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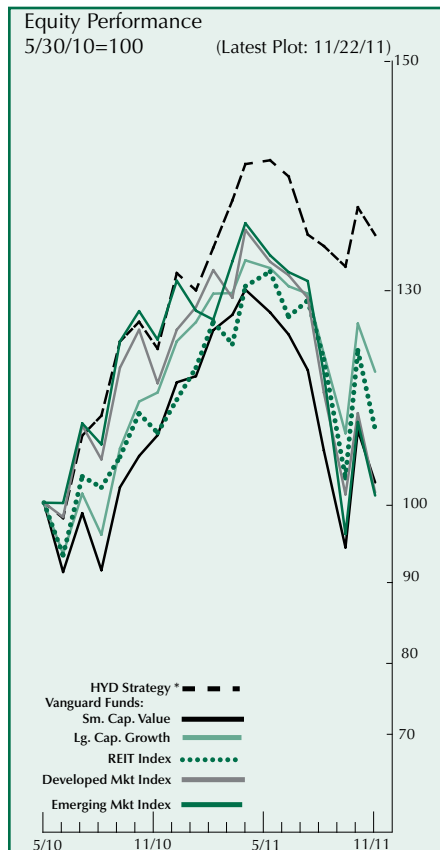
INVESTMENT GUIDE

Published Monthly by
American Investment Services, Inc

Vol. XXXIII, No. 11

Great Barrington, Massachusetts 01230

November 30, 2011



* HYD is a hypothetical model based on back-tested results. See p.86 for full explanation.

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Gold and Europe's Future

As November drew to a close the European financial crisis grew more severe when the most prudent European government, Germany, could not sell more than about 65 percent of its public debt on offer at an auction. If investors refuse German bonds, then what hope is there for the traditionally more profligate European sovereigns, such as Greece, Spain, Italy, or even France? How would a bond issue fare if it were backed by Germany's credit pooled with that of lower-credit sovereign nations?

An emerging European consensus (still opposed by Germany and other northern countries) favors the issuance of jointly guaranteed Eurobonds. Some ardent, free European spirits want Eurozone countries to pool their gold reserves to back any Eurobond issue aimed at rescuing the banking systems of the member countries. Passing over objections rooted in "mere legality," like constitutional and Maastricht Treaty prohibitions against having the member countries do such a thing, pooling European gold reserves is still a bad idea in the absence of political union. And political union itself also would be an unsustainable idea.

The Eurobond idea probably arises from the *Rentenmark* plan that ended the German hyperinflation in late 1923. Dr. Hjalmar Schacht, who became the head of the Reichsbank then, shepherded a new German bond issue indexed to the price of gold. The underlying taxes supporting the bonds were on land. The new currency remained comparatively stable.

The member central banks and treasuries of the Eurozone tend to hold comparatively large reserves of gold. Some countries, however, used the combination of large gold reserves and Eurozone membership as crutches enabling them to carry imprudently great quantities of public and banking system debt despite inadequate fiscal and tax policies. Investors who bought European sovereign debt because of its

(continued next page)

supposed AA or AAA ratings and ignored reality might be viewed as equally as crutch-dependent as those finance ministers.

The euro is unsustainable without economic and institutional convergence of the member countries. As in the 1923 German inflation, the real salvation for

the euro lies in linking Eurozone debt and currency issuance to sustainable and realistic fiscal and tax policies, regardless of quantities of gold reserves withheld from the public and cross-guarantees by countries nearly all of whom are less credit worthy than Germany has been.

Regardless of what policies

might emerge in Europe, these events substantiate gold's importance in the international monetary system. The financial crisis that began in 2007 has further validated gold's standing as a form of portfolio insurance when capital markets are in distress. Investors should include it their portfolios at all times.

NEW RECOMMENDATION: INTERNATIONAL BONDS

International bonds can further diversify a bond portfolio by adding exposure to foreign credit markets. Research conducted by The Vanguard Group¹ describes the benefits of holding international bonds. Here we summarize Vanguard's findings, including our own presentation of data that supports Vanguard's research.

International bonds are fixed income obligations issued by non-U.S. governments and corporations. Foreign debt obligations have long accounted for a substantial portion of the total value of the world's stock and bond markets. But for decades these securities were effectively inaccessible for most U.S. investors due to a lack of transparency, illiquidity and high transaction costs.

Over the past ten years, however, globalization, improved information technology and a general liberalization of capital markets have provided much greater opportunity for investors. The total market capitalization of international bonds now accounts for nearly 37 percent of investable global capital markets; this figure has nearly doubled from 19 percent just over a

decade ago.

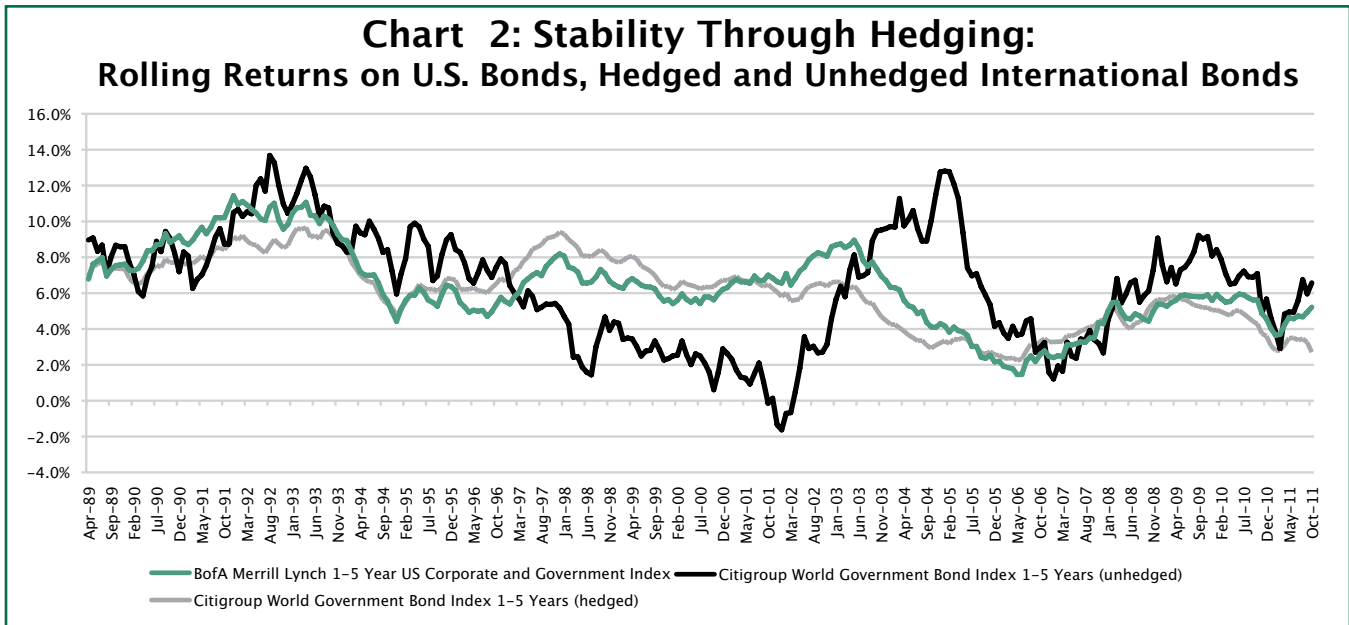
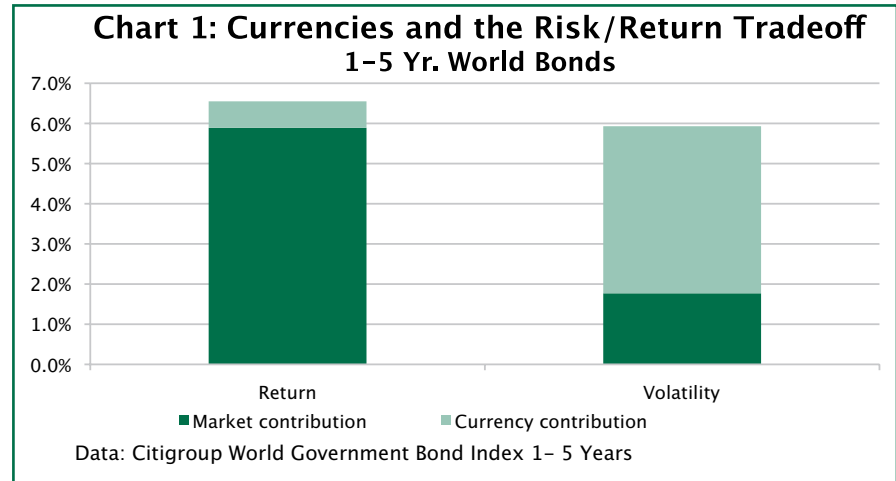
Foreign bonds can improve an all-U.S. bond portfolio through broader diversification. Foreign and U.S. economic growth, interest rates and price inflation do not move in tandem. Foreign market bond yields and inflation rates, the primary determinants of bond returns, are not strongly correlated with those in the U.S.

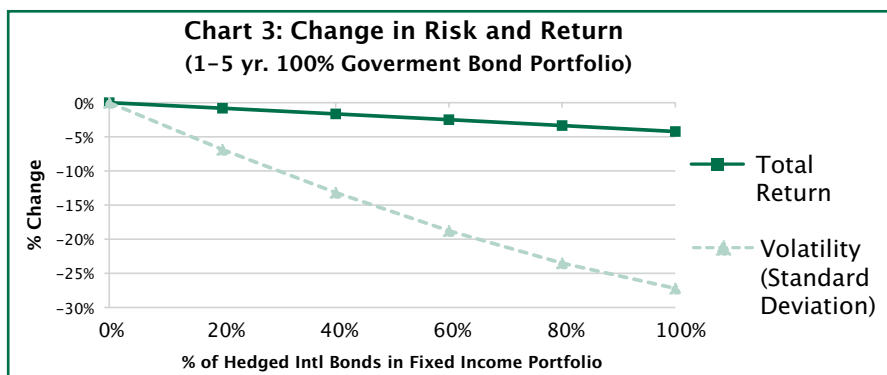
In this article we assess the role international bonds can play in enhancing a portfolio's risk-return

profile. It is important to keep in mind that the purpose of holding bonds is to enhance portfolio stability. The returns from bonds are generated from fixed payments of interest and a return of principal. While bonds are susceptible to erosion from price inflation, their inherent stability can counteract the substantial volatility of common stocks.

Currency Risk

It is prudent for most individual





investors who invest in foreign bonds to eliminate exchange-rate risk. Specifically, they should utilize bond funds that hedge fully against the foreign currencies in which their bond portfolios are denominated.

A global bond investor's return, if left unhedged, will be highly dependent on currency movements. For example, an investor who purchases a French sovereign bond will earn interest and principal that must be converted to dollars. If the dollar appreciates relative to the euro over the life of the bond the investor will receive fewer dollars as those payments are made. Conversely if the dollar depreciates he will receive more dollars.

Currency prices are extremely volatile and exchange rate fluctuations cannot be predicted. Unless they are eliminated these currency effects are likely to undermine the desired stability that international bonds would otherwise provide. Chart 1 presents the risk-return profile inherent in an unhedged bond portfolio. Currency volatility swamps the relative stability of bonds while adding very little in the way of total return. Most investors find this tradeoff unappealing.

Chart 2 displays the hypothetical 3-year rolling returns generated by 1) an all U.S. bond portfolio, 2) an unhedged international bond portfolio and 3) the same international bond portfolio hedged to the dollar. When the currency effect is removed from international bonds (e.g. moving from the unhedged to the hedged portfolio) the portfolio's returns become far less volatile and demonstrate stability comparable to that of domestic bonds. But note that the returns of the domestic and hedged portfolios are not identical; this is the desirable diversification that many investors find attractive.

What's the Effect?

In Chart 3 we provide a hypothetical assessment of the tradeoff encountered when a hedged international bond portfolio is introduced incrementally to hypothetical portfolio of U.S. government bonds. As the percentage allocation to foreign bonds increases the portfolio's volatility falls more, proportionally, than its total return.

Investment Vehicles

There are very few passively managed investment vehicles that invest in international bonds on a fully

hedged basis. However Vanguard is set to launch a new fund, the Vanguard Total International Bond fund, which appears well suited to providing the diversification benefits we have described. Based on our review of Vanguard's research, we anticipate that the fund will be fully hedged against currency risk. It appears the fund will be extremely well diversified; it will seek to track the Barclay's Capital Global Aggregate ex-U.S. dollar float-adjusted index. Approximately 95 percent of that index is allocated to developed markets debt, with the remaining 5 percent allocated to emerging markets. We anticipate the fund's expense ratio will reflect Vanguard's long-standing commitment to keeping investment-related costs to a minimum.

We will formally assess this fund in a coming issue after it becomes available for purchase.

Why Hedge Foreign Bonds but not Foreign Stocks?

We are sometimes asked why we recommend foreign bonds that are fully hedged against exchange rate volatility, but not foreign stocks.

The purpose of holding common stocks, foreign or domestic, is to pursue real growth. There have been very few extended periods when stocks failed to deliver total returns in excess of price inflation. Common stock returns, however, are highly volatile, so an investor who holds a portfolio of 100 percent stocks might very well encounter periods when he needs to liquidate his holdings when his portfolio has fallen sharply in value.

The purpose of bonds is to offset this risk by providing portfolio stability. Bonds are fixed income obligations; a bondholder will receive predetermined payments of income at specified intervals, and a fixed face value at maturity. Many investors are content to add bonds to their portfolio even though this increased stability can reduce their real returns.

Hedging against currency risk entails a cost, and we have concluded that while the marginal benefit of hedging a bond portfolio exceeds these hedging costs, this is not the case for stocks. Chart 1 demonstrates that the volatility of a bond portfolio decreases sharply when currency risk is hedged away. On the other hand common stocks are far more volatile than bonds to begin with, so adding currency risk to a portfolio of stocks has little marginal impact on volatility.

¹ "Global Fixed Income: Considerations for U.S. Investors" The Vanguard Group, Inc. Vanguard Research. January 2011.

A READER INQUIRES

I am extremely concerned with the unprecedented three-fold increase in the U.S. money supply occurring since 2009. First QE1 then QE2 and now more purchases of mortgage securities; it does not seem to end. As pointed out in several of the AIS and AIER bulletins these dollars are lying in waiting. They look like a time bomb to me.

It seems that once these dollars actually begin to circulate in the economy the U.S. will see rates of inflation not experienced since the 1970s. I understand this is the Fed's whole point of printing the money (to devalue the cost of repayment of U.S. debt) but the impacts to individuals such as me could be devastating. So what's a boy to do?

I must consider the impacts (read real losses to net worth) to my stock and bond portfolio, the value of my home and any other hard assets that I own.

My questions are these (assuming the U.S. Congress does not take charge to cut the US deficits and debt levels anytime soon):

1. *Would it be your expectation that the tripling of the money supply in less than two years could and will ultimately cause serious inflation once the dollars are circulated?*

AIS: Accelerated price inflation is a real possibility. History shows that under fiat monetary regimes, expansions of similar magnitude in the U.S. and in other nations have very often been followed by rapidly accelerating prices for goods and services.

However, current inflationary expectations are low. In fact, there have

been recurrent fears of deflation—which is what motivated QE1 and QE2. Measured by the market, long term interest rates are at historic lows, and the spread between conventional Treasuries and Treasury Inflation Protected Securities (TIPS) suggests the market is anticipating annual price inflation of roughly 2.0 percent over the next decade. To put that in context, since WWII actual price inflation has averaged 3.4 percent annually (arithmetic average, calendar year basis), and ranged between -1.7 percent and 12.3 percent.

Currency in circulation is affected by the levels of bank reserves and by the volume of lending by banks. Money only reaches the street when banks make loans. Recently the volume of bank lending began to expand. But with the problems in the European economies and stagnation in the U.S., it is not certain whether the pace will continue.

Price levels are affected by the level of currency in circulation as well as the velocity of money; that is, the rate at which transactions are occurring. It would appear the market is anticipating very low velocity to result from economic stagnation for some time.

2. *If so, what levels of inflation could you imagine?*

AIS: We submit that the annual range above provides a reasonable assessment of potential price inflation.

3. *What investment measures typically stand strong in high inflation periods (other than gold)? What are you doing to protect your assets?*

AIS: To protect against price inflation,

assets can be divided into those that are thought to provide a hedge against inflation (that is, changes in their returns track very closely with those of price inflation over the short term) and those and those that are thought to provide positive real (inflation adjusted) returns over the long term. Empirical evidence suggests that short-term Treasuries and TIPS are highly correlated with price inflation and therefore well suited for hedging against inflation. However, an effective inflation hedge comes at the cost of lower expected returns. For every buyer there is a seller and a rational seller will demand a premium price for an asset that can reduce or eliminate the risk of inflation. This higher price will reduce the buyer's expected return on that asset. On the other hand common stocks (foreign and domestic) are not highly correlated with changes in the CPI, but the price of a stock represents the present value of a future earnings stream generated by the sale of goods and services at prices that are subject to inflation. Over time stocks provide total returns in excess of the rate of price inflation.

During periods of very high inflation, such as the late 1970s in the U.S., the gold price has risen well in excess of the rate of inflation (when other assets, including common stocks, failed to do so). However during periods of mild inflation gold has served poorly as a hedge.

For these reasons our recommended portfolios include all of these assets. Older investors are often willing to sacrifice long term real returns in order to hedge by investing more heavily in short term bonds or TIPS, while younger investors often invest more heavily in equities and in gold.

HYD AND BEAR MARKETS

Value versus Growth

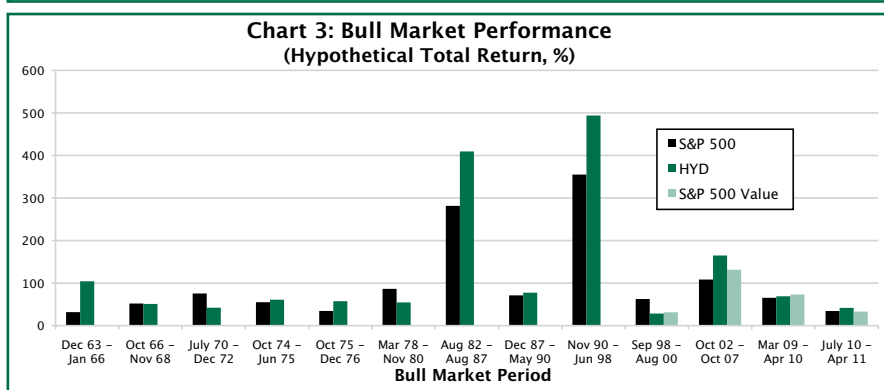
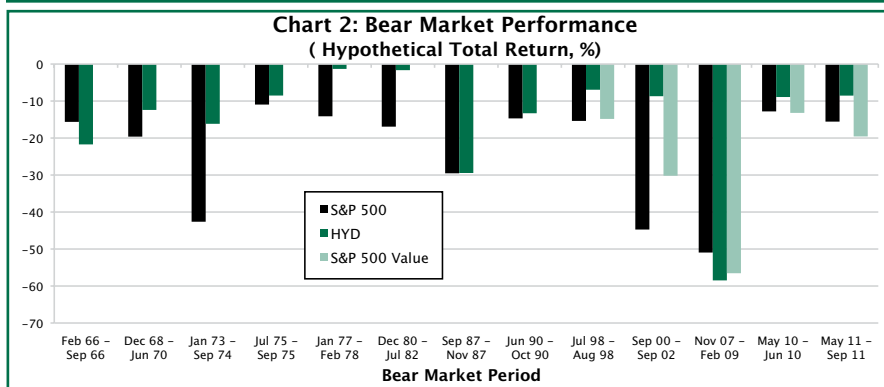
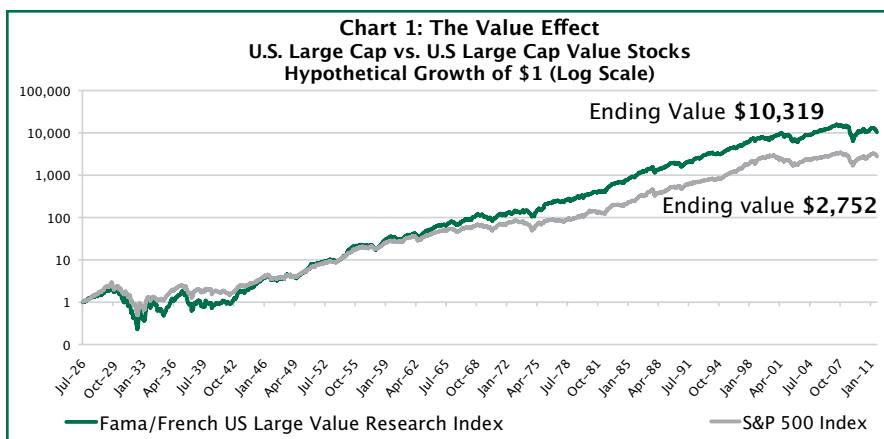
Investors have asked us how well our high-yield Dow 4-for-18 equity (HYD) model portfolio can be expected to perform during a bear market. It is difficult to approach this question empirically because historical data is quite limited. There is, however, abundant data that indicate large cap value strategies provide higher expected returns (albeit with more risk) over long term spans that include both bull and bear markets, compared with strategies that do not incorporate a "value tilt."

The value effect is demonstrated in Chart 1, which plots the growth of a hypothetical dollar invested in both U.S. large cap stocks, represented by the S&P 500 index, as well as U.S. large cap value stocks, represented by the Fama French Large Cap Value strategy, since 1926. The Fama French research¹ sorts publicly traded stocks into either value or growth by dividing each company's book value by its market value; a high ratio indicates a value stock, a low ratio

indicates a growth stock. Investors can gain exposure to the U.S. large cap value effect through the two index funds listed on page 88. Both sort firms by size and by "book-to-market" criteria.

Our HYD strategy provides another alternative for capturing the large cap value effect², though it uses different criteria. It identifies large cap value stocks as those among the Dow Jones Industrial Average based on their relative dividend yield rather than the book-to-market metric. While high-yielding stocks very often have high book-to-market ratios, the opposite does

Value, Bears and Bulls



These 85 years of monthly data as well as additional testing in foreign markets provide robust evidence that large cap value stocks provide a return premium in excess of that earned by large cap stocks in general. It is another matter, however, to draw conclusions about the relative performance of value stocks during bear markets during this time frame. We have identified 24 bear markets that occurred in the U.S. between 1926 and June 2011 (we define a bull market based on a 10 percent decline in the S&P 500)³. This is a very small number of observations for purposes of statistical analysis. Data available for the HYD model are even more limited; reliable monthly returns begin in 1963. Since that date there have been only thirteen bear markets.

There are simply not enough data points to reject the possibility, with any reasonable level of confidence, that any “excess” returns that might have been generated by value stocks during bear markets were merely a result of chance.

We do, however, record this data as it accumulates. In Charts 2 and 3 we set forth the hypothetical total returns that would have been generated during these bull and bear markets for three strategies. We provide the S&P 500 to represent the performance of U.S. large cap stocks. For large cap value stocks, we provide the S&P 500 Value index as well as our HYD strategy.

To repeat, in response to the question posed, there is insufficient data to draw firm conclusions regarding the relative performance of value stocks, including our HYD model, during bear markets. We will continue to accumulate data pertaining to various aspects of value investing.

not necessarily hold (only about 20 percent of U.S. stocks pay a dividend, so many high book-to-market stocks have a dividend yield of 0 percent). Dividends therefore account for a much higher proportion of total return in the

HYD model compared to the book-to-market model. For this reason the HYD approach might be appropriate for investors who wish to capture the value effect, but who also have an explicit interest in dividend income.

1 Fama, Eugene F., and Kenneth R. French. 1992. The cross-section of expected stock returns, *Journal of Finance* 47:427-465.

2 Regression analysis indicates the HYD model's returns are explained by exposure to the U.S. market, U.S. large cap stocks and value stocks. “HYD and Multifactor Investing” *Investment Guide*, August 31, 2006, p. 60.

3 Bull and bear markets are defined in hindsight using cumulative monthly returns of the S&P 500 Index. A bear market (1) begins with a negative monthly return, (2) must achieve a cumulative return less than or equal to -10%, and (3) ends at the most negative cumulative return prior to achieving a positive cumulative return. All data points which are not considered part of a bear market are designated as a bull market.

OCTOBER FEST

The following article was written by Jim Parker, Vice President, DFA Australia, and is reprinted with permission.

Ever noticed how gamblers always tell you about their big wins but tend to keep their even bigger losses close to their chests? People who seek to finesse their entry and exit of financial markets

are similar.

Going awfully quiet in recent days have been the analysts who a month ago were saying that it was the time to get out of risky assets. It seemed a good call at the time as global stock markets had suffered their worst quarter in nearly three years.

Pummeling confidence were a host of concerns, including the European sovereign debt crisis, signs that global growth was stalling, and a general lack of confidence in policymakers to take effective action to avoid another recession.

One chartist quoted by Dow Jones

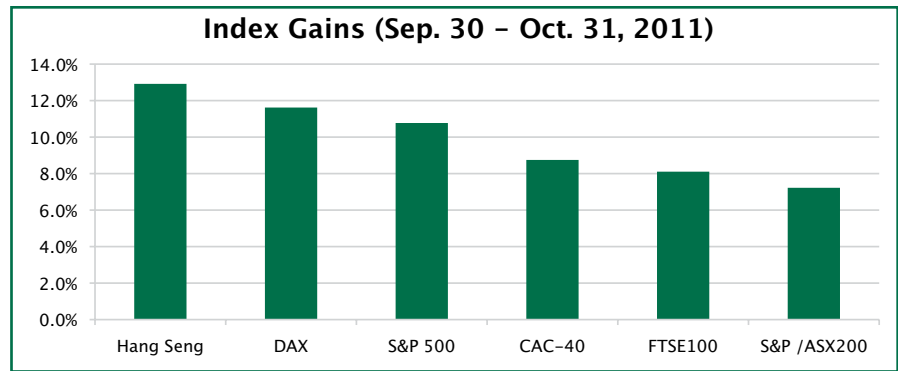
said the US market was breaking down in what could be a very nasty prelude to the fourth quarter.¹ The advice from the technical analysts was that investors needed to be extremely wary buying stocks in October.

Adding to the nerves were the now-routine reminders² to investors about October supposedly being the “scariest” month for shares, with two of the biggest crashes in history occurring in the tenth month of the year—in 1929 and 1987.

Now while further volatility may well still lay ahead, those who took that advice and bailed out of risky assets at the end of September might now be ruing their decision.

The US S&P 500 rose by nearly 11 percent in October, its largest monthly rise since 1991.³ That was the year that dance act C + C Music Factory was topping the pop charts and “The Silence of the Lambs” won Best Picture at the Academy Awards.

But it wasn’t just a US story. The MSCI All Country World Index rose by 10 percent in October in US dollar terms, its largest one-month rally since April 2009. In Australia, the S&P/ASX-200 gained 7.2 percent in local currency terms, its best one-month performance



since July 2009.

What’s more, among the biggest-gaining sectors in October were the financials, energy, and materials sectors, which all lagged in the defensive mood of the prior months.

These are significant upward movements that will have eased some pain for investors after five to six months of consecutive decline in equity markets, but not if you had listened to the advice of some of the Jeremiahs in the financial media.

It’s not often appreciated by ordinary investors that markets are forward looking. We know the news has been bad, but it’s what comes next that counts. Selling out after a bad run in the

markets just means you turn paper losses into real ones and leave you with the extremely difficult challenge of finessing your re-entry point. The reversal of direction in October highlights this difficulty.

We don’t know if these October gains are sustainable—and already in November, sentiment around Europe has turned sour again. But we do know that markets can move quickly and respond to new information instantaneously. That’s why market timing is so hard and why the best approach is to maintain your chosen asset allocation—with periodic rebalancing—irrespective of the week-to-week and month-to-month noise.

1 MARKET TALK: Use Extreme Caution Buying Stocks,” Dow Jones Newswires, September 24, 2011.

2 Share Jitters Deny US Rise,” Daily Telegraph, September 26, 2011.

3 US Stocks Decline Amid Concern About European Funding,” Bloomberg, October 31, 2011.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of November 15, 2011

	Rank	Yield (%)	Price (\$)	Status	—Percent of Portfolio—	
					Value (%)	No. Shares (%) ¹
AT&T	1	5.88	29.25	Holding**	24.03	23.65
Verizon	2	5.37	37.24	Holding**	25.56	19.75
Merck	3	4.70	35.73	Holding**	22.26	17.93
Pfizer	4	4.03	19.87	Holding**	25.44	36.86
DuPont	7	3.40	48.30	Selling	2.63	1.57
Frontier Communications	N/A	N/A	5.47	Selling	0.05	0.24
Cash (6-mo. T-Bill)	--	--	--		0.05	--
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 October 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	5.39	10.97	0.64	6.93	12.03	15.66	18.01
Russell 1000 Value Index	11.45	6.16	-2.05	4.57	8.98	11.82	15.11
Dow	9.73	10.39	2.55	5.36	9.55	NA	NA

*Data assume all purchases and sales at mid-month prices (+/-\$.0125 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 (\$)

	11/15/11	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	1785.00	1678.00	1368.50
Silver, London Spot Price	34.02	31.82	26.01
Copper, COMEX Spot Price	3.50	3.41	3.92
Crude Oil, W. Texas Int. Spot	99.36	86.79	84.85
Dow Jones Spot Index	446.05	441.79	420.83
Dow Jones-UBS Commodity Index	148.94	148.21	148.86
Reuters-Jefferies CRB Index	320.87	317.18	306.02

Securities Markets

	11/15/11	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	1,257.81	1,224.58	1,197.75
Dow Jones Industrial Average	12,096.16	11,644.49	11,201.97
Dow Jones Bond Average	288.05	281.60	267.80
Nasdaq Composite	2,686.20	2,667.85	2,513.82
Financial Times Gold Mines Index	3,933.17	3,723.63	3,862.63
FT EMEA (African) Gold Mines	3,638.05	3,234.85	3,536.84
FT Asia Pacific Gold Mines	17,058.38	16,770.46	18,974.56
FT Americas Gold Mines	3,367.10	3,218.12	3,241.38

Interest Rates (%)

U.S. Treasury bills - 91 day	0.01	0.02	0.14
182 day	0.05	0.06	0.19
52 week	0.11	0.10	0.27
U.S. Treasury bonds - 10 year	2.06	2.26	2.92
Corporates:			
High Quality - 10+ year	3.93	4.13	5.07
Medium Quality - 10+ year	5.20	5.52	6.12
Federal Reserve Discount Rate	0.75	0.75	0.75
New York Prime Rate	3.25	3.25	3.25
Euro Rates			
Government bonds - 10 year	1.73	2.05	2.45
Swiss Rates - 3 month	0.04	0.04	0.17
Government bonds - 10 year	0.84	1.00	1.41

Coin Prices (\$)

	11/15/11	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	1,835.40	1,702.68	1,455.18	2.82
Austrian 100-Corona (0.9803)	1,729.13	1,603.13	1,353.72	-1.18
British Sovereign (0.2354)	432.20	401.50	344.30	2.86
Canadian Maple Leaf (1.00)	1,811.20	1,681.20	1,438.80	1.47
Mexican 50-Peso (1.2057)	2,130.50	1,975.30	1,686.60	-1.01
Mexican Ounce (1.00)	1,787.60	1,658.80	1,419.30	0.15
S. African Krugerrand (1.00)	1,809.18	1,679.18	1,437.28	1.35
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,802.50	1,695.00	1,545.00	4.37
Liberty (Type I-AU50)	1,975.00	1,982.50	1,600.00	14.36
Liberty (Type II-AU50)	1,855.00	1,870.00	1,537.50	7.41
Liberty (Type III-AU50)	1,792.50	1,680.00	1,510.00	3.79
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	24,025.00	22,737.50	19,875.00	-1.23
40% Silver Circ. (292 oz.)	9,775.00	9,037.50	8,100.00	-1.60
Silver Dollars Circ.	26,500.00	25,075.00	20,350.00	0.69

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$1785 per ounce and silver at \$34.02 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Exchange Rates (\$)

British Pound	1.581800	1.580800	1.606400
Canadian Dollar	0.977230	0.985420	0.993641
Euro	1.352400	1.386100	1.361500
Japanese Yen	0.012989	0.012930	0.012063
South African Rand	0.121950	0.127800	0.143833
Swiss Franc	1.089680	1.119320	1.016570

THE DOW JONES INDUSTRIALS RANKED BY YIELD*

Ticker Symbol	Market Prices (\$)			12-Month (\$)		Latest Dividend Record		Indicated Annual Yield†			
	11/15/11	10/14/11	11/15/10	High	Low	Amount (\$)	Date	Paid	Dividend (\$)	(%)	
AT&T	T	29.25	29.17	28.63	31.94	27.20	0.430	10/10/11	11/1/11	1.720	5.88
Verizon	VZ	37.24	37.33	32.77	38.95	31.60	0.500	10/07/11	11/1/11	2.000	5.37
Merck	MRK	35.73	32.98	34.54	37.65	29.47	0.420	12/15/11	1/9/12	1.680	4.70
Pfizer	PFE	19.87	19.04	16.75	21.45	16.25	0.200	11/11/11	12/6/11	0.800	4.03
General Electric	GE	16.20	16.60	16.20	21.65	14.02	0.150	9/15/11	10/25/11	0.600	3.70
Johnson & Johnson	JNJ	64.99	64.72	64.14	68.05	57.50	0.570	11/29/11	12/13/11	2.280	3.51
Dupont	DD	48.30	45.09	46.31	57.00	37.10	0.410	11/15/11	12/14/11	1.640	3.40
Intel Corp	INTC	25.34	23.50	21.30	25.46	19.16	0.210	11/07/11	12/1/11	0.840	3.31
Procter and Gamble	PG	63.56	64.89	64.29	67.72	57.56	0.525	10/21/11	11/15/11	2.100	3.30
Kraft	KFT	35.48	35.23	30.79	36.30	29.80	0.290	9/30/11	10/14/11	1.160	3.27
Chevron	CVX	103.27	100.47	84.86	110.01	80.41	0.810	11/18/11	12/12/11	3.240	3.14
J P Morgan	JPM	32.70	31.89	40.08	48.36	27.85	0.250	10/06/11	10/31/11	1.000	3.06
Home Depot, Inc.	HD	38.07	35.05	31.39	39.38	28.13	0.290	12/01/11	12/15/11	1.160	3.05
Microsoft Corp.	MSFT	26.74	27.27	26.20	29.46	23.65	0.200	11/17/11	12/8/11	0.800	2.99
McDonald's	MCD	94.47	89.94	79.07	95.45	72.14	0.700	12/01/11	12/15/11	2.800	2.96
Travelers	TRV	57.29	51.27	56.78	64.17	45.97	0.410	12/09/11	12/30/11	1.640	2.86
Coca-Cola	KO	68.00	67.85	62.96	71.77	61.29	0.470	12/01/11	12/15/11	1.880	2.76
3M Company	MMM	81.87	78.89	86.20	98.19	68.63	0.550	11/25/11	12/12/11	2.200	2.69
Wal-Mart Stores	WMT	57.46	55.46	53.95	59.40	48.31	0.365	3/11/11	4/4/11	1.460	2.54
Boeing	BA	67.94	63.89	63.61	80.65	56.01	0.420	11/11/11	12/2/11	1.680	2.47
United Tech.	UTX	79.33	74.64	75.31	91.83	66.87	0.480	11/18/11	12/10/11	1.920	2.42
Exxon Mobil	XOM	79.09	78.11	70.48	88.23	67.03	0.470	11/10/11	12/9/11	1.880	2.38
Caterpillar	CAT	97.07	84.09	81.82	116.55	67.54	0.460	10/24/11	11/19/11	1.840	1.90
Hewlett-Packard	HPQ	28.24	26.11	42.54	49.39	21.50	0.120	9/14/11	10/5/11	0.480	1.70
IBM	IBM	188.75	190.53	143.64	190.53	141.18	0.750	11/10/11	12/10/11	3.000	1.59
American Express	AXP	49.95	46.10	42.70	53.80	41.25	0.180	10/07/11	11/10/11	0.720	1.44
Cisco	CSCO	19.12	17.55	19.95	22.34	13.30	0.060	10/06/11	10/26/11	0.240	1.26
Alcoa	AA	10.36	10.14	13.40	18.47	8.45	0.030	11/04/11	11/25/11	0.120	1.16
Walt Disney	DIS	36.45	34.47	37.25	44.34	28.19	0.400	12/13/10	1/18/11	0.400	1.10
Bank of America	BAC	6.13	6.19	12.10	15.31	5.13	0.010	9/02/11	9/23/11	0.040	0.65

* See the Recommended HYD Portfolio table on page 86 for current recommendations. † Based on indicated dividends and market price as of 11/15/11. 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 11/16/10.

RECOMMENDED INVESTMENT VEHICLES

Security Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Descriptive Quarterly Statistics, as of 9/30/11		Ratios		Annualized Returns ⁸ (%), as of 10/31/11						
			Expense ⁷ (%)	Sharpe	Turnover (%)	P/B	12 Mo. Yield (%)	1 yr.	3 yr.	5 yr.	1 yr.	3 yr.	5 yr.
Short/Intermediate Fixed Income													
Vanguard Short-Term Bond Index	2.70 Yrs.	1316	0.22	2.13	60	--	1.89	1.79	5.03	4.85	1.03	4.12	3.68
iShares Barclays 1-3 Yr. Credit Bond	1.90 Yrs.	707	0.20	1.48	12	--	2.06	1.31	6.33	--	0.59	5.23	--
iShares Barclays 1-3 Year Treasury	1.82 Yrs.	42	0.15	1.53	85	--	0.91	0.96	1.95	3.67	0.64	1.37	2.76
Vanguard Limited-Term Tax-Exempt	2.80 Yrs.	1499	0.20	2.00	14	--	2.23	1.41	7.28	4.47	0.33	5.94	2.99
SPDR Short-Term Municipal Bond	3.08 Yrs.	356	0.20	1.77	25	--	1.32	1.64	3.98	--	1.20	3.83	--
Inflation-Protected Fixed Income													
iShares Barclays TIPS Bond	9.36 Yrs.	33	0.20	0.93	13	--	4.24	8.84	11.98	7.39	7.18	10.71	5.86
Vanguard Inflation-Protected Securities	9.50 Yrs.	32	0.22	0.90	29	--	3.77	8.91	11.75	7.24	7.43	10.86	5.97
Real Estate													
Vanguard REIT Index	6.46 B	108	0.26	0.18	12	2.3	3.77	10.39	17.21	-0.65	9.06	15.59	-1.92
SPDR Dow Jones REIT	6.92 B	82	0.26	0.15	10	1.9	3.45	11.45	16.66	-1.70	10.24	15.07	-2.97
U.S. Large Cap Value													
Vanguard Value Index	45.66 B	415	0.26	0.07	27	1.6	2.69	6.34	8.90	-1.93	5.96	8.45	-2.34
iShares Russell 1000 Value Index	31.19 B	655	0.20	0.04	24	1.2	2.42	5.96	8.65	-2.15	5.28	8.13	-2.57
U.S. Small Cap Value													
iShares Russell Microcap Index	0.21 B	1410	0.60	0.04	35	1.1	1.31	1.79	9.50	-3.73	1.48	9.27	-3.90
Vanguard Small-Cap Value Index	1.49 B	1024	0.26	0.15	25	1.5	2.15	4.68	13.44	0.23	4.30	12.93	-0.20
U.S. Large Cap Growth													
iShares Russell 1000 Growth Index	36.28 B	590	0.20	0.30	24	3.4	1.47	9.71	15.41	2.88	9.28	15.08	2.64
Vanguard Growth Index	36.19 B	431	0.26	0.27	26	3.5	1.15	9.25	14.77	3.03	9.08	14.57	2.87
U.S. Marketwide													
Vanguard Total Stock Market Index	27.07 B	3350	0.17	0.18	5	2.2	1.98	7.91	12.40	0.78	7.62	12.06	0.49
Fidelity Spartan Total Market Index	26.14 B	3203	0.10	0.17	4	1.9	1.85	7.97	12.34	0.77	na	na	na
Foreign-Developed Markets													
iShares MSCI Growth Index	27.38 B	551	0.40	0.05	27	1.8	2.41	-3.00	10.29	-1.03	-3.49	9.99	-1.24
iShares MSCI Value Index	31.57 B	523	0.40	0.03	29	1.0	4.52	-5.53	9.14	-4.02	-6.40	8.63	-4.47
Vanguard Europe Pacific Index	32.12 B	924	0.18	0.06	6	1.4	2.90	-5.44	9.23	-2.42	-5.65	8.96	-2.65
Vanguard Developed Markets Index	32.29 B	963	0.22	0.06	13	1.4	3.32	-5.46	9.16	-2.55	-5.91	8.55	-3.09
SPDR S&P International Small Cap	0.86 B	737	0.60	0.25	17	0.9	2.44	-2.07	18.18	--	-2.54	17.74	--
Foreign-Emerging Markets													
Vanguard Emerging Market Index	19.35 B	901	0.35	0.31	12	2.0	1.87	-9.20	21.99	5.94	-10.10	21.24	5.43
Gold-Related Funds													
iShares COMEX Gold Trust	--	1	0.25	1.03	0	--	0.00	26.60	33.50	22.87	26.60	33.50	22.87
SPDR Gold Shares	--	1	0.40	1.03	0.00	--	0.00	27.37	32.55	22.84	27.37	32.55	22.84

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.

Recommended Gold-Mining Companies (\$)

Ticker Symbol	Month Earlier	Year Earlier	--- 52-Week ---		Dividends Paid Last 12 Months	Payment Schedule (%)	Yield (%)
			High	Low			
AU	11/15/11	48.69	51.69	38.97	0.2334	Semiannual	0.4925
ABX	11/15/11	50.15	55.95	42.50	0.4335	Semiannual	0.8289
GFI	11/15/11	17.16	18.70	13.62	0.2381	Semiannual	1.3629
GG	11/15/11	45.93	56.31	39.04	0.3366	Monthly	0.6355
NEM	11/15/11	60.66	72.42	50.05	0.8500	Quarterly	1.2206

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.