INVESTMENT GUIDE

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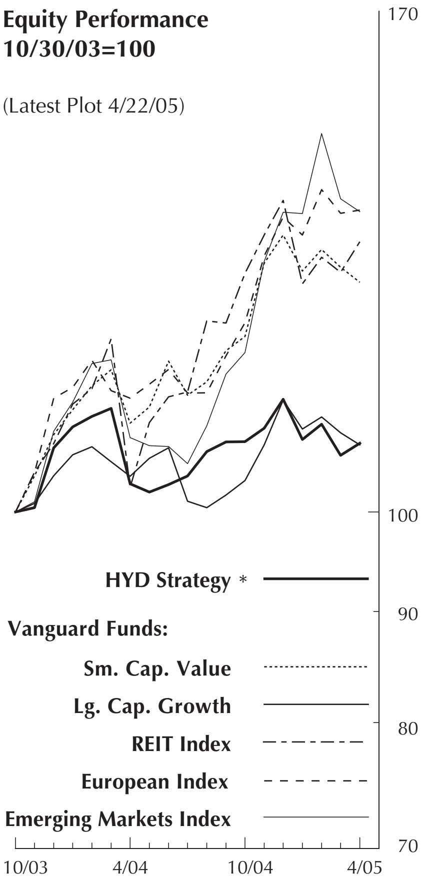
Equity Performance
10/30/03=100

(Latest Plot 4/22/05)



*** HYD is a hypothetical model based on back-tested results. See p. 30 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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Dollar Crisis? Here We Go Again…

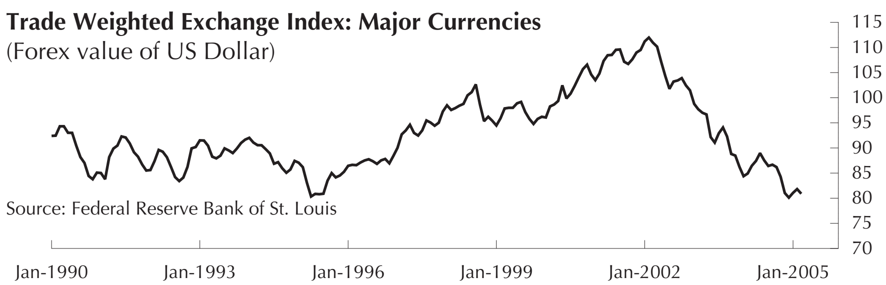
In early 1995, the dollar was plunging against most major currencies and the financial media was piling on. We are struck by the similarity between recent headlines and those of a decade ago:

Then[1]…	Now…
"The Dwindling Dollar," *Economist*, October 29, 1994.	"Sinking Dollar Dominates Davos Debate"—Mark Landler, *New York Times*, January 27, 2005.
"The One-Way Dollar"—Steve H. Hanke, *Forbes*, July 31, 1995.	"Bush's Worrisome Weak-Dollar Policy"—Robert Kuttner, *Business Week*, March 14, 2005.
"Plunge in the Dollar Could Spark Upheaval in Markets, Economies"—David Wessel and Michael R. Sesit, *Wall Street Journal*, March 8, 1995.	"Warning from the Markets"—Editorial, *New York Times*, February 24, 2005.
"Dollar Seen Skidding Near Term; Longer View? Just Call It Chilling"—Michael R. Sesit, *Wall Street Journal*, April 20, 1995.	"US to the Rest of the World: Charge It!"—David Wessel, *Wall Street Journal*, February 12, 2005.

[1] *Thanks to Weston Wellington of Dimensional Fund Advisors for providing these headlines.*

The "mainstream media" was dead wrong. The chart below shows what happened after the dollar bottomed out in April 1995. The trade-weighted dollar rose nearly 40 percent against other currencies:

Trade Weighted Exchange Index: Major Currencies
(Forex value of US Dollar)



We do not suggest that the dollar is poised to rebound, nor are we writing its epitaph. We have no special insight on the outlook for exchange rates. Nor do any of the staff economists of our parent organization, the American Institute for Economic Research, claim to know whether it is better to hope for a stronger dollar as a means to cheaper *fois gras* or to hope for a weaker dollar in order to boost the returns on one's international stock funds.

So what is an investor to do? Diversify. The concept doesn't make headlines, but it will serve investors well over the long term. We recommend holding a portion of one's portfolio in gold-related assets and in foreign-currency-denominated assets as the most appealing solution to dollar anxiety.

QUARTERLY REVIEW OF INVESTMENT POLICY

The capital markets' robust fourth quarter 2004 returns buoyed investors' hopes that the trend might continue. But the first quarter of the New Year instead brought disappointment. The stock and bond markets lost ground, reflecting disquieting news regarding energy prices and speculation regarding future Fed tightening. The Total Returns table on page 27 reveals that all but one asset class lost ground during the quarter. It also makes clear that such episodes are highly unusual.

Maintaining investment discipline during tough stretches can be difficult. Readers should not retreat from the markets in the face of a downturn, nor should they seek to "buy low" in anticipation of a quick reversal. The best policy is to maintain your target allocations. The accompanying Recommended Portfolio Allocation table, which remains unchanged from previous quarters, can be used as a guideline to help you remain steadfast amidst unsettling market developments.

The Economy

The U.S. economy remains sound, on the whole. As of mid-April the economic indicators of our parent, the American Institute for Economic Research (AIER) pointed toward continuing economic expansion, though some weak points were apparent. Overall, 70 percent (seven out of ten) of the leading indicators for which a trend was evident were appraised as expanding, the same percentage as in March. Only one of the twelve primary leading indicators hit new highs, down from five the previous month. Among the coincident indicators, 100 percent were clearly expanding, as were 60 percent of the lagging indicators with a discernable trend.

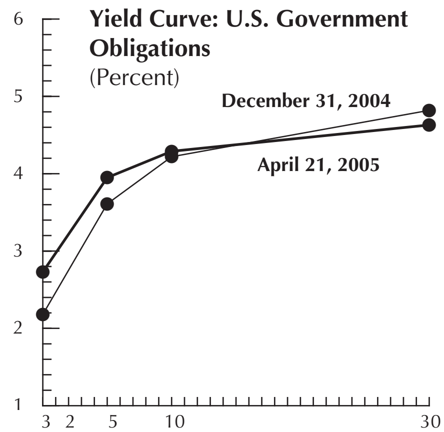
AIER's cyclical score is a purely mathematical measurement that provides a comprehensive assessment of the leading indicators. It fell from 87 in March to 83 in April, yet it remains well above 50, suggesting that the current expansion is likely to continue for the next few months at least. This assessment could change quickly should the indicators continue to decrease.

Our review of macroeconomic developments should not be regarded as an attempt to forecast trends in the capital markets. Our intent is to provide investors with an objective assessment of data. We merely seek to remind readers that economic activity is inherently cyclical, and that most successful investors have neither succumbed to fear during contractions nor to greed during expansions.

Cash Equivalent Assets

Yields on cash-equivalent assets rose further during the first quarter. The 13-week Treasury bill yield has now risen from 1.87 percent in early October to 2.73 percent at the end of March. Taxable money-market funds are yielding 2.24 percent on average while tax-free money funds are averaging 1.71 percent.

The annual rate of price inflation, as measured by CPI, stood at 3.1 percent through March. Yields on cash-equivalent assets therefore are not keeping pace with the general rise in consumer prices. Cash and cash-equivalent assets, nevertheless, remain a unique asset class and are appropriate for most portfolios. The percentages specified in the table below provide reasonable guidelines for most investors. 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.



In gauging their current portfolio allocations, investors who have established short/intermediate-term bond "ladders" (more below) should consider their shortest-term bonds, specifically those with less than one year until maturity, to be cash-equivalent assets.

Short/Intermediate-Term Bonds

The chart above depicts the yield curve as of mid-April and at the end of 2004.

The Federal Reserve's Board of Governors boosted short-term rates (the Fed Funds rate) twice during the quarter, marking the seventh such increase over the past three quarters. The Fed Funds rate now stands 2.75 percent.

The new year started with a January bond rally that sent the ten-year Treasury note yield down 0.25 percent to 4.0 percent. Long-term bond yields fell furthest, apparently on rising sentiment that foreign central banks would ramp up purchases of U.S. treasuries. However, by mid-quarter the trend had reversed, as new signs of price inflation prompted speculation that further increases in the Fed Funds rate would be forthcoming. By quarter end, the yield curve had flattened from its position at the end of 2004.

In mid-April rates climbed again as the March Consumer Price Index posted a 0.6 percent increase, the biggest jump in five months. Few goods or services were spared. Food, energy, clothing, travel, and medical care were all hard hit.

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.

RECOMMENDED PORTFOLIO ALLOCATION PERCENTAGES

	Conservative	*Moderate*	*Aggressive*
Cash-Equivalent Assets	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
Large-Cap Growth Stocks	5	5	10
Foreign Stocks	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.

For many investors, any of the fixed-income mutual funds on page 32 will provide a suitable means of holding bonds. Investors with larger investment portfolios might consider a bond ladder. Equal amounts should be invested in bonds with maturities ranging from six months to five years, with 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) for an approach designed to provide the highest expected return per unit of volatility assumed.

Income Equities

REITs provided their lowest returns in ten quarters, with the NAREIT index tumbling 7.05 percent over the first three months and the Vanguard REIT Index fund fell 7.34 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 positive expected returns that are not strongly correlated with our other recommended asset classes. REITs, in order to escape taxation at the corporate level, must pay out 90 percent of their earnings as dividends. This investment income provides a substantial portion of REITs' total return, and is taxed as ordinary income because REIT dividends are not considered qualified dividends that are taxed at a maximum of 15 percent. For this reason REITs should be held in tax-deferred accounts if possible.

The Duff and Phelps Select Income Fund (DNP) started the quarter trading at $11.92 and ended at $10.73. The share price tumbled nearly 11 percent during the last two weeks of the quarter.

DNP is unique among our recommended investment vehicles because it is a closed-end fund. The share price trades throughout the day unlike our recommended open-ended funds. It also differs from our recommended exchange-traded funds since arbitrageurs cannot redeem its underlying shares. This means the fund can trade at a share price that reflects a premium or a discount relative to its net asset value. For many months DNP has been trading at a premium well above its long-term historical norm (the premium currently stands at 25.5 percent). During this period of historically low interest rates, DNP has consistently provided an attractive yield that has ranged between six and eight 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 can 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.

We cannot point to any single factor that might have precipitated the marked decline in DNP's price. However, a flattening yield curve reduces the leveraged payout DNP shareholders enjoy because management is borrowing short-term to fund purchases of stocks and long-term bonds. Concerns that short-term rates might rise further may well have prompted large institutional sellers to liquidate their positions.

We continue to recommend DNP as a component of the income equity asset class. A portion of its payout is considered a nonqualified dividend, so it is preferable to hold these shares in tax-deferred accounts.

Market Summary, S&P 500 by Sector (Standard & Poor's)

Sector	*Total Return 1Q 2005*
Energy	17.58%
Utilities	5.42%
Materials	1.82%
Consumer Staples	0.68%
Healthcare	-0.60%
Industrials	-1.58%
Consumer Discretionary	-5.69%
Financial	**-6.36%**
Information Technology	-7.34%
Telecom Services	**-7.78%**

Common Stocks

Common stocks were hit hard during the quarter. Among large caps the S&P 500 Index fell 2.15 percent as both value and growth stocks fell; the S&P/Barra 500 Growth Index fell 1.86 percent while the S&P 500/Barra Value Index lost 2.43 percent. Small-cap value shares had similar results with the S&P SmallCap 600/Barra Value Index losing 2.38 percent. Foreign markets, as measured by the MSCI World ex U.S. index, fell 1.1 percent.

Our HYD model underperformed other large-cap value benchmarks during the last three months. During 2004 it experienced a mediocre year as it entered an unusual period of concentration within two industries, both of which fared relatively poorly during the most recent quarter, as depicted in the table above. Financial stocks (Citigroup and J.P. Morgan Chase) accounted for roughly 35 percent of the model's value at the end of March, while telecom stocks (Verizon, AT&T and SBC) accounted for 48 percent.

Industry concentration at this level is an historical aberration for the model, which typically holds eight to nine stocks

Total Returns (%)

	2002		*2003*				*2004*				*2005*	*Total Return Entire Period*
	3Q	*4Q*	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*Q3*	*Q4*	*1Q*	*3Q 2002-1Q 2005*
Vanguard Short-Term Inv Grade	**2.27**	1.34	**1.39**	1.89	0.39	0.46	1.53	-1.30	1.50	0.39	-0.38	*9.84*
Vanguard REIT Index	-8.48	0.10	1.01	12.27	9.47	9.27	**11.75**	-5.95	**8.13**	15.06	-7.34	***50.57***
Vanguard Value Index	-20.45	9.88	-5.57	20.27	2.24	13.93	2.12	1.56	1.24	9.80	-0.42	*32.75*
High-Yield Dow 4/18**	-23.76	**26.44**	-9.94	18.92	-5.10	12.47	4.25	-7.76	3.64	6.22	-5.73	*9.98*
Vanguard Small Cap Value Index	-22.50	4.62	-7.98	19.39	7.48	16.19	7.14	0.89	1.13	13.03	-3.35	*32.84*
Vanguard Growth Index	-14.07	7.04	-0.91	11.57	3.24	10.33	1.49	1.51	-4.88	9.40	-3.56	*19.75*
Vanguard European Stock Index	-22.85	10.77	-9.25	**22.30**	3.89	**20.30**	0.82	**2.25**	1.19	**15.86**	**0.38**	*43.81*
Gold (London PM Fix)	1.63	7.26	-3.56	3.33	**12.14**	7.28	1.79	-6.58	6.02	4.8	-1.86	*35.51*

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.

in a variety of industrial sectors. The editors of the *Wall Street Journal*, who determine the 30 stocks that comprise the Dow, replaced AT&T with Verizon in April 2004. At that time Verizon's yield made it an immediate "buy" candidate, while AT&T's departure made it a "sell" candidate. AT&T, however, was not sold off immediately, but incrementally, in accordance with the model's disciplined methodology. It was atypical to have an existing HYD component replaced by a "buy" candidate, but even more unusual was that another telecom, SBC, which had became a Dow component in 1999, was also in the model.

The model methodically buys stocks that are performing relatively poorly. Out-of-favor sectors that have returned to favor have boosted the model's returns in the past, and we would expect this effect to be magnified to the extent that the model is currently "over weighted" to these currently "down and out" sectors. Though the HYD model has lagged for several quarters, the fundamentals that have provided the model's extraordinary long-term returns remain intact.

Gold-Related Investments

Gold moves independently of other asset classes, so despite the extremely volatile nature of its price changes, it can add stability to a properly constructed portfolio. Because of gold's inherent volatility, our allocations are limited to those shown in the accompanying table.

Over the past six years the gold price has surged. The average price during the month of July 1999 was $256, a 20-year low, where it remained relatively stable until March 2001, at which point the price began rising sharply. By last December it had reached a 16-year high of $442. During the first quarter of 2005 gold provided a total return of -1.9 percent (as measured by the London PM fix price). The price began the year at $435.60, fell to a low of $411.15 on February 9th, before reaching a high for the quarter of $443.70 on March 11th.

The price surge could be attributed to a variety of factors. The U.S. has been attacked and is at war in Iraq, the stock market has been hit hard, and the economy has weathered a recession. The government's fiscal and monetary policies have been extraordinarily stimulative.

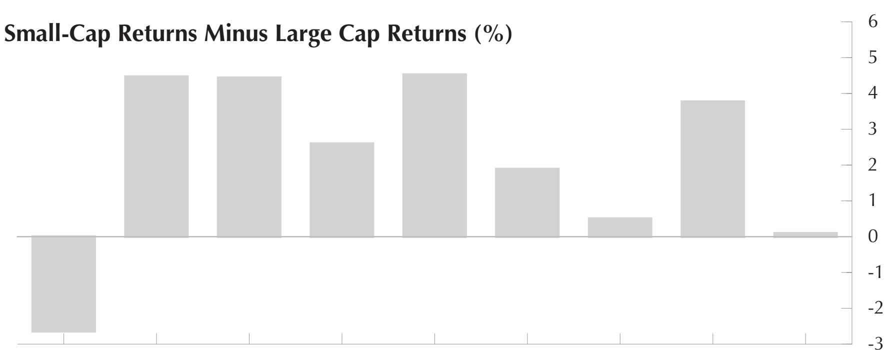
The gold price and long-term interest rates have experienced an unusual period of divergence—the gold price has increased sharply in the face of low long-term interest rates. If there is indeed a link between bonds, gold, and price inflation, there would appear to be only two plausible explanations; either the bond market has been underestimating price inflation or the gold market has been overestimating it. In either event, the recent increase in interest rates is reversing the divergence. It is important to keep in mind that there are a myriad of additional factors that affect both asset classes.

None of this recent data suggests that either short-term bonds or gold have lost their status as legitimate asset classes; for most investors, both remain important components of a well-balanced portfolio.

SMALL CAPS AND FUND CAPACITY — WHEN THE PARTY'S OVER

The following was adapted from an article published by Bellwether Consulting LLC, a retirement-plan consulting firm located in Montclair, New Jersey. The article discusses problems unique to the small-cap asset class. While some problems are applicable to both passive and active fund managers, some of the more difficult challenges (such as rising expenses and "balancing diversification constraints with the fundamentals of good stock picking") are applicable largely to actively managed funds.

Small-Cap Returns Minus Large Cap Returns (%)



With small-cap stocks outperforming large-cap stocks for a fifth consecutive year in 2004, investors have flooded small-cap managers with both retail and retirement-plan contributions and pushed many funds to capacity, closing them to new investors and making the replacement process more difficult than usual.

While conventional wisdom tells us to hold well-diversified portfolios when investing for the long-term and that asset allocation strategies require only fine-tuning and occasional rebalancing, the lure of a "hot" market segment is irresistible to many investors. Whether it was dot-com stocks in the late 90s or bio-tech stocks right after, as news about an outperforming market segment hits the papers investors flock to that sector, giving rise to what many investment managers consider a desirable problem—running out of capacity.

The Problem With Small-Cap Funds

One of the biggest challenges for small-cap managers is the limit on the fund's percentage of outstanding stock shares of any particular issue. In terms of absolute dollars, it takes less trading to impact the price of a small-cap stock than a large-cap issue. This is because there is generally less trading volume by number of shares and by dollar amount in small-cap stocks. A manager that holds enough of a particular stock to influence the price must be very thoughtful about any action with that stock. Should he ever want to trim the position, he can't sell too much without driving down the price. By overweighting the portfolio to a stock, he makes it less responsive to the market. To avoid that risk, he must keep positions reasonable in size. So while the absolute percentage diversification guidelines for small-cap portfolios may be in the same range as those for larger-cap funds, the dollar limits will be smaller for small-cap funds.

To illustrate this point, let's say a small-cap manager wanted to purchase shares of Coldwater Creek (CWTR), a retailer with a market cap of $1.1 billion. According to Yahoo Finance on March 31 at 10:42 a.m., the trading volume in this stock was 43,344 shares. With CWTR trading at $18.28 per share, the dollar volume of trading in CWTR was a little over $790,000. In contrast, the trading volume for IBM on March 31 at 10:39 a.m. was 852,700 shares. With IBM trading at $90.70 per share, the dollar volume of trading in IBM was over $77.3 million, or over 97 times that of CWTR. IBM's market cap of $148.1 billion is almost 135 times that of CWTR. Compared to IBM, it would take a very small investment in CWTR to influence its price.

Well-performing companies offer another challenge to small-cap managers. If a manager is to stay true to capitalization targets, he must divest stocks just as the fundamentals he based his purchase on really start to pay off. In a way, the better his picks are, the more frequently he'll be looking for a replacement holding. And as outlined above, while that "good pick" is growing but still below his capitalization threshold, a small-cap manager must always be monitoring his fund's position to ensure it doesn't comprise too large a percentage of that company's outstanding shares.

Implications of Nearing Capacity

It's no surprise that the recent run-up has closed many funds to new clients; according to Morningstar, 24 small-cap mutual funds closed in 2003 alone. But what happens to a fund as it approaches capacity? First , the cash position may start to increase. In trying to balance diversification constraints with the fundamentals of good stock picking, not to mention the time it takes to research and make a good pick, the management team may simply feel they cannot find acceptable purchase targets fast enough. Holding more cash will impact overall return, potentially dragging down the total return in a fund that had solid performance.

The fund will probably also become more sluggish in response to changing market conditions as it nears capacity. This is not surprising since the larger a fund is, the greater the amount of assets that need to be traded to move the portfolio. A small-cap manager may be forced to spread trades out over several weeks due to lack of market liquidity.

When Funds Near Capacity

- Cash Position Increases
- Response to Market Changes Slows
- Expense Ratio Increases
- Discipline Loosens
- Fund Begins to Close to Certain Investors

A third effect is increased expenses, both direct and indirect. For example, mutual fund expense ratios have three components: management fees, distribution (12b-1) fees, and other expenses. Distribution fees are usually fixed. Management fees are likely to gradually decrease with increasing fund size. But as a fund nears capacity, commissions, which are passed directly on to the fund as part of "other expenses," are likely to increase and drive up the expense ratio. However, this alone understates the full effect of trading costs. Other costs including market impact (buying market liquidity), timing cost (seeking market liquidity), and opportunity cost (failure of market liquidity), grow as a fund nears capacity and the size of the fund impacts execution. These costs do not appear in the quoted "expense ratio" for the mutual fund but they directly reduce total return.

Finally, fund management may start to loosen its discipline, expanding the pool of stock picks in terms of market cap, style characteristics, or other criteria previously fundamental to the portfolio strategy. This can result in significant style drift over time. That "small-cap-growth" fund that rounded out your asset allocation strategy can easily become a "mid-cap-blend" fund in the face of capacity limits.

What's an Investor to Do?

When performance or style purity suffers due to capacity constraints, the choices are simple in theory: find a replacement fund or accept the problems, perhaps making other portfolio adjustments. However, when a sector stays hot, all of the most popular products will either close or risk performance/style degradation. With fewer choices open as replacement options, investors may opt to accept the devil they know. As long as the absolute performance shortfall is not too great, it may pay to wait until sector rotation occurs and more quality choices become available.

Depending on the circumstances, style drift may be more or less tolerable. For participant-directed retirement plans using an asset allocation or advice model, for instance, tolerance to style drift may be low. Participants in the plan utilizing the model are relying on statements made about general exposure to market segments. As a component fund drifts in style, segment exposure produced by the allocation model is skewed from stated targets and the allocation tool becomes less effective. This creates a strong argument in the minds of many plan sponsors for replacing the offending fund. However, if the fund is one of several offered in its segment, style drift may be more tolerable since there are other offerings from which to choose. Whether tolerance is low or high, if a drifting fund is retained, any performance benchmark associated with the fund should be updated to better reflect the new style of the fund. Depending on how things have changed, a custom benchmark may need to be constructed.

Another option is to consider a different product structure; for example, larger retirement plan sponsors might consider collective trust funds or separate accounts as an alternative to mutual funds; since fewer plans have the scale required to make these product forms worthwhile, more capacity may be available.

Regardless of actions taken in response to a fund experiencing style drift, or bad performance, good fiduciaries will inform plan participants of any change in a fund's strategy and any implications the change has for the retirement plan (e.g., changes to the asset-allocation model). Communication should be simple, direct, and focused on the impact to participants in a format that is easily accessible to all.

NEWLY RECOMMENDED FUNDS

	Ticker Symbol	***3/15/05***	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Distributions Latest 12 Months Income*	*Capital Gains*	*Yield (%)*
iShares COMEX Gold Trust	IAU	42.47	44.08	N/A	44.50	41.29	0.0000	0.0000	0.00
streetTRACKS Gold Shares	GLD	42.40	44.03	N/A	45.60	41.26	0.0000	0.0000	0.00
iShares Emerging Markets Index Fund	EEM	195.30	208.60	175.60	221.85	141.23	2.4100	0.0000	0.01
Vanguard Emerging Markets Stock Index Fund	VEIEX	14.43	15.33	12.93	15.99	10.31	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 **Du Pont** and **AT&T** (no longer a Dow component) 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 results

As of April 15, 2005

					Percent of Portfolio*	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares*[1]
General Motors	1	7.81%	25.60	*		
SBC Comm.	2	5.61%	23.00	Holding**	24.41	31.92
Verizon	3	4.74%	34.15	Buying	17.58	15.48
Altria Group	4	4.49%	64.98	*		
Merck	5	4.37%	34.80	Buying	14.52	12.55
JP Morgan Chase	6	4.01%	33.93	Holding**	22.45	19.90
CitiGroup	7	3.85%	45.75	Holding	11.33	7.45
DuPont	8	3.01%	46.55	Selling	3.13	2.02
Pfizer	9	2.74%	27.71			
Coca Cola	10	2.71%	41.29			
AT&T	NA	5.15%	18.46	Selling	7.78	12.61
					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	-2.41%	-0.36%	3.31%	11.59%	13.63%	15.02%	19.17%
Dow	-6.03%	-0.81%	1.08%	10.71%	11.15%	10.20%	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.

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 79 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 4/15/05	Market Prices 3/15/05	Market Prices 4/15/04	12-Month High	12-Month Low	Latest Dividend Amount	Latest Dividend Record Date	Latest Dividend Paid	Indicated Annual Dividend	Indicated Yield† (%)
General Motors	GM	**$25.60**	**$33.72**	45.39	50.04	25.60 *L*	0.500	2/11/05	3/10/05	2.000	7.81
★ SBC Comm.	SBC	**$23.00**	**$23.66**	24.36	27.29	22.90 *L*	0.323	4/08/05	5/02/05	1.290	5.61
★ Verizon	VZ	**$34.15**	**$35.68**	37.06	42.27	34.06 *L*	0.405	4/08/05	5/02/05	1.620	4.74
Altria Group	MO	**$64.98**	**$65.25**	55.59	68.50	44.50	0.730	3/15/05	4/11/05	2.920	4.49
★ Merck	MRK	**$34.80**	**$32.00**	46.98	48.78	25.60	0.380	3/04/05	4/01/05	1.520	4.37
★ J. P. Morgan Chase	JPM	**$33.93**	**$36.25**	38.77	40.45	33.35 *L*	0.340	4/06/05	4/30/05	1.360	4.01
☆ Citigroup	C	**$45.75**	**$47.80**	49.92	50.18	42.10	0.440	2/07/05	2/25/05	1.760	3.85
☆ DuPont	DD	**$46.55**	**$53.13**	45.07	54.90	39.88	0.350	2/15/05	3/14/05	1.400	3.01
Pfizer	PFE	**$27.71**	**$26.29**	37.34	37.77	21.99	0.190	2/11/05	3/08/05	0.760	2.74
Coca-Cola	KO	**$41.29**	**$42.24**	51.20	53.50	38.30	0.280	3/15/05	4/01/05	1.120	2.71
General Electric	GE	**$35.75**	**$36.00**	30.76	37.75	29.55	0.220	2/28/05	4/25/05	0.880	2.46
Honeywell Intl.	HON	**$35.66**	**$39.05**	34.50	39.50	31.85	0.206	2/18/05	3/10/05	0.825	2.31
3M Company	MMM	**$80.86**	**$85.86**	82.85	90.29	73.31	0.420	2/25/05	3/12/05	1.680	2.08
Alcoa	AA	**$29.30**	**$31.59**	33.00	34.99	28.01	0.150	2/04/05	2/25/05	0.600	2.05
Procter & Gamble (s)	PG	**$54.80**	**$52.92**	51.57	57.40	50.53	0.280	4/22/05	5/16/05	1.120	2.04
Caterpillar	CAT	**$83.46**	**$96.75**	80.80	99.96	68.50	0.410	4/25/05	5/20/05	1.640	1.97
Exxon Mobil	XOM	**$56.19**	**$60.35**	43.68	64.37	41.59	0.270	2/10/05	3/10/05	1.080	1.92
McDonald's	MCD	**$30.30**	**$32.43**	26.93	34.56	25.05	0.550	11/15/04	12/01/04	0.550	1.82
United Tech.	UTX	**$97.55**	**$102.30**	88.14	106.28	80.67	0.440	5/20/05	6/10/05	1.760	1.80
Boeing	BA	**$57.00**	**$58.48**	41.53	59.81 *H*	40.31	0.250	2/11/05	3/04/05	1.000	1.75
Johnson & Johnson	JNJ	**$69.40**	**$67.26**	54.52	69.99 *H*	53.02	0.285	2/15/05	3/08/05	1.140	1.64
Hewlett-Packard	HPQ	**$20.84**	**$20.14**	21.89	22.26	16.08	0.080	3/16/05	4/07/05	0.320	1.54
Intel Corp.	INTC	**$22.12**	**$23.88**	26.66	29.01	19.64	0.080	5/07/05	6/01/05	0.320	1.45
Microsoft Corp.	MSFT	**$24.46**	**$24.91**	25.22	30.20	23.82 *L*	0.080	5/18/05	6/09/05	0.320	1.31
Wal-Mart Stores	WMT	**$47.70**	**$51.03**	57.79	59.15	47.49 *L*	0.150	3/18/05	4/4/05	0.600	1.26
Home Depot, Inc.	HD	**$36.11**	**$39.76**	35.86	44.30	32.34	0.100	3/10/05	3/24/05	0.400	1.11
AIG	AIG	**$51.11**	**$61.92**	74.68	75.51	50.15 *L*	0.125	6/03/05	6/17/05	0.500	0.98
American Express	AXP	**$50.72**	**$53.50**	49.75	58.03	47.32	0.120	4/01/05	5/10/05	0.480	0.95
IBM	IBM	**$76.70**	**$91.38**	93.97	99.10	76.33 *L*	0.180	2/10/05	3/10/05	0.720	0.94
Walt Disney	DIS	**$27.37**	**$28.60**	24.70	29.99	20.88	0.240	12/10/04	1/06/05	0.240	0.88
☆ AT&T	T	**$18.46**	**$19.07**	18.64	20.01	13.59	0.238	12/31/04	2/01/05	0.950	5.15

† Based on indicated dividends and market price as of 4/15/05. *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

	4/15/05	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**424.60**	**440.65**	398.25
Silver, London Spot Price	**7.01**	**7.42**	6.86
Copper, COMEX Spot Price	**1.46**	**1.50**	1.29
Crude Oil, W. Texas Int. Spot	**50.50**	**55.05**	37.57
Dow Jones Spot Index	**210.24**	**221.86**	190.42
Dow Jones-AIG Futures Index	**152.89**	**164.30**	148.49
CRB-Bridge Futures Index	**298.83**	**320.50**	276.87

Interest Rates (%)

		4/15/05	Mo. Earlier	Yr. Earlier
U.S. Treasury bills -	91 day	**2.74**	**2.79**	0.93
	182 day	**3.03**	**3.10**	1.11
	52 week	**3.33**	**3.38**	1.41
U.S. Treasury bonds -	10 year	**4.25**	**4.55**	4.21
Corporates:				
High Quality -	10+ year	**5.48**	**5.63**	5.84
Medium Quality -	10+ year	**5.97**	**6.00**	6.25
Federal Reserve Discount Rate		**3.75**	**3.50**	2.00
New York Prime Rate		**5.75**	**5.50**	4.00
Euro Rates	3 month	**2.15**	**2.13**	2.05
Government bonds -	10 year	**3.55**	**3.72**	3.88
Swiss Rates -	3 month	**0.78**	**0.75**	0.27
Government bonds -	10 year	**2.23**	**2.20**	2.62

Exchange Rates

	4/15/05	Mo. Earlier	Yr. Earlier
British Pound	**$1.892300**	**$1.912100**	1.785100
Canadian Dollar	**$0.802200**	**$0.828600**	0.742500
Euro	**$1.292000**	**$1.331300**	1.192900
Japanese Yen	**$0.009279**	**$0.009570**	0.009217
South African Rand	**$0.159300**	**$0.163500**	0.152400
Swiss Franc	**$0.833100**	**$0.858700**	0.767900

Securities Markets

	4/15/05	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,142.62**	**1.197.75**	1,128.84
Dow Jones Industrial Average	**10,087.51**	**10,745.10**	10,397.46
Dow Jones Transportation Average	**3,382.89**	**3,816.43**	2,913.94
Dow Jones Utilities Average	**356.64**	**359.04**	271.98
Dow Jones Bond Average	**184.02**	**184.58**	175.54
Nasdaq Composite	**1,908.15**	**2,034.98**	2,002.17
Financial Times Gold Mines Index	**1,481.54**	**1,718.79**	1,588.20
FT African Gold Mines	**1,740.28**	**1,995.11**	2,195.74
FT Australasian Gold Mines	**3,877.95**	**4,758.44**	3,193.67
FT North American Gold Mines	**1,256.64**	**1,452.93**	1,314.78

Coin Prices

	4/15/05	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	**$438.85**	**$445.45**	430.25	3.36
Austrian 100-Corona (0.9803)	**$417.93**	**$424.13**	425.35	0.41
British Sovereign (0.2354)	**$104.55**	**$106.05**	102.55	4.60
Canadian Maple Leaf (1.00)	**$439.10**	**$445.70**	430.50	3.41
Mexican 50-Peso (1.2057)	**$515.50**	**$523.20**	505.40	0.70
Mexican Ounce (1.00)	**$427.50**	**$433.80**	419.10	0.68
S. African Krugerrand (1.00)	**$433.85**	**$440.25**	425.35	2.18
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$510.00**	**$515.00**	480.00	24.15
Liberty (Type I-AU)	**$675.00**	**$675.00**	675.00	64.31
Liberty (Type II-AU)	**$497.50**	**$497.50**	492.50	21.11
Liberty (Type III-AU)	**$465.00**	**$465.00**	455.00	13.19
U.S. Silver Coins ($1,000 face value, circulated, year earlier uncirculated)				
90% Silver (715 oz.)	**$5,080.00**	**$5,175.00**	5,530.00	1.35
40% Silver (292 oz.)	**$2,050.00**	**$2,077.50**	2,180.00	0.15
Silver Dollars	**$6,675.00**	**$6,725.00**	6,675.00	23.09

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $424.60 per ounce and silver at $7.01per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	4/15/05	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	**$81.14**	**$80.72**	82.22	82.35	80.62	1.8738	0.0000	2.31
★ USAA Short Term Bond	USSBX	**$8.90**	**$8.90**	9.06	9.06	8.88	0.2919	0.0000	3.28
★ Vanguard Short-term Corporate	VFSTX	**$10.57**	**$10.55**	10.76	10.78	10.52	0.3103	0.0020	2.94
Income Equity Funds									
★ DNP Select Income[1, 2]	DNP	**$10.95**	**$11.51**	10.57	11.95	9.60	0.8500	0.0000	7.76
★ Vanguard REIT Index	VGSIX	**$17.41**	**$17.83**	14.75	18.98	13.88	0.6110	0.4090	3.51
Large Cap. Value Equity Funds									
★ iShares S&P 500 Value Index[3]	IVE	**$58.66**	**$62.40**	56.66	63.97	53.44	1.4787	0.0000	2.52
★ Vanguard Value Index	VIVAX	**$20.49**	**$21.57**	19.12	21.98	18.37	0.4690	0.0000	2.29
Small Cap. Value Equity Funds									
★ iShares Sm. Cap. 600 Value Index[3]	IJS	**$112.25**	**$120.80**	104.79	124.74	97.57	1.7820	0.0000	1.59
★ Vanguard Sm. Cap Value Index	VISVX	**$12.90**	**$13.77**	11.91	14.13	11.15	0.2270	0.0000	1.76
Growth Equity Funds									
★ iShares S&P 500 Growth Index[3]	IVW	**$54.97**	**$57.43**	56.25	58.99	51.98	1.2286	0.0000	2.24
★ Vanguard Growth Index	VIGRX	**$24.62**	**$25.80**	25.50	26.45	23.11	0.3050	0.0000	1.24
Foreign Equity Funds									
★ iShares S&P Europe 350 Index[3]	IEV	**$74.25**	**$77.60**	64.58	78.75	61.60	1.3481	0.0000	1.82
T Rowe Price European Stock	PRESX	**$19.78**	**$20.64**	17.41	20.86	16.46	0.2700	0.0100	1.37
★ Vanguard European Stock Index	VEURX	**$25.80**	**$26.82**	22.14	27.11	21.25	0.5800	0.0000	2.25

Recommended Gold-Mining Companies

	Ticker Symbol	4/15/05	Month Earlier	Year Earlier	— 52-Week — High	Low	Distributions Latest 12 Months	Frequency	Yield (%)
Anglo American PLC, ADR	AAUK	**$22.84**	**$24.07**	23.74	26.00	18.94	0.680	Semiannual	2.98
★ Anglogold Ltd., ADR	AU	**$33.47**	**$37.51**	36.77	42.40	29.91	0.560	Semiannual	1.67
★ Barrick Gold Corp.†	ABX	**$22.41**	**$25.50**	21.77	26.32	18.04	0.187	Semiannual	0.83
★ Gold Fields Ltd.	GFI	**$10.40**	**$12.53**	12.18	15.25	9.13	0.115	Semiannual	1.11
★ Newmont Mining	NEM	**$39.77**	**$45.12**	43.05	49.98	34.70	0.400	Quarterly	1.01
★ Placer Dome†	PDG	**$14.49**	**$17.58**	16.41	12.62	12.89	0.085	Semiannual	0.59
★ Rio Tinto PLC‡	RTP	**$121.01**	**$136.05**	96.55	143.95	84.53	3.080	Semiannual	2.55

★ 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.