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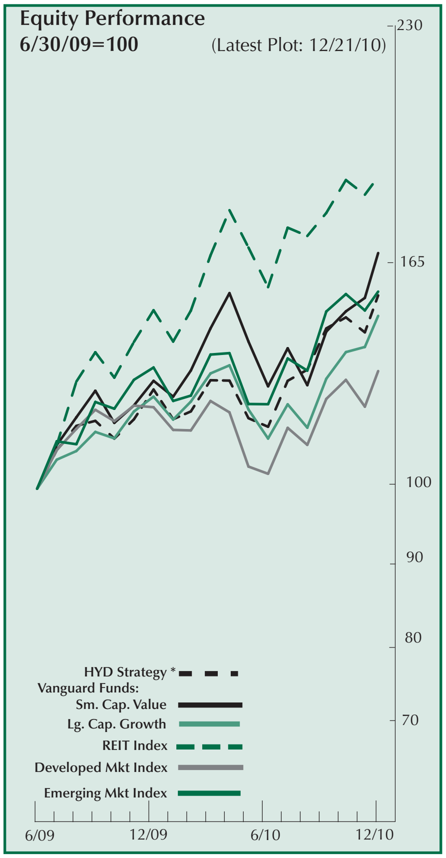

* HYD is a hypothetical model based on back-tested results. See p.94 for full explanation.

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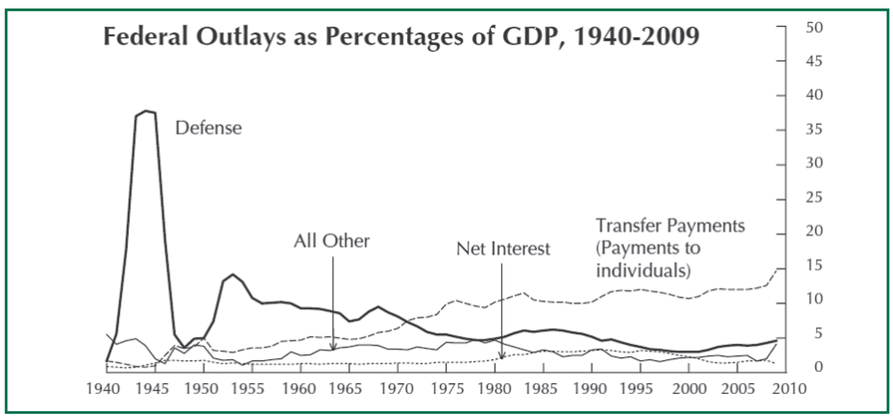
U.S. Fiscal Policy and Your Wealth

Voters have sent a clear message of concern regarding U.S. fiscal policy, and as our parent organization AIER recently made clear, spending discipline is vital to the nation's future prosperity.[1] But it is important to understand the nature of the relationship between deficits, debt, economic growth, and your portfolio's value.

This month (see *Deficits, Debt, and Markets*) we explain why it is unwise to bet on the short-term direction of capital or currency markets based on news regarding fiscal policy or prospects for economic growth. Investors, in aggregate, reveal expectations regarding macroeconomic developments, not the other way around. Empirically, economic output has been a poor indicator of future equity returns. Indeed, the S&P 500 stock index is a leading indicator of business cycle trends. Similarly, though all fiat currencies ultimately fail as a store of value[2], deficits are not a reliable indicator of future currency rates.

Avoid the temptation to adjust your holdings in light of dire fiscal forecasts. You are far better served by holding assets that have been historically resilient to price inflation and by maintaining a disciplined portfolio allocation plan.



The New Tax Law: What's in Store for Investors?

As of this writing, the President has signed into law a bill that reinstates the federal estate tax and extends the cuts in federal income taxes that were enacted in 2001 and 2003. Congress included a cut in payroll taxes; while this will put a few more dollars in the pockets of wage earners, it only adds to the looming Social Security revenue shortfalls that we describe herein (see *The Deficit Commission and Social Security Reform*).

For more detail regarding how these tax provisions will affect you, visit the Subscriber Only section of our website. We will review these changes more closely in next month's issue of *Investment Guide*.

[1] Polina Vlasenko PhD, Research Fellow, AIER "Deficit Reduction, Anyone?" Research Reports, Vol. LXXVII, No. 22, December 20, 2010, p.4.

[2] See Purchasing Power in the United States of Gold and Selected Currencies. The AIER Chart Book (AIER, 2010,) p. 7.

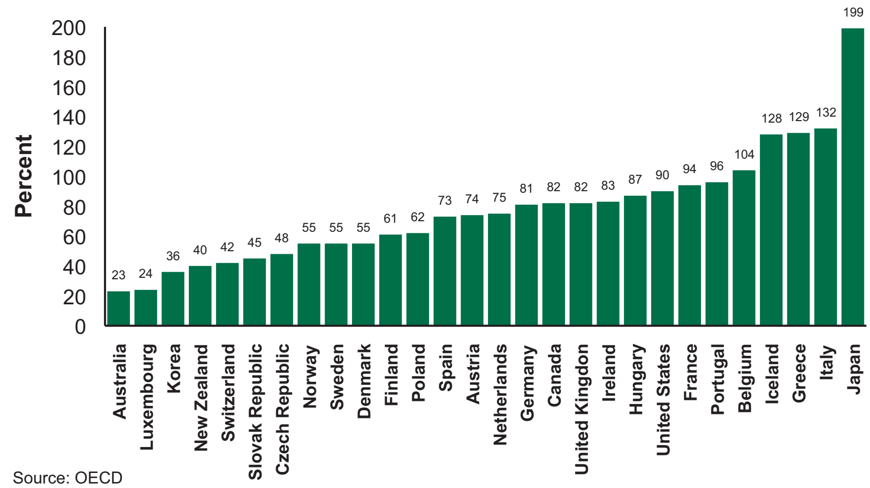
DEFICITS, DEBT, AND MARKETS

In the following article,[1] we hope to address growing concerns among our clients and readers regarding U.S. federal debt and deficits. Investors are best served by assuming that expectations based on public information, including data pertaining to federal finances, are fully reflected in current prices, so that any attempt to change your holdings in reaction to news will result in disappointment. The payoff for discipline and diversification is realized when fear is highest.

Chart 1

Government Debt as a Percent of GDP

2010 Projections in OECD Countries



Source: OECD

As government spending hits record levels around the globe, some politicians, economists, and pundits are warning that rising indebtedness may drag down economies and financial markets. This issue has raised concern among investors who assume that a government's fiscal policy is closely linked to the country's economic growth and market returns.

Chart 1 shows the projected state of indebtedness around the world.[2] Over half the Organization of Economic Co-operation and Development (OECD) member countries expect to have debt-to-GDP levels above 70%—and the US, Canada, and the UK project debt levels exceeding 80% of their economic output.

Government efforts to stimulate these economies out of recession may partly explain this level of borrowing, which is high compared to historical levels. But longer-term trends such as aging populations, expanding public pensions, and rising health care obligations are compounding the fiscal challenges of these countries.

Global investors may be particularly concerned about the economics of government spending in countries around the world. So how does public debt affect economic growth and market returns? The evidence might surprise you. Although rising levels of government debt create headwinds for economic growth, a country's deficit and debt levels do not seem to adversely impact capital market returns.

Let's explore these issues by addressing a few popular questions about sovereign debt:

Do rising deficits drive up interest rates?

Yes. As borrowing increases, a government must offer higher interest rates on its debt to compete for capital. The public sector consumes savings and investment that may have otherwise fueled private sector growth—a displacement of resources known as the "crowding out effect" in economic theory. Additionally, as debt levels rise, market concerns about higher default and inflation risks put additional upward pressure on interest rates.

Consistent with this theory, our analysis shows that current interest rates reflect expectations of future deficits,[3] but that current government deficits and debt do not predict future interest rates or bond returns.[4] So, long-term interest rates rise when the market expects future deficits to increase. However, today's interest rates and bond prices already reflect information about current government spending, and markets quickly incorporate new information (see box on p.91 for more detail).

Do higher deficits hamper economic growth?

It depends on a country's debt level. Using World Bank data from 1991 to 2008, we compared current

[1] Adapted from: Bryan Harris, Senior Editor, Dimensional Fund Advisors "Deficits, Debt, and Markets" Advisor Byline, December 2010.

[2] The Organization of Economic Co-operation and Development (OECD) is an international economic organization of thirty-three countries founded in 1961 to stimulate economic progress and world trade. It defines itself as a forum of countries committed to democracy and the market economy. For more detail regarding international debt comparisons, see the subscriber section of our website.

[3] Today's interest rates reflect expectations of future deficit levels. The analysis compared five-year US deficit projections (as a percent of GDP) to yield spreads (five-year US Treasuries minus three-month US Treasuries) from 1992 to 2010. The yield spread increased 29 basis points for every one percentage-point increase in projected deficits. Data sources: Baseline projected deficits from the Congressional Budget Office; yields from Federal Reserve Bank of St. Louis.

[4] Today's deficits do not predict tomorrow's interest rates or bond returns. Regression results show that current deficits do not reliably predict changes in the five-year US Treasury yield spread (1982 to 2009) or future bond returns (1947 to 2009). Data source: Federal Reserve Bank of St. Louis.

[5] MSCI Barra Research Bulletin, "Is There a Link Between GDP Growth and Equity Returns?" May 2010.

[6] Clifford S. Assness, John M. Liew, and Ross L. Stevens, "Parallels between the Cross-Sectional Predictability of Stock and Country Returns," Journal of Business 79, no. 1 (March 1996): 429–451. Their research uncovered strong parallels between the explanatory power of aggregate book-to-market and aggregate earnings-to-price ratios for country stock markets.

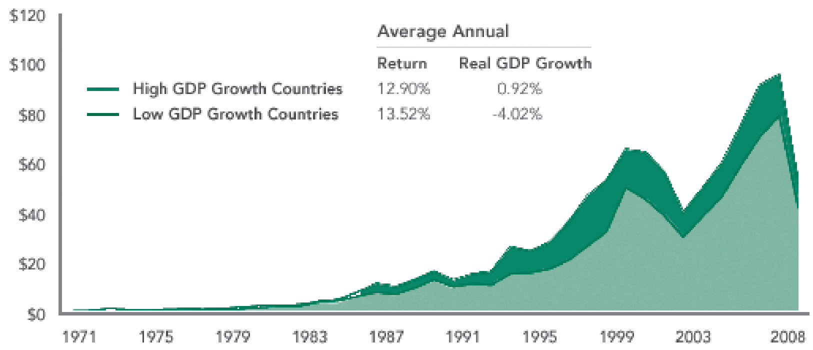
[7] Another common assumption is that current account deficits and currency appreciation are related. (The current account balance is the difference between a country's receipts and payments to the world. This account is composed mostly of the balance of trade, with net income and foreign aid playing a smaller role.) Academic research yields equivocal results on whether this relationship holds.

[8] Richard A. Meese and Kenneth Rogoff, "Empirical exchange rate models of the seventies: Do they fit out of sample?" Journal of International Economics 14, no. 1 (February 1983): 3–24. Kenneth Rogoff and Vania Stavrakeva, "The Continuing Puzzle of Short Horizon Exchange Rate Forecasting" (National Bureau of Economic Research working paper No. 14071, June 2008).

Chart 2

Economic Growth Does Not Predict Equity Returns

Growth of $1 in the Stock Markets of Developed Countries



Source: MSCI

deficits to future GDP growth in sixty-seven countries and found an increasing interactive effect between deficits, debt, and economic growth. High-debt countries that run deficits are more likely to experience lower economic growth over the next three years. But numerous forces may affect a country's economic direction, and deficits explain only a small fraction of the variation in future GDP growth. The combination of high debt and deficits can create headwinds for economic expansion, but slower growth is not guaranteed.

So investors are justified in having some economic concern about higher government spending and borrowing. But the impact on investment returns is less clear. Let's now consider the potential effect on equity markets.

Does low economic growth result in diminished equity returns?

No. This relationship can be tested by comparing a country's GDP growth to its equity market performance in subsequent years. We conducted this analysis using all the developed countries in the MSCI universe, then divided each year into high-growth and low-growth "portfolios" based on growth in real GDP. There was no statistical difference between the annual returns of equity markets in high-growth versus low-growth countries. In fact, low-growth countries had slightly higher average returns than high-growth countries.

Chart 2 illustrates this relationship in terms of a dollar invested in high- versus low-GDP growth portfolios from 1971 to 2008. The low-GDP growth portfolio's higher annual return would have generated slightly more wealth for the period. The chart details the average annual return and real GDP growth for both groups.

Applying the same methodology to the MSCI emerging market countries shows an even greater return difference, although the data period is much shorter (2001 to 2008). The return of the high-growth country portfolio averaged 19.77% (with 2.5% GDP growth), versus 24.62% for the low-growth portfolio (-4.94% GDP growth).

Other research has confirmed a weak relationship between a country's economic growth and its stock market returns.[5] Several factors may contribute to this decoupling effect. For one, with globalization, a multinational company's stock price in its home market may not reflect economic conditions in other countries. Also, the fruits of economic growth do not accrue exclusively to public companies, but also to income earners, non-public businesses, and private investments.

Finally, consider that risk, not economic growth, determines a stock's expected return. Research indicates that this principle also applies to a country's stock market.[6] Similar to value and growth stocks, markets with a low aggregate price (relative to aggregate earnings or book value) have high expected returns, and markets with a higher relative price have lower expected returns. Consequently, while holding a "growth market" may be a rational investment approach, investors should not expect to earn higher returns by tilting their portfolios toward countries with high expected GDP growth.

Do fiscal deficits lead to currency depreciation?

No. It is commonly believed that large fiscal deficits and high debt cause a currency to depreciate as the government borrows more from foreign sources, and investors who are concerned about inflation and default risk flee the currency. Although recent developments in the US would seem to support this relationship, there is less convincing long-term evidence that deficits affect currency rates. During the 1970s and 1980s, the dollar strengthened while the government increased deficit spending.[7] This observation is consistent with academic studies concluding that exchange rates appear to move randomly, and there are no models to date that can reliably forecast currency returns.[8]

Debt and Interest Rates: A Closer Look

Generally, current interest rates rise in anticipation of growing deficits. However, research suggests the relationship between deficits and interest rates depends on whether the debt incurred is structural or cyclical. A revenue shortfall associated with increased use of "social safety net" expenditures can result in a cyclical deficit. These appear to have little effect on interest rates or crowding out. Structural deficits, on the other hand, such as those created by stimulus bills, have a much stronger effect on interest rates and crowding out.

THE DEFICIT COMMISSION AND SOCIAL SECURITY REFORM

The bipartisan National Commission on Fiscal Responsibility and Reform (better known as the "deficit commission") recently issued its findings[1]. The Commission fell three votes shy of the 14 required to send its recommendations to Congress for a vote, but its findings are being taken seriously and are likely to influence policy.

Total fertility rate, number of covered workers and OASDI beneficiaries (thousands) and workers per beneficiary, selected calendar years, 1950-2040				
Calendar year	**Total fertility rate**	**Covered workers**	**OASDI beneficiaries**	**Workers per beneficiary**
1950	3.03	48,280	2,930	16.5
1960	3.61	72,293	13,740	4.0
1970	2.43	92,788	22,618	3.7
1980	1.82	112,623	30,384	3.2
1990	2.07	133,040	35,255	3.4
2000	2.06	154,481	38,556	3.4
2010	2.01	155,170	43,527	2.9
2020	1.98	175,961	57,978	2.5
2030	1.95	184,128	72,196	2.2
2040	1.95	193,550	79,493	2.1
2010 OASDI Annual Report.				

The Commission was established in large part to provide cover that would allow Congress to enact necessary but politically painful changes. Of all the areas addressed, Social Security reform is perhaps the most politically sensitive. After spending many years on the back burner, demographic realities can no longer be ignored (see accompanying tables). The number of workers contributing per beneficiary will continue to trend downward, and beneficiaries are living longer. This represents a "double dose" of trouble. According to the Commission's projections, a 22 percent across-the-board benefit cut for all current and future beneficiaries would be required beginning as early as 2037. This projection will become a reality if no action is taken now.

Below we paraphrase the Commission's recommendations regarding changes to Social Security that are of particular interest to individual investors:

Increase early and full retirement ages

After the Normal Retirement Age (NRA) reaches 67 in 2027 under current law, the NRA and Early Eligibility Age (EEA) would both be indexed to increases in life expectancy. *This would effectively increase the NRA to 68 around the year 2050 and 69 around the year 2075, and the EEA would increase to 63 and 64 in lock step.*

Life expectancies, selected calendar years, 1940-2060				
	At birth		**At age 65**	
Year	**Male**	**Female**	**Male**	**Female**
1940	61.4	65.7	11.9	13.4
1990	71.8	78.9	15.1	19.1
2000	74.0	79.4	15.9	19.0
2020	77.1	81.2	18.0	20.2
2040	79.3	83.1	19.3	21.4
2060	81.2	84.8	20.5	22.6
2010 OASDI Annual Report.				

Reduced benefits

The benefit formula would be altered through the *adoption of a more progressive formula that would be phased in between 2017 – 2050.*

Increase limit on taxable wages

Since the 1980s, when 90 percent of wages were subject to the payroll tax, the taxable maximum wage cap (currently $106,800) has not grown as fast as wages above the cap; as a result it is estimated that only 83 percent of wages will be subject to the tax by 2020. *Recommended changes would result in a taxable maximum of about $190,000 in 2020, versus approximately $168,000 in current law.*

Modify calculation of automatic cost of living increases

The CPI used to calculate the Cost of Living Adjustment for Social Security beneficiaries would be modified to reflect the "chained CPI," which is designed to provide a more accurate cost-of-living index.

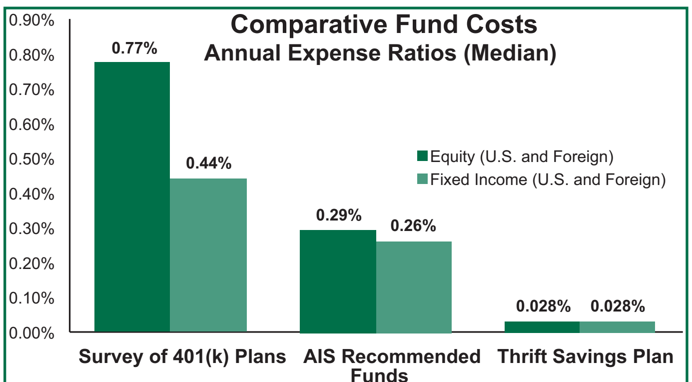
The commission avoided the politically contentious proposal to allow personal savings accounts within the Social Security framework. We submit, however, that if Congress does pursue the idea, the federal employee Thrift Savings Program, in which members of Congress participate, could serve as a model (see following article).

It is too early to judge what legislation might pass, but it is quite likely that investors will confront a less generous Social Security program. Many will need to save and invest much more than they are currently in order to meet anticipated retirement needs.

[1] The National Commission on Fiscal Responsibility and Reform, The Moment of Truth December 2010. http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf

A THRIFTY GOVERNMENT PLAN

Many government programs have earned a reputation for inefficiency. However, the Thrift Savings Plan (TSP), a defined contribution retirement plan available to most federal civilian employees and members of the uniformed services, is an exception. The TSP is superior to many private sector retirement plans we have encountered. Indeed many employers would benefit by committing to the simple, low cost, and well diversified approach that the TSP has embraced. We appreciate the assistance of Bellwether Consulting, an institutional investment consultant (Bellwetherconsulting.net), and Karen Miller Consulting, a retirement plan administrative specialist (krmais@hotmail.com), for their commentary.



401(k) Data derived from130 plans surveyed (see footnote 2)., Thrift Savings Plan www.tsp.gov/formsPubs.shtml , AIS Rec: Med. exp. ratio, by fixed income and equity funds, from data p. 96.

The TSP is a retirement savings plan for federal employees and members of the uniformed services. Established in 1986, TSP is a defined contribution program designed to provide many of the benefits offered to private sector employees through 401(k) plans.

The TSP resembles 401(k) plans in many respects. Participants can defer current income taxes on contributions of up to $16,500 per year[1] to an account that grows tax deferred until retirement, when withdrawals are taxed as ordinary income. Funds from other qualified retirement plans can be rolled into these accounts, and funds can be transferred from TSPs to other eligible retirement plans when federal service ends.

Solid Investment Options

The TSP offers investment options that are superior to funds offered commonly in 401(k) plans. The plan offers five basic asset classes that any retirement plan should provide, and it includes only passively managed investment vehicles similar to those we recommend.

Cash Equivalent Assets. The TSP's G Fund is especially attractive. Though it is invested exclusively in short-term nonmarketable U.S. Treasury securities, the fund, by statute, earns the average market yield on outstanding Treasury bonds maturing in four years or more. Participants are thereby guaranteed higher long-term rates in a fund that provides the stability of short-term cash equivalents. In 2009, the G Fund returned 2.97 percent while most money market funds earned less than 0.5 percent.

Fixed Income. The Fixed Income Index Investment Fund (F Fund) tracks the Barclays Capital U.S. Aggregate Bond Index, a broadly diversified index of the U.S. bond market. The fund invests in high quality fixed-income securities with maturities of more than one year and is comprised of Treasury and Agency bonds, asset-backed securities, and corporate and non-corporate bonds. The fund's current average duration is 4.3 years.

U.S. Large Cap Stocks. The TSP's Common Stock Investment Fund (C Fund) tracks the S&P 500 index, perhaps the best known performance benchmark for U.S. large cap stocks. The stocks in the fund comprise 75 percent of the market value of all U.S. equities and span 10 major industries.

U.S. Small Cap Stocks. The Small Capitalization Stock Index Investment Fund (S Fund) tracks the performance of the Dow Jones U.S. Completion Total Stock Market Index, a broad market index made up of stocks of U.S. companies not included in the S&P 500 Index. When held alongside the C Fund, the S Fund provides exposure to the entire U.S. market. Investors with higher tolerance for risk can "tilt" their allocation toward the S Fund if desired.

Foreign Stocks. The International Stock Index Investment Fund (I Fund) seeks to match the performance of the Morgan Stanley Capital International EAFE (Europe, Australasia, and Far East) Index. The EAFE Index is the pre-eminent benchmark for measuring equity performance in international developed markets. This fund provides exposure to 967 stocks held in 21 countries.

A Simple, Low Cost Plan

The TSP program has an ultra-low cost structure. Participants pay an annual expense ratio of 0.028 percent in each of the five funds offered, which is exceptionally low compared with "all in" expense ratios computed for 401(k) funds, and even when compared to our

(continued page 94)

	"All in" Fee: Thrift Savings Plan	"All in" Fee: 401(k) Plans*		
	All Funds	10th Percentile	Median	90th Percentile
Expense Ratio (Percent of Assets) (All Plans)	0.028	0.35	0.72	1.72
Annual Dollar Cost Per Participant (All Plans) **	$14	$103	$346	$842

*Data derived from 130 plans surveyed (see footnote 2). **TSP estimates calculated as TSP expense ratio multiplied by median participant account from study ($48,522).

[1] For 2010, participants age 50 and older can defer an additional $5,500 per year.
[2] "Defined Contribution 401(k) Fee Study" Deloitte Consulting LLP, for the Investment Company Institute Spring 2009 Updated June 2009. p. 18
[3] Gary R. Mottola, Stephen P. Utkus "Can There Be Too Much Choice In a Retirement Savings Plan?" The Vanguard Center for Retirement Research. June 2003.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of December 15, 2010

	Rank	Yield	Price	Status	—-Percent of Portfolio— Value	No. Shares[1]
AT&T	1	5.77	29.13	Holding**	23.77	24.55
Verizon	2	5.63	34.63	Holding**	24.60	21.37
Pfizer	3	4.68	17.08	Buying	13.50	23.78
Merck	4	4.15	36.66	Holding**	16.82	13.80
Kraft	5	3.68	31.48	Holding	2.58	2.47
DuPont	8	3.33	49.24	Selling	17.72	10.83
Frontier Communications	N/A	N/A	9.33	Selling	1.00	3.22
Cash (6-mo. T-Bill)	--	--	--		.03	--
Totals	--	--	--		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.

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.

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 November 30, 2010*.

	1 mo.	1 yr.	5 yrs.	10 yrs.	20 yrs.	Since 1/79	Std. Dev.
HYD Strategy	-2.58	18.13	4.05	6.30	13.47	15.67	18.15
Russell 1000 Value Index	-0.53	8.96	-0.13	2.98	9.81	11.95	14.99
Dow	-0.61	9.33	3.09	2.99	10.13	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.

(continued from page 93)

recommended index funds (see chart). These fees cover all costs associated with administering the plan, including management fees, recordkeeping, participant services and printing and mailing costs. The accompanying table provides an estimated "all in" cost comparison between fees paid in the median 401(k) account[2] and fees incurred in a TSP account of the same value.

The TSP's capitalization-weighted index funds have negligible turnover compared with actively managed funds. Transaction costs, which are not captured in a fund's expense ratio, are therefore also very low in comparison to most 401(k) plans.

The TSP has several advantages over private sector plans. The sheer number of federal employees and service members provides TSP with tremendous economies of scale. Private plans are also subject to costly non-discrimination testing and other regulations from which the TSP is exempt. It is also unclear to what extent operational costs are covered by the government (i.e. taxpayers); in the private sector rarely are such costs paid by the employer, instead they are charged to the plan itself.

Several studies suggest that excessive plan complexity and too many investment choices can actually inhibit, rather than encourage plan participation[3] by employees. If simplicity is indeed desirable, the TSP's menu of just five well diversified asset class funds is ideal.

The TSP also offers five lifecycle funds (L Funds), each with fixed target allocations among the five funds described above. The L Funds are designed for investors who prefer "autopilot" pre-established allocations instead of a self-designed allocation plan.

Imperfect, but Better than Most

The TSP could be improved. The fixed income asset class does not allow a specific fund dedicated to bonds of short duration -- the F Fund's average duration is 4.3 years and includes securities that mature well beyond five years, but participants can moderate their interest rate risk by balancing their holdings with the shorter duration G Fund.

The fund offers no funds that allow investors to tilt their equity holdings toward value or growth stocks in accordance with their preference for this dimension of risk. It also omits the REIT and emerging market asset classes, which are often available in conventional 401(k) plans.

On balance, the TSP is exemplary in many respects. It offers federal civilian employees and U.S. service members with a tax advantaged retirement plan that is diversified, low cost and conducive to disciplined investing. Unfortunately, these cornerstones of our investment approach are lacking not only in private sector retirement plans, but in other public plans as well. Many municipal and state pension funds face dire financial straits, and there is growing sentiment to adopt defined contribution plans. Cities and states seeking a model should consider the TSP.

RECENT MARKET STATISTICS

Precious Metals & Commodity Prices ($)

	12/15/10	*Mo. Earlier*	*Yr. Earlier*
Gold, London p.m. fixing	**1,388.75**	1,368.50	1,053.50
Silver, London Spot Price	**29.06**	26.01	17.54
Copper, COMEX Spot Price	**4.13**	3.92	2.85
Crude Oil, W. Texas Int. Spot	**88.61**	84.85	77.57
Dow Jones Spot Index	**438.30**	420.83	341.35
Dow Jones-UBS Futures Index	**154.61**	148.86	133.32
Reuters-Jefferies CRB Index	**318.84**	306.02	273.72

Interest Rates (%)

U.S. Treasury bills -	91 day	**0.14**	0.14	0.05
	182 day	**0.20**	0.19	0.17
	52 week	**0.30**	0.27	0.40
U.S. Treasury bonds -	10 year	**3.53**	2.92	4.52
Corporates:				
High Quality -	10+ year	**5.17**	5.07	5.33
Medium Quality -	10+ year	**6.27**	6.12	6.40
Federal Reserve Discount Rate		**0.75**	0.75	0.50
New York Prime Rate		**3.25**	3.25	3.25
Euro Rates	3 month	**1.03**	1.05	0.72
Government bonds -	10 year	**2.97**	2.45	3.09
Swiss Rates -	3 month	**0.17**	0.17	0.25
Government bonds -	10 year	**1.83**	1.41	1.83

Exchange Rates ($)

British Pound	**1.561300**	1.606400	1.623400
Canadian Dollar	**0.996711**	0.993641	0.941442
Euro	**1.330600**	1.361500	1.451400
Japanese Yen	**0.011899**	0.012063	0.011122
South African Rand	**0.146499**	0.143833	0.133905
Swiss Franc	**1.039609**	1.016570	0.959601

Securities Markets

	12/15/10	*Mo. Earlier*	*Yr. Earlier*
S & P 500 Stock Composite	**1,235.23**	1,197.75	1,107.93
Dow Jones Industrial Average	**11,457.47**	11,201.97	10,452.00
Dow Jones Bond Average	**262.37**	267.80	247.17
Nasdaq Composite	**2,617.22**	2,513.82	2,201.05
Financial Times Gold Mines Index	**3,940.24**	3,862.63	3,150.57
FT EMEA (African) Gold Mines	**3,648.00**	3,536.84	3,067.23
FT Asia Pacific Gold Mines	**18,737.36**	18,974.56	14,247.37
FT Americas Gold Mines	**3,315.89**	3,241.38	2,634.12

Coin Prices ($)

	12/15/10	*Mo. Earlier*	*Yr. Earlier*	*Prem (%)*
American Eagle (1.00)	**1,442.68**	1,455.18	1,221.68	3.88
Austrian 100-Corona (0.9803)	**1,356.63**	1,353.72	1,130.93	-0.35
British Sovereign (0.2354)	**341.30**	344.30	286.30	4.40
Canadian Maple Leaf (1.00)	**1,426.20**	1,438.80	1,201.80	2.70
Mexican 50-Peso (1.2057)	**1,671.45**	1,686.60	1,393.70	-0.18
Mexican Ounce (1.00)	**1,406.90**	1,419.30	1,176.20	1.31
S. African Krugerrand (1.00)	**1,424.78**	1,437.28	1,198.78	2.59
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**1,520.00**	1,545.00	1,475.00	13.13
Liberty (Type I-AU50)	**1,625.00**	1,600.00	1,680.00	20.94
Liberty (Type II-AU50)	**1,560.00**	1,537.50	1,520.00	16.10
Liberty (Type III-AU50)	**1,480.00**	1,510.00	1,435.00	10.15
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**20,750.00**	19,875.00	12,850.00	-0.13
40% Silver Circ. (292 oz.)	**8,550.00**	8,100.00	5,262.50	0.76
Silver Dollars Circ.	**22,700.00**	20,350.00	14,850.00	0.97

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $1388.75 per ounce and silver at $29.06 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 ($) 12/15/10*	*11/15/10*	*12/15/09*	*12-Month ($) High*	*Low*	*Latest Dividend Amount ($)*	*Record Date*	*Paid*	*Indicated Annual Dividend ($)*	*Yield† (%)*
AT&T	T	29.13	28.63	27.60	29.56 *H*	23.78	0.420	10/08/10	11/1/10	1.680	5.77
Verizon	VZ	34.63	32.77	33.01	34.82 *H*	25.99	0.488	1/10/11	2/1/11	1.950	5.63
Pfizer	PFE	17.08	16.75	18.29	20.36	14.00	0.200	2/04/11	3/1/11	0.800	4.68
Merck	MRK	36.66	34.54	38.00	41.56	30.70	0.380	12/15/10	1/7/11	1.520	4.15
Kraft	KFT	31.48	30.79	26.83	32.67	26.76	0.290	9/30/10	10/14/10	1.160	3.68
Johnson & Johnson	JNJ	62.57	64.14	64.74	66.20	56.86	0.540	11/30/10	12/14/10	2.160	3.45
Intel Corp	INTC	21.28	21.30	19.80	24.37	17.60	0.180	2/07/11	3/1/11	0.720	3.38
Dupont	DD	49.24	46.31	32.19	49.52 *H*	31.65	0.410	11/15/10	12/14/10	1.640	3.33
Chevron	CVX	88.01	84.86	77.37	88.95 *H*	66.83	0.720	11/18/10	12/10/10	2.880	3.27
General Electric	GE	17.49	16.20	15.75	19.70	13.75	0.140	12/27/10	1/25/11	0.560	3.20
McDonald's	MCD	76.98	79.07	62.00	80.94 *H*	61.06	0.610	12/01/10	12/15/10	2.440	3.17
Procter and Gamble	PG	63.64	64.29	62.12	65.00	39.37	0.482	10/22/10	11/15/10	1.927	3.03
Coca-Cola	KO	64.74	62.96	59.06	64.97 *H*	49.47	0.440	12/01/10	12/15/10	1.760	2.72
Home Depot, Inc.	HD	34.79	31.39	29.02	37.03	26.62	0.236	12/02/10	12/16/10	0.945	2.72
Boeing	BA	64.24	63.61	55.67	76.00	53.10	0.420	2/11/11	3/4/11	1.680	2.62
Travellers	TRV	55.15	56.78	50.41	57.55	47.35	0.360	12/10/10	12/31/10	1.440	2.61
Exxon Mobil	XOM	71.85	70.48	69.17	72.75	55.94	0.440	11/12/10	12/10/10	1.760	2.45
3M Company	MMM	85.81	86.20	82.70	91.49	67.98	0.525	11/19/10	12/12/10	2.100	2.45
Microsoft Corp.	MSFT	27.85	26.20	30.02	31.58	22.73	0.160	2/17/11	3/10/11	0.640	2.30
Wal-Mart Stores	WMT	54.23	53.95	53.98	56.27	47.77	0.303	12/10/10	1/3/11	1.210	2.23
United Tech.	UTX	78.95	75.31	70.25	79.41 *H*	62.88	0.425	11/19/10	12/10/10	1.700	2.15
Caterpillar	CAT	93.12	81.82	58.20	94.33 *H*	50.50	0.440	1/20/11	2/19/11	1.760	1.89
IBM	IBM	144.72	143.64	128.49	147.53	116.00	0.650	11/10/10	12/10/10	2.600	1.80
American Express	AXP	46.12	42.70	40.96	49.19	36.60	0.180	1/07/11	2/10/11	0.720	1.56
Walt Disney	DIS	36.95	37.25	32.18	38.00	28.71	0.350	12/14/09	1/19/10	0.350	0.95
Alcoa	AA	13.96	13.40	14.68	17.60	9.81	0.030	11/05/10	11/25/10	0.120	0.86
Hewlett-Packard	HPQ	41.23	42.54	50.99	54.75	37.32	0.080	12/15/10	12/30/10	0.320	0.78
J P Morgan	JPM	40.21	40.08	40.86	48.20	35.16	0.050	1/06/11	1/31/11	0.200	0.50
Bank of America	BAC	12.29	12.10	15.19	19.86	10.91 *L*	0.010	12/03/10	12/24/10	0.040	0.33
Cisco	CSCO	19.47	19.95	23.48	27.74	19.00 *L*	0.000			0.000	0.00

* See the Recommended HYD Portfolio table on page 94 for current recommendations. † Based on indicated dividends and market price as of 12/15/10.
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 12/16/09.

RECOMMENDED INVESTMENT VEHICLES

	Security Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Expense[7] (%)	Sharpe Ratio	Turnover (%)	P/B	12 Mo. Yield (%)	Total 1 yr.	Total 3 yr.	Total 5 yr.	After Tax* 1 yr.	After Tax* 3 yr.	After Tax* 5 yr.
		Descriptive Quarterly Statistics, as of 9/30/10							Annualized Returns[8] (%), as of 11/30/10					
Short/Intermediate Fixed Income														
Vanguard Short-Term Bond Index	BSV[1]/VBISX	2.7 Yrs.	1271	0.22	1.80	77	--	2.24	3.45	4.87	5.21	2.65	3.77	3.90
iShares Barclays 1-3 Yr. Credit Bond	CSJ[1]	2.0 Yrs.	674	0.20	0.99	23	--	2.79	3.56	4.77	--	2.61	3.47	--
iShares Barclays 1-3 Year Treasury	SHY[1]	1.9 Yrs.	43	0.15	1.64	62	--	1.13	1.59	3.26	4.19	1.12	2.41	3.08
Vanguard Limited-Term Tax-Exempt	VMLTX	2.8 Yrs.	1397	0.20	1.29	11	--	2.34	2.53	3.79	3.78	2.53	3.79	3.78
SPDR Short-Term Municipal Bond	SHM[1]	3.2 Yrs.	334	0.20	na	14	--	1.72	1.90	4.20	--	1.90	4.20	--
Inflation-Protected Fixed Income														
iShares Barclays TIPS Bond	TIP[1]	9.3 Yrs.	31	0.20	0.69	15	--	2.48	5.40	5.32	5.78	4.50	3.82	4.21
Vanguard Inflation-Protected Securities	VIPSX	9.1 Yrs.	29	0.25	0.66	14	--	2.68	5.44	5.05	5.64	4.41	4.00	4.24
Real Estate														
Vanguard REIT Index	VNQ[1]/VGSIX[2]	4.6 B.	100	0.26	0.05	16	1.8	3.21	31.25	-1.72	2.43	29.69	-3.06	1.11
SPDR Dow Jones REIT	RWR[1]	5.8 B.	83	0.25	0.02	10	2.0	3.05	30.63	-3.16	1.36	29.12	-4.60	0.02
U.S. Large Cap Value														
Vanguard Value Index	VTV[1]/VIVAX	34.9 B.	423	0.26	-0.36	31	1.4	2.56	7.20	-7.20	-0.03	6.79	-7.61	-0.44
iShares Russell 1000 Value Index	IWD[1]	29.2 B.	670	0.20	-0.35	24	1.4	2.16	8.78	-7.17	-0.23	8.07	-7.64	-0.67
U.S. Small Cap Value														
iShares Russell Microcap Index	IWC[1]	0.2 B.	1360	0.60	-0.21	35	1.2	0.80	27.48	-3.96	-1.42	27.18	-4.14	-1.57
Vanguard Small-Cap Value Index	VBR[1]/VISVX	1.1 B.	997	0.28	0.00	33	1.2	1.71	24.03	0.44	2.55	23.58	-0.04	2.09
U.S. Large Cap Growth														
iShares Russell 1000 Growth Index	IWF[1]	31.9 B.	629	0.20	-0.14	19	3.1	1.40	13.85	-2.49	2.42	13.36	-2.77	2.19
Vanguard Growth Index	VUG[1]/VIGRX	31.4 B.	429	0.28	-0.12	29	3.0	1.10	14.52	-2.28	2.62	14.33	-2.44	2.47
U.S. Marketwide														
Vanguard Total Stock Market Index	VTI[1]/VTSMX	21.9 B.	3423	0.18	-0.22	5	1.9	1.88	12.76	-4.06	1.62	12.44	-4.36	1.34
Fidelity Spartan Total Market Index	FSTMX[3]	22.8 B.	3116	0.10	-0.22	7	1.9	1.71	13.01	-4.13	1.63	na	na	na
Foreign- Developed Markets														
iShares MSCI Growth Index	EFG[1]	23.6 B.	590	0.40	-0.24	28	1.9	1.86	5.85	-8.93	2.82	5.33	-9.17	2.62
iShares MSCI Value Index	EFV[1]	29.9 B.	501	0.40	-0.27	30	1.1	3.18	-3.91	-11.29	0.45	-4.72	-11.83	0.04
Vanguard Europe Pacific Index	VEA[1]/VTMGX[4]	24.9 B.	943	0.20	-0.25	9	1.3	2.29	-0.04	-10.09	2.12	-0.25	-10.30	1.89
Vanguard Developed Markets Index	VDMIX[5]	24.7 B.	980	0.10	-0.26	14	1.3	1.12	0.93	-10.01	1.93	0.69	-10.54	1.39
SPDR S&P International Small Cap	GWX[1]	1.0 B.	698	0.59	-0.11	21	1.1	1.47	13.99	-5.54	--	13.54	-5.97	--
Foreign- Emerging Markets														
Vanguard Emerging Market Index	VWO[1]/VEIEX[6]	15.6 B.	827	0.40	0.09	12	2.0	1.10	13.90	-3.11	11.74	13.69	-3.49	11.38
Gold-Related Funds														
iShares COMEX Gold Trust	IAU[1]	--	1	0.25	0.92	0.00	--	0.00	16.87	20.52	22.40	16.87	20.52	22.40
streetTRACKS Gold Shares	GLD[1]	--	1	0.40	0.92	0.00	--	0.00	17.21	20.39	22.31	17.21	20.39	22.31

Recommended Gold-Mining Companies ($)

	Ticker Symbol	12/15/10	Month Earlier	Year Earlier	52-Week High	52-Week Low	Distributions Last 12 Months	Distributions Frequency	Yield (%)
Anglogold Ltd., ADR	AU	**49.23**	48.69	41.38	52.86	34.11	0.1850	Semiannual	0.3758
Barrick Gold Corp. †	ABX	**52.53**	50.15	39.10	55.72	33.65	0.3740	Semiannual	0.7120
Gold Fields Ltd.	GFI	**17.94**	17.16	13.79	18.53	10.88	0.1610	Semiannual	0.8974
Goldcorp, Inc. †	GG	**45.85**	45.93	39.45	48.94	32.84	0.1785	Monthly	0.3893
Newmont Mining	NEM	**60.57**	60.66	50.59	65.50	42.80	0.5000	Quarterly	0.8255

The information herein is derived from generally reliable sources, but cannot be guaranteed. American Investment Services, the American Institute for Economic Research, and the officers, employees, or other persons affiliated with either organization may from time to time have positions in the investments referred to herein.

Data provided by the funds and Morningstar. [1]Exchange Traded Fund, traded on NYSE. [2]1% fee for redemption in 1 yr. [3]0.5% fee for redemption in 90 days. [4]1% fee for redemption in 5 yrs. [5]2% fee for redemption in 60 days. [6]0.5% fee for purchase and 0.25% fee for redemption. [7]For Vanguard funds, Expense Ratios shown are for Mutual Funds. ETFs have lower expenses. [8]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.