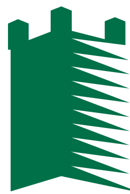

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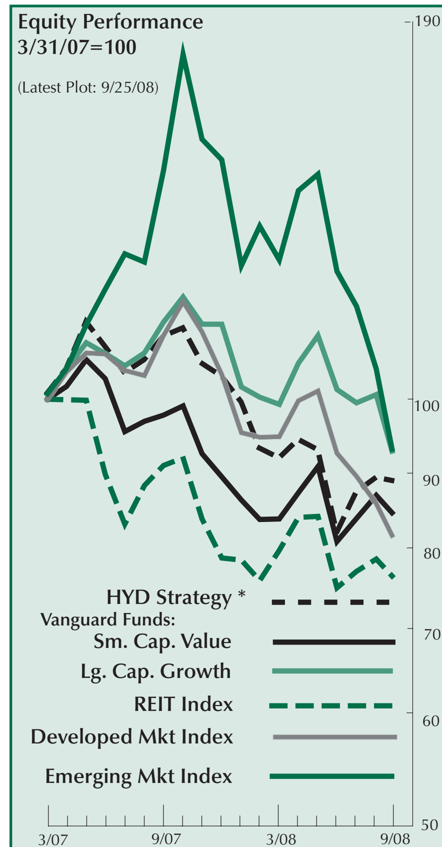

* HYD is a hypothetical model based on back-tested results. See p.70 for full explanation

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 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

Risk Management and the Death of Wall Street (As We Know It)

Investors have experienced the most dramatic upheaval in capital markets since the Great Depression. On several recent days your portfolio has probably experienced tremendous swings. However, thanks to prudent diversification that includes portfolio insurance in the form of gold, cash and short-term bonds, and most importantly by avoiding needlessly complex investment vehicles, we are confident that our readers and clients have fared far better than most.

We realize that good *relative* performance may be of little consolation when your portfolio's dollar value may have fallen precipitously. But you should be encouraged to know that by choosing our approach you are well poised to participate in a new and more competitive era in financial services. Our clients, and we suspect most of our readers, do not hold their financial assets with wealth management units affiliated with Merrill Lynch, Bear Stearns, Lehman Brothers, Goldman Sachs or Morgan Stanley, which have either declared bankruptcy, been bought out by other entities or have been transformed into bank holding companies.

Our recommendations never included the various mortgage-backed or other derivative products that have brought down these once-venerable firms. Our clients' assets, and hopefully those of our readers, are instead held by discount brokers such as Charles Schwab, TD Ameritrade, Fidelity and others. These firms have avoided the entanglements of investment banking and relying on profits from proprietary trading, choosing instead to focus resources on providing account services for individual clients.

Wary investors are fleeing major brokerage firms that have mismanaged their own assets. Clients are said to have left Merrill Lynch, taking $5 billion with them; $11 billion has left Smith Barney while $17.6 billion has fled Wachovia. During the second quarter alone Fidelity Institutional gained $16.7 billion, while Schwab Institutional picked up $14.5 billion. It would appear that discount brokers that work with independent advisors are benefiting from this exodus.

We submit that September 2008 marks the beginning of a new era for individual investors, and you are poised to reap the benefits. The upheaval on Wall Street is a turning point in the long running war between traditional broker-dealers and active managers on the one hand and discount brokers and passive managers on the other. High fees, fat commissions, stock picking and market timing will give way rapidly to fee-only advice, minimal trading costs, index funds and structured portfolios.

(Continued on next page)

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What Went Wrong?

Our parent organization, the American Institute for Economic Research (AIER) has described the housing crisis that lies at the heart of the ongoing financial debacle[1]. This is important to understand, as it underlies the entire Wall Street meltdown. There is as yet no thorough accounting of precisely how this has "rippled through" to cripple the world's major financial institutions and posed systemic risk to the broader economy. Indeed the story is still unfolding. As of this writing the FBI has begun investing possible corporate fraud at AIG, Lehman Brothers, Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation), and Congress is grappling with a $700 billion bailout package that would assume the bad debts of many troubled institutions.

AIER notes that the basic causes of the housing bubble include a Fed policy between 2002 and 2004 that was far too inclined toward easy money, a runaway "securitization" process by which individual mortgages are sold and bundled into opaque financial assets, and finally a collapse of lending standards between 2004 and 2007 that created a sea of "subprime" as well as option-ARM and Alt-A mortgages that required very little credit history.

As home prices began to fall many homeowners found that their mortgages exceeded the value of their homes. Refinancing, an important source of liquidity, was no longer feasible. Foreclosure rates rose dramatically. Mortgage-backed securities plummeted in value and entities that buy mortgages to resell as mortgage-backed securities, most notably Fannie Mae and Freddie Mac, were confronted with a dried-up market.

Fannie and Freddie are Government Sponsored Entities (GSEs) that guarantee these mortgage-backed securities. To finance their operations they issue their own debt, which had been assumed by the market to carry the "implicit backing" of the government. This provided a low cost of capital which was intended, in turn, to reduce borrowing costs for homeowners.

But Fannie and Freddie, as publicly held corporations, also exist to maximize shareholder wealth. This "dual purpose" created an inherent conflict of interest and both agencies strayed from their public mission. As the housing bubble grew, both entities effectively used government subsidized financing, via their implicit Treasury guarantee, to purchase and hold mortgage-backed securities with credit standards far below those they had historically maintained. Their perceived government backing allowed them to hold lower reserves against their liabilities compared with private sector entities. At the same time the mortgage giants lobbied vigorously against additional regulation.

Recent One Day Declines, S&P 500 Ranked by Magnitude

Rank	Date	S&P 500 Close	Change vs. Previous Close
1	19-Oct-87	224.84	-20.47%
2	26-Oct-87	227.67	-8.28%
3	27-Oct-97	876.99	-6.87%
4	31-Aug-98	957.28	-6.80%
5	8-Jan-88	243.4	-6.77%
6	28-May-62	55.5	-6.68%
7	26-Sep-55	42.61	-6.62%
8	13-Oct-89	333.65	-6.12%
9	14-Apr-00	1,356.56	-5.83%
10	26-Jun-50	18.11	-5.38%
11	16-Oct-87	282.7	-5.16%
12	17-Sep-01	1,038.77	-4.92%
13	11-Sep-86	235.18	-4.81%
14	15-Sep-08	1,192.70	-4.71%
15	17-Sep-08	1,156.39	-4.71%

As defaults mounted and the market for these securities all but vanished the Treasury made its implicit backing explicit. The Treasury will ensure that Fannie and Freddie's debt obligations are met, but both GSEs have now been placed in conservatorship under the Federal Housing Finance Agency. The Treasury will be allowed to purchase up to $100 billion of a special class of stock in each firm to ensure their net worth remains positive.

This move was undertaken for several reasons, but perhaps the most compelling was the fact that as of the first quarter of 2008 foreign investors held roughly $7.5 trillion, or 20 percent of Freddie and Fannie's debt. The dollar would likely have plummeted if the agencies instead had defaulted, which would have risked a collapse of global financial markets.

The demise of Bear Stearns, Merrill Lynch, Lehman, and AIG can all be traced to a similar lack of financing. Bear Stearns, Merrill and Lehman were suddenly saddled with securities of questionable value that they could not sell. The Fed chose to engineer a rescue for Bear Stearns by creating a lending facility to provide bridge financing, which was enough to persuade J.P. Morgan to step in as a buyer. In the case of Lehman, with the Bear Stearns deal consummated the Fed reasoned that the markets were better informed and that a Lehman bankruptcy would not be as dire, so it chose not to step in.

AIG had written $57 billion in insurance through contracts known as credit default swaps (CDS) that covered potential losses on debt instruments, including subprime real estate investments. CDS can be manipulated through speculation, because asset backed mortgage prices can be pushed well below a level reflective of the mortgages they hold; this can produce immense profits for counterparties to the contract, who do not have to own the underlying mortgages. As the housing market deteriorated, credit agencies downgraded AIG's ratings in light of its potential losses. Despite its otherwise healthy insurance business with $1 trillion in assets worldwide, AIG could not raise the $15 billion in collateral it needed to post quickly in order to avoid being considered to have defaulted on its CDS. With AIG's own corporate debt of $160 billion suddenly at risk of default, the Fed stepped in with an $85 billion loan. The Fed has the option to purchase 80 percent of AIG shares while the firm sells off its assets over the next two years.

What Went Right?

Unlike most money managers we have consistently recommended that most investors dedicate between 5 and 10 percent of their holdings to gold related assets. We have maintained this posture in good times and in bad. While others scoffed, especially during the go-go growth stock era in the late 1990s "tech stock" boom, in every issue of our "Quarterly Review of Investment Policy" we were steadfast in our commitment to gold. Gold is a form of money that cannot be destroyed with "the stroke of a pen"; its price moves in a manner that is not correlated with those

[1]Research Reports Vol.LXXV No.15 Sep. 1, 2008. Crises, Quick Fixes, and Bailouts. Research Reports Vol. LXXV No. 16 Sep. 15, 2008. Who Gains? Who Loses? For more information, see www.AIER.org

of our other recommended assets.

Gold's value as a form of portfolio insurance was never more evident than on September 17, when investors flocked to gold and gold mining stocks as a refuge while abandoning stocks worldwide. That day the S&P 500 fell 4.7 percent. Foreign stocks offered no shelter, as the EAFE Index tumbled 3.8 percent and the MSCI Emerging markets index lost 7.1. REITs were hit as well, losing 5.1 percent. Meanwhile the gold price jumped by nearly $90 to $855.50 per ounce, for a 12.7 percent gain. Gold mining stocks, as measured by the Philadelphia Exchange Gold and Silver Sector Index, rose 8.5 percent.

John Darkow © 2008 Columbia Daily Tribune

We have also maintained that most investors should hold a large portion of their holdings in cash equivalent asset and short term bonds. Our readers with moderate tolerance for risk would have 10 percent of their assets in money market funds and 30 percent in short term bonds. These percentages do not include six months worth of living expenses that investors should hold in cash equivalent reserves in the event of emergency. The mid-September panic sent investors not only to gold, but also to these traditional havens. On September 17 panicked investors ran for the safety of Treasuries, pushing short term prices up by nearly 4.8 percent (as measured by the iShares 1-3 Year Treasury Bond Fund) and their yields down to nearly zero.

What Now?

The S&P 500 has swung wildly amidst alternating "good" and "bad" news regarding a potential bailout. As of this writing the worst days so far have been September 15 and 17, when the index on both days lost 4.7 percent, but the market gained much of this back on subsequent days.

The question on the minds of most investors is whether their current strategy is still valid. The accompanying table, which ranks recent worst one-day losses by order of magnitude helps to put these events in perspective. Our approach recognizes that asset class returns can rise or fall quickly and dramatically over short time spans but ultimately revert to their long-term mean. But during both periods of financial distress, when fear is rampant and also during raging bull markets, when euphoria reins, the question inevitably rises: Is it different this time?

Despite the chaos, financial markets are functioning as they continue to work toward equilibrium, valuing assets according to their perceived risk. Throughout the world security prices are being set and, even as they fluctuate wildly, markets are clearing.

Market economies are resilient. Capital markets will find a way to survive without Lehman Brothers, Bear Stearns and Merrill Lynch, and home mortgages will not disappear regardless of the ultimate fate of Fannie and Freddie. Recent earnings reports from other industries are not nearly as dire as those being reported by many financial institutions.

The market has delivered an unusually brutal reminder of the importance of portfolio diversification, and we are confident in our approach. We live in a world of alternatives. Many advisors choose to provide financial advice based on their view of what is yet to come. Our recommendations rely instead on the science of financial economics, which is based on empirical observation spanning over 80 years of asset class data encompassing a variety of market conditions.

Is it different this time? Our expectations regarding the long-term expected returns from capital markets are unchanged, but Wall Street itself will never be the same. These changes will become evident through long overdue improvements in the way financial services are provided. Our clients and readers should feel reassured: by relying on an independent investment advisor, the crowd will soon be following you.

For an excellent review of the current bear market in historical perspective, please visit http://www.dfaus.com/library/videos/different/

ALTERNATIVES FOR CASH EQUIVALENT ASSETS: PLAYING IT SAFE

"Today, Reserve Management Corporation announced that one of its money market mutual funds is unable to maintain a $1.00 net asset value (NAV), an event triggered by unprecedented market conditions that have affected a wide range of financial firms. This type of event, known as breaking the buck, is extremely rare."

This statement, issued on September 16 by a mutual fund industry trade group, was yet another financial shock in a week dominated by news of the collapse of Lehman Brothers and government rescue plans for giant insurer AIG. It marked only the second time in history that a money market fund's net asset value had fallen below $1 a share. The event quickly sent shudders through the mutual fund industry as well as a flurry of statements from fund companies assuring investors that the parking place for their spare cash that they had come to trust and rely on was indeed safe and secure.

The fortunes of Reserve Management Corporation's $62 billion Primary Fund, the industry's first money market fund, appear to be an isolated incident. Soon after the problem surfaced, the Treasury and the Federal Reserve rushed in to announce steps to protect the $3.4 trillion money market fund industry. Despite such measures, this and other recent financial industry debacles underscore the point that even if you are only looking for a parking place for your spare cash it pays to know what you're investing in.

With yields on three-month Treasury bills under one percent, and six-month CD yields barely over 3 percent, it may be tempting to move a little bit further up the risk ladder to get a slightly higher yield, either by extending maturities or investing in lower-quality securities. While these investment strategies have their place in many portfolios, they are ill-advised when it comes to investing cash equivalent assets. Presumably, the money you put into

money market funds, certificates of deposit, or Treasury bills is for emergencies, near-term use, or future investment. Here, especially in these uncertain times, you want to be sure it will be there when you need it.

Money Market Mutual Funds

Money market mutual funds typically invest in government securities, certificates of deposit, commercial paper, and other highly liquid securities that mature in one year or less. While no one expects the average investor to slog through a money market fund prospectus to evaluate the hundreds of securities in it, you can look for some clues that a fund may be reaching for yield at the possible expense of safety.

According to iMoneynet.com, the average money fund yield is 1.9 percent. Some funds tend to have higher than average yields because they have lower-than average expense ratios. According to the Investment Company Institute's latest data, money market funds have a median expense ratio of 0.55 percent. However, there is significant variation among the funds, and a good number have expense ratios of one percent or more. If a fund has both a higher-than average expense ratio and a high yield it could mean it is investing in riskier securities.

Short term bond funds that invest in fixed-income securities that mature in three years or less can be a low-risk alternative for investors seeking yields above those available through money market funds. However, not all of these funds are alike with respect to credit risk. That became apparent when the largest fund of this type, Schwab Yield Plus Investor, lost one-third of its value in the first eight months of 2008 because of sizable stakes in mortgage- and asset-backed bonds. If you are looking for a low-risk alternative for your spare cash, it is imperative to "look under the hood" when buying a bond fund to consider its underlying holdings, or if you are not inclined to do so, steer clear of these funds altogether. Many of our advisory clients have accounts at Schwab, but we carefully evaluate all money and bond funds in which we invest on behalf of our clients. AIS clients have never held this fund.

If you have a very low tolerance for risk, you might consider a Treasury-only money fund, which invests only in ultra-safe Treasury securities. These funds yield slightly less than other types of money funds, but the income they produce is not subject to state taxes. Bank money market accounts are another possibility. While these are FDIC-insured, they typically yield less than money market funds.

The income from municipal money market mutual funds is free of federal and in some cases state and local taxes (although the alternative minimum tax may apply for some people). However, the securities in these funds are in high demand so yields are low relative to taxable investments. Recently, the average 1.26 percent tax-exempt yield for municipal money funds translated into a taxable equivalent yield of 1.68 percent for someone in a 25 percent federal tax bracket and 1.88 percent for someone in the 33 percent federal bracket at a time when the average taxable money fund was yielding about 1.9 percent.

Recent Yields for Cash Equivalent Investments

Investment	Yield (%)
Certificate of deposit	
Six-month	3.17
One-year	3.69
Bank money market	1.04
Money market fund	
(taxable)	1.87
(tax-exempt)	1.26
Treasury Bill	
Three-month	0.74
Six month	1.39

As of 9/18/08. Source: bankrate.com; treasurydirect.gov; iMoneynet.com

Certificates of Deposit

As with money market funds, unusually high yields may warrant further examination, as some of the shakier banks are the ones that have been offering the best deals to get an injection of much-needed capital. Just weeks before concerns about its solvency started leaking out, Washington Mutual was advertising a one-year certificate of deposit yielding 4.9 percent, well above prevailing rates at the time.

Still, shopping around for the best rates is a good idea. Many people limit their search to local banks or credit unions. Credit unions, which typically are available to specific groups such as employees of a particular company or residents of a specific geographic area, sometimes offer higher CD rates because they often have more stringent lending standards (and fewer loan losses), less overhead and lower advertising and marketing costs than banks. Deposits at the credit union should be insured by the National Credit Union Administration (NCUA).

You can also buy certificates of deposit through brokerage firms, which shop around the country for the best rates. If you buy online, you can view the list of CDs that are currently available, their yields, and the issuing banks. One advantage of buying a brokered CD is that you can sell it on the secondary market without an early-withdrawal penalty, although its price will fluctuate with changing interest rates. The downside of buying such a CD is that the brokerage firm, not you, has the relationship with the issuing bank. So if the FDIC needs to step in, it may take longer for you to get your money back than it would for someone who purchased the certificate directly from a bank.

As you shop for CDs through a bank or a broker, keep in mind FDIC-insurance coverage and limitations. Certificates of deposit and other types of bank investments are insured by the Federal Deposit Insurance Corporation (FDIC), which protects you against a loss of your deposits should an FDIC bank or savings and loan fail. Non-deposit investment products sold through banks such as life insurance, mutual funds, stocks and bonds, or annuities are not covered under FDIC insurance.

While the basic insurance amount is $100,000 per depositor at each bank, certain retirement accounts, such as IRAs, are insured for up to $250,000. Depending on how they are titled, joint bank accounts, payable-on-death banks accounts, and other accounts may have higher coverage limits. For more information about these coverage limits and federal deposit insurance, visit www.fdic.gov/index.html and click on "Deposit Insurance."

Treasury Bills

Treasury bills are short-term debt that

matures in one year or less from the issue date. You buy them at a discount and when they mature the government pays their par value. The difference represents the interest on the bond. Because ultra-safe Treasury securities have been in such high demand lately, their yields are low relative to other cash alternatives. Still, they are worth considering for those who want the ultimate safety net, and their income is exempt from state taxes.

You can buy Treasury bills through a brokerage firm or directly from the Federal government through its Treasury Direct program (treasurydirect.gov). If you buy from the government with a noncompetitive bid, which is what most people do, you agree to accept whatever discount rate is determined at auction. When you buy a bill, the program withdraws the purchase price from the account you specify and when the bill matures its face value is deposited into your bank account. This year, the Treasury reduced the minimum purchase for Treasury securities from $1,000 to $100, creating more flexibility for small investors or those who wish to make purchases gradually. You can also buy Treasury bills through a brokerage firms, although there may be higher minimum purchases and commission charges.

TREASURY GUARANTEES MONEY MARKET FUNDS

On September 19 the U.S. Treasury Department announced the establishment of a temporary guaranty program for money market mutual funds. For the next year the U.S. Treasury will insure the holdings of any money market mutual fund that elects to pay a fee to participate in the program.

Funds must comply with SEC Rule 2a-7 in order to qualify for this program. This requires that they invest in high-quality money market instruments with very little credit risk. Obligations must mature in 13 months or less and the fund's weighted average maturity cannot exceed 90 days. Investors in money market mutual funds with a net asset value that falls below $1 would be notified that their fund had triggered the need for insurance.

President Bush approved the use of the Exchange Stabilization Fund for up to $50 billion to guarantee payments. This Fund was established by the Gold Reserve Act of 1934. It authorizes the Secretary of the Treasury, with the approval of the President, "to deal in gold, foreign exchange, and other instruments of credit and securities" consistent with the obligations of the U.S. government in the International Monetary Fund to promote international financial stability.

The move was made after Reserve Management Corporation announced it had "broken the buck" so that its investors would only have 97 cents for each dollar they had invested in the fund. The fund had held roughly $785 million (face value) in the debt securities of Lehman Brothers Holdings, which became worthless when Lehman filed for bankruptcy protection.

The President's actions were aimed primarily at preventing panic among investors, who have come to regard these funds as a safe harbor. No money market guarantees that it will maintain a $1.00 per share value, though there is only one prior instance when a fund failed to do so. Money funds not only provide stability for investors, they are also a critically important source of financing for global capital markets.

The maintenance of a balance in money market funds offers maximum possible liquidity and security of principal (at least in current dollar terms). Depending on which broker you select, you will have a choice of several money market funds. These include US Government or Treasury portfolios, municipal portfolios, or general money market portfolios which typically hold U.S. and foreign issues, including commercial paper, asset-backed commercial paper, CDs, variable and floating-rate debt securities, bank notes and repos.

The safest money market funds are those that invest strictly in U.S. Treasuries or in Agencies of the U.S. Government. These instruments are consider to be "risk free"as they are backed by the full faith and credit of the federal government.

All of our custodians offer money market funds that have personal checking accounts. We can also arrange for regular, periodic cash transfers into or out of these accounts.

FREQUENTLY ASKED QUESTIONS ABOUT TREASURY'S TEMPORARY GUARANTEE PROGRAM (From US Treasury Department)

How does an investor sign up to participate in the Treasury's Temporary Guarantee Program for Money Market Funds?

While the program protects the shares of all money market fund investors as of September 19, 2008, each money market fund makes the decision to sign up for the program. Investors cannot sign up for the program individually.

How will investors know if their money market fund participates in the program?

Investors should contact their money market fund directly to determine if it is participating in the program.

What type of funds does the program cover?

All money market mutual funds that are regulated under Rule 2a-7 of the Investment Company Act of 1940, are publicly offered, are registered with the Securities and Exchange Commission and maintain a stable share price of $1 will be eligible to participate in the program. This includes both taxable and non-taxable funds.

Is an investor in a fund that is managed like a money market fund but that is not registered with the SEC covered?

No, the program only covers money market funds that are regulated under Rule 2a-7 of the Investment Company Act of 1940, are publicly offered, are registered with the Securities and Exchange Commission and maintain a stable share price of $1 will be eligible to participate in the program. This includes both taxable and non-taxable funds.

When will my fund be covered by the program?

Each fund must decide to participate in the program. If your fund participates in the program, your investment as of September 19, 2008 will be covered.

What should shareholders in a participating fund that breaks the buck do? Who should they call?

If your fund enrolled in the program you will be covered and do not need to take any action. Shareholders should contact their fund directly.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Had we followed our model strictly, AIG would have been a "buy" candidate in our model this month. As it happens, AIG's price was in "free fall" on September 15th, the mid-month date we use to calculate our HYD allocation. AIG's yield shot up to 18 percent as a result, ranking it first in dividend yield among the Dow 30.

As of the 16th the model indicated that AIG was a "buy" for the month. However, the following day news came out that the government would be in a position to assume an 80 percent equity position in the firm. At that point (Sept. 17) we excluded it from consideration, even though it would only have constituted a miniscule portion (1/72nd) of the overall allocation.

Based on information available as of September 17, we reasoned that AIG's survival was a matter of pure speculation rather than a measured risk. We also expected it would be dropped from the Dow Jones Industrial Average. This would eliminate it as a candidate by the rules of our model. We were equally confident the firm would eliminate its dividend. It was apparent to us that the firm was essentially being nationalized so that it could be liquated systematically. Common sense overruled the model's simple formulae, so in this rare instance we in turn overruled the model.

The firm was indeed deleted from the Dow and replace by Kraft and its dividend was suspended.

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

Recommended HYD Portfolio

As of September 15, 2008

	Rank	*Yield*	*Price*	*Status*	*Percent of Portfolio — Value*	*Percent of Portfolio — No. Shares*[1]
Bank of America	1	9.64%	26.55	Buying	11.28	9.85
Citigroup	2	8.19%	15.63	Holding**	16.95	25.76
Pfizer	3	7.09%	18.05	Holding**	25.57	32.83
Verizon	4	5.54%	33.24	Holding**	22.53	15.70
AT&T Corp.	5	5.34%	29.96	Selling	5.78	4.47
General Electric	6	5.04%	24.60			
Merck & Co.	7	4.65%	32.72			
Morgan (JP)	8	4.11%	37.00			
DuPont	9	3.67%	44.74			
Kraft	10	3.50%	33.14	Selling	0.00	0.00
Altria Group	NA		20.19	Selling	5.04	5.58
Philip Morris Int'l	NA		52.82	Selling	12.73	5.58
Fairpoint	NA		8.34	Selling	0.08	0.22
					100.00	100.00

* 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 text for a description of the model's construction.

Hypothetical Total Returns (percent, through August 31, 2008)*

	1 mo.	*1 yr.*	*5 yrs.*	*10 yrs.*	*20 yrs.*	*Since 1/79*	*Std. Dev.*
HYD Strategy	2.34	-15.67	10.76	9.66	15.36	17.16	17.10
Russell 1000 Value Index	1.70	-14.66	8.54	6.95	11.18	13.21	13.91
Dow	0.58	-12.43	6.33	6.39	11.69	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 20-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 ($)

	9/15/08	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**775.00**	786.50	716.35
Silver, London Spot Price	**10.84**	12.82	12.50
Copper, COMEX Spot Price	**3.18**	3.34	3.39
Crude Oil, W. Texas Int. Spot	**95.70**	113.76	79.10
Dow Jones Spot Index	**361.88**	390.67	325.40
Dow Jones-AIG Futures Index	**172.50**	187.15	172.32
Reuters-Jefferies CRB Index	**352.09**	382.30	320.92

Interest Rates (%)

	9/15/08	Mo. Earlier	Yr. Earlier
U.S. Treasury bills - 91 day	**1.03**	1.81	3.90
182 day	**1.52**	1.94	4.07
52 week	**1.61**	2.05	4.16
U.S. Treasury bonds - 10 year	**3.47**	3.84	4.47
Corporates:			
High Quality - 10+ year	**5.46**	5.61	5.69
Medium Quality - 10+ year	**7.13**	7.11	6.59
Federal Reserve Discount Rate	**2.25**	2.25	5.75
New York Prime Rate	**5.00**	5.00	8.25
Euro Rates 3 month	**4.97**	4.97	4.75
Government bonds - 10 year	**4.01**	4.20	4.09
Swiss Rates - 3 month	**2.73**	2.75	2.90
Government bonds - 10 year	**2.73**	2.92	2.73

Exchange Rates ($)

	9/15/08	Mo. Earlier	Yr. Earlier
British Pound	**1.787700**	1.865100	2.006700
Canadian Dollar	**0.937207**	0.942596	0.971628
Euro	**1.417500**	1.469500	1.384800
Japanese Yen	**0.009463**	0.009051	0.008672
South African Rand	**0.123839**	0.126902	0.139665
Swiss Franc	**0.893336**	0.912409	0.839349

Securities Markets

	9/15/08	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,192.700**	1,298.20	1,484.25
Dow Jones Industrial Average	**10,917.51**	11,659.90	13,442.52
Dow Jones Bond Average	**206.68**	206.57	200.68
Nasdaq Composite	**2,179.91**	2,452.52	2,602.18
Financial Times Gold Mines Index	**1,932.41**	2,203.66	2,576.93
FT EMEA (African) Gold Mines	**1,616.52**	1,861.42	2,714.13
FT Asia Pacific Gold Mines	**7,305.20**	9,011.66	11,457.70
FT Americas Gold Mines	**1,756.96**	1,968.46	2,102.14

Coin Prices ($)

	9/15/08	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	**814.83**	850.22	727.85	5.14
Austrian 100-Corona (0.9803)	**761.42**	798.63	692.72	0.22
British Sovereign (0.2354)	**188.35**	197.45	171.65	3.24
Canadian Maple Leaf (1.00)	**801.10**	840.50	728.10	3.37
Mexican 50-Peso (1.2057)	**938.60**	984.50	854.00	0.45
Mexican Ounce (1.00)	**778.60**	816.60	708.40	0.46
S. African Krugerrand (1.00)	**803.47**	833.88	717.45	3.67
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**912.50**	947.50	772.50	21.70
Liberty (Type I-AU50)	**1,050.00**	1,070.00	812.50	40.04
Liberty (Type II-AU50)	**980.00**	1,020.00	772.50	30.70
Liberty (Type III-AU50)	**882.50**	907.50	750.00	17.70
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**8,425.00**	10,250.00	8,800.00	8.70
40% Silver Circ. (292 oz.)	**3,650.00**	4,100.00	3,605.00	15.31
Silver Dollars Circ.	**12,050.00**	13,425.00	9,550.00	43.69

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $775 per ounce and silver at $10.84 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 ($) 9/15/08	8/15/08	9/14/07	12-Month ($) High	Low	Latest Dividend Amount ($)	Record Date	Paid	Indicated Annual Dividend ($)	Yield† (%)
Bank of America	BAC	**26.55**	30.70	49.95	52.96	18.44	0.640	9/05/08	9/26/08	2.560	9.64
Citigroup	C	**15.63**	18.55	46.64	49.00	14.01	0.320	8/04/08	8/22/08	1.280	8.19
Pfizer	PFE	**18.05**	19.97	24.29	25.71	17.12	0.320	8/08/08	9/3/08	1.280	7.09
Verizon	VZ	**33.24**	34.96	42.52	46.24	33.15	0.460	10/10/08	11/3/08	1.840	5.54
AT&T (New)	T	**29.96**	31.66	40.44	42.97	29.72	0.400	7/10/08	8/1/08	1.600	5.34
General Electric	GE	**24.60**	29.80	40.35	42.15	23.91 *L*	0.310	9/22/08	10/27/08	1.240	5.04
Merck	MRK	**32.72**	36.16	49.54	61.62	31.15	0.380	9/05/08	10/1/08	1.520	4.65
J P Morgan	JPM	**37.00**	38.07	45.54	49.95	29.24	0.380	7/03/08	7/31/08	1.520	4.11
Dupont	DD	**44.74**	45.70	48.04	52.49	40.43	0.410	8/15/08	9/12/08	1.640	3.67
Kraft	KFT**†	**33.14**	32.96	34.10	35.29	28.04	0.290	9/24/08	10/8/08	1.160	3.50
Chevron	CVX	**80.09**	84.25	90.65	104.63	76.40	0.650	8/19/08	9/10/08	2.600	3.25
Home Depot, Inc.	HD	**28.50**	27.53	35.68	37.15	20.76	0.225	9/04/08	9/18/08	0.900	3.16
3M Company	MMM	**68.88**	73.49	89.02	97.00	67.26	0.500	8/22/08	9/12/08	2.000	2.90
Intel Corp	INTC	**19.36**	24.26	24.93	27.99	18.05	0.140	11/07/08	12/1/08	0.560	2.89
Coca-Cola	KO	**54.75**	55.06	56.40	65.59	49.44	0.380	9/15/08	10/1/08	1.520	2.78
Caterpillar	CAT	**63.21**	70.35	73.16	85.96	59.60	0.420	7/21/08	8/20/08	1.680	2.66
Johnson & Johnson	JNJ	**69.61**	71.33	63.20	72.76 *H*	61.17	0.460	8/26/08	9/9/08	1.840	2.64
Boeing	BA	**62.25**	64.45	99.35	107.15	60.77	0.400	8/08/08	9/5/08	1.600	2.57
Alcoa	AA	**26.93**	31.81	35.48	44.77	25.93 *L*	0.170	8/08/08	8/25/08	0.680	2.53
McDonald's	MCD	**63.72**	63.63	55.45	67.00	49.36	0.375	9/02/08	9/16/08	1.500	2.35
Procter and Gamble	PG	**72.14**	71.60	67.81	75.18	60.05	0.400	7/18/08	8/15/08	1.600	2.22
Exxon Mobil	XOM	**73.25**	77.07	88.67	96.12	73.25 *L*	0.400	8/13/08	9/10/08	1.600	2.18
American Express	AXP	**35.48**	39.07	58.94	63.63	35.10	0.180	7/11/08	8/8/08	0.720	2.03
United Tech.	UTX	**63.12**	66.80	76.14	82.50	58.87	0.320	8/15/08	9/10/08	1.280	2.03
IBM	IBM	**115.19**	126.36	115.13	130.93	97.04	0.500	8/08/08	9/10/08	2.000	1.74
Microsoft Corp.	MSFT	**26.82**	27.81	29.04	37.50	24.87	0.110	8/21/08	9/11/08	0.440	1.64
Wal-Mart Stores	WMT	**61.63**	59.37	43.32	63.23 *H*	42.50	0.238	12/15/08	1/2/09	0.950	1.54
Walt Disney	DIS	**32.36**	32.50	33.56	35.69	26.30	0.350	12/07/07	1/11/08	0.350	1.08
Hewlett-Packard	HPQ	**45.33**	45.59	48.38	53.48	39.99	0.080	9/10/08	10/1/08	0.320	0.71
General Motors**	GM	**11.44**	11.18	34.22	43.20	8.81	0.000	7/15/08	7/15/08	0.000	0.00

* See the Recommended HYD Portfolio table on page 70 for current recommendations. † Based on indicated dividends and market price as of 8/15/08.
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 9/16/07.
**General Motors announced on 8/15/08 that it had suspended dividend payments.
**† Kraft replaces American International Group on 9/18/08.

RECOMMENDED INVESTMENT VEHICLES

	Ticker Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Expense (%)	Sharpe Ratio	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 6/30/08							Annualized Returns (%), as of 8/31/08					
Short/Intermediate Fixed Income														
Vanguard Short-Term Bond Index	BSV[2]	2.7 Yrs.	867	0.11	--	79	--	4.11	6.19	--	--	4.00	--	--
Vanguard Short-Term Bond Index	VBISX	2.7 Yrs.	867	0.18	0.14	79	--	4.30	6.11	4.66	3.77	3.96	3.06	2.41
Vanguard Short-Term Inv. Grade	VFSTX	3.3 Yrs.	913	0.21	0.04	48	--	4.85	3.68	4.15	3.60	2.39	2.59	2.20
iShares Lehman 1-3 Year Treasury	SHY[1]	1.7 Yrs.	37	0.15	0.22	76	--	3.63	6.20	4.83	3.48	4.92	3.42	2.35
Vanguard Limited-Term Tax-Exempt	VMLTX	2.8 Yrs.	714	0.15	-0.62	32	--	3.46	5.30	3.68	2.95	5.30	3.68	2.95
Real Estate														
Vanguard REIT Index	VNQ[2]	5.0 B.	99	0.10	0.12	36	2.2	5.23	-7.37	5.66	--	-4.68	4.19	--
Vanguard REIT Index	VGSIX[3]	5.0 B.	99	0.20	0.11	36	2.2	5.11	-7.46	5.56	13.71	-4.74	4.13	11.11
U.S. Large Cap Value														
Vanguard Value Index	VTV[2]	51.5 B.	388	0.10	-0.02	20	1.9	3.34	-16.02	3.00	--	-9.84	2.59	--
Vanguard Value Index	VIVAX	51.5 B.	388	0.20	-0.03	20	1.9	3.22	-16.11	2.90	8.18	-9.92	2.50	7.09
U.S. Small Cap Value														
iShares Russell Microcap Index	IWC[1]	0.3 B.	1387	0.60	--	21	1.3	0.68	-15.08	-1.27	--	-15.26	-1.38	--
Vanguard Small-Cap Value Index	VBR[2]	1.4 B.	989	0.11	-0.15	34	1.4	2.68	-8.55	2.87	--	-5.21	2.32	--
Vanguard Small-Cap Value Index	VISVX	1.4 B.	989	0.22	-0.15	34	1.4	2.51	-8.65	2.76	10.28	-5.30	2.24	8.82
U.S. Large Cap Growth														
iShares Russell 1000 Growth Index	IWF[1]	33.8 B.	647	0.20	0.18	16	4.0	0.76	-6.90	4.22	5.90	-7.14	4.03	5.71
Vanguard Growth Index	VIGRX	35.2 B.	426	0.22	0.25	23	3.5	0.86	-4.66	5.06	6.52	-2.86	4.33	5.63
U.S. Marketwide														
Vanguard Total Stock Market Index	VTI[2]	27.7 B.	3554	0.07	0.11	4	2.3	1.83	-9.97	4.18	7.81	-6.10	3.58	6.76
Fidelity Spartan Total Market Index	FSTMX[4]	28.6 B.	3327	0.10	0.12	4	2.5	1.75	-12.58	4.98	8.61	na	na	na
Foreign- Developed Markets														
iShares MSCI Growth Index	EFG[1]	32.7 B.	555	0.40	--	28	3.5	2.27	-10.65	9.07	--	-11.11	8.83	--
iShares MSCI Value Index	EFV[1]	37.0 B.	542	0.40	--	21	1.7	6.19	-18.17	6.54	--	-19.36	5.95	--
Vanguard Europe Pacific Index	VEA[2]	34.4 B.	1174	0.12	--	6	2.3	--	-14.84	--	--	-9.03	--	--
Vanguard Tax-Managed International	VTMGX[5]	34.4 B.	1174	0.15	0.74	6	2.3	2.44	-15.71	7.51	13.82	-9.61	6.60	12.26
Vanguard Developed Markets Index	VDMIX[6]	34.8 B.	3	0.22	0.73	7	2.3	3.19	-14.95	7.69	13.69	-9.22	6.50	11.86
Foreign- Emerging Markets														
Vanguard Emerging Market Index	VWO[2]	18.0 B.	951	0.25	1.01	9	2.8	2.12	-10.89	17.88	--	-6.65	15.53	--
Vanguard Emerging Market Index	VEIEX[7]	18.0 B.	951	0.37	1.01	9	2.8	2.01	-11.46	17.55	22.74	-7.04	15.24	20.24
Gold-Related Funds														
iShares COMEX Gold Trust	IAU[2]	--	1	0.40	--	--	--	0.00	22.74	23.62	--	22.74	23.62	--
streetTRACKS Gold Shares	GLD[1]	--	1	0.40	--	--	--	0.00	23.47	23.26	--	23.47	23.26	--

Recommended Gold-Mining Companies ($)

	Ticker Symbol	**9/15/08**	Month Earlier	Year Earlier	52-Week High	52-Week Low	Distributions Last 12 Months	Distributions Frequency	Yield (%)
Anglogold Ltd., ADR	AU	**23.34**	26.67	44.16	51.35	21.01	0.1350	Semiannual	0.5784
Barrick Gold Corp.	ABX	**27.94**	32.16	37.20	54.74	26.02	0.2975	Semiannual	1.0648
Gold Fileds Ltd.	GFI	**7.51**	8.66	16.78	19.92	7.04	0.2367	Semiannual	3.1518
Goldcorp, Inc.	GG	**27.14**	29.56	27.36	52.65	24.72	0.1530	Monthly	0.5637
Newmont Mining	NEM	**38.38**	41.51	45.35	57.55	35.79	0.4000	Quarterly	1.0422

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.