AIS INVESTMENT GUIDE
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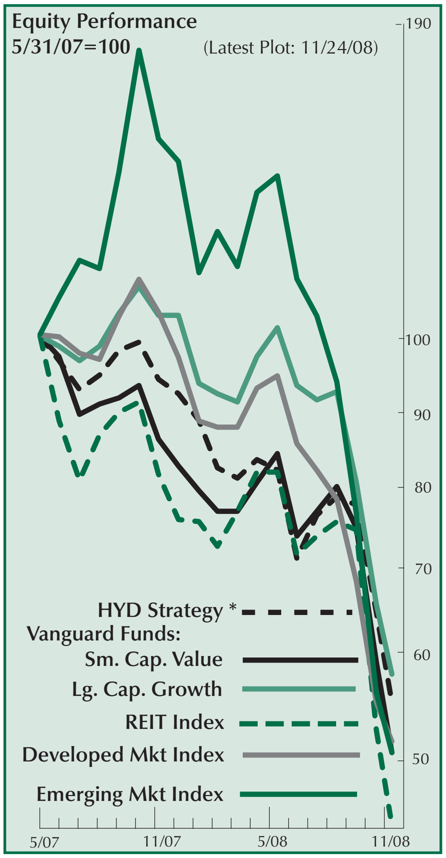

* HYD is a hypothetical model based on back-tested results. See p.86 for full explanation

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.

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The Blame Game

The equity chart to the left is not pretty. Asset classes across the board have continued to spiral downward as the "subprime crisis" that began a year ago has blown into a credit crunch of epic proportion. The damage is far-reaching. As 401(k) and IRA balances dwindle, millions of workers may have to delay retirement. Families' estate and college funding plans are in tatters, company pension plans will face massive funding requirements and charitable endowments have been slashed.

The blame game, of course, is well underway. Some point to the government's Community Reinvestment Act which, it is claimed, initially encouraged lax lending standards. Many assert that investment banks and government sponsored agencies (Fannie Mae and Freddie Mac) are responsible for vastly expanding questionable lending practices. Credit rating agencies are under fire for being asleep at the switch. Wall Street executives have been upbraided for being oblivious to their firms' own operations. Others point to derivatives (credit default swaps) as the culprit, or to their careless issuance or manipulation by purchasers. Security regulations are said to have been inadequate or poorly enforced. Now, the Fed and U.S. Treasury are under increasing scrutiny as attempts to reassure markets and get credit flowing again have met with only mixed success.

All the finger-pointing obscures a larger concern/question, which is: *Why have individual investors had to endure this bear market at all*? The answer ultimately lies with a fiat monetary system. Our parent organization, AIER, has pointed out that the abandonment of the gold standard and the inevitable debasement of the dollar through monetary inflation has forced individual investors to embrace common stocks, and thereby become speculators. During the era of sound money, investors (as lenders) could purchase a long-term bond with reasonable assurance of earning a positive real return equal to the bond's stated "coupon" interest rate. This was possible because the bond's interest payments and redemption value were repaid with dollars that had retained their purchasing power. On the other hand, common stock prices gyrated unpredictably, just as they do today, and as such were considered the province of speculators. Given the alternative of largely reliable real returns on bonds, stocks were not widely owned by households as a means of saving for the future.

Today, over half of U.S. households own common stock (directly or through mutual funds). We contend that this sea-change is not attributable to a growing desire among individual investors to embrace risk. Rather, rational investors have reluctantly accepted a higher risk/higher reward trade-off after several decades of a persistent debasement of the dollar. Common stocks have, over the long-term, provided returns that have well outpaced price inflation. This remuneration comes at a price: even an owner of a well diversified stock portfolio must endure periods of extreme volatility. The current bear market is a painful reminder of that reality.

All told, investors should still take comfort. There have been many improvements in information technology, data availability and advances in statistical reasoning. We can use these advances to help identify and isolate various sources of risk among financial assets, and evaluate the patterns of return they can be expected to provide. In this respect, today's individual investor is far better positioned to construct and maintain a customized portfolio with prospects for maximizing real returns for a given level of assumed risk. It is our aim to help you do just that.

AIS AND THE BEAR MARKET: WHERE WE STAND

As social scientists we do not consider any of our findings to be irrefutable. That said, our conviction that there is an inherent trade-off between risk and return in capital markets is as strong as any we hold. Having experienced the downside (risk) of the capital markets, the logical course of action is to maintain your investment plan in order to reap the market's expected returns. In this article,[1] we hope to boost your resolve by reviewing theory and empirical evidence, both of which support that course of action.

The news is saturated with doom and gloom regarding the global economy. Earnings reports, unemployment, gross domestic product and other indicators all point to a potentially severe global economic slowdown. Investors are frightened. As of this writing, the U.S. stock market is over 40 percent below its recent high, reached in October 2007. Indeed, 2008 may prove to be the worst calendar year in stock market history.

Nervous investors should keep in mind that the bad news that has been so pervasive is the reason *why* markets have experienced this dramatic decline. News is descriptive and not predictive. The stock market is a forward looking mechanism. It works by quickly assessing and interpreting this information as it becomes apparent. The short-term direction of the stock market is unknown, since it will always be driven by news and information that has yet to surface.

While the near-term economic outlook is gloomy, we remain confident that over the long-term, entrepreneurship, free exchange and innovation will prevail and the prospects for economic growth and prosperity are bright. Therefore, five years from now, with the benefit of hindsight, we expect that 2008 will indeed appear to have been a "buying opportunity." Over ten years we are more confident still. But "buying opportunity" is of course a misnomer. These occasions are identifiable only in retrospect; there is no risk when one looks backward. Measuring risk, and deciding how much to assume, is what investing is all about.

A Review of Stock Market Risk

The rational investor will acknowledge the "risk return trade-off" inherent in capital markets. But certain forms of risk are not systematically rewarded with commensurate return. The good news is, you can eliminate these risks and then decide how much "good risk" – which is rewarded with expected returns – you want to embrace.

Company-specific risk is the risk associated with investing in an individual company. There are random events that could occur—a lawsuit, a fire, the death of a key executive—that would primarily affect only that company. Indeed you could lose your entire investment in a stock if the news were dire enough to result in bankruptcy. *Industry-specific risk* is similar except that it refers to broader economic events that adversely affect an entire industry. Beginning in early 2000, for example, technology firms suffered declines far greater than the rest of the stock market. Both types of risk can be eliminated through diversification; by owning hundreds of stocks in many different industries, for every bit of "bad" news affecting a particular stock or industry, there would be an equal chance of offsetting "good" news emerging for another firm or industry in the portfolio.

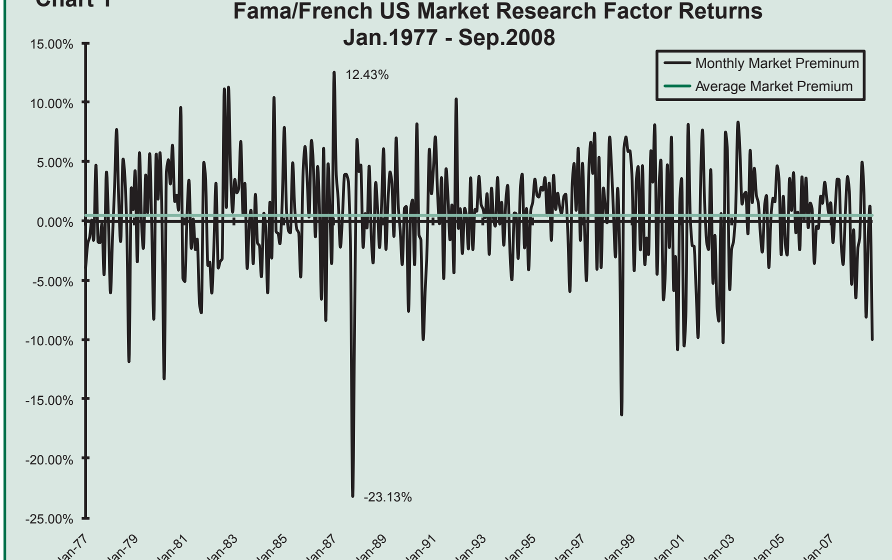
Consider two hypothetical securities of comparable risk, stock A and stock B. If security A had higher expected returns than B, then investors would flock to security A and abandon security B; the price of A would rise accordingly and B would fall until the securities were priced at levels that produced equivalent expected returns. The market works toward an equilibrium in which all securities in a given asset class have the same expected returns. In this environment, an investor purchasing just one stock instead of the entire asset class would be unnecessarily assuming company and industry-specific risk. This would be irrational since he could purchase the entire asset class and garner the same expected return, while dispensing with all of the risk attributable to that particular firm as well as the risk associated with its industry. Thus by choosing to invest in an individual company rather than in its entire asset class, one would be assuming risk that is uncompensated by additional expected return.

An investor cannot, however, dispose of the (non-diversifiable) risk associated with the entire stock market. Therefore he can expect to be rewarded with return. This market risk, such as business-cycle fluctuations, is the risk common to all stocks. You can purchase a U.S. market wide mutual fund, thereby eliminating all company and industry-specific risk attributable to any stock in the market. However, you would still be subject to the threats that imperil the broader stock market, such as a severe recession which may now be upon us. A rational investor will not assume this risk without expecting to be rewarded with return that is proportionate to the risk he has assumed. A buyer will insist on lower prices in order to assume this risk.

Note that we speak of the *expected* returns. There is no guarantee that the overall market will provide a given return over any particular time frame (although a longer time horizon increases your chance of realizing positive returns). The investor may, for example, suddenly need funds for an unexpected calamity and be forced to "sell at the bottom" by liquidating his holdings amidst a bear market. Even the best-diversified portfolio cannot avoid these possible outcomes.

Chart 1[2] provides a sobering view of the trade-off between risk and return. The jagged line traces the monthly U.S. stock market "risk premium"; for each month beginning January 1977 and ending September 2008. It plots the monthly return of the entire U.S. stock market minus the "risk free" rate provide by U.S. Treasury bills. The light green horizontal line depicts the arithmetic average of this monthly premium over the entire period. In other words, over this 32-year and nine month time span an investor who held a U.S. market portfolio would have

Chart 1



[1] Portions of this article were extracted from AIER's publication: "How to Invest Wisely", $12. To order call (413) 528-1216 or visit www.aier.org

withstood a premium varying wildly from month-to-month, ranging between +12.43 percent and -23.13 percent, for which he would have received *on average* a "reward" of 0.53 percent per month.[3]

History: Patience is Rewarded

Upon reviewing this data one might ponder whether the return is worth the risk. Yet we know that long-term, disciplined investors have been rewarded repeatedly for riding out these wild gyrations and inevitable market crises. Over the time frame in Chart 1, the 0.53 percent equity premium might appear paltry in light of the volatility one must endure, but is perhaps more tolerable considering that the total annualized returns from equities over this period were 11.30 percent (6.73 percent in real terms).

We have enclosed a second chart that displays the returns of U.S. stocks[4] during bull and bear markets between January 1925 and October 2008. This graph conveys important lessons. First, bull markets in the S&P 500 Index have lasted longer than bear markets. Second, the gains earned during bull markets were disproportionately greater than losses that occurred during bear markets. Third, there is substantial volatility even within bull and bear market cycles: bull markets may have short-term declines, and short-term advances occur amidst bear markets. But the timing, magnitude and duration of these occurrences are evident only in hindsight. Attempts to time these episodes are fraught with peril.

The fact is, time after time markets have rebounded as creativity, innovation, and steadily advancing productivity have, without exception, trumped even long and severe disruptions. Capitalism has surmounted economic depression, hyperinflation, even two world wars (one of which entailed almost complete nationalization of the nation's economy).

One period in particular, the decade of the 1970s, merits closer examination. It is within memory of many our readers, and was also a period of seemingly unending bad news:

- April 1973: amidst rapidly increasing food prices, price ceilings are imposed on beef, pork and lamb.
- October 1973: OPEC cuts oil production causing oil prices to quadruple by 1974. Gas prices increase 43 percent between May 1973 and June 1974 prompting gas rationing.
- August 1974: President Nixon resigns, two years after the break-in at the Watergate complex.
- Between 1974 and 1975 price inflation exceeds 10 percent.
- August 1974 Gallup poll reveals that 46 percent of adults fear a repeat of the depression of the 1930s.
- In 1975 the U.S. war effort in Vietnam ends and South Vietnam submits to communist control.
- In August 1978 the Soviet Union invades Afghanistan.
- In November 1979 the U.S. embassy in Iran is taken over. A second oil crisis ensues the same year, with oil prices doubling.

The 1970s were among America's darkest years. Yet a disciplined investor who adhered to a moderate risk portfolio[5] would have experienced a nominal total return of 9.35 percent over this dismal decade. This same investor would have even managed to earn a real (inflation adjusted) return of 1.61 percent. Realizing these returns would have required the ability to withstand extraordinary volatility. For example, between January 1973 and September 1974 U.S. large cap stocks fell 43 percent and small caps fell 51 percent. Then in October of 1974 large caps earned back 17 percent, the single largest one-month gain in stock market history. It is highly doubtful that a skittish investor would have been able to successfully avoid the downturn and then "jump back in" to benefit from this critical month.

Throughout these market cycles investors have fled at precisely the wrong time. Indeed, panicked investors invariably reduce their exposure to stocks amidst the deepest trough of these bear markets, when fear is rampant. It was in August 1979, for example, when *Business Week* magazine essentially threw in the towel, by proclaiming boldly on its cover "The Death of Equities." The 1980s subsequently ushered in one of the greatest bull markets in history.

Long-term investors have clearly experienced the meaning of risk this year, so it would seem obvious that they should once again stand fast in order to experience the expected returns. Unfortunately, the bad habits of investors are every bit as reliable as market cycles. It appears that once again many investors are fleeing. According to Morningstar, during the month of September net mutual fund redemptions totaled $49 billion, the largest one-month net outflow since January 2000.

The greatest risk to you as a long-term investor is not short-term volatility, rather it is the risk that these episodes will force you to panic and abandon your discipline. A long-term, rational allocation plan, such as those we recommend quarterly, is the best means of avoiding this trap. It also helps to step away from the downpour of bad news for a moment and assess current events in light of the bigger picture. By taking a deep breath and a long look at the history of the Nation and the overall resiliency of its capital markets, which have transformed the world for the better, you will be better prepared to make thoughtful, objective decisions regarding your financial future.

It's All about Equilibrium

The capital markets are a place where entrepreneurs, who are seeking capital, meet with investors, who are seeking a return on their savings. Through voluntary transactions they come to agree upon an estimate of a company's value. Low stock prices mean higher potential returns for investors and a higher cost of capital for firms issuing stock. Conversely high stock prices mean lower expected returns for investors and a lower cost of capital for firms. The lower the cost of capital for a company, the easier it is to finance and grow its business, and vice-versa.

To understand this from the entrepreneur's point of view, it might be easier to consider a bond, which he might offer as an alternative to issuing common stock as a means of raising capital. A firm might offer a bond at $100 "par" or face value, with the promise of paying it back in 20 years. In order to entice an investor to buy a bond, a large, healthy and growing firm might have to provide a fixed rate of interest of 6 percent per year. For smaller firms or firms perceived to be in distress, rational investors may insist on a higher expected return, perhaps 8 percent. The 2 percent differential, or risk premium, represents a higher cost of capital for the smaller firm and a higher expected financial return for the investor.

Common stock is merely an alternative means for the entrepreneur to raise capital. Unlike a bond, however, common stock represents an ownership stake in the firm. In lieu of a stated interest rate on a bond (where the firm is a borrower and the investor a lender), the stock must be issued at a price (plus any dividends) that the buyer perceives to be attractive relative to what he thinks it might be worth at some time in the future.

It may seem in today's market that there are only sellers, but of course for every seller there must be a buyer. Trading volume is in fact very high and markets are functioning very well. Though prices have fallen rapidly, there is nothing inexplicable going on. We are merely witnessing buyers who, amidst an economy that has suddenly become very uncertain, are insisting on a higher po-

[2] Source; Center for Research in Security Prices, Dimensional Fund Advisors

[3] Subsequent research has identified 2 other risk factors (size and value) inherent in stocks, which allow investors to assume additional and unique forms of non-diversifiable (compensated) risk. We have written about these risk factors extensively, but these are beyond the scope of this article.

[4] Source: Dimensional Fund Advisors.

tential return in order to assume a higher level of risk. As increased uncertainty means increased risk, they are demanding lower prices.

Indeed prices are quite low and expected returns are high. The dividend yield on common stocks currently exceeds that on U.S. Treasury bills, a very unusual situation. The average price-to-book ratio of the S&P 500 (which measures a firm's market price relative to its book value) is only 1.5, versus roughly 5 in 2000.

For the investor this does *not* imply that the current market represents a "buying opportunity." To repeat, it is obvious amidst a severe credit crunch and a slowing global economy that the business environment is extremely weak, so risk is high. What current valuations *do* imply, if you are an investor with an adequate time horizon and the fortitude to tolerate extreme short-term volatility – is that this would be a terrible time to deviate from your plan. Wise investors will rebalance to their target allocations as needed.

[5] Allocation of hypothetical portfolio: 10%: Merrill Lynch One-Year US Treasury Note Index
30%: Ibbotson & Assoc. SBBI US Int.Term Govt. TR Index, 5%: Gold London PM Fix Price 10%: MSCI EAFE Index (net div.) 30%: S&P 500 Index 15%: CRSP Deciles 6-10 Index. Results do not reflect actual AIS recommendations (AIS was established in 1978). Results intended to reflect a hypothetical moderate risk portfolio available to a moderate risk investor at the time. Some asset classes we recommend today were excluded because they were unavailable in 1970. Others were excluded because historical data is incomplete.

TAX SWAPPING TIME

As the year draws to a close, we remind investors that they can realize losses that can be used to offset taxable gains or possibly offset ordinary income. However, losses on the sale of securities are disallowed if "substantially identical" securities or options to purchase such securities are purchased within a 61-day window beginning 30 days before the date of the sale and ending 30 days after the sale. One could wait the requisite 30 days and then repurchase the same security that was sold, but markets can move a great deal in 30 days. Securities prices are inherently unpredictable, so this strategy risks selling the shares but repurchasing them only after a substantial increase in price.

There is a better approach. Investors can "swap" securities with losses for others that are similar but not "substantially identical." The key is to identify securities whose price changes are highly correlated with those that are sold. By selling an asset and immediately purchasing its substitute (rather than waiting 30 days to purchase the same security), you can potentially generate a loss for tax purposes without changing your risk allocation because your portfolio's exposure to that asset class would be largely unaffected.

This year many investors will have unrealized losses among our recommended investment vehicles that appear on page 88. In the table to the left we list several alternative ETFs that provide a suitable, low-cost means of capturing the returns of their respective asset classes. Before investing, you should consult a tax professional to ensure any that any substitute investment is not "substantially identical" to that being replaced.

"Back Page" Tax Swap Candidates

Asset Class	Alternative Investment Vehicle	Ticker
Real Estate	iShares Cohen & Steers Realty Majors	ICF
U.S. Large Value	iShares Russell 1000 Value	IWD
	iShares S&P 500 Value	IVE
U.S. Small Value	iShares S&P SmallCap 600 Value	IJS
	iShares Russell 2000 Value	IWN
U.S. Large Growth	iShares Russell 1000 Growth	IWF
U.S. Marketwide	iShares Dow Jones U.S. Index	IYY
	iShares Russell 3000	IWV
Foreign-Developed Markets	iShares MSCI EAFE Index	EFA
Foreign Emerging Markets	iShares MSCI Emerging Markets Idx	EEM

FILLING THE HEALTH INSURANCE GAP BETWEEN EARLY RETIREMENT AND MEDICARE

Years ago, it was common for employers to provide health insurance to retired workers, including those who left the company before age 65. Today, however, that benefit seems to be going the way of the guaranteed pension. Recent trends point to both the decreasing availability and rising cost of health care coverage for individuals who are wedged in the health insurance gap that occurs after they leave the work force, but before Medicare kicks in at age 65. Consider these statistics:

- According to a 2008 survey by The Kaiser Family Foundation, less than one-third of large firms with 200 or more workers offered retiree health benefits last year, compared to 66 percent in 1988. Among those offering retiree health benefits, 10 percent offer nothing for employees who retire before age 65.

- The high cost of health care has left many early retirees uninsured says the Census Bureau, which indicates that almost 13 percent of Americans between ages 55 and 64 have no health coverage, while another 11 percent pay for coverage entirely on their own. Those numbers are likely to increase in the coming years as a faltering economy and aging population facing retirement forces employers to look for ways to cut costs.

- A couple retiring today will need between $200,000 and $635,000 to pay out-of-pocket health care costs, according to the Employee Benefits Research Institute.

Individuals, whether they work for someone else or are self-employed, should evaluate their insurance options well before they leave the workforce. Below is a rundown of some common sources of insurance that typically fill the gap between early retirement and Medicare:

COBRA Coverage

The Consolidated Omnibus Budget Reconciliation Act (COBRA) mandates that individuals who carry group health insurance through an employer with 20 or more employees must be permitted to continue purchasing that insurance at group rates for 18 months after they leave a job. Although the employer is not required to help pay for any of the premium, this option may be less expensive than the cost of private health insurance coverage. Still, it is not cheap. According to The Kaiser survey, the average cost of coverage through employer-sponsored health insurance is $4,704 for single individuals and $12,680 for a family, an increase of 119 percent since 1999.

The decision to purchase COBRA insurance should be weighed carefully against other options. Once an individual has elected to receive it, he will no longer be eligible to enroll in other group health plans, such as those available through a spouse's job or from professional organizations, until COBRA coverage has run out. Although COBRA premiums may be expensive, it may be a decent option for individuals who have a pre-existing medical condition and do not have access to employer-sponsored health insurance or group coverage. For others, obtaining group coverage through a professional association or trade group may be a less expensive option. For more information on COBRA, you can visit the Department of Labor web site at dol.gov.

HIPAA

Under the Health Insurance Portability and Accountability Act, insurance companies that offer individual plans must also offer individuals a choice of at least two plans, provided they have proof of continuous coverage through a group health plan without a gap for the last 63 days.

Although, while insurance companies may not reject applicants who meet those requirements, even if they have pre-existing health conditions, there is no cap on how much they can charge. Unlike a group plan, where participants pay the same premium, individual policies can consider risk factors such as pre-existing medical conditions in determining premiums.

If you think you may be using a HIPAA plan at some point, it's best to consult with an insurance professional or get quotes from websites such as einsurance.com or insure.com to see what your options are. Another good source of information is state insurance departments, which often have information on policies offered within the state and guidance on how to shop for them. The National Association of Insurance Commissioners provides links to all state insurance departments through its website at naic.org.

What's important for people with pre-existing conditions to remember is not to let group coverage lapse at any point. The federal laws mandating guaranteed access may not protect you if your health insurance has lapsed or they have had a significant break in coverage.

State High-Risk Pools

State high-risk pools are state-sponsored health insurance plans designed to help individuals with pre-existing medical conditions that private insurance companies will not cover. While premiums are likely to be significantly higher than if they were able to qualify for a private plan, they may represent the only available alternative for some people. Thirty-four states offer some form of risk pool, although they vary greatly in their benefits, eligibility, and funding. For a list of telephone numbers for state high-risk pools, visit the web site for the National Association of State Comprehensive Health Insurance Plans at naschip.org/states_pools.

Private Health Insurance

Private health insurance may be an option for some individuals, particularly if they do not have major health issues when they apply for it. But even if you are in relatively good health you may have a difficult time obtaining insurance. According to an article in the New York Times (Before Medicare, Sticker Shock and Rejection, April 21, 2008), one couple applying for health insurance through BlueCross Blue Shield was rejected because the wife had "slightly elevated cholesterol," while the husband had "slightly elevated blood pressure." They later obtained it through another insurance company. An insurance agent quoted in the article stated that "about 40 percent of people in the 55- to 64 age group that we try to place are getting turned down because of pre-existing conditions."

Still, it pays to shop around. Because each health insurer has its own definition of a pre-existing condition, rejection or drastically higher premiums from one company may not necessarily produce the same outcome with another. Your ability to obtain coverage and the rates you pay will also depend on the state you live in and how closely it regulates insurers. In New York, which has more stringent regulations than most states, there is a six-month look-back period, which means the insurer may look back into an applicant's medical history no more than six months for pre-existing conditions. The state also has restrictions on how insurance companies can figure their premiums. Arizona, a state with fewer restrictions, has no limits on how far the insurance company can look back into past medical history (except for those coming from HIPAA plans), and no rate caps for individual insurance.

Costs can vary as well, depending on the insurance company, coverage, co-payments, and deductible amounts. While the less expensive policies may seem tempting, they may have significant out-of-pocket costs or long waiting periods for coverage.

One way to significantly lower the cost of an individual policy is to raise the deductible. According to quotes obtained from the web site einsurance.com, a healthy couple where both partners are 60 years of age would pay $650 a month for an Aetna health insurance plan that has a $5,000 deductible, and $723 a month for the same plan with a $3,000 deductible. The same couple would have to pay $923 a month for a Cigna health maintenance organization plan with a $1,000 deductible and a 20 percent co-pay arrangement.

Many of the high deductible plans are designed to work in conjunction with Health Savings Accounts, or HSAs. Contributions to the accounts, introduced just five years ago, are federally tax-deductible, and earnings accumulate tax-free. Withdrawals are also tax-free, as long as they are used to pay for qualified medical and retiree health expenses.

HSAs must be used in conjunction with a high-deductible health insurance plan, and can only be opened by those under age 65. For individuals, the health plan must have a minimum deductible of $1,100 with a $5,600 cap on out-of-pocket expenses. For family policies, a qualified health plan must have a minimum deductible of $2,200 with an $11,200 cap on out-of-pocket expenses. These amounts are indexed annually for inflation. If you think you might consider buying a high-deductible policy when you retire, it may make sense to establish an HSA account while you are still working. (For more detail regarding HSAs, see the February and March 2008 Investment Guide, reprints available).

Going Back to Work

Returning to work or continuing at a job may not be what you hoped you would be doing in your late 50s or early 60s, but it's an option that many people turn to in order to ensure that their health insurance needs will be met. The important thing is not to let insurance lapse. With the financial markets in a freefall, many retirement accounts have already been severely eroded; an uninsured health care catastrophe has the potential to wipe out the rest.

Sample of Private Health Insurance Costs (Per Month)

Single individual, age 60		Married couple, both age 60	
Aetna PPO ($5,000 deductible)		Aetna PPO ($5,000 deductible)	
Male	$388		$650
Female	$262		
Cigna HMO ($1,000 deductible, 20 percent co-insurance)		BlueValue	
Male	$491	($5,000 deductible, 30 percent co-insurance)	
Female	$432		$513
		Cigna HMO ($1,000 deductible, 20 percent co-insurance)	$923
Source: einsurance.com			

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Monthly purchases and sales in our High Yield Dow model are based on the relative dividend yield of the 30 firms that comprise the Dow Jones Industrial Average. Specifically, on the 15th of each month we divide each firm's indicated annual dividend (based on each firm's most recent dividend announcement) by its closing price. This month's model (see accompanying table) calls for purchasing shares of **Citigroup**. However, on November 24, after the model's mid-month trades had been calculated, Citi announced it would cut its dividend to $0.01 per share as it acceded to the terms of a more extensive government intervention.

We expect that Citigroup will be sold off incrementally over the next 18 months, in accordance with the model's disciplined construction. Therefore, investors who have not already purchased additional shares of Citigroup this month may wish to ignore the Citigroup purchases reflected in the table, and simply match the table allocations next month.

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 ext.3103.

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** and **General Electric** were not eligible for purchase 18 months ago. HYD investors should find that the indicated purchases of General Electric and Bank of America, and sales of **Verizon, Altria Group** and **Philip Morris International** are sufficiently large to warrant trading. In larger accounts, rebalancing positions in **Citigroup** and **Pfizer** may be warranted (see Citigroup comments above).

Recommended HYD Portfolio

As of November 14, 2008

	Rank	Yield	Price	Status	Percent of Portfolio: Value	Percent of Portfolio: No. Shares[1]
Pfizer	1	7.86%	16.28	Holding**	27.78	31.80
Bank of America	2	7.80%	16.42	Buying	10.08	11.05
General Electric	3	7.74%	16.02	Buying	2.90	3.26
Citigroup	4	6.72%	9.52	Holding**	13.68	25.86
Alcoa	5	6.27%	10.84			
Verizon	6	6.13%	30.00	Selling	23.45	14.06
DuPont	7	5.98%	27.43			
AT&T Corp.	8	5.79%	27.65	Holding	8.43	5.48
Merck & Co.	9	5.56%	27.33			
Caterpiller.	10	4.55%	36.96			
Altria Group	NA		16.26	Selling	3.75	4.15
Philip Morris Int'l	NA		38.41	Selling	8.87	4.15
Fairpoint	NA		2.66	Selling	0.02	0.17
					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 October 31, 2008)*

	1 mo.	1 yr.	5 yrs.	10 yrs.	20 yrs.	Since 1/79	Std. Dev.
HYD Strategy	-15.04	-31.71	6.22	6.55	14.00	16.40	17.32
Russell 1000 Value Index	-17.31	-36.80	1.90	2.79	9.41	12.13	14.35
Dow	-13.89	-31.24	1.33	2.93	10.27	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 ($)

	11/14/08	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**730.75**	847.00	794.00
Silver, London Spot Price	**9.28**	10.92	14.82
Copper, COMEX Spot Price	**1.70**	2.22	3.08
Crude Oil, W. Texas Int. Spot	**57.03**	74.54	94.32
Dow Jones Spot Index	**268.16**	295.72	352.06
Dow Jones-AIG Futures Index	**124.10**	138.64	180.40
Reuters-Jefferies CRB Index	**247.58**	283.04	346.49

Interest Rates (%)

U.S. Treasury bills -	91 day	**0.14**	0.22	3.22
	182 day	**0.88**	0.90	3.44
	52 week	**1.11**	1.14	3.49
U.S. Treasury bonds -	10 year	**3.72**	4.04	4.17
Corporates:				
High Quality -	10+ year	**6.35**	6.32	5.45
Medium Quality -	10+ year	**9.28**	8.98	6.39
Federal Reserve Discount Rate		**1.25**	1.75	5.00
New York Prime Rate		**4.00**	4.50	7.50
Euro Rates	3 month	**4.29**	5.17	4.58
Government bonds -	10 year	**3.62**	4.12	4.14
Swiss Rates -	3 month	**2.18**	3.10	2.75
Government bonds -	10 year	**2.61**	2.88	2.87

Exchange Rates ($)

British Pound	**1.486000**	1.743200	2.048300
Canadian Dollar	**0.816927**	0.847171	1.019992
Euro	**1.273100**	1.356700	1.463900
Japanese Yen	**0.010346**	0.009855	0.009027
South African Rand	**0.100000**	0.105319	0.149477
Swiss Franc	**0.842460**	0.881368	0.890948

Securities Markets

	11/14/08	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**873.29**	907.84	1,451.15
Dow Jones Industrial Average	**8,497.31**	8,577.91	13,110.05
Dow Jones Bond Average	**191.61**	185.46	204.21
Nasdaq Composite	**1,516.85**	1,628.33	2,618.51
Financial Times Gold Mines Index	**1,493.04**	1,802.52	2,952.31
FT EMEA (African) Gold Mines	**1,269.96**	1,579.44	2,858.16
FT Asia Pacific Gold Mines	**5,599.05**	7,062.97	15,382.46
FT Americas Gold Mines	**1,353.17**	1,606.37	2,383.26

Coin Prices ($)

	11/14/08	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	**793.47**	878.57	814.65	8.58
Austrian 100-Corona (0.9803)	**711.92**	815.53	775.22	-0.62
British Sovereign (0.2354)	**176.25**	201.55	191.75	2.46
Canadian Maple Leaf (1.00)	**771.00**	865.00	814.90	5.51
Mexican 50-Peso (1.2057)	**877.60**	1,005.20	955.60	-0.39
Mexican Ounce (1.00)	**728.00**	883.80	792.70	-0.38
S. African Krugerrand (1.00)	**777.00**	873.53	802.55	6.33
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**1,040.00**	1,130.00	860.00	47.10
Liberty (Type I-AU50)	**1,100.00**	1,160.00	877.50	55.59
Liberty (Type II-AU50)	**1,050.00**	1,140.00	855.00	48.51
Liberty (Type III-AU50)	**980.00**	1,065.00	830.00	38.61
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**8,750.00**	10,100.00	10,150.00	31.87
40% Silver Circ. (292 oz.)	**3,100.00**	3,737.50	4,175.00	14.40
Silver Dollars Circ.	**12,350.00**	13,950.00	10,750.00	72.03

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $730.75 per ounce and silver at $9.28 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 ($) 11/14/08	10/15/08	11/15/07	12-Month ($) High	Low	Latest Dividend Amount ($)	Record Date	Paid	Indicated Annual Dividend ($)	Yield† (%)
Pfizer	PFE	16.28	16.27	23.29	24.50	14.31	0.320	11/07/08	12/2/08	1.280	7.86
Bank of America	BAC	16.42	23.82	44.08	47.00	14.88 *L*	0.320	12/05/08	12/26/08	1.280	7.80
General Electric	GE	16.02	19.25	38.31	38.67	14.58 *L*	0.310	9/22/08	10/27/08	1.240	7.74
Citigroup	C	9.52	16.23	34.58	35.29	8.27 *L*	0.160	11/03/08	11/26/08	0.640	6.72
Alcoa	AA	10.84	11.33	36.33	44.77	9.00 *L*	0.170	11/7/08	11/25/08	0.680	6.27
Verizon	VZ	30.00	26.64	43.04	45.71	23.07	0.460	10/10/08	11/3/08	1.840	6.13
Dupont	DD	27.43	32.20	45.37	52.49	26.08 *L*	0.410	11/14/08	12/12/08	1.640	5.98
AT&T (New)	T	27.65	24.62	39.37	42.79	20.90	0.400	10/10/08	11/3/08	1.600	5.79
Merck	MRK	27.33	26.56	57.92	61.62	23.64	0.380	9/05/08	10/1/08	1.520	5.56
Caterpillar	CAT	36.96	42.06	69.73	85.96	31.95 *L*	0.420	10/20/08	11/20/08	1.680	4.55
J P Morgan	JPM	34.47	38.49	43.53	50.63	29.24	0.380	10/06/08	10/31/08	1.520	4.41
Home Depot, Inc.	HD	20.54	19.83	28.98	31.08	17.05	0.225	9/04/08	9/18/08	0.900	4.38
Kraft	KFT	27.44	26.37	32.37	35.29	25.56	0.290	9/24/08	10/8/08	1.160	4.23
Intel Corp	INTC	13.32	14.99	25.53	27.99	12.87 *L*	0.140	11/07/08	12/1/08	0.560	4.20
Boeing	BA	41.04	42.33	91.34	94.60	39.07 *L*	0.400	11/07/08	12/5/08	1.600	3.90
American Express	AXP	19.99	24.41	58.24	59.79	16.55 *L*	0.180	10/03/08	11/10/08	0.720	3.60
Chevron	CVX	72.68	59.98	84.16	104.63	55.50	0.650	11/18/08	12/10/08	2.600	3.58
McDonald's	MCD	56.13	51.55	57.18	67.00	45.79	0.500	12/01/08	12/15/08	2.000	3.56
Coca-Cola	KO	45.02	44.21	61.95	65.59	40.29	0.380	12/01/08	12/15/08	1.520	3.38
3M Company	MMM	63.06	54.68	79.65	88.70	50.01	0.500	11/21/08	12/12/08	2.000	3.17
United Tech.	UTX	50.23	49.25	73.95	79.30	43.28	0.385	11/14/08	12/10/08	1.540	3.07
Johnson & Johnson	JNJ	60.05	60.54	66.88	72.76	52.06	0.460	11/25/08	12/9/08	1.840	3.06
Microsoft Corp.	MSFT	20.06	22.66	33.76	36.72	18.74 *L*	0.130	11/20/08	12/11/08	0.520	2.59
Procter and Gamble	PG	63.11	59.82	71.83	75.18	54.92	0.400	10/24/08	11/14/08	1.600	2.54
IBM	IBM	80.33	88.29	103.60	130.93	75.40 *L*	0.500	11/10/08	12/10/08	2.000	2.49
Exxon Mobil	XOM	73.68	62.35	84.49	96.12	56.51	0.400	11/12/08	12/10/08	1.600	2.17
Wal-Mart Stores	WMT	52.71	50.05	46.20	63.85	43.11	0.238	12/15/08	1/2/09	0.950	1.80
Walt Disney	DIS	21.08	23.37	32.40	35.02	19.58 *L*	0.350	12/07/07	1/11/08	0.350	1.66
Hewlett-Packard	HPQ	30.46	38.61	48.90	52.90	28.23 *L*	0.080	9/10/08	10/1/08	0.320	1.05
General Motors**	GM	3.01	6.22	30.14	30.56	2.75 *L*	0.000	7/15/08	7/15/08	0.000	0.00

* See the Recommended HYD Portfolio table on page 86 for current recommendations. † Based on indicated dividends and market price as of 11/14/08. 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 11/15/07.
**General Motors announced on 7/15/08 that it had suspended dividend payments.

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 9/30/08		Ratios				Annualized Returns (%), as of 10/31/08					
Short/Intermediate Fixed Income														
Vanguard Short-Term Bond Index	BSV[2]	2.8 Yrs.	939	0.11	--	79	--	4.01	3.60	--	--	2.19	--	--
Vanguard Short-Term Bond Index	VBISX	2.8 Yrs.	939	0.18	0.20	79	--	4.14	3.55	4.49	3.28	2.12	2.95	1.89
Vanguard Short-Term Inv. Grade	VFSTX	3.0 Yrs.	923	0.21	-0.41	48	--	5.01	-4.40	1.92	1.99	-5.99	0.29	0.51
iShares Lehman 1-3 Year Treasury	SHY[1]	1.8 Yrs.	40	0.15	0.65	76	--	3.38	6.90	5.55	3.72	5.64	4.12	2.56
Vanguard Limited-Term Tax-Exempt	VMLTX	2.7 Yrs.	752	0.15	-0.43	32	--	3.44	2.68	3.22	2.43	2.68	3.22	2.43
Real Estate														
Vanguard REIT Index	VNQ[2]	4.7 B.	98	0.10	0.15	13	2.1	5.08	-39.69	-6.21	--	-40.64	-7.45	--
Vanguard REIT Index	VGSIX[3]	4.7 B.	98	0.20	0.15	13	2.1	4.97	-39.76	-6.30	4.44	-40.68	-7.51	2.96
U.S. Large Cap Value														
Vanguard Value Index	VTV[2]	43.9 B.	420	0.10	-0.29	20	1.8	3.57	-37.02	-4.96	--	-37.32	-5.35	--
Vanguard Value Index	VIVAX	43.9 B.	420	0.20	-0.30	20	1.8	3.47	-37.09	-5.06	1.89	-37.37	-5.43	1.50
U.S. Small Cap Value														
iShares Russell Microcap Index	IWC[1]	0.3 B.	1371	0.60	-0.45	21	1.3	0.90	-39.33	-10.02	--	-39.48	-10.14	--
Vanguard Small-Cap Value Index	VBR[2]	1.3 B.	985	0.11	-0.18	34	1.3	2.64	-33.68	-6.10	--	-33.99	-6.51	--
Vanguard Small-Cap Value Index	VISVX	1.3 B.	985	0.22	-0.20	34	1.3	2.48	-33.77	-6.22	2.57	-34.07	-6.60	2.17
U.S. Large Cap Growth														
iShares Russell 1000 Growth Index	IWF[1]	31.6 B.	649	0.20	-0.25	16	3.4	1.23	-37.00	-6.05	-1.45	-37.21	-6.24	-1.64
Vanguard Growth Index	VIGRX	37.0 B.	402	0.22	-0.19	23	3.7	0.95	-35.44	-5.27	-0.86	-35.52	-5.39	-0.99
U.S. Marketwide														
Vanguard Total Stock Market Index	VTI[2]	26.9 B.	3547	0.07	-0.23	4	2.3	2.77	-36.22	-5.12	0.75	-36.41	-5.38	0.48
Fidelity Spartan Total Market Index	FSTMX[4]	26.6 B.	3277	0.10	-0.24	4	2.3	1.91	-36.28	-5.13	0.71	na	na	na
Foreign- Developed Markets														
iShares MSCI Growth Index	EFG[1]	26.1 B.	563	0.40	-0.02	28	2.7	2.91	-44.74	-4.35	--	-45.03	-4.57	--
iShares MSCI Value Index	EFV[1]	29.8 B.	546	0.40	-0.17	21	1.4	7.62	-48.20	-6.46	--	-48.95	-6.97	--
Vanguard Europe Pacific Index	VEA[2]	35.6 B.	1001	0.12	--	6	2.3	3.08	-46.00	--	--	-46.11	--	--
Vanguard Tax-Managed International	VTMGX[5]	35.6 B.	1001	0.15	-0.08	6	2.3	3.01	-46.53	-5.02	4.01	-46.64	-5.23	3.82
Vanguard Developed Markets Index	VDMIX[6]	34.4 B.	1041	0.22	-0.09	7	2.2	3.93	-46.24	-4.91	3.84	-46.54	-5.37	3.37
Foreign- Emerging Markets														
Vanguard Emerging Market Index	VWO[2]	19.2 B.	821	0.25	0.29	9	2.6	2.87	-56.62	-0.75	--	-56.76	-1.02	--
Vanguard Emerging Market Index	VEIEX[7]	19.2 B.	821	0.37	0.28	9	2.6	2.71	-56.88	-1.03	8.94	-57.00	-1.28	8.69
Gold-Related Funds														
iShares COMEX Gold Trust	IAU[2]	--	1	0.40	--	--	--	0.00	-9.86	15.05	--	-9.86	15.05	--
streetTRACKS Gold Shares	GLD[1]	--	1	0.40	--	--	--	0.00	na	na	--	na	na	--

Recommended Gold-Mining Companies ($)

	Ticker Symbol	11/14/08	Month Earlier	Year Earlier	52-Week High	52-Week Low	Distributions Last 12 Months	Distributions Frequency	Yield (%)
Anglogold Ltd., ADR	AU	**16.59**	18.49	44.30	51.35	13.92	0.1350	Semiannual	0.8137
Barrick Gold Corp.	ABX	**22.29**	27.34	40.37	54.74	17.27	0.3400	Semiannual	1.5253
Gold Fileds Ltd.	GFI	**5.98**	7.10	17.52	18.08	4.64	0.2367	Semiannual	3.9582
Goldcorp, Inc.	GG	**21.66**	23.07	31.38	52.65	13.84	0.1530	Monthly	0.7064
Newmont Mining	NEM	**24.23**	30.04	48.80	57.55	21.40	0.4000	Quarterly	1.6508

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

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Bull and Bear Markets

S&P 500 Index (USD)

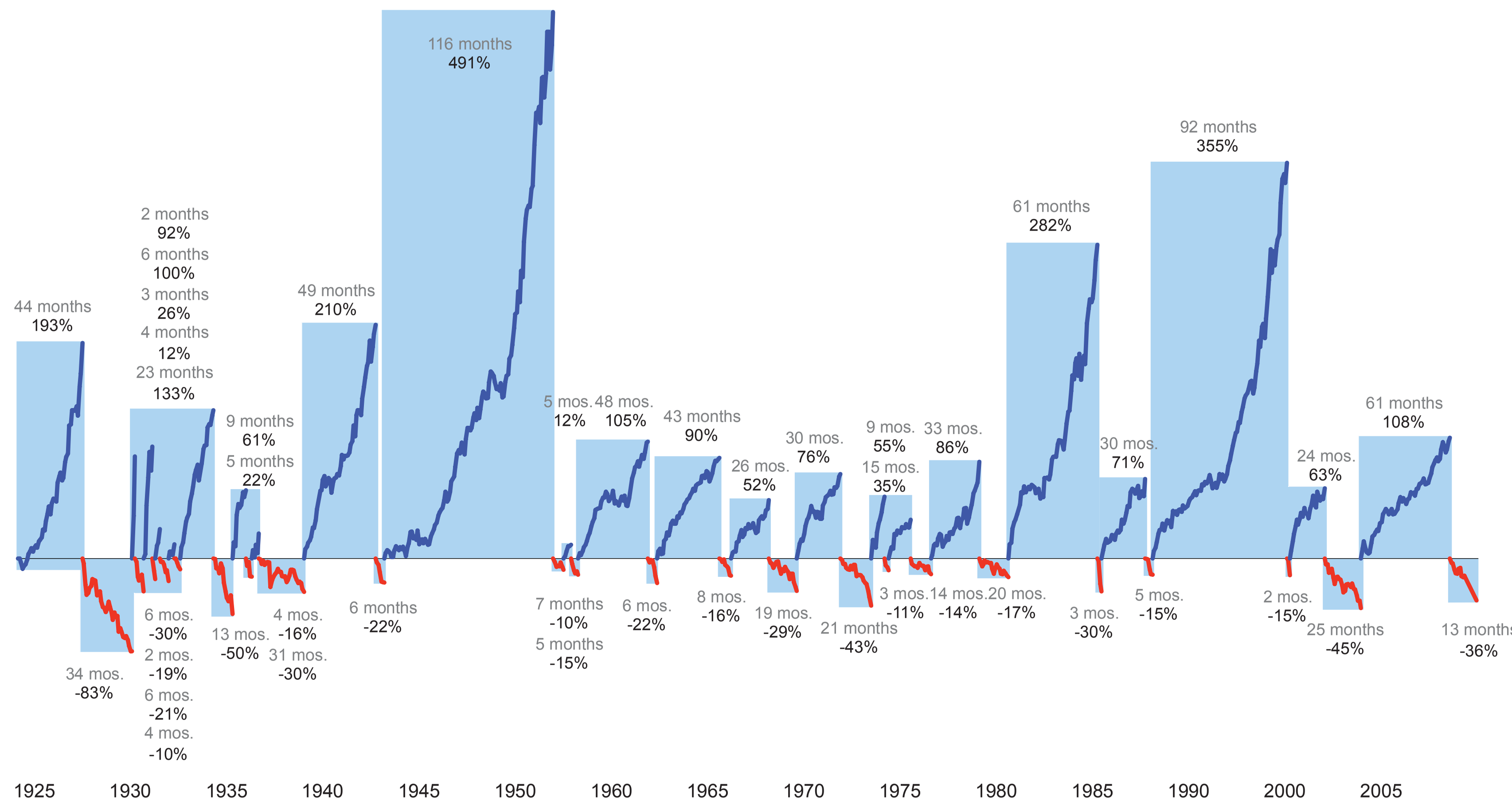
Monthly Returns: January 1926-October 2008

Months = Duration of Bull/Bear Mkt.

% = Total Return for the Bull/Bear Mkt.

Average Duration:
Bull Market: 32 Months
Bear Market: 11 Months

Average Return
Bull Market: 119%
Bear Market: -26%



The S&P data are provided by Standard & Poor's Index Services Group.

Bull and bear markets are defined in hindsight using cumulative monthly returns. A bear market (1) begins with a negative monthly return, (2) must achieve a cumulative return less than or equal to -10%, and (3) ends at the most negative cumulative return prior to achieving a positive cumulative return. All data points which are not considered part of a bear market are designated as a bull market.

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