INVESTMENT GUIDE

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Equity Performance
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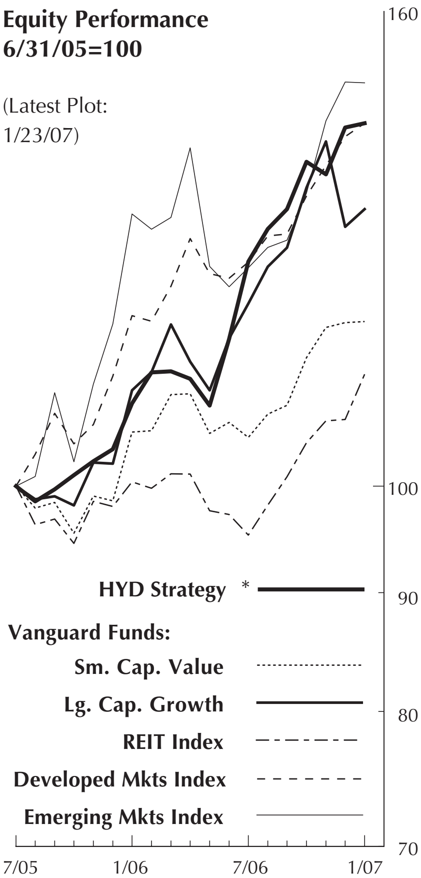
(Latest Plot:
1/23/07)



*** HYD is a hypothetical model based on back-tested results.** **See p. 6 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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New Year's Resolutions

- I will understand my own circumstances and formulate an investment plan based on my needs, not in anticipation of market trends.
- I will remind myself that investing is not a form of entertainment—if I have an urge to gamble, I will go to Las Vegas and leave my investment portfolio alone.
- I will stick to my plan.
- I will not attempt to pick winning stocks.
- I will ensure that my holdings are adequately diversified within each asset class I own.
- I will focus on minimizing my investment-related costs.
- I will stay abreast of changes in investment-related tax laws.
- I will not purchase any financial instrument I do not understand.
- I will ignore money managers or others selling products rather than advice.
- I will ignore market prognosticators.
- I will take full advantage of my qualified retirement plans by making the maximum allowable contributions I can live with.
- I will hold my least tax-efficient assets in my tax-deferred accounts.
- I will rebalance my portfolio infrequently, but at regular intervals regardless of the current state of the markets.
- I will not allow the price I have paid for a security to influence my future investment decisions—except for tax considerations regarding capital gains and losses.
- At year end I will harvest tax losses simply and without ever deviating from my portfolio's target allocations by selling and buying index-type funds within the same asset class.
- I will appreciate the simplicity of the AIS approach; instead of worrying about factors that are not within my control, I will establish my plan and turn my attention to enjoying life.

QUARTERLY REVIEW OF INVESTMENT POLICY

Calendar year 2006 was one of the strongest ever for those who follow our approach to investing. Every asset class except short-term bonds provided double-digit returns. The year ended on a high note, as every one of our recommended asset classes provided positive returns in the fourth quarter. Foreign stocks, in both emerging and developed markets, provided the strongest returns for the quarter and for the year. Commercial real estate was not far behind.

We have made no changes to our recommended allocations which appear in the accompanying table below. These are guidelines only. Many investors will prefer a portfolio that lies "between" those presented. The "best" portfolio is that which best fits your tolerance for volatility and your willingness to endure periods when your return might deviate from those of the overall market. Pondering where the markets might go is counterproductive. Once you have adopted an appropriate plan, stick with it. This table, which we publish quarterly, is designed to help you do just that.

The data presented in the table 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 percent during the third quarter. The economic indicators of our parent organization, the American Institute for Economic Research (AIER), are signaling caution. Both the percentage of leaders expanding and the cyclical score now are below the level that indicates recession is more probable than continued expansion.

The weakness among the 12 primary leading indicators of business-cycle conditions continued to spread. Only one series reached a new high while five remain appraised as contracting. The cyclical status of two series was downgraded. The M1 money supply decreased in December to its lowest level in more than four years and remains appraised as clearly contracting (this series and all other dollar-denominated indicators are adjusted for price inflation). With short-term interest rates having risen by more than four percentage points since mid-2004, money has been flowing out of M1 into less liquid but higher-earning instruments.

Notably, the yield curve index, which measures the spread between the rates on federal funds and ten-year Treasury notes, declined for the sixth straight month as short-term rates remain higher than long-term rates. The current inverted yield curve is depicted in the accompanying chart. The series remains appraised as clearly contracting. Since the late 1960s, every downturn in this series (i.e., inverted yield curve) lasting six months or longer has been followed by recession. On average, the yield curve has inverted 14 months prior to recession.

Overall, the percentage of leaders ap-

AIS Model Portfolios(1)
For the Period Ending December 31, 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	5.15	2.61	4.16	0.48
Short/Int. Fixed Income	Lehman Brothers 1-5 Yr Govt/Cred	40	30	0	4.24	3.78	5.59	2.32
Real Estate	DJ Wilshire Real Estate Securities TR Index	10	10	10	36.13	23.84	15.53	13.46
U.S. Large Cap Growth	Russell 1000 Growth Index (USD)	5	5	10	9.07	2.69	8.03	16.75
U.S. Large Cap Value	Russell 1000 Value Index (USD)	15	20	30	22.24	10.85	13.05	12.65
U.S. Small Cap Value	Russell 2000 Value Index (USD)	5	7	13	23.48	15.38	15.21	14.03
	DFA US Micro Cap Portfolio (USD)	0	3	7	16.16	15.16	15.44	19.59
Foreign Developed Markets	MSCI EAFE Index (USD) Gross Div	5	7	13	26.86	15.43	8.20	14.57
Foreign Emerging Markets	MSCI Emg. Mkts. Index (USD) Gross Div	0	3	7	32.59	26.97	10.48	22.19
Gold Related	Gold EOM gold (London PM Fix)	0	5	10	23.93	18.12	3.99	13.24
	Total	100	100	100				

Model Portfolio Statistics: Risk, Return and Growth

	Conservative	*Moderate*	*Aggressive*
Portfolio Return 1 Year	12.65	16.49	23.54
Portfolio Return 5 Year (annualized)	8.08	10.84	14.96
Portfolio Return 15 Year (annualized)	8.54	9.87	12.33
Portfolio Standard Deviation 15 Year (annualized)	4.48	6.41	10.98
Growth of $100 over 15 Years	$342	$410	$572

(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 8.
(3) Investors should maintain cash balances adequate to cover living expenses for up to 6 months in addition to the cash levels indicated.

praised as expanding decreased to 44 (four of nine for which a trend is evident) from 50 (five out of ten) last month. The cyclical score, AIER's other measure of the leaders, decreased to 46 from a revised score of 48 last month. Both series are now below 50, indicating that recession is now statistically more probable than is continued expansion. All of the coinciding indicators are appraised as clearly expanding. Among the primary lagging indicators, three reached new cyclical highs and are appraised as clearly expanding.

While it is premature to assert that a recession is imminent, 2007 looks to be a period of slow growth at best. To repeat, investors should not try to fathom what this might portend for the markets or for their portfolios. These data are well publicized, and rather than second- guess the markets, wise investors will assume that this information is already reflected in security prices.

Overall, 100 percent of the coincident indicators are 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 in early December and decided to leave 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-January the 13-week Treasury bill was yielding 4.89 percent, taxable money-market funds were yielding 4.83 percent, while tax-free money funds were yielding 3.33 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 annualized rate of 2.5 percent through 2006.

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 2.25 percent and 2.49 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 table. As a 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.

Short/Intermediate-Term Bonds

Chart 2 shows that the yield curve was slightly higher at all maturities versus the previous quarter, though it remained slightly inverted.

Investors should hold fixed income securities with maturities generally between one and five years. Short-term rates currently exceed long-term rates, but this is not the reason to keep maturities short. 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 most portfolios. Bonds are held primarily for portfolio stability, and the "bang for the buck" in terms of additional return per unit of risk warrants a short-term investment horizon.

Stocks have greatly outperformed bonds over the past few years, but the trend will at some point be reversed. No one knows when this will occur, but when it does investors who follow our approach will rebalance 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 8 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"

Chart 2: **Yield Curve: U.S. Government Obligations**
(Percent)

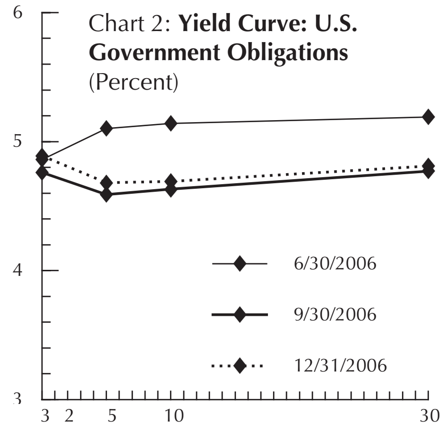
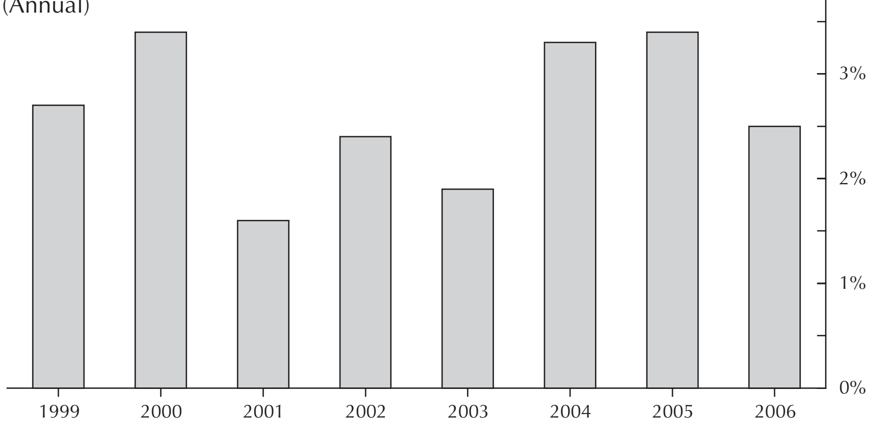


Chart 1: **Percent Change in Price Inflation, CPI-U***
(Annual)



* Consumer Price Index, all urban consumers.

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)**
Jan. 2011	4.64	Jan. 2011	2.39	2.25
Aug. 2016	4.65	Jul. 2016	2.37	2.28
Feb. 2026	4.84	Jan. 2026	2.35	2.49

* Yield To Maturity as of January 8, 2007.

Total Returns (%)	2004			2005				2006				Entire Period
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2Q 2004-4Q 2006
Vanguard Short-Term Inv Grade	-1.30	1.50	0.39	-0.38	1.55	0.24	0.77	0.52	0.79	2.31	1.28	7.89
Vanguard REIT Index	-5.95	**8.13**	15.06	-7.34	**14.65**	3.56	1.70	**14.79**	-1.37	9.39	9.07	76.85
Vanguard Value Index	**1.56**	1.24	9.80	-0.42	1.70	4.08	1.60	5.29	0.91	6.63	7.82	47.68
High-Yield Dow 4/18*	-6.05	3.64	6.22	-5.73	0.13	-0.69	7.29	9.81	2.56	**13.70**	8.42	44.41
Vanguard Small Cap Value	0.89	1.13	13.03	-3.35	5.26	4.01	0.24	11.05	-2.72	1.72	8.52	45.87
Vanguard Growth Index	1.51	-4.88	9.40	-3.56	2.12	3.59	3.00	3.30	-3.94	3.79	5.85	21.01
Vanguard Developed Markets†	0.49	-0.49	15.23	-0.22	-1.31	10.93	3.75	9.30	0.81	4.00	10.11	64.78
Vanguard Emerging Markets‡	-8.76	7.98	**18.71**	**1.43**	3.69	**17.23**	7.10	11.22	-4.57	4.00	**17.22**	**99.83**
Gold (London PM Fix)	-6.58	6.02	4.8	-1.86	2.24	8.27	**8.40**	13.45	**5.41**	-2.32	5.47	50.60

The highest returns provided in each period are in **Bold Face Type**. * HYD is a hypothetical model based on back tested results. See p. 6 for a full explanation. † Vanguard Developed Markets Index Fund: First recommended in ***INVESTMENT GUIDE*** 3Q 2006. ‡ Vanguard Emerging Markets Index Fund: first recommended in ***INVESTMENT GUIDE*** 2Q 2005.

strategy that was explained in the August 2005 ***INVESTMENT GUIDE***.

Real Estate

REITs have contradicted many pundits who called for a sharp decline in REIT prices. The threat of recession has done little to dissuade investors from holding REITs; for 2006 the asset class provided total returns of 35 percent, based on the FTSE NAREIT Equity Index.

REITs are distinct investment vehicles. As long as a REIT distributes 90 percent of its income, it pays no corporate income tax. REITs resemble bonds in that they provide a dependable income stream, but like stocks they represent ownership in underlying properties. REITs' hybrid nature is reflected in their historical returns which are not strongly correlated to either bonds or stocks. They deserve a place 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) is an excellent investment vehicle for investors who fit this description. DNP is a closed-end fund that invests in a variety of income-generating securities, but it is heavily concentrated in public utility stocks. It provides a high dividend yield (currently 7.2 percent), which is leveraged because the company also issues short-term remarketed securities and uses the proceeds to purchase additional income-generating assets. Management has successfully provided a steady monthly payout that typically exceeds the dividend yields of most utility stocks.

Common Stocks

Stock markets, foreign and domestic, had a tumultuous year. After starting strongly, equity returns tumbled during the second quarter. However, as the year wore on the market rallied as energy prices fell and as it became apparent that the Fed would not raise short-term interest rates further.

U.S. small cap value stocks barely outpaced their large cap counterparts, though both had a strong quarter, with total returns of 8.5 percent and 7.8 percent, respectively, as measured by their respective Vanguard index funds (see accompanying "Total Returns" table). Microcap stocks as measured by the Russell Microcap Index rose 10.3 percent. Though they provided similar returns during the quarter, the returns of large cap value stocks and small cap value stocks are not strongly correlated over the short-term. Because they do not "move" in tandem, it is desirable to have both in a well diversified equity portfolio.

The hypothetical HYD "4-for-18" approach, as measured by our HYD model (see page 6) outperformed most large cap value benchmarks for the year. The model provided a total return of 37.5 percent for the year, versus 20.8 percent for the S&P 500/Citigroup Value Index. For the quarter the HYD model provided a return of 8.4 percent versus 7.8 percent for the Vanguard (large cap) Value Index fund. Large cap growth stocks, which generally carry less risk than value stocks, provided a total return of 5.8 percent for the quarter, as measured by the Vanguard (large cap) Growth Index fund.

Foreign markets, both developed and emerging, were the stellar performers among all of our asset classes, for the quarter as well as for the year. During the fourth quarter the Vanguard Emerging Markets Index fund returned a hefty 17.2 percent, while the Vanguard Developed Markets Index fund earned 10.1 percent. For the year the S&P/IFCI Emerging Market Composite Index was up by 35.1 percent, while developed markets, as measured by the MSCI World Index ex-US, were up 26.2 percent. The tumbling dollar helped considerably: The Euro began the quarter at $1.27 and rose 3 percent, finishing the year at $1.32. As of mid-January the Euro was trading near $1.30, up 10 percent from the beginning of 2006. The Japanese Yen ranged between $0.00834 and $0.00874 during the fourth quarter and closed at $0.00840.

Gold-Related Investments

Gold had a very volatile 2006, starting at a low of $513, reaching as high as $725 per ounce in May, before ultimately ending the year at $632. Gold provided a total return of 23 percent for the year, based on the London PM fix.

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 8. 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.

LEVERAGE, LEVERAGE EVERYWHERE

The following article was written by Scott Cohen of Bellwether Consulting LLC of Montclair, New Jersey. While the rise in the use of financial leverage is alarming, investors should continue to maintain a broadly diversified portfolio as the best defense against severe financial disruption.

Leverage. It's burrowed into every nook and cranny of our lives. Look no further than your most recent credit card statement, your mortgage bill, the corporate balance sheets of the companies you invest in and you'll find it. If you're lucky enough to have a pension plan, it's probably in there too within hedge fund investments. Investors use margin accounts, options, futures and other forms of derivatives to create leverage. The amount of debt that both consumers and companies are using seems to be continually increasing. Webster's Dictionary defines leverage as "the use of credit to enhance one's speculative capacity." Leverage is a tactical tool that allows an investor, or consumer, to get more for less. But it does come with a price. From an investment perspective, leverage creates a multiplier effect that increases the potential profit or loss from small movements in the value or price of an investment. It is this magnification that leads to greater risk. The question is: should we be concerned with the increasing amounts of leverage being used?

Where is It?

Consumers have been increasingly using credit to make purchases. Our negative savings rate shows that we are spending all of our income and borrowing additional funds against future earnings in order to consume in the present. (See our 2Q Market Recap for a more in-depth discussion of savings rates.) How are consumers leveraging themselves? They are using credit extended from banks and credit card companies and borrowing against the value of their homes. Statistics from the credit card industry tell an interesting story regarding the increasing use of consumer credit in the U.S. Data indicates that total consumer debt has increased 41% between 1998 and 2004 and average household credit card debt has increased by 167% between 1990 and 2004, the most recent year that statistics are available. In 2004, the consumer debt to net worth ratio was 21%, the highest level in 55 years, with consumers paying over 14.5% in interest charges on average. Of note is the fact that the highest leverage ratios are found among the least wealthy in the U.S. The latest Federal Reserve Survey of Consumer Finances from 2004 shows that the leverage ratio (debt as a proportion of assets) for the least wealthy 50% of families grew from 52% in 1989 to 62% in 2004.

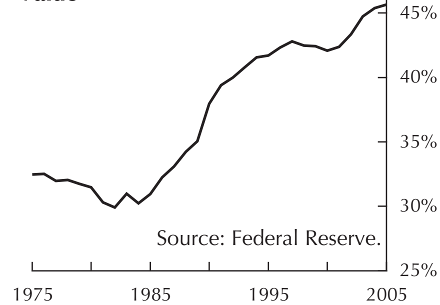
More interesting is the use of home equity to finance our lifestyles. Economic growth in the U.S. in the last ten years has been driven by consumer spending, much of it financed through the use of homeowner's equity. Beginning in 2003 through the first quarter of 2006 home equity growth was running at a rate of more than 10% per year making homeowners feel richer and providing cash to finance lifestyles, contributing to a "wealth effect" that Mr. Greenspan often referred to. While homes are worth more than twice the amount that is owed on them, the continued growth in the use of leverage is a concern. Consumers have used up a good amount of their equity and have used instruments with risky features such as adjustable rates to finance purchases of homes that may have formerly been out of reach. The inherent risks of these actions include the economic distress caused by a drop in home values and/or rising interest rates that could put additional stress on homeowner finances once the rate adjustment period begins.

Companies are also using leverage in greater amounts to conduct business. According to Thomson Financial, during the first half of 2006 U.S. non-financial companies issued $84 billion in investment grade bonds, a 72% increase over the same period in 2005. Riskier junk bond issues were up 25% to $47 billion, for the same time period. Issuing debt has become a way for companies to raise capital for a number of reasons, not all of which are well received by investors or ratings agencies. One perk for companies that issue debt is that the interest payments made on the debt are tax deductible. With profits up in most sectors over the last few years, companies that have spent the time to strengthen their balance sheets have been borrowing, given the ease and availability of credit since 2001. However, the strategy has garnered some angst from bondholders who complain that companies are using debt to help fund stock buybacks and pay dividends with the end result being drainage of cash without creation of growth opportunities. When a company buys its own stock back it reduces the number of shares available in the market and pumps up the stock price – a boon for stock investors possibly made on the backs of bondholders. The use of cash also leaves a company vulnerable to ratings downgrades which would put pressure on bond prices as prospective lenders would demand higher yields to compensate for the additional risks of investing. Ratings agencies are beginning to take a closer look at the increasing debt loads of corporate America. According to S&P, through the middle of 2006 there were nearly 3 ratings downgrades for every ratings upgrade among consumer-oriented companies – nearly double the pace of 2005.

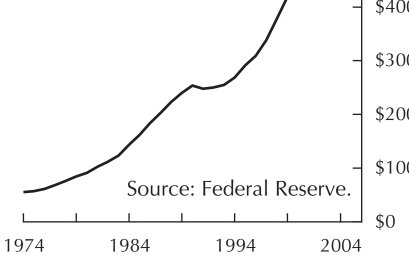
Where Else?

Hedge funds have been ramping up leverage eight years after the melt down of Long Term Capital Management (LTCM) at the same time that asset flows to the sector have significantly increased. Between 1998 and 2006, hedge fund assets under management grew from just over $200 billion to just over $1 trillion. As there are fewer opportunities in the market to generate alpha, hedge funds must increase leverage in order to gener-

US Household Mortgage Debt as a Percentage of Real Estate Value



Amount of Debt Outstanding for Non-Farm Non-Financial Firms
($ Billions)



ate greater excess returns for their investors. According to Hedge Fund Research, in 2005, 70% of hedge funds had the ability to use some form of leverage for investing and leverage ran between two to five times capital.

Should We be Worried?

The linking of risk between the consumer, corporate and investment sectors should be closely watched. Falling housing prices could render homeowners' debts larger than their home values, which could have an adverse impact on their ability to make purchases. Since consumer purchases have been such a large part of GDP, less consumption would lead to lower corporate profits. In the case of companies that have increased debt financing, lower profits have the potential to make their debt service difficult. Investors should also be wary of the trend of increasing debt in hedge funds. As hedge fund returns soared in the years since 2001 institutional investors, especially pension funds, have been drawn to these alternative investment strategies as return enhancers. The bets that hedge funds make, and the magnification of risk through leverage, leaves them vulnerable if the above scenarios play out. Any slowdown or deceleration in the economy due to consumer spending, corporate profits, recession or other factors could have a ripple effect throughout the markets and economy with broader impact than the LTCM melt down. Thus far the soft landing in the economy and housing market seem to have absorbed the higher amounts of leverage in the consumer and investment sectors, but as we know, nothing lasts forever.

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

Recommended HYD Portfolio
As of January 12, 2007

					——Percent of Portfolio——	
	Rank	*Yield*	*Price*	*Status*	*Value*	*No. Shares*[1]
Pfizer	1	4.35%	26.64	Buying	8.00	12.12
Verizon	2	4.34%	37.33	Holding**	23.22	25.10
AT&T Corp (New)	3	4.09%	34.73	Holding**	25.85	30.04
Altria Group	4	3.89%	88.42	Buying	9.01	4.11
CitiGroup	5	3.60%	54.38	Selling	13.34	9.90
Merck	6	3.39%	44.79	Selling	17.21	15.52
General Motors	7	3.25%	30.75	*		
DuPont	8	2.98%	49.73			
General Electric	9	2.96%	37.89			
JP Morgan Chase	10	2.83%	47.99	Holding	2.53	2.12
IAR	NA		30.85	Selling	0.83	1.09
					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.

Verizon Spins off Local N.E. Assets

On January 16, 2007 Verizon Communications Inc. (VZ) announced definitive agreements that will result in a separate entity consisting of Verizon's local exchange and related business assets in Maine, New Hampshire and Vermont. The new entity will be spun off to Verizon's stockholders and merged with FairPoint Communications, Inc. (FRP).

Details of the HYD treatment of the spin-off will be provided in upcoming issues of the *INVESTMENT GUIDE*.

According to a Verizon news release* the transaction details of the tax-free distribution are as follows:

"Upon the closing of the transaction, Verizon stockholders will own approximately 60 percent of the new company, and FairPoint stockholders will own approximately 40 percent. In connection with the merger, Verizon stockholders will receive one share of FairPoint stock for approximately every 55 shares of Verizon stock held as of the record date. Both the spin-off and merger are expected to qualify as tax-free transactions, except to the extent that cash is paid to Verizon stockholders in lieu of fractional shares."

* verizon.com news release dated January 16, 2007.

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 Dec. 31, 2006)**

	1 mo.	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*Since 1/79*	*Std. Dev.*
HYD Strategy	4.74	37.49	12.87	13.11	16.08	18.61	17.09
Russell 1000 Value Index	2.24	22.24	10.85	11.00	13.05	14.60	13.93
Dow	2.11	19.06	6.82	8.91	11.98	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 1/12/07*	*Market Prices 12/15/06*	*Market Prices 1/13/06*	*12-Month High*	*12-Month Low*	*Latest Dividend Amount*	*Latest Dividend Record Date*	*Latest Dividend Paid*	*Indicated Annual Dividend*	*Indicated Yield† (%)*
Pfizer	PFE	**26.64**	**25.64**	24.67	28.60	22.16	0.290	2/09/07	3/06/07	1.160	4.35
Verizon	VZ	**37.33**	**36.48**	32.18	38.95	30.10	0.405	1/10/07	2/01/07	1.620	4.34
AT&T (new)	T	**34.73**	**35.66**	24.99	36.21 *H*	24.39	0.355	1/10/07	2/1/07	1.420	4.09
Altria Group	MO	**88.42**	**85.21**	76.44	90.50 *H*	68.36	0.860	12/27/06	1/10/06	3.440	3.89
Citigroup	C	**54.38**	**54.07**	48.92	57.00 *H*	44.81	0.490	11/06/06	11/22/06	1.960	3.60
Merck	MRK	**44.79**	**44.04**	33.47	46.37	32.55	0.380	12/08/06	1/02/07	1.520	3.39
General Motors	GM	**30.75**	**29.26**	20.37	36.56	19.00	0.250	11/17/06	12/09/06	1.000	3.25
DuPont	DD	**49.73**	**48.75**	40.07	49.85 *H*	38.52	0.370	11/15/06	12/14/06	1.480	2.98
General Electric	GE	**37.89**	**37.36**	35.10	38.49 *H*	32.06	0.280	12/26/06	1/25/07	1.120	2.96
J. P. Morgan Chase	JPM	**47.99**	**48.30**	39.92	49.00 *H*	37.88	0.340	1/05/06	1/31/06	1.360	2.83
Coca-Cola	KO	**48.55**	**48.93**	41.31	49.35	39.36	0.310	12/01/06	12/15/06	1.240	2.55
3M Company	MMM	**79.36**	**78.31**	77.50	88.35	67.05	0.460	11/24/06	12/12/06	1.840	2.32
McDonald's	MCD	**44.22**	**43.41**	34.47	44.68 *H*	31.73	1.000	11/15/06	12/01/06	1.000	2.26
Johnson & Johnson	JNJ	**66.64**	**66.29**	61.82	69.41	56.70	0.375	2/27/07	3/13/07	1.500	2.25
Home Depot, Inc.	HD	**40.11**	**39.88**	41.91	43.95	32.85	0.225	11/30/06	12/14/06	0.900	2.24
Caterpillar	CAT	**59.74**	**61.82**	62.33	82.03	58.82	0.300	1/22/07	2/20/07	1.200	2.01
Honeywell Intl.	HON	**45.56**	**43.62**	37.16	45.99 *H*	35.24	0.228	11/20/06	12/08/06	0.910	2.00
Alcoa	AA	**30.79**	**31.04**	28.95	36.96	26.39	0.150	11/03/06	11/25/06	0.600	1.95
Procter & Gamble	PG	**65.00**	**64.11**	58.90	65.00 *H*	52.75	0.310	10/20/06	11/15/06	1.240	1.92
Intel Corp.	INTC	**22.13**	**20.96**	25.79	26.18	16.75	0.100	11/07/06	12/01/06	0.400	1.81
Exxon Mobil	XOM	**72.66**	**77.30**	60.97	79.00	56.64	0.320	11/13/06	12/11/06	1.280	1.76
United Tech.	UTX	**64.42**	**62.45**	55.66	67.47	54.20	0.265	11/17/06	12/10/06	1.060	1.65
Boeing	BA	**88.13**	**90.70**	69.48	92.05	65.90	0.350	2/09/07	3/02/07	1.400	1.59
Wal-Mart Stores	WMT	**47.98**	**46.45**	45.40	52.15	42.31	0.168	12/15/06	1/02/06	0.670	1.40
Microsoft Corp.	MSFT	**31.21**	**30.19**	27.19	31.39 *H*	21.46	0.100	2/15/07	3/08/07	0.400	1.28
IBM	IBM	**99.34**	**95.26**	83.17	100.33 *H*	72.73	0.300	11/10/06	12/09/06	1.200	1.21
American Express	AXP	**59.01**	**61.64**	53.44	62.50 *H*	49.73	0.150	1/05/06	2/09/07	0.600	1.02
AIG	AIG	**71.07**	**72.13**	70.05	72.97 *H*	57.52	0.165	3/02/07	3/16/07	0.660	0.93
Walt Disney	DIS	**35.21**	**34.30**	25.70	35.29 *H*	24.90	0.310	12/15/06	1/12/07	0.310	0.88
Hewlett-Packard	HPQ	**43.53**	**39.95**	31.90	43.72 *H*	29.00	0.080	12/13/06	1/03/07	0.320	0.74

* See the Recommended HYD Portfolio table on page 94 for current recommendations.

† Based on indicated dividends and market price as of 1/12/07. 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

	1/12/07	*Mo. Earlier*	*Yr. Earlier*
Gold, London p.m. fixing	**619.75**	**623.75**	548.25
Silver, London Spot Price	**12.43**	**13.73**	9.01
Copper, COMEX Spot Price	**2.59**	**3.04**	2.17
Crude Oil, W. Texas Int. Spot	**52.99**	**63.43**	63.92
Dow Jones Spot Index	**277.79**	**292.76**	248.06
CRB-Bridge Futures Index	**290.62**	**313.34**	336.84

Interest Rates (%)

U.S. Treasury bills -	91 day	**5.08**	**4.90**	4.31
	182 day	**5.12**	**5.06**	4.41
	52 week	**5.01**	**4.91**	4.40
U.S. Treasury bonds -	10 year	**4.77**	**4.60**	4.37
Corporates:				
High Quality[1] -	10+ year	**5.41**	**5.75**	5.58
Medium Quality[2] -	10+ year	**6.00**	**6.14**	5.92
Federal Reserve Discount Rate		**6.25**	**6.25**	5.25
New York Prime Rate		**8.25**	**8.25**	7.25
Euro Rates	3 month	**3.73**	**3.67**	2.49
Government bonds[3] -	10 year	**na**	**3.70**	3.29
Swiss Rates -	3 month	**2.12**	**1.99**	1.02
Government bonds -	10 year	**2.46**	**2.41**	1.97

Exchange Rates

British Pound	**$1.958700**	**$1.951800**	1.775800
Canadian Dollar	**$0.855600**	**$0.864100**	0.862000
Euro	**$1.291900**	**$1.308300**	1.213500
Japanese Yen	**$0.008308**	**$0.008470**	0.008751
South African Rand	**$0.138600**	**$0.143500**	0.166000
Swiss Franc	**$0.801200**	**$0.818700**	0.783400

Securities Markets

	1/12/07	*Mo. Earlier*	*Yr. Earlier*
S & P 500 Stock Composite	**1,430.73**	**1,427.09**	1,287.61
Dow Jones Industrial Average	**12,556.08**	**12,445.52**	10,959.87
Dow Jones Bond Average	**195.23**	**196.34**	189.09
Nasdaq Composite	**2,502.82**	**2,457.20**	2,317.04
Financial Times Gold Mines Index	**2,282.75**	**2,422.94**	2,426.07
FT EMEA (African) Gold Mines	**2,770.18**	**2,998.03**	3,206.48
FT Asia Pacific Gold Mines	**8,342.61**	**8,981.24**	6,933.12
FT Americas Gold Mines	**1,835.13**	**1,929.26**	1,971.22

Coin Prices

	1/12/07	*Mo. Earlier*	*Yr. Earlier*	*Premium*
American Eagle (1.00)	**$621.15**	**$644.15**	561.65	0.23
Austrian 100-Corona (0.9803)	**$591.33**	**$613.13**	534.73	-2.67
British Sovereign (0.2354)	**$146.85**	**$152.15**	133.05	0.66
Canadian Maple Leaf (1.00)	**$621.40**	**$644.40**	561.90	0.27
Mexican 50-Peso (1.2057)	**$729.10**	**$755.90**	659.40	-2.43
Mexican Ounce (1.00)	**$604.70**	**$627.00**	546.80	-2.43
S. African Krugerrand (1.00)	**$612.75**	**$635.25**	554.35	-1.13
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**$645.00**	**$670.00**	595.00	7.57
Liberty (Type I-AU50)	**$762.50**	**$762.50**	675.00	27.17
Liberty (Type II-AU50)	**$660.00**	**$660.00**	570.00	10.07
Liberty (Type III-AU50)	**$625.00**	**$640.00**	565.00	4.23
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**$8,525.00**	**$9,600.00**	6,410.00	-3.92
40% Silver Circ. (292 oz.)	**$3,467.50**	**$3,922.50**	2,572.50	-4.31
Silver Dollars Circ.	**$9,725.00**	**$10,100.00**	7,400.00	1.30

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $619.75 per ounce and silver at $12.41 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds

Short/Intermediate Fixed Income	*Ticker Symbol*	***1/12/07***	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Distributions Latest 12 Months Income*	*Capital Gains*	*Yield (%)*
iShares Lehman 1-3 Yr Treasury[3]	SHY	**$79.92**	**$80.17**	80.48	80.50	79.26	3.3037	0.0000	4.13
Vanguard Short-term Inv. Grade	VFSTX	**$10.55**	**$10.57**	10.53	10.61	10.41	0.4626	0.0000	4.38
Real Estate/Utilities									
DNP Select Income[1, 2]	DNP	**$10.80**	**$10.87**	10.71	11.13	9.74	0.7850	0.0000	7.27
Vanguard REIT Index	VGSIX	**$26.26**	**$26.06**	20.67	26.84	20.60	0.9400	0.1200	3.58
U.S. Large Cap. Value Equity									
iShares S&P 500 Value Index[3]	IVE	**$77.35**	**$77.33**	67.10	77.76	65.64	1.4671	0.0000	1.90
Vanguard Value Index	VIVAX	**$26.49**	**$26.78**	23.02	26.79	22.60	0.5910	0.0000	2.23
U.S. Small Cap. Value									
iShares Sm. Cap. 600 Value Index[3]	IJS	**$76.20**	**$76.03**	67.17	76.82	64.35	0.8598	0.0000	1.13
Vanguard Sm. Cap Value Index	VISVX	**$17.13**	**$17.42**	15.17	17.49	14.87	0.3090	0.0000	1.80
iShares Russell Microcap Index[5]	IWC	**$58.66**	**$58.62**	54.07	59.26	49.86	0.2997	0.0000	0.51
U.S. Large Cap Growth									
iShares S&P 500 Growth Index[3]	IVW	**$65.87**	**$65.95**	61.28	66.10	56.25	0.7659	0.0000	1.16
Vanguard Growth Index	VIGRX	**$30.56**	**$30.19**	28.46	30.56	25.91	0.2390	0.0000	0.78
Foreign - Developed Markets									
iShares MSCI EAFE Index[4]	EFA	**$73.10**	**$74.03**	60.89	74.66	59.40	1.5335	0.0000	2.10
iShares MSCI EAFE Value Index[4]	EFV	**$71.72**	**$72.01**	58.96	72.88	57.05	1.1925	0.0000	1.66
Vanguard Developed Markets Index[4]	VDMIX	**$12.60**	**$12.82**	10.43	12.92	10.32	0.2990	0.0050	2.37
Foreign - Emerging Markets									
iShares Emerging Markets Index[3]	EEM	**$111.90**	**$113.60**	94.45	116.41	81.35	1.5725	0.0000	1.41
Vanguard Emerging Market Index	VEIEX	**$23.69**	**$24.17**	20.44	24.51	17.95	0.3960	0.0000	1.67
Gold-Related Funds									
iShares COMEX Gold Trust[3]	IAU	**$62.20**	**$61.11**	55.54	72.32	53.23	0.0000	0.0000	0.00
streetTRACKS Gold shares	GLD	**$62.17**	**$61.00**	55.44	72.26	53.15	0.0000	0.0000	0.00

Recommended Gold-Mining Companies

	Ticker Symbol	***1/12/06***	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Distributions Latest 12 Months*	*Frequency*	*Yield (%)*
Anglogold Ltd., ADR	AU	**$45.47**	**$46.31**	$ 55.42	62.20	35.58	0.393	Semiannual	0.86
Barrick Gold Corp.†§	ABX	**$29.25**	**$30.45**	$ 29.77	36.03	25.10	0.187	Semiannual	0.64
Gold Fields Ltd.	GFI	**$17.32**	**$18.27**	$ 19.65	26.95	16.16	0.218	Semiannual	1.26
Goldcorp, Inc.[6]†	GG	**$26.19**	**$28.01**	$ 25.11	41.66	20.35	0.153	Monthly	0.58
Newmont Mining	NEM	**$43.21**	**$47.49**	$ 59.87	62.72	39.84	0.400	Quarterly	0.93
Rio Tinto PLC‡ *	RTP	**$206.43**	**$220.36**	$196.69	253.33	176.09	3.260	Semiannual	1.58

[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.