INVESTMENT GUIDE

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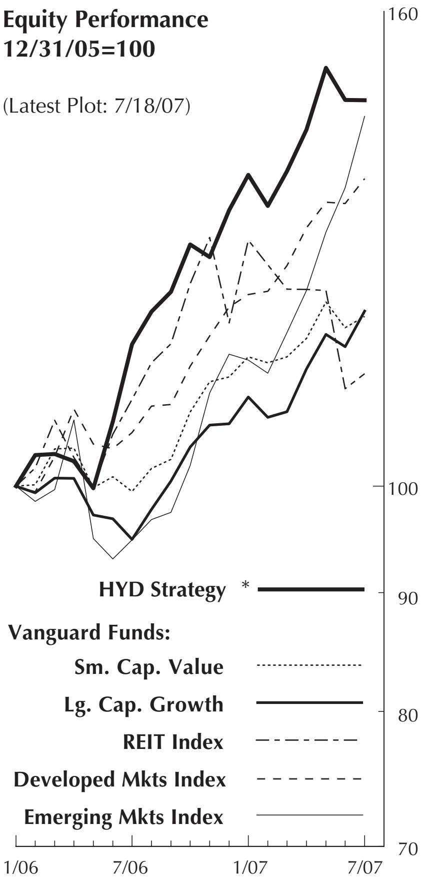


*** HYD is a hypothetical model based on back-tested results.** **See p. 54 for a full explanation.**

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

Shifting Interest Rates

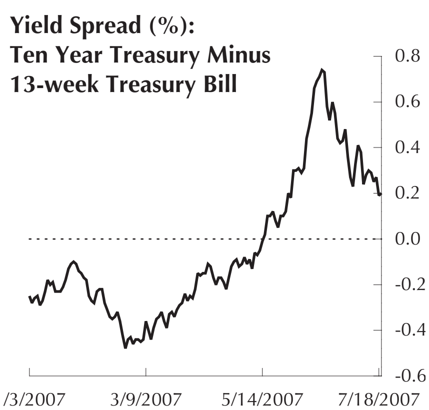
The yield curve has returned to "normal" status, whereby long-term interest rates exceed short-term rates. The chart below depicts the spread between the 10-year Treasury note and the 13-week Treasury bill. In mid-May the spread became positive. Long-term rates, however, remain well below their historical average. The second chart displays the yield on the 30-year Treasury bond since 1977.

The reason for holding fixed-income securities is to provide portfolio stability. Empirical evidence suggests that if bonds are used prudently, an investor can significantly reduce the "swings" in portfolio value that are driven by the volatility inherent in our other recommended asset classes, chiefly common stocks. The key, of course is *prudent* use; we have never recommended that investors hold bonds with maturities that exceed five years. Bonds with longer maturities have, historically, been much more volatile while providing little additional return.

Nominal interest rates on conventional bonds include a real return component plus a "premium" that investors demand for assuming the risk of price inflation. After all, a purchaser of traditional bond is paying for a future stream of income that is fixed, plus the bond's face value upon maturity. The purchasing power of both is diminished over time by rising prices for goods and services.

It is possible to estimate this "premium" and thereby gauge the market's expectations regarding price inflation. The yield-to-maturity on conventional Treasury securities includes both a real rate of return plus this inflation premium. Treasury inflation-indexed securities of similar maturities, on the other hand, do not; they reflect only a real interest rate since their coupon payments and redemption values are indexed to the CPI. The difference in these yields is therefore the market's assessment of expected annual price inflation. The market is currently anticipating that price inflation will range between 2.3 percent and 2.5 percent annually over the next 5-20 years.

It may seem surprising that the market is forecasting such mild inflation; after all annual price inflation as measured by the CPI has averaged over four percent since the end of World War II. We will not, however, second-guess the market. We remain confident that our recommended portfolios will provide adequate protection against rising prices. This requires that investors assume the risk of holding highly volatile asset classes including gold and common stocks. But, to repeat, cash and short-term bonds have proven to be effective at offsetting these fluctuations.



QUARTERLY REVIEW OF INVESTMENT POLICY

The second quarter provided mixed results for investors who follow our approach. Foreign stocks clearly outperformed domestic equities. Within U.S. equity markets growth stocks outperformed value stocks and large caps topped small caps. Real Estate Investment Trusts (REITs), which have provided extraordinary returns in recent years, fell dramatically. Gold also ended the quarter lower.

The big story of the quarter was in the U.S. bond market, however, where the yield curve reverted to "normal" status, with long-term rates exceeding short-term rates, after an extended period of being inverted.

We have received inquiries regarding our proxy for cash and equivalent assets in the Model Portfolio table below. Though most investors probably use a money market vehicle for their cash holdings, there is no adequate index for gauging the returns provided by money market funds. We have therefore instead used a 3 month index of certificate of deposits (CDs) to measure the returns for this asset class. Because CDs are less liquid than money market funds they provide slightly higher returns over time. We do not believe that this significantly distorts the overall risk/return profile of our portfolios, however.

Our recommended allocations have not changed. It is important to realize that these three portfolios are only guidelines; your actual holdings may vary considerably depending on your circumstances. If you are interested in our advisory services, we can assist in developing a portfolio to meet your needs.

Cash Equivalent Assets

The Federal Reserve Open Market Committee (FOMC) met in May and again in June without altering their Fed funds rate target, which remains at 5.25 percent. The 13-week Treasury bill began the quarter yielding 4.89 percent but had fallen to 4.67 percent at the end of June.

Nominal short term interest rates are roughly unchanged from one year ago, but investors must take price inflation into account. Through the first five months of the year price inflation was running at a seasonally adjusted annual rate of 5.5 percent, as measured by the Consumer Price Index. Excluding its food and energy components, the CPI was up 2.1 percent.

Most investors should consider a money market mutual fund for this asset class. This should not be confused with a money market deposit account, which is an interest-bearing savings account offered by an FDIC-insured financial institution. Deposit accounts are restricted to a limited number of transfers or withdrawals and have minimum balance requirements. A money market mutual fund, on the other hand, is not insured. These invest in securities that mature in 90 days or less, and can invest in a variety of instruments; some invest only in U.S. Treasury and/or government agency securities, while others include corporate-issued money market instruments. Tax-exempt funds invest in securities issued by municipalities. "Sweep" funds offered by brokers can be used to

AIS Model Portfolios(1)
For the Period Ending June 30, 2007

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	5.33	2.96	4.19	0.48
Short/Int. Fixed Income	Lehman Brothers 1-5 Yr Govt/Cred	40	30	0	5.55	3.54	5.49	2.29
Real Estate	DJ Wilshire Real Estate Securities TR Index	10	10	10	11.64	19.26	14.84	13.88
U.S. Large Cap Growth	Russell 1000 Growth Index (USD)	5	5	10	19.04	9.28	9.04	16.76
U.S. Large Cap Value	Russell 1000 Value Index (USD)	15	20	30	21.87	13.31	13.11	12.68
U.S. Small Cap Value	Russell 2000 Value Index (USD)	5	7	13	16.05	14.62	14.76	13.86
	DFA US Micro Cap Portfolio (USD)	0	3	7	15.98	15.89	15.66	19.26
Foreign Developed Markets	MSCI EAFE Index (USD) Gross Div	5	7	13	27.54	18.21	9.72	14.27
Foreign Emerging Markets	MSCI Emg. Mkts. Index (USD) Gross Div	0	3	7	45.45	30.65	11.16	21.89
Gold Related	Gold EOM gold (London PM Fix)	0	5	10	6.66	15.49	4.39	13.25
	Total	100	100	100				

Model Portfolio Statistics: Risk, Return and Growth

	Conservative	*Moderate*	*Aggressive*
Portfolio Return 1 Year	10.88	14.04	20.15
Portfolio Return 5 Year (annualized)	8.64	11.30	16.20
Portfolio Return 15 Year (annualized)	8.69	9.97	12.63
Portfolio Standard Deviation 15 Year (annualized)	4.47	6.41	10.96
Growth of $100 over 15 Years	$349	$416	$596

(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 56.
(3) Investors should maintain cash balances adequate to cover living expenses for up to 6 months in addition to the cash levels indicated.

automatically accumulate distributions (interest and dividends) from other assets held in the same account, and check-writing privileges are often available.

Among taxable money-market funds, the Vanguard Prime money market fund was yielding 5.25 percent as of mid-July, while the Vanguard tax exempt money market fund was yielding 3.59 percent. Based on these rates an investor facing a combined federal and state marginal income tax rate of 32 percent or more should consider a tax-exempt fund.

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. The appropriate level of cash depends a great deal on your particular circumstances.

Short/Intermediate-Term Bonds

The yield curve has been inverted for most of the past year, with yields on short-term Treasuries exceeding those on longer-term issues. This is unusual. Typically the yield curve is upward sloping as investors demand additional yield (a "risk premium") for holding longer-term bonds because market conditions are more uncertain farther into the future.

The yield curves at the end of the past three quarters are depicted in Chart 1. During the second quarter the yield curve steepened and approached its "normal" status: the 30 year Treasury bond yield rose 0.28%, the 10 year issue rose 0.38%, while on the short end the 13 week Treasury bill fell by 0.22%. Since bond values rise as interest rates fall, and vice versa, short-term bond investors fared much better than long-term bond holders amidst this shift.

The second quarter thus provided a good demonstration of why we do not recommend long-term bonds. The reason to hold bonds is to manage portfolio volatility and long term bonds are inherently more volatile than short-term bonds. For most investors, the best strategy is to maintain a portfolio of high-quality bonds with maturities that do not exceed five years. Beyond this point, as one "goes out further" on the yield curve, bond returns become far more volatile but provide relatively little incremental return.

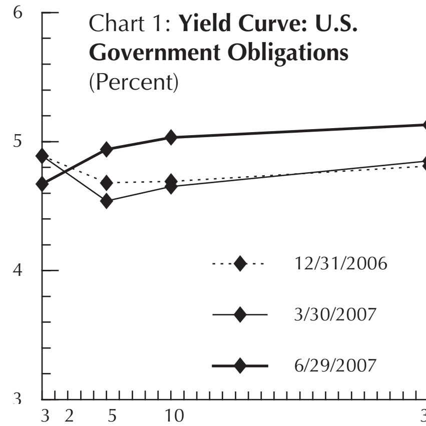
Most investors can maintain a bond portfolio indirectly, by buying shares of one of the fixed income mutual funds listed on page 56. Investors with larger accounts might consider investing directly in bonds through a bond "ladder" by investing roughly equal dollar amounts in bonds maturing at regular intervals (e.g. every three months). As bonds mature the proceeds can be used to invest at the "long end" in order to maintain equal exposure to the yield curve over five years.

Real Estate

Real Estate Investment Trusts (REITs) have provided extraordinary returns in recent years but fell dramatically during the second quarter. Since September 2000 REITs registered average total annual returns of 18.86 percent, a period during which U.S. common stocks, as measured by the S&P 500, returned only 1.55 percent. But over the past three months the tables have turned. REITs were off by over 9 percent while U.S. stocks were up 6.3 percent.

It is of course impossible to tell whether this reversal will continue. The recent de-

Chart 1: **Yield Curve: U.S. Government Obligations** (Percent)



cline may prove to be short-lived; amidst the long REIT bull market there have been 11 instances when REITs bounced back after a short-term declines of 5 percent or more. On the other hand REITs are still highly valued relative to bonds; REIT dividend yields remain well below the 10-year Treasury bond yield.

Readers should ignore short-term trends. REITs remain uncorrelated with other asset classes, and they have positive expected returns, so investors should simply keep their REIT portfolio allocations in line with their established target allocations. If a portfolio rebalancing is warranted, investors may well be purchasing REITs for the first time in many years.

The Duff and Phelps Select Income Fund (DNP) is suitable for investors with an explicit interest in investment income. Certain trusts for example require that investment income be distributed to beneficiaries. DNP is heavily concentrated in public utility stocks, though it also holds bonds and REITs. The fund's yield, however, is well above that of most utilities by virtue of financial leverage. This is a closed-end fund. It currently trades at a

Total Returns (%)

	2004	*—2005—*				*—2006—*				*—2007—*		*Entire Period*
	4Q	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*4Q 2004-2Q 2007*
Vanguard Short-Term Inv Grade	0.39	-0.38	1.55	0.24	0.77	0.52	0.79	2.31	1.28	1.57	0.46	11.53
Vanguard REIT Index	15.06	-7.34	**14.65**	3.56	1.70	**14.79**	-1.37	9.39	9.07	3.39	-9.40	76.14
Vanguard Value Index	9.80	-0.42	1.70	4.08	1.60	5.29	0.91	6.63	7.82	0.90	5.70	55.09
High-Yield Dow 4/18*	10.82	-1.68	-0.34	1.97	4.05	8.00	3.27	**13.70**	8.42	3.98	7.25	82.81
Vanguard Small Cap Value	13.03	-3.35	5.26	4.01	0.24	11.05	-2.72	1.72	8.52	2.01	2.93	51.81
Vanguard Growth Index	9.40	-3.56	2.12	3.59	3.00	3.30	-3.94	3.79	5.85	1.21	6.65	28.67
Vanguard Developed Markets†	15.23	-0.22	-1.31	10.93	3.75	9.30	0.81	4.00	10.11	4.21	6.33	81.69
Vanguard Emerging Markets ‡	**18.71**	**1.43**	3.69	**17.23**	7.10	11.22	-4.57	4.00	**17.22**	2.18	**15.40**	**158.26**
Gold (London PM Fix)	4.80	-1.86	2.24	8.27	**8.40**	13.45	**5.41**	-2.32	5.54	**4.71**	-1.70	64.45

The highest returns provided in each period are in **Bold Face Type**. * HYD is a hypothetical model based on back tested results. See p. 54 for a full explanation. The returns shown assume Altria (MO) was never excluded from the model (see box: Hypothetical Returns: HYD and Relevant Indices). † Vanguard Developed Markets Index Fund: First recommended in *INVESTMENT GUIDE* 3Q 2006. ‡ Vanguard Emerging Markets Index Fund: First recommended in *INVESTMENT GUIDE* 2Q 2005.

10.4 percent premium to its net asset value, and is yielding 7.2 percent. During the second quarter utilities were down amidst rising long term interest rates.

U.S. Stocks

In the U.S. stock market, mergers and acquisitions (M&A) topped the news in the second quarter, as M&A volume surpassed $592 billion, over a third higher than the first quarter, and the highest on record. Private-equity buyouts accounted for 46 percent of all domestic transactions, which is also a quarterly record (see accompanying article).

Growth stocks and large caps outperformed value stocks and small caps during the quarter (see accompanying Total Returns table). Since early 2000, value and small caps have dominated, and over the long term these riskier segments of the equity market can be expected to provide higher returns; indeed through June on a 1-, 3-, 5-, and 10-year basis value stocks remained ahead of growth. There are of course periods when growth and large caps will predominate (the most dramatic instance was an extended period during the late 1990s). For these reasons we recommend that investors maintain some exposure to all of these asset classes, but tilt their holdings to favor small cap and value stocks.

Large cap stocks appear to have benefited from a strong global economy, which provided robust sales outside the U.S. The weaker dollar helped as well, by enhancing the purchasing power of foreign consumers and boosting foreign earnings when translated back to dollars.

International

International stocks fared well during the second quarter, though there were large disparities within this group. Developed markets provided overall total returns similar to those earned in the U.S. and, as in the U.S., large cap stocks generally outpaced small caps. European markets outperformed Japanese stocks, as the Yen weakened while the Euro strengthened.

Emerging market stocks far outpaced developed markets, and provided the highest return of any asset class. These developing nations rely heavily on commodity exports, which generally commanded higher prices as fears of a global economic slowdown diminished. This asset class was led by strong returns in India, China, and Latin America, while Russian shares were battered by nationalistic rhetoric and a large government purchase of a gas field from BP.

Gold-Related Investments

During the second quarter investors saw the gold price drop 1.73 percent. The price ranged between $642.10 and $691.40 per ounce, closing the quarter at $650.50. By mid-July gold had rebounded to $666.

Gold has properties that make it unique. Most of our recommended asset classes have low correlations with one another, but gold is *negatively* correlated with several of our other holdings. This feature, along with its demonstrated ability to hold value during severe crisis, suggests that gold provides a form of portfolio insurance. In our view these properties exist because gold has historically served as a form of money that cannot be destroyed "at the stroke of a pen," as can all fiat currencies.

While some investors prefer to hold gold directly, often in the form of bullion coins, most investors should 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 56. These investment vehicles are liquid and they can be conveniently held through a broker alongside most other financial assets.

Errata

We wish to point out to investors that our published returns for our high-yield Dow model that appeared in the "Total Returns" table in our April 2007 issue, and which were discussed in our "Quarterly Review of Investment Policy" were in error. For the first quarter of 2007 we stated that the total (hypothetical) return for our HYD model was 10.56 percent. The correct return figure is 3.98 percent. We apologize for this misstatement.

FOCUS ON: PRIVATE EQUITY—WHAT'S THE DEAL?

Private Equity is in the news. While many have expressed alarm at the size of recent deals, we see no imminent threat for individual investors. Nevertheless, it is prudent to keep abreast of developments. The article below appeared in Market Recap, a newsletter published by Bellwether Consulting of Montclair New Jersey.

Listen to any financial news show or pick up the business section of a paper, and you are bound to find a story about private equity. Deal after deal makes headlines. In May, auto-giant Chrysler announced plans for Cerberus Capital Management (a private equity firm) to assume a controlling interest of 80% of the company. Industry experts hailed the deal as a groundbreaking step and proof that private equity firms were now seeing possibilities in areas that had once been considered out of their reach. So just what is all the fuss about? What is making private equity deals so hot right now? To answer these questions, we have to start by taking a look at how U.S. private equity transactions have evolved.

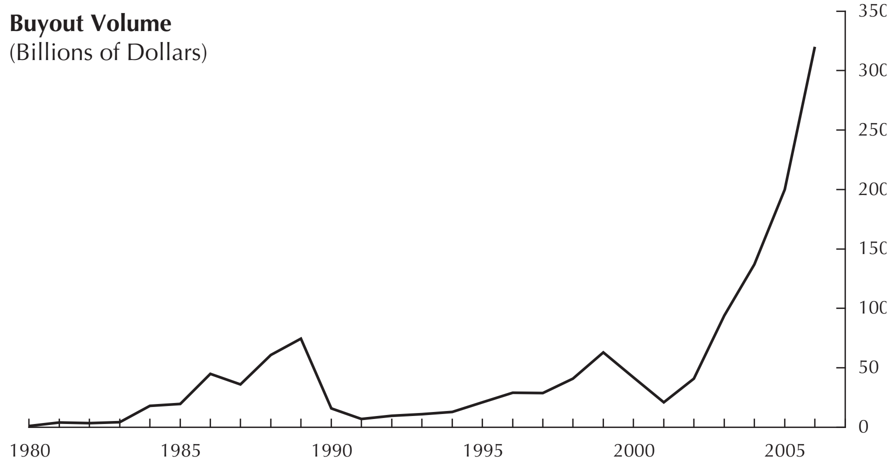
Private Equity Past

Private equity is a general investment class in the broader category of non-publicly traded securities (often referred to as alternative investments). Typical alternatives include real estate, commodities (e.g., gold, timber, etc.), hedge funds, as well as private equity. Private equity deals can be divided into two main groups: venture capital transactions, the capital funding of early-stage companies; and leveraged buyouts, the purchase of established companies through a combination of debt and equity. It's this last category that has experienced tremendous growth.

While particularly hot right now, leveraged buyouts have been around for decades. The leveraged buyout strategy of the 1970's and early 1980's was simple: find stable companies with borrowing capacity and acquire them for modest purchase prices financed by borrowed funds. In a market where public stocks were cheap (relative to today), low purchase prices meant that even in a high interest rate environment, debt could be paid off quickly.

By the mid 1980's institutional investors were increasingly drawn to the buyout sector as laws restricting pension plans from investing in private partnerships were relaxed and the development of high-yield bonds offered new capital structures (e.g., senior subordinated notes, subordinated notes with warrants, etc.) with attractive returns to the market. In this era, buyout strategies focused less on the bargain hunting of the past and more on financial engineering to create maximum leverage. Problems occurred with the onset of a recession in 1990 – 1991, and default rates on high-yield bonds increased. Suddenly investors saw that even the high returns and equity stakes structured into the deals were not sufficient compensation for the risk they were taking.

The 1990's saw a rationalization in the buyout market. Leverage ratios in deals dropped significantly. At the same time, the rise in the value of the stock market meant that purchase prices for target companies increased. Buyout strategies experienced a return to the basics of investing: seek good companies with good strategies and good balance sheets.



Private Equity Present

In today's private equity market, stock prices and, accordingly, buyout purchase prices are high. Investors have demonstrated a renewed acceptance of higher leverage multiples. The number of buyout firms has increased making the competition for deals fierce. In 2006, a Wall Street Journal editorial characterized private equity as "booming," with the handful of private equity firms managing a few billion dollars 15 years ago growing to over 250 firms controlling $800 billion in capital today. The bargain-hunting tactics of the 1970's and financial engineering strategies of the 1980's are no longer effective. Buyout firms today tend to focus on improving the operating performance of their buyout targets through rigorous cost-cutting or other operational controls or the rationalization of the business model, creating value by creating a better company.

Not surprisingly, private equity targets share some characteristics. The stock price performance of firms that go private is typically worse than industry peers during the one, two, and three years before their going private transactions were announced. Their average return on equity (ROE) is also significantly lower than industry peers. Finally, private equity targets generally have more cash as a percentage of assets than industry peers. These traits can all be seen as signals that a firm needs operating improvements—improvements more likely to be achieved in a private firm.

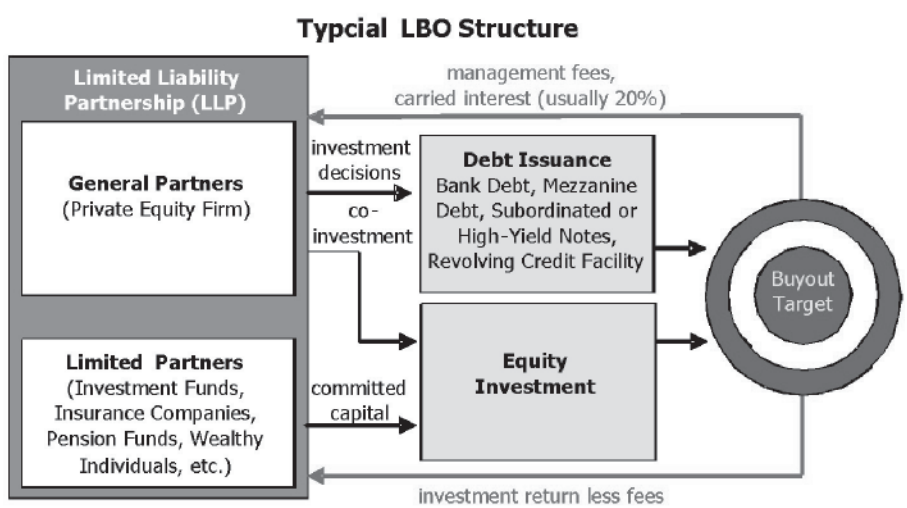
Private equity activity grabbed headlines with its 1Q 2007 figure of $7.1 billion invested. This was the highest quarterly dollar amount invested since 4Q 2001. (Source: The Money Tree[a] Report by PricewaterhouseCoopers and the National Venture Capital Association based on data from Thomson Financial) What is driving assets to private equity firms? Current attitudes in the public equity market account for part of it. In response to the tech-fueled bubble popping in 2000 - 2001, investors began to exhibit more of a short-term focus along with an increased risk aversion. Today's private equity funds with their focus on improving the operating performance of the companies they buy, plays perfectly to this attitude offering investors an attractive alternative to the public markets. Conditions in the fixed income market also enhanced the attractiveness of private equity investing. The low interest rates and historically tight credit spreads we have experienced are conducive to floating the debt necessary to fund a buyout.

From an investor perspective, private equity can be a difficult asset class. Investing in this non-public space means giving up transparency, liquidity, and the protections they offer. Investors are institutions or high-net-worth individuals. Currently, over 50% of investments in private equity come from public and private pension funds.

But private equity still has its attractions. Although the 60% - 100% returns typical of the leveraged buyout deals of the 1970's are clearly unachievable today, by all accounts today's buyouts still consistently out-perform the public equity market. But perhaps more importantly, the interests of private equity firms and private equity investors are significantly more aligned than those of managers and investors in the public markets, with the general partners of private equity funds compensated both through a management fee and a performance fee (i.e., a percentage of the profits).

Private Equity Future

Some see the growth in private equity and going-private transactions as a signal of concern over the costs of going or remaining public in the U.S. markets. Between 2001 and 2006, the number of private-equity backed acquisitions has dwarfed the number of private-equity backed IPOs. (Source: Thomson Financial & National Venture Capital Associ-



ates) But while the U.S. public market may be becoming less attractive to companies, Congress is considering proposals to end a tax break that may make private equity less attractive to its general partners. Proposals have been made both to increase taxes on private equity firms that go public (covering only a handful of firms) as well as on private equity and hedge fund operators in general. The proposals center on eliminating a longstanding practice of allowing these firms to pay a lower, capital gains rate of 15% percent instead of the ordinary corporate income tax rate of 35% on their performance fees, which typically represent most of their annual income. While the private equity industry argues that the risk involved in their transactions justifies the lower tax rate, critics counter that the fees are effectively bonuses because private equity firms have little, if any, of their own money at stake.

The debate on the private equity tax rate may be a symptom of a larger, and more troubling, trend for private equity firms. Like many of the great alpha-producers in the past, private equity may be facing the challenge of a market increasingly approaching efficiency. As the number of private equity firms increases, partnership talent as well as the pool of attractive buyout candidates gets spread more thinly making good deals harder to find. Further, public companies are themselves increasingly employing the disciplines private equity firms impose after buyouts, narrowing the performance gap. With these trends, it's hard to argue that the private equity market is not becoming more efficient. And in that case, we can expect strategic advantages to be lost and risk-adjusted returns to decay to the median.

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

Recommended HYD Portfolio
As of July 13, 2007

	Rank	Yield	Price	Status	—Percent of Portfolio— Value	No. Shares[1]
Pfizer	1	4.48%	25.91	Holding**	13.26	21.81
CitiGroup	2	4.11%	52.52	Buying	17.81	14.45
Verizon	3	3.88%	41.76	Holding**	24.80	25.31
Altria Group	4	3.85%	71.70	Buying	14.59	8.67
AT&T Corp	5	3.51%	40.40	Selling	17.57	18.53
JP Morgan Chase	6	3.04%	50.05			
Merck	7	2.99%	50.85	Selling	8.45	7.08
DuPont	8	2.87%	51.55			
General Electric	9	2.84%	39.50			
General Motors	10	2.70%	37.03	*		
KFT	NA		35.89	Selling	2.95	3.50
IAR	NA		36.03	Selling	0.55	0.66
					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.

Pfizer Mini-Tender: Not Appetizing

Readers who follow the HYD strategy may have been notified of an unsolicited "mini-tender offer" by TRC Capital Corporation of Toronto for TRC to purchase shares of Pfizer (PFE). TRC's offer price of $25.00 per Pfizer share represents a 2.31% discount to the closing price on June 26, 2007, the day before the commencement of TRC's unsolicited mini-tender offer, and a 3.55% discount to the closing price of $25.92 on Friday, July 6, 2007. **Pfizer does not endorse the offer**, **nor do we believe that there is any way that an investor can benefit from it**.

A tender offer can represent a rare opportunity to sell a security at a premium to its market price. This is usually not the case with so-called "mini tender" offers. As we have discussed in the past, mini tender offers are offers for less than 5% of a company's outstanding shares. Such offers are not subject to the same disclosure requirements and procedural protections that apply to traditional tender offers. The prices offered are typically 5% to 10% below market and are intended to catch investors off guard.

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 June 30, 2007)**

	1 mo.	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*Since 1/79*	*Std. Dev.*
HYD Strategy	-3.14	37.49	15.45	12.81	15.59	18.71	17.02
Russell 1000 Value Index	-2.34	21.87	13.31	9.87	13.11	14.57	13.84
Dow	-1.49	23.04	10.19	7.83	12.15	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 Symbol	*Market Prices ($) 7/13/07*	*6/15/07*	*7/14/06*	*12-Month ($) High*	*Low*	*Latest Dividend Amount ($)*	*Record Date*	*Paid*	*Indicated Annual Dividend ($)*	*Yield† (%)*
Pfizer	PFE	**25.91**	26.47	22.42	28.60	22.28	0.290	8/10/07	9/05/07	1.160	4.48
Citigroup	C	**52.52**	53.98	47.58	57.00	46.22	0.540	5/07/07	5/25/07	2.160	4.11
Verizon	VZ	**41.76**	42.99	31.62	43.99	31.36	0.405	7/10/07	8/01/07	1.620	3.88
Altria Group (s)	MO	**71.70**	70.67	58.08	72.20	56.32	0.690	6/15/07	7/10/07	2.760	3.85
AT&T (New)	T	**40.40**	40.28	26.58	41.93 *H*	26.58	0.355	7/10/07	8/1/07	1.420	3.51
J P Morgan	JPM	**50.05**	50.56	40.89	53.25	40.40	0.380	7/06/07	7/31/07	1.520	3.04
Merck	MRK	**50.85**	50.73	36.15	55.14	35.89	0.380	6/08/07	7/02/07	1.520	2.99
Dupont	DD	**51.55**	51.47	39.67	53.90 *H*	38.82	0.370	5/15/07	6/12/07	1.480	2.87
General Electric	GE	**39.50**	38.12	32.11	40.17 *H*	32.08	0.280	6/25/07	7/25/07	1.120	2.84
General Motors	GM	**37.03**	34.66	27.47	38.66 *H*	27.26	0.250	5/11/07	6/09/07	1.000	2.70
Johnson & Johnson	JNJ	**63.43**	62.77	60.46	69.41	59.68	0.415	5/29/07	6/12/07	1.660	2.62
Coca-Cola	KO	**53.11**	51.58	42.65	53.65	42.54	0.340	6/15/07	7/01/07	1.360	2.56
Procter and Gamble	PG	**62.66**	62.57	55.66	66.30	55.30	0.350	7/20/07	8/15/07	1.400	2.23
Home Depot, Inc.	HD	**40.87**	37.95	33.84	42.01	32.85	0.225	6/07/07	6/21/07	0.900	2.20
3M Company	MMM	**90.22**	87.67	71.22	90.24 *H*	67.05	0.480	5/18/07	6/12/07	1.920	2.13
McDonald's	MCD	**51.91**	52.17	33.04	52.88 *H*	33.79	1.000	11/15/06	12/01/06	1.000	1.93
Wal-Mart Stores	WMT	**49.15**	49.34	43.05	52.15	42.31	0.220	12/14/07	1/02/08	0.880	1.79
Intel Corp	INTC	**25.97**	24.24	17.88	26.00 *H*	16.84	0.113	8/07/07	9/01/07	0.450	1.73
United Tech.	UTX	**75.00**	72.01	58.81	75.21 *H*	57.45	0.320	8/17/07	9/10/07	1.280	1.71
Caterpillar	CAT	**85.13**	81.11	69.19	85.90 *H*	57.98	0.360	7/20/07	8/20/07	1.440	1.69
Honeywell Int'l.	HON	**60.14**	81.11	37.01	60.61 *H*	35.53	0.250	5/18/07	6/08/07	1.000	1.66
Exxon Mobil	XOM	**90.33**	85.94	64.90	90.80 *H*	63.57	0.350	5/14/07	6/11/07	1.400	1.55
IBM	IBM	**108.60**	105.09	73.57	109.66 *H*	72.73	0.400	5/10/07	6/09/07	1.600	1.47
Alcoa	AA	**47.35**	41.60	30.79	47.69 *H*	26.39	0.170	5/04/07	5/25/07	0.680	1.44
Boeing	BA	**101.88**	98.15	77.25	102.43 *H*	72.13	0.350	8/10/07	8/07/07	1.400	1.37
Microsoft Corp.	MSFT	**29.82**	30.49	22.29	31.48	22.26	0.100	8/16/07	9/13/07	0.400	1.34
Amer. Int. Group	AIG	**69.55**	72.54	57.76	72.97	57.52	0.200	9/07/07	9/21/07	0.800	1.15
American Express	AXP	**62.83**	63.77	51.27	65.24	49.73	0.150	7/06/07	8/10/07	0.600	0.95
Walt Disney	DIS	**34.37**	34.40	28.49	36.79	28.15	0.310	12/15/06	1/12/07	0.310	0.90
Hewlett-Packard	HPQ	**47.25**	45.71	30.76	47.63 *H*	29.98	0.080	6/13/07	7/05/07	0.320	0.68

* See the Recommended HYD Portfolio table on page 56 for current recommendations. † Based on indicated dividends and market price as of 7/13/07. Extra dividends are not included in annual yields. *H* New 52-week high. *L* New 52-week low. (s) All data adjusted for splits and spin-offs.

RECENT MARKET STATISTICS

Precious Metals & Commodity Prices ($)

	7/13/07	*Mo. Earlier*	*Yr. Earlier*
Gold, London p.m. fixing	**666.50**	653.10	663.25
Silver, London Spot Price	**13.13**	13.06	11.63
Copper, COMEX Spot Price	**3.62**	3.42	3.83
Crude Oil, W. Texas Int. Spot	**73.93**	67.99	77.03
Dow Jones Spot Index	**320.96**	324.15	287.03
Dow Jones-AIG Futures Index	**174.54**	176.48	179.96

Interest Rates (%)

U.S. Treasury bills -	91 day	**4.83**	4.43	5.04
	182 day	**4.85**	4.68	5.25
	52 week	**5.03**	4.93	5.19
U.S. Treasury bonds -	10 year	**5.16**	5.16	5.07
Corporates:				
High Quality -	10+ year	**5.85**	5.87	5.68
Medium Quality -	10+ year	**6.74**	6.76	6.22
Federal Reserve Discount Rate		**6.25**	6.25	6.25
New York Prime Rate		**8.25**	8.25	8.25
Euro Rates	3 month	**4.20**	4.15	3.06
Government bonds -	10 year	**4.57**	4.63	4.09
Swiss Rates -	3 month	**2.71**	2.49	1.53
Government bonds -	10 year	**3.24**	3.22	2.87

Exchange Rates ($)

British Pound	**2.034400**	1.976500	1.837700
Canadian Dollar	**0.954563**	0.936505	0.886000
Euro	**1.378800**	1.336500	1.264900
Japanese Yen	**0.008197**	0.008094	0.008604
South African Rand	**0.143287**	0.140499	0.138700
Swiss Franc	**0.832016**	0.804635	0.810100

Securities Markets

	7/13/07	*Mo. Earlier*	*Yr. Earlier*
S & P 500 Stock Composite	**1,552.50**	1,532.91	1,236.20
Dow Jones Industrial Average	**13,907.25**	13,639.48	10,739.35
Dow Jones Bond Average	**196.43**	195.29	185.06
Nasdaq Composite	**2,707.00**	2,626.71	2,037.35
Financial Times Gold Mines Index	**2,425.63**	2,270.13	2,469.24
FT EMEA (African) Gold Mines	**2,824.14**	2,667.62	3,236.94
FT Asia Pacific Gold Mines	**9,887.68**	9,104.13	7,175.88
FT Americas Gold Mines	**1,942.37**	1,817.14	1,989.20

Coin Prices ($)

	7/13/07	*Mo. Earlier*	*Yr. Earlier*	*(%) Prem (%)*
American Eagle (1.00)	**675.15**	668.85	638.15	1.30
Austrian 100-Corona (0.9803)	**642.63**	636.63	607.42	-1.64
British Sovereign (0.2354)	**159.35**	157.95	150.75	1.57
Canadian Maple Leaf (1.00)	**675.40**	669.10	638.40	1.34
Mexican 50-Peso (1.2057)	**792.30**	784.90	748.90	-1.41
Mexican Ounce (1.00)	**657.20**	651.00	621.10	-1.40
S. African Krugerrand (1.00)	**665.75**	659.55	629.05	-0.11
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**695.00**	690.00	675.00	7.78
Liberty (Type I-AU50)	**762.50**	762.50	695.00	18.25
Liberty (Type II-AU50)	**712.50**	712.50	655.00	10.49
Liberty (Type III-AU50)	**680.00**	655.00	630.00	5.45
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**8,850.00**	9,200.00	7,700.00	-5.69
40% Silver Circ. (292 oz.)	**3,645.00**	3,775.00	3,020.00	-4.89
Silver Dollars Circ.	**9,737.50**	9,950.00	9,700.00	-4.10

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $665.50 per ounce and silver at $13.13 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recommended Investment Vehicles ($)

Short/Intermediate Fixed Income	*Ticker Symbol*	*7/13/07*	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Distributions Latest 12 Months Income*	*Capital Gains*	*Yield (%)*
iShares Lehman 1-3 Yr Treasury[4]	SHY	**79.92**	79.81	79.59	80.60	79.43	3.4451	0.0000	4.31
Vanguard Short-term Inv. Grade	VFSTX	**10.50**	10.49	10.44	10.63	10.43	0.4992	0.0000	4.75
Real Estate/Utilities									
DNP Select Income[1, 2]	DNP	**10.85**	11.02	10.41	11.43	10.23	0.7800	0.0000	7.19
Vanguard REIT Index	VGSIX	**24.26**	25.00	22.04	28.93	22.03	0.7756	0.3037	3.20
U.S. Large Cap. Value Equity									
iShares S&P 500 Value Index[3]	IVE	**84.17**	83.78	66.75	84.40	66.26	1.6410	0.0000	1.95
Vanguard Value Index	VIVAX	**28.89**	28.81	23.11	28.89	23.05	0.6310	0.0000	2.18
U.S. Small Cap. Value									
iShares Sm. Cap 600 Value Index[3]	IJS	**81.89**	81.87	65.80	82.89	64.35	1.1437	0.0000	1.40
Vanguard Sm. Cap Value Index	VISVX	**18.32**	18.25	15.09	18.32	14.97	0.3130	0.0000	1.71
iShares Russell Microcap Index	IWC	**61.73**	61.57	50.74	62.05	49.86	0.3852	0.0000	0.62
U.S. Large Cap Growth									
iShares S&P 500 Growth Index[3]	IVW	**70.98**	70.09	56.80	71.19	56.25	0.8322	0.0000	1.17
Vanguard Growth Index	VIGRX	**33.20**	32.56	26.06	33.20	25.91	0.2490	0.0000	0.75
Foreign - Developed Markets									
iShares MSCI EAFE Index[3]	EFA	**83.56**	80.79	61.39	88.71	59.67	1.5335	0.0000	1.84
iShares MSCI EAFE Value Index[3]	EFV	**80.85**	78.92	60.08	81.02	58.38	1.1925	0.0000	1.47
Vanguard Developed Markets Index	VDMIX	**14.44**	14.00	10.81	14.44	10.62	0.2990	0.0050	2.07
Foreign - Emerging Markets									
iShares Emerging Markets Index[3]	EEM	**142.75**	132.42	89.00	142.90	87.07	1.5725	0.0000	1.10
Vanguard Emerging Market Index	VEIEX	**31.12**	28.51	19.49	31.12	19.16	0.3960	0.0000	1.27
Gold-Related Funds									
iShares COMEX Gold Trust[4]	IAU	**66.01**	64.93	66.08	68.76	55.60	0.0000	0.0000	0.00
streetTRACKS Gold shares[3]	GLD	**66.03**	64.85	65.85	68.73	55.55	0.0000	0.0000	0.00

Recommended Gold-Mining Companies ($)

	Ticker Symbol	*7/13/07*	*Month Earlier*	*Year Earlier*	*— 52-Week — High*	*Low*	*Distributions Latest 12 Months*	*Frequency*	*Yield (%)*
Anglogold Ltd., ADR	AU	**43.13**	40.89	47.58	51.07	35.58	0.6100	Semiannual	1.41
Barrick Gold Corp.†	ABX	**32.03**	29.14	30.34	34.47	26.94	0.2210	Semiannual	0.69
Gold Fields Ltd.	GFI	**17.16**	16.40	23.14	23.71	15.44	0.2768	Semiannual	1.61
Goldcorp, Inc.[5]†	GG	**26.54**	24.83	29.80	31.59	20.35	0.1530	Monthly	0.58
Newmont Mining	NEM	**41.41**	40.43	54.96	54.4	38.08	0.4000	Quarterly	0.97
Rio Tinto PLC‡	RTP	**304.14**	308.41	204.45	327.12	176.09	4.1600	Semiannual	1.37

[1] Closed End Fund, traded on NYSE. [2] Dividends Paid Monthly. [3] Exchange traded Funds, traded on NYSE. [4] Exchange traded Funds, traded on AMEX. [5] New listing as of September 2006. † Dividend shown is after 15% Canadian tax withholding. ‡ Not subject to U.K. withholding tax.
