02	1.400	3.06
Exxon Mobil (s)	XOM	**$35.75**	39.15	42.99	44.58	33.87 *L*	0.230	5/13/02	6/10/02	0.920	2.57
General Electric	GE	**$28.25**	29.70	47.45	47.50	26.40 *L*	0.180	6/28/02	7/25/02	0.720	2.55
☆ International Paper	IP	**$39.87**	42.29	38.65	46.20	30.70	0.250	5/24/02	6/14/02	1.000	2.51
Honeywell Intl.	HON	**$32.25**	35.60	36.50	40.95	22.15	0.188	5/20/02	6/10/02	0.750	2.33
Hewlett-Packard	HPQ	**$15.00**	17.35	27.98	27.80	12.50	0.080	6/19/02	7/10/02	0.320	2.13
3M Company	MMM	**$118.89**	126.05	112.23	130.60	85.86	0.620	5/24/02	6/12/02	2.480	2.09
Alcoa	AA	**$29.20**	31.37	41.46	42.00	27.36	0.150	8/02/02	8/25/02	0.600	2.05
Procter & Gamble	PG	**$82.30**	91.55	68.14	94.75 *H*	67.00	0.410	7/19/02	8/15/02	1.640	1.99
Citigroup	C	**$36.94**	40.20	48.86	52.20	34.51	0.180	5/06/02	5/24/02	0.720	1.95
Boeing	BA	**$39.76**	42.53	55.07	59.80	27.60	0.170	8/16/02	9/06/02	0.680	1.71
Johnson & Johnson	JNJ	**$49.00**	56.82	53.05	65.89	45.56 *L*	0.205	9/01/02	8/20/02	0.820	1.67
United Tech.	UTX	**$62.35**	68.25	75.15	77.75	40.10	0.245	5/17/02	6/10/02	0.980	1.57
Coca-Cola	KO	**$52.00**	54.85	46.01	57.91	43.50	0.200	6/15/02	7/01/02	0.800	1.54
AT&T	T	**$10.55**	10.18	20.87	21.36	9.09 *L*	0.038	6/28/02	8/01/02	0.150	1.42
Walt Disney	DIS	**$17.98**	21.03	28.19	28.62	15.50	0.210	12/07/01	12/21/01	0.210	1.17
American Express	AXP	**$33.64**	35.96	39.36	44.91	24.20	0.080	7/05/02	8/09/02	0.320	0.95
McDonald's	MCD	**$26.55**	29.12	27.65	31.00	25.00	0.225	11/15/01	12/03/01	0.225	0.85
IBM	IBM	**$71.00**	76.17	108.53	126.39	66.10 *L*	0.150	5/10/02	6/10/02	0.600	0.85
Home Depot, Inc.	HD	**$30.00**	36.98	48.70	52.60	28.00 *L*	0.050	6/13/02	6/27/02	0.200	0.67
Wal-Mart Stores	WMT	**$53.44**	56.95	52.90	63.94	42.00	0.075	6/21/02	7/08/02	0.300	0.56
Intel Corp.	INTC	**$19.12**	21.28	30.19	36.78	16.26 *L*	0.020	5/07/02	6/01/02	0.080	0.42
Microsoft Corp.	MSFT	**$51.80**	55.25	71.39	73.00	47.50	0.000	-	-	0.000	0.00

★ BUY. ☆ HOLD. † Based on indicated dividends and market price as of 7/15/02. *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

	7/15/02	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**319.00**	322.10	266.35
Silver, London Spot Price	**5.05**	4.89	4.25
Copper, COMEX Spot Price	**0.73**	0.76	0.70
Crude Oil, W. Texas Int. Spot	**27.07**	25.94	26.59
Dow Jones Spot Index	**127.29**	125.24	104.80
Dow Jones-AIG Futures Index	**99.63**	97.84	103.64
CRB-Bridge Futures Index	**212.09**	202.61	207.31

Interest Rates (%)

U.S. Treasury bills -	91 day	**1.70**	1.70	3.57
	182 day	**1.72**	1.79	3.53
	52 week	**1.80**	2.03	3.46
U.S. Treasury bonds -	15 year	**5.37**	5.37	5.72
Corporates:				
High Quality -	10+ year	**6.52**	6.52	7.03
Medium Quality -	10+ year	**7.53**	7.33	7.67
Federal Reserve Discount Rate		**1.25**	1.25	3.25
New York Prime Rate		**4.75**	4.75	6.75
Euro Rates	3 month	**3.42**	3.47	4.46
Government bonds -	10 year	**4.87**	5.06	4.97
Swiss Rates -	3 month	**1.18**	1.25	3.23
Government bonds -	10 year	**3.08**	3.29	3.36

Exchange Rates

British Pound	**$1.572600**	1.476000	1.403900
Canadian Dollar	**$0.650300**	0.645700	0.650800
Euro	**$1.012900**	0.942300	0.854700
Japanese Yen	**$0.008645**	0.008049	0.008004
South African Rand	**$0.098900**	0.094100	0.121000
Swiss Franc	**$0.690700**	0.638400	0.564700

Securities Markets

	7/15/02	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**917.93**	1,007.27	1,215.68
Dow Jones Industrial Average	**8,639.19**	9,474.21	10,539.06
Dow Jones Transportation Average	**2,433.81**	2,673.14	2,940.35
Dow Jones Utilities Average	**241.76**	276.60	361.24
Dow Jones Bond Average	**143.65**	142.81	102.49
Nasdaq Composite	**1,382.62**	1,504.74	2,084.79
Financial Times Gold Mines Index	**1,242.75**	1,288.74	777.74
FT African Gold Mines	**2,246.69**	2,049.94	877.20
FT Australasian Gold Mines	**1,701.34**	1,868.62	908.32
FT North American Gold Mines	**953.33**	1,036.03	724.51

Coin Prices

	7/15/02	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	**$320.15**	326.95	273.75	0.36
Austrian 100-Corona (0.9803)	**$305.03**	311.43	260.83	-2.46
British Sovereign (0.2354)	**$77.05**	78.55	66.25	2.61
Canadian Maple Leaf (1.00)	**$320.40**	327.20	274.00	0.44
Mexican 50-Peso (1.2057)	**$376.50**	384.40	322.10	-2.11
Mexican Ounce (1.00)	**$312.10**	318.60	266.90	-2.16
S. African Krugerrand (1.00)	**$317.35**	323.95	271.75	-0.52
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$370.00**	370.00	342.50	19.88
Liberty (Type I-AU)	**$675.00**	675.00	675.00	118.71
Liberty (Type II-AU)	**$385.00**	385.00	425.00	24.74
Liberty (Type III-AU)	**$350.00**	350.00	307.50	13.40
U.S. Silver Coins ($1,000 face value)				
90% Silver (715 oz.)	**$4,600.00**	4,600.00	4,200.00	27.40
40% Silver (292 oz.)	**$1,550.00**	1,550.00	1,550.00	5.11
Silver Dollars	**$6,000.00**	6,000.00	6,075.00	53.58

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $319.00 per ounce and silver at $5.05 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	7/15/02	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	**$9.53**	9.51	9.42	9.68	9.41	0.4390	0.0000	4.61
★ USAA Short Term Bond	USSBX	**$9.27**	9.38	9.87	10.04	9.24	0.5705	0.0000	6.15
★ Vanguard Short-term Corporate	VFSTX	**$10.70**	10.80	10.80	11.03	10.66	0.6301	0.0000	5.89
Income Equity Funds									
★ DNP Select Income[1, 2]	DNP	**$9.35**	10.94	10.90	11.62	8.78	0.7800	0.0000	8.34
★ Vanguard REIT Index	VGSIX	**$12.33**	13.26	12.22	13.69	11.17	0.6696	0.1105	5.43
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$45.72**	49.97	61.15	61.42	43.71	0.8144	0.1472	1.78
★ Vanguard Value Index	VIVAX	**$15.60**	17.08	21.04	21.07	14.36	0.3060	0.1070	1.96
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$79.50**	88.25	83.81	99.67	66.35	0.6283	0.3430	0.79
★ Vanguard Sm. Cap Value Index	VISVX	**$9.39**	10.35	10.10	11.66	8.14	0.0650	0.3810	0.69
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$45.87**	50.92	60.71	61.59	43.88	0.4555	0.1124	0.99
★ Vanguard Growth Index	VIGRX	**$20.45**	22.60	26.99	27.19	18.97	0.2170	0.0000	1.06
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$51.84**	54.60	61.00	63.35	45.52	0.9307	0.0000	1.80
★ T Rowe Price European Stock	PRESX	**$13.55**	14.43	16.44	17.17	13.07	0.3600	0.0000	2.66
★ Vanguard European Stock Index	VEURX	**$17.68**	18.54	20.92	21.82	16.85	0.4400	0.0000	2.49

Recommended Gold-Mining Companies

	Ticker Symbol	7/15/02	Month Earlier	Year Earlier	— 52-Week — High	Low	Distributions Latest 12 Months	Frequency	Yield (%)
Anglo American PLC, ADR	AAUK	**$15.56**	17.43	14.80	19.61	9.46	0.460	Semiannual	2.96
★ Anglogold Ltd., ADR	AU	**$27.60**	29.55	18.14	34.66	15.20	0.649	Semiannual	2.35
ASA Ltd.[1]	ASA	**$34.55**	34.05	18.75	40.44	16.95	0.600	Quarterly	1.74
★ Barrick Gold Corp.†	ABX	**$17.45**	20.02	15.29	23.49	13.96	0.220	Semiannual	1.26
★ Gold Fields Ltd.	GFI	**$12.50**	12.37	4.09	17.15	3.82	0.111	Semiannual	0.89
★ Newmont Mining	NEM	**$27.75**	28.96	18.86	32.75	18.30	0.120	Quarterly	0.43
★ Placer Dome†	PDG	**$10.50**	12.59	10.20	14.74	8.75	0.100	Semiannual	0.95
★ Rio Tinto PLC‡	RTP	**$70.32**	77.44	72.70	86.00	53.70	2.350	Semiannual	3.34

★ 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.