

INVESTMENT GUIDE

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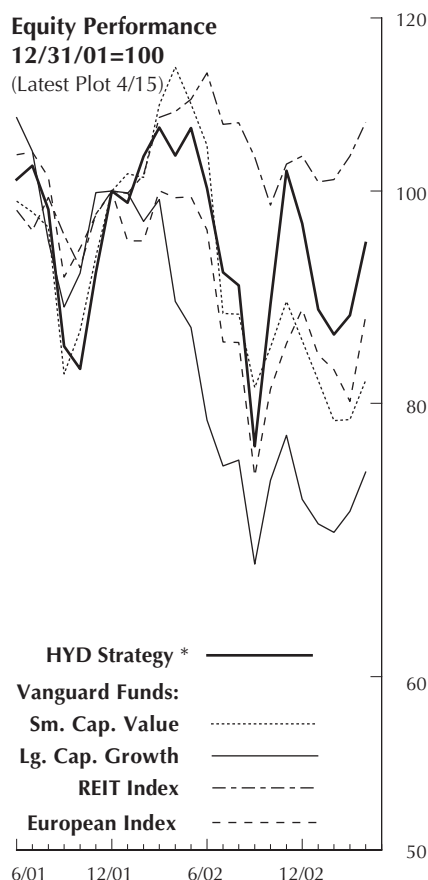
Great Barrington, Massachusetts 01230

April 30, 2003

Equity Performance

12/31/01=100

(Latest Plot 4/15)



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

We offer two discretionary management services: Our Professional Asset Management (PAM) service covers all of our recommended assets and allows us to place trades in stocks, bonds, and mutual funds directly in our clients' accounts. (The accounts remain the property of our clients at all times—we are only authorized to trade on their behalf.) Our High-Yield Dow (HYD) service operates similarly, except it invests only in the highest-yielding Dow stocks, using the 4-for-18 model on a fully invested basis. Investors interested in these low-cost services should contact us at 413-528-1216 or Fax 413-528-0103.

Online: www.americaninvestment.com

What About Altria?

Several subscribers recently asked why we exclude Altria (formerly Philip Morris) from our 4-for-18 High-Yield Dow Strategy. Its current yield of almost eight percent makes Altria the highest yielding of the 30 Dow stocks and it has consistently ranked among the "top four" highest yielding issues since March 1993, soon after the company lost its first major liability lawsuit concerning the health risks of tobacco.

The short answer is that stocks are bought to be sold. The strategy is *not* a buy-and-hold approach, but one that buys stocks low and sells them dear, as measured by their relative yield. During the past ten years investors would have ridden the stock up and down as the share price gyrated. They would have accumulated more shares on dips, but aside from a hefty dividend they never would have cashed in. The stock simply does not fit the profile of a typical high-yield Dow stock, and we continue to believe that if the stock was included in the model, the prospect of ever selling it at a profit would be slim.

Why does Altria not conform to the model? The other high-yield Dow stocks make the buy list because investors believe the firms face some inordinate risk resulting from a particular difficulty. More often than not they leave the list and are sold, but only because management overcomes the problem and the share price rebounds.

But the fate of Altria appears not to be in the hands of management; instead its future will be determined by trial lawyers and politicians. As our parent, AIER pointed out (*Research Reports*, "Smoke and Mirrors," April 14, 2003), state and Federal governments now make more money from cigarettes than the tobacco companies do. The states are at least as addicted to cigarettes as most smokers are, having through litigation effectively imposed a \$250-billion tax on tobacco to be received over the next 25 years. This comes on top of \$8 billion garnered annually through excise taxes. The chief threat to this revenue source appears to be pending litigation by private parties and the Federal government. The most recent class action decision in Illinois pitted the plaintiffs against the attorneys general of several states.

Our decision to exclude Altria represents a rare case of asserting our judgment over the purely mathematical wisdom of the model. Such instances bear a steep burden of proof that in this case has been met. It appears that Altria's share price will continue to fluctuate wildly in response to future litigation news, but it is likely to remain unsold in the top four until and unless it goes "feet first." It has become, in effect, a junk bond, but without the promise of a redemption value.

Correction:

Unfortunately, a version of last month's *INVESTMENT GUIDE* was sent to our printer and delivered to our subscribers prior to editing. We apologize for this oversight. To receive a final, corrected version via e-mail, contact us at subscriptions@americaninvestment.com.

QUARTERLY REVIEW OF INVESTMENT POLICY

War news dominated activity in the capital markets throughout the first quarter of 2003. Stocks continued on a downward trend. Decisive early victories by coalition forces in Iraq prompted a rally, but the surge proved unsustainable. Low interest rates continue to challenge investors seeking current income, and gold closed the period slightly down. We have maintained our recommended portfolio allocations in the table below.

The U.S. Economy

The underlying fundamentals suggest that growth should improve this year. Interest rates remain low, with long-term Treasury yields and mortgage rates at historic lows.

According to the statistical indicators of our parent, the American Institute for Economic Research (AIER), a recovery remains underway. Among the 12 primary leading indicators, five are expanding, three are contracting, and four are cyclically indeterminate. The cyclical score, AIER's purely mathematical assessment of the leading indicators, is 70, unchanged since November. This score has trended upward since reaching its trough in September 2001. The percentage of leaders expanding and the cyclical score suggest further expansion in the months ahead.

For the past three years the housing market has been robust despite significant slowdowns in other sectors of the economy. *New housing permits* increased 0.4 percent in March to a seasonally adjusted annual rate of 1,786,000. *Housing starts*, however, declined 11 percent and are down over nine percent from one year ago. *Initial claims for state unemployment insurance* increased in March to 423,200.

Among the primary roughly coinci-

dent indicators, two series have clearly established upward trends. *Manufacturing and trade sales* increased 0.4 percent to reach a new high. *Gross Domestic Product* grew at an annual rate of 1.4 percent in the fourth quarter of 2002, twice the rate reported in the advance estimate issued last month. The *index of industrial production* decreased 0.5 percent in March, marking the second consecutive month the series has decreased. The labor market continues to contract. *Nonagricultural employment* fell by 108,000 jobs in March to a new low. The largest job losses were in the service sector. The latest job losses warranted a downgrade of the series to clearly contracting. It is useful to note that the total unemployment rate typically does not peak until well after a business-cycle trough.

Money-Market Funds

Cash-equivalent assets continue to provide very low nominal returns. Even with inflation continuing at record lows (core CPI was a modest 1.7%), investors continued to watch their cash equivalent holdings erode in real terms. At the end of March, taxable money-market funds were yielding 1.41%. Even so, money-market funds are issued and redeemed at Net Asset Value (NAV) of \$1.00 per share and can add valuable stability to your overall portfolio. This is especially important given the poor total returns of other asset classes over recent quarters.

We have long emphasized the importance of minimizing costs, and now, with money-market funds paying such low rates, expense ratios are more important than ever. Our recommended vehicles are low-cost funds such as those offered by the Vanguard Group. Currently, the Van-

guard Prime Money Market Fund carries a 0.33% expense ratio, and has an annual yield of 1.34%.

The thin yield spread between municipal money-market funds and taxable funds continues to make muni funds an attractive alternative. For example, the Vanguard Tax-Exempt Money Market fund provides income that is free of Federal income taxes and has a current annual yield of 1.31% on a pretax basis. On an after-tax basis investors might come out ahead versus holding a taxable fund such as the Vanguard Prime Money Market Fund.

It may behoove investors, regardless of their tax bracket, to consider municipal bonds. The following formula can be used to determine the after-tax equivalent yield (TEY) on a muni fund:

$$TEY = \frac{\text{Tax Free Yield}}{(1 - \text{Marginal Tax Rate})}$$

Example:

For an investor in a combined 15% tax bracket contemplating the purchase of a municipal bond quoted at a 3.55% yield to maturity, the after-tax TEY would be:

$$3.55 / (1 - 0.15) = 4.18$$

Thus the investor would find this after-tax yield to be attractive compared with taxable bonds of comparable maturity and credit risk yielding less than 4.18%.

Yields on U.S. Treasury Securities

	12/31/02	03/31/03
3-month	1.19%	1.10%
6-month	1.22%	1.11%
1-year	1.21%	1.15%
10-year	2.21%	3.81%
30-year	4.78%	4.81%

Yields on Muni Bonds

	03/31/03
2-yr AA	1.07%
5-yr AAA	2.01%
10-yr AAA	3.28%
20-yr AAA	4.26%

Intermediate-Term Bonds

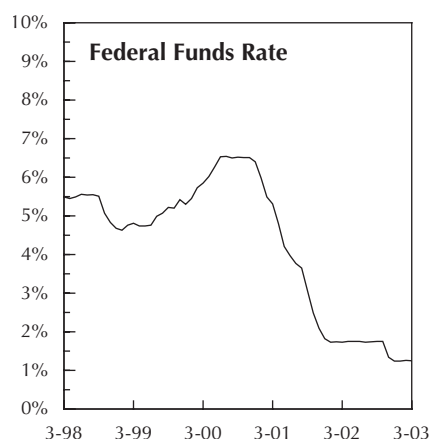
The bond market continued to outperform the stock market in the first quarter, although the gap between asset classes narrowed. At its March 18th meeting, the Federal Reserve Open Market Committee held the Federal funds rate unchanged at 1.25%, citing a high level of geopolitical uncertainty.

The purpose of holding fixed-income securities is to enhance the stability of a portfolio. However, bond prices can change in response to a variety of factors.

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 one's circumstances and tolerance for risk.



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. With interest rates at 40-year lows and government fiscal policy showing no signs of reversing its long-term trend of monetary inflating, we continue to believe that long-term interest rates will eventually rise in response to anticipated price inflation. Investors should continue to avoid long-term bonds, despite the meager income provided by shorter-term instruments.

The chart above shows the dramatic decline in the Federal funds rate over the past five years. The “monetary spigot” is wide open and price inflation remains a potential threat.

For many investors, any of the three fixed-income mutual funds on p. 32 will provide a suitable means of holding bonds. While not all these funds 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. This approach can be taken with high-quality corporate bonds, U.S. government securities (direct obligations of the U.S. Treasury or agency issues), or with high-quality municipal bonds.

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). DFA offers domestic, global, and municipal bond funds that adopt this variable maturity strategy. 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 (DNP) for investors seeking to add investment income and enhance the stability of their portfolio.

REITs continued to provide strong yields in an income-starved market during the first quarter. The NAREIT Equity Index benchmark for REITs provided a return of 0.68%. On March 14 the NAREIT yield was 365 basis points above the ten-year Treasury bond, the widest spread in 25 years. The Vanguard REIT Index

fund (symbol VGSIX) yields 6.5%. In addition to providing an attractive yield, REITs are not strongly correlated with other income-producing securities such as bonds, so they deserve inclusion in many portfolios.

Utility stocks fell 2.2% for the quarter, as measured by the Dow Jones Utility Average. We continue to recommend DNP as a means of capturing an attractive yield from the utilities sector. The fund’s share price has not fallen in line with the underlying utility securities it holds, and trades at a premium to its historical average (see chart on next page). The fund pays a monthly dividend and yields 7.6%. 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, remarketed preferred stock, which leverages the earnings available for common shareholders. We suspect the fund’s exceptional premium to net asset value is a reflection of strong demand for its yield, which is currently well above that of fixed-income alternatives. Investors should note that the fund’s share price will fall should interest rates rise.

Common Stocks

The HYD model underperformed the overall market as well as the large-cap value index during this unusually volatile quarter. The HYD model has historically been slightly more volatile than the overall market, and as the uncertainty over the war drove the broader market downward, the stocks in the model fell further. The HYD stocks were buoyed by the President’s proposal to eliminate dividend taxes, but later lost that momentum as it became increasingly clear that the plan would not pass Congress intact.

We expect that stocks will return to their historical norm and outperform bonds over

	Total Returns (%)*										Total Return Entire Period	
	—2000—		—2001—				—2002—				2003	3q 2000-
	3q	4q	1q	2q	3q	4q	1q	2q	3q	4q	1q	1q 2003
Vanguard Short-Term Corporate	2.78	2.50	3.18	1.25	3.34	0.17	0.26	1.25	2.27	1.34	1.39	18.24
Vanguard REIT Index	7.49	3.71	-0.50	10.66	-2.56	4.72	8.08	4.79	-8.48	0.10	1.01	22.12
Vanguard Value Index	8.80	1.70	-6.58	4.41	-16.26	7.89	1.32	-10.69	-20.45	9.88	-5.57	-33.09
High-Yield Dow 4/18	6.26	12.70	-2.89	10.42	-16.09	9.19	6.90	-6.21	-23.56	26.42	-9.21	-3.02
Vanguard Small Cap Value Index	7.76	7.58	-0.78	13.25	-16.63	21.22	9.59	-4.15	-22.50	4.62	-7.98	-3.43
Vanguard Growth Index	-8.77	-16.88	-17.50	7.70	-13.26	12.97	-0.87	-16.30	-14.07	7.04	-0.91	-45.26
Vanguard European Stock Index	-7.46	1.85	-15.62	-1.87	-12.09	9.48	0.05	-4.05	-22.85	10.77	-9.25	-39.56
Gold (London PM Fix)	-5.03	0.20	-6.10	5.01	8.31	-5.66	9.01	7.33	1.63	7.75	-3.56	21.44

* The highest returns provided in each period are in **Bold Face Type**.

the long term. For the quarter the S&P 500 Index declined 3.15%, the Dow Jones Industrial Average lost 3.64%, and the NASD Composite gained a modest 0.42%.

We have provided recent returns for several useful indexes (see table below). The S&P 500 is intended to be representative of the entire large-cap equity asset class, so it includes growth as well as value stocks. The S&P 500/BARRA Value Index includes only those large-cap stocks in the S&P 500 index deemed to be value stocks, as measured by their price/earnings ratio, and is therefore useful for assessing the relative returns from our HYD model, which falls into the large-cap value class. The Lipper Large Cap Value index is an alternative measure of large-cap value stocks as it provides the average returns for all of the large-cap value mutual funds in the Lipper universe.

Total Returns	2002	1Q 2003
HYD 4/18 Model*	-3.36%	-9.21%
S&P 500 Index	-22.10%	-3.15%
S&P 500/BARRA Value Index	-20.85%	-5.51%
Lipper Large Cap Value Index	-19.68%	-5.13%

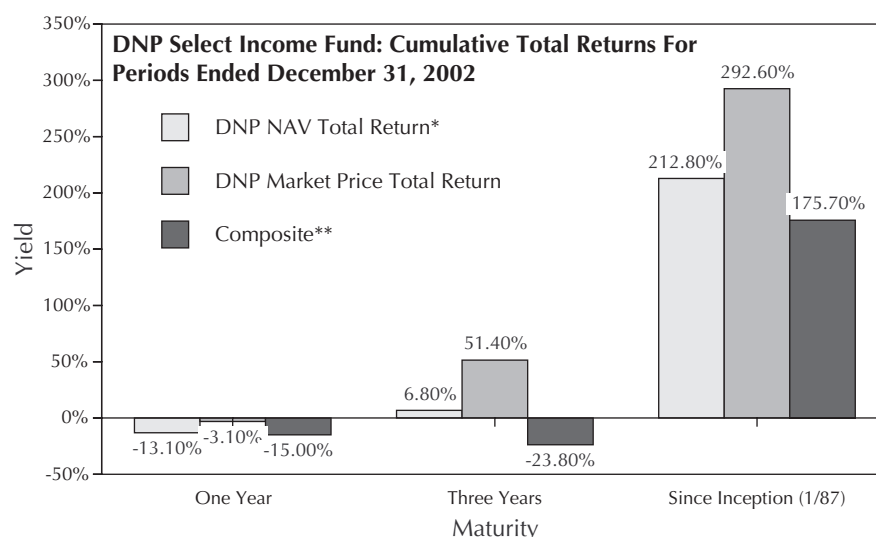
*HYD is a hypothetical model based on back-tested results. See p. 30 for a full explanation.

The Russell 2000 (small-cap) index lost 4.49%, while the Vanguard Small-Cap Value Index was down 7.98%. The Vanguard Value Index fund (large-cap) lost 5.56%. Large-cap growth stocks were down more modestly, as the Vanguard Growth Index lost 0.91%. Foreign stocks fell on global uncertainty and the Vanguard European Stock Index fund lost 9.25%. The euro rose roughly 2.8% against the dollar, closing the quarter at \$1.08, increasing the value of euro holdings in dollar terms.

Mutual-fund investors continued to exit common stock funds during the first quarter. According to the Investment Company Institute, February saw net outflows of \$11.1 billion from equities while bond funds had inflows of \$19.6 billion.

Gold-Related Investments

The price of gold was down slightly



* Total Return of a Fund shareholder in the Fund's Automatic Dividend Reinvestment Plan who exercised his/her rights during the 1992 and 1994 Rights Offerings. ** Weighted average of Dow Jones Utility Index and Lehman Brothers Utility Bond Index. There are no expenses included in the indices making up the Composite. If there were, the returns would be lower. Source: Duff and Phelps.

during the first quarter, falling from \$347.20 at the end of 2002 to \$335.80 at the end of March. We do not recommend that investors "load up" on gold (or any other asset class) in anticipation of future events. Indeed, gold should be held as a form of insurance against price inflation or calamitous, unforeseeable events. Gold has historically been an extremely volatile asset class, and should only be held as a small proportion of an investment portfolio (see our recommended portfolio allocation table).

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

Alternatively, investors can receive the benefits of indirect ownership of gold "in

the ground" via shares of precious-metals mining companies. Our recommended shares include only well-established, producing, dividend-paying companies. For these companies, any increase in the price of gold flows almost entirely to the bottom line. Recent returns from our recommended gold-related shares are presented in the table below:

Total Returns:		
AIS Recommended Gold Related Stocks		
	2002	1Q 2003
Barrick Gold Corp.	-2.22%	0.97%
Newmont Mining Co.	52.60%	-9.79%
Rio Tinto PLC (ADR)	4.73%	-3.32%
Placer Dome Inc.	6.49%	-14.32%
Anglogold Ltd. (ADR)	97.84%	-9.78%
Gold Fields, Ltd. (ADR)	197.04%	-2.22%

The precious metals safe-keeping depository Muenz-Treuhand will cease operations in November 2003. It is our recommendation that holders of gold at Muenz liquidate their holdings and purchase shares of the gold stocks recommended above. Contact us for details.

HEDGE FUNDS: BUYER BEWARE

Hedge funds are back in the news; indeed, it's difficult to get through any investment journal without reading several articles extolling their virtues or reveling in their elegant mystique. Portfolio

managers have been leaving traditional firms in a steady stream to open hedge funds, lured by hefty compensation and freedom from restrictive investment policies and regulation. The number of avail-

able funds has grown from several hundred to more than 5,000; simultaneously, minimum initial investments have dropped and Wall Street's considerable marketing machine is generating interest

from new pockets of investors, including public pension funds and smaller corporate-plan sponsors. Once the exclusive playground of the wealthy, more mainstream investors are getting into the act through hedge “fund of funds” products, which are already showing up in some 401(k) plans.

Hedge-fund returns can be attractive in an asset-only framework, where low market correlation leads to more efficient portfolios. Many endowment funds have benefited from low hedge fund correlation, particularly during the recent bear market.

Lately it's the allure of superior returns in a bear market environment that has caught the eye of pension sponsors and individual investors alike. Politically, hedge funds have become the “silver bullet” for investment woes. Many large government pension sponsors have led the way, offering a combination of hedge funds and shareholder lawsuits as the response to funding deterioration. Corporate CFO's are tired of explaining pension losses to investors and analysts, and we're all tired of tallying up losses on our savings-plan statements.

Therein lies a real danger; remember the last time that hedge funds were in the news? In 1998, the leading hedge fund, Long-Term Capital Management LP, went from solvency to bankruptcy in a matter of weeks, destroying investor wealth by the billions and rocking world financial markets. Federal intervention and a coalition of investment banks were required to contain the situation. It was neither the first hedge-fund meltdown nor the last, but it was noteworthy for its speed and severity. Silver bullets are great for killing werewolves, but you can also use them to shoot yourself in the foot. Careful study and due diligence really pays here.

The term “hedge fund” is somewhat nebulous; this is not surprising considering that the structure is typically adopted in order to avoid SEC registration requirements. Generally they are loosely regulated investment portfolios that may invest in a very wide range of securities and derivatives. They typically are structured as limited partnerships. Investors (limited partners) are required to lock in their investment for a set period time period, and liquidations might be restricted to certain dates, such as the end of the next calendar quarter. These investment vehicles are largely unregulated but participation is restricted; they can accept only 99 “accredited” investors who have at least \$1 million in net worth, excluding home

Evaluating Hedge Funds

Policy Fit What role would the hedge fund play in your investment strategy? Does the candidate fund have clear and compatible objectives?

Theoretical Basis Why should the fund's strategy work? Beware past performance and back-testing.

Leverage How much is required? Why? Are there specific limits? How can they be changed?

Risk Control Are big decisions subject to committee review before commitment? Who's on the committee and how much power do they really have?

Operations & Accounting How much information will the manager disclose? How is the accuracy independently verified?

Exit Risk How long would an exit take? How many other investors are there, and what percentage of the fund would you represent?

Fees & Expenses Are the fees (including performance fees) so high that any anticipated advantages are eliminated?

equity. They typically allow for short-selling and leverage, to a much greater extent than a traditional investment product. A typical hedge fund might charge an annual fee of 1% of invested assets, plus 20% of any upside performance subject to a high-water mark.

Alfred Winslow Jones is widely credited with creating the first hedge fund in 1949, following a “long/short strategy” designed to capture returns from careful stock selection while canceling out much of the underlying stock market risk. By simultaneously buying stocks with favorable prospects and short-selling stocks with unfavorable prospects, this strategy seeks to achieve returns in both up-market and down-market conditions. While the strategy offers the potential for gains or reduced losses in bear markets, the investor gives up any underlying secular stock market growth, which is expected to provide positive returns over the long term. Fund managers often try to make up this shortfall by using leverage to enhance returns.

The term “hedge fund” follows from Mr. Jones's strategy; by using the otherwise speculative technique of short-selling (selling borrowed shares in the hope of buying them back later at a lower price), the fund manager hedges against downward market movement. Many of today's com-

mon hedge fund strategies follow from the equity long-short model, including “market-neutral” and “alpha-transfer” funds. While in isolation the techniques can be speculative and risky, in the hands of a skilled and disciplined practitioner, overall risk can actually be reduced.

Not all funds follow this model. Over the past two decades, arbitrage and macro strategies became very popular. Arbitrage strategies seek to profit from small market-pricing inefficiencies that occur from time to time. Popular strategies include convertible bond, mortgage, and merger arbitrage. In contrast, macro funds take large directional bets on global markets, currency rates, interest rates, and other economic factors. Both types of hedge funds tend to use much more leverage to deliver results.

Leverage is a key driver of hedge fund risk, because it can greatly magnify the impact of small mistakes by the manager. It was high leverage more than flawed underlying investment strategy that sank Long-Term Capital Management. Lack of transparency and operational control can compound hedge-fund problems; consider Beacon Hill Asset Management, a mortgage arbitrage fund that failed just last year. According to a complaint brought by the SEC, the firm committed fraud by reporting returns they knew or should have known were incorrect. This case serves as a reminder that, by its nature, “caveat emptor” rules the hedge-fund marketplace.

It follows that no investors should consider hedge funds, regardless of past performance, unless they have the size and will to compel fund managers to follow strict risk-control and reporting standards. That rules out most individual investors and even smaller institutional investors, except through fund-of-fund structures where they rely on an investment manager for scale and due-diligence capabilities. But using a fund-of-funds drives up fees. In our opinion, at least under today's loose regulatory framework, individual investors should cast a wary eye on most hedge funds. We suspect that many investors are accustomed to the reporting and regulatory oversight provided by the Securities Act and Investment Company Act, and may be ill prepared to thoroughly investigate these investment vehicles.

This article was adapted from Market Recap by Keith A. Hocter, CFA. Mr. Hocter is an investment consultant for Bellwether Consulting, an institutional investment consulting firm based in Cedar Grove, New Jersey.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

We are convinced that long-term, common-stock investors will receive superior returns on the "large-capitalization-value stock" 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, excluding General Motors and Altria (formerly 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 Altria 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 has never ranked lower than fourth on the list, whatever its ups and downs, and, given the circumstances, using Altria 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 October 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 April 15, 2003

	Rank	Yield	Price	—Percent of Portfolio*—		
				Status	Value	No. Shares ¹
Altria Group	1	7.89%	32.45	*		
General Motors	2	5.69%	35.17	*		
Eastman Kodak	3	5.68%	31.67	Holding**	26.85	24.50
AT&T	4	5.46%	13.73	Buying	3.72	7.80
SBC Comm.	5	5.32%	21.25	Buying	16.21	22.00
JP Morgan Chase	6	5.06%	26.87	Holding**	25.60	27.50
DuPont	7	3.43%	40.81	Selling	19.65	13.90
Honeywell Int'l	8	3.35%	22.39			
International Paper	9	2.94%	34.06			
General Electric	10	2.69%	28.30			
Caterpillar	11	2.66%	52.70	Selling	<u>7.95</u>	<u>4.40</u>
					100.0	100.0

Change in Portfolio Value²

	1 mo.	1 yr.	5 yrs.	10 yrs.	15 yrs.	From 12/63	Std. Dev.
Strategy	12.05%	-13.36%	1.24%	11.78%	15.21%	15.39%	19.41
Dow	9.20%	-13.10%	0.38%	11.52%	12.77%	10.27%	17.06

* The strategy excludes Altria and General Motors. ** Currently indicated purchases approximately equal to indicated purchases 18 months ago. ¹ 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. ² 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.

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 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			12-Month		Latest Dividend			Indicated	
		4/15/03	3/14/03	4/15/02	High	Low	Amount	Record Date	Paid	Annual Dividend	Yield†
Altria Group	MO	\$32.45	34.93	52.85	57.79	27.70 L	0.640	3/14/03	4/09/03	2.560	7.89
General Motors	GM	\$35.17	32.00	61.10	68.17	29.75	0.500	2/14/03	3/10/03	2.000	5.69
★ Eastman Kodak	EK	\$31.67	28.72	34.01	41.08	25.59	0.900	6/02/03	7/16/03	1.800	5.68
★ AT&T (r)	T	\$13.73	16.18	13.55	30.75	13.55	0.188	3/31/03	5/01/03	0.750	5.46
★ SBC Comm.*	SBC	\$21.25	20.85	33.47	36.36	18.85	0.283	4/10/03	5/01/03	1.080	5.08
★ J. P. Morgan Chase	JPM	\$26.87	21.26	34.40	38.75	15.26	0.340	4/04/03	4/30/03	1.360	5.06
☆ DuPont	DD	\$40.81	37.82	46.86	48.30	34.71	0.350	2/15/03	3/14/03	1.400	3.43
Honeywell Intl.	HON	\$22.39	22.47	40.00	40.95	18.77	0.188	2/20/03	3/10/03	0.750	3.35
International Paper	IP	\$34.06	35.64	40.40	45.20	31.35	0.250	5/23/03	6/16/03	1.000	2.94
General Electric	GE	\$28.30	25.65	31.85	34.15	21.30	0.190	2/28/03	4/25/03	0.760	2.69
☆ Caterpillar	CAT	\$52.70	47.02	57.99	58.30	33.75	0.350	4/21/03	5/20/03	1.400	2.66
Alcoa	AA	\$22.59	19.94	36.71	38.00	17.62	0.150	5/02/03	5/25/03	0.600	2.66
Exxon Mobil	XOM	\$35.05	34.39	41.60	42.75	29.75	0.230	2/10/03	3/10/03	0.920	2.62
Merck	MRK	\$56.93	50.80	54.53	60.48	38.50	0.360	3/07/03	4/01/03	1.440	2.53
Boeing	BA	\$27.29	25.55	47.65	48.98	24.73	0.170	2/07/03	3/07/03	0.680	2.49
Coca-Cola	KO	\$42.53	39.90	52.39	57.91	37.01	0.220	6/15/03	7/01/03	0.880	2.07
Hewlett-Packard	HPQ	\$15.57	15.66	17.88	21.20	10.75	0.080	3/19/03	4/09/03	0.320	2.06
Citigroup	C	\$39.25	33.75	45.92	48.49	24.42	0.200	5/05/03	5/23/03	0.800	2.04
3M Company	MMM	\$133.64	125.55	121.55	136.75 H	108.20	0.660	2/21/03	3/12/03	2.640	1.98
Procter & Gamble	PG	\$89.88	83.40	90.55	94.75	74.08	0.410	4/17/03	5/15/03	1.640	1.82
United Tech.	UTX	\$63.71	58.87	71.85	73.48	48.83	0.270	5/16/03	6/10/03	1.080	1.70
McDonald's	MCD	\$15.85	13.54	27.40	30.72	12.12	0.235	11/15/02	12/02/02	0.235	1.48
Johnson & Johnson	JNJ	\$55.98	55.19	62.16	64.83	41.40	0.205	2/18/03	3/11/03	0.820	1.46
Walt Disney	DIS	\$18.31	16.42	23.64	25.17	13.48	0.210	12/13/02	1/09/03	0.210	1.15
Home Depot, Inc.	HD	\$27.16	22.99	49.20	50.24	20.10	0.060	3/13/03	3/27/03	0.240	0.88
American Express	AXP	\$36.90	33.48	40.16	44.91	26.55	0.080	4/04/03	5/09/03	0.320	0.87
IBM	IBM	\$82.79	79.00	85.35	90.03	54.01	0.150	2/10/03	3/10/03	0.600	0.72
Wal-Mart Stores	WMT	\$55.29	49.36	59.93	61.27	43.72	0.090	3/21/03	4/07/03	0.360	0.65
Intel Corp.	INTC	\$17.13	17.17	28.11	31.36	12.95	0.020	5/07/03	6/01/03	0.080	0.47
Microsoft Corp. (s)	MSFT	\$24.61	24.86	27.85	29.48	20.71	0.080	2/21/03	3/07/03	0.080	0.33

★ BUY. ☆ HOLD. † Based on indicated dividends and market price as of 4/15/03 H New 52-week high. L New 52-week low. (s) All data adjusted for splits. (r) All data adjusted for reverse splits. * SBC paid an extra dividend of .05 on 5/1/03 that is not included in the annual yield.

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

	4/15/03	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	325.45	335.20	300.10
Silver, London Spot Price	4.52	4.54	4.58
Copper, COMEX Spot Price	0.73	0.75	0.71
Crude Oil, W. Texas Int. Spot	29.29	35.38	24.57
Dow Jones Spot Index	145.89	152.52	121.68
Dow Jones-AIG Futures Index	113.47	117.92	96.15
CRB-Bridge Futures Index	231.73	240.00	197.30

Interest Rates (%)

U.S. Treasury bills -	91 day	1.17	1.12	1.70
	182 day	1.18	1.12	1.92
	52 week	1.24	1.17	2.41
U.S. Treasury bonds -	15 year	4.60	4.38	5.68
Corporates:				
High Quality -	10+ year	5.84	5.61	6.81
Medium Quality -	10+ year	6.44	6.37	7.63
Federal Reserve Discount Rate		2.25	2.25	1.25
New York Prime Rate		4.25	4.25	4.75
Euro Rates	3 month	2.52	2.54	3.41
Government bonds -	10 year	4.17	3.80	5.12
Swiss Rates -	3 month	0.30	0.32	1.60
Government bonds -	10 year	2.53	2.07	3.44

Exchange Rates

British Pound	\$1.576600	1.582000	1.436600
Canadian Dollar	\$0.690800	0.679800	0.629700
Euro	\$1.084200	1.079200	0.879500
Japanese Yen	\$0.008313	0.008493	0.007609
South African Rand	\$0.130000	0.122900	0.089300
Swiss Franc	\$0.722220	0.736300	0.598900

Securities Markets

	4/15/03	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	890.81	833.27	1,102.36
Dow Jones Industrial Average	8,402.36	7,859.71	10,093.67
Dow Jones Transportation Average	2,316.62	2,027.09	2,802.65
Dow Jones Utilities Average	216.82	199.15	298.26
Dow Jones Bond Average	165.42	163.52	141.82
Nasdaq Composite	1,391.01	1,340.33	1,753.78
Financial Times Gold Mines Index	1,104.49	1,072.96	1,144.40
FT African Gold Mines	1,826.61	1,860.39	1,760.13
FT Australasian Gold Mines	1,715.65	1,584.28	1,343.61
FT North American Gold Mines	873.55	835.78	951.62

Coin Prices

	4/15/03	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	\$329.75	363.55	308.35	1.32
Austrian 100-Corona (0.9803)	\$314.13	346.33	293.83	-1.54
British Sovereign (0.2354)	\$79.25	87.15	74.25	3.44
Canadian Maple Leaf (1.00)	\$330.00	363.80	308.60	1.40
Mexican 50-Peso (1.2057)	\$387.70	427.30	362.60	-1.20
Mexican Ounce (1.00)	\$321.40	354.30	300.60	-1.24
S. African Krugerrand (1.00)	\$326.75	359.95	305.75	0.40
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	\$440.00	455.00	340.00	39.74
Liberty (Type I-AU)	\$675.00	675.00	675.00	114.37
Liberty (Type II-AU)	\$440.00	440.00	385.00	39.74
Liberty (Type III-AU)	\$395.00	420.00	325.00	25.45
U.S. Silver Coins (\$1,000 face value)				
90% Silver (715 oz.)	\$4,500.00	4,550.00	4,600.00	39.24
40% Silver (292 oz.)	\$1,587.50	1,587.50	1,525.00	20.28
Silver Dollars	\$6,112.50	6,112.50	6,000.00	74.81

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$325.45 per ounce and silver at \$4.52 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	4/15/03	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	\$82.22	82.32	NA	82.63 81.00	0.9864	1.12
★ USAA Short Term Bond	USSBX	\$9.04	9.06	9.44	9.47 8.89	0.4434	4.90
★ Vanguard Short-term Corporate	VFSTX	\$10.79	10.81	10.75	10.85 10.58	0.5480	5.08
Income Equity Funds							
★ DNP Select Income ^{1,2}	DNP	\$10.05	9.89	11.32	11.62 7.85	0.7800	7.76
★ Vanguard REIT Index	VGSIX	\$12.27	11.55	13.55	13.69 10.94	0.7700	6.28
Large Cap. Value Equity Funds							
★ iShares S&P 500 Value Index ³	IVE	\$42.89	39.78	54.11	55.89 35.91	0.8386	1.96
★ Vanguard Value Index	VIVAX	\$14.61	13.59	18.49	19.01 12.38	0.3150	2.16
Small Cap. Value Equity Funds							
★ iShares Sm. Cap. 600 Value Index ³ IJS		\$69.49	64.25	97.19	99.67 62.50	0.6752	0.97
★ Vanguard Sm. Cap Value Index	VISVX	\$8.17	7.57	11.42	11.66 7.39	0.0900	1.10
Growth Equity Funds							
★ iShares S&P 500 Growth Index ³	IVW	\$46.25	43.60	56.09	57.50 40.02	0.5055	1.09
★ Vanguard Growth Index	VIGRX	\$20.53	19.42	24.93	25.46 18.25	0.2470	1.20
Foreign Equity Funds							
★ iShares S&P Europe 350 Index ³	IEV	\$47.43	42.59	59.05	60.78 39.52	1.9044	4.02
★ T Rowe Price European Stock	PRESX	\$12.80	11.68	15.77	16.22 10.81	0.1400	1.09
★ Vanguard European Stock Index	VEURX	\$16.09	14.66	19.99	20.55 13.64	0.4000	2.49

Recommended Gold-Mining Companies

	Ticker Symbol	4/15/03	Month Earlier	Year Earlier	— 52-Week — High Low	Distributions Latest 12 Months Frequency	Yield (%)
Anglo American PLC, ADR	AAUK	\$14.60	14.65	16.10	19.61 10.84	0.480	Semiannual 3.29
★ AngloGold Ltd., ADR	AU	\$28.55	30.19	23.65	38.69 19.75	1.459	Semiannual 5.11
ASA Ltd. ¹	ASA	\$34.81	34.20	28.15	42.85 24.72	0.600	Quarterly 1.72
★ Barrick Gold Corp.†	ABX	\$15.42	14.65	17.62	23.49 13.46	0.220	Semiannual 1.43
★ Gold Fields Ltd.	GFI	\$10.73	10.80	10.45	17.15 8.96	0.389	Semiannual 3.63
★ Newmont Mining	NEM	\$26.38	25.09	28.30	32.75 20.80	0.160	Quarterly 0.61
★ Placer Dome†	PDG	\$9.97	9.23	11.82	14.74 7.91	0.100	Semiannual 1.00
★ Rio Tinto PLC‡	RTP	\$78.37	79.55	79.50	84.15 61.10	2.399	Semiannual 3.06

★ Buy. ☆ Hold. (s) All data adjusted for splits. † Dividend shown is after 15% Canadian tax withholding. ‡ Dividend shown is after 15% U.K. tax withholding on a portion of the total. na Not applicable. ¹ Closed-end fund, traded on the NYSE. ² Dividends paid monthly. ³ Exchange traded fund, traded on ASE.

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