

INVESTMENT GUIDE

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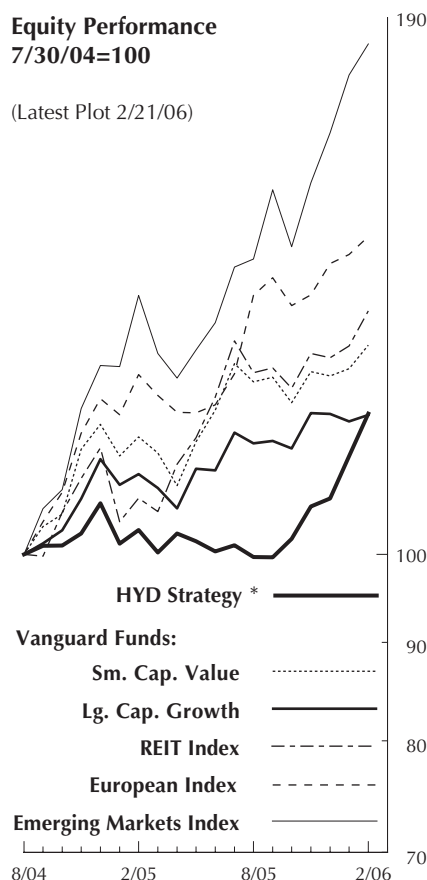
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February 28, 2006

Equity Performance 7/30/04=100

(Latest Plot 2/21/06)



*HYD is a hypothetical model based on back-tested results. See p. 14 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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Pension Woes

The demise of the traditional pension plan has accelerated rapidly in recent months. The enclosed article explores the root causes of this phenomenon. Workers who are not prepared to assume more responsibility for their retirement planning may end up working far longer than they had hoped.

Defined benefit plans, as their name suggests, pay a prescribed benefit to retired employees that is often based on an employee's length of service and average salary. These plans were designed to keep employees tied to their employers. Defined contribution plans, such as 401(k) plans, on the other hand, make no promises, and employees, rather than employers, assume the risk that their savings might not meet their savings goals for retirement.

Higher funding costs and changing demographics have forced employers to abandon or freeze their existing pension plans. Meanwhile, proposed accounting changes and pending legislation intended to improve transparency and shore up weak plans will, at the same time, provide incentives for firms to abandon these plans and make it easier for them to do so.

Employees of firms facing bankruptcy cannot count on the Pension Benefit Guarantee Corporation (PBGC), ostensibly the nation's pension safety net, to provide much help. In these PBGC "bail outs" often only a fraction of expected pensions are paid out. The PBGC is underfunded and fundamentally flawed; it charges a flat-rate premium of \$19 per participant (employee) per year, so premiums do not necessarily reflect the risk contributed by each employer in the risk pool.

What all this means is that workers will increasingly take responsibility for their own retirement planning. Fortunately, a variety of well-designed defined-contribution plans are available. Unfortunately, many workers fail to take advantage of them. It is estimated that enrollment in such plans among low-wage workers is somewhere between only 10 to 25 percent.

We can help employers and employees who are confronted with this changing retirement scene. AIS offers consulting services for sponsors of 401(k) and other defined-contribution plans. Our program is unique. We are owned by an educational institution, so at the heart of our program is an education program designed to maximize employee participation. We make investing easy by providing "lifestyle" portfolios comprised of asset classes derived from our empirical research. We utilize our highly-disciplined passive approach, and the total cost of our plan is among the lowest available. Contact us for more information at (413) 528-1216 or aisinfo@americaninvestment.com.

THE DECLINE OF THE DEFINED BENEFIT PLAN

Defined benefit retirement plans, Social Security retirement and individual savings have long been considered the “three legs” of America’s retirement system. While the looming crisis in Social Security has received a good deal of publicity, the plight of defined benefit plans has only recently come to light. The shift from defined benefit plans to defined contribution plans even among healthy firms is accelerating rapidly. Future retirees should take note: the responsibility for ensuring an adequate retirement income is moving from employer to employee.

Pension plan troubles among firms in the ailing auto, steel, and airline industries have received a great deal of attention. Many of these firms, as part of bankruptcy proceedings, have turned over their grossly underfunded plans to the Pension Benefit Guaranty Corporation (PBGC). In addition, a combination of low interest rates and poor market performance between 2000 and 2002 caught many plan sponsors in a “perfect storm” of underfunding, creating more pension-related headlines.

Most recently, profitable companies such as Verizon, Lockheed Martin, Motorola and IBM have announced plans to freeze their pension benefits. Citing a need to become more competitive, even healthy companies are looking to escape the burdens inherent in defined benefit plans. They point to growing threats: pensioners living longer in retirement, stricter pension regulation and tougher global competition from firms that are not burdened with pension plans.

Background

Pension plans have been in existence in the United States since the latter part of the 19th century, but it wasn’t until the 1950s that the number of plans began to

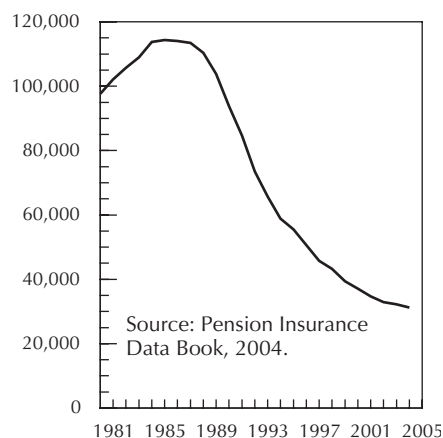
increase significantly. A 1949 Supreme Court decision proved to be a key turning point for these plans. The court found that the National Labor Relations Board was correct in its decision that pension benefits constituted wages, and were therefore subject to collective bargaining. Pension benefits quickly became a significant union bargaining chip. Thus began a practice that continues to plague many pensions today: hiking benefits to appease workers without regard to long-term plan viability.

A second event that changed the face of pensions in America was The Employee Retirement Income Security Act of 1974 (ERISA). ERISA set minimum standards in private industry pension plans for funding and participation, among other things, and formed the PBGC to insure private pensions. The creation of this “safety net” for pensions had the perverse effect of contributing further to a systemic underfunding of pension obligations.

The number of private-sector defined benefit pension plans (as measured by the number of PBGC insured plans), grew to a peak of 114,396 in 1985. In just twenty years (by 2004), this number had declined by 73 percent, to 31,238.

The dramatic decline in the number of plans is not the whole story. In a December 2005 analysis of 2003 plan data, the PBGC discovered that almost one out of every ten PBGC-insured single-employer plans were “hard frozen” (i.e., no participants accruing any new benefits under the plan). While these freezes were most often of smaller plans (so that only 2.5% of overall participants were impacted), the PBGC found that frozen plans were more likely to be terminated than unfrozen plans. They concluded that “the significant changes taking place in the defined benefit system are more widespread than indicated by the long-term and continuing decline in the number of

Number of Private Sector DB Plans



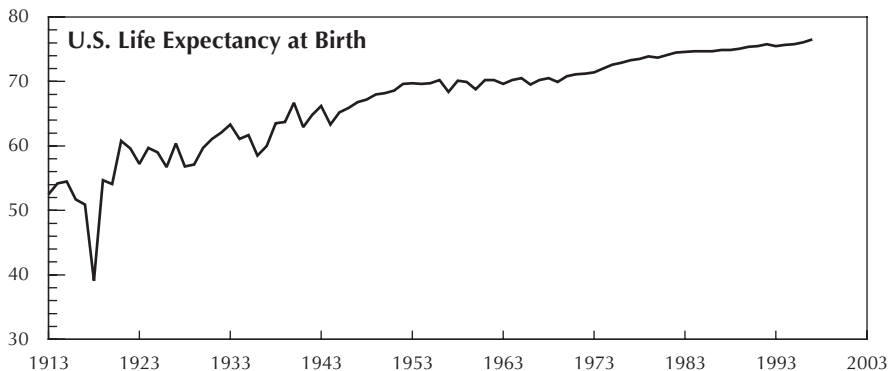
defined benefit plans.” The PBGC report further acknowledged that an “unknown number of additional plans have been frozen to a lesser degree or closed to new entrants, and these numbers have almost certainly increased over the past two years.”

However measured, the shrinkage of defined benefit plans is not surprising in light of the challenges faced by today’s plan sponsors.

Changing Demographics

It is next to impossible to address any retirement-related issue without first commenting on the profound impact of changing demographics in the United States. When the Social Security Act was drafted in the 1930s the average life expectancy in the United States was just under 62 years and the “solvency” of the system was predicated on a retirement age set at age 65. By the 1950s, when pension plans really started to take off, average life expectancy had risen to about 68 years. By 1985, when the number of defined benefit plans peaked, it was 74 years of age. According to the U.S. Department of Health and Human Services, current life expectancy in the United States is over 77 years. However, the target retirement age for many American workers remains 65. This means that the average time spent in retirement has increased by 12 years.

The media and research organizations such as our parent, the American Institute for Economic Research, have noted that these demographic trends put the pay-as-you-go Social Security system in peril. Increased longevity, however, also threatens private pensions. Unlike Social Security, defined benefit plans must ac-



tually invest today to meet future obligations. Current accounting practices, moreover, allow firms to obscure the full potential impact of funding shortages on shareholder wealth (though these disclosures are crystal clear compared with the obscurity of Social Security accounting). If an obligation is set as a fixed percentage of an employee's final salary for life, as is the case with most pension plans, any extension of life expectancy directly increases the level of funding required at each point in time in order to meet that obligation. Longer life expectancies necessarily increase the costs of defined benefit plans for employers. Depending on a plan's employee census, the cost can be enormous.

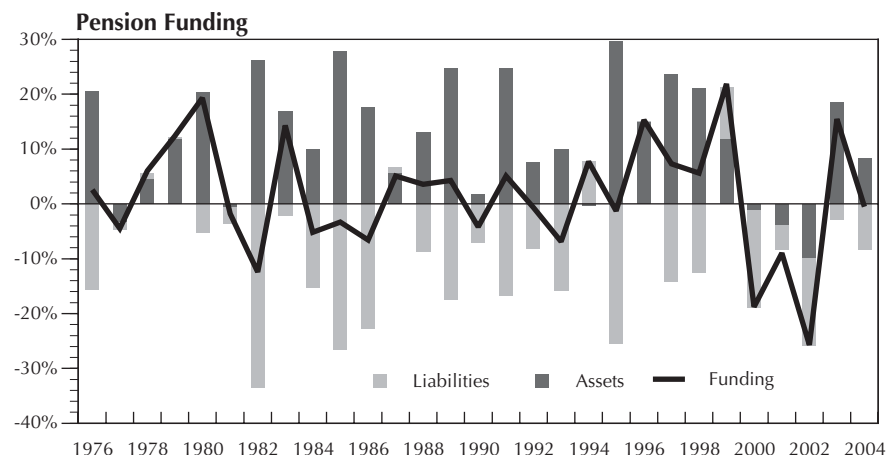
Risk and Responsibility

While changing demographics certainly present a challenge to defined benefit plan sponsors, what truly makes a defined benefit plan unattractive is the assumption of investment risk inherent in its structure. By promising a benefit in the future (versus a contribution today), the plan sponsor assumes the entire risk of poor investment results. This has broad ramifications, the simplest of which is administrative cost. In order to assume the responsibility and the associated risk of sponsoring a defined benefit plan, plan sponsors employ a battalion of professionals, at great cost, to manage and monitor plan assets and liabilities, to opine on legal issues, and to determine appropriate actuarial assumptions.

Though much of these operating costs can be charged back to the plan, it is rare that a company is able to lay off the entire expense, especially when the time and attention key executives must devote to its governance is considered. The sheer administrative complexity of operating a defined benefit plan with its associated formulas and testing combined with the need to make benefit payments and track down missing beneficiaries have prompted many firms to reconsider whether to continue their plans.

Funding Volatility

A second and more onerous cost issue for plan sponsors that arises from the assumption of investment risk is funding volatility. Between 2000 and 2002, pension plan sponsors faced a dual threat of historically depressed asset values coupled with historically low interest rates. Essentially, plan asset values fell sharply, just as declining interest rates



were making plan liabilities rise sharply. In this environment, the slightest disparity in asset/liability matching, whether intentional or not, has an enormous impact on the funded status of the plan.

The chart above illustrates the funding problem. The dark bars represent the total return of a portfolio invested 60% in the S&P 500 and 40% in the Lehman Aggregate Bond index. This is a reasonable proxy for the returns on a pension portfolio. The grey bars represent the returns of the Lehman Long Term Government Bond Index—inverted—because a bond represents a liability to a bond issuer, just as a future pension represents a liability to an employer. The black line is the difference between the two bars.

This graph illustrates a few things. First off, it illustrates the “double whammy” that occurred in 2000 - 2002. Assets fell when the stock market collapsed, and, at the same time, liabilities rose as interest rates fell.

From a larger perspective, the chart also demonstrates how unpredictable funding requirements can be for defined benefit plans. When management is try-

ing to run competitive and profitable businesses, this kind of volatility makes their jobs more difficult. Perhaps more importantly though the results of this challenge, good or bad, are directly passed on to shareholders. Looking at the chart, it is immediately understandable why business managers would want to eliminate this kind of volatility in what is usually a company's largest source of financial leverage—its defined benefit plan funding obligations. What should also be apparent is that shareholders of these companies are assuming a huge risk in both the funding cost burden and the investment risk associated with the defined benefit plan—something that can be obscured by accounting conventions. In the debate over the future of defined benefits, today's corporations are reconsidering whether it is prudent to expect shareholders to bear this risk.

Looking to the Future

The funding challenges faced by employers may soon be aggravated. The public outcry against failed defined benefit plans has led to proposed legislation that

AIS Confusion

From time to time in recent years we have received inquiries from attorneys or other individuals that in fact should have been directed to other firms that share our name. There is, in fact, more than one entity that uses the name American Investment Services, Inc.

When we conducted a web search of “American Investment Services” we were at first pleased to see our name and web site (www.americaninvestment.com) prominently listed. However, several other web pages also emerged that in fact pertained to different entities. Some concerned litigation or regulatory matters that had nothing to do with us.

We wish to reassure our readers and clients that there is no pending legislation against us, nor have we been subject to fees or sanctions by regulatory bodies. We are registered investment advisors in good standing with the SEC. Readers can access our SEC registration (form ADV) through the SEC website: www.sec.gov. Our IARD/CRD number is 110043

would tighten funding rules. Until recently, pension rules have encouraged employers to fund plans at or close to minimum funding levels. Proposed legislation would tighten widely acknowledged funding loop-holes in ERISA that have encouraged this practice. Employers thus face yet another force pointing toward costly increases in plan funding.

The defined benefit situation in the public sector is perhaps more dire and could carry larger and farther-reaching consequences. Public pension benefits

are guaranteed not by the PBGC, but directly by American taxpayers. State constitutions typically forbid public entities from reducing the rate at which current employees accrue benefits. Public-employee unions use their bargaining power to make sure that benefits keep rising. Taken together, an enormous and largely unpublicized social debt looms on the horizon.

The traditional company defined benefit plan, once the backbone of American retirement, is fast becoming a luxury

upon which only a dwindling number of retirees will be able to safely rely. Corporations will continue to seek to escape this burden. In the battle for the future of American retirement, defined contribution alternatives (e.g., money purchase, profit sharing, or enhanced 401(k) plans) that effectively shift investment risk to participants will be the clear winners. It remains to be seen how the public sector will respond. In light of the risks and costs associated with defined benefit plans, their continued decline appears likely.

INVESTMENT FALLACIES

We encourage investors to stick to the basics and to keep things simple. There are, however, widely-held investment-related notions that are in fact simplistic and can cost investors dearly. Some of these have even been promoted in the media as sound practices.

"I don't want to pay capital gains taxes"

Not many people enjoy paying taxes, but sometimes tax-avoidance can entail greater risk and reduce overall returns. These investors lose sight of their objective—to maximize their risk-adjusted returns *after taxes*—and instead become fixated on avoiding taxes altogether, especially those levied on realized capital gains. In some situations a single stock can account for a large portion of the investor's portfolio value—25 percent or more. In these cases shares are

held in a taxable account and carry a very low cost basis. It is clear that the investor should diversify to avoid the risks inherent in a single company and industry. But the investor becomes hung up on the fact that he will incur a certain cost (a 15 percent federal levy on the realized gain), while ignoring an uncertain but potentially enormous cost should the stock collapse.

The optimal solution to this dilemma is not always cut and dried. Much depends on the particular situation. For our clients we often employ a strategy of selling off shares over several tax years if we decide, after consulting with the client, that the benefit of delaying the tax outweighs the risk of being less than optimally diversified. Another solution is a charitable remainder unitrust (CRUT). This allows an investor to donate the full market value of his stock to a charity,

which will be sold without incurring a capital gains tax and reinvested in assets that will provide the donor's named beneficiary with an income stream for life. At the death of the last named beneficiary the assets become the property of the charity. The donor also gains an immediate tax deduction for the present value of his eventual donation. For more information on these programs, including that of our parent, the American Institute for Economic Research (AIER), see the November 2005 issue of *INVESTMENT GUIDE*.

"I'll wait for the stock to come back"

Investors all too often fret about the price they have paid for a security, and allow that concern to influence their immediate investment decisions. We have often heard investors lament that the value of a particular security had fallen from what they had originally paid for it, and that they would not sell it until it "came back" to that level.

This rationale is flawed. The cost of any asset is a sunk cost; it is irretrievable and therefore should not affect an investor's decision. The holder of any asset has two basic choices at any given time: he can continue to hold the asset, or he can sell it and invest the proceeds in some other asset. Each asset has some future value which is unknown, *but the better outcome has nothing to do with what the investor paid for his security once upon a time.*

"Never spend out of capital"

Some investors, especially those approaching retirement, are wed to the notion that they should live off of their investment income (dividends and interest) and avoid "dipping into capital" by selling securities in order to meet their spending needs. This was at once a reasonable

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"I got eight to twelve years, which was in line with Wall Street expectations."

maxim but it is no longer a valid concept in financial planning.

At one time the U.S. dollar was defined as and redeemable on demand in specific amounts of gold. High-grade bonds and similar instruments thus were even better than gold—they paid interest. The long-term stability of prices seemed assured, so bondholders were equally well-assured that the long-term value of their bonds would not deteriorate. Spending from capital was considered imprudent; only the interest income from such holdings should be used to meet living expenses. The story is told of a female member of a proper Bostonian family who was picked up by the police for streetwalking. At the urgent family conference that followed, the head of the family asked:

"Emily how could you do such a thing?"

"I need the money," she calmly replied.

"But your father took care of you in his will, why didn't you use that money?"

"Why, that would have been spending out of capital!"

Since the gold standard was abandoned, monetary inflating has become institutionalized. It is a virtual certainty that when bondholders redeem their bonds several years hence, the purchasing power of their proceeds will have diminished since the time at which they purchased the bond. The real value of the bond's interest payments will have eroded as well.

In this environment investors are forced to consider supplementing their fixed-income holdings with common stocks and gold, which have historically outpaced price inflation. These provide returns largely through capital appreciation; they are purchased so that at some point they may be sold. Thus spending out of capital is no longer to be avoided, and is in fact an inherent part of the strategy.

"Always average in"

Dollar cost averaging is a popular notion. It simply refers to investing an equal dollar amount at fixed intervals of time. The idea is to take advantage of price volatility; fewer shares will be purchased when prices are high, and more will be purchased when prices are low. If there is any price volatility, an investor who follows the practice will wind up with an

average cost per share that is below the average of the share prices at which he purchased his shares.

If you have a steady cash flow to invest, such as a portion of your monthly paycheck, dollar cost averaging is rational. But what if you have a lump sum to invest? Is dollar cost averaging the panacea it is sometimes made out to be?

To help answer this question we went to <http://www.moneychimp.com>. This website provides a useful calculator that compares a dollar-cost averaging strategy with a "take the plunge" approach that invests a lump sum all at once. If you invested \$10,000 in an S&P 500 index fund in January 2001, you would have ended the year with \$8,675 (assuming an expense ratio of 0.2 percent). On the other hand if you had dollar cost averaged by investing one twelfth that amount each month in the same security, and invested the remainder in a bank account earning 3 percent interest, you would have ended up with \$9,745. So dollar cost averaging is the way to go, right?

Not so fast. If you conducted the same exercise in 1997, with the lump sum approach your \$10,000 would have grown to \$13,071, while the dollar cost averaging approach would have grown to only

\$11,559. The reason is clear: a bull market prevailed during 1997, so you would have been better off by getting in early, while 2001 was a bear market.

Security price changes are inherently unpredictable. Therefore investors who have a truly long-run view, and who are constructing a portfolio that is well-diversified across asset classes, should generally not be afraid to commit to investing a large portion of their capital to a given asset class at any point in time. Rebalancing will enable the investor to "buy low" and "sell high" with a portion of each asset class held, and the eventual result will be that the average cost of their holdings in each asset class will be less than the average price.

Errata

In the January 2006 issue of *Investment Guide* we provided incorrect data in "Total Returns" table, which accompanied our "Quarterly Review of Investment Policy" article. The total return for gold for the fourth quarter of 2005, as measured by the London PM fix, was 8.4 percent. We incorrectly listed a return of 17.77 percent. We apologize for the error.

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We are pleased to offer subscribers a paperbound edition of Volume XXVII (2005) containing all 12 issues of *INVESTMENT GUIDE* at a special price of \$10. This volume will also include a detailed index, giving it lasting value as a reference on the personal finance and investment topics covered in *INVESTMENT GUIDE*. To order for 2006 delivery, please complete the enclosed order form and mail with your payment to: American Investment Services, Inc., P.O. Box 1000, Great Barrington, MA 01230-1000.

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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 **Verizon**, **AT&T Corp (Formerly SBC Communications)**, 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

As of February 15, 2006

				—Percent of Portfolio*—		
	Rank	Yield	Price	Status	Value	No. Shares ¹
Verizon	1	4.74%	34.15	Holding**	22.62	22.34
AT&T Corp (New)	2	4.70%	28.32	Holding**	26.44	31.49
General Motors	3	4.55%	21.98	*		
Altria Group	4	4.36%	73.42	*		
Merck	5	4.31%	35.29	Buying	24.90	23.80
CitiGroup	6	4.24%	46.25	Holding**	7.89	5.75
Pfizer	7	3.75%	25.61	Holding	2.98	3.93
DuPont	8	3.62%	40.92			
JP Morgan Chase	9	3.37%	40.32	Selling	15.15	12.68
General Electric	10	2.99%	33.46			
					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	5.89%	11.20%	3.50%	10.54%	14.06%	15.16%	19.13%
Dow	1.14%	3.90%	1.70%	8.66%	11.24%	10.27%	16.71%

* 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.

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—Verizon, AT&T Corp, Merck and Citigroup—account for roughly 81.5 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	
		2/15/06	1/13/06	2/15/05	High	Low	Amount	Record Date	Paid	Annual Dividend	Yield†
★ Verizon	VZ	34.15	32.18	36.26	36.85	29.13	0.405	1/10/06	2/01/06	1.620	4.74
★ AT&T (new)	T	28.32	24.99	23.23	28.82 H	21.79	0.333	10/10/05	11/1/05	1.330	4.70
General Motors	GM	21.98	20.37	37.22	37.70	18.33	0.250	2/16/06	3/10/06	1.000	4.55
Altria Group	MO	73.42	76.44	66.06	78.68	62.70	0.800	12/28/05	1/10/06	3.200	4.36
★ Merck	MRK	35.29	33.47	29.35	36.26 H	25.50	0.380	12/02/05	1/03/06	1.520	4.31
★ Citigroup	C	46.25	48.92	49.40	49.76	42.91	0.490	2/06/06	2/24/06	1.960	4.24
☆ Pfizer	PFE	25.61	24.67	25.22	29.21	20.27	0.240	2/10/06	3/07/06	0.960	3.75
DuPont	DD	40.92	40.07	51.75	54.90	37.60	0.370	2/15/06	3/14/06	1.480	3.62
☆ J. P. Morgan Chase	JPM	40.32	39.92	37.55	40.87	32.92	0.340	1/06/06	1/31/06	1.360	3.37
General Electric	GE	33.46	35.10	36.39	37.34	32.21 L	0.250	2/27/06	4/25/06	1.000	2.99
Coca-Cola	KO	41.34	41.31	42.65	45.26	39.36 L	0.280	12/01/05	12/15/05	1.120	2.71
3M Company	MMM	73.13	77.50	85.90	87.45	69.71	0.420	2/24/06	3/12/06	1.680	2.30
Johnson & Johnson	JNJ	59.10	61.82	65.91	69.99	56.70 L	0.330	2/28/06	3/14/06	1.320	2.23
Exxon Mobil	XOM	59.76	60.97	56.92	65.96	52.78	0.320	2/10/06	3/10/06	1.280	2.14
Honeywell Intl.	HON	40.84	37.16	39.05	40.85 H	32.68	0.206	11/18/05	12/09/05	0.825	2.02
Alcoa	AA	30.89	28.95	29.81	32.29	22.28	0.150	2/03/06	2/25/06	0.600	1.94
Intel Corp.	INTC	21.35	25.79	24.47	28.84	20.50 L	0.100	2/07/06	3/01/06	0.400	1.87
Procter & Gamble	PG	60.11	58.90	53.48	60.25 H	51.86	0.280	1/20/06	2/15/06	1.120	1.86
McDonald's	MCD	36.01	34.47	33.16	36.75 H	27.36	0.670	11/15/05	12/01/05	0.670	1.86
Boeing	BA	72.45	69.48	54.43	72.86 H	52.07	0.300	2/10/06	3/03/06	1.200	1.66
United Tech. (s)	UTX	58.13	55.66	51.39	59.34 H	48.43 L	0.220	2/17/06	3/10/06	0.880	1.51
Home Depot, Inc.	HD	41.53	41.91	42.73	43.98	34.56	0.150	3/09/06	3/23/06	0.600	1.44
Caterpillar (s)	CAT	71.60	62.33	45.75	71.65 H	41.31 L	0.250	1/20/06	2/18/06	1.000	1.40
Microsoft Corp.	MSFT	26.88	27.19	25.93	28.38 H	23.82	0.090	2/17/06	3/09/06	0.360	1.34
Wal-Mart Stores	WMT	46.89	45.40	52.70	53.49	42.31	0.150	12/16/05	1/03/06	0.600	1.28
Hewlett-Packard	HPQ	31.67	31.90	21.12	32.53 H	19.57	0.080	3/15/06	4/05/06	0.320	1.01
Walt Disney	DIS	26.88	25.70	29.58	29.58	22.89	0.270	12/12/05	1/06/06	0.270	1.00
IBM	IBM	80.85	83.17	94.33	94.97	71.85	0.200	2/10/06	3/10/06	0.800	0.99
American Express ††	AXP	54.19	53.44	54.50	59.50	46.59	0.120	1/06/06	2/10/06	0.480	0.89
AIG	AIG	68.29	70.05	71.85	71.85	49.91	0.150	3/03/06	3/17/06	0.600	0.88

† Based on indicated dividends and market price as of 2/15/06. 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

	2/15/06	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	540.50	548.25	424.40
Silver, London Spot Price	9.32	9.01	7.25
Copper, COMEX Spot Price	2.19	2.17	1.49
Crude Oil, W. Texas Int. Spot	57.65	63.92	47.27
Dow Jones Spot Index	241.92	248.06	198.72
Dow Jones-AIG Futures Index	159.73	167.87	147.38
CRB-Bridge Futures Index	320.75	336.84	289.33

Interest Rates (%)

U.S. Treasury bills -	91 day	4.54	4.31	2.59
	182 day	4.69	4.41	2.76
	52 week	4.70	4.40	3.00
U.S. Treasury bonds -	10 year	4.57	4.37	4.41
Corporates:				
High Quality -	10+ year	5.76	5.58	5.27
Medium Quality -	10+ year	6.08	5.92	5.63
Federal Reserve Discount Rate		5.50	5.25	3.50
New York Prime Rate		7.50	7.25	5.50
Euro Rates	3 month	2.58	2.49	2.14
Government bonds -	10 year	3.47	3.29	3.41
Swiss Rates -	3 month	1.06	1.02	0.75
Government bonds -	10 year	2.18	1.97	1.96

Exchange Rates

British Pound	\$1.740600	\$1.775800	1.896700
Canadian Dollar	\$0.863300	\$0.862000	0.812600
Euro	\$1.188700	\$1.213500	1.301800
Japanese Yen	\$0.008485	\$0.008751	0.009576
South African Rand	\$0.164800	\$0.166000	0.168000
Swiss Franc	\$0.762900	\$0.783400	0.840000

Securities Markets

	2/15/06	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	1,280.00	1,287.61	1,210.12
Dow Jones Industrial Average	11,058.97	10,959.87	10,837.32
Dow Jones Transportation Average	4,442.29	4,147.10	3,615.16
Dow Jones Utilities Average	403.42	415.85	353.88
Dow Jones Bond Average	187.76	189.09	188.80
Nasdaq Composite	2,276.43	2,317.04	2,089.21
Financial Times Gold Mines Index	2,294.73	2,426.07	1,617.00
FT African Gold Mines	3,312.12	3,206.48	1,906.13
FT Australasian Gold Mines	6,496.62	6,933.12	4,344.23
FT North American Gold Mines	1,813.18	1,971.22	1,365.84

Coin Prices

	2/15/06	Mo. Earlier	Yr. Earlier	Premium
American Eagle (1.00)	\$563.65	\$561.65	436.05	4.28
Austrian 100-Corona (0.9803)	\$536.53	\$534.73	415.23	1.26
British Sovereign (0.2354)	\$133.55	\$133.05	103.95	4.96
Canadian Maple Leaf (1.00)	\$563.90	\$561.90	436.30	4.33
Mexican 50-Peso (1.2057)	\$661.60	\$659.40	512.20	1.52
Mexican Ounce (1.00)	\$548.70	\$546.80	424.70	1.52
S. African Kruggerand (1.00)	\$556.25	\$554.35	431.05	2.91
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	\$620.00	\$595.00	515.00	18.56
Liberty (Type I-AU)	\$675.00	\$675.00	675.00	29.08
Liberty (Type II-AU)	\$592.50	\$570.00	497.50	13.30
Liberty (Type III-AU)	\$582.50	\$565.00	460.00	11.39
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver (715 oz.)	\$6,567.50	\$6,410.00	5,140.00	-1.45
40% Silver (292 oz.)	\$2,632.50	\$2,572.50	2,065.00	-3.27
Silver Dollars	\$7,725.00	\$7,400.00	6,725.00	7.14

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$540.50 per ounce and silver at \$9.32 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	2/15/06	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	\$79.98	\$80.48	81.22	81.29 79.92	2.5217	3.15
Vanguard Short-term Inv. Grade	VFTSX	\$10.48	\$10.53	10.63	10.63 9.87	0.3841	3.67
Income Equity Funds							
DNP Select Income ^{1,2}	DNP	\$11.13	\$10.71	11.85	11.93 10.18	0.7800	7.01
Vanguard REIT Index	VGSIX	\$21.29	\$20.67	16.07	21.37 16.07	0.9400	4.42
Large Cap. Value Equity Funds							
iShares S&P 500 Value Index ³	IVE	\$67.50	\$67.10	63.07	67.62 58.37	1.3124	1.94
Vanguard Value Index	VIVAX	\$23.03	\$23.02	21.51	23.11 20.45	0.5550	2.41
Small Cap. Value Equity Funds							
iShares Sm. Cap. 600 Value Index ³	IJS	\$69.19	\$67.17	60.32	70.10 55.04	0.6502	0.94
Vanguard Sm. Cap Value Index	VISVX	\$15.49	\$15.17	13.77	15.62 12.87	0.2620	1.69
Growth Equity Funds							
iShares S&P 500 Growth Index ³	IVW	\$60.53	\$61.28	57.93	61.67 54.60	0.7516	1.24
Vanguard Growth Index	VIGRX	\$28.07	\$28.46	26.02	28.65 24.48	0.2050	0.73
Foreign Equity Funds							
iShares S&P Europe 350 Index ³	IEV	\$84.64	\$84.40	76.80	86.20 72.65	1.8786	2.22
Vanguard European Stock Index	VEURX	\$29.24	\$28.98	26.06	29.74 25.30	0.7000	2.39
iShares Emerging Markets Index ³	EEM	\$96.40	\$94.45	69.72	101.38 64.59	0.9875	1.02
Vanguard Emerging Market Index	VEIEX	\$20.57	\$20.44	15.04	21.34 14.31	0.3150	1.53
Gold-Related Funds							
iShares COMEX Gold Trust ³	IAU	\$53.82	\$55.54	42.59	57.35 41.38	0.0000	0.00
streetTRACKS Gold shares	GLD	\$53.76	\$55.44	42.58	57.30 41.33	0.0000	0.00

Recommended Gold-Mining Companies

	Ticker Symbol	2/15/06	Month Earlier	Year Earlier	— 52-Week — High Low	Distributions Latest 12 Months Frequency	Yield (%)
Anglogold Ltd., ADR	AU	\$54.47	\$55.42	35.32	62.20 30.50	0.360	0.66
Barrick Gold Corp.+§	ABX	\$28.03	\$29.77	23.09	32.14 21.07	0.187	0.67
Gold Fields Ltd.	GFI	\$20.91	\$19.65	11.66	24.17 9.40	0.130	0.62
Newmont Mining	NEM	\$54.82	\$59.87	42.34	62.72 34.90	0.400	0.73
Placer Dome+§	PDG	\$23.13	\$24.31	17.75	26.12 12.10	0.085	0.37
Rio Tinto PLC* *	RTP	\$192.35	\$196.69	129.92	212.94 114.90	3.200	1.66

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. § Placer Dome will be delisted on 2/28/06 as a result of merger with Barrick Gold Corp. * Not subject to U.K. withholding tax. * Dividends reported do not include a special dividend of \$4.40 payable April 7, 2006. na Not applicable.

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