INVESTMENT GUIDE

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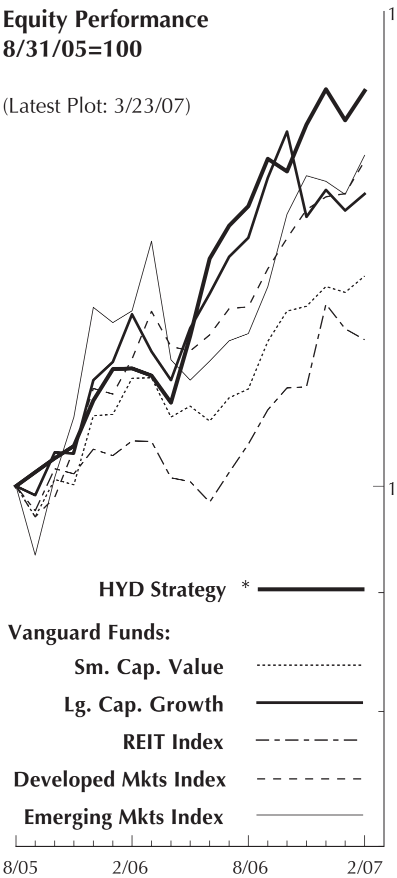
Equity Performance
8/31/05=100

(Latest Plot: 3/23/07)



*** HYD is a hypothetical model based on backtested results.** **See p. 22 for a full explanation.**

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

Online: www.americaninvestment.com

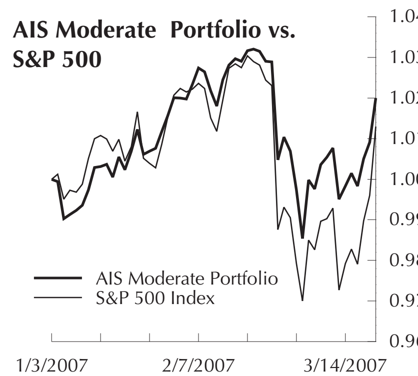
How Did We Hold Up?

Financial headline writers scrambled feverishly to explain the market swoon of February 27 which by the end of the day had sent the S&P 500 plummeting 3.5 percent. Soon after the opening bell, Reuters exclaimed:

"Stocks fell sharply at the open…after China's main stock index tumbled and an unsuccessful assassination attempt on Vice President Dick Cheney in Afghanistan unnerved investors."[1]

Aside perhaps from establishing Reuters' apparent contempt for Mr. Cheney, such fleeting commentary is of little use to serious investors. U.S. News and World Report, after all, had a whole different take the very next day:

AIS Moderate Portfolio vs. S&P 500



"…China was only one of many drivers that pushed stocks lower. …Yesterday, crude oil prices climbed back above $61 a barrel. Meanwhile…durable goods fell a surprising 7.8 percent in January—signaling that the economy many not be as resilient as some think. This seemed to support fears that former Federal Reserve Chairman Alan Greenspan raised this week, when he hinted that the U.S. economy could still slip into recession…."[2]

The financial media seems hopelessly compelled to "explain" events that are actually needless distractions for investors. The fact is, markets are driven by countless investors responding to a limitless and constantly changing flow of information. We can only surmise that a headline proclaiming "Increased Short-Term Volatility in Stock Prices as Demand for Equities Falls Relative to Supply" would not sell many newspapers.

Wise investors should ignore the jabber and simply stick with one of our recommended allocation plans. The chart above shows that our hypothetical AIS Moderate Portfolio[3] would have fallen by only 2.3% that day, and that those who did not panic held up just fine.

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1 http://today.reuters.com/news/articlenews.aspx?type=businessNews&storyid=2007-02-27T143951Z_01_N26326120_RTRUKOC_0_US-MARKETS-STOCKS.xml

2 http://www.usnews.com/usnews/biztech/articles/070228/28marketqa.htm

3 AIS Model Portfolio (moderate) 10% cash, 30% L B 1-5 Yr. govt/Credit, 10% DJ Wilshire REITs, 5% Russell 1000 Growth, 20% Russell 1000 Value, 7% Russell 2000 Value, 3% DFA US Micro Cap, 7% MSCI EAFE Index, 3% MSCI Emerging Mkt Index, 5% Gold. "Backtesting" is a process of objectively simulating historical investment returns by applying a set of rules and hypothetically investing in the securities or asset classes that are chosen. The performance of the investment allocation shown is a hypothetical example of the performance of the allocation found in a backtest, using a stated initial value, if the investment allocation had been in existence and employed for the period specified, and does not reflect actual results. Backtesting is designed to allow investors to understand and evaluate certain strategies by seeing how they would have performed hypothetically during certain time periods.

TAX FILING NOTE: PLACER DOME/BARRICK GOLD MERGER

Several readers have contacted us regarding the tax treatment of the Placer Dome/Barrick Gold merger that took place in January 2006. Unfortunately for U.S. taxpayers this was a taxable event because Barrick Gold is a foreign company. Similarly structured mergers between U.S. companies are often not taxable.

We are not accountants. Investors affected by this merger should consult their tax professional for guidance. However, relevant guidance can be found in Internal Revenue Code §1.367(a)-3, "Treatment of transfers of stock or securities to foreign corporations." Additional guidance was provided in Barrick Gold's "Offer to Purchase" document, dated November 10, 2005:

> If a U.S. Holder accepts and participates in the Offer:
>
> (a) the U.S. Holder will recognize gain or loss in an amount equal to the difference, if any, between
>
> (i) the fair market value of any Barrick Common Shares received by such U.S. Holder pursuant to the Offer plus the amount of any cash received and
>
> (ii) the adjusted tax basis of the U.S. Holder in the Shares exchanged;
>
> (b) the U.S. Holder's tax basis in any Barrick Common Shares acquired in exchange for Shares pursuant to the Offer will equal the fair market value of the Barrick Common Shares on the date of receipt; and
>
> (c) the U.S. Holder's holding period for any Barrick Common Shares acquired in exchange for Shares pursuant to the Offer will begin on the day after the date of receipt.
>
> The gain or loss described in paragraph (a) above generally will be a U.S. source capital gain or loss, and will be a long-term capital gain or loss if the Shares have been held for more than one year, subject to the discussion below regarding Passive Foreign Investment Companies. Preferential tax rates apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gains of a U.S. Holder that is a corporation. Deductions for capital losses and net capital losses are subject to complex limitations.

A copy of this document can be attained directly from Barrick Gold by calling (800) 720-7415; the Director of Investor Relations can be reached at (416) 307-5107. The preceding excerpt can be found in Section 23 on page 71 of the "Offer to Purchase."

Investors who upon review of their broker's form 1099 note any inconsistency with the foregoing should bring this information to the attention of a tax professional.

GOOD VERSUS BAD RISK

Readers sometimes inquire regarding the nature of the trade-off between risk and return. If indeed there is "no free lunch" and the only way to increase returns is to assume more risk, then why is diversification, which reduces risk, so desirable? The short answer is that while an investor can increase his expected returns by assuming additional risk, it is not true that by assuming additional risk one will *necessarily* increase expected returns.

This distinction is true not just in capital markets, but in all aspects of life. One can cross a busy street by checking traffic and then entering a crosswalk, a calculated but reasonable risk, with the expectation that he will be rewarded by getting to the other side. Alternatively one can blithely walk into the street nearby but not in the crosswalk, without looking. The chances of arriving safely are considerably lower but the potential reward is no greater. Most pedestrians choose the safer option.

The capital markets are similar; while higher returns are not obtainable without assuming greater risk, one can assume more risk without any expectation of earning a higher return. There is, if you will, "good risk" and "bad risk." We can identify the reckless risks and do away with them through careful and deliberate diversification. This leaves a portfolio exposed only to that risk which cannot be "diversified away." One can therefore *expect* to be compensated with higher returns in exchange for bearing this risk. This assumes that the historical performance of capital markets is a reasonable guide to the future.

To make this clear it is first important to understand the distinction between different types of risk. *Company-specific risk* is the risk of investing in an individual company. There are random events that could occur—a lawsuit, a fire, the death of a key executive—that would primarily affect only that company. Indeed you could lose your entire investment in a stock if the news were dire enough to result in bankruptcy. *Industry-specific risk* is similar except that it refers to broader economic events that adversely affect an entire industry. Beginning in early 2000, for example, technology firms suffered declines far greater than the rest of the stock market. *Both types of risk are diversifiable*; by owning hundreds of stocks in many different industries, for every bit of "bad" news affecting a particular stock or industry, there would be an equal chance of offsetting "good" news emerging for another firm or industry in the portfolio. A well-diversified portfolio could be rendered worthless only by an economy-wide collapse.

Consider two hypothetical securities of comparable risk, stock A and stock B. If security A had higher expected returns than B, then investors would flock to security A and abandon security B; the price of A would rise accordingly and B would fall until the securities were priced at levels that produced equivalent expected returns. The market works toward an equilibrium in which all securities in a given asset class have the same expected returns. In this environment, an investor purchasing just one stock instead of the entire asset class would be unnecessarily assuming individual and industry-specific risk. This would be irrational since he could purchase the entire asset class and garner the same expected return while dispensing with all of the risk attributable to that particular firm as well as the risk associated with its industry. Thus by choosing to invest in an individual company rather than in its entire asset class, one would be assuming risk that is uncompensated by additional expected return.

Modern portfolio theory posits that an investor cannot, however, dispose of the (non-diversifiable) risk associated with the entire stock market. This *market risk* is the risk common to all stocks, such as business cycle fluctuations. You can purchase an S&P 500 Index fund, thereby eliminating all company and industry specific risks associated with the firms held by the fund. However, you would still be subject to the fortunes of the broader stock market. So, once you have assembled an adequately diversified portfolio, you can increase your expected returns only by increasing the level of your investment; e.g. by assuming greater market risk.

Subsequent research identified factors other than market risk that explained the returns to financial assets. Stocks could be categorized into asset classes defined by size and style (growth vs. value). Each of these asset classes (e.g. small-cap value stocks) represents a potential stock portfolio that can provide investors with the opportunity to assume additional and unique forms of non-diversifiable (compensated) risk.

Note that we speak of the *expected* returns of asset classes. Just as there is no guarantee that the pedestrian, even when using the crosswalk, will cross the street safely, there is also no guarantee that an asset class (e.g., small cap value stocks) will provide the investor with returns greater than the overall market, or even with positive returns. The investor may, for example, suddenly need funds for an unexpected calamity and be forced to "sell at the bottom" by liquidating his holdings amidst a bear market. Even the best-diversified portfolio cannot avoid these possible outcomes.

GOING GLOBAL IN REAL ESTATE

Prudent investing requires discipline. A portfolio allocation plan, generally, should be altered only when an investor's circumstances change (for example, as one approaches retirement a more conservative plan might be adopted) or when empirical research points to a newly identified asset class that is worthy of inclusion in a well balanced portfolio.

We have been reviewing data to determine whether international Real Estate Investment Trusts (REITs) should be considered a separate asset class. An asset class is simply a subset of securities that displays risk and return characteristics that are unique, and therefore have the potential to increase a portfolio's risk-adjusted returns.

The Portfolio Mix

Table 1 demonstrates how an investor can use asset classes judiciously to reduce a portfolio's volatility without sacrificing returns. Asset Class A provides highly variable returns from year-to-year, as does Asset Class B, but in an entirely different pattern. Over the entire six year period, however, A and B have identical total (arithmetic) annual returns (12 percent) and identical volatility (standard deviation 21.5 percent).

Thus it is not obvious that A is "better" than B or *vice versa*. However, Portfolio C, comprised of 50 percent A and 50 percent B provides a superior alternative to holding either asset exclusively; its average annual returns are also 12 percent, yet its standard deviation (18.9 percent) is much lower that that of either A or B.

In years when Asset Class A provided very high returns, Asset Class B provided lower, or even negative returns, and vice versa. *The key to increasing a portfolio's risk-adjusted returns is identifying asset classes that provide positive returns over the long-term but short-term returns that are not strongly correlated with one another.*

The data presented in the table are purely hypothetical, and were in fact contrived to demonstrate the concept of asset class investing. However, examination of the monthly returns of actual financial assets reveals that several classes have displayed these desirable properties over sustained periods. This research is the basis for our AIS Model Portfolios, which we publish quarterly (see the January 2007 issue for our current recommended portfolios).

Foreign REITs: A New Asset Class?

In the February 2007 INVESTMENT GUIDE

Table 1: Asset Classes and Portfolio Construction—A Hypothetical Demonstration
Starting Value = $1,000

Year	*Asset A* Total Return (Annual)	*Asset A* Value ($)	*Asset B* Total Return (Annual)	*Asset B* Value	*Portfolio C = 50% A & B* Total Return (Annual)	*Portfolio C* Value ($)
1	36%	1,360	25%	1,250	30.5%	1,305
2	-12%	1,197	13%	1,413	0.5%	1,312
3	-10%	1,077	19%	1,681	4.5%	1,371
4	34%	1,443	28%	2,152	31.0%	1,795
5	-6%	1,357	-35%	1,398	-20.5%	1,427
6	30%	1,764	22%	1,706	26.0%	1,798
Annual Return:*	12.0%		12.0%		12.0%	
*Risk**:*	21.5%		21.5%		18.9%	

* Arithmetic average. ** Standard Deviation.

Table 2: Developed Market REIT Structure*

	Year of REIT Inception	*Market Capitalization ($) MM*	*Weight (%)*	*# Securities*	*Weight ex US (%)*
North America					
US	1960	345,938	60.1	113	
Canada	1994	13,924	2.4	18	6.1
Asian Pacific					
Australia	1971	75,124	13.1	37	32.7
Japan	2000	31,214	5.4	34	13.6
Singapore	2002	5,870	1.0	7	2.6
Hong Kong	2003	4,687	0.8	2	2.0
New Zealand	1960	1,996	0.3	5	0.9
Europe					
UK	2007	64,928	11.3	13	28.3
France	2003	16,196	2.8	7	7.1
Netherlands	1969	12,349	2.1	5	5.4
Belgium	1995	3,412	0.6	7	1.5
		575,638	100.0	248	100.0

*U.S. excludes health care REITs. UK data estimated. Source: Dimensional Fund Advisors.

Table 3: International REIT Correlations 10 Year ending November 2006

	Asia Pacific	Australia	Europe	Belgium	Netherlands	Canada	World	World ex U.S.	US
World ex U.S.	0.94	0.93	0.80	0.60	0.78	0.68	0.65	1.00	0.50
U.S.	**0.38**	**0.37**	**0.46**	**0.25**	**0.42**	**0.59**	**0.98**	0.50	1.00
Asia Pacific	1.00	0.99	0.58	0.51	0.57	0.52	0.53	0.94	0.38
Europe	0.58	0.57	1.00	0.63	0.98	0.52	0.57	0.80	0.46

Table 4: International REITs: Correlations with Their Own Equity Markets (by Country, through November 2006)

	Australia	Netherlands	Belgium	Canada	Japan	New Zealand	World	World ex US	US
15 Year	0.76	0.51	-	-	-	-	0.44	0.60	0.36
10 Year	0.78	0.54	0.48	0.61	-	-	0.41	0.62	0.33
5 Year	0.71	0.54	0.43	0.69	0.43	0.56	0.52	0.61	0.44

we described U.S. Equity REITs. Equity REITs own income-producing properties, and as long as 90 percent of earned income is distributed to shareholders it is not taxed at the corporate level. We summarized recently updated research confirming that REITs remain a distinct asset class. They provide a unique source of "priced" risk and their returns have very low correlation with our other asset classes.

REITs, however, are not unique to the U.S. Though tax codes vary between countries there are many developed countries that have real estate tax provisions similar to those in the U.S. Table 2 reveals that while the U.S. clearly dominates the global REIT equity market, a rapidly growing number of foreign REITs, or equities with REIT-like structures now trade on exchanges throughout the world.

We examined the monthly return characteristics of foreign REITs to see whether they merit inclusion as an asset class, separate from both U.S. REITs and foreign equities. To repeat, for any particular asset grouping to qualify as an asset class, it must provide returns that are relatively strong over time and not be strongly correlated with the returns of our other recommended asset classes.

Since most *INVESTMENT GUIDE* readers presumably have exposure to U.S. REITs and to foreign equities, it is important to examine both international REIT correlations across countries as well as international REIT correlations versus their own equity markets. If international REITs are highly correlated with U.S. REITs or with their own equity markets there would be no point in owning international REITs separately.

We use a statistical measure, the correlation coefficient, to measure correlation among assets. Correlation coefficients range between 1.0 and -1.0; 1.0 represents perfect positive correlation and -1.0 perfect negative correlation. A well-constructed portfolio will therefore be comprised of assets that generally have low or negative correlation with one another.

Table 3 reveals that between December 1996 and November 2006 international REIT correlations across developed countries have been relatively low. Notably, U.S. REITs are not strongly correlated with REITs of other countries (these are presented in bold type).

Table 4 presents data at the country level. It depicts correlations between REITs and their own national equity markets. Table 5 shows the relation between interregional returns on REITs and overall public equity markets. *Intra*regional correlations are depicted in bold; within most regions and countries, REITs are not strongly correlated with local equity returns.

Taken together, Tables 3, 4 and 5 reflect the potential diversification benefits from owning foreign REITs. In most regions and countries foreign developed market REITs are not strongly correlated with one another; most importantly, these foreign REITs have low correlation with U.S. REITs. Foreign REIT returns are also distinct from the returns of general equity markets, most importantly, their own.

Table 6 provides a summary of historical market returns. Global REITs satisfy the criteria that an asset class has strong expected returns over long time periods.

Table 5: International REITs: Correlations with Overall Equity Markets (by Region, 10 Years Ending November 2006)

	Equity Market			
REITs	US	World ex US	Asia Pacific	Europe
World ex US	0.45	**0.62**	0.48	0.58
US	**0.33**	0.31	0.17	0.32
Asia Pacific	0.43	0.60	**0.52**	0.53
Europe	0.31	0.49	0.27	**0.52**

Table 6: Developed Market REIT Performance (Through November 2006)

	US	World	World ex US
15 Years			
Total Annual Return	14.54	12.19	15.56
Standard Deviation	11.54	12.17	13.15
10 Years			
Total Annual Return	16.05	15.10	16.38
Standard Deviation	12.61	12.58	14.21
5 Years			
Total Annual Return	25.46	29.99	24.43
Standard Deviation	12.40	10.83	14.40
3 Years			
Total Annual Return	28.30	28.83	28.30
Standard Deviation	13.96	10.80	16.37

Source for tables 3-6: Dimensional Fund Advisors; S&P Citigroup data provided by S&P/Citigroup Global Markets, Inc.

So Far So Good, But No Need to Rush

We are not ready to endorse International REITs as a recommended asset class. Our primary concern is that historical total return data is very limited. Table 2 indicates that REITs are spreading very rapidly throughout the world; in 1994 there were only three non-U.S. developed market countries that offered REITs or REIT-like structures while today there are ten. Though this growth is impressive, it also means that there are only two countries with histories that exceed 15 years, and only nine that exceed 10 years. Significantly, Japan and the UK combined comprise roughly 42 percent of the total international (ex-US) REIT market, but Japan only adopted REIT structures in 2000 while in the United Kingdom REITs were established just two months ago.

We will continue to accumulate risk and return data pertaining to international REITs. As this market grows we will also monitor their tax transparency, liquidity, cost and other considerations of vital concern to individual investors.

BAD GUYS FINISH FIRST?

In July 2005 we wrote about the trend toward so-called "socially responsible investing." According to Morningstar there are currently 244 mutual funds that claim "socially conscious" status. These funds are designed to provide appreciation but also to avoid investments considered to be less than virtuous. In these funds tobacco, gambling, alcohol and defense stocks are typically avoided, though funds can be found to suit the taste of almost any morally discriminating investor.

We remain skeptical of this concept. Our major objections are that their strictures necessarily constrain managers' ability to maximize risk-adjusted returns, they can be very expensive, and managers can stray from their mandates.

As we reviewed these funds, we discovered one that takes the opposite track by explicitly investing "sin stocks." As of September 26, 2006 the Vice Fund (VICEX) had devoted 21.6 percent of its holdings to tobacco stocks, 23.6 percent to gambling stocks, 24.9 percent to alcohol related stocks and 25.5 percent to defense stocks.

Perhaps to the delight of hedonists everywhere, over the past three years (ending December 31, 2007) the fund outperformed 180 of the 190 socially conscious funds with a three year history. VICEX provided an annualized total return of 17.68 percent while the socially conscious funds ranged between -1.13 percent and 20.09 percent. The S&P 500 averaged 10.44 percent over the same period.

We found the fund's semi-annual report amusing:

Letter To Shareholders
November 29, 2006
Dear Fellow Shareholders,

The seventeen interest rate hikes by the policy-setting Federal Open Market Committee over the past few years are finally taking their toll. The economy is slowing rather dramatically… the yield curve's steep inversion suggests a recession cannot be entirely ruled out... Geopolitical tensions are high… Yet, none of these factors have had any meaningful impact on people's desire to drink, smoke and gamble—or our nation's need to protect itself.

Though the fund takes an interesting approach to investing, we do not recommend VICEX. Its expense ratio of 1.75% is exorbitant (if not surprising, greed is no virtue!). VICEX also has a short history; its shares became available in August 2002. The fund is also considered a mid-cap blend fund, a category of stocks that does not qualify as a true asset class.

A MATTER OF TRUST

A trust is a fiduciary arrangement whereby the legal title of property is held and the property is managed by someone for the benefit of another. Trusts are created to manage and protect assets. A grantor (the individual who establishes the trust) may select an individual or an institutional trustee to carry out his or her wishes. An established trust takes effect immediately and is typically designed to stay in force during and after the grantor's lifetime.

There are many types of trusts that can be useful to individual investors. Here we describe several common trust arrangements.

Revocable Living Trust—This trust provides for distribution of assets upon death, but unlike a will it avoids the time and expense of probate. This trust can be amended or terminated by the grantor at any time. Grantors often name themselves as trustee during their lifetime.

Irrevocable Living Trust—Like a revocable living trust, this trust provides for the distribution of assets upon death and it avoids probate. However, once established an irrevocable trust cannot be altered. This trust can be especially useful in estate planning; it can provide protection against creditors and provide tax savings.

Bypass (Credit Shelter) Trust—Commonly used in estate planning, this trust allows high-net worth married couples to maximize use of their individual estate and gift tax exemptions by allowing an investor's assets to "bypass" the estate of the surviving spouse, while allowing the surviving spouse and/or any children to receive income from the trust.

Generation-Skipping Trust—This trust can be used to transfer assets to second-generation beneficiaries without the trust proceeds becoming part of the children's estate.

Charitable Unitrust—A type of irrevocable trust to which a grantor donates assets during his lifetime. Named beneficiaries receive income from the trust for life. Upon the death of the last beneficiary, trust assets are transferred to a charity specified by the grantor. These trusts can provide a tax-efficient means of liquidating highly concentrated assets with large unrealized capital gains and investing the proceeds in a well-diversified investment portfolio.

American Investment Services is a Registered Investment Advisory firm and cannot act as a trustee, however, we act as investment advisor to many trusts, and we work with low-cost trust companies that serve as administrative trustee for investors seeking such services.

DNP SELECT INCOME ANNOUNCES MANAGED DISTRIBUTION PLAN

We recommend that investors include the DNP Select Income fund (DNP) in the income equity allocation of a well balanced portfolio. This closed-end fund has provided a remarkably consistent yield while maintaining a stable net asset value (NAV).

The fund disclosed in its December 31, 2006 Annual Report that it was implementing a Managed Distribution Plan. Such plans are designed to provide a consistent dividend payment regardless of when income is earned or capital gains are realized. The plan adopted by DNP maintains the current monthly distribution of $0.65 per share.

Income earned on the fund's traditional investments have fallen in recent years because of historically low interest rates and lower yields on utility common stocks. To augment income and maintain a consistent dividend payout, the fund has distributed capital gains characterized as income, though for tax purposes these have been offset by the Fund's tax loss carryforwards. Once the loss carryforwards are fully utilized, the fund will include distributions of short- and long-term capital gains.

The plan explicitly recognizes that this strategy may entail higher price volatility. It does however also have the potentially positive affect of "smoothing" the volatility associated with one-time year-end capital gains distributions. Additionally, the distributions of long-term capital gains (once loss carryforwards are exhausted) will be taxed at more favorable rates than those applied to ordinary income.

According to the Annual Report, the plan should not materially change the portfolio management strategy of the fund. If anything it enhances the fund's primary investment objective which is to provide a growing stream of income. Capital appreciation is a secondary objective. The Fund's investment policy requires that the Fund invest at least 65% of its assets in "companies engaged in the production, transmission, or distribution of electric energy, gas or telephone services." The fund also invests in equity REITs and fixed income securities.

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 24. 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: A Passive Approach

The model's focus on current yields

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

Recommended HYD Portfolio
As of March 15, 2007

	Rank	Yield	Price	Status	Percent of Portfolio: Value	Percent of Portfolio: No. Shares[1]
Pfizer	1	4.64%	24.99	Buying	10.44	16.62
Verizon	2	4.46%	36.36	Holding**	23.42	25.62
CitiGroup	3	4.31%	50.13	Buying	14.12	11.21
Altria Group	4	4.06%	84.75	Buying	11.64	5.46
AT&T Corp (New)	5	3.84%	36.94	Selling	24.51	26.39
Merck	6	3.52%	43.19	Selling	13.82	12.73
General Motors	7	3.40%	29.38	*		
General Electric	8	3.24%	34.52			
DuPont	9	2.93%	50.43			
Coca-Cola	10	2.89%	47.08			
JP Morgan Chase	11	2.85%	47.70	Selling	1.22	1.02
IAR	NA		33.50	Selling	0.80	0.96
					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.

ignores most sources of stock market advice and information. The strategy relies on the conclusions and findings (as evidenced by their actions rather than words) of only three groups of people: the editors of *The Wall Street Journal*, who pick well-established corporations for inclusion in the DJIA; the directors and managements of the companies, who set the dividend payout; and the investing public, who determine the price of the stock. The first two must be considered as more knowledgeable than the third. The editors do not select flash-in-the-pan enterprises for their index, and directors and managers generally do not declare dividends that their companies cannot sustain.

In our view the superior performance of the higher yielding issues in the DJIA is simply another manifestation of the market at work. If the distressed companies that typically offer higher dividend yields are in fact riskier than the high-flying growth stocks that dominate the other end of the list, then it should not be a surprise that the high-yielders, as a group, provide higher total returns. Greater risk *should* provide greater returns.

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 to transitioning from a model portfolio that had excluded Altria to one that had never excluded it.

*Hypothetical Total Returns (percent, through Feb. 28, 2007)**	*1 mo.*	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*Since 1/79*	*Std. Dev.*
HYD Strategy	-3.08	27.97	11.67	12.31	15.17	18.51	17.07
Russell 1000 Value Index	-1.56	16.61	10.92	10.28	12.83	14.49	13.89
Dow	-2.52	14.25	6.32	8.05	11.62	NA	NA

*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	*Market Prices ($)*			*12-Month ($)*		*Latest Dividend*			*Indicated*	
	Symbol	*3/15/07*	*2/15/07*	*3/15/06*	*High*	*Low*	*Amount ($)*	*Record Date*	*Paid*	*Annual Dividend ($)*	*Yield† (%)*
Pfizer	PFE	**24.99**	26.53	25.95	28.60	22.16	0.290	2/09/07	3/06/07	1.160	4.64
Verizon	VZ	**36.36**	38.40	34.39	38.95 *H*	30.10	0.405	4/10/07	5/01/07	1.620	4.46
Citigroup	C	**50.13**	54.21	47.01	57.00	46.22	0.540	2/05/07	2/23/07	2.160	4.31
Altria Group	MO	**84.75**	86.08	73.87	90.50	68.36	0.860	3/15/07	4/10/07	3.440	4.06
AT&T (new)	T	**36.94**	37.23	27.31	38.18	24.72	0.355	1/10/07	2/1/07	1.420	3.84
Merck	MRK	**43.19**	43.88	35.16	46.55	32.75	0.380	3/09/07	4/02/07	1.520	3.52
General Motors	GM	**29.38**	36.44	21.50	37.24	19.00	0.250	2/16/07	3/10/07	1.000	3.40
General Electric	GE	**34.52**	36.14	34.42	38.49	32.06	0.280	2/26/07	4/25/07	1.120	3.24
DuPont	DD	**50.43**	51.77	42.87	53.67 *H*	38.82	0.370	2/15/07	3/14/07	1.480	2.93
Coca-Cola	KO	**47.08**	47.85	42.73	49.35	40.86	0.340	3/15/07	4/01/07	1.360	2.89
J. P. Morgan Chase	JPM	**47.70**	51.21	41.22	51.95 *H*	39.33	0.340	4/05/07	4/30/07	1.360	2.85
3M Company	MMM	**75.99**	76.91	74.00	88.35	67.05	0.480	2/23/07	3/12/07	1.920	2.53
Johnson & Johnson	JNJ	**60.53**	65.79	59.80	69.41	57.32	0.375	2/27/07	3/13/07	1.500	2.48
Home Depot, Inc.	HD	**37.49**	41.66	42.26	43.95	32.85	0.225	3/08/07	3/22/07	0.900	2.40
Intel Corp.	INTC	**19.14**	21.31	19.92	22.50	16.75	0.113	5/07/07	6/01/07	0.450	2.35
McDonald's	MCD	**43.47**	44.98	34.77	46.21 *H*	31.73	1.000	11/15/06	12/01/06	1.000	2.30
Honeywell Intl.	HON	**46.98**	47.57	42.85	48.50 *H*	35.53	0.250	2/27/07	2/09/07	1.000	2.13
Alcoa	AA	**33.88**	34.71	29.90	36.96	26.39	0.170	2/02/07	2/25/07	0.680	2.01
Procter & Gamble	PG	**61.91**	64.99	59.90	66.30	52.75	0.310	1/19/07	2/15/07	1.240	2.00
Wal-Mart Stores	WMT	**46.00**	48.36	45.32	52.15	42.31	0.220	3/16/07	4/02/07	0.880	1.91
Caterpillar	CAT	**63.46**	67.62	74.29	82.03	57.98	0.300	1/22/07	2/20/07	1.200	1.89
Exxon Mobil	XOM	**70.69**	75.34	61.02	79.00	56.64	0.320	2/09/07	3/09/07	1.280	1.81
United Tech.	UTX	**64.40**	68.93	57.93	69.49	56.58	0.265	2/16/07	3/10/07	1.060	1.65
Boeing	BA	**91.04**	91.71	76.05	92.24	72.13	0.350	2/09/07	3/02/07	1.400	1.54
Microsoft Corp.	MSFT	**27.28**	29.46	27.36	31.48	21.46	0.100	2/15/07	3/08/07	0.400	1.47
IBM	IBM	**93.45**	98.92	83.38	100.90	72.73	0.300	2/09/07	3/10/07	1.200	1.28
American Express	AXP	**56.11**	58.85	54.02	62.50	49.73	0.150	1/05/06	2/09/07	0.600	1.07
AIG	AIG	**67.05**	69.12	68.66	72.97	57.52	0.165	6/01/07	6/15/07	0.660	0.98
Walt Disney	DIS	**33.79**	34.67	28.75	36.09	26.75	0.310	12/15/06	1/12/07	0.310	0.92
Hewlett-Packard	HPQ	**39.70**	42.68	33.89	43.72	29.00	0.080	3/14/07	4/04/07	0.320	0.81

* See the Recommended HYD Portfolio table on page 22 for current recommendations. † Based on indicated dividends and market price as of 3/15/07. 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 ($)

	3/15/07	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**648.50**	664.75	556.50
Silver, London Spot Price	**12.90**	13.98	10.25
Copper, COMEX Spot Price	**2.99**	2.66	2.25
Crude Oil, W. Texas Int. Spot	**57.55**	57.99	62.17
Dow Jones Spot Index	**294.70**	293.89	246.33
Reuters-Jefferies CRB Index	**304.11**	303.80	325.63

Interest Rates (%)

U.S. Treasury bills -	91 day	**4.91**	5.02	4.61
	182 day	**4.91**	5.06	4.81
	52 week	**4.93**	5.03	4.76
U.S. Treasury bonds -	10 year	**4.54**	4.71	4.91
Corporates:				
High Quality -	10+ year	**5.28**	5.38	5.88
Medium Quality -	10+ year	**6.24**	6.26	6.21
Federal Reserve Discount Rate		**6.25**	6.25	5.50
New York Prime Rate		**8.25**	8.25	7.50
Euro Rates	3 month	**3.90**	3.78	2.67
Government bonds -	10 year	**na**	na	3.48
Swiss Rates -	3 month	**2.28**	2.21	1.18
Government bonds -	10 year	**2.62**	2.54	2.25

Exchange Rates ($)

British Pound	**1.928800**	1.953100	1.747700
Canadian Dollar	**0.851400**	0.859900	0.866300
Euro	**1.320200**	1.314500	1.207300
Japanese Yen	**0.008601**	0.008388	0.008528
South African Rand	**0.133600**	0.139100	0.161700
Swiss Franc	**0.822200**	0.810100	0.772200

Securities Markets

	3/15/07	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,392.98**	1,456.81	1,303.02
Dow Jones Industrial Average	**12,159.68**	12,765.01	11,209.77
Dow Jones Bond Average	**200.53**	198.21	187.29
Nasdaq Composite	**2,378.70**	2,497.10	2,311.84
Financial Times Gold Mines Index	**2,230.16**	2,454.73	2,208.77
FT EMEA (African) Gold Mines	**2,797.73**	2,933.79	3,083.92
FT Asia Pacific Gold Mines	**7,944.80**	8,503.57	6,057.15
FT Americas Gold Mines	**1,775.40**	2,000.88	1,772.42

Coin Prices ($)

	3/15/07	Mo. Earlier	Yr. Earlier	(%) Premium
American Eagle (1.00)	**662.95**	677.35	567.45	2.23
Austrian 100-Corona (0.9803)	**631.03**	644.73	540.23	-0.74
British Sovereign (0.2354)	**156.55**	159.85	134.45	2.55
Canadian Maple Leaf (1.00)	**663.20**	677.60	567.70	2.27
Mexican 50-Peso (1.2057)	**778.00**	794.80	666.20	-0.50
Mexican Ounce (1.00)	**645.30**	659.20	552.50	-0.49
S. African Krugerrand (1.00)	**653.75**	667.85	560.05	0.81
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**690.00**	687.50	615.00	9.97
Liberty (Type I-AU50)	**762.50**	762.50	675.00	21.53
Liberty (Type II-AU50)	**675.00**	682.50	592.50	7.58
Liberty (Type III-AU50)	**655.00**	660.00	580.00	4.40
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**8,937.50**	9,475.00	6,930.00	-3.10
40% Silver Circ. (292 oz.)	**3,617.50**	3,852.50	2,800.00	-3.96
Silver Dollars Circ.	**9,925.00**	9,937.50	8,100.00	-0.55

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $648.50 per ounce and silver at $12.90per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Mutual Funds ($)

	Ticker Symbol	3/15/07	Month Earlier	Year Earlier	— 52-Week — High	Low	Distributions Latest 12 Months Income	Capital Gains	Yield (%)
Short/Intermediate Fixed Income									
iShares Lehman 1-3 Yr Treasury[3]	SHY	**80.38**	80.08	79.97	80.50	79.26	3.3497	0.0000	4.17
Vanguard Short-term Inv. Grade	VFSTX	**10.62**	10.57	9.86	10.63	10.41	0.4759	0.0000	4.48
Real Estate/Utilities									
DNP Select Income[1, 2]	DNP	**11.13**	11.10	10.85	11.15	9.74	0.7850	0.0000	7.05
Vanguard REIT Index	VGSIX	**26.52**	28.45	22.68	28.93	20.67	0.7786	0.3188	2.94
U.S. Large Cap. Value Equity									
iShares S&P 500 Value Index[3]	IVE	**76.17**	79.56	69.25	79.87	65.64	2.2457	0.0000	2.95
Vanguard Value Index	VIVAX	**26.14**	27.26	23.59	27.32	22.63	0.6110	0.0000	2.34
U.S. Small Cap. Value									
iShares Sm. Cap 600 Value Index[3]	IJS	**75.34**	78.19	70.95	79.53	64.35	0.8067	0.0531	1.07
Vanguard Sm. Cap Value Index	VISVX	**17.07**	17.78	15.89	17.96	14.87	0.3220	0.0000	1.89
iShares Russell Microcap Index[5]	IWC	**57.40**	60.05	56.56	61.64	49.86	0.2997	0.0000	0.52
U.S. Large Cap Growth									
iShares S&P 500 Growth Index[3]	IVW	**63.63**	66.50	61.36	66.75	56.25	0.7659	0.0000	1.20
Vanguard Growth Index	VIGRX	**29.65**	30.98	28.49	31.07	25.91	0.2390	0.0000	0.81
Foreign - Developed Markets									
iShares MSCI EAFE Index[4]	EFA	**73.16**	76.41	62.85	77.18	59.40	1.5335	0.0000	2.10
iShares MSCI EAFE Value Index[4]	EFV	**71.40**	74.81	61.07	75.61	57.05	1.1925	0.0000	1.67
Vanguard Developed Markets Index[4]	VDMIX	**12.63**	13.17	10.76	13.25	10.32	0.3040	0.0050	2.41
Foreign - Emerging Markets									
iShares Emerging Markets Index[3]	EEM	**111.27**	117.72	98.63	119.58	81.35	1.5725	0.0000	1.41
Vanguard Emerging Market Index	VEIEX	**23.63**	25.00	20.93	25.27	17.95	0.3960	0.0000	1.68
Gold-Related Funds									
iShares COMEX Gold Trust[3]	IAU	**64.12**	66.50	55.21	72.32	54.33	0.0000	0.0000	0.00
streetTRACKS Gold shares	GLD	**63.98**	66.41	55.12	72.26	54.24	0.0000	0.0000	0.00

Recommended Gold-Mining Companies ($)

	Ticker Symbol	3/15/07	Month Earlier	Year Earlier	— 52-Week — High	Low	Distributions Latest 12 Months	Frequency	Yield (%)
Anglogold Ltd., ADR	AU	**43.41**	47.94	51.10	57.34	36.19	0.6100	Semiannual	1.41
Barrick Gold Corp.†	ABX	**28.08**	31.51	26.65	35.23	25.77	0.1870	Semiannual	0.67
Gold Fields Ltd.	GFI	**17.07**	17.79	20.22	26.33	16.22	0.2768	Semiannual	1.62
Goldcorp, Inc.[6]†	GG	**24.10**	28.67	28.04	40.67	21.13	0.1530	Monthly	0.63
Newmont Mining	NEM	**42.14**	46.51	50.10	58.43	40.83	0.4000	Quarterly	0.95
Rio Tinto PLC‡	RTP	**210.81**	221.66	193.95	246.78	179.07	4.1600	Semiannual	1.97

[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.