INVESTMENT GUIDE

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Equity Performance
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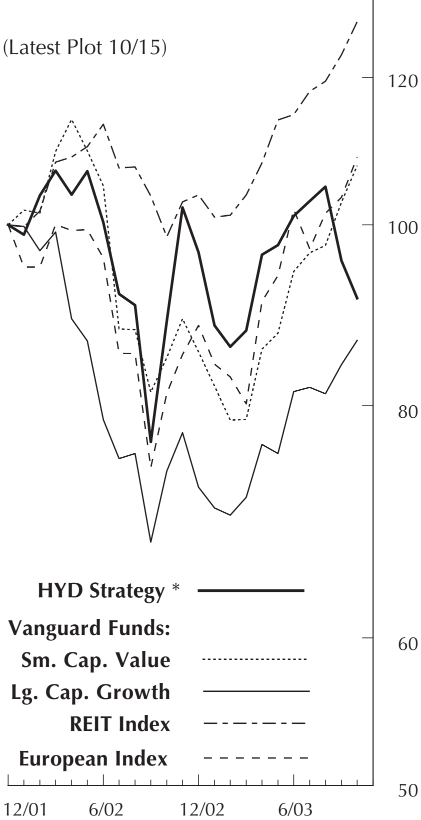
(Latest Plot 10/15)



*** HYD is a hypothetical model based on back-tested results. See p. 78 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

Eastman Kodak Cuts Its Dividend

On Thursday, September 25th, Kodak announced that it would reduce its dividend to a semi-annual payment of $0.25 per share ($0.50 annually) from a semi-annual payment of $0.90 per share ($1.80 annually). The board declared a cash dividend of $0.25 per share, payable December 12, 2003, to shareholders of record as of the close of business on November 3, 2003. The announcement was made the day after the September *Investment Guide* had gone to press.

As a result of this reduction, Kodak fell from its position as the highest yielding of the thirty stocks that comprise the Dow Jones Industrial Index. As of the next day's market close, the shares had fallen to 14th highest-yielding and were therefore no longer eligible for purchase in the 4-for-18 model.

The high-yield Dow approach has been successful largely because shares are sold from the model after their relative yield has fallen, and in the overwhelming majority of cases this has been a result of share price appreciation, rather than a dividend that has been reduced. However, as we explain below, Kodak's dividend cut and its resulting removal from the list is not unprecedented, nor is it necessarily calamitous for those who have the discipline to stick to the model.

In the aftermath of this announcement, we have received inquiries regarding what course of action should be taken. Interestingly, while some readers and clients have been asking whether they should immediately sell their shares, apparently sensing a continued rout, others have been eager to buy more, evidently detecting a bargain.

In short, the rational response is to ignore your emotions and stick to the model.

To further explain our reasoning, let us first dispense with an argument we hear quite frequently. Callers invariably refer to what they have paid for the shares they currently hold, and then suggest some course of action. Some believe that because their average cost basis is so high they must "cut their losses" and immediately sell out their entire position. Others argue the opposite, that perhaps they should add shares in order to bring their average cost down further.

Both of these arguments are fallacy. The price paid for your shares of Kodak, or any asset for that matter, is a *sunk cost*. One cannot go back in time and change that decision; it is therefore extraneous data and does not merit further consideration. One should consider what to do with the shares held without regard to what was paid for them. One can continue to hold the shares, which will have some future, unknown value. Alternatively, the shares could be sold and invested in an alternative asset, which will have its own future value, presently unknown.

Which asset will have greater value will be determined by a myriad of factors that will emerge as *news*—that is, presently unknown information—earnings announcements, interest rates, etc. However, the price you might

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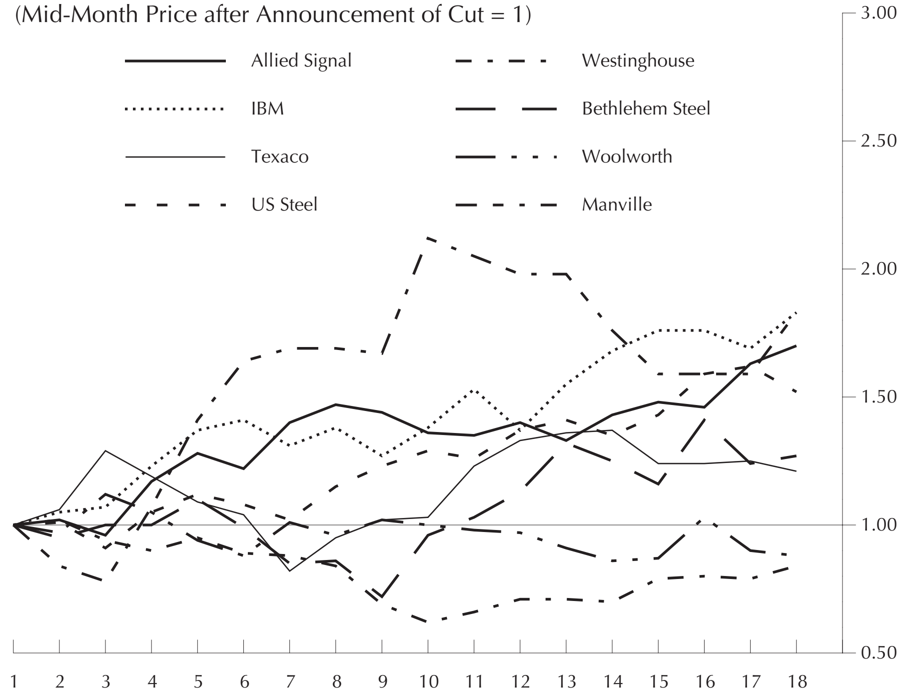
have paid for those shares once upon a time is not among the factors that will determine the future price of those securities. (Your cost basis is relevant if you hold shares in a taxable account, but it has no bearing on the future value of the shares).

If Kodak maintains its ranking of 14th highest yielding, or otherwise remains out of the four highest ranking stocks over the next 18 months, it will be incrementally sold off and replaced with whatever stock moves into the top four over that period. At such time its price might be higher or lower than it is today. We have no way of knowing that outcome. However, while it is rare for a high-yield Dow constituent to cut its dividend, there is precedent, and it is worth considering.

Consider the accompanying chart. There have been only nine instances during the past 25 years when a stock was sold out of the HYD model after a dividend cut had reduced its yield. We have depicted the (indexed) price performance of 8 of those stocks during the 18 months following the announcement of the dividend cut. Clearly, some stocks, such as Woolworth and Westinghouse, did poorly, while others did quite well. We omitted Goodyear Tire because its subsequent price appreciation was so great that its inclusion would have distorted the chart (its ending index value was 3.79).

Dividend Cuts in the HYD: Subsequent (Indexed) Price Performance

(Mid-Month Price after Announcement of Cut = 1)



While it is impossible to determine in advance which path Kodak might take, it is apparent to us that it would be unwise for an investor to "dump" his shares now. There is also a lack of compelling evidence to deviate from the model by adding shares now that the stock has left the model.

The central point to keep in mind is that, despite occasional instances of stocks in the model that were sold at losses, these "losers" have been more than offset by the returns of "winners" that were purchased cheaply and sold dearly.

We should add that Kodak's move runs contrary to the current trend. The recent change in the law that reduces the tax on dividends to 15 percent has prompted many corporate boards to increase their dividends dramatically. Other things equal, we expect this consideration will make it even less likely that stocks in the model will experience dividend reductions.

If you have found this experience to be especially worrisome, you might reconsider your risk tolerance. If you conclude that you are more risk-averse than you had assumed, you might reconsider your overall portfolio allocation. We recommend that most investors limit their total portfolio's exposure to large cap value stocks to no more than 35 percent (conservative investors should target 20 percent). However, that 35 percent could be diversified beyond the high-yield Dow stocks. You might consider some combination of a high-yield Dow portfolio and one of our recommended large-cap value index funds. This will provide far greater diversification within the asset class, and can be expected to mitigate the sharp swings—up and down—that will occur with a the high-yield Dow portfolio alone.

QUARTERLY REVIEW OF INVESTMENT POLICY

Money-Market Funds

We have found that many investors fail to realize that money market funds and other cash equivalent assets are in fact investments in their own right, that perform important roles in maintaining a portfolio's value. Short-term cash equivalent assets are providing paltry returns, especially after adjusting for the effects of price inflation. Nevertheless, liquidity remains extremely important. Uncertainty, after all, applies not only to how your investments are valued in the market, but also to your personal circumstances. Unforeseen events could force you to liquidate securities during a downturn in the market if your cash position is inadequate.

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 (VMSXX) provides income that is free of federal income taxes; it has a current annual yield of 0.78 percent on a pre-tax basis. On an after-tax basis, investors should consider whether they would come out ahead with this fund versus holding a taxable fund such as the Vanguard Prime Money Market Fund (VMMXX), which is currently yielding 0.77 percent.

Yields on U.S. Treasury Securities

	03/31/03	*06/30/03*	*9/30/03*
3-month	1.10	0.84	0.95
6-month	1.11	0.96	1.01
1-year	1.15	1.02	1.13
10-year	3.81	3.55	3.96
30-year	4.81	4.56	N/A

Intermediate-Term Bonds

Bonds had one of the most volatile

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.

quarters in years. The U.S. 10-year Treasury lost 1.87 percent for the quarter, with the yield rising from 3.51 percent to 3.96 percent. The Lehman Brothers Credit Index, which measures corporate debt, was flat; the Lehman Brothers high-yield corporate bond index returned 2.87 percent for the quarter.

Bond funds had an outflow of $12.59 billion in August, compared with an outflow of $10.84 billion in July. The August outflow came during a month in which interest rates rose.

Despite historically low interest rates, we do not recommend that investors "reach for yield." The bond allocations in the accompanying table should be confined to U.S. Government-issued securities or high-grade corporate or municipal bonds with five years or fewer remaining until maturity. 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 near 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.

For many investors, any of the four fixed-income mutual funds on p. 80 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.

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.

Ideally, investors would follow 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

Real Estate Investment Trusts (REITs) and the Duff and Phelps Select Income Fund should be of interest to most investors. In addition to enhancing the stability of your portfolio's value, these investment vehicles provide a steady level of income. The accompanying table reveals that since the beginning of 2001, REITs have provided at total return of 44.71 percent. That was the strongest return of any of our recommended asset classes during that period, despite the fact that REITs did not provide the highest return during any particular quarter.

Our investment vehicle of choice is the Vanguard REIT Index fund (symbol VGSIX). It is currently yielding 4.69 percent. In addition to providing an attractive yield, REITs are not strongly correlated with those of other income-producing securities such as bonds, so they deserve inclusion in many portfolios.

Utility stocks rose 0.85 percent for the quarter, as measured by the Dow Jones Utilities index. We continue to recommend the DNP Select Income Fund, which is dominated by bonds and stocks of public utilities. The fund pays a monthly dividend and is currently yielding 7.58 percent on an annual basis.

Common Stocks

Domestic equities enjoyed another positive quarter across all segments. For the quarter, the S&P 500 Index rose 2.65 percent, the Dow Jones Industrial Average gained 3.2 percent and the NASD Composite gained a more robust 10.0 percent. The Lipper Large-Cap value Index

Total Returns (%)*

	2001				*2002*				*2003*			*Total Return Entire Period*
	1Q	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*3Q*	*1Q 2001-3Q 2003*
Vanguard Short-Term Corporate	**3.18**	1.25	3.34	0.17	0.26	1.25	**2.27**	1.34	**1.39**	0.02	0.40	18.01
Vanguard REIT Index	-0.50	10.66	-2.56	4.72	8.08	4.79	-8.48	0.10	1.01	12.27	9.47	**44.71**
Vanguard Value Index	-6.58	4.41	-16.26	7.89	1.32	-10.69	-20.45	9.88	-5.57	20.27	2.24	-19.10
High-Yield Dow 4/18**	-2.89	10.24	-16.09	9.19	6.92	-6.20	-23.79	**26.42**	-9.21	18.59	-4.90	-1.06
Vanguard Small Cap Value Index	-0.78	**13.25**	-16.63	**21.22**	**9.59**	-4.15	-22.50	4.62	-7.98	19.39	7.48	15.19
Vanguard Growth Index	-17.50	7.70	-13.26	12.97	-0.87	-16.30	-14.07	7.04	-0.91	11.57	3.24	-24.15
Vanguard European Stock Index	-15.62	-1.87	-12.09	9.48	0.05	-4.05	-22.85	10.77	-9.25	**22.30**	3.89	-24.60
Gold (London PM Fix)	-6.10	5.01	**8.31**	-5.66	9.01	**5.67**	1.63	7.75	-3.56	3.33	**12.14**	42.02

* The highest returns provided in each period are in **Bold Face Type**. ** HYD is a hypothetical model based on back tested results. See p. 78 for a full explanation.

Total Returns: AIS Recommended Gold Related Stocks

	2002	*2Q 2003*	*3Q 2003*
Barrick Gold Corp.	-2.22%	15.78%	5.20%
Newmont Mining Co.	52.60%	24.29%	20.55%
Rio Tinto PLC (ADR)	4.73%	1.12%	17.10%
Placer Dome Inc.	6.49%	25.20%	12.47%
Anglogold Ltd. (ADR)	97.84%	5.70%	19.74%
Gold Fields, Ltd. (ADR)	197.04%	16.0%	17.48%

returned a more modest 1.93 percent. The HYD model lagged the overall market with a return of -4.9 percent during the third quarter. The loss in value is attributable to the Eastman Kodak dividend cut and subsequent drop in share price.

The Vanguard Value Index fund (large cap) gained 2.24 percent. Large-cap growth stocks were up more sharply, as the Vanguard Growth Index gained 3.24 percent.

The Russell 2000 (small cap) index gained 9.07 percent, while the Vanguard Small-Cap Value Index returned 7.48 percent. International stocks also had strong quarterly returns. The MSCI EAFE Index finished the second quarter up 4.84 percent. The Vanguard European Stock Index fund rose 3.89 percent. The euro rose roughly 1.3 percent against the dollar, closing the quarter at $1.16, increasing the value of euro holdings in dollar terms.

Despite several high-profile mutual fund investigations, stock funds had an inflow of $22.91 billion in August, compared with an inflow of $21.45 billion in July, according to the Investment Company Institute.

Gold-Related Investments

The gold price surged on a weaker dollar, rising over 10 percent to finish the quarter at $388. 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.

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 above.

SMART TAX STRATEGIES

As the year comes to an end it appears that the three-year losing streak in the stock market (calendar years 2000-2002) has ended as well. Indeed all of our recommended asset classes thus far have provided positive returns. Nevertheless, this year investors may have realized taxable gains or losses, considering that the market has only begun to recover from the steep decline that began in March 2000. In either case, it is important to understand the rules with regard to investment-related taxes.

The Investment Plan

Investors with tax-deferred accounts, including IRAs and qualified retirement plans, should carefully integrate these plans into an overall investment strategy. For maximum tax efficiency, you should take full advantage of your tax-deferred accounts by allocating to them those assets that are least tax-efficient, especially those that provide a high level of investment income.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) brought considerable tax relief for investors, but it also muddied the waters with regard to the optimal use of tax-deferred accounts. Here we consider how best to utilize those accounts for those investors that have them. For those investors who have only a taxable account, or only a tax-deferred account, none of our recommended assets should necessarily be excluded from your holdings. We merely describe the ideal use of taxable and tax-deferred accounts, if you have both available.

Most fixed-income securities (bonds) pay interest, so if held in a taxable account, interest payments will be taxed as ordinary income, at a combined Federal and state marginal income tax rate that could exceed 40 percent. Since withdrawals from tax-deferred accounts (IRAs and qualified retirement plans) are also fully taxable as ordinary income, it makes sense to take full advantage of the tax-deferral feature and concentrate your fixed-income holdings in those accounts to the extent possible. The same applies to real estate investment trusts (REITs), since the income they generate is treated as ordinary income.

However, under JGTRRA both long-term capital gains and most dividends on common stock will now be taxed at a maximum rate of only 15 percent. Assets that can be expected to provide their returns through capital appreciation, such as small-cap stocks, large-cap growth stocks and gold mining shares, should be concentrated in taxable accounts. Our passive approach, which relies heavily on indexing strategies, generates minimal realized gains from year-to-year, so appreciation is effectively deferred for many years. When these shares are eventually liquidated and gains realized, they will be taxed at only 15 percent. On the other hand, if held in a tax-deferred *account*, the eventual effective levy on all withdrawals could exceed 40 percent.

For high-yielding stocks such as those in the high-yield Dow strategy, however, the situation is not as clear. On one hand, the fact that all of the returns will be taxed at 15 percent, whether from dividend income or long-term gains, argues for holding these shares in a taxable account. After all, if held in an IRA, the value of the shares and any income they might have generated over the years will eventually be withdrawn and taxed as ordinary income, again at a potentially much higher rate. On the other hand, however, one must consider that the quarterly dividends paid and any capital gains realized along the way will be tax-deferred, versus the 15 percent toll that would be levied every year if held in a taxable account. The answer is therefore not cut and dried. Generally, the longer you have until retirement, and the more likely you will be in a lower income-tax bracket in retirement than you are in today, the more you should favor a tax-deferred account for these shares.

Smart Tax Swapping Strategies

Fund Name & Target Index

Vanguard European Stock Index Fund MSCI European Index	**iShares S&P Europe 350 Fund** S&P Europe 350 Index
Vanguard Value Index Fund MSCI Prime Market Value Index	**iShares Russell 1000 Value Index Fund** Russell 1000 Index (value subset)
Vanguard Small Cap Value Index Fund MSCI Small-Cap Value Index	**iShares Russell 2000 Value Index Fund** Russell 2000 Index (value subset)
Vanguard Growth Index Fund MSCI Prime Market Growth Index	**iShares Russell 1000 Growth Index Fund** Russell 1000 Index (growth subset)

Netting Gains and Losses

Generally, gains from the sale of long-term capital assets, such as the securities we recommend, are taxed at a maximum rate of 15 percent (five percent for individuals in the 15 percent bracket). A short-term holding period is one year or less, while long-term assets are those held for at least one year.

Although the capital-gains tax rate has fallen, investors often become fixated on avoiding the tax altogether, to the detriment of their portfolio. You should instead focus on maximizing your after-tax returns. In our work as investment advisors, it is not uncommon to encounter an investor with as much as 25 percent of his portfolio invested in a single stock. Typically the stock is held in a taxable account and has significant unrealized gains. Because they are loath to pay 15 percent to the government, these investors continue to hold the stock, leaving the portfolio highly susceptible to the fortunes of a single company. Very often investors will be better served in the long run by absorbing this tax cost in order to hold a more diversified portfolio. There is no general rule for when to sell highly appreciated assets. One must quantify and evaluate the trade-off between the expected return from holding the stock and incurring no tax versus selling and reinvesting the proceeds after taxes are paid. This can only be done on an individual basis.

Charitable Remainder Plans remain one of the best options for investors with highly appreciated assets. They allow taxpayers with highly appreciated assets a means of liquidating these assets and realizing the income generated by reinvesting the full value of the proceeds; capital gains tax is avoided. An immediate tax deduction is also generated. At the death of the last designated income beneficiary the underlying assets in the plan become available for the charity's use. (Our parent, the American Institute for Economic Research (AIER), has a low-cost charitable remainder program. Contact us to learn more).

Although accountants and tax software alleviate much of the burden of calculating gains and losses, investors should understand the rules pertaining to taxable gains and losses in order to take full advantage of year-end moves that can provide considerable tax savings.

In order to compute the amount of net short-term or long-term gain or loss for the year, investors should take the following steps:

1) Offset your total short-term capital losses against total short-term capital gains. (Short-term losses should include short-term losses carried over from prior years.) The result is your net short-term capital gain or loss.

2) Offset your total long-term capital losses against total long-term capital gains. (Long-term losses should include long-term losses carried over from prior years.) The result is your net long-term capital gain or loss.

3) Net out the results in 1) and 2), then apply the following rules:

i) Net short-term capital gains: Taxable as ordinary income.

ii) Net long-term capital gain: Generally taxable at a maximum rate of 15 percent.

iii) Net short-term capital loss or net long-term capital loss: Apply dollar-for-dollar against ordinary income, up to $3,000 per year. Any excess may be carried forward to future years indefinitely until exhausted. The net loss carried forward retains its long-term or short-term character for the year to which it is carried.

iv) Combination of a net short-term capital gain and a net long-term capital gain: the net short-term gain is treated as in (i) above; the net long-term gain is treated as in (ii) above.

v) Combination of net short-term capital loss and a net long-term capital loss: both are treated as in (iii) above.

Swapping Securities

Investors can use these rules to increase their after-tax portfolio returns by making year-end adjustments in their holdings. For example, many investors might still have short- or long-term unrealized losses in the Vanguard Growth Index fund. By selling these shares for less than their cost basis, you can generate a loss that can offset gains generated elsewhere, or even reduce your ordinary income by applying the rules above.

However, if you sold all of these large-cap growth shares, your portfolio suddenly would be out of balance relative to our recommended allocations. A seemingly obvious solution would be to simply buy back the shares immediately. Unfortunately, the IRS considers a quick sale and repurchase of the same security a "wash sale," and will disallow the loss. Losses on the sale of securities are disallowed if substantially identical securities or options to purchase such securities are purchased within a 61-day window beginning 30 days before the date of the sale and ending 30 days after the sale.

One could wait the requisite 30 days and then repurchase the securities. However, markets can move a great deal in 30 days. Securities prices are inherently unpredictable, so you risk "selling at the bottom" and purchasing only after a substantial rebound in price.

There might be a better solution. Investors can "swap" securities they currently hold for assets whose prices are highly correlated with those that are to be sold. Several assets fit this description, without being considered "substantially identical" assets. By selling one of these assets and purchasing its substitute, an investor can potentially generate a loss for tax purposes without changing his *economic* position, because his exposure to that asset class would be largely unaffected.

Among our recommended asset classes, investors might have unrealized losses among our recommended shares. The accompanying table suggests some reasonable substitutes. Any fund may be substituted for the corresponding fund in the same row. The returns on each of these investment vehicles are highly correlated with the returns on the substitute we suggest.

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 **AT&T** was not eligible for purchase 18 months earlier (in April 2002). Investors following the model should find that the indicated purchases of **SBC** and **AT&T**, and sales of **Caterpillar** and **Eastman Kodak** are sufficiently large to warrant trading. In larger accounts, rebalancing positions in **JP Morgan Chase** and **Dupont** 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

As of October 15, 2003

	Rank	Yield	Price	Status	Percent of Portfolio* Value	Percent of Portfolio* No. Shares[1]
Altria Group	1	6.02%	45.15	*		
SBC Comm.	2	5.22%	21.63	Buying	21.48	27.01
AT&T	3	4.75%	20.02	Buying	14.10	19.01
General Motors	4	4.59%	43.55	*		
JP Morgan Chase	5	3.72%	36.60	Holding**	32.86	24.34
DuPont	6	3.49%	40.07	Holding**	11.61	7.85
Merck	7	3.03%	48.89			
CitiGroup	8	2.86%	48.88			
General Electric	9	2.63%	28.85			
Exxon Mobil	10	2.60%	38.49			
Eastman Kodak	13	2.20%	22.70	Selling	17.44	20.83
Caterpillar	18	1.88%	78.72	Selling	2.42	0.83
					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	-4.54%	20.70%	4.20%	11.90%	15.19%	15.40%	19.40
Dow	3.84%	21.33%	5.15%	12.42%	13.24%	10.53%	16.99

* 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.

Erratum

Because of an error in calculation related to the 2-1 split of MMM, last month's all Dow results were incorrect. The correct results for the period ending September 15th, 2003 are as follows:

	1 mo.	1 yr.	5 yrs.	10 yrs.	15 yrs.	From 12/63	Std. Dev.
Dow	1.42%	16.16%	5.09%	12.00%	13.12%	10.45%	16.99

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 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, J.P. Morgan Chase and DuPont—account for roughly 87 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 Symbol	*Market Prices*			*12-Month*		*Latest Dividend*			*Indicated*	
		10/15/03	*9/15/03*	*10/13/02*	*High*	*Low*	*Amount*	*Record Date*	*Paid*	*Annual Dividend*	*Yield† (%)*
Altria Group	MO	**$45.15**	40.60	40.02	47.07	27.70	0.680	9/15/03	10/09/03	2.720	6.02
★ SBC Comm.	SBC	**$21.63**	23.06	23.76	31.65	18.85	0.283	10/10/03	11/03/03	1.130	5.22
★ AT&T (r)	T	**$20.02**	22.26	12.60	29.52	13.45	0.238	9/30/03	11/03/03	0.950	4.75
General Motors	GM	**$43.55**	41.25	36.70	45.21 *H*	29.75	0.500	8/15/03	9/10/03	2.000	4.59
★ J. P. Morgan Chase	JPM	**$36.60**	33.97	18.61	38.26	16.80	0.340	10/06/03	10/31/03	1.360	3.72
★ DuPont	DD	**$40.07**	44.07	41.47	45.55	34.71	0.350	8/15/03	9/12/03	1.400	3.49
Merck	MRK	**$48.89**	53.09	50.88	63.50	47.31	0.370	9/05/03	10/01/03	1.480	3.03
Citigroup	C	**$48.88**	44.16	34.14	49.12 *H*	29.65	0.350	11/03/03	11/26/03	1.400	2.86
General Electric	GE	**$28.85**	31.40	26.20	32.42 *H*	21.30	0.190	9/29/03	10/27/03	0.760	2.63
Exxon Mobil	XOM	**$38.49**	37.51	36.30	38.90 *H*	31.58	0.250	8/13/03	9/10/03	1.000	2.60
Honeywell Intl.	HON	**$29.14**	28.26	22.34	30.07	20.20	0.188	8/20/03	9/10/03	0.750	2.57
International Paper	IP	**$39.25**	39.82	37.10	41.50	33.09	0.250	8/21/03	9/15/03	1.000	2.55
☆ Eastman Kodak	EK	**$22.70**	27.85	30.35	41.08	20.39 *L*	0.250	11/03/03	12/12/03	0.500	2.20
Coca-Cola	KO	**$45.10**	43.50	52.48	53.10	37.01	0.220	12/01/03	12/15/03	0.880	1.95
Alcoa	AA	**$30.76**	28.54	21.65	30.98 *H*	18.45	0.150	11/07/03	11/25/03	0.600	1.95
Procter & Gamble	PG	**$95.63**	91.74	90.42	96.15 *H*	79.57	0.455	7/18/03	8/15/03	1.820	1.90
Johnson & Johnson	JNJ	**$50.50**	50.84	59.56	61.30	49.00	0.240	8/19/03	9/09/03	0.960	1.90
☆ Caterpillar	CAT	**$78.72**	69.00	37.98	78.92 *H*	35.70	0.370	10/20/03	11/20/03	1.480	1.88
Boeing	BA	**$37.00**	35.50	32.15	38.90	24.73	0.170	8/15/03	9/05/03	0.680	1.84
3M Company (s)	MMM	**$73.70**	69.22	62.63	74.85	59.73 *L*	0.660	9/22/03	9/29/03	1.320	1.79
United Tech.	UTX	**$83.70**	78.20	55.23	84.45 *H*	53.04	0.350	11/14/03	12/10/03	1.400	1.67
McDonald's	MCD	**$23.92**	23.49	18.06	24.94 *H*	12.12	0.400	11/14/03	12/01/03	0.400	1.67
Hewlett-Packard	HPQ	**$21.92**	19.83	13.50	23.90	11.67	0.080	9/17/03	10/08/03	0.320	1.46
Walt Disney	DIS	**$21.75**	20.10	16.75	23.80	14.84	0.210	12/13/02	1/09/03	0.210	0.97
American Express	AXP	**$48.30**	44.64	33.72	49.11 *H*	30.15	0.100	10/03/03	11/10/03	0.400	0.83
Home Depot, Inc.	HD	**$36.29**	32.78	29.40	36.40 *H*	20.10	0.070	9/04/03	9/18/03	0.280	0.77
IBM	IBM	**$92.74**	88.49	68.48	94.54 *H*	61.54	0.160	8/08/03	9/10/03	0.640	0.69
Wal-Mart Stores	WMT	**$59.07**	57.75	56.29	60.20	46.25	0.090	10/06/03	10/14/03	0.360	0.61
Microsoft Corp. (s)	MSFT	**$29.07**	28.36	26.15	30.00 *H*	22.55	0.160	10/17/03	11/07/03	0.160	0.55
Intel Corp.	INTC	**$31.76**	27.99	16.52	32.78 *H*	13.42	0.020	11/02/03	12/01/03	0.080	0.25

★ Buy. ☆ Hold. † Based on indicated dividends and market price as of 10/15/03. *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 .10 on 11/3/03 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

	10/15/03	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**373.50**	373.50	316.20
Silver, London Spot Price	**4.91**	5.16	4.31
Copper, COMEX Spot Price	**0.90**	0.82	0.67
Crude Oil, W. Texas Int. Spot	**31.77**	28.14	29.72
Dow Jones Spot Index	**162.58**	150.73	140.40
Dow Jones-AIG Futures Index	**127.60**	119.21	107.03
CRB-Bridge Futures Index	**247.64**	240.42	231.38

Interest Rates (%)

U.S. Treasury bills -	91 day	**0.91**	0.93	1.65
	182 day	**1.00**	1.00	1.66
	52 week	**1.20**	1.10	1.74
U.S. Treasury bonds -	15 year	**5.03**	4.90	4.78
Corporates:				
High Quality -	10+ year	**5.97**	5.87	6.40
Medium Quality -	10+ year	**6.46**	6.42	7.59
Federal Reserve Discount Rate		**2.00**	2.00	1.25
New York Prime Rate		**4.00**	4.00	4.75
Euro Rates	3 month	**2.13**	2.16	3.23
Government bonds -	10 year	**4.16**	4.32	4.25
Swiss Rates -	3 month	**0.24**	0.27	0.76
Government bonds -	10 year	**2.62**	2.88	2.52

Exchange Rates

British Pound	**$1.672100**	1.593900	1.554900
Canadian Dollar	**$0.756000**	0.731900	0.629700
Euro	**$1.162300**	1.123400	0.981700
Japanese Yen	**$0.009118**	0.008597	0.008061
South African Rand	**$0.142900**	0.132900	0.096100
Swiss Franc	**$0.750900**	0.721300	0.669200

Securities Markets

	10/15/03	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,046.76**	1,014.81	881.27
Dow Jones Industrial Average	**9,803.05**	9,448.81	8,255.68
Dow Jones Transportation Average	**2,863.64**	2,732.98	2,286.46
Dow Jones Utilities Average	**252.43**	244.21	178.13
Dow Jones Bond Average	**170.27**	170.16	144.32
Nasdaq Composite	**1,939.10**	1,845.70	1,282.44
Financial Times Gold Mines Index	**1,531.97**	1,532.11	1,039.09
FT African Gold Mines	**2,404.90**	2,471.11	1,880.30
FT Australasian Gold Mines	**3,209.92**	2,765.41	1,468.56
FT North American Gold Mines	**1,208.00**	1,210.53	795.05

Coin Prices

	10/15/03	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	**$381.95**	384.35	325.95	2.26
Austrian 100-Corona (0.9803)	**$363.73**	366.13	310.53	-0.66
British Sovereign (0.2354)	**$91.35**	91.95	78.35	3.90
Canadian Maple Leaf (1.00)	**$382.20**	384.60	326.20	2.33
Mexican 50-Peso (1.2057)	**$448.80**	451.70	383.30	-0.34
Mexican Ounce (1.00)	**$372.10**	374.50	317.70	-0.37
S. African Krugerrand (1.00)	**$377.95**	380.35	323.05	1.19
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$430.00**	430.00	390.00	18.99
Liberty (Type I-AU)	**$675.00**	675.00	675.00	86.79
Liberty (Type II-AU)	**$440.00**	440.00	385.00	21.76
Liberty (Type III-AU)	**$415.00**	415.00	367.50	14.84
U.S. Silver Coins ($1,000 face value)				
90% Silver (715 oz.)	**$4,400.00**	4,450.00	4,600.00	25.33
40% Silver (292 oz.)	**$1,587.50**	1,587.50	1,575.00	10.73
Silver Dollars	**$6,300.00**	6,300.00	6,025.00	65.86

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $373.50 per ounce and silver at $4.91 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	10/15/03	Month Earlier	Year Earlier	52-Week High	52-Week Low	Distributions Latest 12 Months Income	Distributions Latest 12 Months Capital Gains	Yield (%)
Short-Term Bond Funds									
★ iShares Lehman 1-3 Yr Treasury	SHY	**$82.29**	82.47	81.56	83.04	81.37	1.3717	0.0000	1.67
★ USAA Short Term Bond	USSBX	**$9.08**	9.09	8.99	9.23	8.89	0.3824	0.0000	4.21
★ Vanguard Short-term Corporate	VFSTX	**$10.79**	10.80	10.62	10.96	10.58	0.4696	0.0000	4.35
Income Equity Funds									
★ DNP Select Income[1, 2]	DNP	**$10.32**	10.86	8.75	11.20	8.20	0.7800	0.0000	7.56
★ Vanguard REIT Index	VGSIX	**$14.67**	14.08	11.51	14.71	11.28	0.7900	0.0000	5.39
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$51.53**	49.53	41.90	52.32	37.44	0.8565	0.1472	1.66
★ Vanguard Value Index	VIVAX	**$17.52**	17.03	14.29	17.57	13.09	0.3350	0.0000	1.91
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$93.35**	90.16	69.00	94.70	62.59	0.7530	0.3430	0.81
★ Vanguard Sm. Cap Value Index	VISVX	**$10.73**	10.25	8.18	10.79	7.39	0.0900	0.0000	0.84
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$53.14**	52.09	46.30	53.49	41.25	0.5551	0.1124	1.04
★ Vanguard Growth Index	VIGRX	**$23.92**	23.21	20.52	24.02	18.59	0.2070	0.0000	0.87
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$58.39**	55.45	48.08	58.77	39.52	1.9044	0.0000	3.26
T Rowe Price European Stock	PRESX	**$15.75**	14.97	12.69	15.75	10.81	0.1400	0.0000	0.89
★ Vanguard European Stock Index	VEURX	**$19.96**	18.99	16.28	19.96	13.64	0.4000	0.0000	2.00

Recommended Gold-Mining Companies

	Ticker Symbol	9/15/03	Month Earlier	Year Earlier	52-Week High	52-Week Low	Distributions Latest 12 Months	Distributions Frequency	Yield (%)
Anglo American PLC, ADR	AAUK	**$20.17**	18.97	13.07	20.65	12.46	0.480	Semiannual	2.38
★ Anglogold Ltd., ADR	AU	**$37.32**	38.59	24.09	41.57	23.00	1.329	Semiannual	3.56
ASA Ltd.[1]	ASA	**$41.75**	43.30	29.20	45.40	27.50	0.600	Quarterly	1.44
★ Barrick Gold Corp.†	ABX	**$18.52**	19.64	14.19	21.14	13.89	0.220	Semiannual	1.19
★ Gold Fields Ltd.	GFI	**$13.83**	14.03	10.54	15.52	9.52	0.318	Semiannual	2.30
★ Newmont Mining	NEM	**$39.34**	38.59	23.10	42.50	22.57	0.160	Quarterly	0.41
★ Placer Dome†	PDG	**$13.90**	13.82	8.37	14.65	8.05	0.100	Semiannual	0.72
★ Rio Tinto PLC‡	RTP	**$99.40**	90.95	71.03	100.28	67.49	2.420	Semiannual	2.43

★ 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.