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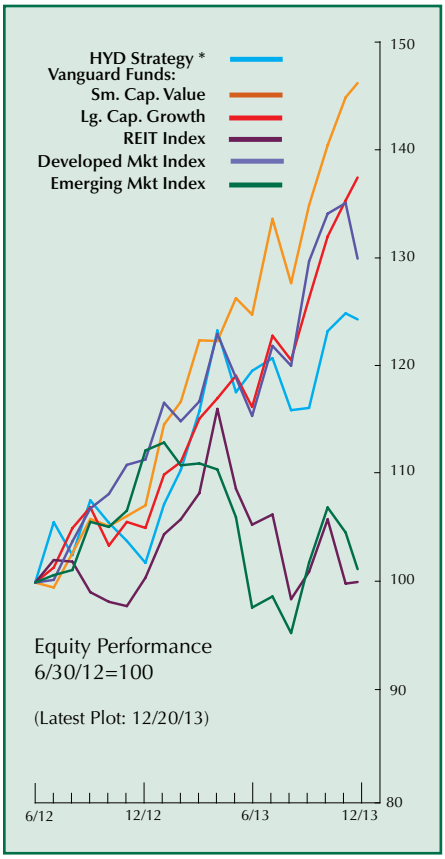


* HYD is a hypothetical model based on back-tested results. See p.94 for more information.

Gold 2013 and Your Portfolio

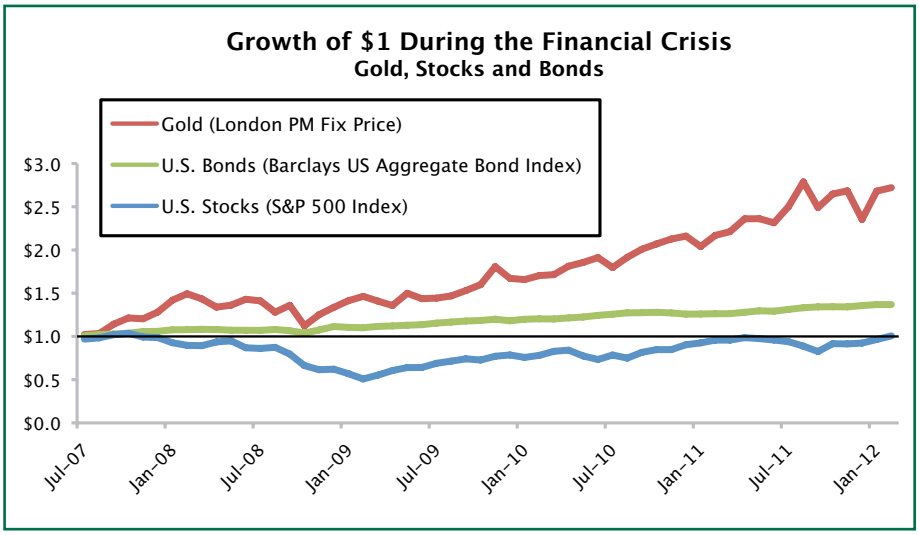
As 2013 draws to a close most of our recommended asset classes are poised to deliver full-year returns worth celebrating. At the risk of spoiling the party, however, we'll take a more constructive approach and instead address head-on those concerns that might nevertheless be on the minds of our readers.

Gold in particular is worth a closer look, especially for investors whose perceptions are easily swayed by very recent performance. Year-to-date through December 23 the gold price had fallen by 38 percent and is poised its steepest calendar-year loss since 1981, when the price fell by 33 percent. It is at times such as these when it is easy to question why we hold gold at all.

It was only five years ago, during the financial crisis, that gold performed quite well in its role as portfolio insurance. The chart below plots the growth of a hypothetical dollar invested in gold, U.S. bonds and U.S. stocks between July 2007, when stocks peaked, through February 2012 when the stock market had fully recovered. At the depth of the crisis in February 2009 a dollar invested in stocks would have fallen by 49 percent, while a dollar invested in gold would have increased by 46 percent. We have documented gold's resiliency throughout many previous financial crises.[1]

But the gold price is also extremely volatile so our recommended portfolio allocations to gold lie within a range of only five to ten percent; this limited exposure would have only cushioned the blow. Our other recommended asset classes, however, helped as well by providing further diversification, and stocks did of course ultimately recover.

Gold's recent swoon is now having the opposite effect, by diminishing slightly the strong yearly gains in stocks and bonds. We will gladly accept this offset in exchange for holding an asset that will rise to the occasion when crises emerge. Global markets remain unpredictable and risks always loom.



1 "Is Gold a Safe Haven?" Investment Guide, September 30, 2012.

RATE EXPECTATIONS[1]

Interest rates around the world are at historic lows. They can only go in one direction from here, right? And aren't rising interest rates bad for bond investors? The truth might surprise you.

Central banks in developed economies have injected extraordinary stimulus into the system since the recession arising from the global financial crisis five years ago.

The stimulus has come from these steep reductions in official interest rates and from more unconventional measures aimed at holding down long-term interest rates.

In 2013, markets became unsettled when the US Federal Reserve signaled it was contemplating a timetable for reducing its stimulus—the so-called "taper." The central bank later changed its mind, and markets cheered the news.

In the meantime, many investors are asking what will happen to their portfolios when central banks do decide to start restoring rates to more normal levels.

The market values of bonds rise or fall depending on investors' views about the outlook for inflation and interest rates, their perceptions about the creditworthiness of individual issuers, and their general appetite for risk.

The yield on a bond is the inverse of its price. So if the price falls, it means investors are demanding an additional return, or yield, on that bond to compensate for the risk of holding it to maturity. This sensitivity to interest rate change is called term risk.

So if interest rates can only go up from current levels, why hold bonds? There are a few points to make in response.

First, it is very hard to forecast interest rates with any consistency. Standard & Poor's regular scorecard shows most traditional forecast-based managers fail to outpace bond benchmarks over periods of five years or more.[2]

Second, there is nothing to say that rates will return to normal very quickly. In the case of Japan, benchmark lending rates have been at or close to zero for the best part of 15 years. We have already seen many large bond fund managers make badly timed calls on when the cycle will turn.

Third, bonds perform differently from stocks. So regardless of what is happening with the rate cycle, there is a diversification benefit in holding bonds in your portfolio. Diversification is a way of managing risk and helping to target a smoother ride.

Fourth, if you look at history, there is no guarantee in any case that longer-term bonds will underperform shorter-term bonds when interest rates are rising.

We carried out a case study of four periods of rising rates from the past 30 years. To meet the test, the rate increases had to be spread out over 12 months or more and cumulative increase had to be at least 1.5 percentage points.

The four periods were December 1976–March 1980 (when rates skyrocketed by 15.25 percentage points), September 1992–June 1995 (3 points), November 1998–December 2000 (1.75 points) and June 2003–August 2007 (4.25 points).

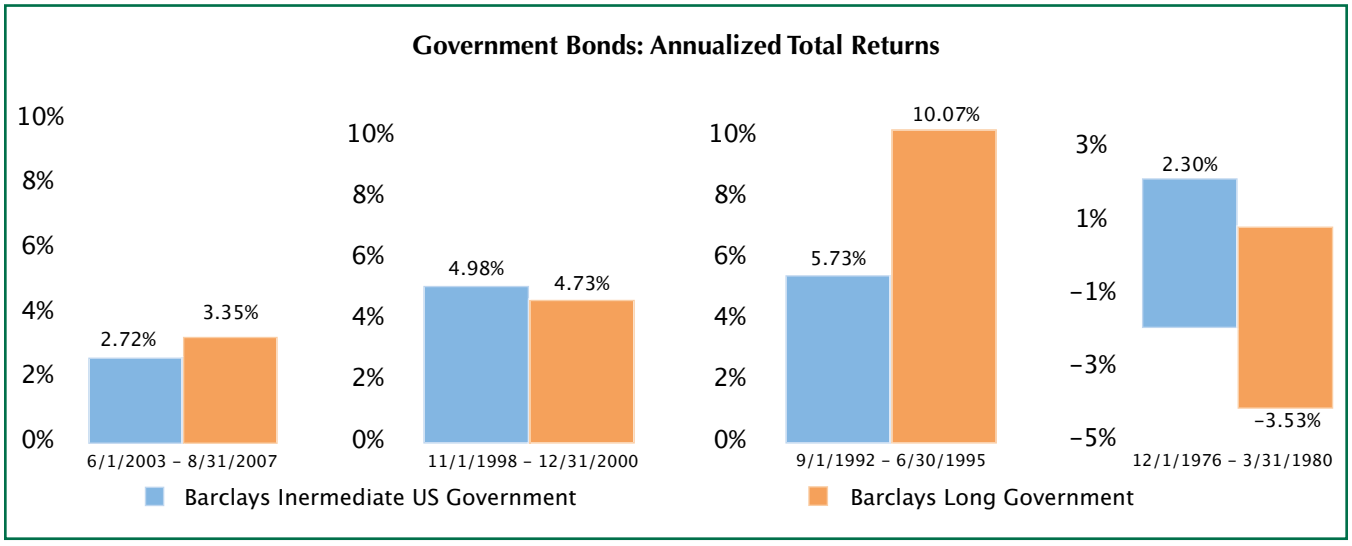
The chart below looks at the performance of US government bonds during those four periods. We use standard indices: the Barclays Intermediate (1–10-year maturity, in blue) and the Barclays Long (10–30-year maturity, in orange).

What's notable in the chart is that in two of these four periods of rising interest rates long-term bonds did better than shorter-to-intermediate-term bonds. In the other two periods (1998–2000 and 1976–1980), longer-term bonds underperformed.

This may seem counterintuitive, but it can be explained by the fact that long-term bond holders, whose biggest concern is inflation, can be comforted by a central bank moving aggressively and pre-emptively against this threat by raising official rates.

Also note that seven of these eight bars show positive returns, which contradicts the view that bonds always deliver negative returns in periods of rising interest rates. The exception in this study is the late 1970s, when the longest-term bonds (10–30 years) suffered during a period of very sharp increases in rates.

So, the first lesson is that an increase in official lending rates set by central



1 This article was written by Jim Parker of Dimensional Fund Advisors.
2 Source: Standard & Poor's Indices Versus Active Funds Scorecard, year-end 2012.

banks is not always replicated across bonds of all maturities. Indeed, in some cases, as we have seen, longer-term bonds have outperformed in rising rate environments.

The second lesson is that bonds can play an important role in your portfolio whatever the stage of the interest rate cycle. How much term (or credit) risk you take with bonds will depend on your own risk appetite and investment goals.

Trying to forecast interest rates is not a sustainable way of investing in bonds. But there is plenty of information in today's prices on which to base a strategy. In the meantime, you can help temper risk by diversifying across different types of bonds, different maturities, and different countries.

Ultimately, the reasons for investing in bonds should be driven by your own needs, not by everybody else's expectations.

Special thanks to DFA senior portfolio manager Dave Plecha for his help with this article.

WHO TO BELIEVE?

On December 1, less than a month after winning the Nobel Prize in economics, Professor Robert Shiller warned[1] of a possible impending "bubble" in the stock market. The headline came only two days after Wharton finance Professor Jeremy Siegel proclaimed the market to be 10 to 15 percent undervalued.[2]

Shiller gained notoriety when his book *Irrational Exuberance,* warning of a stock market crash, was published in March 2000, just as the "tech stock" boom reached its peak. Prior to the subprime mortgage crisis, he expressed concern with rising home prices and the potentially dire economic consequences of a collapse. Siegel is a frequent market commentator and his widely-quoted book *Stocks for the Long Run* is now in its fifth edition.

The media has paid far less attention to the less-than-sensational views of Eugene Fama, despite being named a co-recipient of the Nobel Prize. Fama's approach does not vary with market conditions because he asserts that at any point in time the market's current valuation is the best estimate of its value.

Shiller and Siegel's contrasting views support our contention that investors should not rely on forecasts, even those of respected and widely recognized experts. Both men are renowned researchers with impeccable credentials. They even rely heavily on the same valuation tool, the market's price-to-earnings ratio, or P/E (technically the cyclically adjusted P/E ratio, or CAPE) when appraising the market. Yet their forecasts are diametrically opposed.

Siegel asserts that the reason for the differing forecasts lies largely in the data. The earnings used in the denominator of the CAPE are those of the S&P 500 stock index. He cites a change in accounting conventions 20 years ago that prompted larger write-offs, and therefore lower reported earnings, than would have previously been the case. This distortion is especially apparent during recessions when earnings fall dramatically. As Siegel sees it, these reductions in earnings over the past decade have understated earnings relative to long-term averages, thereby artificially inflating the CAPE. In his view not only is Shiller's "bubble" illusory, stock prices are in fact lower than they ought to be.

When it comes to forecasting the market, our position is that it is virtually impossible to distinguish skill from chance via statistical reasoning. In a recent interview, Fama told NPR he would be convinced of Shiller's skill if the latter could predict the next ten "bubbles." Shiller said he thought he probably could, if he lived long enough.[3]

We'll stick with Professor Fama. We are not prepared to gamble your life savings on the hope that a recently successful forecaster will remain in the limelight for several decades, should he live long enough to prove it.

1 "Nobel Winner Shiller Warns of Bubble" Der Spiegel magazine, Dec. 1, 2013. 2 "Jeremy Siegel, The Market is 10% to 15% Undervalued" Advisor Perspectives, Dec 3, 2013. 3 "What's a Bubble?" Planet Money (NPR) Nov 13, 2013.

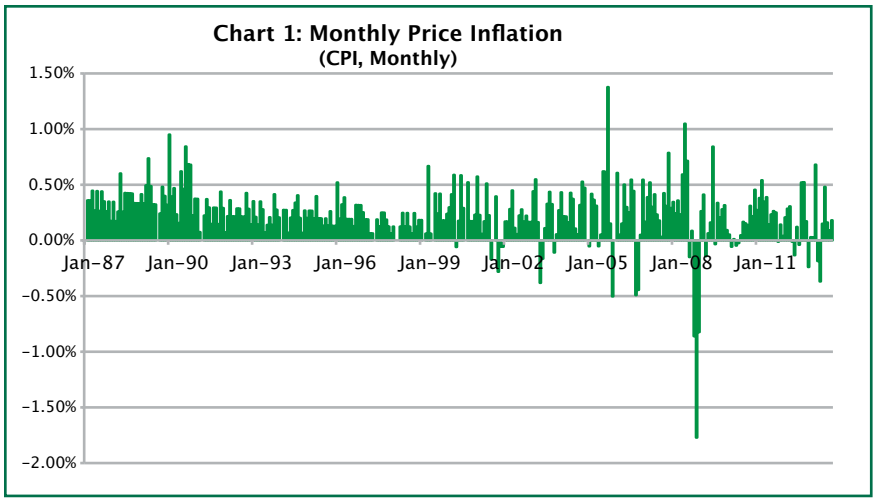
INFLATION AND ASSET CLASSES: AN UPDATE

Our parent organization, AIER, has long decried relentless monetary expansion common to nations that issue fiat currencies. Consumer price inflation is the inevitable result. Though the rate of inflation ebbs and flows (see Chart 1, next page) it proceeds virtually unimpeded through boom and bust. Annual price inflation (CPI) over the past 12 months was roughly two percent. Though low by historical standards, this would erode the purchasing power of the dollar by 33 percent over 20 years.

The Fed's massive and unorthodox quantitative expansion policy (or QE) that began five years ago was intended to stimulate growth through credit expansion. But banks have been reluctant to lend. So far the only apparent outcome is a massively expanded Fed balance sheet and roughly $2.1 trillion in federal debt held by Federal Reserve banks.

AIER reports however that the conditions for accelerated price inflation are now emerging. The economy is expanding while household income and consumer confidence are growing. If banks reverse course and lending grows rapidly the Fed may be hard pressed to rein in rising prices.

How can one protect his or her savings from price inflation? First it is important to keep in mind that the investing public is well aware of inflation risk, so investors' consensus estimate of inflation is built into the market prices of stocks, bonds and other financial assets. In other words investors demand



an *inflation premium* as a component of an asset's total expected return. If inflationary expectations rise, buyers will insist on lower prices to compensate for the risk that they will lose more purchasing power.

This inflation premium is only the market's best guess at future price inflation. If actual inflation exceeds the premium, the investor will lose out. For example, in January 1968 an investor could have purchased a U.S. Treasury bond which at the time of purchase was promising an annualized yield of 4.1 percent if held until its maturity in December 1979. A portion of this yield reflected an inflation premium demanded by bond buyers as protection against potential price inflation. It turns out that the actual inflation over this period soared to 7 percent per year, so after accounting for inflation the bond returned -2.7 percent per year. In dollar terms, this represents a $2,600 loss of purchasing power over 12 years on an original investment of $10,000.

But the worm turns. Having experienced unusually high inflation during the 1970s investors began to demand an extremely high inflation premium. In January 1982 Treasuries maturing in 1993 were promising a nominal yield to maturity of 15.3 percent per year. But this time the story was different as actual price inflation over this span averaged 3.7 percent, far short of expectations. Investors who held these bonds to maturity realized an annualized inflation-adjusted total return of +11.1 percent.

This guessing game with regard to actual versus expected inflation is itself a form of risk, and bond issuers, including the U.S. government, must compensate lenders for it in the form of higher real yields. The Treasury recognized the situation and in 1997 began issuing Treasury Inflation Protected Securities (TIPS) as an alternative to conventional Treasuries. Unlike conventional bonds TIPS' coupon payments and maturity value are adjusted to reflect actual price inflation (CPI) over time and therefore provide an explicit hedge against unexpected inflation. TIPS are therefore well-suited to investors who are particularly averse to unexpected price inflation.

Because they provide a guaranteed hedge against actual inflation TIPS investors do not demand an inflation-risk premium, so TIPS stated yields fall below those of conventional Treasuries. This difference, or spread, between current yields on conventional Treasuries and TIPS of the same maturity provides policymakers and investors with the market's estimate of future price inflation. This spread is depicted in Chart 2. Currently the bond market is projecting that price inflation will average 2.1 percent over the next 10 years. TIPS may be appealing to investors who are fearful that actual price inflation will exceed this level.

Hedging versus Real Returns

TIPS will protect against price inflation, but because they are a form of U.S. Treasury debt, investors should not expect TIPS to provide substantial real growth. So what should a well-diversified portfolio include to ensure growth while offering reasonable protection against an erosion of purchasing power? A recent study by Dimensional Fund Advisors[1] (DFA) shed light on the issue.

Assets that provide positive real returns over time, such as common stocks, may seem like a good way to protect purchasing power. But there are two problems with this approach. First these higher returns require that investors assume additional risk. Second, higher average returns overall do not ensure that investors' purchasing power will be protected during periods of higher inflation. A good hedge against inflation will provide higher returns when inflation is high.

DFA assessed the ability of stocks and bonds to deliver positive real returns and also examined their relation to price inflation. Asset classes included U.S. Treasury bills (T-bills), U.S. bonds, U.S. stocks, and unhedged international bonds and unhedged international stocks. Returns were evaluated between 1960 and 2012. This 53 year span was further divided between years of low and high inflation in the U.S.

Of these asset classes only T- bills had reliably higher nominal returns in high inflation years compared with low inflation years. Real returns on T-bills were essentially the same as nominal returns, so the additional return earned during high-inflation years appears to have compensated investors for the higher inflation encountered during those years.

All of the other (stock and bond) indicies displayed lower nominal and real returns during high-inflation years versus the low-inflation years (though this differential was not reliably different from zero). However, real returns for all indicies were still positive during the high-inflation periods. International stocks provided the highest average returns in these instances.

During high inflation years non-U.S. bond returns were positive, and outperformed U.S. bonds due to differences in interest rates, yield curve changes, and currency effects. U.S. dollar depreciation boosts foreign bond returns in dollars; this currency (or exchange-rate) effect however was diminished (though still apparent) because high-inflation periods in non-U.S. economies often coincided with periods of high inflation in the U.S. The results demonstrate diversification benefits from foreign bonds derived both from variability among global yield curves as well as currency effects.

Further testing via regression analysis revealed that U.S. T-bills and

bonds were related to inflation, but in opposite directions. Returns on T-bills were positively related to inflation while returns on U.S. bonds were negatively related. Not surprisingly, long term bond returns are more susceptible to actual inflation versus (short term) T-bills. U.S. inflation had negligible explanatory power with regard to the average returns of U.S. stocks, non-U.S. stocks and non-U.S. bonds.[2]

Unexpected Inflation Protection

The study drilled down further in order to distinguish the effects of expected and unexpected inflation[3] on the returns of each asset class. Returns from T-bills were positively related to both expected and unexpected inflation[4] but only provided a partial hedge against unexpected inflation. U.S. bonds were negatively related to unexpected inflation, suggesting that their negative relation to overall inflation (described above) is explained largely by the unexpected component of current inflation. This is consistent with our contention that long term conventional bond returns include a premium that represents only expected price inflation.

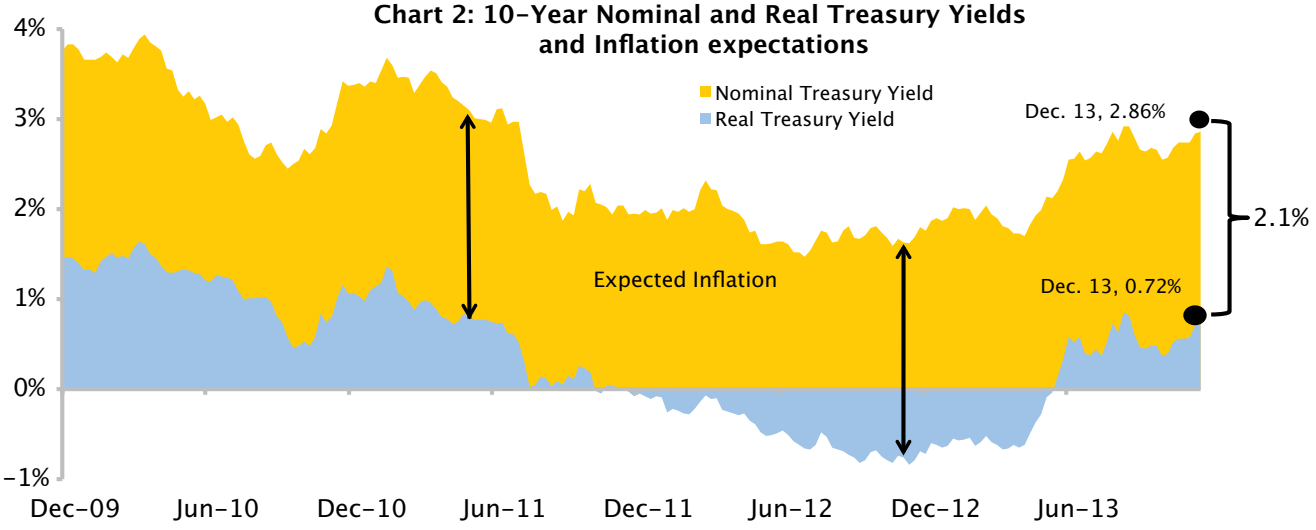
Unexpected versus expected inflation proved to be of little value in explaining the returns of U.S. stocks and non-U.S. stocks and bonds.

Conclusion

The expected inflation built into the prices of all five asset classes provided positive nominal and real returns during periods of high inflation, with non-U.S. stocks providing the strongest returns. This suggests that the numerous advantages of international diversification, which we have presented in previous issues of *Investment Guide*, persist during periods of high U.S. inflation. International bonds provide diversification benefits that are attributable to differences in interest rates and yield curve changes, as well as to exchange-rates. However, exchange-rates can be highly volatile and "swamp" the otherwise stable returns of bonds. Since we recommend bonds as a source of portfolio stability, investors should include only international bond funds that are hedged against currency risk.

Only T-bills provided protection against unexpected inflation, and this is only a partial hedge. TIPS on the other hand are tied explicitly to the CPI. The Treasury/TIPS spread reveals expected U.S. inflation of 2.1 percent per year over the next decade. Investors concerned with the risk of unexpected inflation over this period should weight their bond holdings toward T-bills or TIPS.

Chart 2: 10-Year Nominal and Real Treasury Yields and Inflation expectations



Real treasury yield represented by the constant maturity 10-Year Treasury Inflation Protection Security. Nominal yield reprsented by the constant maturity 10-Year Treasury Bond. Weekly data. The difference between these two yields represents expected 10-year inflation (CPI). Source: Federal Reserve Board, Fidelity Investments.

1 Wes Crill and James L. Davis, "U.S. Inflation and the Returns in Global Stock and Bond Markets" Dimensional Fund Advisors, November 2013.
2 Inflation explained over half of the variation in the returns of bills and roughly one fifth the variation of bonds. When lagged on current and lagged inflation, none of the other return series provided slope coefficients reliably different from zero.
3 The study constructed an autoregressive estimate with one lag.
4 U.S. bill returns were regressed on expected and unexpected inflation. The slope coefficient on unexpected inflation was positive but less than 1.

ERRATA

Last month, in our article "Year-End Tax Swapping" we published a chart titled "Current Capital Gains Tax Rates." The rate for investors in the 39.6% tax bracket for assets held for less than one year is 43.4%, we stated this incorrectly as 44.3%.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of December 13, 2013

	Rank	Yield (%)	Price ($)	Status	—Percent of Portfolio— Value (%)	No. Shares (%)[1]
AT&T	1	5.44	33.85	Holding**	22.91%	24.03%
Verizon	2	4.43	47.84	Holding**	24.35%	18.07%
Intel Corp	3	3.71	24.29	Buying	23.14%	33.83%
Merck	4	3.64	48.38	Holding**	22.79%	16.72%
Pfizer	9	3.17	30.25	Selling	2.94%	3.45%
Dupont (E.I)	11	2.99	60.24	Holding	1.62%	0.96%
Hewlett Packard	-	2.10	26.77	Holding	2.22%	2.94%
Cash (6-mo. T-Bill)	N/A	N/A	N/A		0.03%	N/A
Totals					100.00	100.00

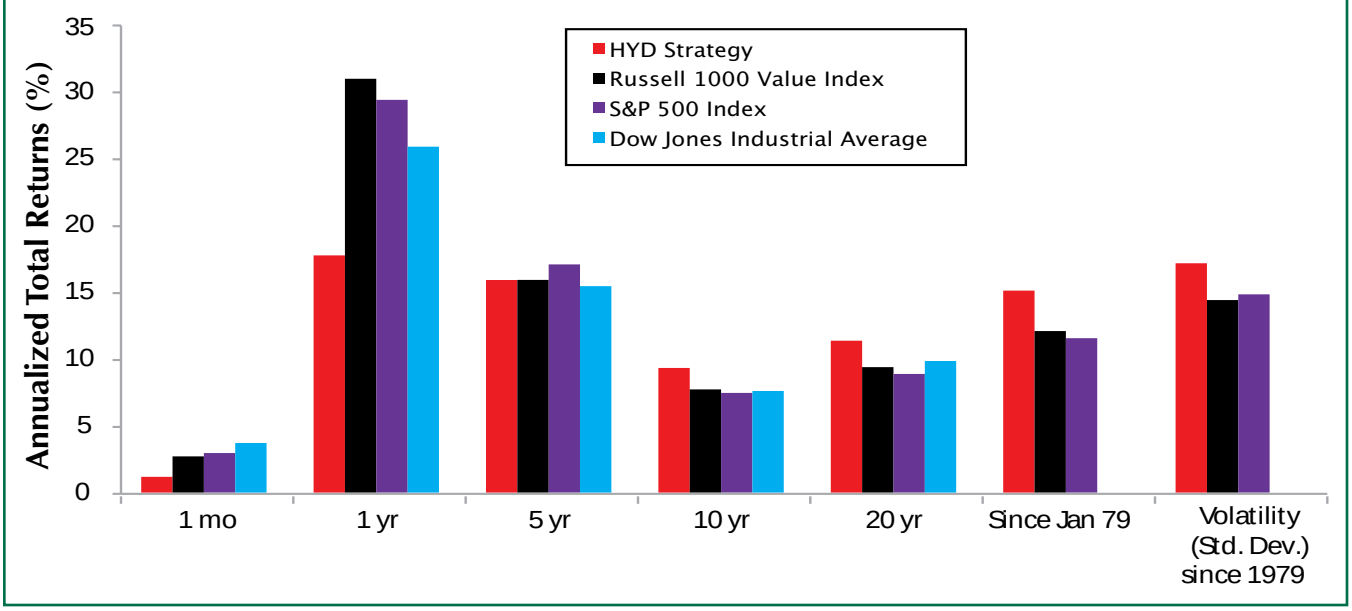
**Currently indicated purchases approximately equal to indicated purchases 18 months ago. 1 Because the percentage of each issue in the portfolio by value reflects the prices shown in the table, we are also showing the number of shares of each stock as a percentage of the total number of shares in the 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, 2013*. 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	1.21	18.30	16.40	9.61	11.71	15.58	17.69
Russell 1000 Value Index	2.79	31.92	16.40	7.96	9.67	12.46	14.85
S&P 500 Index	3.05	30.30	17.60	7.69	9.15	11.91	15.29
Dow Jones Industrial Average	3.82	26.68	15.92	7.83	10.15	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 ($)

	12/13/13	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	**1,232.00**	1,287.25	1,696.25
Silver, London Spot Price	**19.55**	20.64	32.52
Copper, COMEX Spot Price	**3.35**	3.17	3.67
Crude Oil, W. Texas Int. Spot	**96.59**	93.83	86.72
Dow Jones Spot Index	**401.93**	392.91	443.37
Dow Jones-UBS Commodity Index	**126.11**	123.21	140.54
Reuters-Jefferies CRB Index	**279.67**	274.90	295.34

Interest Rates (%)

U.S. Treasury bills -	91 day	**0.02**	0.08	0.04
	182 day	**0.09**	0.10	0.09
	52 week	**0.14**	0.13	0.13
U.S. Treasury bonds -	10 year	**2.88**	2.74	1.72
Corporates:				
High Quality -	10+ year	**4.63**	4.67	3.66
Medium Quality -	10+ year	**5.38**	5.43	4.62
Federal Reserve Discount Rate		**0.75**	0.75	0.75
New York Prime Rate		**3.25**	3.25	3.25
Euro Rates	3 month	**0.27**	0.22	0.18
Government bonds -	10 year	**1.82**	1.73	1.34
Swiss Rates -	3 month	**0.02**	0.02	0.01
Government bonds -	10 year	**1.13**	1.12	0.50

Exchange Rates ($)

British Pound	**1.629400**	1.610700	1.613900
Canadian Dollar	**0.943900**	0.956300	1.014200
Euro	**1.372400**	1.348000	1.313400
Japanese Yen	**0.009680**	0.009980	0.011970
South African Rand	**0.096970**	0.098300	0.115900
Swiss Franc	**1.123100**	1.092660	1.087400

Securities Markets

	12/13/13	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	**1,775.32**	1,798.18	1,413.58
Dow Jones Industrial Average	**15,755.36**	15,961.70	13,135.01
Dow Jones Bond Average	**316.92**	316.33	321.76
Nasdaq Composite	**4,000.98**	3,985.97	2,971.33
Financial Times Gold Mines Index	**1,288.62**	1,497.01	2,824.97
FT EMEA (African) Gold Mines	**1,176.33**	1,437.19	2,640.02
FT Asia Pacific Gold Mines	**3,391.39**	4,401.80	11,815.56
FT Americas Gold Mines	**1,177.77**	1,335.97	2,425.55

Coin Prices ($)

	12/13/13	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	**1,303.63**	1,313.03	1,767.70	5.81
Austrian 100-Corona (0.9803)	**1,225.32**	1,234.43	1,657.82	1.46
British Sovereign (0.2354)	**306.30**	308.50	411.80	5.62
Canadian Maple Leaf (1.00)	**1,288.10**	1,297.50	1,737.10	4.55
Mexican 50-Peso (1.2057)	**1,510.00**	1,521.20	2,042.70	1.65
Mexican Ounce (1.00)	**1,272.70**	1,282.00	1,714.80	3.30
S. African Krugerrand (1.00)	**1,292.18**	1,301.57	1,737.97	4.88
U.S. Double Eagle-$20 (0.9675)				
St. Gaudens (MS-60)	**1,380.00**	1,380.00	1,900.00	15.78
Liberty (Type I-AU50)	**2,225.00**	2,225.00	2,075.00	86.67
Liberty (Type II-AU50)	**1,700.00**	1,700.00	1,942.50	42.62
Liberty (Type III-AU50)	**1,360.00**	1,370.00	1,875.00	14.10
U.S. Silver Coins ($1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	**15,425.00**	15,550.00	23,575.00	10.35
40% Silver Circ. (292 oz.)	**5,802.50**	6,025.00	9,587.50	1.64
Silver Dollars Circ.	**20,500.00**	22,550.00	28,500.00	35.55

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $1,232.00 per ounce and silver at $19.55 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 ($) 12/13/13	11/15/13	12/14/12	12-Month ($) High	Low	Latest Dividend Amount ($)	Record Date	Payable Date	Indicated Annual Dividend ($)	Yield† (%)
AT&T	T	*I*	33.85	35.43	34.01	39.00	32.76	0.460	1/10/14	2/3/14	1.840	5.44
Verizon	VZ		47.84	50.31	44.21	54.31	41.50	0.530	1/10/14	2/3/14	2.120	4.43
Intel Corp	INTC		24.29	24.52	20.53	25.98	20.10	0.225	11/07/13	12/1/13	0.900	3.71
Merck	MRK	*I*	48.38	48.07	43.54	50.42 *H*	40.02	0.440	12/16/13	1/8/14	1.760	3.64
McDonald's	MCD		94.44	96.92	88.88	103.70	86.81	0.810	12/02/13	12/16/13	3.240	3.43
Cisco	CSCO		20.24	21.53	19.86	26.49	19.31	0.170	10/03/13	10/23/13	0.680	3.36
Chevron	CVX		119.90	120.06	107.82	127.83	105.75	1.000	11/18/13	12/10/13	4.000	3.34
General Electric	GE	*I*	26.84	27.20	21.62	27.50 *H*	20.26	0.220	12/23/13	1/27/14	0.880	3.28
Pfizer	PFE		30.25	32.20	25.18	32.50 *H*	24.63	0.240	11/08/13	12/3/13	0.960	3.17
Microsoft Corp.	MSFT		36.69	37.84	26.81	38.98 *H*	26.28	0.280	2/20/14	3/13/14	1.120	3.05
Dupont	DD		60.24	62.11	44.09	62.69	44.10	0.450	11/15/13	12/13/13	1.800	2.99
Procter and Gamble	PG		82.37	84.84	69.93	85.82 *H*	66.83	0.602	10/18/13	11/15/13	2.406	2.92
Johnson & Johnson	JNJ		91.35	94.39	70.69	95.99 *H*	69.18	0.660	11/26/13	12/10/13	2.640	2.89
Coca-Cola	KO		39.23	40.22	37.66	43.43	35.58	0.280	12/02/13	12/16/13	1.120	2.85
Caterpillar	CAT		86.05	83.74	89.00	99.70	79.49	0.600	1/21/14	2/20/14	2.400	2.79
J P Morgan	JPM		56.17	54.87	42.81	58.14 *H*	42.81	0.380	1/06/14	1/31/14	1.520	2.71
Exxon Mobil	XOM		95.31	95.27	88.08	96.25 *H*	84.70	0.630	11/12/13	12/10/13	2.520	2.64
Wal-Mart Stores	WMT		78.08	79.22	68.75	81.37 *H*	67.37	0.470	12/06/13	1/2/14	1.880	2.41
Travelers	TRV		86.49	88.67	73.37	91.68 *H*	70.73	0.500	12/10/13	12/31/13	2.000	2.31
IBM	IBM		172.80	183.19	191.76	215.90	172.57	0.950	11/08/13	12/10/13	3.800	2.20
United Tech.	UTX		107.35	108.59	79.98	112.46	79.50	0.589	11/15/13	12/10/13	2.356	2.19
3M Company	MMM		126.43	129.85	92.28	134.16 *H*	91.40	0.635	11/22/13	12/12/13	2.540	2.01
Home Depot, Inc.	HD		79.01	80.03	62.06	82.27 *H*	60.21	0.390	12/05/13	12/19/13	1.560	1.97
Unitedhealth Group	UNH		70.48	71.87	54.05	75.88	51.36	0.280	12/06/13	12/17/13	1.120	1.59
Boeing	BA		133.83	136.08	74.02	142.00 *H*	72.68	0.485	11/08/13	12/6/13	1.940	1.45
Goldman Sachs	GS		168.39	164.40	119.36	172.20 *H*	120.03	0.550	12/02/13	12/30/13	2.200	1.31
Nike	NKE	*I*	76.40	79.22	48.46	80.26 *H*	48.40	0.240	12/16/13	1/6/14	0.960	1.26
Walt Disney	DIS	*I*	69.62	70.00	48.67	72.13 *H*	48.67	0.860	12/16/13	1/16/14	0.860	1.24
American Express	AXP		83.68	82.80	56.65	86.53 *H*	55.88	0.230	1/10/14	2/10/14	0.920	1.10
Visa Inc.	V		207.36	202.00	146.82	208.00 *H*	146.90	0.400	11/15/13	12/3/13	1.600	0.77

* See the Recommended HYD Portfolio table on page 94 for current recommendations. † Based on indicated dividends and market price as of 12/13/13.
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 12/16/12.
I Dividend increased since 11/15/13 *D* Dividend decreased since 11/15/13

RECOMMENDED INVESTMENT VEHICLES

	Security Symbol	Avg. Market Cap. / Avg. Maturity	Descriptive Quarterly Statistics, as of 9/30/13: No. of Holdings	Expense[3] (%)	Ratios: Sharpe	Ratios: Turnover (%)	P/B	12 Mo. Yield (%)	Annualized Returns[4] (%), as of 11/30/13: Total: 1 yr.	Total: 3 yr.	Total: 5 yr.	After Tax*: 1 yr.	After Tax*: 3 yr.	After Tax*: 5 yr.
Short/Intermediate Fixed Income														
Vanguard Short-Term Bond Index	BSV[1] / VBISX	2.8 Yrs.	1705	0.20	1.02	51	--	1.17	0.41	1.54	3.06	-0.13	0.90	2.30
iShares Barclays 1-3 Yr. Credit Bond	CSJ[1]	1.97 Yrs.	860	0.20	1.42	8	--	1.33	1.27	1.90	4.37	0.74	1.30	3.52
iShares Barclays 1-3 Yr. Treasury Bond	SHY[1]	1.87 Yrs.	49	0.15	0.90	104	--	0.27	0.39	0.64	1.08	0.28	0.45	0.71
Vanguard Limited-Term Tax-Exempt	VMLTX	2.8 Yrs.	2129	0.20	1.07	15	--	1.70	0.23	1.85	2.85	0.23	1.85	2.85
SPDR N.B. Short-Term Municipal Bond	SHM[1]	3.16 Yrs.	482	0.20	0.65	20	--	1.04	0.67	1.75	2.71	0.31	1.60	2.62
Inflation-Protected Fixed Income														
iShares Barclays TIPS Bond	TIP[1]	8.44 Yrs.	38	0.20	0.68	10	--	1.59	-7.90	3.39	6.87	-8.43	2.40	5.85
Vanguard Inflation-Protected Securities	VIPSX	8.4 Yrs.	43	0.20	0.66	33	--	2.55	-7.96	3.28	6.74	-9.05	2.12	5.79
International Fixed Income														
Vanguard Total International Bond Index	BNDX[1]/VTIBX	8.2 Yrs.	1801	0.23	--	--	--	--	--	--	--	--	--	--
Real Estate														
Vanguard REIT Index	VNQ[1] / VGSIX	8.26 B	134	0.24	0.77	9	2.2	3.75	5.81	10.82	20.48	4.37	9.68	19.03
SPDR Dow Jones REIT	RWR[1]	9.43 B	86	0.25	0.75	7	2.2	3.17	4.15	10.24	19.87	2.84	8.98	18.32
Vanguard Global ex-US Real Estate	VNQI[1] / VGXRX[5]	5.79 B	468	0.45	na	10	1.1	4.36	9.05	9.58	--	6.99	8.32	--
iShares International Property ETF	WPS[1]	7.01 B	333	0.48	0.59	9	1.1	5.60	12.00	10.47	17.23	9.66	8.91	15.70
SPDR Dow Jones Global Real Estate ETF	RWO[1]	8.36 B	220	0.50	0.69	8	1.5	4.45	6.43	10.24	18.06	4.58	8.33	16.14
U.S. Large Cap Value														
Vanguard Value Index	VTV[1] / VIVAX	64.10 B	326	0.24	1.19	22	1.9	2.28	32.66	17.72	16.02	31.98	17.23	15.52
iShares Russell 1000 Value Index	IWD[1]	46.38 B	649	0.20	1.18	16	1.7	2.09	31.61	17.80	16.21	30.60	17.23	15.69
U.S. Small Cap Value														
iShares Russell Microcap Index	IWC[1]	0.35 B	1336	0.60	1.06	29	1.7	1.38	47.01	18.86	20.94	46.30	18.47	20.63
Vanguard Small-Cap Value Index	VBR[1] / VISVX	2.44 B	808	0.24	1.07	25	1.7	1.99	37.27	17.53	20.95	36.59	17.03	20.40
U.S. Large Cap Growth														
iShares Russell 1000 Growth Index	IWF[1]	44.18 B	611	0.20	1.29	17	4.5	1.53	29.46	17.21	19.91	28.75	16.83	19.57
Vanguard Growth Index	VUG[1] / VIGRX	46.34 B	344	0.24	1.26	21	3.9	1.27	27.98	17.08	19.65	27.62	16.85	19.42
U.S. Marketwide														
Vanguard Total Stock Market Index	VTI[1] / VTSMX	34.69 B	3523	0.17	1.25	3	2.4	1.86	31.48	17.66	18.54	30.91	17.28	18.16
Fidelity Spartan Total Market Index	FSTMX[2]	33.30 B	3341	0.10	1.25	3	2.3	1.56	31.52	17.69	18.54	n/a	n/a	n/a
Foreign- Developed Markets														
iShares MSCI EAFE Growth Index	EFG[1]	34.41 B	531	0.40	0.58	26	2.4	1.99	23.05	9.82	13.60	22.17	9.44	13.29
iShares MSCI EAFE Value Index	EFV[1]	38.01 B	520	0.40	0.50	27	1.2	3.11	25.83	10.55	12.71	24.40	9.91	12.21
Vanguard FTSE Developed Market	VEA[1] / VTMGX[6]	30.33 B	1299	0.09	0.56	7	1.5	3.08	24.81	10.52	13.46	23.97	9.99	13.01
SPDR S&P International Small Cap	GWX[1]	1.3 B	837	0.59	0.53	2	1.2	2.11	23.98	8.88	17.30	23.26	8.34	16.80
Foreign- Emerging Markets														
Vanguard FTSE Emerging Market Stock	VWO[1] / VEIEX	17.57 B	925	0.33	0.04	8	1.5	3.11	1.57	-0.18	16.06	0.62	-0.76	15.44
Gold-Related Funds														
iShares Gold Trust	IAU[1]	--	1	0.25	0.11	0.00	--	0.00	-27.58	-3.52	8.63	-27.58	-3.52	8.63
SPDR Gold Shares	GLD[1]	--	1	0.40	0.10	0.00	--	0.00	-27.70	-3.64	8.56	-27.70	-3.64	8.56

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. [5]VGXRX includes a 0.25% fee on purchases and redemptions, which are paid directly into the fund. [6]These are admiral shares and have a $10,000 required minimum initial investment. *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.