AIS INVESTMENT GUIDE

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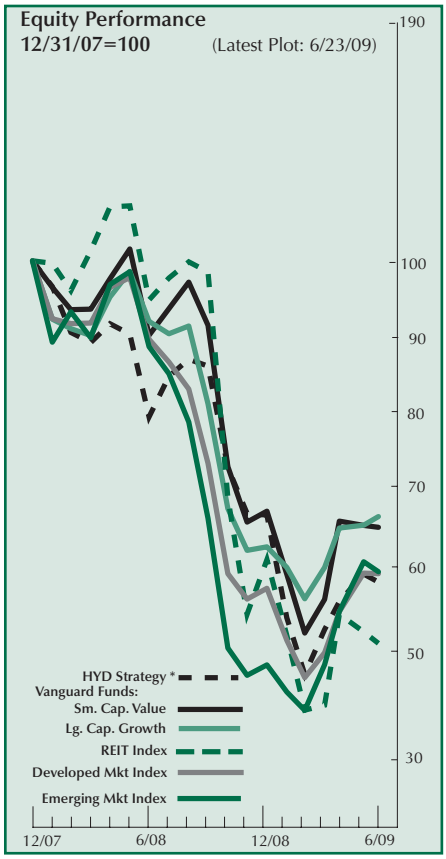


*** HYD is a hypothetical model based on back-tested results. See p.46 for full explanation**

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

Price Inflation and TIPS: Expecting the Unexpected

News of impending hyper-inflation is everywhere. Fund managers, financial bloggers and economic commentators are showcasing their "inflation sniffing" bona fides and providing insight on how to confront this specter. Notably, Universa Investments, a fund associated with Nassim N. Taleb, best selling author of *The Black Swan*, has launched the "Black Swan Protection-Protocol Inflation fund" (those with less than $25 million to invest need not apply). Gold and gold mining stocks are suddenly au courant with the hedge fund cognoscenti.

AIS and our parent, AIER, have long focused on the slow attrition in consumer purchasing power wrought by a fiat currency regime and monetary expansion. The ever- present reality of inflation is not news to us – it has been an ever-present threat since gold redemptions ceased. This is why we recommend that investors maintain a portfolio that includes common stocks, gold, real estate and short-term bonds, the prices of which include the markets' best guess regarding future price inflation.

The case for higher inflation is not a hard one to make. The bond market's implied expectation of inflation (indicated by the spread between conventional Treasuries and inflation protected Treasuries) is 1.98 percent per year over the next 10 years, or roughly one half the rate of actual price inflation since 1945 as measured by the CPI. In response to the financial crisis, the Federal Reserve has held interest rates at nearly zero and launched an aggressive campaign of quantitative easing by buying up vast amounts of long-term treasuries, mortgage-debt, and various other types of private debt. Since September 2008 the Fed's balance sheet has increased by a staggering $1.1 trillion dollars. New programs are in the works to spur lending in consumer finance and this figure will likely grow higher. The effect of these new bank reserves is to print money in huge quantities without actually turning on the press.

Though these extraordinary actions are intended to speed economic recovery by inflating the money supply, economists and public policy makers will debate the prudence and necessity of the Fed's current course. Our focus, as always, is on the implications for the individual investor. If the Fed is unable put the "genie back in the bottle" and withdraw excess bank reserves in a timely manner once the economy resumes expansion – an unwelcome spike in price inflation will result.

This month we re-examine whether Treasury Inflation Protected Securities (TIPS) can play a useful role amidst these circumstances. Our recommended asset classes have historically provided protection against *expected* price inflation. *Actual* price inflation, however, cannot be forecast reliably by anyone. TIPs are well suited for those investors who are especially averse to the risk of *unexpected* price inflation. An investor's time horizon, inflation basis and tax sensitivity are also important considerations.

TREASURY INFLATION PROTECTED SECURITIES (TIPS): ANOTHER ARROW IN THE QUIVER

A dozen years have passed since the U.S. Treasury first made inflation indexed bonds available to investors. After a somewhat slow adoption period, TIPS have become increasingly "mainstream" as individuals and institutions alike have added these securities to investment portfolios. Recently, the amount of TIPS outstanding totaled over $515 billion; or about 11% of total marketable Treasuries outstanding.

While this asset growth has been impressive, even more impressive is the attention that TIPS have been getting in the media. The recent deluge of newspaper and magazine articles involving TIPS could lead one to believe they are being used more than they actually are. For the most part, this media attention has focused on the "positives" of holding TIPS in a portfolio, with many media outlets reporting an increase in inflation as an almost foregone conclusion.

To be sure, the recent stimulus plans, packages and other fiscal outlays outlined by the Obama Administration all seemingly point toward higher future inflation. Combined with the empirical evidence that most traditional asset classes are not great inflation hedging vehicles, TIPS appear to be a "no brainer". However, while we find that TIPS can be an effective tool to hedge against the impact of unexpected inflation, these securities are not "otherworldly" in nature. They are not immune to periods of poor performance and certainly do not defy the laws of risk vs. expected return.[1]

The bottom line, after examining the pros and cons associated with TIPS, is that they do deliver on their promise to maintain purchasing power by protecting against the impact of unexpected inflation. Some concerns regarding TIPS that we wrote about in past issues of the *Investment Guide*, including the potential for a lack of liquidity and/or lack of demand, have subsided.

TIPS: A Review

TIPS are issued in terms of 5, 10 and 20 years, and are offered in multiples of $100. The price and interest rate of TIPS are determined at auction, and can be greater than, less than or equal to the TIPS' par amount.[2] TIPS pay interest semi-annually, and the inflation adjusted principal is returned to the investor at maturity.

The interest rate determined for TIPS at auction is considered to be the *real* interest rate of the bond. Payments based on this real, fixed interest rate are made semi-annually. An important caveat unique to TIPS is that while the interest *rate* (percentage) is fixed, the *nominal dollar payments* received by a TIPS holder varies with changes in inflation.[3] The way that this works involves first adjusting the principal value of a TIPS bond (semi-annually) based on the reported inflation figure, and then using this modified principal balance to calculate the interest payment.

Using a $10,000 par value bond paying a fixed 3.0% annual rate of interest as an example, assume that inflation rises 1.8% over the first six-month period. The first nominal dollar payment is calculated as follows:

$10,000 * (1+1.8%) = $10,180 (adjusted principal value)

$10,180 * (3% / 2) = **$153 (nominal dollar payment)**

Assuming that inflation rises another 1.0% over the final six months of the first year, the second nominal dollar payment is calculated as follows:

$10,180 * (1+1.0%) = $10,282 (adjusted principal value)

$10,282 * (3% / 2) = **$154 (nominal dollar payment)**

At the end of the first year, the total value of the TIPS bond in our example is $10,282 + $307 = $10,589, which represents a 5.9% nominal return. The TIPS bond maintained a 3% real yield, while adding 2.9% for the inflation adjustment.

The example above describes a period of positive inflation. However,

Principal	Real Yield	+	Inflation Adjustment	=	Total Yield
	3.0%		2.9%		5.9%
$10,000	$300		$288.7		$588.7

the unique features of TIPS which serve to increase nominal payments during periods of inflation can also reduce nominal payments during periods of deflation, which reduces the TIPS holder's overall return. This risk is mitigated by two factors. First, a deflationary environment is quite uncommon. In fact, the last period of deflation in the U.S. was 1954. Second, even if an extended deflationary environment did occur, TIPS pay out the higher of the inflation adjusted principal *or* par value at maturity. This means that while TIPS investors may receive reduced semi-annual payments during deflationary periods, they will never receive less than par value at maturity. This in effect creates a "floor" value representing downside protection for investors should deflation occur.

Expected vs. Unexpected Inflation

TIPS, like all other securities, adhere to the tenets of risk vs. expected return - in other words "you get what you pay for". With TIPS, what you "get" is protection against unexpected inflation, but you "pay" for that protection in the form of a lower yield versus conventional U.S. Treasury bonds.

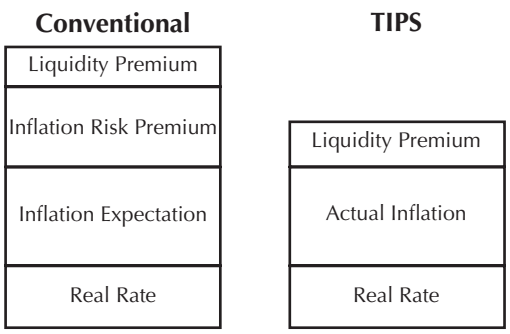
This difference between the yields on the two bonds reflects inflation expectations, an inflation risk premium, and, to a lesser extent, a liquidity premium. The real rate component is identical for both bonds.

Owners of conventional Treasuries receive no adjustment for actual inflation; they receive semiannual payments fixed for the life of the bond, plus the bond's (predetermined) par value at maturity. Buyers will therefore purchase such bonds only if they are priced to

[1]For more information detailing the performance of TIPS over time, please visit out website at www.americaninvestment.com.
[2]Source: www.treasurydirect.gov. More information regarding auction schedules, past auction results, and interest rate information can be found here.
[3]Inflation, for the purposes of TIPS, is measured using the non-seasonally adjusted Consumer Price Index for All Urban Areas (CPI-U), lagged by three months.

include an *expectation* of future price inflation. They also bear the risk that actual price inflation may exceed this inflation expectation, so they can also expect to earn an inflation risk premium not provided to TIPS holders.

Components of Treasury Bond Returns



The liquidity premium refers to the fact that the TIPS market is still much smaller than the overall Treasury market, and has less liquidity. This characteristic has diminished significantly over the past several years, but TIPS buyers still presumably get a slightly larger benefit in the form of an increased yield.

Since it is not possible to accurately break-down inflation expectation, inflation risk premium and the liquidity premium into exact separate measurements, the three are often collectively referred to as the "breakeven inflation rate" or the inflation rate necessary in order for TIPS to match the nominal returns offered by conventional bonds. The breakeven inflation rate is calculated by subtracting the yield from the TIPS bond from that of the conventional Treasury bond.

This relationship between conventional bonds and TIPS is depicted in the chart on page 47. The current nominal yield for 10 year treasury bonds of 3.89% compares to 1.91% for the 10 year TIPS. The difference between the two, 1.98%, means that the market is expecting 1.98% annualized inflation over the next 10 years. *If actual inflation is higher than this number, then TIPS will generate higher returns than conventional bonds, and vice versa*.

TIPS also carry a low correlation with other fixed income assets, and are expected to have a lower correlation with equities than conventional bonds.[4] Thus, TIPS can help reduce overall portfolio risk by further diversifying an investment portfolio, in addition to guarding against unexpected inflation.

Beware of the Blind Spots

Before jumping headlong into TIPS, there are other aspects of these securities which warrant consideration:

Basis Risk: TIPS and conventional Treasuries bear little credit risk, since both are direct obligations of the federal government. But TIPS expose investors to basis risk, this risk is associated with the use of imperfect hedging vehicles, and in this case relates to the use of the Consumer Price Index (CPI) as the proxy for inflation. The CPI was chosen as the inflation measure because it represents a broad range of items and is updated on a regular (monthly) basis. However, by using a large and general measure like the CPI, differences in the inflation rate of subsectors may be hidden. For example, using TIPS to plan for college expenditures may introduce basis risk if the cost of a college education rises at a faster annual rate than the CPI. In this case, the CPI inflation adjustment for the TIPS bond will not be high enough to cover the even higher increases in the cost of college education.

Changes in the Real Rate of Interest: TIPS, like conventional bonds, remain subject to interest rate risk because real interest rates change over time, in response to the supply and demand for capital. All bonds, indexed or not, remain exposed to the risk of rising real interest rates.

Taxes: The tax issues associated with TIPS introduce a novel wrinkle when it comes to evaluating feasibility for your portfolio. As expected, investors must pay income taxes on the interest received during the year (at the federal level only – TIPS, as Treasury obligations, are exempt from state and local taxes). But investors are also required to pay tax on the inflation adjustment to the principal made during the year, even though the income is not received until the bond matures. If held in a taxable account, this "phantom tax" can create an inconvenience at best and a real headache for investors saddled with a tax bill for income they haven't received yet. TIPS are best suited for tax deferred accounts.

How to Purchase TIPS: TIPS can be purchased through your broker, or directly through the Governments' TreasuryDirect website: http:www.treasurydirect.gov or by calling 1-800-722-2678. The benefits of purchasing TIPS directly include the avoidance of broker fees, as well as the ability to buy specific bonds that match the duration of your liability stream. Most investors purchasing TIPS directly will use a noncompetitive bid, in which you agree to accept the yield determined as a result of the competitive bidding process at auction. With this noncompetitive bid, you are guaranteed to receive the TIPS you want, and in the full amount you want. TIPS mutual funds and ETFs can also be purchased through your broker, and while they lack the ability to match your individual liability time horizon, they are more easily bought and sold than directly purchased TIPS. We will recomend specific funds in forthcoming issues of the *Investment Guide*.

Summary

We last wrote about TIPS in 2003, and one of our primary concerns was whether there would be enough demand to sustain the TIPS product. Since the Treasury first announced publicly in 2002 their commitment to the TIPS program, demand has grown and the market has become increasingly liquid, with an average trading volume approaching $9 billion.[5] This has gone a long way to create a "sustainable base" for TIPS as a long-term investment vehicle.

TIPS will outperform conventional Treasuries when actual inflation exceeds expected inflation, and vice versa. Currently, the market is pricing in expectations for inflation of 1.75% over the next 5 years, 1.98% over the next 10 years, and 2.23% over the next 20 years. If you are on a fixed income, or otherwise extremely risk averse with regard to the erosion of your purchasing power, TIPS could serve as a valuable component of that portion of your portfolio devoted to fixed income securities. As the purest form of a hedge against unexpected inflation, combined with the ability to enhance diversification profiles of investment portfolios, TIPS represent another "building block" to consider during the portfolio construction process. As always, the optimal use of TIPS in an individual's overall investment portfolio depends on that person's unique investment profile and long-term investment plan.

[4]For more information on the correlation of TIPS to other securities, please visit our website at www.americaninvestment.com.

[5]Estimates for 2008 trading volume by Primary Dealers provided by the Federal Reserve Bank of New York

ASSET CLASS INVESTING POST-2008

In the wake of 2008, a year in which equities fell by double digits across the globe, many in the media have targeted modern portfolio theory and asset class diversification in general. It has become "conventional wisdom" that the returns of various asset classes, particularly among international equity markets, have grown increasingly correlated, at least during falling markets, and are therefore not useful in protecting investors from volatility. If one focuses on short-term outcomes, as depicted in Table 1, this line of reasoning can be compelling.

We have heard similar claims before. Ironically it was during the last great financial asset "boom" of the late 1990s when modern portfolio theory was last assailed so stridently. Regrettably, at the time many heeded the siren call and abandoned well-allocated portfolios in favor of loading up on large cap growth stocks. This time the clamor is rooted in financial panic rather than market euphoria, but it would be equally tragic if investors were to respond by abandoning their plans.

These developments reflect an all-too-common rush to judgment. Most media outlets have a bias toward producing sensational findings. Bold claims that the world has changed sell subscriptions, or in today's world, "draw eyeballs" to websites. By contrast we, and our parent AIER, strive to take an approach consistent with precepts of social science. Here we undertake an impartial review of asset allocation, post 2008.

Update: Asset Class Correlation

The basic idea behind asset class diversification is not complicated. Most investors grasp intuitively the wisdom behind the expression "don't put all your eggs in one basket". By holding several types of assets (asset classes) that provide positive long-term expected returns that do not "move together" over short-term, investors can own a portfolio that will grow, but with minimal fluctuations in value. This is desirable since most investors perceive large fluctuations in value to be a primary form of risk.

Economists measure the variability of a portfolio by its *standard deviation*, which is a measure of how widely its returns typically deviate from its long-term average. This variability is determined by two factors: 1. the *variability of each asset class held* (weighted by its relative value in the portfolio) and 2. the weighted *co-movements* between the returns of each asset class.

These co-movements are measured in two ways. *Covariance* is an *absolute*, and measures the degree of association between the returns of two asset classes. The correlation coefficient (or *correlation*), on the other hand, measures the *relative* degree of association between the returns of two asset classes. Correlation is more frequently cited. It ranges from +1.0 to -1.0 and can be used to compare co-movements among asset classes.

Two asset classes with a correlation of +1.0 are said to have perfect positive correlation. Combining securities with perfect positive correlation would do nothing to reduce portfolio risk. Conversely, two asset classes with correlation of -1.0 are said to have perfect negative correlation. By holding both in equal proportion, risk can be eliminated.

These extremes are rare. Asset classes typically have some positive correlation with each other. The correlation matrix for our recommended asset classes is presented in Table 2.

Chart 1: Rolling 60-Month Correlations with the US Equity Market
December 1974-December 2008

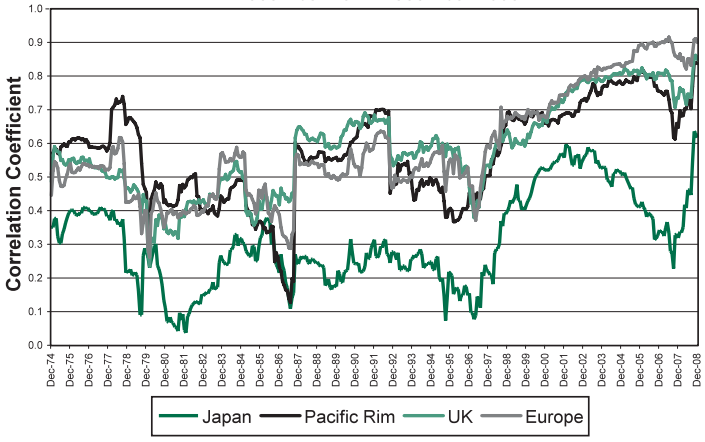


Table 1: Total Returns 2008

Barclay Capital 1-5 Yr. Govt./Credit Index*	5.13%
Vanguard REIT Index Fund	-37.05%
Vanguard Value Index Fund	-35.97%
High-Yield Dow 4/18*	-33.79%
Vanguard Small Cap Value Index Fund	-32.06%
Vanguard Growth Index Fund	-38.32%
Vanguard Developed Markets Index Fund	-41.62%
Vanguard Emerging Markets Index Fund	-52.81%
Gold (London PM Fix)*	4.31%

*Results are hypothetical: Price Indices are not available for direct investment and performance does not reflect expenses of an actual portfolio.

These data are based on returns through the first quarter of this year. We are confident that individual investors will continue to benefit by holding these asset classes. These correlations are low, and include unique asset classes, including commercial real estate (REITs), which is not strongly correlated with either bonds or stocks, and gold, which because of its unique status as a form of money, has extremely low correlation (in some cases negative), with our other recommended asset classes.

Recent Criticisms

In the face of a global economy that has grown increasingly integrated, many observers claim that the returns on foreign equities have grown more closely correlated with those of U.S. equities. They assert that international diversification therefore adds little value. Some go further and assert that during periods of extreme negative market conditions, correlations approach +1.0. L. Jacobo Rodriguez of Dimensional Fund Advisors[1] recently tested these claims empirically. Here we provide a summary of those findings. To read the study in its entirety, see the subscriber section of our website at www.americaninvestment.com.

The study first reviewed monthly returns of the U.S. stock market as well as the returns of international developed and emerging markets. Generally, the data supported the conventional wisdom. During extreme negative market conditions, returns tended to move together. However, the data were inconclusive regarding whether these correlations have increased over time; correlation data supported this view, but covariances did not. These trends are apparent in charts

[1]L. Jacobo Rodriguez (Dimensional Fund Advisors) *International Investing in Rising and Falling Markets* Quarterly Institutional Review, First Quarter 2009.

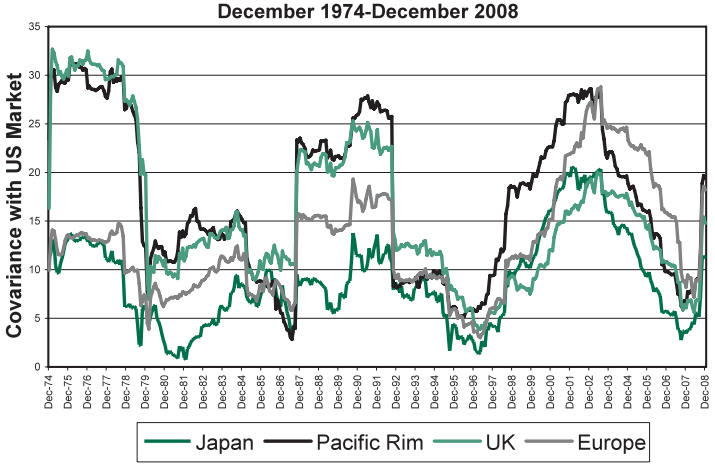
1 and 2, which depict these data with respect to developed markets.

The study next looked at returns during rising and falling markets. Monthly returns supported the notion that the benefits from international diversification are reduced during falling markets -- just when they are most needed. However, when quarterly data were considered, the differences in correlations between returns during rising markets and falling markets were not reliably different from zero. This suggests that the benefits from international diversification are sensitive to the time measurement interval, which is good news for investors with time horizons that exceed one month.

When equities were segmented by size (large cap versus small cap stocks) and by distress risk (value versus growth), the benefits from international diversification proved stronger for small stocks than for large stocks, and value stocks provided greater diversification benefits versus growth stocks. This held true in both developed and emerging markets.

What matters most to investors is portfolio performance, so as a final step the study considered several hypothetical portfolios. Regression analysis measures the sensitivity of the returns of several hypothetical portfolios to the returns of the U.S. stock market during periods of both rising and falling markets in the U.S. Several portfolios with varying degrees of international diversification were considered. These included: a combined U.S./Developed market portfolio, a U.S./Developed markets portfolio tilted toward small cap and value stocks, a U.S./Developed/Emerging market portfolio, and a U.S./Developed/Emerging market portfolio tilted toward small cap and value stocks.

Chart 2: Rolling 60-Month Covariances with the US Equity Market
December 1974-December 2008



The monthly returns of all of the international portfolios were more sensitive to falling markets in the U.S. than to rising markets. However, when quarterly data were considered, the differences in sensitivity were not reliably different from zero, suggesting once again that over time international diversification can be an effective tool. In addition, the portfolio experiment reinforced our contention that international value and small cap stocks provide better diversification versus international stocks that are undifferentiated by size or distress risk (growth versus value).

The passively managed funds listed on the back page include international funds that track both developed and emerging markets. While our developed market funds include variations segmented by value (and growth), we have not identified any satisfactory investment vehicles for capturing the returns of small caps in this sector. Among emerging markets we are currently only recommending funds designed to capture the returns attributable to the entire emerging market segment. For retail investors we have not yet identified any fund well suited toward capturing the size or distress risk dimensions within emerging markets.

Clients in our Professional Asset Management service (PAM) have access to funds from Dimensional Fund Advisors that tilt toward small cap and value stocks among both international developed and emerging markets. Contact us for more information.

Table 2: Correlation Matrix (Monthly Returns: 04/1989 - 03/2009)

	Int'l. Dev. Mkts.	Emerging Markets	U.S. Large Cap Growth	U.S. Large Cap Value	U.S. Small Cap Value	U.S. Micro Cap	U.S. REITs	Short/Int. Tm. Fixed Inc.	Cash Equivalents	Gold
Int'l. Dev. Mkts.	1.000									
Emerging Mkts	0.674	1.000								
US Lg. Cap Gr.	0.661	0.645	1.000							
US Lg. Cap Val.	0.661	0.611	0.781	1.000						
US Sm. Cap. Val	0.577	0.608	0.664	0.808	1.000					
U.S. Micro Cap	0.560	0.638	0.719	0.633	0.866	1.000				
U.S. REITs	0.403	0.383	0.376	0.587	0.733	0.542	1.000			
Sh/Int. Term Fixed	0.038	-0.058	0.042	0.068	-0.035	-0.084	0.046	1.000		
Cash Equivalents	-0.021	-0.035	0.118	0.091	-0.013	-0.026	-0.015	0.206	1.000	
Gold	0.096	0.130	-0.105	-0.086	-0.020	-0.002	0.053	0.101	-0.115	1.000

Representative Indexes: International Developed Mkts: MSCI EAFE Index (gross div.) Emerging Markets.: MSCI Emerging Markets Idx. (gross div). U.S. Lg. Cap Growth: Russell 1000 Growth Index U.S.Lg. Cap Value: Russell 1000 Value Index U.S. Small Cap Value: Russell 2000 Value Index U.S. Miicrocap: DFA US Micro Cap Portfolio U.S. REITs: Dow Jones US Select REIT Index Short/Int-Trm Fixed Inc.: Barcap 1-5 Yr Gov/Cred. Cash Equiv. U.S. Treas Cert. of Dep. 3 Mo. Gold: Gold London PM Fix Price Indices are not available for direct investment and performance does not reflect expenses of an actual portfolio. Past performance is not a guarantee of future results.

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

Recommended HYD Portfolio

As of June 15, 2009

	Rank	Yield	Price	Status	——Percent of Portfolio—— Value	No. Shares[1]
AT&T Corp.	1	6.66%	24.63	Holding**	13.92	8.75
Dupont	2	6.36%	25.79	Buying	9.13	5.48
Verizon	3	6.19%	29.73	Holding**	20.82	10.84
Merck & Co.	4	6.09%	24.96	Buying	4.39	2.72
Caterpillar	5	4.65%	36.12			
Kraft	6	4.59%	25.26			
Pfizer	7	4.53%	14.13	Selling	20.10	22.03
Home Depot	8	3.77%	21.85			
Chevron	9	3.66%	71.08			
J&J	10	3.58%	54.75			
General Electric	17	3.04%	13.15	Holding	6.93	8.16
Alcoa	26	1.07%	11.21	Holding	8.09	11.18
Bank of America	29	1.30%	13.33	Holding	10.74	12.48
Citigroup	NA		3.37	Selling	3.98	18.30
Fairpoint	NA		1.20	Selling	0.00	0.05
Cash (6-mo. T-Bill)	NA				1.90	--
					100.00	100.00

** 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 May 31, 2009)*

	1 mo.	1 yr.	5 yrs.	10 yrs.	20 yrs.	Since 1/79	Std. Dev.
HYD Strategy	7.01	-35.65	0.89	3.17	12.08	15.19	18.19
Russell 1000 Value Index	6.18	-35.35	-1.53	0.21	8.14	11.58	14.90
Dow	4.52	-30.44	-1.10	0.02	8.96	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 ($)

	6/15/09	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**932.25**	929.50	866.00
Silver, London Spot Price	**14.31**	13.92	16.31
Copper, COMEX Spot Price	**2.28**	1.97	3.59
Crude Oil, W. Texas Int. Spot	**70.61**	56.34	134.86
Dow Jones Spot Index	**304.59**	281.52	465.04
Dow Jones-AIG Futures Index	**126.03**	117.70	226.02
Reuters-Jefferies CRB Index	**256.37**	236.24	445.87

Interest Rates (%)

U.S. Treasury bills -	91 day	**0.17**	0.16	1.93
	182 day	**0.29**	0.27	2.17
	52 week	**0.48**	0.48	2.51
U.S. Treasury bonds -	10 year	**3.76**	3.10	4.15
Corporates:				
High Quality -	10+ year	**5.68**	5.39	5.68
Medium Quality -	10+ year	**7.52**	7.97	7.08
Federal Reserve Discount Rate		**0.50**	0.50	2.25
New York Prime Rate		**3.25**	3.25	5.00
Euro Rates	3 month	**1.28**	1.28	4.96
Government bonds -	10 year	**3.67**	3.34	4.52
Swiss Rates -	3 month	**0.40**	0.40	2.88
Government bonds -	10 year	**2.44**	2.29	3.38

Exchange Rates ($)

British Pound	**1.626800**	1.521160	1.948800
Canadian Dollar	**0.881990**	0.852630	1.000400
Euro	**1.378400**	1.358140	1.549200
Japanese Yen	**0.010201**	0.010480	0.009559
South African Rand	**0.123381**	0.116430	0.131622
Swiss Franc	**0.913910**	0.901470	0.949578

Securities Markets

	6/15/09	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**923.72**	882.88	1,360.03
Dow Jones Industrial Average	**8,612.13**	8,268.64	12,307.35
Dow Jones Bond Average	**224.34**	216.33	204.24
Nasdaq Composite	**1,816.38**	1,680.14	2,454.50
Financial Times Gold Mines Index	**2,576.76**	2,569.02	2,743.04
FT EMEA (African) Gold Mines	**2,533.25**	2,590.61	2,324.29
FT Asia Pacific Gold Mines	**11,181.16**	10,176.70	11,506.08
FT Americas Gold Mines	**2,163.93**	2,179.53	2,435.35

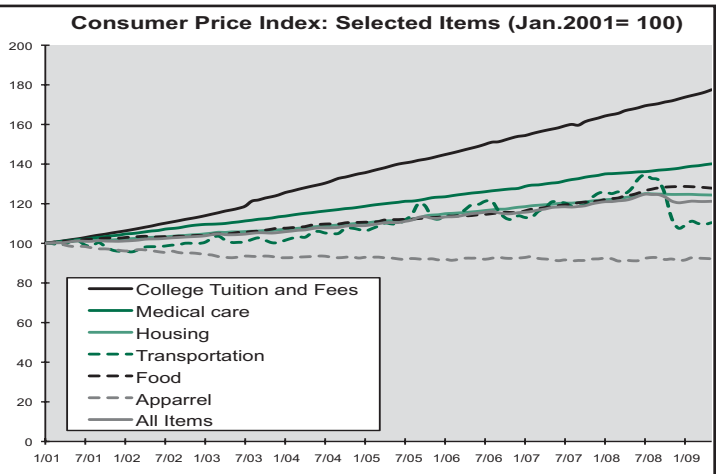
Coin Prices ($)

	6/15/09	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	**984.35**	951.55	891.03	5.59
Austrian 100-Corona (0.9803)	**924.83**	887.33	843.63	1.20
British Sovereign (0.2354)	**228.25**	219.05	208.45	4.01
Canadian Maple Leaf (1.00)	**974.10**	941.30	887.80	4.49
Mexican 50-Peso (1.2057)	**1,139.90**	1,093.70	1,039.80	1.41
Mexican Ounce (1.00)	**965.60**	927.20	862.60	3.58
S. African Krugerrand (1.00)	**962.83**	933.13	870.28	3.28
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**1,157.50**	1,165.00	927.50	28.33
Liberty (Type I-AU50)	**1,277.50**	1,300.00	1,050.00	41.64
Liberty (Type II-AU50)	**1,175.00**	1,200.00	982.50	30.27
Liberty (Type III-AU50)	**1,105.00**	1,120.00	902.50	22.51
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**10,625.00**	9,912.50	11,700.00	3.84
40% Silver Circ. (292 oz.)	**4,225.00**	3,900.00	4,700.00	1.11
Silver Dollars Circ.	**12,500.00**	12,850.00	14,250.00	12.92

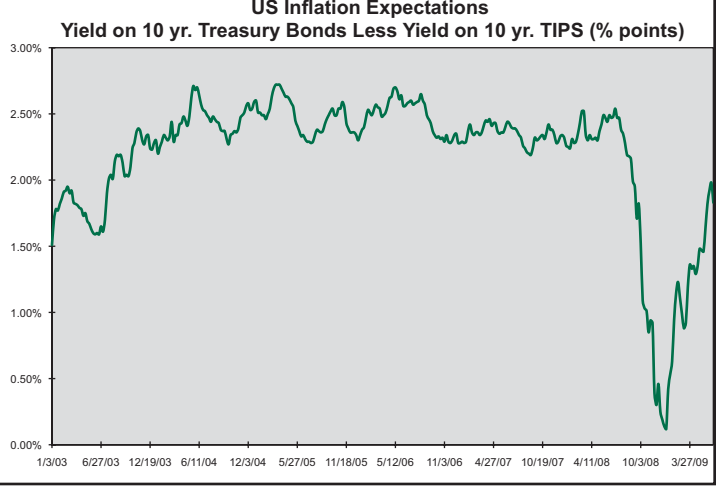
Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $932.25 per ounce and silver at $14.31 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

INFLATION WATCH

The Consumer Price Index (CPI) attempts to summarize the prices paid by millions of individuals for the myriad of goods and services produced in the economy. But no one is an "average consumer." A family with children in college may spend more on education, for example, than many others. The chart to the right breaks down the CPI into broad categories to reveal where price pressures have been greatest in recent years.



The "breakeven" inflation rate is the difference between the nominal yield of a conventional Treasury obligation and the real yield of a Treasury Inflation-Protected Security (TIPS) of similar maturity. It measures the rate of price inflation at which the return on TIPS would equal the return on conventional Treasuries. It can therefore be interpreted as the bond market's estimate of future price inflation. The chart to the right suggests that over the next 10 years price inflation is expected to average 1.98% per year.



RECOMMENDED INVESTMENT VEHICLES

	Ticker Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Ratios: Expense (%)	Ratios: Sharpe	Ratios: Turnover (%)	Ratios: P/B	12 Mo. Yield (%)	Annualized Returns (%), as of 5/31/09: Total 1 yr.	Total 3 yr.	Total 5 yr.	After Tax* 1 yr.	After Tax* 3 yr.	After Tax* 5 yr.
Short/Intermediate Fixed Income														
Vanguard Short-Term Bond Index	BSV[2]	2.8 Yrs.	987	0.10	--	101	--	3.56	5.54	--	--	4.27	--	--
Vanguard Short-Term Bond Index	VBISX	2.8 Yrs.	988	0.19	0.90	102	--	3.56	5.54	6.03	4.34	4.28	4.52	2.94
iShares Barclays 1-3 Yr. Credit Bond	CSJ[1]	2.0 Yrs.	156	0.20	na	64	--	4.23	3.23	--	--	1.69	--	--
iShares Barclays 1-3 Year Treasury	SHY[1]	1.9 Yrs.	43	0.15	1.19	76	--	3.29	4.68	5.64	4.01	3.48	4.25	2.78
Vanguard Limited-Term Tax-Exempt	VMLTX	2.7 Yrs.	987	0.19	0.90	101	--	3.56	3.84	4.18	3.29	3.84	4.18	3.29
Real Estate														
Vanguard REIT Index	VNQ[2]	3.1 B.	100	0.10	-0.78	32	1.3	12.26	-46.88	-15.43	--	-47.87	-16.58	--
Vanguard REIT Index	VGSIX[3]	3.1 B.	100	0.20	-0.78	32	1.3	12.07	-46.93	-15.51	-1.49	-47.90	-16.64	-2.89
U.S. Large Cap Value														
Vanguard Value Index	VTV[2]	36.4 B.	431	0.10	-0.97	27	1.3	4.93	-33.15	-9.86	-1.10	-33.53	-10.26	-1.51
Vanguard Value Index	VIVAX	36.4 B.	431	0.21	-0.95	27	1.3	4.78	-33.21	-9.95	-1.19	-33.57	-10.34	-1.59
U.S. Small Cap Value														
iShares Russell Microcap Index	IWC[1]	0.2 B.	1311	0.60	-1.22	21	0.9	1.66	-34.23	-15.56	--	-34.41	-15.69	--
Vanguard Small-Cap Value Index	VBR[2]	0.9 B.	980	0.11	-0.94	30	0.9	3.73	-32.13	-10.49	-0.46	-32.57	-10.94	-0.93
Vanguard Small-Cap Value Index	VISVX	0.9 B.	980	0.23	-0.93	30	0.9	3.51	-32.20	-10.59	-0.56	-32.62	-11.02	-1.00
U.S. Large Cap Growth														
iShares Russell 1000 Growth Index	IWF[1]	25.2 B.	637	0.20	-0.79	16	2.6	1.76	-30.77	-6.07	-1.96	-30.99	-6.25	-2.14
Vanguard Growth Index	VIGRX	29.3 B.	407	0.23	-0.76	27	2.6	1.40	-31.85	-6.05	-1.80	-31.97	-6.18	-1.94
U.S. Marketwide														
Vanguard Total Stock Market Index	VTI[2]	22.0 B.	3414	0.07	-0.90	5	1.6	3.08	-32.44	-8.09	-1.24	-32.69	-8.37	-1.52
Fidelity Spartan Total Market Index	FSTMX[4]	18.2 B.	3199	0.10	-0.89	4	1.5	2.86	-32.67	-8.22	-1.32	na	na	na
Foreign- Developed Markets														
iShares MSCI Growth Index	EFG[1]	21.7 B.	499	0.40	-0.70	37	2.1	3.43	-37.85	-7.36	--	-37.93	-7.46	--
iShares MSCI Value Index	EFV[1]	17.8 B.	572	0.40	-0.82	28	1.1	5.76	-34.92	-8.45	--	-35.05	-8.74	--
Vanguard Europe Pacific Index	VEA[2]	22.5 B.	971	0.11		16	1.5	4.07	-35.76	--	--	-35.97	--	--
Vanguard Tax-Managed International	VTMGX[5]	22.5 B.	971	0.15	-0.75	16	1.5	3.94	-36.37	-7.58	3.34	-36.57	-7.81	3.10
Vanguard Developed Markets Index	VDMIX[6]	25.1 B.	1012	0.29	-0.76	13	1.6	6.29	-36.12	-7.56	3.12	-36.75	-8.19	2.52
Foreign- Emerging Markets														
Vanguard Emerging Market Index	VWO[2]	10.6 B.	786	0.20	-0.27	20	1.7	4.99	-34.18	3.19	--	-34.66	2.74	--
Vanguard Emerging Market Index	VEIEX[7]	10.6 B.	786	0.32	-0.26	20	1.7	4.69	-34.57	2.91	14.41	-35.03	2.48	14.03
Gold-Related Funds														
iShares COMEX Gold Trust	IAU[2]	--	1	0.40	0.65	--	--	0.00	9.87	14.61	--	9.87	14.61	--
streetTRACKS Gold Shares	GLD[1]	--	1	0.40	0.65	--	--	0.00	6.16	16.71	--	6.16	16.71	--

Recommended Gold-Mining Companies ($)

	Ticker Symbol	6/15/09	Month Earlier	Year Earlier	--- 52-Week --- High	--- 52-Week --- Low	Distributions: Last 12 Months	Distributions: Frequency	Yield (%)
Anglogold Ltd., ADR †	AU	**35.79**	36.60	31.96	43.16	13.37	0.0973	Semiannual	0.2719
Barrick Gold Corp.	ABX	**32.90**	33.49	38.55	52.48	17.27	0.4000	Semiannual	1.2158
Gold Fileds Ltd.	GFI	**11.27**	12.28	11.13	13.99	4.64	0.1836	Semiannual	1.6291
Goldcorp, Inc. †	GG	**33.71**	33.44	38.46	52.65	13.84	0.1530	Monthly	0.4539
Newmont Mining	NEM	**41.58**	42.64	47.01	53.77	21.17	0.4000	Quarterly	0.9620

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