AIS INVESTMENT GUIDE

*Published Monthly by*
American Investment Services, Inc

Vol. XXXIII, No. 4 | Great Barrington, Massachusetts 01230 | April 30, 2011

*** HYD is a hypothetical model based on back-tested results. See p.30 for full explanation.**

We offer two discretionary management services: Our Professional Asset Management (PAM) service covers all of our recommended assets and allows us to place trades in stocks, bonds, and mutual funds directly in our clients' accounts.(The accounts remain the property of our clients at all times—we are only authorized to trade on their behalf.) Our High-Yield Dow (HYD) service operates similarly, except it invests only in the highest-yielding Dow stocks, using the 4-for-18 model on a fully invested basis. Investors interested in these low-cost services should contact us at 413-528-1216 or Fax 413-528-0103.

Online: www.americaninvestment.com

# Fiat Follies and the Dollar: Where the Buck Stops

Politicians have met the bond market. Legislators in Washington have spent lavishly for decades, and the bill is now due. Standard and Poor's change in outlook for U.S. Treasury securities from "stable" to "negative" serves as a stark reminder that profligate spending has consequences. While fiat currencies can mask the ill effects of unchecked fiscal policy, governments, ultimately, cannot escape the scrutiny of markets.

Sound money does not permit chronic deficit spending. Under the gold standard, central banks could not create unlimited supplies of money because currencies were convertible to gold, which is finite in supply. This restriction, in turn, prohibited central banks from being open-ended lenders to their governments. Politicians could not simply spend and effectively "inflate away" the real value of any debt they might incur, as is standard practice today.

The U.S. Treasury has held unique status as the only entity capable of taxing the world's largest economy, which accounts for roughly 25 percent of nominal global economic output. Thus, even under a fiat regime, Treasury securities have long enjoyed status as a proxy for a "risk free" asset.[1] Though that status is now being questioned openly, we have never regarded Treasuries, or any other financial asset to be "risk free." This conviction is evident in our longstanding inclusion of gold and foreign equities among our recommended assets.

The extent to which monetary policy will be reformed is uncertain, but it is becoming increasingly clear that the status quo is not an option. Resumption of a sound money standard may seem remote, but cannot be ruled out (see page 30 for more). In previous issues we have discussed plausible alternatives, such as targeting a specific inflation rate or rate of growth in money supply. While these remedies might not impose a fiscal discipline as effective as that imposed by a dollar backed by tangible assets, they would also not be as susceptible to deflation, a drawback inherent in the gold standard.

1 This concept is widely accepted in business schools and embraced in most finance textbooks.

## QUARTERLY REVIEW OF INVESTMENT POLICY

For investors (and everyone else for that matter), the first quarter was among the most eventful in recent memory. Headlines were dominated by a deadly earthquake in Japan and political uprisings in the Middle East. Meanwhile the Eurozone debt crisis showed no signs of abating. In the U.S. a political earthquake shook Washington and state capitols as fiscal crises forced politicians to debate not whether, but by how much spending should be cut.

Even had the usual array of pundits known of these events in advance, we suspect few would have predicted that global capital markets returns would have provided investors with solid returns. The S&P 500 turned in a solid 5.9 percent total return over the three months and, as demonstrated on page 27, all of our recommended asset classes ended the quarter in positive territory.

### Cash and Equivalent Assets[1]

The Fed's board of governors took no action to affect short term interest rates during the quarter, as the targeted range for the federal funds rate remained at zero to 0.25 percent. Debate, however, became more strident as several Fed officials expressed concern that the fed's expansive monetary policy should be reined in, while others, citing a tepid recovery, urged caution regarding any increase in the targeted rate.

The yield on three month Treasuries, which stood at 0.14 percent at the end of the fourth quarter, fell slightly to 0.09 percent by the quarter's end. One year Treasury bill yields were unchanged, ending the quarter at 0.30 percent. Price inflation, measured by the year-over-year change in the consumer price index, stood at 2.7 percent at the end of March. Excluding the volatile food and energy components, inflation was running at 1.2 percent, but it is clear that cash and fixed income instruments with less than one year to maturity continue to provide negative returns when price inflation is taken into consideration.

### Fixed Income

Interest rates rose slightly during the quarter (see accompanying yield curve). Treasuries traded in a narrow range. Rising inflation expectations and signs of economic recovery put upward pressure on yields, while global unrest pushed Treasury prices higher and yields lower.

Short term inflation expectations, measured by the difference in yield between conventional and inflation-indexed Treasuries (TIPS) increased markedly; the anticipated five year annual rate of inflation rose from 1.5 percent to 2.2 percent. Longer term inflation expectations (over years six through ten) changed little over the quarter, ending just under 2.8 percent. TIPS outperformed nominal Treasuries by 2 percent over the past two quarters as investors sought protection against unexpected price inflation.

Investors embraced credit risk during the quarter. Improved profits and

**AIS Model Portfolios(1)**
**For the Period Ending March 31, 2011**

| *Asset Class* | *Index* | *Recommended Percentage Allocations* (2) | | | *Asset Class Statistics: Risk and Return (%)* Total Return (annualized) | | | Std. Dev. (annualized) |
|---|---|---|---|---|---|---|---|---|
| | | *Conservative* | *Moderate* | *Aggressive* | *1 Year* | *10 Year* | *20 year* | *20 year* |
| Cash & Equivalent Assets (3) | 3 Month CD Index | 20 | 10 | 0 | 0.33 | 2.58 | 3.87 | 0.62 |
| Short/Int. Fixed Income | Barclays Capital 1-5 Yr Govt/Cred | 40 | 30 | 0 | 3.12 | 4.58 | 5.77 | 2.33 |
| Real Estate | DJ US Select REITs Index | 10 | 10 | 10 | 24.44 | 11.25 | 10.68 | 20.39 |
| U.S. Large Cap Growth | Russell 1000 Growth Index (USD) | 5 | 5 | 10 | 18.26 | 2.99 | 7.75 | 17.40 |
| U.S. Large Cap Value | Russell 1000 Value Index (USD) | 15 | 20 | 30 | 15.15 | 4.53 | 9.76 | 14.70 |
| U.S. Small Cap Value | Russell 2000 Value Index (USD) | 5 | 7 | 13 | 20.63 | 9.01 | 11.88 | 16.90 |
| | DFA US Micro Cap Portfolio (USD) | 0 | 3 | 7 | 29.61 | 10.41 | 12.51 | 20.68 |
| Foreign Developed Markets | MSCI EAFE Index (USD) Gross Div | 5 | 7 | 13 | 10.90 | 5.83 | 6.02 | 16.67 |
| Foreign Emerging Markets | MSCI Emg. Mkts. Index (USD) Gross Div | 0 | 3 | 7 | 18.78 | 17.12 | 10.86 | 23.68 |
| Gold Related | Gold EOM gold (London PM Fix) | 0 | 5 | 10 | 29.00 | 18.77 | 7.24 | 14.81 |
| | Total | 100 | 100 | 100 | | | | |

**Model Portfolio Statistics: Risk, Return (%) and Growth**

| | *Conservative* | *Moderate* | *Aggressive* |
|---|---|---|---|
| Portfolio Return 1 Year | 8.57 | 12.58 | 19.43 |
| Portfolio Return 10 Year (annualized) | 5.75 | 7.39 | 9.04 |
| Portfolio Return 20 Year (annualized) | 7.43 | 8.53 | 10.21 |
| Portfolio Standard Deviation 20 Year (annualized) | 5.63 | 7.87 | 13.34 |
| Growth of $100 over 20 Years | $419 | $514 | $699 |

(1) Past performance may not be indicative of future results. Therefore, no current or prospective investor should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by the AIS), or product made reference to directly or indirectly, will be profitable or equal to past performance levels. 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.The results portrayed in this portfolio reflect the reinvestment of dividends and capital gains. Model Portfolio Statistics are hypothetical and do not reflect historical recommendations of AIS. Annual portfolio rebalancing is assumed.
(2) For our recommended investment vehicles for each asset class, see page 32.
(3) Investors should maintain cash balances adequate to cover living expenses for up to 6 months in addition to the cash levels indicated.

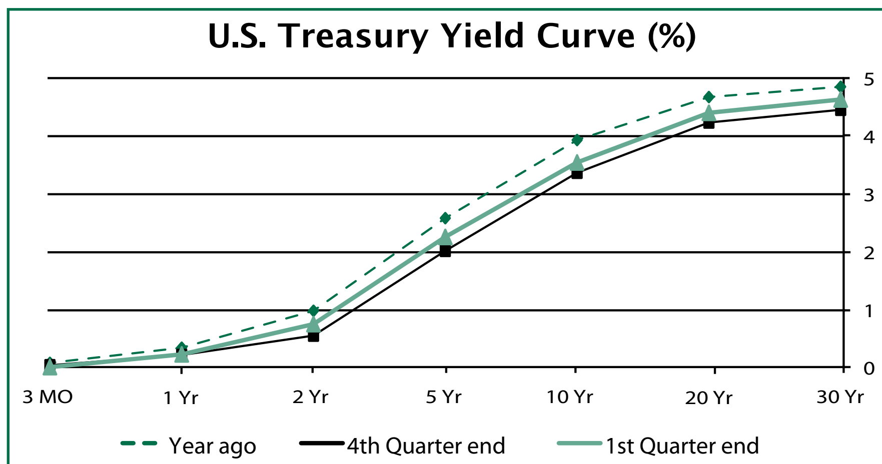
strengthening balance sheets bolstered the appeal of corporate bonds. As prices improved, the yield spread on investment grade corporate bonds over Treasury bonds fell from 1.56 percent to 1.47 percent during the quarter. Among high yield bonds spreads fell from 5.52 percent to 4.83 percent. Corporate bond prices increased even as firms issued over $400 billion in new corporate debt.

Though state and local deficits drew the media's spotlight, the overall muni bond market provided slightly positive returns (0.5 percent) during the first quarter, following sharp losses at the end of 2010. Investors shopped carefully, however, as high grade munis (AAA, 1.0 percent) fared much better than lower quality issues (BAA -0.9 percent). See accompanying article for more information regarding developments in the muni market.

## Real Estate[2]

By the end of March U.S Equity Real Estate Investment Trusts (REITs) had delivered a 7.5 percent total return, and were providing a dividend yield of 3.46 percent. Among subsectors, returns ranged from 24.61 percent (timber) to -0.54 percent (lodging/resorts).

REITs provide a high level of dividend income and strong total returns that are not highly correlated with those of common stocks or bonds, thus enhancing a portfolio's total risk-adjusted returns. Because dividend income accounts for a significant portion of their returns, REITs are best suited for tax-deferred accounts such as IRAs or qualified retirement plans. Because most REITs have small market capitalizations, most individual investors are best served by utilizing one of our recommended funds (see page 32) rather than purchasing REITs directly.




## U.S. Equities[3]

The U.S. Equity market, as measured by the S&P 500, rose 5.9 percent for the first quarter of 2011. This represents the best first quarter performance for U.S. equities since 1998.

Results were positive across all styles and market capitalizations with small caps outperforming large caps. Large cap value stocks performed slightly better than large cap growth stocks, while small cap growth issues turned in higher returns versus their small cap value peers. Overall returns were tightly grouped across both styles and market capitalizations. For the equity asset class subsectors that we follow, the Russell 2000 Value Index turned in the best performance with a return of 6.6 percent, while the Russell 1000 Growth Index was the lowest in the group with a 6.0 percent performance.

Among sectors, energy companies and industrial stocks led the way in the first quarter, rising 16.8 and 8.8 percent respectively. While still positive for the quarter, traditionally "defensive" industries such as consumer staples and utilities turned in lackluster results on a relative basis, up 2.5 and 2.7 percent respectively. Health care stocks were up 5.6 percent, as this normally defensive sector experienced strong performance over the past few months.

The market's valuation, measured by the PE,[4] currently stands at 23.0, above the long term average of 17.4. As we have noted previously, a PE that is higher than average does not necessarily mean that the market is in for an imminent fall. In fact, the market's PE has been "higher than average" since August of 2009. Selling out of equities at that time would have meant missing out on healthy equity market returns generated over the past 18 months.

## International Equities[5]

A number of events with global significance took place during the quarter which served to increase uncertainty and dampen overall investment returns. Unrest in the Middle East, natural disasters in Japan, and continuing debt problems in the Eurozone were but some of the attention

## Total Return (%)

| | 2008 | | 2009 | | | | 2010 | | | | 2011 | Entire Period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *3Q* | *4Q* | *1Q* | *2Q* | *3Q* | *4Q* | *1Q* | *2Q* | *3Q* | *4Q* | *1Q* | *3Q 2008-1Q 2011* |
| Barclay Capital 1-5 Yr. Govt./Credit | -0.31 | **3.60** | 0.53 | 1.46 | 2.14 | 0.42 | 1.20 | 1.78 | 1.66 | -0.60 | 0.27 | 12.76 |
| Vanguard REIT Index | 5.35 | -38.16 | -31.76 | 30.54 | **34.86** | **9.39** | 10.02 | -4.01 | 13.10 | 7.42 | 6.50 | 16.99 |
| Vanguard Value Index | -5.72 | -20.44 | -16.41 | 16.71 | 17.38 | 4.41 | 6.16 | -10.93 | 9.71 | 10.17 | **7.02** | 9.70 |
| High-Yield Dow 4/18 | **8.77** | -22.71 | -23.83 | 15.66 | 16.55 | 8.13 | 1.81 | -8.97 | **20.83** | 6.69 | 6.66 | 18.96 |
| Vanguard Small Cap Value Index | 1.51 | -25.57 | -18.14 | 23.83 | 23.89 | 3.79 | **10.15** | -10.15 | 10.68 | **13.95** | 6.88 | 31.38 |
| Vanguard Growth Index | -12.04 | -23.88 | -4.24 | 15.59 | 14.13 | 7.88 | 4.85 | -12.16 | 13.37 | 12.02 | 4.95 | 12.02 |
| Vanguard Developed Markets Index | -18.89 | -19.41 | -15.82 | 25.59 | 19.25 | 1.67 | 1.26 | -14.61 | 17.60 | 6.74 | 3.08 | -6.26 |
| Vanguard Emerging Markets Index | -25.98 | -27.82 | 0.07 | **34.14** | 21.15 | 8.26 | 2.47 | -9.12 | 18.74 | 7.49 | 1.78 | 13.79 |
| Gold (London PM Fix) | -4.92 | -1.67 | **5.38** | 1.96 | 6.55 | 9.21 | 2.57 | **11.52** | 5.06 | 7.54 | 2.38 | **54.67** |

grabbing events that occurred. While developed market stocks outpaced emerging market issues in the first three months of 2011 (ending an eight quarter streak of emerging market outperformance), both categories fared worse in comparison to U.S. equities.

Developed markets, measured by the MSCI EAFE Index, rose 3.5 percent for the quarter (in U.S. dollars) and 1.1 percent in local currencies. Emerging markets stocks, measured by the MSCI Emerging Markets Index, were up 2.1 percent for the quarter (in U.S. dollars) and 0.7 percent in local currencies. A weakening dollar relative to foreign market currencies added some strength to first quarter performance for those investors holding dollar denominated foreign equities.

Egypt (-23.2 percent) was the worst performing country in the emerging markets index as political turmoil roiled the country and saw the local stock market shut down for weeks. Greece and Spain turned in strong performances at 15.2 percent and 13.6 percent, respectively, as investors bid up the shares in these countries. Russia, with a large exposure to energy companies, benefitted from higher energy prices and delivered a 16.3 percent return for the three months ending March 31. Japan (-4.9 percent) was hit by an earthquake and tsunami that left a tattered countryside, billions of dollars in damage and a very real nuclear threat which continues to effect the nation's people and economy today.

## Gold Related Assets

The gold price reached another high, ending the quarter up 2.4 percent at $1,439 per ounce. The price has continued to rise in April, breaking through $1,500 prior to month end.

The increase in the gold price indicates that underlying concerns regarding the economy, fiscal policies and threat of inflation remain pervasive within the collective investment community. Although rampant inflation has yet to show up through the CPI, the prices of most commodities have been rising steadily across the board with energy, specifically crude oil, up 20 percent in the first quarter alone. Additionally, for all the rhetoric in Washington regarding tighter fiscal policy and spending reductions, there has been little in the way of tangible action taken to address these concerns.

There appears to be greater interest in gold when the price approaches a round number. Gold rising to $1,000 or $1,500 makes for easy, attention grabbing headline stories and provides a comfortable "anchor" point from which market pundits can hang their hat. It can also have an exaggerated emotional effect on investors as news stories and media outlets proclaim this new data point to be either the "beginning of a new breakout" or else "a sign of the top" in the gold market. The wise investor will not let the increased media attention affect his allocation to gold (either positively or negatively) and will instead rebalance periodically to maintain the target allocation.

1 Sources for cash and equivalent and fixed income statistics: U.S. Treasury, U.S. Labor Department (Bureau of Labor Statistics), Fidelity Management and Research Company, The Vanguard Group. Investment Grade bonds: Barclays Capital (BC) Credit Bond Index; High Yield bonds: Bank of America Merrill Lynch U.S. High Yield Master II Index; Municipal bonds: BC Municipal Bond Index; TIPS: BC U.S. TIPS Index.
2 REIT data provided by National Association of Real Estate Trusts (NAREIT).
3 U.S. Market: S&P 500 Index. Small caps: Russell 2000 Growth & Russell 2000 Value Indices, Large caps: Russell 1000 Growth & Russell 1000 Value Indices. Fidelity Management and Research Company.
4 Current PE: Current (month end) S&P 500 index divided by the average of the past 10 years S&P 500 monthly earnings.
5 Non-U.S. stocks: MSCI All Country World ex USA Index. Emerging markets: MSCI Emerging Markets Index. Developed markets MSCI EAFE Index. Currency data: Vanguard, Oanda.com.

## MUNICIPAL BOND WORRIES

In 2010, prominent industry analysts warned of a looming fiscal crisis among state and local governments. Some experts even predicted widespread municipal bond defaults in the US.[1] Investor fears intensified in late 2010 when the municipal bond market experienced one of its largest selloffs in decades, which drove down prices and raised yields.[2] While factors unrelated to credit concerns may have contributed to the selloff, some investors were motivated by a perception of rising credit risk among municipal bond issues.[3]

So, is the municipal bond market at risk of massive default? No one knows—and we are not in the prediction business. But your view probably depends on your familiarity with the municipal bond market. With this in mind, consider these principles:

- **The municipal bond market is large and diverse.** The media often report on municipal bonds as though the market is a single, uniform sector. In reality, the market comprises an estimated $3 trillion in debt, with over 50,000 state and local issuers and about two million outstanding issues. These bonds are rated across a broad spectrum of credit categories and have different structures for paying their obligations. Such complexity does not afford simple observations about the market.
- **Historical default rates are low.** Muni bonds have a strong track record of repayment. One reason is that state and local governments are motivated to avoid default since failure to pay affects their ability to raise capital in the future. Another reason is that most issuers repay investors from either project revenues or from a general fund backed by the taxing power of the issuer. Table 1 shows that there were no defaults in the top-rated investment grade tier (Aaa/AAA) between 1970 and 2008. Most defaults are limited to the non-investment grade universe.
- **Most fiscal problems are concentrated in a few large states.** An estimated 58% of the recent budget shortfalls have occurred in five states: Arizona, California, Illinois, New York, and Texas.[4] However, operating budgets deal with short-term revenues and costs, while municipal bond debt represents long-term borrowing to fund infrastructure projects (e.g., roads, schools, and hospitals). Moreover, current levels of state and local government debt, as well as interest payments on that debt, remain well within historical range.[5] Of course, many states are also wrestling with unfunded pension liabilities that may ultimately impact their budgets, but these tend to be longer term obligations as well.
- **Municipal bonds are assessed according to actual financials, not models or projections**. Some reports have compared the municipal bond market to the subprime mortgage securities

market prior to the financial crisis. The circumstances are different. For one, state and local issuers are subject to financial disclosure rules, and the information they provide affects the market prices and credit ratings of their bonds. Also, municipal bonds are not exotic instruments that obscure the underlying credit rating and market value of the assets.[6] While municipal bond reporting is not as timely or thorough as reporting on corporate debt, investors hold an instrument that is more transparent than the mortgage derivatives that helped spark the financial crisis.

- **Current market conditions do not imply unusually high risk**. The market incorporates information and expectations into prices, including perceived risk, as illustrated by rising bond yields during the financial crisis and in the recent municipal market selloff. However, since the start of the recession in November 2007, average yields for the AAA-, AA-, and BBB-rated municipal securities have fallen.[7] Also, total market volume as measured by total number of trades has been generally flat over the last three-year period.[8]

**Table 1: Bond Default Rates—Cumulative Percent (1970-2008)**

| | Moody's | | Standard & Poor's | |
|---|---|---|---|---|
| Rating Categories1 | Municipal | Corporate | Municipal | Corporate |
| Aaa/AAA Bonds | 0.00 | 0.52 | 0.00 | 0.60 |
| Aa/AA Bonds | 0.06 | 0.52 | 0.00 | 1.50 |
| Investment Grade | 0.07 | 2.09 | 0.20 | 4.14 |
| Non-Investment Grade | 4.29 | 31.37 | 7.37 | 42.35 |

1 Aaa/AAA indicate top-rated investment grade bonds; Aa/AA represent the lower part of the upper half tier of investment grade. Moody's ratings for the full tier of investment grade bonds are Aaa, Aa, A and Baa; S&P and Fitch investment grade ratings are AAA, AA and A and BBB. Non-investment grade ratings are all ratings below Baa and BBB.

Source: Municipal Securities Rulemaking Board (MSRB)

## Risk Management Issues

Investors should always consider ways to manage risk in their fixed income portfolios. Here are a few guiding principles:

- **Hold shorter-term issues.** This approach may help reduce volatility and credit risk while enhancing liquidity. Also, fixed income investors who hold investment grade bonds must also consider their exposure to changes in interest rates. Bond prices move in the opposite direction of interest rate changes—and the longer a bond's maturity, the greater its price change.
- **Stay broadly diversified.** Holding many municipal bond issues and avoiding concentration in a particular state, sector, or issue type can help reduce the impact of a few non-performing bonds.
- **Focus on quality and use market pricing to confirm credit ratings.** The most creditworthy bonds are those rated AAA or AA, and most of the current problems involve lower-rated bonds. Although ratings are useful, recent history in the mortgage-backed securities market has shown that a bond may not be rated accurately. A bond that is rated AAA should trade in a similar price range to other bonds with similar characteristics and a comparable rating.

## Portfolio Decisions

Investors can either hold a portfolio of individual municipal bonds or buy shares in a fund. Building a portfolio of individual bonds offers more direct control over maturity, face value, bond type, credit range, and other issue characteristics. This approach may be useful for matching future liabilities and pursuing other investment objectives. But achieving broad diversification with a custom portfolio may prove a challenge, and the portfolio may be illiquid and expensive to trade, and require more attention and oversight than is feasible for an individual.

Investors often favor professional fund management for many reasons, including those specific to the way the bond market operates. Since bonds are traded through a network of dealers and not a centralized exchange, price discovery may not be easy. Muni bonds also tend to be illiquid since only about 0.7% of the market is traded daily (i.e., only 14,000 out of 2 million issues). These market realities result in high transaction costs. In fact, research shows that municipal bond trades are significantly more expensive than equity trades of equal size.[9]

Professional managers should have better access to multiple dealers and have the capacity for large- volume trades, which renders a cost advantage over smaller investors. Funds also offer better liquidity and broader diversification across issue type, maturity, credit quality, and geography. A shareholder can access daily share price and know the average credit rating within the portfolio. Equally important, managers should monitor average yields at different maturities, qualities, and regions to gauge the relative riskiness of different issues.

On the downside, managed funds can lose value and shareholders do not control the selection of bonds in the portfolio.

1 Shawn Tully, "Meredith Whitney's New Target: The states," CNNMoney.com, Sept. 28, 2010.
2 Dan Seymour, "Default Uneasiness Chases Investors from Muni Funds," American Banker, Jan. 25, 2011.
3 Ben Levisohn, Jane J. Kim, and Eleanor Laise, "Munis: What to Do Now," The Wall Street Journal, Jan. 15, 2011.
Other factors that possibly contributed to the selling pressure are: (1) a major Treasury selloff in late 2010, (2) Standard & Poor's downgrade of "tobacco bonds" to junk status, (3) expiration of the Build America Bonds program in 2010, and (4) extension of the Bush-era tax cuts.
4 Randall Forsyth, "The Sky Isn't Falling on the Muni Market," Barrons.com, January 7, 2011.
5 Iris J. Lav and Elizabeth McNichol, "Misunderstandings Regarding State Debt, Pensions, and Retiree Health Costs Create Unnecessary Alarm," Center on Budget and Policy Priorities, Jan. 20, 2011.
6 Agnes T. Crane, "States' Troubles Are Not the Real Risk for Muni Bonds," The New York Times, Jan. 30, 2011. Also see Randall W. Forsyth, "Man Bites Dog in the Muni Market," Barrons.com, Feb. 1, 2011.
7 Bank of America Merrill Lynch 1-10 Years AAA-BBB US Municipal Bond Index.
8 Municipal Securities Rulemaking Board (MRSB) 2010 Fact Book.
9 Lawrence E. Harris and Michael S. Piwowar, "Secondary Trading Costs in the Municipal Bond Market," Journal of Finance, June 2006, Volume 61, Issue 3, pp 1361-1397.

## THE HIGH-YIELD DOW INVESTMENT STRATEGY

### Recommended HYD Portfolio

*As of April 15, 2011*

| | *Rank* | *Yield* | *Price* | *Status* | *—-Percent of Portfolio-— Value* | *No. Shares[1]* |
|---|---|---|---|---|---|---|
| AT&T | 1 | 5.61 | 30.65 | Holding** | 23.96 | 24.04 |
| Verizon | 2 | 5.15 | 37.85 | Holding** | 25.32 | 20.57 |
| Merck | 3 | 4.40 | 34.51 | Holding** | 16.01 | 14.26 |
| Pfizer | 4 | 3.90 | 20.53 | Buying | 20.36 | 30.50 |
| Kraft | 7 | 3.48 | 33.36 | Holding | 2.42 | 2.23 |
| DuPont | 10 | 2.99 | 54.89 | Selling | 11.37 | 6.37 |
| Frontier Communications | N/A | N/A | 8.07 | Selling | 0.54 | 2.04 |
| Cash (6-mo. T-Bill) | -- | -- | -- | | 0.03 | -- |
| 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.**

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 March 31, 2010*.

| | *1 mo.* | *1 yr.* | *5 yrs.* | *10 yrs.* | *20 yrs.* | *Since 1/79* | *Std. Dev.* |
|---|---|---|---|---|---|---|---|
| HYD Strategy | 4.25 | 25.16 | 5.03 | 6.08 | 13.30 | 15.98 | 18.10 |
| Russell 1000 Value Index | 0.40 | 15.15 | 1.38 | 4.53 | 9.76 | 12.30 | 14.97 |
| Dow | 0.91 | 16.51 | 4.87 | 4.73 | 10.02 | 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.

## A RETURN TO GOLD?

In May 2004 while the contours of the current fiscal crisis were just taking shape, our parent, AIER, hosted a conference entitled "Prospects for a Resumption of the Gold Standard."

The gathering included AIER staff economists and featured noted experts on monetary theory including Anna Schwartz, co-author with Milton Friedman of *A Monetary History of the United States,* H. David Willey, former Vice President of the Federal Reserve Bank of New York, and Gerald O. Driscoll, Jr., Sr. Fellow at the Cato Institute.

Organizer and moderator Walker Todd of AIER, summarized the group's consensus in the proceedings, which were published shortly after the conference:

"The dominant observation in discussions of gold-backed money versus fiat money … is that the purchasing power of the dollar has plummeted since the United States began to abandon the gold standard 70 years ago. It has fallen by 93 percent since 1934, the year that President Roosevelt devalued the dollar…the same year that FDR made it unlawful for Americans to own or hold monetary gold. The buying power of the dollar has fallen by 78 percent since 1971, the year that President Nixon "closed the gold window" by suspending the United States' obligation to redeem in gold any dollars presented to it by foreign governments."

At the time of the conference, gold was trading close to $420 per ounce, and resumption of a "sound money" standard was considered laughable by the mainstream media. Seven years later, gold is trading at $1,500 per ounce, and the pundits are no longer dismissive. In a Financial Times article surrounding the November 2010 G20 summitt, World Bank President Robert Zoellick called for a cooperative international monetary system that "should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values."

For a copy of the conference proceedings, call 413 528-1216.

## RECENT MARKET STATISTICS

### Precious Metals & Commodity Prices ($)

| | *4/15/11* | *Mo. Earlier* | *Yr. Earlier* |
|---|---|---|---|
| Gold, London p.m. fixing | **1,476.75** | 1,400.50 | 1,053.50 |
| Silver, London Spot Price | **42.61** | 33.88 | 17.54 |
| Copper, COMEX Spot Price | **4.25** | 4.13 | 2.85 |
| Crude Oil, W. Texas Int. Spot | **109.65** | 97.17 | 77.57 |
| Dow Jones Spot Index | **498.82** | 457.53 | 341.35 |
| Dow Jones-UBS Futures Index | **170.67** | 157.58 | 133.32 |
| Reuters-Jefferies CRB Index | **362.78** | 338.14 | 273.72 |

### Interest Rates (%)

| | | | |
|---|---|---|---|
| U.S. Treasury bills - 91 day | **0.06** | 0.10 | 0.16 |
| 182 day | **0.12** | 0.14 | 0.23 |
| 52 week | **0.23** | 0.22 | 0.43 |
| U.S. Treasury bonds - 10 year | **3.51** | 3.33 | 3.86 |
| Corporates: | | | |
| High Quality - 10+ year | **5.16** | 5.10 | 5.31 |
| Medium Quality - 10+ year | **6.07** | 6.01 | 6.28 |
| Federal Reserve Discount Rate | **0.75** | 0.75 | 0.75 |
| New York Prime Rate | **3.25** | 3.25 | 3.25 |
| Euro Rates 3 month | **1.33** | 1.17 | 0.64 |
| Government bonds - 10 year | **3.44** | 3.11 | 3.14 |
| Swiss Rates - 3 month | **0.19** | 0.18 | 0.24 |
| Government bonds - 10 year | **2.05** | 1.70 | 1.80 |

### Exchange Rates ($)

| | | | |
|---|---|---|---|
| British Pound | **1.632500** | 1.606400 | 1.546500 |
| Canadian Dollar | **1.040042** | 1.017191 | 0.998702 |
| Euro | **1.444300** | 1.396800 | 1.354000 |
| Japanese Yen | **0.012029** | 0.012373 | 0.010748 |
| South African Rand | **0.146488** | 0.143509 | 0.136229 |
| Swiss Franc | **1.119194** | 1.088495 | 0.943842 |

### Securities Markets

| | *4/15/11* | *Mo. Earlier* | *Yr. Earlier* |
|---|---|---|---|
| S & P 500 Stock Composite | **1,319.68** | 1,281.87 | 1,211.67 |
| Dow Jones Industrial Average | **12,341.83** | 11,855.42 | 11,144.57 |
| Dow Jones Bond Average | **271.15** | 270.06 | 253.09 |
| Nasdaq Composite | **2,764.65** | 2,667.33 | 2,515.69 |
| *Financial Times Gold Mines Index* | **3,933.65** | 3,564.57 | 3,178.52 |
| *FT EMEA (African) Gold Mines* | **3,579.05** | 3,256.66 | 2,955.89 |
| *FT Asia Pacific Gold Mines* | **19,543.80** | 16,203.54 | 14,507.64 |
| *FT Americas Gold Mines* | **3,300.31** | 3,034.97 | 2,689.54 |

### Coin Prices ($)

| | *4/15/11* | *Mo. Earlier* | *Yr. Earlier* | *Prem (%)* |
|---|---|---|---|---|
| American Eagle (1.00) | **1,514.78** | 1,469.97 | 1,204.28 | 2.57 |
| Austrian 100-Corona (0.9803) | **1,424.53** | 1,383.03 | 1,128.22 | -1.60 |
| British Sovereign (0.2354) | **357.90** | 347.80 | 285.60 | 2.96 |
| Canadian Maple Leaf (1.00) | **1,496.50** | 1,453.60 | 1,199.10 | 1.34 |
| Mexican 50-Peso (1.2057) | **1,755.30** | 1,704.30 | 1,390.40 | -1.42 |
| Mexican Ounce (1.00) | **1,476.30** | 1,433.90 | 1,173.40 | -0.03 |
| S. African Krugerrand (1.00) | **1,494.88** | 1,452.07 | 1,192.97 | 1.23 |
| U.S. Double Eagle-$20 (0.9675) | | | | |
| St. Gaudens (MS-60) | **1,600.00** | 1,537.50 | 1,382.50 | 11.99 |
| Liberty (Type I-AU50) | **1,625.50** | 1,642.50 | 1,600.00 | 15.66 |
| Liberty (Type II-AU50) | **1,617.50** | 1,575.00 | 1,365.00 | 13.21 |
| Liberty (Type III-AU50) | **1,570.00** | 1,502.50 | 1,332.50 | 9.89 |
| U.S. Silver Coins ($1,000 face value, circulated) | | | | |
| 90% Silver Circ. (715 oz.) | **28,450.00** | 25,100.00 | 12,900.00 | -6.62 |
| 40% Silver Circ. (292 oz.) | **11,337.50** | 10,250.00 | 5,250.00 | -8.88 |
| Silver Dollars Circ. | **31,150.00** | 27,375.00 | 15,550.00 | -5.50 |

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $1476.75 per ounce and silver at $42.61 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* | *Market Prices ($)* | | | *12-Month ($)* | | *Latest Dividend* | *Record* | | *Indicated Annual* | *Yield†* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Symbol* | *4/15/11* | *3/15/11* | *4/15/10* | *High* | *Low* | *Amount ($)* | *Date* | *Paid* | *Dividend ($)* | *(%)* |
| AT&T | T | 30.65 | 27.81 | 26.24 | 31.00 *H* | 23.78 | 0.430 | 4/08/11 | 5/2/11 | 1.720 | 5.61 |
| Verizon | VZ | 37.85 | 34.87 | 29.54 | 38.95 *H* | 25.99 | 0.488 | 4/08/11 | 5/2/11 | 1.950 | 5.15 |
| Merck | MRK | 34.51 | 31.86 | 36.04 | 37.68 | 30.70 | 0.380 | 3/15/11 | 4/7/11 | 1.520 | 4.40 |
| Pfizer | PFE | 20.53 | 19.76 | 16.99 | 20.75 *H* | 14.00 | 0.200 | 2/04/11 | 3/1/11 | 0.800 | 3.90 |
| Intel Corp | INTC | 19.75 | 20.18 | 24.22 | 24.25 | 17.60 | 0.181 | 5/7/11 | 6/1/11 | 0.725 | 3.67 |
| Johnson & Johnson | JNJ | 60.56 | 58.48 | 65.51 | 66.20 | 56.86 | 0.540 | 3/01/11 | 3/15/11 | 2.160 | 3.57 |
| Kraft | KFT | 33.36 | 31.13 | 31.07 | 33.54 *H* | 27.49 | 0.290 | 3/31/11 | 4/14/11 | 1.160 | 3.48 |
| Procter and Gamble | PG | 64.18 | 60.66 | 63.00 | 66.95 | 39.37 | 0.525 | 4/29/11 | 5/16/11 | 2.100 | 3.27 |
| McDonald's | MCD | 77.38 | 75.12 | 69.16 | 80.94 | 65.31 | 0.610 | 3/01/11 | 3/15/11 | 2.440 | 3.15 |
| Dupont | DD | 54.89 | 52.40 | 39.33 | 56.52 *H* | 33.66 | 0.410 | 2/15/11 | 3/14/11 | 1.640 | 2.99 |
| General Electric | GE | 20.04 | 19.61 | 19.50 | 21.65 | 13.75 | 0.140 | 2/28/11 | 4/25/11 | 0.560 | 2.79 |
| Coca-Cola | KO | 68.01 | 63.03 | 54.26 | 68.47 *H* | 49.47 | 0.470 | 3/15/11 | 4/1/11 | 1.880 | 2.76 |
| Wal-Mart Stores | WMT | 53.55 | 52.06 | 54.13 | 57.90 | 47.77 | 0.365 | 3/11/11 | 4/4/11 | 1.460 | 2.73 |
| Chevron | CVX | 106.24 | 101.23 | 81.59 | 109.94 *H* | 66.83 | 0.720 | 2/16/11 | 3/10/11 | 2.880 | 2.71 |
| Home Depot, Inc. | HD | 38.17 | 36.29 | 35.14 | 39.38 | 26.62 | 0.250 | 3/10/11 | 3/24/11 | 1.000 | 2.62 |
| Microsoft Corp. | MSFT | 25.37 | 25.39 | 30.87 | 31.58 | 22.73 | 0.160 | 5/19/11 | 6/9/11 | 0.640 | 2.52 |
| Travellers | TRV | 59.80 | 58.52 | 52.88 | 61.15 | 47.69 | 0.360 | 3/10/11 | 3/31/11 | 1.440 | 2.41 |
| 3M Company | MMM | 92.82 | 89.50 | 85.00 | 94.64 *H* | 67.98 | 0.550 | 2/18/11 | 3/12/11 | 2.200 | 2.37 |
| Boeing | BA | 72.60 | 69.69 | 72.09 | 76.00 | 59.48 | 0.420 | 2/11/11 | 3/4/11 | 1.680 | 2.31 |
| United Tech. | UTX | 83.45 | 79.51 | 74.61 | 86.00 *H* | 62.88 | 0.480 | 5/20/11 | 6/10/11 | 1.920 | 2.30 |
| J P Morgan | JPM | 44.89 | 44.61 | 47.81 | 48.36 | 35.16 | 0.250 | 4/06/11 | 4/30/11 | 1.000 | 2.23 |
| Exxon Mobil | XOM | 84.29 | 81.39 | 68.26 | 88.23 | 55.94 | 0.440 | 2/10/11 | 3/10/11 | 1.760 | 2.09 |
| Caterpillar | CAT | 107.21 | 100.75 | 68.22 | 113.93 *H* | 54.89 | 0.440 | 4/25/11 | 5/20/11 | 1.760 | 1.64 |
| IBM | IBM | 166.21 | 159.02 | 130.89 | 167.72 | 116.00 | 0.650 | 2/10/11 | 3/10/11 | 2.600 | 1.56 |
| American Express | AXP | 46.25 | 43.64 | 46.67 | 49.19 | 37.13 | 0.180 | 4/08/11 | 5/10/11 | 0.720 | 1.56 |
| Cisco | CSCO | 17.03 | 17.39 | 27.21 | 27.74 | 16.97 *L* | 0.060 | 3/31/11 | 4/20/11 | 0.240 | 1.41 |
| Walt Disney | DIS | 41.52 | 41.62 | 36.40 | 44.34 | 30.72 | 0.400 | 12/13/10 | 1/18/11 | 0.400 | 0.96 |
| Hewlett-Packard | HPQ | 40.26 | 40.93 | 54.23 | 54.75 | 37.32 | 0.080 | 3/16/11 | 4/6/11 | 0.320 | 0.79 |
| Alcoa | AA | 16.52 | 16.04 | 14.31 | 18.47 *H* | 9.81 | 0.030 | 2/04/11 | 2/25/11 | 0.120 | 0.73 |
| Bank of America | BAC | 12.82 | 13.96 | 19.48 | 19.48 | 10.91 | 0.010 | 3/04/11 | 3/25/11 | 0.040 | 0.31 |

* See the Recommended HYD Portfolio table on page 6 for current recommendations. † Based on indicated dividends and market price as of 4/14/11. 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 4/16/10.

## RECOMMENDED INVESTMENT VEHICLES

| | Security Symbol | Avg. Market Cap. / Avg. Maturity | No. of Holdings | Expense[7] (%) | Ratios Sharpe | Turnover (%) | P/B | 12 Mo. Yield (%) | Total 1 yr. | Total 3 yr. | Total 5 yr. | After Tax* 1 yr. | After Tax* 3 yr. | After Tax* 5 yr. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | *Descriptive Quarterly Statistics, as of 3/31/11* | | | | | | *Annualized Returns[8] (%), as of 3/31/11* | | | | | |
| ***Short/Intermediate Fixed Income*** | | | | | | | | | | | | | | |
| Vanguard Short-Term Bond Index | BSV[1]/ VBISX | 2.7 Yrs. | 1286 | 0.22 | 1.26 | 60 | | 2.09 | 2.85 | 3.53 | 4.98 | 2.01 | 2.50 | 3.70 |
| iShares Barclays 1-3 Yr. Credit Bond | CSJ[1] | 1.92 Yrs. | 709 | 0.20 | 0.82 | 23 | | 2.36 | 2.86 | 4.14 | -- | 2.01 | 2.93 | -- |
| iShares Barclays 1-3 Year Treasury | SHY[1] | 1.85 Yrs. | 35 | 0.15 | 1.03 | 62 | | 0.99 | 1.57 | 2.06 | 4.00 | 1.21 | 1.32 | 2.95 |
| Vanguard Limited-Term Tax-Exempt | VMLTX | 2.7 Yrs. | 1431 | 0.20 | 1.20 | 14 | | 2.34 | 1.88 | 3.16 | 3.65 | 1.88 | 3.16 | 3.65 |
| SPDR Short-Term Municipal Bond | SHM[1] | 3.04 Yrs. | 332 | 0.20 | 0.91 | 14 | | 1.55 | 1.91 | 3.37 | -- | 1.30 | 3.13 | -- |
| ***Inflation-Protected Fixed Income*** | | | | | | | | | | | | | | |
| iShares Barclays TIPS Bond | TIP[1] | 8.92 Yrs. | 32 | 0.20 | 0.42 | 15 | | 2.68 | 7.72 | 3.80 | 6.10 | 6.69 | 2.45 | 4.57 |
| Vanguard Inflation-Protected Securities | VIPSX | 8.7 Yrs. | 31 | 0.22 | 0.38 | 29 | | 2.52 | 7.74 | 3.39 | 5.92 | 6.78 | 2.39 | 4.57 |
| ***Real Estate*** | | | | | | | | | | | | | | |
| Vanguard REIT Index | VNQ[1]/ VGSIX[2] | 5.58 B | 106 | 0.12 | 0.27 | 12 | 2.1 | 3.30 | 24.20 | 2.96 | 1.84 | 22.71 | 1.55 | 0.57 |
| SPDR Dow Jones REIT | RWR[1] | 6.9 B | 84 | 0.25 | 0.24 | 10 | 2.2 | 2.91 | 24.26 | 1.59 | 0.63 | 22.86 | 0.09 | -0.65 |
| ***U.S. Large Cap Value*** | | | | | | | | | | | | | | |
| Vanguard Value Index | VTV[1]/ VIVAX | 43.62 B | 418 | 0.12 | 0.14 | 27 | 1.6 | 2.30 | 15.20 | 0.96 | 1.69 | 14.78 | 0.53 | 1.27 |
| iShares Russell 1000 Value Index | IWD[1] | 35.04 B | 667 | 0.20 | 0.11 | 24 | 1.6 | 1.93 | 14.95 | 0.52 | 1.27 | 14.47 | 0.10 | 0.88 |
| ***U.S. Small Cap Value*** | | | | | | | | | | | | | | |
| iShares Russell Microcap Index | IWC[1] | 0.33 B | 1340 | 0.60 | 0.32 | 35 | 1.7 | 0.77 | 24.90 | 5.60 | -1.02 | 24.70 | 5.43 | -1.16 |
| Vanguard Small-Cap Value Index | VBR[1]/ VISVX | 1.38 B | 992 | 0.12 | 0.41 | 25 | 1.4 | 1.79 | 21.11 | 8.12 | 3.35 | 20.68 | 7.63 | 2.90 |
| ***U.S. Large Cap Growth*** | | | | | | | | | | | | | | |
| iShares Russell 1000 Growth Index | IWF[1] | 40.49 B | 627 | 0.20 | 0.32 | 19 | 3.7 | 1.25 | 18.01 | 5.01 | 4.16 | 17.69 | 4.77 | 3.96 |
| Vanguard Growth Index | VUG[1]/ VIGRX | 35.82 B | 433 | 0.12 | 0.31 | 26 | 3.4 | 1.13 | 17.07 | 4.66 | 4.15 | 16.88 | 4.49 | 4.00 |
| ***U.S. Marketwide*** | | | | | | | | | | | | | | |
| Vanguard Total Stock Market Index | VTI[1]/ VTSMX | 26.22 B | 3393 | 0.06 | 0.26 | 5 | 2.2 | 1.74 | 17.47 | 3.69 | 3.13 | 17.14 | 3.38 | 2.84 |
| Fidelity Spartan Total Market Index | FSTMX[3] | 27.66 B | 3101 | 0.10 | 0.25 | 7 | 2.3 | 1.55 | 17.59 | 3.62 | 3.13 | 17.27 | 2.99 | 2.61 |
| ***Foreign- Developed Markets*** | | | | | | | | | | | | | | |
| iShares MSCI Growth Index | EFG[1] | 29.36 B | 581 | 0.40 | 0.01 | 28 | 2.2 | 1.75 | 12.24 | -2.61 | 1.99 | 12.09 | -2.75 | 1.86 |
| iShares MSCI Value Index | EFV[1] | 36.07 B | 529 | 0.40 | 0.01 | 30 | 1.2 | 3.11 | 8.20 | -3.62 | 0.29 | 7.93 | -3.85 | -0.01 |
| Vanguard Europe Pacific Index | VEA[1]/ VTMGX[4] | 31.21 B | 945 | 0.12 | 0.02 | 6 | 1.5 | 2.42 | 10.41 | -2.79 | 1.58 | 9.09 | -3.34 | 1.34 |
| Vanguard Developed Markets Index | VDMIX[5] | 31.1 B | 982 | 0.22 | 0.01 | 13 | 1.5 | 2.71 | 10.49 | -2.93 | 1.41 | 9.96 | -3.48 | 0.86 |
| SPDR S&P International Small Cap | GWX[1] | 1.15 B | 690 | 0.60 | 0.19 | 17 | 1.3 | 2.31 | 22.05 | 1.84 | -- | 21.36 | 1.51 | -- |
| ***Foreign- Emerging Markets*** | | | | | | | | | | | | | | |
| Vanguard Emerging Market Index | VWO[1]/ VEIEX[6] | 20.26 B | 876 | 0.22 | 0.27 | 12 | 2.3 | 1.67 | 18.06 | 3.91 | 10.17 | 16.89 | 3.27 | 9.65 |
| ***Gold-Related Funds*** | | | | | | | | | | | | | | |
| iShares COMEX Gold Trust | IAU[1] | -- | 1 | 0.25 | 0.79 | 0.00 | | 0.00 | 25.83 | 12.82 | 19.79 | 25.83 | 12.82 | 19.79 |
| streetTRACKS Gold Shares | GLD[1] | -- | 1 | 0.40 | 0.79 | 0.00 | | 0.00 | 28.49 | 15.06 | 19.37 | 28.49 | 15.06 | 19.37 |

### Recommended Gold-Mining Companies ($)

| | Ticker Symbol | 4/15/11 | Month Earlier | Year Earlier | 52-Week High | 52-Week Low | Distributions Last 12 Months | Distributions Frequency | Yield (%) |
|---|---|---|---|---|---|---|---|---|---|
| Anglogold Ltd., ADR | AU | **49.30** | 46.06 | 39.68 | 52.86 | 37.52 | 0.2026 | Semiannual | 0.4110 |
| Barrick Gold Corp. † | ABX | **53.33** | 49.23 | 40.00 | 55.72 | 38.14 | 0.3060 | Semiannual | 0.5738 |
| Gold Fields Ltd. | GFI | **17.88** | 17.03 | 13.04 | 18.70 | 12.16 | 0.1949 | Semiannual | 1.0900 |
| Goldcorp, Inc. † | GG | **54.18** | 46.52 | 40.09 | 54.72 | 38.07 | 0.2363 | Monthly | 0.4361 |
| Newmont Mining | NEM | **57.75** | 52.10 | 53.03 | 65.50 | 50.05 | 0.6500 | Quarterly | 1.1255 |

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.