



# AIS

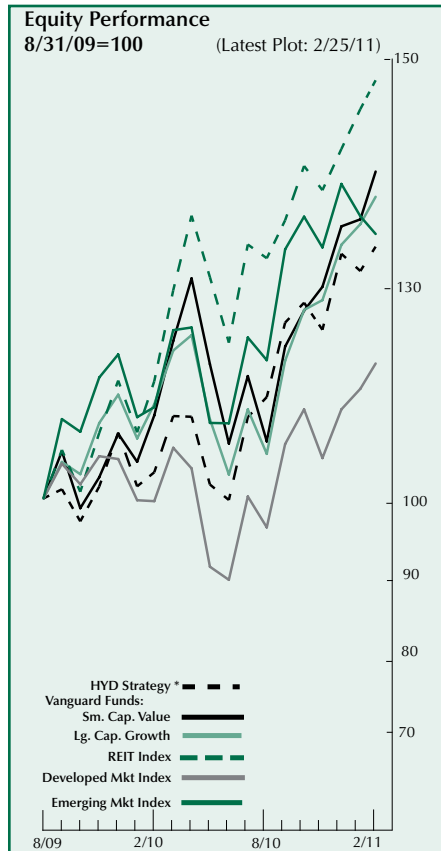
# INVESTMENT GUIDE

Published Monthly by  
American Investment Services, Inc

Vol. XXXIII, No. 2

Great Barrington, Massachusetts 01230

February 28, 2011



\* HYD is a hypothetical model based on back-tested results. See p.14 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.

## Price Inflation, Social Security and Senior Citizens' Burdens

*While the broader media has largely ignored until only recently the flaws inherent in Social Security, our parent organization, AIER, has consistently pointed to these deficiencies. In 1935, when Social Security first became law, AIER warned against the depressive effects of Social Security's taxes. In 1939, the first of many expansions was enacted, prompting AIER to warn, presciently, that Social Security "will burden the present younger generation, and those to come, far more than is generally understood."*<sup>1</sup>

AIER and AIS remain at the vanguard regarding the matter of Social Security and policy implications for retirees. In recent months we have heard from several of our advisory clients who are in retirement. Many are frustrated regarding actual price increases they face relative to price changes reflected in the Consumer Price Index (CPI). They contend that the cost of living for elderly citizens is higher than that of workers. Of particular concern is whether the CPI-W, which is used to adjust Social Security benefits, is an adequate gauge of living costs for the elderly.

We took this matter to AIER's staff economists who in turn brought to light the CPI-E, a little known experimental price index. This alternative gauge of price inflation was developed by the Bureau of Labor Statistics in 1987 specifically to measure trends in prices faced by Americans 62 years or older.

AIER published its findings last month.<sup>2</sup> Since 1983 annual price inflation measured by CPI-E was on average 0.27 percent higher than it was under CPI-W. On its face this may appear insignificant, but when compounded the magnitude of this differential becomes apparent. If the CPI-E had been used for Social Security cost of living adjustments, benefits would be roughly 7.7 percent higher today, or roughly \$820 more per year for a retiree who received the average benefit in 1983.

Much of the differential between CPI-E and CPI-W can be

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(continued next page)

traced to average spending habits attributable to health care costs, but several spending categories are involved. Seniors on average spend much more on medical care than workers, and health care prices have increased much faster than have prices of other goods and services. This dynamic more than offsets seniors' relatively low average spending on other goods and services that have also outpaced overall price inflation, such as education. Additionally, seniors on average spend less on apparel, video, TV and many other goods and services for which price inflation has been below average.

Both measures of CPI reflect average spending patterns, but any individual's experience will depend on his or her particular purchasing habits. Social Security benefit adjustments cannot of course accommodate individual spending patterns; payments are subject to a "one size fits all" adjustment based on CPI-W.

### No Easy Fix

Federal policy, through its abandonment of sound money and embrace of heavily subsidized health care, has engendered price inflation as well as price distortions that weigh most heavily on senior citizens. At the same time, perversely, the flaws inherent in Social Security against which AIER

*"... With the exception of a few years, such as 2009, the difference usually has been positive: Price inflation for the elderly was higher than it was for workers."*

-- AIER

has long inveighed are now forcing consideration of "reforms" that will result in a less generous program for retirees.

The current changes to Social Security being discussed are concerned with the program's fiscal health, and

therefore are focused on reining in payments to beneficiaries. Last December we summarized the findings of the bipartisan National Commission on Fiscal Responsibility and Reform (better known as the "deficit commission"), which included a recommendation that the CPI used to calculate the Cost of Living Adjustment (COLA) for Social Security beneficiaries be modified to reflect the "chained CPI," which is designed, ostensibly, to provide a more accurate cost-of-living index. This alteration would very likely result in COLAs smaller than those currently calculated under CPI-W, and almost certainly any COLA that might be calculated under CPI-E.

Our clients, and subscribers who have followed our advice, have heeded our warnings and formed portfolios designed to ensure that their financial assets in retirement will be adequate to offset the diminishing real value of Social Security income. In this regard our inclusion of gold and specific inflation-resilient equity asset classes has served them well.

1 What You Need to Know about Social Security (Great Barrington, Mass. American Institute for Economic Research, 2007).  
 2 Lynch, Kerry A., Senior Fellow, AIER "Older Americans Face Higher Costs" Research Reports, Vol. LXXVIII, No. 2, February 7, 2011, p.1.

## WHAT'S "NEW" ABOUT A NEW NORMAL?

*The following article, by Bryan Harris of Dimensional Fund Advisors (DFA) provides a useful review of capital markets, which have consistently defied dark forecasts of permanently reduced stock market returns.*

The 2008 global market crisis and the struggling economy have left many investors fatigued. Despite two years of strong equity returns, some investors have been slow to regain market confidence. Many are accepting the talk about a "new normal" in which stocks offer lower returns in the future.<sup>1</sup>

The concept of a new normal is anything but new. In fact, throughout modern history, periods of economic upheaval and market volatility have led people to assume that life had somehow changed and that new economic rules or an expanding government would limit

growth. What they could not see was how markets naturally adapt to major social and economic shifts, leading to new wealth creation.

Let's look at other periods when investors had strong reasons to give up on stocks, and consider the parallels to today:

**1932:** The US stock market had just experienced four consecutive years of negative returns. A 1929 dollar invested in stocks was worth only 31 cents by the end of 1932. Hopes were sinking during the Great Depression, and many people felt as though the economy had permanently changed. Many investors left the market, and some would not return for a generation. Amidst what is considered the roughest economic time in US history, the markets looked ahead to recovery.

\*All stock market returns based on CRSP 1-10 Index.<sup>2</sup>

US Stock Market Performance after 1932*			
	5 Years	10 Years	20 Years
Annualized Return	15.35%	10.07%	13.19%
Growth of \$1	\$ 2.04	\$ 2.61	\$ 11.92

**1941:** World War II was raging, and the US had just entered the conflict. The US stock market had experienced two consecutive years of negative performance, and the economy had shown signs of sliding back into depression. Although conversion to a wartime economy would revive industrial production and boost employment, investors struggled to see beyond the conflict. Many expected rationing, price controls, directed production, and other government measures to limit private sector performance.

1. Adam Shell, "New Normal' Argues for Investor Caution," USA Today, August, 16, 2010. The term "new normal" originally referred to a post-global financial crisis environment characterized by several years of sluggish economic growth, below-average equity returns in developed markets, high market volatility and risk, high unemployment, and a world in which the range of possible financial outcomes is wider than normal and wealth dynamics are moving from developed to emerging economies.  
 2. Returns for all periods of the CRSP 1-10 Index are annualized. Data provided by the Center for Research in Securities Prices, University of Chicago. Data includes indices of securities in each decile as well as other segments of NYSE securities (plus AMEX equivalents since July 1962 and NASDAQ equivalents since 1973). Additionally, includes US Treasury constant maturity indices.

US Stock Market Performance after 1941*			
	5 Years	10 Years	20 Years
Annualized Return	18.63%	16.67%	16.29%
Growth of \$1	\$ 2.35	\$ 4.67	\$ 20.47

**1974:** Investors had just experienced the worst two-year market decline since the early 1930s, and the economy was entering its second year of recession. The Middle East war had triggered the Arab oil embargo in late 1973, which drove crude oil prices to record levels and resulted in price controls and gas lines. Consumers feared that other shortages would develop. President Nixon had resigned from office in August over the Watergate scandal. Annual inflation in 1974 averaged 11%, and with mortgage rates at 10%, the housing market was experiencing its worst slump in decades. With prices and unemployment rising, consumer confidence was weak and many economists were predicting another depression.

US Stock Market Performance after 1974*			
	5 Years	10 Years	20 Years
Annualized Return	17.29%	15.92%	14.89%
Growth of \$1	\$ 2.22	\$ 4.38	\$ 16.07

**1981:** The stock market had delivered strong positive returns in five of the last seven calendar years, and the two negative years (1977 and 1981) were only moderately negative. Despite these results, investors were weary from stagflation, which was characterized by high annual inflation, anemic GDP growth, and unemployment, and from

fears of another economic downturn. In late 1980, gold climbed to a record \$873 per ounce—or \$2,457 in 2010 dollars. (By comparison, spot gold reached \$1,256 per ounce in 2010.) Memories of the 1973–74 bear market lingered. A 1979 *BusinessWeek* cover story titled “The Death of Equities” claimed inflation was destroying the stock market and that stocks were no longer a good long-term investment.

US Stock Market Performance after 1981*			
	5 Years	10 Years	20 Years
Annualized Return	18.82%	16.58%	14.54%
Growth of \$1	\$ 2.37	\$ 4.64	\$ 15.11

**1987:** On “Black Monday” (October 19, 1987), the Dow Jones Industrial Average plummeted 508 points, losing over 22% of its value during the worst single day in market history. The plunge marked the end of a five-year bull market. But in the wake of the crash, the market began a relatively steady climb and recovered within two years. The effects of the crash were mostly limited to the financial sector, but the event shook investor confidence and raised concerns that destabilized markets would increase the odds of recession.

US Stock Market Performance after 1987*			
	5 Years	10 Years	20 Years
Annualized Return	16.16%	17.75%	11.89%
Growth of \$1	\$ 2.11	\$ 5.12	\$ 9.46

**2002:** By the end of 2002, investors had experienced the stress of the dot-com crash in March 2000, the shock

of the September 11 attacks, and the early stages of wars in Afghanistan and Iraq. Although October 9, 2002, would ultimately mark the market’s low point, investors had endured three years of negative performance and an estimated \$5 trillion in lost market value. A younger generation of investors had experienced its first taste of old-world risk in the “new economy.”

US Stock Market Performance after 2002*			
	5 Years	10 Years	20 Years
Annualized Return	13.84%	—	—
Growth of \$1	\$ 1.91	—	—

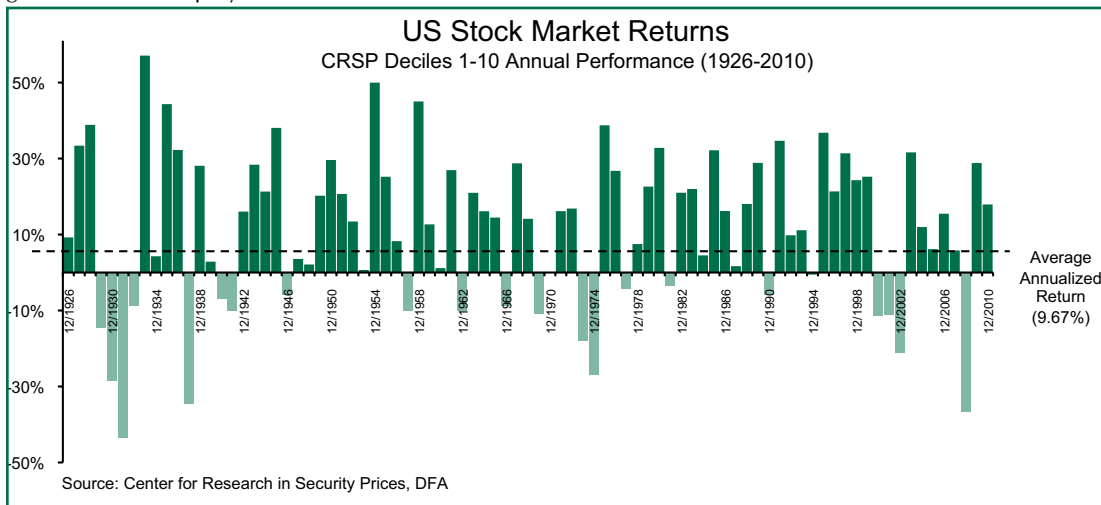
**2008–Today:** The market slide that began in 2008 reversed in February 2009—gaining 83.3% from March 2009 through 2010. Despite two years of strong stock market returns, memories of the 2008 bear market and talk of the “lost decade” have led many investors to question stocks as a long-term investment. But earlier generations of investors faced similar worries—and today’s headlines echo the past with stories about government spending, surging inflation, deflationary threats, rising oil prices, economic stagnation, high unemployment, and market volatility.

Of course, no one knows what the future holds, which brings the concept of “normal” into question. What exactly is the status quo in the markets?

The chart below shows the annual performance of the US market, as defined by CRSP deciles 1-10. Since 1926, there have been only four periods when the stock market had two or more consecutive years of negative returns. In addition, annual returns are rarely in line with the market’s 9.67% long-term

average (annualized). The most obvious normal may be that, over time, stocks offer expected returns reflecting the uncertainty and risk that investors must bear.

What’s new about that?



## MORE ON MUNIS: FISCAL CRISES IN PERSPECTIVE

Last month we described the current state of affairs in the municipal bond market. “Munis” and the fiscal condition of many states remain in the news. Here we provide additional observations to help put the magnitude of these developments in perspective.

The recent decline in muni bond prices has been driven by a confluence of events, many which emerged during the fourth quarter of last year. But some of the most significant developments were not related directly to prospects for wide-spread default, which have been trumpeted in the media.

Interest rates in general rose sharply during the quarter, sending muni prices downward, along with the entire bond market. At the same time the fate of the federal government’s Build America Bond (BAB) program was growing more uncertain. This program had provided federal subsidies for interest payments on municipal debt, which in turn reduced

rushed to issue BABs by year-end, which further reduced muni prices. Finally, Congress and the President agreed to extend the Bush-era tax cuts for two years. This further reduced demand and prices for munis as their prospective after-tax returns fell munis relative to what they would have been had the tax cuts been allowed to expire.

Though the fiscal challenges of cities and states are serious, we believe

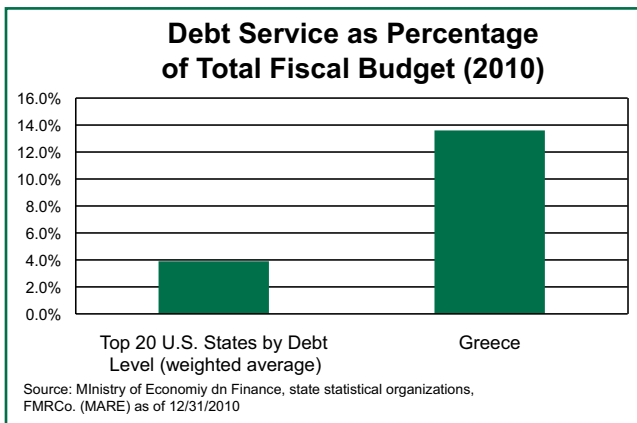
Debt is also reasonable relative to economic output; California’s total debt outstanding relative to its Gross Domestic (State) Product (GDP) is roughly 7 percent, while Greece’s debt to GDP ratio is 141 percent. In Illinois, another highly indebted state, the ratio is currently 14 percent.

Though munis as a group have taken a hit, some issuers have been punished far more severely than others. According to MARE, since the beginning of the fourth quarter muni bonds rated AAA (S&P’s highest credit rating) have lost roughly 3 percent, while at the low end of the credit spectrum, BAA munis fell 7 percent. The market, in short, has not issued a blanket condemnation of municipal bonds; instead it has discriminated among issuers of varying credit quality. Similarly, investors should not, as some pundits suggest, simply abandon the muni market entirely in favor of alternative fixed income instruments such as U.S. Treasuries.

Investors are best served by holding a broadly diversified portfolio of munis through the funds we list on page 16. As depicted in the accompanying table, these funds are concentrated in high credit quality bonds.

Credit Check: Our Recommended Funds Portfolio Distribution by Credit Quality			
Vanguard Limited-Term Tax-Exempt (VMLTX)		SPDR Short-Term Municipal Bond (SHM)	
AAA	29.0%	Aaa	21.37%
AA	49.8%	Aa	77.43%
A	16.6%	A	0.87%
BBB	2.8%	Not Rated	0.33%
BB	0.1%		
Not Rated	1.7%		

Source: Fund prospectus (Rating agencies: VMLTX: Standard & Poor’s, SMH: Moody’s)  
See page 16 for more data on these funds



capital costs for local governments. As it became clear Congress would not extend the program beyond 2010, municipalities

compared with the government of Greece, which spends 13.6 percent of its budget on debt service obligations.

<sup>1</sup> “Municipal Bonds: Perspective on Recent Market Volatility” Market Analysis, Research & Education. A unit of Fidelity Managment & Research Company. February 7, 2011

## PRINCIPAL-GUARANTEED PRODUCTS: PAYING OTHERS TO ASSUME RISK

Aggressive salespeople are pushing a variety of contractual investment products, including guaranteed annuities, CDs and other variations of traditional investment vehicles that promise investors downside protection in the form of a “floor”. Very often these contracts guarantee that after a stated period the investor will be repaid an amount no less than their original investment, without sacrificing any “upside” in the form of higher returns

that capital markets might provide. These products are proving popular in the aftermath of one of the most severe bear markets in history. Late last year Bloomberg estimated that sales of structured notes rose to \$31.9 billion over the twelve months ending August 2010, a 58 percent increase. But clever sales pitches dismiss the fact that such protection does not come for free. Someone must hold the downside risk inherent in capital markets. An investor who does not wish to bear that risk must

find another investor willing to assume it, but that counterparty will insist on being paid to do so.

### The Guarantee

The credit quality of the issuer is an extremely important consideration for anyone considering a structured product. Although the cash flows and instruments underlying these products are provided externally, the product is legally a liability of the issuing financial

institution.

Investors should therefore consider carefully the value of the guarantee being promoted. A firm, for a fee, might guarantee that an investor will in five years be repaid an amount no less than his original investment. However, that guarantee is good only as long as the financial institution remains solvent. Keep in mind that Lehman Brothers failed, and that this once venerable institution collapsed during a severe market downturn, precisely when the investor would have needed downside protection.

### Liquidity: You Want to Get Out?

It is very difficult for investors to get out of a guaranteed product once the contract has been entered into. An investor who holds a U.S. stock market index mutual fund or an ETF can easily liquidate his position at market value if he needs cash. But a structured note is a one-on-one contract with a

financial institution for which there is no ready market. When it comes to early redemption the investor is in effect at the mercy of the issuer; the proceeds of such liquidation prior to the end of the contract will depend on the price the financial institution is willing to pay.

### How Does it Work?

The index-based funds we recommend are simple to understand and transparent. Structured products, by comparison, can be extremely complex and difficult to evaluate. Some might be leveraged, for example, providing the opportunity for outsized returns relative to the market, but provide a “floor” that is less than the investor’s original investment. A variety of caveats and appealing “bells and whistles” can be thrown in. In addition to principal protected notes, investors might encounter nomenclature such as auto-callable notes and reverse convertibles. If you cannot understand it, do not buy it.

The fees assessed by index-based funds are transparent and very low compared with fees assessed by many structured products. An index fund’s expense ratio is a reliable gauge of investment-related expenses since costs not accounted for in the expense ratio, such as trading costs incurred through bid-ask spreads, are minimal with an indexing strategy. Structured products on the other hand, can assess a variety of fees that, even if fully disclosed, are very high and rarely emphasized by brokers or firms selling them. These fees can include annual asset-based fees, commissions, the costs of undertaking any hedges, and a charge for assuming the guarantee. Opportunity costs should be considered as well; structured notes that offer participation in stock market returns often rely on derivatives rather than direct investments, in which case investors will not receive the dividends they would otherwise receive from an index fund.

## IMMEDIATE ANNUITIES: RETIREES BEWARE

In the accompanying article we discuss often overlooked risks and potential costs in structured investment products. The concept of a “guaranteed floor” has also been extended to *immediate annuities* which begin making periodic payments shortly after they are purchased. A traditional, low-cost immediate annuity might deserve a place alongside a well allocated investment portfolio. However, far too many inferior products are being aggressively foisted upon retirees fearful of outliving their income.

Immediate annuities provide a stream of income as long as the annuitant lives. An insurance company can guarantee that income because the mortality experience of large groups is predictable. Firms can offer contracts that will provide payments to those who exceed their life expectancies because they are funded in part by premiums paid by other annuitants who die prematurely relative to their life expectancies.

These simple “lifetime only” contracts, however, have numerous variations, such as installment refunds, stepped-up payments, and joint-and-life survivorship features. All of these provide a reduced income stream, higher fees, or both, compared to lifetime only annuities. Faced with the reality of

price inflation, annuitants have come to demand contracts with payments that can increase over time. The industry has responded with products that provide payments indexed to inflation. Perhaps the most significant innovation, however, is the variable-rate immediate annuity. Under these contracts, premiums are invested in subaccounts similar to mutual funds in which the annuitant, rather than the insurance company, bears the market risk, since the periodic payments will vary with the experience of the underlying investment.

Many firms are now offering an array of “living benefit” policy riders that seek to limit the downside of these variable payments by guaranteeing a “floor” below which payments cannot fall, but also promising annuitants that they will enjoy higher payments when the market does well. Ever more creative

riders with new promises and fees are emerging regularly.

It is beyond the scope of this article to catalogue these various schemes. However, high-pressure salesmen have approached many of our clients. In many cases fees are exorbitant (sub-account expense ratios average about 1.8 percent higher than mutual fund alternatives), payment limits are glossed over, and risks, if stated, are underemphasized. When we (painstakingly) dissect these contracts we invariably recommend that investors “just say no.”



*“These new regulations will fundamentally change the way we get around them.”*

**THE HIGH-YIELD DOW INVESTMENT STRATEGY**

**Recommended HYD Portfolio**

As of February 15, 2011

	Rank	Yield	Price	Status	—Percent of Portfolio—	
					Value	No. Shares <sup>1</sup>
AT&T	1	6.09	28.24	Holding**	22.98	24.29
Verizon	2	5.35	36.46	Holding**	25.64	21.00
Merck	3	4.64	32.79	Holding**	15.32	13.95
Pfizer	4	4.20	19.05	Buying	17.44	27.33
Kraft	5	3.78	30.67	Holding	2.40	2.34
DuPont	9	3.03	54.11	Selling	15.35	8.47
Frontier Communications	N/A	N/A	9.47	Selling	0.83	2.63
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](http://www.americaninvestment.com).

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

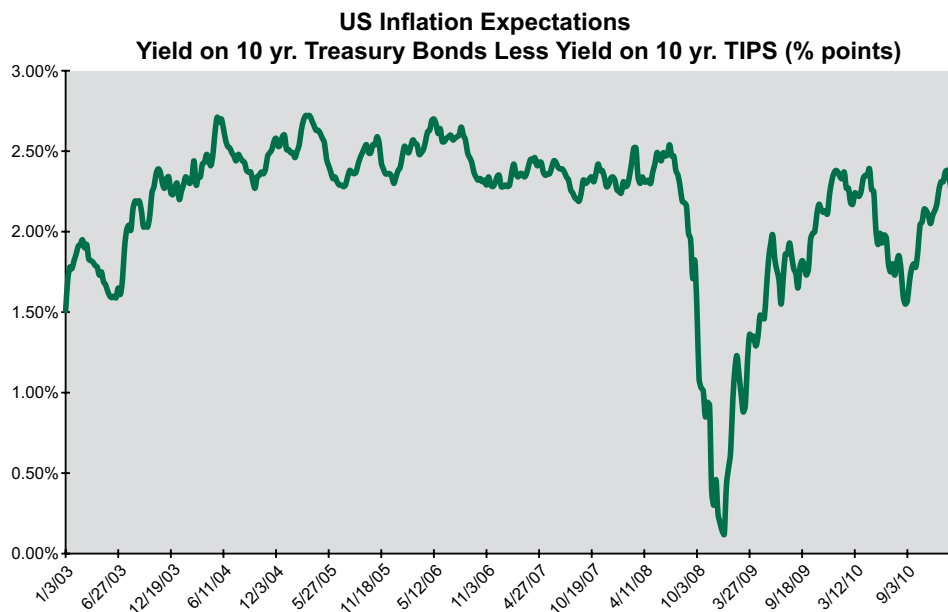
The total returns presented in the table below represent changes in the value of a hypothetical HYD portfolio with a beginning date of January 1979 (the longest period for which data was available for the HYD model and relevant indexes) through January 31, 2010\*.

	<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	-1.57	24.89	4.02	4.93	13.35	15.78	18.14
Russell 1000 Value Index	2.26	21.54	0.96	3.45	9.97	12.22	15.00
Dow	2.85	21.35	4.58	3.34	10.18	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.

**INFLATION EXPECTATIONS**

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 below suggests that over the next 10 years price inflation is expected to average 2.28% per year.



## RECENT MARKET STATISTICS

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

	2/15/11	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	1,372.75	1,367.00	1,053.50
Silver, London Spot Price	30.72	28.52	17.54
Copper, COMEX Spot Price	4.47	4.40	2.85
Crude Oil, W. Texas Int. Spot	84.31	91.53	77.57
Dow Jones Spot Index	467.92	459.91	341.35
Dow Jones-UBS Futures Index	161.64	161.67	133.32
Reuters-Jefferies CRB Index	336.29	333.06	273.72

## Interest Rates (%)

U.S. Treasury bills - 91 day	0.13	0.15	0.11
182 day	0.17	0.18	0.18
52 week	0.29	0.27	0.34
U.S. Treasury bonds - 10 year	3.61	3.36	3.69
Corporates:			
High Quality - 10+ year	5.26	5.01	5.36
Medium Quality - 10+ year	6.14	6.07	6.36
Federal Reserve Discount Rate	0.75	0.75	0.50
New York Prime Rate	3.25	3.25	3.25
Euro Rates			
3 month	1.09	1.00	0.66
Government bonds - 10 year	3.29	3.02	3.20
Swiss Rates - 3 month	0.17	0.17	0.25
Government bonds - 10 year	1.82	1.74	1.83

## Exchange Rates (\$)

British Pound	1.612800	1.587400	1.566900
Canadian Dollar	1.011634	1.009897	0.949758
Euro	1.349400	1.332800	1.362500
Japanese Yen	0.011935	0.012050	0.011111
South African Rand	0.136893	0.144111	0.129828
Swiss Franc	1.033378	1.035518	0.928764

## Securities Markets

	2/15/11	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	1,328.01	1,293.24	1,075.51
Dow Jones Industrial Average	12,226.64	11,787.38	10,099.14
Dow Jones Bond Average	266.12	267.79	233.74
Nasdaq Composite	2,804.35	2,755.30	2,183.53
Financial Times Gold Mines Index	3,679.32	3,569.79	2,885.77
FT EMEA (African) Gold Mines	3,251.35	3,321.92	2,629.09
FT Asia Pacific Gold Mines	17,141.46	17,384.79	12,265.63
FT Americas Gold Mines	3,148.71	2,986.34	2,486.10

## Coin Prices (\$)

	2/15/11	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	1,409.97	1,419.07	1,108.07	2.71
Austrian 100-Corona (0.9803)	1,324.93	1,333.72	1,035.32	-1.54
British Sovereign (0.2354)	333.60	335.70	262.90	3.24
Canadian Maple Leaf (1.00)	1,393.50	1,402.60	1,103.00	1.51
Mexican 50-Peso (1.2057)	1,632.70	1,643.50	1,275.90	-1.35
Mexican Ounce (1.00)	1,374.50	1,383.50	1,078.50	0.13
S. African Krugerrand (1.00)	1,392.07	1,401.18	1,097.07	1.41
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,450.00	1,485.00	1,270.00	9.18
Liberty (Type I-AU50)	1,602.50	1,625.00	1,675.00	20.66
Liberty (Type II-AU50)	1,540.00	1,560.00	1,412.50	15.95
Liberty (Type III-AU50)	1,432.50	1,445.00	1,210.00	7.86
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	21,350.00	20,325.00	10,850.00	-2.80
40% Silver Circ. (292 oz.)	8,662.50	8,337.50	4,350.00	-3.43
Silver Dollars Circ.	23,000.00	23,100.00	14,900.00	-3.22

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$1372.75 per ounce and silver at \$30.72 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†		
	2/15/11	1/14/11	2/12/10	High	Low	Amount (\$)	Date	Paid	Dividend (\$)	(%)	
AT&T	T	28.24	28.43	25.07	30.10	23.78	0.430	1/10/11	2/1/11	1.720	6.09
Verizon	VZ	36.46	35.46	28.93	37.70	25.99	0.488	1/10/11	2/1/11	1.950	5.35
Merck	MRK	32.79	34.23	36.92	39.04	30.70	0.380	12/15/10	1/7/11	1.520	4.64
Pfizer	PFE	19.05	18.34	17.80	19.39	14.00	0.200	2/04/11	3/1/11	0.800	4.20
Kraft	KFT	30.67	31.34	29.09	32.67	27.49	0.290	12/31/10	1/14/11	1.160	3.78
Johnson & Johnson	JNJ	60.62	62.55	62.72	66.20	56.86	0.540	3/01/11	3/15/11	2.160	3.56
Intel Corp	INTC	21.45	21.08	20.43	24.37	17.60	0.180	2/07/11	3/1/11	0.720	3.36
McDonald's	MCD	76.15	74.06	63.59	80.94	63.25	0.610	3/01/11	3/15/11	2.440	3.20
Dupont	DD	54.11	49.80	32.28	54.75 H	32.24	0.410	2/15/11	3/14/11	1.640	3.03
Procter and Gamble	PG	63.92	65.53	61.76	66.95 H	39.37	0.482	1/21/11	2/15/11	1.927	3.02
Chevron	CVX	96.34	92.83	71.01	98.23 H	66.83	0.720	2/16/11	3/10/11	2.880	2.99
Coca-Cola	KO	63.19	63.13	53.98	65.88	49.47	0.440	12/01/10	12/15/10	1.760	2.79
General Electric	GE	21.46	18.82	15.55	21.65 H	13.75	0.140	2/28/11	4/25/11	0.560	2.61
Home Depot, Inc.	HD	37.69	35.89	29.00	38.12 H	26.62	0.236	12/02/10	12/16/10	0.945	2.51
Travellers	TRV	59.35	54.63	50.45	59.50 H	47.69	0.360	3/10/11	3/31/11	1.440	2.43
3M Company	MMM	92.00	88.10	79.18	92.30 H	67.98	0.550	2/18/11	3/12/11	2.200	2.39
Microsoft Corp.	MSFT	26.96	28.30	27.93	31.58	22.73	0.160	2/17/11	3/10/11	0.640	2.37
Boeing	BA	71.40	70.07	59.65	76.00	59.48	0.420	2/11/11	3/4/11	1.680	2.35
Wal-Mart Stores	WMT	54.95	54.81	52.90	57.90 H	47.77	0.303	12/10/10	1/3/11	1.210	2.20
Exxon Mobil	XOM	82.97	77.84	64.80	85.11 H	55.94	0.440	2/10/11	3/10/11	1.760	2.12
United Tech.	UTX	84.93	79.08	65.69	85.46 H	62.88	0.425	2/18/11	3/10/11	1.700	2.00
Caterpillar	CAT	103.00	94.01	56.20	103.64 H	54.21	0.440	1/20/11	2/19/11	1.760	1.71
IBM	IBM	162.84	150.00	124.00	166.25 H	116.00	0.650	2/10/11	3/10/11	2.600	1.60
American Express	AXP	46.19	46.25	38.42	49.19	37.05	0.180	1/07/11	2/10/11	0.720	1.56
Walt Disney	DIS	43.09	39.29	30.07	44.05 H	30.17	0.400	12/13/10	1/18/11	0.400	0.93
Alcoa	AA	17.40	15.97	13.28	17.68 H	9.81	0.030	2/04/11	2/25/11	0.120	0.69
Hewlett-Packard	HPQ	47.99	46.25	48.46	54.75	37.32	0.080	3/16/11	4/6/11	0.320	0.67
J P Morgan	JPM	46.82	44.91	38.95	48.20	35.16	0.050	1/06/11	1/31/11	0.200	0.43
Bank of America	BAC	14.77	15.25	14.45	19.86	10.91	0.010	3/04/11	3/25/11	0.040	0.27
Cisco	CSCO	18.67	21.21	23.76	27.74	18.61 L	0.000			0.000	0.00

\* See the Recommended HYD Portfolio table on page 14 for current recommendations. † Based on indicated dividends and market price as of 2/15/11.

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 2/16/10.

RECOMMENDED INVESTMENT VEHICLES

Descriptive Quarterly Statistics, as of 12/31/10

Security Symbol	Avg. Market Cap./Avg. Maturity	No. of Holdings	Ratios		P/B	12 Mo. Yield (%)	Annualized Returns <sup>8</sup> (%), as of 1/31/11 <sup>*</sup>					
			Expense <sup>7</sup> (%)	Sharpe Turnover (%)			Total 3 yr.	1 yr.	5 yr.	After Tax <sup>*</sup> 3 yr.	5 yr.	
<b>Short/Intermediate Fixed Income</b>												
Vanguard Short-Term Bond Index	2.7 Yrs.	1294	0.22	1.49	77	2.16	3.09	3.96	5.03	2.23	2.89	3.73
iShares Barclays 1-3 Yr. Credit Bond	1.9 Yrs.	685	0.20	0.91	23	2.48	3.20	4.17	--	2.30	2.93	--
iShares Barclays 1-3 Year Treasury	1.8 Yrs.	36	0.15	1.38	62	1.03	1.64	2.56	4.07	1.27	1.78	2.99
Vanguard Limited-Term Tax-Exempt	2.9 Yrs.	1406	0.20	1.08	11	2.34	1.42	2.84	3.52	1.42	2.84	3.52
SPDR Short-Term Municipal Bond	3.1 Yrs.	358	0.20	0.78	14	1.60	1.06	3.15	--	0.45	2.94	--
<b>Inflation-Protected Fixed Income</b>												
iShares Barclays TIPS Bond	8.7 Yrs.	31	0.20	0.49	15	2.51	4.64	3.55	5.22	3.71	2.14	3.73
Vanguard Inflation-Protected Securities	9.3 Yrs.	31	0.25	0.48	14	2.44	4.58	3.27	5.04	3.69	2.19	3.74
<b>Real Estate</b>												
Vanguard REIT Index	5.3 B.	101	0.26	0.23	16	3.28	40.02	2.76	2.56	38.32	1.38	1.30
SPDR Dow Jones REIT	6.1 B	84	0.25	0.20	10	2.94	40.37	1.44	1.45	38.81	-0.11	0.19
<b>U.S. Large Cap Value</b>												
Vanguard Value Index	37.6 B.	424	0.26	-0.10	31	2.22	20.50	-2.10	1.28	20.07	-2.53	0.87
iShares Russell 1000 Value Index	33.4 B	669	0.20	-0.10	24	1.98	21.28	-2.46	0.85	20.90	-2.85	0.48
<b>U.S. Small Cap Value</b>												
iShares Russell Microcap Index	0.3 B.	1353	0.60	0.10	35	0.82	31.31	1.35	-1.68	31.10	1.19	-1.81
Vanguard Small-Cap Value Index	1.3 B.	990	0.28	0.24	33	1.82	29.57	4.89	2.85	29.10	4.41	2.40
<b>U.S. Large Cap Growth</b>												
iShares Russell 1000 Growth Index	38.6 B.	628	0.20	0.06	19	1.27	24.89	2.95	3.74	24.62	2.73	3.55
Vanguard Growth Index	34.8 B.	427	0.28	0.06	29	1.01	24.85	2.85	3.70	24.65	2.68	3.55
<b>U.S. Marketwide</b>												
Vanguard Total Stock Market Index	24.2 B.	3377	0.18	0.01	5	1.68	23.99	1.07	2.68	23.65	0.76	2.39
Fidelity Spartan Total Market Index	25.1 B.	3085	0.10	0.01	7	1.65	24.16	0.99	2.68	na	na	na
<b>Foreign-Developed Markets</b>												
iShares MSCI Growth Index	25.9 B.	582	0.40	-0.11	28	1.79	17.19	-2.82	2.14	17.04	-2.95	2.02
iShares MSCI Value Index	31.1 B.	526	0.40	-0.15	30	3.25	13.03	-3.77	0.96	12.73	-4.01	0.66
Vanguard Europe Pacific Index	29.5 B.	949	0.20	-0.13	9	2.44	16.31	-3.27	1.98	14.92	-3.81	1.75
Vanguard Developed Markets Index	29.4 B.	987	0.10	-0.13	14	2.79	16.28	-3.42	1.83	15.72	-3.96	1.27
SPDR S&P International Small Cap	1.1 B	694	0.60	0.08	17	2.38	27.56	2.12	--	26.84	1.79	--
<b>Foreign-Emerging Markets</b>												
Vanguard Emerging Market Index	18.2 B.	822	0.40	0.14	12	1.43	23.28	2.57	9.12	22.06	1.94	8.60
<b>Gold-Related Funds</b>												
iShares COMEX Gold Trust	--	1	0.40	0.90	0.00	0.00	22.17	12.47	17.94	22.17	12.47	17.94
streetTRACKS Gold Shares	--	1	0.40	0.90	0.00	0.00	21.83	12.18	17.86	21.83	12.18	17.86

Data provided by the funds and Morningstar. <sup>1</sup>Exchange Traded Fund, traded on NYSE. <sup>2</sup>1% fee for redemption in 1 yr. <sup>3</sup>0.5% fee for redemption in 90 days. <sup>4</sup>1% fee for redemption in 5 yrs. <sup>5</sup>2% fee for redemption in 60 days. <sup>6</sup>0.5% fee for purchase and 0.25% fee for redemption. <sup>7</sup>For Vanguard funds, Expense Ratios shown are for Mutual Funds. ETFs have lower expenses. <sup>8</sup>For Vanguard Funds, returns shown are for Mutual Funds; ETFs' returns may deviate. <sup>\*</sup> 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. <sup>†</sup> Dividend shown is after 15% Canadian tax withholding.

Recommended Gold-Mining Companies (\$)

Ticker Symbol	Month 2/15/11	Year Earlier	--- 52-Week ---		Distributions Last 12 Months	Frequency (%)	Yield (%)
			High	Low			
AU	45.91	44.67	52.86	34.11	0.1990	Semiannual	0.4335
ABX	49.19	47.08	55.72	33.65	0.3740	Semiannual	0.7603
GFI	16.16	16.67	18.53	10.88	0.1610	Semiannual	0.9963
GG	43.97	40.59	48.94	32.84	0.2000	Monthly	0.4549
NEM	58.04	55.72	65.50	42.80	0.5500	Quarterly	0.9476

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.