

INVESTMENT GUIDE

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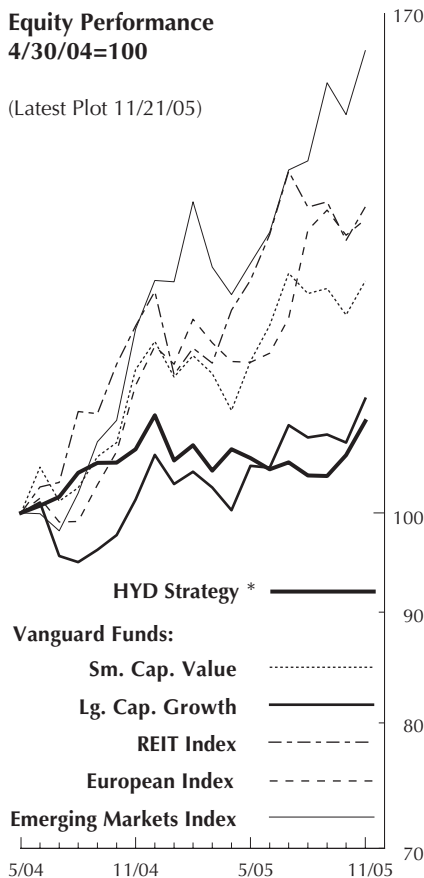
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Great Barrington, Massachusetts 01230

November 30, 2005

Equity Performance 4/30/04=100

(Latest Plot 11/21/05)



* HYD is a hypothetical model based on back-tested results. See p. 86 for a full explanation.

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

Online: www.americaninvestment.com

Change at the Fed

In February 2006 Ben Bernanke will take over as Chairman of the Federal Reserve. The change brings to an end the Chairmanship of Alan Greenspan, which began in August 1987. While much has been written about the change in command, this is but one more bit of news that has been absorbed by the financial markets. Investors should not allow such announcements to prompt any change in their investment plan.

During Mr. Greenspan's tenure, financial markets provided ample opportunity for wise investors to meet or exceed their goals. Between August 1987 and October 2005, the S&P 500 provided a total annualized return of 10.10 percent. Bonds also fared well, returning 6.83 percent per year, as measured by the Lehman Bros. Intermediate Term U.S. Treasury Index. Price inflation, meanwhile, averaged 3.1 percent annually.

The outgoing chairman has earned a great deal of praise for his "accomplishment" of reducing the rate of price inflation. A 3.1 percent annual rate has come to be accepted as reasonable; after all price inflation exceeded 20 percent when Mr. Greenspan's predecessor, Paul Volcker, became chairman in 1979. But just as investment returns compound, so does price inflation; it is sobering to consider that during Mr. Greenspan's 18 years at the helm the purchasing power of the dollar fell by 42 cents.

It remains to be seen whether the Fed under Mr. Bernanke will be able to maintain a rate of price inflation that is relatively restrained. Regardless, it is clear that investors have little choice but to maintain some exposure to relatively risky asset classes, namely common stocks and gold, in order to avoid the steady erosion of their purchasing power. While the rate at which the dollar's purchasing power will diminish is uncertain, diminish it will, as long as the world's reserve currency is rooted not in hard assets but in the world's faith in one individual's ability to manage the reserve currency of choice.

AT&T RETURNS

On January 5, 2005, SBC and AT&T announced that the two firms would merge to create one of the world's largest telecommunications firms. Though SBC dwarfs its one-time parent, the new entity has announced it will adopt the AT&T moniker following the merger close, in recognition of AT&T's strong brand name. Investors who hold SBC through our high-yield Dow model will see the SBC name disappear. The new company will begin trading under the "T" symbol on the New York Stock Exchange beginning December 1.

GIVING THAT KEEPS ON GIVING

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

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

If charitable giving is on your holiday "to do" list, you are not alone. During 2004, contributions to charitable organizations totaled \$250 billion, with individuals accounting for over 75 percent of that amount. Some of these individuals give to help support and raise awareness of the values and causes they consider most important to them. Having one's name on a donor list provides a side benefit of signaling one's altruistic intentions and largesse to the world. Others may combine their desire to help others with estate planning considerations.

Whatever your reason for giving, it's important to combine your good intentions with practical business sense. This means contributing in ways that minimize taxes to the greatest extent possible, and investigating how the charitable organizations you favor are being run and how your donations will be used. Like Enron and other scandal-ridden companies highlighted in news reports not too long

ago, charitable organizations have their share of wasteful executives who might squander your money on lavish fund raising events or unreasonably high salaries for executives, rather than direct the lion's share to the people you wish to help or causes you wish to promote.

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

If you would like to find out more de-

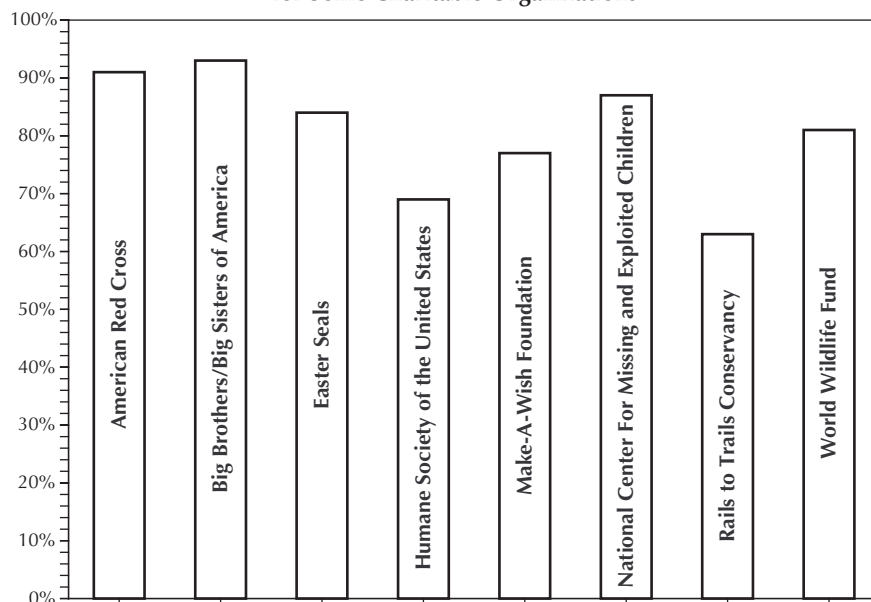
tail about organizations to which you donate, visit the BBB Wise Giving Alliance at www.give.org. The Reports section gives detailed information on many charities, including a breakdown of program expenses, executive compensation, paid staff, fund raising methods, sources of funding, and the percentage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

Tips for Giving

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

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

Percentage of Income That Goes Toward Programs for Some Charitable Organizations



an organization or a gift. You may only be permitted to deduct any amounts above the fair market value of such items.

- Make sure you know who you're giving to. Some unscrupulous solicitors use names that sound confusingly similar to those of larger, more established organizations when they ask for donations.
- Take inflation into account. Considering the impact of rising costs, you would need to contribute \$1,307 today to equal the value of a \$1,000 donation made in 1995.

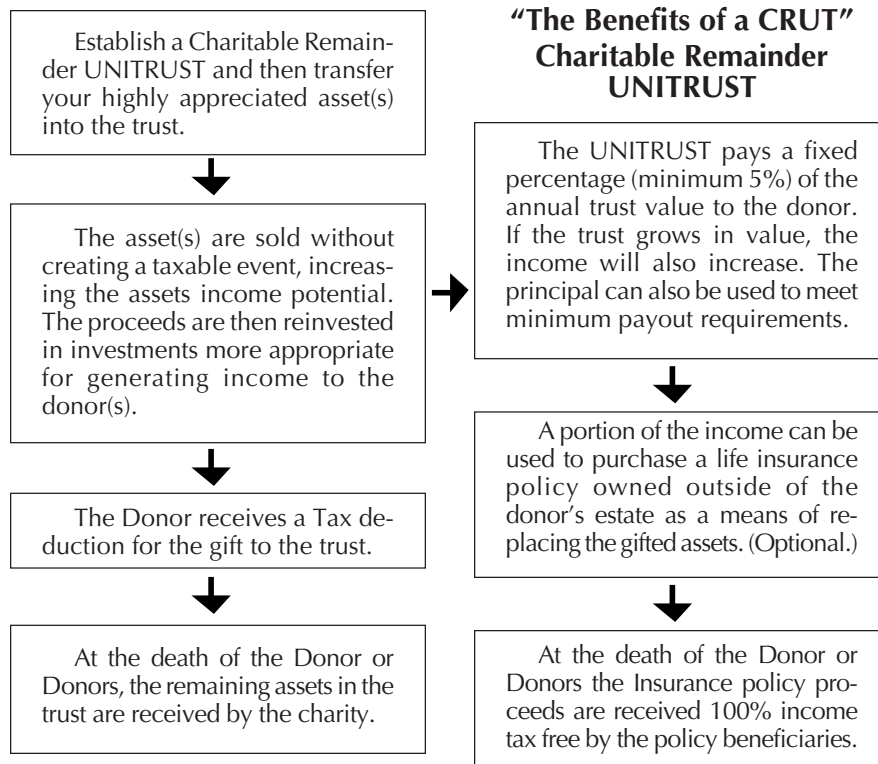
How much should you give? While the easy answer is "as much as you feel comfortable with," some organizations have calculated suggested annual donations based on formulas that take income and assets into account. According to NewTithing Group of San Francisco, a philanthropic research organization, a married couple with adjusted gross income of around \$160,000 and investment assets of \$1 million could afford to donate \$10,500 a year. For further guidance on suggested giving amounts for various income and asset levels, consult the group's web site at www.newtithing.org.

Tax and Estate Planning Issues

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

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

Any discussion of estate planning must begin with a mention of the exclusion amount, or the amount of assets that can be passed to heirs free of estate taxes. The exclusion amount was adjusted upward in 2002, and is set at \$1,500,000 for 2005, \$2,000,000 for 2006, 2007, and 2008, and \$3,500,000 for 2009. If an es-



tate is larger than the exclusion amount it will be taxed at rates as high as 46 percent in 2006, depending on its size.

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

When a tax preparer files an estate tax return, he or she first calculates the tax based on the estate value, then applies the credit to reduce or eliminate any taxes due. Based on the exclusion amount of \$1,500,000 for 2005, the unified credit is \$555,800. The unified credit amount for estates rises gradually and peaks at \$1,455,800 in 2009, while the unified credit for gifts remains at \$345,800. This means that those who use up their entire unified credit for gift tax purposes will still have a portion of the unified credit for estate tax purposes available to them.

It is important to coordinate the use of the unified credit with the unlimited marital deduction, which allows a married couple to reduce or eliminate estate taxes on assets left to a spouse. However, the

unified credit of the first to die can be wasted if all of one's assets are transferred under the marital deduction and eventually enter the estate of the surviving spouse. If that happens, children or other heirs of the survivor could get hit with a huge tax bill down the road.

A bypass trust, also called a credit shelter trust, can help ensure that the heirs of the surviving spouse are shielded from taxes. Typically, when the first spouse dies, these trusts are fully funded with assets valued at the credit equivalent, thereby shielding \$1,500,000 (currently) in that estate. Those assets, if the trust is properly structured, ultimately escape estate taxation on the death of the second spouse as well. The income from assets left in such trusts is often payable to the surviving spouse.

The use of gifting and trusts are two popular ways to avoid or minimize estate taxes. Gifts to family members or charities during your lifetime can reduce assets and potential estate tax liability, as well as remove any future appreciation and earned income from the estate. As an added benefit, you get to see the people who are getting the gifts use and enjoy them.

If the gifts follow certain guidelines, they are tax-free for both the donor and recipient. Gifts that qualify for this gift tax exclusion include transfers of up to \$11,000 per person, per year, an amount

How Does a Charitable Remainder Trust Work?

Suppose a 73-year-old benefactor in the 31% marginal income tax bracket establishes a CRT with real estate valued at \$200,000, for which he originally paid \$35,000. The donor is the sole beneficiary of the trust. The trust specifies that 5% of the trust assets will be distributed to the beneficiary each year for the life of the donor.

Trust Principal	\$200,000
Charitable income tax deduction	\$116,426
Income tax savings in year 1 (31%)	\$ 36,902
Capital gain tax avoided (15%)	\$ 24,750
Projected income in year 1 = 5% X \$200,000	\$ 10,000

that increases periodically to take into account inflation, and that rises to \$12,000 in 2006. This amount is called the annual gift tax exclusion because it is how much one person can give to any number of recipients every year without having to file a gift tax return or eating into the unified credit described previously that permits lifetime tax-free transfers. You can give that amount to as many people as you wish. In 2005, a generous person could give away \$110,000 to 10 lucky (and hopefully grateful) individuals. If you are married, you and your spouse could together give up to \$22,000 this year, and \$24,000 next year, to each individual. You may also give an unlimited amount of money without incurring the gift tax if it is used to pay tuition or medical expenses. To qualify, payments must be made directly to the school or medical facility. Only tuition payments—not room, board, or living expenses—qualify. And medical payments must be for procedures which qualify for a tax deduction, and which are not reimbursed by the insurance company.

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

Giving appreciated securities to friends

or relatives during one's lifetime makes less sense than doing so for a charity because the recipient's cost basis for income tax purposes is the donor's cost at the time it is given. In contrast, an heir's cost basis for the property received from an estate is its fair market value at the time of death. Thus, it is usually preferable not to use highly appreciated property for any gifts if the recipient will be subject to capital gains taxes. Otherwise when the recipi-

ent eventually sells the property he will owe gains taxes based on the donor's original cost. In such cases it is best to give cash or recently acquired assets.

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

Trusts

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

A variety of trusts are useful for estate planning purposes, either alone or in

BARRICK TO ACQUIRE PLACER DOME

On October 31 Barrick Gold announced an unsolicited offer to acquire Placer Dome for \$20.50 in cash or 0.7518 shares of Barrick common. Total value of the offering is estimated to be \$9.2 billion.

Shareholders will have the right to elect to receive \$20.50 in cash or 0.7518 of a Barrick common share plus \$0.05 in cash for each Placer Dome common share, subject to pro ration based upon the maximum amount of cash and Barrick common shares available under the offer.

The offer price represents a premium of roughly 24% over the closing price of the Placer Dome shares on the close of trading on October 28, 2005. This acquisition will benefit both Barrick and Placer Dome shareholders. Barrick will become the world's largest gold producer as a result of the arrangement.

U.S. Placer Dome shareholders will recognize gain or loss in an amount equal to any difference between the fair market value of any Barrick common shares received plus any cash received and the adjusted tax basis of the Placer shares exchanged. The tax basis of any Barrick Common Shares acquired in exchange for the Placer shares will equal the fair market value of the Barrick shares on the date they are received.

We typically recommend that investors allocate up to ten percent of their portfolio to gold related investments, depending on their tolerance for risk (see the October 2005 *INVESTMENT GUIDE* for our latest recommended portfolio allocations). For clients in our Professional Asset Management (PAM) service, we often divide that allocation equally between our recommended gold based exchange-traded funds and the common stocks of six gold mining companies. All are listed on page 88.

For our PAM clients, we often divide the portion earmarked for mining shares equally among these six companies. However, the number of recommended firms will fall to five assuming the acquisition is completed. To the extent that diversification among mining firms is diminished, this reduction slightly increases the level of company-specific risk to which investors would be exposed. Investors might consider adjusting their allocation plan to devote a larger portion to exchange-traded funds. Placer Dome shareholders who already hold Barrick should consider opting for cash and investing the proceeds in a combination of the four remaining stocks and these exchange-traded funds.

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

- Investors receive an immediate charitable contribution income tax deduction for the present value of the remainder to be paid in the future to a qualified charity.
- A concentrated stock position can be sold without the sale being subject to capital gains taxes. The capital gains realized by a CRT are exempt from

taxation. The CRT can use all of the sale’s proceeds to purchase a diversified portfolio, which can consist of mutual funds or an account of individual securities.

- The value of the concentrated stock position is removed from the investor’s estate. Since the stock is placed in an irrevocable trust, its value is not subject to estate taxes. In general, the investor is not subject to the gift tax when setting up a CRT, because the remainder interest goes to a charity, and the income interest goes to the investor (or his named beneficiaries).
- The investor or his named beneficiary has the right to an annual income stream from a diversified portfolio with no immediate tax consequences, since the CRT creates a shield that defers the capital gains associated with selling the concentrated position. However, the investor will be subject to income taxes on the annual income of the CRT.

A tax-efficient investment strategy can address this concern.

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

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

ROTH 401(K) – GIMME OR GIMMICK?

The Roth 401(k) is one of the less heralded items in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Employers will be able to offer this new form of retirement savings account in 2006.

The Roth 401(k) applies the features of a Roth IRA to the traditional 401(k). Employees will make post-tax contributions to self-directed, employee sponsored retirement accounts. Earnings will grow tax-free and distributions in retirement will be untaxed. While a Roth IRA contribution is limited to \$4,000 (\$4,500 for those age 50 or over), the Roth 401(k) allows contributions of as much as \$15,000 in 2006 (\$20,000 for those over 50). This is the same total contribution cap as a standard 401(k). The limit will apply to the combined contributions an employee makes to a traditional and a Roth 401(k). As is the case with a traditional 401(k), employees can borrow against their account, subject to plan restrictions.

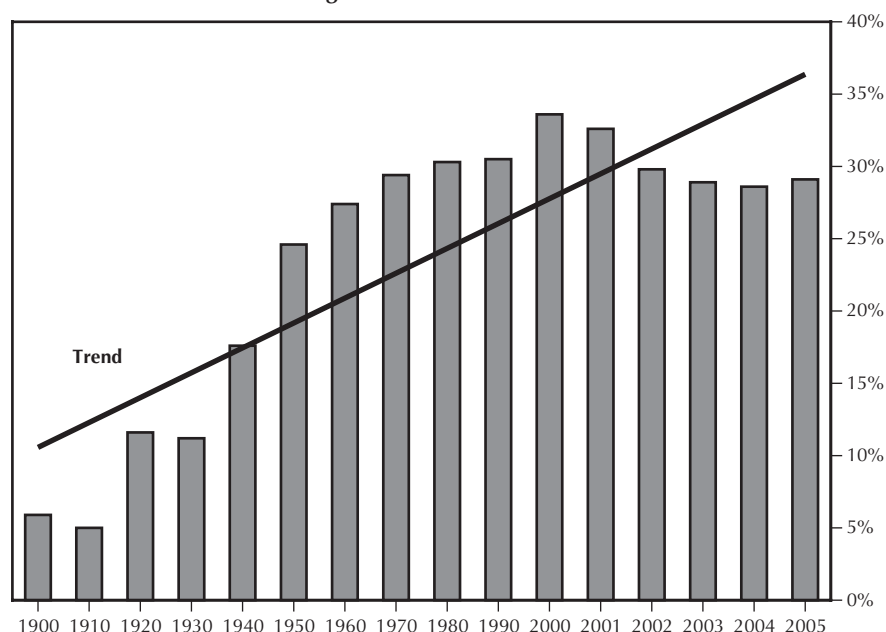
The Roth 401(k) is slated to expire in 2010 with the EGTRAA, unless extended by Congress. If the plans do expire, contributions to that date will be treated under the existing rules, but no additional contributions will be allowed.

The most important factors to consider in determining whether a Roth 401(k) is appropriate are (1) a best estimate of your tax situation in retirement (i.e., will the tax rates you confront in retirement ex-

ceed those you are paying now?) and (2) the prospects for future tax legislation. If the current “progressive” tax regime were replaced with a national sales tax or one of the other proposals that has been floated in recent years, Roth 401(k) contributors would come out on the short end of the stick. The President’s Advisory Panel on Federal Tax Reform issued a report earlier this month calling for a major

overhaul of the federal code. However, based on the history of federal tax legislation we would encourage readers not to “hold their breath” hoping for a lower tax bill in the future. The chart below demonstrates that over the past century income taxes (local state and federal) as a percentage of total income (as measured by net national product) have risen steadily.

Tax Collections as a Percentage of Net National Product



Source: Tax Foundation.

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 ex-

clude 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 rarely 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 eli-

gible for purchase this month, only **Merck** was not eligible for purchase 18 months earlier. Investors following the model should find that the indicated purchases of **Merck** and sales of **JP Morgan Chase** are sufficiently large to warrant trading. In larger accounts, rebalancing positions in **SBC, Verizon and Citigroup** 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 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

As of November 15, 2005

	Rank	Yield	Price	—Percent of Portfolio*—		
				Status	Value	No. Shares ¹
General Motors	1	8.85%	22.61	*		
SBC Comm.	2	5.40%	23.89	Holding**	25.25	32.61
Verizon	3	5.26%	30.82	Holding**	22.31	22.33
Merck	4	5.06%	30.02	Buying	20.12	20.67
Altria Group	5	4.30%	74.39	*		
CitiGroup	6	3.69%	47.66	Holding**	11.76	7.61
JP Morgan Chase	7	3.60%	37.73	Selling**	20.53	16.78
DuPont	8	3.49%	42.35			
Pfizer	9	3.47%	21.89			
Coca Cola	10	2.64%	42.46			
					100.0	100.0

Change in Portfolio Value²

	1 mo.	1 yr.	5 yrs.	10 yrs.	15 yrs.	From 12/63	Std. Dev.
HYD Strategy	7.65%	-3.22%	3.36%	10.43%	14.32%	14.91%	19.12%
Dow	4.17%	3.09%	1.65%	9.60%	12.06%	10.23%	16.76%

* 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.

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 Citigroup — account for roughly 80 percent of the total portfolio value). Any remaining cash will be held in a money-market fund pending subsequent purchases, which will be made whenever the client's holdings of each month's eligible stocks are below the percentages indicated by the strategy by an amount sufficient to warrant a trade.

Our **HYD Investment Management Program** provides professional and disciplined application of this strategy for individual accounts. For accounts of \$150,000 or more, the fees and expenses of AIS's discretionary portfolio management programs are comparable to those of many index mutual funds. Contact us for information on this and our other discretionary investment management services.

THE DOW JONES INDUSTRIALS RANKED BY YIELD

	Ticker Symbol	Market Prices			12-Month		Latest Dividend			Indicated	
		11/15/05	10/14/05	11/15/04	High	Low	Amount	Record Date	Paid	Annual Dividend	Yield† (%)
General Motors	GM	\$22.61	\$27.98	40.25	40.82	22.50 L	0.500	11/10/05	12/10/05	2.000	8.85
★ SBC Comm.	SBC	\$23.89	\$22.20	26.38	26.56	21.79	0.323	10/10/05	11/01/05	1.290	5.40
★ Verizon	VZ	\$30.82	\$29.90	41.86	42.21	29.13 L	0.405	10/07/05	11/01/05	1.620	5.26
★ Merck	MRK	\$30.02	\$27.16	27.09	36.26	25.50	0.380	9/02/05	10/03/05	1.520	5.06
Altria Group	MO	\$74.39	\$70.66	54.30	75.60 H	53.97	0.800	9/15/05	10/11/05	3.200	4.30
★ Citigroup	C	\$47.66	\$45.04	46.67	49.99	42.91	0.440	11/07/05	11/23/05	1.760	3.69
☆ J. P. Morgan Chase	JPM	\$37.73	\$34.08	39.16	39.69	32.92	0.340	10/06/05	10/31/05	1.360	3.60
DuPont	DD	\$42.35	\$38.00	44.53	54.90	37.60 L	0.370	11/15/05	12/14/05	1.480	3.49
Pfizer	PFE	\$21.89	\$24.32	27.62	29.21 H	20.71 L	0.190	11/11/05	12/06/05	0.760	3.47
Coca-Cola	KO	\$42.46	\$42.07	40.58	45.26	39.21	0.280	12/01/05	12/15/05	1.120	2.64
General Electric	GE	\$34.40	\$34.34	36.10	37.75	32.67	0.220	9/26/05	10/25/05	0.880	2.56
Alcoa	AA	\$26.26	\$22.97	33.81	34.99	22.28 L	0.150	11/04/05	11/25/05	0.600	2.28
Honeywell Intl.	HON	\$36.34	\$36.10	36.18	39.50	32.68	0.206	11/18/05	12/09/05	0.825	2.27
3M Company	MMM	\$78.06	\$70.72	82.28	87.45	69.71	0.420	8/19/05	9/12/05	1.680	2.15
Johnson & Johnson	JNJ	\$62.83	\$63.70	61.16	69.99	59.60	0.330	11/22/05	12/13/05	1.320	2.10
Exxon Mobil	XOM	\$56.43	\$58.64	49.58	65.96	48.90	0.290	11/10/05	12/09/05	1.160	2.06
McDonald's	MCD	\$33.31	\$32.32	30.42	35.03	27.36	0.670	11/15/05	12/01/05	0.670	2.01
Procter & Gamble	PG	\$56.00	\$56.11	54.48	59.56	51.16	0.280	10/21/05	11/15/05	1.120	2.00
Caterpillar (s)	CAT	\$55.90	\$54.74	44.85	59.88	41.31	0.250	10/24/05	11/19/05	1.000	1.79
United Tech. (s)	UTX	\$53.19	\$51.63	48.99	54.07	48.13	0.220	11/18/05	12/10/05	0.880	1.65
Boeing	BA	\$67.00	\$67.50	54.03	68.98 H	49.52	0.250	11/11/05	12/02/05	1.000	1.49
Intel Corp.	INTC	\$25.08	\$23.23	23.77	28.84	21.89	0.080	11/07/05	12/01/05	0.320	1.28
Wal-Mart Stores	WMT	\$48.78	\$45.04	57.70	57.89	42.31	0.150	12/16/05	1/03/06	0.600	1.23
Microsoft Corp.	MSFT	\$27.50	\$24.67	27.39	27.94	23.82	0.080	11/17/05	12/08/05	0.320	1.16
Hewlett-Packard	HPQ	\$28.12	\$27.54	19.42	29.51	18.89	0.080	9/14/05	10/05/05	0.320	1.14
Home Depot, Inc.	HD	\$42.40	\$38.41	43.79	44.30	34.56	0.100	9/01/05	9/15/05	0.400	0.94
American Express ††	AXP	\$50.93	\$47.95	56.00	59.50 H	46.59	0.120	10/07/05	11/10/05	0.480	0.94
IBM	IBM	\$85.53	\$82.35	95.92	99.10	71.85	0.200	11/10/05	12/10/05	0.800	0.94
Walt Disney	DIS	\$26.06	\$23.39	26.73	29.99	22.89 L	0.240	12/10/04	1/06/05	0.240	0.92
AIG	AIG	\$66.68	\$62.44	62.84	73.46	49.91	0.150	12/02/05	12/16/05	0.600	0.90

† Based on indicated dividends and market price as of 11/15/05. Extra dividends are not included in annual yields. H New 52-week high. L New 52-week low. (s) All data adjusted for splits. †† Ameriprise Financial, Inc. spun-off from American Express Company (AXP) on September 30, 2005. Prior historical prices of AXP adjusted to reflect the post-split cost basis allocation.

Note: The issues indicated for purchase (★) are the 4 highest-yielding issues (other than Altria Group and General Motors) qualifying for purchase in the top 4-for-18 months model portfolio. The issues indicated for retention (☆) have similarly qualified for purchase during one or more of the preceding 17 months, but do not qualify for purchase this month.

RECENT MARKET STATISTICS

Precious Metals & Commodity Prices

	11/15/05	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	468.25	469.20	437.60
Silver, London Spot Price	7.77	7.67	7.59
Copper, COMEX Spot Price	2.03	1.85	1.44
Crude Oil, W. Texas Int. Spot	56.98	62.63	46.87
Dow Jones Spot Index	241.38	251.96	200.40
Dow Jones-AIG Futures Index	165.13	174.09	151.58
CRB-Bridge Futures Index	312.73	327.64	287.38

Interest Rates (%)

U.S. Treasury bills -	91 day	3.99	3.79	2.09
	182 day	4.33	4.10	2.31
	52 week	4.44	4.25	2.53
U.S. Treasury bonds -	10 year	4.57	4.49	4.19
Corporates:				
High Quality -	10+ year	5.77	5.71	5.58
Medium Quality -	10+ year	6.09	6.02	5.93
Federal Reserve Discount Rate		5.00	4.75	3.00
New York Prime Rate		7.00	6.75	5.00
Euro Rates	3 month	2.31	2.18	2.17
Government bonds -	10 year	3.49	3.14	3.83
Swiss Rates -	3 month	0.94	0.81	0.75
Government bonds -	10 year	2.20	1.91	2.47

Exchange Rates

British Pound	\$1.736000	\$1.769900	1.853900
Canadian Dollar	\$0.838800	\$0.843600	0.837000
Euro	\$1.172700	\$1.208700	1.296700
Japanese Yen	\$0.008415	\$0.008771	0.009491
South African Rand	\$0.147500	\$0.152900	0.165000
Swiss Franc	\$0.759800	\$0.779200	0.851300

Securities Markets

	11/15/05	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	1,229.01	1,186.57	1,183.81
Dow Jones Industrial Average	10,686.44	10,287.34	10,550.24
Dow Jones Transportation Average	4,006.16	3,638.61	3,611.51
Dow Jones Utilities Average	388.18	394.06	329.09
Dow Jones Bond Average	185.01	185.43	183.89
Nasdaq Composite	2,186.74	2,064.83	2,094.09
Financial Times Gold Mines Index	1,830.00	1,820.09	1,825.46
FT African Gold Mines	2,381.40	2,242.92	2,308.88
FT Australasian Gold Mines	5,105.42	5,370.06	4,659.10
FT North American Gold Mines	1,498.33	1,502.98	1,519.81

Coin Prices

	11/15/05	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	\$469.85	\$486.25	443.05	0.34
Austrian 100-Corona (0.9803)	\$447.43	\$463.03	421.93	-2.53
British Sovereign (0.2354)	\$111.75	\$115.55	105.55	1.38
Canadian Maple Leaf (1.00)	\$470.10	\$486.50	443.30	0.40
Mexican 50-Peso (1.2057)	\$551.80	\$571.00	520.40	-2.26
Mexican Ounce (1.00)	\$457.60	\$473.50	431.50	-2.27
S. African Krugerrand (1.00)	\$464.25	\$480.35	437.95	-0.85
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	\$525.00	\$525.00	480.00	15.89
Liberty (Type I-AU)	\$675.00	\$675.00	675.00	49.00
Liberty (Type II-AU)	\$515.00	\$515.00	487.50	13.68
Liberty (Type III-AU)	\$495.00	\$490.00	458.00	9.26
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver (715 oz.)	\$5,335.00	\$5,475.00	5,205.00	-3.97
40% Silver (292 oz.)	\$2,150.00	\$2,200.00	2,122.50	-5.24
Silver Dollars	\$6,900.00	\$6,912.50	6,587.50	14.79

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$468.25 per ounce and silver at \$7.77 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	11/15/05	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 ³	SHY	\$80.14	\$80.38	81.67	81.73 80.03	2.2643	2.83
Vanguard Short-term Inv. Grade	VFSTX	\$10.49	\$10.51	10.67	10.68 10.48	0.3728	3.55
Income Equity Funds							
DNP Select Income ^{1,2}	DNP	\$10.66	\$11.22	11.47	11.95 10.18	0.7800	7.32
Vanguard REIT Index	VGSIX	\$19.79	\$18.90	18.59	21.06 17.00	0.8045	4.07
Large Cap. Value Equity Funds							
iShares S&P 500 Value Index ³	IVE	\$64.14	\$61.52	61.21	65.00 58.37	1.2828	2.00
Vanguard Value Index	VIVAX	\$21.89	\$21.18	20.79	22.44 20.45	0.5290	2.42
Small Cap. Value Equity Funds							
iShares Sm. Cap. 600 Value Index ³	IJS	\$62.99	\$60.86	58.80	66.30 55.04	0.7405	1.18
Vanguard Sm. Cap Value Index	VISVX	\$14.47	\$13.98	13.57	15.18 12.87	0.2270	1.57
Growth Equity Funds							
iShares S&P 500 Growth Index ³	IVW	\$58.74	\$56.90	57.50	59.53 54.60	1.7578	2.99
Vanguard Growth Index	VIGRX	\$27.24	\$26.06	25.94	27.36 24.48	0.3250	1.19
Foreign Equity Funds							
iShares S&P Europe 350 Index ³	IEV	\$78.55	\$78.73	72.99	81.68 72.06	1.3481	1.72
Vanguard European Stock Index	VEURX	\$27.01	\$27.16	25.08	28.28 24.93	0.5800	2.15
iShares Emerging Markets Index ³	EEM	\$82.20	\$77.94	62.55	85.92 62.42	0.8043	0.98
Vanguard Emerging Market Index	VEIEX	\$17.65	\$16.96	13.44	18.10 13.41	0.2590	1.47
Gold-Related Funds							
iShares COMEX Gold Trust ³	IAU	\$46.64	\$46.83	N/A	47.90 41.04	0.0000	0.00
streetTRACKS Gold shares	GLD	\$46.66	\$46.80	N/A	47.72 41.02	0.0000	0.00

Recommended Gold-Mining Companies

	Ticker Symbol	11/15/05	Month Earlier	Year Earlier	— 52-Week — High Low	Distributions Latest 12 Months Frequency	Yield (%)
Anglogold Ltd., ADR	AU	\$41.00	\$41.45	40.82	44.45 30.50	0.565	1.38
Barrick Gold Corp.†	ABX	\$25.27	\$26.88	22.91	29.96 21.07	0.187	0.74
Gold Fields Ltd.	GFI	\$13.48	\$13.62	14.06	15.25 9.40	0.112	0.83
Newmont Mining	NEM	\$43.04	\$44.98	48.88	49.98 34.90	0.400	0.93
Placer Dome†	PDG	\$20.07	\$16.20	21.88	22.79 12.10	0.085	0.42
Rio Tinto PLC‡	RTP	\$161.41	\$156.35	114.29	167.38 109.74	3.340	2.07

¹ Closed-end fund, traded on the NYSE. ² Dividends paid monthly. ³ Exchange-traded fund, traded on NYSE. † Dividend shown is after 15% Canadian tax withholding. ‡ Not subject to U.K. withholding tax. na Not applicable.

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