INVESTMENT GUIDE

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Equity Performance
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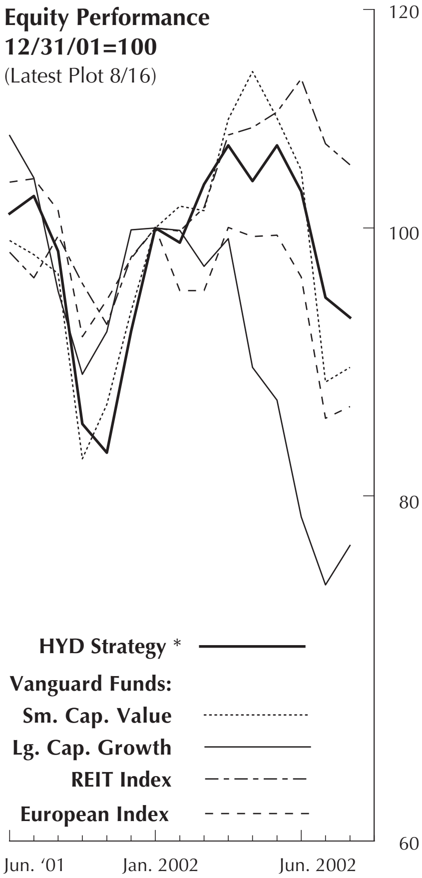

*** HYD is a hypothetical model based on back-tested results. See p. 62 for a full explanation.**

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

CEOs Might Lie—Dividends Don't

Corporate malfeasance has shattered investors' confidence in corporate America. The great bull market that began in the early 1980s exacerbated a trend whereby anticipated and announced quarterly earnings were trumpeted by Wall Street above all other considerations. With only three mild recessions, earnings grew steadily, as did stock valuations. But recent corporate revelations and the market's subsequent swoon suggest that some more tangible measure of value might be more appropriate.

Throughout the bull market and subsequent crash, we consistently emphasized that while earnings are a creature of accounting, dividends are actual distributions of cash, and dividend yield is a simple but demonstrably useful gauge of risk and expected return. We are confident that our high-yield Dow model, if applied consistently over a long time frame, will prove far more effective than relying on analysts' guesses regarding anticipated estimated and actual earnings. The model's long-term returns are summarized on page 62.

The *components* of those returns are especially interesting. Between 1964 and 1995 dividends accounted for roughly 30% of the total returns of the model. Later, during the dramatic run up of the late 1990s, dividends accounted for less than 20% of total return, as accelerated capital appreciation pushed yields below 3%. The point is that dividends can be relied upon for a considerable portion of returns as long as payouts are maintained. The charts on page 61 demonstrate that the current stocks in the model have solid records in that regard.

It remains to be seen whether investors will flock to high-yielding shares as more and more former "high flyers" admit to erroneous accounting practices. U.S. Treasury bills are yielding a mere 1.6%, and interest rates might well drop further. The average dividend yield of 4.1% on our recommended stocks may indeed attract attention in this environment. However, events can change quickly; investors' best course of action is to simply devote a reasonable allocation to our model portfolio consistent with their tolerance for risk.

INVESTMENT GUIDE—ONLINE?

We want to know if you would be interested in receiving your *Investment Guide* from a secure web site. Because such a site involves considerable expense, we ask that interested persons contact us so that we can make a reasonable estimate of possible benefit to us and to our readers. We are only contemplating a web site at this time.

A secure web site might provide the following advantages:

- Allocations for our 4-for-18 high-yield Dow model, which uses mid-month prices, could be provided more quickly.
- Past issues of the *Investment Guide* could be archived.
- You could print the *Investment Guide*, and even get a color version if you have a color printer.

E-mail us with your comments at aisinfo@americaninvestment.com or drop us a note at American Investment Services, PO Box 1000, GB, MA 01230.

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A SIMPLE SOLUTION TO STOCK MARKET WOES: KILL THE CORPORATE DIVIDEND TAX

As stock markets continue their roller-coaster ride, the search continues for ideas that can help restore investor confidence while boosting economic growth. Jeremy Siegel, author of the best-selling book Stocks for the Long Run*, and Andrew Metrick—both finance professors at Wharton (knowledge.wharton.upenn.edu)—with Paul Gompers, a finance professor at Harvard, argue that a simple solution would be to eliminate one of the most detrimental taxes in the U.S. economy—the corporate dividend tax. Siegel, Metrick and Gompers made the case for making corporate dividends tax deductible in a recent article in the* Wall Street Journal. *A slightly different version of their article appears below:*

On August 13, 2002, George W. Bush hosted the President's Economic Forum at Baylor University with the stated goal to "foster discussion of new ideas for economic growth." On top of his agenda should be the elimination of one of the most detrimental taxes in our economy – the corporate dividend tax. The sharp decline in cash dividends on common stocks over the past decade has been the major cause of the lack of earnings credibility and the woes bedeviling the stock market.

The Wall Street Journal, in its August 6 editorial, "Bring Back Dividends," correctly identified tax policy as the source of this problem and bravely called for both the deductibility of dividends at the corporate level and the abolition of dividend taxes at the personal level. But that proposal swings the pendulum too far in favor of dividends. Since interest payments to bondholders are treated as taxable income, exempting dividends from the income tax would give equity an unfair advantage. We believe that solely granting dividends deductibility from the corporate income tax, which puts debt and equity on completely equal footing, will achieve the same goals while costing the Treasury far less money.

Few recognize how pernicious the double taxation of dividends is. Since interest costs, but not dividend payments, are deductible, management is inclined to raise an excessive level of debt and to retain earnings, since paying dividends currently confers no tax benefit. These retained earnings are hopefully transformed into capital gains for both shareholders and option holders, particularly for top-level, option-laden management.

Over the past decade, the proliferation of option-based compensation schemes and an increasingly tax-sensitive shareholder base caused capital gains and not dividends to become the preferred source of shareholder return. When the earnings are of unquestionably high quality and are being invested profitably, the shift to tax-favored capital gains rewards stockholders. But the revelations at Enron, WorldCom and other firms have shown that creative legal accounting and often outright fraud has impaired our ability to use the earnings reported by management as yardsticks for judging value.

The Solution

How would the deductibility of dividends "fix" these problems? If dividends were a deductible expense, firms would be strongly motivated to pay out all their profits as dividends, since retained earnings would be subject to the corporate tax. Firms that did not pay dividends would be viewed unfavorably by investors who feared that the earnings are inflated and that the cash does not exist. The payment of cash dividends would therefore add significant credibility to management's earnings reports.

Allowing dividend deductibility would also eliminate the incentive for management to take on large amounts of debt and risk bankruptcy just to gain the deduction for interest costs. Furthermore stock options would become much less valuable under our proposal since most of the stock return would be paid in dividends and not through capital gains. This will lead management to grant shares instead of options to employees, which will lead to more accurate income statements and a better alignment of management with shareholders interests.

But the benefits do not stop here. Our proposal would also halt the increasing number of firms who seek to re-incorporate outside the US in such tax havens as Bermuda. Corporations that have proposed moving their headquarters offshore argue that they can shield foreign-earned income from an additional layer of taxation in the United States, with purported annual tax savings of tens of millions of dollars. These relocations have rightfully raised the ire of taxpayers and Congress and raise serious problems about corporate governance. But under our proposal, firms could avoid tax on such foreign-earned income just by paying out these profits as dividends and thus the incentive to relocate is sharply reduced.

Furthermore, our proposal would go a long way to reducing the risks associated with the over-allocation of company stock in employee 401 (k) portfolio portfolios, such as occurred with Enron. A major reason that management provides such lavish incentives for employees to invest in company stock is that firms receive a tax deduction for dividends paid on stock held in 401(k) plans. If all dividends were deductible, there would be much less incentive for companies to issue their own stock to employees, a practice that leads to unbalanced and risky portfolios.

Objections

We can already hear the objections of three interest groups to our proposals: young and fast-growing firms who need retained earnings to invest, investors who don't want to receive taxable dividends, and budget hawks that believe that this proposal will be too costly to the Treasury. We believe that all these objections hold little merit.

Young and fast-growing firms, such as those in the technology sector, argue that they need retained earnings to grow. But our proposal would not hamper them. Most start-up firms make little or no profits, so they would be able to keep all their cash flow without tax. Firms with profits should pay them out, but they can easily and automatically access the capital markets for more funds. We envision dividend reinvestment plans (DRIPs), where stockholders who wish to reinvest their dividends into new shares could do what many investors already do now with mutual funds (of course, such reinvested dividends would still be subject to the personal income tax). Moreover, market access through rights and secondary offerings would become a more common source of raising capital. And of course there would be still be access to all the standard bank and credit markets.

Corporate managers might argue that going to the equity markets to raise funds is both expensive and might suggest that managers believe their stock price is overvalued. While this may be true in today's environment, if our proposal were adopted, raising equity would not carry such a stigma. The tremendous increase in dividend payouts would provide investors with billions of dollars of extra dividends to reinvest, and firms with good investment prospects would find easy access to additional capital. Moreover, by continually going to the equity markets, investment decisions could be more easily scrutinized. Managers would have no choice but to release greater information about their proposed expansion strategies, giving investors the opportunity to judge for themselves the merit of those plans.

The loss of tax revenue to the Treasury should not be serious. In 2001 corporations paid taxes of $151 billion, or 7.6% of the federal budget. If the deductibility of dividends were enacted, a large part of that revenue would disappear as firms reduce their tax by paying dividends. But the Treasury would recoup some of the loss of corporate tax revenue with the increase in personal taxes on dividends. Furthermore, if this proposal is adopted, we advocate that all other corporate tax credits, which have averaged about $50 billion annually, be eliminated. There is no need to lavish tax loopholes on firms once we give corporations the option of avoiding tax by paying profits to shareholders. The elimination of these loopholes would not only simplify the corporate tax but should sharply reduce corporate influence-peddling and lessen some of the all-too-cozy ties between politicians and big business.

Certainly the higher level of dividends that would follow from our proposal means that individual investors would pay higher taxes on dividend income. But with the reduction in corporate taxes, firms' after-tax earnings will increase about 50%, so management will be able to increase their payouts sufficiently to offset the extra dividend tax. Finally, in order for our proposal not to disadvantage any current employee who holds options, we would support a one-time adjustment in option terms when the dividend policy is changed.

Changing our Byzantine tax system is never easy, but if President Bush and Congress are serious about implementing effective reforms to restore faith in our corporate system and financial markets, our simple proposal will do more than all the legislative acts, SEC jawboning, and CEO certifications rolled together. When investors say "Show me the money" management will happily do so with a smile on their faces. This is a reform that Washington must pass.

STABLE DIVIDENDS: VITAL TO THE STRATEGY

The key to the phenomenon that we are attempting to exploit with our 4-for-18 model is that the directors and managers of the companies in the DJIA, as well as most other large, publicly held U.S. corporations, follow a policy of paying regular dividends. Payouts are only increased when the insiders believe that they can be sustained for the long term, and they are only cut *in extremis*. This means that the quarterly dividend is an indicator of informed opinion on the long-term prospects of a company.

The insiders are under no obligation to declare regular dividends, and their attitude seems to be that their stockholders are mainly widows and orphans, whose major concern is a steady source of income. The dividend policies of smaller and most privately-held companies are far more contingent on short-term results — if it was a good year, then the dividend will be good, but if it was a bad year the dividend will be reduced or omitted completely. This is how corporations operated when they were invented, and it continues to be the usual practice for even very large companies in other countries.

Indeed, many students of finance believe that stable dividend policies are inefficient. They claim that stockholders would be better served if managers paid out everything over and above what could be reinvested in the firm at an expected return that is higher than what the stockholder could receive on an alternative investment. There is little evidence that this view has received much acceptance in the United States. There are two major disincentives.

The first is the double taxation of dividends, which means that investors subject to income tax have less to invest from a dividend payment than if the funds were retained in the company. Where there are large controlling stockholders, their tax situation often makes it more attractive for them to have the company buy back its stock rather than increase dividends. This alternative often is followed when large companies have excess funds on hand and management believes the market price of the company's stock is undervalued.

However, even if the double taxation of dividends were eliminated (see accompanying article), we would not necessarily expect stable dividends to be abandoned in favor of a more erratic payout policy tied to a company's fortunes. There is a second powerful disincentive to paying out cash when a company has a good year since it is in the interest of managers and directors to enlarge the assets under their control, which can have a direct effect on their salaries and fees.

During recent years there have been an exceptional number of dividend cuts among the Dow stocks. Dividends have been reduced or eliminated when extraordinary factors have rendered previous levels impossible to sustain. Such factors have included sudden adverse court judgments, as well as long-term changes in the structure of industries. Nevertheless, there is little reason to believe that the increase in the number of dividend cuts reflects a changed attitude among managers and directors, i.e., there is no evidence of a systematic trend toward setting dividends to reflect short-term or cyclical results.

Not long ago, share prices of AOL, Dell Computer, Cisco and the like were climbing skyward with no end in sight. Devotees of "momentum" investing (also known as the fine art of buying high and selling low) scoffed at high-yield Dow investing. After all, during the late 1990s the editors of the *Wall Street Journal*, had altered the 30 stocks that comprise the Dow Jones Industrial Average (DJIA) by removing higher-yielding stocks such as

Future Dogs of the Dow?

	Year Added to DJIA	*Years of Consecutive Dividend Increases*	*10-Year Dividend Growth Rate*
Hewlett Packard	1997	17	3.79
Johnson and Johnson	1997	39	13.78
Wal-Mart	1997	20	20.85
Home Depot	1999	14	30.13
Microsoft	1999	N.A.	N.A.
Intel	1999	N.A.	N.A.
SBC Communications	1999	17	3.79

Texaco, Bethlehem Steel, Woolworth, Sears and Union Carbide, Goodyear and Chevron, in favor of more growth-oriented stocks, such as Hewlett Packard, Johnson and Johnson, Wal-Mart, Home Depot, Microsoft, Intel and SBC Communications. It was claimed that in the new economy dividends were *passé*, and that the shrinking universe of high-yielding shares among the Dow 30 would undermine the efficacy of high-yield investing.

The conclusion reflected short-term thinking and very shallow analysis. The dividend records of these recent additions (see table) speak volumes about how important strong dividend records are to the editors at Dow Jones, who carefully select stocks that have good prospects for remaining strong over the very long term. Moreover, as these companies mature, and as their growth rates subside, these companies will doubtless one day become strong candidates for purchase by our HYD model. The critics seem to have forgotten that many of today's higher-yielding shares were once the "high fliers" of yesterday (e.g. DuPont, Eastman Kodak).

What about tech stalwarts Microsoft and Intel? Though Microsoft does not pay a dividend, Intel has broken the ice, by declaring a $0.02 dividend this quarter. Each firm is the dominant player in its respective industry, and we have little doubt that at some point their growth rates will subside and management will conclude that rather than reinvesting 100% of cash flow, shareholders will benefit from direct distributions of cash. It may be a very long time, if ever, before either qualifies as a "Dow Dog," but who would have thought in the spring of 2000, when the NASDAQ reached its peak, that just over two years later General Electric would rank among the 10 highest yielding stocks in the DJIA?

COMMON STOCK TRENDS

The chart below shows the S&P Index of 500 Common Stock Prices in current and constant dollars plotted on an arithmetic scale for the period since 1970. The latest plot on the curves is for May 2002, when the S&P 500 stood at 1079. It also shows two long-term linear trend lines of the constant-dollar curve: Trend 1 for the period from 1945 to the present; and Trend 2 for the period 1945-1995. (Not all the data used to compute the trends are shown in the chart.)

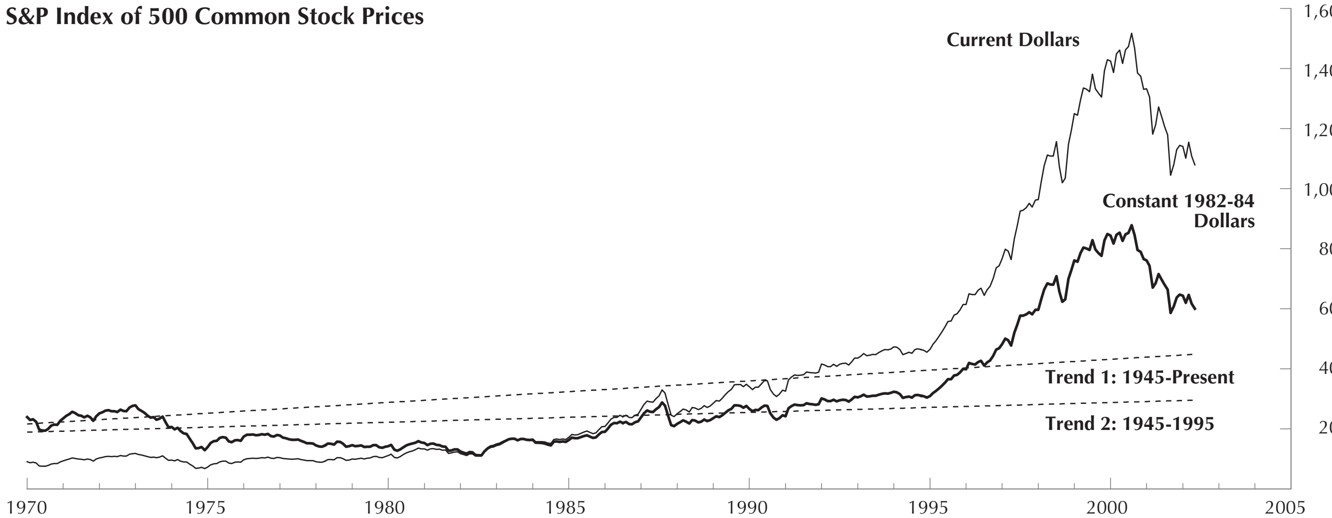
The stock price surge beginning in 1995 marked an unprecedented departure from either trend mean and , despite their recent plunge, prices have yet to return to the mean. In May 2002, the S&P 500 Index in 1982-84 dollars stood at 600.15, 34 percent above the Trend 1 value (448.29) and more than double the Trend 2 value (295.35). To return to the Trend 2 value would imply that stock prices from that point would have to halve. Even after the market's summer descent, to reach the Trend 1 line the market would still have to drop significantly from its current level. Ignoring the 1995-2000 price spike as an anomaly, stock prices would have decrease to an implied current-dollar S&P 500 Index of about 530 to reach the Trend 2 line.

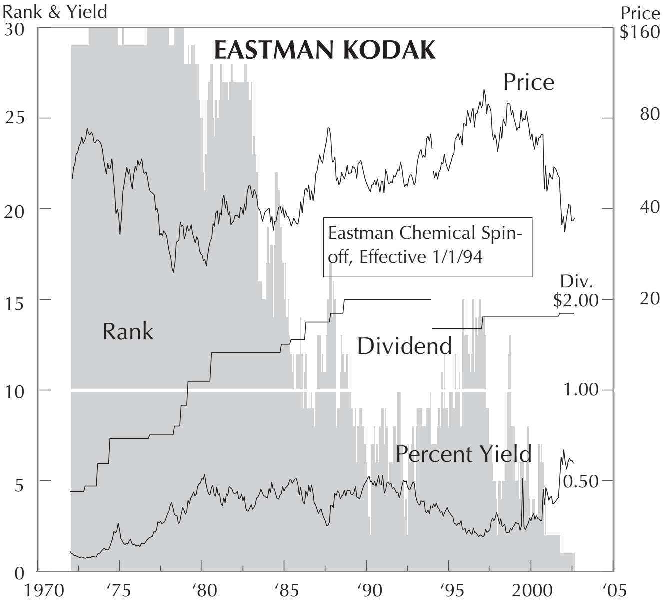
Again, these price adjustments would be required simply to "revert to the mean." In severe bear markets stock prices usually drop well below the mean.

What has happened when equities were really out of favor? In December 1974, the constant-dollar S&P 500 Index was 38 percent below its Trend 2 value, and only half of its Trend 1 value. Or consider the July 1982 market bottom: then the S&P 500 Index level was less than half the Trend 2 value and only a little more than a third that of the Trend 1 value. If the stock market repeated that performance today, the S&P 500 Index would reach an implied bottom of between 350 and 400—and the Dow Industrials finally settle around 4500.

This is not to say it will happen. But it would not be out of the range of prior experience. Despite the *possibility* of a further decline, investors have little choice but to continue to hold common stocks if they are to achieve their financial goals. There was a time, when money was sound, when investors could rely on fixed income securities (bonds) to protect the purchasing power of their investment. Those days are long gone, and common stocks are now essential as a hedge against inflating. They are residual claims against the real assets held by corporations, which appreciate in terms of currency, and inflating erodes the purchasing power of debts owed by those corporations. Stocks thus remain invaluable for most investors. Government-sponsored inflating has thus forced even the most risk-averse investors to become speculators to some extent, and ride the inevitable but unpredictable vagaries of the stock market. Our recommended allocations, which we publish quarterly for investors with different tolerances for risk, attempt to balance the need for common stocks against the reality of a highly volatile stock market.

S&P Index of 500 Common Stock Prices




Rank & Yield
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$160
EASTMAN KODAK
Price
80
40
20
Eastman Chemical Spin-off, Effective 1/1/94
Div.
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Rank
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'90
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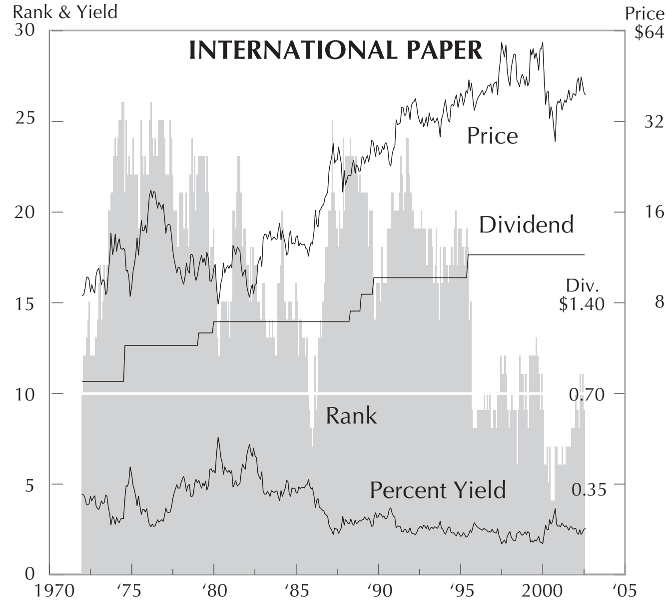
2000
'05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INTERNATIONAL PAPER
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Price
16
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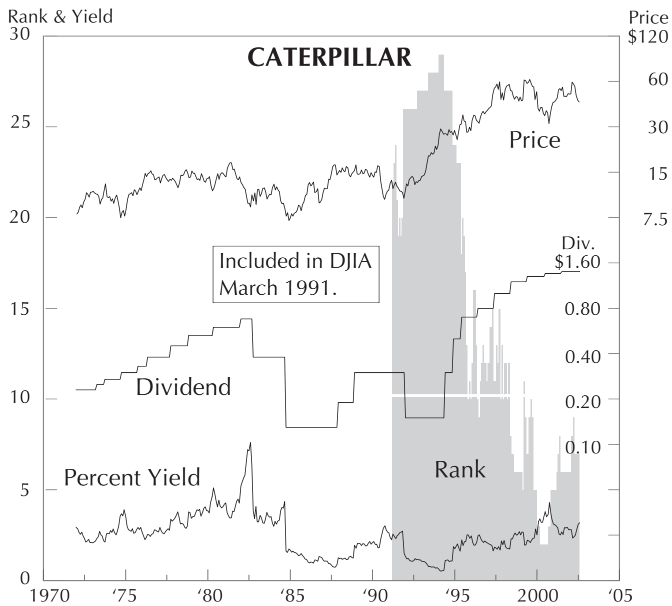
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CATERPILLAR
60
30
Price
15
7.5
Included in DJIA March 1991.
Div.
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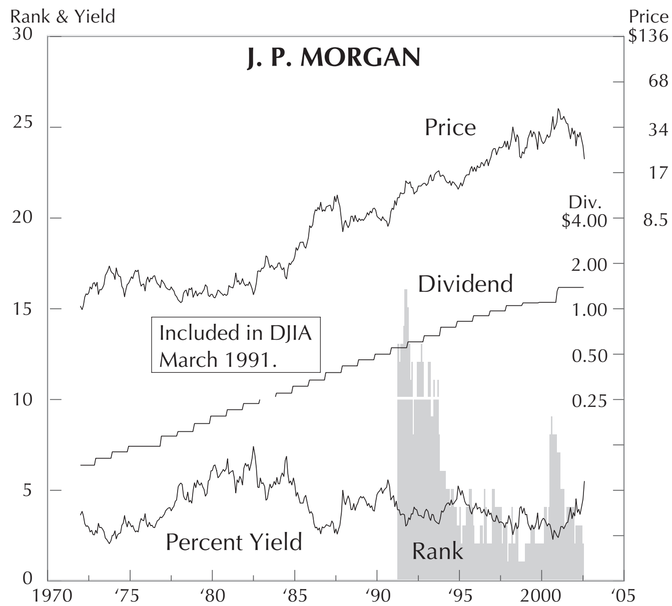
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J. P. MORGAN
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Price
34
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Div.
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8.5
2.00
Dividend
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Included in DJIA March 1991.
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Percent Yield
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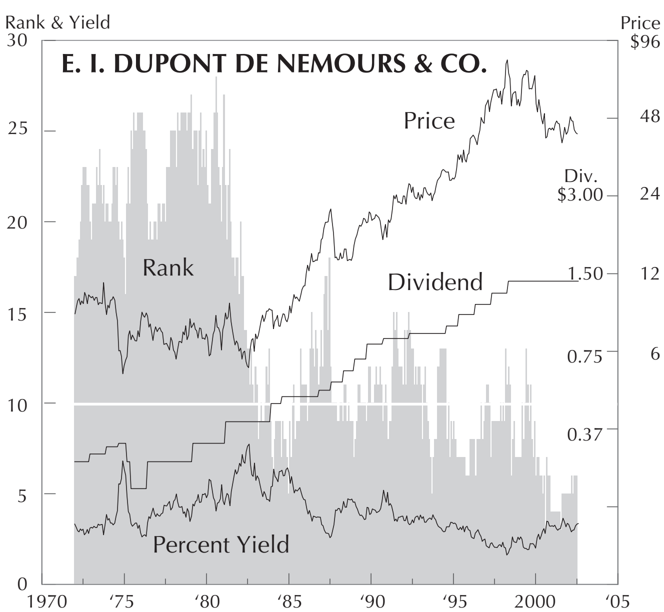
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E. I. DUPONT DE NEMOURS & CO.
Price
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24
Rank
Dividend
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0.75
6
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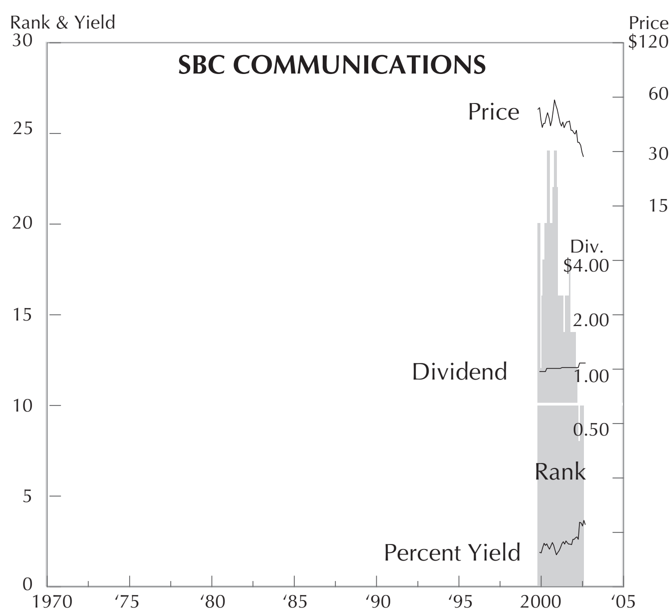
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THE HIGH-YIELD DOW INVESTMENT STRATEGY

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 December 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 an additional purchase, 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 holdings toward the percentages in the

As of August 15, 2002

					——Percent of Portfolio*——	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares°*
Eastman Kodak	1	5.95%	30.24	Holding**	25.2	27.6
JP Morgan Chase	2	5.49%	24.79	Buying	18.9	25.2
Philip Morris	3	4.56%	50.91	*		
General Motors	4	4.38%	45.71	*		
SBC Comm.	5	3.85%	28.06	Buying	8.7	10.3
Dupont	6	3.35%	41.74	Holding**	27.9	22.0
Caterpillar	7	3.17%	44.16	Selling	14.1	10.6
Merck & Co.	8	2.85%	50.58			
Int'l Paper	9	2.55%	39.24	Selling	5.2	4.3
Exxon Mobil	10	2.48%	37.14			
					100.0	100.0

Change in Portfolio Valueà

	1 mo.	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*From 12/63*	*Std. Dev.*
Strategy	-3.8%	-17.9%	6.3%	12.4%	13.7%	15.6%	19.0
Dow	2.1%	-13.3%	4.4%	12.3%	10.9%	10.5%	17.0

* The strategy excludes Philip Morris and General Motors. ** Indicated purchases approximately offset by sales of shares purchased 18 months ago. à 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.

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 80% 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 8/15/02	Market Prices 7/15/02	Market Prices 8/15/01	12-Month High	12-Month Low	Latest Dividend Amount	Latest Dividend Record Date	Latest Dividend Paid	Indicated Annual Dividend	Indicated Yield† (%)
★ Eastman Kodak	EK	**$30.24**	29.46	44.08	47.30	24.40	0.900	6/03/02	7/16/02	1.800	5.95
★ J. P. Morgan Chase	JPM	**$24.79**	30.08	42.15	42.58	18.22 *L*	0.340	7/05/02	7/31/02	1.360	5.49
Philip Morris	MO	**$50.91**	42.40	43.68	57.79	40.30	0.580	6/28/02	7/10/02	2.320	4.56
General Motors	GM	**$45.71**	47.92	61.99	68.17	39.17	0.500	8/16/02	9/10/02	2.000	4.38
★ SBC Comm.	SBC	**$28.06**	29.51	43.36	47.50	22.20 *L*	0.270	7/10/02	8/01/02	1.080	3.85
★ DuPont	DD	**$41.74**	42.05	41.51	49.80	32.64	0.350	8/15/02	9/12/02	1.400	3.35
☆ Caterpillar	CAT	**$44.16**	45.19	55.23	59.99	39.05 *L*	0.350	7/22/02	8/20/02	1.400	3.17
Merck	MRK	**$50.58**	45.70	68.90	71.50	38.50 *L*	0.360	9/06/02	10/01/02	1.440	2.85
☆ International Paper	IP	**$39.24**	39.87	40.73	46.20	30.70	0.250	8/23/02	9/16/02	1.000	2.55
Exxon Mobil	XOM	**$37.14**	35.75	41.50	44.58	29.75 *L*	0.230	8/13/02	9/10/02	0.920	2.48
Alcoa	AA	**$25.43**	29.20	36.08	40.50	22.75 *L*	0.150	8/02/02	8/25/02	0.600	2.36
Honeywell Intl.	HON	**$32.13**	32.25	37.32	40.95	22.15	0.188	8/20/02	9/10/02	0.750	2.33
General Electric	GE	**$32.29**	28.25	41.78	43.11	23.02 *L*	0.180	6/28/02	7/25/02	0.720	2.23
Hewlett-Packard	HPQ	**$15.00**	15.00	24.10	25.38	10.75 *L*	0.080	9/18/02	10/09/02	0.320	2.13
Citigroup	C	**$35.84**	36.94	48.60	52.20	24.48 *L*	0.180	8/05/02	8/23/02	0.720	2.01
3M Company	MMM	**$126.80**	118.89	109.65	130.60	85.86	0.620	8/23/02	9/12/02	2.480	1.96
Boeing	BA	**$37.49**	39.76	54.44	57.24	27.60	0.170	8/16/02	9/06/02	0.680	1.81
Procter & Gamble	PG	**$91.32**	82.30	72.18	94.75	67.00	0.410	7/19/02	8/15/02	1.640	1.80
United Tech.	UTX	**$61.75**	62.35	70.84	77.75	40.10	0.245	8/23/02	9/10/02	0.980	1.59
Coca-Cola	KO	**$51.41**	52.00	47.58	57.91	43.50	0.200	9/15/02	10/01/02	0.800	1.56
Johnson & Johnson	JNJ	**$55.97**	49.00	57.00	65.89	41.40 *L*	0.205	8/20/02	9/10/02	0.820	1.47
AT&T	T	**$10.55**	10.55	19.55	20.20	8.20 *L*	0.038	6/28/02	8/01/02	0.150	1.42
Walt Disney	DIS	**$15.15**	17.98	26.62	27.59	13.48 *L*	0.210	12/07/01	12/21/01	0.210	1.39
McDonald's	MCD	**$24.16**	26.55	28.49	31.00	21.75 *L*	0.225	11/15/01	12/03/01	0.225	0.93
American Express	AXP	**$37.45**	33.64	38.66	44.91	24.20	0.080	7/05/02	8/09/02	0.320	0.85
IBM	IBM	**$76.50**	71.00	105.01	126.39	65.70 *L*	0.150	8/09/02	9/10/02	0.600	0.78
Home Depot, Inc.	HD	**$28.93**	30.00	49.19	52.60	26.10 *L*	0.050	6/13/02	6/27/02	0.200	0.69
Wal-Mart Stores	WMT	**$54.71**	53.44	52.00	63.94	42.00	0.075	9/20/02	10/07/02	0.300	0.55
Intel Corp.	INTC	**$18.61**	19.12	29.78	36.78	15.82 *L*	0.020	8/07/02	9/01/02	0.080	0.43
Microsoft Corp.	MSFT	**$49.77**	51.80	63.20	70.62	41.41 *L*	0.000	-	-	0.000	0.00

★ BUY. ☆ HOLD. † Based on indicated dividends and market price as of 8/15/02. *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

	8/15/02	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**312.65**	319.00	275.35
Silver, London Spot Price	**4.49**	5.05	4.23
Copper, COMEX Spot Price	**0.68**	0.73	0.66
Crude Oil, W. Texas Int. Spot	**29.06**	27.07	27.56
Dow Jones Spot Index	**132.53**	127.29	106.83
Dow Jones-AIG Futures Index	**102.20**	99.63	103.78
CRB-Bridge Futures Index	**216.67**	212.09	201.62

Interest Rates (%)

U.S. Treasury bills -	91 day	**1.61**	1.70	3.42
	182 day	**1.61**	1.72	3.38
	52 week	**1.66**	1.80	3.32
U.S. Treasury bonds -	15 year	**4.86**	5.37	5.53
Corporates:				
High Quality -	10+ year	**6.35**	6.52	6.86
Medium Quality -	10+ year	**7.45**	7.53	7.46
Federal Reserve Discount Rate		**1.25**	1.25	3.25
New York Prime Rate		**4.75**	4.75	6.75
Euro Rates	3 month	**3.33**	3.42	4.43
Government bonds -	10 year	**4.38**	4.87	4.84
Swiss Rates -	3 month	**0.81**	1.18	3.19
Government bonds -	10 year	**2.80**	3.08	3.29

Exchange Rates

British Pound	**$1.534400**	1.572600	1.446700
Canadian Dollar	**$0.640800**	0.650300	0.655500
Euro	**$0.982400**	1.012900	0.915500
Japanese Yen	**$0.008516**	0.008645	0.008355
South African Rand	**$0.093700**	0.098900	0.121200
Swiss Franc	**$0.671000**	0.690700	0.602700

Securities Markets

	8/15/02	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**930.25**	917.93	1,178.02
Dow Jones Industrial Average	**8,818.14**	8,639.19	10,345.95
Dow Jones Transportation Average	**2,319.97**	2,433.81	2,833.66
Dow Jones Utilities Average	**242.50**	241.76	339.60
Dow Jones Bond Average	**143.49**	143.65	103.56
Nasdaq Composite	**1,345.01**	1,382.62	1,918.89
Financial Times Gold Mines Index	**1,114.26**	1,242.75	826.09
FT African Gold Mines	**1,784.54**	2,246.69	897.91
FT Australasian Gold Mines	**1,498.00**	1,701.34	918.60
FT North American Gold Mines	**900.50**	953.33	783.34

Coin Prices

	8/15/02	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	**$322.25**	320.15	274.35	3.07
Austrian 100-Corona (0.9803)	**$307.03**	305.03	261.43	0.17
British Sovereign (0.2354)	**$77.55**	77.05	66.35	5.37
Canadian Maple Leaf (1.00)	**$322.50**	320.40	274.60	3.15
Mexican 50-Peso (1.2057)	**$378.90**	376.50	322.80	0.51
Mexican Ounce (1.00)	**$314.10**	312.10	267.50	0.46
S. African Krugerrand (1.00)	**$319.35**	317.35	272.35	2.14
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$375.00**	370.00	327.50	23.97
Liberty (Type I-AU)	**$675.00**	675.00	675.00	123.15
Liberty (Type II-AU)	**$385.00**	385.00	425.00	27.28
Liberty (Type III-AU)	**$355.00**	350.00	302.50	17.36
U.S. Silver Coins ($1,000 face value)				
90% Silver (715 oz.)	**$4,600.00**	4,600.00	4,200.00	43.29
40% Silver (292 oz.)	**$1,575.00**	1,550.00	1,550.00	20.13
Silver Dollars	**$6,025.00**	6,000.00	6,075.00	73.46

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $312.65 per ounce and silver at $4.49 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	8/15/02	Month Earlier	Year Earlier	52-Week High	52-Week Low	Distributions Latest 12 Months Income	Distributions Latest 12 Months Capital Gains	Yield (%)
Short-Term Bond Funds									
★ Fidelity Target Time Line 2003	FTARX	**$9.52**	9.53	9.48	9.68	9.41	0.4206	0.0000	4.42
★ USAA Short Term Bond	USSBX	**$9.01**	9.27	9.94	10.04	8.95	0.5552	0.0000	6.16
★ Vanguard Short-term Corporate	VFSTX	**$10.67**	10.70	10.87	11.03	10.62	0.6213	0.0000	5.82
Income Equity Funds									
★ DNP Select Income[1, 2]	DNP	**$10.35**	9.35	10.95	11.62	7.85	0.7800	0.0000	7.54
★ Vanguard REIT Index	VGSIX	**$12.35**	12.33	12.71	13.69	11.17	0.6696	0.1105	5.42
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$45.12**	45.72	59.10	59.89	37.07	0.8144	0.1472	1.80
★ Vanguard Value Index	VIVAX	**$15.38**	15.60	20.33	20.39	13.21	0.3060	0.1070	1.99
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$75.80**	79.50	85.13	99.67	66.35	0.6283	0.3430	0.83
★ Vanguard Sm. Cap Value Index	VISVX	**$8.92**	9.39	10.28	11.66	8.14	0.0650	0.3810	0.73
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$48.18**	45.87	59.16	61.21	40.02	0.4555	0.1124	0.95
★ Vanguard Growth Index	VIGRX	**$21.36**	20.45	26.28	27.09	18.25	0.2170	0.0000	1.02
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$51.00**	51.84	62.10	62.98	44.10	0.9307	0.0000	1.82
★ T Rowe Price European Stock	PRESX	**$13.33**	13.55	17.08	17.11	12.47	0.3600	0.0000	2.70
★ Vanguard European Stock Index	VEURX	**$17.31**	17.68	21.71	21.75	15.67	0.4400	0.0000	2.54

Recommended Gold-Mining Companies

	Ticker Symbol	8/15/02	Month Earlier	Year Earlier	52-Week High	52-Week Low	Distributions Latest 12 Months	Distributions Frequency	Yield (%)
Anglo American PLC, ADR	AAUK	**$12.50**	15.56	12.92	19.61	9.46	0.460	Semiannual	3.68
★ Anglogold Ltd., ADR	AU	**$23.70**	27.60	18.00	34.66	15.20	0.649	Semiannual	2.74
ASA Ltd.[1]	ASA	**$29.08**	34.55	18.50	40.44	17.00	0.600	Quarterly	2.06
★ Barrick Gold Corp.†	ABX	**$16.00**	17.45	16.40	23.49	13.46	0.220	Semiannual	1.38
★ Gold Fields Ltd.	GFI	**$11.70**	12.50	4.41	17.15	3.82	0.111	Semiannual	0.95
★ Newmont Mining	NEM	**$27.00**	27.75	21.06	32.75	18.52	0.120	Quarterly	0.44
★ Placer Dome†	PDG	**$9.40**	10.50	11.31	14.74	7.91	0.100	Semiannual	1.06
★ Rio Tinto PLC‡	RTP	**$67.85**	70.32	68.00	86.00	53.70	2.350	Semiannual	3.46

★ 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.