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* HYD is a hypothetical model based on back-tested results. See p.94 for more information.

Beware the Allure of Safe Havens

As governments across the globe have adopted looser monetary and fiscal policies, investors alarmed at the prospect of higher price inflation have been asking us whether it would be wise to turn to the reputed "safe haven" of Swiss franc denominated assets or by investing more heavily in gold.

AIER contends that consumer price inflation is arguably understated, and that the threat of accelerated inflation in the future has grown. The Everyday Price Index (EPI), which tracks prices of everyday goods and services, has been rising far more rapidly than the broader Consumer Price Index (CPI). Furthermore, while no one knows for certain if or when the CPI will spike, it is clear that bank reserves are mounting and pose a looming threat to price stability.

The Swiss franc has earned a reputation as a safe haven currency. The Swiss Central Bank (SCB) has long embraced a far more conservative monetary policy relative to other central banks. Compared to the dollar the franc's purchasing power has held up well.

The SCB, however, has become a victim of its own success. Beginning in August 2010, as fears of a euro collapse mounted, investors piled into the franc and pushed the euro price of the franc to an all time high. But as the Swiss export prices rose, the economy slowed. In August 2011 SCB Vice President Thomas Jordan conceded that pegging the franc to the euro would not be ruled out. The franc fell sharply in response, and since January the two currencies have traded within an extremely narrow range. U.S. investors seeking a safe haven in the Swiss franc would instead appear to be simply

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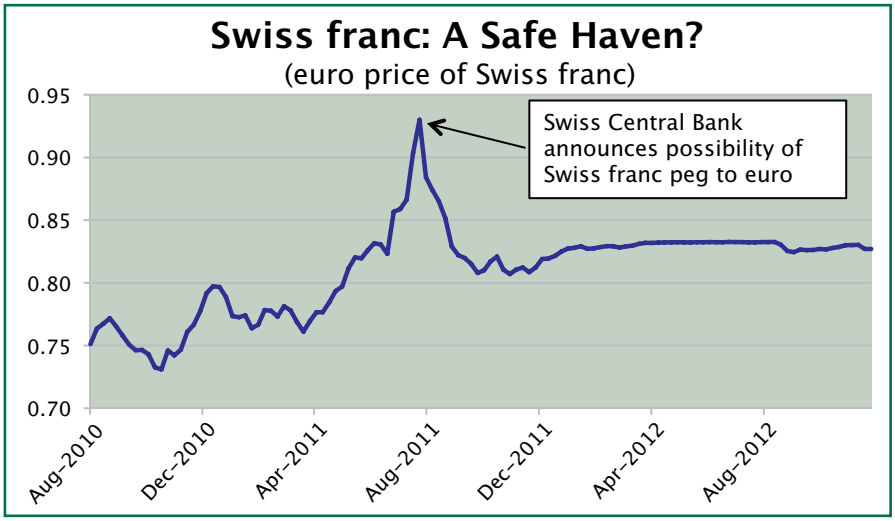


assuming the exchange rate risk inherent in the euro.

Investors should continue to devote only between five and ten percent of their portfolio to gold. Research indicates that gold serves well as a hedge against financial disruption; it has also maintained its purchasing power during periods of extreme price inflation, and is not strongly correlated to the returns of our other recommended assets. But the gold price is far too volatile to serve effectively as a hedge against moderate but persistent price inflation, or to merit a large weighting within a portfolio.

Our other recommended assets (including stocks and bonds) are priced to reflect current information, including expectations regarding future price inflation. The best hedges against *unexpected* price inflation are cash equivalents, short-term fixed income securities and Treasury Inflation Protected Securities (TIPS).

BALANCING YOUR FIXED INCOME DECISIONS

Fixed income can play an important role in a portfolio. But its role may vary according to an investor's financial needs and concerns. For example, many investors look to fixed income for safety, income, and more stability in their portfolios. They must weigh these priorities against their concerns over future interest rates, inflation, government debt, and other factors that might affect fixed income returns.

Striking this balance can be a challenge in any market environment, but especially now, as low interest rates have sent many investors on a quest for higher-yield bonds or alternative investments. Depending on your approach, this pursuit of yield may invite more risk—some of which may be hard to see or understand.[1]

So, what's an investor to do? How can you make prudent fixed income decisions while also addressing today's low interest rates? Consider these principles:

Remember How Markets Work

The same core investment principles apply in any market environment. One key principle is that in a well-functioning capital market, securities prices reflect all available information. Today's bond values reflect everything the market knows about current economic conditions, growth expectations, inflation, Fed monetary policy, and the like. So, according to this principle, the possibility of rising interest rates is already factored into fixed income prices.

This is one reason investors should view future interest rate movements as unpredictable. Even the market experts who have access to vast amounts of research have a hard time predicting the direction of interest rates. For instance, despite regular predictions of rising interest rates over the past two years, nominal yields on US Treasuries and longer-term bonds have continued falling and now are at historic lows.

Rather than trying to predict macroeconomic forces that are difficult to foresee, investors can look to the market to set prices and focus on the variables within their control.

Start with a Clearly Defined Goal

Fixed income choices should follow a broader investment strategy that defines the role of fixed income in a portfolio. The portfolio can then be customized to meet those specific goals while managing tradeoffs.

The table below illustrates how portfolio objectives can influence a fixed income approach. An investor who wants to seek to avoid losing market value might have a different fixed income allocation from someone who wants to take a balanced approach, needs immediate income, or is seeking higher returns. Investors with different objectives typically have different tradeoffs regarding risk, expected return, and costs.

Know What You Own

Strive for transparency in a portfolio. This means understanding an investment manager's basic strategy and knowing how the instruments held in the portfolio might respond in different economic, market, and interest rate scenarios.

Unfortunately, investors who chase performance often make their investment decisions based on the past performance and perceived popularity of the strategy. For example, some of the mutual fund categories experiencing the heaviest inflows of cash in the industry are in asset groups that have recently experienced higher than average yields. Higher yields are typically accompanied by higher risks. But do investors know what risks their managers are taking to deliver those attractive yields?

Understand the Tradeoffs

When reaching for higher yield, investors should carefully consider the potential effects of their decisions on expected portfolio performance and risk. In the fixed income arena, investors have two primary ways to increase expected yield and returns on bonds. They can:

- Extend the overall maturity of their bond portfolio (take more term risk).
- Hold bonds of lower credit quality (take more credit risk).

These may be reasonable actions. But pursuing higher income means accepting more risk, as measured by interest rate movements, price volatility, or greater odds of losing value if the issuer defaults.

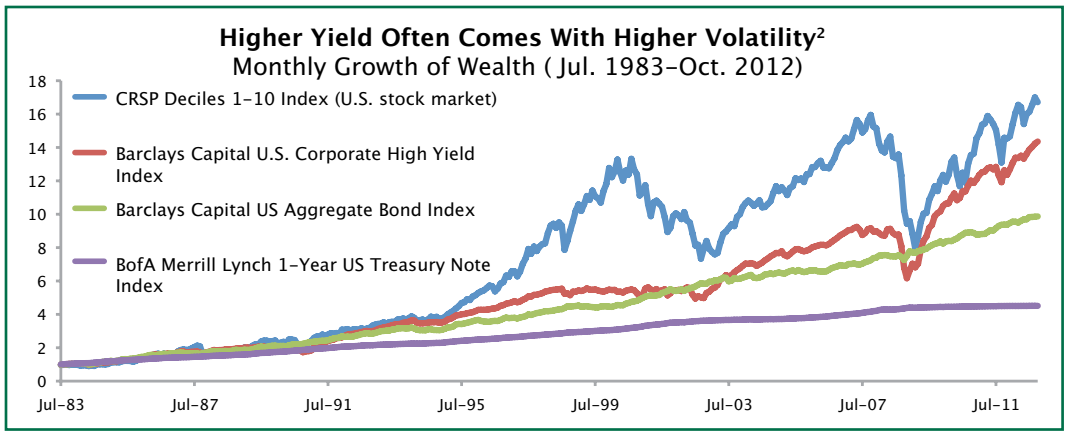
As shown in the chart nearby, higher yield can also bring potentially higher volatility. Note that high-yield bonds (as represented by the Barclays Capital US Corporate High Yield Index) have exhibited more volatility relative to other bonds.

Pay Attention to Costs

Many investors do not realize that investment-related costs determine

Investment Objective Helps Determine Role of Fixed Income in a Portoflio

Objective	Role of Fixed Income
Avoid Losing Money	Capital Preservation
Keep portfolio in balance	Volatility customization
Meet income (cash flow) needs	Liability management
Seek higher returns	Total return



a large part of a portfolio's yield and return. This applies especially to fixed income securities. In fact, research has shown that a bond mutual fund's expense ratio helps explain much of its net performance—and funds with the highest expenses tended to have the lowest performance within their peer group.

Consider Global Bonds

Investors have other tools to enhance risk and expected returns in fixed income. You can expand your opportunity set by moving beyond your domestic fixed income market to access yield curves in other country markets. By owning bonds issued by governments and companies from around the world, investors can enhance diversification in their fixed income portfolios. After hedging against currency risk, bond markets around the world have only modest correlations. (Correlation refers to how similarly two investments perform in the same period.) As a result, a global hedged portfolio should exhibit lower volatility than a single-country portfolio or a global portfolio that does not hedge currency risk, and offer the opportunity to take advantage of more attractive yield curves abroad.

Summary

No one really knows when and by how much interest rates will change. Many market pundits have forecasted an upward move for several years now. Investors looking for higher bond yields should understand the higher risks tied to their decisions. Most investors might be best-served by building a fixed income strategy to complement their broader portfolio objectives, understanding the sources of risk and expected return, paying attention to fees, and looking beyond their own country to capture yields in other countries' markets.

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1. When interest rates rise, the value of an existing bond declines; when rates fall, existing bond values rise. The market adjusts a bond's price to match the yield available on a new instrument. Investors who hold fixed income securities with longer maturities are exposed to the amplified effects of term risk. A long-term bond is more exposed to rate changes than a short-term instrument, and usually (but not always) offers a higher yield to compensate investors for the extra risk. Also, lower-coupon bonds are more affected by interest rate changes than higher-coupon bonds. For example, if rates move 1%, a bond that pays 3% will experience a greater gain or loss than one paying 5%.
2. CRSP data includes indices of securities in each decile as well as other segments of NYSE securities (plus AMEX equivalents since July 1962 and NASDAQ equivalents since 1973). The Barclays Capital US Corporate High Yield index measures the performance of fixed-rate, non-investment grade debt. The Barclays Capital US Aggregate Bond Index measures the performance of the investment grade, US dollar-denominated, fixed-rate taxable bond market. The BofA Merrill Lynch One-Year Treasury Note Index measures the performance of US Treasury notes. The index is representative of the universe of fixed-rate, non-investment grade debt. Indices are not investment products available for purchase.

ACTIVE MANAGERS VERSUS FREE MARKETS

As another year draws to a close, we remind our readers that our approach to investing is consistent with the view that free markets provide the best means of ensuring that resources are used efficiently. In the following discussion we draw upon a transcript of a presentation given by Rex Sinquefield[1], co-founder of Dimensional Fund Advisors and currently President of the Show-Me Institute.

Adam Smith, in *The Wealth of Nations* first pointed out that those nations that relied on free markets and voluntary exchange prospered relative to nations that did not. Friedrich Hayek refined this idea by explaining that no single entity can ever possess all the knowledge necessary to organize society's resources to produce goods or services successfully.

Hayek demonstrated that prices determined freely through voluntary exchange will reflect relative scarcity and thereby convey all the information that is necessary to ensure the efficient employment of resources in the production of goods and services. Hayek's insight was that no individual or group can measure effectively either the demand for a good or service or the various inputs required for its production. On the other hand, if prices are freely determined and their dissemination is unhindered, numerous individuals at various stages of production, acting in their self interest, will provide what is required to ensure consumer demand is ultimately met. Central coordination is not needed, nor can it be applied in a manner that will produce a more efficient outcome.

Put another way, the producer of fertilizer that is used to grow feed grain in Montana need not know the price of filet mignon in order for New Yorkers to enjoy fine dining. All he needs to know is the prevailing price of the fertilizer he is selling, the wages of his employees, and the prices of his raw materials and other inputs. He will organize his production to maximize his profits and in so doing ensure efficient employment of those resources. The same is true at every stage of production. Those who grow the grain, slaughter the cattle and transport the beef all operate efficiently, oblivious to the others' constraints, and with no central coordination.

Beginning in the mid-19th century this insight gradually came to be overshadowed by a growing belief that man's successful mastery of the physical sciences could be extended to the

organization of economic activity. By 1917, centrally planned production and pricing had been formally established. Sophisticated mathematical modeling of inputs and production levels were employed with the aim of improving social welfare. Individual decision making was supplanted by central direction and coercion.

Eighty years later the socialist experiments in the Soviet Union and Eastern Europe ended in failure, during which time the largely unmanaged economies in the west yielded the greatest increase in living standards known to mankind. Hayek and Smith were vindicated.

This dichotomy, free markets versus central planning, has striking parallels in the evolution of financial economics. Beginning in the 1950s Markowitz, Miller, Sharpe and others established the study of finance as a legitimate field of academic inquiry. Fama built on this foundation by establishing what is now widely recognized as the Efficient Market Hypothesis (EMH).

EMH asserts that current market prices are the best approximation of a security's intrinsic value and that prices adjust rapidly to reflect the impact of unforeseen events. In other words, EMH is simply an extension of Hayek's fundamental assertion: *markets work*. The central implication of EMH is that no money manager or investor, given publicly available information, can consistently provide risk-adjusted returns greater than those of the market.

Active managers (stock pickers and market timers) disagree. They assert implicitly, through their attempts to "buy low" and "sell high," that market prices are often wrong[2], and that they, like central planners, possess the special ability to determine "correct" prices. Stock pickers spend a great deal of time and resources visiting firms, pouring over financial statements and analyzing "intrinsic values" versus market prices to identify "undervalued" or "overvalued" assets. Similarly, market timers hope to devise methods that will determine when investors have failed to properly price the entire market in light of currently available information.

The efforts of passive managers, on the other hand, are directed largely toward defining empirically the parameters that establish an asset class. For example, they determine the market capitalization level that distinguishes small cap stocks from large caps in light of risk and return data that spans several decades. Then they simply maintain a portfolio that includes every security within the asset class so defined.[3]

In short, passive managers trust markets to price risk appropriately; active managers do not.

Not everyone can be a "price taker" of course; prices after all must be set by someone. But the riddle of "price discovery" is not confined to capital markets, it extends to microeconomics generally. No one denies that there are individuals whose marginal costs for discounting and interpreting information are lower than others. But their skills are not unique and even they must compete with others who hold a similar comparative advantage. The central point for individuals, however, is that evidence overwhelmingly supports our conclusion that these "price setters" are not to be found among the thousands of stock pickers managing mutual funds or expensive broker dealers with large marketing budgets.

Despite these parallels between central planners and active managers, there is also an important distinction: the costs of central planning are often imposed involuntarily, and fall on all of society. The cost of active management, on the other hand, falls only upon clients who choose to place their faith (and their wealth) in the hands of managers who claim to have a special talent.

Fundamental Differences

Passive investors are trusting by nature. Our acceptance of market returns is a vote of confidence in people who trade voluntarily in a free society. Passive investors are humble. Our goal is not to "beat the market"; instead we simply study and accept the nature of the market's long term risk and return and build a long term plan accordingly, in a careful and deliberate manner.

The passive investor is patient, and optimistic. We are willing to endure, rather than anticipate inevitable short term market fluctuations because we are confident that this volatility is the price we pay today for the reward we will ultimately reap. We have faith in the promise of long term economic prosperity. Perhaps most importantly, we are content. Our savings are invested in a manner that is structured, rational and consistent. We are not subject to the anxiety that comes with attending to market gyrations. This leaves us free to pursue happiness elsewhere.

Active investors pick stocks and move into and out of various asset classes. Their efforts to capture gains episodically expose a lack of faith in capital markets to reward investors for the capital they supply over the long-term. Their second-guessing of security prices is ego-driven. They distrust implicitly the mechanism by which millions of investors interact freely with firms to allocate capital and rely instead on their personal opinions and conjecture.

Rather than asserting control predicated on long term confidence, the active investor's actions are driven alternatively by fear and euphoria.

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Since markets cannot be trusted, the active investor must monitor the market constantly or live with the fear that he might miss the next opportunity or pitfall. His portfolio's allocation is not guided by the steady hand of statistical reasoning; instead it is subject to his vacillating emotions. This would appear to allow little peace of mind or time for life's other pursuits.

Our Services

We hope that this newsletter is useful in helping you to maintain the self-discipline that is required as you apply our structured approach to your own portfolio. We also offer low-cost advisory services for investors who wish to adopt our approach. We manage over $550 million on behalf of individuals and institutions. Many of our clients simply wish to avoid any aspect of administering their portfolio, while others rely on us to apply the discipline they find so elusive in a world in which reason is so easily obscured by slick marketing. To learn more please return the enclosed postcard or visit our website www.americaninvestment.com.

1 Asset Management: Active vs. Passive Management Rex Sinquefield, Dimensional Fund Advisors, Schwab Institutional conference: San Francisco October 12, 1995.
2 Sinquefield refers to this as the "market failure hypothesis"
3 Index funds are acceptable vehicles for individual investors.

GOOD VERSUS BAD RISK

Readers sometimes inquire regarding the nature of the trade-off between risk and return. If indeed there is "no free lunch" and the only way to increase returns is to assume more risk, then why is diversification, which reduces risk, so desirable? The short answer is that while an investor can increase his expected returns by assuming additional risk, it is not true that by assuming additional risk one will necessarily increase expected returns.

This distinction is true not just in capital markets, but in all aspects of life. One can cross a busy street by checking traffic and then entering a crosswalk, a calculated but reasonable risk, with the expectation that he will be rewarded by getting to the other side. Alternatively, one can blithely walk into the street nearby but not in the crosswalk without looking. The chances of arriving safely are considerably lower, but the potential reward is no greater. Most pedestrians choose the safer option.

The capital markets are similar; while higher returns are not obtainable without assuming greater risk, one can assume more risk without any expectation of earning a higher return. There is, if you will, "good risk" and "bad risk." We can identify the reckless risks and do away with them through careful and deliberate diversification. This leaves a portfolio exposed only to that risk which cannot be "diversified away." One can therefore expect to be compensated with higher returns in exchange for bearing this risk. This assumes that the historical performance of capital markets is a reasonable guide to the future.

To make this clear, it is first important to understand the distinction between different types of risk. *Company-specific risk* is the risk of investing in an individual company. There are random events that could occur—a lawsuit, a fire, the death of a key executive—that would primarily affect only that company. Indeed you could lose your entire investment in a stock if the news were dire enough to result in bankruptcy. *Industry-specific risk* is similar except that it refers to broader economic events that adversely affect an entire industry. Beginning in early 2000, for example, technology firms suffered declines far greater than the rest of the stock market. *Both types of risk are diversifiable*; by owning hundreds of stocks in many different industries, for every bit of "bad" news affecting a particular stock or industry, there would be an equal chance of offsetting "good" news emerging for another firm or industry in the portfolio. A well-diversified portfolio could be rendered worthless only by an economy-wide collapse.

Consider two hypothetical securities of comparable risk, stock A and stock B. If security A had higher expected returns than B, then investors would flock to security A and abandon security B; the price of A would rise accordingly and B would fall until the securities were priced at levels that produced equivalent expected returns. The market works toward an equilibrium in which all securities in a given asset class have the same expected returns. In this environment, an investor purchasing just one stock instead of the entire asset class would be unnecessarily assuming individual and industry-specific risk. This would be irrational since he could purchase the entire asset class and garner the same expected return while dispensing with all of the risk attributable to that particular firm, as well as the risk associated with its industry. Thus, by choosing to invest in an individual company rather than in its entire asset class, one would be assuming risk that is uncompensated by additional expected return.

Modern portfolio theory posits that an investor cannot, however, dispose of the (non-diversifiable) risk associated with the entire stock market. This *market risk* is the risk common to all stocks, such as business cycle fluctuations. You can purchase an S&P 500 Index fund, thereby eliminating all company and industry specific risks associated with the firms held by the fund. However, you would still be subject to the fortunes of the broader stock market. So, once you have assembled an adequately diversified portfolio, you can increase your expected returns only by increasing the level of your investment; e.g. by assuming greater market risk.

Subsequent research identified factors other than market risk that explained the returns to financial assets. Stocks could be categorized into asset classes defined by size and style (growth vs. value). Each of these asset classes (e.g. small-cap value stocks) represents a potential stock portfolio that can provide investors with the opportunity to assume additional and unique forms of non-diversifiable (compensated) risk.

Note that we speak of the expected returns of asset classes. Just as there is no guarantee that the pedestrian, even when using the crosswalk, will cross the street safely, there is also no guarantee that an asset class (e.g., small cap value stocks) will provide the investor with returns greater than the overall market, or even with positive returns. The investor may, for example, suddenly need funds for an unexpected calamity and be forced to "sell at the bottom" by liquidating his holdings amidst a bear market. Even the best-diversified portfolio cannot avoid these possible outcomes.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of December 14, 2012

	Rank	Yield (%)	Price ($)	Status	—Percent of Portfolio— Value (%)	No. Shares (%)[1]
AT&T	1	5.29	34.01	Holding**	23.93	23.52
Verizon	2	4.66	44.21	Holding**	24.87	18.80
Intel	3	4.38	20.53	Buying	5.76	9.38
Merck & Co.	4	3.95	43.54	Holding**	22.48	17.26
Dupont	5	3.90	44.09	Holding	1.52	1.15
Hewlett Packard	6	3.58	14.75	Holding	1.56	3.53
Pfizer	8	3.49	25.18	Selling	19.58	26.35
Cash (6-mo. T-Bill)	N/A	N/A	N/A		0.02	--
Totals					100.00	100.00

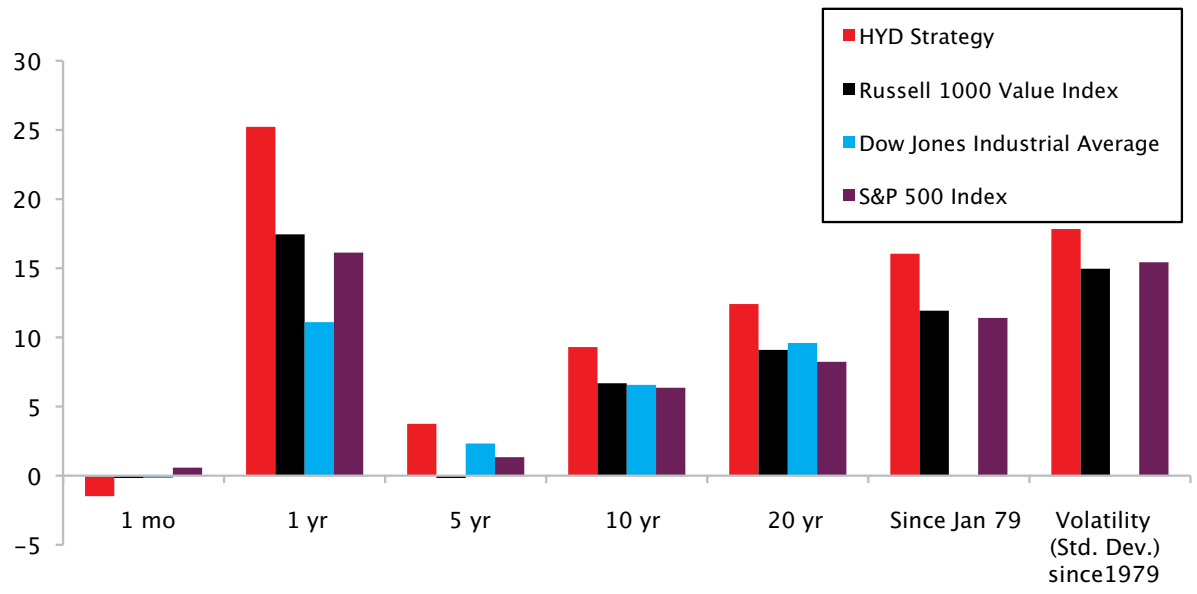
**Currently indicated purchases approximately equal to indicated purchases 18 months ago. [1] Because the percentage of each issue in the portfolio by value reflects the prices shown in the table, we are also showing the number of *shares* of each stock as a percentage of the total number of shares in 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.

Comparative Hypothetical Total Returns (%) and Volatility

The data presented in the table and chart below represent total returns generated by a hypothetical HYD portfolio and by benchmark indexes for periods ending November 30, 2012*. Returns for the 5-,10- and 20-year periods are annualized, as is the volatility (standard deviation) of returns. (January 1979 is the earliest date for which data was available for both the HYD model and relevant benchmark indexes).

	1 mo.	1 yr.	5 yrs.	10 yrs.	20 yrs.	Since Jan 79	Volatility (Std. Dev.) since 1979
HYD Strategy	-1.48	25.23	3.75	9.30	12.41	16.05	17.84
Russell 1000 Value Index	-0.04	17.45	-0.01	6.68	9.10	11.93	14.97
S&P 500 Index	0.58	16.13	1.34	6.36	8.23	11.41	15.43
Dow Jones Industrial Average	-0.12	11.10	2.33	6.57	9.60	N/A	N/A



*Data assume all purchases and sales at mid-month prices (+/–$0.125 per share commissions), reinvestment of all dividends and interest, and no taxes. 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 the Russell 1000 Value Index, the Dow Jones Industrial Index and the S&P 500 Index 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 ($)

	12/14/12	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**1,696.25**	1,710.00	1,574.00
Silver, London Spot Price	**32.52**	32.57	28.80
Copper, COMEX Spot Price	**3.67**	3.46	3.26
Crude Oil, W. Texas Int. Spot	**86.72**	85.44	93.21
Dow Jones Spot Index	**443.37**	441.92	409.69
Dow Jones-UBS Commodity Index	**140.54**	140.64	136.26
Reuters-Jefferies CRB Index	**295.34**	292.84	294.45

Interest Rates (%)

U.S. Treasury bills -	91 day	**0.04**	0.08	0.00
	182 day	**0.09**	0.14	0.05
	52 week	**0.13**	0.17	0.12
U.S. Treasury bonds -	10 year	**1.72**	1.58	1.92
Corporates:				
High Quality -	10+ year	**3.66**	3.49	3.90
Medium Quality -	10+ year	**4.62**	4.48	5.19
Federal Reserve Discount Rate		**0.75**	0.75	0.75
New York Prime Rate		**3.25**	3.25	3.25
Euro Rates	3 month	**0.18**	0.19	1.42
Government bonds -	10 year	**1.34**	1.33	1.97
Swiss Rates -	3 month	**0.01**	0.03	0.05
Government bonds -	10 year	**0.50**	0.51	0.73

Exchange Rates ($)

British Pound	**1.613900**	1.586500	1.548600
Canadian Dollar	**1.014200**	0.997600	0.967305
Euro	**1.313400**	1.278300	1.301300
Japanese Yen	**0.011970**	0.012320	0.012842
South African Rand	**0.115900**	0.112050	0.119330
Swiss Franc	**1.087400**	1.061800	1.063603

Securities Markets

	12/14/12	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,413.58**	1,353.33	1,215.75
Dow Jones Industrial Average	**13,135.01**	12,542.38	11,868.81
Dow Jones Bond Average	**321.76**	322.52	288.47
Nasdaq Composite	**2,971.33**	2,836.94	2,541.01
Financial Times Gold Mines Index	**2,824.97**	2,830.82	3,367.15
FT EMEA (African) Gold Mines	**2,640.02**	2,612.98	3,187.53
FT Asia Pacific Gold Mines	**11,815.56**	11,815.66	14,432.61
FT Americas Gold Mines	**2,425.55**	2,439.22	2,870.44

Coin Prices ($)

	12/14/12	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	**1,767.70**	1,779.30	1,713.50	4.21
Austrian 100-Corona (0.9803)	**1,657.82**	1,673.43	1,611.03	-0.30
British Sovereign (0.2354)	**411.80**	415.60	403.40	3.13
Canadian Maple Leaf (1.00)	**1,737.10**	1,749.40	1,689.10	2.41
Mexican 50-Peso (1.2057)	**2,042.70**	2,061.90	1,985.10	-0.12
Mexican Ounce (1.00)	**1,714.80**	1,730.70	1,667.00	1.09
S. African Krugerrand (1.00)	**1,737.97**	1,748.68	1,687.38	2.46
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**1,900.00**	1,860.00	1,740.00	15.77
Liberty (Type I-AU50)	**2,075.00**	2,012.50	1,975.00	26.44
Liberty (Type II-AU50)	**1,942.50**	1,910.00	1,867.50	18.36
Liberty (Type III-AU50)	**1,875.00**	1,840.00	1,725.00	14.25
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**23,575.00**	23,200.00	21,837.50	1.39
40% Silver Circ. (292 oz.)	**9,587.50**	9,375.00	8,900.00	0.97
Silver Dollars Circ.	**28,500.00**	28,437.50	24,325.00	13.29

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $1,696.25 per ounce and silver at $32.52 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 ($) 12/14/12	11/15/12	12/15/11	12-Month ($) High	Low	Latest Dividend Amount ($)	Record Date	Payable Date	Indicated Annual Dividend ($)	Yield† (%)
AT&T	T		34.01	33.42	28.79	38.58	28.51	0.450	1/10/13	2/1/13	1.800	5.29
Verizon	VZ		44.21	41.70	38.42	47.32	36.80	0.515	1/10/13	2/1/13	2.060	4.66
Intel Corp	INTC		20.53	20.03	23.31	29.27	19.23 *L*	0.225	11/07/12	12/1/12	0.900	4.38
Merck	MRK	*I*	43.54	42.80	36.36	48.00	36.02	0.430	12/17/12	1/8/13	1.720	3.95
Dupont	DD		44.09	42.10	43.70	53.98	41.67 *L*	0.430	11/15/12	12/14/12	1.720	3.90
Hewlett-Packard	HPQ		14.75	13.08	26.16	30.00	11.35 *L*	0.132	12/12/12	1/2/13	0.528	3.58
General Electric	GE	*I*	21.62	20.06	16.79	23.18	16.79	0.190	12/24/12	1/25/13	0.760	3.52
Pfizer	PFE		25.18	23.66	21.14	26.09	20.75	0.220	11/09/12	12/4/12	0.880	3.49
McDonald's	MCD		88.88	84.05	98.14	102.22	83.31 *L*	0.770	12/03/12	12/17/12	3.080	3.47
Johnson & Johnson	JNJ		70.69	69.07	64.00	72.74	61.71	0.610	11/27/12	12/11/12	2.440	3.45
Microsoft Corp.	MSFT		26.81	26.66	25.56	32.95	25.44	0.230	2/21/13	3/14/13	0.920	3.43
Chevron	CVX		107.82	101.62	99.67	118.53	95.73	0.900	11/16/12	12/10/12	3.600	3.34
Procter and Gamble	PG		69.93	66.32	64.99	70.99 *H*	59.07	0.562	10/19/12	11/15/12	2.248	3.21
Cisco	CSCO		19.86	17.94	18.04	21.30	14.96	0.140	11/29/12	12/19/12	0.560	2.82
J P Morgan	JPM		42.81	39.39	31.76	46.49	30.42	0.300	1/04/13	1/31/13	1.200	2.80
Coca-Cola	KO		37.66	36.43	66.89	79.36	35.86	0.255	11/30/12	12/17/12	1.020	2.71
United Tech.	UTX		79.98	74.84	73.53	87.50	70.71	0.535	11/16/12	12/10/12	2.140	2.68
Exxon Mobil	XOM		88.08	86.14	80.03	93.67	77.13	0.570	11/09/12	12/10/12	2.280	2.59
3M Company	MMM		92.28	88.02	78.86	95.46	77.51	0.590	11/23/12	12/12/12	2.360	2.56
Travelers	TRV		73.37	68.32	56.81	74.70	55.86	0.460	12/10/12	12/31/12	1.840	2.51
Boeing	BA		74.02	71.04	70.61	77.83	66.82	0.440	11/09/12	12/7/12	1.760	2.38
Caterpillar	CAT		89.00	81.30	87.70	116.95	78.25	0.520	12/24/12	12/31/12	2.080	2.34
Wal-Mart Stores	WMT		68.75	68.72	57.95	77.60	57.18	0.398	12/07/12	1/2/13	1.590	2.31
Home Depot, Inc.	HD		62.06	61.25	39.42	65.92 *H*	39.74	0.290	11/29/12	12/13/12	1.160	1.87
IBM	IBM		191.76	185.85	187.48	211.79	177.35	0.850	11/09/12	12/10/12	3.400	1.77
Unitedhealth Group	UNH		54.05	51.25	48.52	60.75	48.71	0.213	12/11/12	12/21/12	0.850	1.57
Walt Disney	DIS	*I*	48.67	47.47	35.19	53.40	34.51	0.750	12/10/12	12/28/12	0.750	1.54
American Express	AXP		56.65	53.64	46.42	61.42	45.89	0.200	1/04/13	2/8/13	0.800	1.41
Alcoa	AA		8.74	8.05	8.78	10.92	7.97	0.030	11/02/12	11/25/12	0.120	1.37
Bank of America	BAC		10.58	9.09	5.26	10.71 *H*	4.92	0.010	12/07/12	12/28/12	0.040	0.38

* See the Recommended HYD Portfolio table on page 94 for current recommendations. † Based on indicated dividends and market price as of 12/14/12.
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 12/16/11.
I Dividend increased since 11/15/12 *D* Dividend decreased since 11/15/12

RECOMMENDED INVESTMENT VEHICLES

	Security Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Expense[3] (%)	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 9/30/12						*Annualized Returns[4] (%), as of 11/30/12*					
Short/Intermediate Fixed Income														
Vanguard Short-Term Bond Index	BSV[1] / VBISX	2.8 Yrs.	1446	0.22	1.75	67	--	1.51	2.27	2.56	3.76	1.66	1.83	2.83
iShares Barclays 1-3 Yr. Credit Bond	CSJ[1]	1.9 Yrs.	777	0.20	1.80	8	--	1.63	3.34	2.66	3.75	2.76	1.92	2.72
iShares Barclays 1-3 Year Treasury	SHY[1]	1.8 Yrs.	51	0.15	1.19	72	--	0.48	0.33	1.04	2.25	0.18	0.72	1.65
Vanguard Limited-Term Tax-Exempt	VMLTX	2.7 Yrs.	1793	0.20	1.77	14	--	1.93	2.81	2.62	3.34	2.81	2.62	3.34
SPDR N.B. Short-Term Municipal Bond	SHM[1]	3.2 Yrs.	394	0.20	1.15	23	--	1.29	2.18	2.17	3.44	1.78	2.02	3.34
Inflation-Protected Fixed Income														
iShares Barclays TIPS Bond	TIP[1]	9.2 Yrs.	36	0.20	1.82	15	--	2.20	7.56	8.14	6.99	6.80	7.02	5.59
Vanguard Inflation-Protected Securities	VIPSX	9.4 Yrs.	34	0.20	1.82	28	--	2.27	7.60	8.07	6.77	6.70	6.93	5.66
Real Estate														
Vanguard REIT Index	VNQ[1] / VGSIX	8.16 B	119	0.24	1.06	10	2.3	3.23	18.56	19.07	4.07	17.32	17.82	2.82
SPDR Dow Jones REIT	RWR[1]	9.36 B	84	0.25	1.05	7	2.3	3.05	17.81	18.89	3.16	16.52	17.57	1.79
U.S. Large Cap Value														
Vanguard Value Index	VTV[1] / VIVAX	45.13 B	432	0.24	0.76	23	1.5	2.46	15.56	9.65	-0.34	15.11	9.23	-0.76
iShares Russell 1000 Value Index	IWD[1]	37.60 B	692	0.20	0.76	21	1.5	2.22	17.21	10.55	-0.13	16.41	10.05	-0.57
U.S. Small Cap Value														
iShares Russell Microcap Index	IWC[1]	0.26 B	1340	0.60	0.59	31	1.4	1.44	17.24	13.34	0.23	16.69	13.04	0.01
Vanguard Small-Cap Value Index	VBR[1] / VISVX	1.33 B	1023	0.24	0.68	30	1.3	1.80	15.89	13.62	3.68	15.40	13.19	3.22
U.S. Large Cap Growth														
iShares Russell 1000 Growth Index	IWF[1]	48.47 B	569	0.20	0.92	19	4.1	1.37	14.71	12.29	2.89	14.22	11.98	2.63
Vanguard Growth Index	VUG[1] / VIGRX	45.05 B	413	0.24	0.92	23	3.6	1.08	16.06	12.83	3.19	15.86	12.64	3.02
U.S. Marketwide														
Vanguard Total Stock Market Index	VTI[1] / VTSMX	30.51 B	3313	0.17	0.84	5	2.1	1.76	15.80	11.79	1.81	15.47	11.48	1.51
Fidelity Spartan Total Market Index	FSTMX[2]	32.18 B	3294	0.10	0.85	17	2.1	1.59	15.83	11.89	1.78	na	na	na
Foreign- Developed Markets														
iShares MSCI EAFE Growth Index	EFG[1]	26.29 B	540	0.40	0.30	26	2.1	2.44	12.35	4.45	-4.05	11.56	4.12	-4.29
iShares MSCI EAFE Value Index	EFV[1]	32.98 B	505	0.40	0.10	27	1.0	4.34	12.28	1.05	-5.60	10.94	0.48	-6.11
Vanguard MSCI EAFE	VEA[1]	27.64 B	893	0.11	0.19	5	1.3	5.31	11.47	2.99	-4.49	10.77	2.63	-4.80
Vanguard Developed Markets Index	VDMIX	27.55 B	939	0.20	0.20	5	1.3	3.28	11.57	3.06	-4.59	10.93	2.62	-5.13
SPDR S&P International Small Cap	GWX[1]	0.95 B	729	0.59	0.33	22	1.0	2.71	9.28	5.87	-2.58	8.58	5.40	-3.03
Foreign- Emerging Markets														
Vanguard Emerging Market Stock Idx	VWO[1] / VEIEX	18.20 B	891	0.33	0.33	10	1.6	3.18	8.37	3.88	-2.19	7.74	3.53	-2.58
Gold-Related Funds														
iShares Gold Trust	IAU[1]	--	1	0.25	1.02	--	--	0.00	-1.41	13.16	16.77	-1.41	13.16	16.77
SPDR Gold Shares	GLD[1]	--	1	0.40	1.01	--	--	0.00	-1.54	13.20	16.65	-1.54	13.20	16.65

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.

Recommended Gold-Mining Companies ($)

	Ticker Symbol	12/14/12	Month Earlier	Year Earlier	--- 52-Week --- High	Low	Dividends Paid Last 12 Months	Payment Schedule	Yield (%)
Anglogold Ltd., ADR	AU	**29.90**	30.34	41.24	47.17	29.57	0.5609	Quarterly	1.8759
Barrick Gold Corp. †	ABX	**34.23**	33.27	44.19	50.39	31.00	0.6375	Quarterly	1.8624
Gold Fields Ltd.	GFI	**11.70**	11.54	15.10	16.97	11.09	0.4963	Semiannual	4.2419
Goldcorp, Inc. †	GG	**36.82**	39.86	45.35	50.74	31.54	0.4590	Monthly	1.2466
Newmont Mining	NEM	**44.29**	45.53	61.76	64.62	42.95	1.4000	Quarterly	3.1610