INVESTMENT GUIDE

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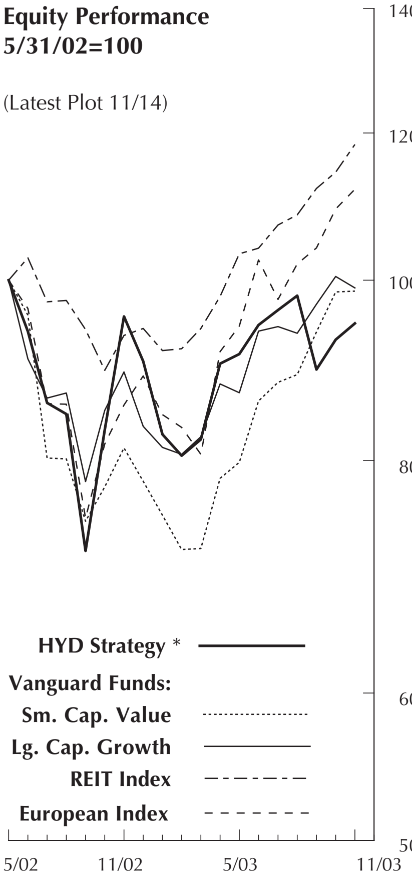
Equity Performance 5/31/02=100

(Latest Plot 11/14)



*** HYD is a hypothetical model based on backtested results. See p. 86 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

(Not So) Mutual Funds

Investigations into mutual fund misdeeds have multiplied since we addressed the issue in September. The funds we recommend have not been implicated nor do we expect that they will be. However, more than a dozen fund families that market conventional open-end mutual funds have now joined the list of alleged participants in improper trading practices.

Conventional open-end funds are vulnerable to a variety of nefarious trading practices by their managers. Some of these include:

- ***Market Timing*** (not illegal *per* se) or in-and-out trading to make fast profits. This hurts the fund's long-term investors, because the profits are earned on all of the fund's assets, even though the in-and-outer's stake is never invested. Managers who allow this may receive kickbacks from the market timers.
- ***Late Trading*** is the same thing, except that the in-and-outer's trades are made after the fund has been priced for the day. Late trading is illegal.
- ***Front Running***—purchases for the manager's own account in advance of purchases for the fund, which can push up the price of a stock.
- ***Scalping***—purchasing a stock for the fund that the manager already owns.
- ***Cloning***—maintaining a separate (and secret) brokerage account for managers engaged in the foregoing to avoid detection.

These work against investors' interests and a variety of regulatory measures are being weighed to address the problem. We should note that the losses to investors from these practices are dwarfed by the excessive fees and expenses charged by many funds. The latter get by the regulators as long as they are "fully disclosed," but this does not make them any less harmful to the investor. It is this emphasis on "full disclosure," rather than the costs and risks relative to alternative investments that led E.C. Harwood to identify the Securities and Exchange Commission as one of the "greatest swindles of all time."

In any event, the market itself offers a solution in the form of exchange traded funds (ETFs) such as those we recommend on page 88. ETFs are priced continuously throughout the day (rather than only at the market's closing price)—their prices always reflect all currently available information. This means that ETFs do not offer the opportunity for timers to gain at the expense of long-term investors, not only because they are continuously priced, but also because a buyer's invested dollars are not invested in underlying shares but instead flow directly to the seller of the ETF (for a full explanation of ETF mechanics, see the November 2001 *Investment Guide*). Trades in ETFs are subject to brokerage fees, but these are clearly evident to the investor. In addition to transparency, ETFs have other attractive features. Most ETFs eschew stock picking strategies in favor of tracking market indexes, and their expense ratios are typically below even those of conventional index mutual funds. All of our recommended asset classes are available through ETFs except for gold, and we expect gold ETFs to be introduced soon.

GIVING THAT KEEPS ON GIVING

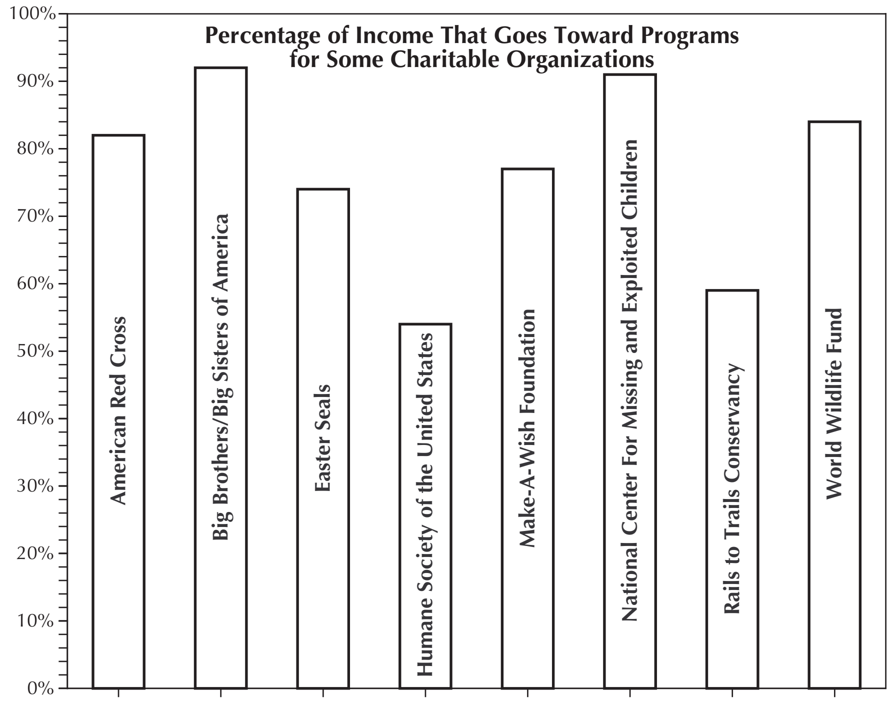
"Make all you can, save all you can, give all you can."— John Wesley

The word "philanthropy" is derived from the Greek words that translate into "to love mankind." During the holiday season, many individuals turn their attention toward monetary gifts that go beyond gaily-wrapped presents to those that can benefit others, perhaps those they do not even know, in a profound and meaningful way.

If charitable giving is on your holiday "to do" list, you are not alone. Last year, contributions to charitable organizations totaled $240.92 billion, with individuals accounting for over 76 percent of that amount. Some of these individuals give to help support and raise awareness of the values and causes they consider most important to them. Having one's name on a donor list provides a side benefit of signaling one's altruistic intentions and largesse to the world. Others may combine their desire to help others with estate planning considerations.

Whatever your reason for giving, it's important to combine your good intentions with practical business sense. This means contributing in ways that minimize taxes to the greatest extent possible, and investigating how the charitable organizations you favor are being run and how your donations will be used. Like Enron and other scandal-ridden companies highlighted in news reports this year, charitable organizations have their share of wasteful executives who might squander your money on lavish fund raising events or unreasonably high salaries for executives, rather than direct the lion's share to the people you wish to help or causes you wish to promote.

The Better Business Bureau's Wise Giving Alliance (formerly the BBB Philanthropic Advisory Service) provides some guidance for evaluating how an organization spends donations by breaking expenses into three categories: programs, administration, and fund raising. Program services, the heart of an organization and the reason most people donate, might cover things such as research grants or food or medical supplies and field personnel. Administration includes expenses such as accountants' or attorneys' fees, rent, employee salaries, and other general expenses. Fundraising costs include creating and printing brochures, paying fees to professional fundraisers, banquets, or advertising. In general, the Council of Better Business Bureau standards call for (1) at least half of the charity's total income to be spent on programs, (2) at least half of public contributions to be spent on the programs described in appeals, (3) no more than 35 percent of contributions to be spent on fund raising, and (4) no more than half of the charity's total income to be spent on administrative or fund-raising costs.



If you would like to find out more detail about organizations to which you donate, visit the BBB Wise Giving Alliance at www.give.org. The Reports section gives detailed information on many charities, including a breakdown of program expenses, executive compensation, paid staff, fund raising methods, sources of funding, and the percentage of income that goes directly to charitable programs. For a written report on a specific charitable group, contact the BBB Wise Giving Alliance, 4200 Wilson Boulevard, Suite 800, Arlington, VA 22203. If you wish to find out more about a local charity not listed on the web site, contact your local better business bureau or your state's charity registration office, which is usually connected with the state attorney general's office.

Tips for Giving

Aside from checking out charities you are considering, a few other tips will help facilitate the giving process:

- Carefully evaluate all telephone solicitations before making a donation, and never give out your credit card number or bank account information over the phone.
- Always use a check made payable to the charity, not the individual who solicited the donation.
- Don't confuse tax-exempt with tax-deductible. While some organizations do not have to pay income taxes, giving them the "tax-exempt," label, your contributions to them are not necessarily tax-deductible. Most of the organizations that qualify for tax-deductible contribution treatment have received what's called Section 501 (C)(3) status from the Internal Revenue Service. If you are unsure of whether or not your contribution is tax-deductible, ask to see a copy of the IRS determination letter that verifies Section 501(c) (3) status. You can also find a listing of thousands of tax-exempt organizations that qualify for this treatment in IRS Publication 78—Cumulative list of Organizations. Contributions to some types of organizations, such as a Chamber of Commerce or trade association, may be deductible as a business expense but not as a

charitable contribution.

- Ask about deductible amounts if a contribution is associated with some type of benefit such as membership in an organization or a gift. You may only be permitted to deduct any amounts above the fair market value of such items.
- Make sure you know who you're giving to. Some unscrupulous solicitors use names that sound confusingly similar to those of larger, more established organizations when they ask for donations.
- Take inflation into account. Considering the impact of rising costs, you would need to contribute $1,225 today to equal the value of a $1,000 donation made in 1995.

How much should you give? While the easy answer is "as much as you feel comfortable with," some organizations have calculated suggested annual donations based on formulas that take income and assets into account. According to NewTithing Group of San Francisco, a philanthropic research organization, a married couple with adjusted gross income of around $180,000 and investment assets of $462,275 could afford to donate $4,500 a year. For further guidance on suggested giving amounts for various income and asset levels, consult the group's web site at www.newtithing.org.

Tax and Estate Planning Issues

While the concept of "giving" is often associated with philanthropic concerns, it is also an integral component of effective tax and estate planning. Whether you choose to give gifts of money or property to charitable organizations or family members, your generosity can be a powerful way to reduce or eliminate estate taxes.

If you believe you do not have to worry about estate taxes because you don't consider yourself wealthy, you may change your mind once you conduct an inventory of all your assets. Taxable estates include all property left to heirs, including bank accounts, retirement plans, life insurance proceeds, IRAs, home equity, and taxable gifts made during one's lifetime. Add these up, and your estate can climb into the taxable range, either now or in the future.

Any discussion of estate planning must begin with a mention of the exclusion amount, or the amount of assets that can be passed to heirs free of estate taxes. The exclusion amount was adjusted upward in 2002, and is set at $1,000,000 for 2003, $1,500,000 for 2004 and 2005, $2,000,000 for 2006, 2007, and 2008, and $3,500,000 for 2009. If an estate is larger than the exclusion amount it will be taxed at rates as high as 49 percent, depending on its size.

The unified credit, which gets its name because federal gift and estate taxes are integrated into one unified tax system, refers to the tax credit that effectively eliminates taxes on the exclusion amount. If you use the credit to offset gift taxes (we'll talk about gift taxes shortly), you reduce the amount of the credit you can use against your gift tax in a later year. The total amount used against your gift tax reduces the credit available to use against your estate tax.

When a tax preparer files an estate tax return, he or she first calculates the tax based on the estate value, then applies the credit to reduce or eliminate any taxes due. Based on the exclusion amount of $1,000,000 for 2003, the unified credit is $345,800. The unified credit amount for estates rises gradually and peaks at $1,455,800 in 2009, while the unified credit for gifts remains at $345,800. This means that beginning in 2004, those who use up their entire unified credit for gift tax purposes will still have a portion of the unified credit for estate tax purposes available to them.

It is important to coordinate the use of the unified credit with the unlimited marital deduction, which allows a married couple to reduce or eliminate estate taxes on assets left to a spouse. However, the unified credit of the first to die can be wasted if all of one's assets are transferred under the marital deduction and eventually enter the estate of the surviving spouse. If that happens, children or other heirs of the survivor could get hit with a huge tax bill down the road.

A bypass trust, also called a credit shelter trust, can help ensure that the heirs of the surviving spouse are shielded from taxes. Typically, when the first spouse dies, these trusts are fully funded with assets valued at the credit equivalent, thereby shielding $1,000,000 (currently) in that estate. Those assets, if the trust is properly structured, ultimately escape estate taxation on the death of the second spouse as well. The income from assets left in such trusts is often payable to the surviving spouse.

The use of gifting and trusts are two popular ways to avoid or minimize estate taxes. Gifts to family members or charities during your lifetime can reduce

"The Benefits of a CRUT" Charitable Remainder UNITRUST

Establish a Charitable Remainder UNITRUST and then transfer your highly appreciated asset(s) into the trust.

↓

The asset(s) are sold without creating a taxable event, increasing the assets income potential. The proceeds are then reinvested in investments more appropriate for generating income to the donor(s).

↓

The Donor receives a Tax deduction for the gift to the trust.

↓

At the death of the Donor or Donors, the remaining assets in the trust are received by the charity.

→

The UNITRUST pays a fixed percentage (minimum 5%) of the annual trust value to the donor. If the trust grows in value, the income will also increase. The principal can also be used to meet minimum payout requirements.

↓

A portion of the income can be used to purchase a life insurance policy owned outside of the donor's estate as a means of replacing the gifted assets. (Optional.)

↓

At the death of the Donor or Donors the Insurance policy proceeds are received 100% income tax free by the policy beneficiaries.

assets and potential estate tax liability, as well as remove any future appreciation and earned income from the estate. As an added benefit, you get to see the people who are getting the gifts use and enjoy them.

If the gifts follow certain guidelines, they are tax-free for both the donor and recipient. Gifts that qualify for this gift tax exclusion include transfers of up to $11,000 per person, per year, an amount that increases periodically to take into account inflation. This amount is called the annual gift tax exclusion because it is how much one person can give to any number of recipients every year without having to file a gift tax return or eating into the unified credit described previously that permits lifetime tax-free transfers. You can give that amount to as many people as you wish. A generous person could give away $110,000 to 10 lucky (and hopefully grateful) individuals each year. If you are married, you and your spouse can together give up to $22,000 each year to each individual. You may also give an unlimited amount of money without incurring the gift tax if it is used to pay tuition or medical expenses. To qualify, payments must be made directly to the school or medical facility. Only tuition payments—not room, board, or living expenses—qualify. And medical payments must be for procedures which qualify for a tax deduction, and which are not reimbursed by the insurance company.

Donating securities rather than cash to a charity as part of a gifting plan can make sense because charitable gifts of appreciated property are not subject to capital gains taxes. Yet despite that advantage, the technique has been used by only 21 percent of affluent Americans, according to a recent survey by US Trust. By using this approach, you get to deduct the full market value of the shares (subject to adjusted gross income limitations) and you do not have to pay any capital gains taxes on the appreciation attributable to the donated shares. Gifts of other types of property, such as artwork, rare books, or cars can be a little trickier because the kind of assets you can touch and feel are more difficult to value than cash or securities. Before you donate them, you need to get a fix on their fair market value, and an official outside appraisal will be required if you claim a deduction of $5,000 or more for an item.

Giving appreciated securities to friends or relatives during one's lifetime makes less sense than doing so for a charity because the recipient's cost basis for income tax purposes is the donor's cost at the time it is given. In contrast, an heir's cost basis for the property received from an estate is its fair market value at the time of death. Thus, it is usually preferable not to use highly appreciated property for any gifts if the recipient will be subject to capital gains taxes. Otherwise when the recipient eventually sells the property he will owe gains taxes based on the donor's original cost. In such cases it is best to give cash or recently acquired assets.

You may also wish to consider naming a charity as a beneficiary of an IRA as part of an estate plan. When someone inherits an IRA, the entire amount may be subject to federal income tax (assuming it is attributable to tax-deductible contributions and their earnings) and, possibly, estate taxes as well. By leaving an IRA to a charity instead, the entire amount would remain intact because charities are not subject to estate or income taxes.

Trusts

Trusts are a way to donate, but with some strings attached—the kind of strings that can be tailored to provide a lifetime of income, and ensure that the individuals or organizations that you wish to benefit from your generosity will do so.

A variety of trusts are useful for estate planning purposes, either alone or in combination with a gifting program. One of the best-known types for charitable purposes is the charitable remainder trust (CRT). A charitable remainder trust is an irrevocable trust where the "remainder interest" of the trust is distributed to a charity once a payment stream ("income interest") has been paid to the donor and often the donor's spouse for a specific period of time. In establishing a CRT, the donor gives up legal ownership of the asset in exchange for the interest income. These types of trusts offer several significant benefits:

- Investors receive an immediate charitable contribution income tax deduction for the present value of the remainder to be paid in the future to a qualified charity.
- A concentrated stock position can be sold without the sale being subject to capital gains taxes. The capital gains realized by a CRT are exempt from taxation. The CRT can use all of the sale's proceeds to purchase a diversified portfolio, which can consist of mutual funds or an account of individual securities.
- The value of the concentrated stock position is removed from the investor's estate. Since the stock is placed in an

How Does a Charitable Remainder Trust Work?

In looking at the various assets that make up your estate, you may have several that have appreciated significantly but have a low cost basis which creates a capital gains tax problem.

Suppose you have a piece of real estate with a cost basis of $1,000 and a current market value of $750,000. Upon selling the property out right, you would incur a capital gains tax of nearly $150,000, leaving you with only $600,000 of principal with which to generate income.

Instead you could create a Charitable Remainder Trust and transferr the title to the real estate into the trust while naming your favorite charity as beneficiary. This would not only create a wonderful gift, but would also produce a 25% higher income stream due to the entire $750,000 remaining as principal.

Assuming an 8% return and actuarial life expectancies, the following table compares selling the real estate at age 55 and reinvesting the proceeds versus granting the real estate to a Charitable Remainder Trust, which then sells it and reinvests the proceeds:

Item	***Sell and Reinvest***	***Establish CRT***
Income Tax Deducton	$0	$93,443
Capital Gains Tax	$147,000	$0
Income During Life (at 8%)	$1,131,710	$1,407,600
Value Added to Taxable Estate	$603,000	$0
Estate Tax (at 55%)	$331,650	$0
Net Estate	$271,350	$0
Income Plus Estate	$1,403,060	$1,407,600
Benefit to Charity	$0	$750,000

irrevocable trust, its value is not subject to estate taxes. In general, the investor is not subject to the gift tax when setting up a CRT, because the remainder interest goes to a charity, and the income interest goes to the investor (or his named beneficiaries).

- The investor or his named beneficiary has the right to an annual income stream from a diversified portfolio with no immediate tax consequences, since the CRT creates a shield that defers the capital gains associated with selling the concentrated position. However, the investor will be subject to income taxes on the annual income of the CRT. A tax-efficient investment strategy can address this concern.

Our parent, the American Institute for Economic Research, maintains Reserve Life Income Funds (RLIs) and accepts and manages Charitable Remainder Unitrusts (CRUs). AIS serves as the investment advisor to AIER's charitable remainder funds, which are invested to reflect AIER's findings concerning long-term monetary and economic trends. **For more information on charitable remainder programs at AIER, please contact Ms. Gail Roger at the American Institute for Economic Research, P.O. Box 1000, Great Barrington, MA, 01230, or call 413-528-1216.**

Estate and tax planning can be complex topics, and we have just covered the basics here. For more information or to get further details on any of the ideas mentioned, contact your attorney or tax advisor.

MEDICARE BILL—DOLLARS TO DONUTS

If the Medicare program were being created today there is no doubt that it would cover prescription drugs. When the program was created in 1965, drugs played a relatively minor role in the treatment and prevention of illness. In the years since, they have moved to the forefront of medicine. A remarkable variety of specialized drugs is now available not only to treat disease and alleviate pain, but to eliminate the need for surgery, to hasten recoveries and reduce complications, and to allow people with chronic health problems to live longer and better lives. For the portion of humanity that has access to them, it is impossible to imagine modern medicine without these pharmaceutical miracles.

Figuring out how to add prescription drug coverage to a program that is pegged for bankruptcy by 2026 is a daunting task. David Certner, director of federal affairs for AARP (a 35 million member group endorsing the bill), said retirees who are already enrolled in a generous corporate program may opt out. "If you have very low drug costs and have coverage from a former employer, this bill is not going to do much for you," Certner said. "If you have high drug costs and no coverage, this bill is going to do a lot for you."

Two main issues of concern to seniors will be "The Donut" and provisions for outside insurers to be allowed to compete with Medicare.

The Donut begins in 2006. Seniors could sign up for prescription drug coverage, agreeing to a $275 annual deductible and premiums of roughly $35 per month. Medicare would cover 75% of the cost of medicines and seniors would pay 25% of the cost, up to $2,200. The plan would provide no further coverage until the individual had spent $3,600 out-of-pocket, a coverage gap that lawmakers refer to as a "donut hole". The coverage would kick back in after the consumer has spent $3,600, with the plan covering 95% of all remaining drug costs.

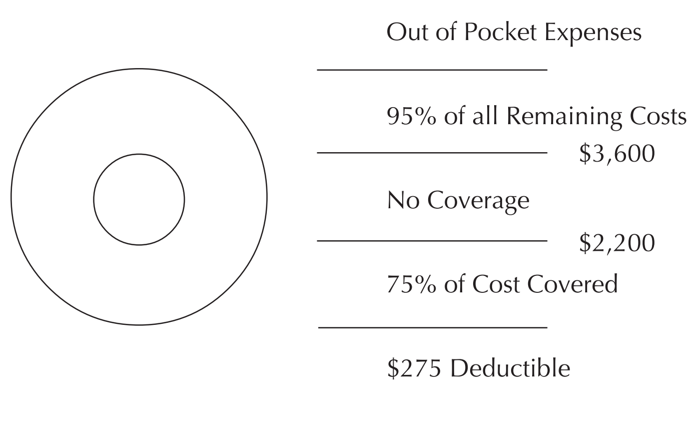
Regarding private insurers, the Medicare bill includes two major provisions to increase competition. It would provide more than $12 billion in subsidies to entice more private plans to offer seniors a managed care option through the existing Medicare+Choice program. About 11 percent of seniors currently use this managed care program, but many have been shut out, as plans said they couldn't make money on the government's payments. The subsidy means the government will be paying the plans far more than doctors, hospitals, and other providers who supply similar care, analysts said.

Then, beginning in 2010, the bill would authorize an experiment in six metropolitan areas where seniors would essentially be given a stipend to purchase health coverage, either from traditional Medicare or from one of several competing health plans. The six areas would be chosen from more than 40 nationally where there are already two private plans enrolling at least 25 percent of Medicare beneficiaries. If seniors chose a plan that costs more than the stipend, they would pay the difference. If they chose a cheaper plan, they would keep a portion of the savings. All the plans would be required to provide at least the same range and amount of coverage offered under traditional Medicare.

The proposal contains several provisions demanded by House conservatives, including $6 billion for tax-preferred health-savings accounts for individuals. It also would create a mechanism aimed at keeping the cost of Medicare in check and require wealthier seniors to pay more for their doctor visits under Medicare — two provisions absent from the original House bill that will enhance its appeal to House conservatives.

There are numerous variables that would affect individuals' benefits, including their incomes, annual prescription drug costs, where they live and which company provides the benefits. Between these variables, the Donut, and partisan wrangling, it will be difficult for seniors to determine whether this new bill represents a burden or a blessing.

Medicare Donut — 2006



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 May 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 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,

As of November 14, 2003

	Rank	Yield	Price	Status	*Percent of Portfolio** Value	No. Shares[1]
Altria Group	1	5.40%	50.35	*		
AT&T	2	4.93%	19.27	Buying	14.67	21.91
SBC Comm.	2	4.79%	23.61	Holding**	23.29	27.09
General Motors	4	4.73%	42.27	*		
JP Morgan Chase	5	3.84%	35.46	Holding**	30.99	24.00
DuPont	6	3.48%	40.19	Buying	11.56	7.90
Merck	7	3.18%	46.58			
CitiGroup	8	3.02%	46.43			
Exxon Mobil	9	2.78%	36.00			
General Electric	10	2.73%	27.88			
Caterpillar	13	2.04%	72.61	Selling	2.17	0.82
Eastman Kodak	14	2.03%	24.64	Selling	17.29	19.27
					100.0	100.0

Change in Portfolio Value[2]

	1 mo.	1 yr.	5 yrs.	10 yrs.	15 yrs.	From 12/63	Std. Dev.
HYD Strategy	2.04%	9.98%	4.45%	12.09%	15.34%	15.42%	19.38
Dow	-0.03%	16.33%	3.62%	12.24%	13.40%	10.50%	16.97

* 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.

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—AT&T, SBC Communications, J.P. Morgan Chase and DuPont—account for roughly 81 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 11/14/03	10/15/03	11/15/02	12-Month High	Low	Latest Dividend Amount	Record Date	Paid	Indicated Annual Dividend	Yield† (%)
Altria Group	MO	**$50.35**	45.15	38.06	50.70 *H*	27.70	0.680	9/15/03	10/09/03	2.720	5.40
★ AT&T (r)	T	**$19.27**	20.02	13.86	28.88 *H*	13.45	0.238	9/30/03	11/03/03	0.950	4.93
★ SBC Comm.	SBC	**$23.61**	21.63	25.19	31.65	18.85	0.283	10/10/03	11/03/03	1.130	4.79
General Motors	GM	**$42.27**	43.55	35.07	45.21	29.75	0.500	11/13/03	12/10/03	2.000	4.73
★ J. P. Morgan Chase	JPM	**$35.46**	36.60	22.09	38.26	20.13	0.340	10/06/03	10/31/03	1.360	3.84
★ DuPont	DD	**$40.19**	40.07	42.63	45.55	34.71	0.350	8/15/03	9/12/03	1.400	3.48
Merck	MRK	**$46.58**	48.89	55.37	63.50	42.61 *L*	0.370	9/05/03	10/01/03	1.480	3.18
Citigroup	C	**$46.43**	48.88	36.90	49.15 *H*	30.25	0.350	11/03/03	11/26/03	1.400	3.02
Exxon Mobil	XOM	**$36.00**	38.49	34.85	38.93 *H*	31.58	0.250	11/12/03	9/10/03	1.000	2.78
General Electric	GE	**$27.88**	28.85	23.86	32.42	21.30	0.190	9/29/03	10/27/03	0.760	2.73
International Paper	IP	**$37.34**	39.25	35.73	41.50	33.09	0.250	11/21/03	12/15/03	1.000	2.68
Honeywell Intl.	HON	**$29.74**	29.14	23.38	31.12 *H*	20.20	0.188	11/20/03	12/10/03	0.750	2.52
☆ Caterpillar	CAT	**$72.61**	78.72	45.08	78.92	41.24	0.370	10/20/03	11/20/03	1.480	2.04
☆ Eastman Kodak	EK	**$24.64**	22.70	34.74	41.08	20.39	0.250	11/03/03	12/12/03	0.500	2.03
Procter & Gamble	PG	**$95.71**	95.63	87.28	98.59 *H*	79.57	0.455	10/24/03	11/14/03	1.820	1.90
Coca-Cola	KO	**$46.69**	45.10	45.97	48.34	37.01	0.220	12/01/03	12/15/03	0.880	1.88
Alcoa	AA	**$32.37**	30.76	22.93	33.50 *H*	18.45	0.150	11/07/03	11/25/03	0.600	1.85
Johnson & Johnson	JNJ	**$52.12**	50.50	60.15	60.30	48.05 *L*	0.240	11/18/03	12/09/03	0.960	1.84
Boeing	BA	**$39.25**	37.00	31.50	40.15 *H*	24.73	0.170	11/14/03	12/05/03	0.680	1.73
3M Company (s)	MMM	**$78.53**	73.70	129.50	80.16 *H*	59.73	0.000	11/21/03	12/12/03	1.320	1.68
United Tech.	UTX	**$85.90**	83.70	63.02	87.95 *H*	53.51	0.350	11/14/03	12/10/03	1.400	1.63
McDonald's	MCD	**$25.68**	23.92	17.38	26.78 *H*	12.12	0.400	11/14/03	12/01/03	0.400	1.56
Hewlett-Packard	HPQ	**$22.09**	21.92	16.90	23.90	14.18	0.080	9/17/03	10/08/03	0.320	1.45
Walt Disney	DIS	**$23.07**	21.75	18.53	23.80	14.84	0.210	12/13/02	1/09/03	0.210	0.91
American Express	AXP	**$45.33**	48.30	37.65	49.11	30.90	0.100	10/03/03	11/10/03	0.400	0.88
Home Depot, Inc.	HD	**$36.19**	36.29	28.32	37.89 *H*	20.10	0.070	9/04/03	9/18/03	0.280	0.77
IBM	IBM	**$90.25**	92.74	80.01	94.54	73.17	0.160	11/10/03	12/10/03	0.640	0.71
Wal-Mart Stores	WMT	**$55.00**	59.07	55.49	60.20	46.25	0.090	10/06/03	10/14/03	0.360	0.65
Microsoft Corp. (s)	MSFT	**$25.50**	29.07	56.69	30.00	22.55	0.160	10/17/03	11/07/03	0.160	0.63
Intel Corp.	INTC	**$32.80**	31.76	18.80	34.51 *H*	14.88	0.020	11/02/03	12/01/03	0.080	0.24

★ BUY. ☆ HOLD. † Based on indicated dividends and market price as of 11/14/03. *H* New 52-week high. *L* New 52-week low. (s) All data adjusted for splits. (r) All data adjusted for reverse splits. * 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

	11/14/03	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**396.70**	373.50	319.10
Silver, London Spot Price	**5.30**	4.91	4.55
Copper, COMEX Spot Price	**0.95**	0.90	0.72
Crude Oil, W. Texas Int. Spot	**32.37**	31.77	25.51
Dow Jones Spot Index	**168.20**	162.58	135.55
Dow Jones-AIG Futures Index	**130.85**	127.60	102.22
CRB-Bridge Futures Index	**257.29**	247.64	227.13

Interest Rates (%)

U.S. Treasury bills -	91 day	**0.93**	0.91	1.21
	182 day	**1.02**	1.00	1.25
	52 week	**1.28**	1.20	1.43
U.S. Treasury bonds -	15 year	**4.79**	5.03	4.71
Corporates:				
High Quality -	10+ year	**5.73**	5.97	6.09
Medium Quality -	10+ year	**6.16**	6.46	7.13
Federal Reserve Discount Rate		**2.00**	2.00	0.75
New York Prime Rate		**4.00**	4.00	4.25
Euro Rates	3 month	**2.15**	2.13	3.21
Government bonds -	10 year	**4.26**	4.16	4.56
Swiss Rates -	3 month	**0.24**	0.24	0.74
Government bonds -	10 year	**2.70**	2.62	2.57

Exchange Rates

British Pound	**$1.689000**	1.672100	1.578900
Canadian Dollar	**$0.766400**	0.756000	0.631900
Euro	**$1.180500**	1.162300	1.006500
Japanese Yen	**$0.009181**	0.009118	0.008251
South African Rand	**$0.148100**	0.142900	0.104200
Swiss Franc	**$0.757100**	0.750900	0.685700

Securities Markets

	11/14/03	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,050.35**	1,046.76	909.83
Dow Jones Industrial Average	**9,768.68**	9,803.05	8,579.09
Dow Jones Transportation Average	**2,927.64**	2,863.64	2,333.20
Dow Jones Utilities Average	**248.66**	252.43	200.34
Dow Jones Bond Average	**173.41**	170.27	152.78
Nasdaq Composite	**1,930.26**	1,939.10	1,411.14
Financial Times Gold Mines Index	**1,711.91**	1,531.97	1,139.51
FT African Gold Mines	**2,564.70**	2,404.90	2,011.98
FT Australasian Gold Mines	**3,608.58**	3,209.92	1,465.83
FT North American Gold Mines	**1,372.72**	1,208.00	889.38

Coin Prices

	11/14/03	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	**$386.35**	381.95	329.45	-2.61
Austrian 100-Corona (0.9803)	**$367.93**	363.73	313.83	-5.39
British Sovereign (0.2354)	**$92.35**	91.35	79.15	-1.11
Canadian Maple Leaf (1.00)	**$386.60**	382.20	329.70	-2.55
Mexican 50-Peso (1.2057)	**$453.90**	448.80	387.40	-5.10
Mexican Ounce (1.00)	**$376.40**	372.10	321.10	-5.12
S. African Krugerrand (1.00)	**$382.25**	377.95	326.45	-3.64
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$430.00**	430.00	400.00	12.04
Liberty (Type I-AU)	**$675.00**	675.00	675.00	75.87
Liberty (Type II-AU)	**$440.00**	440.00	385.00	14.64
Liberty (Type III-AU)	**$435.00**	415.00	367.50	13.34
U.S. Silver Coins ($1,000 face value)				
90% Silver (715 oz.)	**$4,400.00**	4,400.00	4,600.00	16.11
40% Silver (292 oz.)	**$1,587.50**	1,587.50	1,575.00	2.58
Silver Dollars	**$6,300.00**	6,300.00	6,037.50	53.66

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $396.70 per ounce and silver at $5.30 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	11/14/03	Month Earlier	Year Earlier	— 52-Week — High	Low	Distributions Latest 12 Months Income	Capital Gains	Yield (%)
Short-Term Bond Funds									
★ iShares Lehman 1-3 Yr Treasury	SHY	**$82.31**	82.29	81.84	83.04	81.42	1.3494	0.0000	1.64
★ USAA Short Term Bond	USSBX	**$9.09**	9.08	8.97	9.23	8.94	0.3680	0.0000	4.05
★ Vanguard Short-term Corporate	VFSTX	**$10.79**	10.79	10.70	10.96	10.68	0.4570	0.0000	4.24
Income Equity Funds									
★ DNP Select Income[1, 2]	DNP	**$10.36**	10.32	9.60	11.20	9.43	0.7800	0.0000	7.53
★ Vanguard REIT Index	VGSIX	**$14.93**	14.67	11.85	14.93	11.28	0.7900	0.0000	5.29
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$51.88**	51.53	43.80	52.63	37.44	0.8565	0.1472	1.65
★ Vanguard Value Index	VIVAX	**$17.64**	17.52	14.94	17.75	13.09	0.3350	0.0000	1.90
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$95.93**	93.35	71.90	97.90	62.59	0.7530	0.3430	0.78
★ Vanguard Sm. Cap Value Index	VISVX	**$10.94**	10.73	8.49	11.04	7.39	0.0900	0.0000	0.82
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$53.32**	53.14	47.30	54.05	41.25	0.5551	0.1124	1.04
★ Vanguard Growth Index	VIGRX	**$24.11**	23.92	21.01	24.30	18.59	0.2070	0.0000	0.86
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$59.88**	58.39	49.76	60.25	39.52	1.9044	0.0000	3.18
T Rowe Price European Stock	PRESX	**$16.12**	15.75	13.21	16.12	10.81	0.1400	0.0000	0.87
★ Vanguard European Stock Index	VEURX	**$20.57**	19.96	16.85	20.57	13.64	0.4000	0.0000	1.94

Recommended Gold-Mining Companies

	Ticker Symbol	11/14/03	Month Earlier	Year Earlier	— 52-Week — High	Low	Distributions Latest 12 Months	Frequency	Yield (%)
Anglo American PLC, ADR	AAUK	**$21.68**	20.17	13.90	21.81	13.21	0.480	Semiannual	2.21
★ Anglogold Ltd., ADR	AU	**$44.50**	37.32	29.85	44.65	26.06	1.329	Semiannual	2.99
ASA Ltd.[1]	ASA	**$44.81**	41.75	31.40	45.40	29.13	0.800	Quarterly	1.79
★ Barrick Gold Corp.†	ABX	**$21.22**	18.52	15.99	21.40	14.08	0.220	Semiannual	1.04
★ Gold Fields Ltd.	GFI	**$13.64**	13.83	11.73	15.52	9.52	0.318	Semiannual	2.33
★ Newmont Mining	NEM	**$44.24**	39.34	25.18	44.71	22.60	0.150	Quarterly	0.34
★ Placer Dome†	PDG	**$16.71**	13.90	10.04	16.94	8.71	0.100	Semiannual	0.60
★ Rio Tinto PLC‡	RTP	**$98.45**	99.40	78.65	100.52	71.70	3.156	Semiannual	3.21

★ 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.