INVESTMENT GUIDE

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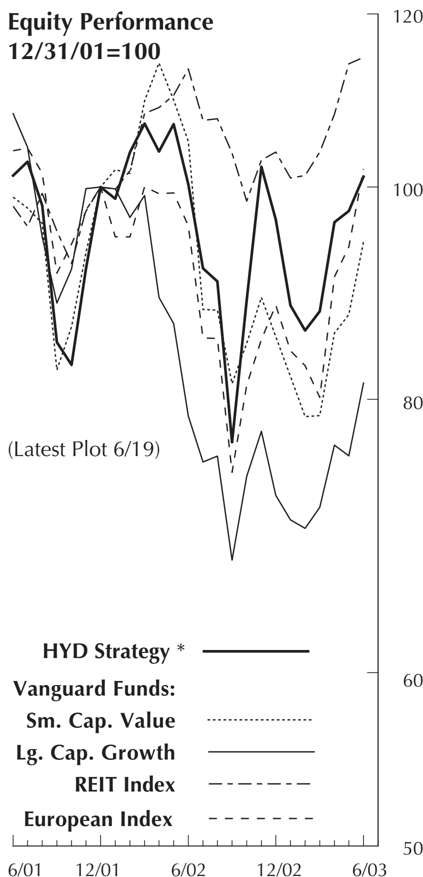

*** HYD is a hypothetical model based on back-tested results. See p. 46 for a full explanation.**

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

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The New Tax Plan: What it Means to Investors

The recently signed Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) marks the third major tax-cut package passed by Congress in as many years. This most recent package will prove particularly beneficial to individual investors. However, the plan comes at the cost of additional complexity because some changes are retroactive and all are set to expire. While we defer to your accountant regarding the impact of these changes on your own circumstances, here we highlight some the changes that could impact you significantly.

Marginal Rates

Previous Rates	10	15	27	30	35	38.6
New Rates Retroactive to 1/1/03	10	15	25	28	33	35

JGTRRA essentially accelerates rate changes previously scheduled for 2006. Investors may wish to reduce the amounts they have withheld from their paycheck, particularly since the changes are retroactive to the beginning of the year. The rates revert to the previous rates after 2010.

The law also raises the taxable income levels for those in the lowest (10 percent) bracket. For single filers the income threshold increases from $6,000 to $7,000, and for married couples it increases from $12,000 to $14,000. In an odd twist, the old 10 percent thresholds will reemerge in 2005, but in 2008 the new thresholds will again go into effect. It is important to understand that taxpayers in all brackets will benefit from this change, as well as from all rate reductions applicable to brackets lower than their own.

Capital Gains

New capital-gains rules have gone into effect as well; new lower rates apply for both regular and Alternative Minimum Tax (AMT) purposes. For sales and exchanges of property on or after May 6, 2003, and before December 31, 2007, the maximum net capital-gains tax rate will be 15 percent, down from 20 percent previously, and the 10 percent capital-gain rate for lower-income tax payers will fall to five percent. For 2008 transactions, the 15 percent rate will remain in effect, but for lower-income taxpayers, the five percent rate will fall to zero. After December 31, 2008, the old rates of 10 percent and 20 percent will return.

The 18 percent rate (eight percent for lower-income taxpayers) for property held for more than five years is effectively repealed until January 1, 2009, when the pre-JGTRRA capital gains rates are scheduled to reappear.

Not all property will qualify; for example collectibles remain subject to a 28 percent maximum rate.

Dividends

For most taxpayers dividend income from a domestic or qualified foreign corporation will be taxed at the same maximum of 15 percent that applies to

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capital gains, though taxpayers in the 15 and 10 percent brackets will pay a five percent rate. This is a boon to High Yield Dow (HYD) investors. The new rates have already boosted both the demand for and the prices of high-yielding stocks.

Prior to the change, investors in the top bracket who had taxable HYD accounts would have paid $3,860 in taxes on $10,000 in dividends; now they will pay only $1,500, for a reduction of 61 percent in taxes paid. The new rate is retroactive to cover dividends received after 2002 but the rate terminates at the end of 2008. In an odd twist the five percent rate falls to zero at the end of 2007, but the pre-JGTRRA rates return beginning in 2009.

The definition of a "qualifying dividend" will emerge pending yet-to-be-issued rules and regulations. However, it is clear that dividends paid by certain entities, such as Real Estate Investment Trusts (REITs), which typically pay no corporate income taxes, will not qualify for the lower rates.

Our Take

While investors should generally be pleased by these changes, we do have some concerns.

The pre- and post-JGTRRA capital gains rates could create problems. The spread between the highest tax bracket and the capital-gains rate has spread from 18.6 percent to 20 percent. This makes it more tempting to "convert" short-term gains and ordinary income to long-term capital gains, and it could spark the re-emergence of heavily promoted and costly tax avoidance schemes.

The dividend tax reduction has sparked some concern that tax-advantaged municipal bonds may prove less popular, resulting in higher financing costs for municipalities. We think this is a stretch. Bonds and stocks are distinct asset classes; dividend-paying stocks are far more volatile than bonds and make a poor substitute.

However, as a result of the compromise on the dividend tax, certain strictures were dropped pertaining to dividends that escaped taxation at the corporate level. In the original proposal any dividends paid that exceeded previously taxed corporate income would not have benefited from the rate reduction. However, the new requirements are not as stringent. We expect greater complexity for investors and corporations alike.

INTEREST RATES AND BOND RISK

Three years of decreasing interest rates have generated a remarkable bull market in bonds. The next major move in interest rates is likely to be upward, however, and investors should be concerned about what will happen to the value of their bonds when this happens.

Now that the war in Iraq is over, at least some of the geopolitical uncertainties that have clouded investors' decisions in recent months have eased. The economic news remains unsettling, however. Output, productivity, and incomes are increasing, but employment still is decreasing. AIER's primary leading indicators suggest that the economy is likely to expand, but our coincident indicators show that the expansion is very weak. On Wall Street, earnings reports have been mixed, stock prices continue to be volatile, and valuations remain high by most standards. Gold, which outperformed most other assets over the past year, is below its February high despite a recent rally. The hot real estate market has cooled in some areas, with prices appreciating less rapidly than a year ago.

In this unsettled environment, investors may be especially tempted to hold bonds. Over the past three years of falling stock prices and decreasing interest rates, bonds have provided exceptional returns. This is because if interest rates decrease before a bond matures, the price of the bond increases. As interest rates have plummeted to 40-year lows, bond prices have increased and thereby provided substantial gains to bond holders.

Not surprisingly, mutual funds that invest in bonds also have done well—and investment companies, which have few stock funds worth boasting about anymore, are now heavily marketing bond funds. Although the fine print in their ads contains the usual caveat that past performance is no guarantee of future results, the large print typically trumpets the impressive total returns for the past year and invites "smart investors" to call for more information.

Investors should ignore these marketing efforts and stick to their investment plan. We continue to recommend that investors hold bonds, but in modest proportion (see our January 2003 *INVESTMENT GUIDE* for our current recommended portfolio allocations), and maturities should not extend beyond five years. If interest rates increase, bond prices will decrease. If you currently hold bonds, the value of your holdings will drop. The future direction of interest rates is uncertain, but investors who are overexposed to fixed-income securities appear particularly vulnerable at this point, for two reasons. One is that current interest rates are now so low that the next major move is likely to be an increase. The other reason is price inflation.

The rate of price inflation has been low in recent years. Roughly a year ago it decreased to just one percent, as measured by the change in the Consumer Price Index. It has accelerated since then: during the 12-month period ended in March the CPI increased by three percent.

This acceleration partly reflects the rise in energy prices prior to the Iraq war. Oil and gas prices began to fall as soon as the war began, and this will dampen price inflation in the near term. However, a number of forces suggest that price inflation might not return to last year's lows.

Expansionary Monetary Policy

One is the continued rapid increase in the money supply. It is the Federal Reserve's interest rate cuts that have made the headlines, but the significance of those cuts is not so much that borrowers will pay less (their savings will mean that savers will receive less). The very short-term rate that the Fed actually targets, the Federal funds rate, is reduced by the Fed only to the extent that it stands ready to create enough new money "out of thin air" to bring the rate down to the target level. Since the Fed began aggressively cutting rates two years ago, liquidity has exploded in the United States.

There are various ways to measure this. A year ago, the "MZM" money supply was increasing at a rate of more than 20 percent, and over the past year it has increased by 7.7 percent. This aggregate includes dollar claims that can be spent by a holder immediately, such as currency, checking accounts, money market funds, and other claims with "zero maturity." The M2 money supply, a broader aggregate that includes certificates of deposit and savings accounts that are less liquid because they carry penalties for early withdrawal, also has increased at a rapid rate.

The relationship between increases in the money supply (however it is measured) and price inflation has not been stable in recent decades, particularly in

Table 1: **Treasury Securities and Interest Rates**
(Change in the Price of a Note or Bond After Interest Rates Change)

Change in Interest Rates (Percentage Points)	*2-Year Notes 1.5% coupon*	*5-Year Notes 2.85% coupon*	*10-Year Notes 3.9% coupon*	*30-Year Bonds 4.8% coupon*
-1.0	1.99%	4.73%	8.57%	17.72%
-0.5	0.99	2.33	4.18	8.34
0.5	-0.97	-2.27	-3.98	-7.43
1.0	-1.93	-4.47	-7.76	-14.06
1.5	-2.87	-6.61	-11.36	-20.00
2.0	-3.80	-8.69	-14.79	-25.32
2.5	-4.72	-10.72	-18.06	-30.11

Source: smartmoney.com bond calculator.

the short-term. Prolonged rapid growth in the amount of money available to use for purchasing things, however, raises the risk that eventually the prices of things will be bid up at a faster pace.

Some analysts warn that the more serious threat to the economy is *deflation*. They cite falling prices for computers and other high-tech goods and point to Japan, where the general price level has been falling for several years. However, the Fed has made clear that it intends to make sure that deflation does not occur here. Ben Bernanke, one of the Federal Reserve Board Governors, said last November that the Fed "would take whatever means necessary to prevent significant deflation in the United States." As he noted, the Fed clearly has the means:

> …The U.S. government has a technology, called a printing press (or today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation.[1]

In other words, the Fed stands ready to fight deflation with inflation.

Another force favoring higher price inflation and higher interest rates is the burgeoning budget deficit. The deficit for fiscal year 2003, which ends September 30, is projected to be at least $300 billion and probably will be closer to $400 billion. Regardless of whether the Congress enacts additional tax cuts, deficits are likely to persist for years. The Federal government has run deficits in all but seven of the past 50 years. The surplus years from 1998 through 2001, far from being a return to "normal," were a rare departure from what has been the standard policy since the 1930s.

The link between deficits, inflation, and interest rates is not rigid. But a return to chronic, large deficits would fuel fears that the government would eventually turn to the printing presses to finance its debt, and inflationary expectations would again be revived. This would put upward pressure on interest rates.

Another factor that could lead to higher price inflation is the weaker dollar. For years, foreigners have shown a seemingly insatiable appetite for U.S. dollars. Rather than buying the goods and services we have to sell, foreigners have used the dollars they get from selling us things to purchase dollar investments. As a result, the U.S. trade deficit has increased sharply. At the same time, the dollar has been strong against other currencies. This has helped keep the rate of price inflation in the United States relatively low, not only directly via the prices of imported goods but also indirectly as low-priced import competition has made it difficult for domestic producers to raise their prices.

This situation may be coming to an end. Over the past year the dollar has lost value in terms of most other major currencies. It has fallen by 20 percent against the euro, 19 percent against the Swiss franc, and 10 percent against the yen and the British pound. Foreigners apparently are less eager to hold dollars, in part because decreasing stock prices and exceptionally low interest rates have made it less attractive to invest here.

The weaker dollar has made it more expensive to buy imports and made it easier for domestic producers to raise their prices. This probably has contributed to the recent acceleration in U.S. price inflation. We have little means of predicting whether the dollar's foreign-exchange value will continue to decrease, but if it does this would put more upward pressure on U.S. prices. This in turn could fuel inflationary expectations and thereby push interest rates higher.

The Risk for Investors

How much would a bond holder lose if interest rates increase? It depends on how much they increase and how long until the bond matures. In Table 1, we show how much the prices of bonds of various maturities would decrease after interest rate increases ranging from a half percentage point to 2.5 percentage points. The longer the maturity of the bond is, the more value it loses when interest rates rise.

An increase of just 1.5 percentage points would reduce the price of a 30-year bond by 20 percent. A 10-year note would lose about 11 percent of its value. Prices for 5-year notes would decrease by 6.6 percent and those for 2-year notes by only 2.9 percent.

Of course, it is also possible that interest rates will decrease further. In that event, the prices of longer-term bonds would gain the most, as shown in the table. The potential for such gains is limited, however, because rates currently are so low that there is not much room for them to decrease further. The potential for losses if rates should rise is much greater.

Higher Returns, Higher Volatility

Historical data for one-month Treasury bills, 5-year Treasury notes, and long-term (generally 20-year) Treasury bonds illustrate the relationship between risk, return, and maturity. They show that while Treasuries with longer maturities have provided investors with higher average returns over long periods, their return over shorter periods has been more volatile. Moreover, the increase in return from buying bonds instead of shorter-term notes was tiny compared with the increase in the volatility of the return (as measured by the standard deviation of returns).

Ibbotson Associates has published data for Treasury returns going back to 1926. The results for monthly data covering the period from January 1926 through De-

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[1] "Deflation: Making Sure 'It' Doesn't Happen Here," Ben S. Bernanke, remarks before the National Economists Club, Washington, D.C., November 21, 2002. Full text available at www.federalreserve.gov

cember 2002 are shown in Table 2 4. This period covers 13 complete business cycles, the Great Depression, the overly inflationary financing of World War II when rates were very low, and the double-digit rates of the early 1980s. In short, it encompasses a wide range of interest-rate levels and trends.

Table 2: **Returns on Treasury Securities**
(1926 - 2002)

	One-Month T-Bills	*5-Year T-Notes*	*Long-Term Gov't Bonds*
Average 12- Month Return	3.83%	5.58%	5.86%
Growth of $1.00	$17.41	$58.66	$60.39
Annualized Return	3.78%	5.43%	5.47%
Standard Deviation	3.15	5.75	9.41

Note: Calculated from total returns over 12-month spans using monthly data. The annualized return is the compound rate of interest that would have brought $1 in January 1926 to the amount shown for the growth of $1 (to December 2002).
Sources: Ibbotson Associates and Dimensional Fund Advisors, Inc.

As shown, the return for long-term Treasury bonds was slightly higher during this period than the return for 5-year Treasury notes. One dollar invested in bonds at the beginning of 1926, with the interest reinvested, grew to $60.39 by the end of 2002, while a dollar invested in 5-year notes grew to $58.66.

The rate of return for any given 12-month period during these 76 years, however, was much more volatile for bonds than for notes. The average 12-month return for 5-year notes was 5.58 percent, and from one 12-month period to the next the standard deviation around this average was 5.75 percent. In statistical terms, this means that there was about a 1-in-6 chance that the return during any given 12-month period would be 5.75 points or more below the average. In other words, investors were likely to experience small losses from time to time with 5-year notes.

In contrast, the standard deviation for the return on bonds was a much larger 9.41 percent. This indicates that there was about a 1-in-6 chance that the return in any given 12-month period would be 9.41 percentage points less than the 5.86 percent average return. That the standard deviation is so large in relation to the average return suggests that investors in long-term bonds experienced losses quite a bit more often than one in every six 12-month periods. In short, the extra return that investors received on long-term bonds was minor in comparison to the higher volatility of their returns from one period to the next.

Investors can avoid this increase in volatility by buying notes with maturities of five years or less. At present, 5-year Treasuries are yielding roughly two percentage points less than long-term issues. But their potential losses are small compared with the likely losses on longer-term bonds if interest rates increase.

PLACER DOME

Placer Dome Group (PDG) is the world's fifth largest gold mining company. Headquartered in Vancouver, Canada, PDG has interests in 17 mines in six countries and employs 12,000 people. On December 31, 2002, the company had a market capitalization of US$4.7 billion.

PDG holds gold reserves of 52.9 million ounces and operates significant copper mining operations. Production comes from Australia (30 percent), the United States (26 percent), South Africa (7 percent), Chile (two percent), Canada (16 percent) and Papua New Guinea (19 percent). The Company forecasts production of 3.5 million ounces of gold, 427 million pounds of copper, and four million ounces of silver in 2003.

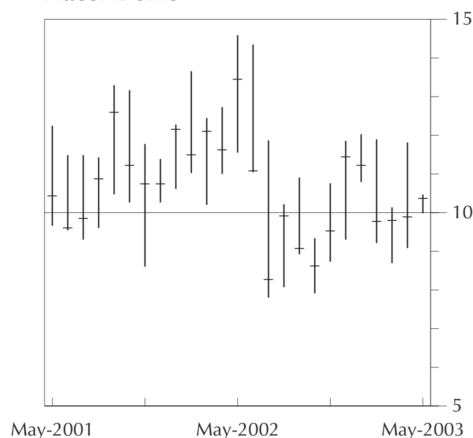
Gold production increased dramatically in 2002 with the acquisition of Australia-based AurionGold. New assets include the Kanowna Belle deposit, which produced its two millionth ounce of gold in August. The operation yields more than 240,000 ounces of gold per year at a cost of $175/oz and has two million ounces of proven reserves. Kalgoorlie West, another AurionGold asset, has produced more than 33.1 million ounces since inception.

The AurionGold acquisition increased Placer Dome's interest in the Granny Smith mine in Australia from 60 percent to 100 percent, and increased the company's interest in the Porgera mine in Papua New Guinea from 50 percent to 75 percent. It also adds three new mines in the Kalgoorlie region of Western Australia and a fourth in Tasmania. The Asia Pacific region is now Placer Dome's largest by production and is expected to contribute 1.8 million ounces of gold in 2003

Processing Gold Ore

Gold is found chiefly as the free metal scattered through gravel (placer gold) or in veins of quartz (vein gold). It is also found in smaller quantities in lead and copper sulfide ores. Nuggets of native gold that vary in size from that of a tiny pebble to a mass weighing as much as 248 pounds have been found. In a combined state, gold occurs in sylvanite, a telluride of gold and silver. The bulk of gold ores actually contain very little gold (about 5 to 15 grams/metric ton) and require capital intensive purification processes.

Impure gold is purified by melting and oxidizing the base metals or by melting and chlorinating which removes the base metals and silver. The silver-containing oxidized gold is purified by the electrolysis of gold chloride solutions.



The Cortez joint venture in Nevada increased gold production by 14 percent in 2002 due primarily to higher grade ore. The discovery of a new mineralized zone at Cortez Hills increased the measured and indicated mineral resources from 2.1 million ounces to 3 million ounces. Four drills are currently active on the property and exploration is continuing. Production at the Golden Sunlight mine, in Southwestern Montana, was up 182 percent over the prior-year period. In 2002, mine feed was supplemented from lower-grade stockpiles to take advantage of the higher

gold price. Golden Sunlight will mine and mill until the fourth quarter of 2003 after which the operation is expected to close.

During the first quarter of 2002, Placer Dome exercised its option to become operator of the Donlin Creek gold project in Alaska. This increased the PDG stake in the project from 30 percent to 70 percent. Measured and indicated mineral resources on the property are estimated at 11.1 million ounces.

Net earnings for the first quarter of 2003 were $64 million or $0.16/share. The company benefited from increased production and an increased gold price and unrealized non-hedge derivatives gains of $35 million after tax.

Cash flow from operations totaled $85 million or $0.21/share, down 11 percent over the first quarter of 2002 due to higher cash operating costs, deferred stripping expenditures and increased exploration spending. Mine operating earnings totaled $93 million, down five percent over the first quarter of 2002 due to higher production costs, which more than offset the increased gold production.

Placer Dome's precious-metal sales program realized an average spot price of $358/oz, a $6/oz premium over the average spot price of gold for the quarter. During the quarter, Placer Dome reduced the maximum committed ounces under its gold sales and derivative program by 1.1 million ounces to 11.5 million ounces or 22 percent of gold reserves as of 2002 year-end. Placer Dome earlier announced plans to reduce its committed ounces to below 10 million by the end of this year. As of March 31, 2003, the mark-to-market value of the program was a positive $113 million at the quarter's closing gold price of $336/oz.

Placer Dome Reserves

Gold	***Tons (000's)***	***Grade (g/t)***	***Contained oz. (000's)***
Latin America			
La Coipa	17,802	1.1	645
Canada			
Campbell	2,408	16.5	1,279
Musselwhite	8,110	5.4	1,419
Porcupine	30,028	1.6	1,545
United States			
Bald Mountain	12,925	1.2	508
Cortez	124,816	1.2	4,745
Getchell	3,495	23.9	2,690
Golden Sunlight	3,495	23.9	2,690
Australia			
Granny Smith	23,132	2.9	2,145
Henty	1,175	10.5	397
Kanowna Belle	13,762	4.6	
2,053			
Kalgoorlie West	13,960	3.3	1,480
Osborne	7,973	1.0	258
Papua New Guinea			
Misima	7,806	0.8	194
Porgera	43,634	3.3	4,681
South Africa			
South Deep	106,344	8.4	28,658
Total			52,891

Source: Placer Dome Group.

During the first quarter, Placer Dome repaid AurionGold debt of $137 million and successfully completed a $200 million, 30-year, non-convertible Debenture private placement. The proceeds of the placement were used to retire outstanding debt. This debt reduction strategy will save the company approximately $18 million in net interest expense annually from 2004 onward and will reduce long-term debt by more than $300 million. As of March 31, 2003, the company had cash and short-term investments of $651 million.

Cash costs increased to $205/oz while total costs increased to $260/oz due to the appreciation of the South African Rand, Canadian, and Australian dollars against the U.S. dollar, as well as higher energy costs. Costs overall also increased due to the inclusion of higher-cost production from several assets acquired from AurionGold. Total costs at Kalgoorlie West and Granny Smith in particular were higher than expected due to temporary operational issues, higher energy costs, a strengthening Australian dollar and higher depreciation associated with the fair-value allocation for the AurionGold acquisition.

CHANGES AT VANGUARD

Several Vanguard funds have changed the new indexes they seek to replicate. We do not recommend that investors make any changes among their holdings as a result of these changes.

The new benchmark indexes were developed by Morgan Stanley Capital International (MSCI). The funds began tracking the new indexes beginning May 16, 2003. The table below depicts the AIS-recommended funds that will be affected by these changes.

The new indexes track the same asset class as the indexes being replaced, so they remain consistent with the funds' existing investment objectives.

Vanguard is making the switch because they believe that the new indexes more accurately represent the target markets tracked by the funds. The new benchmarks also include practices Vanguard deems desirable. These include:

- Objective, not subjective rules for index construction.
- Market weightings that reflect only "floating" shares that are available and freely traded in the open market.
- Market capitalization definitions that slightly overlap.
- Identification of a stock as "growth" or "value" using a variety of factors.

Vanguard will have to reposition its underlying holdings accordingly, but the firm does not expect any adverse tax consequences for shareholders. Generally, Vanguard anticipates that the changes will reduce turnover slightly, resulting in modestly lower transaction costs.

Vanguard Fund	**New Target Index**	**Previous Target Index**
Vanguard Value Index Fund	MSCI US Prime Market Value Index	S&P 500/ Barra Value Index
Vanguard Growth Index Fund	MSCI US Prime Market Growth Index	S&P 500/Barra Growth Index
Vanguard Small-Cap Value Index Fund	MSCI US Small-Cap Value Index	S&P Small-Cap 600/Barra Value Index

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 December 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 positions in **Eastman Kodak** and **JP Morgan Chase** may be warranted 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 achieve results roughly

As of June 13, 2003

					Percent of Portfolio*	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares*[1]
Altria Group	1	6.07%	42.18	*		
Eastman Kodak	2	5.84%	30.83	Holding**	22.93	23.33
General Motors	3	5.52%	36.20	*		
SBC Comm.	4	4.46%	25.32	Buying	19.62	24.30
JP Morgan Chase	5	3.92%	34.70	Holding**	29.33	26.50
AT&T	6	3.60%	20.86	Buying	8.08	12.15
DuPont	7	3.21%	43.58	Selling	15.56	11.20
Honeywell Int'l	8	2.69%	27.86			
International Paper	9	2.64%	37.87			
Exxon Mobil	10	2.64%	37.98			
Caterpillar	13	2.50%	56.05	Selling	4.46	2.50
					100.00	100.00

Change in Portfolio Value[2]

	1 mo.	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*From 12/63*	*Std. Dev.*
Strategy	6.98%	8.52%	5.81%	13.24%	15.95%	15.72%	19.48
Dow	6.90%	4.49%	4.13%	12.73%	13.20%	10.57%	17.13

* 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.

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

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

THE DOW JONES INDUSTRIALS RANKED BY YIELD

	Ticker	Market Prices			12-Month		Latest Dividend			Indicated	
	Symbol	6/13/03	5/15/03	6/14/02	High	Low	Amount	Record Date	Paid	Annual Dividend	Yield† (%)
Altria Group	MO	**$42.18**	33.74	55.14	55.40	27.70	0.640	6/13/03	7/08/03	2.560	6.07
★ Eastman Kodak	EK	**$30.83**	30.02	29.53	41.08	25.59	0.900	6/02/03	7/16/03	1.800	5.84
General Motors	GM	**$36.20**	34.88	55.45	57.49	29.75	0.500	5/16/03	6/10/03	2.000	5.52
★ SBC Comm.	SBC	**$25.32**	24.76	32.23	33.40	18.85	0.283	4/10/03	5/01/03	1.130	4.46
★ J. P. Morgan Chase	JPM	**$34.70**	31.04	33.00	36.52	15.26	0.340	7/03/03	7/31/03	1.360	3.92
★ AT&T (r)	T	**$20.86**	17.44	10.18	29.52	13.45	0.188	3/31/03	5/01/03	0.750	3.60
☆ DuPont	DD	**$43.58**	42.60	43.18	45.85	34.71	0.350	5/15/03	6/12/03	1.400	3.21
Honeywell Intl.	HON	**$27.86**	25.15	35.60	37.55	18.77	0.188	5/20/03	6/10/03	0.750	2.69
International Paper	IP	**$37.87**	37.42	42.29	44.26	31.35	0.250	5/23/03	6/16/03	1.000	2.64
Exxon Mobil	XOM	**$37.93**	35.29	39.15	41.10	29.75	0.250	5/13/03	6/10/03	1.000	2.64
☆ Caterpillar	CAT	**$56.05**	53.40	48.90	57.05 *H*	33.75	0.350	7/21/03	8/20/03	1.400	2.50
General Electric	GE	**$30.65**	28.48	29.70	32.98	21.30	0.190	6/30/03	7/25/03	0.760	2.48
Merck	MRK	**$59.23**	59.53	52.51	60.48	38.50	0.360	6/06/03	7/01/03	1.440	2.43
Alcoa	AA	**$25.58**	22.75	31.37	33.80	17.62	0.150	8/08/03	8/25/03	0.600	2.35
3M Company	MMM	**$127.80**	125.85	126.05	136.75	108.20	0.660	5/23/03	6/12/03	2.640	2.07
Boeing	BA	**$35.34**	30.16	42.53	45.28	24.73	0.170	5/16/03	6/06/03	0.680	1.92
Coca-Cola	KO	**$47.35**	44.64	54.85	57.50	37.01	0.220	6/15/03	7/01/03	0.880	1.86
Johnson & Johnson	JNJ	**$52.56**	55.44	56.82	61.30	41.40	0.240	5/20/03	6/10/03	0.960	1.83
Citigroup	C	**$44.10**	39.45	40.20	44.49	24.42	0.200	5/05/03	5/23/03	0.800	1.81
Procter & Gamble	PG	**$91.17**	89.90	91.55	94.75	74.08	0.410	4/17/03	5/15/03	1.640	1.80
Hewlett-Packard	HPQ	**$20.99**	17.63	17.35	22.80 *H*	10.75	0.080	6/18/03	7/09/03	0.320	1.52
United Tech.	UTX	**$72.11**	67.77	68.25	73.37 *H*	48.83	0.270	8/22/03	9/10/03	1.080	1.50
McDonald's	MCD	**$21.46**	18.60	29.12	30.28	12.12	0.235	11/15/02	12/02/02	0.235	1.10
Walt Disney	DIS	**$20.35**	18.46	21.03	22.19	13.48	0.210	12/13/02	1/09/03	0.210	1.03
American Express	AXP	**$43.43**	40.99	35.96	44.62	26.55	0.100	7/03/03	8/08/03	0.400	0.92
IBM	IBM	**$82.75**	89.90	76.17	90.40	54.01	0.160	5/09/03	6/10/03	0.640	0.77
Home Depot, Inc.	HD	**$33.56**	29.37	36.98	38.90	20.10	0.060	6/12/03	6/26/03	0.240	0.72
Wal-Mart Stores	WMT	**$54.08**	53.76	56.95	58.88	43.72	0.090	6/20/03	7/07/03	0.360	0.67
Intel Corp.	INTC	**$21.36**	20.00	21.28	22.99	12.95	0.020	5/07/03	6/01/03	0.080	0.37
Microsoft Corp. (s)	MSFT	**$24.65**	25.79	27.63	29.48	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 6/13/03. *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

	6/13/03	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**353.05**	354.25	322.10
Silver, London Spot Price	**4.51**	4.87	4.89
Copper, COMEX Spot Price	**0.76**	0.76	0.76
Crude Oil, W. Texas Int. Spot	**30.65**	28.74	25.94
Dow Jones Spot Index	**148.16**	152.96	125.24
Dow Jones-AIG Futures Index	**116.98**	119.21	97.84
CRB-Bridge Futures Index	**234.11**	240.63	202.61

Interest Rates (%)

		6/13/03	Mo. Earlier	Yr. Earlier
U.S. Treasury bills -	91 day	**0.84**	1.05	1.70
	182 day	**0.83**	1.09	1.79
	52 week	**0.89**	1.12	2.03
U.S. Treasury bonds -	15 year	**3.71**	4.03	5.37
Corporates:				
High Quality -	10+ year	**4.79**	5.17	6.52
Medium Quality -	10+ year	**5.36**	5.79	7.33
Federal Reserve Discount Rate		**2.25**	2.25	1.25
New York Prime Rate		**4.25**	4.25	4.75
Euro Rates	3 month	**2.12**	2.43	3.47
Government bonds -	10 year	**3.48**	3.86	5.06
Swiss Rates -	3 month	**0.27**	0.30	1.25
Government bonds -	10 year	**2.08**	2.27	3.29

Exchange Rates

	6/13/03	Mo. Earlier	Yr. Earlier
British Pound	**$1.685000**	1.625600	1.476000
Canadian Dollar	**$0.749600**	0.727300	0.645700
Euro	**$1.187300**	1.148400	0.942300
Japanese Yen	**$0.008503**	0.008621	0.008049
South African Rand	**$0.128400**	0.128200	0.094100
Swiss Franc	**$0.769000**	0.763500	0.638400

Securities Markets

	6/13/03	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**988.61**	946.67	1,007.27
Dow Jones Industrial Average	**9,117.12**	8,713.14	9,474.21
Dow Jones Transportation Average	**2,455.56**	2,436.79	2,673.14
Dow Jones Utilities Average	**249.01**	230.65	276.60
Dow Jones Bond Average	**178.44**	172.20	142.81
Nasdaq Composite	**1,626.49**	1,551.38	1,504.74
Financial Times Gold Mines Index	**1,298.88**	1,217.83	1,288.74
FT African Gold Mines	**2,069.20**	2,000.91	2,049.94
FT Australasian Gold Mines	**2,181.79**	2,004.19	1,868.62
FT North American Gold Mines	**1,036.13**	961.72	1,036.03

Coin Prices

	6/13/03	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	**$370.85**	360.45	326.95	5.04
Austrian 100-Corona (0.9803)	**$353.23**	343.33	311.43	2.06
British Sovereign (0.2354)	**$88.75**	86.35	78.55	6.79
Canadian Maple Leaf (1.00)	**$371.10**	360.70	327.20	5.11
Mexican 50-Peso (1.2057)	**$435.80**	423.60	384.40	2.38
Mexican Ounce (1.00)	**$361.30**	351.20	318.60	2.34
S. African Krugerrand (1.00)	**$367.05**	356.85	323.95	3.97
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$415.00**	410.00	370.00	21.50
Liberty (Type I-AU)	**$675.00**	675.00	675.00	97.61
Liberty (Type II-AU)	**$440.00**	440.00	385.00	28.81
Liberty (Type III-AU)	**$395.00**	385.00	350.00	15.64
U.S. Silver Coins ($1,000 face value)				
90% Silver (715 oz.)	**$4,500.00**	4,500.00	4,600.00	39.55
40% Silver (292 oz.)	**$1,587.50**	1,587.50	1,550.00	20.55
Silver Dollars	**$6,137.50**	6,112.50	6,000.00	75.91

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $353.05 per ounce and silver at $4.51 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	6/13/03	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	**$82.95**	82.49	NA	82.98	81.00	1.2240	0.0000	1.46
★ USAA Short Term Bond	USSBX	**$9.23**	9.16	9.38	9.39	8.89	0.4141	0.0000	4.49
★ Vanguard Short-term Corporate	VFSTX	**$10.96**	10.88	10.80	10.96	10.58	0.5215	0.0000	4.76
Income Equity Funds									
★ DNP Select Income[1, 2]	DNP	**$10.95**	10.31	10.94	11.20	7.85	0.7800	0.0000	7.12
★ Vanguard REIT Index	VGSIX	**$13.22**	12.90	13.26	13.55	10.94	0.7700	0.0000	5.82
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$49.14**	46.06	49.97	51.71	35.91	0.8386	0.1472	1.71
★ Vanguard Value Index	VIVAX	**$16.85**	15.70	17.08	17.69	12.38	0.3150	0.0000	1.87
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$81.49**	76.55	88.25	91.37	62.50	0.6752	0.3430	0.83
★ Vanguard Sm. Cap Value Index	VISVX	**$9.39**	9.00	10.35	10.63	7.39	0.0900	0.0000	0.96
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$50.09**	48.76	50.92	52.28	40.02	0.5055	0.1124	1.01
★ Vanguard Growth Index	VIGRX	**$22.15**	21.65	22.60	23.17	18.25	0.2470	0.0000	1.12
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$54.70**	51.05	54.60	57.23	39.52	1.9044	0.0000	3.48
T Rowe Price European Stock	PRESX	**$14.78**	13.78	14.43	15.26	10.81	0.1400	0.0000	0.95
★ Vanguard European Stock Index	VEURX	**$18.57**	17.39	18.54	19.49	13.64	0.4000	0.0000	2.15

Recommended Gold-Mining Companies

	Ticker Symbol	6/13/03	Month Earlier	Year Earlier	— 52-Week — High	Low	Distributions Latest 12 Months	Frequency	Yield (%)
Anglo American PLC, ADR	AAUK	**$15.84**	14.86	17.43	17.85	10.84	0.480	Semiannual	3.03
★ Anglogold Ltd., ADR	AU	**$31.34**	30.63	29.55	38.69	19.75	1.459	Semiannual	4.66
ASA Ltd.[1]	ASA	**$37.60**	36.38	34.05	42.85	24.72	0.600	Quarterly	1.60
★ Barrick Gold Corp.†	ABX	**$18.19**	17.53	20.02	21.27	13.46	0.220	Semiannual	1.21
★ Gold Fields Ltd.	GFI	**$12.44**	11.34	12.37	15.44	8.96	0.389	Semiannual	3.13
★ Newmont Mining	NEM	**$32.07**	28.56	28.96	32.85	20.80	0.160	Quarterly	0.50
★ Placer Dome†	PDG	**$11.97**	10.73	12.59	13.15	7.91	0.100	Semiannual	0.84
★ Rio Tinto PLC‡	RTP	**$81.65**	74.75	77.44	85.26	61.10	2.399	Semiannual	2.94

★ 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.