INVESTMENT GUIDE

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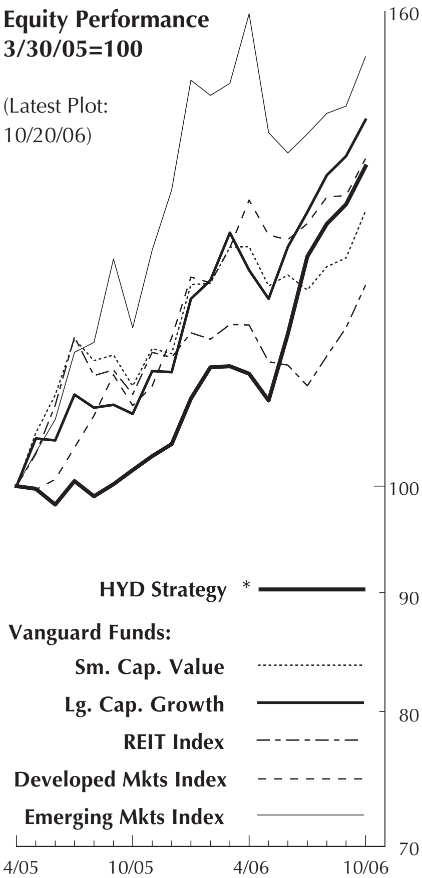

*** HYD is a hypothetical model based on back-tested results. See p. 78 for a full explanation.**

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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A Passive Revolution

Capital markets have undergone a dramatic transformation since 1952. That year eventual Nobel laureate Harry Markowitz tossed aside the widely held notion that securities should be evaluated by their individual characteristics. He asserted instead that the rational investor would focus on how a security impacted the overall risk and return of his portfolio. Fifty-four years later, the debate among financial economists is over. Portfolio theory has supplanted fundamental analysis and other approaches that pre-date statistical reasoning as the basis for the study of investing. In the capital markets, where clever marketing can obscure sound science, the battle rages on. But disciples of stock picking and market timing are clearly on the defensive.

Several other eventual Nobel Prize winners built upon Markowitz's foundation. Tobin furthered the understanding of portfolio structure by introducing lending and borrowing (1958), while Miller and Modigliani (1961) demonstrated that portfolio theory was consistent with corporate capital structure. William Sharpe (1964) developed the Capital Asset Pricing Model (CAPM), which defined investment risk as volatility relative to the market. Samuelson (1965) established that market prices are the best estimates of a firm's value, and that stock prices change randomly, so that future prices are unpredictable. Black, Scholes and Merton segmented and better quantified risk by introducing the Options Pricing Model.

It was in 1966, however, that Eugene Fama developed the Efficient Market Hypothesis that is now taught almost universally among business schools. His exhaustive research on security price patterns made it clear that it was very difficult if not impossible for an investor to capture returns in excess of market returns without assuming greater than market levels of risk.

Despite the impressive body of empirical evidence to support the wisdom of passive investing, Fama's work was not warmly embraced by the money management industry. In 1971 the first passive S&P 500 Index fund was established at the Wells Fargo Bank, and in 1976 John Bogle established the Vanguard 500 Index Fund. These funds, which represented the first attempts to simply capture the returns of the U.S. stock market as efficiently as possible, at the time were derided as "guaranteed mediocrity."

Today index funds represent 15 percent of all equity mutual fund assets, and in 2004 one of every three dollars invested in equity mutual funds was dedicated to an index fund. Notably, these figures do not include the passively managed funds created by Dimensional Fund Advisors (DFA)[1] (we find DFA's approach to be superior to simple indexing).

The future is bright for investors. As investment theory and information technology continue to progress rapidly, asset classes will become better defined and investment vehicles will be made more cost-efficient. We will ensure that our readers remain poised to fully exploit these opportunities as they emerge.

[1] Dr. Fama serves on DFA's board of directors and is a member of its investment policy committee.

AMARANTH AND HEDGE FUNDS' HIDDEN RISKS

YAHOO! FINANCE

The following article appeared in The Future for Investors*, a column written by Jeremy Siegel, Ph.D. Dr. Siegel's summary of the risks inherent in hedge funds is timely. These investment vehicles, which have been riding a wave of popularity, are very expensive (many charge 2 percent annually plus 20 percent of any gain) and are in our estimation unnecessary. Today's capital markets provide all the tools required for constructing a portfolio with excellent prospects for meeting the financial goals of most investors. Conventional investment vehicles such as common stocks, bonds, mutual funds and exchange-traded funds are perfectly adequate means for holding our recommended asset classes, and are constantly improving in terms of their cost-effectiveness.*

While we agree wholeheartedly with Dr. Siegel's discussion regarding hedge funds, we do not endorse his (or any other) predictions regarding the outlook for particular asset classes.

The spectacular decline in the asset values of Amaranth Advisors LLC, the once highly-successful hedge fund, illustrates an important lesson for investors: there is no easy path to higher returns.

Hedge funds are often sold as "alternative investments" that control their risks and are uncorrelated with other markets. But Amaranth shows, as the collapse of Long Term Capital management (LTCM) did nearly a decade ago, that "controlled" or "hedged" risks can easily go awry. Investors must be aware that the history of hedge fund performance is far too short to reveal the true risks hidden in their operations.

Hedge Fund Mania

Amaranth, based in Greenwich CT, specialized in energy trading. But the collapse in natural gas prices forced it out of its positions after its two main funds plunged more than $6 billion, or 65%, since the end of August. It's the largest hedge fund collapse since LTCM went belly up in 1998.

The growth of hedge funds has been spectacular over the past decade. There are now more than 8,000 funds with over $1.2 trillion in assets. And most have performed fairly well since 2000, avoiding the bear market in stocks by staying out of technology issues and buying "alternative assets" such as commodities, particularly energy. It is estimated that about one quarter of the hedge funds assets have flowed into commodity and energy investments during the past two years.

All this hedge fund buying raised the prices of oil, gas, and other commodities substantially above their long-term average. But these higher prices have increased the risks of owning these commodities. Hedge funds argue that many of these commodities were underpriced, and that today's higher prices are justified by putting the right "scarcity value" on commodities. High prices, though painful for the consumer, encourage conservation efforts.

Risks in Commodity Investing

There's truth to this but commodity prices are notoriously unstable. Amaranth said it reduced risk by taking "spread positions" in natural gas, which means buying gas for delivery in one month and selling another month, hoping to benefit by a change in the relative price. Spread positions are usually more stable than taking an outright position in the commodity.

But spread positions in and of themselves can be very unstable. In fact, spread positions torpedoed LTCM eight years ago. It entered spread contracts between the yields on government bonds and corporate bonds, often called "credit" or "swap" spreads as well as spreads between the yields of government bonds with different maturities. These yield spreads, which usually stay in a relatively narrow range, rise when investors perceive greater risks in financial markets and fall when risks subside.

In 1998, when Russia defaulted on its sovereign debt, there was a mad rush to buy gold-plated U.S. government bonds and sell risky securities. The buying of U.S. treasuries was augmented by the fear of an upcoming shortages of U.S. bonds caused by "looming fiscal surpluses" that were widely (and wrongly) predicted at that time. Credit and term structure spreads increased well beyond previous bounds, causing LTCM to collapse.

Although the full story of Amaranth has yet to be told, it's believed that the unusual behavior of spreads of natural gas between different delivery dates caused its decline. Prices of some natural gas contracts collapsed when the widely predicted hurricanes that would have hampered gas production never materialized and softness in the economy caused the commodity bubble to deflate.

Real Risks Understated

What happened to Amaranth illustrates that hedge funds, for all their talk about "controlled risk," cannot escape the natural volatility of the markets. The more active markets become, the more likely they are to experience unusual speculative moves. Amaranth claimed that the probability they would have lost so much in spread trading was "extremely remote." But extremely remote events do occur, even for markets with as much history as government bonds, as LTCM sadly discovered.

Nor are markets likely to be as "independent" and uncorrelated as most hedge funds claim them to be. The prices of commodity and stock markets may have low correlations in normal times, but become highly correlated in financial crises. Immediately after 9-11, not only did stocks tank, but commodity prices fell dramatically, too. Expectations that the economy, and the travel industry in particular, would stall in wake of the attacks did not bode well for stocks or energy prices.

Many observers, noting the similarities between the problems of LTCM and Amaranth, have called for increased government regulation of hedge funds. But that would be a mistake. LTCM used far more leverage (reportedly nearly 25 to 1) than Amaranth (said to be 4.5 to 1) and disrupted the vital government bond and corporate bond markets. It was understandable that the Fed stepped in to facilitate the orderly transfer of assets (in no way did the Fed or government "bail out" LTCM, as is widely believed). But Amaranth caused no comparable disruption to markets.

I would not object, however, that hedge funds be required to disclose their lack of knowledge of the true risks that their positions entail. Because of their investment strategy, historical analysis of ten or twenty years or longer may not properly reflect the volatility of their positions. Investors should be made aware of these facts.

Market Significance

What does this mean to ordinary investors? The hedge fund flame-outs could ultimately help stocks. The more that people understand that there is no magical way to generate 10% to 15% returns in alternative markets, the more investors will be satisfied with average returns of 8% to 10% in stocks.

As an asset class, I believe stocks now look far more promising than bonds, real estate, or commodities, whose price declines may extend much further before they recover. Amaranth is just another reminder that there are no easy paths to higher returns.

QUARTERLY REVIEW OF INVESTMENT POLICY

Investors who follow our approach enjoyed strong returns during the third quarter. U.S. equities lead the way as the Fed held short-term interest rates steady and oil prices tumbled. Large cap value stocks provided the strongest returns among domestic asset classes. Gold was the only asset class to lose ground, opening the quarter at $613.50 and ending at $599.25.

We have made no changes to our recommended allocations which appear in the table below. We remind our readers that these are guidelines only. Many investors will prefer a portfolio that lies "between" those presented. The most important homework you can do is to establish your goals. Pondering where the markets might go is counterproductive. Once you have adopted an appropriate plan, stick with it. We hope this table, which we publish quarterly, will help you to stay the course.

It is important not to misinterpret the returns that are included in the table. These are purely hypothetical results of representative indexes. The model portfolios in the bottom portion of the table are backward-looking. They include risk and return measures that would have resulted had we been recommending these newly adopted allocation plans at the beginning of the time periods we list.

The Economy

Economic growth slowed to 2.6 percent during the second quarter. It remains to be seen whether the economy will manage a soft landing, but the economic indicators of our parent organization, the American Institute for Economic Research (AIER), generally point toward continued expansion.

The percent of leading indicators expanding (among those for which a trend is evident) is unchanged at 63 (five out of eight). The cyclical score, which is based on a separate, mathematical analysis of the leaders, fell to 55 from a revised score of 60 last month. Neither series suggests that recession is imminent, but they do reflect a slowing economy. Still, with four indicators appraised as indeterminate, the moving average of nine indicators declining and a three month decline in the cyclical score, the near term outlook could quickly deteriorate.

The money supply, as measured by M1, fell as investors sought higher returns. This series remains appraised as clearly contracting. New housing permits were down in September, and off 28 percent from their peak a year earlier. The yield curve remained inverted, a condition that has typically preceded recession; the rate on federal funds was 0.53 percent higher than the yield on 10-year Treasury Notes.

AIS Model Portfolios(1)
For the Period Ending September 30, 2006

Asset Class	*Index*	*Recommended Percentage Allocations* **(2)**			*Asset Class Statistics: Risk and Return* — *Total Return (annualized)*			*Std. Dev. (annualized)*
		Conservative	*Moderate*	*Aggressive*	*1 Year*	*5 Year*	*15 Year*	*15 Year*
Cash & Equivalent Assets **(3)**	3 Month CD Index	20	10	0	4.90	2.45	4.15	0.47
Short/Int. Fixed Income	Lehman Brothers 1-5 Yr Govt/Cred	40	30	0	3.67	3.63	5.80	2.36
Real Estate	DJ Wilshire Real Estate Securities TR Index	10	10	10	28.05	22.89	15.08	13.39
U.S. Large Cap Growth	Russell 1000 Growth Index (USD)	5	5	10	6.04	4.42	8.49	17.11
U.S. Large Cap Value	Russell 1000 Value Index (USD)	15	20	30	14.60	10.73	12.80	12.87
U.S. Small Cap Value	Russell 2000 Value Index (USD)	5	7	13	14.01	16.96	14.79	14.12
	DFA US Micro Cap Portfolio (USD)	0	3	7	7.92	17.53	15.21	19.63
Foreign Developed Markets	MSCI EAFE Index (USD) Gross Div	5	7	13	20.67	14.90	7.68	14.63
Foreign Emerging Markets	MSCI Emg. Mkts. Index (USD) Gross Div	0	3	7	20.62	28.81	10.24	22.27
Gold Related	Gold EOM gold (London PM Fix)	0	5	10	26.63	15.38	3.55	13.16
	Total	100	100	100				

Model Portfolio Statistics: Risk, Return and Growth

	Conservative	*Moderate*	*Aggressive*
Portfolio Return 1 Year	9.48	12.23	16.96
Portfolio Return 5 Year (annualized)	7.92	10.68	15.06
Portfolio Return 15 Year (annualized)	8.52	9.75	11.96
Portfolio Standard Deviation 15 Year (annualized)	4.56	6.50	11.13
Growth of $100 over 15 Years	$341	$404	$545

(1) Past performance may not be indicative of future results. Therefore, no current or prospective investor should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by AIS), or product made reference to directly or indirectly, will be profitable or equal to past performance levels. Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. The results portrayed in this portfolio reflect the reinvestment of dividends and capital gains. Model Portfolio Statistics are hypothetical and do not reflect historical recommendations of AIS. Annual portfolio rebalancing is assumed.
(2) For our recommended investment vehicles for each asset class, see page 80.
(3) Investors should maintain cash balances adequate to cover living expenses for up to 6 months in addition to the cash levels indicated.

Five of the series, however, were appraised as probably expanding, with new orders for new capital goods reaching a new high, and the index of common stock prices within one percent of its cyclical high reached in March. Four of the series were indeterminate suggesting neither expansion nor contraction.

Overall, 100 percent of the coincident indicators are appraised as clearly expanding and are signaling that economic growth has slowed but remains positive. Among the lagging indicators, 80 percent (four out of five) of the laggers are appraised as expanding, the same as last month.

Cash Equivalent Assets

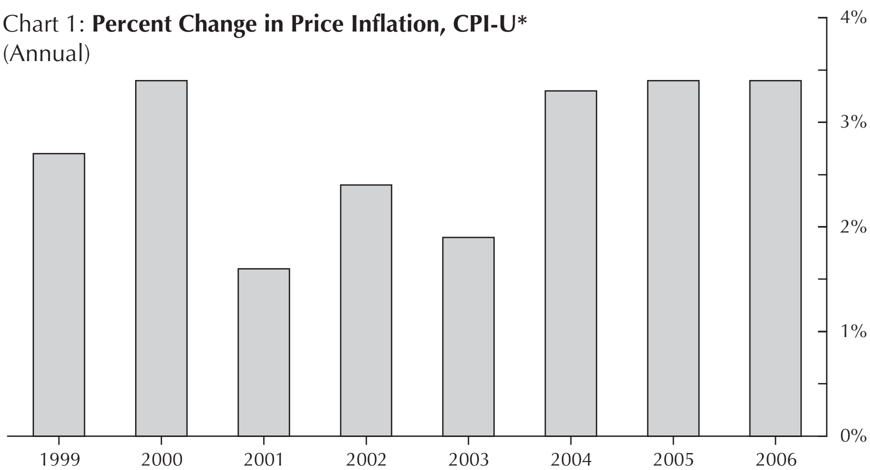
The Federal Reserve Open Market Committee (FOMC) met twice during the quarter and each time left the fed funds target rate unaltered. The rate now stands at 5.25 percent. Yields on cash equivalent assets changed little during the quarter. As of mid-October the 13-week Treasury bill was yielding 4.97 percent, taxable money-market funds were yielding 4.83 percent, while tax-free money funds were yielding 2.96 percent.

Cash equivalent assets are providing a positive real rate of return. Annual price inflation as measured by the Consumer Price Index was running at an annual rate of 3.4 percent through 2006, reaching the upper bound of its range since 1999 (see Chart 1).

The market nonetheless appears confident that the Fed will continue to keep inflating under control. Table 1 below displays the differential between the yield-to-maturity on conventional Treasury securities, which are priced to include a premium for expected price inflation, and Treasury inflation-indexed securities of similar maturities, the yield of which reflects a real interest rate since future coupon payments and redemption values are indexed to the CPI. The difference in yields between these bonds therefore reflects the market's assessment of expected annual price inflation. The market is currently anticipating that price inflation will range between 2.2 percent and 2.6 percent annually over the next 5-20 years. Perhaps more accurately, these are the "break-even" rates of inflation; the actual rates of change in the CPI that would result in the same total return for both types of securities.

Investors should maintain cash or equivalent reserves over and above those specified in the model portfolio table. As a general guideline, this reserve should approach a level high enough to maintain your living standard for up to six months to provide liquidity in the event of unforeseen circumstances. However, the appropriate level of cash to hold depends a great deal on your particular circumstances.

Chart 1: **Percent Change in Price Inflation, CPI-U*** (Annual)

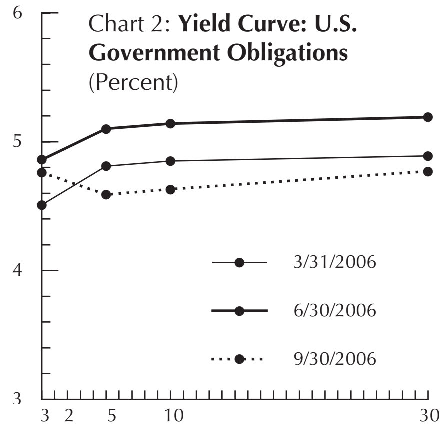


* Consumer Price Index, all urban consumers; year-to-date for 2006 through September 31, annualized.

Table 1: **Future Price Inflation: The Market's Best Guess**

U.S. Treasury Securities		*Inflation Indexed Treasury Securities*		*Inflationary Expectations*
Maturity	*YTM** **(A)**	*Maturity*	*YTM** **(B)**	**(A)-(B)**
Apr. 2011	4.77	Apr. 2011	2.59	2.18
Aug. 2016	4.80	Jul. 2016	2.46	2.34
Feb. 2026	5.02	Jan. 2026	2.43	2.59

* Yield To Maturity as of October 16, 2006.



Short/Intermediate-Term Bonds

Chart 2 shows that the yield curve became slightly inverted during the quarter, as long term rates dipped while short-term rates held steady in the face of the Fed's inaction.

Short-term rates are generally more stable than long-term rates, and even when higher-long term rates prevail their volatility makes long-term bonds inappropriate for the portfolios of most investors. Bonds are held primarily for portfolio stability, and the "bang for the buck" in terms of additional return per unit of risk makes it clear that maturities should not exceed five years.

Stocks over the long run outperform bonds, and the past year has been no exception. However, investors should keep in mind that stocks are volatile, and it is virtually assured that the equity markets at some point will undergo a period of decline relative to bonds. No one knows when this will occur, but when this reversal takes place wise investors will be rebalancing their portfolios by selling bonds and buying stocks. Therefore, it is important in the meantime, to maintain your target bond allocation.

The fixed-income mutual funds on page 80 provide a well-diversified, low-cost means of maintaining a commitment to this asset class. Investors with larger portfolios might instead consider a bond ladder or adopting a "variable maturity" strategy that was explained in the August 2005 *INVESTMENT GUIDE*.

Real Estate

Unlike residential real estate, commercial real estate remains in high demand. Real Estate Investment Trusts (REITs) provided a robust 9.4 percent rate of return

	Total Returns (%)											Entire Period
	2004				2005				2006			1Q 2004-
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	3Q 2006
Vanguard Short-Term Inv Grade	1.53	-1.30	1.50	0.39	-0.38	1.55	0.24	0.77	0.52	0.79	2.31	8.33
Vanguard REIT Index	**11.75**	-5.95	**8.13**	15.06	-7.34	**14.65**	3.56	1.70	**14.79**	-1.37	9.39	81.20
Vanguard Value Index	2.12	**1.56**	1.24	9.80	-0.42	1.70	4.08	1.60	5.29	0.91	6.63	39.88
High-Yield Dow 4/18*	2.36	-6.05	3.64	6.22	-5.73	0.13	-0.69	7.29	9.81	2.56	**13.70**	36.34
Vanguard Small Cap Value	7.14	0.89	1.13	13.03	-3.35	5.26	4.01	0.24	11.05	-2.72	1.72	44.01
Vanguard Growth Index	1.49	1.51	-4.88	9.40	-3.56	2.12	3.59	3.00	3.30	-3.94	3.79	16.02
Vanguard Developed Markets†	4.35	0.49	-0.49	15.23	-0.22	-1.31	10.93	3.75	9.30	0.81	4.00	56.16
Vanguard Emerging Markets‡	7.85	-8.76	7.98	**18.71**	**1.43**	3.69	**17.23**	7.10	11.22	-4.57	4.00	**83.85**
Gold (London PM Fix)	1.79	-6.58	6.02	4.8	-1.86	2.24	8.27	**8.40**	13.45	**5.41**	-2.32	45.34

The highest returns provided in each period are in **Bold Face Type**. * HYD is a hypothetical model based on back tested results. See p. 78 for a full explanation. † Vanguard Developed Markets Index Fund: First recommended in *INVESTMENT GUIDE* 3Q 2006. ‡ Vanguard Emerging Markets Index Fund: first recommended in *INVESTMENT GUIDE* 2Q 2005.

during the third quarter.

REITs are distinct investment vehicles. As long as a REIT distributes 90 percent of its income, it pays no corporate income tax. Currently the FTSE NAREIT index is yielding 4.36 percent. Though they resemble bonds in that they provide a dependable income stream, like stocks they also represent ownership in underlying properties. The capital markets acknowledge REITs' hybrid nature; their historical returns are not strongly correlated to either bonds or stocks. They should therefore be included in most portfolios.

Utility stocks may be appropriate for investors who have an explicit interest in maximizing investment income. The Duff and Phelps Select Income Fund (DNP) may be appropriate for these type of investors. This closed-end fund invests in a variety of income-generating assets including bonds and REITs but it is heavily concentrated in public utility stocks. It provides a high dividend yield (currently 7.1 percent), which is leveraged because the company also issues short-term remarketed securities. Management has successfully provided a steady monthly payout that typically exceeds the dividend yields of most utility stocks.

Common Stocks

The Fed's inaction, a reversal in oil prices and generally strong corporate earnings boosted the U.S. stock market in the third quarter. Overseas markets were up but lagged domestic markets.

U.S. small cap value stocks once again trailed their large cap counterparts. While both large and small caps provide positive returns over the long term, their returns are not strongly correlated over the short-term. Small cap value stocks dominated, for example, for several quarters following the large cap growth/tech stock "meltdown" in 2000, but more recently the market has favored large cap value stocks.

For the three months ending September 30, 2006, the Vanguard Small Cap Value Index fund was in positive territory with a gain of 1.72 percent. Microcap stocks as measured by the Russell Microcap Index fund fell by 0.67 percent. The Vanguard (large cap) Value Index outpaced both of the smaller cap indexes with a solid 6.63 percent return for the quarter.

The HYD "4-for-18" model outperformed the Vanguard Value Index for the fourth consecutive quarter, with a total return of 13.70 percent. By comparison, the Dow Jones Industrial Average and the S&P 500 provided total returns of 5.35 and 5.67 percent, respectively.

Foreign developed and emerging markets each provided total returns of 4 percent, as measured by their respective Vanguard index funds.

The Euro remained relatively stable throughout the quarter, opening at $1.26 and ranging between $1.25 and $1.29 before finishing at $1.27. The Yen ranged between $0.00845 and $0.00881 and closed the quarter at $0.0084810.

Gold-Related Investments

Gold was the only asset class to lose ground during the quarter. The gold price reached its high of $663 per ounce on July 14 then followed a relatively steady descent to a low of $573.60 on September 15, before ending the quarter at $599.25 for a loss of 2.4 percent for the three months.

We recommend that investors hold gold in accordance with the accompanying AIS Model Portfolios table. Gold is a form of insurance. It has demonstrated its value numerous times throughout history as a safe haven during times of distress. Although its returns have been extremely volatile, it has potential to reduce your portfolio's volatility because it has very low correlation with all of our other recommended asset classes.

We recommend that investors hold gold through either of our recommended exchange-traded funds (ETFs) or through a portfolio of our six recommended gold stocks. All of these securities are listed on page 80. Because the ETFs represent an investment in a precious metal realized long-term capital gains are taxed as collectibles at a rate of 28 percent. ETFs are therefore better suited for tax-deferred accounts such as IRAs.

TAX SWAPPING TIME

As the year draws to a close, investors can realize losses that can be used to offset taxable gains or possibly offset ordinary income. However, losses on the sale of securities are disallowed if substantially identical securities or options to purchase such securities are purchased within a 61-day window beginning 30 days before the date of the sale and ending 30 days after the sale. One could wait the requisite 30 days and then repurchase the securities. However, markets can move a great deal in 30 days, so you risk "selling at the bottom" and purchasing only after a substantial rebound in price.

There might be a better solution. Investors can "swap" securities they currently hold for assets whose prices are highly correlated with those that are to be sold. Several fit this description that are not considered to be "substantially identical" assets. By selling one of these assets and immediately purchasing its substitute, an investor can potentially generate a loss for tax purposes without changing his *economic* position, because his exposure to that asset class would be largely unaffected. Investors might have unrealized losses among our recommended shares. The accompanying table suggests some reasonable substitutes.

Smart Tax-Swapping Strategies:
Each of the investment vehicles listed in the second row is an adequate substitute for the recommended fund(s) listed directly above it, and *vice versa*.

Vanguard Developed Markets Index (VDMIX) MSCI EAFE Index	**Vanguard Value Index Fund (VIVAX)** MSCI U.S. Prime Market Value Index **iShares S&P 500 Value Index (IVE)** S&P 500/Citigroup Value Index	**Vanguard Small Cap Value Index Fund (VISVX)** MSCI Small Cap Value Index **iShares Sm. Cap. 600 Value Index (IJS)** S&P SmallCap 600/Citigroup Value Index	**Vanguard Growth Index Fund (IWV)** MSCI Prime Market Growth Index **iShares S&P 500 Growth Index** S&P 500/Citigroup Growth Index
iShares MSCI EAFE Index (EFA) MSCI EAFE Index	**iShares Russell 1000 Value Index Fund (IWD)** Russell 1000 Index (value subset)	**iShares Russell 2000 Value Index Fund (IWN)** Russell 2000 Index (value subset)	**iShares Russell 1000 Growth Index Fund (IWF)** Russell 1000 Index (growth subset)

THE HIGH-YIELD DOW INVESTMENT STRATEGY

For most investors seeking exposure to U.S. large capitalization value stocks, we recommend either of the two large cap value funds listed on page 80. However, investors who have more than $100,000 to dedicate to this asset class might instead consider our high-yield Dow (HYD) investment strategy ($100,000 is the minimum we estimate that is necessary to ensure that trading costs are reasonable relative to the value of the portfolio). The strategy is especially well suited for certain trusts or other accounts that have an explicit interest in generating investment income, but which also seek capital appreciation. Unlike several popular but simplistic "Dogs of the Dow" methods, our HYD model is based on an exhaustive review of monthly prices, dividends and capital changes pertaining to each of the stocks that have comprised the Dow Jones Industrial Average beginning in July 1962.

Though the model follows an exacting stock-selection strategy (see accompanying box), investors can easily establish and maintain a high-yield Dow portfolio; all that is required is discipline applied on a monthly basis. ***INVESTMENT GUIDE* subscribers can establish and maintain a portfolio simply by ensuring that their portfolios are allocated to reflect the percentage valuations listed in the table to the right. Each month this table will reflect the results of any purchases or sales called for by the model.**

For investors who do not wish to manage their own accounts, we can manage an HYD portfolio on your behalf through our low-cost HYD investment service. Contact us at (413) 528-1216 or email: aisinfo@americaninvestment.com.

HYD: The Nuts and Bolts

Our HYD model began by incrementally "investing" a hypothetical sum of $1 million over 18 months. Specifically, one eighteenth of $1 million ($55,000) was invested equally in each of the 4 highest-yielding issues in the Dow Jones Industrial Average each month, beginning in July 1962. Once fully invested (January 1964) the model began a regular monthly process of considering for sale only those shares purchased 18 months earlier, and replacing them with the shares of the four highest-yielding shares at that time. The model each month thus mechanically purchases shares that are relatively low in price (with a high dividend yield) and sells shares that are relatively high in price (with a low dividend yield), all the while garnering a relatively high level of dividend income. The model also makes monthly "rebalancing" trades, as required, in order to add to positions that have lagged the entire portfolio and sell positions that have done better.

For a thorough discussion of the strategy, we recommend AIER's booklet, "How to Invest Wisely," ($12).

Of the four stocks eligible for purchase this month, **Citigroup** and **Altria** were not eligible for purchase 18 months earlier. HYD investors should find that the indicated purchases of Citigroup and Altria, and sales of **Merck** and **JP Morgan Chase** are sufficiently large to warrant trading. In larger accounts, rebalancing positions in **Verizon** and **AT&T Corp** (formerly SBC Communications) may be warranted.

Recommended HYD Portfolio
As of October 13, 2006

					*Percent of Portfolio**	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares*[1]
Verizon	1	4.37%	37.05	Holding**	23.27	24.62
Altria Group	2	4.32%	79.63	Buying	4.29	2.11
AT&T Corp (New)	3	3.96%	33.60	Holding**	26.57	31.01
Citigroup	4	3.89%	50.38	Buying	12.93	10.06
Merck	5	3.52%	43.20	Selling	21.94	19.91
Pfizer	6	3.48%	27.59	Holding	5.51	7.83
DuPont	7	3.28%	45.08			
General Motors	8	3.03%	32.99	*		
JP Morgan Chase	9	2.82%	48.16	Selling	5.46	4.45
Coca-Cola	10	2.82%	44.02			
					100.0	100.0

* The strategy excludes 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.

Getting Into Altria

In August we reintroduced Altria (formerly Philip Morris, ticker MO) into our high-yield Dow (HYD) investment strategy. That decision reflected our desire to reverse our entirely subjective decision to exclude MO in March 2000, and return to a stock selection strategy based purely on empirical analysis. We have no idea what MO's short-term outlook is, and our decision to adjust the model does not in any way constitute an attempt to "time" the market. While Altria's fate is unknown, we are confident that its relative yield is a reliable indicator of whether it is appropriate for inclusion in a well-constructed large-cap value portfolio.

In order to avoid dramatic portfolio alterations, we are reintroducing MO incrementally. Specifically, over the 18 months between August 2006 and February 2008 our model portfolio (reflected in the accompanying Recommended HYD Portfolio table) will add shares of MO when and only when it ranks among the four highest yielding shares among the Dow 30 when ranked by their dividend yield. By February 2008 the model's composition will be identical to a model portfolio that, from its inception in July 1962, had never excluded MO from consideration.

Hypothetical Returns: HYD and Relevant Indices

The total returns presented in the table below represent changes in the value of a hypothetical HYD portfolio with a beginning date of January 1979 (the longest period for which data was available for the HYD model and relevant indexes). See the accompanying box for a description of the model's construction. The data in the table (as well as on the front-page chart) reflect the returns of the model had Philip Morris (now Altria) been purchased *whenever warranted* by our 4-for-18 methodology. The data do *not* reflect the returns of the model depicted in the accompanying Recommended HYD Portfolio table, which takes a "phased in" approach (described herein) to transitioning from a model portfolio that had excluded Altria to one that had never excluded it.

*Hypothetical Total Returns (percent, through Sep. 30, 2006.)**	*1 mo.*	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*Since 1/79*	*Std. Dev.*
HYD Strategy	1.96	31.94	11.89	13.82	15.96	18.44	17.14
Russell 1000 Value Index	1.99	14.60	10.73	11.20	12.80	14.42	13.98
Dow	2.74	13.15	8.07	9.19	11.87	N/A	N.A.

*Data assume 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 is the standard deviation of those returns since January 1979, where available. Model HYD 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. Historical performance results for investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results.

THE DOW JONES INDUSTRIALS RANKED BY YIELD*

	Ticker Symbol	*Market Prices 10/13/06*	*Market Prices 9/15/06*	*Market Prices 10/14/05*	*12-Month High*	*12-Month Low*	*Latest Dividend Amount*	*Latest Dividend Record Date*	*Latest Dividend Paid*	*Indicated Annual Dividend*	*Indicated Yield† (%)*
Verizon	VZ	**37.05**	**35.81**	29.90	38.00 *H*	29.13	0.405	10/10/06	11/01/06	1.620	4.37
Altria Group	MO	**79.63**	**83.14**	70.66	85.00	68.36	0.860	9/15/06	10/10/06	3.440	4.32
AT&T (new)	T	**33.60**	**31.86**	21.16	33.76 *H*	21.15	0.333	10/10/06	11/1/06	1.330	3.96
Citigroup	C	**50.38**	**49.19**	45.04	51.33 *H*	44.00	0.490	8/07/06	8/25/06	1.960	3.89
Merck	MRK	**43.20**	**41.10**	27.16	43.54 *H*	26.13	0.380	9/01/06	10/02/06	1.520	3.52
Pfizer	PFE	**27.59**	**28.04**	24.32	28.60 *H*	20.27	0.240	8/11/06	9/05/06	0.960	3.48
DuPont	DD	**45.08**	**42.25**	38.00	45.75	37.60	0.370	8/15/06	9/12/06	1.480	3.28
General Motors	GM	**32.99**	**31.66**	27.98	34.00 *H*	18.33	0.250	8/11/06	9/09/06	1.000	3.03
J. P. Morgan Chase	JPM	**48.16**	**46.95**	34.08	48.57 *H*	33.74	0.340	10/06/06	10/31/06	1.360	2.82
Coca-Cola	KO	**44.02**	**44.60**	42.07	45.40	39.36	0.310	9/15/06	10/01/06	1.240	2.82
General Electric	GE	**35.98**	**34.85**	34.34	36.48 *H*	32.06	0.250	9/25/06	10/25/06	1.000	2.78
3M Company	MMM	**75.40**	**74.14**	70.72	88.35	67.05	0.460	8/25/06	9/12/06	1.840	2.44
McDonald's	MCD	**42.11**	**37.73**	32.32	42.46 *H*	31.48	1.000	11/15/06	12/01/06	1.000	2.37
Johnson & Johnson	JNJ	**64.58**	**63.79**	63.70	65.88 *H*	56.70	0.375	11/28/06	12/12/06	1.500	2.32
Alcoa	AA	**26.67**	**28.13**	22.97	36.96	22.28	0.150	11/03/06	11/25/06	0.600	2.25
Honeywell Intl.	HON	**42.61**	**39.75**	36.10	44.48	32.68	0.228	8/18/06	9/08/06	0.910	2.14
Procter & Gamble	PG	**62.13**	**60.90**	56.11	63.74 *H*	52.75	0.310	10/20/06	11/15/06	1.240	2.00
Exxon Mobil	XOM	**68.40**	**64.65**	58.64	71.22	54.50	0.320	8/14/06	9/11/06	1.280	1.87
Intel Corp.	INTC	**21.60**	**19.51**	23.23	27.49	16.75	0.100	11/07/06	12/01/06	0.400	1.85
Caterpillar (s)	CAT	**69.08**	**65.43**	54.74	82.03	48.25	0.300	10/23/06	11/20/06	1.200	1.74
Home Depot, Inc.	HD	**36.90**	**37.22**	38.41	43.95	32.85	0.150	9/07/06	9/21/06	0.600	1.63
United Tech. (s)	UTX	**66.50**	**64.61**	51.63	66.89 *H*	49.64	0.265	11/17/06	12/10/06	1.060	1.59
Boeing	BA	**82.39**	**75.01**	67.50	89.58	63.70	0.300	8/11/06	9/01/06	1.200	1.46
Microsoft Corp.	MSFT	**28.37**	**26.85**	24.67	28.69 *H*	21.46	0.100	11/14/06	12/14/06	0.400	1.41
IBM	IBM	**86.08**	**82.94**	82.35	89.94	72.73	0.300	8/10/06	9/09/06	1.200	1.39
Wal-Mart Stores	WMT	**48.46**	**48.22**	45.04	50.87	42.31	0.168	8/18/06	9/05/06	0.670	1.38
American Express	AXP	**58.02**	**53.75**	47.95	58.02	46.59	0.150	10/06/06	11/10/06	0.600	1.03
AIG	AIG	**67.27**	**65.72**	62.44	71.09	57.52	0.165	12/01/06	12/15/06	0.660	0.98
Walt Disney	DIS	**31.11**	**30.31**	23.39	31.59 *H*	22.89	0.270	12/12/05	1/06/06	0.270	0.87
Hewlett-Packard	HPQ	**38.86**	**36.18**	27.54	39.00 *H*	25.53	0.080	9/13/06	10/04/06	0.320	0.82

* See the Recommended HYD Portfolio table on page 78 for current recommendations.

† Based on indicated dividends and market price as of 10/13/06. Extra dividends are not included in annual yields. *H* New 52-week high. *L* New 52-week low. (s) All data adjusted for splits.

RECENT MARKET STATISTICS

Precious Metals & Commodity Prices

	10/13/06	*Mo. Earlier*	*Yr. Earlier*
Gold, London p.m. fixing	**586.10**	**573.60**	469.20
Silver, London Spot Price	**11.40**	**10.70**	7.67
Copper, COMEX Spot Price	**3.40**	**3.33**	1.85
Crude Oil, W. Texas Int. Spot	**57.86**	**63.30**	62.63
Dow Jones Spot Index	**279.49**	**259.14**	251.96
CRB-Bridge Futures Index	**303.39**	**306.32**	327.64

Interest Rates (%)

U.S. Treasury bills -	91 day	**5.05**	**4.93**	3.79
	182 day	**5.12**	**5.09**	4.10
	52 week	**5.00**	**5.00**	4.25
U.S. Treasury bonds -	10 year	**4.81**	**4.80**	4.49
Corporates:				
High Quality -	10+ year	**5.98**	**5.96**	5.71
Medium Quality -	10+ year	**6.38**	**6.36**	6.02
Federal Reserve Discount Rate		**6.25**	**6.20**	4.75
New York Prime Rate		**8.25**	**8.25**	6.75
Euro Rates	3 month	**3.45**	**3.29**	2.18
Government bonds -	10 year	**3.65**	**3.79**	3.14
Swiss Rates -	3 month	**1.82**	**1.69**	0.81
Government bonds -	10 year	**2.35**	**2.49**	1.91

Exchange Rates

British Pound	**$1.856500**	**$1.880700**	1.769900
Canadian Dollar	**$0.879100**	**$0.893600**	0.843600
Euro	**$1.251000**	**$1.266200**	1.208700
Japanese Yen	**$0.008356**	**$0.008506**	0.008771
South African Rand	**$0.133900**	**$0.135100**	0.152900
Swiss Franc	**$0.785200**	**$0.796100**	0.779200

Securities Markets

	10/13/06	*Mo. Earlier*	*Yr. Earlier*
S & P 500 Stock Composite	**1,365.62**	**1,319.87**	1,186.57
Dow Jones Industrial Average	**11,960.51**	**11,560.77**	10,287.34
Dow Jones Bond Average	**191.22**	**190.42**	185.43
Nasdaq Composite	**2,357.29**	**2,235.59**	2,064.83
Financial Times Gold Mines Index	**2,204.70**	**2,173.17**	1,820.09
FT African Gold Mines	**2,719.48**	**2,629.82**	2,242.92
FT Australasian Gold Mines	**7,470.80**	**6,950.68**	5,370.06
FT North American Gold Mines	**1,781.80**	**1,782.88**	1,502.98

Coin Prices

	10/13/06	*Mo. Earlier*	*Yr. Earlier*	*Premium*
American Eagle (1.00)	**$591.55**	**$603.35**	486.25	0.93
Austrian 100-Corona (0.9803)	**$563.13**	**$574.33**	463.03	-1.99
British Sovereign (0.2354)	**$139.95**	**$142.75**	115.55	1.44
Canadian Maple Leaf (1.00)	**$591.80**	**$603.60**	486.50	0.97
Mexican 50-Peso (1.2057)	**$694.30**	**$708.20**	571.00	-1.75
Mexican Ounce (1.00)	**$575.80**	**$587.30**	473.50	-1.76
S. African Krugerrand (1.00)	**$583.65**	**$595.25**	480.35	-0.42
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$625.00**	**$637.50**	525.00	10.22
Liberty (Type I-AU50)	**$762.50**	**$762.50**	675.00	34.47
Liberty (Type II-AU50)	**$650.00**	**$650.00**	515.00	14.63
Liberty (Type III-AU50)	**$590.00**	**$590.00**	490.00	4.05
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**$7,830.00**	**$7,700.00**	5,475.00	-3.94
40% Silver Circ. (292 oz.)	**$3,170.00**	**$3,075.00**	2,200.00	-4.77
Silver Dollars Circ.	**$9,450.00**	**$9,400.00**	6,912.50	7.15

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $586.10 per ounce and silver at $11.40 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

	Ticker		*Month*	*Year*	*— 52-Week —*		*Distributions Latest 12 Months*		*Yield*
Short/Intermediate Fixed Income	*Symbol*	***10/13/06***	*Earlier*	*Earlier*	*High*	*Low*	*Income*	*Capital Gains*	*(%)*
iShares Lehman 1-3 Yr Treasury[3]	SHY	**$79.98**	**$80.02**	80.38	80.51	79.26	3.1867	0.0000	3.98
Vanguard Short-term Inv. Grade	VFSTX	**$10.52**	**$10.51**	10.51	10.57	10.41	0.4389	0.0000	4.17
Real Estate/Utilities									
DNP Select Income[1, 2]	DNP	**$10.85**	**$10.84**	11.22	11.44	9.74	0.7800	0.0000	7.19
Vanguard REIT Index	VGSIX	**$24.90**	**$24.26**	18.90	24.90	18.77	0.8367	0.2416	3.36
U.S. Large Cap. Value Equity									
iShares S&P 500 Value Index[3]	IVE	**$73.80**	**$71.10**	61.52	73.85	60.51	1.3734	0.0000	1.86
Vanguard Value Index	VIVAX	**$25.38**	**$24.64**	21.18	25.38	20.88	0.5750	0.0000	2.27
U.S. Small Cap. Value									
iShares Sm. Cap. 600 Value Index[3]	IJS	**$73.46**	**$70.38**	60.86	75.42	59.50	0.8026	0.0000	1.09
Vanguard Sm. Cap Value Index	VISVX	**$16.67**	**$16.03**	13.98	16.67	13.83	0.2690	0.0000	1.61
iShares Russell Microcap Index[3,5]	IWC	**$56.16**	**$53.81**	48.28	56.26	47.49	0.2475	0.0000	0.44
U.S. Large Cap Growth									
iShares S&P 500 Growth Index[3]	IVW	**$62.92**	**$61.31**	56.90	62.92	56.16	0.7176	0.0000	1.14
Vanguard Growth Index	VIGRX	**$28.90**	**$27.92**	26.06	28.90	25.90	0.2350	0.0000	0.81
Foreign - Developed Markets									
iShares MSCI EAFE Index[3,4]	EFA	**$69.05**	**$66.63**	55.74	70.65	54.55	1.1097	0.0000	1.61
iShares MSCI EAFE Value Index[3,4]	EFV	**$67.39**	**$64.80**	52.63	67.49	51.15	0.2542	0.0000	0.38
Vanguard Developed Markets Index[4]	VDMIX	**$11.90**	**$11.51**	9.58	12.17	9.46	0.2190	0.0000	1.84
Foreign - Emerging Markets									
iShares Emerging Markets Index[3]	EEM	**$101.90**	**$96.82**	77.94	111.25	74.85	0.9875	0.0000	0.97
Vanguard Emerging Market Index	VEIEX	**$21.78**	**$20.83**	16.96	23.85	16.43	0.3150	0.0000	1.45
Gold-Related Funds									
iShares COMEX Gold Trust[3]	IAU	**$58.60**	**$57.46**	46.83	72.32	45.37	0.0000	0.0000	0.00
streetTRACKS Gold shares[3]	GLD	**$58.57**	**$57.40**	46.80	72.26	45.32	0.0000	0.0000	0.00

Recommended Gold-Mining Companies

	Ticker		*Month*	*Year*	*— 52-Week —*		*Distributions*		*Yield*
	Symbol	***10/13/06***	*Earlier*	*Earlier*	*High*	*Low*	*Latest 12 Months*	*Frequency*	*(%)*
Anglogold Ltd., ADR	AU	**$39.41**	**$39.42**	41.45	62.20	35.58	0.390	Semiannual	0.99
Barrick Gold Corp.†§	ABX	**$29.79**	**$29.08**	26.88	36.03	24.58	0.187	Semiannual	0.63
Gold Fields Ltd.	GFI	**$17.56**	**$17.59**	13.62	26.95	12.92	0.220	Semiannual	1.25
Goldcorp, Inc.†[6]	GG	**$22.73**	**$22.92**	18.65	41.66	18.22	0.180	Monthly	0.79
Newmont Mining	NEM	**$43.23**	**$44.15**	44.98	62.72	39.84	0.400	Quarterly	0.93
Rio Tinto PLC‡*	RTP	**$202.38**	**$184.88**	156.35	253.33	148.07	3.260	Semiannual	1.61

[1] Closed End Fund, traded on NYSE. [2] Dividends Paid Monthly. [3] Exchange traded Funds, traded on NYSE. [4] New listing as of July 2006, replacing IEV and VEURX. [5] New listing as of July 2006. [6] New listing as of September 2006. † Dividend 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.