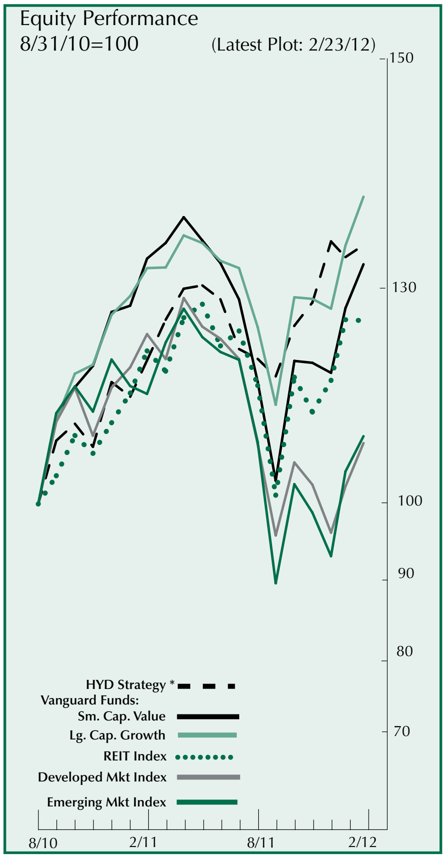
AIS INVESTMENT GUIDE
Published Monthly by
American Investment Services, Inc

Vol. XXXIV, No. 2 Great Barrington, Massachusetts 01230 February 29, 2012




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

We offer two discretionary management services: Our Professional Asset Management (PAM) service covers all of our recommended assets and allows us to place trades in stocks, bonds, and mutual funds directly in our clients' accounts.(The accounts remain the property of our clients at all times—we are only authorized to trade on their behalf.) Our High-Yield Dow (HYD) service operates similarly, except it invests only in the highest-yielding Dow stocks, using the 4-for-18 model on a fully invested basis. Investors interested in these low-cost services should contact us at 413-528-1216 or Fax 413-528-0008.

Online: www.americaninvestment.com

## The EPI: A New Tool for Coping with Price Inflation

*AIER has developed a new and very useful index that measures price changes among goods and services that most of us purchase regularly. This greatly improves our ability to measure the cost of unanticipated price inflation and the impact it might have on investors' household budgets. It is clear that the Consumer Price Index (CPI-U) is inadequate for this purpose. This has important implications for traditional inflation-hedging vehicles.*

Monetary expansion allows the U.S. government to spend beyond its means. To the extent this results in unanticipated price inflation, it presents a significant risk to an investor's household budget. The CPI is cited commonly by the media as *the* measure of changes in households' cost-of-living, and is used extensively by financial planners when they assess household budgets and formulate investment strategies.

Many investors tell us that the CPI in fact understates changes in their personal day-to-day living costs. They grow more frustrated when the media reports that the Federal Reserve, when establishing monetary policy, refers to an adjusted CPI that excludes food and energy prices. Many of us after all routinely fill our gas tanks for more than $50 each week and families can easily spend $200 for a trip to the grocery store.

Our parent, the American Institute for Economic Research (AIER) has responded to these concerns. Their recent *Economic Bulletin* provides a detailed discussion of the CPI (and other price indexes published by the Bureau of Labor Statistics)[1], and introduces the Everyday Price Index (EPI), an innovative alternative that is far better suited for household budgeting and investment planning.

The CPI, and several variations produced by the Bureau of Labor Statistics (BLS), is entirely appropriate as a gauge for the Fed and other agencies to use when determining policy. The Fed's objective is to measure the extent to which expansion of the money supply is affecting broad based price inflation in the economy. Food and energy prices are extremely volatile and distort this evaluation, so it makes sense for the Fed to exclude these.[2]

Though the CPI is fine for conducting macroeconomic analysis, AIER's staff economists recognized that it falls short as a means of measuring changes in consumers' cost of living. They created the EPI in order to track the prices of goods and services that consumers

*(continued next page)*

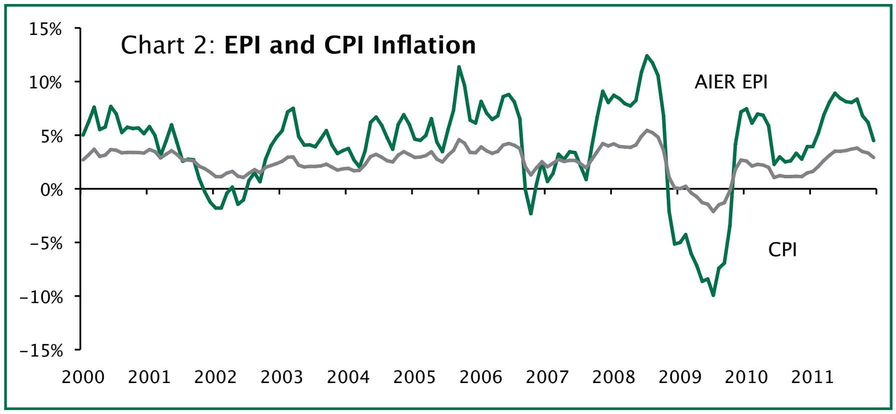
American Investment Services, Inc. is wholly owned by the American Institute for Economic Research.

purchase on a regular basis, such as gasoline, prescription drugs and utilities. Unlike the CPI, the EPI excludes many big-ticket expenditures, such as such as housing, cars and appliances as well as less expensive items that are purchased infrequently, such as apparel and information technology.

Readers might ask why these items should be excluded, after all items such as housing and cars are essential and account for large portion of consumer spending. But the EPI is not constructed to reflect anyone's view of what is important; rather it is intended to help individuals to plan for those expenditures that are within their control over the short to intermediate term. Because it excludes many items that are typically purchased through fixed, periodic payments, EPI zeroes in on a smaller subset of goods and services over which consumers have greater discretion when planning their spending. In other words, EPI is superior to CPI for purposes of forming a household budget.

Charts 1 and 2 demonstrate why this distinction is so important. In Chart 1 the EPI reflects a much larger loss in purchasing power compared with the CPI; over the twelve years beginning January 2000 the EPI increased at an annualized (geometric) rate of 4.0 percent versus only 2.4 percent for the CPI. Equally important, Chart 2 shows that the EPI was far more volatile than the CPI. Annual inflation in the EPI ranged between +12.4 percent and -9.9 percent while the CPI remained within a band of +5.4 percent and -2.1 percent (rolling monthly basis).

This price volatility among frequently purchased items wreaks havoc when it comes to budgeting, especially for consumers who rely on fixed incomes or who are drawing down their savings to make ends meet. Fixed payments, whether for mortgages, rent, car payments and the like may form a large portion of your budget, but they are perfectly apparent and predictable for purposes of immediate planning, and over the short term you have little control over them. EPI helps to better plan for "sticker shock" among frequently purchased goods and services, which is the culprit that most often upsets investors' best laid plans.




## Term Risk, Cash and TIPS

Cash equivalent assets and Treasury Inflation Protected Securities (TIPS) have traditionally provided the best hedge against unanticipated inflation. Long- term bonds typically garner higher returns than short-term instruments, but longer maturities mean bond owners are locked into fixed interest payments for long periods. Investor's who rely on these fixed cash flows to meet their day-to-day expenditures are gambling that day-to-day consumer prices will remain stable.

Cash equivalents such as Treasury bills, money market funds and CDs have short maturities and therefore avoid this term risk, but provide lower returns. Generally these returns have been able to keep pace with the CPI. However, this is not currently the case. Cash equivalents are paying nominal yields close to zero percent so real returns are negative. The Fed, moreover, has announced it plans to keep short term rates low well into the future.

In 1997 the U.S. government issued its first TIPS, which offered variable interest payments linked to the CPI. For investors seeking to protect the purchasing power of their planned expenditures, TIPS are a useful but less-than-perfect hedge against unanticipated price inflation.[3]

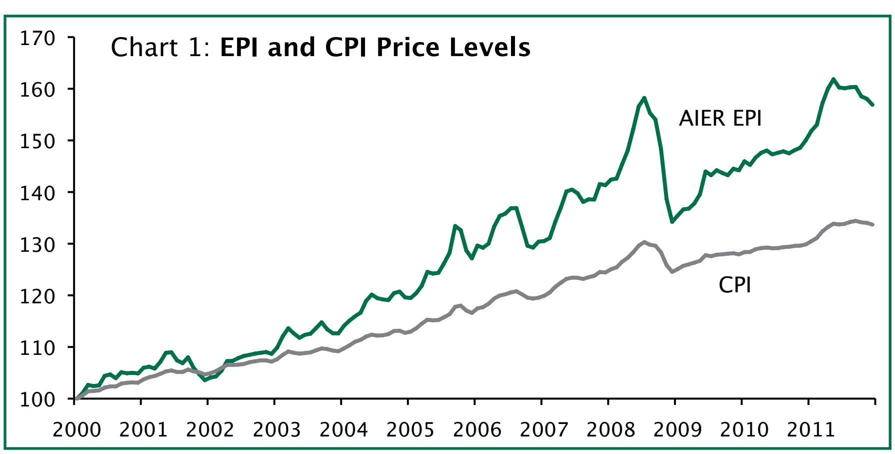
TIPS do not escape the risk return trade-off. As is the case with all securities, you get what you pay for. With TIPS, what you "get" is protection against unexpected inflation, but you "pay" for that protection in the form of a lower yield.

Chart 3 is a conceptual bar chart that shows the sources of return provided by a conventional U.S. Treasury bonds as well a TIPS.

This difference between the yields on the two bonds involves inflation expectations, an inflation risk premium, and, to a lesser extent, a liquidity premium. The real rate component is identical for both bonds.

TIPS cash flows include periodic semi-annual interest payments and a par value at redemption, but unlike conventional treasuries, these payments are adjusted to reflect changes in the CPI. This price "shock absorber" is intended to provide investors with cash flows that change directly with inflation and thereby help ensure that their purchasing power will not be eroded by rising prices.

Conventional bond holders on the other hand earn fixed cash flows that may not keep pace with actual inflation, so they can expect to be rewarded for this risk with a higher nominal yield, represented by the *inflation*

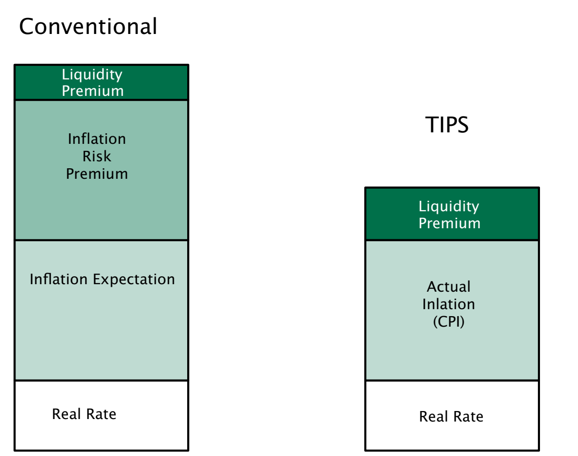


*risk premium*. The *liquidity premium* refers to the fact that the TIPS market is much smaller than the overall Treasury market, so TIPS are slightly less liquid. This characteristic has diminished significantly over the past several years, but TIPS buyers still presumably get a slightly larger benefit in the form of an increased yield. The *inflation expectation* is the residual "best guess" of all market participants as to what inflation will be in the future.

Since it is not possible to accurately break-down inflation expectation, inflation risk premium and the liquidity premium into exact, separate measurements, the three are often collectively referred to as making up the "breakeven inflation rate" or the actual (CPI) inflation rate necessary in order for TIPS to match the nominal returns offered by conventional bonds. This breakeven rate is calculated by subtracting the yield from the TIPS bond from that of the conventional Treasury bond.

This relationship between conventional bonds and TIPS is detailed in Chart 4. The current nominal yield for 10 year treasury bonds of +1.99 percent compares to -0.22 percent for the 10 year TIPS. The difference between the two, +2.21 percent, means that the market is expecting +2.21 percent annualized inflation over the next 10 years. *If actual inflation is higher than this number, then TIPS will generate higher returns than conventional bonds, and vice versa.*

**Chart 3: Components of Treasury Bond Returns**




## Basis Risk, TIPS and EPI

TIPS and conventional bonds bear identical risk of default (which is limited since the issuer is the U.S. Government) and are equally vulnerable to changes in real interest rates. But TIPS also expose investors to *basis risk*, which is associated with the use of imperfect hedging vehicles, and in this case relates to the use of the Consumer Price Index (CPI) as the proxy for the actual rate of inflation experienced by consumers. This of course is precisely the risk that EPI attempts to quantify.

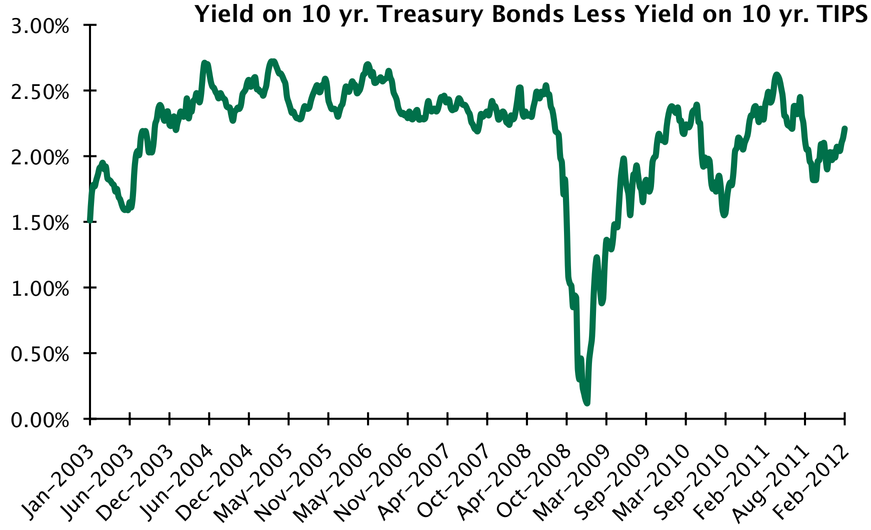
AIER's data makes it clear that basis risk inherent in TIPS is substantial. To repeat, since January 2000 annual inflation measured by EPI has been roughly 1.6 percent higher than inflation measured by CPI, and the EPI has been far more volatile from month-to-month. These risks are left unaddressed by TIPS.

We continue to recommend TIPS, especially for older investors who are drawing down their savings to meet living expenses. Though AIER's data reveals that TIPS cash flows fall well short of rising day-to-day living costs for most households, TIPS remain the best alternative. This is especially true currently, as cash equivalents are providing negative inflation-adjusted returns.

There is a lesson for younger investors as well: AIER's research shows that making ends meet in retirement is as daunting as ever, so saving today is more critical than ever. To that end a realistic household budget is indispensable.

We hope all investors, young or old, will find the EPI useful in meeting these challenges.

**Chart 4: US Inflation Expectations**
**Yield on 10 yr. Treasury Bonds Less Yield on 10 yr. TIPS**




1 AIER Staff, "The Everyday Price Index" Economic Bulletin, Vol. LII, February 2012, p. 1

2 The Fed, which has historically relied on this "core" (ex food and energy) CPI measure, recently announced it would begin targeting inflation using the Personal Consumption Expenditures index (PCE), which does not account for consumer buying habits and is even broader than CPI.

3 For a detailed explanation of TIPS payments and features, see "Treasury Inflation Protected Securities (TIPS): Another Arrow in the Quiver" Investment Guide, June 30, 2009, p. 42.

## NEW TO THE DOW 30 TABLE: DIVIDEND CHANGES

We have added an additional data point to our monthly table *The Dow Jones Industrials Ranked by Yield*. In the third column (to the right of the ticker symbol), we will place an *"I"* when a dividend payout has been increased since the previous month, or a *"D"* in the event of a dividend decrease. This only applies to changes in a firm's regular dividend payout (the table does not track extra dividends paid, which occur infrequently).

## A READER INQUIRES

*Below we have reprinted recent correspondence, in which we attempt to clarify our presentation of asset classes and investment vehicles in the* Investment Guide *(the subscriber refers to our January 2012 issue).*

**Subscriber -** *I currently use your* Investment Guide *model portfolio allocations and recommended investment vehicles. My questions are:*

*1. On page 2 there is a blank space under the US Small Cap Value asset class, with small percentage allocations assigned; which class is this?*

*2. On page 8 there are two recommended vehicles under US Marketwide; to which asset class does this pertain?*

**AIS -** The blank space in the "AIS Model Portfolios Table" allows for an allocation to U.S. Micro Cap stocks, but we consider these to be a subset of U.S. Small Cap Value stocks. These "smallest of the small", which fall into the bottom two deciles of all U.S. stocks when ranked by market capitalization, have somewhat higher expected returns -- and bear higher risk -- than the larger stocks in the small cap value asset class. It is not imperative, however, that investors treat the two as distinct segments. Investors with smaller portfolios can simply target the small cap value asset class and forego a separate allocation devoted only to micro caps, since the cost of periodic rebalancing in a small account can be prohibitive.

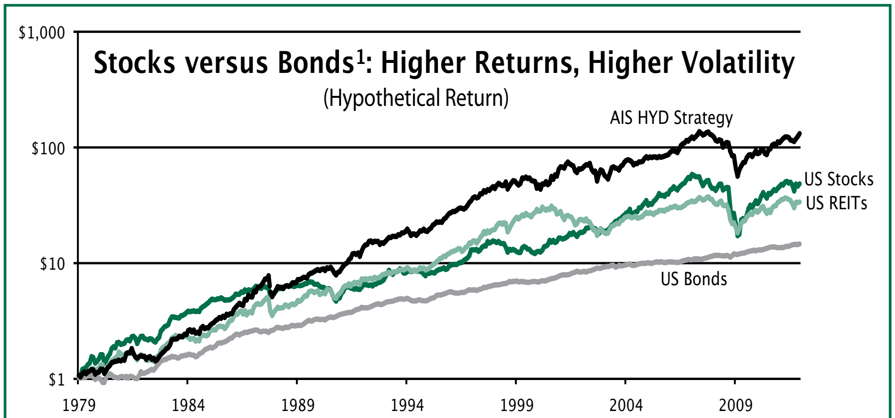
The U.S. Marketwide funds that appear in our "Recommended Investment Vehicles" table do not fit into any of the model allocations. If a portfolio is not large enough to warrant holding the components of the U.S. equity allocation separately, these funds may be used to capture the entire U.S. equity market.

It is also important to keep in mind that our recommended allocations are only guidelines. Obviously we cannot recommend customized portfolios for thousands of readers as we do for clients in our Professional Asset Management service. What matters most with regard to meeting your investment goals is your ability to stick with the allocation plan that you have formulated.

## DIVIDEND PAYING STOCKS: AVOID THE FRENZY

In the current interest rate environment investors might be tempted to substitute dividend paying stocks for CDs, Treasury bills and bonds. Many stocks currently provide a dividend yield that is two or three percentage points higher than the yields available from these traditional sources of investment income. As a group dividend-paying stocks have provided dazzling returns in recent months and, naturally, various dividend strategies have gained notoriety in the media. But wise investors will not change course. In most cases "chasing yield" would be a mistake.

We have long advised our readers and clients to focus on an investment's total return and the volatility of those returns when constructing a portfolio.




1 See accompanyting table for source data. Hypothetical results. See p.14 for full disclosure

Aside from tax considerations[1] it is irrelevant weather these returns are generated from capital appreciation or from investment income (interest and dividends).[2]

There was a time, however, when this distinction mattered. The notion of "living from income in order to preserve capital" was sound advice when money itself was sound, because capital was not

| Dividend Paying Stocks: A Poor Substitute for Bonds | | | |
|---|---|---|---|
| January 1979 - December 2011 | | | |
| | Annualized Return | Volatility (Standard Deviation) | Dividend Yield / Yield to Maturity |
| U.S. Bonds | 8.48 | 5.78 | 1.73% |
| U.S. Stocks | 11.26 | 15.89 | 2.05% |
| High Yield Dow (Dividend) Stock Strategy* | 15.95 | 18.00 | 4.90% |
| U.S. REITs | 12.48 | 18.96 | 4.24% |

Representative Indexes: U.S. Bonds: Barclays Capital U.S. Aggregate Bond Index (yield calculated as is average yield to maturity), U.S. Stocks: Russell 3000 Index. U.S. REITs: Dow Jones U.S. Select REIT Index *Hypothetical see p.14 for full disclosure.

1 Interest on most fixed income securities is taxed as ordinary income with a maximum federal statutory rate of 35% while capital gains and qualified dividends face a maximum long term rate of 15%.
2 There are exceptions to the rule. Certain trusts, for example, require that investment income, but not capital gains, be distributed to beneficiaries
3 The appropriate allocation to bonds differs according to the investor. See the January 2012 Investment Guide for our specific portfolio recommendations.

subject to erosion from price inflation. Investors could simply hold bonds and live relatively well-assured that their savings would be adequate to meet their spending needs over a lifetime.

Today, however, we live in a world of fiat currencies in which price inflation is a virtual certainty. Investors have little recourse but to hold stocks precisely for the purpose of earning returns that can outpace the rate of inflation. It therefore would be counterproductive to restrict one's spending only to investment income. Investors should be prepared to "spend down" their capital, as needed, to meet living expenses.

Bonds still fulfill an important role in a well-diversified portfolio. For most investors it is prudent to hold a reasonable level of bonds alongside common stocks[3]. But bonds should be held primarily in order to enhance portfolio stability, not for investment income.

Investors who consciously reduce their cash and bond allocation in order to purchase dividend paying stocks are exposing their overall portfolio to greater risk, through a likely increase in volatility. The accompanying chart and table are provided as a reminder that stocks provide higher returns but are also far more volatile than bonds. We have included our hypothetical high-yield Dow strategy as a proxy for dividend paying stocks. Real Estate Investment Trusts (REITs) are another high-yielding asset class, but commercial real estate is also highly volatile.

## VANGUARD DELAYS LAUNCH OF INTERNATIONAL BOND FUND

In the November 2011 *Investment Guide* we presented research that led us to recommend international bonds as part of a well-diversified portfolio. At the same time Vanguard has been preparing to offer an international bond fund that meets our criteria regarding structure, diversified exposure and cost. While we had anticipated that the fund would become available early this year, Vanguard recently announced that the process has been delayed and instead they expect it will be offered later in 2012. We are in close contact with Vanguard and will provide notice to our subscribers as soon as the fund becomes available for purchase.

## THE BACK PAGE EXPLAINED

*From time to time we like to provide our readers with a summary description of our "back page", which provides data pertaining to the specific investment vehicles we recommend for each of our recommended asset classes*

*Please note:* Investment Guide *subscribers have access to a "subscriber only" section of our website, www.americaninvestment.com, where interested readers can find a more comprehensive list of funds and additional selection criteria. Much of this information is not listed on the back page due to space constraints.*

We constantly review investment vehicles to ensure that we are recommending, within each asset class, the best funds available. Our process is completely independent – we select from the universe of over 7,000 mutual funds and exchange-traded funds. From our perspective this is an ongoing "horse race" in which we have no favorites. Our valuation is completely objective and based solely on strict, measurable criteria.

For each asset class we have recommended at least one open-end mutual fund and one exchange-traded fund (ETF). ETFs may be preferred by readers who hold their assets through a broker, while the open-end funds might be more suitable for readers who prefer to invest directly with a mutual fund family.

### Our Criteria

The **Average Market Cap** statistic provides the geometric average market capitalization of the underlying stocks held in each fund. This statistic is important because among equities small cap stocks tend to provide higher returns than large cap stocks, though their returns are more volatile. For example, the average holding in the iShares Russell Microcap Index has a market cap of only $0.25 billion while the average holding in the Vanguard Value Index is $39.99 billion.

Size is also important with respect to the total dollar value of assets managed by a fund. Funds with more assets tend to provide economies of scale in their operations; greater efficiency in management and trading is passed on to investors in the form of higher net returns. Additionally, many funds liquidate or are merged because they fail to generate sufficient investor interest. "Start up" funds deserve especially close scrutiny. We avoid recommending funds until we are convinced they have reached a threshold that suggests they can be run cost-effectively and that they have "staying power."

Among fixed income funds, the average maturity of the underlying bond portfolio is important. We recommend that investors refrain from investing in bonds or bond funds whose average maturity exceeds five years. The **Average Maturity** statistic provides the average maturity of each fixed income fund we recommend.

Most of the funds we recommend attempt to replicate the performance of a particular commercial index. Any index used should be capitalization-weighted and include an adequate number of securities to ensure that it will capture the risk profile of the targeted asset class, and eliminate company-specific and industry-specific risk (for which investors are not compensated with higher returns). The **Number of Holdings** is therefore provided for each of our recommended funds.

In order to meet one's financial objectives, investment related costs must be held to a minimum. The **Expense Ratio** column provides each fund's annual operating expenses divided by the average dollar value of the assets invested in the fund. For index funds, these expenses typically include recordkeeping, custodial services, taxes, and legal, accounting and auditing fees.

The **Sharpe Ratio** (one year) measures risk-adjusted performance; it provides a measure of return per unit of risk (volatility). It is calculated by subtracting the "risk-free" rate of return (3-month Treasury bills)—from the fund's rate of return and dividing the result by the standard deviation of the fund's returns; this figure (calculated using monthly data) is then annualized.

The **Turnover Ratio** is the percentage of each fund's holdings that have been replaced (or "turned over") with other holdings within the preceding 12 months. Turnover is a gauge of trading activity. It provides some insight regarding trading costs; these implicit costs are not included in the fund's expense ratio. High turnover can also indicate high capital gains taxes which are directly related to frequency of trading.

The **Price/Book Ratio** is calculated by dividing a stock's closing market price per share by the company's most recent book value per share. We have listed the average price/book ratio of the stocks held by each of our recommended funds. The market assigns lower prices to distressed (value) stocks compared to growth stocks; this results in lower price/book ratios for these relatively risky stocks.

Financial assets provide returns through capital appreciation as well as through investment income (interest and dividends). **12 Month Yield** provides a measure of income return for each fund. It is calculated by dividing the sum of the trailing twelve months' income distributions by the sum of the last month's ending Net Asset Value and any capital gains distributed over the trailing twelve months.


*"Prices may keep going up, up, up, but my love for you will remain positively, and forever, as is."*

The **Rate of Return** of a fund includes interest, capital gains, dividends and distributions realized over each time period listed. Return is calculated by subtracting investment value at the beginning of period from the sum of the fund's end of period value and its income and capital gain distributions. This return is expressed as a percentage gain or loss over the initial investment.

The **After Tax Rate of Return** is calculated using the tax liability of each fund's declared distribution, assuming that the investor does not sell the fund shares at the time specified and assuming the highest tax brackets at each time of distribution.

The criteria described here and those presented on our website are only a few of the criteria we consider when recommending funds for our readers and clients. Other factors, such as a fund's inception date and the extent to which a fund engages in securities lending are weighed carefully. Other, more intangible considerations include factors such as the reputation of a fund family with respect to investor services and web site access.

## THE HIGH-YIELD DOW INVESTMENT STRATEGY

### Recommended HYD Portfolio

*As of February 15, 2012*

| | | | | | —-Percent of Portfolio-— | |
|---|---|---|---|---|---|---|
| | *Rank* | *Yield (%)* | *Price ($)* | *Status* | *Value (%)* | *No. Shares (%)*[1] |
| AT&T | 1 | 5.89 | 29.87 | Holding** | 24.03 | 24.04 |
| Verizon | 2 | 5.29 | 37.83 | Holding** | 24.77 | 19.57 |
| Merck | 3 | 4.42 | 38.02 | Holding** | 25.51 | 20.06 |
| Pfizer | 4 | 4.17 | 21.11 | Holding** | 25.65 | 36.33 |
| 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 January 31, 2012*.

| | 1 mo. | 1 yr. | 5 yrs. | 10 yrs. | 20 yrs. | Since 1/79 | Std. Dev. |
|---|---|---|---|---|---|---|---|
| HYD Strategy | -1.46 | 18.01 | 1.08 | 7.00 | 11.88 | 15.85 | 17.98 |
| Russell 1000 Value Index | 3.78 | 1.88 | -2.16 | 4.36 | 9.10 | 11.90 | 15.06 |
| Dow | 3.55 | 9.12 | 2.80 | 5.03 | 9.58 | 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 ($)

| | 2/15/12 | Mo. Earlier | Yr. Earlier |
|---|---|---|---|
| Gold, London p.m. fixing | **1733.00** | 1635.50 | 1372.75 |
| Silver, London Spot Price | **33.69** | 29.64 | 30.72 |
| Copper, COMEX Spot Price | **3.80** | 3.63 | 4.47 |
| Crude Oil, W. Texas Int. Spot | **101.79** | 98.69 | 84.31 |
| Dow Jones Spot Index | **441.95** | 423.05 | 467.92 |
| Dow Jones-UBS Commodity Index | **144.70** | 140.51 | 161.64 |
| Reuters-Jefferies CRB Index | **314.95** | 307.70 | 336.29 |

### Interest Rates (%)

| | | | | |
|---|---|---|---|---|
| U.S. Treasury bills - | 91 day | **0.11** | 0.03 | 0.13 |
| | 182 day | **0.13** | 0.06 | 0.17 |
| | 52 week | **0.17** | 0.10 | 0.29 |
| U.S. Treasury bonds - | 10 year | **1.93** | 1.89 | 3.61 |
| Corporates: | | | | |
| High Quality - | 10+ year | **3.81** | 3.81 | 5.26 |
| Medium Quality - | 10+ year | **5.12** | 5.13 | 6.14 |
| Federal Reserve Discount Rate | | **0.75** | 0.75 | 0.75 |
| New York Prime Rate | | **3.25** | 3.25 | 3.25 |
| Euro Rates | 3 month | **1.05** | 1.26 | 1.09 |
| Government bonds - | 10 year | **1.91** | 1.84 | 3.29 |
| Swiss Rates - | 3 month | **0.08** | 0.06 | 0.17 |
| Government bonds - | 10 year | **0.68** | 0.68 | 1.82 |

### Exchange Rates ($)

| | | | |
|---|---|---|---|
| British Pound | **1.571000** | 1.530100 | 1.612800 |
| Canadian Dollar | **1.003500** | 0.975991 | 1.011634 |
| Euro | **1.308700** | 1.268200 | 1.349400 |
| Japanese Yen | **0.012780** | 0.013000 | 0.011935 |
| South African Rand | **0.129928** | 0.122860 | 0.136893 |
| Swiss Franc | **1.084000** | 1.048880 | 1.033378 |

### Securities Markets

| | 2/15/12 | Mo. Earlier | Yr. Earlier |
|---|---|---|---|
| S & P 500 Stock Composite | **1,343.23** | 1,289.09 | 1,328.01 |
| Dow Jones Industrial Average | **12,780.95** | 12,422.06 | 12,226.64 |
| Dow Jones Bond Average | **298.75** | 293.44 | 266.12 |
| Nasdaq Composite | **2,915.83** | 2,710.67 | 2,804.35 |
| Financial Times Gold Mines Index | **3,504.58** | 3,505.08 | 3,679.32 |
| FT EMEA (African) Gold Mines | **3,441.00** | 3,313.66 | 3,251.35 |
| FT Asia Pacific Gold Mines | **16,929.45** | 15,244.37 | 17,141.46 |
| FT Americas Gold Mines | **2,898.12** | 2,981.88 | 3,148.71 |

### Coin Prices ($)

| | 2/15/12 | Mo. Earlier | Yr. Earlier | Prem (%) |
|---|---|---|---|---|
| American Eagle (1.00) | **1,772.70** | 1,687.80 | 1,409.97 | 2.29 |
| Austrian 100-Corona (0.9803) | **1,665.22** | 1,583.03 | 1,324.93 | -1.98 |
| British Sovereign (0.2354) | **416.60** | 396.60 | 333.60 | 2.12 |
| Canadian Maple Leaf (1.00) | **1,745.10** | 1,660.20 | 1,393.50 | 0.70 |
| Mexican 50-Peso (1.2057) | **2,051.80** | 1,950.60 | 1,632.70 | -1.80 |
| Mexican Ounce (1.00) | **1,722.30** | 1,638.30 | 1,374.50 | -0.62 |
| S. African Krugerrand (1.00) | **1,743.28** | 1,658.47 | 1,392.07 | 0.59 |
| U.S. Double Eagle-$20 (0.9675) | | | | |
| St. Gaudens (MS-60) | **1,735.00** | 1,690.00 | 1,450.00 | 3.48 |
| Liberty (Type I-AU50) | **1,975.00** | 1,975.00 | 1,602.50 | 17.79 |
| Liberty (Type II-AU50) | **1,855.00** | 1,855.00 | 1,540.00 | 10.64 |
| Liberty (Type III-AU50) | **1,715.00** | 1,670.00 | 1,432.50 | 2.29 |
| U.S. Silver Coins ($1,000 face value, circulated) | | | | |
| 90% Silver Circ. (715 oz.) | **23,350.00** | 21,187.50 | 21,350.00 | -3.07 |
| 40% Silver Circ. (292 oz.) | **9,450.00** | 8,437.50 | 8,662.50 | -3.94 |
| Silver Dollars Circ. | **26,250.00** | 24,037.50 | 23,000.00 | 0.72 |

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $1,733 per ounce and silver at $33.69 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 ($) 2/15/12 | 1/15/12 | 1/15/11 | 12-Month ($) High | Low | Latest Dividend Amount ($) | Record Date | Paid | Indicated Annual Dividend ($) | Yield† (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AT&T | T | | 29.87 | 30.07 | 28.24 | 31.94 | 27.27 | 0.440 | 1/10/12 | 2/1/12 | 1.760 | 5.89 |
| Verizon | VZ | | 37.83 | 38.92 | 36.46 | 40.48 | 32.28 | 0.500 | 1/10/12 | 2/1/12 | 2.000 | 5.29 |
| Merck | MRK | | 38.02 | 38.32 | 32.79 | 39.43 *H* | 29.47 | 0.420 | 12/15/11 | 1/9/12 | 1.680 | 4.42 |
| Pfizer | PFE | | 21.11 | 21.84 | 19.05 | 22.17 *H* | 16.63 | 0.220 | 2/03/12 | 3/6/12 | 0.880 | 4.17 |
| General Electric | GE | | 18.76 | 18.84 | 21.46 | 21.60 | 14.02 | 0.170 | 2/27/12 | 4/25/12 | 0.680 | 3.62 |
| Johnson & Johnson | JNJ | | 64.65 | 65.26 | 60.62 | 68.05 | 57.50 | 0.570 | 2/28/12 | 3/13/12 | 2.280 | 3.53 |
| Dupont | DD | | 49.46 | 48.40 | 54.11 | 57.00 | 37.10 | 0.410 | 2/15/12 | 3/14/12 | 1.640 | 3.32 |
| Procter and Gamble | PG | | 64.55 | 65.81 | 63.92 | 67.72 | 57.56 | 0.525 | 1/20/12 | 2/15/12 | 2.100 | 3.25 |
| Intel Corp | INTC | | 26.58 | 25.14 | 21.45 | 27.00 *H* | 19.16 | 0.210 | 2/07/12 | 3/1/12 | 0.840 | 3.16 |
| Chevron | CVX | | 105.00 | 106.09 | 96.34 | 110.99 | 86.68 | 0.810 | 2/17/12 | 3/12/12 | 3.240 | 3.09 |
| Kraft | KFT | | 38.29 | 37.77 | 30.67 | 39.06 *H* | 30.43 | 0.290 | 12/30/11 | 1/13/12 | 1.160 | 3.03 |
| McDonald's | MCD | | 98.61 | 100.35 | 76.15 | 102.22 *H* | 72.89 | 0.700 | 3/01/12 | 3/15/12 | 2.800 | 2.84 |
| Travelers | TRV | | 59.29 | 59.37 | 59.35 | 64.17 | 45.97 | 0.410 | 12/09/11 | 12/30/11 | 1.640 | 2.77 |
| Coca-Cola | KO | | 68.40 | 66.99 | 63.19 | 71.77 | 61.29 | 0.470 | 12/01/11 | 12/15/11 | 1.880 | 2.75 |
| 3M Company | MMM | *I* | 87.01 | 83.60 | 92.00 | 98.19 | 68.63 | 0.590 | 2/17/12 | 3/12/12 | 2.360 | 2.71 |
| J P Morgan | JPM | | 37.40 | 35.92 | 46.82 | 48.36 | 27.85 | 0.250 | 1/06/12 | 1/31/12 | 1.000 | 2.67 |
| Microsoft Corp. | MSFT | | 30.05 | 28.25 | 26.96 | 30.80 *H* | 23.65 | 0.200 | 2/16/12 | 3/8/12 | 0.800 | 2.66 |
| Home Depot, Inc. | HD | | 45.71 | 43.51 | 37.69 | 46.21 *H* | 28.13 | 0.290 | 12/01/11 | 12/15/11 | 1.160 | 2.54 |
| Wal-Mart Stores | WMT | | 61.76 | 59.54 | 54.95 | 62.63 *H* | 48.31 | 0.365 | 3/11/11 | 4/4/11 | 1.460 | 2.36 |
| Boeing | BA | | 75.21 | 74.60 | 71.40 | 80.65 | 56.01 | 0.440 | 2/10/12 | 3/2/12 | 1.760 | 2.34 |
| United Tech. | UTX | | 82.60 | 76.08 | 84.93 | 91.83 | 66.87 | 0.480 | 2/17/12 | 3/10/12 | 1.920 | 2.32 |
| Exxon Mobil | XOM | | 84.12 | 84.88 | 82.97 | 88.23 | 67.03 | 0.470 | 2/10/12 | 3/9/12 | 1.880 | 2.23 |
| Hewlett-Packard | HPQ | | 29.12 | 26.49 | 47.99 | 49.12 | 21.50 | 0.120 | 3/14/12 | 4/4/12 | 0.480 | 1.65 |
| Caterpillar | CAT | | 112.53 | 102.48 | 103.00 | 116.55 | 67.54 | 0.460 | 1/20/12 | 2/18/12 | 1.840 | 1.64 |
| Cisco | CSCO | *I* | 19.91 | 19.06 | 18.67 | 20.49 | 13.30 | 0.080 | 4/05/12 | 4/25/12 | 0.320 | 1.61 |
| IBM | IBM | | 192.25 | 179.16 | 162.84 | 194.90 | 151.71 | 0.750 | 2/10/12 | 3/10/12 | 3.000 | 1.56 |
| Walt Disney | DIS | | 41.25 | 38.40 | 43.09 | 44.34 | 28.19 | 0.600 | 12/16/11 | 1/18/12 | 0.600 | 1.45 |
| American Express | AXP | | 51.52 | 49.76 | 46.19 | 53.80 | 41.30 | 0.180 | 1/06/12 | 2/10/12 | 0.720 | 1.40 |
| Alcoa | AA | | 10.10 | 9.80 | 17.40 | 18.47 | 8.45 | 0.030 | 2/03/12 | 2/25/12 | 0.120 | 1.19 |
| Bank of America | BAC | | 7.78 | 6.61 | 14.77 | 14.91 | 4.92 | 0.010 | 3/02/12 | 3/23/12 | 0.040 | 0.51 |

* See the Recommended HYD Portfolio table on page 14 for current recommendations. † Based on indicated dividends and market price as of 2/15/12.
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 2/16/11.
*I* Dividend increased since 1/15/12   *D* Dividend decreased since 1/15/12

## RECOMMENDED INVESTMENT VEHICLES

| | Security Symbol | Avg. Market Cap. / Avg. Maturity | Descriptive Quarterly Statistics, as of 12/31/11: No. of Holdings | Ratios: Expense[7] (%) | Ratios: Sharpe | Ratios: Turnover (%) | Ratios: P/B | 12 Mo. Yield (%) | Annualized Returns[8] (%), as of 1/31/12: Total 1 yr. | Total 3 yr. | Total 5 yr. | After Tax* 1 yr. | After Tax* 3 yr. | After Tax* 5 yr. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Short/Intermediate Fixed Income*** | | | | | | | | | | | | | | |
| Vanguard Short-Term Bond Index | BSV[1]/ VBISX | 2.70 Yrs. | 1359 | 0.22 | 2.07 | 60 | -- | 1.81 | 3.22 | 3.86 | 4.84 | 2.48 | 2.99 | 3.71 |
| iShares Barclays 1-3 Yr. Credit Bond | CSJ[1] | 1.90 Yrs. | 690 | 0.20 | 1.39 | 12 | -- | 1.92 | 1.98 | 4.83 | 4.35 | 1.30 | 3.83 | -- |
| iShares Barclays 1-3 Year Treasury | SHY[1] | 1.91 Yrs. | 44 | 0.15 | 1.11 | 85 | -- | 0.81 | 1.40 | 1.56 | 3.57 | 1.12 | 1.10 | 2.72 |
| Vanguard Limited-Term Tax-Exempt | VMLTX | 2.80 Yrs. | 1559 | 0.20 | 1.88 | 14 | -- | 2.18 | 2.46 | 6.65 | 4.46 | 1.42 | 5.40 | 3.02 |
| SPDR Short-Term Municipal Bond | SHM[1] | 3.10 Yrs. | 368 | 0.20 | 1.35 | 25 | -- | 1.33 | 4.14 | 2.79 | -- | 3.58 | 2.58 | -- |
| ***Inflation-Protected Fixed Income*** | | | | | | | | | | | | | | |
| iShares Barclays TIPS Bond | TIP[1] | 9.22 Yrs. | 33 | 0.20 | 1.55 | 15 | -- | 4.11 | 15.74 | 10.39 | 8.27 | 14.02 | 9.08 | 6.74 |
| Vanguard Inflation-Protected Securities | VIPSX | 9.50 Yrs. | 32 | 0.22 | 1.66 | 29 | -- | 4.01 | 15.72 | 10.48 | 8.06 | 14.06 | 9.42 | 6.67 |
| ***Real Estate*** | | | | | | | | | | | | | | |
| Vanguard REIT Index | VNQ[1]/ VGSIX[2] | 6.23 B | 110 | 0.26 | 0.77 | 12 | 1.9 | 3.40 | 11.80 | 32.47 | -1.43 | 10.89 | 30.92 | -2.59 |
| SPDR Dow Jones REIT | RWR[1] | 7.74 B | 82 | 0.26 | 0.75 | 10 | 2.0 | 3.15 | 12.19 | 32.47 | -2.50 | 10.94 | 30.66 | -3.73 |
| ***U.S. Large Cap Value*** | | | | | | | | | | | | | | |
| Vanguard Value Index | VTV[1]/ VIVAX | 39.99 B | 410 | 0.26 | 0.62 | 27 | 1.3 | 2.52 | 1.57 | 17.25 | -1.95 | 1.18 | 16.78 | -2.36 |
| iShares Russell 1000 Value Index | IWD[1] | 33.55 B | 656 | 0.20 | 0.61 | 24 | 1.4 | 2.30 | 1.71 | 17.45 | -2.26 | 1.36 | 17.02 | -2.62 |
| ***U.S. Small Cap Value*** | | | | | | | | | | | | | | |
| iShares Russell Microcap Index | IWC[1] | 0.25 B | 1401 | 0.60 | 0.59 | 35 | 1.3 | 1.21 | -0.70 | 20.96 | -2.99 | -0.94 | 20.74 | -3.15 |
| Vanguard Small-Cap Value Index | VBR[1]/ VISVX | 1.21 B | 1021 | 0.26 | 0.69 | 25 | 1.1 | 2.03 | 1.76 | 24.19 | 0.62 | 1.34 | 23.71 | 0.17 |
| ***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 | 5.88 | 22.08 | 3.01 | 5.66 | 21.81 | 2.80 |
| Vanguard Growth Index | VUG[1]/ VIGRX | 34.87 B | 426 | 0.26 | 0.97 | 26 | 2.9 | 1.08 | 6.09 | 21.77 | 3.10 | 5.92 | 21.56 | 2.94 |
| ***U.S. Marketwide*** | | | | | | | | | | | | | | |
| Vanguard Total Stock Market Index | VTI[1]/ VTSMX | 25.30 B | 3322 | 0.17 | 0.81 | 5 | 1.8 | 1.80 | 3.82 | 20.34 | 0.83 | 3.54 | 19.99 | 0.54 |
| Fidelity Spartan Total Market Index | FSTMX[3] | 26.80 B | 3227 | 0.10 | 0.81 | 4 | 1.9 | 1.81 | 3.84 | 20.35 | 0.81 | 3.84 | 20.35 | 0.81 |
| ***Foreign- Developed Markets*** | | | | | | | | | | | | | | |
| iShares MSCI Growth Index | EFG[1] | 24.50 B | 564 | 0.40 | 0.40 | 27 | 1.8 | 2.47 | -7.77 | 13.50 | -2.37 | -7.93 | 13.32 | -2.50 |
| iShares MSCI Value Index | EFV[1] | 32.27 B | 492 | 0.40 | 0.33 | 29 | 0.9 | 4.53 | -11.64 | 12.78 | -5.52 | -11.92 | 12.46 | -5.83 |
| Vanguard Europe Pacific Index | VEA[1]/ VTMGX[4] | 26.69 B | 921 | 0.18 | 0.38 | 6 | 1.2 | 3.45 | -9.45 | 13.86 | -3.67 | -9.74 | 13.57 | -3.91 |
| Vanguard Developed Markets Index | VDMIX[5] | 26.44 B | 960 | 0.20 | 0.38 | 5 | 1.2 | 3.63 | -9.36 | 13.88 | -3.79 | -9.88 | 13.39 | -4.33 |
| SPDR S&P International Small Cap | GWX[1] | 0.93 B | 740 | 0.61 | 0.59 | 22 | 1.0 | 0.53 | -9.11 | 20.04 | -- | -9.42 | 19.58 | -- |
| ***Foreign- Emerging Markets*** | | | | | | | | | | | | | | |
| Vanguard Emerging Market Index | VWO[1]/ VEIEX[6] | 15.74 B | 905 | 0.35 | 0.78 | 15 | 1.6 | 2.19 | -7.18 | 27.16 | 4.47 | -7.92 | 26.64 | 4.01 |
| ***Gold-Related Funds*** | | | | | | | | | | | | | | |
| iShares COMEX Gold Trust | IAU[1] | -- | 1 | 0.25 | 1.04 | 0.00 | -- | 0.00 | 31.07 | 23.04 | 21.32 | 31.07 | 23.04 | 21.32 |
| SPDR Gold Shares | GLD[1] | -- | 1 | 0.40 | 1.04 | 0.00 | -- | 0.00 | 30.92 | 23.30 | 21.32 | 30.92 | 23.30 | 21.32 |

### Recommended Gold-Mining Companies ($)

| | Ticker Symbol | 1/13/12 | Month Earlier | Year Earlier | --- 52-Week --- High | Low | Dividends Paid Last 12 Months | Payment Schedule | Yield (%) |
|---|---|---|---|---|---|---|---|---|---|
| Anglogold Ltd., ADR | AU | 43.12 | 43.02 | 45.91 | 51.69 | 38.97 | 0.4874 | Semiannual | 1.1303 |
| Barrick Gold Corp. † | ABX | 47.43 | 48.34 | 49.19 | 55.95 | 42.50 | 0.4590 | Quarterly | 0.9677 |
| Gold Fields Ltd. | GFI | 16.32 | 15.49 | 16.16 | 18.70 | 13.62 | 0.2381 | Semiannual | 1.4589 |
| Goldcorp, Inc. † | GG | 45.27 | 45.42 | 43.97 | 56.31 | 41.91 | 0.3749 | Monthly | 0.8280 |
| Newmont Mining | NEM | 59.60 | 63.39 | 58.04 | 72.42 | 50.05 | 1.2000 | Quarterly | 2.0134 |

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.