AIS INVESTMENT GUIDE

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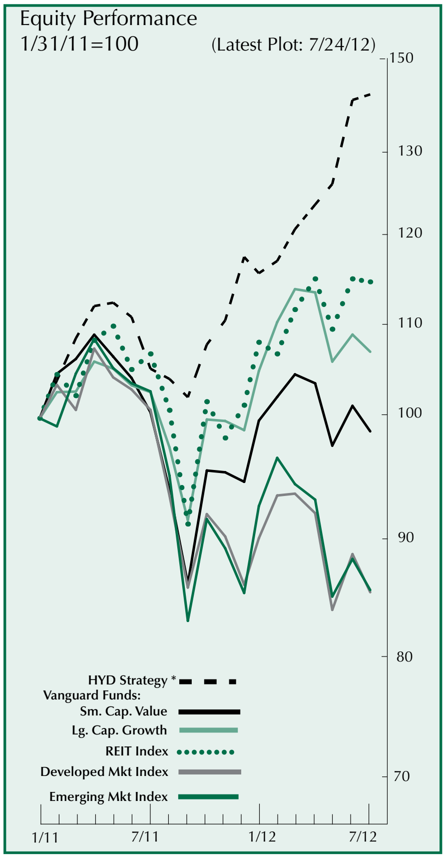


* HYD is a hypothetical model based on back-tested results. See p.51 for full explanation.

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

"What's Your Performance?"

Beginning this month we will present hypothetical performance figures for our recommended portfolios on a "net-of-fee" basis. This change follows an internal review of our own procedures, which have always acknowledged that we published for two audiences, our readers and our advisory clients, who arguably are better served by results presented "gross of fees" and "net of fees", respectively.

Through our Professional Asset Management program (PAM) we manage roughly $550 million on behalf of 330 individual and institutional clients. Prospective clients often ask us what our "performance" has been. What is often sought is a summary number, typically annualized returns, which presumably will be used for comparison with alternative money managers.

As a wholly owned subsidiary of an educational organization and as fiduciaries to our clients, our first duty is to remind investors that past performance is a poor guideline for assessing future performance, whether measured in absolute terms or even when compared with a benchmark. Second, we explain that our objective is not to beat the market in any sense. Rather it is to ensure our clients have the highest probability of meeting their investment objectives by forming and maintaining a portfolio with targeted exposure to the overall market.

We nevertheless understand the desire for a yardstick, and we do our best to provide one. Historically, in response to these inquiries we have cited the hypothetical returns provided in our AIS Model Portfolios table and in our Recommended High-Yield Dow (HYD) model (see pages 52 and 54 for our most recent calculations).

We offer these hypothetical results in lieu of actual, aggregate results for our PAM clients, because each of our 330 clients has a customized allocation plan predicated on an individual's goals and tolerance for withstanding risk. Clients with greater risk tolerance, for example, can expect higher but more volatile returns compared with low-risk clients. It would be misleading to provide a single number that claimed to represent the experience of a "typical" AIS client because no such client exists.

Industry standards have been developed to address this dilemma. Global Investment Performance Standards (GIPS) provide exacting standards that permit the segregation of accounts by risk category (e.g. low, moderate, or high risk) and for monitoring and measuring subsequent performance. While we are confident that our performance statistics are accurate and consistent with SEC parameters, claiming GIPS compliance requires a large expenditure of time and resources and, as is the case in any business, such costs must ultimately be absorbed by our clients. We are committed to ensuring our fees remain extremely competitive. As we grow we will continue to monitor this trade-off and we will pursue formal GIPS compliance when these efforts are cost-justified.

Performance advertising is also heavily regulated. The SEC generally

(continued next page)

defines an advertisement as any written communication, which includes websites and e-mails, directed to more than one person concerning advice, or recommendations about the purchase or sale of securities, or any other advisory service. The SEC anti-fraud rules under the Advisers Act prohibit advisers from engaging in advertising practices which are fraudulent, deceptive or manipulative.

During our last SEC routine examination the examiner was of the opinion that the *Investment Guide* fell under the advertising rule because every month we describe our investment management services, and all performance related information in the *Investment Guide* must therefore comply with SEC advertising guidelines.

Historically, we have depicted the performance statistics for the hypothetical High Yield Dow strategy and for our recommended AIS model portfolios on a "gross-of-management-fee" basis (these represent models and benchmark indexes that are not reduced to reflect management fees). Since most of our readers are not enrolled in our advisory services (and therefore incur no professional management fee) we reasoned that publishing results gross of fees would be most appropriate, and more useful, than results that were net-of-fees.

We recently revisited this practice during our annual internal compliance review. Out of an abundance of caution regarding our adherence to SEC advertising regulations we will publish our hypothetical performance statistics on a net-of-fee basis, beginning with this issue. Readers should be aware that results in the future will therefore be reduced slightly from what they would have been on a gross-of-fee basis. Specifically, the hypothetical returns for the AIS model portfolios and the HYD model are reduced to reflect the annual fee we would assess on a $500,000 account. This equates to 0.68 percent for PAM and 0.55 percent for HYD.

PRINCIPAL–GUARANTEED PRODUCTS: PAYING OTHERS TO ASSUME RISK

Aggressive salespeople are pushing a variety of contractual investment products, including guaranteed annuities, CDs and other variations of traditional investment vehicles that promise investors downside protection in the form of a "floor". Very often these contracts guarantee that after a stated period the investor will be repaid an amount no less than their original investment, without sacrificing any "upside" in the form of higher returns that capital markets might provide.

These products are proving popular in the aftermath of one of the most severe bear markets in history. But clever sales pitches dismiss the fact that such protection does not come for free. Someone must hold the downside risk inherent in capital markets. An investor who does not wish to bear that risk must find another investor willing to assume it, but that counterparty will insist on being paid to do so.

The Guarantee

The credit quality of the issuer is an extremely important consideration for anyone considering a structured product. Although the cash flows and instruments underlying these products are provided externally, the product is legally a liability of the issuing financial institution.

Investors should therefore consider carefully the value of the guarantee being promoted. A firm, for a fee, might guarantee that an investor will in five years be repaid an amount no less than his original investment. However, that guarantee is good only as long as the financial institution remains solvent. Keep in mind that Lehman Brothers failed, and that this once venerable institution collapsed during a severe market downturn, precisely when the investor would have needed downside protection.

Liquidity: You Want to Get Out?

It is very difficult for investors to get out of a guaranteed product once the contract has been entered into. An investor who holds an U.S. stock market index mutual fund or ETF can easily liquidate his position at market value if he needs cash. But a structured note is a one-on-one contract with a financial institution for which there is no ready market. When it comes to early redemption the investor is in effect at the mercy of the issuer; the proceeds of such liquidation prior to the end of the contract will depend on the price the financial institution is willing to pay.

How Does it Work?

The index-based funds we recommend are simple to understand and transparent. Structured products, by comparison, can be extremely complex and difficult to evaluate. Some might be leveraged, for example, providing the opportunity for outsized returns relative to the market, but provide a "floor" that is less than the investor's original investment. A variety of caveats and appealing "bells and whistles" can be thrown in. In addition to principal protected notes, investors might encounter nomenclature such as auto-callable notes and reverse convertibles. If you cannot understand it, do not buy it.

The fees assessed by index-based funds are transparent and very low compared with fees assessed by many structured products. An index fund's expense ratio is a reliable gauge of investment-related expenses since costs not accounted for in the expense ratio, such as trading costs incurred through bid-ask spreads, are minimal in an index fund. Structured products on the other hand, can assess a variety of fees that, even if fully disclosed, are very high and rarely emphasized by brokers or firms selling them. These fees can include annual asset-based fees, commissions, the costs of undertaking any hedges, and the profit the issuer assesses for assuming the guarantee. Opportunity costs should be considered as well; structured notes that offer participation in stock market returns often rely on derivatives rather than direct investments, in which case investors will not receive the dividends they would otherwise receive from an index fund.

In summary, structured products should be approached with caution, but not rejected out of hand. Advances in financial engineering, coupled with a growing awareness of indexing benefits, have produced innovative approaches and products that may be well-suited to addressing the retirement income conundrum. Future issues of the *Investment Guide* will address these emerging opportunities.

IMMEDIATE ANNUITIES: CAVEATS APPLY

In the accompanying article we discuss often overlooked risks and potential costs in structured investment products. The concept of a "guaranteed floor" has also been extended to *immediate annuities* which begin making periodic payments shortly after they are purchased. As we explained in last month's *Investment Guide* traditional, low-cost immediate annuity might deserve a place alongside a well allocated investment portfolio. However, far too many inferior products are being aggressively foisted upon retirees fearful of outliving their income.

Immediate annuities provide a stream of income as long as the annuitant lives. An insurance company can guarantee that income because the mortality experience of large groups is predictable. Firms can offer contracts that will provide payments to those who exceed their life expectancies because they are funded in part by premiums paid by other annuitants who die prematurely relative to their life expectancies.

These simple "lifetime only" contracts, however, have numerous variations, such as installment refunds, stepped-up payments, and joint-and-life survivorship features. All of these provide a reduced income stream, higher fees, or both, compared to lifetime only annuities. Faced with the reality of price inflation, annuitants have come to demand contracts with payments that can increase over time. The industry has responded with products that provide payments indexed to inflation. Perhaps the most significant innovation, however, is the variable-rate immediate annuity. Under these contracts, premiums are invested in subaccounts similar to mutual funds in which the annuitant, rather than the insurance company, bears the market risk, since the periodic payments will vary with the experience of the underlying investment.

Many firms are now offering an array of policy riders that seek to limit the downside of these variable payments by guaranteeing a "floor" below which payments cannot fall, but also promising annuitants that they will enjoy higher payments when the market does well. Ever more creative riders with new promises and fees are emerging regularly.

It is beyond the scope of this article to catalogue all the new products that have been marketed recent years, and which continue to emerge regularly. Our concern is that many, though not all of these products are sold through high-pressure sales tactics. In many cases fees are exorbitant (sub-account expense ratios average about 1.8 percent higher than mutual fund alternatives), payment limits are glossed over, and risks, if stated, are underemphasized. When we (painstakingly) dissect these contracts more often than not we recommend that investors "just say no."

There are, however, innovative annuities that are based on sound economics and worth a closer look. These include both (immediate) contingent annuities, which claim to provide a more flexible form of "longevity insurance", as well as deferred annuities that offer guaranteed minimum withdrawal benefits. We will analyze these products in future installments of our series on income in retirement.

QUARTERLY REVIEW OF CAPITAL MARKETS[1]

Capital markets were buffeted by a variety of headlines during the quarter, with mixed results. The European crisis continued as Eurozone countries agreed to recapitalize major banks and Greece struggled for political stability. In the U.S. J.P Morgan reported massive trading losses within its risk-management division while Facebook lost nearly a quarter of its value following a highly publicized IPO. The U.S. Supreme Court upheld the Federal healthcare overhaul by validating a tax penalty to enforce compulsory insurance.

Cash equivalent assets continued to lose value in real terms. Interest rates fell further, resulting in positive nominal returns for longer term fixed income assets. Among bonds long-term U.S. government obligations stood out, returning just over 10 percent.

U.S. equities began the quarter at their highest level since 2008 but ultimately lost ground across the board. Value stocks held up slightly better than growth stocks. There was little distinction in the size dimension as small cap and large cap stocks alike turned in small losses. In overseas markets stocks in developed countries fell over seven percent and signs of slowing global growth sent emerging markets down almost nine percent. Gold fell from favor as the London P.M. fix fell nearly four percent over the three months.

In this low interest rate environment, it is easy to be lured into various products promising steady income. Last month we provided a detailed description of immediate annuities as the first part of a series of articles that will address several alternatives investors are facing. This month we address other structured products.

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]

The fed funds rate remained at 0.25 percent during the quarter as the Fed maintained an accommodative monetary policy in the face of high unemployment claims, lackluster household spending and stagnant home prices. The central bank continued its Operation Twist strategy by lengthening the average maturity of its bond portfolio without expanding the size of its balance sheet.

Rates on cash and equivalent assets generally fell further and investors continued to experience negative returns after factoring in price inflation. One-year Treasury yields remained essentially unchanged, closing the quarter at 0.21 percent before inflation, and as of mid-July one-year CDs were yielding 0.31 percent.[3] Through June year-over-year price inflation measured by the CPI stood at 1.7 percent while AIER's Everyday Price Index (EPI), which measures prices of goods and services that consumers purchase frequently, increased by 0.74 percent.

Fixed Income

Interest rates fell during the quarter, especially among longer-term bonds (see accompanying Yield Curve chart). This is consistent with the Fed's Operation Twist policy objective. Long-term Treasury rates finished the quarter at 2.76 percent, roughly two-thirds of their yield just one year ago. In June the ten-year U.S. Treasury note reached an all-time low yield of 1.47 percent.

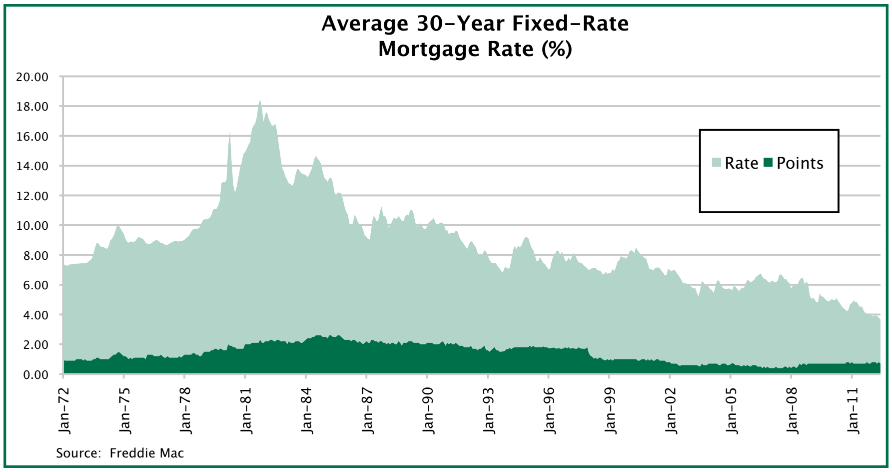
The quarter began with a global flight to safety. As prices for high-quality bonds rose, yields fell among nominal and inflation-protected U.S. Treasuries

(TIPS), which returned 2.8 percent and 3.2 percent, respectively over the full three months. Treasuries rose sharply during the first two months amidst renewed fears regarding the sovereign debt of Greece, Spain and Italy, but fell back slightly in June when Eurozone leaders made progress toward shoring up ailing banks. As confidence in the European banking system fell investors' collective flight to safety was so extreme that in May German investors in two-year bonds accepted negative *nominal* yields.

U.S. credit spreads increased during the quarter as investors demanded additional yield for holding corporate over government debt in response to news of a weakening economy. Most of the change occurred in late May. By quarter-end corporate bonds had returned 1.53 percent while municipal bonds returned 1.9 percent.

Bond investors confront a world in which the Fed is deliberately attempting to keep nominal rates at historic lows to stimulate growth. Its expansionary monetary policy has resulted in price inflation that is moderate but still exceeding those nominal rates.

On the positive side, borrowing costs are at historic lows (see accompanying mortgage rate chart). At the end of June the average 30-year fixed rate mortgage rate stood at 3.65 percent, its lowest level since 1971.[4]



Real Estate[5]

Real Estate Investment Trusts gained 4.0 percent during the quarter, outpacing both stocks and bonds. REITS finished the period with an indicated dividend yield of 3.29 percent. Year-to-date returns have been strong among all subsectors. For the six months retail properties provided a 21.56 percent return while residential property REITs turned in the lowest returns at 9.50 percent.

Equity REIT returns are not strongly correlated with the returns of bonds or stocks, and have historically provided returns well in excess of price inflation. REITs are highly liquid and provide a strong level of dividend income because by law REITs are required to pay out at least 90 percent of taxable income to their shareholders in the form of dividends. Because this income is

AIS Model Portfolios(1)
For the Period Ending June 30, 2012

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	0.31	2.21	3.54	0.64
Short/Int. Fixed Income	Barclays Capital 1-5 Yr Govt/Cred	40	30	0	2.49	4.11	5.29	2.26
Real Estate	DJ US Select REITs Index	10	10	10	13.29	10.27	11.47	20.97
U.S. Large Cap Growth	Russell 1000 Growth Index (USD)	5	5	10	5.76	6.03	7.46	17.44
U.S. Large Cap Value	Russell 1000 Value Index (USD)	15t	20	30	3.01	5.27	9.07	15.03
U.S. Small Cap Value	Russell 2000 Value Index (USD)	5	7	13	-1.44	6.50	10.58	17.43
	DFA US Micro Cap Portfolio (USD)	0	3	7	-0.76	7.60	11.51	21.06
Foreign Developed Markets	MSCI EAFE Index (USD) Gross Div	5	7	13	-13.38	5.62	5.66	17.11
Foreign Emerging Markets	MSCI Emg. Mkts. Index (USD) Gross Div	0	3	7	-15.67	14.42	8.31	24.11
Gold Related	Gold (London PM Fix Price)	0	5	10	6.18	17.52	8.00	16.00
	Total	100	100	100				

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

	Conservative	*Moderate*	*Aggressive*
Portfolio Return 1 Year	1.68	1.04	-0.34
Portfolio Return 10 Year (annualized)	5.49	6.95	7.93
Portfolio Return 20 Year (annualized)	6.76	7.82	9.06
Portfolio Standard Deviation 20 Year (annualized)	5.94	8.31	13.97
Growth of $100 over 20 Years	$370	$451	$567

(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 56.
(3) Investors should maintain cash balances adequate to cover living expenses for up to 6 months in addition to the cash levels indicated.
(4) AIS Model Portfolio returns reflect the deduction of 0.68% management fee, the annual rate assessed to a $500,000 account managed through our Professional Asset Management service.

taxable as ordinary income, investors should hold REITs in tax-deferred accounts if possible.

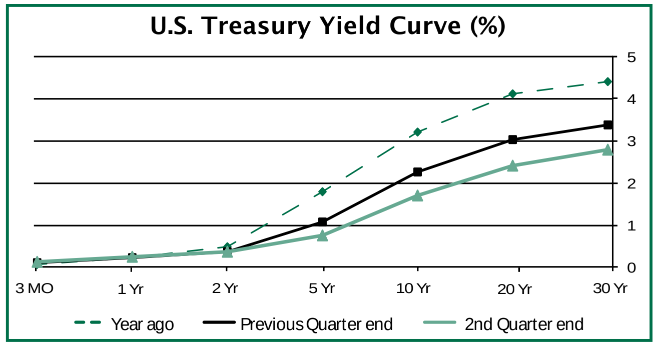
U.S. Equities[6]

The broad U.S. equity markets posted a -3.15 percent return for the quarter, with all of our recommended asset classes registering losses. Large cap value stocks returned -2.20 percent versus -4.02 percent for large cap growth stocks. Small cap value shares ended the quarter with a -3.01 percent return.

Among industries, defensive sectors returned as the strongest performers during the second quarter. Performance leadership shifted from the financial and information technology sectors, which led during the first three months, to telecommunications and utilities. These sectors climbed 14.1 percent and 6.5 percent, respectively.

Our high-yield Dow model provided hypothetical returns of 11.29 percent during the quarter, exceeding the returns of both the overall stock market and large cap value indexes by a wide margin. This is a reversal of the first quarter during which the HYD model returns fell far short of the broader market returns. The model is likely to provide highly volatile returns going forward and is appropriate only for investors with substantial assets (our recommended minimum portfolio is $100,000). Furthermore this allocation should comprise only a portion of an investor's allocation to large cap value stocks.

International Equities[7]



Developed international markets returned -7.20 during the second quarter, their worst performance since March 2009. Small caps turned in larger losses than large caps. These losses were partly explained by the U.S. dollar, which strengthened against most foreign currencies. Most notably, both Spain and Germany registered returns of 7 percent in local currencies but 12 percent in dollar terms. No developed market nations escaped losses, which ranged between -1.40 percent (Belgium) to -20.99 (Finland). Within the size and style risk dimensions, large caps outperformed small caps, with no distinction between value and growth shares.

Emerging market stocks returned -8.89 percent for the quarter. Small caps fared slightly better than large caps. These losses resulted from losses in local currencies as well as form exchange rates, as the U.S. dollar appreciated against the major emerging market currencies. Of the 21 countries in the MSCI Emerging Markets Index only two, Turkey and the Philippines, managed positive returns.

U.S. investors should continue to maintain exposure to foreign equities, consistent with our recommended allocations. The financial media will no doubt continue to fixate on Europe's debt problem. Despite these challenges, the European Union still accounts for 25 percent of global GDP and we have no reason to believe current asset prices do not reflect current known risks.

Gold Related Assets[8]

The gold price began the quarter at $1,677.50 per ounce, marking the high for the quarter. The price fell as low as $1,540 in May before closing out the three months at $1,576.25. The price declined in most currencies, with the exception of the euro, Swiss franc and Indian rupee. Over the first half of 2012 the gold price increased 4.4 percent.

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, Dimensional Fund Advisors. 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
4 Source: Freddie Mac (average 30-year fixed-rate mortgage rate, weekly survey)
5 REIT data provided by National Association of Real Estate Trusts (NAREIT). (FTSE NAREIT All Equity REIT Index)
6 U.S. Market: Russell 3000 Index. Small cap value stocks: Russell 2000 Value Index, Large caps: Russell 1000 Growth & Russell 1000 Value Indices. Sector returns represented by S&P 500 sectors
7 Source: Dimensional Fund Advisors and Fidelity Management and Research Company: Developed markets 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.
8 All gold prices and returns based on London PM fix.

Total Return (%)

	2009		*2010*				*2011*				*2012*		*Entire Period 2Q 2009-*
	3Q	*4Q*	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*1Q 2012*
Barclay Capital 1-5 Yr. Govt./Credit	2.14	0.42	1.20	1.78	1.66	-0.60	0.27	1.49	0.91	0.43	0.54	0.59	9.02
Vanguard REIT Index	**34.54**	9.05	10.02	-4.01	13.10	7.42	6.50	3.51	-14.59	15.20	10.71	3.70	**74.23**
Vanguard Value Index	17.38	4.41	6.16	-10.93	9.71	10.17	**7.02**	-0.64	-15.53	12.44	10.58	-2.46	29.98
High-Yield Dow 4/18	16.55	8.13	1.81	-8.97	**20.83**	6.69	6.66	2.05	-7.58	**17.17**	2.48	**11.29**	73.67
Vanguard Small Cap Value Index	23.89	3.79	**10.15**	-10.15	10.68	**13.95**	6.88	-1.87	-20.67	15.18	12.08	-3.15	34.78
Vanguard Growth Index	14.13	7.88	4.85	-12.16	13.37	12.02	4.95	0.91	-13.40	10.90	**15.22**	-3.92	42.07
Vanguard Developed Markets Index	19.25	1.67	1.26	-14.61	17.60	6.74	3.08	2.12	-20.11	4.01	11.54	-6.86	0.27
Vanguard Emerging Markets Index	21.15	8.26	2.47	-9.12	18.74	7.49	1.78	-0.97	-23.97	5.99	13.94	-8.41	9.07
Gold (London PM Fix)	6.55	**9.21**	2.57	**11.52**	5.06	7.54	2.38	**4.62**	**7.61**	-5.49	8.59	-3.85	60.52

The slowing global economy has been disinflationary. The immediate effect has been a lower gold price. But a slowing economy also prompts governments and banks to extend fiscal and monetary stimulus, which ultimately debases currencies further. It is this inexorable trend toward long term monetary inflation that leads us to recommend gold in small proportion for most investors.

There is no clear path evident for addressing Europe's challenges. Until there is genuine progress toward resolving the fiscal plight of the Eurozone's weaker states, gold is likely to remain a refuge for investors seeking to diversify from fiat currencies.

The stronger dollar that emerged in the second quarter is no guarantee of a repeat performance. The dollar is only one of several fiat currencies, among which strength is relative. The U.S. debt ceiling will no doubt emerge as a central focus in the media as elections approach. The political dilemma is compounded by tax cuts due to expire at year-end and a looming sequester that would cut spending across the board. Investors have turned to gold throughout the financial crisis that began in late 2007. Subscribers would be wise to continue to hold gold related assets within their portfolio, consistent with the accompanying AIS Model Portfolios table.

THE PRICES YOU PAY…AN UPDATE ON THE EPI[1]

According to the AIER Everyday Price Index, the prices of goods and services that Americans purchase frequently fell 1 percent in June (before seasonal adjustments). The Consumer Price Index, in contrast, decreased 0.1 percent in June.

The difference comes from the basket of goods the two indexes measure.

The EPI, a proprietary index of the American Institute for Economic Research, captures the expenses people have to budget for every month. It looks at only the items most consumers purchase on a regular basis, such as food, utilities and motor fuel.

The CPI, which is produced by the U.S. Bureau of Labor Statistics, considers a larger array of goods and services. This index includes housing, clothing, and big ticket items such as appliances, furniture, and cars.

For all of 2012, the AIER EPI has increased 1.6 percent, compared to only 1.2 percent increase in the official CPI.

The June decrease in the EPI was driven primarily by the decrease in the cost of motor fuel, which fell by 6 percent. The price drop is a welcome relief from overall rising prices and provides some breathing room in the everyday budgets of people. But fuel prices are notoriously volatile and can change their trend at any time.

Prices of other everyday goods and services, which tend not to fluctuate as much, continue their steady increase. This includes a 2.5 percent increase in the cost of household utilities (mostly electricity).

The longer term trend of rising everyday prices has not been broken. Prices of goods and services consumers buy on everyday basis have increased some 50 percent over the last decade. Falling fuel costs provide temporary respite. As soon as fuel costs stop their decline we will be back in the world of rising prices.

1 Written by Polina Vlasenko, PhD, Research Fellow, AIER

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of July 13, 2012					*—Percent of Portfolio—*	
	Rank	*Yield (%)*	*Price ($)*	*Status*	*Value (%)*	*No. Shares (%)*[1]
AT&T	1	4.98	35.35	Holding**	24.86	24.23
Verizon	2	4.42	45.21	Holding**	25.50	19.43
Merck	3	3.86	43.47	Holding**	25.91	20.53
Pfizer	4	3.86	22.81	Holding**	23.69	35.79
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 June 30, 2012*.

	1 mo.	1 yr.	5 yrs.	10 yrs.	20 yrs.	Since 1/79	Std. Dev.
HYD Strategy	7.01	22.94	2.01	8.27	11.64	15.59	17.90
Russell 1000 Value Index	4.96	3.01	-2.19	5.27	9.07	11.89	15.05
Dow	4.05	6.63	2.00	6.02	9.52	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. 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. HYD Strategy results reflect the deduction of 0.55% management fee, the annual rate assessed to a $500,000 account managed through our High Yield Dow investment service.

RECENT MARKET STATISTICS

Precious Metals & Commodity Prices ($)

	7/13/12	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**1,595.50**	1627.25	1587.00
Silver, London Spot Price	**27.48**	28.66	38.17
Copper, COMEX Spot Price	**3.50**	3.39	4.41
Crude Oil, W. Texas Int. Spot	**87.09**	84.02	95.68
Dow Jones Spot Index	**428.83**	393.90	481.51
Dow Jones-UBS Commodity Index	**140.34**	128.79	164.54
Reuters-Jefferies CRB Index	**293.96**	272.23	346.30

Interest Rates (%)

U.S. Treasury bills -	91 day	**0.10**	0.09	0.02
	182 day	**0.15**	0.15	0.05
	52 week	**0.19**	0.17	0.14
U.S. Treasury bonds -	10 year	**1.52**	1.60	2.94
Corporates:				
High Quality -	10+ year	**3.43**	3.64	4.91
Medium Quality -	10+ year	**4.89**	5.02	5.74
Federal Reserve Discount Rate		**0.75**	0.75	0.75
New York Prime Rate		**3.25**	3.25	3.25
Euro Rates	3 month	**0.51**	0.66	1.61
Government bonds -	10 year	**1.28**	1.46	2.66
Swiss Rates -	3 month	**0.08**	0.09	0.18
Government bonds -	10 year	**0.60**	0.58	1.53

Exchange Rates ($)

British Pound	**1.555000**	1.565400	1.614900
Canadian Dollar	**0.985000**	0.976200	1.048000
Euro	**1.223200**	1.263300	1.415600
Japanese Yen	**0.012600**	0.012700	0.012700
South African Rand	**0.120900**	0.119560	0.145100
Swiss Franc	**1.018600**	1.052000	1.225800

Securities Markets

	7/13/12	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,356.78**	1,342.84	1,316.14
Dow Jones Industrial Average	**12,777.09**	12,767.17	12,479.73
Dow Jones Bond Average	**312.42**	303.43	279.66
Nasdaq Composite	**2,908.47**	2,872.80	2,789.80
Financial Times Gold Mines Index	**2,636.56**	2,931.72	3,850.36
FT EMEA (African) Gold Mines	**2,613.27**	2,812.51	3,367.65
FT Asia Pacific Gold Mines	**9,971.24**	11,423.94	19,331.48
FT Americas Gold Mines	**2,261.17**	2,526.23	3,258.69

Coin Prices ($)

	7/13/12	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	**1,628.30**	1,661.70	1,596.28	2.06
Austrian 100-Corona (0.9803)	**1,532.93**	1,565.32	1,503.43	-1.99
British Sovereign (0.2354)	**381.30**	389.20	377.10	1.52
Canadian Maple Leaf (1.00)	**1,604.20**	1,635.80	1,578.00	0.55
Mexican 50-Peso (1.2057)	**1,888.90**	1,928.80	1,852.50	-1.81
Mexican Ounce (1.00)	**1,587.10**	1,620.20	1,556.90	-0.53
S. African Krugerrand (1.00)	**1,601.88**	1,630.28	1,576.28	0.40
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**1,675.00**	1,665.00	1,662.50	8.51
Liberty (Type I-AU50)	**2,025.00**	2,025.00	1,705.00	31.18
Liberty (Type II-AU50)	**1,700.00**	1,700.00	1,655.00	10.13
Liberty (Type III-AU50)	**1,655.00**	1,640.00	1,637.50	7.21
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**19,412.50**	20,475.00	24,862.50	-1.20
40% Silver Circ. (292 oz.)	**7,825.00**	8,237.50	10,162.50	-2.48
Silver Dollars Circ.	**25,187.50**	25,575.00	27,387.50	18.48

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $1,595.50 per ounce and silver at $27.48 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 ($) 7/13/12	6/15/12	7/15/11	12-Month ($) High	Low	Latest Dividend Amount ($)	Record Date	Paid	Indicated Annual Dividend ($)	Yield† (%)
AT&T	T	35.35	35.71	30.31	36.21 *H*	27.29	0.440	7/10/12	8/1/12	1.760	4.98
Verizon	VZ	45.21	43.55	36.82	45.29 *H*	32.28	0.500	7/10/12	8/1/12	2.000	4.42
Merck	MRK	43.47	38.94	35.93	43.57 *H*	29.47	0.420	6/15/12	7/9/12	1.680	3.86
Pfizer	PFE	22.81	22.61	19.75	23.30	16.63	0.220	8/03/12	9/5/12	0.880	3.86
Dupont	DD	47.63	50.24	54.09	55.40	37.10	0.430	5/15/12	6/12/12	1.720	3.61
Johnson & Johnson	JNJ	68.61	66.01	67.45	68.74 *H*	59.08	0.610	5/29/12	6/12/12	2.440	3.56
Procter and Gamble	PG	65.09	62.88	64.83	67.95	57.56	0.562	7/20/12	8/15/12	2.248	3.45
General Electric	GE	19.77	20.00	18.41	20.84 *H*	14.02	0.170	6/25/12	7/25/12	0.680	3.44
Chevron	CVX	106.01	104.33	106.19	112.28	86.68	0.900	5/18/12	6/11/12	3.600	3.40
J P Morgan	JPM	36.07	35.03	39.98	46.49	27.85	0.300	7/06/12	7/31/12	1.200	3.33
Intel Corp	INTC	25.25	27.34	22.37	29.27	19.16	0.210	5/07/12	6/1/12	0.840	3.33
McDonald's	MCD	92.29	90.50	85.48	102.22	82.01	0.700	6/04/12	6/15/12	2.800	3.03
Kraft	KFT	39.71	38.64	35.37	39.99	31.88	0.290	6/29/12	7/16/12	1.160	2.92
Travelers	TRV	63.13	63.41	57.90	65.27	45.97	0.460	6/08/12	6/29/12	1.840	2.91
United Tech.	UTX	73.59	74.49	88.32	89.56	66.87	0.535	8/17/12	9/10/12	2.140	2.91
Hewlett-Packard	HPQ	18.98	21.64	35.09	37.70	18.77 *L*	0.132	6/13/12	7/5/12	0.528	2.78
Microsoft Corp.	MSFT	29.39	30.02	26.78	32.95	23.79	0.200	8/16/12	9/13/12	0.800	2.72
3M Company	MMM	87.59	87.44	95.47	96.38	68.63	0.590	5/18/12	6/12/12	2.360	2.69
Exxon Mobil	XOM	85.47	83.22	83.00	87.94	67.03	0.570	5/14/12	6/11/12	2.280	2.67
Coca-Cola	KO	77.28	76.09	67.53	79.36 *H*	63.34	0.510	6/15/12	7/1/12	2.040	2.64
Caterpillar	CAT	82.07	86.93	109.36	116.95	67.54	0.520	7/20/12	8/20/12	2.080	2.53
Boeing	BA	73.51	71.99	71.28	77.83	56.01	0.440	8/17/12	9/7/12	1.760	2.39
Home Depot, Inc.	HD	52.09	51.87	35.91	53.28 *H*	28.13	0.290	5/31/12	6/14/12	1.160	2.23
Wal-Mart Stores	WMT	73.18	67.75	53.63	73.24 *H*	48.31	0.398	12/07/12	1/2/13	1.590	2.17
Cisco	CSCO	16.31	17.10	15.59	21.30	13.30	0.080	7/05/12	7/25/12	0.320	1.96
IBM	IBM	186.01	199.10	175.54	210.69	157.13	0.850	5/10/12	6/9/12	3.400	1.83
Alcoa	AA	8.42	8.82	15.48	15.85	8.21	0.030	5/14/12	5/25/12	0.120	1.43
American Express	AXP	57.93	56.28	51.81	61.42	41.30	0.200	7/06/12	8/10/12	0.800	1.38
Walt Disney	DIS	48.19	47.05	39.27	48.95 *H*	28.19	0.600	12/16/11	1/18/12	0.600	1.25
Bank of America	BAC	7.82	7.90	10.00	10.28	4.92	0.010	9/07/12	9/28/12	0.040	0.51

* See the Recommended HYD Portfolio table on page 54 for current recommendations. † Based on indicated dividends and market price as of 7/13/12.
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 7/16/11.
I Dividend increased since 6/15/12 *D* Dividend decreased since 6/15/12

RECOMMENDED INVESTMENT VEHICLES

	Security Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Expense[3] (%)	Ratios: 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 6/30/12						*Annualized Returns[4] (%), as of 6/30/12*					
Short/Intermediate Fixed Income														
Vanguard Short-Term Bond Index	BSV[1]/VBISX	2.80 Yrs.	1383	0.22	1.94	67	--	1.62	2.33	3.39	4.57	1.66	2.60	3.53
iShares Barclays 1-3 Yr. Credit Bond	CSJ[1]	1.95 Yrs.	680	0.20	1.78	8	--	1.72	1.55	3.64	4.11	0.94	2.79	2.98
iShares Barclays 1-3 Year Treasury	SHY[1]	1.91 Yrs.	61	0.15	1.34	72	--	0.60	0.66	1.48	3.17	0.45	1.10	2.45
Vanguard Limited-Term Tax-Exempt	VMLTX	2.80 Yrs.	1718	0.20	1.95	14	--	2.01	2.77	3.14	3.67	2.77	3.14	3.67
SPDR Short-Term Municipal Bond	SHM[1]	3.12 Yrs.	371	0.20	1.30	25	--	1.36	2.36	2.76	--	1.83	2.50	--
Inflation-Protected Fixed Income														
iShares Barclays TIPS Bond	TIP[1]	9.31 Yrs.	36	0.20	1.89	15	--	3.08	11.48	9.44	8.30	10.26	8.14	6.78
Vanguard Inflation-Protected Securities	VIPSX	9.60 Yrs.	34	0.20	1.89	28	--	2.49	11.76	9.48	8.10	10.74	8.37	6.92
Real Estate														
Vanguard REIT Index	VNQ[1]/VGSIX	7.76 B	115	0.24	1.47	10	2.2	3.17	12.95	32.84	3.05	11.82	31.45	1.81
SPDR Dow Jones REIT	RWR[1]	8.79 B	82	0.25	1.47	10	2.2	2.88	13.05	33.22	1.94	11.79	31.71	0.61
U.S. Large Cap Value														
Vanguard Value Index	VTV[1]/VIVAX	46.12 B	416	0.24	0.95	23	1.6	2.53	2.45	15.12	-2.21	2.03	14.69	-2.61
iShares Russell 1000 Value Index	IWD[1]	35.47 B	657	0.20	0.94	21	1.4	2.77	2.83	15.59	-2.29	2.16	15.08	-2.70
U.S. Small Cap Value														
iShares Russell Microcap Index	IWC[1]	0.28 B	1378	0.60	0.76	31	1.4	1.60	-0.70	16.39	-2.74	-1.14	16.11	-2.93
Vanguard Small-Cap Value Index	VBR[1]/VISVX	1.44 B	1008	0.24	0.92	30	1.4	1.90	-0.81	18.64	0.35	-1.23	18.18	-0.09
U.S. Large Cap Growth														
iShares Russell 1000 Growth Index	IWF[1]	44.35 B	587	0.20	1.05	19	3.7	1.63	5.56	17.28	2.70	5.15	16.96	2.46
Vanguard Growth Index	VUG[1]/VIGRX	45.99 B	401	0.24	1.03	23	3.8	1.05	6.32	17.48	2.91	6.14	17.29	2.75
U.S. Marketwide														
Vanguard Total Stock Market Index	VTI[1]/VTSMX	31.1 B	3302	0.17	1.00	5	2.2	1.78	3.79	16.78	0.55	3.50	16.46	0.25
Fidelity Spartan Total Market Index	FSTMX[2]	29.42 B	3295	0.10	1.01	17	2.0	1.69	3.92	16.85	0.53	3.64	16.52	0.20
Foreign- Developed Markets														
iShares MSCI Growth Index	EFG[1]	23.36 B	571	0.40	0.45	27	1.8	2.60	-12.68	7.38	-4.68	-13.30	7.04	-4.92
iShares MSCI Value Index	EFV[1]	28.45 B	497	0.40	0.29	29	0.9	4.65	-15.16	4.15	-7.70	-16.18	3.56	-8.19
Vanguard Europe Pacific Index	VEA[1]/VTMGX	30.21 B	898	0.12	0.38	5	1.4	3.34	-13.84	6.03	-5.81	-14.12	5.76	-6.04
Vanguard Developed Markets Index	VDMIX	29.65 B	944	0.20	0.38	5	1.3	3.49	-13.68	6.14	-5.87	-14.18	5.68	-6.40
SPDR S&P International Small Cap	GWX[1]	0.92 B	731	0.59	0.53	22	1.0	2.91	-15.46	9.15	-4.43	-16.00	8.67	-4.87
Foreign- Emerging Markets														
Vanguard Emerging Market Index	VWO[1]/VEIEX	20.0 B	892	0.33	0.51	10	1.8	2.10	-15.90	9.72	-0.29	-16.16	9.45	-0.64
Gold-Related Funds														
iShares COMEX Gold Trust	IAU[1]	--	1	0.25	0.98	--	--	0.00	5.92	19.57	19.39	5.92	19.57	19.39
SPDR Gold Shares	GLD[1]	--	1	0.40	0.98	--	--	0.00	5.76	19.13	19.23	5.76	19.13	19.23

Recommended Gold-Mining Companies ($)

	Ticker Symbol	7/13/12	Month Earlier	Year Earlier	52-Week High	52-Week Low	Dividends Paid Last 12 Months	Payment Schedule	Yield (%)
Anglogold Ltd., ADR	AU	**32.68**	36.84	43.86	49.14	30.70	0.6116	Semiannual	1.8715
Barrick Gold Corp. †	ABX	**34.84**	39.51	48.31	55.95	33.67	0.5270	Quarterly	1.5126
Gold Fields Ltd.	GFI	**12.24**	13.57	15.45	18.49	11.71	0.4423	Semiannual	3.6136
Goldcorp, Inc. †	GG	**33.99**	39.54	54.13	56.31	31.54	0.4216	Monthly	1.2404
Newmont Mining	NEM	**46.16**	50.28	57.38	72.42	43.23	1.3500	Quarterly	2.9246

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]0.5% fee for redemption in 90 days. [3]For Vanguard funds, Expense Ratios shown are for Mutual Funds. ETFs have lower expenses. [4]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 anTd local taxes and individual tax situations. † Dividend shown is after 15% Canadian tax withholding.