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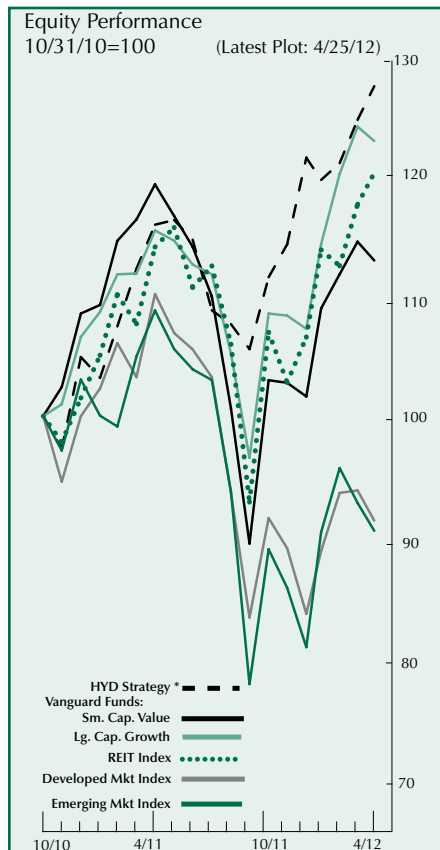
INVESTMENT GUIDE

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

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

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Structured Asset Management: Walking the Walk Part 2

Last month we presented an account we manage, the Reserve Life Income fund (RLI 1) of our parent organization, the American Institute for Economic Research (AIER). We described our management of that fund to illustrate several useful techniques that all investors can employ when managing their own accounts. This month we will again examine AIER's charitable remainder accounts to demonstrate how investors can assess portfolio performance and to establish reasonable benchmarks for monitoring risk and return.

Investment returns¹ come in different forms. Financial assets provide income through dividends or interest, as well as capital appreciation, which reflects the market's collective assessment of the present value of the asset. Having established a portfolio with some initial market value, how should an investor measure returns as time passes? The measure needs to be meaningful—that is, an absolute measure that can be used in planning—but it must also be standardized so that an investor can assess the portfolio's growth relative to what can reasonably be expected in light of the returns available from the markets.

At one time portfolio measurement consisted largely of calculating a simple dollar-weighted return (DWR). This is essentially an internal rate of return (IRR), or that rate which discounts all cash flows, including the ending market value generated by an investment, with its beginning market value. The problem, however, with DWR is that it discounts *all* cash flows, including deposits or withdrawals that an investor might make over time. It is therefore not useful as a basis for comparison with other benchmarks.

The financial services industry has come up with a measure called Time Weighted Return (TWR) as a means of addressing this problem. TWR is used when external cash flows occur between the beginning and the end of a period. Because they are unaffected by cash flows to the portfolio, TWRs measure the actual rate of return earned by the portfolio manager. Unlike DWR, it is valid to compare a TWR with an appropriate benchmark.

To compute TWR, the portfolio's rate of return is calculated just prior to when the first external cash flow occurs. A rate of return is again calculated from that cash flow until the next, and so on, with the last such measurement ending at the termination of the period being measured. The last step is to link the rates of return over these "sub periods" by calculating the compound rate of return over time. In other words, a rate of return is calculated for each time period, as defined by an external cash flow (deposit or withdrawal), and then a compound rate of return is calculated for the entire period.

If your objective is to capture the rate of return *you* have earned, then DWR is appropriate, since you have control over the decision to make whatever withdrawals or deposits were made. If your objective is to measure the rate of return earned by the portfolio *manager*, then TWR is appropriate, since the manager has no control over these external cash flows.

We provide Time Weighted Returns for all of our Professional Asset Management clients. In Table 1, we have provided examples of TWRs for RLI 1 as well as the 66 charitable remainder unitrusts (CRUTs) we manage on behalf of AIER. The benchmark returns provided (Lipper and Passive) are discussed below.

(continued next page)

Table 1: Total Time Weighted Returns (Annualized for periods > 1 year) Through March 30, 2012

	1 Year	3 Year	5 Year	10 Year	Since October 1999
RLI 1	5.40	19.39	4.64	7.61	7.37
Lipper Income Fd Index	4.39	13.91	3.38	5.03	4.90
Passive Composite Index	6.67	18.16	4.89	7.99	7.25
Lipper Composite Index	1.67	17.68	2.56	6.84	6.30
Combined CRUTs	2.94	21.08	4.29	8.59	7.62
Lipper Balanced Fd Index	4.60	16.78	3.04	4.86	4.41

Performance data represents past performance for the RLI 1 fund. The Lipper Income Fund Index and S&P 500 Index represent hypothetical indexes, not actual securities. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Average annual total returns include reinvestment of dividends and capital and are gross of management fees. October 1999-March 2012 is the longest period for which reliable historical data was available.

What About Risk?

Any consideration of portfolio return is incomplete without consideration of risk. Risk and return are opposite sides of the same coin. It would be unfair, for example, to say that a mutual fund with 12 percent annualized returns over a given period was “better” than a fund with an eight percent return if the manager of the first fund had assumed twice as much risk as the manager of the latter fund.

If we define risk as the volatility of a portfolio’s value over time, then we can quantify this trade-off by measuring a portfolio’s return *per unit* of risk. Perhaps, the most widely used gauge is the Sharpe Ratio. This is calculated by dividing “excess” return (the portfolio’s total return less the average risk-free rate during the period), by the portfolio’s standard deviation (the portfolio’s volatility for the period).

The Sharpe ratios for AIER’s charitable remainder portfolios are presented in Table 2.

Risk-adjusted returns are especially important for beneficiaries of CRUTs. While the RLI funds simply distribute investment income, CRUTs must distribute a percentage of the fund’s market value (reassessed annually), that is established at the discretion of the donor at

the time the trust is created. Several of AIER’s CRUTs, for example, have an annual distribution rate of five percent of the portfolio’s market value. Investment income is distributed first, but typically the beneficiary also receives a distribution of capital gains or occasionally a return of capital in order to meet the stipulated five percent rate. Clearly a highly volatile CRUT value would result in a payment stream that is also highly volatile. The data in Table 2 suggest that beneficiaries have in fact received steady risk-adjusted returns over the long term, relative to the benchmark.

Compared to What?

These risk and return metrics are useful as an absolute measure of whether an investor is on track to meet his financial goals. The wise investor

will have a financial plan with a specific objective—ensuring adequate assets in retirement, meeting college expenses, etc. The future costs of any objective can be reasonably quantified, and as long as the present portfolio value is known, an implicit required rate of return for meeting those future outlays can be derived. The investor can then track his progress by measuring his time-weighted or dollar weighted return against the required rate.

An investor should also consider his portfolio’s risk and return in *relative*

terms. For example, most investors would not be happy with positive absolute returns if it were apparent that most money managers had been providing much larger returns while assuming less risk. What is needed is an appropriate benchmark for comparison.

There are two commonly-used tools used to form benchmarks. Perhaps the most common form of benchmark is the passive index. An index is a theoretical set of investable securities (e.g., stocks, bonds, etc.) composed and published by a recognized financial institution. Index performance is, at least in theory, completely free of the impact of active investment management decisions, so it provides a neutral basis to evaluate the performance and risk of an investment manager. Indices offer a long history which can be used for risk planning

Table 2: Return per Unit of Risk —Sharpe Ratios Through March 30, 2012

	1 Year	3 Year	5 Year	10 Year	Since October 1999
AIER RLI 1	0.64	1.86	0.25	0.53	0.49
Lipper Income Fd Index	0.56	1.88	0.21	0.41	0.32
Passive Composite Index	0.67	1.82	0.29	0.60	0.48
Lipper Composite Index	0.14	1.54	0.09	0.43	0.33
AIER CRUTs (Combined)	0.20	1.49	0.18	0.51	0.39
Lipper Balanced Fd Index	0.41	1.56	0.13	0.27	0.18

Performance data represents past performance for the RLI 1 fund. The Lipper Income Fund Index and S&P 500 Index represent hypothetical indexes, not actual securities. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Average annual total returns include reinvestment of dividends and capital and are gross of management fees. October 1999-March 2012 is the longest period for which reliable historical data was available.

1 Investment returns for RLI and CRUT funds are not necessarily indicative of the results for other investment accounts managed by AIS over the same periods since accounts reflect a variety of allocations among asset classes depending on the investment objectives, financial needs and risk tolerance of the account holder.

Table 3 RLI Benchmarks: Composite Index Construction

Asset Class / Security Type	Passive Index Component	Peer Group (Active) Index Component	Weight	
Cash Money markets Bonds under 1 year to maturity	Citigroup 6 Mo T-Bill Index	Lipper Money Market Funds Median	5%	
Fixed Income U.S. Treasuries/Agencies Corporate bonds U.S. Gov. Bond Funds/ U.S. Corp Bond Funds	Merrill Lynch 1-5 Yr. Gov. Credit Index	Lipper Short Int. US Gov. Fund Median	Passive	Peer
			15%	20%
	Merrill Lynch 1-5 Yr. Gov. Bond Index	Lipper Short Int. Inv. Grade Fund Median	Passive	Peer
			10%	5%
Income Equities Utility stocks REITs Foreign REIT Funds	Dow Jones Utility Index	Lipper Utility Funds Median	15%	
	NAREIT Eq. Index	Lipper Real Estate Funds Median	5%	
	S&P Global ex.US REITs Index (net div.)	Lipper Intl Real Estate Fund (net div)	5%	
Large Cap Value Stocks HYD stocks Large Cap Value Funds	S&P 500 Citigroup Value Index	Lipper Large Cap Value Funds Median	20%	
Large Cap Growth Stocks Enhanced US Large Co Port	S&P 500 Citigroup Growth Index	Lipper Large Cap Growth Funds Median	7%	
Small Cap Value Stocks US Small Cap Value Port.	S&P 600 Citigroup Value Index	Lipper Small Cap Value Funds Median	4%	
Foreign Equities Int. Small Cap. Value Port Int. Value Port. Emerging Markets Value Port	MSCI EAFE Index	Lipper International Mult Cap Val Funds Median	4%	
	S&P/IFCI Em. Mkts. Comp. Index	Lipper Emerging Market Funds Median	2%	
Gold Mining Stocks	London PM Fix	Lipper Gold-Oriented Funds Median	8%	

and money market instruments. The Lipper Income Fund Index is an appropriate benchmark since the RLI funds have a similar income mandate. As noted earlier, the problem inherent in using this benchmark is that the median fund in performance is not necessarily the median fund in terms of risk assumed. For example, if the median income fund manager had “loaded up” by investing 50 percent of his portfolio in REITs in a given month, he would have terrific returns in a month that REITs did well, but the risk of being heavily invested in a single asset class would not be immediately apparent.

Composite benchmarks can partially address this problem by maintaining each asset class index at policy weight. For

example, the RLI funds are measured against composite passive and active indexes whose allocations are identical to those in the RLI funds’ allocation plan. Table 3 describes the current composition of these benchmarks. These have changed historically whenever the RLI allocation plan has changed (see the March *INVESTMENT GUIDE* Table 1 for a summary of those changes.)

The composite approach has a downside, too, though. Fund managers within the peer Lipper peer groups are not constrained by the mandate to produce investment income, as AIS is as manager of the RLI trusts. It could be argued that over time the composite index could therefore be expected to outperform the portfolio.

Numbers can be Dangerous

Measures of risk and return should be carefully selected to match investment

purposes.

Manager peer groups are often used in addition to, or in lieu of, passive indices. A peer group is a set of actively managed portfolios with similar investment characteristics. Popular mutual fund peer groups are published by Lipper and Morningstar. We use the Lipper series, which track the performance of the median mutual fund ranked by total return for a given category. It is often argued that peer groups provide more information than indices since a peer group can represent a broad range of alternative investment decisions. Also, the actual portfolios included within the peer group are subject to real-world market conditions such as market friction, trading costs and fees which have no impact on theoretical indices.

However, manager peer groups have drawbacks. First, the set of available managers used to form the peer group changes over time

due to survivor bias, style drift, and classification decisions. Second, a peer group does not lend itself to evaluation of multiple characteristics such as performance and risk, or performance and sector exposure. This is because the median investment manager based on total return is not necessarily the median manager based on risk. An index, on the other hand, offers a singular, complete package which can be used for comprehensive analysis. Finally, a peer group is not something one can invest in.

Since passive indices and peer groups are imperfect in different ways, investors should consider both. AIER’s investment committee uses both types.

For the RLI pooled income funds, AIER uses the Lipper Income Fund Index as one actively managed peer group for comparison. This category includes funds that normally seek a high level of current income through income-producing stocks, bonds,

objectives and to account for any unique constraints inherent in the account. They must also be interpreted with great care. Once established, they should simply inform an investor as a gauge of his progress and relative performance.

Although “benchmarking” is a useful tool to keep investors on track, it is ironic that benchmarks can also suggest to uneducated investors that they should chase the latest pipe dream. It is all too common for investors, tantalized by claims of extraordinary “market beating”

returns, to lose sight of the fundamental purpose of saving and investing, which is to meet some future financial objective. One can spend only dollars, not short-term relative performance. It requires discipline to ignore the acute disappointment that can result when short term results are compared to a benchmark. It is a mistake to throw in the towel by abandoning a sound investment plan and chasing the latest “hot” manager.

Perhaps it is our culture that leads

us to think that we can easily identify a superstar asset manager based on past returns, just as we can identify superstar athletes based on performance. We seem predisposed to think that talent and hard work will allow us to beat the market. But markets simply work too well to allow this. There will always be managers who will outperform your portfolio over the short-term. We hope the *INVESTMENT GUIDE* will help you to recognize that these results are driven, invariably, by chance rather than skill.

QUARTERLY REVIEW OF CAPITAL MARKETS¹

Returns during the first quarter were very strong among all of our asset classes with the exception of short/intermediate-term fixed income securities. Common stocks throughout the globe had strong returns as investors proved willing to assume greater risk. These results are encouraging not only for investors; they also signal strength for the overall economy since the stock market is a leading indicator of economic performance.

This data, however, also raises concerns. The paltry yields available on short-term bonds and cash equivalent investments show no sign of abating. After adjusting for inflation the returns on these assets remained negative during the quarter and, and if the Fed is to be believed investors may well face inflation-adjusted losses for at least another year. Investors face a choice between accepting these negative (though stable) returns on their fixed income assets, and pursuing higher

returns but enduring greater volatility by loading up on stocks.

In this environment it is typical for money managers to come forth with solutions of various sorts that claim to have no downside. New strategies based on dividend yield are in vogue, as are other techniques that claim to provide higher returns without risk. Bond investors are vulnerable to enticements to buy higher-yielding bonds that are poor credit risks.

Investors should ignore these

1 This article contains information provided by The Vanguard Group, Fidelity Investments and 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. Treasuries: Barclays Capital (BC) U.S. Treasury Index. Long term Treasuries: BC Long Term Govt. Index Intermediate Corporate (investment grade) bonds: BC Interm Credit Bond Index, High yield bonds: BC High Yield Index; Municipal bonds: BC Municipal Bond Index; TIPS: BC U.S. TIPS Index.

3 Source: Bankrate.com

AIS Model Portfolios(1) For the Period Ending March 31, 2012

Asset Class	Index	Recommended Percentage Allocations (2)			Asset Class Statistics: Risk and Return (%)			
		Conservative	Moderate	Aggressive	1 Year (annualized)	10 Year (annualized)	20 year (annualized)	Std. Dev. (annualized)
Cash & Equivalent Assets (3)	3 Month CD Index	20	10	0	0.30	2.26	3.59	0.64
Short/Int. Fixed Income	Barclays Capital 1-5 Yr Govt/Cred	40	30	0	3.41	4.36	5.44	2.28
Real Estate	DJ US Select REITs Index	10	10	10	13.53	10.36	11.16	20.93
U.S. Large Cap Growth	Russell 1000 Growth Index (USD)	5	5	10	11.02	4.29	7.62	17.38
U.S. Large Cap Value	Russell 1000 Value Index (USD)	15	20	30	4.79	4.57	9.42	14.94
U.S. Small Cap Value	Russell 2000 Value Index (USD)	5	7	13	-1.07	6.60	10.64	17.36
	DFA US Micro Cap Portfolio (USD)	0	3	7	0.45	7.56	11.18	21.04
Foreign Developed Markets	MSCI EAFE Index (USD) Gross Div	5	7	13	-5.31	6.16	6.15	16.92
Foreign Emerging Markets	MSCI Emg. Mkts. Index (USD) Gross Div	0	3	7	-8.52	14.47	8.19	24.07
Gold Related	Gold (London PM Fix Price)	0	5	10	15.53	18.63	8.23	15.94
	Total	100	100	100				

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

	Conservative	Moderate	Aggressive
Portfolio Return 1 Year	3.73	3.98	4.12
Portfolio Return 10 Year (annualized)	6.15	7.61	8.46
Portfolio Return 20 Year (annualized)	7.57	8.64	9.89
Portfolio Standard Deviation 20 Year (annualized)	5.89	8.24	13.85
Growth of \$100 over 20 Years	\$431	\$525	\$659

(1) Past performance may not be indicative of future results. Therefore, no current or prospective investor should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by the AIS), or product made reference to directly or indirectly, will be profitable or equal to past performance levels. Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. The results portrayed in this portfolio reflect the reinvestment of dividends and capital gains. Model Portfolio Statistics are hypothetical and do not reflect historical recommendations of AIS. Annual portfolio rebalancing is assumed.

(2) For our recommended investment vehicles for each asset class, see page 32.

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

temptations. The fact is, at times investors can only accept the best among undesirable alternatives. Our goal is to recommend an optimal portfolio, not an unobtainable ideal. Rather than pursue the non-existent “free lunch”, we simply stay abreast of genuine progress in financial research in order to steadily improve our recommendations.

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

Cash and Equivalent Assets²

Signs of stronger economic growth emerged early in March, giving rise to speculation that the Fed might increase its targeted Fed funds rate. Those expectations were reversed when the Fed chairman announced that the central bank would not only maintain its current target of 0.25 percent, but might even consider further stimulus.

Cash equivalent assets continued to lose purchasing power during the quarter. One-year Treasuries began the quarter yielding only 0.12 percent and by the end of March the yield had risen to only 0.19 percent. As of mid-April one-year CDs were yielding 0.33 percent.³ Meanwhile year-over-year price inflation measured by the CPI stands at 2.7 percent. AIER’s Everyday Price Index (EPI), which measures prices of goods and services that consumers purchase frequently, increased by 4.1 percent over the previous 12 months.

Fixed Income

Interest rates rose slightly during

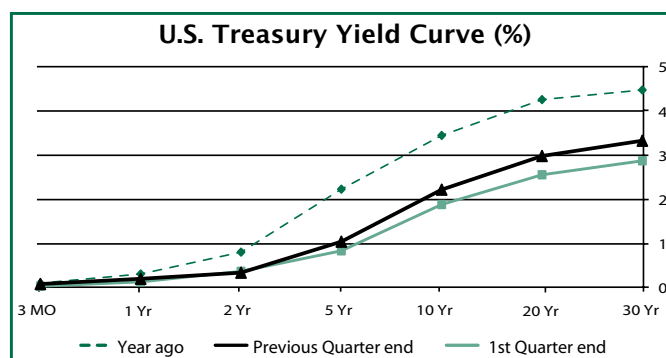
the quarter, but remained well below levels that prevailed just one year ago (see accompanying yield curve chart). The yield curve grew slightly steeper as well during the three months; the spread between the returns on the 10-year note and 1-year Treasury bill increased from 1.77 percent at year-end to 2.04 percent at the end of March.

Investors’ appeared more inclined to assume credit risk. The quarter marked a reversal of sentiment as investors stepped away from the safety of U.S. government obligations in favor of higher-yielding corporate bonds. For the quarter, long-term U.S. Treasuries in aggregate returned -1.3 percent with long-term government obligations tumbling -5.57 percent. Intermediate term corporate (credit) bonds gained 2.50 percent and high-yield bonds (“junk bonds”) delivered a 5.34 percent return. Municipal bonds gained 1.7 percent.

TIPS remained popular, gaining 0.9 percent, despite offering negative real returns. Inflation expectations reflected in the “TIPS spread” remain mild. At the end of April the spread between conventional treasuries 10-year and TIPS of similar maturity stood at 2.25 percent.

Real Estate⁴

Real Estate Investment Trusts (equity REITs) provided strong returns during



the quarter, gaining 10.49 percent, but trailed most other asset classes. As of March 31 REITs were providing an indicated dividend yield of 3.34 percent. Industrial/office and retail properties provided the highest returns among subsectors (14.66 percent and 14.56 percent, respectively). Health care REITs lagged, returning only 2.27 percent.

REITs have been among the best performing asset classes during the past two years. Though commercial real estate fell sharply during the market collapse of early 2009 along with most of our other recommended asset classes, REITs have generally displayed valuable portfolio diversification benefits since we began recommending them.

U.S. Equities⁵

The broad US market, as measured by the Russell 3000 Index, was up 12.87 percent for the quarter with double-digit returns among all of our recommended asset classes. Large caps value stocks were up 11.12 percent while large cap value shares gained 11.59 percent.

After outpacing the overall market for several quarters, traditionally

⁴ REIT data provided by National Association of Real Estate Trusts (NAREIT). (FTSE NAREIT All Equity REIT Index)

⁵ U.S. Market: Russell 3000 Index. Small cap value stocks: Russell 2000 Value Index, Large caps: Russell 1000 Growth & Russell 1000 Value Indices.

⁶ Source: Dimensional Fund Advisors Developed markets and Fidelity Management and Research Company: Large Cap-- MSCI World ex-USA Index, Small Cap -- MSCI World ex USA Small Cap Index. Value -- MSCI World ex USA Value Index Growth -- MSCI World ex USA Growth. Emerging markets: MSCI Emerging Markets Index, Small Cap MSCI Emerging Market Small Cap Index. Country performance provided by Dimensional Fund Advisors, based on respective indexes in the MSCI All Country World ex USA IMI Index (for developed markets) and MSCI Emerging Markets IMI Index. All returns in US currency and net of withholding tax on dividends. MSCI data copyright MSCI 2012, all rights reserved. Currency data: Dimensional Fund Advisors, Oanda.com.

	Total Return (%)												Entire Period 2Q 2009- 1Q 2012
	2009			2010				2011				2012	
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	
Barclay Capital 1-5 Yr. Govt./Credit	1.46	2.14	0.42	1.20	1.78	1.66	-0.60	0.27	1.49	0.91	0.43	0.54	10.70
Vanguard REIT Index	30.03	34.54	9.05	10.02	-4.01	13.10	7.42	6.50	3.51	-14.59	15.20	10.71	126.06
Vanguard Value Index	16.71	17.38	4.41	6.16	-10.93	9.71	10.17	7.02	-0.64	-15.53	12.44	10.58	56.42
High-Yield Dow 4/18	15.66	16.55	8.13	1.81	-8.97	20.83	6.69	6.66	2.05	-7.58	17.17	2.48	81.88
Vanguard Small Cap Value Index	23.83	23.89	3.79	10.15	-10.15	10.68	13.95	6.88	-1.87	-20.67	15.18	12.08	72.40
Vanguard Growth Index	15.59	14.13	7.88	4.85	-12.16	13.37	12.02	4.95	0.91	-13.40	10.90	15.22	68.77
Vanguard Developed Markets Index	25.59	19.25	1.67	1.26	-14.61	17.60	6.74	3.08	2.12	-20.11	4.01	11.54	28.39
Vanguard Emerging Markets Index	34.14	21.15	8.26	2.47	-9.12	18.74	7.49	1.78	-0.97	-23.97	5.99	13.94	44.26
Gold (London PM Fix)	1.96	6.55	9.21	2.57	11.52	5.06	7.54	2.38	4.62	7.61	-5.49	8.59	77.89

defensive sectors such as utilities took a back seat to more economically sensitive sectors. Utilities returned -1.8 percent while telecoms returned only 2.1 percent. Financials (22.0 percent), consumer discretionary (16.0 percent) and information technology shares (21.5 percent) benefited from monetary easing worldwide and signs of positive, if tepid global economic growth.

Over the first quarter our high-yield Dow model lagged most large cap value benchmark indexes by a considerable margin, with a meager 2.48 percent return. The model is now very highly concentrated in just four stocks and two industries. This has resulted in increased volatility from quarter to quarter, and has reduced the model's ability to track its benchmark indices. Despite this oscillating relative performance over the short-term, the table below demonstrates the model has held up quite well over longer periods.

The model is currently yielding 4.6 percent, so it is appropriate for accounts that are constrained by the need to produce investment income, especially certain trusts. Despite its tempting dividend yield the HYD model is generally not a good substitute for investors who have traditionally relied on money market funds and short-term

7 All gold prices and returns based on London PM fix.

bonds as a source of investment income.

International Equities⁶

Foreign stocks provided strong returns during the first quarter, with riskier small cap and emerging market stocks providing the strongest results. A generally weaker dollar boosted global returns for U.S. investors.

In developed markets, large caps returned 10.37 percent while small caps surged 13.63 percent in dollar terms. Value stocks turned in a 9.61 percent return while growth shares registered 11.13 percent. Returns were strong and not widely dispersed; 16 of 24 nations that comprise the MSCI All-World IMI index provided double-digit gains. Germany led with a 20.69 percent return. Only Spain had a loss, returning -2.79 percent.

Emerging markets rose 14.1 percent, marking the best quarter for this asset class since the third quarter of 2010. Within the emerging market universe, small caps returned 16.63 percent. Double digit returns were earned by 16 of 21 countries that comprise the MSCI Emerging Markets IMI Index, led by Egypt with a 39.23 percent gain.

The US dollar fell against most currencies during the first quarter (except for the Japanese yen), boosting the dollar

returns of foreign equities. The dollar did not benefit from a global flight to safety, as it had during previous quarters. The dollar fell roughly three percent against the euro, and the weaker dollar lifted emerging market returns by roughly 3.3 percent.

Gold Related Assets⁷

The gold price rose 8.6 percent during the first quarter, finishing at \$1,662.50 per ounce on March 30. The increase came despite developments that would normally suggest a lower price. Gold is regarded as a safe haven during economic downturns, yet the price rose even amidst the release of data pointing to a stronger U.S., economy. Housing, employment and consumer spending data were all positive. The gold price, generally, also responds positively during periods of loose monetary policy. Improving conditions in the U.S. first gave rise to speculation that the Fed might embrace a tighter policy, but those sentiments were reversed when at the end of March the Fed chairman reiterated the Fed's committed to near-zero short term rates until 2014. On a trade-weighted basis the dollar fell slightly against world currencies, which served to support the U.S. dollar gold price.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of April 13, 2012

	Rank	Yield (%)	Price (\$)	Status	—Percent of Portfolio—	
					Value (%)	No. Shares (%) ¹
AT&T	1	5.76	30.54	Holding**	24.45	24.18
Verizon	2	5.37	37.26	Holding**	24.06	19.50
Merck	3	4.45	37.78	Holding**	25.37	20.28
Pfizer	4	4.03	21.85	Holding**	26.08	36.04
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 March 31, 2012*.

	<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	2.85	13.25	1.81	6.66	11.83	15.90	17.94
Russell 1000 Value Index	2.96	4.79	-0.81	4.57	9.42	12.06	15.04
Dow	2.15	10.18	4.19	5.02	9.80	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 (\$)

	4/13/12	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	1666.50	1648.00	1476.75
Silver, London Spot Price	32.37	32.36	42.61
Copper, COMEX Spot Price	3.62	3.89	4.25
Crude Oil, W. Texas Int. Spot	102.82	105.10	109.65
Dow Jones Spot Index	428.97	445.01	498.82
Dow Jones-UBS Commodity Index	139.46	145.58	170.67
Reuters-Jefferies CRB Index	302.85	315.90	362.78

Interest Rates (%)

U.S. Treasury bills - 91 day	0.09	0.08	0.06
182 day	0.13	0.15	0.12
52 week	0.17	0.20	0.23
U.S. Treasury bonds - 10 year	2.02	2.29	3.51
Corporates:			
High Quality - 10+ year	3.93	4.11	5.16
Medium Quality - 10+ year	5.17	5.36	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	0.76	0.87	1.33
Government bonds - 10 year	1.69	1.96	3.44
Swiss Rates - 3 month	0.11	0.10	0.19
Government bonds - 10 year	0.78	0.81	2.05

Exchange Rates (\$)

British Pound	1.585100	1.566900	1.632500
Canadian Dollar	1.002200	1.007252	1.040042
Euro	1.308200	1.307000	1.444300
Japanese Yen	0.012350	0.012008	0.012029
South African Rand	0.125940	0.131390	0.146488
Swiss Franc	1.088300	1.082720	1.119194

Securities Markets

	4/13/12	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	1,370.26	1,402.60	1,319.68
Dow Jones Industrial Average	12,849.59	13,252.76	12,341.83
Dow Jones Bond Average	299.23	296.50	271.15
Nasdaq Composite	3,011.33	3,056.37	2,764.65
Financial Times Gold Mines Index	3,026.08	3,224.05	3,933.65
FT EMEA (African) Gold Mines	2,661.93	3,050.83	3,579.05
FT Asia Pacific Gold Mines	13,915.11	14,727.76	19,543.80
FT Americas Gold Mines	2,595.05	2,719.42	3,300.31

Coin Prices (\$)

	4/13/12	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	1,699.30	1,750.50	1,514.78	1.97
Austrian 100-Corona (0.9803)	1,594.22	1,643.82	1,424.53	-2.41
British Sovereign (0.2354)	399.30	411.40	357.90	1.79
Canadian Maple Leaf (1.00)	1,671.70	1,723.00	1,496.50	0.31
Mexican 50-Peso (1.2057)	1,964.30	2,025.40	1,755.30	-2.24
Mexican Ounce (1.00)	1,649.70	1,700.40	1,476.30	-1.01
S. African Kruggerand (1.00)	1,669.97	1,721.18	1,494.88	0.21
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,710.00	1,745.00	1,600.00	5.44
Liberty (Type I-AU50)	1,975.00	1,975.00	1,652.50	22.49
Liberty (Type II-AU50)	1,785.00	1,835.00	1,617.50	10.71
Liberty (Type III-AU50)	1,685.00	1,727.50	1,570.00	4.51
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	22,137.50	23,450.00	28,450.00	-4.34
40% Silver Circ. (292 oz.)	9,037.50	9,450.00	11,337.50	-4.37
Silver Dollars Circ.	25,875.00	26,425.00	31,150.00	3.34

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$1,666.5 per ounce and silver at \$32.37 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

THE DOW JONES INDUSTRIALS RANKED BY YIELD*

Ticker Symbol	Market Prices (\$)			12-Month (\$)		Latest Dividend Record		Indicated Annual Yield†			
	4/13/12	3/15/12	4/15/11	High	Low	Amount (\$)	Date	Paid	Dividend (\$)	(%)	
AT&T	T	30.54	31.64	30.65	31.97 <i>H</i>	27.29	0.440	4/10/12	5/1/12	1.760	5.76
Verizon	VZ	37.26	39.54	37.85	40.48	32.28	0.500	4/10/12	5/1/12	2.000	5.37
Merck	MRK	37.78	38.06	34.51	39.43	29.47	0.420	3/15/12	4/6/12	1.680	4.45
Pfizer	PFE	21.85	21.91	20.53	22.80 <i>H</i>	16.63	0.220	2/03/12	3/6/12	0.880	4.03
General Electric	GE	18.88	20.16	20.04	20.85	14.02	0.170	2/27/12	4/25/12	0.680	3.60
Johnson & Johnson	JNJ	63.54	65.07	60.56	68.05	59.08	0.570	2/28/12	3/13/12	2.280	3.59
Procter and Gamble	PG	<i>i</i> 65.81	67.68	64.18	67.95	57.56	0.562	4/27/12	5/15/12	2.248	3.42
Chevron	CVX	100.78	110.03	106.24	112.28	86.68	0.810	2/17/12	3/12/12	3.240	3.21
Dupont	DD	52.02	53.56	54.89	57.00	37.10	0.410	2/15/12	3/14/12	1.640	3.15
Kraft	KFT	37.35	38.30	33.36	39.06	31.88	0.290	3/30/12	4/16/12	1.160	3.11
Intel Corp	INTC	28.09	27.75	19.75	28.52 <i>H</i>	19.16	0.210	5/07/12	6/1/12	0.840	2.99
McDonald's	MCD	96.97	98.04	77.38	102.22	76.40	0.700	3/01/12	3/15/12	2.800	2.89
Coca-Cola	KO	71.94	70.33	68.01	74.39 <i>H</i>	63.34	0.510	3/15/12	4/1/12	2.040	2.84
Travelers	TRV	58.12	59.08	59.80	64.17	45.97	0.410	3/09/12	3/30/12	1.640	2.82
J P Morgan	JPM	43.21	44.70	44.89	46.49	27.85	0.300	4/05/12	4/30/12	1.200	2.78
3M Company	MMM	85.69	90.00	92.82	98.19	68.63	0.590	2/17/12	3/12/12	2.360	2.75
Wal-Mart Stores	WMT	59.77	61.23	53.55	62.63	48.31	0.398	12/07/12	1/2/13	1.590	2.66
Microsoft Corp.	MSFT	30.81	32.85	25.37	32.95 <i>H</i>	23.65	0.200	5/17/12	6/14/12	0.800	2.60
Boeing	BA	72.92	75.43	72.60	80.65	56.01	0.440	2/10/12	3/2/12	1.760	2.41
United Tech.	UTX	79.80	86.89	83.45	91.83	66.87	0.480	5/18/12	6/10/12	1.920	2.41
Home Depot, Inc.	HD	50.96	49.20	38.17	51.28 <i>H</i>	28.13	0.290	3/08/12	3/22/12	1.160	2.28
Exxon Mobil	XOM	82.95	86.09	84.29	88.13	67.03	0.470	2/10/12	3/9/12	1.880	2.27
Hewlett-Packard	HPQ	24.57	24.40	40.26	41.74	21.50	0.120	3/14/12	4/4/12	0.480	1.95
Caterpillar	CAT	105.89	113.45	107.21	116.95	67.54	0.460	4/23/12	5/19/12	1.840	1.74
Cisco	CSCO	19.85	19.91	17.03	21.30 <i>H</i>	13.30	0.080	4/05/12	4/25/12	0.320	1.61
IBM	IBM	202.80	206.00	166.21	210.69 <i>H</i>	157.13	0.750	2/10/12	3/10/12	3.000	1.48
Walt Disney	DIS	41.85	43.47	41.52	44.50 <i>H</i>	28.19	0.600	12/16/11	1/18/12	0.600	1.43
American Express	AXP	57.28	56.72	46.25	59.26 <i>H</i>	41.30	0.200	4/05/12	5/10/12	0.800	1.40
Alcoa	AA	9.85	10.35	16.52	17.96	8.45	0.030	2/03/12	2/25/12	0.120	1.22
Bank of America	BAC	8.68	9.24	12.82	12.71	4.92	0.010	6/01/12	6/22/12	0.040	0.46

* See the Recommended HYD Portfolio table on page 30 for current recommendations. † Based on indicated dividends and market price as of 4/13/12. 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 4/16/11. / Dividend increased since 3/15/12 *D* Dividend decreased since 3/15/12

RECOMMENDED INVESTMENT VEHICLES

Security Symbol	Avg. Market Cap./Avg. Maturity	No. of Holdings	Descriptive Quarterly Statistics, as of 3/31/12		Ratios		Annualized Returns ⁸ (%), as of 3/31/12						
			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	2.80 Yrs.	1354	0.22	2.08	67	--	1.71	3.31	3.69	4.52	2.60	2.85	3.43
iShares Barclays 1-3 Yr. Credit Bond	1.91 Yrs.	682	0.20	2.00	12	--	1.81	2.34	5.30	4.20	1.69	4.35	3.00
iShares Barclays 1-3 Year Treasury	1.91 Yrs.	61	0.15	1.20	85	--	0.74	1.33	1.35	3.28	1.07	0.92	2.48
Vanguard Limited-Term Tax-Exempt	2.70 Yrs.	1611	0.20	1.99	14	--	2.10	3.62	3.24	3.58	3.62	3.24	3.58
SPDR Short-Term Municipal Bond	3.07 Yrs.	374	0.20	1.24	25	--	1.42	3.35	2.72	--	2.81	2.49	--
Inflation-Protected Fixed Income													
iShares Barclays TIPS Bond	9.25 Yrs.	35	0.20	1.66	15	--	3.70	11.98	8.54	7.46	10.47	7.25	5.96
Vanguard Inflation-Protected Securities	9.20 Yrs.	32	0.20	1.65	28	--	3.68	12.02	8.44	7.28	10.54	7.37	5.93
Real Estate													
Vanguard REIT Index	6.59 B	115	0.24	1.49	10	1.7	3.23	12.76	43.25	0.31	11.72	41.68	-0.90
SPDR Dow Jones REIT	8.43 B	83	0.25	1.49	10	2.2	2.92	13.27	44.07	-0.77	12.00	42.31	-2.05
U.S. Large Cap Value													
Vanguard Value Index	42.5 B	422	0.24	1.30	23	1.5	2.32	4.35	22.22	-0.62	3.96	21.76	-1.03
iShares Russell 1000 Value Index	36.46 B	659	0.20	1.27	24	1.5	2.16	4.60	22.60	-0.91	4.12	22.14	-1.30
U.S. Small Cap Value													
iShares Russell Microcap Index	0.28 B	1380	0.60	1.08	35	1.5	1.20	-2.28	25.87	-1.72	-2.58	25.62	-1.90
Vanguard Small-Cap Value Index	1.29 B	1010	0.24	1.22	30	1.2	1.84	0.50	28.76	1.58	0.07	28.27	1.13
U.S. Large Cap Growth													
iShares Russell 1000 Growth Index	44.10 B	586	0.20	1.44	24	4.0	1.22	10.83	25.02	4.93	10.53	24.73	4.71
Vanguard Growth Index	38.73 B	403	0.24	1.40	23	3.3	0.98	11.66	24.95	5.09	11.47	24.74	4.92
U.S. Marketwide													
Vanguard Total Stock Market Index	27.49 B	3326	0.17	1.37	5	2.0	1.63	7.21	24.39	2.40	6.91	24.04	2.11
Fidelity Spartan Total Market Index	29.77 B	3272	0.10	1.37	4	2.1	1.60	7.23	24.36	2.37	6.94	24.00	2.03
Foreign-Developed Markets													
iShares MSCI Growth Index	26.62 B	559	0.40	0.87	27	2.0	2.21	-3.90	17.41	-1.98	-4.06	17.22	-2.11
iShares MSCI Value Index	35.03 B	490	0.40	0.77	29	1.0	4.13	-7.91	16.33	-5.23	-8.20	16.00	-5.54
Vanguard Europe Pacific Index	28.53 B	899	0.12	0.84	5	1.2	3.11	-5.43	17.17	-3.23	-5.74	16.87	-3.47
Vanguard Developed Markets Index	27.90 B	940	0.20	0.84	5	1.2	3.25	-5.35	17.26	-3.34	-5.90	16.76	-3.88
SPDR S&P International Small Cap	1.04 B	730	0.61	1.09	22	1.1	2.13	-6.50	24.11	--	-6.82	23.63	--
Foreign-Emerging Markets													
Vanguard Emerging Market Index	17.27 B	900	0.33	0.98	10	1.7	1.93	-9.07	24.60	4.42	-9.35	24.30	4.06
Gold-Related Funds													
iShares COMEX Gold Trust	--	1	0.25	1.04	--	--	0.00	15.22	21.31	19.77	15.22	21.31	19.77
SPDR Gold Shares	--	1	0.40	1.04	--	--	0.00	15.08	21.48	19.76	15.08	21.48	19.76

Recommended Gold-Mining Companies (\$)

Ticker Symbol	Year Earlier	--- 52-Week ---		Dividends Paid Last 12 Months	Payment Schedule	Yield (%)
		High	Low			
AU	4/13/12	34.01	38.42	0.4935	Semiannual	1.4510
ABX	4/13/12	41.61	43.85	0.4590	Quarterly	1.1031
GG	4/13/12	12.82	14.21	0.4423	Semiannual	3.4501
GLD	4/13/12	41.61	44.48	0.3936	Monthly	0.9458
NEM	4/13/12	48.68	53.84	1.2000	Quarterly	2.4651

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 *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.

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