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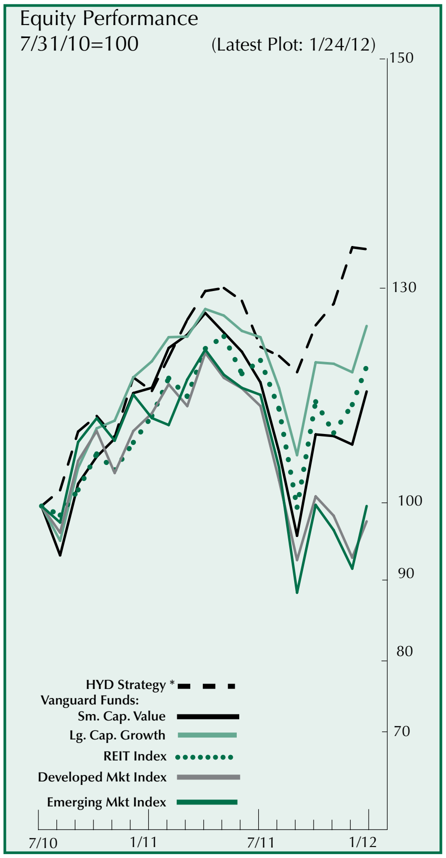


* HYD is a hypothetical model based on back-tested results. See p.6 for full explanation.

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

New Year's Resolutions

Discipline, once again, was the watchword during 2011. Throughout the year worrisome news emerged from all around the globe. Yet, by year end most investors who followed our recommendations would have seen little change in the value of their portfolios (see our AIS Model Portfolios table on page 2 for hypothetical returns).

- I will understand my own circumstances and formulate an investment plan based on my needs, not in anticipation of market trends.
- I will remind myself that investing is not a form of entertainment—if I have an urge to gamble, I will go to Las Vegas.
- I will stick to my plan.
- I will not attempt to pick winning stocks.
- I will ensure that my holdings are adequately diversified within each asset class I own.
- I will focus on minimizing my investment-related costs.
- I will stay abreast of changes in investment-related tax laws.
- I will not purchase any financial instrument I do not understand.
- I will ignore money managers or others selling products rather than advice.
- I will ignore market prognosticators.
- I will take full advantage of my qualified retirement plans by making the maximum allowable contributions I can live with.
- I will hold my least tax-efficient assets in my tax-deferred accounts.
- I will rebalance my portfolio infrequently, but at regular intervals regardless of the current state of the markets.
- I will not allow the price I have paid for a security to influence my future investment decisions—except for tax considerations regarding capital gains and losses.
- At year end I will harvest tax losses simply and without deviating from my target portfolio allocations, by selling and buying index-type funds within the same asset class.
- I will appreciate the simplicity of the AIS approach; instead of worrying about factors that are not within my control, I will establish my plan and turn my attention to enjoying life.

American Investment Services, Inc. is wholly owned by the American Institute for Economic Research.

QUARTERLY REVIEW OF CAPITAL MARKETS[1]

U.S. equities rebounded sharply in the fourth quarter, bringing the market to a small gain for all of 2011. Bonds were relatively flat for the three months but for the year were stellar performers. Markets favored the safety of U.S. Treasuries over equities in a year marked by political gridlock and worrisome federal fiscal policy, high unemployment and a continuing slump in housing. News was equally troubling overseas; a sovereign debt crisis mounted steadily in Europe until year-end brought better news and a reprieve. Foreign stocks, while managing small positive returns for the quarter, still took a drubbing for the full year. REITs had a strong showing for the quarter and for the year while the gold price took a respite during the last quarter but ended the year with positive returns.

We have made no changes to our recommended allocations, which can be found in the accompanying AIS Model Portfolios table.

Cash and Equivalent Assets[2]

As expected, the Federal Reserve's Open Market Committee maintained its target range for the federal funds rate between zero and 0.25 percent. In January the Fed restated that commitment through 2014.The Fed began implementing Operation Twist during the quarter, in which it will purchase $400 million of longer-term securities and sell an equal amount of shorter-term debt, thereby extending the duration of its bond portfolio and putting downward pressure on long term yields relative to short term yields.

The President of the St. Louis Fed recently suggested the Fed may shift to a policy of targeting an explicit rate of inflation, even as the bank wrestles with its dual mandate of price stability and full employment. Regardless, it appears investors will have to contend with miniscule returns on cash equivalent assets for the foreseeable future. One-year Treasuries are currently yielding only 0.02 percent; year-over-year price inflation (CPI) stands at 3.4 percent, so real returns remain negative.

Fixed Income

The accompanying U.S. Treasury yield curve shows that yields on bonds of all maturities closed the quarter almost exactly where they began. With the exception of Treasury Inflation Protected Securities (TIPS), which had another strong quarter, bond returns were mediocre for the final three months.

The yield curve also shows, however, that rates were down considerably from a year earlier. Indeed over the full year bondholders were amply rewarded. Conventional U.S. Treasury returns were up 9.8 percent for the 12 months. Fixed income returns climbed sharply relative to equity returns as investors favored of the stability of bonds amidst struggles in Europe and slow growth in the U.S. Only as the year came to a close, when news from Europe improved, did bond returns cool off.

TIPS returned 2.69 percent during the quarter and 13.56 percent for the full year as investors sought protection against unanticipated inflation.

A much anticipated crisis in the municipal bond market never occurred during 2011, though a handful of high-profile defaults such as Jefferson County, Alabama did make headlines. In the face of large fiscal deficits, state and local governments cut spending and/or raised

AIS Model Portfolios(1)
For the Period Ending December 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	0.24	2.28	3.64	0.63
Short/Int. Fixed Income	Barclays Capital 1-5 Yr Govt/Cred	40	30	0	3.13	4.30	5.39	2.29
Real Estate	DJ US Select REITs Index	10	10	10	9.37	10.12	10.83	20.89
U.S. Large Cap Growth	Russell 1000 Growth Index (USD)	5	5	10	2.64	2.60	6.62	17.33
U.S. Large Cap Value	Russell 1000 Value Index (USD)	15	20	30	0.39	3.89	8.91	14.92
U.S. Small Cap Value	Russell 2000 Value Index (USD)	5	7	13	-5.50	6.40	10.68	17.42
	DFA US Micro Cap Portfolio (USD)	0	3	7	-3.25	7.05	11.23	21.15
Foreign Developed Markets	MSCI EAFE Index (USD) Gross Div	5	7	13	-11.73	5.12	4.94	16.96
Foreign Emerging Markets	MSCI Emg. Mkts. Index (USD) Gross Div	0	3	7	-18.17	14.20	8.48	24.05
Gold Related	Gold (London PM Fix Price)	0	5	10	8.93	18.68	7.61	15.62
	Total	100	100	100				

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

	Conservative	*Moderate*	*Aggressive*
Portfolio Return 1 Year	1.90	0.90	-1.66
Portfolio Return 10 Year (annualized)	5.18	7.27	7.79
Portfolio Return 20 Year (annualized)	6.94	8.36	9.33
Portfolio Standard Deviation 20 Year (annualized)	5.76	8.21	13.71
Growth of $100 over 20 Years	$383	$498	$595

(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 8.
(3) Investors should maintain cash balances adequate to cover living expenses for up to 6 months in addition to the cash levels indicated.

revenues. Munis as a group returned 2.7 percent for the quarter and a very respectable 10.7 percent for the full year.

With regard to credit risk, spreads between more- and less-risky fixed income securities generally became wider during the quarter. Corporate bonds returned 1.7 percent during the quarter and 8.4 percent for the full year.

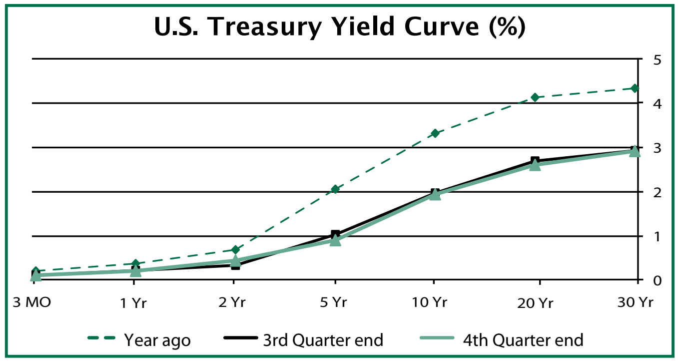
Real Estate[3]

In the fourth quarter Real Estate Investment Trusts (equity REITs) gained back slightly more than they lost in the previous quarter (+15.22 percent versus -14.71 percent) and finished the year with a gain of 8.29 percent. At year end yields stood at 3.83 percent. For the full year returns among subsectors varied widely; self-storage REITs topped the list, gaining 35.2 percent while lodging/ resorts registered a -14.31 percent return.

REITs continue to provide an attractive yield relative to fixed income alternatives and remain an important asset class within a well-diversified portfolio. Investors with tax-deferred and taxable accounts should consider holding REITs within their tax-deferred accounts if possible since dividend income is taxed at ordinary income tax rates that can exceed 30 percent.

U.S. Equities[4]

The broad U.S. market was up 12.12 percent for the quarter. Asset class returns ranged from 15.97 percent for small cap value stocks to 10.61 percent for large cap growth stocks. The strongest sectors in the quarter were energy and industrials, while the weakest one was telecommunication services.



For 2011, the U.S. stock market was one of the few developed markets to experience positive returns, with a small gain of 1.03 percent. Large cap growth stocks fared best, returning 2.64 percent, while large cap value shares registered a 0.39 percent gain. Small cap value and small cap growth stocks returned -5.50 percent and -2.91 percent, respectively. The strongest sectors were utilities and consumer staples, while the weakest ones were financials and materials.

International Equities[5]

In U.S. dollar terms, the quarterly returns for developed non-US markets were 3.33 percent—above the historical average but far behind the U.S. Greece, which remained at the center of Europe's sovereign debt woes, was by far the worst performer in both the quarter and the year, while Ireland, the Scandinavian countries, and Australia were the top performers for the quarter.

The dollar appreciated against major European currencies during the quarter, which slightly hurt the dollar-denominated returns of developed market equities, and had mixed performance against the main emerging market currencies. In U.S. dollar terms, emerging markets gained 4.42 percent in the quarter, in line with the historical average. Malaysia and other smaller emerging markets such as Thailand and Peru posted double-digit returns. Turkey and Egypt had double-digit negative returns in the quarter.

Despite strong returns in the fourth quarter, developed and emerging markets logged negative returns for the full year, with forty of the forty-five countries that MSCI tracks posting losses. For the 12 months the MSCI EAFE Index returned -12.14 percent and the MSCI Emerging Markets Index returned -18.42 percent. Ireland and New Zealand were the only developed markets besides the U.S. to end the year in positive territory and Greece was by far the worst performer. Indonesia and Malaysia were the only emerging markets that ended the year

1 This article contains information provided by The Vanguard Group and Fidelity Investments and includes excerpts from text provided with permission by Dimensional Fund Advisors.
2 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. U.S. Treasury Bonds: Barclays Capital (BC) U.S. Treasury Index. Corporate (investment grade) bonds: BC Credit Bond Index. Spread is index Option Adjusted Spread; Municipal bonds: BC Municipal Bond Index; TIPS: BC U.S. TIPS Index.
3 REIT data provided by National Association of Real Estate Trusts (NAREIT). (FTSE NAREIT All Equity REIT Index)
4 U.S. Market: Russell 3000 Index. Small caps: Russell 2000 Growth & Russell 2000 Value Indices, Large caps: Russell 1000 Growth & Russell 1000 Value Indices.
5 Source: Dimensional Fund Advisors Non-U.S. stocks: MSCI All Country World ex USA Index. Emerging markets: MSCI Emerging Markets Index. Developed markets MSCI EAFE Index. Currency data: Dimensional Fund Advisors, Oanda.com. Country performance provided by Dimensional Fund Advisors, based on respective indexes in the MSCI All Country World ex USA Index (for developed markets) and MSCI Emerging Markets Index. All returns in US currency and net of withholding tax on dividends. MSCI data copyright MSCI 2011, all rights reserved.
6 All gold prices and returns based on London PM fix.

Total Return (%)

	2009				2010				2011				*Entire Period 1Q 2009-4Q 2011*
	1Q	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*3Q*	*4Q*	
Barclay Capital 1-5 Yr. Govt./Credit	0.53	1.46	2.14	0.42	1.20	1.78	1.66	-0.60	0.27	1.49	0.91	0.43	11.71
Vanguard REIT Index	-32.09	30.03	**34.54**	9.05	10.02	-4.01	13.10	7.42	6.50	3.51	-14.59	15.20	**165.51**
Vanguard Value Index	-16.41	16.71	17.38	4.41	6.16	-10.93	9.71	10.17	**7.02**	-0.64	-15.53	12.44	65.10
High-Yield Dow 4/18	-23.83	15.66	16.55	8.13	1.81	-8.97	**20.83**	6.69	6.66	2.05	-7.58	**17.17**	105.28
Vanguard Small Cap Value Index	-18.14	23.83	23.89	3.79	**10.15**	-10.15	10.68	**13.95**	6.88	-1.87	-20.67	15.18	90.48
Vanguard Growth Index	-4.24	15.59	14.13	7.88	4.85	-12.16	13.37	12.02	4.95	0.91	-13.40	10.90	69.30
Vanguard Developed Markets Index	-15.82	25.59	19.25	1.67	1.26	-14.61	17.60	6.74	3.08	2.12	-20.11	4.01	44.56
Vanguard Emerging Markets Index	0.07	**34.14**	21.15	8.26	2.47	-9.12	18.74	7.49	1.78	-0.97	-23.97	5.99	69.84
Gold (London PM Fix)	**5.38**	1.96	6.55	**9.21**	2.57	**11.52**	5.06	7.54	2.38	**4.62**	**7.61**	-5.49	67.03

with positive returns and Egypt was the worst performer.

The U.S. dollar fluctuated throughout the year but finished about three percent above where it started against most developed-market currencies. It appreciated sharply against the main emerging market currencies, especially against the Indian rupee and the Brazilian real. This relative strength negatively impacted dollar-denominated returns of emerging market equities. The euro remained stable during the year even as analysts began predicting the dissolution of the currency zone. The Japanese yen and the Australian dollar both gained against the U.S. dollar.

Investors should not reduce their exposure to foreign equities in response to news regarding the debt crisis in the Euro zone (see accompanying article). A European recession would directly impact the U.S. The European Union accounts for roughly 25 percent of global GDP and 18 percent of U.S. exports. But the markets have priced in expectations as news has emerged. Europe comprises roughly 24 percent of the MSCI All Country World Index, down sharply from 30 percent in 2008, at the onset of the global financial crisis. European stocks continue to provide valuable diversification benefits within a well-diversified global portfolio.

Gold Related Assets[6]

Gold provided its first quarterly loss since the fourth quarter of 2008, returning -5.49 percent. The gold price began the quarter at $1,620 (per ounce) and finished at $1,531, its lowest point since early July. The daily price was volatile, however, ranging as high as $1,795 and averaging $1,682 for the three months. In early November investors sought gold on worsening news regarding the future of the euro and the European debt crisis, but the price fell back when euro zone members came to terms that suggested crisis would be averted, at least in the short term.

For the full year gold returned 8.93 percent and set a record of $1,889 per ounce in August. This was in contrast to a loss experienced by commodities as a group -- the Dow Jones-UBS Commodity Index returned -13 percent for the year.

Historically gold has served as a store of value during periods of financial distress. Last month we presented research indicating that over several centuries the price has held up well during periods of deflation. The past three years provide evidence that even in the modern world of globally integrated capital markets in which sophisticated risk management instruments are available, investors still turn to gold during severe financial crises and economic distress.

A CLIENT INQUIRES

The following is an excerpt from an email exchange between an AIS investment advisor and a client who is young and earning a high income but is concerned about potential price inflation. We suspect many readers may have similar concerns.

Client - *Why don't we have any TIPS as part of the fixed income allocation in my portfolio?*

AIS - The primary purpose of the fixed income portion of the portfolio is to provide a counterbalance to the volatility of equities. To the extent that we include bonds, we can assume more risk (and therefore garner higher expected real returns) within your equity allocation.

There are two basic ways to defend against rising consumer prices (price inflation). The first is to "hedge" by purchasing securities such as TIPS or cash equivalent assets and very short-term bonds, which either provide returns that match changes in the CPI or track it very closely. The second is to purchase assets such as longer term conventional bonds and especially equities, which do not match inflation over the short term (their returns are far too volatile to provide this assurance) but have historically provided real (inflation-adjusted) returns well in excess of inflation over the longer term.

TIPS cash flows and their par value are adjusted to reflect changes in the CPI, so they hedge explicitly against unexpected inflation. Conventional bonds do not. The market therefore builds its best guess (i.e. its expectation) regarding future inflation into the price of conventional bonds (their price is reduced accordingly). But actual price inflation in the future may exceed, fall below, or match that expectation. Conventional bond holders can therefore expect a return premium above TIPS for bearing the risk that actual inflation may exceed this inflation expectation that is "priced into" the conventional bond.

Given your situation (you are relatively young, you have high income that is not fixed, and you have a long time horizon to retirement), your best defense against loss of purchasing power is to pursue capital appreciation (total return) in excess of inflation. This strategy favors common stocks and conventional bonds. If you were closer to retirement and were dependent on your portfolio for current income to fund your living expenses, then I would recommend including TIPS because they provide that explicit protection against rising consumer prices.

That said, we can include TIPS if this is a specific concern that you would like to address. Most clients in circumstances similar to yours accept the rationale I have described, but some are particularly concerned about short-term inflation, and our job is to ensure we address those risks that are most important to you.

2011: INVESTMENT THEMES IN REVIEW

In 2011, global diversification proved as important as ever. Although diversification may not have prevented losses, investors with broadly diversified portfolios were better equipped to endure the uncertainty. Major themes during the year included:

European Debt Problems

The sovereign debt crisis intensified as European authorities struggled to avert a Greek debt default and alleviate fiscal pressures in Italy and France. But these restructuring attempts fell short of market expectations, which spooked investors and raised concerns of additional sovereign debt downgrades and a possible breakup of the Eurozone. The crisis also hurt European banks holding large positions in sovereign debt. To avoid losses, leading institutions reduced lending and dumped assets, which depressed asset values. Higher borrowing costs in the most indebted countries, combined with reduced government spending and revenues, raised more concerns that the Eurozone was entering a recession in late 2011.

Economic Uncertainty

Since the global financial crisis in 2008, central banks and governments have taken bold measures to fuel business activity and stabilize financial markets—and investors have eagerly awaited signs that economic recovery has taken hold. The economic signals continued to be mixed in 2011. Favorable U.S. news included strong corporate profits and dividends, substantial levels of cash on corporate balance sheets, low interest rates and inflation, a booming domestic energy sector, continuing strength in auto sales, record-high share prices for some multinationals, and improved fourth-quarter numbers in manufacturing, exports, consumer confidence, and employment. Pessimists could point to the longstanding jobless trend, slumping home prices, tepid growth in retail sales, worrisome levels of government debt, and political gridlock at both the national and state levels.

Although emerging economies showed resilience, investors were concerned that another recession in Europe would impact its trading partners in emerging economies—and particularly in China, where high inflation and a manufacturing slowdown threatened to send its previously fast-growing economy into recession.

Rising Volatility

Investors in U.S. equities had to endure a heavy dose of uncertainty for their moderate gains. The S&P 500 Index closed up or down by over two percent on 35 days in 2011, compared to 22 days in 2010. By contrast, before the global financial crisis, the index did not have a single day with a two percent or more movement in 2005, and only two days in 2006.

Market observers also documented higher correlations among individual stocks and between asset classes. In 2011, there were sixty-nine days in which 90 percent of the S&P 500 stocks moved in the same direction, which is more than the combined total for 2008 and 2009. Higher correlations are common during periods of uncertainty, as macroeconomic forces overshadow the impact of a company's business fundamentals on its stock price.

Falling Commodity Prices

In early 2011, commodities soared with expectations of improving economic growth around the world. Copper, cotton, and corn hit all-time highs in the first half of the year. Crude oil experienced double-digit returns in response to anticipated higher demand and threats of supply disruptions tied to political unrest in the Middle East. The Dow Jones-UBS Commodity Index peaked in April, then fell 20 percent as the global economic outlook faded. The index returned -13 percent for the year—its first negative return since 2008. The most notable exception was gold, which set more records in 2011 and peaked at $1,888.70 per ounce in August before declining in the fourth quarter to return about 10 percent for the year.

Investor Risk Aversion

The fragile world economy made markets particularly vulnerable to shifting investor sentiment. During the year, investors reacted to uncertainty by moving to asset classes they deemed more stable, including large cap stocks and government bonds. Despite the Standard & Poor's downgrade of the U.S. credit rating in early August, investors fled to U.S. government securities as concerns mounted over the sovereign debt crisis in Europe and political stalemate over the U.S. debt ceiling.

DEFAULT RISK: THE MEDIA'S FIXED INCOME FIXATION

On January 13 Standard and Poor's downgraded the sovereign debt ratings of nine European countries. The rating of Europe's rescue fund took a hit as well. The markets hardly flinched in response. Only the debt of Portugal, which was dropped all the way to junk status by all three agencies, suffered a significant price drop.

A Treasury Crisis that Wasn't

These events followed a familiar pattern. When U.S. debt was downgraded last July, the financial media shuddered. Highly respected bond fund manager Bill Gross had unloaded Treasuries in anticipation of a sell-off. The pundits were wrong. The downgrade was widely anticipated – the fiscal condition of the U.S. Treasury was hardly a secret – and Treasuries in fact rallied after the announcement.

We held firm even as these voices of doubt grew louder. In July we wrote: *"…there is little relevant information that has not been divulged regarding the probability or magnitude of a default on U.S. debt, so the impact of a downgrade on yields might in fact be very limited, to the extent it would represent just one more opinion regarding information already well-publicized."*[1] Though we admitted anything could happen, our advice was unequivocal: we did not change our recommended allocations.

A Muni Crisis that Wasn't

A similar story played out in the municipal bond market. As 2011 began much of the financial media was in a tizzy regarding the plight of municipal and state finances. Meredith Whitney, another well-known analyst, weighed in and sent muni prices tumbling when she predicted defaults in the hundreds of billions of dollars.

Once again we took these dire predictions head on. We wrote: *"…individual investors are not well served by the rising chorus suggesting systemic default is imminent. Future bond prices will be driven by news yet to emerge. Wise investors will not speculate but instead assume that every municipal bond is priced to reflect its own potential for default given what is known."*[2] These wide scale defaults never materialized; for the full year munis on average returned 10.7 percent[3].

And now Europe...

Media attention has now shifted to the specter of Euro zone sovereign debt default. But deteriorating fiscal conditions among Euro zone nations have been publicized for months and bond prices have fallen accordingly. The recent downgrades brought no news regarding the probability of default and therefore had little impact on prices. Indeed the announcement amounted to little more than a statement by the credit rating agencies that they agree with the market (and that the market, in turn, does not care!)

Our purpose in reviewing these events is not to suggest that we can predict the future successfully. Rather it is to emphasize that when investing in capital markets, discipline trumps speculation. The situation in Europe is no exception. Announcements from Euro zone members will continue to roil the markets in coming weeks as news, good and bad, emerges unpredictably. But investors should not deviate from their target allocations in response. Volatility is distressing, but unlike most investors, you can take comfort in the knowledge that you have a plan.

Discipline alone, however, is not enough. It must be coupled with prudent diversification. Our refusal to run from bonds in the face of these fears does not mean that we dismiss the very real hazard that bonds might default. To the contrary, rather than ignore this risk we manage it by offering a variety of low-cost, well-diversified funds.

1 "Treasury Bonds, Default and Credit Ratings" Investment Guide, July 2011, p. 49.
2 "Municipal Bond Risk: Face and Embrace" Investment Guide, January 2011, p. 4.
3 Source: Barclays Municipal Bond Index

How to Manage Bond Risk

Default risk (or credit risk) is but one of several potential perils that bond investors must confront. Our ongoing research has led us to better identify and address all sources of fixed-income risk for which investors can expect to be compensated. Mutual fund companies have also improved their ability to isolate these categories of risk within distinct funds. This allows us to measure more precisely the types and levels of risk we assume when constructing recommended portfolios. Investors can then add some or all of those risk exposures to which they are well suited, and avoid those risks if they find the risk-return tradeoff unappealing.

In addition to default risk, bond investors confront term risk, price inflation, and tax risk. Just as bonds issued by distressed firms are at greater risk of default compared with financially sound firms, long term bond are more vulnerable to rising interest rates versus short-term bonds. All fixed income securities aside from TIPS are vulnerable to unexpected price inflation, and all bonds aside from munis are at risk of rising income tax rates.

Investors can expect to be compensated if they assume these risks, or they can accept a lower return if they choose to steer clear of them. Unfortunately many money managers offer a hodge-podge of bonds. This only serves to cloud, rather than clarify these distinctions.

Our lineup of low cost bond funds is designed to allow investors the freedom either to pursue or to avoid these various risk-return opportunities explicitly and with precision. For example the iShares Barclays 1-3 Year Credit Bond fund offers additional exposure to firms with higher risk of default, while the Vanguard Inflation-Protected Securities fund is suitable for investors who wish to avoid the impact of unexpected price inflation.

If you need assistance in designing a portfolio to match your needs, please contact us to learn more about our advisory services. For more information, contact us at (413) 528-1216 ext 3122.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of January 13, 2012

	Rank	Yield (%)	Price ($)	Status	Percent of Portfolio: Value (%)	Percent of Portfolio: No. Shares (%)[1]
AT&T	1	5.85	30.07	Holding**	23.63	23.94
Verizon	2	5.14	38.92	Holding**	25.05	19.61
Merck	3	4.38	38.32	Buying	25.12	19.96
Pfizer	4	4.03	21.84	Holding**	26.16	36.49
Cash (6-mo. T-Bill)	--	--	--	--	0.04	--
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 December 31, 2011*.

	1 mo.	1 yr.	5 yrs.	10 yrs.	20 yrs.	Since 1/79	Std. Dev.
HYD Strategy	6.02	17.87	2.10	7.35	12.42	15.95	18.00
Russell 1000 Value Index	2.02	0.39	-2.64	3.89	8.91	11.80	15.08
Dow	1.58	8.38	2.37	4.57	9.49	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 ($)

	1/13/12	*Mo. Earlier*	*Yr. Earlier*
Gold, London p.m. fixing	1635.50	1574.00	1367.00
Silver, London Spot Price	29.64	28.80	28.52
Copper, COMEX Spot Price	3.63	3.26	4.40
Crude Oil, W. Texas Int. Spot	98.69	93.21	91.53
Dow Jones Spot Index	423.05	409.69	459.91
Dow Jones-UBS Commodity Index	140.51	136.26	161.67
Reuters-Jefferies CRB Index	307.70	294.45	333.06

Interest Rates (%)

U.S. Treasury bills -	91 day	0.03	0.00	0.15
	182 day	0.06	0.05	0.18
	52 week	0.10	0.12	0.27
U.S. Treasury bonds -	10 year	1.89	1.92	3.36
Corporates:				
High Quality -	10+ year	3.81	3.90	5.01
Medium Quality -	10+ year	5.13	5.19	6.07
Federal Reserve Discount Rate		0.75	0.75	0.75
New York Prime Rate		3.25	3.25	3.25
Euro Rates	3 month	1.26	1.42	1.00
Government bonds -	10 year	1.84	1.97	3.02
Swiss Rates -	3 month	0.06	0.05	0.17
Government bonds -	10 year	0.68	0.73	1.74

Exchange Rates ($)

British Pound	1.530100	1.548600	1.587400
Canadian Dollar	0.975991	0.967305	1.009897
Euro	1.268200	1.301300	1.332800
Japanese Yen	0.013000	0.012842	0.012050
South African Rand	0.122860	0.119330	0.144111
Swiss Franc	1.048880	1.063603	1.035518

Securities Markets

	1/13/12	*Mo. Earlier*	*Yr. Earlier*
S & P 500 Stock Composite	1,289.09	1,215.75	1,293.24
Dow Jones Industrial Average	12,422.06	11,868.81	11,787.38
Dow Jones Bond Average	293.44	288.47	267.79
Nasdaq Composite	2,710.67	2,541.01	2,755.30
Financial Times Gold Mines Index	3,505.08	3,367.15	3,569.79
FT EMEA (African) Gold Mines	3,313.66	3,187.53	3,321.92
FT Asia Pacific Gold Mines	15,244.37	14,432.61	17,384.79
FT Americas Gold Mines	2,981.88	2,870.44	2,986.34

Coin Prices ($)

	1/13/12	*Mo. Earlier*	*Yr. Earlier*	*Prem (%)*
American Eagle (1.00)	1,687.80	1,713.50	1,419.07	3.20
Austrian 100-Corona (0.9803)	1,583.03	1,611.03	1,333.72	-1.26
British Sovereign (0.2354)	396.60	403.40	335.70	3.01
Canadian Maple Leaf (1.00)	1,660.20	1,689.10	1,402.60	1.51
Mexican 50-Peso (1.2057)	1,950.60	1,985.10	1,643.50	-1.08
Mexican Ounce (1.00)	1,638.30	1,667.00	1,383.50	0.17
S. African Krugerrand (1.00)	1,658.47	1,687.38	1,401.18	1.40
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	1,690.00	1,740.00	1,485.00	6.80
Liberty (Type I-AU50)	1,975.00	1,975.00	1,625.00	24.81
Liberty (Type II-AU50)	1,855.00	1,867.50	1,560.00	17.23
Liberty (Type III-AU50)	1,670.00	1,725.00	1,445.00	5.54
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	21,187.50	21,837.50	20,325.00	-0.02
40% Silver Circ. (292 oz.)	8,437.50	8,900.00	8,337.50	-2.51
Silver Dollars Circ.	24,037.50	24,325.00	23,100.00	4.83

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $1,635.50 per ounce and silver at $29.64 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		*1/13/12*	*12/15/11*	*1/14/11*	*High*	*Low*	*Amount ($)*	*Date*	*Paid*	*Dividend ($)*	*(%)*
AT&T	T	*I*	30.07	28.79	28.43	31.94	27.20	0.440	1/10/12	2/1/12	1.760	5.85
Verizon	VZ		38.92	38.42	35.46	40.48 *H*	32.28	0.500	1/10/12	2/1/12	2.000	5.14
Merck	MRK		38.32	36.36	34.23	39.00 *H*	29.47	0.420	12/15/11	1/9/12	1.680	4.38
Pfizer	PFE		21.84	21.14	18.34	22.00 *H*	16.63	0.220	2/03/12	3/6/12	0.880	4.03
General Electric	GE		18.84	16.79	18.82	21.65	14.02	0.170	12/27/11	1/25/12	0.680	3.61
Johnson & Johnson	JNJ		65.26	64.00	62.55	68.05	57.50	0.570	2/28/12	3/13/12	2.280	3.49
Dupont	DD		48.40	43.70	49.80	57.00	37.10	0.410	11/15/11	12/14/11	1.640	3.39
Intel Corp	INTC		25.14	23.31	21.08	25.92 *H*	19.16	0.210	11/07/11	12/1/11	0.840	3.34
Procter and Gamble	PG		65.81	64.99	65.53	67.72	57.56	0.525	1/20/12	2/15/12	2.100	3.19
Kraft	KFT		37.77	36.46	31.34	38.27 *H*	30.21	0.290	12/30/11	1/13/12	1.160	3.07
Chevron	CVX		106.09	99.67	92.83	110.99 *H*	86.68	0.810	11/18/11	12/12/11	3.240	3.05
Microsoft Corp.	MSFT		28.25	25.56	28.30	t29.46	23.65	0.200	2/16/12	3/8/12	0.800	2.83
Coca-Cola	KO		66.99	66.89	63.13	71.77	61.29	0.470	12/01/11	12/15/11	1.880	2.81
McDonald's	MCD		100.35	98.14	74.06	101.59 *H*	72.89	0.700	12/01/11	12/15/11	2.800	2.79
J P Morgan	JPM		35.92	31.76	44.91	48.36	27.85	0.250	1/06/12	1/31/12	1.000	2.78
Travelers	TRV		59.37	56.81	54.63	64.17	45.97	0.410	12/09/11	12/30/11	1.640	2.76
Home Depot, Inc.	HD		43.51	39.42	35.89	43.66 *H*	28.13	0.290	12/01/11	12/15/11	1.160	2.67
3M Company	MMM		83.60	78.86	88.10	98.19	68.63	0.550	11/25/11	12/12/11	2.200	2.63
United Tech.	UTX		76.08	73.53	79.08	91.83	66.87	0.480	11/18/11	12/10/11	1.920	2.52
Wal-Mart Stores	WMT		59.54	57.95	54.81	61.06 *H*	48.31	0.365	3/11/11	4/4/11	1.460	2.45
Boeing	BA		74.60	70.61	70.07	80.65	56.01	0.440	2/10/12	3/2/12	1.760	2.36
Exxon Mobil	XOM		84.88	80.03	77.84	88.23	67.03	0.470	11/10/11	12/9/11	1.880	2.21
Hewlett-Packard	HPQ		26.49	26.16	46.25	49.39	21.50	0.120	12/14/11	1/4/12	0.480	1.81
Caterpillar	CAT		102.48	87.70	94.01	116.55	67.54	0.460	1/20/12	2/18/12	1.840	1.80
IBM	IBM		179.16	187.48	150.00	194.90	149.38	0.750	11/10/11	12/10/11	3.000	1.67
Walt Disney	DIS		38.40	35.19	39.29	44.34	28.19	0.600	12/16/11	1/18/12	0.600	1.56
American Express	AXP		49.76	46.42	46.25	53.80	41.30	0.180	1/06/12	2/10/12	0.720	1.45
Cisco	CSCO		19.06	18.04	21.21	22.34	13.30	0.060	1/05/12	1/25/12	0.240	1.26
Alcoa	AA		9.80	8.78	15.97	18.47	8.45	0.030	11/04/11	11/25/11	0.120	1.22
Bank of America	BAC		6.61	5.26	15.25	15.16	4.92 L	0.010	3/02/12	3/23/12	0.040	0.61

* See the Recommended HYD Portfolio table on page 6 for current recommendations. † Based on indicated dividends and market price as of 1/13/12. 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 1/16/11.
I Dividend increased since 12/15/11 *D* Dividend decreased since 12/15/11

RECOMMENDED INVESTMENT VEHICLES

	Security Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Expense[7] (%)	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 12/31/11		*Ratios*				*Annualized Returns[8] (%), as of 12/31/11*					
Short/Intermediate Fixed Income														
Vanguard Short-Term Bond Index	BSV[1]/ VBISX	2.70 Yrs.	1359	0.22	2.07	60	--	1.81	2.96	3.72	4.75	2.21	2.83	3.60
iShares Barclays 1-3 Yr. Credit Bond	CSJ[1]	1.90 Yrs.	690	0.20	1.39	12	--	1.92	1.34	5.18	--	0.67	4.18	--
iShares Barclays 1-3 Year Treasury	SHY[1]	1.91 Yrs.	44	0.15	1.11	85	--	0.81	1.43	1.40	3.59	1.14	0.94	2.75
Vanguard Limited-Term Tax-Exempt	VMLTX	2.80 Yrs.	1559	0.20	1.88	14	--	2.18	1.93	6.93	4.28	0.87	5.65	2.83
SPDR Short-Term Municipal Bond	SHM[1]	3.10 Yrs.	368	0.20	1.35	25	--	1.33	3.50	3.35	--	2.94	3.14	--
Inflation-Protected Fixed Income														
iShares Barclays TIPS Bond	TIP[1]	9.22 Yrs.	33	0.20	1.55	15	--	4.11	13.40	10.25	7.80	11.71	8.94	6.28
Vanguard Inflation-Protected Securities	VIPSX	9.50 Yrs.	32	0.22	1.66	29	--	4.01	13.24	10.03	7.63	11.60	8.97	6.24
Real Estate														
Vanguard REIT Index	VNQ[1]/ VGSIX[2]	6.23 B	110	0.26	0.77	12	1.9	3.40	8.47	21.72	-1.06	7.15	20.13	-2.30
SPDR Dow Jones REIT	RWR[1]	7.74 B	82	0.26	0.75	10	2.0	3.15	9.16	21.49	-2.06	7.94	19.83	-3.30
U.S. Large Cap Value														
Vanguard Value Index	VTV[1]/ VIVAX	39.99 B	410	0.26	0.62	27	1.3	2.52	1.00	11.34	-2.43	0.61	10.89	-2.83
iShares Russell 1000 Value Index	IWD[1]	33.55 B	656	0.20	0.61	24	1.4	2.30	0.21	11.39	-2.73	-0.59	10.82	-3.19
U.S. Small Cap Value														
iShares Russell Microcap Index	IWC[1]	0.25 B	1401	0.60	0.59	35	1.3	1.21	-9.52	13.31	-4.33	-9.90	13.04	-4.52
Vanguard Small-Cap Value Index	VBR[1]/ VISVX	1.21 B	1021	0.26	0.69	25	1.1	2.03	-4.16	15.96	-0.31	-4.55	15.52	-0.75
U.S. Large Cap Growth														
iShares Russell 1000 Growth Index	IWF[1]	38.82 B	592	0.20	0.99	24	3.7	1.39	2.47	17.79	2.34	1.98	17.42	2.08
Vanguard Growth Index	VUG[1]/ VIGRX	34.87 B	426	0.26	0.97	26	2.9	1.08	1.71	17.48	2.40	1.54	17.28	2.23
U.S. Marketwide														
Vanguard Total Stock Market Index	VTI[1]/ VTSMX	25.30 B	3322	0.17	0.81	5	1.8	1.80	0.96204	15.01	0.21	0.69	14.68	-0.08
Fidelity Spartan Total Market Index	FSTMX[3]	26.80 B	3227	0.10	0.81	4	1.9	1.81	0.98	15.03	0.19	-3.96	12.33	-1.86
Foreign- Developed Markets														
iShares MSCI Growth Index	EFG[1]	24.50 B	564	0.40	0.40	27	1.8	2.47	-12.28	8.24	-3.26	-12.97	7.84	-3.50
iShares MSCI Value Index	EFV[1]	32.27 B	492	0.40	0.33	29	0.9	4.53	-12.24	6.61	-6.38	-13.47	5.92	-6.89
Vanguard Europe Pacific Index	VEA[1]/ VTMGX[4]	26.69 B	921	0.18	0.38	6	1.2	3.45	-12.51	6.74	-4.51	-12.95	6.40	-4.79
Vanguard Developed Markets Index	VDMIX[5]	26.44 B	960	0.20	0.38	5	1.2	3.63	-12.53	6.76	-4.64	-13.15	6.25	-5.21
SPDR S&P International Small Cap	GWX[1]	0.93 B	740	0.61	0.59	22	1.0	0.53	-15.63	14.10	--	-16.42	13.44	--
Foreign- Emerging Markets														
Vanguard Emerging Market Index	VWO[1]/ VEIEX[6]	15.74 B	905	0.35	0.78	15	1.6	2.19	-18.78	19.32	2.17	-19.59	18.75	1.68
Gold-Related Funds														
iShares COMEX Gold Trust	IAU[1]	--	1	0.25	1.04	0	--	0.00	8.66	19.73	18.82	8.66	19.73	18.82
SPDR Gold Shares	GLD[1]	--	1	0.40	1.04	0.00	--	0.00	11.20	21.62	19.42	11.20	21.62	19.42

Recommended Gold-Mining Companies ($)

	Ticker Symbol	1/13/12	Month Earlier	Year Earlier	52-Week High	52-Week Low	Dividends Paid Last 12 Months	Payment Schedule	Yield (%)
Anglogold Ltd., ADR	AU	**43.02**	41.24	44.67	51.69	38.97	0.3421	Semiannual	0.7952
Barrick Gold Corp. †	ABX	**48.34**	44.19	47.08	55.95	42.50	0.4335	Quarterly	0.8968
Gold Fields Ltd.	GFI	**15.49**	15.10	16.67	18.70	13.62	0.2381	Semiannual	1.5371
Goldcorp, Inc. †	GG	**45.42**	45.35	40.59	56.31	39.04	0.3621	Monthly	0.7972
Newmont Mining	NEM	**63.39**	61.76	55.72	72.42	50.05	1.0000	Quarterly	1.5775

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 *Pre-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.