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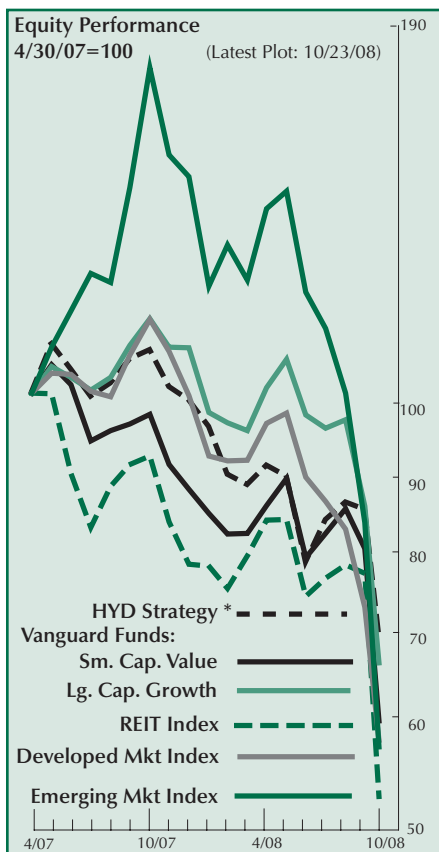
INVESTMENT GUIDE

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* HYD is a hypothetical model based on back-tested results. See p.78 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

Bear Markets: The Long View

The current bear market is one of the most severe on record. Before reviewing the recent performance of our recommended asset classes, however, we encourage readers to consider the chart¹ on page 74 which puts the current market in historical perspective.

The rising trend lines designate the bull market periods occurring since 1965. The falling trend lines document bear market periods. The rectangles that frame the trend lines help to describe the length and intensity of the gains and losses. Data in the chart ends as of July 31, 2008 (Update: since the beginning of the current bear market October 9, 2007 through October 17, 2008 the S&P 500 is down by 39.5 percent).

Fluctuating performance during each period demonstrates high volatility even within established market cycles. While bull markets may have short-term dips, and bear markets may have short-term advances, the overall trend may not be readily apparent. This illustrates the difficulty of accurately timing market cycles.

Since 1965, bull market periods in the S&P 500 Index have, on average, lasted significantly longer than bear market periods. In addition, bull market periods have delivered price gains that are disproportionately greater than the bear market losses. These data support the case for maintaining a disciplined, long-term investment approach.

Quarterly Review of Investment Policy

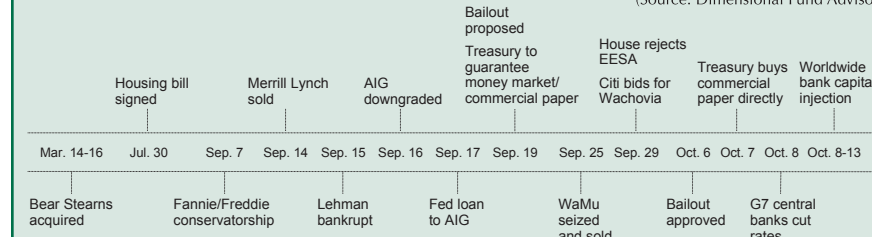
If good relative returns are any solace, readers who followed our approach would have avoided some of the devastating unrealized losses experienced by many investors during the third quarter. In particular, REITs and small cap value stocks provided positive returns, while short/intermediate term bonds and gold were down only slightly. Our high-yield Dow model greatly outperformed both U.S. equities as well as other large cap value strategies.

Through mid-October equity markets experienced even greater volatility and served up large losses across the board. Foreign and domestic stocks experienced sharp declines leaving investors with no place to hide as lending slowed to a crawl across the globe. All equity asset classes, domestic and foreign developed markets, emerging markets, growth and value, large and small cap stocks have all experienced dramatic declines. But this is not an indictment of a diversified strategy; to the contrary, diversification is now more important than ever. By holding the index-type funds we recommend, readers would have neutralized losses from the individual firms that have failed.

As of this writing there are positive signs that credit is beginning to flow again following government efforts among developed nations to pull out all the stops in their efforts to recapitalize their banking systems. This is hardly evidence that the bear market is over. However, markets are still functioning; as long as financial assets are still being priced according to their perceived risk, wise investors will continue to ride out the storm by adhering to their allocation plan. The AIS Model Portfolios table depicts our model portfolios for conservative, moderate, and aggressive investors. For

Timeline of Credit-Related Events in 2008

(Source: Dimensional Fund Advisors)



a comprehensive review of our scientific approach to investing, see *How to Invest Wisely*² by the American Institute for Economic Research (AIER). This is the same approach AIS employs in managing AIER's own charitable remainder programs.

Cash Equivalent Assets

The Federal Reserve's Open Market Committee (FOMC) met three times during the third quarter but left the target for the Federal funds rate at 2 percent. The Fed reversed course in early October, however, joining with other central banks amidst the global credit crunch by slashing the target to 1.50 percent. It also exercised unconventional means to boost credit markets and inter-bank lending, by increasing its auction facilities for financial firms by some \$700 billion, and providing liquidity to foreign banks by expanding its foreign exchange swap lines by \$600 billion.

As credit markets seized up and equity markets tumbled, panicked investors "fled to safety" by pushing short-term U.S. Treasuries ever higher and yields lower. The yield on the 13-week Treasury bill began the quarter at 1.83 percent and remained stable until mid-September. On September 17, it plummeted to 0.02 percent, after Lehman Brothers declared bankruptcy and the government took majority control of AIG in exchange for an \$85 billion line of credit. Through mid-October the rate bounced between 0.92 percent and 0.20 percent amidst a flurry of dramatic government actions aimed at restoring confidence (see timeline on page 73).

The real story of the quarter, however, was not interest rates, but the bond markets, where fear of default among financial giants and others took credit risk to a new height.

Short/Intermediate-Term Bonds

Through the end of the third quarter

the yield curve shifted downward across the board, particularly on the short end, as the 13-week Treasury fell by 82 basis points or 47 percent below its level at the quarter's start.

Default risk paralyzed credit markets at the end of the quarter and into October. Credit risk is often measured by the so-called TED spread, which measures the difference between three-month Treasury bills and inter-bank Eurodollar rates (three month LIBOR). This proxy began the quarter at 1.05 percent, but by quarter end had skyrocketed to 3.15 percent, and reached as high as 4.60 percent in early October, as lending slowed to a crawl. The various government interventions depicted on the accompanying time line had little success in unlocking frozen credit markets until mid-October, when the TED spread fell back below 3 percent.

For investors, the flight to safety was demonstrated in returns on U.S. government bonds versus corporate issues. Corporate bonds, as measured by the Lehman Bros. U.S. Credit Index and the U.S. Corporate High Yield Index, fell 6.57 percent and 7.98 percent respectively while the U.S. Government index rose 0.45 percent. The Vanguard Short-Term Investment Grade fund lost 3.42 percent for the quarter.

Credit concerns even extended to municipal bonds, which have a lower default rate than corporate issues. During the quarter munis fell by 6.63 percent as measured by the Lehman Bros. 20 Year Muni Bond Index, while the Lehman Brothers U.S. Government Bond Index rose 1.92 percent. This represented the largest such return differential since the early 1980s. Weak demand for muni bonds was partially due to concerns about the credit quality of some bond insurers. But concerns over municipal defaults also rose as investors began questioning the stability of tax revenues amidst the slowing economy. At quarter end the market took a hit when Jefferson

County Alabama announced it would miss interest payments on its sewer bonds.

As of mid-October munis of all maturities were offering substantially higher yields than Treasury bonds even before accounting for munis' tax-free status.

Real Estate

Real Estate Investment Trusts (REITs) offered a bright spot for investors in the third quarter, as the Dow Jones Wilshire REIT Index nearly reversed its losses during the previous quarter by posting a gain of 4.78 percent. The Vanguard REIT Index fund gained 5.35 percent. October, however, has been a dramatically different story. Between September 30 and October 15 the Vanguard REIT index fund had fallen 33 percent as concerns over commercial real estate fell amidst fears of an economic slowdown.

The total return table reveals that while REIT returns have been highly volatile from quarter to quarter over the past three years, they have provided strong returns overall, and these returns have been largely independent of those provided by our other asset classes.

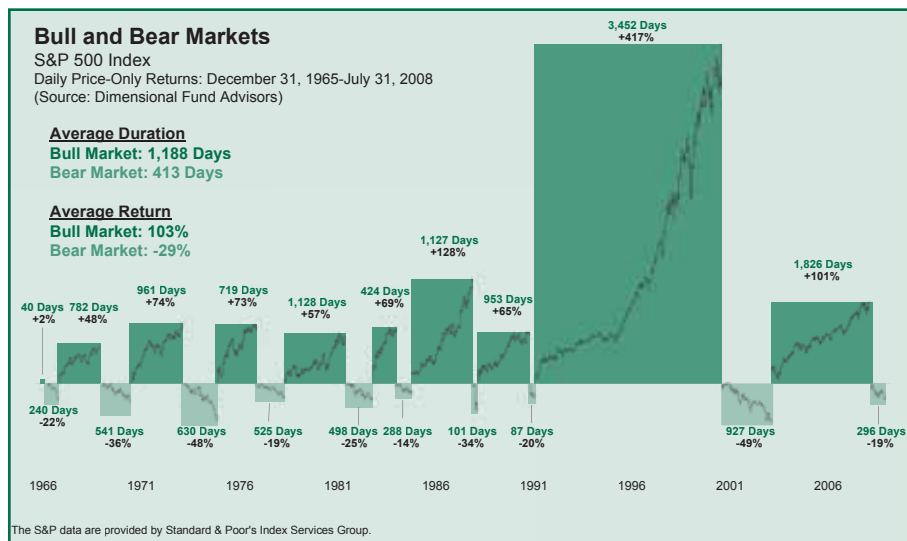
U.S. Equities

The overall U.S. stock market, measured by the Dow Jones Wilshire 5000 index, suffered an 8.73 percent loss in the third quarter. Small caps and value stocks held up better than large caps and growth stocks. The Russell Small Cap Index fell 1.1 percent, while the Vanguard Small Cap Value Index fund managed a positive 1.51 percent gain. Large value stocks, measured by the Russell 1000 Value Index, fell 6.11 percent while large cap growth stocks tumbled 12.33 percent. Our hypothetical high-yield Dow model had a strong quarter, returning 8.77 percent, the highest of any asset class. Among industries consumer staples, financial and health care stocks managed positive returns. Energy stocks had the largest losses as oil prices fell sharply anticipation of slower global growth.

As of mid-October all of our recommended U.S. equity asset classes had declined dramatically, and daily volatility since quarter-end has been dramatic. The extreme "drop off" depicted on the chart on the first page, for example, provides the overall picture only through October 23, the most recent data point available; had other days been selected the "end point" could be quite different.

International Equities

Foreign stocks were hit hard in the third quarter. Slower economic growth, disruption in the financial sector and a stronger dollar combined to provide large losses for U.S. investors. Developed markets fell by 20.5 percent in dollar



terms, as measured by the MSCI EAFE Index. Emerging markets fared worse, as the S&P/IFCI Emerging Markets Composite Index lost 26.87 percent.

As the quarter drew to a close credit problems plaguing U.S. banks took root in Europe. Major banks in Belgium, Britain and Iceland were at least partially nationalized, and in Ireland the government felt compelled to guarantee the debt of its largest financial institutions.

Emerging markets, which rely heavily on exports of both raw materials and finished goods, suffered as markets anticipated global recession. Brazil, Russia and Argentina all saw their markets fall by over 35 percent. Year-to-date, equity markets in China and India have lost over half their value so far.

Since quarter-end international equities have been even more volatile than U.S. stocks, though foreign stocks have also suffered severe declines. The chart on the first page depicts returns only through October 23. Extreme daily volatility would provide very different returns depending on the daily "end point" being considered.

The dollar has strengthened amidst the financial panic, reducing returns to U.S. investors. The dollar price of the Euro began the third quarter at \$1.58 and stood at \$1.29 as of October 23.

Gold-Related Investments

Unlike most money managers we have consistently recommended that most investors dedicate a small portion 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's value cannot be destroyed with "the stroke of a pen." But equally important, its price movements are not correlated with those of our other recommended assets.

The recent financial crises confirmed that gold is valuable as a form of portfolio insurance. For example, on September 17, when it became clear that insurance giant AIG would require a

government bailout, investors flocked to gold and gold mining stocks as a refuge. 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 percent. 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.

That pattern generally held throughout the series of events depicted on the chart on page 73, as the daily gold price consistently "zigged" when stock prices "zagged." Since that time (between October 8 and October 23) the gold price has fallen sharply, from \$903.50 to \$720 per ounce, largely a result of a strengthening dollar. In our view this does not diminish gold's role as a form of insurance. Throughout history gold has proven far superior to all fiat currencies with respect to maintaining purchasing power.

¹ Chart provided by Dimensional Fund Advisors. A bear market is identified in hindsight when the market experiences a negative daily return followed by a cumulative loss of at least 15%. The bear market ends at its low point, which is defined as the day of the greatest negative cumulative return before the reversal. A bull market is defined by data points not considered part of a bear market.

² To order this book or to learn more about AIER's charitable remainder programs, call (413) 528-1216, or visit www.aier.org.

AIS Model Portfolios(1) For the Period Ending September 30, 2008

Asset Class	Index	Recommended Percentage Allocations (2)			Asset Class Statistics: Risk and Return			
		Conservative	Moderate	Aggressive	Total Return (annualized)	1 Year	10 Year	Std. Dev. (annualized)
Cash & Equivalent Assets (3)	3 Month CD Index	20	10	0	3.50	3.74	4.75	0.58
Short/Int. Fixed Income	Lehman Brothers 1-5 Yr Govt/Cred	40	30	0	4.05	4.79	6.36	2.42
Real Estate	DJ Wilshire Real Estate Securities TR Index	10	10	10	-12.46	13.04	10.26	14.11
U.S. Large Cap Growth	Russell 1000 Growth Index (USD)	5	5	10	-20.88	0.59	8.98	16.67
U.S. Large Cap Value	Russell 1000 Value Index (USD)	15	20	30	-23.56	5.54	10.58	13.04
U.S. Small Cap Value	Russell 2000 Value Index (USD)	5	7	13	-12.25	10.14	11.52	14.67
	DFA US Micro Cap Portfolio (USD)	0	3	7	-19.33	11.31	11.41	18.89
Foreign Developed Markets	MSCI EAFE Index (USD) Gross Div	5	7	13	-30.13	5.42	5.41	16.34
Foreign Emerging Markets	MSCI Emg. Mkts. Index (USD) Gross Div	0	3	7	-33.01	14.77	12.00	23.32
Gold Related	Gold EOM gold (London PM Fix)	0	5	10	19.04	11.66	4.09	13.63
	Total	100	100	100				

Model Portfolio Statistics: Risk, Return and Growth

	Conservative	Moderate	Aggressive
Portfolio Return 1 Year	-5.68	-8.83	-17.42
Portfolio Return 10 Year (annualized)	6.02	7.30	8.98
Portfolio Return 20 Year (annualized)	7.75	8.60	10.21
Portfolio Standard Deviation			
20 Year (annualized)	4.72	6.59	11.24
Growth of \$100 over 20 Years	\$445	\$521	\$699

(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 the 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 80.

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

Total Return (%)

Entire Period

	2006				2007				2008			1Q 2006-3Q 2008
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	
Vanguard Short-Term Inv Grade	0.52	0.79	2.31	1.28	1.57	0.46	1.91	1.81	1.19	-0.18	-3.42	8.42
Vanguard REIT Index	14.79	-1.37	9.39	9.07	3.39	-9.40	2.39	-12.90	2.13	-5.39	5.35	14.87
Vanguard Value Index	5.29	0.91	6.63	7.82	0.90	5.70	-0.04	-6.12	-9.02	-6.18	-5.72	-1.61
High-Yield Dow 4/18*	8.00	3.27	13.70	8.42	3.98	7.25	1.33	-5.16	-11.12	-11.39	8.77	26.23
Vanguard Small Cap Value	11.05	-2.72	1.72	8.52	2.01	2.93	-5.03	-6.81	-6.52	-3.80	1.51	1.16
Vanguard Growth Index	3.30	-3.94	3.79	5.85	1.21	6.65	4.34	-0.06	-9.99	2.34	-12.04	-0.57
Vanguard Developed Markets†	9.30	0.81	4.00	10.11	4.21	6.33	2.44	-2.22	-8.47	-2.42	-18.89	1.45
Vanguard Emerging Markets‡	11.22	-4.57	4.00	17.22	2.18	15.40	14.43	2.94	-10.48	-1.35	-25.98	17.48
Gold (London PM Fix)	13.45	5.41	-2.32	5.54	4.71	-1.70	14.22	12.21	11.96	-0.35	-4.92	72.54

The highest returns provided in each period are in **Bold Face Type**. * HYD is a hypothetical model based on back tested results. See p. 78 for a full explanation.

RETIREMENT PLANS FOR BUSINESS OWNERS

Over the last ten years the choice of retirement savings options for business owners, each with its own rules, maintenance and reporting requirements and levels of complexity, has expanded dramatically. The array of choices is often confusing to small business owners, but it also means greater flexibility and more tailored savings opportunities for individuals who work for themselves. When evaluating these plans, it is important to consider a number of key features:

Vesting provisions. With some plans, employer contributions are non-forfeitable for participants (employees) only after a specified period of time, while others give participants the immediate right to all contributions. While some business owners may value the opportunity to provide a retirement benefit to employees, others may wish to consider less inclusive plans with stricter vesting provisions to control benefit costs. Employee contributions to retirement plans on the other hand must be fully vested at all times.

Contribution limits. These limits vary both in the percentage of compensation that can be considered for contributions to the plan and dollar limits. Certain types of plans are better suited for high-income business owners seeking to maximize contributions, while simpler options may serve the needs of others satisfactorily.

Cost and complexity. While some types of plans offer more flexibility for business owners in terms of withdrawals, contributions, inclusiveness, and other features, they also have more tax reporting requirements and may be more expensive to administer.

Availability of plan loans. Taking a loan from a retirement plan is generally not a good idea. Still, this may be a desirable feature for business owners who feel more comfortable having access to their money.

What follows is a brief rundown of a

few of the more widely-used retirement plan options for owners.

SEP-IRA

A Simplified Employee Pension, or SEP, allows an employer to set up his or her own IRA as well as IRAs for eligible employees. These plans require minimal maintenance and paperwork. They can be used by sole proprietors and incorporated or unincorporated business owners, as well as individuals who are covered by another retirement plan at work.

Under this arrangement, the business owner contributes to a traditional IRA called a SEP-IRA, set up for himself and each eligible employee. Eligible employees are those who are at least age 21, have worked at the company in at least three of the last five years, and have received at least \$500 (\$550 for 2009) in compensation.

Contributions can vary from year to year, with no annual contribution requirement. They can range from 0 percent to 25 percent of compensation (for self-employed individuals, compensation is defined as net earnings from self-employment), up to \$46,000 (\$49,000 for 2009) per year, per participant. The same percentage of compensation must be contributed by the employer for each eligible employee. Compensation over \$230,000 (\$245,000 for 2009) is not considered when calculating contributions.

SIMPLE IRAs

Businesses can set up a SIMPLE IRA if they have 100 or fewer employees who were paid \$5,000 or more the preceding year. To be eligible to participate, employees must have earned \$5,000 or more in any two preceding years and must expect to earn \$5,000 for the current year.

Under a salary deferral arrangement, participants can elect to contribute up to

100 percent of compensation to a maximum of \$10,500 (\$11,500 for 2009) or \$13,000 (\$14,000 for 2009) if age 50 or older. Employers are generally required to match an employee's salary reduction contributions up to 3 percent of the compensation. Instead of making matching contributions employers can make a non-elective contribution equal to at least 2 percent of compensation up to a maximum of \$4,600. Those choosing the latter option must contribute regardless of whether the employee sets any money aside.

Additional information on IRA options:

- With both types of IRA plans, all contributions are tax-deductible and earnings accumulate tax-deferred.
- Distributions from SEP-IRAs and SIMPLE IRAs are generally subject to IRA rules and are generally taxed at ordinary income rates, plus a 10 percent penalty if they are taken before age 59 1/2. With SIMPLE IRAs, withdrawals taken within the first two years of plan participation may be subject to an additional early withdrawal penalty.
- Employees age 50 and older who participate in a SIMPLE IRA are eligible to make additional catch-up contributions, while SEP-IRAs do not permit them.
- Contributions in both types of plans are immediately vested and can be withdrawn by the participant at any time (although they may be subject to taxes and penalties).
- Both types of IRAs are easy to administer, and require no employer tax filings and minimal employee notifications.
- No loans are permitted in either type of plan.
- A variation of the SIMPLE IRA, the SIMPLE 401(k) has the same contribution limits but different rules for employer contributions and plan loans.

Solo 401(k)

This version of the plan popular at larger companies, also called an individual 401(k), can be used for incorporated or unincorporated businesses, including partnerships, LLCs, and sole proprietors. Under rules that became effective in January 2002, a business can make greater tax-deductible contributions than under a SEP-IRA or a SIMPLE IRA, making the plans particularly useful for those seeking to maximize contributions in a relatively simple plan format.

This year, total contributions to a solo 401(k) cannot exceed 100 percent of pay, up to a maximum of \$46,000 (\$49,000 for 2009) for those under age 50 and \$51,000 (\$54,500 for 2009) for individuals age 50 and older. This amount includes tax-deductible salary deferrals of up to \$15,500 (\$16,500 for 2009) (plus an additional \$5,000 for 2008 and \$5,500 in 2009 if age 50 or older), plus an employer contribution of up to 25 percent of compensation. While individual SEP-IRA contributions also max out at \$46,000 (\$49,000 for 2009), they are limited to 25 percent of compensation, and do not provide catch-up contributions for those over age 50. Under IRS guidelines a 50-year-old self-employed individual with \$100,000 in compensation could contribute as much as \$47,000 to a solo 401(k), over twice the SEP-IRA limit. The ability to contribute a larger percentage of compensation means that business owners who want to catch up on retirement plan contributions can do so more quickly than those with a SIMPLE IRA or SEP-IRA.

Additional information on solo 401(k) plans:

- Businesses with employees may not find them appealing because contributions are immediately vested. This means business owners who contribute the maximum allowed are required to do the same for eligible employees. As a business grows and employees are hired, it may become necessary to establish a new plan.
- Contributions, whether from employee deferrals or from the employer, are tax-deductible and grow tax-deferred.
- Contributions are discretionary, so you can vary them from year to year or skip them altogether.
- Depending on the plan administrator, participants may be able to borrow from their plans, with some limitations.
- Participants generally cannot take

withdrawals from the plan before age 59 1/2 unless a "triggering event" such as disability or plan termination occurs.

- Set-up and reporting is slightly more complicated than it is for a SEP-IRA or a SIMPLE-IRA. An Annual Form 5500 must be filed after plan assets exceed \$250,000.

Traditional and Safe Harbor 401(k) Plans

These plans are somewhat more complicated than the plans discussed previously. They require more paperwork and reporting, and are subject to annual testing to ensure that benefits for rank and file employees are comparable to benefits for owners/managers. However, they might appeal to business owners who wish to restrict benefits to certain employees. Contributions can be subject to a vesting schedule (in contrast to the solo 401(k), which is subject to immediate vesting), and plan loans are also available.

© Cartoonbank.com



"I suppose they'll expect a bailout."

As with the solo 401(k), the salary deferral portion of contributions is limited to \$15,500 (\$16,500 for 2009) or \$20,500 (\$21,500 for 2009) for those age 50 or older. Total employee/employer contributions for individuals may not exceed \$46,000 (\$49,000 for 2009) (\$51,000 if age 50 or older, \$54,500 for 2009.)

A safe harbor 401(k) plan is similar to a traditional 401(k) plan, except that employer contributions are mandatory and are immediately vested.¹ This variation is also simpler to set up and administer than the traditional version and, like the SIMPLE 401(k), does not require annual discrimination testing of employee deferrals or the safe harbor contribution.²

A number of other retirement plan variations are also available to business owners. A qualified Roth IRA allows eli-

gible employees to designate all or a portion of their contributions as after-tax Roth contributions, which must be maintained in a separate Roth account. Defined benefit pension plans offer the opportunity to maximize retirement plan contributions and provide a fixed, pension-like benefit. Depending on the age and income of participants, they can allow participants to set aside the most tax-sheltered dollars of any type of plan. However, they are usually more difficult and costly to set up and maintain than other types of plans.

There are also variations on qualified defined contribution retirement plans. Profit sharing plans are a variation of 401(k) plans that allow employers to contribute profits to employee retirement accounts on a discretionary basis. While the IRS does not specify a formula for calculating profits to be shared, it does require a written pre-determined formula for allocating contributions when they are made. Contributions must also be "continuous and reoccurring." Contributions to another type of defined contribution plan, the money purchase pension plan, are fixed and not based on business profits.

While most business owners find that the master or prototype plans for small businesses available from many third party administrators are suitable, it is possible to obtain an individually-designed plan. These can be more costly and complex to set up and administer, but they may be the best option for businesses with specific needs and requirements that wish to maximize tax-deductible retirement plan contributions.

Making the Decision

Deciding which retirement plan to use can be a critical issue for business owners, and what may be appropriate for a real estate agent or freelance writer who works alone might be an extremely poor choice for a busy dental practice or law office with a dozen employees.

AIS offers retirement plan services, including plan design services and investment consulting, for both small and large employers. Our fees are among the lowest available. To discuss your plan contact Karen Miller, Retirement Plan Services Director, at (413) 645-2054.

¹ The employer must contribute a minimum safe harbor contribution to eligible employees equal to 3 percent of pay, or make a basic matching contribution equal to 100 percent of deferrals up to 3 percent of pay and 50 percent of deferrals between 4 percent - 5 percent of pay.

² Contributions other than safe harbor contributions must still be tested and other discrimination testing applies.

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 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 companies 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 **AT&T** was not eligible for purchase 18 months earlier. HYD investors should find that the indicated purchases of **AT&T**, and sales of **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 October 15, 2008

	Rank	Yield	Price	—Percent of Portfolio—		
				Status	Value	No. Shares ¹
Citigroup	1	7.89%	16.23	Holding**	21.10	26.45
Pfizer	2	7.87%	16.27	Holding**	26.12	32.67
Verizon	3	6.91%	26.64	Holding**	20.32	15.52
AT&T Corp.	4	6.50%	24.62	Buying	6.84	5.65
General Electric	5	6.44%	19.25			
Alcoa	6	6.00%	11.33			
Merck & Co.	7	5.72%	26.56			
Bank of America	8	5.37%	23.82	Holding	11.33	9.69
DuPont	9	5.09%	32.20			
Home Depot Inc.	10	4.54%	19.83			
Altria Group	NA		18.07	Selling	4.36	4.91
Philip Morris Int’l	NA		40.82	Selling	9.85	4.91
Fairpoint	NA		4.97	Selling	0.05	0.19
					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 September 30, 2008)*

	1 mo.	1 yr.	5 yrs.	10 yrs.	20 yrs.	Since 1/79	Std. Dev.
HYD Strategy	-1.08	-18.76	11.35	8.90	15.22	17.09	17.08
Russell 1000							
Value Index	-7.35	-23.56	7.11	5.54	10.58	12.88	13.97
Dow	-5.83	-19.85	5.60	5.45	11.20	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 (\$)

	10/15/08	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	847.00	775.00	758.85
Silver, London Spot Price	10.92	10.84	13.95
Copper, COMEX Spot Price	2.22	3.18	3.66
Crude Oil, W. Texas Int. Spot	74.54	95.70	86.13
Dow Jones Spot Index	295.72	361.88	344.96
Dow Jones-AIG Futures Index	138.64	172.50	178.97
Reuters-Jefferies CRB Index	283.04	352.09	338.15

Securities Markets

	10/15/08	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	907.84	1,192.70	1,548.71
Dow Jones Industrial Average	8,577.91	10,917.51	13,984.80
Dow Jones Bond Average	185.46	206.68	201.91
Nasdaq Composite	1,628.33	2,179.91	2,780.05
Financial Times Gold Mines Index	1,802.52	1,932.41	3,001.75
FT EMEA (African) Gold Mines	1,579.44	1,616.52	2,849.16
FT Asia Pacific Gold Mines	7,062.97	7,305.20	15,288.84
FT Americas Gold Mines	1,606.37	1,756.96	2,456.08

Interest Rates (%)

U.S. Treasury bills - 91 day	0.22	1.03	4.19
182 day	0.90	1.52	4.23
52 week	1.14	1.61	4.33
U.S. Treasury bonds - 10 year	4.04	3.47	4.69
Corporates:			
High Quality - 10+ year	6.32	5.46	5.78
Medium Quality - 10+ year	8.98	7.13	6.57
Federal Reserve Discount Rate	1.75	2.25	5.25
New York Prime Rate	4.50	5.00	7.75
Euro Rates			
3 month	5.17	4.97	4.75
Government bonds - 10 year	4.12	4.01	4.35
Swiss Rates - 3 month	3.10	2.73	2.81
Government bonds - 10 year	2.88	2.73	2.96

Coin Prices (\$)

	10/15/08	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	878.57	814.83	753.55	3.73
Austrian 100-Corona (0.9803)	815.53	761.42	717.13	-1.78
British Sovereign (0.2354)	201.55	188.35	177.55	1.09
Canadian Maple Leaf (1.00)	865.00	801.10	753.80	2.13
Mexican 50-Peso (1.2057)	1,005.20	938.60	884.10	-1.57
Mexican Ounce (1.00)	833.80	778.60	733.30	-1.56
S. African Kruggerand (1.00)	873.53	803.47	742.65	3.13
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,130.00	912.50	780.00	37.89
Liberty (Type I-AU50)	1,160.00	1,050.00	837.50	41.55
Liberty (Type II-AU50)	1,140.00	980.00	782.50	39.11
Liberty (Type III-AU50)	1,065.00	882.50	760.00	29.96
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	10,100.00	8,425.00	9,500.00	29.36
40% Silver Circ. (292 oz.)	3,737.50	3,650.00	3,875.00	17.21
Silver Dollars Circ.	13,950.00	12,050.00	10,250.00	65.13

Exchange Rates (\$)

British Pound	1.743200	1.787700	2.041900
Canadian Dollar	0.847171	0.937207	1.025010
Euro	1.356700	1.417500	1.421600
Japanese Yen	0.009855	0.009463	0.008520
South African Rand	0.105319	0.123839	0.147373
Swiss Franc	0.881368	0.893336	0.847530

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$847 per ounce and silver at \$10.92 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 (\$)			12-Month (\$)		Latest Dividend Record			Indicated Annual Yield†	
	10/15/08	9/13/08	10/13/07	High	Low	Amount (\$)	Date	Paid	Dividend (\$)	(%)
Citigroup	C	16.23	15.63	46.24	46.24	12.00 L	0.320	8/04/08	8/22/08	1.280 7.89
Pfizer	PFE	16.27	18.05	25.00	24.98	14.31 L	0.320	8/08/08	9/3/08	1.280 7.87
Verizon	VZ	26.64	33.24	44.63	46.13	23.07 L	0.460	10/10/08	11/3/08	1.840 6.91
AT&T (New)	T	24.62	29.96	42.19	42.79	20.90 L	0.400	10/10/08	11/3/08	1.600 6.50
General Electric	GE	19.25	24.60	40.82	41.22	18.40 L	0.310	9/22/08	10/27/08	1.240 6.44
Alcoa	AA	11.33	26.93	38.21	44.77	10.51 L	0.170	11/07/08	11/25/08	0.680 6.00
Merck & Co.	MRK	26.56	32.72	53.29	61.62	23.64 L	0.380	9/05/08	10/1/08	1.520 5.72
Bank of America	BAC	23.82	26.55	51.42	51.15	18.44	0.320	12/05/08	12/26/08	1.280 5.37
Dupont	DD	32.20	44.74	49.37	52.49	30.81 L	0.410	8/15/08	9/12/08	1.640 5.09
Home Depot, Inc.	HD	19.83	28.50	33.01	32.96	17.05 L	0.225	9/04/08	9/18/08	0.900 4.54
Kraft	KFT	26.37	33.14	33.60	35.29	25.56 L	0.290	9/24/08	10/8/08	1.160 4.40
Chevron	CVX	59.98	80.09	92.33	104.63	55.50 L	0.650	8/19/08	9/10/08	2.600 4.33
Caterpillar	CAT	42.06	63.21	78.84	85.96	37.07 L	0.420	10/20/08	11/20/08	1.680 3.99
J P Morgan	JPM	38.49	37.00	46.27	50.63 H	29.24	0.380	10/06/08	10/31/08	1.520 3.95
McDonald's	MCD	51.55	63.72	56.19	67.00	45.79 L	0.500	12/01/08	12/15/08	2.000 3.88
Boeing	BA	42.33	62.25	94.83	98.97	40.00 L	0.400	8/08/08	9/5/08	1.600 3.78
Intel Corp	INTC	14.99	19.36	25.75	27.99	14.26 L	0.140	11/07/08	12/1/08	0.560 3.74
3M Company	MMM	54.68	68.88	94.39	95.36	50.01 L	0.500	8/22/08	9/12/08	2.000 3.66
Coca-Cola	KO	44.21	54.75	57.64	65.59	40.29 L	0.380	9/15/08	10/1/08	1.520 3.44
United Tech.	UTX	49.25	63.12	79.87	80.73	43.28 L	0.385	11/14/08	12/10/08	1.540 3.13
Johnson & Johnson	JNJ	60.54	69.61	65.65	72.76	52.06 L	0.460	8/26/08	9/9/08	1.840 3.04
American Express	AXP	24.41	35.48	61.80	61.94	20.50 L	0.180	10/03/08	11/10/08	0.720 2.95
Procter and Gamble	PG	59.82	72.14	71.00	75.18	54.92 L	0.400	10/24/08	11/14/08	1.600 2.67
Exxon Mobil	XOM	62.35	73.25	94.82	96.12	56.51 L	0.400	8/13/08	9/10/08	1.600 2.57
Microsoft Corp.	MSFT	22.66	26.82	30.04	37.50	20.65 L	0.130	11/20/08	12/11/08	0.520 2.29
IBM	IBM	88.29	115.19	118.03	130.93	83.51 L	0.500	8/08/08	9/10/08	2.000 2.27
Wal-Mart Stores	WMT	50.05	61.63	46.45	63.85 H	42.50	0.238	12/15/08	1/2/09	0.950 1.90
Walt Disney	DIS	23.37	32.36	35.14	35.59	21.25 L	0.350	12/07/07	1/11/08	0.350 1.50
Hewlett-Packard	HPQ	38.61	45.33	51.24	53.48	35.50 L	0.080	9/10/08	10/1/08	0.320 0.83
General Motors**	GM	6.22	11.44	41.11	40.34	4.00 L	0.000	7/15/08	7/15/08	0.000 0.00

* See the Recommended HYD Portfolio table on page 78 for current recommendations. † Based on indicated dividends and market price as of 10/15/08.

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 10/16/07.

**General Motors announced on 7/15/08 that it had suspended dividend payments.

RECOMMENDED INVESTMENT VEHICLES

Descriptive Quarterly Statistics, as of 9/30/08												Annualized Returns (%), as of 9/30/08			
Ticker Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Ratios				12 Mo. Yield (%)	Total					After Tax*		
			Expense (%)	Sharpe	Turnover (%)	P/B		1 yr.	3 yr.	5 yr.	1 yr.	3 yr.		5 yr.	
Short/Intermediate Fixed Income															
BSV ²	2.8 Yrs.	939	0.11	--	79	--	4.01	4.29	--	--	2.86	--	--	--	5 yr.
VBISX	2.8 Yrs.	939	0.18	0.20	79	--	4.14	4.26	4.49	3.20	2.79	2.95	1.81	1.12	
VFSTX	3.0 Yrs.	923	0.21	-0.41	48	--	5.01	-0.68	3.00	2.60	-2.31	3.76	1.36	2.30	
SHY ¹	1.8 Yrs.	40	0.15	0.65	76	--	3.38	6.31	5.19	3.44	5.05	3.78	3.14	2.37	
VMLTX	2.7 Yrs.	752	0.15	-0.43	32	--	3.44	2.87	3.14	2.37	2.87	3.14	2.37	2.37	
Real Estate															
VNQ ²	4.7 B.	98	0.10	0.15	13	2.1	5.08	-11.24	5.42	--	-12.64	4.02	--	--	
VGSEX ³	4.7 B.	98	0.20	0.15	13	2.1	4.97	-11.34	5.32	12.93	-12.70	3.95	11.33	11.33	
U.S. Large Cap Value															
VTV ²	43.9 B.	420	0.10	-0.29	20	1.8	3.57	-24.38	0.08	--	-24.74	-0.33	--	--	
VIVAX	43.9 B.	420	0.20	-0.30	20	1.8	3.47	-24.44	-0.01	6.72	-24.79	-0.41	6.31	6.31	
U.S. Small Cap Value															
IWC ¹	0.3 B.	1371	0.60	-0.45	21	1.3	0.90	-22.42	-3.77	--	-22.62	-3.90	--	--	
VBR ²	1.3 B.	985	0.11	-0.18	34	1.3	2.64	-14.85	0.57	--	-15.25	0.14	--	--	
VISVX	1.3 B.	985	0.22	-0.20	34	1.3	2.48	-14.94	0.46	9.02	-15.31	0.06	8.60	8.60	
U.S. Large Cap Growth															
IWF ¹	31.6 B.	649	0.20	-0.25	16	3.4	1.23	-20.97	-0.12	3.56	-21.23	-0.32	3.36	3.36	
VIGRX	37.0 B.	402	0.22	-0.19	23	3.7	0.95	-19.02	0.80	4.33	-19.12	0.67	4.19	4.19	
U.S. Marketwide															
VTI ²	26.9 B.	3547	0.07	-0.23	4	2.3	2.77	-21.16	0.58	5.98	-21.39	0.30	5.70	5.70	
FSTMX ⁴	26.6 B.	3277	0.10	-0.24	4	2.3	1.91	-21.19	0.56	5.93	-21.47	0.30	5.68	5.68	
Foreign-Developed Markets															
EFG ¹	26.1 B.	563	0.40	-0.02	28	2.7	2.91	-28.46	1.96	--	-28.82	1.73	--	--	
EFV ¹	29.8 B.	546	0.40	-0.17	21	1.4	7.62	-32.41	-0.10	--	-33.39	-0.65	--	--	
VEA ²	35.6 B.	1001	0.12	--	6	2.3	3.08	-29.01	--	--	-29.15	--	--	--	
VTMGX ⁵	35.6 B.	1001	0.15	-0.08	6	2.3	3.01	-29.72	1.56	10.24	-29.85	1.34	10.04	10.04	
VDMIX ⁶	34.4 B.	1041	0.22	-0.09	7	2.2	3.93	-29.17	1.72	10.10	-29.57	1.24	9.59	9.59	
Foreign-Emerging Markets															
VWO ²	19.2 B.	821	0.25	0.29	9	2.6	2.87	-32.62	8.09	--	-32.83	7.80	--	--	
VEIE ⁷	19.2 B.	821	0.37	0.28	9	2.6	2.71	-33.05	7.78	18.27	-33.24	7.51	18.00	18.00	
Gold-Related Funds															
IAU ²	--	1	0.40	--	--	--	0.00	17.22	22.58	--	17.22	22.58	--	--	
GLD ¹	--	1	0.40	--	--	--	0.00	18.57	22.69	--	18.57	22.69	--	--	

Data provided by the funds and Morningstar. *Exchange Traded Fund, traded on NYSE. †Exchange Traded Fund, traded on AMEX. ‡1% fee for redemption in 1 yr. †0.5% fee for redemption in 90 days. ‡1% fee for redemption in 5 yrs. †2% fee for redemption in 60 days. †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.

Recommended Gold-Mining Companies (\$)

Ticker Symbol	Month		Year		--- 52-Week ---		Distributions		Yield (%)
	Earlier	Later	Earlier	Later	High	Low	Last 12 Months	Frequency	
Anglogold Ltd., ADR	10/15/08	23.34	44.40	51.35	51.35	15.75	0.1350	Semiannual	0.7301
Barrick Gold Corp.	18.49	27.94	42.92	54.74	54.74	26.02	0.2975	Semiannual	1.0881
Gold Fields Ltd.	27.34	7.51	18.84	19.92	19.92	6.30	0.2367	Semiannual	3.3338
Goldcorp, Inc.	GFI	7.10	18.84	19.92	19.92	6.30	0.2367	Semiannual	3.3338
Newmont Mining	GG	23.07	27.14	33.10	52.65	22.66	0.1530	Monthly	0.6632
	NEM	30.04	38.38	47.63	57.55	27.96	0.4000	Quarterly	1.3316

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.