INVESTMENT GUIDE

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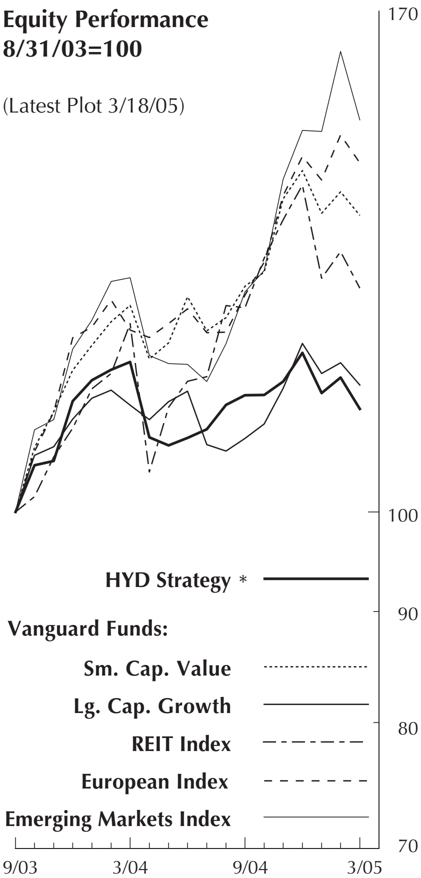

*** HYD is a hypothetical model based on back-tested results. See p. 22 for a full explanation.**

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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Avoiding Temptation

"Do not try to beat the markets by speculating on commodities or high-tech stocks…When the siren song starts to waft toward you, lash yourself to the mast of broad-market investing."

—Ben Stein, "Everybody's Business," New York Times, Feb. 27, 2005

The message never really changes, does it? Establish a plan. Stick with it. Be a miser. Our sage advice, so well-summarized by Mr. Stein, largely boils down to a long list of "Don'ts"—don't chase stocks, don't time the market, don't be a spendthrift, don't succumb to sales pitches, etc.

Passive investing requires extraordinary self-discipline. To stay the course in the face of overwhelming headlines and hype is difficult, and rather than go it alone, many investors wisely seek guidance and regular reassurance. The distractions, after all, are enormous. In virtually every aspect of life in our capitalist economy, hard work and talent are rewarded, sometimes astronomically. In money management, however, there are no Lance Armstrongs or Michael Jordans. Stock pickers cannot be consistently right, because markets are not consistently wrong.

The table below makes this point rather succinctly. If in January 1981 you had invested in a mutual fund by picking from the best performing equity mutual funds of the previous five years, chances are you would have been outperformed by the overall market over the next 22 years, as measured by the S&P 500, which returned 12.2 percent annually. Only two of those funds outperformed the S&P, and half fell into the bottom half of all 275 equity funds when ranked by total return. Similar results occurred in subsequent 5-year periods.

	January 1976-December 1980			*Subsequent Performance January 1981-December 2002*		
	Rank	*% Rank*	*Annual Return (%)*	*Rank*	*% Rank*	*Annual Return (%)*
Amer Cnt. Growth/Inv	1	0%	52.14	138	50%	9.95
Alliance Quasar/A	2	1%	41.56	184	67%	8.21
Evergreen/I	3	1%	40.92	162	59%	8.91
Security:Mid Cap Gr/A	4	2%	40.13	196	71%	7.53
Fidelity Magellan	5	2%	39.86	2	1%	15.74
Amer Cnt. Select/Inv	6	2%	36.84	88	32%	11.17
Oppenheimer Gr/A	7	3%	36.27	174	63%	8.60
Value Line Lev Gr Inv	8	3%	35.90	73	27%	11.58
Value Line Spcl Sit.	9	4%	35.74	186	68%	8.14
Liberty Acorn Fund/Z	10	4%	35.02	13	5%	13.87
S&P 500			**13.95**			**12.22**

Source: Dimensional Funds Advisors.

Several thousand ***Investment Guide*** subscribers have concluded that our monthly reminder is just the thing to keep them on track, while our 200+ individual investors have come to appreciate our discipline so much that over the past two years the value of the assets we manage on their behalf has doubled (most of the new assets had previously been managed by "full service" brokers).

VALUE VS. GROWTH INVESTING: A CLOSER LOOK

Have you ever been tempted to invest your money based solely on a rumor about a hot "growth" stock, or have been tempted to invest based solely on advice from a broker or from media coverage about an unjustly maligned "value" stock? If so, you are in good company with other investors who are constantly looking over their shoulders to see if they have missed a golden opportunity. Anxiety about missing out on "sure bets" is often referred to as "chasing returns." More often than not, hot stock tips are yesterday's news and do not result in successful investment experiences. Successful stock investing depends on understanding your risk tolerance and investment goals.

The best indicator of a stock's value is its price. The price is the market's way of assessing risk, which determines a stock's expected rate of return. In other words, the prices people pay for stocks are the prices that will produce the expected returns they require in order to hold the stocks.

The terms "growth" and "value" are often used without completely understanding what these terms really mean or how these types of stocks influence the overall risk and return of a portfolio. News affects the prices of all companies including firms in sound financial condition with stable earnings, as well as firms suffering from some type of distress. Whatever the nature of the company, the price invariably reflects the market's perception of its financial health which is often described by the moniker "growth" or "value." Whether you should invest in a growth or value stock depends on your own risk tolerance, investment time horizon and circumstances.

Typically, a growth stock represents a company which has a history of increasing its revenues more quickly than other companies. Growth stocks are usually expensive and have lower rates of return than value stocks. Value stocks are priced inexpensively because they have poorer prospects than growth stocks. Historically, these distressed stocks have, as an asset class, provided higher rates of return than have growth stocks.

Market Efficiency and the Cost of Capital

The financial services industry employs armies of analysts who spend their careers delving into the fine print of corporate financial reports and divining the next stock "bargain." All of this analysis is justified, we are told, on the grounds that these analysts can outsmart the market by discovering under-priced stocks before everyone else. This presupposes that the stock market is an *inefficient* pricing mechanism and provides broker/dealers with the ammunition they need to justify high turnover rates and transaction fees. However, there is a large body of evidence that refutes the idea that markets are inefficient. The Efficient Market Hypothesis (EMH), which is widely accepted in academia but scorned on Wall Street, asserts that markets are in fact very efficient at pricing stocks based on all available information.

Stock Prices and Risk

Issuing shares of common stock is one way for a company to obtain capital. Instead of going to the bank and paying interest on a loan, a corporation could sell its shares to an investor. In this way, the stock investor and the banker have a similar job of assigning a price for the capital that the company needs. The banker offers to loan money based on the company's ability to pay back the loan. A good credit history is rewarded with a low interest rate because the banker is taking little risk. A dubious credit history requires a high interest rate because the banker wants to be compensated for taking a larger risk. Similarly, the share price of a stable company that has a history of high earnings will be higher in relative terms. This is because the market has determined that a stable company does not need to offer as high a rate of return as the distressed company in order to entice capital investment.

The stock market requires distressed companies to discount their stock price to a level that provides an acceptable return to compensate investors who choose to take more risk. Risk determines return, so the investor's goal, like the banker's, is to maximize the return on an investment for any given level of assumed risk. Investing in a portfolio of severely distressed companies may be an excellent investment for an individual who can bear the risk.

While higher returns from riskier stocks are expected, they are not of course guaranteed; this is the nature of risk. Investors can, however, rid their portfolio of unnecessary risk, that is, risk which is not compensated by the market, by diversifying their holdings of distressed companies across several firms within the same industry—to do away with firm specific risk—and by ensuring the portfolio includes several industries—thus eliminating industry-specific risk. An ideally constructed portfolio will be left only with the risk attributable to distressed stocks, as a whole, which cannot be diversified away, and the investor who is willing to assume that risk can expect to be rewarded with higher returns.

Measuring Risk Objectively

In order to build an adequately diversified portfolio of distressed stocks, an objective measure of risk is needed. The capital asset pricing model (CAPM) emerged as a widely accepted model for measuring the systematic risk of a security. Empirical evidence supported the notion that a stock's *beta (B)* could be calculated, which provided a gauge of how its price could be expected to respond to a given change in the overall stock market. Subsequent research published by Eugene Fama and Kenneth French in 1992 demonstrated that the model could be further refined to better predict investment returns. Fama/French concluded that two additional factors, a company's book-to-market[1] ratio (BtM) and its market capitalization[2] or size, better explained expected rates of return than the traditional CAPM.

By ranking stocks by BtM, Fama/French distinguished between growth stocks (low BtM) and value stocks (high BtM). Of the several quantitative measures of risk available (price/earnings ratios, price to cash flow, etc.), Fama/French concluded that BtM was the most reliable indicator of expected return.

Dividend yield is another means of gauging growth versus value. Our HighYield Dow (HYD) program uses this approach. Every month we rank the thirty stocks in the Dow Jones Industrial Average (DJIA) by their dividend yield. This method depends on three independent variables: (1) the selection of firms that

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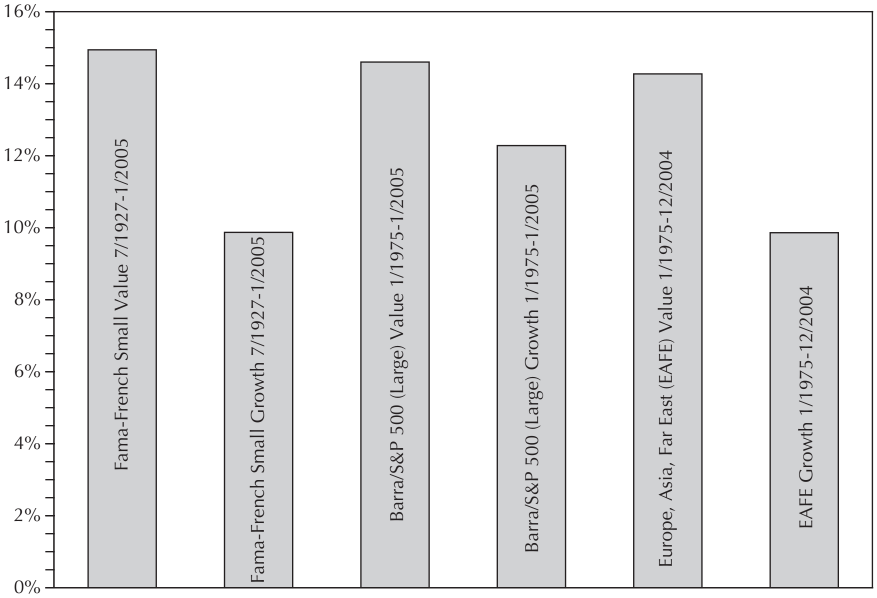
[1] The book value of a company is its total assets minus intangible assets and liabilities. Market value can be more or less than book value and is the result of the market's perception of a company's value. Based on the Efficient Market Theory the market's valuation of a company's stock price represents the discounted value of all future expected returns.

[2] Market capitalization refers to the total market value of outstanding shares of a common stock of a corporation.

Chart 1: **The Value Effect Across Size and Foreign Market**
Total Annualized Return



comprise the DJIA, as determined by the editors of the Wall Street Journal, (2) the dividend policies of each company in the DJIA, and (3) the stock price, as determined by the marketplace. Both BtM and yield produce similar results in predicting rates of return.

The Why of Growth and Value Stock Investing

A portfolio of stocks designed to simply capture the returns of the overall stock market is easy to purchase (market-wide index funds abound) and provides significant advantages. Common stocks provide protection against price inflation, as well as the potential to provide growth in real terms. Stocks contribute to overall portfolio stability because they are not strongly correlated to the returns of our other recommended asset classes, including cash, short-term bonds, income generating assets, and gold related assets.

But Fama and French demonstrated that investors can improve upon a simple portfolio designed to replicate the entire U.S. stock market. They concluded that the growth and value effect existed across both U.S. large and small cap stocks, as well as foreign stocks. Chart 1 shows this effect. Thus, an investor can consider several categories of stocks as potential building blocks with which they can construct a portfolio suited to his or her own taste. An aggressive investor could thus "weight" his portfolio more heavily toward small cap value stocks, even extending to foreign stocks, in order to accept more market risk in exchange for higher potential returns.

From this perspective it might seem unusual that an investor would allocate any funds to growth stocks, which have lower expected returns. However, many investors have little tolerance for "tracking risk," that is, the risk that at any point in time their returns might not be in line with those of the overall stock market. Despite strong evidence that value stocks provide higher expected returns over time, there have clearly been periods over the short-term when growth stocks have outperformed value stocks, such as the late 1990s, as demonstrated in Chart 2. During that period many investors felt they should at least have some exposure to growth.

The How of Growth and Value Stock Investing

What is the best way to buy stocks? The first step is to ensure that your holdings are adequately diversified across industries and across firms within industries. We recommend Exchange Traded Funds (ETFs), and open-end funds from the Vanguard Group and Dimensional Fund Advisors (DFA) (DFA funds are only available through Registered Investment Advisors). These investment options offer passively managed funds in our recommended asset classes, both domestically and internationally, at a reasonable price. A list of our recommended funds can be found every month on the back page of the ***INVESTMENT GUIDE***.

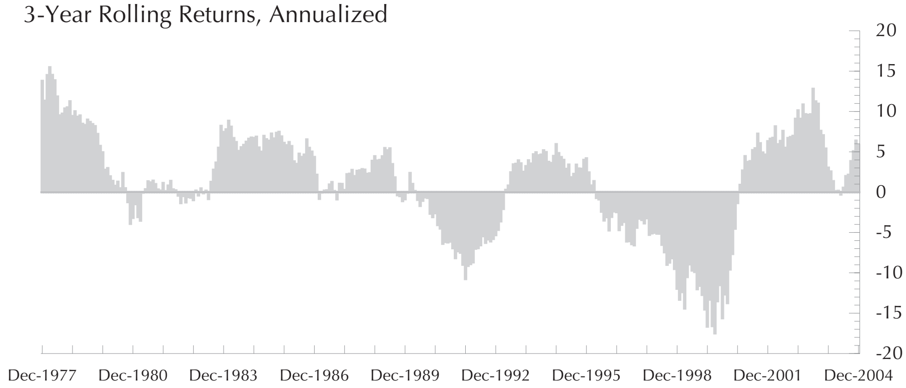
Our high-yield Dow can be used to invest directly in large cap value stocks. To do so cost effectively, however, we recommend that investors consider doing so only if they plan to invest at least $100,000 in a high-yield Dow portfolio. Although this approach is not nearly as diversified as the mutual funds we recommend, the 30 DJIA stocks from which our holdings are selected are specifically designed to include stocks representative of the broad economy. Our research indicates that while our 4-for-18 high-yield Dow model has outperformed the DJIA over the long term, its returns have been only slightly more volatile than the broader index.

Phony Asset Classes

It is important to note that so-called "blend" stock funds and "mid-cap" funds are not representative of a true asset class. An asset class is a category of assets that displays unique risk and return characteristics. Our research suggests that common stocks can generally be categorized as either large or small, and growth or value. Thus mid-cap or blend funds offer no diversification benefits.

Another problem with blend funds is that they are difficult to "de-construct."

Chart 2: **Excess Return Large Cap Value versus Large Cap Growth**
3-Year Rolling Returns, Annualized



The investor can never really determine the actual exposure to true asset classes he holds because the underlying stocks are not identified as such, and in the case of actively managed funds, the holdings frequently change. From an asset allocation perspective, it is nearly impossible for an investor to understand and track how a blend fund or mid-cap fund might affect the risk he is assuming. In practice, blend fund investors often inadvertently increase their investment risk through duplication. They mistakenly attempt to diversify by holding numerous blend funds. Since many of these funds hold the same securities and in the similar proportion, the investor's assets can in fact become too heavily weighted toward a particular asset class.

The easiest path to successful stock investing is to keep things simple. First, determine your risk tolerance, time horizon and personal circumstances. Then "engineer" a portfolio tailored to your needs, using our recommended passively managed investment vehicles as building blocks. You can rest assured that each is specifically designed to capture the risk and return from its designated asset class and that it will not stray from that objective.

Beware of the "Free Lunch"

The next time you are tempted to look over your shoulder at a hot stock pick ask yourself, "does this stock fit *my* investment profile?" This question should remind you to make your investment decision in the proper context of your risk tolerance and goals. "Value" and "growth" are appealing labels that suggest an opportunity or a bargain, but in reality they only describe levels of risk. Promises of easy money are tempting but the market in fact offers no free lunches.

GOLD ETFS: THE NUTS AND BOLTS

*In the January 2005 INVESTMENT GUIDE we reviewed the reasons for holding gold assets as part of a well diversified portfolio and the various investment vehicles available to investors. We introduced two innovative gold exchange traded funds (ETFs) based on the gold price—streetTracks Gold Trust **(GLD)**, sponsored by the World Gold Council, and the iShares Comex Gold Trust **(IAU)**, sponsored by Barclays Global Investors. In this issue we examine the products in greater detail.*

The transactional issues and costs involved in purchasing, storing and insuring physical gold have been major obstacles for individual investors. ETFs provide a simple, cost-efficient way of making an investment in gold. The objective of an ETF is for its value to reflect an underlying index or asset; in this case gold. While an ETF is not the equivalent of a direct investment in gold, it provides investors with a vehicle to participate, by owning securities, in the gold market. Shares of ETFs are listed on major exchanges and can be traded in any brokerage account. These are highly liquid investments.

Sales of ETFs have increased rapidly in recent years. As of December 31, 2004 there were 152 ETF products representing \$227.7 billion in investor assets. Growth has also been strong outside the United States with 177 funds offered on foreign exchanges and \$85 billion in assets according to Bloomberg.

The structure and mechanics of GLD and IAU are virtually identical. In fact, a reader of the prospectus for each trust might suspect that they were prepared by the same attorney. Both are grantor trusts with the expressed, stated investment objective of issuing shares that reflect the performance of the price of gold bullion, less trust expenses. The principal difference is that GLD bases the net asset value (NAV) of its gold holdings on the London Fix, while IAU bases its NAV on the COMEX Spot price of gold. This distinction will be addressed below. We otherwise describe the trusts in general terms applicable to both.

Grantor Trust

The Trust is established to hold gold bullion, issue "baskets" in exchange for deposits of gold, and to distribute gold for the redemption of baskets. A basket is a large block of ETF shares and may be created or redeemed only by a broker-dealer authorized to participate with the trust. These "Authorized Participants" distribute individual shares to investors through the exchange on which the shares are listed. Each share represents a fractional, undivided interest in the gold held by the trust.

Investors should be aware that shareholders do not enjoy the same rights associated with ownership of shares of common stock. For example, shareholders do not have the right to elect directors or to receive dividends.

	streetTracks Gold Trust (GLD)	***iShares Comex Gold Trust (IAU)***
Structure	Grantor Trust	Grantor Trust
Sponsor	World Gold Council Trust Services (WGTS)	Barclays Global Investors, NA
Trustee	Bank of New York	Bank of New York
Custodian	HSBC Bank, USA	Bank of Nova Scotia
Exchange	New York Stock Exchange (NYSE)	American Stock Exchange (AMEX)
Stated Expense Ratio	0.40%	0.40%
NAV Calculation	London PM Fix	COMEX Spot

Expenses

Because the trust itself does not generate any income, the trust regularly sells gold to pay its ongoing expenses (i.e., to custody and insure gold bullion, as well as trust administration and legal expenses), so the amount of gold held in the trust will decline over time. The trust itself is not subject to U.S. taxes. The tax liability is passed through to the shareholder. This occurs regardless of the trading price of the shares or changes in the price of gold. Therefore sale of the trust's gold to pay expenses at a time of low gold prices will adversely affect an investment in the shares. This factor should be weighed against the cost of holding gold in other forms, such as bullion coins or gold mining shares.

Net Asset Value (NAV)

Global trade in gold bullion occurs principally through over-the-counter (OTC) transactions, derivative instruments, and futures and options contracts traded on exchanges.

There is no organized physical "outcry" exchange for the trade of gold. Gold is exchanged "over-the-counter" by bullion dealers and banks under rules established by the London Bullion Market Association (LBMA), also known as the "London Gold Pool." The LBMA also determines weights and measures and purity standards for "London Good Delivery" gold bars, approves melters and assayers of gold and coordinates market clearing and vaulting and promotes trading practices and documentation standards.

The London gold price fix is a widely accepted benchmark for the price of international gold transactions. Two times a day during London trading (10:30 AM and 3:00 PM, London time), there is a "fix" to provide a reference for the day's trading. This practice has been in operation in since 1919.

Participation in the London fix is limited to five "fixing members" of the LBMA, who are bullion dealers. The five members, who serve on a rotating basis, are currently ScotiaMocatta, Deutsche Bank AG, HSBC Bank USA, Société Générale and Barclays Bank plc.

Clients place orders with the dealing rooms of fixing members who net all orders before communicating their interest to their representative at the fixing. The metal price is then adjusted to reflect whether there are more buyers or sellers at a given price until such a time as supply and demand is seen to be balanced. Throughout the proceedings, customers may change their orders, at which point the fixing member will raise a small flag to visually convey to the other members that they are changing their order. The price cannot be 'fixed' while a flag is raised.

The fixing is an open transparent process that allows customers to be kept advised of price movements together with the changes in the level of interest, and the fixing is in progress such that they may cancel, increase or decrease their interest dependent upon this information.

Futures exchanges are organized to provide a regulated marketplace for the trading of contracts for commodities. The COMEX is the world's largest exchange for the trading of precious metals. Trading is based on future delivery dates for delivery of contracts. All bids, offers and trades are publicly announced to all members and conveyed to the market via price reporting services by arrangement with the exchange. Electronic execution is available after the close of market hours. Participants rarely take physical delivery of the commodities represented by the contracts traded on the exchange.

Net Asset Value (NAV) of GLD and IAU vs. .10 London Gold Price

Gold trades on a 24-hour basis around the world and arbitragers can exploit any deviation in price from one market to another. The mechanics of the market keep the world price of gold within a very narrow band across different exchanges. Thus far, the NAVs of the two ETFs reflect the efficiency of market prices for gold traded in the London Market and the COMEX. The chart above shows the NAV prices vs. one-tenth the London gold price (each trust share represents one-tenth of the trust is gold assets).

Tax Considerations

Gold ETFs are considered "collectibles" under current tax law. Gains from the sale of collectibles are taxed at a maximum rate of 28%, rather than the current 15% rate applicable to most long-term capital gains. Gains from the sale of gold ETFs held for one year or less are generally taxed at the same rate as ordinary income.

This tax-treatment makes it prudent for investors to make purchases of gold ETFs in tax-deferred accounts where possible.

Investors should note that unlike mutual funds and other ETF products, gold ETFs are created as "grantor trusts," and no 1099 is issued upon sale. A letter stating the dollar proceeds from sale of shares is provided to the holder, but the IRS does not receive a copy. It is the investor's responsibility to report the information when filing tax returns.

Conclusions

We recommend gold ETFs for investors who seek a liquid means of holding gold, but who lack adequate resources to diversify among a portfolio of gold mining shares. We do not endorse one gold ETF over another at this juncture. The early indications are that despite some detractors in the financial press, the market has determined that GLD and IAU are what they advertise—fractional shares of the respective trusts—and has priced them accordingly.

NEWLY RECOMMENDED FUNDS

	Ticker Symbol	***3/15/05***	*Month Earlier*	*Year Earlier*	*52-Week High*	*52-Week Low*	*Distributions Latest 12 Months Income*	*Distributions Latest 12 Months Capital Gains*	*Yield (%)*
iShares COMEX Gold Trust	IAU	44.08	42.59	N/A	44.60	41.25	0.0000	0.0000	0.00
streetTRACKS Gold Shares	GLD	44.03	42.58	N/A	45.60	41.26	0.0000	0.0000	0.00
iShares Emerging Markets Index Fund	EEM	208.60	211.50	163.55	221.85	142.96	2.4100	0.0000	0.01
Vanguard Emerging Markets Stock Index Fund	VEIEX	15.33	15.29	12.32	15.99	10.50	0.2590	0.0000	0.02

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** and **AT&T** (no longer Dow components) 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 March 15, 2005

					Percent of Portfolio*	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares*[1]
General Motors	1	5.93%	33.72	*		
SBC Comm.	2	5.45%	23.66	Holding**	24.35	31.80
Merck	3	4.75%	32.00	Buying	11.69	11.28
Verizon	4	4.54%	35.68	Buying	16.40	14.20
Altria Group	5	4.48%	65.25	*		
JP Morgan Chase	6	3.75%	36.25	Holding**	23.07	19.66
CitiGroup	7	3.68%	47.80	Holding	11.75	7.48
Pfizer	8	2.89%	26.29			
Coca Cola	9	2.65%	42.24			
DuPont	10	2.64%	53.13	Holding	5.11	2.97
AT&T	NA	4.98%	19.07	Selling	7.78	12.61
Eastman Kodak	NA	1.49%	33.50	Selling	0	0
					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	-1.51%	1.89%	5.40%	12.03%	13.69%	15.12%	19.20%
Dow	-0.64%	5.23%	2.82%	11.86%	11.77%	10.39%	16.84%

* 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 75.50 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	*3/15/05*	*2/15/05*	*3/15/04*	*High*	*Low*	*Amount*	*Record Date*	*Paid*	*Annual Dividend*	*Yield† (%)*
General Motors	GM	**$33.72**	**$37.22**	44.97	50.04	33.69 *L*	0.500	2/11/05	3/10/05	2.000	5.93
★ SBC Comm.	SBC	**$23.66**	**$24.52**	24.18	27.29	22.98	0.323	1/10/05	2/01/05	1.290	5.45
★ Merck	MRK	**$32.00**	**$29.35**	44.85	48.78	25.60	0.380	12/03/04	1/03/05	1.520	4.75
★ Verizon	VZ	**$35.68**	**$36.26**	37.30	42.27	34.13	0.405	1/10/05	2/01/05	1.620	4.54
Altria Group	MO	**$65.25**	**$66.06**	53.77	68.50 *H*	44.50	0.730	12/27/04	1/10/04	2.920	4.48
★ J. P. Morgan Chase	JPM	**$36.25**	**$37.55**	40.93	42.57	34.62	0.340	1/06/05	1/31/05	1.360	3.75
☆ Citigroup	C	**$47.80**	**$49.40**	49.12	52.88	42.10	0.440	2/07/05	2/25/05	1.760	3.68
Pfizer	PFE	**$26.29**	**$25.22**	34.95	37.90	21.99	0.190	2/11/05	3/08/05	0.760	2.89
Coca-Cola	KO	**$42.24**	**$42.65**	47.71	53.50	38.30	0.280	12/01/04	12/15/04	1.120	2.65
☆ DuPont	DD	**$53.13**	**$51.75**	41.01	54.90 *H*	39.88	0.350	2/15/05	3/14/05	1.400	2.64
General Electric	GE	**$36.00**	**$36.39**	30.30	37.75	28.88	0.220	2/28/05	4/25/05	0.880	2.44
Honeywell Intl.	HON	**$39.05**	**$39.05**	32.59	39.50	31.23	0.206	2/18/05	3/10/05	0.825	2.11
3M Company	MMM	**$85.86**	**$85.90**	74.87	90.29	73.31	0.420	2/25/05	3/12/05	1.680	1.96
Alcoa	AA	**$31.59**	**$29.81**	53.77	36.60	28.01	0.150	2/04/05	2/25/05	0.600	1.90
Procter & Gamble (s)	PG	**$52.92**	**$53.48**	102.52	57.40	50.53	0.250	1/21/05	2/15/05	1.000	1.89
Exxon Mobil	XOM	**$60.35**	**$56.92**	41.78	64.37 *H*	39.91	0.270	2/10/05	3/10/05	1.080	1.79
United Tech.	UTX	**$102.30**	**$102.77**	87.90	106.28	80.67	0.440	2/18/05	3/10/05	1.760	1.72
Boeing	BA	**$58.48**	**$54.43**	39.78	58.94 *H*	38.04	0.250	2/11/05	3/04/05	1.000	1.71
McDonald's	MCD	**$32.43**	**$33.16**	28.45	34.56 *H*	25.05	0.550	11/15/04	12/01/04	0.550	1.70
Caterpillar	CAT	**$96.75**	**$91.50**	73.98	99.96 *H*	68.50	0.410	1/20/05	2/19/05	1.640	1.70
Johnson & Johnson	JNJ	**$67.26**	**$65.91**	50.57	68.68 *H*	49.25	0.285	2/15/05	3/08/05	1.140	1.69
Hewlett-Packard	HPQ	**$20.14**	**$21.12**	21.71	23.75	16.08	0.080	3/16/05	4/07/05	0.320	1.59
Intel Corp.	INTC	**$23.88**	**$24.47**	27.09	29.10	19.64	0.080	2/07/05	3/01/05	0.320	1.34
Microsoft Corp.	MSFT	**$24.91**	**$25.93**	25.19	30.20 *H*	24.01	0.080	2/17/05	3/10/05	0.320	1.28
Wal-Mart Stores	WMT	**$51.03**	**$52.70**	57.90	60.45	51.01 *L*	0.150	12/17/04	1/03/05	0.600	1.18
Home Depot, Inc.	HD	**$39.76**	**$42.73**	35.41	44.30	32.34	0.100	12/02/04	12/16/04	0.400	1.01
American Express	AXP	**$53.50**	**$54.50**	50.95	58.03	47.32	0.120	1/07/05	2/10/05	0.480	0.90
Walt Disney	DIS	**$28.60**	**$29.58**	25.33	29.99	20.88	0.240	12/08/04	1/06/05	0.240	0.84
AIG	AIG	**$61.92**	**$71.85**	70.06	77.36	54.28	0.125	3/04/05	3/18/05	0.500	0.81
IBM	IBM	**$91.38**	**$94.33**	91.82	99.10	81.90	0.180	2/10/05	2/10/05	0.720	0.79
☆ AT&T	T	**$19.07**	**$19.55**	18.87	20.08	13.59	0.238	12/31/04	2/01/05	0.950	4.98
Eastman Kodak	EK	**$33.50**	**$34.52**	25.72	35.19	24.25	0.250	11/01/04	12/14/04	0.500	1.49

† Based on indicated dividends and market price as of 3/15/05. *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

	3/15/05	*Mo. Earlier*	*Yr. Earlier*
Gold, London p.m. fixing	**440.65**	**424.40**	**398.10**
Silver, London Spot Price	**7.42**	**7.25**	**7.11**
Copper, COMEX Spot Price	**1.50**	**1.49**	**1.35**
Crude Oil, W. Texas Int. Spot	**55.05**	**47.27**	**37.44**
Dow Jones Spot Index	**221.86**	**198.72**	**189.48**
Dow Jones-AIG Futures Index	**164.30**	**147.38**	**148.29**
CRB-Bridge Futures Index	**320.50**	**289.33**	**278.36**

Interest Rates (%)

U.S. Treasury bills -	91 day	**2.79**	**2.59**	**0.95**
	182 day	**3.10**	**2.76**	**1.00**
	52 week	**3.38**	**3.00**	**1.11**
U.S. Treasury bonds -	10 year	**4.55**	**4.41**	**4.34**
Corporates:				
High Quality -	10+ year	**5.63**	**5.27**	**5.29**
Medium Quality -	10+ year	**6.00**	**5.63**	**5.67**
Federal Reserve Discount Rate		**3.50**	**3.50**	**2.00**
New York Prime Rate		**5.50**	**5.50**	**4.00**
Euro Rates	3 month	**2.13**	**2.14**	**2.07**
Government bonds -	10 year	**3.72**	**3.41**	**4.03**
Swiss Rates -	3 month	**0.75**	**0.75**	**0.26**
Government bonds -	10 year	**2.20**	**1.96**	**2.46**

Exchange Rates

British Pound	**$1.912100**	**$1.896700**	**$1.818800**
Canadian Dollar	**$0.828600**	**$0.812600**	**$0.751900**
Euro	**$1.331300**	**$1.301800**	**$1.235100**
Japanese Yen	**$0.009570**	**$0.009576**	**$0.009144**
South African Rand	**$0.163500**	**$0.168000**	**$0.149300**
Swiss Franc	**$0.858700**	**$0.840000**	**$0.787800**

Securities Markets

	3/15/05	*Mo. Earlier*	*Yr. Earlier*
S & P 500 Stock Composite	**1,197.75**	**1,210.12**	**1,104.49**
Dow Jones Industrial Average	**10,745.10**	**10,837.32**	**10,102.89**
Dow Jones Transportation Average	**3,816.43**	**3,615.16**	**2,790.44**
Dow Jones Utilities Average	**359.04**	**353.88**	**274.68**
Dow Jones Bond Average	**184.58**	**188.80**	**180.69**
Nasdaq Composite	**2,034.98**	**2,089.21**	**1,939.20**
Financial Times Gold Mines Index	**1,718.79**	**1,617.00**	**1,592.70**
FT African Gold Mines	**1,995.11**	**1,906.13**	**2,335.57**
FT Australasian Gold Mines	**4,758.44**	**4,344.23**	**3,077.85**
FT North American Gold Mines	**1,452.93**	**1,365.84**	**1,296.22**

Coin Prices

	3/15/05	*Mo. Earlier*	*Yr. Earlier*	*Premium*
American Eagle (1.00)	**$445.45**	**$436.05**	410.35	1.09
Austrian 100-Corona (0.9803)	**$424.13**	**$415.23**	390.83	-1.82
British Sovereign (0.2354)	**$106.05**	**$103.95**	97.95	2.24
Canadian Maple Leaf (1.00)	**$445.70**	**$436.30**	410.60	1.15
Mexican 50-Peso (1.2057)	**$523.20**	**$512.20**	482.10	-1.52
Mexican Ounce (1.00)	**$433.80**	**$424.70**	399.80	-1.55
S. African Krugerrand (1.00)	**$440.25**	**$431.05**	405.85	-0.09
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$515.00**	**$515.00**	480.00	20.80
Liberty (Type I-AU)	**$675.00**	**$675.00**	675.00	58.33
Liberty (Type II-AU)	**$497.50**	**$497.50**	505.00	16.69
Liberty (Type III-AU)	**$465.00**	**$460.00**	455.00	9.07
U.S. Silver Coins ($1,000 face value, circulated, year earlier uncirculated)				
90% Silver (715 oz.)	**$5,175.00**	**$5,140.00**	4,870.00	-2.46
40% Silver (292 oz.)	**$2,077.50**	**$2,065.00**	1,955.00	-4.11
Silver Dollars	**$6,725.00**	**$6,725.00**	6,500.00	17.16

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $440.65 per ounce and silver at $7.42per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	*3/15/05*	*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	**$80.72**	**$81.22**	**$82.92**	83.08	80.72	1.6800	0.0000	2.08
★ USAA Short Term Bond	USSBX	**$8.90**	**$8.94**	**$9.14**	9.15	8.94	0.2910	0.0000	3.27
★ Vanguard Short-term Inv. Grade	VFSTX	**$10.55**	**$10.63**	**$10.88**	10.88	10.55	0.3597	0.0000	3.41
Income Equity Funds									
★ DNP Select Income[1, 2]	DNP	**$11.51**	**$11.85**	**$11.11**	11.95	9.60	0.7800	0.0000	6.78
★ Vanguard REIT Index	VGSIX	**$17.83**	**$16.07**	**$16.40**	18.98	13.88	0.5640	0.3860	3.16
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$62.40**	**$63.07**	**$56.09**	63.97	53.44	1.0179	0.0000	1.63
★ Vanguard Value Index	VIVAX	**$21.57**	**$21.51**	**$19.26**	21.98	18.37	0.4590	0.0000	2.13
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$120.80**	**$120.63**	**$103.48**	124.74	97.57	1.3525	0.0000	1.12
★ Vanguard Sm. Cap Value Index	VISVX	**$13.77**	**$13.77**	**$12.11**	14.13	11.15	0.2270	0.0000	1.65
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$57.43**	**$57.93**	**$54.72**	58.99	51.98	0.9764	0.0000	1.70
★ Vanguard Growth Index	VIGRX	**$25.80**	**$26.02**	**$25.15**	26.45	23.11	0.2950	0.0000	1.14
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$77.60**	**$76.80**	**$63.20**	78.75	61.60	1.3481	0.0000	1.74
T Rowe Price European Stock	PRESX	**$20.64**	**$19.96**	**$17.55**	20.00	16.46	0.2700	0.0100	1.31
★ Vanguard European Stock Index	VEURX	**$26.82**	**$26.06**	**$22.08**	27.11	21.25	0.5800	0.0000	2.16

Recommended Gold-Mining Companies

	Ticker Symbol	*3/15/05*	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Distributions Latest 12 Months*	*Frequency*	*Yield (%)*
Anglo American PLC, ADR[4]	AAUK	**$24.07**	**$25.07**	**$23.22**	26.00	18.94	0.680	Semiannual	2.83
★ Anglogold Ashanti Ltd., ADR	AU	**$37.51**	**$35.32**	**$40.40**	42.80	29.91	0.746	Semiannual	1.99
★ Barrick Gold Corp.†	ABX	**$25.50**	**$23.09**	**$20.87**	26.32	18.04	0.187	Semiannual	0.73
★ Gold Fields Ltd.	GFI	**$12.53**	**$11.66**	**$11.65**	15.25	9.13	0.115	Semiannual	0.92
★ Newmont Mining	NEM	**$45.12**	**$42.34**	**$41.99**	49.98	34.70	0.400	Quarterly	0.89
★ Placer Dome†	PDG	**$17.58**	**$17.75**	**$16.06**	23.67	12.89	0.085	Semiannual	0.48
★ Rio Tinto PLC‡	RTP	**$136.05**	**$129.92**	**$98.35**	143.95	84.53	3.080	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.