INVESTMENT GUIDE

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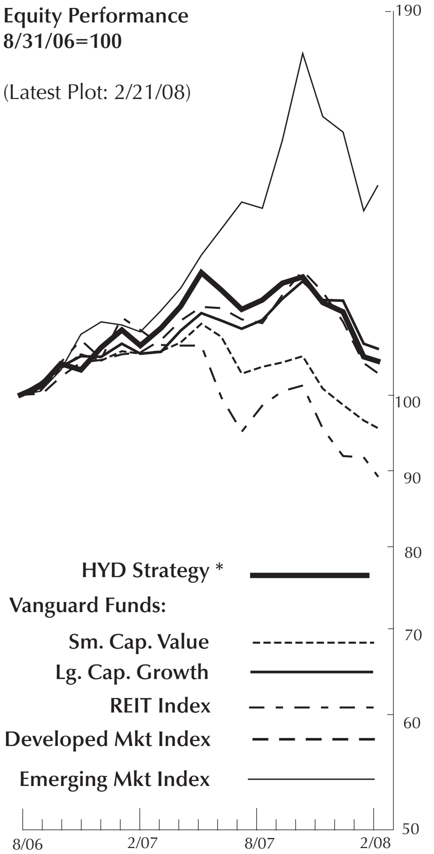

*** HYD is a hypothetical model based on backtested results. See p.14 for full explanation**

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 propertyof 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

Investing and the Broad Economy

The threat of recession is all over the news, forcing many investors (those without a plan) to panic. Our readers should take heart; our recommended portfolios have been researched rigorously, and while no investment plan is perfect, we are highly confident that those who do not waiver from our approach will be rewarded for their patience.

As we explained in our May 2007 issue ("Investing and the Business Cycle"), business-cycle indicators are not useful as a means of timing security investments. Business cycles are inevitable, but their beginning dates cannot be identified far in advance and their magnitude is unpredictable. Furthermore, even if in retrospect we could identify an apparent link between business cycles and securities markets, estimates of economic turning points are not sufficiently reliable to warrant attempts to time the market.

The table on the following page presents the performance of hypothetical portfolios during the past two U.S. recessions. Our model portfolios held up respectably in absolute terms; the worst result was a 2.7 percent loss in our most aggressive portfolio.

In relative terms these "backtested" results indicate that our model portfolios would also have held up reasonably well. Our most aggressive hypothetical portfolio would have underperformed a "conventional" 60 percent stock/40 percent bond portfolio during both recessions, as we would expect since it is designed to assume greater risk in order to capture higher returns. However, during expansions investors can expect that the aggressive portfolio, which includes no bonds or cash, will generally outpace the 60/40 structure. For comprehensive risk and return parameters for our model portfolios see our January 2008 issue. These figures are updated every calendar quarter.

Our job is to identify, through empirical analysis, all asset classes worthy of inclusion in investors' portfolios, and, once those asset classes have been identified, to assess all investment vehicles available to the investing public, and identify those that capture the risk and return profile of those asset classes most efficiently. Our conclusions are based on data, and thus far the data suggests that our recommendations should be made independently of changes in the business cycle.

Hypothetical Portfolio Performance* During Recent Recessions

Recession (Beginning- Ending)	AIS Conservative Portfolio	AIS Moderate Portfolio	AIS Aggressive Portfolio	S&P500	LB Agg. Bond	60% S&P500/ 40% LB Agg. Bond
			Total Return Over Period (Annual Rebalancing)			
Jul 1990-Mar 1991	7.02%	6.03%	3.30%	7.64%	8.93%	8.48%
Mar 2001-Nov 2001	2.70%	1.30%	-2.70%	-7.18%	6.45%	-1.45%

* 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.

Note: Representative Indexes used in AIS portfolios: 3 Month CD Index, Lehman Brothers 1- 5 Yr Govt/Cred, DJ Wilshire Real Estate Securities TR Index, Russell 1000 Growth Russell Index (USD), Russell 1000 Value Index (USD) Index (USD), Russell 2000 Value Index (USD), DFA US Micro Cap Portfolio (USD), MSCI EAFE Index (USD) Gross Div, MSCI Emerging Mkts. Index (USD) Gross Div, Gold EOM gold (London PM Fix)

CHANGES IN THE DOW JONES INDUSTRIAL AVERAGE

On February 11 Dow Jones & Company announced that the editors of the Wall Street Journal had changed the lineup of the 30 common stocks that comprise the Dow Jones Industrial Average. Altria (MO) and Honeywell (HON) were replaced by Bank of America (BAC) and Chevron (CVX). The announcement marked the first such change since 2004.

The adjustment was prompted by Altria's pending spin-off of Philip Morris International (ticker PMI, see box). Altria will be a much smaller firm, serving the domestic tobacco market only, though it will maintain a passive investment in UK based SABMiller. The editors took the opportunity to review all of the current firms in the Dow and also decided to drop Honeywell, which is the smallest of the 30 firms in revenues and earnings.

The editors' challenge is to maintain a price-weighted index of only 30 stocks that will serve as a useful gauge of the overall U.S. stock market, which includes over 7,000 listings. Though the Dow already includes four financial stocks (J.P. Morgan, American Express, Citigroup and AIG) the overall market is still heavily weighted toward this sector, so Bank of America was added. Similarly, the board added Chevron as rising energy prices have increased the market capitalization of energy stocks relative to the U.S. stock market. The editors made the addition despite having dropped Chevron from the index in November 1999, when oil was selling for roughly $10 per barrel.

Implications for the HYD Model

This change became effective on February 19, the first day an investor would have had the opportunity to place monthly trades in accordance with our "4-for 18" model, which is based on closing prices as of the 15th of each month. Bank of America instantly qualified as a "buy" candidate, since its yield (5.99 percent) made it the highest yielding stock among the Dow 30. Chevron (dividend yield 2.78 percent) did not qualify as a buy. Honeywell will merely be dropped from the Dow 30, with no impact on the high yield Dow model.

Investors who have accumulated shares of Altria will receive shares of Philip Morris International, Inc. (see Box). As Altria will no longer be a Dow component, its shares will be sold out of the model over the next 18 months. The spin-off will also be sold off incrementally (just as the model has been selling off shares of Kraft, which was similarly spun off to shareholders in March 2007).

Investors with relatively small positions in spin-offs will find that incremental monthly sales are impractical because of the lot sizes and brokerage costs (for example, see the current holdings of IAR and KFT in the Recommended HYD Portfolio on page 14). In this case we suggest selling all shares in a single lot. For taxable accounts this should be done in a manner that avoids short-term treatment of gains.

Readers can ensure that their holdings are in line with the model throughout this transition simply by keeping their portfolios in line with our model allocation, which are updated every month (see table on page 14).

Altria Announces Philip Morris Spin-off

"The Board of Directors of Altria Group, Inc. (Altria) voted on January 30, 2008, to authorize the spin off of 100% of the shares of Philip Morris International Inc. (PMI) to Altria's shareholders. The distribution will be made on March 28, 2008 (the Distribution Date), to Altria shareholders of record as of 5:00 p.m. New York City Time on March 19, 2008 (the Record Date). Altria will distribute one share of PMI for every share of Altria stock outstanding as of the Record Date, based on the number of Altria shares outstanding at 5:00 p.m. New York City Time on that date."
www.altria.com

HEALTH SAVINGS ACCOUNTS ARE THEY RIGHT FOR YOU?

The following article is the first of a two part series designed to illuminate the benefits of Health Savings Accounts (HSAs) for both health care consumers and investors. Their advantages have gone largely unheralded despite a rising chorus of voices decrying rising health care costs.

Health Savings Accounts have come a long way since their inception five years ago. Since January 2004, when Congress created them as an improvement upon less flexible Medical Savings Accounts (MSA), over six million HSAs have been opened. Much of the growth has been in employer sponsored plans, both small and large, but individual HSAs have also proven popular, especially among doctors, lawyers, dentists, CPAs, and other professionals.

Many people across the world envy the United States as the home of the best health care available anywhere. But these benefits – highly specialized physicians, world class hospitals, state of the art technology, and life saving drugs—do no come cheaply. According to the AIER Cost of Living Guide, the overall consumer price index rose 66.6 percent over the past 17 years, but health care components have risen much faster; hospital services, nursing home, adult day care have risen by 206.3 percent, prescription drugs by 116.9 percent, and physicians services by 98.5 percent.

It is not at all clear that these statistics constitute a "crisis" in health care, as many claim. Consumers spend a great deal of their disposable income on health care presumably because they choose to do so—developments in medical technology that would have seemed miraculous just a few decades ago are now available, and we are willing to pay for them.

But there are other forces that have distorted health care costs. Chief among them is the fact that consumers of health care in the U.S. do not, for the most part, pay for the services they receive. Most of us typically go to the doctor's office, receive treatment, make a small co-payment, and walk out. We have no idea of how much that treatment costs and even worse we do not care, because a third-party (i.e. our HMO, Medicare, or Medicaid) covers most of these expenses. Because we do not shop for these services, as we do for our groceries, our shelter, our clothing and most everything else, rising prices meet no resistance.

Choice to the Rescue

HSAs constitute an attempt to restore consumer discipline to health care. The concept is fairly simple: individuals or employees first purchase a high deductible (no greater than $5,600 for individuals, $11,200 for families) health insurance policy either on their own or through their employer. The premiums on these policies, which are specifically designated as "HSA qualified", are typically much lower than, for example, those paid to HMOs. This generates real savings that can be used to fund a savings account (an HSA) that can be used to cover medical expenses not covered by the high deductible policy. These accounts are individually owned and managed.

Contributions to an HSA account are 100 percent tax deductible from Federal income taxes as well as most state income taxes, and withdrawals for eligible medical expenses are made tax free[1] . What is not used continues to accumulate tax free. This "use it or keep it" feature is perhaps the greatest appeal of the HSA concept – health care consumers get to keep what they do not spend. From a tax perspective HSAs are arguably the most generous accounts for individuals sanctioned by the Federal government. What other accounts permit fully deductible contributions, tax free growth and qualified withdrawals that are untaxed?

"From a tax perspective HSAs are arguably the most generous accounts for individuals sanctioned by the Federal government. What other accounts permit fully deductible contributions, tax free growth and qualified withdrawals that are untaxed?"

From an investor standpoint HSAs are essentially tax free medical IRAs. They are in one person's name only, and depending on the health insurance coverage, can be either single accounts or family accounts. The maximum that can be contributed for the tax year 2008 is $2,900 for single accounts and $5,800 for family accounts. Account holders who are age 55 or over by December 31, 2008 can add an additional $900 to their account. These limits are indexed to the CPI.

As is the case with an IRA, HSAs are individually owned, so a beneficiary must be named. If the account holder selects a spouse as beneficiary the advantages provided to the original owner continue for the surviving spouse. If anyone else is named beneficiary, the account is taxed in the same manner as any other IRA-type vehicle.

Only withdrawals made for eligible medical expenses escape taxation, but most any expenditure of a medical or dental nature, (except elective procedures such as cosmetic work) will qualify. Thus common medical expenses such as doctor visits, x-rays, hospital stays, and nursing home care are covered up to the high deductible insurance threshold. It also includes prescription drugs and many over the counter drugs, including cold medicines. All dental work, including orthodontic work for children, is eligible. Eyeglasses, contact lenses and solutions, and even Lasik surgery are eligible for tax free withdrawals. There is no time limit on eligible expenditures; funds can be withdrawn throughout the owner's lifetime as long as the expense was incurred after the date the account was established.

There is no requirement that medical costs be paid from this savings account; if they can afford it, HSA owners are free to pay medical expenses with after-tax dollars, while allowing their HSA to grow tax free. Consumers who shop carefully and invest their accounts prudently can create quite a substantial nest egg, and in later years can make tax-free withdrawals to pay directly for long-term care. Even some insurance premiums, Long Term Care insurance, COBRA, and Medicare Part B and D can be paid for with tax-free HSA withdrawals. One can even withdraw from the HSA for eligible medical expenses for family members, even if the account was established for an individual only, as long as the recipient of the services is a dependent for tax purposes.

The Employer's Choices

The greatest growth in HSAs has been in the employer sponsored area. Although each account is owned exclusively

[1] Withdrawals can be taken at any time, however, withdrawals for *non-medical* purposes are subject to ordinary income taxes in the year withdrawn, and incur a 10% penalty if taken before age 65.

by the employee, employers can play an important role by (1) providing the qualified high deductible health insurance coverage through a high-deductible group policy, (2) allowing employees to contribute to their account automatically through payroll withholding, and (3) making employer contributions to the employee's account. These contributions are deductible as a business expense but not taxable to the employee (employer contributions to the HSA must be comparable for all participants).

Employer's can therefore minimize health care costs by providing employees with an incentive to spend their health care dollars wisely. The employer should seek the advice of a knowledgeable insurance agent or consultant to design a proper plan. Important variables include employee education, alternative insurance plan(s) that can be offered alongside an HSA plan, the particular high-deductible policy chosen, the portion of the insurance premium to be paid by the employer (versus the employee), and the amount that the employer chooses to contribute to the HSA.

Employers who switch to an HSA plan often enjoy reduced insurance premiums for the policies maintained for their employees. These savings can be used to fund contributions to the employees' accounts, which further encourage HSA participation.

If a HSA deductions are taken through a Section 125 Cafeteria plan, both employers and employees avoid not just Federal income tax, but also FICA tax. ("Flexible Spending Accounts", however, are not permissible).

[redacted]

Investment Options: More Choices

Because they are similar to an IRA account, there are very few statutory restrictions with regard to how an HSA account can be invested. Investment options typically depend on the range of choices provided by the custodian selected by the employer. Most custodians offer a low-interest bank checking account; these generally come with a debit card. Some custodians offer mutual funds, but access to funds often requires that a minimum balance be maintained in the checking account.[2]

HSA account holders tend to be either "spenders" or "investors." Those who plan to use the account frequently are more concerned with maintaining an adequate balance to draw upon. They are willing to accept lower returns in exchange for greater stability, so they typically stick with a checking account, at least until they accumulate a large enough balance to warrant some exposure to bond or common stock mutual funds. Investors, on the other hand, typically feel comfortable that they will be able to cover medical expenses with after tax dollars, so they accept greater volatility inherent in these mutual funds in exchange for higher potential returns.

Caveats

There are restrictions – not everyone can open an HSA. One cannot be:

1. Covered by any other health insurance, including a spouse's plan.
2. Covered by a flexible spending account (or that of a spouse).
3. Enrolled in Tricare or Medicare Part A or B.
4. A dependent on anyone else's tax return.

HSA owners must be careful record keepers. Withdrawals will be reported to the IRS and account owners will be expected to provide medical receipts in the event of an audit.

HSA detractors often claim that HSAs are flawed because only relatively healthy individuals will be attracted to HSAs. That means that relatively unhealthy people will be concentrated in alternatives (such as HMOs) which will ultimately become untenable as the "risk pool" that would otherwise have included a mix of healthy and unhealthy workers will be undermined.

It remains to be seen whether this scenario will unfold, however there is reason to believe that even the unhealthy will benefit from an HSA. All health insurance plans require some out-of-pocket expenditure. For example, HMOs may require co-pays for doctor visits, same-day surgery, and hospital stays. Coinsurance may also apply; the consumer may for example, be required to pay 20 percent of some expenses after the deductible has been satisfied. These traditional plans have an overall out-of-pocket limit, after which the insurance company pays 100 percent of medical expenses, however, this limit is often higher on traditional plans (including many HMOs) than it is on the HSA qualified high deductible plan. At the end of the day even consumers in poor health may end up paying more through a traditional plan versus an HSA arrangement.

Notably, whatever the individual pays out-of-pocket, it is not likely to be tax deductible under the traditional approach since only medical expenditures in excess of 7.5 percent of adjusted gross income are deductible. Payments made through an HSA, however, are made 100 percent tax free.

HSAs are not always and everywhere

[2] Plans offered by Health Savings Administrators (www.HSAadministrators.com) provide a variety of low-cost funds from the Vanguard Group, and a minimum checking account balance is not required.

superior to traditional plans. In comparing HMOs, or other traditional plans, with HSAs, the "devil is in the details" so employers and employees must carefully review all of the provisions offered under either type of plan. One must carefully compare deductibles, coinsurance, out-of-pocket limits, premiums and other features, since both models allow providers to offer numerous variations. However, it is clear HSAs comprise a whole new world of opportunity in health care coverage. Consumers and employers would be remiss to ignore them.

Next month, we will examine HSAs in greater depth. We will discuss how these plans are being used, the pros and cons of various techniques, the implications for S-Corp and LLCs, and planning for post-retirement health care needs.

A READER INQUIRES

"When a mutual fund makes a distribution, is it prudent to stipulate that the fund automatically reinvest these proceeds in additional shares of the same fund? This would seem to make sense since I avoid the transaction fee that my broker would otherwise charge if I made a deliberate purchase of these shares."

For clients in our Professional Asset Management (PAM) program, we typically stipulate that all dividends, interest, and mutual fund distributions be "swept" to the client's money market fund, rather than specifying that distributions be reinvested in additional shares of the same fund. This policy provides greater flexibility for investors who follow a structured, passive approach to portfolio management.

Consider an investor with an investment portfolio based on our recommended asset classes, and that it includes an emerging markets mutual fund. Suppose that the emerging market fund's value had increased a great deal relative to the other asset classes in the portfolio. Rebalancing may well indicate that the investor should reduce his exposure to emerging markets in order to purchase shares of some other asset class or classes. However, if the emerging market fund has made a large distribution, an automatic reinvestment policy would instead reinvest these proceeds in additional shares, precisely when his allocation targets suggest selling them. The investor would then have to incur transaction costs, and possibly realize taxable capital gains, by subsequently selling shares of the emerging market fund, in order to maintain his portfolio target allocations.

On the other hand, if the investor were to instead allow his distributions to accumulate with interest in a money market fund, this pool of cash would be available to purchase shares selectively, exactly in accordance with the client's particular allocation plan, when appropriate.

There are additional considerations that favor cash over reinvesting. For example, investors who have liquidity needs may also prefer to have distributions held in their money market account so that they can write checks, wire funds or pay bills electronically. If mutual fund shares are reinvested, the investor may have to sell shares to meet spending needs, which may be planned or may arise unexpectedly.

Automatically reinvesting distributions can also create headaches for owners of taxable accounts. In order to avoid paying the tax man twice, an investor must take care to record each purchase of additional shares in order to increase his or her cost basis accordingly. Automatic purchases tend to be numerous and small compared with purchases driven by deliberate portfolio rebalancing. An investor must diligently monitor his holdings to ensure that none of these escape notice.

Mutual funds generally make the largest distributions at year-end. This cash flow and tax-loss harvesting opportunities trigger rebalancing. Carefully review the timing of fund distributions when contemplating rebalancing trades to avoid "buying" a taxable distribution. Deferring purchases to January will make the process less complicated.

Citigroup Regroups

Amidst sub-prime mortgage woes, Citigroup's board of directors announced on January 15 that it was reducing the firm's quarterly dividend on the firm's common stock from $0.54 to $0.32 per share.

Dividend cuts among the Dow 30 stocks do not occur frequently. In fact our high-yield Dow model relies on the fact that most firms in the Dow maintain or increase their dividend from year-to-year. When dividends are not reduced, investors can very often realize gains from share price appreciation by incrementally purchasing stocks with relatively high yields and selling those with low relative yields, in accordance with our monthly recommendations.

However, on those rare occasions when a stock in the high-yield Dow model is cut, the firm's dividend yield typically falls as result of a lower numerator (the dividend) rather than a higher denominator (the share price). In that case the shares can quite possibly be sold out of the model at a loss.

Citigroup shares, however, despite this dramatic dividend cut, are not yet being sold from the model. The day the dividend cut was announced the firm's share price dropped dramatically as well, by nearly 8 percent. As a result the firm's dividend yield fell from 7.5 percent to 4.8 percent, which only dropped Citigroup's relative yield ranking among the Dow stocks from first to second. As of February 15 it was the third highest-yielding stock in Dow, so these shares are still being purchased.

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. How-ever, 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 **Pfizer** was not eligible for purchase 18 months earlier. HYD investors should find that the indicated purchases of **Bank of America**, which was added to the Dow this month, and sales of **AT&T** and **Altria Group** are sufficiently large to warrant trading. In larger accounts, rebalancing positions in **Citigroup** and **Verizon** may be warranted.

Recommended HYD Portfolio
As of February 15, 2008

	Rank	Yield	Price	Status	Percent of Portfolio: Value	Percent of Portfolio: No. Shares[1]
Bank of America	1	5.99%	42.70	Buying	1.52	1.21
Pfizer	2	5.73%	22.33	Buying	21.32	32.48
Citigroup	3	5.02%	25.48	Holding**	15.02	20.06
Verizon	4	4.54%	37.83	Holding**	24.95	22.44
AT&T Corp	5	4.22%	37.88	Selling	10.82	9.72
General Motors	6	3.83%	26.13	*		
General Electric	7	3.61%	34.37			
Dupont	8	3.61%	45.49			
JP Morgan Chase	9	3.51%	43.25			
Home Depot	10	3.27%	27.52			
Altria Group	NA		72.53	Selling	23.79	11.16
KFT	NA		31.33	Selling	2.52	2.74
IAR	NA		9.08	Selling	0.05	0.19
					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 January 31, 2008)**

	1 mo.	1 yr.	5 yrs.	10 yrs.	15 yrs.	Since 1/79	Std. Dev.
HYD Strategy	-3.50	-0.18	16.40	10.80	14.86	17.99	16.95
Russell 1000 Value Index	-4.01	-5.38	14.25	7.40	11.55	13.85	13.84
Dow	-4.49	2.56	11.97	6.93	11.71	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 ($)

	2/15/08	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**912.50**	913.00	664.75
Silver, London Spot Price	**17.38**	16.24	13.98
Copper, COMEX Spot Price	**3.53**	3.17	2.66
Crude Oil, W. Texas Int. Spot	**95.50**	91.90	57.99
Dow Jones Spot Index	**398.82**	375.55	293.89
Dow Jones-AIG Futures Index	**199.57**	190.04	166.75
Reuters-Jefferies CRB Index	**384.22**	365.57	303.80

Interest Rates (%)

	2/15/08	Mo. Earlier	Yr. Earlier
U.S. Treasury bills - 91 day	**2.16**	3.09	5.02
182 day	**2.02**	2.95	5.06
52 week	**2.02**	2.87	5.03
U.S. Treasury bonds - 10 year	**3.76**	3.72	4.71
Corporates:			
High Quality - 10+ year	**5.61**	5.28	5.38
Medium Quality - 10+ year	**6.90**	6.50	6.26
Federal Reserve Discount Rate	**3.50**	4.75	6.25
New York Prime Rate	**6.00**	7.25	8.25
Euro Rates 3 month	**4.34**	4.51	3.78
Government bonds - 10 year	**3.95**	3.97	0.00
Swiss Rates - 3 month	**2.75**	2.65	2.21
Government bonds - 10 year	**2.83**	2.83	2.54

Exchange Rates ($)

	2/15/08	Mo. Earlier	Yr. Earlier
British Pound	**1.961300**	1.967100	1.952300
Canadian Dollar	**0.998200**	0.983574	0.857000
Euro	**1.467400**	1.484200	1.307200
Japanese Yen	**0.009288**	0.009340	0.008259
South African Rand	**0.130548**	0.146789	0.138500
Swiss Franc	**0.916338**	0.916003	0.803800

Securities Markets

	2/15/08	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,349.99**	1,380.95	1,456.81
Dow Jones Industrial Average	**12,348.21**	12,501.11	12,765.01
Dow Jones Bond Average	**207.66**	208.35	198.21
Nasdaq Composite	**2,321.80**	2,417.59	2,497.10
Financial Times Gold Mines Index	**3,090.70**	3,414.59	2,454.73
FT EMEA (African) Gold Mines	**2,460.07**	3,076.65	2,933.79
FT Asia Pacific Gold Mines	**14,643.24**	17,140.82	8,503.57
FT Americas Gold Mines	**2,716.95**	2,851.46	2,000.88

Coin Prices ($)

	2/15/08	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	**947.03**	901.33	677.35	3.78
Austrian 100-Corona (0.9803)	**896.92**	853.42	644.72	0.27
British Sovereign (0.2354)	**221.45**	210.85	159.85	3.09
Canadian Maple Leaf (1.00)	**943.80**	898.10	677.60	3.43
Mexican 50-Peso (1.2057)	**1,105.50**	1,051.90	794.80	0.48
Mexican Ounce (1.00)	**917.00**	872.60	659.20	0.49
S. African Krugerrand (1.00)	**933.15**	888.25	667.85	2.26
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**972.50**	950.00	687.50	10.16
Liberty (Type I-AU50)	**1,000.00**	962.50	762.50	13.27
Liberty (Type II-AU50)	**965.00**	945.00	682.50	9.31
Liberty (Type III-AU50)	**940.00**	920.00	660.00	6.47
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**12,150.00**	10,900.00	9,475.00	-2.23
40% Silver Circ. (292 oz.)	**4,987.50**	4,450.00	3,852.50	-1.72
Silver Dollars Circ.	**13,425.00**	11,700.00	9,937.50	-0.15

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $912.5 per ounce and silver at $17.38 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 ($) 2/15/08	1/15/08	2/15/07	12-Month ($) High	Low	Latest Dividend Amount ($)	Record Date	Paid	Indicated Annual Dividend ($)	Yield† (%)
Bank of America	BAC	**42.70**	37.88	53.85	54.17	33.12 *L*	0.640	3/07/08	3/28/08	2.560	6.00
Pfizer	PFE	**22.33**	23.59	26.53	27.73	21.56 *L*	0.320	2/08/08	3/4/08	1.280	5.73
Citigroup	C	**25.48**	26.94	54.21	55.55	22.36 *L*	0.320	2/04/08	2/22/08	1.280	5.02
Verizon	VZ	**37.83**	42.17	38.40	46.24	35.40 *L*	0.430	1/10/08	2/1/08	1.720	4.55
AT&T (New)	T	**37.88**	37.63	37.23	42.97	33.32 *L*	0.400	1/10/08	2/1/08	1.600	4.22
General Motors	GM	**26.13**	22.28	36.44	43.20	21.34 *L*	0.250	2/15/08	3/10/08	1.000	3.83
General Electric	GE	**34.37**	34.53	36.14	42.15	32.92 *L*	0.310	2/25/08	4/25/08	1.240	3.61
Dupont	DD	**45.49**	45.12	51.77	53.90	41.26 *L*	0.410	2/15/08	3/14/08	1.640	3.61
J P Morgan	JPM	**43.25**	39.17	51.21	53.25	37.66 *L*	0.380	1/04/08	1/31/08	1.520	3.51
Home Depot, Inc.	HD	**27.52**	25.37	41.66	41.80	23.77	0.225	11/29/07	12/13/07	0.900	3.27
Merck	MRK	**47.53**	58.18	43.88	61.62	42.32 *L*	0.380	12/07/07	1/2/08	1.520	3.20
Chevron	CVX	**83.40**	88.27	71.36	95.50	64.99	0.580	2/15/08	3/10/08	2.320	2.78
McDonald's	MCD	**55.30**	53.76	44.98	63.69	42.31	0.375	3/03/08	3/17/08	1.500	2.71
Johnson & Johnson	JNJ	**62.90**	67.76	65.79	68.85 *H*	59.72	0.415	2/26/08	3/11/08	1.660	2.64
Intel Corp	INTC	**20.11**	22.69	21.31	27.99	18.05 *L*	0.128	2/07/08	3/1/08	0.510	2.54
3M Company	MMM	**79.95**	77.18	76.91	97.00	72.05 *L*	0.500	2/22/08	3/12/08	2.000	2.50
Coca-Cola	KO	**58.76**	63.61	47.85	65.59	45.56	0.340	12/01/07	12/15/07	1.360	2.31
Procter and Gamble	PG	**66.30**	69.70	64.99	75.18	60.42	0.350	1/18/08	2/15/08	1.400	2.11
Caterpillar	CAT	**69.95**	65.40	67.62	87.00	59.60	0.360	1/22/08	2/20/08	1.440	2.06
Alcoa	AA	**35.72**	31.19	34.71	48.77	26.69 *L*	0.170	2/08/08	2/25/08	0.680	1.90
Boeing	BA	**85.18**	77.86	91.71	107.83	74.12 *L*	0.400	2/08/08	3/7/08	1.600	1.88
United Tech.	UTX	**71.53**	71.36	68.93	82.50	63.45	0.320	2/15/08	3/10/08	1.280	1.79
Wal-Mart Stores	WMT	**49.44**	46.99	48.36	51.48 *H*	42.09	0.220	12/14/07	1/2/08	0.880	1.78
Amer. Int. Group	AIG	**46.11**	57.86	69.12	72.97	44.10 *L*	0.200	3/07/08	3/21/08	0.800	1.73
Exxon Mobil	XOM	**85.37**	89.02	75.34	95.27	69.02	0.350	2/11/08	3/10/08	1.400	1.64
American Express	AXP	**45.11**	42.77	58.85	65.89	41.15 *L*	0.180	1/04/08	2/8/08	0.720	1.60
Microsoft Corp.	MSFT	**28.42**	34.00	29.46	37.50	26.71	0.110	2/21/08	3/13/08	0.440	1.55
IBM	IBM	**106.16**	101.83	98.92	121.46	88.77	0.400	2/08/08	3/10/08	1.600	1.51
Walt Disney	DIS	**32.49**	29.85	34.67	36.79	26.30 *L*	0.350	12/07/07	1/11/08	0.350	1.08
Hewlett-Packard	HPQ	**43.87**	45.05	42.68	53.48	38.15	0.080	3/12/08	4/2/08	0.320	0.73

* See the Recommended HYD Portfolio table on page 14 for current recommendations. † Based on indicated dividends and market price as of 2/15/08.
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 2/16/07. Bank of America and Chevron officially replaced Altria Group and Honeywell on 2/19/08. We included these two stocks in the table as though the replacement took place one business day earlier (on 2/15/08).

RECOMMENDED INVESTMENT VEHICLES

	Ticker Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Expense (%)	Sharpe	Turnover (%)	P/B	12 Mo. Yield (%)	Total 1 yr.	Total 3 yr.	Total 5 yr.	After Tax* 1 yr.	After Tax* 3 yr.	After Tax* 5 yr.
			Descriptive Quarterly Statistics, as of 12/31/07		Ratios				Annualized Returns (%), as of 1/31/08					
Short/Intermediate Fixed Income														
Vanguard Short-Term Bond Index	BSV[2]	2.7 Yrs.	770	0.11	--	106	--	--	--	--	--	--	--	--
Vanguard Short-Term Bond Index	VBISX	2.7 Yrs.	770	0.18	--	106	--	4.51	9.21	4.89	3.94	5.93	3.27	2.55
Vanguard Short-Term Inv. Grade	VFSTX	3.1 Yrs.	816	0.21	--	43	--	4.83	7.17	4.84	4.10	4.62	3.20	2.63
iShares Lehman 1-3 Year Treasury	SHY[1]	1.8 Yrs.	34	0.15	--	64	--	4.27	8.92	4.80	3.37	7.29	3.41	2.29
Vanguard Limited-Term Tax-Exempt	VMLTX	3.0 Yrs.	737	0.16	--	32	--	3.46	6.06	3.52	2.93	6.06	3.52	2.93
Real Estate														
Vanguard REIT Index	VNQ[2]	5.8 B.	100	0.12	0.30	21	2.6	5.06	-23.23	11.28	--	-14.90	9.09	--
Vanguard REIT Index	VGSIX[3]	5.8 B.	100	0.21	0.29	21	2.6	4.94	-23.28	11.19	18.06	-14.94	9.02	14.99
U.S. Large Cap Value														
Vanguard Value Index	VTV[2]	58.4 B.	395	0.11	0.63	20	2.2	2.74	-4.79	8.71	--	-2.56	7.48	--
Vanguard Value Index	VIVAX	58.4 B.	395	0.21	0.62	20	2.2	2.63	-4.90	8.60	14.52	-2.65	7.38	12.72
U.S. Small Cap Value														
iShares Russell Microcap Index	IWC[1]	0.4 B.	1401	0.60	na	20	1.8	0.79	-16.90	--	--	-16.99	--	--
Vanguard Small-Cap Value Index	VBR[2]	1.6 B.	922	0.12	0.16	25	1.7	2.42	-12.08	5.70	--	-7.52	4.76	--
Vanguard Small-Cap Value Index	VISVX	1.6 B.	922	0.23	0.15	25	1.7	2.28	-12.18	5.57	14.90	-7.60	4.66	12.96
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	0.37	6.79	10.64	0.23	6.65	10.47
Vanguard Growth Index	VIGRX	40.0 B.	430	0.22	0.54	28	4.1	0.81	0.91	6.97	10.46	0.77	5.98	9.11
U.S. Marketwide														
Vanguard Total Stock Market Index	VTI[2]	31.2 B.	3645	0.07	0.57	4	2.8	1.79	-2.67	7.73	13.06	-1.36	6.63	11.42
Fidelity Spartan Total Market Index	FSTMX[4]	31.1 B.	3376	0.10	0.58	4	2.6	1.58	-2.65	7.85	13.02	na	na	na
Foreign- Developed Markets														
iShares MSCI Growth Index	EFG[1]	32.5 B.	561	0.40	na	28	4.1	0.93	4.76	--	--	4.68	--	--
iShares MSCI Value Index	EFV[1]	44.2 B.	554	0.40	na	21	2.1	3.17	-4.37	--	--	-4.97	--	--
Vanguard Europe Pacific Index	VEA[2]	37.2 B.	1120	0.15	na	4	3.0	--	--	--	--	--	--	--
Vanguard Tax-Managed International	VTMGX[5]	37.2 B.	1120	0.20	1.22	4	3.0	2.18	0.22	14.09	20.67	0.76	12.32	18.48
Vanguard Developed Markets Index	VDMIX[6]	37.6 B.	1156	0.22	1.21	7	3.0	2.85	0.96	14.21	20.53	1.12	12.15	18.03
Foreign- Emerging Markets														
Vanguard Emerging Market Index	VWO[2]	18.7 B.	845	0.30	na	9	3.2	1.88	24.38	--	--	16.35	--	--
Vanguard Emerging Market Index	VEIEX[7]	18.7 B.	846	0.42	1.42	9	3.2	1.77	23.00	27.91	32.93	15.42	24.44	29.68
Gold-Related Funds														
iShares COMEX Gold Trust	IAU[2]	--	1	0.40	--	--	--	0.00	40.96	--	--	40.96	--	--
streetTRACKS Gold Shares	GLD[1]	--	1	0.40	--	--	--	0.00	39.30	--	--	39.30	--	--

Recommended Gold-Mining Companies ($)

	Ticker Symbol	2/15/08	Month Earlier	Year Earlier	52-Week High	52-Week Low	Distributions last 12 Months	Distributions Frequency	Yield (%)
Anglogold Ltd., ADR	AU	**33.75**	47.82	47.94	51.35	33.44	0.1931	Semiannual	0.5721
Barrick Gold Corp.†	ABX	**47.59**	50.25	31.51	54.00	26.94	0.2550	Semiannual	0.5358
Gold Fields Ltd.	GFI	**13.22**	16.62	17.79	20.70	13.10	0.2575	Semiannual	1.9478
Goldcorp, Inc.†	GG	**36.86**	36.60	28.67	39.94	21.00	0.1530	Monthly	0.4151
Newmont Mining	NEM	**47.89**	56.12	46.51	57.55	38.01	0.4000	Quarterly	0.8352
Rio Tinto PLC‡	RTP	**435.55**	383.91	221.66	484.21	199.15	5.4400	Semiannual	1.2490

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.