INVESTMENT GUIDE

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Equity Performance
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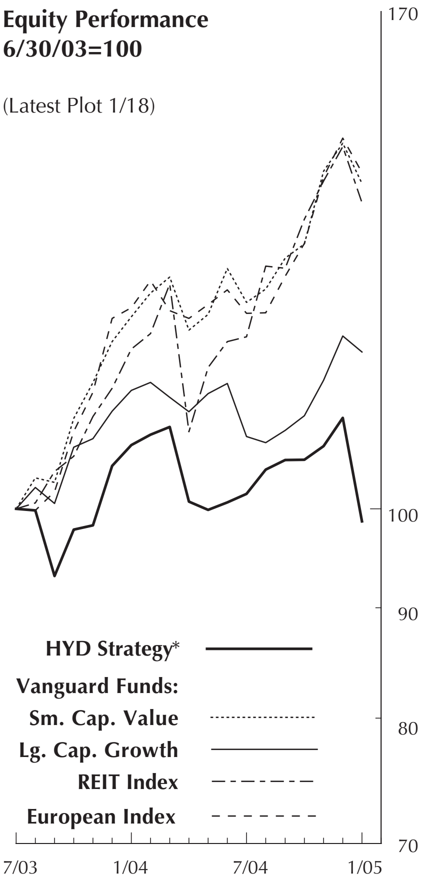
(Latest Plot 1/18)



*** HYD is a hypothetical model based on back-tested results. See p. 6 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

New Year's Resolutions

- I will understand my own circumstances and formulate an investment plan based on my needs, not in anticipation of market trends.
- I will remind myself that investing is not a form of entertainment—if I have an urge to gamble, I will go to Las Vegas (where at least the drinks are free!) and leave my investment portfolio alone.
- I will stick to my plan regardless of market conditions.
- I will not attempt to pick winning stocks.
- I will ensure that my holdings are adequately diversified within each asset class I own.
- I will place primary emphasis on minimizing my investment-related costs.
- I will stay abreast of changes in investment-related tax laws.
- I will not purchase any financial instrument I do not understand.
- I will ignore money managers or others selling products rather than advice.
- I will ignore market prognosticators.
- I will take full advantage of my qualified retirement plans by making the maximum allowable contributions I can live with.
- I will hold my least tax-efficient assets in my tax-deferred accounts.
- I will rebalance my portfolio infrequently, but at regular intervals regardless of the current state of the markets.
- I will not allow the price I have paid for a security to influence my future investment decisions—except for tax considerations regarding capital gains and losses.
- At year end I will harvest tax losses simply and without ever deviating from my portfolio's target allocations by selling and buying index-type funds within the same asset class.
- I will appreciate the simplicity of the AIS approach; instead of worrying about factors that are not within my control, I will establish my plan and turn my attention to enjoying life.

QUARTERLY REVIEW OF INVESTMENT POLICY

The Economy

In December the economic indicators of our parent, the American Institute for Economic Research (AIER) continued to point toward weakness in the US economy. Among the leading indicators, six out of seven (86 percent) for which a trend was evident were expanding. However, it is notable that among all twelve leading indicators only six were expanding, down from eleven in August, because many of the series that had been apprised as expanding became cyclically indeterminate. A recession, however, does not appear to be imminent. AIER's cyclical score, a purely mathematical composite assessment of the leading indicators, was at 86; when both this score and the percent of leaders expanding are above 50 a recession is statistically unlikely.

Investors who follow our approach enjoyed a strong quarter. Foreign stocks and REITs provided the strongest returns, though every one of our recommended asset classes provided positive returns. Investors are not shying away from the market, according to the Investment Company Institute (ICI). Stock, bond, and hybrid funds, had combined net investment inflows of $27.48 billion in November, nearly double the net inflow of $14.22 billion in October. For the first eleven months of 2004 ICI reported net inflow of $196.6 billion versus $201.3 billion for the same period in 2003.

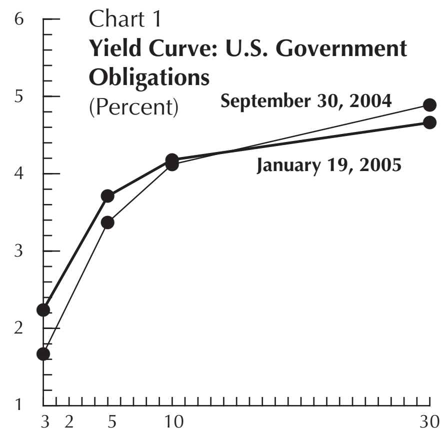
We have not altered our recommended portfolio allocations, which appear in the accompanying table. These allocations are provided to help our readers establish an investment plan and to stick with it. Changes are very infrequent, and are made only as a result of our ongoing assessment of assets available to the investing public. This assessment is based not on prognostications but on an historical review of the risk and return characteristics of existing and potential asset classes.

Money-Market Funds

Yields on cash-equivalent assets continued to rise during the quarter. The Treasury bill yield had risen from 1.87 percent in early October to 2.33 percent as of mid-January. Taxable money-market funds are providing an average yield of 1.67 percent, while tax-free money funds are averaging 1.11 percent.

Price inflation, as measured by CPI, stood at 3.7 percent as of mid-November. So, despite the upward trend in short-term interest rates, yields on cash-equivalent assets are not keeping pace with the general rise in consumer prices. This should not prompt investors to alter their cash holdings, however. Although each investor's circumstances are unique, the cash levels indicated in the accompanying allocation table should serve as reasonable guidelines for most investors. Short-term interest rates are unpredictable, so investors are best served by ignoring interest rate trends. You should instead keep a reasonable percentage of your holdings in both cash-equivalent assets and in short/intermediate-term fixed income investments. Liquidity is extremely important in order to meet unanticipated expenditures, so the appropriate level of cash to maintain should be largely determined by your needs rather than current interest rates or the rate of price inflation.

Taxable money-market funds are mutual funds that invest in short-term securities such as Treasury bills, bankers' acceptances, commercial paper, or negotiable certificates of deposit of major commercial banks. The shares of money-market funds are issued and redeemed at a Net Asset Value (NAV) of $1.00 per share.



Most brokers offer their customers a money-market fund as a "sweep" account. Dividends, interest, and deposits are used to purchase additional shares in this fund, which may be redeemed to pay for purchases and withdrawals from the account. Similarly, mutual funds in "families" that have the same sponsors and management companies, such as Vanguard, will include several money-market funds among their offerings. These typically include municipal money-market funds, which earn income that is exempt from Federal, and sometimes state and local income taxes.

Short/Intermediate-Term Bonds

Chart 1 depicts the yield curve as of mid-January and at the end of the third quarter.

The Federal Reserve's Board of Governors boosted short-term rates (the Fed Funds rate) one quarter point, to 2.25 percent, in mid-December, marking the fifth increase in six months. The Fed's announcement hinted strongly that more increases could well be on the way in coming months. The Vanguard Short-Term Investment Grade Fund provided a total return of 0.39 percent during the fourth quarter.

Long-term rates remained largely unaffected during the quarter, as the market apparently anticipated only modest monetary inflating on the horizon. A conventional bond represents a fixed-income obligation and is therefore vulnerable to a loss of purchasing power. Higher an-

RECOMMENDED PORTFOLIO ALLOCATION PERCENTAGES

	Conservative	*Moderate*	*Aggressive*
Money-Market Funds	30	20	10
Short/Intermediate-Term Bonds	35	25	15
Income Equities	10	5	0
Large-Cap Value Stocks	20	30	35
Small-Cap Value Stocks	0	5	10
Growth Stocks	5	5	10
Foreign Equities	0	5	10
Gold-Related	0	5	10
	100	100	100

Note: Most investors should adopt values between the extreme conservative and aggressive percentages shown above. What is best for an individual investor will depend on one's circumstances and tolerance for risk.

ticipated price inflation would result in lower long-term bond prices and higher long-term rates. However, the lack of any movement in long-term rates should not prompt investors to sell their bonds in anticipation that the market is wrong regarding future inflating.

The bond allocations in the accompanying Recommended Portfolio Allocation table should be confined to U.S. Government issued securities or high-grade corporate or municipal bonds with five years or fewer remaining until maturity.

For many investors, any of the fixed-income mutual funds on page 8 will provide a suitable means of holding bonds. Investors with more substantial investment portfolios might consider building a bond ladder. Equal amounts should be invested in bonds with maturities ranging from six months to five years, in six- to twelve-month intervals. As these bonds mature, the proceeds can simply be reinvested in new five-year bonds. In order to maintain a well-structured ladder, it is best to avoid callable bonds. Alternatively, you could follow a "variable maturity" strategy (see the June 2004 ***INVESTMENT GUIDE*** for a full discussion) an approach designed to provide highest expected return per unit of volatility assumed. The strategy, however, is not simple to implement; the only cost-effective means of implementing this approach is offered through the mutual funds of Dimensional Fund Advisors (DFA). The DFA funds are not available to "retail" investors, but may be purchased through our Professional Asset Management (PAM) program.

Income Equities

REITs had another strong quarter, with the total return on the Vanguard REIT index fund (symbol VGSIX) surging 15.06 percent, on top of a healthy 8.13 percent gain during the third quarter. As of mid-January the fund was yielding 4.67 percent.

Aside from our recommended gold mining stocks, REITs are the only asset class we recommend that is based on a single industry. We examined the risk and return profiles of all industries and determined that only REITs, which own commercial real estate, provide returns that are not strongly correlated with our other recommended asset classes.

The Duff and Phelps Select Income Fund (DNP) had a strong quarter, beginning at $11.12 per share on October 1, and closing the year at $11.92. The fund is currently providing a dividend yield of 6.7 percent.

The fund's underlying holdings are concentrated in bonds and stocks of public utilities, the interest and dividends of which are distributed in a convenient monthly dividend. The fund is able to maintain its high payout because, in addition to its common shares, the fund issues relatively low-cost remarketed preferred stock, which leverages the earnings available for common shareholders. This leverage does not present unreasonable risk. It would be reasonable for investors to divide their income equity allocation equally between the Vanguard REIT fund and DNP.

If your portfolio includes taxable as well as qualified or other tax-deferred accounts, these income generating equities should be concentrated in the tax-deferred accounts. A large portion of the returns generated by REITs and DNP are attributable to investment income that will not benefit from the maximum federal tax rate of only 15 percent now levied against qualified dividends. Those distributions will therefore be taxed at the potentially much higher rates applied to ordinary income if these assets are held in a taxable account.

Common Stocks

All of our recommended equity classes finished out 2004 with strong returns for the fourth-quarter. The S&P 500 Index gained 9.23 percent, and the NASDAQ Composite Index was up 14.69 percent. The gains in large-caps were spread evenly among growth and value stocks; the Barra S&P 500 Growth Index was up 8.51 percent and the Barra S&P 500 Value Index was up 9.93 percent. Small cap value shares had similarly strong results with the Barra SmallCap S&P600 Value Index providing a return of 12.05 percent. Foreign markets were the big winners for the quarter, as measured by the MSCI World ex US index, which returned a robust 15.2 percent.

Gold-Related Investments

Gold provided a total return of 4.8 percent as measured by the London PM fix price. The accompanying table reveals that gold has provided a total return of over 45.90 percent since the second quarter of 2002, second only to REITs among our recommended asset classes. Whether the recent predominance of gold and real estate foreshadow a trend that favors "hard assets" remains to be seen, but the data makes it clear that all of our asset classes should be considered for any portfolio, in accordance with the accompanying allocation table.

Gold moves independently of other asset classes, so despite the extremely volatile nature of its price changes, it can actually add stability to a properly constructed portfolio. Because of gold's inherent volatility, our allocations are limited to those shown. The accompanying feature article provides a useful overview of the various gold-related vehicles that are available to investors.

Total Returns (%)

	2002			*2003*				*2004*				*Total Return Entire Period 2Q 2002-4Q 2004*
	2Q	*3Q*	*4Q*	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*Q3*	*Q4*	
Vanguard Short-Term Inv Grade	1.25	**2.27**	1.34	**1.39**	1.89	0.39	0.46	1.53	-1.30	1.50	0.39	*11.64*
Vanguard REIT Index	4.79	-8.48	0.10	1.01	12.27	9.47	9.27	**11.75**	-5.95	**8.13**	15.06	***70.28***
Vanguard Value Index	-10.69	-20.45	9.88	-5.57	20.27	2.24	13.93	2.12	1.56	1.24	9.80	*19.06*
High-Yield Dow 4/18*	-6.92	-23.76	**26.44**	-9.94	18.92	-5.10	12.47	4.25	-7.76	3.64	6.22	*8.59*
Vanguard Small Cap Value Index	-4.15	-22.50	4.62	-7.98	19.39	7.48	16.19	7.14	0.89	1.13	13.03	*31.74*
Vanguard Growth Index	-16.30	-14.07	7.04	-0.91	11.57	3.24	10.33	1.49	1.51	-4.88	9.40	*3.93*
Vanguard European Stock Index	-4.05	-22.85	10.77	-9.25	**22.30**	3.89	**20.30**	0.82	**2.25**	1.19	**15.86**	*37.47*
Gold (London PM Fix)	**5.67**	1.63	7.26	-3.56	3.33	**12.14**	7.28	1.79	-6.58	6.02	4.80	*45.90*

The highest returns provided in each period are in **Bold Face Type**. * HYD is a hypothetical model based on back tested results. See p. 6 for a full explanation.

HOW TO HOLD GOLD

New gold investment instruments now make it easier than ever for individual investors to own gold. Below we revisit the rationale behind gold investing and reexamine the current crop of gold investment vehicles.

Why Gold?

Individual investors benefit from owning gold for many of the same reason that nations benefit. Gold is real money. It is a unique asset class because it is "no one else's liability." Gold has intrinsic value that is less dependent on human enterprise, and the economic and political agendas of nations, than are stocks and bonds, or other "paper investments." While the rationale for owning gold is often couched in visions of Armageddon, the practicality of holding gold as a form of insurance is questionable (try buying a pair of sneakers at Walmart with your Krugerrands). The insurance argument, nevertheless, is bolstered by strong empirical evidence. Since gold has very low correlation with other asset classes (see Table 1) it can potentially reduce overall portfolio volatility, without significantly reducing returns.

Between January 1968 and December 2003, gold provided a total annual return of 7.1 percent. During the same period Treasury bills provided exactly the same return. But gold was far riskier; its standard deviation, which measures volatility, was *over ten times* that of Treasury bills. Thus, at first glance gold does not appear attractive at all. However, we recently examined the results of a hypothetical, passively managed portfolio composed of large-cap stocks, large-cap value stocks, and small-cap value stocks, in equal amounts rebalanced annually for the same 36 years 1968-2003. We considered two additional portfolios; one with the same mix but with 10 percent gold bullion, and another with 10 percent in six month Treasury Bills. The addition of 10 percent gold reduced the total portfolio return by 0.07 percent, but reduced the standard deviation, by 2.31 percent. The addition of 10 percent Treasury bills reduced the total return by 0.49 percent but reduced the standard deviation by only 1.82 percent. Thus even though gold, in absolute terms, is far more volatile than Treasury bills, it has the potential to reduce the magnitude of the swings in your portfolio.

Detractors claim that gold is essentially just another commodity. Indeed, gold itself has no positive expected return. Bonds and stocks, on the other hand, are capital assets that represent a stake in economic growth. Investors who hold a well diversified portfolio of stocks or bonds thus can expect to benefit to the extent of general economic growth.

In the final analysis, gold is a viable form of portfolio insurance with a long track record. For most investors, devoting a small portion of a portfolio to gold-related assets is prudent.

Below we review the three most practical ways to own gold, namely, gold bullion coins, quality gold-mining stocks and recently introduced gold-based exchange-traded funds (ETFs).

"Gold Under The Mattress"

Owning gold bullion is the surest way to garner the purported benefits of holding gold as a form of money. For the gold investor who insists on owning bullion it is best to own gold bullion coins. Coins such as the American Eagle, South African Krugerrand, Canadian Maple Leaf, or Austrian Corona are priced for the small investor and have relatively active markets. *These are not numismatic coins*, which are collectibles, the value of which is highly subjective, rendering many investors vulnerable to unscrupulous dealers. Gold coin storage is readily available in the form of a safe deposit box, but this requires a fee, and gold coins provide no offsetting income. Bullion proponents assert that gold will prove to be the only recognized form of money in the event of the collapse of fiat currencies. In the present environment coins are not readily exchangeable for goods and services; whether this would change amidst a severe financial collapse is unknown.

The IRS considers bullion coins to be collectibles, so gains can be taxed at rates up to 28 percent, versus a maximum long-term rate of 15 percent for other assets.

"Gold In The Ground"

We recommend gold mining companies that have proven reserves and that have a history of paying dividends (see page 8). These quality gold mining stocks address many of the intrinsic deficiencies of bullion coins, and bring additional advantages. These must be weighed, however, against certain drawbacks.

Gold stocks are liquid—they are easy to buy and sell in established stock markets. These firms have paid steady dividends when the gold price was rising and also when it was falling. They also provide the potential for growth that is independent of the gold price through the acquisition and development of new properties. Gold shares are common stocks and therefore receive preferential tax treatment relative to bullion coins.

Gold shares represent gold in the ground, and investors have a claim to those assets in the event of bankruptcy, but this is merely a legal claim represented by a stock certificate. For those who favor the gold-as-money argument and cherish the security of "holding gold in your hand,"gold shares are inadequate.

Another significant disadvantage of gold stocks is that the investor must assume company-specific risk over and above the risk inherent in the gold price.

Correlation Matrix AIS Recommended Asset Classes January 1978-November 2004

	MSCI EAFE	*S&P/BARRA 500 Growth*	*S&P/BARRA 500 Value*	*Gold*	*DJ Wilshire Real Estate Securities*	*Fama-French Small Value*	*U.S. Inter-Term Govt. Bond*
MSCI EAFE	1.00						
S&P/BARRA 500 Growth	0.51	1.00					
S&P/BARRA 500 Value	0.54	0.86	1.00				
Gold	**0.22**	**0.00**	**0.02**	1.00			
DJ Wilshire Real Estate Securities	0.34	0.49	0.62	**0.09**	1.00		
Fama-French Small Value	0.46	0.68	0.80	**0.03**	0.70	1.00	
U.S. Inter-Term Govt. Bond	0.12	0.15	0.17	**0.02**	0.19	0.05	1.00

Only six firms meet our criteria, providing for little diversification. Thus numerous company-specific risks (mine disruptions, environmental liabilities, etc.) can be reduced but not completely "diversified away." Chart 1 demonstrates the volatility in the price of gold shares (as represented by the PHLX Gold & Silver Sector[SM] (XAU[SM]) Index) relative to the gold price itself. It should be emphasized that this is a price index alone, and does not include the returns attributable to dividends, which if accounted for would increase the returns and reduce the volatility of the share index relative to bullion. Also, little can be said that is conclusive regarding the *total return* over this period; it is apparent that the beginning and end dates one chooses can dramatically alter the picture to favor either index.

"Gold In The Vault"

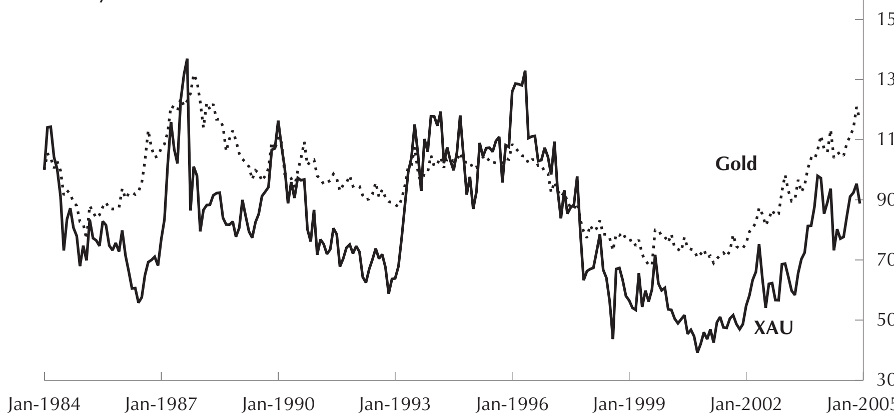
Exchange Traded Funds (ETFs) are tradable index-based mutual funds. Unlike conventional "open end" mutual funds they can be bought and sold throughout the day (see November 20, 2001, ***Investment Guide*** for a full discussion of ETFs). Each ETF holds a portfolio of underlying securities that attempt to replicate the performance of an underlying benchmark. ETFs are much less expensive and more tax efficient than most mutual funds. Unlike closed-end funds, ETFs rarely stray from the market value of their underlying assets.

Gold ETFs have been marketed as a means of capturing the best features of both bullion and mining shares. The streetTRACKS Gold Shares (GLD) has been available since November 2004. It is sponsored by a wholly owned subsidiary of the World Gold Council, the gold mining industry's foremost trade group. A share of GLD is worth a tenth of a troy ounce of gold. The bullion collateral for GLD is held in London. A competing product, Barclay's Global Investors iShare Comex Gold Trust (IAU) will be available pending SEC approval.

Like gold mining shares, ETFs trade on stock exchanges and are therefore very liquid, but, unlike mining shares, gold ETFs track almost perfectly with the bullion price. Since its inception, GLD's share price has remained within +0.31 percent and -0.16 percent of the indicative value of its underlying gold holdings.

ETFs avoid company-specific risk. In this regard they are an excellent proxy for gold as a pure asset class. The drawback is that ETFs are nothing more than paper.

Chart 1: GOLD BULLION vs. Gold Stocks (XAU)
(January 1984 = 100)



Although a share of GLD technically represents a tenth of a troy ounce in actual gold bullion, it is not likely that a GLD investor will ever be able to trade their paper for bullion.

GLD's expense ratio is 0.40 percent, and it is anticipated that IAU will assess a similar fee. This fee is quite reasonable; however, to pay this management fee gold is sold from the respective trust. Over time there will be a drag on the price of these Gold ETFs because each will sell gold reserves to pay operating costs. If the price of gold is flat the net asset value of each share will decline.

Gold ETFs are a tremendous innovation, and allow individual investors access to a highly liquid and transparent asset that provides direct exposure to the gold price. Gold ETFs have been successfully trading in other countries for several years now without problems. Nevertheless bullion coins and mining shares remain viable alternatives, so investors can afford to be circumspect. We will revisit gold ETFs, when GLD's competitor, IAU, begins trading, so we can provide a thorough evaluation of both offerings.

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 January 14, 2005

					——Percent of Portfolio*——	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares*[1]
General Motors	1	5.39%	37.13	*		
SBC Comm.	2	5.28%	24.41	Holding**	24.89	31.28
Merck	3	4.92%	30.87	Buying	8.27	8.21
Altria Group	4	4.61%	63.35	*		
Verizon	5	4.18%	36.84	Buying	13.92	11.59
JP Morgan Chase	6	3.60%	37.81	Holding**	23.94	19.43
CitiGroup	7	3.37%	47.51	Holding	11.60	7.49
Pfizer	8	3.01%	25.25			
DuPont	9	2.97%	47.07	Holding	4.57	2.98
General Electric	10	2.48%	35.52			
AT&T	NA	5.08%	18.67	Selling	9.86	16.20
Eastman Kodak	NA	1.56%	31.89	Selling	2.93	2.82
					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	-2.82%	-1.35%	2.99%	12.66%	14.11%	15.20%	19.24%
Dow	-1.09%	-1.05%	-0.27%	12.04%	11.72%	10.38%	16.86%

* 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—SBC Communications, Merck, Verizon, and JPMorgan Chase — account for roughly 71 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	Market Prices			12-Month		Latest Dividend			Indicated	
	Symbol	*1/14/05*	*12/15/04*	*1/15/04*	*High*	*Low*	*Amount*	*Record Date*	*Paid*	*Annual Dividend*	*Yield† (%)*
General Motors	GM	**$37.13**	**$38.96**	54.00	54.67	36.90	0.500	11/08/04	12/10/04	2.000	5.39
★ SBC Comm.	SBC	**$24.41**	**$25.68**	26.74	27.29	22.98	0.323	1/10/05	2/01/05	1.290	5.28
★ Merck	MRK	**$30.87**	**$30.48**	45.93	49.33	25.60	0.380	12/03/04	1/03/05	1.520	4.92
Altria Group	MO	**$63.35**	**$60.80**	54.25	63.40 *H*	44.50	0.730	12/27/04	1/10/04	2.920	4.61
★ Verizon	VZ	**$36.84**	**$40.70**	36.88	42.27	34.13	0.385	1/10/05	2/01/05	1.540	4.18
★ J. P. Morgan Chase	JPM	**$37.81**	**$39.03**	38.92	43.84	34.62	0.340	1/06/05	1/31/05	1.360	3.60
☆ Citigroup	C	**$47.51**	**$47.31**	49.50	52.88	42.10	0.400	11/01/04	11/24/04	1.600	3.37
Pfizer	PFE	**$25.25**	**$28.32**	34.82	38.89	21.99 *L*	0.190	2/11/05	3/08/05	0.760	3.01
☆ DuPont	DD	**$47.07**	**$48.39**	44.47	49.50 *H*	39.88	0.350	11/15/04	12/14/04	1.400	2.97
General Electric	GE	**$35.52**	**$37.39**	32.00	37.75	28.88	0.220	12/27/04	1/25/04	0.880	2.48
Coca-Cola	KO	**$40.97**	**$41.47**	49.73	53.50	38.30	0.250	12/01/04	12/15/04	1.000	2.44
Honeywell Intl.	HON	**$35.34**	**$36.01**	36.48	38.46	31.23	0.206	2/18/05	3/10/05	0.825	2.33
Exxon Mobil	XOM	**$51.07**	**$50.51**	40.28	52.05 *H*	39.91	0.270	11/12/04	12/10/04	1.080	2.11
Alcoa	AA	**$29.90**	**$31.30**	35.47	38.58	28.51	0.150	11/05/04	11/25/04	0.600	2.01
Boeing	BA	**$50.91**	**$52.40**	43.04	55.48	38.04	0.250	2/11/05	3/04/05	1.000	1.96
Johnson & Johnson	JNJ	**$62.70**	**$60.90**	51.84	64.25 *H*	49.25	0.285	2/15/05	3/08/05	1.140	1.82
Procter & Gamble (s)	PG	**$55.88**	**$56.12**	49.76	57.40	48.97	0.250	1/21/05	2/15/05	1.000	1.79
McDonald's	MCD	**$31.31**	**$32.44**	25.15	32.96 *H*	24.74	0.550	11/15/04	12/01/04	0.550	1.76
Caterpillar	CAT	**$93.69**	**$94.88**	83.38	98.72 *H*	68.50	0.410	1/20/05	2/19/05	1.640	1.75
3M Company	MMM	**$83.97**	**$79.09**	84.30	90.29	73.31	0.360	11/19/04	12/12/04	1.440	1.71
Hewlett-Packard	HPQ	**$20.07**	**$20.71**	25.30	26.28	16.08	0.080	12/15/04	1/05/05	0.320	1.59
Intel Corp.	INTC	**$23.02**	**$23.14**	33.06	33.41	19.64	0.080	2/07/05	3/01/05	0.320	1.39
United Tech.	UTX	**$100.94**	**$102.40**	95.40	106.28 *H*	80.67	0.350	11/19/04	12/10/04	1.400	1.39
Microsoft Corp.	MSFT	**$26.12**	**$27.11**	27.54	30.20	24.01	0.080	2/17/05	3/10/05	0.320	1.22
Wal-Mart Stores	WMT	**$53.99**	**$53.03**	53.49	61.31	51.08	0.130	12/17/04	1/03/05	0.520	0.96
American Express	AXP	**$52.72**	**$56.14**	49.68	57.05 *H*	47.32	0.120	1/07/05	2/10/05	0.480	0.91
Walt Disney	DIS	**$28.30**	**$27.60**	24.82	28.50	20.88	0.240	12/08/04	1/06/05	0.240	0.85
Home Depot, Inc.	HD	**$41.90**	**$42.49**	35.43	44.30	32.34	0.085	12/02/04	12/16/04	0.340	0.81
IBM	IBM	**$94.10**	**$97.33**	94.02	100.43	81.90	0.180	11/10/04	12/10/04	0.720	0.77
AIG	AIG	**$66.14**	**$64.72**	69.55	77.36	54.28	0.075	3/04/05	3/18/05	0.500	0.76
☆ AT&T	T	**$18.67**	19.26	21.16	21.89	13.59	0.238	12/31/04	2/01/05	0.950	5.08
☆ Eastman Kodak	EK	**$31.89**	31.85	26.07	34.74	24.25	0.250	11/01/04	12/14/04	0.500	1.56

† Based on indicated dividends and market price as of 1/14/05. *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

	1/14/05	*Mo. Earlier*	*Yr. Earlier*
Gold, London p.m. fixing	**422.50**	439.00	412.50
Silver, London Spot Price	**6.63**	6.78	6.32
Copper, COMEX Spot Price	**1.44**	1.46	1.08
Crude Oil, W. Texas Int. Spot	**48.38**	44.19	33.65
Dow Jones Spot Index	**195.32**	195.33	175.59
Dow Jones-AIG Futures Index	**146.79**	146.89	137.41
CRB-Bridge Futures Index	**283.22**	284.52	264.41

Interest Rates (%)

U.S. Treasury bills -	91 day	**2.36**	2.20	0.86
	182 day	**2.66**	2.46	0.95
	52 week	**2.91**	2.66	1.15
U.S. Treasury bonds -	10 year	**4.22**	4.07	4.55
Corporates:				
High Quality -	10+ year	**5.43**	5.42	5.47
Medium Quality -	10+ year	**5.82**	5.70	5.80
Federal Reserve Discount Rate		**3.25**	3.25	2.00
New York Prime Rate		**5.25**	5.25	4.00
Euro Rates	3 month	**2.15**	2.18	2.10
Government bonds -	10 year	**3.56**	3.50	4.19
Swiss Rates -	3 month	**0.74**	0.76	0.26
Government bonds -	10 year	**2.19**	2.19	2.62

Exchange Rates

British Pound	**$1.869300**	$1.946200	$1.813900
Canadian Dollar	**$0.822600**	$0.809900	$0.771500
Euro	**$1.310400**	$1.330600	$1.248500
Japanese Yen	**$0.009800**	$0.009600	$0.009429
South African Rand	**$0.165800**	$0.173200	$0.135400
Swiss Franc	**$0.846600**	$0.870500	$0.797200

Securities Markets

	1/14/05	*Mo. Earlier*	*Yr. Earlier*
S & P 500 Stock Composite	**1,184.52**	1,203.54	1,132.05
Dow Jones Industrial Average	**10,558.00**	10,681.62	10,553.85
Dow Jones Transportation Average	**3,569.16**	3,759.61	3,018.48
Dow Jones Utilities Average	**332.29**	327.97	266.17
Dow Jones Bond Average	**186.07**	186.77	178.68
Nasdaq Composite	**2,087.91**	2,162.55	2,109.08
Financial Times Gold Mines Index	**1,600.08**	1,711.02	1,641.30
FT African Gold Mines	**1,948.86**	2,103.50	2,532.40
FT Australasian Gold Mines	**4,297.50**	4,259.84	3,474.68
FT North American Gold Mines	**1,339.20**	1,440.44	1,300.78

Coin Prices

	1/14/05	*Mo. Earlier*	*Yr. Earlier*	*Premium*
American Eagle (1.00)	**$429.25**	**$464.95**	434.65	1.60
Austrian 100-Corona (0.9803)	**$408.73**	**$442.73**	413.83	-1.32
British Sovereign (0.2354)	**$102.35**	**$110.65**	103.55	2.91
Canadian Maple Leaf (1.00)	**$429.50**	**$465.20**	434.90	1.66
Mexican 50-Peso (1.2057)	**$504.20**	**$546.10**	510.50	-1.02
Mexican Ounce (1.00)	**$418.10**	**$452.80**	423.30	-1.04
S. African Krugerrand (1.00)	**$424.35**	**$459.45**	429.65	0.44
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$520.00**	**$520.00**	512.50	27.21
Liberty (Type I-AU)	**$675.00**	**$675.00**	675.00	65.13
Liberty (Type II-AU)	**$497.50**	**$497.50**	482.50	21.71
Liberty (Type III-AU)	**$465.00**	**$472.00**	455.00	13.76
U.S. Silver Coins ($1,000 face value, circulated, year earlier uncirculated)				
90% Silver (715 oz.)	**$4,540.00**	**$5,480.00**	4,345.00	-4.23
40% Silver (292 oz.)	**$1,840.00**	**$2,230.00**	1,747.50	-4.96
Silver Dollars	**$6,600.00**	**$6,612.50**	6,575.00	28.68

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $422.50 per ounce and silver at $6.63 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*	*1/14/05*	*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	**$81.37**	**$81.68**	**$82.71**	83.08	81.14	1.5826	0.0000	1.94
★ USAA Short Term Bond	USSBX	**$8.95**	**$8.98**	**$9.12**	9.15	8.95	0.2877	0.0000	3.21
★ Vanguard Short-term Inv. Grade	VFSTX	**$10.63**	**$10.67**	**$10.83**	10.89	10.59	0.3646	0.0000	3.43
Income Equity Funds									
★ DNP Select Income[1, 2]	DNP	**$11.41**	**$11.54**	**$11.20**	11.95	9.60	0.7800	0.0000	6.84
★ Vanguard REIT Index	VGSIX	**$17.65**	**$18.98**	**$15.20**	18.98	13.88	0.8810	0.0710	4.99
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$61.34**	**$62.66**	**$56.66**	63.26	53.44	1.0179	0.0000	1.66
★ Vanguard Value Index	VIVAX	**$20.88**	**$21.32**	**$19.05**	21.49	18.37	0.4590	0.0000	2.20
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$115.74**	**$122.14**	**$103.88**	122.93	97.57	1.3525	0.0000	1.17
★ Vanguard Sm. Cap Value Index	VISVX	**$13.33**	**$14.07**	**$11.65**	14.13	11.15	0.2250	0.0000	1.69
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$56.88**	**$58.35**	**$56.74**	58.65	51.98	0.9764	0.0000	1.72
★ Vanguard Growth Index	VIGRX	**$25.79**	**$26.44**	**$25.29**	26.45	23.11	0.2950	0.0000	1.14
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$73.29**	**$75.79**	**$66.00**	75.90	61.60	1.3481	0.0000	1.84
T Rowe Price European Stock	PRESX	**$19.30**	**$19.57**	**$17.96**	20.00	16.46	0.2700	0.0100	1.40
★ Vanguard European Stock Index	VEURX	**$25.23**	**$26.15**	**$22.74**	26.15	21.25	0.5800	0.0000	2.30

Recommended Gold-Mining Companies

	Ticker Symbol	*1/14/05*	*Month Earlier*	*Year Earlier*	*52-Week High*	*52-Week Low*	*Distributions Latest 12 Months*	*Distributions Frequency*	*Yield (%)*
Anglo American PLC, ADR[4]	AAUK	**$23.31**	**$22.71**	**$21.69**	26.69	18.94	0.580	Semiannual	2.49
★ Anglogold Ashanti Ltd., ADR	AU	**$33.41**	**$36.75**	**$41.15**	44.86	29.91	0.754	Semiannual	2.26
★ Barrick Gold Corp.†	ABX	**$22.15**	**$23.45**	**$20.56**	25.52	18.04	0.187	Semiannual	0.84
★ Gold Fields Ltd.	GFI	**$12.18**	**$13.10**	**$13.45**	15.25	9.13	0.123	Semiannual	1.01
★ Newmont Mining	NEM	**$41.87**	**$45.75**	**$42.59**	49.98	34.70	0.400	Quarterly	0.95
★ Placer Dome†	PDG	**$17.71**	**$19.05**	**$16.03**	23.67	12.89	0.085	Semiannual	0.48
★ Rio Tinto PLC‡	RTP	**$116.87**	**$112.75**	**$107.15**	119.73	84.53	2.640	Semiannual	2.26

★ 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.