INVESTMENT GUIDE

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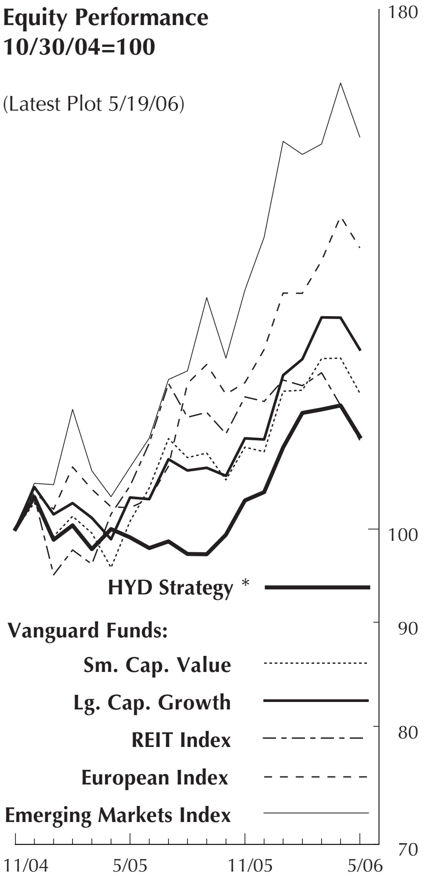
Equity Performance
10/30/04=100

(Latest Plot 5/19/06)



*** HYD is a hypothetical model based on back-tested results. See p. 38 for a full explanation.**

Got Gold?

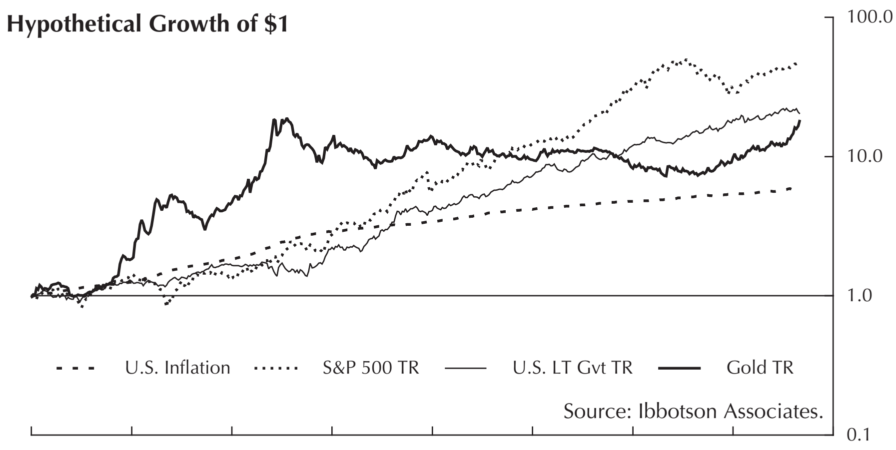
Gold has been rediscovered by the financial press. Ignored and even scorned during the "tech boom" of the late 1990s, it is suddenly a glamour asset.

In our view, gold is one of many asset classes worthy of inclusion in most portfolios. While many view gold as a commodity, our parent, the American Institute for Economic Research, has long held that gold is a form of money, and the only one that has maintained its purchasing power throughout history. It is valuable to investors as a form of insurance.

Since gold was allowed to "float" in 1968, its record as an inflation hedge has been mixed. The chart below depicts the hypothetical growth of one dollar invested in several asset classes beginning in January 1968 (the earliest date that common data was available). Through the late 1970s when price inflation was rapidly accelerating, gold was virtually the only asset class that protected investors' purchasing power. However, between 1980 and 2001, a period of slow but steady price inflation, common stocks and even long term bonds provided far stronger inflation-adjusted returns than gold.

The chart also belies the notion that gold is a "conservative" investment. Over the entire period, gold was far more volatile (standard deviation of 22.3) than the S&P 500 (standard deviation 16.9) and long-term bonds (standard deviation 11.3).

Hypothetical Growth of $1



So why hold gold? The tables on the next page compare the hypothetical performance of three portfolios during different time periods. The first is an "all equity" portfolio invested equally in the S&P 500, the Fama-French Large Value portfolio, and the Fama-French Small Value portfolio. The second portfolio invests 30 percent in each of these equity indexes and devotes 10 percent to gold. The third portfolio invests 30 percent in each equity index and 10 percent in 30-day U.S. Treasury bills.

Between 1968 and 2000, a period of extreme price inflation and stress in

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the financial markets, the gold portfolio provided vastly superior absolute and risk-adjusted returns (as measured by the Sharpe ratio), than either the all-equity portfolio or the Treasury portfolio. Over the longer term, through March 2006, after inflation subsided and the economy recovered, the "uninsured" all-equity portfolio provided the highest overall returns, but only barely, and failed to match the risk-adjusted returns of the gold portfolio.

Investors should hold gold only in limited amounts, and for the right reasons, not because of the recent attention it has garnered. Gold has historically provided insurance during periods of extreme price inflation and financial stress, and its price has been negatively or very weakly correlated with other asset classes. We will continue to recommend it as long as it continues to demonstrate these properties.

Hypothetical Portfolios

Summary Statistics

	Total Average Annual Return (%)	Volatility (Standard Deviation) (%)	Highest Return %)	Lowest Return (%)	Risk Adj. Return (Sharpe Ratio)
January 1968-December 1980 Avg. Annual Price Inflation 7.44%					
All Equity	10.78	20.01	22.18	-13.29	0.19
Equity Plus Gold	**13.01**	**18.35**	**19.39**	**-13.36**	**0.24**
Equity Plus Treas. Bills	10.56	17.89	20.02	-12.07	0.20
January 1968-March 2006 Avg. Annual Price Inflation 4.75%					
All Equity	13.78	18.26	22.18	-22.32	0.26
Equity Plus Gold	**13.70**	**16.43**	**19.39**	**-20.10**	**0.28**
Equity Plus Treas. Bills	13.14	16.30	20.02	-20.45	0.27

Source: Ibbotson Associates and Dimensional Fund Advisors Inc.

WHEN TO BEGIN RECEIVING SOCIAL SECURITY PAYMENTS

As the debate over Social Security reform continues, those at or near retirement face immediate decisions, including when to begin taking payments. Even for Americans who are well off, the decision regarding when to begin drawing Social Security benefits is an important one. Consider that among persons over age 65, the highest earning fifth of the population relies on Social Security for 20 percent of their income, and for the average individual Social Security accounts for nearly one-third of total income.

The obvious advantage of waiting is that the later you begin collecting Social Security the higher your monthly benefit will be. Full retirement benefits are available only upon reaching normal retirement age (65 and 8 months in 2006). However, you may collect early retirement benefits any time after age 62. These benefits are *permanently* reduced from their full retirement level with a reduction of 5/9 of 1 percent from their full benefit level per month for the first 36 months and 5/12 of 1 percent for subsequent months.

For those born after 1938, the wait until full retirement age has been extended and the penalty for early retirement increased. Beginning in the year 2000, the full retirement age began to increase gradually and will become age 67 in the year 2022. Early retirement benefits are still available at age 62, but the percent reduction is greater than it was before the increase in full retirement age.

There are advantages and disadvantages to taking early retirement benefits. Medicare coverage does not begin until age 65 even if you are receiving Social Security benefits at an earlier age. Therefore, you must arrange for adequate health insurance, perhaps through your former employer, until then. If you can continue to work at a high level of earnings sufficient to raise your Social Security benefit, you may consider doing so.

On the other hand, the extra years of benefits afforded by early retirement may well offset the reduction in the level of the monthly benefit. For example, if your full retirement benefit in 2006 would be $1,000, and you retire at age 62, your monthly benefit will be permanently reduced by 23.33 percent, to $766. Total "extra" benefits received by retiring 44 months before full retirement age would be $33,704 (44 times $766). Dividing the reduction, $234, into $33,704 results in 144 months, or 12 years, until the added benefits from waiting until full retirement age to retire begin to outweigh the extra benefits you receive if you retire at 62. Thus, you would come out ahead under the early retirement scenario until age 74.

A "Break Even Age Calculator," located at the Social Security Administration's web site, can help you determine how many additional months of early retirement payments it will take to compensate for the reduction in benefits. You can also get a free estimate of your benefits from the Social Security Administration by completing a "Request for Earnings and Benefit Estimate Statement" (Form SSA-7004) available from your local office. The benefit calculators available at the administration web site (www.socialsecurity.gov) will also help in the planning process.

Even the most careful planning, however, cannot influence mortality. In the above example, you would come out ahead by waiting until full retirement age as long as you lived until at least age 74. Of course, no one can predict how long they will live. The National Center for Health Statistics says that, on average, Americans who are 65-years old can expect to live to about age 83. These are only averages, however, and your decision will likely hinge on other factors such as historic family longevity, your need for extra income, and how healthy you are.

If you are married, you will also need to coordinate your Social Security benefit with that of your spouse. When you retire, your spouse is entitled to a spousal benefit, equal to 50 percent of your normal retirement benefit if he or she has reached the normal retirement age to collect full Social Security benefits. Alternatively, a spouse can apply for this benefit any time after reaching age 62, but the benefit will be *permanently* reduced

Redefining "Normal"

Year of Birth	Normal Retirement Age*
Before 1938	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and After	67

* To collect full Social Security benefits.

by a formula based on the number of months the spouse's age is under normal retirement age. Thus, if a spouse elects to collect benefits at age 62, and is married to someone whose normal retirement age is 65, they would be reduced by 25 percent. (This works out to a benefit equal to 37.5 percent of the retiree's normal benefit.)

The amount of the reduction depends on when the person reaches normal retirement age. If full retirement age is 66 (the age for those born between 1943 and 1954), a 62-year-old spouse can get 35 percent of the worker's unreduced benefit. If full retirement age is 67, the spouse can get 32.5 percent of the worker's normal benefit. In any case, no spousal benefit is payable until the retiree's benefits begin.

In today's two-earner families, many spouses will find themselves eligible to collect benefits based on their own earnings record, in addition to being eligible for a spousal benefit. When that happens, Social Security will not pay both benefits in full, but will pay the equivalent of whichever benefit is larger.

Another factor affecting your decision to begin taking benefits early is whether or not you plan to continue working. The maximum amount that persons who have not reached full retirement age may earn in any single year and still receive Social Security benefits is limited. If you are under full retirement age when you start getting your Social Security payments, $1 in benefits will be deducted for each $2 you earn above the annual limit. For 2006, that limit is $12,480. In the calendar year you attain full retirement age, $1 in benefits will be deducted for each $3 you earn above a higher annual limit up to the month of full retirement age attainment. For 2006, that limit is $33,240.

Although most people weigh early retirement against taking the higher benefits available upon reaching Social Security's normal retirement age, you are not required to begin collecting retirement benefits by full retirement age, and there are advantages to claiming them later. If you wait until after full retirement age, your benefits will increase each year you delay retirement until age 70. The amount of the increase varies from 4.5 percent to 8 percent, depending on when you were born. Separately, if you have earnings after age 65, they may increase your retirement benefit if they are large relative to your average career earnings.

The main advantage to waiting until age 70 to draw Social Security is a monthly benefit that could be almost 40 percent higher than your full benefit at normal retirement age. However, someone whose normal retirement age is 66 would have to pass their 80th birthday before they would receive more with higher delayed payments beginning at age 70. The question is, are you willing to accept that risk?

THE TAX INCREASE PREVENTION AND RECONCILIATION ACT OF 2005 (TIPRA)

President Bush signed the Tax Increase Prevention Reconciliation Act of 2005 (TIPRA) this month. TIPRA, which applies beginning in fiscal year 2005, has elicited commentary from various quarters. The Tax Foundation lauded the bill as important relief for working Americans that will stimulate economic growth. The organization presented data to show that reliance on capital gain and dividend income rises with age and that the extension will help low-income seniors. The "progressive" Brookings-Urban Institute Tax Policy Center, on the other hand, called provisions of the bill "smoke and mirrors" and derided the tax breaks as giveaways that will irresponsibly increase deficit spending.

We prefer to sidestep these inevitable policy skirmishes and focus instead on the immediate implications for investors.

Extended Preferential Tax-Treatment for Long-Term Capital Gains and "Qualified" Dividends

The bill extends for two years, to 2010, the 15 percent maximum tax rate on long-term capital gains and qualified dividends. The reduced rates had been scheduled to end in 2008 under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). After 2010 the rates on long-term capital gains will revert to 20 percent, and qualified dividends will once again be taxed as ordinary income.

Taxpayers in lower brackets (10%-15%) are eligible for a lower rate of five percent on capital gains and dividends. In 2008, the rate for taxpayers in the 10-15 percent bracket falls to zero.

The number of dividend paying corporations has been on the rise since the lower rates went into effect. Investors who follow our high yield Dow strategy through taxable accounts will enjoy another two years of reduced rates.

Temporary AMT Relief

The Alternative Minimum Tax (AMT), enacted in 1969, was originally aimed at very wealthy Americans who had been exploiting loopholes in order to pay little or no income tax. The AMT is essentially a separate tax system designed to halt that practice. Its rules for deductions are generally far less generous than the regular rules. However, while the regular income tax brackets and exemptions are adjusted annually for price inflation, the AMT's are not. The AMT has therefore been ensnaring an increasing number of middle income tax payers. According to the Tax Foundation, the AMT affected less than 1 percent of taxpayers until 2000. If left unchanged the AMT could affect 20 percent of taxpayers by 2010.

TIPRA increases the AMT income exemption levels. The House Joint Committee on Taxation estimates that 15 million taxpayers will avoid the AMT in 2006 as a result of the changes. The rub is that under the current legislation the rules will revert to those in effect previously.

Budgetary constraints require that the bill raise $20 billion to offset the impact of lost receipts. Congress therefore included additional features designed to raise revenues.

Increased Roth IRA Eligibility

TIPRA allows all taxpayers to convert traditional IRAs to Roth IRAs beginning in 2010. Distributions from Roth IRAs are not taxed, and unlike traditional IRAs, they have no distribution requirement at 70 1/2 years of age.

Previously, eligibility for Roth contributions was limited to those with adjusted gross income of less than $95,000 (or $150,000 for married couples filing jointly). Conversions are treated as taxable distributions, so those who convert could pay a substantial one-time tax in exchange for gaining these Roth features; this will provide a jolt of revenue to the federal government. Conversions are not subject to the 10% penalty that typically applies to early distributions.

The most important factors to consider in determining whether a conversion is appropriate are (1) A best estimate of your tax situation in retirement: the higher your tax bracket in retirement, the more attractive conversion becomes, all else equal and (2) Prospects for future tax legislation. If, for example, the current "progressive" tax regime is replaced with a national sales tax or one of the other proposals that has been floated in recent years, Roth contributors would come out on the short end of the stick. They will already have opted to fork over their tax liability at the time of the conversion.

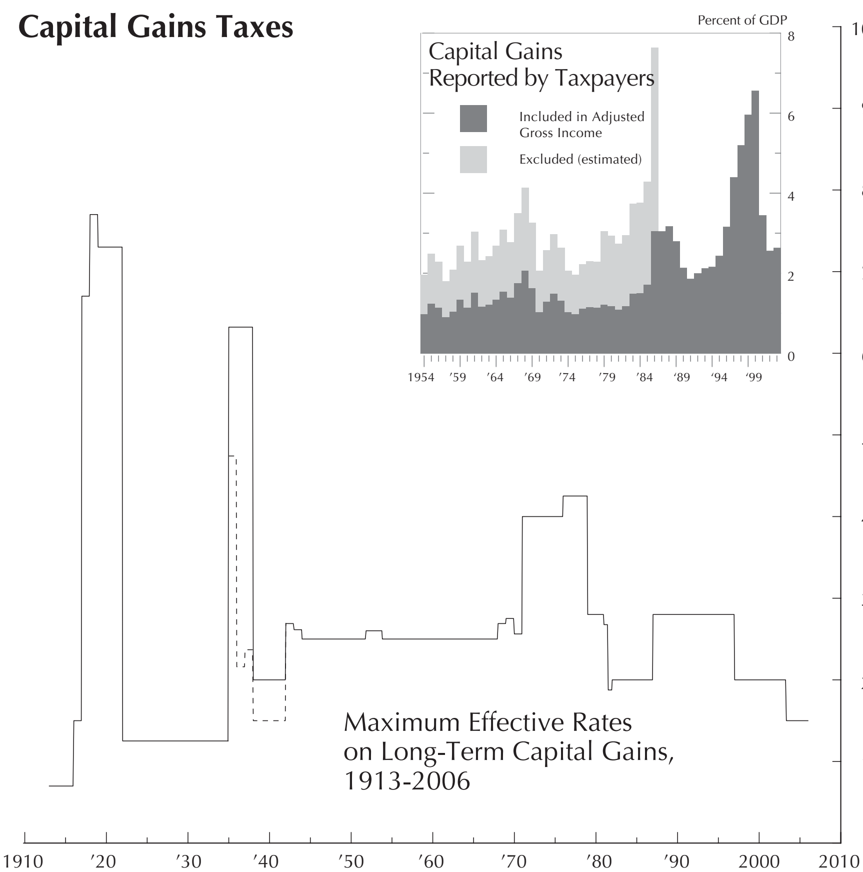
The Kiddie Tax

The purpose of the "kiddie tax," introduced in 1986, was to ensure that certain taxpayers could not avoid taxes by transferring ownership of assets to their children. Under that provision, children under the age of 14 with investment income of more than $1,600 had their unearned income assessed at their parents' top marginal tax rate. The new law raises the age limit to under 18.

The Bottom Line

The most recent amendments are generally favorable to investors. However, the law does not end the pattern of limited extensions and sunset provisions that has become politically convenient for Congress, but painful for investors. One does not know what rules will apply from one year to the next, so investment planning becomes more uncertain. Accountants and attorneys benefit from uncertainty and complexity; they perhaps stand to gain the most from a continuation of the current process. We are not optimistic; prior attempts to simplify the labyrinthine federal code were quickly reversed by politicians eager to introduce new wrinkles to favor various constituents.

Capital Gains Taxes



Prior to 1922 and for 1988-1990, the rates shown are the highest applicable to ordinary income. For other years the effective rate was lower, either because a portion of long-term gains was excluded from taxable income (the excludable portion was deemed a "tax preference" subject to the alternative minimum tax during the years 1971-1979), because the maximum tax on such gains was "capped" at a rate below that on ordinary income, or both.

The minimum holding period to qualify for a long-term gain has varied over the years. Currently it is one year. From 1922 through 1935 it was two years. During 1935-37, and from 1977 to 1985 it was one year. From 1938 through 1942 it was 18 months. From 1943 through 1976 and in 1986 and 1987 it was 6 months. During the years 1935 through 1941, larger reductions from ordinary income tax rates were granted on holding periods greater than the minimum, with the lowest rates (plotted as the dashed curve for those years) on assets held as long as 10 years.

Prior to 1987, the maximum effective tax rate on long-term gains applied to relatively few taxpayers with very high incomes — most taxpayers faced a lower rate. Since 1987, the maximum rate on long-term gains has applied to a much larger proportion of taxpayers. The current top rate is generally 15 percent for taxpayers whose regular tax bracket exceeds 15 percent.

THE ABCS OF MUTUAL FUND SHARE CLASSES: KNOW WHAT YOU ARE BUYING

Determining mutual fund expenses can be a daunting task for the average investor and the seasoned investment professional because mutual fund costs are often well hidden and difficult to uncover in a prospectus.

If one were to include all of the various share classes of the same funds, there are over 10,000 mutual funds in the United States; more than the number of publicly traded stocks! It is said that much of the expense of a product is in the packaging—this can certainly be true of many mutual funds.

Many investors cling to the notion that higher fees for "superior management" will be rewarded by a higher return on investment. We will not belabor our long-held contentions that such superior skill does not exist in the investment industry and that investors are best served by investing in low-cost, no-load passively managed funds and constructing an asset class portfolio that is consistent with their tolerance for risk and investment objective. That said, when faced with the dizzying array of fund options and financial professionals offering services, it is important to understand the various ways that fund products are offered and the costs associated with each.

Mutual fund companies (or "families" as they are called) may offer as many as seven share classes of a particular fund. The three most common types of mutual fund share classes are A-shares, B-shares, and C-shares.

A-shares (Pay Me Now)

A-shares carry *front-end sales loads* which are up-front fees paid by an investor just to purchase the mutual fund. The maximum front-end load allowable by law is 8.5%. This is analogous to starting a 100 yard dash 10 yards behind the starting line. A fund may offer you discounts, called "breakpoints," on the front-end sales charges if you make a large initial purchase, commit to regular purchases of the fund or own other mutual fund products in the same fund family. A-shares do not carry any *contingent deferred sales charges* which will be discussed next.

B-shares (Pay Me Later)

B-shares do not charge front-end sales loads, but they often make up for this by charging higher annual expenses than A-shares. In addition, B-shares typically assess contingent deferred sales charges. These are charges incurred by an investor if he/she sells the fund before a certain stated time period (a.k.a. early exit charges). Generally, there is a 5 percent penalty for selling any portion of the fund during the first year of ownership, 4 percent for the second year, 3 percent for the third and so on. B-shares usually convert to A-shares after 6 years or when the contingent deferred sales charge period is exhausted. This results in lower annual expenses going forward.

C-shares (Pay Me More Later)

C-shares are similar to B-shares. They do not charge a front-end sales load and they impose contingent deferred sales charges. However, this contingent deferred sales charge is typically one percent and is applicable only for one year after purchase. They differ from B-shares in that their higher annual expense ratio does not reduce over time and the shares generally never convert to A-shares.

Mutual funds of all share classes charge annual expenses which include management fees, operating costs, administrative costs, and a "12b-1 fee" or a fee to advertise and market the fund.

Table 1 displays the cumulative effect of sales charges and fees over three time periods (one, five and ten years) for three share classes of a typical actively managed large-cap value mutual fund, and a passively managed large-cap value mutual fund that could be purchased as an alternative. The 8% return is assumed and is for illustrative purposes only.

Mutual funds are required to disclose all of the expenses in a standardized format fee table in the fund prospectus. For more information on mutual fund share classes visit the National Association of Securities Dealers (NASD) website, www.nasd.com. Under the "Education & Programs" tab you will find an educational webcast entitled, "Mutual Funds: Share Classes & Breakpoints." There is also a handy "Mutual Fund Expense Analyzer" tool (used to create Table 1). This can be used to compare the impact of expenses for up to three mutual funds at a time.

Table 1

$100,000 invested at an assumed 8% annual return before fees and sales charges

	Active Fund (3 share classes)			**No Load Passive**
	Large Cap	*Large Cap*	*Large Cap*	**Large Cap**
1-Year Results	*A share*	*B share*	*C share*	**Fund**
Fund Value After 1 year:	$103,487	$101,882	$104,882	$107,677
Profit/Loss:	$3,487	$1,882	$4,882	$7,677
Total Fees:	$1,225	$2,038	$2,038	$311
Total Sales Charges:	$3,000	$4,000	$1,000	$0
Total Fees & Sales Charges:	$4,225	$6,038	$3,038	$311
	Active Fund (3 share classes)			**No Load Passive**
	Large Cap	*Large Cap*	*Large Cap*	**Large Cap**
5-Year Results	*A share*	*B share*	*C share*	**Fund**
Fund Value After 5 years:	$134,075	$131,082	$133,082	$144,749
Profit/Loss:	$34,076	$31,082	$33,082	$44,749
Total Fees:	$7,001	$11,462	$11,462	$1,812
Total Sales Charges:	$3,000	$2,000	$0	$0
Total Fees & Sales Charges:	$10,001	$13,462	$11,462	$1,812
	Active Fund (3 share classes)			**No Load Passive**
	Large Cap	*Large Cap*	*Large Cap*	**Large Cap**
10-Year Results	*A share*	*B share*	*C share*	**Fund**
Fund Value After 10 years:	$185,319	$179,813	$177,109	$209,522
Profit/Loss:	$85,319	$79,813	$77,109	$109,522
Total Fees:	$16,679	$24,211	$26,715	$4,436
Total Sales Charges:	$3,000	$0	$0	$0
Total Fees & Sales Charges:	$19,679	$24,211	$26,715	$4,436

Information gathered using the NASD Mutual Fund Expense Analyzer at www.nasd.com

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 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 eligible for purchase this month, only **Citigroup** was not eligible for purchase 18 months earlier. Investors following the model should find that the indicated purchases of **Citigroup** and sales of **JP Morgan Chase** are sufficiently large to warrant trading. In larger accounts, rebalancing positions in **AT&T Corp (Formerly SBC Communications), Verizon and Merk** 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 strat-

As of May 15, 2006

					Percent of Portfolio*	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares*[1]
AT&T Corp (New)	1	5.16%	25.79	Holding**	24.77	31.52
Verizon	2	5.14%	31.52	Holding**	22.24	23.15
Altria Group	3	4.48%	71.38	*		
Merck	4	4.38%	34.69	Holding**	25.85	24.46
CitiGroup	5	3.96%	49.51	Buying	10.42	6.91
Pfizer	6	3.86%	24.89	Holding	2.87	3.79
General Motors	7	3.82%	26.20	*		
DuPont	8	3.32%	44.53			
JP Morgan Chase	9	3.05%	44.54	Selling	13.82	10.18
General Electric	10	2.89%	34.56			
					100.0	100.0

Change in Portfolio Value[2]

	1 mo.	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*From 12/63*	*Std. Dev.*
HYD Strategy	1.11%	13.88%	1.99%	9.82%	13.72%	15.02%	19.06%
Dow	2.86%	14.77%	2.45%	8.86%	11.63%	10.31%	16.67%

* 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.

egy 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— AT&T Corp, Verizon, Merck and Citigroup— account for roughly 83.3 percent of the total portfolio value). Any remaining cash will be held in a money-market fund pending subsequent purchases, which will be made whenever the client's holdings of each month's eligible stocks are below the percentages indicated by the strategy by an amount sufficient to warrant a trade.

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

THE DOW JONES INDUSTRIALS RANKED BY YIELD

	Ticker	Market Prices			12-Month		Latest Dividend			Indicated	
	Symbol	5/15/06	4/13/06	5/13/05	High	Low	Amount	Record Date	Paid	Annual Dividend	Yield† (%)
★ AT&T (new)	T	**25.79**	**25.58**	18.54	28.82	21.79	0.333	10/10/05	11/1/05	1.330	5.16
★ Verizon	VZ	**31.52**	**32.81**	34.09	35.64	29.13	0.405	4/10/06	5/01/06	1.620	5.14
Altria Group	MO	**71.38**	**69.00**	64.95	78.68	63.60	0.800	3/15/06	4/10/06	3.200	4.48
★ Merck	MRK	**34.69**	**33.94**	33.46	36.65	25.50	0.380	3/10/06	4/03/06	1.520	4.38
★ Citigroup	C	**49.51**	**48.05**	45.91	50.72 *H*	42.91	0.490	5/01/06	5/26/06	1.960	3.96
☆ Pfizer	PFE	**24.89**	**24.50**	27.86	29.21	20.27	0.240	5/12/06	6/06/06	0.960	3.86
General Motors	GM	**26.20**	**20.40**	30.98	37.70	18.33	0.250	5/12/06	6/10/06	1.000	3.82
DuPont	DD	**44.53**	**43.30**	46.24	49.36	37.60	0.370	5/15/06	6/12/06	1.480	3.32
☆ J. P. Morgan Chase	JPM	**44.54**	**42.19**	34.46	46.80 *H*	32.92	0.340	4/06/06	4/30/06	1.360	3.05
General Electric	GE	**34.56**	**33.89**	35.70	37.34	32.21	0.250	2/27/06	4/25/06	1.000	2.89
Coca-Cola	KO	**43.94**	**41.26**	44.11	45.26	39.36	0.310	6/15/06	7/01/06	1.240	2.82
Johnson & Johnson	JNJ	**59.97**	**57.91**	67.10	68.08	56.70	0.375	5/30/06	6/13/06	1.500	2.50
Procter & Gamble	PG	**55.57**	**56.60**	54.75	62.50	51.91	0.310	4/21/06	5/15/06	1.240	2.23
3M Company	MMM	**87.12**	**80.97**	45.61	88.35 *H*	69.71	0.460	5/19/06	6/12/06	1.840	2.11
Honeywell Intl.	HON	**43.12**	**43.41**	35.93	44.48 *H*	32.68	0.228	5/19/06	6/09/06	0.910	2.11
Intel Corp.	INTC	**19.32**	**19.45**	25.12	28.84	18.60 *L*	0.100	5/07/06	6/01/06	0.400	2.07
Exxon Mobil	XOM	**62.00**	**61.56**	52.78	65.96	52.78	0.320	5/12/06	6/09/06	1.280	2.06
McDonald's	MCD	**34.97**	**34.85**	29.65	36.75	27.36	0.670	11/15/05	12/01/05	0.670	1.92
Alcoa	AA	**33.47**	**33.71**	26.70	36.96 *H*	22.28	0.150	5/05/06	5/25/06	0.600	1.79
United Tech. (s)	UTX	**64.78**	**57.14**	50.55	66.39 *H*	49.20	0.265	5/19/06	6/10/06	1.060	1.64
Microsoft Corp.	MSFT	**23.15**	**27.07**	25.30	28.38	23.03 *L*	0.090	5/17/06	6/08/06	0.360	1.56
Home Depot, Inc.	HD	**40.50**	**41.12**	36.29	43.98	36.43	0.150	3/09/06	3/23/06	0.600	1.48
IBM	IBM	**82.89**	**81.98**	73.16	89.94	73.09	0.300	5/10/06	6/10/06	1.200	1.45
Wal-Mart Stores	WMT	**47.43**	**45.77**	47.13	50.87	42.31	0.168	5/19/06	6/05/06	0.670	1.41
Boeing	BA	**85.86**	**82.93**	59.50	89.58 *H*	59.53	0.300	5/12/06	6/02/06	1.200	1.40
Caterpillar (s)	CAT	**77.47**	**76.94**	89.00	82.03 *H*	44.35	0.250	4/24/06	5/20/06	1.000	1.29
Hewlett-Packard	HPQ	**31.63**	**32.62**	20.62	34.52	20.43	0.080	3/15/06	4/05/06	0.320	1.01
AIG	AIG	**63.88**	**63.40**	52.05	71.09	51.87	0.150	6/02/06	6/16/06	0.600	0.94
American Express ††	AXP	**53.13**	**51.21**	51.75	59.50	46.59	0.120	4/07/06	5/10/06	0.480	0.90
Walt Disney	DIS	**29.99**	**27.88**	27.00	30.19 *H*	22.89	0.270	12/12/05	1/06/06	0.270	0.90

† Based on indicated dividends and market price as of 5/15/06. 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

	5/15/06	*Mo. Earlier*	*Yr. Earlier*
Gold, London p.m. fixing	**683.60**	**593.00**	420.00
Silver, London Spot Price	**13.25**	**12.61**	6.88
Copper, COMEX Spot Price	**3.87**	**2.87**	1.42
Crude Oil, W. Texas Int. Spot	**69.41**	**69.32**	48.67
Dow Jones Spot Index	**280.26**	**265.22**	202.72
Dow Jones-AIG Futures Index	**179.81**	**171.24**	147.33
CRB-Bridge Futures Index	**352.06**	**342.32**	293.85

Interest Rates (%)

U.S. Treasury bills -	91 day	**4.81**	**4.69**	2.81
	182 day	**4.98**	**4.92**	3.12
	52 week	**4.98**	**4.97**	3.35
U.S. Treasury bonds -	10 year	**5.16**	**5.05**	4.13
Corporates:				
High Quality -	10+ year	**6.29**	**6.19**	5.37
Medium Quality -	10+ year	**6.61**	**6.54**	5.91
Federal Reserve Discount Rate		**6.00**	**5.75**	4.00
New York Prime Rate		**8.00**	**7.75**	6.00
Euro Rates	3 month	**2.87**	**2.82**	2.13
Government bonds -	10 year	**3.96**	**3.81**	3.33
Swiss Rates -	3 month	**1.39**	**1.26**	0.76
Government bonds -	10 year	**2.73**	**2.55**	2.01

Exchange Rates

British Pound	**$1.878100**	**$1.752200**	1.850600
Canadian Dollar	**$0.898000**	**$0.869000**	0.790300
Euro	**$1.278600**	**$1.211300**	1.262300
Japanese Yen	**$0.009062**	**$0.008441**	0.931300
South African Rand	**$0.155800**	**$0.163300**	0.157900
Swiss Franc	**$0.824800**	**$0.770700**	0.816800

Securities Markets

	5/15/06	*Mo. Earlier*	*Yr. Earlier*
S & P 500 Stock Composite	**1,294.50**	**1,289.12**	1,154.06
Dow Jones Industrial Average	**11,428.77**	**11,137.65**	10,140.12
Dow Jones Transportation Average	**4,846.35**	**4,645.76**	3,402.20
Dow Jones Utilities Average	**401.51**	**382.49**	355.42
Dow Jones Bond Average	**184.15**	**184.34**	185.67
Nasdaq Composite	**2,238.52**	**2,326.11**	1,976.78
Financial Times Gold Mines Index	**2,562.71**	**2,414.28**	1,354.47
FT African Gold Mines	**3,260.74**	**3,333.98**	1,568.02
FT Australasian Gold Mines	**8,537.77**	**7,151.77**	3,658.90
FT North American Gold Mines	**2,060.35**	**1,924.06**	1,149.10

Coin Prices

	5/15/06	*Mo. Earlier*	*Yr. Earlier*	*Premium*
American Eagle (1.00)	**$714.85**	**$611.15**	429.05	4.57
Austrian 100-Corona (0.9803)	**$680.33**	**$581.73**	408.53	1.52
British Sovereign (0.2354)	**$168.55**	**$144.55**	100.60	4.74
Canadian Maple Leaf (1.00)	**$715.10**	**$611.40**	429.30	4.61
Mexican 50-Peso (1.2057)	**$838.70**	**$717.20**	504.00	1.76
Mexican Ounce (1.00)	**$695.70**	**$594.90**	417.90	1.77
S. African Krugerrand (1.00)	**$704.65**	**$602.85**	424.15	3.08
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$722.50**	**$622.50**	510.00	9.24
Liberty (Type I-AU)	**$730.00**	**$675.00**	675.00	10.37
Liberty (Type II-AU)	**$710.00**	**$622.50**	497.50	7.35
Liberty (Type III-AU)	**$690.00**	**$602.50**	460.00	4.33
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver (715 oz.)	**$9,920.00**	**$8,662.50**	4,880.00	4.71
40% Silver (292 oz.)	**$4,005.00**	**$3,525.00**	1,970.00	3.52
Silver Dollars	**$10,950.00**	**$9,225.00**	6,675.00	6.83

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $683.60 per ounce and silver at $13.25per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker Symbol	*5/15/06*	*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	**$79.67**	**$79.72**	81.10	81.29	79.53	2.7864	0.0000	3.50
Vanguard Short-term Inv. Grade	VFSTX	**$10.44**	**$10.44**	10.58	10.58	9.79	0.4003	0.0000	3.83
Income Equity Funds									
DNP Select Income[1, 2]	DNP	**$9.94**	**$10.10**	11.28	11.80	9.89	0.7800	0.0000	7.85
Vanguard REIT Index	VGSIX	**$21.53**	**$21.18**	18.28	22.98	18.28	0.6337	0.3396	2.94
Large Cap. Value Equity Funds									
iShares S&P 500 Value Index[3]	IVE	**$69.95**	**$68.64**	59.45	71.81	59.36	1.1949	0.0000	1.71
Vanguard Value Index	VIVAX	**$23.74**	**$23.25**	20.60	24.29	20.60	0.5850	0.0000	2.46
Small Cap. Value Equity Funds									
iShares Sm. Cap. 600 Value Index[3]	IJS	**$71.18**	**$71.59**	56.96	75.42	56.35	0.6556	0.0000	0.92
Vanguard Sm. Cap Value Index	VISVX	**$15.83**	**$15.81**	12.98	16.49	12.98	0.2690	0.0000	1.70
Growth Equity Funds									
iShares S&P 500 Growth Index[3]	IVW	**$59.69**	**$60.17**	55.80	61.76	55.75	0.6612	0.0000	1.11
Vanguard Growth Index	VIGRX	**$27.96**	**$28.25**	25.11	28.69	25.11	0.2250	0.0000	0.80
Foreign Equity Funds									
iShares S&P Europe 350 Index[3]	IEV	**$93.15**	**$88.82**	73.20	96.80	72.85	1.8786	0.0000	2.02
Vanguard European Stock Index	VEURX	**$32.31**	**$30.68**	25.30	33.44	25.30	0.7000	0.0000	2.17
iShares Emerging Markets Index[3]	EEM	**$101.80**	**$101.20**	66.48	11.25	66.45	0.9875	0.0000	0.97
Vanguard Emerging Market Index	VEIEX	**$22.16**	**$21.65**	14.83	23.85	14.63	0.3150	0.0000	1.42
Gold-Related Funds									
iShares COMEX Gold Trust[3]	IAU	**$67.53**	**$59.68**	41.94	72.32	41.38	0.0000	0.0000	0.00
streetTRACKS Gold shares	GLD	**$67.41**	**$59.50**	41.95	72.26	41.33	0.0000	0.0000	0.00

Recommended Gold-Mining Companies

	Ticker Symbol	*5/15/06*	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Distributions Latest 12 Months*	*Frequency*	*Yield (%)*
Anglogold Ltd., ADR	AU	**$50.30**	**$50.69**	31.00	62.20	30.83	0.360	Semiannual	0.72
Barrick Gold Corp.†§	ABX	**$32.24**	**$28.83**	21.55	36.03	21.07	0.187	Semiannual	0.58
Gold Fields Ltd.	GFI	**$23.20**	**$23.18**	9.57	26.95	9.55	0.126	Semiannual	0.54
Newmont Mining	NEM	**$54.31**	**$52.87**	35.31	62.72	34.90	0.400	Quarterly	0.74
Rio Tinto PLC‡ *	RTP	**$225.67**	**$216.97**	115.80	253.33	116.20	3.200	Semiannual	1.42

[1] Closed End Fund, traded on NYSE. [2] Dividends Paid Monthly. [3] Exchange traded Funds, traded on NYSE. † Divident shown is after 15% Canadian tax withholding. ‡ Not subject to U.K. withholding tax. § Barrick Gold Corp. took over Placer Dome (PDG) on 2/28/06. * Dividends reported do not include a special dividend of $4.40 payable April 7, 2006.