

INVESTMENT GUIDE

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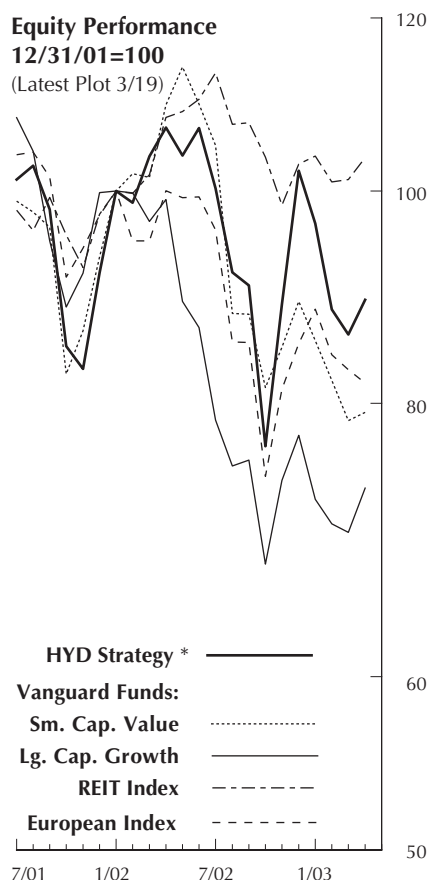
Great Barrington, Massachusetts 01230

March 31, 2003

Equity Performance

12/31/01=100

(Latest Plot 3/19)



* HYD is a hypothetical model based on back-tested results. See p. 22 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.

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What to Make of Deficits

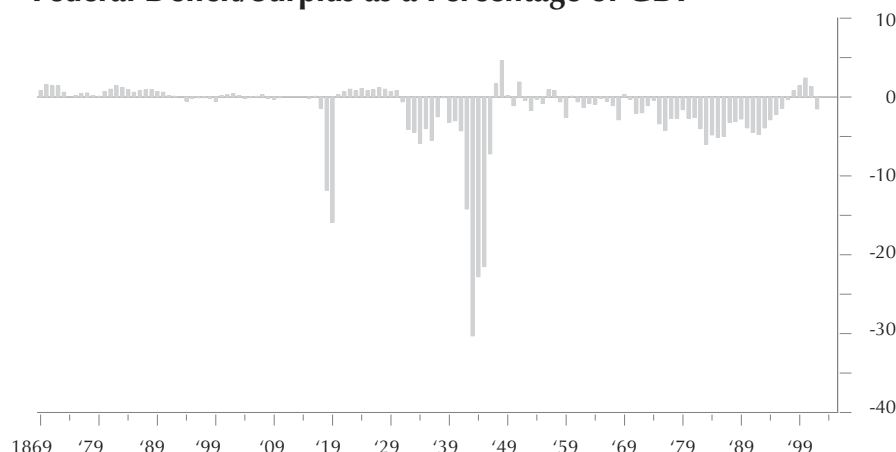
Much ado has been made of the return of the Federal deficit, mostly by those who deride tax cuts. Frequently heard is the argument that deficits represent an increase in demand for credit that in turn will increase interest rates, to the detriment of economic growth. While this argument is unsubstantiated, the outlook for long-term government spending is worrisome.

Interest rates have recently dropped to their lowest level in over 40 years, despite a return to deficit spending. There is scant empirical evidence that deficits and interest rates are correlated. In our view, interest rates are driven by the inflationary expectations of investors. Moreover, the Federal deficit by historical standards is modest in proportion to economic activity as measured by Gross Domestic Product (GDP). Currently the spread between conventional and inflation-protected Treasury securities suggests that the market is relatively unconcerned about future price inflation (see January 2003 *INVESTMENT GUIDE*).

However, should deficits outpace economic growth for a sustained period, the outlook would indeed be bleak. If history is any guide, the government would at some point revert to the printing press to finance its debt, and inflationary expectations would again be revived. But deficits aside, the level of *spending* is arguably a more important consideration; government spending hampers growth by diverting resources that would otherwise be employed more effectively in the private sector.

The Federal surplus/deficit is notoriously unpredictable. However, Congress's appetite for domestic spending is undiminished, and the war in Iraq is projected to cost roughly \$90 billion. We favor a reduction in taxes on income and capital that would serve to boost economic growth and tax revenues, but we won't hold our breath. Investors' best course of action is to hold inflation-resistant assets, including gold and common stocks, and to keep their fixed-income investments short-term.

Federal Deficit/Surplus as a Percentage of GDP



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THE TIME TESTED DOW

Amidst an explosion in the number of market indexes and index strategies in the information age, the venerable Dow Jones Industrial Average (DJIA or “the Dow”) has withstood the test of time for over a century. It remains a reliable universe from which to select the components of our high-yield stock selection strategy.

To form the DJIA, the editors of the *Wall Street Journal* select thirty of the country’s blue chip stocks. These firms represent a broad range of industries, major employers, and leaders in their fields. Every so often, Dow Jones alters the composition of the index as a result of mergers, for example, or to better reflect developments in the economy. Sugar may have been a major industry a century ago, hence the Dow then included the American Sugar Company, but today it no longer carries great importance. With the goal of keeping the DJIA current, Dow Jones made its most recent change in 1999 when Home Depot, Intel, Microsoft and SBC were added while Chevron, Goodyear, Sears and Union Carbide were deleted. Overall, the turnover of names has remained low, as might be expected from such a group of leaders.

The DJIA is an index weighted by

price, not by market value. Prices per share of all member stocks are simply added together and then divided by a divisor, currently 0.14279922. Absolute changes in price matter. A one-point move by General Electric has the same effect on the index as a one-point move by Wal-Mart. Such simplicity has made the DJIA straightforward to calculate, reflecting the Dow’s historical origins in an age before computers. As a result of its price-weighted calculation, the same *percentage* change in a high-priced stock has a greater effect upon the index than an equal percentage change in a low-priced stock, since the *absolute* price change in the high-priced stock would be greater in this situation. Put another way, currently high priced stocks like 3M, Procter & Gamble and IBM are those that exert a greater influence over the DJIA than lower priced stocks.

Evolution of the Dow

Previous to the emergence of the DJIA as the leading index, railroad stocks were the most popular stock market measure. In fact, the Dow as originally constructed in 1884 was composed of eleven stocks, nearly all of them railroads. This basket of railroad stocks served as a primitive

indication of economic activity.

At the time, most so-called industrial stocks were considered speculative. Through the 19th Century and even into the early 20th, it was thought that investors should only buy stocks for their dividend payments. Railroads fit well into this theory. The monopoly power of railroads ensured a steady stream of earnings that could be paid to shareholders.

By 1896 Dow Jones separated out the twenty railroad stocks, which eventually became the Dow Jones Transports in 1970, and reformed the DJIA with only industrial stocks.

A century ago if a stock did not pay a dividend it was thought suitable only for speculators, or perhaps worth little more than the paper it was printed on. Then the roaring bull market of the 1920s came along and emerging growth companies were all the rage. A shift in thinking occurred, and the insistence on dividends was dismissed as stuffy “Old Economy” thinking. Ideas came and went, and came back again and again over the course of the ups and downs characterizing stock-market cycles.

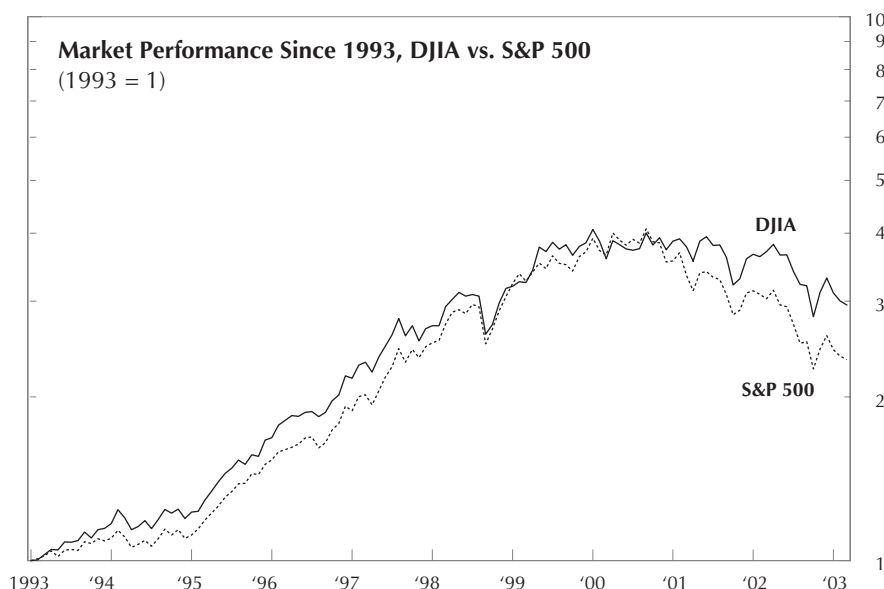
By the 1940s, the market was settling down from its gyrations of the previous decade. By then, the Dow Jones Utility index was almost as widely recognized as the DJIA. After the dark years of the Great Depression, investors wanted a reliable gauge. Many looked to an even more sedate group of stocks, the electric utilities. This group was essentially the stocks in the Dow Jones Utility index minus AT&T, the largest non-electric utility at the time. Interestingly, the Dow Jones Utility index had gotten its start during the market’s peak year of 1929, remarkable timing for what was long a conservative benchmark index. It took the bull market run of the 1980s to erode the popularity of the Dow Jones Utility Average, which has since been dropped from the ranks of the most talked about indices.

Other Indexes

The history of benchmarks reveals what has been in fashion and what has gone out of fashion in the markets. No longer do we look toward railroad stocks or utilities as among our best market measures. But investors are still attracted to those indices they feel measure the pulse of the market, and the popularity of a particular index will wax and wane along

Leading Stock Indices

Index Name	Methodology	Explanation
Dow Jones Industrial Average	Price-weighted	Dow Jones selects thirty blue-chip leaders across a range of American industries. Prices per share of all member stocks are added together and then divided by a divisor, currently 0.14279922. Absolute changes in price matter. The same percentage change in a high priced stock has a greater effect upon the index than an equal percentage change in a lower priced stock.
S&P 500	Market-weighted	Member stocks are weighted according to their market values (share price multiplied by total common shares outstanding); so that the most highly valued companies among the 500 have more influence. Represents 80% of U.S. stock market value. Financial, technology and healthcare sectors currently a majority of the index.
Nasdaq Composite	Market-weighted	Member stocks with larger market values have greater impact, notably Microsoft, Intel, Cisco, Amgen and Qualcomm. A proxy for the volatile technology sector. Includes all listings on the Nasdaq market, approximately 3,600 stocks.
Value Line	Equal-weighted	All stocks, large and small, are given equal weightings based upon their percentage price changes. With equal-weighting across its nearly 1,700 members, tracks the performance of the average median stock, including small stocks.



with investor enthusiasm for its representative stocks.

In 1957, the S&P 416 (which was devised in 1941) became the S&P 500. The index included 40 financial, 40 utility and 20 transportation stocks, but its set of industrial names, then known as the S&P 400, became a proxy for the breadth and dominance of American industrial might.

The renewed popularity of stock market investing in the 1960s was indicated by the formation in 1961 of the Value Line Index, a benchmark that owes its prominence partly to its use among investment clubs. Its list of approximately 1,700 companies is broad enough for investment clubs to have a wide range of targets, as they go about making their stock picks. The index, which weights all of its members equally, reflects the performance of the average median stock. The benchmark is also attractive to investors since its equal-weighting does not allow dominant names with above-average performance to distort the index.

By the 1960s, emerging growth companies were again in fashion. The Nasdaq stock market was born and the Nasdaq Composite was created in 1971 to benchmark what were then the emerging growth companies of that era, many of which did not survive long. The Nasdaq Composite is a market-weighted index of all listings on the Nasdaq stock market, which totals approximately 3,600 names.

In the 1980s, the S&P 500 competed with the DJIA for the title of leading benchmark in part due to the S&P's breadth (currently 80% of U.S. stock market value) and its inclusion of relatively less mature, faster growing stocks. Despite

the S&P's price appreciation—the primary factor in the ascending popularity of any index—it has been unable to eclipse the DJIA among investors at large. Some of its more prominent members (Enron, Tyco and WorldCom) committed the worst of the recent corporate frauds, sending the S&P 500 and its popularity plummeting relative to the Dow.

The S&P 500 is composed of 500 of the largest U.S. stocks, weighted by *market capitalization* (price multiplied by shares outstanding). As a member's market value rises, it becomes a larger component of the index. An investor seeking to replicate the performance of the index, perhaps through an S&P 500 mutual fund, would be placing an implicit bet on those firms that are most heavily weighted in the index. When the market peaked in 2000, many new indexing enthusiasts discovered, to their chagrin, that the index had become dominated by technology stocks. With the fall of these names, the S&P has become relatively more evenly distributed across industry sectors and reflective of the overall economy. Nevertheless, three sectors (financials, technology, and healthcare) still have a disproportionate weighting in the index.

In our view large-cap value and large-cap growth stocks are distinct asset classes, therefore we recommend that investors use the S&P 500, but only after parsing it into growth and value (based on price/earnings ratios), by using the investment vehicles recommended on page 24. Investors with larger accounts should use our high-yield Dow approach, while investors with smaller portfolios should use one of these alter-

native investment vehicles.

Recent Trends

The DJIA has drawn criticism for its claim to be an accurate bellwether of market performance. The heavier influence of high-priced stocks, it is claimed, distorts the actual performance of the overall market. But over time DJIA has proven its value as an economic indicator. As the chart clearly demonstrates, the Dow and the S&P 500 have painted a remarkably similar portrait of market performance, despite their markedly different construction.

In 1999-2000 the Nasdaq Composite index soared past the S&P 500 in popularity as a result of its even greater concentration in the technology sector. In 1999, amidst speculative fury, the volume of shares traded on the Nasdaq surpassed volume of S&P shares traded. "Must own" stocks, Microsoft, Intel, Cisco, Amgen, and Qualcomm, dominated headlines. For those who really wanted to make the big money and to speculate in technology stocks, the Nasdaq was thought the place to be.

After peaking at nearly 5,000 in March 2000, the Nasdaq now stands at roughly 1,400. It remains a widely followed index, but will not replace the DJIA any time soon as a gauge of market performance. The Nasdaq has pulled its slogan, "The Stock Market for the Next 100 Years," now that these words sound like a bad joke. Financial reports often report the DJIA, but omit the Nasdaq, mirroring investors' diminished enthusiasm for tech stocks. Nasdaq stocks remain highly volatile, however, so the Nasdaq is arguably a better indicator of speculative sentiment than the more broadly-based Dow and S&P 500.

The High-Yield Dow Strategy

Our stock selection strategy is limited to the thirty stocks that comprise the DJIA. Though this appears miniscule compared to the several thousand stocks that trade on U.S. exchanges, this limited universe is more than adequate. The Dow is carefully constructed to include all pertinent sectors of industry. Since 1963, our high-yield model would have invested in virtually every one of these various sectors as they or their representative firms fell from favor, and more often than not it would have sold them upon recovery. In addition the Dow represents a huge portion of the U.S. economy. The combined market capitalization of the thirty Dow components is roughly \$2.6 trillion, or

	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	0	N.A.*
SBC Communications	1999	17	3.79

*Dividends initiated 1999 (Intel) and 2003 (Microsoft).

26% of the \$10.1 trillion market capitalization of all domestic corporations.

The HYD approach has also been criticized on the grounds that, as technology and services have come to dominate economic activity, the Dow components must also change if it is to remain a relevant index. The resulting shrinkage of high-yielding shares among the Dow thirty, it was said, would undermine the effectiveness of high-yield investing. This argument

was most prominent in the late 1990s, when growth stocks were skyrocketing, and dividends were considered by many to be anachronistic.

But the editors of the *Wall Street Journal* select the Dow components cautiously. Component stocks must be established U.S. companies that are leaders in their industries, but there are no other predetermined criteria. The editors therefore have the flexibility to select firms that they

believe will remain leaders in their respective industries, and they have every incentive to do so lest the index become meaningless.

We suspect that a firm's dividend record is carefully scrutinized by the DJIA selection committee. The last seven names added to the index are presented in the table. These largely growth-oriented stocks replaced several in slower-growing industries, but the new names clearly have solid dividend records. We are confident that over time, as these firms mature and as their growth rates subside, these companies will doubtless one day become candidates for purchase in our HYD model. Most recently even Microsoft's management saw the wisdom of declaring a dividend of \$0.08 per share; all thirty stocks in the Dow now pay a regular dividend.

RANDOM WALK TO RETIREMENT?

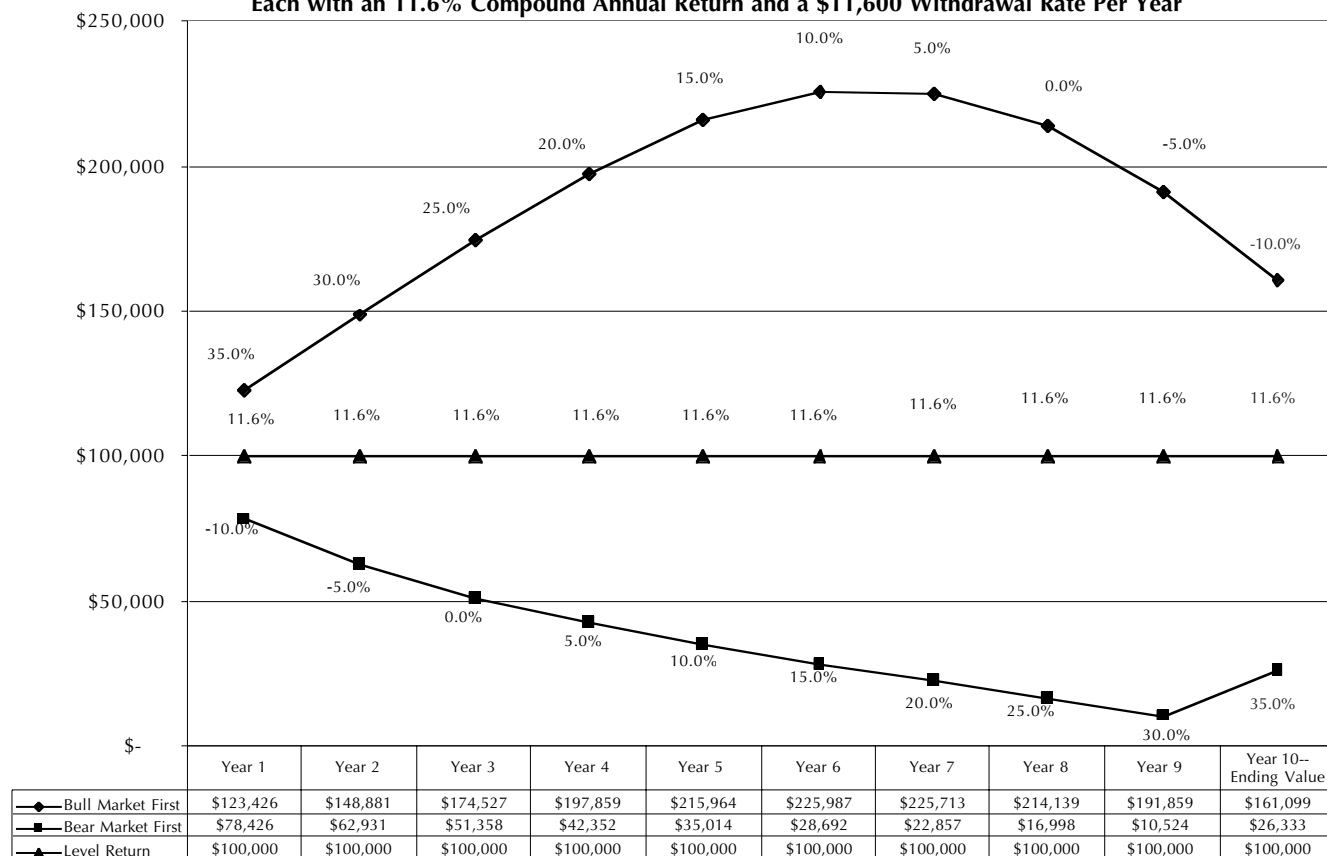
The bear market has laid waste to many retirement plans that were developed by investors, perhaps while looking through rose colored glasses, during more heady days for common stock returns. But even if long-term results were known with

relative certainty, chance will determine the timing of market returns from year to year, which can devastate the portfolios of retirees who rely on their savings to meet ongoing living expenses. Monte Carlo Simulation (MCS), a mathematical

technique utilized by Manhattan Project engineers in developing the atomic bomb, is gaining currency with financial planners and investors as a means of quantifying that risk.

Retirement planning has traditionally

**Growth of \$100,000 over 10 years under Three Performance Scenarios
Each with an 11.6% Compound Annual Return and a \$11,600 Withdrawal Rate Per Year**



been based on deterministic models. A forecast of expected return on investment is made given a fixed amount of principal, a consumption rate, and an inflation rate. Is it practical to make a plan based on the current or average historical rate of return? An average can be very misleading, particularly over long periods with dramatic extremes in the underlying data. This is a method of planning that has met with universal criticism when utilized by policy makers in determining Federal budget projections. It helped usher in the collapse of the Soviet Union. It is a potentially disastrous method of planning for your retirement.

Will You Outlive Your Income?

It is a well worn axiom that stock-market investing entails risk. But it is remarkable how other uncertainties are overlooked when we plan for retirement or other long-term financial goals. What will the rate of inflation be during retirement? When will you die? Will catastrophic events or unforeseen illness lead you to alter your consumption or earning pattern dramatically? While no one can answer these questions, wunderkind investment advisors produce financial plans with a high degree of confidence.

MCS utilizes probabilistic forecasting or "stochastic" processes to determine the likelihood that a desired outcome will be achieved. Like a deterministic model, a probabilistic model requires that we rely on history as our guide and that we make certain assumptions about the future. However, by considering a large number of possible outcomes, the probabilistic model more accurately reflects that random behavior of securities and other factors affecting your retirement plan.

Market Scenario	Initial Investment	Annual Withdrawal	Total Annual ROR	Ending Value
Bull Market First	\$100,000	\$11,600	11.6%	\$161,099
Bear Market First	\$100,000	\$11,600	11.6%	\$26,333
Level Annual Return	\$100,000	\$11,600	11.6%	\$100,000

An especially important consideration is the *timing* of stock market returns. For example, you could construct a well-allocated portfolio based on hypothetical historical returns. However, it would be misleading to simply plug in that annualized rate of return in planning for retirement. Even if you somehow knew *with certainty* that you would earn that historical annual rate *on average*, you could wind up in the poor house if years with very large stock market losses come early, even if these are followed by years with extraordinarily high returns.

The chart and table above illustrates the dramatic affect that a poor market performance in the initial stage of investment can have on subsequent years. The hypothetical portfolios each have a 10-year compound return of 11.6% and each assumes an annual withdrawal rate of \$11,600. The returns for the bull and bear markets are identical; however they occur in the opposite chronological order. *The implications are clear; merely reversing the order in which yearly returns are earned results in a \$134,766 difference in the ending value of these hypothetical portfolios.*

Instead of using a single value for each variable in a model, MCS uses many values. A Monte Carlo "engine" runs the model over and over again, each time using a different value for each of the variables in the model. Each run is called a "trial." The outcomes are tabulated, and after a large number of trials, the forecast is shown not as a single value, but as a

range of values. In other words, the uncertainty is explicit. A computer can generate thousands of scenarios for each year's investment returns and inflation rates using historical data to estimate the chances that an investor's assets will provide required income or be exhausted in retirement. It gives us the probability that, if everything in our well-intentioned financial plan goes wrong (i.e., many consecutive down years at the outset), and allows us to plan and adjust for such scenarios. Many financial planners promote the notion that stocks are not risky investments for an individual with a long time horizon. This proposition is false and the Monte Carlo simulation demonstrates this dimension of risk that is often overlooked.

Conclusion

Critics of Monte Carlo simulation hold that its wide range of probabilities encourage otherwise conservative investors to take unnecessary risks in order to maximize the odds of meeting their goals. We disagree. If used and interpreted properly, MCS can help to quantify risk for a variety of portfolios (e.g., moderate, conservative, aggressive). Investors can gain a greater appreciation for the many dimensions of risk and gain confidence in the soundness of a financial plan that has been stress tested against many possible scenarios.

To learn more about Monte Carlo simulation visit the following websites:

Financialengines.com

Montecarlosimulation.org

BARRICK GOLD

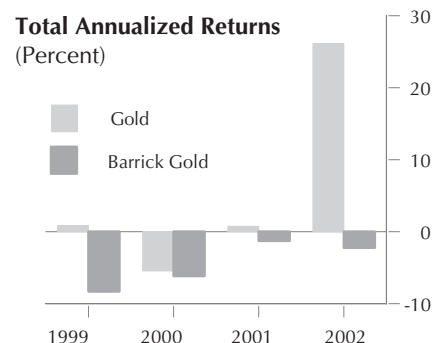
We continue to recommend Barrick Gold as a component of a well constructed portfolio. The accompanying chart demonstrates that the shares have not kept pace with the gold price; nevertheless the firm remains a valuable component of a core group of quality mining companies that will provide the unique portfolio insurance that only gold can deliver.

The company has struggled to convey what management considers the unique strength of its forward sales program. By selling gold forward, mining companies gain certainty regarding the price at which their gold will be sold; this provides downside protection during a period of

declining gold prices, but limits participation in gold rallies. Barrick, however, carries one of the industries strongest credit ratings, which has allowed it to structure its hedging program so that it can, in effect, sell gold at the higher of the current (spot) and hedge prices.

In February the firm appointed new Chief Executive Officer, Gregory C. Wilkins, and reemphasized that year to date the firm has sold all of its gold production at the spot price. The firm is the world's second largest gold mining firm. It produced 5.7 million ounces in 2002 at an average cash cost of only \$177 per ounce. It has reserves of 86.9 million

ounces. The new CEO has a wealth of experience in the industry, and served previously as Barrick's Chief Financial Officer until 1993.



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 of the four highest-yielding Dow issues that are neither General Motors nor Altria Group. 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 Altria Group 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, Altria Group has never ranked lower than fourth on the list, whatever its ups and downs, and, given the circumstances, using Altria Group 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. Of the four

stocks eligible for purchase this month, only **SBC Communications** and **AT&T** were not eligible for purchase 18 months earlier (in September 2001), and two issues that were eligible for purchase then, **Caterpillar** and **Dupont** are not eligible this month. Investors following the model should find that the indicated purchases of SBC and AT&T, and sales of Caterpillar and Dupont are sufficiently large to warrant trading. In larger accounts, rebalancing may warrant additional purchases of **JP Morgan Chase** and **Eastman Kodak** as the model calls for adding to positions that have lagged the entire portfolio. Investors with sizable holdings 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 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

As of March 14, 2003

	Rank	Yield	Price	Status	Percent of Portfolio*	
					Value	No. Shares†
Altria Group	1	7.33%	34.93	*		
JP Morgan Chase	2	6.40%	21.26	Holding**	22.38	28.2
Eastman Kodak	3	6.27%	28.72	Holding**	27.08	25.3
General Motors	4	6.25%	32.00	*		
SBC Comm.	5	5.18%	20.85	Buying	16.18	20.8
AT&T	6	4.64%	16.18	Buying	2.92	4.8
DuPont	7	3.70%	37.82	Selling	21.91	15.5
Honeywell Int'l	8	3.34%	22.47			
Alcoa	9	3.01%	19.94			
Caterpillar	10	2.98%	47.02	Selling	<u>9.51</u>	<u>5.4</u>
					100.0	100.0

Change in Portfolio Value‡

	1 mo.	1 yr.	5 yrs.	10 yrs.	15 yrs.	From 12/63	Std. Dev.
Strategy	-2.89%	-24.5%	0.48%	10.9%	14.2%	15.1%	19.3
Dow	-0.31%	-24.9%	-0.26%	10.5%	11.9%	10.0%	17.0

* The strategy excludes Altria Group and General Motors. ** Currently indicated purchases approximately equal to indicated purchases 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.

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, AT&T, Eastman Kodak, and J.P. Morgan Chase—account for roughly two-thirds 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			12-Month		Latest Dividend			Indicated	
		3/14/03	2/14/03	3/15/02	High	Low	Amount	Record Date	Paid	Annual Dividend	Yield†
Altria Group	MO	\$34.93	38.14	52.29	57.79	34.87 L	0.640	3/14/03	4/09/03	2.560	7.33
★ J. P. Morgan Chase	JPM	\$21.26	21.85	36.01	38.75	15.26	0.340	4/04/03	4/30/03	1.360	6.40
★ Eastman Kodak	EK	\$28.72	30.60	32.00	41.08	25.59	0.900	11/01/02	12/13/02	1.800	6.27
General Motors	GM	\$32.00	33.10	60.75	68.17	29.75 L	0.500	2/14/03	3/10/03	2.000	6.25
★ SBC Comm.	SBC	\$20.85	23.35	39.00	39.40	18.85 L	0.270	1/10/03	2/03/03	1.080	5.18
★ AT&T (r)	T	\$16.18	17.87	15.81	32.91 H	15.75	0.188	12/31/02	2/03/03	0.750	4.64
☆ DuPont	DD	\$37.82	37.09	48.47	49.80	34.71 L	0.350	2/15/03	3/14/03	1.400	3.70
Honeywell Intl.	HON	\$22.47	23.20	40.00	40.95	18.77	0.188	2/20/03	3/10/03	0.750	3.34
Alcoa	AA	\$19.94	20.05	39.03	39.50	17.62	0.150	2/07/03	2/25/03	0.600	3.01
☆ Caterpillar	CAT	\$47.02	43.25	59.79	59.94	33.75	0.350	1/21/03	2/20/03	1.400	2.98
General Electric	GE	\$25.65	22.48	40.19	40.55	21.30	0.190	2/28/03	4/25/03	0.760	2.96
Merck	MRK	\$50.80	53.91	59.75	60.48	38.50	0.360	3/07/03	4/01/03	1.440	2.83
International Paper	IP	\$35.64	35.52	44.61	45.20	31.35	0.250	2/21/03	3/14/03	1.000	2.81
Exxon Mobil	XOM	\$34.39	33.44	43.61	44.58	29.75	0.230	2/10/03	3/10/03	0.920	2.68
Boeing	BA	\$25.55	30.15	47.98	50.05	24.73 L	0.170	2/07/03	3/07/03	0.680	2.66
Citigroup	C	\$33.75	32.54	49.69	50.49	24.42	0.200	2/03/03	2/28/03	0.800	2.37
Coca-Cola	KO	\$39.90	40.80	48.64	57.91	37.01 L	0.220	3/15/03	4/01/03	0.880	2.21
3M Company	MMM	\$125.55	125.09	121.40	131.55	108.20	0.660	2/21/03	3/12/03	2.640	2.10
Hewlett-Packard	HPQ	\$15.66	17.79	19.05	21.20	10.75	0.080	3/19/03	4/09/03	0.320	2.04
Procter & Gamble	PG	\$83.40	83.70	87.07	94.75	74.08	0.410	1/24/03	2/14/03	1.640	1.97
McDonald's	MCD	\$13.54	13.62	28.72	30.72	12.12 L	0.235	11/15/02	12/02/02	0.235	1.74
United Tech.	UTX	\$58.87	61.95	74.35	75.60	48.83	0.245	2/14/03	3/10/03	0.980	1.66
Johnson & Johnson	JNJ	\$55.19	51.75	64.60	65.89	41.40	0.205	2/18/03	3/11/03	0.820	1.49
Walt Disney	DIS	\$16.42	16.73	24.32	25.17	13.48	0.210	12/13/02	1/09/03	0.210	1.28
Home Depot, Inc.	HD	\$22.99	21.35	48.92	50.46	20.10	0.060	3/13/03	3/27/03	0.240	1.04
American Express	AXP	\$33.48	33.15	42.15	44.91	26.55	0.080	1/03/03	2/10/03	0.320	0.96
IBM	IBM	\$79.00	77.45	106.79	108.64	54.01	0.150	2/10/03	3/10/03	0.600	0.76
Wal-Mart Stores	WMT	\$49.36	49.15	63.75	63.94	43.72	0.090	3/21/03	4/07/03	0.360	0.73
Intel Corp.	INTC	\$17.17	16.15	31.74	32.25	12.95	0.020	2/07/03	3/01/03	0.080	0.47
Microsoft Corp. (s)	MSFT	\$24.86	24.07	31.14	31.50	20.71	0.080	2/21/03	3/07/03	0.080	0.32

★ BUY. ☆ HOLD. † Based on indicated dividends and market price as of 3/14/03 H New 52-week high. L New 52-week low. (s) All data adjusted for splits. (r) All data adjusted for reverse splits.

Note: The issues indicated for purchase (★) are the 4 highest yielding issues (other than Altria Group and General Motors) qualifying for purchase in the top 4-for-18 months model portfolio. The issues indicated for retention (☆) have similarly qualified for purchase during one or more of the preceding 17 months, but do not qualify for purchase this month.

RECENT MARKET STATISTICS

Precious Metals & Commodity Prices

	3/14/03	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	335.20	354.25	290.30
Silver, London Spot Price	4.54	4.53	4.49
Copper, COMEX Spot Price	0.75	0.76	0.75
Crude Oil, W. Texas Int. Spot	35.38	36.80	24.51
Dow Jones Spot Index	152.52	155.27	107.53
Dow Jones-AIG Futures Index	117.92	120.57	97.95
CRB-Bridge Futures Index	240.00	247.62	203.49

Interest Rates (%)

U.S. Treasury bills -	91 day	1.12	1.17	1.84
	182 day	1.12	1.17	2.07
	52 week	1.17	1.18	2.58
U.S. Treasury bonds -	15 year	4.38	4.56	5.91
Corporates:				
High Quality -	10+ year	5.61	5.70	7.01
Medium Quality -	10+ year	6.37	6.65	7.77
Federal Reserve Discount Rate		2.25	2.25	1.25
New York Prime Rate		4.25	4.25	4.75
Euro Rates	3 month	2.54	2.80	3.37
Government bonds -	10 year	3.80	3.97	5.09
Swiss Rates -	3 month	0.32	0.60	1.77
Government bonds -	10 year	2.07	2.27	3.58

Exchange Rates

British Pound	\$1.582000	1.592900	1.423100
Canadian Dollar	\$0.679800	0.656400	0.630700
Euro	\$1.079200	1.071200	0.878600
Japanese Yen	\$0.008493	0.008415	0.007619
South African Rand	\$0.122900	0.119200	0.083400
Swiss Franc	\$0.736300	0.727800	0.600400

Securities Markets

	3/14/03	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	833.27	834.89	1,166.14
Dow Jones Industrial Average	7,859.71	7,908.80	10,607.23
Dow Jones Transportation Average	2,027.09	2,102.60	2,951.55
Dow Jones Utilities Average	199.15	196.17	295.93
Dow Jones Bond Average	163.52	160.67	102.02
Nasdaq Composite	1,340.33	1,310.17	1,868.30
Financial Times Gold Mines Index	1,072.96	1,201.83	995.47
FT African Gold Mines	1,860.39	2,166.37	1,370.01
FT Australasian Gold Mines	1,584.28	1,639.53	1,357.56
FT North American Gold Mines	835.78	925.44	847.49

Coin Prices

	3/14/03	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	\$363.55	372.75	298.75	8.46
Austrian 100-Corona (0.9803)	\$346.33	355.03	284.73	5.40
British Sovereign (0.2354)	\$87.15	89.25	72.05	10.45
Canadian Maple Leaf (1.00)	\$363.80	373.00	299.00	8.53
Mexican 50-Peso (1.2057)	\$427.30	438.10	351.40	5.73
Mexican Ounce (1.00)	\$354.30	363.20	291.30	5.70
S. African Krugerrand (1.00)	\$359.95	368.95	296.35	7.38
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	\$455.00	475.00	340.00	40.30
Liberty (Type I-AU)	\$675.00	675.00	675.00	108.14
Liberty (Type II-AU)	\$440.00	440.00	385.00	35.67
Liberty (Type III-AU)	\$420.00	422.50	321.00	29.51
U.S. Silver Coins (\$1,000 face value)				
90% Silver (715 oz.)	\$4,550.00	4,550.00	4,650.00	40.17
40% Silver (292 oz.)	\$1,587.50	1,587.50	1,525.00	19.75
Silver Dollars	\$6,112.50	6,112.50	6,000.00	74.04

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$335.20 per ounce and silver at \$4.54 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	3/14/03	Month Earlier	Year Earlier	— 52-Week — High Low	Distributions Latest 12 Months Income Capital Gains	Yield (%)
Short-Term Bond Funds							
★ iShares Lehman 1-3 Yr Treasury	SHY	\$82.32	82.29	NA	82.63 81.00	0.8740	1.81
Fidelity Target Time Line 2003	FTARX	\$9.55	9.55	9.43	9.56 9.41	0.3405	3.57
★ USAA Short Term Bond	USSBX	\$9.06	9.06	9.41	9.47 8.89	0.4605	5.08
★ Vanguard Short-term Corporate	VFSTX	\$10.81	10.79	10.72	10.85 10.58	0.5603	5.18
Income Equity Funds							
★ DNP Select Income ^{1,2}	DNP	\$9.89	9.84	11.21	11.62 7.85	0.7800	7.89
★ Vanguard REIT Index	VGSIX	\$11.55	11.33	12.94	13.69 10.94	0.7600	6.58
Large Cap. Value Equity Funds							
★ iShares S&P 500 Value Index ³	IVE	\$39.78	40.12	56.38	56.94 35.91	0.8386	2.11
★ Vanguard Value Index	VIVAX	\$13.59	13.76	19.37	19.46 12.38	0.3150	2.32
Small Cap. Value Equity Funds							
★ iShares Sm. Cap. 600 Value Index ³ IJS		\$64.25	67.10	92.61	99.67 62.50	0.6752	1.05
★ Vanguard Sm. Cap Value Index	VISVX	\$7.57	7.85	10.86	11.66 7.39	0.0900	1.19
Growth Equity Funds							
★ iShares S&P 500 Growth Index ³	IVW	\$43.60	43.25	59.98	60.50 40.02	0.5055	1.16
★ Vanguard Growth Index	VIGRX	\$19.42	19.19	26.74	26.81 18.25	0.2270	1.17
Foreign Equity Funds							
★ iShares S&P Europe 350 Index ³	IEV	\$42.59	44.61	59.39	60.78 39.52	1.9044	4.47
T Rowe Price European Stock	PRESX	\$11.68	11.99	16.07	16.22 10.81	0.1400	1.20
★ Vanguard European Stock Index	VEURX	\$14.66	15.20	20.30	20.55 13.64	0.4000	2.73

Recommended Gold-Mining Companies

	Ticker Symbol	3/14/03	Month Earlier	Year Earlier	— 52-Week — High Low	Distributions Latest 12 Months Frequency	Yield (%)
Anglo American PLC, ADR	AAUK	\$14.65	14.26	16.34	19.61 10.84	0.240	1.64
★ AngloGold Ltd., ADR	AU	\$30.19	32.32	21.15	38.69 19.75	1.434	4.75
ASA Ltd. ¹	ASA	\$34.20	38.10	23.54	42.85 23.62	0.600	1.75
★ Barrick Gold Corp.†	ABX	\$14.65	15.84	17.46	23.49 13.46	0.220	1.50
★ Gold Fields Ltd.	GFI	\$10.80	12.30	8.01	17.15 7.96	0.381	3.53
★ Newmont Mining	NEM	\$25.09	27.24	23.50	32.75 20.80	0.160	0.64
★ Placer Dome†	PDG	\$9.23	10.57	10.86	14.74 7.91	0.100	1.08
★ Rio Tinto PLC‡	RTP	\$79.55	76.80	81.90	84.39 61.10	2.399	3.02

★ 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.

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