



\* HYD is a hypothetical model based on back-tested results. See p.38 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.

To learn more please contact us.

**(888) 528-1216 8:30 – 4:30 EST**  
aisinfo@americaninvestment.com  
P.O. Box 1000  
Great Barrington, MA 01230  
Online: [www.americaninvestment.com](http://www.americaninvestment.com)

## Ask a Researcher: Pay Student Loan Debt or Save for Retirement?<sup>1</sup>

College grads often wonder whether to pay down student debt first or to save for retirement. Financially savvy folks recognize the need to save for retirement sooner than later, but they also know the detriment of carrying a large debt burden.

To answer this quantitatively, you must compare your expected rate of return on retirement savings and your student loan interest rate. If you expect to make 8% a year on your retirement portfolio but your student loan interest rate is only 5%, it would be advantageous to maximize your retirement savings and pay the minimum on your student loan debt.

Consider a \$10,000 student loan at 5% interest, with a minimum monthly payment of \$106.07. We'll assume you have \$300 per month to put towards paying down that loan or investing in a retirement account with an 8% annual return.

If you make the minimum payment on your student loan debt and save the remaining \$193.93 for retirement, at the end of 10 years your student loan will be paid off and you will have \$35,480 in your retirement account.

If you put all \$300 per month toward your student loan debt, your loan will be paid in 3 years, leaving the full \$300 to be put toward retirement for the next 7 years. At the end of 10 years, you will have \$33,654 in your retirement account.

Even with this sizable difference between the interest rate and annual return, the final balance differs by only about 5%.

There are 3 big problems with this simple answer:

1. You have no way of knowing what your actual rate of return will be.
2. The expected return will probably be fairly close to your student loan interest rate, making the decision even less clear.
3. Even if you knew the actual rate of return over 10 years, you would have no way of knowing the volatility around that annual number. If you get 8% a year but the bulk of that return is in the next 2 years, it would certainly be advantageous to invest in retirement immediately. But if the return is zero or negative for the next couple of years, you may as well pay the student loan debt during those years.

(continued next page)

Although there is no definitive answer, I believe there are several compelling reasons that drive people to do one or the other.

In favor of saving for retirement:

**Taxes:** Student loan interest payments are mostly tax-deductible. Maintaining a balance can reduce annual tax payments. 401(k) contributions and Roth IRA contributions are also tax-advantaged.

**Inertia:** There is some evidence that inertia is a powerful force in retirement finance. If you start saving for retirement now, you start to see the balance grow and it can be a virtuous cycle that makes you want to save more when you are able.

**Rate of Return:** Historical equity returns generally exceed student loan interest rates.

In favor of paying down student loan debt first:

**Risk Aversion:** You know what your interest rate is, but you don't know what your rate of return might be. Risk aversion is a compelling reason to pay student loan debt first.

**Psychological Benefit:** For many people, paying down debt is important because it feels good. You can argue quantitatively all day, but people do what feels right.

**No Good Alternative:** Many believe that equity markets are overpriced. Bonds offer little to no yield. By paying student loan debt, you are essentially "guaranteeing" a rate of return equal to your interest rate. This may be the best alternative in a low-yield, overpriced market.

One important additional consideration is employer 401(k) matching contributions. If your employer offers a match, that pushes the balance in favor of saving for retirement. Continuing the example from above, assume your employer offers to match up to \$200 per month in 401(k) contributions.

Paying the minimum student loan payment and maximizing 401(k) contributions results in a 10-year balance of \$70,959.

Paying the student loan debt first, you don't receive the employer match for those first 3 years. The result is a reduced 10-year 401(k) balance of only \$56,096.

The match has a huge impact on retirement balances, because it's a free return on your investment. For example, if you get a 50% match, think of it like an automatic 50% gain on your investment! If your employer offers a match, you should do everything you can to maximize it.

<sup>1</sup> by Luke Delorme, AIER Research Fellow. May 16, 2014 <http://dailyeconomy.org/2014/05/16/ask-a-researcher-pay-student-loan-debt-or-save-for-retirement/>

## FINANCIAL SERVICE PROVIDERS: PART 2

*Last month we described the wide variety of financial service providers available to investors who seek professional assistance. We focused on the legal responsibilities and standards of care to which various providers are bound; in particular Registered Investment Advisers (RIAs) are held to a much higher standard compared with brokers.*

*In this issue we provide an overview of the costs associated with hiring a financial services provider. Fee structures vary widely within the industry. When shopping for professional assistance, investors should insist that any provider fully disclose all investment related costs.*

### Compensation: Follow the Money

Compensation arrangements vary among service providers both in structure and in magnitude. Fees are not always transparent. While the current trend is toward lower fees generally, wise investors will shop carefully and insist on full disclosure.

RIAs typically assess fees based on a percentage of the market value of the assets they manage (assets under manage-

ment, or AUM). The rate assessed under this "fee only" structure is often assessed on a sliding scale; while in dollar terms clients with smaller portfolios pay less than clients with larger portfolios, the rate assessed falls as AUM rises. Rates also vary depending on the range of services provided. Depending on AUM and services provided, these rates generally range between 0.25 percent to over two percent for individual investors.

While no fee structure is perfect, this simple, transparent AUM-based arrangement is generally well structured because the assessed fee will rise and fall directly with the value of the investor's portfolio value. It therefore aligns the adviser's incentives with those of the investor.

Under the RIA model, investors must also pay any expenses associated with underlying investments. If a mutual fund or ETF is purchased, this is reflected in a mutual fund's expense ratio. Transaction fees are usually assessed as well, when these securities are bought or sold. We strongly recommend advisers who eschew market timing and stock picking by purchasing low cost index-type funds and who limit trading to occasional portfolio rebalancing. Transaction costs can

be further limited by selecting an RIA that offers a choice of competing discount brokers.

Brokers are compensated differently from RIAs. Many still operate on a commission basis and therefore only get paid when they execute a transaction. This creates an incentive to generate trades and, given that they are subject only to the suitability standard rather than fiduciary duty<sup>1</sup> there is no certainty that the transactions executed will be in the client's best interest.

Brokers can also receive compensation under a practice euphemistically referred to as "revenue sharing." Mutual funds companies are allowed to assess 12b-1 fees (named after the section of the Investment Company Act of 1940 that permits them) to cover marketing and distribution costs. These fees were originally justified as a means of increasing fund sales, thereby allowing lower expenses for shareholders through economies of scale. In fact these fees are little more than sales commissions that reward brokers for selling them and there is no evidence that they enhance performance. Investors should avoid funds that assess these fees and intermediaries

<sup>1</sup> See Part 1 of this series (April 2014 *Investment Guide*) for a detailed explanation of the legal obligations of brokers and RIAs.



**"It's not like that at all. I'm simply offering sound financial advice. Now, gimme your lunch money."**

who sell them. These fees are included in funds expense ratio, but may not be apparent without reading a fund's prospectus.

Alternatively, brokers can act as portfolio managers and charge a percentage of AUM, similar to the RIA model, rather than charge commissions. This is known as a "wrap fee" and while the rate is typically higher than the AUM based fee assessed by an RIA, this fee typically includes transaction costs that are assessed separately under the RIA model. Compared with a commission structure, a wrap fee better aligns the broker's interests with those of the client because the fee is directly related to the market value of the portfolio. A wrap fee can provide cost savings relative to a broker's commission-based model, especially when market-timing or stock-picking strategies are employed. However, the ongoing "all in" costs of a brokerage wrap accounts often exceed those of structured, "indexing" strategies employed by RIAs.

Working with a full service broker may introduce other conflicts of interest. Many large brokers are involved in market making, investment banking, and fund management activities that allow the potential for trades that are not in their clients' best interest. For example, a broker could sell unwanted stocks or bonds from its own inventory to an individual client. A broker might also execute a transaction between two individual clients thereby collecting a commission on both sides. Brokers may also generate revenues through "order flow" agreements, which direct transactions to specified institutions in exchange for a fee. Trade execution quality (speed, price

improvements, spreads) must be published according to SEC Rule 605. Investors may request these reports to better understand how their brokerage platform performs relative to the industry average.

Financial planners typically assess a one-time fee for developing a financial plan. This fee

can range from \$100 to thousands of dollars depending on the complexity and breadth of the plan. Planners often charge additional fees for updating the plan or for investigating subsequent questions. Some planners offer retainer arrangements, which offer these ongoing services for a flat annual fee.

### Paying the Piper

Hiring a third-party service provider, be it a RIA or a broker, will require a broker to buy and sell securities so that trades may be executed on the investor's behalf. The broker will also take legal custody of the client's assets (i.e. serve as custodian). We strongly recommend that investors avoid full-service brokers in order to avoid the potential conflicts and high fees described above. It is better to separate the advisory from the brokerage role by hiring an independent RIA who works with a discount broker/custodian that adheres to a low-cost transaction fee schedule. This ensures that the RIA will keep transaction costs to a minimum and monitor the custodian for quality service.

There are thousands of independent RIAs and a wide range of services and fees from which to choose. Many embrace the title of financial planner, but other common categories include wealth managers, money managers and investment planners. *Wealth managers* specialize in comprehensive wealth management including stock-option planning, executive compensation, trust and estate planning, and charitable giving. *Money managers* build portfolios of individual securities and managed funds and fo-

cus exclusively on asset management. *Investment planners* emphasize asset management as their primary service but add modular services such as retirement planning or education funding.

RIAs are not restricted to charging only an AUM based fee. A wealth manager may for example make recommendations regarding trusts and arrange for attorneys or other service providers to participate. Though RIAs must disclose any referral fees they receive from other providers, investors should always insist on a comprehensive presentation of all fees assessed by all service providers and full disclosure of any revenue sharing arrangements among them.

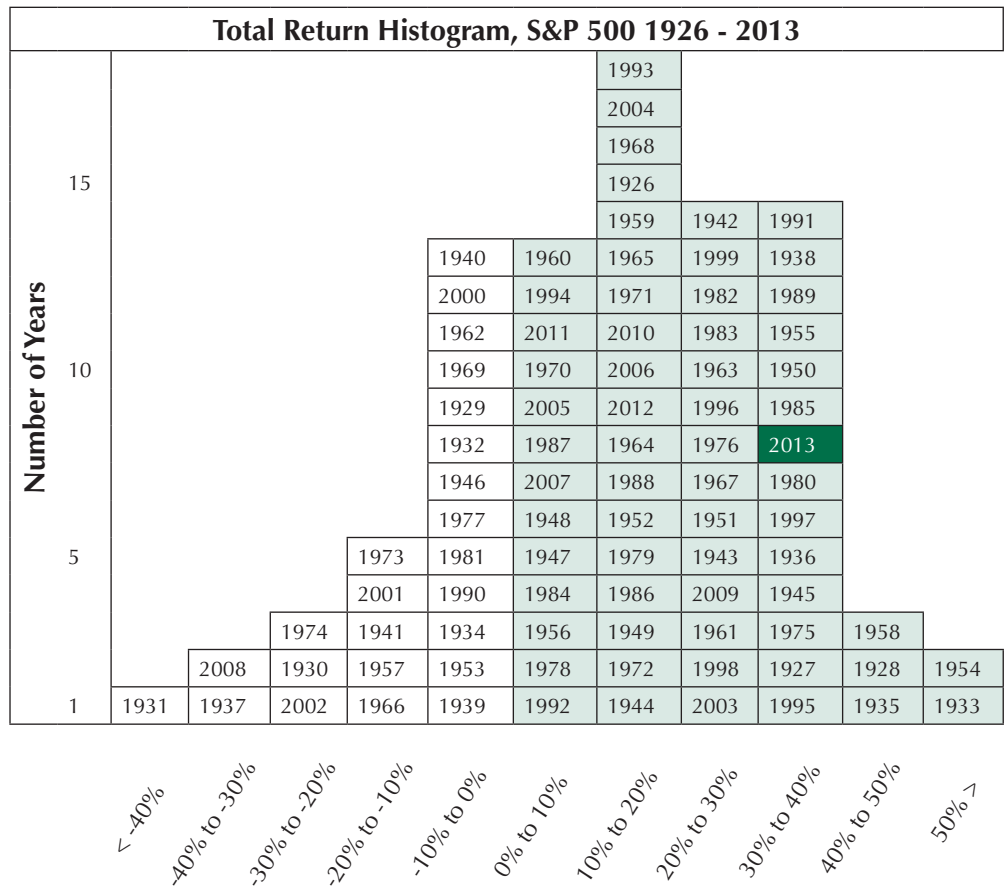
Web based RIA "portals", have entered the industry in recent years. These firms charge a relatively low AUM based fee or even a fixed fee. These ultra-low-cost providers may appeal to some investors, but there is often a trade-off. Investors typically forego the personal assistance and customization provided by a traditional RIA. Investor communications with providers are often conducted through a website and investors may not work with a specific adviser who is familiar with the investor's personal circumstances, which can often be in flux. Portals can also limit investors' portfolio allocation choices to a few pre-established models. This can be a significant drawback. In particular, tax-sensitive investors seeking optimal use of tax-deferred accounts may find these restrictions prohibitive.

AIS is an independent Registered Investment Advisory firm. We offer money management services for individuals and institutions through our Professional Asset Management program (PAM). Our only source of revenue is our AUM-based fee (to see our fee schedule, visit [www.americaninvestment.com](http://www.americaninvestment.com)). While we do not provide financial planning services our advisers are highly knowledgeable regarding financial planning matters and we stand ready to work with our clients' and their accountants and attorneys. We work with three discount brokers and select from the most cost-effective index type investment vehicles available. For more information, call (413) 528-1216 or email us at [aisinfo@americaninvestment.com](mailto:aisinfo@americaninvestment.com)

## 88 YEARS OF U.S. STOCK MARKET RETURNS

The histogram shown depicts the distribution of returns for the U.S. stock market (measured by the total annual returns on the S&P 500 index) since 1926. This presentation makes at least two important points. First, the randomness of returns from is evident; there is no discernible “momentum” in annual returns from year-to-year. Second, over 12 month periods positive returns are predominant; there have been 64 years of market gains (depicted in green) and only 24 years with losses. There is a third important point that is not as obvious: the magnitude of the market’s gains in positive years on average exceeds the magnitude of losses during negative years. The average (arithmetic) return during positive years was +21.67 percent versus -13.61 percent during negative years.

Overall, these factors have resulted in an average (geometric) annual return over the period of 10.08 percent and a calendar year median return of +14.69 percent.



## ERRATA

We regret two recent errors in the *Investment Guide*. In the February 2014 issue we misstated the hypothetical returns for the Dow Jones Industrial Average (DJIA), one of our high-yield Dow benchmarks. The table below provides the correct returns. This error had the effect of understating the returns of our hypothetical high-yield Dow portfolio relative to the DJIA.

For Periods Ending January 31, 2014					
Dow Jones Industrial Average	1 Month	1 Year	5 Years	10 Years	20 Years
Correct Total Returns	-5.19	16.07	17.61	6.82	9.59
Published (incorrect) Total Returns	-0.05	22.40	18.86	7.39	9.88

Separately, last month in our article *Financial Service Providers: Part 1*, we referred to the term *Investment Advisor* as a legally defined term, when in fact it is not. The legal term as defined in the Investment Advisers Act of 1940 is spelled with an “e” as in *Investment Adviser*. The difference may seem trivial, and in fact many professionals and nonprofessionals alike use the two terms interchangeably. However, the “legally defined” spelling with the “e” denotes a fiduciary responsibility to the client, while the other spelling does not. This is one reason why you will see wire house brokers use the term “Advisor” almost exclusively in lieu of “Adviser”.

That said, efforts to get around fiduciary duty by using different spellings of the word Adviser may end up falling flat in a courtroom or legal battle. But the difference is important to investors seeking professional guidance.



## Randomness of Returns

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	59.91	29.15	74.84	8.06	38.36	37.05	35.18	38.72	66.41	31.04	22.77	25.57	60.72	33.16	34.54	35.97	39.78	5.13	79.02	31.29	9.37	18.63	45.06
	44.62	23.35	32.95	3.73	37.21	23.12	31.80	20.33	33.16	22.80	14.02	8.12	56.28	25.95	17.76	32.59	31.93	4.31	37.21	29.24	8.93	18.24	34.52
	41.72	15.13	23.85	3.09	34.48	21.65	30.48	15.65	29.79	8.93	12.35	3.58	46.03	22.25	14.02	26.86	11.81	3.92	32.46	28.07	3.13	18.05	33.49
	41.15	13.81	20.97	2.66	25.75	21.37	22.78	7.63	27.30	7.02	9.03	1.86	39.17	20.70	13.82	23.48	11.63	-20.38	28.46	24.50	2.64	17.90	32.53
	24.61	11.40	18.12	2.65	17.85	17.65	19.66	5.73	8.08	6.45	4.82	-3.15	36.18	18.39	7.03	23.30	7.27	-28.93	28.06	19.20	0.39	17.51	23.29
	23.84	8.28	17.66	-0.39	12.88	12.93	14.12	5.68	7.36	5.71	2.05	-6.00	30.03	16.49	6.53	22.25	5.46	-36.72	25.04	16.71	0.24	17.12	12.20
	18.56	6.83	15.14	-0.72	12.24	6.36	7.13	-0.49	5.13	-3.60	0.72	-11.42	29.76	11.70	5.69	16.16	3.58	-36.85	23.16	15.51	0.22	15.26	1.22
	13.14	5.00	14.98	-1.54	11.55	6.03	5.58	-6.44	2.09	-5.44	-2.37	-13.27	22.97	6.30	5.27	15.90	-0.17	-38.44	20.58	13.10	-3.25	9.67	0.29
	12.50	3.91	7.10	-2.00	6.19	5.42	2.06	-7.32	0.86	-13.96	-5.59	-15.53	19.89	4.65	4.71	9.07	-5.22	-39.20	19.69	8.21	-5.50	8.26	0.07
	6.43	-5.73	3.18	-2.18	0.90	4.67	-11.59	-17.01	-1.49	-22.43	-20.42	-15.66	3.36	1.85	2.98	5.00	-9.78	-43.06	4.62	4.08	-11.73	2.24	-2.27
	-8.54	-11.85	2.90	-7.32	-5.21	-4.51	-21.69	-25.34	-2.58	-30.61	-21.21	-27.89	1.21	1.21	1.44	4.22	-17.56	-53.18	0.85	0.29	-18.17	0.35	-27.33

Hypothetical Total Return (Highest to Lowest)

### Color Guide

AIS Moderate Portfolio
Cash Equivaents
Short/Int. Term Fixed Income
U.S. REITs
U.S. Large Growth
U.S. Large Value
U.S. Small Value
U.S. Micro Cap
Developed Markets
Emerging Markets
Gold

## THE RANDOMNESS OF RETURNS

The accompanying table displays hypothetical total annualized returns for each of our recommended asset classes, as well as for our recommended AIS Moderate Portfolio, ranked from high to low over the past 23 calendar years. The table reveals that relative returns among these asset classes form year-to-year is random; trying to discern a pattern is a fool's errand. Rather than try to guess which asset class will perform best form year-to-year, investors are better off holding a diversified portfolio that includes all of these asset classes in proportion to their ability to withstand risk. We have included the hypothetical results of our AIS Moderate Risk portfolio among these returns. Such a portfolio would never have performed either "best" or "worst" among these portfolios, but it provides returns that are roughly in the center of the rankings from year-to-year, suggesting a less volatile experience for investors. It is also worth noting that the portfolios returns are reduced by 0.68% (see footnote) to reflect an estimate of fees charged in our Professional Asset Management service for a \$500,000 portfolio. The individual indexes reflect no adjustment for fees or expenses.

Indices Cited: Bank of America/Merril Lynch 3 Month Treasury Bill (Cash Equivalents); Barclays Capital 1-5 yr Govt/Credit (Short/Int Term Fixed Income); Dow Jones US Select REITs (REITs); Russell 1000 Growth (Large Growth); Russell 1000 Value (Large Value); Russell 2000 Value (Small Value); DFA Micro Cap Portfolio (Micro Cap); MSCI EAFE (Developed Markets); MSCI Emerging Markets (Emerging Markets); Gold London PM Fix Price (Gold); The AIS Moderate Portfolio has the following allocations: Cash Equivalents (10%); Fixed Income (30%); REITs (10%); Large Growth (5%); Large Value (20%); Small Value (7%); Micro Cap (3%); Developed Markets (7%); Emerging Markets (3%); Gold (5%).

Past performance may not be indicative of future results. Therefore, no current or prospective investor should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by the AIS), or product made reference to directly or indirectly, will be profitable or equal to past performance levels. Historical performance results for individual investment indexes and/or categories, generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. The results portrayed in this portfolio reflect the reinvestment of dividends and capital gains. Model Portfolio Statistics are hypothetical and do not reflect historical recommendations of AIS. Annual portfolio rebalancing is assumed. Model portfolio returns reflect the deduction of 0.68% management fee, the rate changed to \$500,000 account by AIS.

**THE HIGH-YIELD DOW INVESTMENT STRATEGY**

**Recommended HYD Portfolio**

As of May 15, 2014

	Rank	Yield (%)	Price (\$)	Status	—Percent of Portfolio—	
					Value (%)	No. Shares (%) <sup>1</sup>
AT&T	1	5.04	36.52	Holding**	24.25	24.87
Verizon	2	4.42	47.96	Holding**	23.31	18.20
Pfizer	3	3.58	29.06	Buying	2.98	3.85
Intel Corp	4	3.46	26.01	Holding**	23.96	34.50
Chevron	5	3.46	123.81	Holding	1.54	0.47
General Electric	6	3.31	26.60	Holding	1.55	2.18
McDonald's	8	3.16	102.50	Holding	1.53	0.56
Merck	9	3.15	55.89	Holding	19.25	12.90
Cisco	10	3.14	24.18	Holding	1.60	2.48
Dupont (E.I.)	16	2.69	66.83	Selling	0.00	0.00
Cash (6-mo. T-Bill)	N/A	N/A	N/A		0.03	N/A
Totals					100.00	100.00

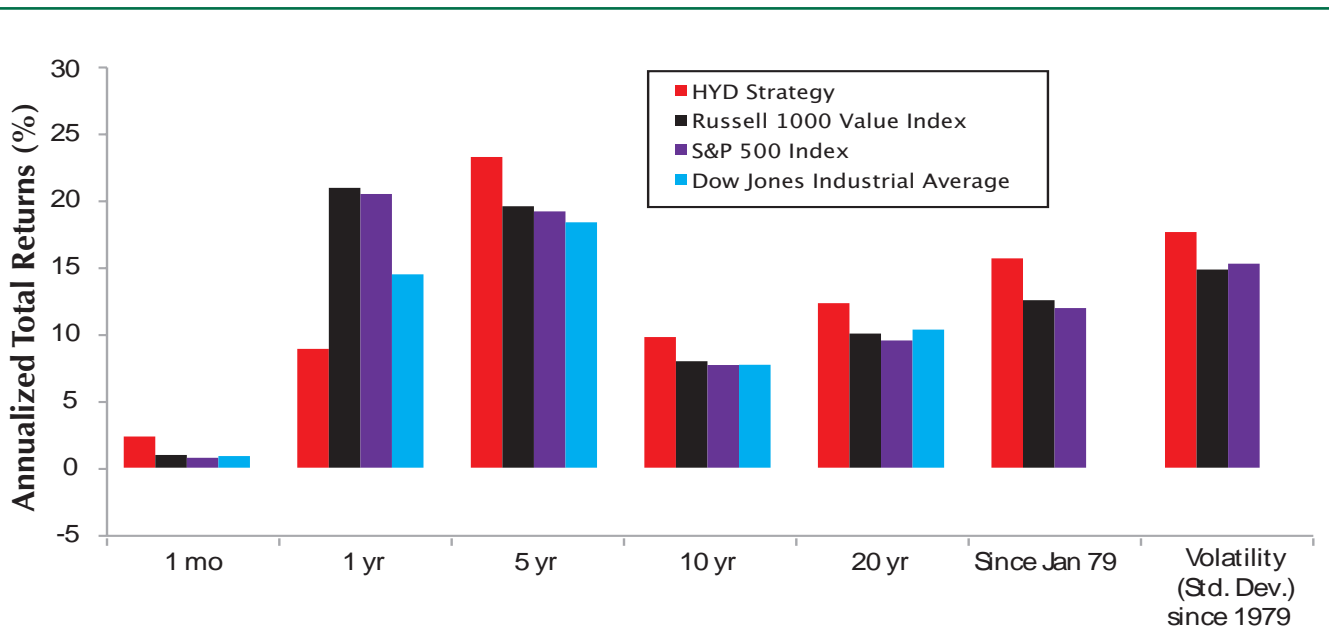
\*\*Currently indicated purchases approximately equal to indicated purchases 18 months ago. 1 Because the percentage of each issue in the portfolio by value reflects the prices shown in the table, we are also showing the number of shares of each stock as a percentage of the total number of shares in 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](http://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 April 30, 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	2.33	8.87	23.20	9.75	12.28	15.63	17.60
Russell 1000 Value Index	0.95	20.90	19.52	7.95	10.02	12.51	14.80
S&P 500 Index	0.74	20.44	19.14	7.67	9.50	11.92	15.23
Dow Jones Industrial Average	0.87	14.44	18.32	7.68	10.31	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 &amp; Commodity Prices (\$)

	5/15/14	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	1,299.00	1,298.00	1,410.00
Silver, London Spot Price	19.66	19.77	22.87
Copper, COMEX Spot Price	3.16	3.02	3.27
Crude Oil, W. Texas Int. Spot	101.49	103.74	94.29
Dow Jones Spot Index	432.35	435.52	420.42
Dow Jones-UBS Commodity Index	135.79	136.82	131.30
Reuters-Jefferies CRB Index	307.78	309.94	287.05

## Interest Rates (%)

U.S. Treasury bills - 91 day	0.03	0.04	0.04
182 day	0.05	0.05	0.09
52 week	0.08	0.10	0.11
U.S. Treasury bonds - 10 year	2.50	2.64	1.94
Corporates:			
High Quality - 10+ year	4.08	4.20	3.93
Medium Quality - 10+ year	4.72	4.84	4.76
Federal Reserve Discount Rate	0.75	0.75	0.75
New York Prime Rate	3.25	3.25	3.25
Euro Rates			
3 month	0.34	0.33	0.20
Government bonds - 10 year	1.37	1.47	1.38
Swiss Rates - 3 month	0.02	0.02	0.02
Government bonds - 10 year	0.76	0.88	0.69

## Exchange Rates (\$)

British Pound	1.679100	1.679200	1.519800
Canadian Dollar	0.918500	0.907100	0.983000
Euro	1.371200	1.381600	1.285700
Japanese Yen	0.009860	0.009760	0.009760
South African Rand	0.095980	0.095400	0.107760
Swiss Franc	1.123800	1.132200	1.033100

## Securities Markets

	5/15/14	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	1,870.85	1,842.98	1,658.78
Dow Jones Industrial Average	16,446.81	16,262.56	15,275.69
Barclays US Credit Index	2,518.47	2,486.59	2,455.49
Nasdaq Composite	4,069.29	4,034.16	3,471.62
Financial Times Gold Mines Index	1,468.58	1,493.95	1,716.88
FT EMEA (African) Gold Mines	1,525.16	1,558.15	1,585.45
FT Asia Pacific Gold Mines	4,622.02	4,695.86	7,213.60
FT Americas Gold Mines	1,271.30	1,291.75	1,477.58

## Coin Prices (\$)

	5/15/14	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	1,335.63	1,341.03	1,477.80	2.82
Austrian 100-Corona (0.9803)	1,257.13	1,262.32	1,383.13	-1.28
British Sovereign (0.2354)	314.00	315.30	344.80	2.69
Canadian Maple Leaf (1.00)	1,317.90	1,323.40	1,454.80	1.45
Mexican 50-Peso (1.2057)	1,549.10	1,555.60	1,704.40	-1.09
Mexican Ounce (1.00)	1,305.20	1,310.50	1,434.00	0.48
S. African Krugerrand (1.00)	1,319.97	1,325.38	1,459.07	1.61
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,380.00	1,370.00	1,620.00	9.80
Liberty (Type I-AU50)	2,225.00	2,225.00	2,225.00	77.04
Liberty (Type II-AU50)	1,600.00	1,675.00	1,900.00	27.31
Liberty (Type III-AU50)	1,360.00	1,350.00	1,610.00	8.21
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	15,117.50	14,900.00	18,800.00	7.55
40% Silver Circ. (292 oz.)	5,637.50	5,650.00	6,800.00	-1.80
Silver Dollars Circ.	21,600.00	21,850.00	25,750.00	42.02

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$1,299.00 per ounce and silver at \$19.66 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			Indicated	
		5/15/14	4/15/14	5/15/13	High	Low	Amount (\$)	Record Date	Payable Date	Annual Dividend (\$)	Yield†
AT&T	T	36.52	35.68	37.53	37.62	31.74	0.460	4/10/14	5/1/14	1.840	5.04
Verizon	VZ	47.96	46.92	53.60	53.56	45.08	0.530	4/10/14	5/1/14	2.120	4.42
Pfizer	PFE	29.06	29.89	29.56	32.96	27.12	0.260	5/09/14	6/3/14	1.040	3.58
Intel Corp	INTC	26.01	26.77	24.20	27.24	21.89	0.225	5/07/14	6/1/14	0.900	3.46
Chevron	CVX	123.81	120.30	123.01	127.83	109.27	1.070	5/19/14	6/10/14	4.280	3.46
General Electric	GE	26.60	25.82	23.24	28.09	22.76	0.220	2/24/14	4/25/14	0.880	3.31
Procter and Gamble	PG	80.53	80.84	80.68	85.82	73.61	0.644	4/25/14	5/15/14	2.574	3.20
McDonald's	MCD	102.50	100.83	101.95	103.78	92.22	0.810	3/03/14	3/17/14	3.240	3.16
Merck	MRK	55.89	56.05	46.73	59.84	44.62	0.440	3/17/14	4/7/14	1.760	3.15
Cisco	CSCO	24.18	22.89	21.21	26.49	20.22	0.190	4/03/14	4/23/14	0.760	3.14
Coca-Cola	KO	40.52	40.18	42.92	43.43	36.83	0.305	6/16/14	7/1/14	1.220	3.01
J P Morgan	JPM	53.51	54.80	51.09	61.48	50.06	0.400	7/03/14	7/31/14	1.600	2.99
Microsoft Corp.	MSFT	39.60	39.75	33.85	41.66	30.84	0.280	5/15/14	6/12/14	1.120	2.83
Johnson & Johnson	JNJ	100.69	99.20	87.64	101.98	82.12	0.700	5/27/14	6/10/14	2.800	2.78
Exxon Mobil	XOM	100.78	98.68	91.24	103.45	84.79	0.690	5/13/14	6/10/14	2.760	2.74
Dupont	DD	66.83	66.90	55.55	68.82	52.02	0.450	5/15/14	6/12/14	1.800	2.69
Wal-Mart Stores	WMT	76.83	76.88	79.86	81.37	71.51	0.480	3/11/14	4/1/14	1.920	2.50
Home Depot, Inc.	HD	76.24	75.89	77.88	83.20	72.21	0.470	3/13/14	3/27/14	1.880	2.47
3M Company	MMM	140.98	134.09	111.50	143.37	107.15	0.855	5/23/14	6/12/14	3.420	2.43
Travelers	TRV	92.37	85.89	87.78	93.06	77.38	0.550	6/10/14	6/30/14	2.200	2.38
IBM	IBM	186.46	197.02	203.32	211.98	172.19	1.100	5/09/14	6/10/14	4.400	2.36
Caterpillar	CAT	104.99	102.50	87.00	108.21	80.86	0.600	4/21/14	5/20/14	2.400	2.29
Boeing	BA	131.21	124.27	97.02	144.57	96.30	0.730	5/09/14	6/6/14	2.920	2.23
United Tech.	UTX	115.70	115.84	95.81	120.66	90.30	0.590	5/16/14	6/10/14	2.360	2.04
Unitedhealth Group	UNH	76.48	79.51	61.61	83.32	60.95	0.280	3/14/14	3/25/14	1.120	1.46
Goldman Sachs	GS	156.64	154.92	155.61	181.13	148.71	0.550	5/30/14	6/27/14	2.200	1.40
Nike	NKE	72.94	72.28	65.83	80.26	59.11	0.240	6/02/14	7/7/14	0.960	1.32
American Express	AXP	87.60	86.04	72.78	94.35	71.47	0.260	7/11/14	8/8/14	1.040	1.19
Walt Disney	DIS	80.15	77.66	67.67	83.65	60.41	0.860	12/16/13	1/16/14	0.860	1.07
Visa Inc.	V	207.45	204.05	181.76	235.50	170.99	0.400	5/16/14	6/3/14	1.600	0.77

\* See the Recommended HYD Portfolio table on page 38 for current recommendations. † Based on indicated dividends and market price as of 5/15/14.

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 5/16/13.

I Dividend increased since 4/15/14 D Dividend decreased since 4/15/14

RECOMMENDED INVESTMENT VEHICLES

Descriptive Quarterly Statistics, as of 3/31/14

Annualized Returns<sup>4</sup> (%), as of 4/30/14

Security Symbol	Avg. Market Cap./Avg. Maturity	No. of Holdings	Expense <sup>3</sup> (%)	Sharpe Ratio	Turnover (%)	P/B	12 Mo. Yield (%)	Annualized Returns <sup>4</sup> (%)					
								1 yr.	3 yr.	5 yr.	1 yr.	3 yr.	5 yr.
<b>Short-/Intermediate Fixed Income</b>													
Vanguard Short-Term Bond Index	2.80 Yrs.	1893	0.20	1.39	49.6	--	1.05	0.25	1.53	2.54	-0.26	0.94	1.83
iShares Barclays 1-3 Yr. Credit Bond	1.99 Yrs.	907	0.20	1.66	8	--	1.10	1.03	1.68	3.39	0.56	1.13	2.63
iShares Barclays 1-3 Yr. Treasury Bond	1.88 Yrs.	56	0.15	1.18	104	--	0.26	0.27	0.58	1.02	0.15	0.42	0.72
Vanguard Limited-Term Tax-Exempt SPDR N.B. Short-Term Municipal Bond	2.80 Yrs. 3.11 Yrs.	2372 528	0.20 0.20	1.47 1.24	14 20	--	1.65 0.94	0.75 0.70	1.93 1.67	2.37 1.99	0.75 0.29	1.93 1.48	2.37 1.87
<b>Inflation-Protected Fixed Income</b>													
iShares Barclays TIPS Bond	8.40 Yrs.	38	0.20	0.62	47	--	1.13	-5.99	3.00	5.44	-6.40	2.17	4.45
Vanguard Inflation-Protected Securities	8.40 Yrs.	38	0.20	0.60	44	--	1.65	-6.24	2.93	5.34	-6.91	1.86	4.34
<b>International Fixed Income</b>													
Vanguard Total International Bond Index	8.30 Yrs.	2486	0.23	--	81.2	--	--	--	--	--	--	--	--
<b>Real Estate</b>													
Vanguard REIT Index	8.47 B	104	0.24	0.67	9	2.2	3.96	0.83	9.60	22.53	-0.41	8.53	21.23
SPDR Dow Jones REIT	10.20 B	87	0.25	0.64	7	2.3	3.12	0.99	9.21	22.41	-0.47	7.88	20.89
Vanguard Global ex-US Real Estate	5.40 B	529	0.40	0.36	8.3	1.1	3.39	-6.59	5.80	--	-8.13	4.32	--
iShares International Property ETF	6.37 B	334	0.48	0.47	9	1.4	4.31	-4.20	6.46	16.97	-5.63	5.06	15.45
SPDR Dow Jones Global Real Estate ETF	8.64 B	216	0.50	0.59	8	1.6	3.59	-0.99	7.66	20.00	-2.55	6.23	18.15
<b>U.S. Large Cap Value</b>													
Vanguard Value Index	70.52 B	316	0.24	1.10	24.8	2.0	2.43	20.16	13.25	18.85	19.53	12.74	18.35
iShares Russell 1000 Value Index	51.51 B	670	0.21	1.10	16	2.2	1.99	20.62	13.92	19.29	19.89	13.41	18.81
<b>U.S. Small Cap Value</b>													
iShares Russell Microcap Index	0.43 B	1358	0.72	0.88	29	4.2	1.03	25.22	11.98	20.26	24.81	11.62	19.96
Vanguard Small-Cap Value Index	2.73 B	811	0.27	0.91	47.2	1.9	1.84	23.11	13.12	21.33	22.47	12.58	20.80
<b>U.S. Large Cap Growth</b>													
iShares Russell 1000 Growth Index	49.52 B	634	0.20	1.12	17	6.3	1.35	20.41	13.16	19.24	19.92	12.82	18.92
Vanguard Growth Index	48.90 B	370	0.24	1.10	32.3	4.5	1.36	20.18	13.57	19.29	19.84	13.32	19.05
<b>U.S. Marketwide</b>													
Vanguard Total Stock Market Index	37.21 B	3698	0.17	1.11	4.3	2.6	1.86	20.57	13.41	19.51	20.03	13.00	19.12
Fidelity Spartan Total Market Index	36.79 B	3305	0.10	1.10	2	2.3	1.45	20.55	13.45	19.53	n/a	n/a	n/a
<b>Foreign-Developed Markets</b>													
iShares MSCI EAFE Growth Index	34.94 B	550	0.40	0.49	26	3.7	1.87	10.79	5.11	13.82	10.40	4.86	13.59
iShares MSCI EAFE Value Index	41.62 B	496	0.40	0.47	27	1.8	3.17	15.31	5.72	12.75	14.57	5.26	12.33
Vanguard FTSE Developed Market	32.86 B	1370	0.09	0.43	13	1.6	2.94	13.27	5.58	13.74	12.40	5.05	13.30
SPDR S&P International Small Cap	1.16 B	2027	0.59	0.42	21	1.2	3.03	11.84	4.26	15.87	10.75	3.62	15.26
<b>Foreign-Emerging Markets</b>													
Vanguard FTSE Emerging Market Stock	17.66 B	961	0.33	-0.19	26	1.7	2.58	-3.55	-4.42	10.67	-4.34	-4.91	10.22
<b>Gold-Related Funds</b>													
iShares Gold Trust	--	1	0.25	-0.06	0.00	--	0.00	-12.54	-5.92	7.36	-12.54	-5.92	7.36
SPDR Gold Shares	--	1	0.40	-0.08	0.00	--	0.00	-12.64	-6.05	7.41	-12.64	-6.05	7.41

Data provided by the funds and Morningstar. <sup>1</sup>Exchange Traded Fund, traded on NYSE. <sup>2</sup>0.5% fee for redemption in 90 days. <sup>3</sup>For Vanguard funds, expense ratios shown are for mutual funds, ETFs have lower expenses. <sup>4</sup>For Vanguard Funds, returns shown are for mutual funds; ETFs' returns may deviate. <sup>5</sup>VGXRX includes a 0.25% fee on purchases and redemptions, which are paid directly into the fund. <sup>6</sup>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 or individual tax situations.

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