INVESTMENT GUIDE

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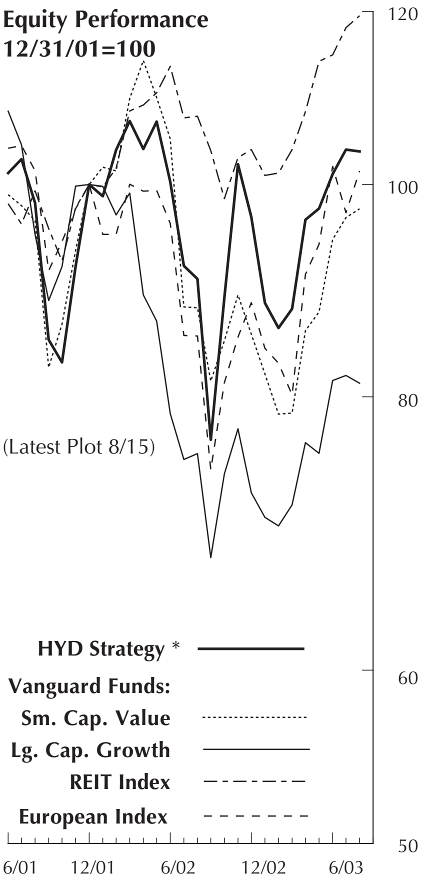


*** HYD is a hypothetical model based on back-tested results. See p. 62 for a full explanation.**

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

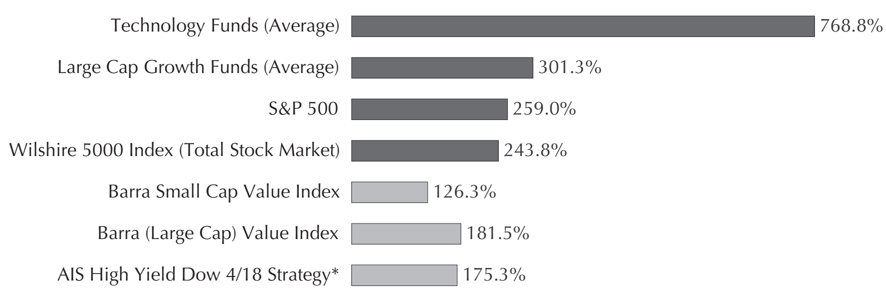
Online: www.americaninvestment.com

Brother, Can You Paradigm?

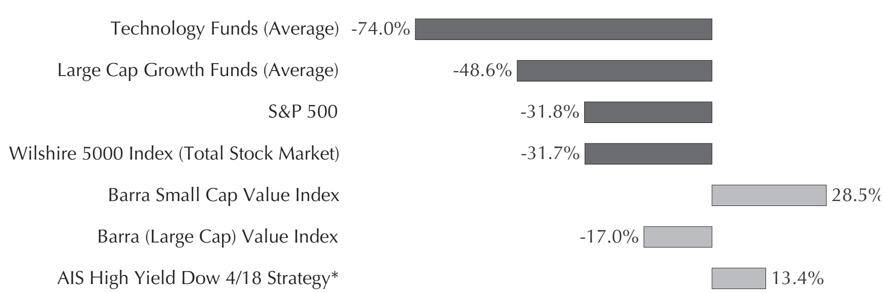
Remember the late 1990s, when we were entering a "new economy" guided by a "new paradigm"? Business cycles were said to be repealed, information technology would expand productivity exponentially, and of course traditional valuations for common stocks (price/earnings and price/book ratios, dividend yield) were obsolete.

The party has ended, of course, and though the investing public has since sobered up, the hangover for many has been particularly painful. We hope the charts below serve as a reminder that investors should do their best to ignore sensational media claims, whether "bullish" or "bearish," and instead focus on asset class behavior over the long term.

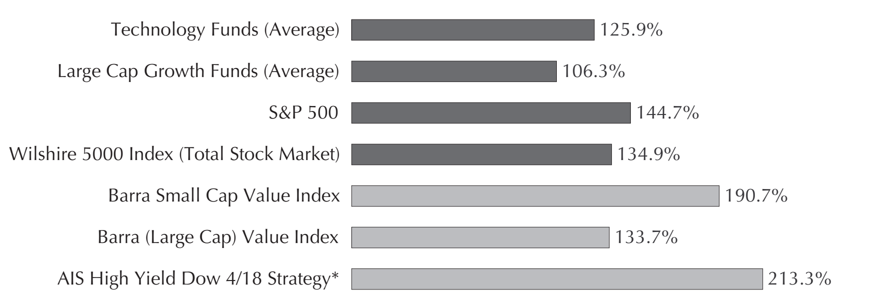
The "New Era" (January 1, 1995 to March 31, 2000)



The "Correction" (April 1, 2000 to June 30, 2003)



The Entire Period (January 1, 1995 to June 30, 2003)



SIPC INSURANCE—WHAT YOU NEED TO KNOW

Several American insurance carriers recently announced that they would no longer offer "excess SIPC" insurance to brokerage houses. Investors' securities are not suddenly in peril as a result of this announcement. Federal securities laws require that customer assets be segregated from a custodial firm's own assets and customer assets are commonly held in book-entry form at custodial depositories and not in physical possession by the firms themselves. Further, assets are protected by SIPC (Securities Investor Protection Corporation) for up to $500,000 per account. SIPC coverage is adequate for the vast majority of accounts.

Congress created the Securities Investor Protection Corporation (SIPC) in 1970 to protect customers of member broker-dealers that fail or are liquidated. If any securities or cash are missing from eligible customer accounts, the corporation steps in to replace those securities and cash. This protection is limited to $500,000 per account, including up to $100,000 in cash. SIPC is funded by fees from member firms and is bolstered by an additional $2 billion in bank credit and federal subsidies. The program has very deep reserves as illustrated in the chart below.

It is important to note that SIPC does not cover investment fraud. Its principal function is to restore funds to investors whose assets are in the custody of bankrupt and otherwise financially troubled brokerage firms. When a brokerage firm is closed due to bankruptcy or other financial difficulties, the SIPC works to return to cash, stock and other securities. Historically, 99 percent of eligible investors have recovered their investments from SIPC. As of December 2001, SIPC had advanced $513 million in order to make possible the recovery of $13.9 billion in assets for an estimated 622,000 investors.

In general, SIPC coverage is available in two distinct types of situations.

Insolvent or Bankrupt Firms

In the securities industry, there are many cases where two separate broker/dealers work together to service a customer account. These firms are known as the introducing firm and the clearing firm. The introducing firm typically employs the individual broker who takes the customer's order and who sees that the order gets executed. The clearing firm will hold the customer's cash and securities and send out statements describing the assets it holds "on deposit" for the customer. If the clearing firm becomes insolvent or otherwise cannot return the customer's property, it is the responsibility of SIPC, not the introducing firm, to make sure the customer's cash and securities are returned.

Unauthorized Trading

SIPC's coverage also includes protection against unauthorized trading in customers' securities accounts. This coverage can include unauthorized trading by persons associated with the introducing firm and may be available even if the clearing firm is still solvent.

SIPC Liquidation Process

SIPC will generally ask a court to appoint a trustee to supervise the liquidation of a SIPC member that is insolvent or that cannot return a customer's cash or securities. The trustee's duties include ensuring the return of customer property. The trustee will send claim forms to each customer of the liquidating broker/dealer based on the broker/dealer's records and publish notice of the liquidation in some newspapers. Customers receiving a claim form must return it to the trustee by the deadline on the form or risk not recovering their cash or securities. The trustee reviews the customers' forms and determines what funds to pay and what securities to return.

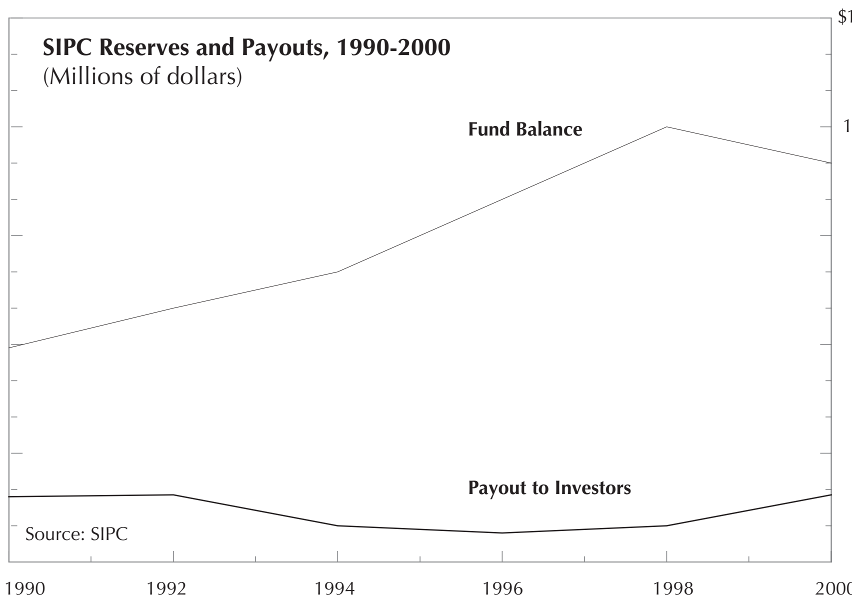
Private "Excess SIPC" Insurance

Most securities firms offer additional account protection beyond SIPC's limits (commonly referred to as "excess SIPC"). This coverage is provided through private arrangements between securities firms and insurance companies. Policy limits and terms vary from firm to firm, but typically the insurers promise to cover up to $100 million for each customer, with no limit on the total number of customers.

Excess SIPC insurance is part of a broad class of commercial insurance known as "surety" which essentially provides performance guarantees or "bonds." Surety bonds are most commonly placed for construction projects. In recent years these guarantees have been applied to a wide variety of financial transactions, including delivery of energy contracts by firms such as Enron. To date no insurance carrier has suffered a loss on excess SIPC and the business has been very profitable. The carriers claim, though, that their potential liabilities are too large and that their capital would be more efficiently deployed in higher margin classes of business. Withdrawal of the coverage is industry-wide and alternative arrangements are being explored.

AIS clients with accounts at Schwab Institutional and TD Waterhouse should be advised that their coverage extends through December 31, 2003. Investors should talk with their broker-dealer to learn about what is provided and the implications for their account if private insurance is no longer offered.

See www.sipc.org for further information about SIPC.



TAX TRENDS*

Suddenly, what constitutes a dividend makes a great deal of difference.

When President Bush first proposed his dividend exclusion, it quickly became very apparent that the proposal would involve a great deal of complexity in order to determine whether a dividend was being paid with respect to previously taxed income. This approach was eventually abandoned by Congress in the recently enacted Jobs and Growth Tax Relief Reconciliation Act of 2003[1] in favor of what seemed to be the relatively simple reduction in dividend tax rates without regard to whether the corporation had previously paid tax on the income. However, even this relatively simple concept of reducing the dividend tax rate is proving to be fairly complicated.

One problem is that dividends have not been a tax-advantaged source of income to individual taxpayers for a long period of time. Since the Tax Reform Act of 1986,[2] there has not been any special tax provision with respect to dividends received by individuals. Even the small dividend exclusion in the law prior to that time did not require much analysis of what constituted dividend income. As long as you had enough true dividends to cover the small exclusion amount, it did not matter whether the other distributions being labeled dividends were true dividends or not.

Now, however, dividends are taxed at the same rate as capital gains. Interest remains taxed at ordinary income rates. Taxpayers soon will learn that a lot of distributions that have been labeled dividends are not really dividends and do not qualify for the lower tax rates.

What Is a Dividend?

Taxpayers must determine whether a distribution is a dividend under Code Sec. 316 and whether it constitutes qualified dividend income under the new Jobs and Growth Tax Act. A dividend is defined in Code Sec. 316 as a distribution by a corporation to its shareholders out of is current or accumulated earnings and profits. The distribution therefore must be made by a corporation, not some other kind of entity. It must be received by shareholders, in their capacity as shareholders, not by lenders, employees or customers. And the corporation must have earnings and profits. A distribution to shareholders by a corporation without earnings and profits is a return of capital, not a dividend. Because distributions of dividends and interest have been similarly taxed in the past, much of the confusion concerning what is a dividend derives from mislabeling interest as dividends.

Preferred Stock

A preferred stockholder of a corporation normally would think that dividends paid on preferred stock should be eligible for the reduced dividend rate. The distribution is coming from a corporation with earnings and profits to someone holding something labeled preferred stock. And, if it were really preferred stock, the distribution would appear to qualify as a dividend eligible for the reduced tax rates. However, much of what has been marketed as preferred stock is not preferred stock. It is debt masquerading as preferred stock. It has been developed and marketed to corporations to enable corporations to deduct the distributions as interest expense on the corporate tax return. If the corporation is entitled to an interest expense deduction, it is not preferred stock, and the distributions with respect to that instrument are not dividends.

How do you determine if your preferred stock is really preferred stock? You can try to find the prospectus and dig through it for the answer, or ask the issuing corporation.

Money Market and Bond Funds

Typically, mutual fund companies have passed through earnings to fund holders in the form of dividends or capital gains. These two forms of distributions were distinguished because of the different tax treatment of the two. Interest on money market and bond funds was reported as dividends because there was no strong reason to distinguish between interest and dividends. Now dividends will be taxed the same as capital gains, and it appears likely that interest will continue to be taxed at ordinary income rates. Mutual fund holders will need now to distinguish interest-paying funds from dividend paying and capital gain paying funds. Mutual fund companies will have to revise their quarterly and 1099 reporting accordingly.

Can mutual funds now combine capital gains and dividends and report interest separately? No. Capital gains still will be treated differently for tax purposes even though the tax rate is the same. The favorable capital gains rates will still require a holding period of more than one year. Capital gains and losses must still be netted against each other without taking dividends into account. Dividends are likely to be reported on Schedule D rather than separately on Form 1040, and this change, along with the different treatment this year of capital gains before May 6, 2003, and those after May 5, 2003, will lead to a more complicated Schedule D for 2003 tax returns. Dividends and capital gains may also be treated differently on state income tax returns.

S Corporations

S corporations are corporations that make distributions to shareholders, but those distributions will in general not qualify as dividends for the reduced tax rates. S corporations typically do not have earnings and profits because they are allocated to the shareholders each year for passthrough taxation. It is possible for an S corporation to have accumulated earnings and profits from a prior life as a C corporation, and therefore it is possible for an S corporation to pay dividends with respect to those earnings and profits, but that would be the exception rather than the rule.

Real Estate Investment Trusts

Real estate investment trusts (REITs) are corporations that make distributions to holders. However, they are required to distribute to their holders most of the REIT earnings for the year. If some portion of REIT earnings is retained in the REIT, it is taxed at the REIT level, and distributions with respect to those earnings would qualify for the reduced dividend tax rates. Also, if a REIT happened to be a shareholder in a corporation and passed dividends it received from the corporation through to its holders, that distribution would also qualify for favorable dividend treatment. These would be exceptions to the general rule, however, that most REIT

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[1] Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. (P.L. 108-27)

[2] Tax Reform Act of 1986 (RL. 99-514).

distributions would not qualify for the favorable dividend tax rates.

Payment in Lieu of Dividends

Brokerage houses typically support the short sale industry by borrowing stock held by customers in brokerage accounts and using the borrowed stock to provide the stock needed by short sellers. If a dividend is paid while the stock is not part of the customer's account, it has customarily resulted in a payment in lieu of dividend to make sure that the customer received the equivalent of the dividend that would have been received had the stock actually remained in the account. Since these payments are not being made by a corporation with respect to its shareholders, these payments in lieu of dividends would not qualify for the favorable tax treatment of dividends.

The brokerage industry will have to devise some means to compensate customers for the favorable tax treatment they would otherwise have been entitled to receive, or some new technique probably will have to be devised to support the short sale industry.

Foreign Corporations

The House and Senate had different views as to whether the favorable dividend rates should apply to dividends received from foreign corporations as well as domestic corporations. The result, as with most compromises, is complexity—some foreign corporate dividends meet the definition of qualified dividend income, others do not. In general, for dividends from a foreign corporation to qualify for favorable treatment, the foreign corporation must be incorporated in a U.S. possession, traded on a U.S. exchange or incorporated in a country covered by a comprehensive tax treaty with the United States.

Investment Income

If a taxpayer has investment expense that can only be used against investment income, dividend income can only be used to offset that investment expense if the taxpayer so elects. However, if that dividend income is used to offset investment expense, the dividends would not be available for the favorable dividend tax rates. On the whole, it would be better for taxpayers to offset interest income against investment expense.

Retirement Accounts

If a taxpayer holds stock in a qualified retirement account, dividends paid on that stock flow into that account. Tax is deferred on the earnings on those accounts, and all withdrawals from those accounts, excluding after-tax contributions, are taxed at ordinary income rates. Just as capital gains earned in retirement accounts have not in the past qualified for favorable capital gain treatment when eventually distributed, dividends earned in those retirement accounts will not qualify for the favorable dividend rates when eventually distributed.

Will Ignorance Be Bliss?

The Conference Report for the Jobs and Growth Tax Relief Reconciliation Act of 2003 contains language requesting the Treasury to waive penalties against brokerage firms until they have a reasonable amount of time to update their reporting procedures. The Conference Report also requests that the Treasury allow taxpayers to treat distributions as qualifying for the favorable dividend tax rates if the taxpayer did not know or have reason to know that the distributions were not dividends. If the Treasury follows this advice, taxpayers may find that they are allowed for some period of time to treat distributions that do not qualify for the reduced dividend rates as if they did. We will have to await word from the Treasury to see how generously they interpret the Conference Report language.

Summary

Investors in the past have received a lot of distributions labeled as dividends that are not true dividends under the tax law. This was not the result of some clever tax strategy; rather, the label was not that important for tax purposes. This past practice will, however, result in a great deal of confusion as we shift to a period in which the question, "What is a dividend?" has great significance for tax purposes.

The changes necessary are likely to be more than just adding an extra box to the quarterly brokerage statements and 1099s. It is also likely to have an impact on the relative attractiveness of certain types of investments as compared to others.

QUALIFIED DIVIDEND INCOME—MAKE SURE YOU EARN IT

The recent changes to Federal income taxes present more complexity for mutual fund shareholders. The following article, written by Glen Freed of Dimensional Fund Advisors (DFA), summarizes the implications of these changes. Readers who are also our clients through our Professional Asset Management program realize that DFA offers a number of well run tax-managed funds. DFA funds are only available to institutions or to individuals through investment advisors, but the Vanguard Group and other mutual fund families offer tax-managed funds that high-income-tax-bracket investors should consider.

Enacted on May 28, 2003, the *Jobs and Growth Tax Relief Reconciliation Act of 2003* gives investors cause for excitement with a new 15% income tax rate on qualified dividend income. This excitement needs to be tempered. The good news is that the 15% rate applies retroactively to dividends received at the start of 2003. The bad news is that the ways people have been investing in 2003 may preclude the dividends from receiving the 15% rate. Investors should make sure that fund managers capture the benefit of the new rate. Tax-efficiency, after all, goes well beyond managing realized capital gains distributions. A tax-efficient fund manager also strives to earn qualified dividends. Let's explore the ways a tax-efficient fund manager can help individual investors take advantage of the new law.

Holding-Period Requirement

To earn a qualified dividend the investor must hold the stock for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date. A fund manager who holds a stock for shorter periods of time or has erratic cash flows into and out of the fund might not meet this requirement. In contrast, the tax-efficient manager will have systems in place to meet the holding period requirement.

Investors also should recognize that, for mutual funds, the holding-period requirement applies both at the fund level and at the investor level. Investors need to be careful when conducting year-end loss harvesting. In the past, 31 days were needed to avoid the "wash sale rule." Today, similar transactions might demand a 60-day holding period. For example, if you temporarily purchase a mutual fund after realizing a harvested loss in a fund you recently sold, the new fund might have a distribution that requires 61 days to receive qualified dividend treatment. Investors should watch out for this.

Stock Lending

The stock lending strategy employed by Dimensional seeks to enhance portfolio performance while minimizing the risk of lending stock. A stock lending deal occurs when a fund lends stock to a broker in exchange for the interest on cash collateral. Dimensional limits stock lending to 33.3% of a portfolio.

The portfolios' custodial banks, PNC and Citibank, execute the actual stock lending and help screen eligible brokers. In addition, Dimensional's portfolios receive collateral consisting of cash or US government securities in an amount equal to at least the current market value of the loaned securities. The portfolios can terminate the loan at any time and receive reasonable interest as well as amounts equal to any distributions on the loaned securities.

When a stock is out on loan over its ex-dividend date, the lender is required to make a dividend payment to the portfolio in lieu of the portfolio receiving the dividend directly from the company paying the dividend. This "in-lieu-of" dividend payment does not constitute qualified dividend income and is subject to ordinary income tax rates. A tax-efficient fund manager evaluates the impact of converting qualified dividend income into non-qualified dividend income on after-tax returns. The stock lending income will increase the pre-tax return of the mutual fund, but the stock lending activity could reduce the after-tax return due to the recharacterization of the dividend income. Tax-efficient investing is sensitive to the different ways mutual fund expenses are allocated.

A final point regarding security lending is that investors should be careful when investing in funds that have both taxable and tax-exempt investors (such as institutional retirement plans). When lending securities, a mutual fund may place lower priority on tax implications and seek to enhance total returns for its tax-exempt investors. Non-qualified distributions from securities lending could hurt the tax-efficiency of an index manager. Investors may want to select a manager that places priority on tax-efficiency.

Allocating Expenses to Mutual Fund Dividend Distributions

"Investment company taxable income" is calculated by a mutual fund to first offset all its expenses against non-qualified dividend income and to then offset remaining expenses against qualified dividend income. Non-qualified dividend income includes interest income, in-lieu-of dividend income payments, stock lending income, and net short-term capital gains. As a general rule, the tax-efficient manager will lend stock as long as the lending activity does not create non-qualified distributions from in-lieu-of dividend income payments. The 20% tax cost of non-qualified dividend income distributions (ordinary income rate of 35% minus the qualified dividend income rate of 15%) is not normally compensated by the stock lending income. A manager should monitor the relationship between fund expenses and non-qualified dividend income on an ongoing basis to maximize after-tax returns.

"Your pot o' gold is doing nothing for you sitting at the end of the rainbow. At the very least, you should put it in a no—risk interest-bearing account."

Tax Year 2003 Transition Events

Most mutual funds have a fiscal year end other than the calendar year end of December 31. The fiscal year end gives the fund accountants time to prepare Form 1099s for the calendar tax year. Portfolios managed by Dimensional have a fiscal year end of November 30. December 2002 fund level dividend income will be included in Dimensional's calculation of the 2003 non-qualified income distributions to mutual fund shareholders.

International Investing

To earn qualified dividend income from foreign investing a fund must invest in a *qualified foreign corporation*. A qualified foreign corporation is defined as either (a) a foreign corporation eligible for tax benefits under a comprehensive income tax treaty with an exchange-of-information program, or (b) a foreign corporation whose stock is readily tradable on a US exchange (*Jobs and Growth Tax Relief Reconciliation Act of 2003*). Underlying the qualified foreign corporation classification are some significant complexities yet to be resolved by the Department of Treasury. As a general rule, most developed countries have tax treaties with the US, but some emerging markets countries do not. Dimensional expects to monitor new tax information as the Treasury promulgates law.

Stock lending activity at the international level is complex. A borrower at the local country level in search of arbitrage opportunities can drive international stock lending. Such a borrower might pay the foreign investor in-lieu-of dividend payments net of any local foreign taxes while not being subject to the local tax. The borrower does not remit the local foreign tax withheld to the government, but pockets it as income. Local country governments do not usually advocate such tax arbitrages—on the contrary, most local governments try to shut these activities down. In spite of these efforts there is a higher probability of US investors earning non-qualified dividend income from securities lending in a tax-arbitrage country. A tax-efficient manager should take this into account and monitor international lending activities closely.

What to Do

If you don't have a headache by now you can appreciate that dividend management is no less complex under the new tax law. Careful thought and expertise remain completely crucial to tax management. The key point to remember is that taxable investors should commit to a tax-managed mutual fund that navigates these complexities and weighs their implications.

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 February 2002), 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

As of August 15, 2003

					——Percent of Portfolio*——	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares*[1]
Eastman Kodak	1	6.63%	27.13	Holding**	21.46	22.64
Altria Group	2	6.42%	39.85	*		
General Motors	3	5.39%	37.10	*		
SBC Comm.	4	4.86%	23.23	Buying	21.55	26.56
JP Morgan Chase	5	4.04%	33.66	Holding**	29.71	25.26
AT&T	6	3.57%	21.03	Buying	11.59	15.78
DuPont	7	3.21%	43.63	Selling	13.50	8.86
CitiGroup	8	3.12%	44.90			
Merck	9	2.77%	53.48			
Exxon Mobil	10	2.72%	36.83			
Caterpillar	17	1.97%	70.96	Selling	2.16	.88
					100.0	100.0

Change in Portfolio Value[2]

	1 mo.	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*From 12/63*	*Std. Dev.*
Strategy	-2.02%	13.83%	4.22%	12.82%	15.94%	15.54%	19.43
Dow	2.33%	8.18%	3.81%	12.08%	13.35%	10.43%	17.01

* 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.

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 85 percent 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	*8/15/03*	*7/15/03*	*8/15/02*	*High*	*Low*	*Amount*	*Record Date*	*Paid*	*Annual Dividend*	*Yield† (%)*
★ Eastman Kodak	EK	**$27.13**	26.56	30.24	41.08	24.18 *L*	0.900	6/02/03	7/16/03	1.800	6.63
Altria Group	MO	**$39.85**	40.50	50.91	52.00	27.70	0.640	6/13/03	7/08/03	2.560	6.42
General Motors	GM	**$37.10**	36.25	45.71	50.05	29.75	0.500	8/15/03	9/10/03	2.000	5.39
★ SBC Comm.	SBC	**$23.23**	24.80	28.06	31.65	18.85	0.283	7/10/03	8/01/03	1.130	4.86
★ J. P. Morgan Chase	JPM	**$33.66**	37.29	24.79	38.26 *H*	15.26	0.340	7/03/03	7/31/03	1.360	4.04
★ AT&T (r)	T	**$21.03**	19.60	10.55	29.52	13.45	0.188	6/30/03	8/01/03	0.750	3.57
☆ DuPont	DD	**$43.63**	42.08	41.74	45.30	34.71	0.350	8/15/03	9/12/03	1.400	3.21
Citigroup	C	**$44.90**	46.83	35.84	48.15	24.42	0.350	8/04/03	8/22/03	1.400	3.12
Merck	MRK	**$53.48**	61.87	50.58	63.50	43.35	0.370	8/12/03	8/19/03	1.480	2.77
Exxon Mobil	XOM	**$36.83**	35.19	37.14	38.45	31.18	0.250	8/13/03	9/10/03	1.000	2.72
General Electric	GE	**$28.78**	27.67	32.29	32.98	21.30	0.190	6/30/03	7/25/03	0.760	2.64
Honeywell Intl.	HON	**$28.55**	27.88	32.13	32.37	18.77	0.188	8/20/03	9/10/03	0.750	2.63
International Paper	IP	**$40.70**	36.74	39.24	40.99 *H*	31.35	0.250	8/21/03	9/15/03	1.000	2.46
Alcoa	AA	**$27.70**	24.75	25.43	27.90	17.62	0.150	8/08/03	8/25/03	0.600	2.17
Boeing	BA	**$32.94**	33.44	37.49	38.65	24.73	0.170	8/15/03	9/05/03	0.680	2.06
Procter & Gamble	PG	**$89.12**	88.75	91.32	93.50	79.57	0.455	7/18/03	8/15/03	1.820	2.04
☆ Caterpillar	CAT	**$70.96**	58.07	44.16	71.95 *H*	33.75	0.350	7/21/03	8/20/03	1.400	1.97
Coca-Cola	KO	**$45.01**	43.99	51.41	53.40	37.01	0.220	9/15/03	10/01/03	0.880	1.96
Johnson & Johnson	JNJ	**$51.05**	52.55	55.97	61.30	49.10	0.240	8/19/03	9/09/03	0.960	1.88
3M Company	MMM	**$142.66**	128.09	126.80	144.85 *H*	108.45	0.660	9/22/03	9/29/03	2.640	1.85
Hewlett-Packard	HPQ	**$21.40**	22.90	15.00	23.70	10.92	0.080	9/17/03	10/08/03	0.320	1.50
United Tech.	UTX	**$76.48**	71.92	61.75	77.10 *H*	48.83	0.270	8/22/03	9/10/03	1.080	1.41
McDonald's	MCD	**$22.98**	21.08	24.16	24.76	12.12	0.235	11/15/02	12/02/02	0.235	1.02
Walt Disney	DIS	**$22.45**	21.35	15.15	23.80 *H*	13.90	0.210	12/13/02	1/09/03	0.210	0.94
American Express	AXP	**$45.50**	45.14	37.45	46.35	26.55	0.100	7/03/03	8/08/03	0.400	0.88
IBM	IBM	**$81.79**	86.44	76.50	90.40	54.01	0.160	8/08/03	9/10/03	0.640	0.78
Home Depot, Inc.	HD	**$33.54**	33.17	28.93	34.90	20.10	0.060	6/12/03	6/26/03	0.240	0.72
Wal-Mart Stores	WMT	**$58.10**	57.32	54.71	58.80 *H*	46.25	0.090	6/20/03	7/07/03	0.360	0.62
Intel Corp.	INTC	**$25.05**	24.10	18.61	25.50 *H*	12.95	0.020	8/07/03	9/01/03	0.080	0.32
Microsoft Corp. (s)	MSFT	**$25.54**	27.27	24.89	29.48	21.56	0.080	2/21/03	3/07/03	0.080	0.31

★ BUY. ☆ HOLD. † Based on indicated dividends and market price as of 8/15/03. *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

	8/15/03	*Mo. Earlier*	*Yr. Earlier*
Gold, London p.m. fixing	**364.50**	348.25	312.65
Silver, London Spot Price	**5.02**	4.78	4.49
Copper, COMEX Spot Price	**0.79**	0.79	0.68
Crude Oil, W. Texas Int. Spot	**31.05**	31.62	29.06
Dow Jones Spot Index	**149.41**	146.49	132.53
Dow Jones-AIG Futures Index	**117.96**	116.11	102.20
CRB-Bridge Futures Index	**235.67**	233.12	216.67

Interest Rates (%)

U.S. Treasury bills -	91 day	**0.95**	0.89	1.61
	182 day	**1.03**	0.96	1.61
	52 week	**NA**	1.05	1.66
U.S. Treasury bonds -	15 year	**5.19**	4.55	4.86
Corporates:				
High Quality -	10+ year	**6.18**	5.50	6.35
Medium Quality -	10+ year	**6.80**	6.03	7.45
Federal Reserve Discount Rate		**2.00**	2.00	1.25
New York Prime Rate		**4.00**	4.00	4.75
Euro Rates	3 month	**2.14**	2.13	3.33
Government bonds -	10 year	**4.13**	3.87	4.38
Swiss Rates -	3 month	**0.25**	0.27	0.81
Government bonds -	10 year	**2.58**	2.33	2.80

Exchange Rates

British Pound	**$1.591000**	1.591200	1.534400
Canadian Dollar	**$0.719700**	0.716100	0.640800
Euro	**$1.118900**	1.113500	0.982400
Japanese Yen	**$0.008370**	0.008447	0.008516
South African Rand	**$0.136800**	0.127900	0.093700
Swiss Franc	**$0.724300**	0.719200	0.671000

Securities Markets

	8/15/03	*Mo. Earlier*	*Yr. Earlier*
S & P 500 Stock Composite	**990.67**	1,000.42	930.25
Dow Jones Industrial Average	**9,321.69**	9,128.97	8,818.14
Dow Jones Transportation Average	**2,623.66**	2,573.97	2,319.97
Dow Jones Utilities Average	**237.47**	238.63	242.50
Dow Jones Bond Average	**165.63**	171.40	143.49
Nasdaq Composite	**1,702.01**	1,753.21	1,345.01
Financial Times Gold Mines Index	**1,454.63**	1,262.89	1,114.26
FT African Gold Mines	**2,326.98**	2,037.14	1,784.54
FT Australasian Gold Mines	**2,367.53**	2,181.40	1,498.00
FT North American Gold Mines	**1,161.25**	1,000.75	900.50

Coin Prices

	8/15/03	*Mo. Earlier*	*Yr. Earlier*	*Premium*
American Eagle (1.00)	**$370.75**	356.85	322.25	1.71
Austrian 100-Corona (0.9803)	**$353.13**	339.93	307.03	-1.17
British Sovereign (0.2354)	**$88.75**	85.55	77.55	3.43
Canadian Maple Leaf (1.00)	**$371.00**	357.10	322.50	1.78
Mexican 50-Peso (1.2057)	**$435.70**	419.50	378.90	-0.86
Mexican Ounce (1.00)	**$361.20**	347.80	314.10	-0.91
S. African Krugerrand (1.00)	**$366.95**	353.35	319.35	0.67
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$415.00**	410.00	375.00	17.68
Liberty (Type I-AU)	**$675.00**	675.00	675.00	91.41
Liberty (Type II-AU)	**$440.00**	440.00	385.00	24.77
Liberty (Type III-AU)	**$405.00**	390.00	355.00	14.84
U.S. Silver Coins ($1,000 face value)				
90% Silver (715 oz.)	**$4,450.00**	4,450.00	4,600.00	23.98
40% Silver (292 oz.)	**$1,587.50**	1,587.50	1,575.00	8.30
Silver Dollars	**$6,300.00**	6,137.50	6,025.00	62.23

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $364.50 per ounce and silver at $5.02 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

Short-Term Bond Funds	*Ticker Symbol*	***8/15/03***	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Distributions Latest 12 Months Income*	*Capital Gains*	*Yield (%)*
★ iShares Lehman 1-3 Yr Treasury	SHY	**$82.08**	82.46	81.41	83.04	81.31	1.4280	0.0000	1.74
★ USAA Short Term Bond	USSBX	**$9.04**	9.13	9.01	9.23	8.89	0.3951	0.0000	4.37
★ Vanguard Short-term Corporate	VFSTX	**$10.75**	10.87	10.67	10.96	10.58	0.4954	0.0000	4.61
Income Equity Funds									
★ DNP Select Income[1, 2]	DNP	**$10.50**	11.04	10.35	11.20	8.19	0.7800	0.0000	7.43
★ Vanguard REIT Index	VGSIX	**$13.63**	13.57	12.35	13.83	10.94	0.7700	0.0000	5.65
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$49.09**	49.23	42.12	50.01	35.91	0.8400	0.1472	1.71
★ Vanguard Value Index	VIVAX	**$16.78**	16.72	15.38	17.17	12.38	0.3050	0.0000	1.82
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$86.20**	85.81	75.80	86.75	62.50	0.7315	0.3430	0.85
★ Vanguard Sm. Cap Value Index	VISVX	**$9.72**	9.76	8.92	9.82	7.39	0.0900	0.0000	0.93
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$50.14**	50.96	48.18	51.83	40.70	0.5390	0.1124	1.07
★ Vanguard Growth Index	VIGRX	**$22.39**	22.86	21.36	22.92	18.29	0.2370	0.0000	1.06
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$54.55**	52.31	51.00	55.94	39.52	1.9044	0.0000	3.49
T Rowe Price European Stock	PRESX	**$14.67**	14.25	13.33	15.08	10.81	0.1400	0.0000	0.95
★ Vanguard European Stock Index	VEURX	**$18.62**	18.09	17.31	19.10	13.64	0.4000	0.0000	2.15

Recommended Gold-Mining Companies

	Ticker Symbol	***8/15/03***	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Distributions Latest 12 Months*	*Frequency*	*Yield (%)*
Anglo American PLC, ADR	AAUK	**$18.34**	15.91	12.50	18.72	11.39	0.480	Semiannual	2.62
★ Anglogold Ltd., ADR	AU	**$37.30**	30.77	23.70	38.69	20.40	1.322	Semiannual	3.54
ASA Ltd.[1]	ASA	**$41.73**	36.02	29.08	42.85	26.00	0.600	Quarterly	1.44
★ Barrick Gold Corp.†	ABX	**$18.30**	16.98	16.00	18.97	13.82	0.220	Semiannual	1.20
★ Gold Fields Ltd.	GFI	**$13.01**	11.00	11.70	15.44	9.52	0.389	Semiannual	2.99
★ Newmont Mining	NEM	**$38.50**	31.84	27.00	39.05	22.57	0.160	Quarterly	0.42
★ Placer Dome†	PDG	**$13.16**	11.48	9.40	13.50	7.97	0.100	Semiannual	0.76
★ Rio Tinto PLC‡	RTP	**$84.56**	81.76	67.85	89.43	62.03	3.020	Semiannual	3.57

★ 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.