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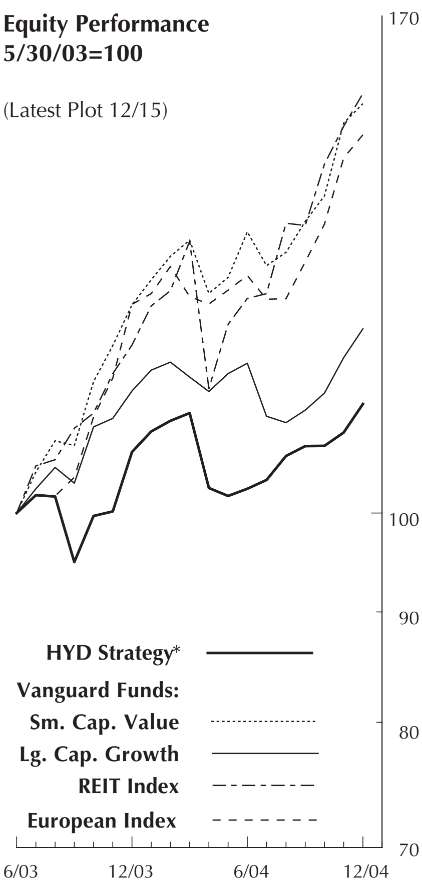

*** HYD is a hypothetical model based on back-tested results. See p. 94 for a full explanation.**

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

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The Tallest Dwarf Revisited

In September 1997 our parent, the American Institute for Economic Research (AIER), in its *Research Reports*, assessed the state of the world's fiat currencies at the time and observed that the dollar then stood as "The World's Tallest Dwarf."

The dollar's claim to that title is now in question. Following its inception in 1999 the euro quickly lost ground against the dollar, but the trend has since reversed. The dollar price of the euro now stands 46% above its level four years ago. Pundits have attributed the dollar's decline to a host of factors, chiefly the U.S. current-account and fiscal deficits. As usual many headlines trumpeting the dollar's demise appear to be merely "piling on" by suggesting a simple extension of this latest trend.

But pondering the *relative* values of fiat currencies misses the larger point of AIER's article, which remains valid and is far more important to investors. Since the collapse of the Bretton Woods fixed exchange rate system, *all* fiat currencies have suffered great losses in purchasing power, and history makes clear that all such currencies have ultimately failed as effective purchasing media. It has gone largely unmentioned that the purchasing power of both the euro and the dollar have fallen, by 11.9% and 14.0%, respectively, since the euro was launched.

Investors should not be distracted by this race to the bottom, but instead stick to our recommended portfolio allocations. These include gold, which over very long periods has retained its purchasing power and is largely uncorrelated with our other asset classes. Foreign equities are also among our holdings. Their values rise, *ceteris paribus*, in dollar terms, during periods when the dollar is falling relative to local currencies. U.S. stocks are also indispensable to our approach for they have significantly outpaced price inflation over long periods.

During the 1990s investors who had the discipline to maintain a portfolio comprised of these asset classes could have, through periodic rebalancing, been slowly but steadily selling U.S. stocks amidst a soaring stock market, and reinvesting in gold and foreign stocks well before their recent price surge. Most recently, mechanical rebalancing would call for the reverse; indeed, for clients in our Professional Asset Management program, we have been taking gains in gold and foreign stocks to reinvest in asset classes whose prices have been relatively weak.

BEWARE OF THE ALTERNATIVE MINIMUM TAX

An old tax that once affected only a small number of tax-averse wealthy individuals could soon become a headache for millions of Americans unless changes are made to the tax code soon.

This quiet "stealth" tax, called the alternative minimum tax (AMT), was created over 30 years ago when wealthy individuals could effectively wipe the tax slate clean through liberal use of tax torpedoes, including aggressive and questionable tax shelters. To close the loopholes, Congress introduced the alternative minimum tax. It was supposed to hit "the rich" by making them figure out their taxes the regular way, and then a second time at a lower rate without many of the deductions and exemptions otherwise available. They paid according to whichever method resulted in the highest tax.

The problem is that the rules governing the tax have been revised only sporadically and do not account for inflation and changes in regular income taxes. With lower income tax rates introduced by the Bush administration, and over three decades of inflation, many middle-class and upper-middle class taxpayers could well find themselves in alternative minimum tax territory soon. In 1987, only 140,000 taxpayers were subject to the AMT. Recent estimates by the Urban-Brookings Tax Policy Center in Washington indicate that some 3.4 million taxpayers will fall into its clutches in 2005.

That number could have been much higher without the relief provided by The Working Families Tax Act of 2004, which effectively postponed the problem for many taxpayers for another year or so. But if no further changes occur, 18.4 million taxpayers will be affected by the AMT in 2006, when they will pay $53.4 billion more than they would if their taxes were figured the regular way. In 2008, 24 million people will be affected. By 2010, the AMT will affect 29.2 million taxpayers, making it almost as common as the mortgage interest deduction is today.

Without reform to the system, the AMT is destined to evolve from a tax for the well-off to a tax for the masses. In 2004, less than 11 percent of the tax will be paid by those with incomes under $200,000. By 2010, it is projected that almost half of the tax will be paid by those with incomes below that level. Over 90 percent of households with income between $100,000 and $500,000 will face the tax, as will 73 percent of households with income between $75,000 and $100,000.

Middle-class and upper-middle class taxpayers who use legitimate means to shelter income from taxes are hardly the group that Congress originally intended to address when it introduced the AMT to curb the use of abusive tax shelters. Yet repealing it would mean sacrificing billions of dollars in tax revenue at a time when the budget deficit is widening, Medicare costs are increasing, and the Social Security system faces major upheaval. Assuming the scheduled expiration of the 2001 tax cuts takes place in 2010, a repeal of the alternative minimum tax in 2005 would reduce revenues by $660 billion through 2014, estimates Urban-Brookings. Tax revenues would plunge even more precipitously if the tax cuts were extended beyond 2010.

"It was Socrates, wasn't it, who said, 'The unexamined life is not worth living'?"

Will You Be Affected?

Despite the looming burden, many taxpayers remain unaware of their vulnerability to the alterative minimum tax. According to a December 2004 survey conducted by Penn, Schoen & Berland, a Washington, D.C. polling and market research firm, over half of investors, including 68% of investors with investments less than $250,000 and 38% with investments greater than $250,000, say they do not know what the AMT is.

Unfortunately, even for those aware of the tax, it is often difficult to predict AMT exposure and to prepare accordingly. People who are unaffected this year could find themselves in AMT territory by 2006, when the relief provided by the Working Families Tax Act is set to expire. Some families may become subject to it one year, but not the next. An AMT obligation can result from one large item on a tax return or a combination of several small ones that shrink taxes figured the regular way, to the point where the AMT becomes the higher of the two alternatives.

Although it can be difficult to predict AMT exposure, several "risk" factors increase its likelihood. These include:

Being married with children. Because the AMT prohibits deductions for dependents, 85 percent of married couples with two or more children will face the tax by 2010 if no changes are made. Currently, married couples with children are six times more likely to be hit by the AMT as singles.

Living in a high-tax state. If you itemize your deductions, you probably take a deduction for state and local taxes. These deductions, which typically include state income and property taxes, are deductible from income on regular tax returns but are not considered in AMT calculations. If you live in high-tax states like Massachusetts, California, Connecticut, New Jersey, and New York, a high level of state and local tax deductions on your regular federal return may cause the AMT to kick in unexpectedly.

A second mortgage. Mortgage interest attributable to buying, building, or improving a principal residence is deductible for AMT purposes. But the interest deduction attributable to borrowing against your home for other purposes is not permitted under the alternative minimum tax.

Use of tax credits. Many tax credit items found on regular tax returns, including the child credit and education credit, cannot be used for calculating the AMT. The more credits you use, the greater the chance that you will be subject to the alternative minimum tax.

Sizable long-term capital gains. While long-term capital gains are taxed at the same favorable rates under the AMT system as they are under the regular income tax code, having a large capital gain can push you into the alternative minimum tax. The reason lies in the way the AMT exemption works.

The AMT exemption is a deduction designed to help lower income taxpayers sidestep the tax. In 2004 and 2005, the exemption is $40,250 for single taxpayers and $58,000 for married couples filing jointly. However, the phase-out of the exemption that applies at higher income levels exposes more money to taxes, so adding a large long-term capital gain to regular income can reduce or eliminate your AMT exemption. This may happen, for example, if you sell a large amount of stock or mutual fund holdings.

The 2004 tax bill extended the $40,250/$58,000 exemption limits though the end of 2005, which allows many candidates ripe for the AMT to escape, at least for now. If no changes occur, and the exemption amounts revert back to lower levels in 2006, many more taxpayers will feel its grip.

Exercising incentive stock options. AMT rules require you to pay a tax based on the difference between the price at which you exercised the options and the market value at the time of exercise. It is difficult to figure out the precise amount of any AMT tax when you exercise incentive stock options, or even if you will owe any tax at all. Your liability will depend, among other things, on the size of your profit, whether you own stock you have from exercising the option or have sold it, and income and other elements of your regular tax return.

Number of Taxpayers Affected by the AMT, millions

2004:	3.0
2005:	3.4
2006:	18.4
2007:	21.2
2008:	24.0
2009:	26.3
2010:	29.2

Source: Urban-Brookings Tax Policy Center.

Bonds that generate tax-exempt interest. While interest income from municipal bonds is usually not subject to federal taxes, it may still be subject to the AMT. Some bonds are exempt from the alternative minimum tax, so be sure to ask your financial advisor about these if you think the AMT may be a concern for you. If you invest in a mutual fund, your annual statement should indicate how much of the income is taxable under the alternative minimum tax.

Lots of miscellaneous deductions. Tax preparation fees, investment fees, and other miscellaneous expense that can be deducted from income are not deductible for purposes of figuring the AMT. Itemized deductions for medical expenses on your regular income tax return may also be disallowed for purposes of figuring the AMT.

Despite its unpredictability, effective tax planning can help minimize the AMT's bite in some cases. For example, if you think you will be affected by the AMT, it might make sense to accelerate income and postpone deductions in order to stay in the regular tax system—the opposite of the usual advice to accelerate deductions and postpone income. Parents of college-age children might be better of letting them claim themselves as dependents, if that is what it takes to keep out of alternative minimum tax territory. In other situations, controlling taxable gains from one year to the next by delaying a sale of stock or other property, or by spreading the sale over a number of years, might make sense. It may be counterintuitive to forego or postpone tax benefits you may be entitled to in order to keep yourself in the regular tax system, but it may be preferable to paying higher taxes under the AMT system.

Working Toward A Solution

As the storm clouds gather over the alternative minimum tax mess, legislators and tax experts continue to grapple with possible solutions to head off the AMT tidal wave. In a recent article in *Forbes* magazine, a former high-level Treasury official suggested limiting deductions for state and local taxes on regular tax returns as a possible solution. This proposition implies that the best way to avoid the spread of the alternative minimum tax is to raise regular taxes!

The Urban-Brookings Tax Policy Center suggests that indexing the AMT for inflation, allowing deductions for dependent exemptions, and allowing personal credits against the AMT would reduce the number of AMT taxpayers in 2010 by 88 percent, including over 98 percent of those with income under $100,000. Further, the AMT could be retargeted at high-income tax avoiders by combining such reform with treating the lower rates on capital gains and dividends as a "preference item," as capital gains were treated before 1987. This would pay for most of the cost of reform, reduce sheltering, and exempt most middle income households from the tax.

As policymakers debate the merits of possible fixes, or ignore the problem altogether, individuals and families should consult with their tax advisors to check for possible AMT exposure and to review ways to minimize its impact. This advice is particularly important with the year 2006 on the horizon, when the number of taxpayers who find themselves paying an unexpected tax (one they may have never heard of!) is set to skyrocket.

SAVING FOR COLLEGE AND FINANCIAL AID: DON'T SHOOT YOURSELF IN THE FOOT

Over the last few years much has been written regarding the various types of accounts and investment vehicles available to investors who are saving for college (*INVESTMENT GUIDE*, Feb. 28, 2002). However, the impact of college saving and investment plans on need-based financial aid has not been widely publicized. Unfortunately, managing the relationship between your college savings and investment plan and your need-based financial aid requirements is as complex as managing your income tax liability. For the uninitiated, the process of saving for college and successfully applying for need-based financial aid is a minefield. Without a working knowledge of the process, hard won college savings can tragically undermine the opportunity to obtain critical need-based financial aid

This issue is now more important than

ever. The average cost of attending four years at a public college is $55,332 and the average cost at a private university is $118,164. College costs rise more than 5% annually. Need-based financial aid, once considered the privilege of low-income families, is now an essential component of college financing for middle income families and should not be ruled out for upper income families.

Expected Family Contribution: The Key To Need-Based Financial Aid

Need-based financial aid for college is determined through a calculation known as the Expected Family Contribution (EFC), which is the amount of money your family is expected to contribute to college costs. It is determined in two ways: (1) The Federal Methodology (FM) is a formula used by the federal government to determine eligibility for federal aid, and (2) The Institutional Methodology (IM) is used by many colleges to determine eligibility for institutional aid programs. Both are based primarily on your family's income and assets. Secondary factors include demographic information such as the number of dependents living in the household and the number of dependent household members attending college simultaneously. The FM is based on information provided by the applicant on the Free Application for Federal Student Aid (FAFSA)[1] while the IM is based on information collected on the CSS/Financial Aid PROFILE® Application administered by the College Board.[2]

The EFC is subtracted from the cost of college attendance (this includes tuition and fees, room and board, personal expenses, books and supplies and travel) to determine a student's "financial need" or eligibility for financial aid. Aid eligibility is therefore a function of both the cost of college attendance and the EFC. For example, an EFC of $10,000 would disqualify a family from getting need-based financial aid from a $5,000-per-year community college. However, the same $10,000 EFC would allow the family to receive up to $20,000 in financial aid from a $30,000-per-year private university.

Key Concepts: Income, Asset Ownership and the Base Year

It is in your best financial interest to be assigned the lowest EFC rating possible, and the way you establish your college savings and investment plan can have a direct impact on your EFC. The most important factors in the FM and IM calculations are the parents' and student's income and assets. 47% of parental income is considered in the FM calculation and 46% is considered in the IM calculation. Both the FM and the IM use 50% of a student's income in calculating the EFC (see the accompanying table).

2005-2006 Financial Aid Calculation	***Parent Income***	***Parent Assets***	***Student Income***	***Student Assets***
Federal Methodology (FM)	47.00%	5.65%	50.00%	35.00%
Institutional Methodology (IM)	46.00%	5.00%	50.00%	25.00%

However, it gets more complicated because the FM and IM do not define income the same way. The FM uses Adjusted Gross Income (AGI)[3] derived from your income tax form. The IM, on the other hand, disallows many of the AGI deductions and is designed to evaluate actual household cash flow.

Another way to understand all this is that for every dollar of adjusted gross income of the parent(s) the FM and IM will use $0.47 and $0.46 respectively and for every dollar of the student's adjusted gross income the FM and IM will use $0.50 to calculate the EFC.

Assets are assessed by different criteria. The FM includes an asset-protection allowance for parents that is based on the age of the oldest parent. The allowance is subtracted from the total parental assets to determine the EFC. For instance, a two-parent family with an oldest parent who is forty-five years of age will receive an asset allowance of $37,700 under current guidelines. A family with an older parent who is sixty years of age will receive a $56,200 reduction.[4] By contrast, there is no asset protection allowance for money held in the student's name.

Under current guidelines, parental and student assets are assessed (see table above) quite differently. The FM uses a sliding scale up to a maximum of 5.65% of parental assets for EFC calculations. By contrast, a flat 35% of student-owned assets are used by the FM in the EFC calculation. The IM uses 5% of parental assets and 25% of student assets. This is a strong argument *against* putting assets into your children's name before they have completed college (and graduate school). So, unless the tax benefits of gifting assets to your children or other estate planning considerations outweigh the cost of increasing your EFC, or you are certain that you will never qualify for need-based financial aid at any college, parents and grandparents should keep assets in their own name. The bottom-line: current FM and IM financial aid formulas benefit families that save for college in the parent's name versus the child's name.

If you anticipate needing financial aid, you should not establish UTMA and UGMA accounts that name your children or grandchildren as beneficiaries. These vehicles are owned by the child and 35% of their value will be used to calculate your EFC. Except in unusual circumstances,[5] trusts that name your children as beneficiaries should also be avoided for the same reason. Other high-impact savings vehicles include Section 529 Prepaid Tuition Plans and 2503(c) Minor's Trusts. The 529 Prepaid Tuition Plan (which should not be confused with the 529 College Saving Plan, discussed below) is particularly insidious because it reduces financial aid dollar-for–dollar. Coverdell Education Savings Accounts, Savings Bonds and regular taxable investment accounts can also have a high impact on need-based aid *if owned by the student* instead of the parent. If your child has income or if there are existing assets in your child's name it makes sense to first use your child's income and assets when paying college costs. Drawing down a student's income and assets first helps to reduce the EFC and may ultimately reduce out-of-pocket costs for everyone involved.

If your college savings is in high-impact investment vehicles, you have some options. If you have established an UTMA or UGMA account you should avoid contributing any more money to it and consider converting the account to a 529/

[1] See http://fafsa.ed.gov

[2] See http://collegeboard.com

[3] Your federal income tax is calculated using Adjusted Gross Income (AGI). AGI is gross income minus deductions, which include IRA contributions (also SEP, SIMPLE and Keogh contributions), medical savings account contributions, moving expenses, alimony payments and contributions paid by self-employed for health insurance. Standard or itemized deductions are not included in AGI.

[4] See http://www.ed.gov/new/fedregister for income allowance tables for 2005-2006.

[5] Exceptions include: an involuntary court mandated trust, a trust that is frozen pending legal resolution (such as a divorce), and Section 529 prepaid tuition plans.

UTMA. This vehicle is a hybrid that offers the characteristics of both the UTMA/UGMA and the 529 College Savings Plan. Like an UTMA/UGMA, ownership remains in the child's name, and like a 529 College Savings Plan the money enjoys tax-deferred growth and distributions for qualified expenses are tax-free. Notably, the UTMA/529, unlike the UTMA or UGMA, encourages the child to use the funds strictly for college expenses because it penalizes distributions for non-college expenses, such as the purchase of a sports car or a Caribbean vacation.

Assets inside tax-deferred retirement accounts such as Traditional and Roth IRAs, 401(k)s, 403(b)s, and variable annuities do not need to be reported on the FAFSA so they are low-impact savings and investment vehicles. However, *distributions* from these accounts will be counted as taxable income and affect financial aid calculations for the following school year. You can avoid turning retirement fund distributions into personal income by borrowing from your defined contribution plan or insurance policy instead of taking the money as income, though this can be costly in its own right. Parents considering the use of retirement funds to pay for a child's education should weigh the total costs of distribution, including the likelihood of increasing the EFC in following years, against the cost of assuming a federal or private college loan.

Currently the only college savings vehicle that unequivocally has a low impact on need-based financial aid is the Section 529 College Savings Plan (these differ from the 529 Prepaid Tuition Plan, discussed earlier). Assets in a 529 College Savings Plan are considered a parental asset and only 5.65% of the account value is used by the FM to calculate the EFC. Moreover, qualified distributions from a 529 College Plan do not count as income in FM or IM calculations.

Their low impact on financial aid eligibility makes 529 College Savings Plans relatively attractive. However, it pays to shop around. Fees can be exorbitant in some states but remarkably low in others. In some circumstances, a Coverdell Education Savings Account might be preferable (for a more detailed explanation of the pros and cons of various tax sheltered college savings plans, please see the Feb. 28, 2002, *INVESTMENT GUIDE*). If you currently own Series EE or I U.S. Savings Bonds issued after December 31, 1989 or a Coverdell Education Savings Account you can redeem these assets tax-free if you contribute the proceeds to a section 529 College Savings Plan. It is also possible to convert 529 Prepaid Tuition Plans to 529 College Savings Plans in all but two states. Be aware that many of the attractive provisions of the 529 College Savings Plan are due to expire in 2010 under the sunset clause of the 2001 Economic Growth and Tax Relief Reconciliation Act unless Congress intervenes.

It is also critical to understand the notion of the "base year" and how it affects your EFC. The base year is defined as the tax year prior to your child attending college. The income and assets you report for the base year are used by the FM and IM to assess your EFC. If your Adjusted Gross Income (AGI) is less than $50,000 during the base year, and you use the short forms 1040EZ or 1040A to pay your income taxes, you can avoid putting much of your personal financial information on the FAFSA and increase your chances for obtaining a low EFC when applying for federal aid. Otherwise, you should take steps to reduce your income and reduce your assets in the base year. Since neither the FM nor the IM calculations recognize consumer loans (car loans, credit cards, etc.), one way to reduce assets is to consolidate your consumer debt with a home equity line-of-credit that will off-set the value of your home. However, this only works for the IM because the FM does not include the value of your residence when calculating your assets.

Save For College and Ask The Right Questions

It is not at all true that saving for college per se will disqualify a student from need-based financial aid. In fact, many college financial-aid officers require students to use summer-job income to pay for college expenses. They also appreciate parents who have made an effort to save money for their children's college education. A family that demonstrates an effort to save for college impresses financial-aid officers and encourages them to help you.

Just as tax considerations alone should not drive investment decisions, need-based financial aid alone should not affect your college savings plan. As is the case with the tax code, the rules change frequently, so the FM and IM are moving targets. It is important to be aware of the "big picture" issues and know what questions to ask if you want to avoid costly mistakes. While you have some control over how your savings will be "used against you," you must evaluate the pros and cons of your financial choices based on your specific financial circumstances and how your choices will impact the aid package you might receive. For more information, visit http://finaid.org.

GOLD FIELDS LTD.: THE QUEST CONTINUES

Despite an earlier defeat, Harmony Gold Mining Company Ltd. has initiated a second offer to exchange 1.275 newly issued ordinary shares of Harmony for each ordinary or ADS share of Gold Fields Ltd. Our recommendation is unchanged; we recommend that Gold Field shareholders reject this offer. A non-response will be considered a rejection.

Gold Field Shareholders should receive a new prospectus dated December 3, 2004; the terms expire February 4, 2005. This newly issued prospectus includes terms similar to those of the earlier exchange offer that was defeated by Gold Field shareholders on November 26, 2004. This is, however, a new offer.

According to many leaders of the South African mining community, the hostility that developed during Harmony's initial exchange offer greatly affected the mining industry in South Africa. It has been estimated that in total, Harmony and Gold Fields have lost over $2.5 billion of capitalization during the turmoil that has prevailed since Harmony made its initial offer.

Mvelpahanda Holdings, which owns 15% of Gold Fields shares and Russia's Norilsk Nickel, which owns another 20% of the shares, have initiated talks in an effort to bring the parties together. Meetings have already taken place in Russia between Norilsk Nickel, Mr. Tokyo Sexwale of Mvelpahanda Holdings, and Harmony. Together those entities can directly and indirectly impact the negotiations, which will take place between now and the February 4 expiration date.

We suspect the terms of the current offer might improve. We will continue to monitor the situation and keep readers apprised.

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 **Merck** and **Verizon**, which was not then a Dow component, were not eligible for purchase 18 months earlier. Investors following the model should find that the indicated purchases of **Merck** and **Verizon** and sales of **Eastman Kodak, AT&T** (no longer Dow components) and are sufficiently large to warrant trading. In larger accounts, rebalancing positions in **JP Morgan Chase,** and **SBC** may be warranted as the model calls for adding to positions that have lagged the entire portfolio and selling positions that have done better. 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

As of December 15, 2004

					——Percent of Portfolio*——	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares*[1]
General Motors	1	5.13%	38.96	*		
SBC Comm.	2	5.02%	25.68	Holding**	25.18	30.89
Merck	3	4.99%	30.48	Buying	6.48	6.69
Altria Group	4	4.80%	60.80	*		
Verizon	5	3.78%	40.70	Buying	13.32	10.31
JP Morgan Chase	6	3.48%	39.03	Holding**	23.80	19.21
CitiGroup	7	3.38%	47.31	Holding	11.24	7.48
DuPont	8	2.89%	48.39	Holding	4.57	2.97
Pfizer	9	2.68%	28.32			
Coca-Cola	10	2.41%	41.47			
AT&T	NA	4.93%	19.26	Selling	11.10	18.16
Eastman Kodak	NA	1.56%	31.85	Selling	4.32	4.27
					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	0.67%	11.18%	3.90%	13.28%	14.15%	15.32%	19.27%
Dow	1.50%	5.50%	0.29%	12.59%	11.62%	10.43%	16.88%

* 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.

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—Merck, SBC Communications, Verizon, and JPMorgan Chase — account for roughly 69 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 $150,000 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 12/15/04*	*Market Prices 11/15/04*	*Market Prices 12/15/03*	*12-Month High*	*12-Month Low*	*Latest Dividend Amount*	*Latest Dividend Record Date*	*Latest Dividend Paid*	*Indicated Annual Dividend*	*Indicated Yield† (%)*
General Motors	GM	**$38.96**	**$40.25**	48.93	55.55	36.90	0.500	11/08/04	12/10/04	2.000	5.13
★ SBC Comm.	SBC	**$25.68**	**$26.38**	24.87	27.73	22.98	0.323	1/10/05	2/01/05	1.290	5.02
★ Merck	MRK	**$30.48**	**$27.09**	43.70	49.33	25.60	0.380	12/03/04	1/03/05	1.520	4.99
Altria Group	MO	**$60.80**	**$54.30**	53.36	60.99 *H*	44.50	0.730	9/15/04	10/12/04	2.920	4.80
★ Verizon	VZ	**$40.70**	**$41.86**	33.52	42.27	33.70	0.385	1/10/05	2/01/05	1.540	3.78
☆ J. P. Morgan Chase	JPM	**$39.03**	**$39.16**	35.26	43.84	34.62	0.340	10/06/04	10/31/04	1.360	3.48
☆ Citigroup	C	**$47.31**	**$46.67**	47.78	52.88	42.10	0.400	11/01/04	11/24/04	1.600	3.38
☆ DuPont	DD	**$48.39**	**$44.53**	44.06	48.44 *H*	39.88	0.350	11/15/04	12/14/04	1.400	2.89
Pfizer	PFE	**$28.32**	**$27.62**	34.44	38.89	26.55 *L*	0.190	2/11/05	3/08/05	0.760	2.68
Coca-Cola	KO	**$41.47**	**$40.58**	49.79	53.50	38.30	0.250	12/01/04	12/15/04	1.000	2.41
General Electric	GE	**$37.39**	**$36.10**	30.33	37.75 *H*	28.88	0.220	12/27/04	1/25/04	0.880	2.35
Honeywell Intl.	HON	**$36.01**	**$36.18**	30.83	38.46	29.80	0.206	2/18/05	3/10/05	0.825	2.29
Exxon Mobil	XOM	**$50.51**	**$49.58**	37.80	52.00 *H*	37.86	0.270	11/12/04	12/10/04	1.080	2.14
Alcoa	AA	**$31.30**	**$33.81**	34.94	39.44	28.51	0.150	11/05/04	11/25/04	0.600	1.92
Boeing	BA	**$52.40**	**$54.03**	39.20	55.48 *H*	38.04	0.250	2/11/05	3/04/05	1.000	1.91
Johnson & Johnson	JNJ	**$60.90**	**$61.16**	49.46	62.81 *H*	49.12	0.285	11/16/04	12/07/04	1.140	1.87
3M Company	MMM	**$79.09**	**$82.28**	82.00	90.29	73.31	0.360	11/19/04	12/12/04	1.440	1.82
Procter & Gamble (s)	PG	**$56.12**	**$54.48**	48.91	57.40 *H*	48.63	0.250	10/22/04	11/15/04	1.000	1.78
Caterpillar	CAT	**$94.88**	**$89.69**	78.52	95.18 *H*	68.50	0.410	1/20/05	2/19/05	1.640	1.73
McDonald's	MCD	**$32.44**	**$30.42**	25.42	32.50 *H*	23.01	0.550	11/15/04	12/01/04	0.550	1.70
Hewlett-Packard	HPQ	**$20.71**	**$19.42**	22.01	26.28	16.08	0.080	12/15/04	1/05/05	0.320	1.55
Intel Corp.	INTC	**$23.14**	**$23.77**	30.24	34.60	19.64	0.080	2/07/05	3/01/05	0.320	1.38
United Tech.	UTX	**$102.40**	**$97.98**	91.55	103.39 *H*	80.67	0.350	11/19/04	12/10/04	1.400	1.37
Microsoft Corp.	MSFT	**$27.11**	**$27.39**	26.74	30.20	24.01	0.080	2/17/05	3/10/05	0.320	1.18
Wal-Mart Stores	WMT	**$53.03**	**$57.70**	50.74	61.31	50.60	0.130	12/17/04	1/03/05	0.520	0.98
Walt Disney	DIS	**$27.60**	**$26.73**	22.83	28.41	20.88	0.240	12/08/04	1/06/05	0.240	0.87
American Express	AXP	**$56.14**	**$56.00**	45.31	56.60 *H*	44.80	0.120	1/07/05	2/10/05	0.480	0.86
Home Depot, Inc.	HD	**$42.49**	**$43.79**	34.35	44.30 *H*	32.34	0.085	12/02/04	12/16/04	0.340	0.80
IBM	IBM	**$97.33**	**$95.92**	92.11	100.43	81.90	0.180	11/10/04	12/10/04	0.720	0.74
AIG	AIG	**$64.72**	**$62.84**	62.90	77.36	54.28 *L*	0.075	3/04/05	3/18/05	0.300	0.46
☆ Eastman Kodak	EK	**$31.85**	32.22	23.45	34.74	23.19	0.250	11/01/04	12/14/04	0.500	1.56
☆ AT&T	T	**$19.26**	18.13	18.98	22.10	13.59	0.238	9/30/04	11/01/04	0.950	4.93

† Based on indicated dividends and market price as of 12/15/04. *H* New 52-week high. *L* New 52-week low. (s) All data adjusted for splits. (r) All data adjusted for reverse splits. Extra dividends are not included in annual yields.

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

	12/15/04	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**439.00**	**437.60**	**407.50**
Silver, London Spot Price	**6.78**	**7.59**	**5.56**
Copper, COMEX Spot Price	**1.46**	**1.44**	**1.00**
Crude Oil, W. Texas Int. Spot	**44.19**	**46.87**	**33.18**
Dow Jones Spot Index	**195.33**	**200.40**	**173.64**
Dow Jones-AIG Futures Index	**146.89**	**151.58**	**136.33**
CRB-Bridge Futures Index	**284.52**	**287.38**	**260.84**

Interest Rates (%)

U.S. Treasury bills -	91 day	**2.20**	**2.09**	**0.89**
	182 day	**2.46**	**2.31**	**0.99**
	52 week	**2.66**	**2.53**	**1.25**
U.S. Treasury bonds -	10 year	**4.07**	**4.19**	**4.32**
Corporates:				
High Quality -	10+ year	**5.42**	**5.58**	**5.77**
Medium Quality -	10+ year	**5.70**	**5.93**	**6.15**
Federal Reserve Discount Rate		**3.25**	**3.00**	**2.00**
New York Prime Rate		**5.25**	**5.00**	**4.00**
Euro Rates	3 month	**2.18**	**2.17**	**2.16**
Government bonds -	10 year	**3.50**	**3.83**	**4.38**
Swiss Rates -	3 month	**0.76**	**0.75**	**0.28**
Government bonds -	10 year	**2.19**	**2.47**	**2.79**

Exchange Rates

British Pound	**$1.946200**	**$1.853900**	**$1.746900**
Canadian Dollar	**$0.809900**	**$0.837000**	**$0.758300**
Euro	**$1.330600**	**$1.296700**	**$1.233600**
Japanese Yen	**$0.009600**	**$0.009491**	**$0.009297**
South African Rand	**$0.173200**	**$0.165000**	**$0.158500**
Swiss Franc	**$0.870500**	**$0.851300**	**$0.794600**

Securities Markets

	12/15/04	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,203.54**	**1,183.81**	**1,068.04**
Dow Jones Industrial Average	**10,681.62**	**10,550.24**	**10,022.82**
Dow Jones Transportation Average	**3,759.61**	**3,611.51**	**2,950.77**
Dow Jones Utilities Average	**327.97**	**329.09**	**254.34**
Dow Jones Bond Average	**186.77**	**183.59**	**173.91**
Nasdaq Composite	**2,162.55**	**2,094.09**	**1,918.26**
Financial Times Gold Mines Index	**1,711.02**	**1,825.46**	**1,772.90**
FT African Gold Mines	**2,103.50**	**2,308.88**	**2,648.78**
FT Australasian Gold Mines	**4,259.84**	**4,659.10**	**3,316.54**
FT North American Gold Mines	**1,440.44**	**1,519.81**	**1,437.29**

Coin Prices

	12/15/04	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	**$464.95**	**$443.05**	416.45	5.91
Austrian 100-Corona (0.9803)	**$442.73**	**$421.93**	396.63	2.88
British Sovereign (0.2354)	**$110.65**	**$105.55**	99.35	7.07
Canadian Maple Leaf (1.00)	**$465.20**	**$443.30**	416.70	5.97
Mexican 50-Peso (1.2057)	**$546.10**	**$520.40**	489.30	3.17
Mexican Ounce (1.00)	**$452.80**	**$431.50**	405.70	3.14
S. African Krugerrand (1.00)	**$459.45**	**$437.95**	411.85	4.66
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$520.00**	**$480.00**	485.00	22.43
Liberty (Type I-AU)	**$675.00**	**$675.00**	675.00	58.92
Liberty (Type II-AU)	**$497.50**	**$487.50**	482.50	17.13
Liberty (Type III-AU)	**$472.00**	**$458.00**	450.00	11.13
U.S. Silver Coins ($1,000 face value, circulated, year earlier uncirculated)				
90% Silver (715 oz.)	**$5,480.00**	**$5,205.00**	3,920.00	13.04
40% Silver (292 oz.)	**$2,230.00**	**$2,122.50**	1,582.50	12.64
Silver Dollars	**$6,612.50**	**$6,587.50**	6,400.00	26.07

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $439.00 per ounce and silver at $6.78 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	12/15/04	Month Earlier	Year Earlier	52-Week High	52-Week Low	Distributions Latest 12 Months Income	Distributions Latest 12 Months Capital Gains	Yield (%)
★ iShares Lehman 1-3 Yr Treasury	SHY	**$81.68**	**$81.67**	**$82.37**	83.08	81.14	1.5448	0.0000	1.89
★ USAA Short Term Bond	USSBX	**$8.98**	**$8.97**	**$9.09**	9.15	8.95	0.2866	0.0000	3.19
★ Vanguard Short-term Inv. Grade	VFSTX	**$10.67**	**$10.67**	**$10.80**	10.89	10.59	0.3667	0.0000	3.44
Income Equity Funds									
★ DNP Select Income[1, 2]	DNP	**$11.54**	**$11.47**	**$10.80**	11.61	9.60	0.9600	0.0000	8.32
★ Vanguard REIT Index	VGSIX	**$18.98**	**$18.59**	**$15.28**	18.98	13.88	0.8000	0.0000	4.21
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$62.66**	**$61.21**	**$53.05**	62.70	52.98	0.9773	0.0000	1.56
★ Vanguard Value Index	VIVAX	**$21.32**	**$20.79**	**$18.33**	21.32	18.12	0.4420	0.0000	2.07
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$122.14**	**$117.60**	**$96.42**	122.45	95.82	1.0031	0.0000	0.82
★ Vanguard Sm. Cap Value Index	VISVX	**$14.07**	**$13.57**	**$11.42**	14.07	11.15	0.1980	0.0000	1.41
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$58.35**	**$57.50**	**$53.78**	58.61	51.98	0.6573	0.0000	1.13
★ Vanguard Growth Index	VIGRX	**$26.44**	**$25.94**	**$24.27**	26.44	23.11	0.1460	0.0000	0.55
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$75.79**	**$72.99**	**$62.55**	75.89	61.60	1.1110	0.0000	1.47
T Rowe Price European Stock	PRESX	**$19.57**	**$19.22**	**$16.82**	19.81	16.46	0.4900	0.0300	2.50
★ Vanguard European Stock Index	VEURX	**$26.15**	**$25.08**	**$20.94**	26.15	21.20	0.5800	0.0000	2.22

Recommended Gold-Mining Companies

	Ticker Symbol	12/15/04	Month Earlier	Year Earlier	52-Week High	52-Week Low	Distributions Latest 12 Months	Distributions Frequency	Yield (%)
Anglo American PLC, ADR[4]	AAUK	**$22.71**	**$23.87**	**$20.56**	26.69	18.94	0.580	Semiannual	2.55
★ Anglogold Ashanti Ltd., ADR	AU	**$36.75**	**$40.82**	**$47.29**	48.25	29.91	0.754	Semiannual	2.05
★ Barrick Gold Corp.†	ABX	**$23.45**	**$22.91**	**$22.15**	25.52	18.04	0.187	Semiannual	0.80
★ Gold Fields Ltd.	GFI	**$13.10**	**$14.06**	**$13.72**	15.25	9.13	0.123	Semiannual	0.94
★ Newmont Mining	NEM	**$45.75**	**$48.88**	**$47.22**	50.20	34.70	0.300	Quarterly	0.66
★ Placer Dome†	PDG	**$19.05**	**$21.88**	**$16.90**	23.67	12.89	0.085	Semiannual	0.45
★ Rio Tinto PLC‡	RTP	**$112.75**	**$114.29**	**$103.00**	119.73	84.53	2.640	Semiannual	2.34

★ Buy. ☆ Hold. (s) All data adjusted for splits. † Dividend shown is after 15% Canadian tax withholding. ‡ Not subject to U.K. withholding tax. na Not applicable.
[1] Closed-end fund, traded on the NYSE. [2] Dividends paid monthly. [3] Exchange traded fund, traded on ASE. [4] Preliminary estimate of semi-annual dividend.

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