

* HYD is a hypothetical model based on back-tested results. See p.62 for full explanation.

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Lessons from the Downgrade

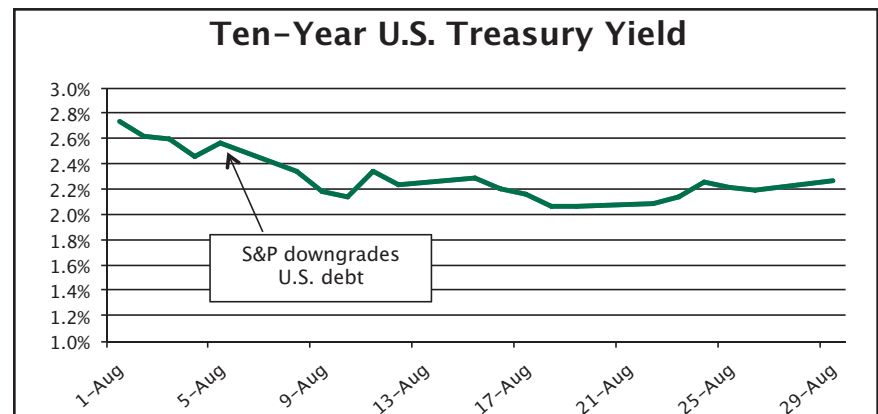
On August 5, after markets had closed, Standard and Poor's stripped the U.S. of its triple-A rating. Many had predicted that a downgrade would result in a broad sell off of Treasuries and a corresponding increase in yields. These predictions proved to be wrong. The next trading day, August 7, the yield on the 10-year Treasury note fell from 2.56 percent to 2.34 percent, and three days later the Treasury sold \$24 billion in 10-year notes at a yield of 2.14 percent, the lowest on record.

These forecasts overlooked the nature of markets, or more specifically, the fact that investors are forward looking. Prices reflect information as it becomes available, and the market had already discounted the potential for a downgrade. Prior to Standard and Poor's formal announcement, it was hard to avoid media speculation regarding a downgrade and the impact it might have. The subsequent fall in yields was in reaction to *new* information; in this case bad news from Europe emerged before the market reopened, which drove investors to flee stocks in favor of the perceived safety of U.S. Treasuries.

This episode is instructive not only for investors, but perhaps also for Congress and the President. Now that agreement has been reached regarding the U.S. debt ceiling, debate has shifted to what the federal government might do to spur economic growth.

Many are calling for even more government spending in order to create jobs and boost household income. In theory, such "pump priming" will increase aggregate consumer demand, which in turn will spur business investment and further expand the workforce. But consumers, like investors, are forward looking and react to news as it emerges. Households may in fact refrain from spending to the extent they conclude that higher deficit spending by the government portends lower private sector investment or higher taxes in the future.

Individuals acting rationally in their own self interest invariably confound prognosticators on Wall Street and planners in Washington, who hope to predict or control the future. Our recommendations, by contrast, do not second-guess the wisdom of free markets.



THINKING IN REAL TERMS

Since the onset of the financial crisis in late 2007, the Federal Reserve has used interest-rate cuts and other tools in an effort to fuel economic growth. Economists can debate the effectiveness of these policies, but everyone can agree that today's low interest rates are a two-sided coin.

Consumers, businesses, and government all benefit from low borrowing costs. But on the other side, savers and investors earn almost nothing on their cash balances. This has been the case in most months since 2008, when the Fed cut short-term interest rates to near zero. Worse yet, investors are actually losing wealth in real terms. The inflation-adjusted yields on short-term Treasury securities have been negative in most months since October 2010.

Earning negative real yields on short-term fixed income is not unprecedented. In fact, inflation has exceeded nominal interest rates in several post-war periods. The chart above plots nominal and real yields of one-month Treasury bills, which are considered the equivalent of cash. The gap between the two lines is the inflation rate.

Negative real yields have occurred during periods of high interest rates (early 1980s) and during periods of low interest rates (2010–11). Regardless of

the scenario, negative real yields cause investors to lose purchasing power. Keep in mind that the graph shows yields only and not total return, which also would reflect price changes resulting from interest rate movements.

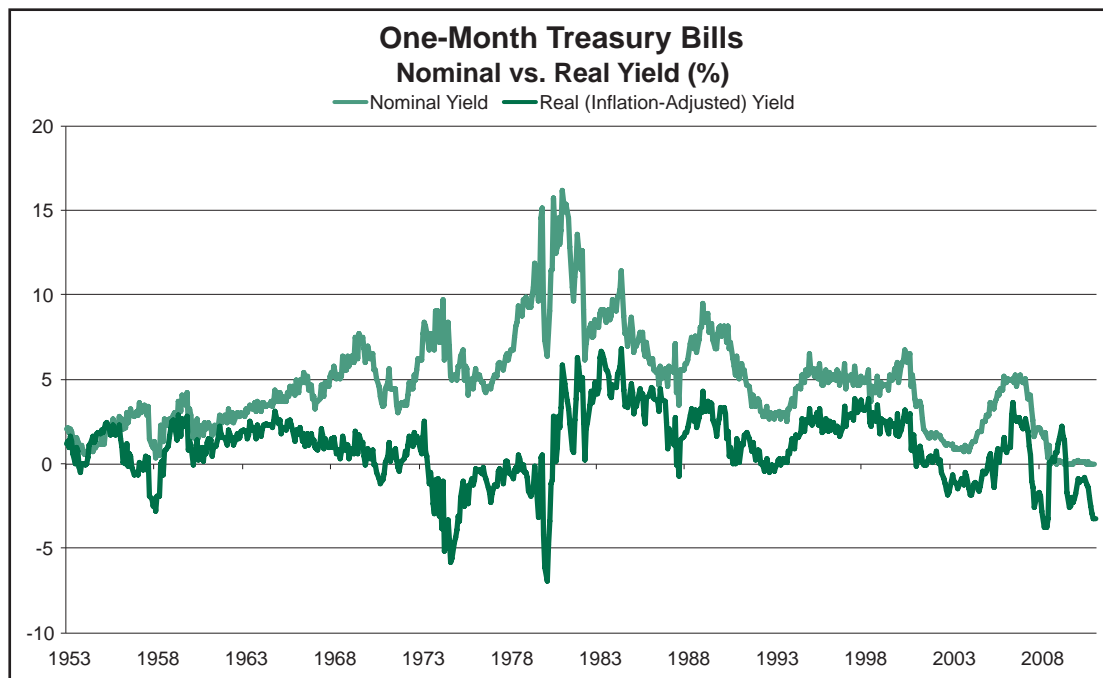
Note that some negative real yields have occurred during recessionary periods, when the Fed was cutting interest rates to spur a recovery. These times also may be when investors are most tempted to flee the capital markets for the perceived safety of cash. Investors may have a host of reasons for their flight—some might want to avoid economic uncertainty or stock market volatility, while others might fear that impending higher interest rates will cause bonds to lose value.

This is the case for many individual investors and professional money

managers today. They are reportedly shifting their portfolios to money market funds and other cash instruments with the intent to return to stocks and bonds when the economy shows signs of improvement.¹ The problem with this strategy is that no one can consistently time markets, and the signs are never clear. So while investors sit in cash, their purchasing power quietly erodes.

Investors may have good reasons to hold cash—for example, to keep a portion of their assets liquid. But they should understand that holding cash has a price in real terms. Investors ultimately may lose wealth even as they try to protect it.

¹ Jonnelle Marte, "The New Cash Hoarders: Smart or Not-So-Smart?" *SmartMoney*, June 29, 2011. Past performance is no guarantee of future results



The real (inflation-adjusted) yield is computed using trailing 12-month changes in the Consumer Price Index.

Source: Federal Reserve Economic Data

GOLD: A TALE OF TWO DECADES

In a world of fiat currencies, we have long recommended that investors ensure that their portfolios include exposure to gold related assets. Over time gold has served as a store of value -- one of the key roles of money -- and

it has done so far better than any fiat currency, including the dollar. But gold is no panacea; unlike most financial assets, such as common stocks, gold is not a productive asset and it does not have positive expected returns. Indeed

purchasers have endured long periods of negative returns. The gold price is also extremely volatile. However, when gold is held in modest proportion alongside several asset classes, it can enhance an investor's overall risk-adjusted returns.

Chart 1 depicts the hypothetical performance of our “moderate risk” portfolio (we publish this data every quarter). This portfolio includes a five percent allocation to gold, in addition to specific allocations to bonds, REITs, and U.S. and foreign equities. Our review covers the longest time span for which data was available (over 22 years beginning in April 1989 and ending in July 2011). In order to isolate the impact of gold, the chart also provides the hypothetical returns of the AIS moderate portfolio *excluding* gold (the 5 percent allotted to gold was reallocated proportionally across the other asset classes, consistent with their original relative allocations).

The returns of the portfolio that included gold exceeded the returns of the portfolio without gold over every time frame. But equally important, these higher returns were generated while reducing the overall volatility of the portfolio. Table 1 shows that the volatility of the “with gold” portfolio’s returns was lower than that of the portfolio without gold. Table 2, which summarizes the “highs and lows” of both portfolios over the 257 12-month rolling periods, tells a similar story.

Though gold would have proven to be effective over this entire time frame, there were long sub-periods during which the gold price was flat or declining, and would have been a drag on performance. During the “go go” 1990s for example U.S. stocks, particularly growth stocks, appreciated dramatically, while gold languished.

This is captured in Chart 2, which shows the growth of a dollar invested in both portfolios between January 1990 and December 1999. Over this decade, an investor who allocated five percent of his portfolio to gold would have

Table 1	AIS Moderate Risk Portfolio Annualized Standard Deviation (volatility) (4/1989 - 7/2011)			
	1 yr	3 yr	5 yr	10 yr
Portfolio with Gold	7.1%	13.9%	11.5%	9.6%
Portfolio without gold	7.7%	15.2%	12.5%	10.3%

Table 2	Dispersion of Returns 257 12-Month Rolling Periods (April 1989 - July 2011)			
	Highest Total Return	Lowest Total Return	Number of Periods with Negative Returns	Number of Periods with Positive Returns
Hypothetical Moderate Risk Portfolio - with gold	+38.6%	-26.9%	49 out of 257 (19%)	208 out of 257 (81%)
Hypothetical Moderate Risk Portfolio without gold	+35.9%	-30.9%	51 out of 257 (20%)	206 out of 257 (80%)

sacrificed growth of less than one half of one percent per year (0.40 percent) relative to the portfolio without gold (a dollar would have grown to only \$2.12 versus \$2.20). In some sense, investors can view the 0.40 percent annual “loss” incurred during the 1990s as a premium paid for insuring against financial crises that might have occurred.

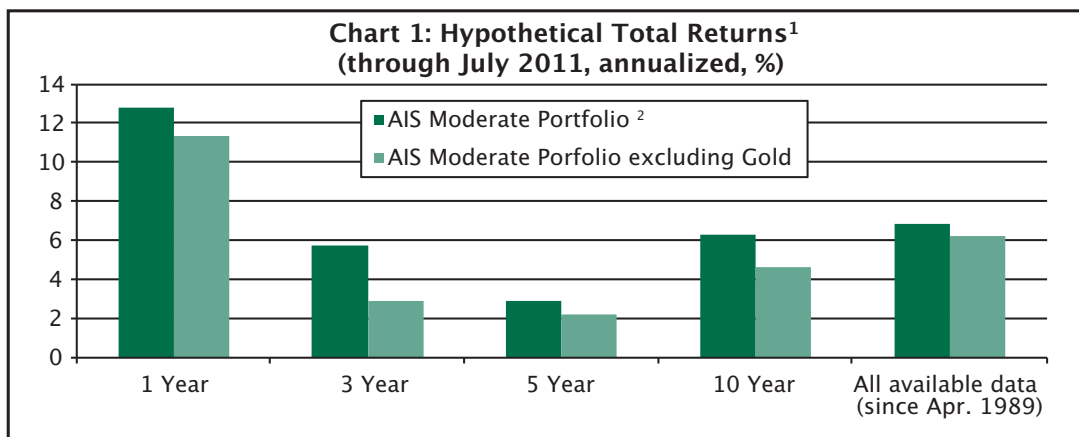
Since the 1990’s the value of this protection became starkly apparent (see Chart 3). Between January 2000 and July 2011 the portfolio that included gold would have outperformed the portfolio that excluded gold, on average, by 1.28 percent per year (a dollar would have grown to \$1.91 versus \$1.64). Gold has been especially beneficial following the subprime crisis that began in July

2007, which ushered in one of the most severe downturns in the history of capital markets. During the ensuing four years the gold price appreciated from \$665 per ounce to \$1,628 per ounce.

Crises, however, are not predictable and insurance becomes more costly when risks become apparent. So, rather than “going in and out” of gold, it is prudent to maintain a relatively small, fixed allocation in gold at all times. Investors should rebalance their holdings as needed, to ensure their holdings do not stray far from their target allocations.

Though gold can indeed be a drag on performance during good times, it shines during times of financial chaos. This is a worthwhile tradeoff. As a form

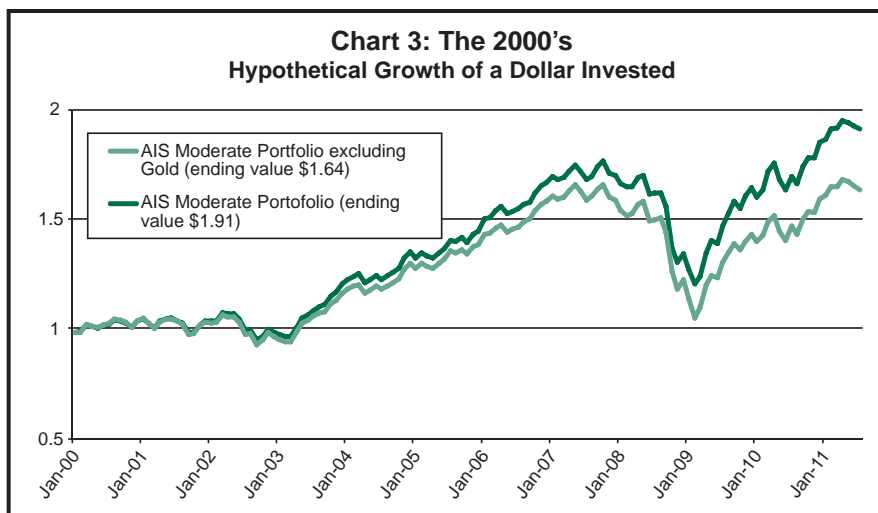
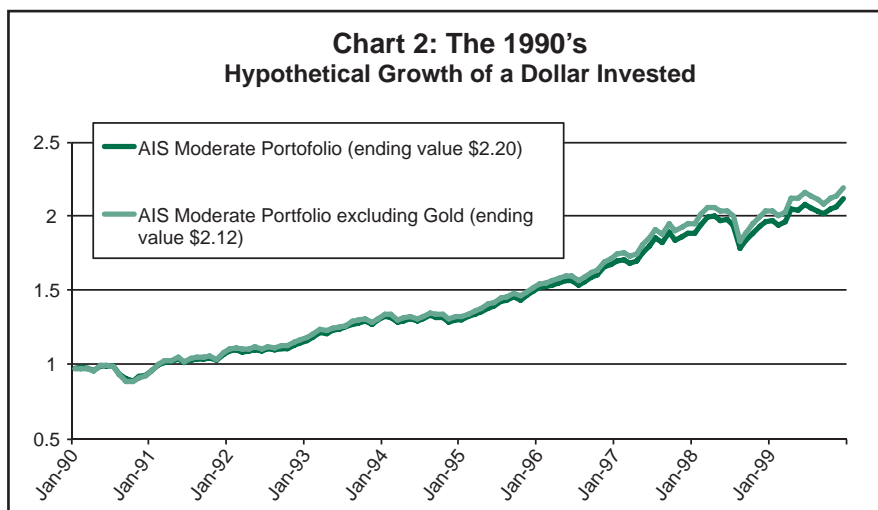
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of protection against financial crises and extreme price inflation, we know of no alternative asset that serves as well as gold.

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 3-Month CD Index 10%, Barclays Capital 1-5 Yr Govt/Cred 30%, DJ US Select REIT's Index 10%, Russell 1000 Growth Index 5%, Russell 1000 Value Index (USD) 20%, Russell 2000 Value Index 7%, DFA US Micro Cap Portfolio (USD) 3%, MSCI EAFE Index (USD) Gross Div 7%, MSCI Emg. Mkts. Index (USD) Gross Div 3%, Gold (London PM Fix Price) 5%



GOLD AND PRICE INFLATION

Capital markets provide two fundamental strategies for coping with price inflation. An investor can elect to follow a hedging strategy, a total return strategy, or some combination of the two. The two approaches involve a trade-off.

Hedging involves choosing assets with returns that tend to track changes in price inflation. This positive correlation with inflation can help an investor keep up with rising consumer prices, at least over the short term. (Correlation refers to the co-movement of asset returns. When two assets are positively correlated, their returns tend to move together; when negatively correlated, their returns are dissimilar). A hedging strategy might be suitable for retirees, fixed income investors or others whose living standards might suffer during periods of inflation.

Hedging can help an investor keep up with rising prices over the short term, but this immediate protection does not come for free; investors give up long

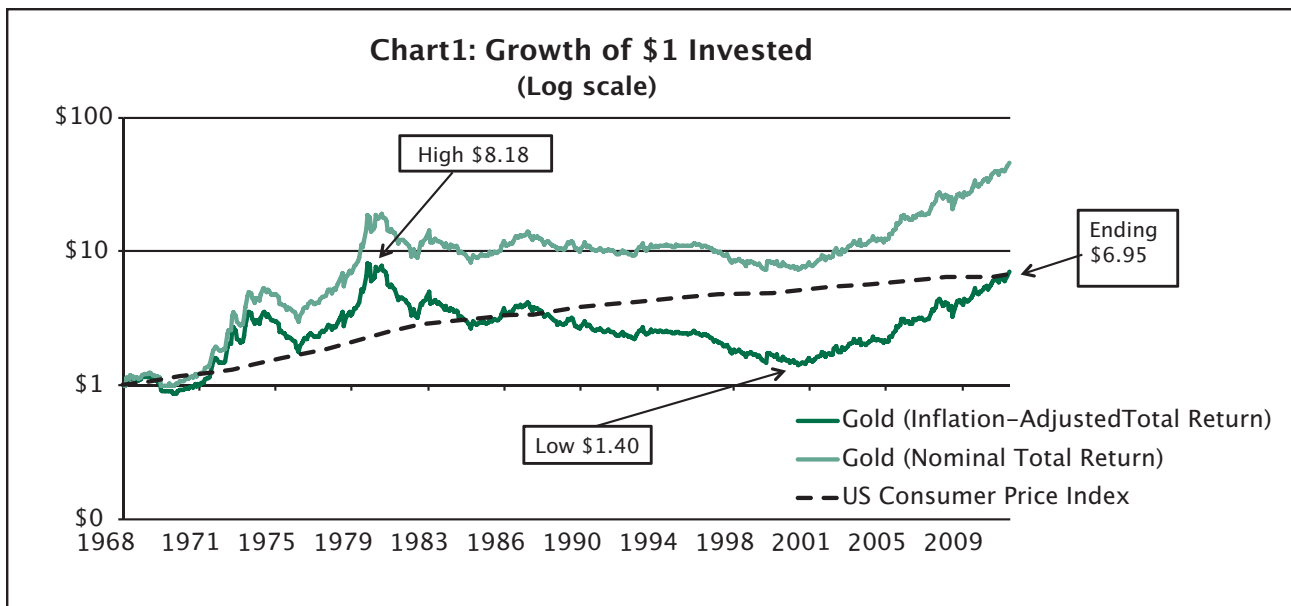
term growth potential. A total return strategy, by contrast, aims to outpace inflation by holding assets that are expected to provide higher real returns. An investor pursuing such a strategy is willing to forego short-term inflation protection for the opportunity to grow real wealth. A total return strategy is often well suited to younger workers.

Gold: An Effective Hedge?

Gold is perceived as an effective hedge against price inflation because its returns are positively correlated with changes in consumer prices.¹ Over the past century gold has maintained its purchasing power far better than any fiat currency², and its price appreciates rapidly during periods when consumer prices increase dramatically. But gold has not proven to be an effective hedge during periods of mild but steady price inflation.

Chart 1 depicts the hypothetical growth of a dollar invested in gold, beginning in 1968. The light green line depicts nominal value, while the dark green line displays the real, or price-inflation adjusted value³. The black dotted line traces the growth of a dollar invested in a hypothetical security that provided a rate of return exactly equal to the monthly change in the Consumer Price Index (CPI).

Between January 1968 and January 1980 price inflation was very high, averaging over seven percent per year, and reached a calendar-year peak of 13.3 percent in 1979. During this span of over 12 years the gold price increased, on average, by 27 percent per year in nominal terms, and by 19 percent per year in real terms; a dollar's worth of gold in 1968 would have grown to a monthly peak of \$18.51, or \$8.18 after inflation. Gold proved more than adequate as a store of value during this



era, while few if any financial assets provided similar refuge.⁴

The next two decades, however, were a different story. In 1980 price inflation ran at 12.8 percent but stabilized and fell sharply thereafter. Between 1981 and 2000 price inflation averaged 3.3 percent per year and ranged between 8.9 and 1.1 percent.⁵ The hypothetical dollar invested in gold in 1968 tumbled from its peak inflation-adjusted level of \$8.18 in January 1980 to \$1.40 by the end of March 2001.

Over the past ten years the gold price increased sharply even while price inflation remained relatively tame. Between 2001 and 2010 annual calendar year price inflation averaged only 2.4 percent and ranged between 0.1 percent and 4.1 percent. During this period the inflation-adjusted dollar invested in gold in 1968 would have rebounded from its low of \$1.40 in March 2001 to \$6.95 at the end of July 2011.

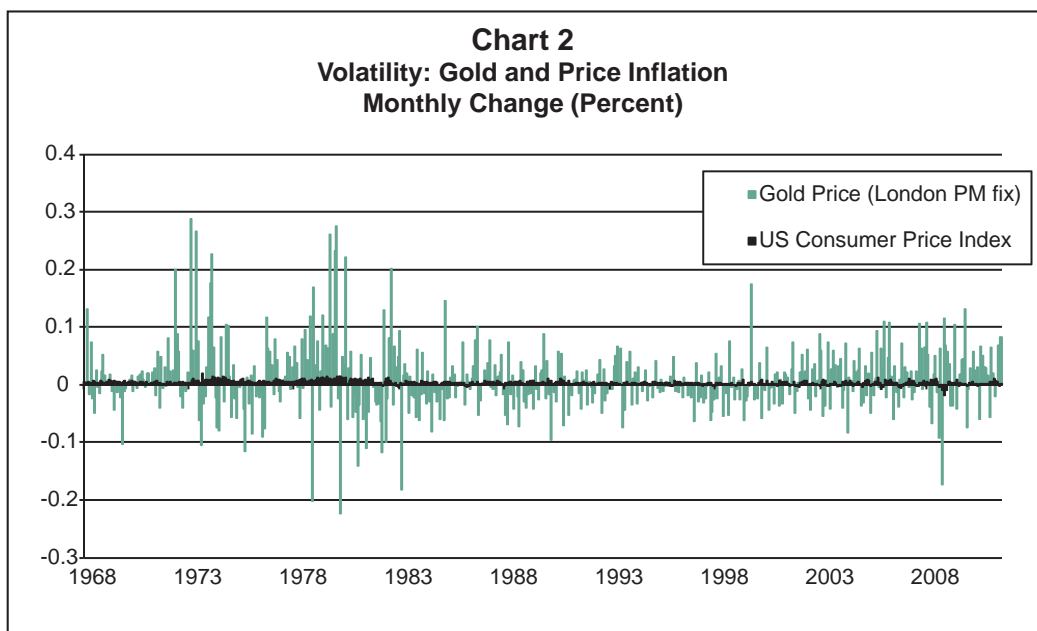
Investors who employ gold as a hedge should also consider that price inflation is only

one form of risk. Most investors are also concerned with volatility and seek to minimize the variability of their portfolio returns, consistent with the rate of return they are seeking.⁶ An ideal hedge would therefore not only move one-to-one with inflation, but also have returns that

reflect the long-term relative stability of price inflation.⁷

Gold is in fact considerably more volatile than price inflation. Chart 2 depicts the volatility of the gold price

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1 Between 1975 through 2010, the average pair wise correlation for annual returns is +0.35 percent.
 2 See AIER's chart: Purchasing Power in the United States of Gold and Selected Currencies *The AIER Chart Book Economic Bulletin*, Vol. I No. 7 (Great Barrington, Mass. July 2010. p. 3.)
 3 Return on gold calculated by monthly change in London PM Fix. Price inflation is measured by monthly change in the Consumer Price Index, All Urban Consumers (CPI-U).
 4 From January 1968-January 1980 the S&P 500 and 5-Year Govt. Treasury notes provided total real (inflation-adjusted) returns of -1.63 percent and -1.22 percent, respectively.
 5 CPI-U, calendar year data.
 6 In terms of statistical analysis, inflation hedgers should be equally concerned with the residual variance of an asset (the variance of its returns that is unrelated to price inflation).
 7 Despite the experience of the 1970's price inflation has itself been relatively stable over the long term. The standard deviation of annual inflation between 1926 and 2010 is 4.18 percent.

(in green), measured by the monthly percentage change in the London PM fix. The monthly percentage change in the rate of inflation is also shown (in black), but is so small relative to the volatility of gold it is barely discernable.

Gold in a Total Return Strategy

Though gold is viable for investors seeking an inflation hedge, it is not well suited to investors who adopt a total return strategy as a mechanism for coping with inflation. Theory and evidence suggest investors should not expect gold to provide positive real returns over the long term. While capital assets such as common stocks and bonds provide a claim on assets with an expectation of positive returns, gold does not generate income since it does not represent ownership of a productive asset. Even among commodities, gold is peculiar because it provides no obvious utility. Oil for example, can be burned for energy; copper can be turned into wire to conduct electricity or into

pipe to carry water. Gold, however, has historically had only very limited industrial uses (in dentistry, electronics, etc.).

Chart 1 shows that over this particular long term period (1968-2011), a hypothetical dollar invested in gold in 1968 would indeed have just kept pace with price inflation (a zero percent real return), despite considerable volatility along the way. Although gold can be shown to have provided high positive real returns over other long periods there is no statistical evidence, given gold's extreme volatility, that its long term returns are reliably different from zero.

Conclusion

Gold can serve as a useful hedge against extreme price inflation, but the gold price has not tracked consumer prices well during prolonged periods of mild inflation. As part of a hedging strategy, gold may therefore appeal to investors who are especially concerned with the near-term risk of accelerated

monetary expansion and double-digit price inflation, which has occurred in the past. On the other hand investors who follow a total return strategy exclusively should favor stocks, short-term bonds and REITs over gold. These can be expected to provide positive inflation-adjusted returns over long time periods.

We expect many inflation-wary investors prefer to combine a hedging strategy with a total return strategy. Most will be well served by holding a portfolio with an allocation to gold between five and 10 percent, rebalanced as needed to match their overall target allocations.

This analysis has focused only on the efficacy of gold as a means of preserving purchasing power. Gold has other unique features that were not considered; most notably it has served as a form of insurance during times of economic distress (see accompanying article). The gold price has surged during crises involving credit, liquidity and market risks, most recently in response to the subprime crisis and resulting turmoil in capital markets.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of August 15, 2011

	Rank	Yield (%)	Price (\$)	Status	—Percent of Portfolio—	
					Value (%)	No. Shares (%) ¹
AT&T	1	5.97	28.81	Holding**	25.01	23.46
Verizon	2	5.56	35.05	Holding**	25.92	19.98
Merck	3	4.73	32.13	Buying	19.54	16.43
Pfizer	4	4.36	18.34	Holding	24.89	36.67
DuPont	8	3.44	47.72	Selling	4.34	2.46
Frontier Communications	N/A	N/A	7.19	Selling	0.26	1.00
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 July 31, 2011*.

	<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	-4.89	21.62	2.16	5.08	11.99	15.70	20.79
Russell 1000 Value Index	-3.32	16.76	-0.01	3.65	9.31	12.30	18.02
Dow	-2.05	19.09	4.44	3.95	9.72	NA	NA

*Data assume all purchases and sales at mid-month prices (+/- \$0.125 per share commissions), reinvestment of all dividends and interest, and no taxes. The 5-, 10- and 20-year total returns are annualized, as is the standard deviation of those returns since January 1979, where available. Model HYD calculations are based on hypothetical trades following a very exacting stock-selection strategy, and are gross of any management fees. They do not reflect returns on actual investments or previous recommendations of AIS. Past performance may differ from future results. Historical performance results for investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results.

RECENT MARKET STATISTICS

Precious Metals & Commodity Prices (\$)

	8/15/11	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	1,739.00	1,587.00	1,053.50
Silver, London Spot Price	39.18	38.17	17.54
Copper, COMEX Spot Price	4.03	4.41	2.85
Crude Oil, W. Texas Int. Spot	87.87	95.68	77.57
Dow Jones Spot Index	467.39	481.51	341.35
Dow Jones-UBS Futures Index	158.39	164.54	133.32
Reuters-Jefferies CRB Index	330.52	346.30	273.72

Interest Rates (%)

U.S. Treasury bills - 91 day	0.02	0.02	0.15
182 day	0.08	0.05	0.19
52 week	0.11	0.14	0.24
U.S. Treasury bonds - 10 year	2.29	2.94	2.76
Corporates:			
High Quality - 10+ year	4.40	4.91	4.60
Medium Quality - 10+ year	5.44	5.74	5.78
Federal Reserve Discount Rate	0.75	0.75	0.75
New York Prime Rate	3.25	3.25	3.25
Euro Rates			
3 month	1.55	1.61	0.90
Government bonds - 10 year	2.34	2.66	2.43
Swiss Rates - 3 month	0.08	0.18	0.17
Government bonds - 10 year	1.25	1.53	1.27

Exchange Rates (\$)

British Pound	1.638700	1.614900	1.558000
Canadian Dollar	1.016467	1.048000	0.961538
Euro	1.445200	1.415600	1.276700
Japanese Yen	0.013033	0.012700	0.011601
South African Rand	0.140485	0.145100	0.136799
Swiss Franc	1.281723	1.225800	0.950029

Securities Markets

	8/15/11	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	1,204.49	1,316.14	1,079.25
Dow Jones Industrial Average	11,482.90	12,479.73	10,303.15
Dow Jones Bond Average	283.21	279.66	267.82
Nasdaq Composite	2,555.20	2,789.80	2,173.48
Financial Times Gold Mines Index	3,815.05	3,850.36	3,277.08
FT EMEA (African) Gold Mines	3,419.37	3,367.65	3,021.84
FT Asia Pacific Gold Mines	18,789.65	19,331.48	14,132.86
FT Americas Gold Mines	3,220.76	3,258.69	2,807.68

Coin Prices (\$)

	8/15/11	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	1,833.47	1,596.28	1,237.63	5.43
Austrian 100-Corona (0.9803)	1,729.72	1,503.43	1,161.72	1.47
British Sovereign (0.2354)	432.40	377.10	293.80	5.63
Canadian Maple Leaf (1.00)	1,812.10	1,578.00	1,233.70	4.20
Mexican 50-Peso (1.2057)	2,131.30	1,852.50	1,431.70	1.65
Mexican Ounce (1.00)	1,788.30	1,556.90	1,227.57	2.83
S. African Krugerrand (1.00)	1,809.88	1,576.28	1,227.57	4.08
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,940.00	1,662.50	1,405.00	15.31
Liberty (Type I-AU50)	1,977.50	1,705.00	1,600.00	17.53
Liberty (Type II-AU50)	1,947.50	1,655.00	1,487.50	15.75
Liberty (Type III-AU50)	1,910.00	1,637.50	1,360.00	13.52
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	27,925.00	24,862.50	12,937.50	-0.32
40% Silver Circ. (292 oz.)	11,325.00	10,162.50	5,275.00	-1.01
Silver Dollars Circ.	30,375.00	27,387.50	15,875.00	0.22

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$1739 per ounce and silver at \$39.18 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†			
	8/15/11	7/15/11	8/13/10	High	Low	Amount (\$)	Date	Paid	Dividend (\$)	Yield†	
AT&T	T	28.81	30.31	26.72	31.94	26.20	0.430	7/08/11	8/01/11	1.720	5.97
Verizon	VZ	35.05	36.82	30.03	38.95	29.10	0.488	7/08/11	8/01/11	1.950	5.56
Merck	MRK	32.13	35.93	35.00	37.68	29.47 L	0.380	9/15/11	10/7/11	1.520	4.73
Pfizer	PFE	18.34	19.75	16.08	21.45	15.66	0.200	8/05/11	9/06/11	0.800	4.36
Intel Corp	INTC	20.89	22.37	19.15	23.96	17.60	0.210	TBA**	TBA**	0.840	4.02
General Electric	GE	16.39	18.41	15.38	21.65	14.25	0.150	6/20/11	7/25/11	0.600	3.66
Johnson & Johnson	JNJ	64.59	67.45	58.15	68.05	56.99	0.570	8/30/11	9/13/11	2.280	3.53
Dupont	DD	47.72	54.09	40.32	57.00	38.71	0.410	8/15/11	9/12/11	1.640	3.44
Procter and Gamble	PG	61.88	64.83	59.82	67.72	57.56 L	0.525	7/22/11	8/15/11	2.100	3.39
Kraft	KFT	34.68	35.37	29.50	36.30 H	28.85	0.290	6/30/11	7/14/11	1.160	3.34
Home Depot, Inc.	HD	31.46	35.91	27.31	39.38	27.10	0.250	6/16/11	6/30/11	1.000	3.18
Chevron	CVX	99.10	106.19	77.40	109.94	72.57	0.780	8/19/11	9/12/11	3.120	3.15
Travellers	TRV	52.27	57.90	50.14	64.17	48.46	0.410	9/09/11	9/30/11	1.640	3.14
Wal-Mart Stores	WMT	49.98	53.63	50.40	57.90	48.31 L	0.365	3/11/11	4/04/11	1.460	2.92
McDonald's	MCD	86.82	85.48	71.89	89.57 H	71.54	0.610	9/01/11	9/16/11	2.440	2.81
Coca-Cola	KO	68.20	67.53	55.73	69.82 H	54.92	0.470	9/15/11	10/1/11	1.880	2.76
J P Morgan	JPM	36.88	39.98	37.50	48.36	33.69 L	0.250	7/06/11	7/31/11	1.000	2.71
Boeing	BA	62.70	71.28	64.84	80.65	56.01 L	0.420	8/12/11	9/02/11	1.680	2.68
3M Company	MMM	83.31	95.47	84.01	98.19	78.01 L	0.550	8/19/11	9/12/11	2.200	2.64
United Tech.	UTX	73.54	88.32	70.70	91.83	64.57	0.480	8/19/11	9/10/11	1.920	2.61
Exxon Mobil	XOM	74.29	83.00	59.91	88.23	58.05	0.470	8/12/11	9/09/11	1.880	2.53
Microsoft Corp.	MSFT	25.51	26.78	24.40	29.46	23.32	0.160	8/18/11	9/08/11	0.640	2.51
Caterpillar	CAT	91.37	109.36	68.01	116.55	63.34	0.460	7/20/11	8/20/11	1.840	2.01
IBM	IBM	172.99	175.54	127.87	185.63 H	122.28	0.750	8/10/11	9/10/11	3.000	1.73
American Express	AXP	45.82	51.81	41.73	53.80	37.33	0.180	7/01/11	8/10/11	0.720	1.57
Cisco	CSCO	16.03	15.59	21.36	24.60	13.30	0.060	7/07/11	7/27/11	0.240	1.50
Hewlett-Packard	HPQ	32.43	35.09	40.45	49.39	29.75 L	0.120	9/14/11	10/5/11	0.480	1.48
Walt Disney	DIS	33.65	39.27	33.68	44.34	29.60 L	0.400	12/13/10	1/18/11	0.400	1.19
Alcoa	AA	12.56	15.48	10.64	18.47	9.92	0.030	8/05/11	8/25/11	0.120	0.96
Bank of America	BAC	7.76	10.00	13.23	15.31	6.31 L	0.010	6/03/11	6/24/11	0.040	0.52

* See the Recommended HYD Portfolio table on page 62 for current recommendations. † Based on indicated dividends and market price as of 8/15/11.

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 8/16/10.

** The board of directors of Intel Corp. has approved on 5/11/11 quarterly dividend to increase to 21 cents/share beginning with the dividend that will be declared in the third quarter of 2011.

RECOMMENDED INVESTMENT VEHICLES

Security Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Descriptive Quarterly Statistics, as of 6/30/11		P/B	Ratios		Annualized Returns ⁸ (%), as of 7/31/11					
			Expense ⁷ (%)	Sharpe		Turnover (%)	12 Mo. Yield (%)	1 yr.	3 yr.	5 yr.	1 yr.	3 yr.	5 yr.
Short-/Intermediate Fixed Income													
Vanguard Short-Term Bond Index			1307	0.22	1.76	60	1.98	2.63	4.64	5.17	1.83	3.68	3.95
iShares Barclays 1-3 Yr. Credit Bond			713	0.20	0.98	12	2.17	2.72	4.68	--	1.95	3.53	--
iShares Barclays 1-3 Year Treasury			36	0.15	1.70	85	0.95	1.25	2.61	3.94	0.91	1.94	2.97
Vanguard Limited-Term Tax-Exempt			1442	0.20	1.52	14	2.29	3.27	4.99	4.92	2.12	3.62	3.41
SPDR Short-Term Municipal Bond			339	0.20	1.27	14	1.49	1.77	3.89	--	1.18	3.59	--
Inflation-Protected Fixed Income													
iShares Barclays TIPS Bond			32	0.20	0.57	13	3.61	11.57	6.64	7.23	9.99	5.22	5.65
Vanguard Inflation-Protected Securities			32	0.22	0.53	29	3.51	11.46	6.13	6.99	10.08	5.16	5.67
Real Estate													
Vanguard REIT Index			106	0.26	0.35	12	3.14	23.96	5.54	2.45	22.50	4.10	1.16
SPDR Dow Jones REIT			83	0.25	0.32	10	2.89	24.69	4.43	1.30	23.35	2.95	-0.01
U.S. Large Cap Value													
Vanguard Value Index			416	0.26	0.23	27	2.20	16.37	1.80	0.12	15.97	1.37	-0.29
iShares Russell 1000 Value Index			657	0.20	0.20	24	1.94	16.53	1.17	-0.11	15.92	0.72	-0.52
U.S. Small Cap Value													
iShares Russell Microcap Index			1420	0.60	0.33	35	0.80	21.46	3.12	-0.04	21.18	2.93	-0.19
Vanguard Small-Cap Value Index			983	0.26	0.43	25	1.71	18.88	6.16	3.10	18.45	5.69	2.65
U.S. Large Cap Growth													
iShares Russell 1000 Growth Index			594	0.20	0.31	24	1.24	24.51	5.17	5.35	24.10	4.89	5.12
Vanguard Growth Index			434	0.26	0.28	26	1.04	24.33	4.57	5.47	24.12	4.39	5.31
U.S. Marketwide													
Vanguard Total Stock Market Index			3383	0.17	0.29	5	1.67	20.95	3.69	3.09	20.63	3.38	2.80
Fidelity Spartan Total Market Index			3096	0.10	0.28	4	1.57	20.92	3.65	3.08	NA	NA	NA
Foreign-Developed Markets													
iShares MSCI Growth Index			557	0.40	0.06	28	2.2	19.95	-0.95	2.16	19.36	-1.22	1.94
iShares MSCI Value Index			526	0.40	0.06	30	3.66	13.77	-1.66	-0.53	12.73	-2.12	-0.98
Vanguard Europe Pacific Index			947	0.18	0.08	6	2.32	16.85	-0.81	1.18	16.58	-1.05	0.94
Vanguard Developed Markets Index			985	0.22	0.07	13	2.65	16.78	-0.98	1.02	16.22	-1.54	0.46
SPDR S&P International Small Cap			689	0.60	0.25	17	2.00	24.73	4.61	--	24.14	4.22	--
Foreign-Emerging Markets													
Vanguard Emerging Market Index			889	0.35	0.28	12	1.42	16.79	5.23	10.55	15.64	4.58	10.02
Gold-Related Funds													
iShares COMEX Gold Trust			1	0.25	0.84	0.00	0.00	37.54	20.83	20.33	37.54	20.83	20.33
SPDR Gold Shares			1	0.40	0.84	0.00	0.00	38.77	20.58	20.34	38.77	20.58	20.34

Recommended Gold-Mining Companies (\$)

Ticker Symbol	Year	Month	8/15/11	Earlier	Year	Earlier	High	Low	52-Week	Dividends Paid Last 12 Months	Payment Schedule	Yield (%)
AU	45.47	43.86	42.91	42.91	52.86	39.70	0.2425	Semiannual	0.5333			
ABX	50.68	48.31	42.92	42.92	55.74	42.50	0.4080	Semiannual	0.8051			
GFI	16.87	15.45	13.96	13.96	18.70	13.62	0.2389	Semiannual	1.4161			
GG	51.13	54.13	39.66	39.66	56.20	39.04	0.3009	Monthly	0.5885			
NEM	59.02	57.38	56.72	56.72	65.50	50.05	0.8000	Quarterly	1.3555			

Data provided by the funds and Morningstar. ¹Exchange Traded Fund, traded on NYSE. ²1% fee for redemption in 1 yr. ³0.5% fee for redemption in 90 days. ⁴1% fee for redemption in 5 yrs. ⁵2% fee for redemption in 60 days. ⁶0.5% fee for purchase and 0.25% fee for redemption. ⁷For Vanguard funds, Expense Ratios shown are for Mutual Funds. ETFs have lower expenses. ⁸For Vanguard Funds, returns shown are for Mutual Funds; ETFs' returns may deviate. ⁹Pre-liquidation. 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.