



\* HYD is a hypothetical model based on back-tested results. See p.38 for full explanation.

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## The Sovereign Debt Crisis and Your Portfolio

Global capital markets have tumbled again, this time in response to fiscal chaos in Greece and its implications for the wider Eurozone. In today's integrated global economy the potential for any nation to default on its sovereign debt is disruptive. Investors, however, should not change their allocation plans in response to events external to their personal circumstances and financial objectives.

In order to qualify for membership into the Economic and Monetary Union (EMU), nations were required to meet several criteria established under the Maastricht Treaty. A member nation's budget deficit could not exceed 3 percent of gross domestic product (GDP). In late 2009, ten years after the euro was launched, a newly elected government in Greece announced that its true ratio was closer to

**From the archives: *Investment Guide* December 1998**

***"We have never found an explicit description of the extent to which the "backing" of the euro will be the debt of the 11 countries' governments ... or whether the system as a whole will stand behind a member that cannot pay its debts and, if so, what does that member have to do."***

For more see page 36

13 percent. Though the Greek economy ranks only 27<sup>th</sup> in the world in GDP and accounts for only 2 percent of the Eurozone's output, capital markets worldwide have fallen sharply as the possibility that Greece might default on its debt has grown more likely. Volatility has remained well above average despite a \$146 billion aid package assembled by Eurozone nations, the International Monetary Fund (IMF) and the U.S. Federal Reserve in early May.

Behind the skepticism lies doubt that Greece will be able to impose the discipline necessary to avoid default; dramatic structural changes are required and few believe Greece has the political fortitude to implement necessary changes. But more importantly, three quarters of Greek sovereign debt is held by foreigners, and its largest creditors include French and German banks, which are still reeling from the 2008 credit market crisis.

The situation in Greece prompted bond markets to immediately focus on Spain, Italy, Ireland and Portugal which also face fiscal

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challenges, though far less severe. Eurozone creditors hold approximately \$300 billion in Greek debt, but roughly \$4 trillion in the collective sovereign debt of these nations, all of which have seen their borrowing costs increase sharply.

The bear market of 2008-2009 is fresh in the minds of most investors, and fears of a repeat performance are being fanned by the media. While rebalancing to match your target allocations may well be called for, it is never prudent to alter your target allocations amidst a climate of fear (or euphoria), and current circumstances are no exception. The temptation to flee foreign markets should be avoided.

Capital markets “price in” news as it emerges, so relative risk among nations is reflected in sovereign bond prices and yields. As events unfolded bond yields increased



“Then it’s agreed. Until the dollar firms up, we let the clamshell float.”

dramatically in the smaller nations with the weakest balance sheets, and fell among the larger Eurozone economies of Germany and France as well as in the U.K. and U.S.

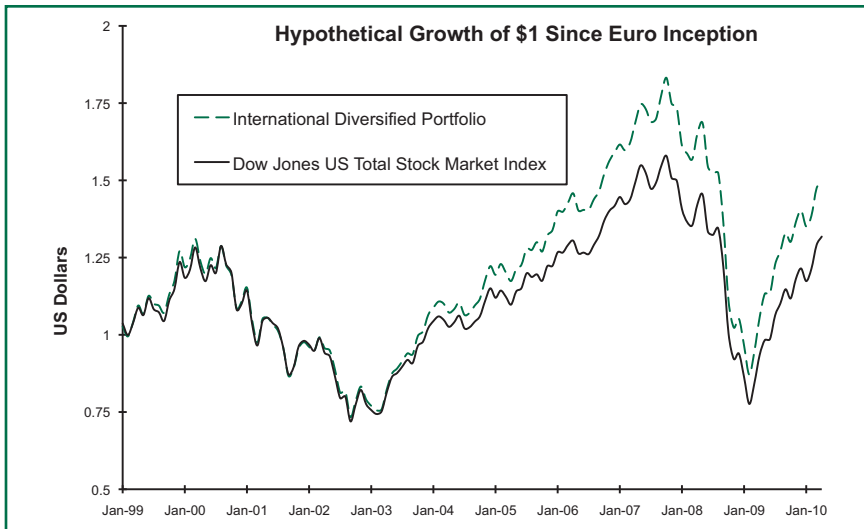
The U.S. national debt has grown from roughly 60 percent of GDP to over 90 percent over the past ten years and stands roughly where it was following World War II. While this is a serious concern, comparisons with the struggling nations of Europe are overstated. The bottom fell out of the Greek bond market when it became clear that nation’s true fiscal situation had been obscured by deceptive bookkeeping. In the U.S., federal debt accounting is questionable (see AIER’s May 17, 2010 *Research Reports*<sup>1</sup>). But these practices and the relative risks they pose have long been known and discounted by capital markets. In our estimation monetary inflating remains a far more likely outcome than default.

The world, once again, appears to regard the U.S. dollar as “The World’s Tallest Dwarf?” among fiat currencies. As the crisis has grown, investors have fled to dollar denominated assets, including U.S. Treasuries, and of course, gold. Subscribers who have followed our recommendations would have held these assets in good measure, as others were racing to buy them.

### What about Global Equities?

In a world of fiat currencies, all of which lose purchasing power over time, investors are best served by holding a globally diversified portfolio.

The accompanying chart and table demonstrate that since the euro was introduced in January 1999 an investor concerned with return and volatility would have been far better off holding a globally diversified equity portfolio that included both U.S. and foreign equities versus an all-U.S. equity portfolio. The data in the chart are generally consistent with the equity allocation within our recommended “moderate risk” portfolio.



Risk and Return: Hypothetical Performance since euro inception (Monthly data, January 1999 – April 2010)*			
	Total Return (%)	Annualized Return (%)	Volatility (Annualized Standard Deviation (%))
Intl. Diversified Portfolio <sup>3</sup>	49.61	3.62	16.58
DJ US Total Stk. Mkt. Index	31.80	2.47	16.34

\* 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 performance.

<sup>1</sup>R.D. Norton, “Debt Reckoning” Research Reports, American Institute for Economic Research Vol. LXXVII No. 9, May 17, 2010.

<sup>2</sup>“The World’s Tallest Dwarf” Research Reports, American Institute for Economic Research Vol. LXIV No. 17, September 9, 1997.

<sup>3</sup>International Diversified Portfolio: Dow Jones U.S. Total Stock Market Index: 77%, MSCI EAFE Index: 16% MSCI Emerging Market Index: 7%

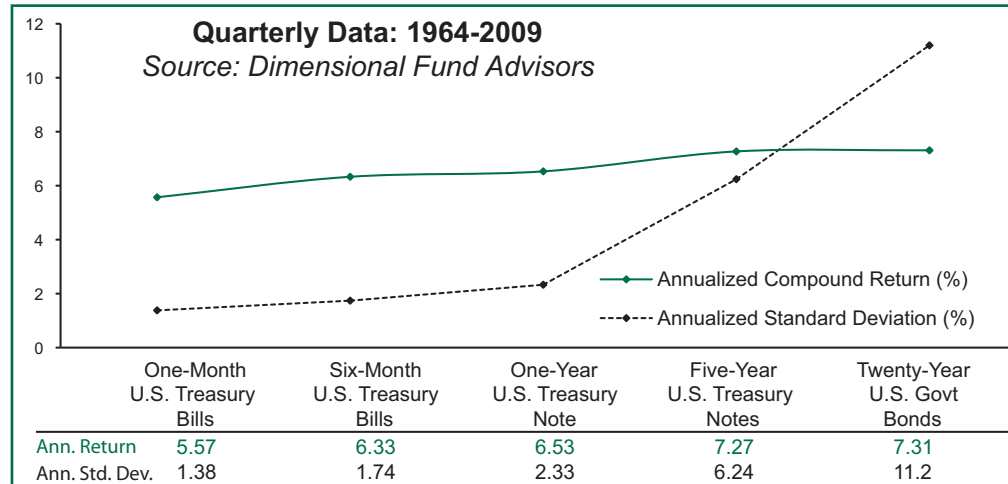
## LONG TERM GOVERNMENT BONDS: THE RISK/RETURN PARADOX

*Economics asserts that capital assets are priced to reflect their relative risk. Empirical evidence supports this assertion, but exceptions arise. When faced with an apparent anomaly, it is the task of financial economists to seek an explanation consistent with theory. The bond market offers a case study that has important lessons for investors.*

We have pointed out many times that risk and return are not just casually related, but tightly intertwined. Once an investor “diversifies away” risk that is uncompensated, his remaining portfolio will be exposed to some level of risk for which the market demands compensation in the form of positive expected returns. There are no “free lunches.” An investor can expect higher returns only to the extent that he is willing to increase his exposure to these compensated risks.

We observe a curious wrinkle to this “efficient market” paradigm when examining the returns of government bonds of differing maturities relative to their risk (their volatility, measured by standard deviation). The accompanying table depicts the historical returns and volatility of U.S. government bonds of various maturities (return is represented by the solid line and standard deviation is represented by the dashed line). Both the five-year U.S. Treasury Notes (5 yr) and twenty-year U.S. Treasury bonds (20 yr) exhibit significantly higher volatility relative to both the one-month and six-month U.S. Treasury Bill. However, they do not produce the corresponding significant increase in returns that may have been expected from assuming the burden of this increased risk.

It would seem irrational for anyone to hold long term bonds under these circumstances. Why add long term bonds to your portfolio unless you could expect to be rewarded with proportionally higher returns? From this observation are we to simply conclude that bonds are “mispriced” relative to their risk, or is there an explanation to this quandary that is consistent with what we think we know? Should we throw up our hands and abandon years of research that otherwise supports the notion that risk is reflected in security prices?



There are in fact plausible explanations for this phenomenon that are entirely consistent with prevailing theory. Further examination offers additional insight into just why the wrinkle may exist for this particular subsector of fixed income assets, and why its existence does not “disprove” market efficiency.

### The No Call List

Unlike corporate bonds, long-term government bonds are typically not “callable.” The call feature on a bond gives the issuer the ability to “buy back” the loan if interest rates fall. The mechanism for how this process works is similar to the case of a homeowner refinancing a house. As interest rates fall, there becomes a point where it makes sense for the homeowner to refinance at lower rates, thus reducing overall borrowing costs. The same is true for corporations. As long-term interest rates fall, it is in their best interest to call back the original, higher yielding bonds and issue new bonds to investors at lower rates, thus saving money in the long run.

Many active bond managers focus on forecasting moves in long-term interest rates. However, the call provision embedded in many corporate bonds can make it difficult to profit from a correct prediction. Corporate bonds will be called if interest rates fall too much, thus potentially eliminating the interest rate timers’ gains. Managers may be attracted to long-term government bonds because they are non-callable; this increased demand in turn raises prices and lowers the expected returns on these bonds. This is a plausible explanation for return

premiums that are only slightly higher than those of short-term government bonds.

### Locking It In

Another possible explanation for this anomaly has to do with the investor profile. Not every investor is a “mean variance” investor seeking to maximize return per unit of risk assumed. In fact, some investors seek volatility. A common instance would be someone concerned with hedging a future liability.

Consider an employer that is obligated to make fixed payouts to a retiree (a known liability) ten years in the future. Year-to-year the firm must ensure that its pension fund assets remain adequate to fund the present value of that future liability (and by law must make contributions to fund any deficiency). As time passes, if prevailing interest rates should fall, the present value of that liability will increase (and vice versa). Left unprotected, the employer’s very solvency will be at the mercy of long-term interest rates.

Fortunately a pension fund manager can immunize the firm from this interest rate risk by purchasing a government bond with matching duration (ten years in this case), because as the interest rate applicable to the liability falls over time, the bond’s value will rise correspondingly. Thus the volatility of the bond between the purchase date and maturity date is not a source of anxiety to be avoided as it is for individual investors; instead it is a useful tool, because it offsets the volatility of a liability. In the case of government bonds, these securities are guaranteed by

the U.S. government and therefore carry little credit (default) risk.

If enough market participants in this sector fit this profile, it can increase demand for these longer term bonds relative to shorter term bonds, resulting in lower expected relative returns.

## Investor Implications

Equilibrium dynamics are constantly shifting to reflect the actions of speculators, hedgers, interest rate timers and all other market participants. In the case of long-term government bonds, the “equilibrium level” appears to be at a point where standard deviation is significantly higher compared to short-term government bonds, without a commensurate increase in return. This does not mean that bonds are

“priced wrong” or that they are “bad investments.” Market dynamics have simply created this result due to the reasons highlighted above and/or other reasons yet to emerge.

Our readers and clients are among those market participants concerned, presumably, with maximizing the risk-adjusted returns of their portfolios rather than timing interest rates or managing liabilities. Such investors should invest in the shorter end of the yield curve (generally less than five years).

## The Nature of Research

We hope this discussion has conveyed two points. The first pertains to the nature of markets and why we recommend that individual investors avoid long term bonds. The second deals

with the nature of our research.

Wall Street frequently cites anomalies such as this in order to assail modern portfolio theory and to assess fees for identifying “mispriced” assets. These schemes fail invariably. We on the other hand take the more difficult approach of scientific inquiry.

When we encounter occurrences that appear to contradict theory, we endeavor to explain what we observe in the context of what we think we know. A prevailing theory should not be discarded until it is replaced by another that is supported by overwhelming evidence. A credible alternative to modern portfolio theory has yet to emerge.

## FROM THE ARCHIVES: “THE GREAT UNANSWERED QUESTIONS”

Over 11 years ago, when the euro was launched, its advocates touted the benefits of the new common currency with great confidence. We, on the other hand, pointed out that the future of the euro was anything but certain. We posed our questions directly to the European Monetary Institute (EMI), which was the precursor to the European Central Bank (ECB), but never received a response. Capital markets are now furnishing answers.

### From “The Euro on the Verge” Investment Guide, December 31, 1998:

*“There is no reason why the euro-denominated debts of, say, Italy or Spain should carry the same interest rate as the euro denominated debts of Luxembourg, or Belgium, especially once accounting*

*charades are no longer needed and several newly elected governments (mainly of the left) implement their programs. (In this country, debts of states and local governments, all denominated in dollars, carry various interest rates, according to perceived creditworthiness.) As indicated above, budget deficits in relation to GDP are likely to begin to diverge, perhaps markedly so.*

*We have no idea how great the tolerance for interest rate differentials among the various countries will be among politicians and officials and what will happen if countries’ interest rates move outside the criteria set down in Maastricht. More to the point, what central banks in fiat currency regimes usually do is monetize government debt by holding interest bearing securities issued by their governments as assets,*

*with non-interest bearing notes and deposits as liabilities. After the expenses, profits are returned to the issuing governments -- a form of “seignorage.”*

*We have never found an explicit description of 1) the extent to which the “backing” of the euro will be the debt of the 11 countries’ governments 2) how the “seignorage” will be apportioned among the 11 governments, or 3) whether the system as a whole will stand behind a member that cannot pay its debts and, if so, what does that member have to do.*

*The difficulty of having a one-size-fits-all monetary policy will become apparent as Europe grapples with its core problem of structural unemployment and economic divergence. Worsening unemployment in the past has sparked violent un-rest and in all likelihood the EMU will become the scapegoat.”*

## MANAGERS VS. MARKETS

Proponents of active management believe that skilled managers can outperform the financial markets through security selection, market timing, and other efforts based on prediction. While the promise of above-market returns is alluring, investors must face the reality that as a group, US-based active managers do not consistently deliver on this promise, according to research provided by Standard & Poor’s.

S&P Indices publishes a semi-annual scorecard that compares the performance of actively managed mutual

funds to S&P benchmarks. Known as the SPIVA scorecard<sup>1</sup>, the report analyzes the returns of US-based equity and fixed income managers investing in the US, international, and emerging markets. The managers’ returns come from the CRSP Survivor-Bias-Free US Mutual Fund Database, and the managers are grouped according to their Lipper style categories.

Chart 1 on page 38 features fund categories from the most recent SPIVA scorecard—all US equity funds, international funds, emerging market funds, and global fixed income funds—

and shows the percentage of active managers that were outperformed by the respective S&P Indices in one-, three-, and five-year periods. These are only four of thirty-five equity and fixed income fund categories. But a deeper analysis confirms that the active manager universe usually fails to beat the market benchmarks over longer time horizons. Underperformance of active strategies is particularly strong in the international and emerging markets, where trading costs and other market frictions tend to be higher.

*(Continued)*



Over the last five years, about 60% of actively managed large cap US equity funds have failed to beat the S&P 500; 77% of mid cap funds have failed to beat the S&P 400; and two-thirds of the small cap manager universe have failed to outperform the S&P Small Cap 600 Index. Furthermore, across the thirteen fixed income fund categories, all but one experienced at least a 70% rate of underperformance over five years.

In 2009, active funds experienced more success over a one-year period, and proponents typically highlight those results in the SPIVA scorecard. However, one-year results are not consistently strong from year to year, and investors should not draw conclusions from short-term results. Over three- and

five-year periods, most fund categories have not outperformed their respective benchmarks.

This poor track record appears in other research comparing the same actively managed funds in the CRSP database to the Russell benchmarks. Over the past five years, about 65% of all US equity managers failed to outperform their respective Russell Indexes, and 84% of fixed income managers failed to beat their respective Barclays Capital Indices. See the subscriber only section of our website for more details on this study.

Of course, the results of these studies will fluctuate over time, and a majority of funds in a given category might outperform over the short term.

But the message is clear: As a group, actively managed funds often struggle to add value relative to an appropriate benchmark—and the longer the time horizon, the greater the challenge for active managers to maintain a winning track record.

1. SPIVA stands for Standard & Poor's Indices versus Active Funds. The report covers US equity, international equity, and fixed income categories. The actively managed funds are grouped according to Lipper style categories.

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## A RITE OF SPRING: THE PROXY PACKAGE

Each spring along with the arrival of April showers and May flowers, investors' are inundated with an avalanche of proxy material.

The proxy – a form of ballot requiring management to vote your shares as you direct -- is the primary instrument for the exercise of shareholder rights and shareholder communication to management. As the owners of the firm, shareholders should be familiar with the material and be prepared to vote on important issues involving corporate governance. While most proxy proposals are written in plain English, some are written in murky legalese that requires careful scrutiny.

The proxy package will include a notice of the annual meeting of shareholders, a proxy statement, a ballot and a copy of the corporation's annual report. As a shareholder you may choose to attend the meeting to vote in person, or vote your proxy electronically, by phone or by mail. In order for your vote to be counted, your proxy must be received prior to the start of the meeting – the voting deadline will be indicated on the proxy.

You may designate a third party, such as your adviser, to vote proxies on your behalf (we vote proxies on behalf of our Professional Asset Management clients). This can be done only with specific written authority. The designated agent will vote the proxies according to their stated proxy voting policies and procedures, unless they receive specific instructions from the shareholder to vote otherwise. Agents must keep records of proxies voted.

The most common items on the proxy are nominees for the board of directors and ratification of the independent auditor. Additional proxy proposals may include changes in executive compensation or corporate structure, capital changes (e.g., stock splits, or issuance of new shares), and mergers or acquisitions.

The proxy statement provides background information for each proposal, and indicates the board of director's recommendation to shareholders. The board should provide an informed, independent recommendation. Even so each proposal should be considered individually.

The election of the board of directors is perhaps the most important item on the proxy ballot. The proxy statement will provide biographical information for each nominee outlining the nominee's qualifications to serve. The directors should be independent and free of any conflicts of interest that would compromise their exercise of independent judgment in acting on shareholders' behalf. Generally the more shares a director holds, the more his financial interests will be aligned with those of the other shareholders.

Ratification of the accounting firm should also be given proper consideration. Similar to the board of directors, the accounting firm should be independent and provide shareholders with a transparent view of the company's accounting. A good outside audit will include opinions or disclaimers if the accounting firm does not agree with the company's accounting policies.

Executive compensation is another significant proxy voting proposal. It is important that the firm be able to attract and maintain executive talent in order to maximize the firm's long-term profitability. Compensation should be within industry norms and reflect the company's financial performance based on meaningful and relevant benchmarks. Executive compensation in the form of stock and stock options helps to tie management's financial interests to those of shareholders. Vesting schedules for stock options should reward long-term rather than short-term performance.

Changes to the capital and ownership structure affect the interests of common shareholders. When new shares are issued the interests of existing shareholders are diluted. Therefore, the financing of new operations or acquisitions through the issuance of new shares should be approved only when the board and management make a compelling case that the dilution is likely to be offset by increased earnings. If new issues are issued for reasons other than productive use of capital (i.e., defense against a takeover bid to protect the current management) it does not serve existing shareholders. Conversely, a company may repurchase and retire outstanding shares – this will have the effective of increasing the ownership interest of existing shareholders.

See the subscriber only section of our website, [www.americaninvestment.com](http://www.americaninvestment.com) for AIS guidelines on common ballot proposals.

**THE HIGH-YIELD DOW INVESTMENT STRATEGY**

**Recommended HYD Portfolio**

As of May 14, 2010

	Rank	Yield	Price	Status	—Percent of Portfolio—	
					Value	No. Shares <sup>1</sup>
Verizon	1	6.66	28.51	Buying	18.66	16.71
AT&T	2	6.61	25.40	Buying	20.48	20.58
Merck & Co.	3	4.62	32.88	Buying	15.16	11.77
Pfizer	4	4.44	16.20	Buying**	6.66	10.50
DuPont	5	4.36	37.65	Holding	23.84	16.17
Kraft	6	3.86	30.03	Holding	3.14	2.67
General Electric	21	2.27	17.64	Selling	4.16	6.02
Alcoa	26	0.97	12.36	Holding	6.48	13.39
Bank of America	29	0.24	16.34	Selling	1.41	2.20
Cash (6-mo. T-Bill)	--	--	--		0.02	--
					<u>100.00</u>	<u>100.00</u>

\*\*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.

Subscribers can find a full description of the strategy and methodology in the "Subscribers Only" (log in required) section of our website: [www.americaninvestment.com](http://www.americaninvestment.com).

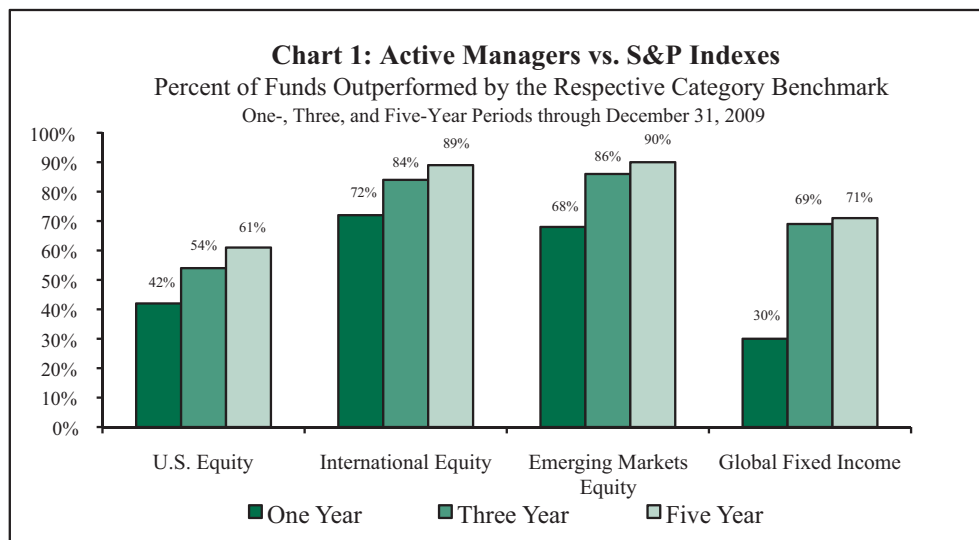
**Hypothetical Total Returns: HYD and Relevant Indices (percent)**

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) through April 30, 2010\*.

	<u>1 mo.</u>	<u>1 yr.</u>	<u>5 yrs.</u>	<u>10 yrs.</u>	<u>20 yrs.</u>	<u>Since 1/79</u>	<u>Std. Dev.</u>
HYD Strategy	6.40	48.41	3.13	7.03	12.57	15.65	18.13
Russell 1000 Value Index	6.51	53.56	1.05	3.10	9.36	12.26	14.87
Dow	5.31	46.93	3.34	2.26	9.79	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 incurrance of which would have the effect of decreasing historical performance results.

**MANAGERS VS. MARKETS (CONTINUED)**



Source: Standard & Poor's Indices versus Active Funds (SPIVA) Scorecard, March 30, 2010. Indexes used for comparison: US Equity Funds-S&P Composite 1500; International-S&P 700; Emerging Markets-S&P-IFCI Composite; Global Fixed Income-Barclays Global Aggregate. Data for the SPIVA study is from the CRSP Survivor-Bias-Free US Mutual Fund Database. Fund Returns used are net of fees, excluding loads. Barclays Capital data are provided by Barclays Bank PLC.

## RECENT MARKET STATISTICS

## Precious Metals &amp; Commodity Prices (\$)

	5/14/10	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	1,236.50	1,154.50	929.50
Silver, London Spot Price	19.64	18.27	13.92
Copper, COMEX Spot Price	3.12	3.57	1.97
Crude Oil, W. Texas Int. Spot	71.60	85.50	56.34
Dow Jones Spot Index	344.75	368.89	281.52
Dow Jones-UBS Futures Index	127.84	136.75	117.70
Reuters-Jefferies CRB Index	258.55	279.75	236.24

## Interest Rates (%)

U.S. Treasury bills - 91 day	0.16	0.16	0.16
182 day	0.22	0.23	0.27
52 week	0.33	0.43	0.48
U.S. Treasury bonds - 10 year	3.44	3.86	3.10
Corporates:			
High Quality - 10+ year	4.97	5.31	5.39
Medium Quality - 10+ year	6.03	6.28	7.97
Federal Reserve Discount Rate	0.75	0.75	0.50
New York Prime Rate	3.25	3.25	3.25
Euro Rates			
3 month	0.68	0.64	1.28
Government bonds - 10 year	2.89	3.14	3.34
Swiss Rates - 3 month	0.22	0.24	0.40
Government bonds - 10 year	1.58	1.80	2.29

## Exchange Rates (\$)

British Pound	1.455700	1.546500	1.521160
Canadian Dollar	0.966838	0.998702	0.852630
Euro	1.239000	1.354000	1.358140
Japanese Yen	0.010877	0.010748	0.010480
South African Rand	0.132408	0.136229	0.116430
Swiss Franc	0.884643	0.943842	0.901470

## Securities Markets

	5/14/10	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	1,135.68	1,211.67	882.88
Dow Jones Industrial Average	10,620.16	11,144.57	8,268.64
Dow Jones Bond Average	255.86	253.09	216.33
Nasdaq Composite	2,346.85	2,515.69	1,680.14
Financial Times Gold Mines Index	3,435.53	3,178.52	2,569.02
FT EMEA (African) Gold Mines	3,030.43	2,955.89	2,590.61
FT Asia Pacific Gold Mines	13,850.16	14,507.64	10,176.70
FT Americas Gold Mines	3,009.99	2,689.54	2,179.53

## Coin Prices (\$)

	5/14/10	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	1,261.43	1,204.28	951.55	2.02
Austrian 100-Corona (0.9803)	1,184.72	1,128.22	887.33	-2.26
British Sovereign (0.2354)	299.40	285.60	219.05	2.86
Canadian Maple Leaf (1.00)	1,257.50	1,199.10	941.30	1.70
Mexican 50-Peso (1.2057)	1,460.00	1,390.40	1,093.70	-2.07
Mexican Ounce (1.00)	1,231.20	1,173.40	927.20	-0.43
S. African Krugerrand (1.00)	1,251.28	1,192.97	933.13	1.19
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,490.00	1,382.50	1,165.00	24.55
Liberty (Type I-AU50)	1,600.00	1,600.00	1,300.00	33.74
Liberty (Type II-AU50)	1,487.50	1,365.00	1,200.00	24.34
Liberty (Type III-AU50)	1,430.00	1,332.50	1,120.00	19.53
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	13,525.00	12,900.00	9,912.50	-3.69
40% Silver Circ. (292 oz.)	5,487.50	5,250.00	3,900.00	-4.31
Silver Dollars Circ.	15,400.00	15,550.00	12,850.00	1.36

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$1236.5 per ounce and silver at \$19.64 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†	
		5/14/10	4/15/10	5/15/09	High	Low	Amount (\$)	Date	Paid	Dividend (\$)	(%)
Verizon	VZ	28.51	29.54	29.61	34.13	26.49 L	0.475	4/09/10	5/3/10	1.900	6.66
AT&T (New)	T	25.40	26.24	24.88	28.73	23.19	0.420	4/09/10	5/3/10	1.680	6.61
Merck	MRK	32.88	36.04	25.47	41.56	24.37	0.380	3/15/10	4/7/10	1.520	4.62
Pfizer	PFE	16.20	16.99	15.01	20.36	13.94	0.180	5/07/10	6/1/10	0.720	4.44
Dupont	DD	37.65	39.33	26.93	41.45 H	23.91	0.410	5/14/10	6/11/10	1.640	4.36
Kraft	KFT	30.03	31.07	24.80	31.09	24.40	0.290	3/31/10	4/14/10	1.160	3.86
Chevron	CVX	77.83	81.59	65.88	83.41 H	60.88	0.720	5/19/10	6/10/10	2.880	3.70
Johnson & Johnson	JNJ	63.97	65.51	55.41	66.20 H	53.86	0.540	6/01/10	6/15/10	2.160	3.38
Coca-Cola	KO	53.34	54.26	44.96	59.45	44.68	0.440	6/15/10	7/1/10	1.760	3.30
McDonald's	MCD	69.59	69.16	53.46	71.84 H	53.04	0.550	3/01/10	3/15/10	2.200	3.16
Procter and Gamble	PG	62.54	63.00	50.67	64.58	39.37 L	0.482	4/30/10	5/17/10	1.927	3.08
Intel Corp	INTC	21.89	24.22	15.19	24.37	15.00	0.158	5/07/10	6/1/10	0.630	2.88
Travellers	TRV	50.12	52.88	39.76	54.83	38.25	0.360	6/10/10	6/30/10	1.440	2.87
Exxon Mobil	XOM	63.60	68.26	69.11	76.54	58.46 L	0.440	5/13/10	6/10/10	1.760	2.77
Home Depot, Inc.	HD	35.20	35.14	24.40	37.03 H	22.27	0.236	3/11/10	3/25/10	0.945	2.69
Caterpillar	CAT	64.88	68.22	35.74	72.83 H	30.01	0.420	4/26/10	5/20/10	1.680	2.59
3M Company	MMM	84.68	85.00	57.92	90.52 H	55.23	0.525	5/21/10	6/12/10	2.100	2.48
Boeing	BA	69.82	72.09	43.00	76.00 H	38.92	0.420	5/07/10	6/4/10	1.680	2.41
United Tech.	UTX	71.58	74.61	51.28	77.09 H	49.00	0.425	5/14/10	6/10/10	1.700	2.37
Wal-Mart Stores	WMT	52.12	54.13	48.15	56.27	47.35	0.303	5/14/10	6/1/10	1.210	2.32
General Electric	GE	17.64	19.50	12.86	19.70 H	10.50	0.100	3/01/10	4/26/10	0.400	2.27
IBM	IBM	131.19	130.89	101.37	134.25	99.50	0.650	5/10/10	6/10/10	2.600	1.98
Microsoft Corp.	MSFT	28.93	30.87	20.22	31.58 H	19.45	0.130	5/20/10	6/10/10	0.520	1.80
American Express	AXP	40.64	46.67	24.23	49.19 H	22.00	0.180	4/01/10	5/10/10	0.720	1.77
Walt Disney	DIS	34.06	36.40	23.41	37.98 H	22.05	0.350	12/14/09	1/19/10	0.350	1.03
Alcoa	AA	12.36	14.31	9.03	17.60	8.70	0.030	5/07/10	5/25/10	0.120	0.97
Hewlett-Packard	HPQ	47.43	54.23	35.01	54.75 H	33.55	0.080	3/17/10	4/7/10	0.320	0.67
J P Morgan	JPM	39.89	47.81	34.91	48.20	31.59	0.050	4/06/10	4/30/10	0.200	0.50
Bank of America	BAC	16.34	19.48	10.67	19.86	10.57	0.010	6/04/10	6/25/10	0.040	0.24
Cisco	CSCO	24.94	27.21	17.92	27.74 H	17.61	0.000			0.000	0.00

\* See the Recommended HYD Portfolio table on page 38 for current recommendations. † Based on indicated dividends and market price as of 5/14/10. 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 5/16/09.

RECOMMENDED INVESTMENT VEHICLES

Descriptive Quarterly Statistics, as of 3/31/10

Security Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Ratios		Turnover (%)	P/B	12 Mo. Yield (%)	Annualized Returns* (%)				
			Expense <sup>7</sup> (%)	Sharpe				Total	1 yr.	3 yr.	5 yr.	1 yr. After Tax*
<b>Short/Intermediate Fixed Income</b>												
Vanguard Short-Term Bond Index	2.7 Yrs.	1224	0.22	na	77	--	2.62	5.56	4.78	4.00	4.27	3.42
iShares Barclays 1-3 Yr. Credit Bond	2.6 Yrs.	604	0.20	0.86	67	--	3.52	5.30	--	7.68	3.81	--
iShares Barclays 1-3 Year Treasury	1.9 Yrs.	51	0.15	1.39	37	--	1.54	4.48	4.06	0.93	3.39	2.86
Vanguard Limited-Term Tax-Exempt	2.7 Yrs.	1257	0.20	0.92	11	--	2.51	4.20	3.64	3.92	4.20	3.64
SPDR Short-Term Municipal Bond	3.1 Yrs.	334	0.20	na	4	--	1.93	--	--	2.70	--	--
<b>Inflation-Protected Fixed Income</b>												
iShares Barclays TIPS Bond	9.0 Yrs.	30	0.20	0.49	10	--	4.09	6.48	4.78	9.18	4.81	3.08
Vanguard Inflation-Protected Securities	8.6 Yrs.	29	0.25	0.47	14	--	2.19	6.19	4.63	9.53	4.75	3.09
<b>Real Estate</b>												
Vanguard REIT Index	4.4 B.	99	0.21	-0.10	10	1.7	3.80	-8.07	4.36	69.07	-9.30	3.02
SPDR Dow Jones REIT	4.7 B	82	0.25	-0.14	15	1.7	3.34	-9.87	3.53	69.18	-11.13	2.13
<b>U.S. Large Cap Value</b>												
Vanguard Value Index	38.3 B.	426	0.26	-0.30	31	1.6	2.48	-7.64	1.98	39.58	-8.05	1.55
iShares Russell 1000 Value Index	32.2 B	673	0.20	-0.32	22	1.6	1.99	-7.71	1.83	41.39	-8.10	1.42
<b>U.S. Small Cap Value</b>												
iShares Russell Microcap Index	0.3 B.	1304	0.60	-0.29	25	1.4	0.69	-6.95	--	53.00	-7.09	--
Vanguard Small-Cap Value Index	1.1 B.	996	0.28	-0.06	33	1.2	1.80	-2.51	5.55	54.95	-2.98	5.09
<b>U.S. Large Cap Growth</b>												
iShares Russell 1000 Growth Index	36.9 B.	622	0.20	-0.03	22	3.5	1.34	-2.07	3.88	37.50	-2.28	3.69
Vanguard Growth Index	34.7 B.	424	0.28	0.00	29	3.3	1.10	-1.55	4.16	38.54	-1.70	4.01
<b>U.S. Marketwide</b>												
Vanguard Total Stock Market Index	24.6 B.	3413	0.18	-0.15	5	2.1	1.69	-4.23	3.52	40.78	-4.52	3.23
Fidelity Spartan Total Market Index	24.2 B.	3053	0.10	-0.16	3	2.0	1.69	-4.33	3.53	na	na	na
<b>Foreign-Developed Markets</b>												
iShares MSCI Growth Index	25.0 B.	586	0.40	-0.19	33	2.1	2.04	-7.49	--	35.71	-7.61	--
iShares MSCI Value Index	31.4 B.	525	0.40	-0.26	35	1.3	2.95	-10.40	--	31.64	-10.73	--
Vanguard Europe Pacific Index	29.8 B.	934	0.20	na	9	1.6	2.34	-8.86	3.95	32.77	-9.07	3.71
Vanguard Developed Markets Index	29.6 B.	968	0.10	-0.22	14	1.6	1.13	-8.76	3.74	34.20	-9.30	3.19
SPDR S&P International Small Cap	0.9 B	614	0.59	na	21	1.1	1.42	-6.76	--	49.41	-7.07	--
<b>Foreign-Emerging Markets</b>												
Vanguard Emerging Market Index	19.1 B.	811	0.40	0.26	12	2.1	1.30	3.37	15.33	54.27	2.96	14.96
<b>Gold-Related Funds</b>												
iShares COMEX Gold Trust	--	1	0.40	0.80	0.00	--	0.00	19.67	--	31.97	19.67	--
streetTRACKS Gold Shares	--	1	0.40	0.81	0.00	--	0.00	21.39	--	32.52	21.39	--

Data provided by the funds and Morningstar. \*Exchange Traded Fund, traded on NYSE. †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 0.25% fee for redemption. †For Vanguard funds, Expense Ratios shown are for Mutual Funds. ETFs have lower expenses. ‡For Vanguard Funds, returns shown are for Mutual Funds; ETFs' returns may deviate \* 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.

**Recommended Gold-Mining Companies (\$)**

Ticker Symbol	5/14/10		Year		--- 52-Week ---		Distributions		Yield (%)
	Earlier	Latter	Earlier	Latter	High	Low	Last 12 Months	Frequency	
AU	42.96	39.68	36.60	47.52	47.52	32.77	0.1716	Semiannual	0.3994
ABX	45.62	40.00	33.49	48.02	48.02	30.67	0.3400	Semiannual	0.7453
GFI	13.85	13.04	12.28	15.88	15.88	10.62	0.1672	Semiannual	1.2072
GG	45.68	40.09	33.44	47.41	47.41	31.84	0.1530	Monthly	0.3349
NEM	57.68	53.03	42.64	59.57	59.57	36.77	0.4000	Quarterly	0.6935

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.