INVESTMENT GUIDE

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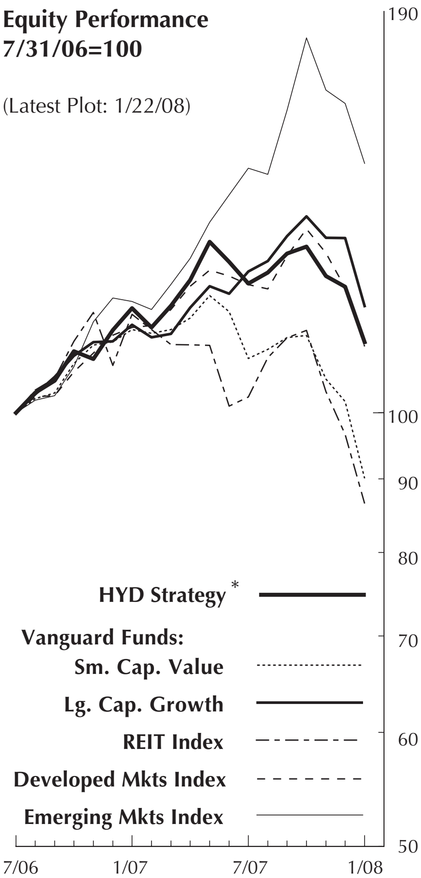
Equity Performance
7/31/06=100

(Latest Plot: 1/22/08)



*** 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.

Online: www.americaninvestment.com

New Year's Resolutions

Global equity markets have plummeted. The chart to the left tells the story. Now, more than ever, it is essential that investors avoid panic and remain committed to disciplined investing.

- 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.
- 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

Capital markets experienced a difficult fourth quarter, with five of our eight recommended asset classes turning in negative returns. Domestic common stocks and REITs fell as uncertainty from the subprime mortgage sector and concerns about recession spread. Foreign developed markets fell as well though emerging markets managed to provide gains. Gold related assets moved up amidst this turmoil, providing a cushion against these losses. Bonds had a strong quarter as interest rates fell following the fed's 0.50 percent cut in the fed funds rate target.

For the year, gold and emerging markets, two of the more volatile asset classes we recommend, provided the strongest returns, thereby demonstrating the value of holding asset classes with low correlation to one another. U.S. stock markets were extremely volatile. Hype over the subprime mortgage crisis, fear of recession, and international crises all contributed to shake investors' resolve.

Readers who have followed our advice have stayed the course throughout. Short term anxiety comes with the territory; without risk there is no return. Pundit Ben Stein put it quite succinctly: "You get paid to be scared."[1] Ultimately, however, investors with long-term financial objectives who own a well diversified portfolio have little to fear.

We have not changed our model portfolio allocations. We continue to recommend that investors hold cash reserves equivalent to roughly six months worth of household expenditures over and above the cash allocation presented.

Cash Equivalent Assets

Continuing unrest in U.S. credit markets during the last quarter prompted the Fed to cut interest rates twice. On January 22, the Fed followed up with a dramatic 0.75 percent cut; the Fed funds rate now stands at 3.50 percent. The Fed specifically cited its concern regarding the credit crunch and its effect on economic growth.

As of mid-January 13-week Treasury bills were yielding 2.19 percent while the Vanguard Prime money market fund was yielding 4.30 percent and the Vanguard tax exempt money market fund was yielding 3.00 percent.

Price inflation rose sharply in the fourth quarter. Through November the consumer price index (CPI) was up 4.3 percent over the previous year, though this was pulled higher by food and energy prices which rose 4.8 percent and 21.3 percent respectively. The so-called core inflation rate, which excludes these two volatile components, was up 2.3 percent.

Short/Intermediate-Term Bonds

Interest rates dropped for bonds of all maturities during the fourth quarter, though the yield curve steepened. Easing by the Fed prompted short term rates to drop sharply, though anxiety over price inflation tempered a drop in longer term issues.

The importance of holding high-quality short-term bonds was evident during

[1] Ben Stein "Don't Buy the Panic" http://finance.yahoo.com/expert/article/yourlife/59999

AIS Model Portfolios(1)
For the Period Ending December 31, 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	5.23	3.34	4.27	0.48
Short/Int. Fixed Income	Lehman Brothers 1-5 Yr Govt/Cred	40	30	0	7.27	3.60	5.61	2.25
Real Estate	DJ Wilshire Real Estate Securities TR Index	10	10	10	-17.56	18.27	12.94	14.48
U.S. Large Cap Growth	Russell 1000 Growth Index (USD)	5	5	10	11.81	12.11	8.48	16.79
U.S. Large Cap Value	Russell 1000 Value Index (USD)	15	20	30	-0.17	14.62	12.06	12.80
U.S. Small Cap Value	Russell 2000 Value Index (USD)	5	7	13	-9.78	15.80	12.48	14.15
	DFA US Micro Cap Portfolio (USD)	0	3	7	-5.22	17.23	13.43	19.38
Foreign Developed Markets	MSCI EAFE Index (USD) Gross Div	5	7	13	11.63	22.08	9.92	14.22
Foreign Emerging Markets	MSCI Emg. Mkts. Index (USD) Gross Div	0	3	7	39.78	37.46	12.16	22.25
Gold Related	Gold EOM gold (London PM Fix)	0	5	10	31.93	19.17	6.31	13.54
	Total	100	100	100				

Model Portfolio Statistics: Risk, Return and Growth

	Conservative	*Moderate*	*Aggressive*
Portfolio Return 1 Year	2.92	4.27	5.23
Portfolio Return 5 Year (annualized)	9.15	12.38	18.44
Portfolio Return 15 Year (annualized)	8.31	9.54	11.97
Portfolio Standard Deviation 15 Year (annualized)	4.54	6.51	11.14
Growth of $100 over 15 Years	$331	$393	$545

(1) Past performance may not be indicative of future results. Therefore, no current or prospective investor should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by AIS), or product made reference to directly or indirectly, will be profitable or equal to past performance levels. Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. The results portrayed in this portfolio reflect the reinvestment of dividends and capital gains. Model Portfolio Statistics are hypothetical and do not reflect historical recommendations of AIS. Annual portfolio rebalancing is assumed.
(2) For our recommended investment vehicles for each asset class, see page 8.
(3) Investors should maintain cash balances adequate to cover living expenses for up to 6 months in addition to the cash levels indicated.

2007. For the year the Lehman Intermediate Govt./Credit Index was up 7.4 percent, outperforming U.S. common stocks. Credit spreads rose sharply as investors shunned riskier issues in favor of government obligations amidst the subprime liquidity crisis, especially during the second half. For the quarter strong demand for Treasuries resulted in a positive return of 3.7 percent for the Lehman U.S. Government Index while the Lehman Brothers High Yield Index (junk bonds) fell 1.30 percent.

Real Estate

Real Estate Investment Trusts (REITs) were hit hard during the quarter, as the FTSE/NAREIT Equity Index lost 12.7 percent. For the year REITs lost 15.7 percent, ending seven consecutive calendar years of gains and marking their worst year since 1998. REITs suffered in part from the subprime mortgage crisis, which reduced available financing, but there was also evidence of a general slow down in commercial real estate. Current prices may reflect the market's concern over a slowing economy.

Equity REITs remain a distinct and valuable asset class. Equity REITs were yielding 4.9 percent at the end of December 2007. Despite their relatively high dividend yield, REITs are not strongly correlated to bonds, and though they are a form of equity, their returns are not strongly correlated with stocks.

U.S. Equities

U.S. stocks as a whole finished the year on a positive note, with the S&P 500 registering a total return of 5.5 percent, marking five consecutive calendar years of positive returns. The market was down for the quarter, however, losing 3.3 percent. Of the ten industrial sectors that comprise the S&P, eight provided positive returns during the quarter. The overall index nevertheless was pulled into negative territory by financial stocks and consumer discretionary stocks which dominate the economy and the index.

The quarter extended the trend that prevailed throughout 2007, as growth stocks and large cap stocks outperformed value and small cap stocks, reversing a pattern that had prevailed for several years. Earnings from large caps were bolstered by earnings from foreign markets and a weak dollar; small caps are more reliant on a robust domestic economy.

Charts 2 and 3 in the accompanying article demonstrate that although over the long term value stocks have outperformed growth stocks, there are periods when growth has dominated. While performance leadership has tended to shift in multi-year cycles, this has not always been the case, and the magnitude and duration of these cycles are entirely unpredictable. The same is true for the size (small versus large cap) effect.

International Equities

Among all equity asset classes, emerging markets were the stellar performers for the quarter and for the year, as this asset class, which is extremely volatile in absolute terms, served to stabilize portfolios with losses elsewhere. Emerging market nations provide a large portion of the world's commodities, and a burgeoning global economy bolstered commodity prices throughout the year. For the last three months emerging markets stocks, as measured by the S&P/IFCI Emerging Composite index were up 3.9 percent while our other equity indexes lost ground. For the year the index returned 40.3 percent. Latin American countries posted strong economic growth, led by Brazil. Russia, India and China provided strong gains as well.

Developed markets were down for the quarter (-1.56 percent as measured by the MSCI World Index ex-U.S.), proving they were not immune to the U.S. subprime crisis. For the year, however, they helped offset domestic losses for U.S. investors, turning in a 12.9 percent return. Much of this was attributable to a falling dollar, which fell another 3.2 percent against the Euro during the fourth quarter, marking an 11.6 percent drop for the full year. With the Euro on the rise the European Central Bank held interest rates steady during the last three months. Germany posted the strongest economic growth among Eurozone nations.

Gold-Related Investments

The gold price rose again during the final three months of 2007, rising 12.2 percent on the heels of a 14.2 percent rise in the third quarter. At year-end the gold price stood at $834, or 31.9 percent above its value a year earlier. The price reached stood at $891 as of January 11.

The weak dollar has contributed to these returns. The gold price was also up in other major currencies, but by less. For the year the Euro gold price rose 17.8 percent, while the Yen price rose 26 percent.

Gold has thus performed as advertised in recent months, providing a pattern of return quite distinct from our other asset classes. In the wake of falling equity prices gold has fulfilled its role of "portfolio insurance." We continue to recommend that investors retain exposure to the gold price through the exchange traded funds and the gold mining shares on page 8.

Total Returns (%)

	2005			2006				2007				*Entire Period* 2Q 2005-4Q 2007
	2Q	*3Q*	*4Q*	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*3Q*	*4Q*	
Vanguard Short-Term Inv Grade	1.55	0.24	0.77	0.52	0.79	2.31	1.28	1.57	0.46	1.91	1.81	14.00
Vanguard REIT Index	**14.65**	3.56	1.70	**14.79**	-1.37	9.39	9.07	3.39	-9.40	2.39	-12.90	36.26
Vanguard Value Index	1.70	4.08	1.60	5.29	0.91	6.63	7.82	0.90	5.70	-0.04	-6.12	31.48
High-Yield Dow 4/18*	-0.34	1.97	4.05	8.00	3.27	**13.70**	8.42	3.98	7.25	1.33	-5.16	55.81
Vanguard Small Cap Value	5.26	4.01	0.24	11.05	-2.72	1.72	8.52	2.01	2.93	-5.03	-6.81	21.61
Vanguard Growth Index	2.12	3.59	3.00	3.30	-3.94	3.79	5.85	1.21	6.65	4.34	-0.06	33.71
Vanguard Developed Markets†	-1.31	10.93	3.75	9.30	0.81	4.00	10.11	4.21	6.33	2.44	-2.22	59.07
Vanguard Emerging Markets‡	3.69	**17.23**	7.10	11.22	-4.57	4.00	**17.22**	2.18	**15.40**	**14.43**	2.94	**133.97**
Gold (London PM Fix)	2.24	8.27	**8.40**	13.45	**5.41**	-2.32	5.54	**4.71**	-1.70	14.22	**12.21**	95.16

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. 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.

MARKET ANOMALIES AND FINANCIAL RESEARCH

From time to time readers point to market phenomena that appear inconsistent with our understanding of capital markets. These anomalies are instructive with regard to how social scientists (economists) conduct research properly.

The Small Growth Conundrum

Readers sometimes ask why we do not recommend small cap growth stocks. Our current line-up includes large cap stocks of both the growth and value variety, but among small caps we recommend only value funds (and microcap stocks, which are overwhelmingly value stocks).

Small cap growth stocks are a bit of a puzzle; their historical risk and return profile appears inconsistent with the notion that markets are efficient. They have provided very low returns relative to the risk they pose. Chart 1 shows that as one "moves away" from large cap growth to large cap value and then to small cap value stocks, there is a clear trade-off between volatility (a measure of risk) and return. Small cap growth stocks, however, appear to provide "the worst of all worlds."

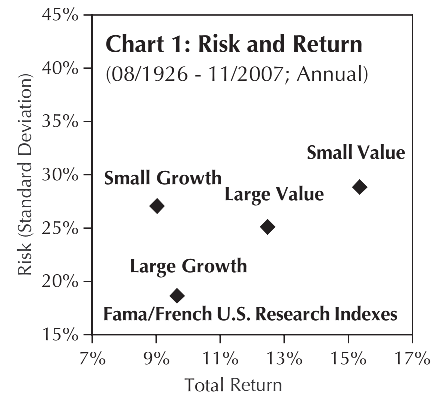
Chart 2 demonstrates that while large cap value stocks provide higher returns over time when compared to large cap growth stocks, there have been extended periods, such as the late 1990s when growth dominated. Chart 3, however, reveals that small cap growth stocks outperformed their value counterparts far less frequently.

The excerpt below is an exchange between noted financial writer William Bernstein and Gene Fama, Jr. of Dimensional Fund Advisors in which Bernstein points to this well-known small cap growth anomaly. The discussion will appear abstract to many readers who are unfamiliar with statistical reasoning, but terms such as "alpha" and "null hypothesis" should not discourage anyone. Bernstein is asking why small cap growth stocks display enormous volatility (a measure of risk) relative to other asset classes, but very low long-term returns. After all, if markets are efficient, assets should be priced in accordance with their risk.

Bernstein: "The negative three-factor alpha of small cap growth stocks rejects the null hypothesis [of market efficiency]. In addition, at the asset class level, small growth stocks are demonstrably more risky by mean-variance criteria. Why should any rational investor want to own them?"

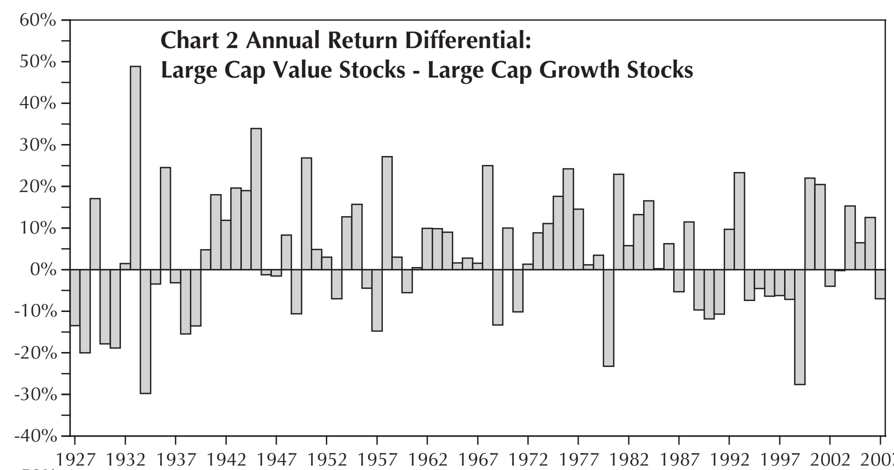
Fama, Jr.: "Yet, rational investors do own them, presumably. A belief in market equilibrium requires some leaps of faith. Nobody seems to be able to prove (with superior manager results) that markets don't work. Unfortunately, we also can't prove that they *do* work (though I like your idea that market equilibrium is the "null" hypothesis—why should we have to defend rationality when the guys arguing against us aren't adding value? (grin)).

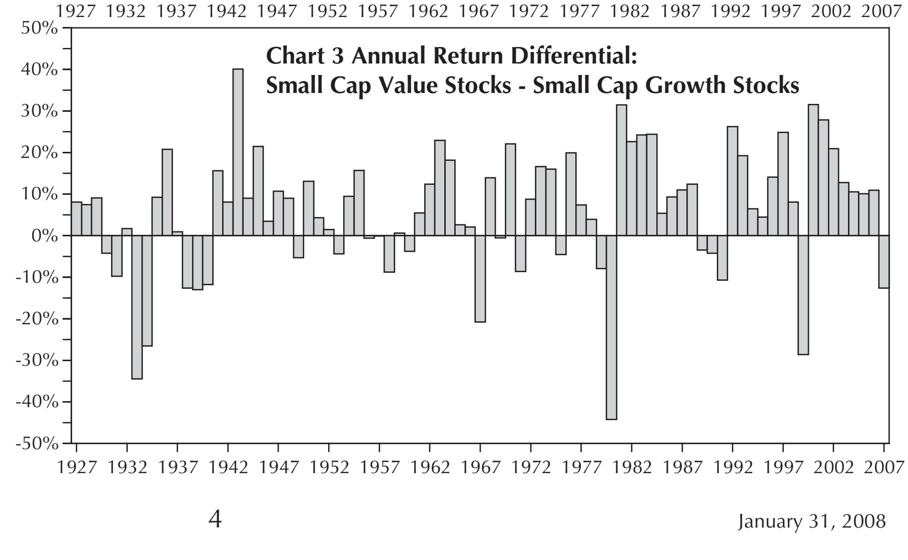
"The lowish performance of small growth persists through history. The model doesn't explain it. Models are just models. As Gene Sr. says, in his usual flowery way, "they don't work" (yet he'd be the last to tell you not to use them). Some investors include small cap growth in their portfolios, and might view that the model doesn't explain them as a good reason to. Others don't include them. In a free market, it all comes down to taste. "Poor" investments don't survive equilibrium. Just because an old model (mean variance) and a new model (Fama/French) don't seem to explain small growth stocks doesn't mean the only remaining explanation is market failure. There's still plenty to learn, which is why we commit to the academic process."



What about "Bubbles"?

Readers also inquire about market "bubbles" that arise from time to time, during which stock prices rise to seemingly irrational levels relative to earnings, book value or other conventional measures. Such instances would appear to suggest that investors, instead of acting rationally, act in "herd-like" fashion, which flies in the face of efficient market theory. The following exchange between Bernstein and Fama, Jr., took place not





long after the tech stock boom and bust of the late 1990s.

Bernstein: "Even the most cursory examination of financial history demonstrates the presence of bubbles. No reasonable person can argue that the recent tech stock experience was rational. There was simply no way to justify the valuations of a very large group of companies absent long-term earnings growth of 20%-40%. History and common sense indicate that growth stocks are uniquely susceptible to "bubble risk," as it occurred in '73-'74 and more recently. So it seems that growth and value have similar amounts of risk—value stocks from economic shocks, and growth stocks from bubbles."

Fama, Jr.: "For something so cursory, it's amazing how few people I meet that actually got rich exploiting these obvious "bubbles." In fact, I more often hear the whole thing described as a "bloodbath."

"The key word in your first sentence is "history." It's a lot easier to see obvious trends in past data than in future data (unfortunately). At the time tech stocks were booming they probably had a low cost of capital.

"I'm not sure I know what a "bubble" is. Seemingly extreme price movements are a part of stock investing, and I'm not sure bubbles are the universal economic fact people say they are (usually ex post).

"Growth stocks are at the opposite pole of the value risk dimension. They are uncorrelated with value stocks and carry their own variance in diversified portfolios. For some reason, people seem to like their variance better—they're willing to pay more for growth stocks and endure whatever their risk for the promise of less return.

"Remember, for investors (as opposed to speculators) it's not so important how "risky" value is versus growth. What we're interested in is the systematic, long-term returns that compensate risk. In spite of similar, if uncorrelated, variance, growth stocks historically deliver lower returns."

Below Bernstein and Fama discuss bubbles at greater length. They refer to a firm's cost of capital. When a firm's stock price increases its cost of capital falls, other things equal, because it because it can issue shares and raise capital more cheaply.

Bernstein: "Maybe the behaviorists have something to teach us. I guess I'm a humanist at heart: models are powerful, but market history simply cannot be ignored. About once per generation, capital, particularly for growth companies, becomes absurdly cheap for no obvious reason beyond "herding" behavior. Herding is an unappealing concept to the quantitative-minded—it isn't easily measured. But it's like pornography—we all know it when we see it.

Fama, Jr. "Financial economics isn't a strictly quantifiable science—it's a social science, closer to anthropology than physics. Financial theory doesn't discount all the goofy ways people behave, especially en masse. For whatever reason, the cost of capital sometimes falls to very low for asset classes through time, and sometimes it goes way up. This resists explanation and quantification, as you point out. That's what makes stock investing risky.

"The only condition market efficiency requires is that some investors don't systematically profit at the expense of other investors. Over- and under-reaction (which may be a more precise way to describe "herding") is perfectly consistent with market efficiency as long as the over- and under-reactions occur with similar frequency. Hence, something we can see as clearly as pornography still isn't clear enough for all the behaviorists to have retired rich."

We generally agree with Mr. Fama's responses. The AIS approach to investing is based on statistical reasoning. Such reasoning is imperfect; it cannot instantly account for every anomaly that arises. It is, however, far superior to alternative approaches that emanate from Wall Street and elsewhere that are based not on empirical analysis, but on appealing to (and preying upon) the emotions of unwary investors.

SOCIAL SCIENCE: DOING IT RIGHT

The following is an excerpt from *The Armchair Economist*, by Steven E. Landsburg. It discusses how scientists should respond to phenomena that appear to be inconsistent with their understanding of the way things work.

"Imagine a physicist, well versed in the laws of gravity, which he believes to be excellent approximations to the ultimate truth. One day he encounters his first helium-filled balloon, a blatant challenge to the laws he knows so well. Two courses are open to him: He can say, "Well, the laws of gravity are usually true, but not always; here is one of the exceptions". Or he can say, "Let me see if there is any way to explain this strange phenomenon without abandoning the most basic principles of my science". If he takes the latter course, and if he is sufficiently clever, he will eventually discover the properties of objects that are lighter than the air and recognize that their behavior is in perfect harmony with existing theories of gravity. In the process, he will not only learn about helium-filled balloons; he will also come to a deeper understanding of how gravity works.

"Now it might very well be that there are real exceptions to the laws of gravity, and that our physicist will one day encounter one. If he insists on looking for a good explanation without abandoning his theories, he will fail. If there are enough such failures, new theories will eventually arise to supplant the existing ones. Nevertheless, the wise course of action, at least initially, is to see whether surprising facts can be reconciled with existing theories. The attempt itself is good mental exercise for the scientist, and there are sometimes surprising successes. Moreover, if we are too quick to abandon our most successful theories, we will soon be left with nothing at all." [1]

[1] *The Armchair Economist*, Steven Landsburg, p.12; 1993, The Free Press, NY NY.

Economists, unlike physicists, are social scientists, but their challenge is similar. When confronted with an apparent anomaly, an economist should seek to explain the phenomenon in the context of what he thinks he knows, rather than simply dismiss theory.

Economic models are not reality; they are simply tools to help us explain human behavior. But some, such as the Fama French three-factor model, can nevertheless be applied usefully in the real world. In the face of exhaustive testing over the years "Modern Portfolio Theory" (MPT) remains robust and as it has been refined it has proven ever more useful in portfolio construction.

Wise investors will construct portfolios under the assumption that capital markets are efficient. There is an inevitable trade off between risk and return. Investors who think otherwise, and who seek a strategy that will consistently outperform the market based on publicly available information, will search in vain.

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 the back page. 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.

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

Recommended HYD Portfolio
As of January 15, 2008

	Rank	*Yield*	*Price*	*Status*	*Percent of Portfolio: Value*	*Percent of Portfolio: No. Shares*[1]
Pfizer	1	5.43%	23.59	Holding**	19.80	30.96
CitiGroup	2	4.75%	26.94	Buying	14.16	19.39
General Motors	3	4.48%	22.28	*		
AT&T Corp	4	4.25%	37.63	Holding**	11.62	11.38
Verizon	5	4.08%	42.17	Holding**	26.15	22.87
JP Morgan Chase	6	3.88%	39.17			
Altria Group	7	3.82%	78.46	Holding	25.49	11.98
Dupont	8	3.63%	45.12			
General Electric	9	3.59%	34.53			
Home Depot	10	3.55%	25.37			
Merck	12	2.61%	58.18	Selling	0.00	0.00
KFT	NA		31.06	Selling	2.67	3.18
IAR	NA		15.34	Selling	0.10	0.25
					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.

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 December 31, 2007)**

	1 mo.	*1 yr.*	*5 yrs.*	*10 yrs.*	*15 yrs.*	*Since 1/79*	*Std. Dev.*
HYD Strategy	-1.70	7.18	15.26	10.77	15.42	18.19	16.95
Russell 1000 Value Index	-0.97	-0.17	14.62	7.68	12.06	14.05	13.83
Dow	-0.66	8.88	12.24	7.43	12.08	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.

RECENT MARKET STATISTICS

Precious Metals & Commodity Prices ($)

	1/15/08	*Mo. Earlier*	*Yr. Earlier*
Gold, London p.m. fixing	**913.00**	789.50	619.75
Silver, London Spot Price	**16.24**	14.01	12.43
Copper, COMEX Spot Price	**3.17**	2.94	2.59
Crude Oil, W. Texas Int. Spot	**91.90**	91.27	52.99
Dow Jones Spot Index	**375.55**	354.43	277.79
Dow Jones-AIG Futures Index	**190.04**	180.65	159.56

Interest Rates (%)

U.S. Treasury bills -	91 day	**3.09**	2.81	5.08
	182 day	**2.95**	3.16	5.13
	52 week	**2.87**	3.28	5.01
U.S. Treasury bonds -	10 year	**3.72**	4.24	4.77
Corporates:				
High Quality -	10+ year	**5.28**	5.64	5.41
Medium Quality -	10+ year	**6.50**	6.79	6.00
Federal Reserve Discount Rate		**4.75**	4.75	6.25
New York Prime Rate		**7.25**	7.25	8.25
Euro Rates	3 month	**4.51**	4.95	3.75
Government bonds -	10 year	**3.97**	4.33	0.00
Swiss Rates -	3 month	**2.65**	2.79	2.13
Government bonds -	10 year	**2.83**	3.03	2.59

Exchange Rates ($)

British Pound	**1.967100**	2.019700	1.958700
Canadian Dollar	**0.983574**	0.986680	0.855600
Euro	**1.484200**	1.443300	1.291900
Japanese Yen	**0.009340**	0.008822	0.000831
South African Rand	**0.146789**	0.145560	0.138600
Swiss Franc	**0.916003**	0.866852	0.801200

Securities Markets

	1/15/08	*Mo. Earlier*	*Yr. Earlier*
S & P 500 Stock Composite	**1,380.95**	1,467.95	1,430.73
Dow Jones Industrial Average	**12,501.11**	13,339.85	12,556.08
Dow Jones Bond Average	**208.35**	202.05	195.23
Nasdaq Composite	**2,417.59**	2,635.74	2,502.82
Financial Times Gold Mines Index	**3,414.59**	2,791.67	2,282.75
FT EMEA (African) Gold Mines	**3,076.65**	2,565.03	2,770.18
FT Asia Pacific Gold Mines	**17,140.82**	14,019.94	8,342.61
FT Americas Gold Mines	**2,851.46**	2,317.25	1,835.13

Coin Prices ($)

	1/15/08	*Mo. Earlier*	*Yr. Earlier*	*Prem (%)*
American Eagle (1.00)	**901.33**	833.42	621.15	-1.28
Austrian 100-Corona (0.9803)	**853.42**	788.83	591.33	-4.65
British Sovereign (0.2354)	**210.85**	195.05	146.85	-1.89
Canadian Maple Leaf (1.00)	**898.10**	830.20	621.40	-1.63
Mexican 50-Peso (1.2057)	**1,051.90**	972.40	729.10	-4.44
Mexican Ounce (1.00)	**872.60**	806.60	604.70	-4.42
S. African Krugerrand (1.00)	**888.25**	821.65	612.75	-2.71
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**950.00**	885.00	645.00	7.55
Liberty (Type I-AU50)	**962.50**	910.00	762.50	8.96
Liberty (Type II-AU50)	**945.00**	890.00	660.00	6.98
Liberty (Type III-AU50)	**920.00**	855.00	625.00	4.15
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**10,900.00**	10,200.00	8,525.00	-6.13
40% Silver Circ. (292 oz.)	**4,450.00**	4,100.00	3,467.50	-6.16
Silver Dollars Circ.	**11,700.00**	11,250.00	9,725.00	-6.87

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $913 per ounce and silver at $16.24 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

THE DOW JONES INDUSTRIALS RANKED BY YIELD*

	Ticker Symbol	*Market Prices ($) 1/15/08*	*12/14/07*	*1/12/07*	*12-Month ($) High*	*Low*	*Latest Dividend Amount ($)*	*Record Date*	*Paid*	*Indicated Annual Dividend ($)*	*Yield† (%)*
Pfizer	PFE	**23.59**	23.10	26.64	27.73	22.24	0.320	2/08/08	3/04/08	1.280	5.43
Citigroup	C	**26.94**	30.70	54.38	55.55	26.50 *L*	0.320	2/04/08	2/22/08	1.280	4.75
General Motors	GM	**22.28**	26.52	30.75	43.20	21.97 *L*	0.250	11/16/07	12/10/07	1.000	4.49
AT&T (New)	T	**37.63**	41.14	34.73	42.97	34.31	0.400	1/10/08	2/01/08	1.600	4.25
Verizon	VZ	**42.17**	44.37	37.33	46.24	35.60	0.430	1/10/08	2/1/08	1.720	4.08
J P Morgan	JPM	**39.17**	45.20	47.99	53.25	38.54 *L*	0.380	1/04/08	1/31/08	1.520	3.88
Altria Group (s)	MO	**78.46**	76.82	66.36	79.59 *H*	62.63	0.750	12/26/07	1/10/08	3.000	3.82
Dupont	DD	**45.12**	44.73	49.73	53.90	42.25 *L*	0.410	11/15/07	12/14/07	1.640	3.63
General Electric	GE	**34.53**	36.91	37.89	42.15	33.90	0.310	12/24/07	1/25/08	1.240	3.59
Home Depot, Inc.	HD	**25.37**	26.63	40.11	42.01	23.77 *L*	0.225	11/29/07	12/13/07	0.900	3.55
McDonald's	MCD	**53.76**	61.16	44.22	63.69	42.31	1.500	11/15/07	12/03/07	1.500	2.79
Merck	MRK	**58.18**	59.57	44.79	61.62	42.35	0.380	12/07/07	1/02/08	1.520	2.61
3M Company	MMM	**77.18**	85.93	79.36	97.00	72.90	0.480	11/23/07	12/12/07	1.920	2.49
Johnson & Johnson	JNJ	**67.76**	67.59	66.64	68.75	59.72	0.415	2/26/08	3/11/08	1.660	2.45
Intel Corp	INTC	**22.69**	26.29	22.13	27.99	18.75	0.128			0.510	2.25
Caterpillar	CAT	**65.40**	73.39	59.74	87.00	57.98	0.360	1/22/08	2/20/08	1.440	2.20
Alcoa	AA	**31.19**	35.19	30.79	48.77	30.13	0.170	11/02/07	11/25/07	0.680	2.18
Coca-Cola	KO	**63.61**	63.81	48.55	65.59 *H*	45.56	0.340	12/01/07	12/15/07	1.360	2.14
Boeing	BA	**77.86**	88.42	88.13	107.83	76.00 *L*	0.400	2/08/08	3/07/08	1.600	2.05
Procter and Gamble	PG	**69.70**	73.90	65.00	75.18	60.42	0.350	1/18/08	2/15/08	1.400	2.01
Wal-Mart Stores	WMT	**46.99**	47.63	47.98	51.44	42.09	0.220	12/14/07	1/02/08	0.880	1.87
United Tech.	UTX	**71.36**	76.69	64.42	82.50	63.45	0.320	11/16/07	12/10/07	1.280	1.79
Honeywell Int'l.	HON	**56.54**	59.98	45.56	62.29	43.14	0.250	11/20/07	12/10/07	1.000	1.77
American Express	AXP	**42.77**	52.29	59.01	65.89	42.52 *L*	0.180	1/04/08	2/08/08	0.720	1.68
Exxon Mobil	XOM	**89.02**	91.18	72.66	95.27	69.02	0.350	11/09/07	12/10/07	1.400	1.57
IBM	IBM	**101.83**	105.77	99.34	121.46	88.77	0.400	11/09/07	12/10/07	1.600	1.57
Amer. Int. Group	AIG	**57.86**	55.65	71.07	72.97	50.86	0.200	3/07/08	3/21/08	0.800	1.38
Microsoft Corp.	MSFT	**34.00**	35.31	31.21	37.50	26.71	0.110	2/21/08	3/13/08	0.440	1.29
Walt Disney	DIS	**29.85**	33.01	35.21	36.79	29.20 *L*	0.350	12/07/07	1/11/08	0.350	1.17
Hewlett-Packard	HPQ	**45.05**	52.14	43.53	53.48	38.15	0.080	12/12/07	1/02/08	0.320	0.71

* See the Recommended HYD Portfolio table on page 6 for current recommendations. † Based on indicated dividends and market price as of 1/15/08. 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. 12-month data begins 1/16/07.

RECOMMENDED INVESTMENT VEHICLES

	Ticker Symbol	Avg. Market Cap./ Avg. Maturity	No. of Holdings	Descriptive Quarterly Statistics, as of 12/31/07 — Ratios: Expense (%)	Sharpe	Turnover (%)	P/B	12 Mo. Yield (%)	Annualized Returns (%), as of 12/31/07 — Total: 1 yr.	3 yr.	5 yr.	After Tax*: 1 yr.	3 yr.	5 yr.
Short/Intermediate Fixed Income														
Vanguard Short-Term Bond Index	BSV[2]	2.7 Yrs.	770	0.11		106		3.83	na	na	na	na	na	na
Vanguard Short-Term Bond Index	VBISX	2.7 Yrs.	770	0.18		106		4.51	7.22	4.18	3.52	5.52	2.69	2.16
Vanguard Short-Term Inv. Grade	VFSTX	3.1 Yrs.	816	0.21		43		4.83	5.86	4.34	3.86	4.08	2.79	2.40
iShares Lehman 1-3 Year Treasury	SHY[1]	1.8 Yrs.	34	0.15		64		4.27	7.30	4.18	3.01	5.69	2.79	1.94
Vanguard Limited-Term Tax-Exempt	VMLTX	3.0 Yrs.	737	0.16		32		3.46	4.32	2.91	2.61	4.32	2.91	2.61
Real Estate														
Vanguard REIT Index	VNQ[2]	5.8 B.	100	0.12	0.30	21	2.6	5.06	-16.38	8.18	na	-17.69	6.69	na
Vanguard REIT Index	VGSIX[3]	5.8 B.	100	0.21	0.29	21	2.6	4.94	-16.46	8.08	17.50	-17.73	6.62	15.73
U.S. Large Cap Value														
Vanguard Value Index	VTV[2]	58.4 B.	395	0.11	0.63	20	2.2	2.74	0.20	9.51	na	-0.19	9.09	na
Vanguard Value Index	VIVAX	58.4 B.	395	0.21	0.62	20	2.2	2.63	0.09	9.40	14.82	-0.29	8.99	14.41
U.S. Small Cap Value														
iShares Russell Microcap Index	IWC[1]	0.4 B.	1401	0.60	na	20	1.8	0.79	-8.77	na	na	-8.97	na	na
Vanguard Small-Cap Value Index	VBR[2]	1.6 B.	922	0.12	0.16	25	1.7	2.42	-6.96	5.66	na	-7.40	5.21	na
Vanguard Small-Cap Value Index	VISVX	1.6 B.	922	0.23	0.15	25	1.7	2.28	-7.07	5.53	14.78	-7.49	5.11	14.34
U.S. Large Cap Growth														
iShares Russell 1000 Growth Index	IWF[1]	37.3 B.	690	0.20	0.49	15	4.2	0.91	11.62	8.49	11.89	11.25	8.27	11.68
Vanguard Growth Index	VIGRX	40.0 B.	430	0.22	0.54	28	4.1	0.81	12.56	8.85	11.72	12.42	8.71	11.58
U.S. Marketwide														
Vanguard Total Stock Market Index	VTI[2]	31.2 B.	3645	0.07	0.57	4	2.8	1.79	5.56	9.01	13.89	5.28	8.72	13.61
Fidelity Spartan Total Market Index	FSTMX[4]	31.1 B.	3376	0.10	0.58	4	2.6	1.58	5.57	9.14	13.85	5.22	8.86	13.59
Foreign- Developed Markets														
iShares MSCI Growth Index	EFG[1]	32.5 B.	561	0.40	na	28	4.1	0.93	16.07	na	na	15.68	na	na
iShares MSCI Value Index	EFV[1]	44.2 B.	554	0.40	na	21	2.1	3.17	5.84	na	na	4.29	na	na
Vanguard Europe Pacific Index	VEA[2]	37.2 B.	1120	0.15	na	4	3.0	na	na	na	na	na	na	na
Vanguard Tax-Managed International	VTMGX[5]	37.2 B.	1120	0.20	1.22	4	3.0	2.18	10.07	16.46	21.60	9.71	16.16	21.34
Vanguard Developed Markets Index	VDMIX[6]	37.6 B.	1156	0.22	1.21	7	3.0	2.85	10.99	16.65	21.48	10.37	16.09	20.92
Foreign- Emerging Markets														
Vanguard Emerging Market Index	VWO[2]	18.7 B.	845	0.30	na	9	3.2	1.88	39.05	na	na	38.47	na	na
Vanguard Emerging Market Index	VEIEX[7]	18.7 B.	846	0.42	1.42	9	3.2	1.77	37.53	32.96	36.12	36.97	32.57	35.78
Gold-Related Funds														
iShares COMEX Gold Trust	IAU[2]		1	0.40				0.00	30.92	na	na	30.92	na	na
streetTRACKS Gold Shares	GLD[1]		1	0.40				0.00	31.08	na	na	31.08	na	na

Recommended Gold-Mining Companies ($)

	Ticker Symbol	1/15/08	Month Earlier	Year Earlier	52-Week High	52-Week Low	Distributions Latest 12 Months	Distributions Frequency	Yield (%)
Anglogold Ltd., ADR	AU	**47.82**	42.87	45.47	51.35	33.80	0.4482	Semiannual	0.9373
Barrick Gold Corp.†	ABX	**50.25**	38.00	29.25	52.60	26.94	0.2550	Semiannual	0.5075
Gold Fields Ltd.	GFI	**16.62**	14.84	17.32	20.70	13.20	0.2575	Semiannual	1.5493
Goldcorp, Inc.†	GG	**36.60**	32.23	26.19	39.94	21.00	0.1530	Monthly	0.4180
Newmont Mining	NEM	**56.12**	47.81	43.21	57.55	38.01	0.4000	Quarterly	0.7128
Rio Tinto PLC‡	RTP	**383.91**	422.50	206.43	484.21	198.24	4.6400	Semiannual	1.2086

The information herein is derived from generally reliable sources, but cannot be guaranteed. American Investment Services, the American Institute for Economic Research, and the officers, employees, or other persons affiliated with either organization may from time to time have positions in the investments referred to herein.

Data provided by the funds and Morningstar. [1] Exchange traded fund, traded on NYSE. [2] Exchange traded fund, traded on AMEX. [3] 1% fee for redemption in 1 yr. [4] 0.5% fee for redemption in 90 days. [5] 1% fee for redemption in 5 yrs. [6] 2% fee for redemption in 60 days. [7] 0.5% fee for purchase and 0.5% fee for redemption. * Calculated using the highest individual federal income tax rates in effect at the time of each distribution and do not reflect the impact of state and local taxes and individual tax situations. † Dividend shown is after 15% Canadian tax withholding. ‡ Not subject to U.K. withholding tax.