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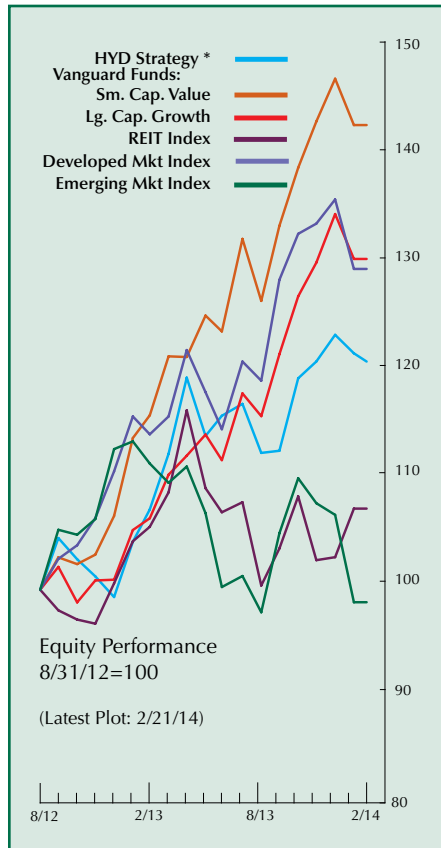
INVESTMENT GUIDE

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

The *Investment Guide* is intended to provide useful information to investors who manage their own financial assets. **We also provide low cost discretionary asset management services** for individuals and institutions seeking professional advice and assistance in implementing an investment strategy.

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When PIGS Fly

In February 2010 the newly elected government of George Papandreou announced that Greece’s 2009 deficit was much larger than previously reported and revised it upward to an alarming 12.7 percent of GDP. This figure was more than double the previous government projection, and was later revised yet again, to 15.4 percent.

This turned out to be the tip of the iceberg of an escalating and unsustainable series of debt to GDP revisions and cascading drops in confidence in the sovereign debt of the peripheral Eurozone nations, particularly Portugal, Ireland, Greece and Spain the so called “PIGS” (sometimes expanded to include Italy).

Despite several rounds of rescue packages coordinated by the European Central Bank and International Monetary Fund from 2010 to 2012, world markets vacillated daily on the possibility that Greece would default on its sovereign debt and leave the Eurozone. It was feared this scenario (dubbed the “Grexit” by the financial press) would trigger a domino effect and that other highly indebted PIGS would quickly follow and put the viability of the Euro in question.

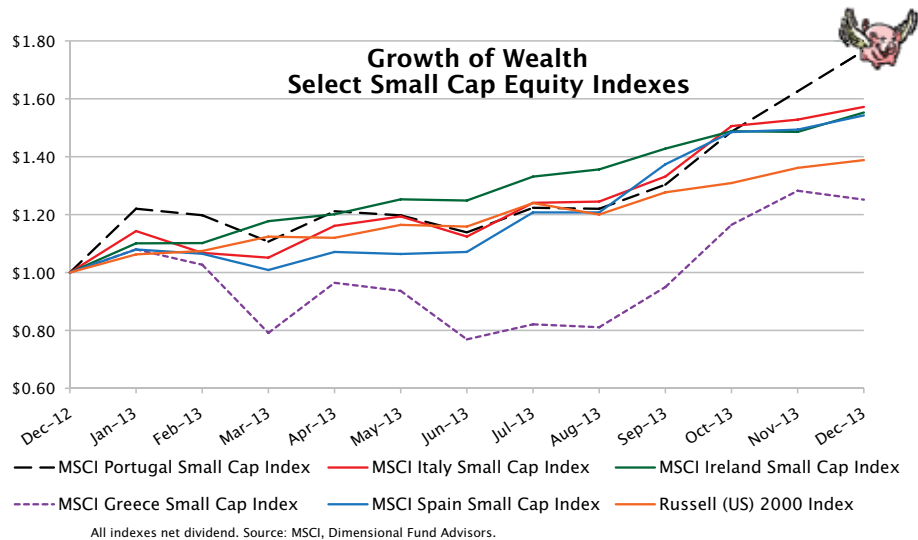
Credit spreads widened and the cost of insuring against default spiked for all of the peripheral countries, reflecting a lack of confidence in both the credit worthiness of the individual sovereign borrowers and the ability of the European authorities to contain the crisis.

Greece is a relatively small economy that represented less than two percent of total 2011 European Union GDP. How could such a small nation cast such a large shadow over world markets? Perhaps investors recalled familiar claims in 2008 that the U.S. sub-prime market was insignificant in size and that the crisis would be contained, or that two failed Bear Stearns hedge funds would have no material impact on the bank’s solvency.

There was a very real risk of a Greek default that would spread to other nations, and world equity markets reflected that risk. But default did not ensue and investors ultimately were rewarded handsomely for assuming that risk. Portugal led the PIGS out of the crisis, where small cap stocks posted a 76.65 percent return for 2013. Ireland, Greece and Spain had very strong 2013 as well, as depicted in the accompanying chart.

(continued next page)

Cassandras’ predictions of a European collapse never came to be. However this episode is instructive because it demonstrates how seemingly momentous developments in the world economy with horrific potential consequences are quickly digested and incorporated into capital market prices. Through this mechanism risky assets are clearly identifiable and distinguishable from safer investments. Investors are free to choose which assets to embrace, and which to avoid.



MEDIA HYPE, THE INFORMED INVESTOR, AND FREE MARKETS

Last month, AIER (our parent organization), on its blog, discussed the limitations and potential misuse of economic indicators. The media are concerned mainly with drawing attention, and the significance of recent data points is often exaggerated in headlines, and on radio and television. This noise is not merely useless; it imperils the interests of ordinary citizens.

Perhaps nowhere are these distortions more common and potentially more dangerous than in the field of financial economics, where AIS serves

as the “tip of the spear” on the front lines of a seemingly endless battle against misinformation. Through AIER’s research and with over eight decades of capital market data we strive to maintain a bulwark against a barrage of sensational claims and “latest headlines.” Perpetrators include commentators, who are often merely uninformed, as well as unscrupulous money managers, who are adept at spinning facts into fear or excitement, the very emotions that undermine rational decision-making and render unwitting investors vulnerable to empty promises.

Knowledge is the ultimate defense against such depredations, and by providing education rather than marketing hype, we hope to prosper as a business. In particular, we remind our readers constantly that the dubious claims of market timers and stock pickers are no match for the power of free markets. Theory and empirical evidence make clear that market prices, which reflect news as it emerges, provide the best estimate of value, and that forecasts of security prices or market trends are a fool’s errand.

To further strengthen our readers’ resolve, this month we have reprinted AIER’s blog post, as well as our own article “Active Managers versus Free Markets”

Separating the Signal from the Noise¹ (January 14, 2014)

Last week played out a familiar pattern in the economic news cycle: An indicator surprises to the upside, and people rejoice: The economy is doing better than we thought! Hurrah! But the next indicator surprises to the downside and people tear out their hair: The economy is falling to pieces! We knew the signs of strength were false—woe are we!

Last week’s employment situation report from the Bureau of Labor Statistics (BLS) showed a paltry 74,000 gain in non-farm payroll employment for December, prompting much gnashing of teeth and wringing of hands among



Wall Street analysts. Is the labor market much weaker than we thought? Will the Fed rethink its plan to taper its asset purchase program?

We at AIER advise that you tune out the media response to the day-to-day economic data flow and tune in to the underlying trends in the economy. The monthly indicators of activity, such as those covering employment, industrial production, and retail sales, all provide valuable information. They are compiled objectively, using sophisticated and time-tested statistical techniques. But any single data point is a poor guide to the economy.

Take the December employment report, for example. The results are compiled from two independent surveys, one of employers and one of households. For the survey of employers, the Bureau of Labor Statistics asks approximately 145,000 businesses and government agencies about their employees, the hours they worked, and their earnings. For the household survey, the BLS contacts about 60,000 households, comprising about 110,000 individuals. Compare that to public opinion surveys, which typically have a sample size of just 2,000.

Despite the huge sample size, the BLS estimates that the 90 percent “confidence interval” for any one monthly payroll employment number is plus or minus 90,000. This means that the BLS has 90 percent confidence that the change in non-farm payroll employment in December was 74,000, plus or minus 90,000—somewhere between a 16,000 *drop* and a 164,000

increase. Also, keep in mind that the monthly employment numbers are subject to numerous revisions, as more complete data becomes available. Initial monthly payroll estimates for 2013 averaged 164,000; based on the latest revisions, the number is 182,000.

With all of that in mind, how many sleepless nights do you want to waste contemplating changes in the monthly employment figures, or any other monthly economic report?

Why are these economic indicators so unreliable? Almost all of them are based on samples, which means there could be errors in the data if the sample does not cover a representative slice of the population, or if respondents provide inaccurate answers to survey questions. Many economic indicators are also subject to seasonal adjustment—an attempt to make the data immune to factors that obscure the underlying trends in the economy, like holidays or seasonal weather patterns. The United States has some of the most sophisticated data collection and processing methodologies in the world, but there are plenty of reasons why the results might be unreliable in any given month.

Keep in mind that non-official economic data, like the ADP employment report, or privately compiled surveys of consumers and businesses, may not be subject to the same rigorous statistical analysis as official data series, and most don’t have enough historical data to prove that they correlate to changes in actual economic activity. What’s more, sentiment surveys may be affected by

the political or ideological biases of the firms that design them. So treat privately compiled economic data even more cautiously.

If even the best economic data are so unreliable, why do so many people waste so much time fretting over each data point? Many journalists have an imperative to fill airtime or column space, but their approach is often shaped by the perspectives of the financial markets, which swing on a daily basis in response to the data flow. Traders may be able to make profits by taking bets on an economic indicator, but that should not affect your assessment of the underlying strength or weakness of the economy.

How can you get a sense of the true economic trends if the monthly data can’t be trusted? Looking at moving averages or year-over-year changes, which are mostly immune to seasonal variation, are good ways to smooth out the volatility in the data. One commentator derisively wrote about the employment report on Twitter last week, “If you want to be a payrolls genius, always say, ‘Smoothing out monthly blips, growth is averaging around 150-200K.’” Well, that’s not such bad advice! Between the ups and downs, payroll gains averaged 182,000 in 2013—not stellar, but by no means alarming.

That said, remember the old saw about the economist who tried to cross a river with an average depth of one foot: He drowned. It’s important to look through the volatility in the data, but don’t forget that sometimes a result that looks like an outlier can be the start of a new trend.

1 Carisa Weinberg, AIER Research Fellow (January 14, 2014) <http://dailyeconomy.org/2014/01/14/separating-the-signal-from-the-noise/>

FUTURE TESTING¹

Much financial news purports to be about the future but is really just an account of the past. As a result, many investors project what has already happened onto an imagined future. There’s another way of framing this problem.

It’s understandable that investors, with the help of a necessarily short-term-focused media, will tend to focus most of their attention on what has happened in financial markets in the past month, week, day, or even hour.

When stocks have fallen heavily in price, for instance, this is routinely

reported as, “More bad news for investors today...” In fact, unless you plan to liquidate your portfolio that particular day, it is unlikely to be bad news at all.

The media could just as easily say, “Stocks went on sale today, as falling prices offered investors higher expected returns...” If you are a long-term investor, the key issue is how your portfolio performs from now on, not what happened yesterday.

In this way, investment is about the future, not the past. And because the future is unknown, we should strive to manage the uncertainty by diversifying

across stocks, sectors, asset classes, and countries. While diversification does not eliminate the risk of market loss, to do otherwise is to take unnecessary risk.

The second assumption the financial media makes is that the future is the same for everyone. In reality, of course, our futures diverge depending on our age, family circumstances, jobs, incomes, and other factors.

One person may be focused on paying for a college education for their children or caring for aging parents. Another may be looking toward buying a home, saving for a vacation, investing an

inheritance, or changing careers.

Everyone's future is different, which means the investment strategy each of us adopts will vary. Some will want a strategy that delivers regular income; others will be more focused on capital growth. Some will be risk takers, others risk-averse.

From this, it should be evident that if the future looms differently for each of us, risk is not just one thing. It is not just the volatility of the market day to day or a simple statistical metric that can be measured. Risk can be felt differently depending on your age, your dependents, the industry you work in, the country you live in, the currency you consume in, and your accumulated assets and liabilities.

This is why an assessment of the future and the uncertainty surrounding it should not just be approached from the level of the overall market but from the needs of each individual. That is the role of a qualified financial advisor: to help connect each individual's circumstances and needs to their goals.

None of us can control the future. Risk can be quantified up to a point, but risks can vary greatly depending on the individual. In any case, there are other uncertainties that cannot be analyzed in terms of mathematical probabilities.

One response to future uncertainty

is to speculate and try to position one's portfolio to take advantage of one possible outcome or another. The risk in taking that approach, apart from getting it wrong, is that we can end up acting on stale news or paying a premium to take advantage of news that is already in the price of a given security.

Another response is to stay highly diversified and to use the information in market prices to stay focused on dimensions of expected return.

This latter response doesn't require speculation, forecasts, or second-guessing the market. It just requires an understanding of what we can and cannot control. So while we can't control the structure of our portfolios, we can ensure we are broadly diversified, we can manage fees and taxes, and we can regularly rebalance to ensure the risk allocation stays within our chosen parameters.

Yes, the future is unknowable, and how it unfolds has differing implications



"SEE IF OUR TECHNICAL PEOPLE CAN GET THIS UP AND RUNNING."

for each of us, depending on our circumstances and needs.

While we cannot prepare the future for our portfolios, we can still strive to prepare our portfolios for the future.

1 Outside the Flags By Jim Parker Vice President DFA Australia Limited

ACTIVE MANAGERS VERSUS FREE MARKETS

It is logically consistent for investors who accept the primacy of free markets to adopt structured (or passive) asset class management over the alternative of active management. In our discussion we draw upon a transcript of a presentation given by Rex Siquefield¹, 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 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 wrong², 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 structured 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. 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 markets' 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. 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 \$620 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 visit our website www.americaninvestment.com.

1 Asset Management: Active vs. Passive Management Rex Sinquefeld, Dimensional Fund Advisors, Schwab Institutional conference: San Francisco October 12, 1995.

2 Sinquefeld refers to this as the "market failure hypothesis"

3 Index funds are acceptable vehicles for individual investors.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of February 14, 2014

	Rank	Yield (%)	Price (\$)	Status	—Percent of Portfolio—	
					Value (%)	No. Shares (%) ¹
AT&T	1	5.55	33.15	Holding**	22.34%	24.71%
Verizon	2	4.56	46.51	Holding**	23.21%	18.30%
Intel Corp	3	3.64	24.76	Buying	25.32%	37.51%
Chevron	4	3.52	113.48	Buying	1.53%	0.49%
McDonald's	6	3.38	95.78	Holding	1.54%	0.59%
Pfizer	8	3.26	31.94	Selling	0.00%	0.00%
Merck	9	3.17	55.44	Selling	22.04%	14.58%
Dupont (E.I.)	14	2.79	64.50	Holding	1.65%	0.94%
Hewlett Packard	-	1.90	30.02	Holding	2.36%	2.88%
Cash (6-mo. T-Bill)	N/A	N/A	N/A		0.01%	N/A
Totals					100.00	100.00

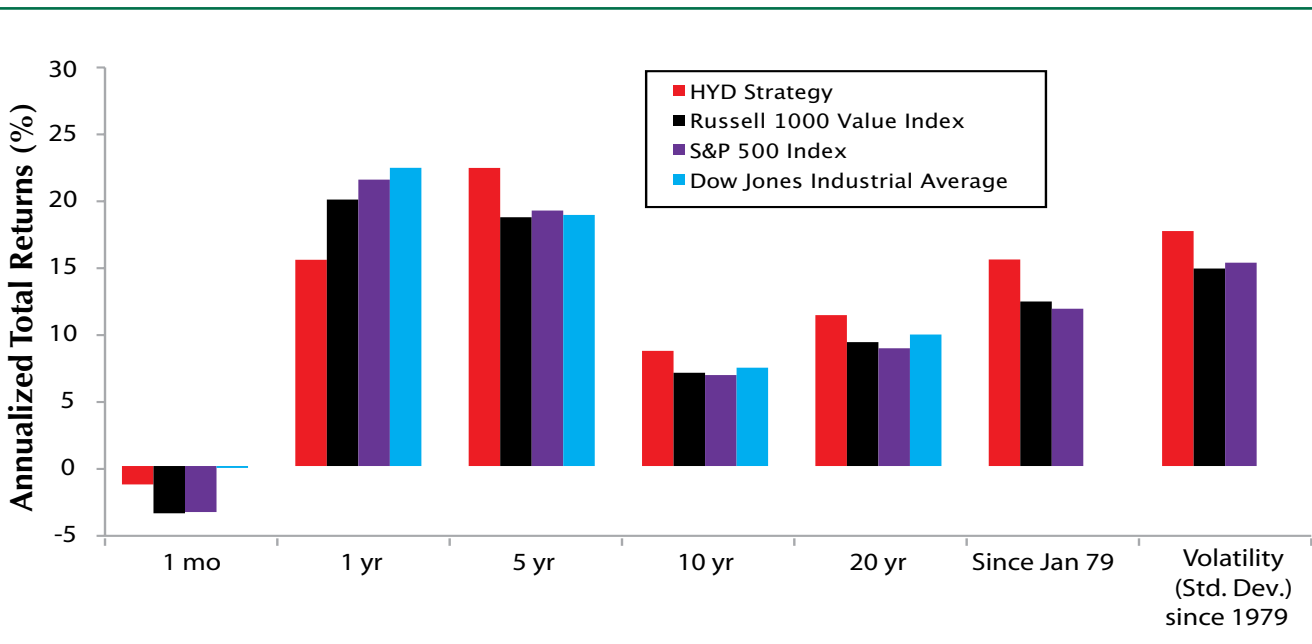
**Currently indicated purchases approximately equal to indicated purchases 18 months ago. 1 Because the percentage of each issue in the portfolio by value reflects the prices shown in the table, we are also showing the number of shares of each stock as a percentage of the total number of shares in the 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 January 31, 2014*. 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).

	<u>1 mo.</u>	<u>1 yr.</u>	<u>5 yrs.</u>	<u>10 yrs.</u>	<u>20 yrs.</u>	<u>Since Jan 79</u>	<u>Volatility (Std. Dev.) since 1979</u>
HYD Strategy	-1.38	15.49	22.40	8.65	11.34	15.52	17.65
Russell 1000 Value Index	-3.55	20.02	18.69	7.01	9.31	12.36	14.84
S&P 500 Index	-3.46	21.52	19.19	6.83	8.85	11.82	15.28
Dow Jones Industrial Average	-0.05	22.40	18.86	7.39	9.88	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 (\$)

	2/14/14	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	1,320.00	1,236.00	1,612.25
Silver, London Spot Price	21.09	20.09	30.18
Copper, COMEX Spot Price	3.32	3.41	3.73
Crude Oil, W. Texas Int. Spot	100.29	94.16	95.85
Dow Jones Spot Index	415.46	399.27	444.11
Dow Jones-UBS Commodity Index	130.66	124.91	139.20
Reuters-Jefferies CRB Index	293.88	278.44	298.94

Interest Rates (%)

U.S. Treasury bills - 91 day	0.02	0.04	0.10
182 day	0.07	0.06	0.13
52 week	0.11	0.12	0.16
U.S. Treasury bonds - 10 year	2.75	2.90	2.01
Corporates:			
High Quality - 10+ year	4.50	4.50	3.91
Medium Quality - 10+ year	5.13	5.22	4.86
Federal Reserve Discount Rate	0.75	0.75	0.75
New York Prime Rate	3.25	3.25	3.25
Euro Rates			
3 month	0.29	0.28	0.23
Government bonds - 10 year	1.72	1.83	1.69
Swiss Rates - 3 month	0.02	0.02	0.02
Government bonds - 10 year	1.04	1.17	0.78

Exchange Rates (\$)

British Pound	1.673600	1.637500	1.551800
Canadian Dollar	0.910700	0.914700	0.993000
Euro	1.369000	1.360400	1.336200
Japanese Yen	0.009820	0.009580	0.010700
South African Rand	0.092000	0.092090	0.113000
Swiss Franc	1.120100	1.100800	1.084000

Securities Markets

	2/14/14	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	1,838.63	1,848.38	1,519.79
Dow Jones Industrial Average	16,154.39	16,481.94	13,981.76
Barclays US Credit Index	2,438.09	2,411.96	2,421.23
Nasdaq Composite	4,244.02	4,214.88	3,192.03
Financial Times Gold Mines Index	1,625.63	1,375.90	2,492.44
FT EMEA (African) Gold Mines	1,556.68	1,193.19	2,354.41
FT Asia Pacific Gold Mines	4,778.96	3,771.00	10,961.79
FT Americas Gold Mines	1,451.26	1,268.59	2,115.65

Coin Prices (\$)

	2/14/14	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	1,331.13	1,286.22	1,708.10	0.84
Austrian 100-Corona (0.9803)	1,252.72	1,209.22	1,600.22	-3.19
British Sovereign (0.2354)	313.00	302.40	397.80	0.73
Canadian Maple Leaf (1.00)	1,313.40	1,268.40	1,677.50	-0.50
Mexican 50-Peso (1.2057)	1,543.70	1,490.10	1,971.70	-3.00
Mexican Ounce (1.00)	1,300.70	1,256.20	1,655.90	-1.46
S. African Kruggerand (1.00)	1,315.47	1,270.57	1,678.47	-0.34
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,345.00	1,375.00	1,735.00	5.32
Liberty (Type I-AU50)	2,225.00	2,225.00	2,075.00	74.22
Liberty (Type II-AU50)	1,675.00	1,700.00	1,937.50	31.16
Liberty (Type III-AU50)	1,325.00	1,355.00	1,700.00	3.75
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	15,325.00	15,400.00	22,750.00	1.63
40% Silver Circ. (292 oz.)	5,795.00	5,825.00	9,075.00	-5.90
Silver Dollars Circ.	20,500.00	20,425.00	29,000.00	25.65

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$1,320.00 per ounce and silver at \$21.09 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

THE DOW JONES INDUSTRIALS RANKED BY YIELD*

Ticker Symbol	Market Prices (\$)			12-Month (\$)		Latest Dividend Amount (\$)	Record Date	Payable Date	Indicated Annual Yield†		
	2/14/14	1/15/14	2/15/13	High	Low				Dividend (\$)	Yield† (%)	
AT&T	T	33.15	33.79	35.36	39.00	31.74 L	0.460	1/10/14	2/3/14	1.840	5.55
Verizon	VZ	46.51	48.27	44.40	54.31	44.26	0.530	1/10/14	2/3/14	2.120	4.56
Intel Corp	INTC	24.76	26.67	21.11	27.12	20.10	0.225	2/07/14	3/1/14	0.900	3.64
Chevron	CVX	113.48	119.18	114.96	127.83	109.27 L	1.000	2/14/14	3/10/14	4.000	3.52
General Electric	GE	25.74	27.34	23.29	28.09	21.11	0.220	2/24/14	4/25/14	0.880	3.42
McDonald's	MCD	95.78	95.46	93.90	103.70	92.22	0.810	3/03/14	3/17/14	3.240	3.38
Cisco	CSCO	22.56	22.78	20.99	26.49	19.98	0.190	4/03/14	4/23/14	0.760	3.37
Pfizer	PFE	31.94	31.18	27.29	32.50	26.82	0.260	2/07/14	3/4/14	1.040	3.26
Merck	MRK	55.44	52.75	41.42	55.75 H	41.58	0.440	12/16/13	1/8/14	1.760	3.17
Procter and Gamble	PG	79.40	80.79	76.54	85.82	73.61	0.602	1/24/14	2/18/14	2.406	3.03
Microsoft Corp.	MSFT	37.62	36.76	28.01	38.98	27.23	0.280	2/20/14	3/13/14	1.120	2.98
Coca-Cola	KO	38.93	39.76	37.42	43.43	36.83	0.280	12/02/13	12/16/13	1.120	2.88
Johnson & Johnson	JNJ	92.76	94.80	76.16	95.99	75.50	0.660	2/25/14	3/11/14	2.640	2.85
Dupont	DD	64.50	63.73	46.94	65.00	46.02	0.450	2/14/14	3/14/14	1.800	2.79
Exxon Mobil	XOM	94.11	98.78	88.36	101.74	84.79	0.630	2/10/14	3/10/14	2.520	2.68
J P Morgan	JPM	58.15	59.49	48.88	59.82 H	46.05	0.380	1/06/14	1/31/14	1.520	2.61
3M Company	MMM	132.12	138.44	103.23	140.43	101.75	0.855	2/14/14	3/12/14	3.420	2.59
Caterpillar	CAT	96.55	92.41	95.61	96.68	79.49	0.600	1/21/14	2/20/14	2.400	2.49
Wal-Mart Stores	WMT	75.79	77.66	69.30	81.37	68.30	0.470	12/06/13	1/2/14	1.880	2.48
Travelers	TRV	84.02	87.88	80.39	91.68	77.38	0.500	12/10/13	12/31/13	2.000	2.38
Boeing	BA	130.16	140.62	75.03	144.57 H	74.27	0.730	2/14/14	3/7/14	2.920	2.24
United Tech.	UTX	113.87	114.07	90.78	118.20 H	88.37	0.590	2/14/14	3/10/14	2.360	2.07
IBM	IBM	183.69	187.74	200.98	215.90	172.19 L	0.950	2/10/14	3/10/14	3.800	2.07
Home Depot, Inc.	HD	77.93	81.07	67.52	82.57	63.82	0.390	12/05/13	12/19/13	1.560	2.00
Unitedhealth Group	UNH	73.52	74.84	57.32	77.33	52.51	0.280	3/14/14	3/25/14	1.120	1.52
Goldman Sachs	GS	163.72	178.75	154.99	181.13	137.29	0.550	2/28/14	3/28/14	2.200	1.34
Nike	NKE	75.07	75.43	54.95	80.26	53.27	0.240	3/03/14	4/7/14	0.960	1.28
Walt Disney	DIS	79.23	74.28	55.61	79.47 H	53.59	0.860	12/16/13	1/16/14	0.860	1.09
American Express	AXP	89.00	88.25	61.69	93.62 H	61.14	0.230	1/10/14	2/10/14	0.920	1.03
Visa Inc.	V	226.00	223.76	157.99	235.50 H	154.79	0.400	2/14/14	3/4/14	1.600	0.71

* See the Recommended HYD Portfolio table on page 14 for current recommendations. † Based on indicated dividends and market price as of 2/15/14.

Extra dividends are not included in annual yields. H New 52-week high. L New 52-week low. (s) All data adjusted for splits and spin-offs. 12-month data begins 2/16/13.

I Dividend increased since 1/15/14 D Dividend decreased since 1/15/14

RECOMMENDED INVESTMENT VEHICLES

Descriptive Quarterly Statistics, as of 12/31/13

Annualized Returns⁴ (%), as of 1/31/14

Security Symbol	Avg. Market Cap./Avg. Maturity	No. of Holdings	Expense ³ (%)	Sharpe Ratio	P/B	Turnover (%)	Annualized Returns ⁴ (%), as of 1/31/14						
							12 Mo. Yield (%)	1 yr.	3 yr.	5 yr.	1 yr.	3 yr.	5 yr.
Short-/Intermediate Fixed Income													
Vanguard Short-Term Bond Index	BSV ¹ / VBISX	1784	0.20	1.32	--	51	1.10	0.62	1.69	2.68	0.08	1.08	1.94
iShares Barclays 1-3 Yr. Credit Bond	CSJ ¹	871	0.20	1.62	--	8	1.17	1.18	1.84	3.60	0.67	1.26	2.79
iShares Barclays 1-3 Yr. Treasury Bond	SHY ¹	58	0.15	1.03	--	104	0.26	0.37	0.65	1.05	0.26	0.48	0.72
Vanguard Limited-Term Tax-Exempt SPDR N.B. Short-Term Municipal Bond	VMLTX SHM ¹	2174 522	0.20 0.20	1.49 1.03	--	14 20	1.67 0.98	0.94 1.11	2.24 2.06	2.38 2.08	0.94 0.68	2.24 1.90	2.38 1.97
Inflation-Protected Fixed Income													
iShares Barclays TIPS Bond	TIP ¹	38	0.20	0.61	--	47	1.15	-6.21	4.03	5.53	-6.65	3.08	4.51
Vanguard Inflation-Protected Securities	VIPSX	42	0.20	0.60	--	33	1.66	-6.31	4.00	5.56	-7.04	2.87	4.56
International Fixed Income													
Vanguard Total International Bond Index	BNDX ¹ /VTIBX	2169	0.23	--	--	31	--	--	--	--	--	--	--
Real Estate													
Vanguard REIT Index	VNQ ¹ / VGSIX	133	0.24	0.61	2.1	9	4.16	2.78	9.56	22.29	1.57	8.53	20.94
SPDR Dow Jones REIT	RWR ¹	86	0.25	0.58	2.1	7	3.39	1.58	8.95	21.79	0.16	7.64	20.19
Vanguard Global ex-US Real Estate	VNQI ¹ / VGXRX ⁵	525	0.40	0.45	1.1	8	3.14	-3.96	5.41	--	-5.55	3.93	--
iShares International Property ETF	WPS ¹	338	0.48	0.51	1.1	9	4.09	0.69	6.18	17.11	-0.70	4.85	15.58
SPDR Dow Jones Global Real Estate ETF	RWO ¹	220	0.50	0.53	1.4	8	3.79	0.71	7.39	19.31	-0.84	5.97	17.40
U.S. Large Cap Value													
Vanguard Value Index	VTV ¹ / VIVAX	314	0.24	1.23	2.0	22	2.08	20.41	13.09	18.08	19.76	12.60	17.58
iShares Russell 1000 Value Index	IWD ¹	663	0.20	1.20	1.8	16	1.95	19.74	13.58	18.48	19.14	13.13	18.01
U.S. Small Cap Value													
iShares Russell Microcap Index	IWC ¹	1359	0.60	0.93	1.9	29	1.01	36.43	16.46	23.00	35.99	16.11	22.70
Vanguard Small-Cap Value Index	VBR ¹ / VISVX	806	0.24	1.01	1.8	25	1.71	24.46	14.39	23.02	23.82	13.84	22.48
U.S. Large Cap Growth													
iShares Russell 1000 Growth Index	IWF ¹	626	0.20	1.28	4.9	17	1.29	24.11	14.15	20.65	23.68	13.85	20.35
Vanguard Growth Index	VUG ¹ / VIGRX	352	0.24	1.24	4.2	21	1.06	22.85	14.38	20.56	22.51	14.13	20.31
U.S. Marketwide													
Vanguard Total Stock Market Index	VTI ¹ / VTSMX	3619	0.17	1.24	2.6	3	1.64	22.47	14.06	20.03	21.92	13.67	19.64
Fidelity Spartan Total Market Index	FSTMX ²	3303	0.10	1.24	2.5	3	1.48	22.41	14.08	20.04	n/a	n/a	n/a
Foreign- Developed Markets													
iShares MSCI EAFE Growth Index	EFG ¹	559	0.40	0.54	2.3	26	1.87	11.51	5.95	13.52	11.12	5.69	13.29
iShares MSCI EAFE Value Index	EFV ¹	503	0.40	0.53	1.3	27	3.21	11.65	5.28	13.63	10.94	4.82	13.21
Vanguard FTSE Developed Market	VEA ¹ / VTMGX ⁶	1311	0.10	0.56	1.5	7	2.61	11.54	5.73	14.04	10.89	5.29	13.66
SPDR S&P International Small Cap	GWX ¹	1187	0.59	0.43	1.3	21	3.09	14.78	5.13	17.20	13.67	4.49	16.58
Foreign- Emerging Markets													
Vanguard FTSE Emerging Market Stock	VWO ¹ / VIEIX	916	0.33	-0.06	1.6	26	2.57	-12.42	-4.33	14.23	-13.10	-4.79	13.78
Gold-Related Funds													
iShares Gold Trust	IAU ¹	1	0.25	-0.17	--	0.00	0.00	-25.08	-2.21	5.86	-25.08	-2.21	5.86
SPDR Gold Shares	GLD ¹	1	0.40	-0.18	--	0.00	0.00	-25.16	-2.34	5.93	-25.16	-2.34	5.93

Data provided by the funds and Morningstar. ¹Exchange Traded Fund, traded on NYSE. ²0.5% fee for redemption in 90 days. ³For Vanguard funds, Expense Ratios shown are for Mutual Funds. ETFs have lower expenses. ⁴For Vanguard Funds, returns shown are for Mutual Funds; ETFs' returns may deviate. ⁵VGXRX includes a 0.25% fee on purchases and redemptions, which are paid directly into the fund. ⁶These 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.

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