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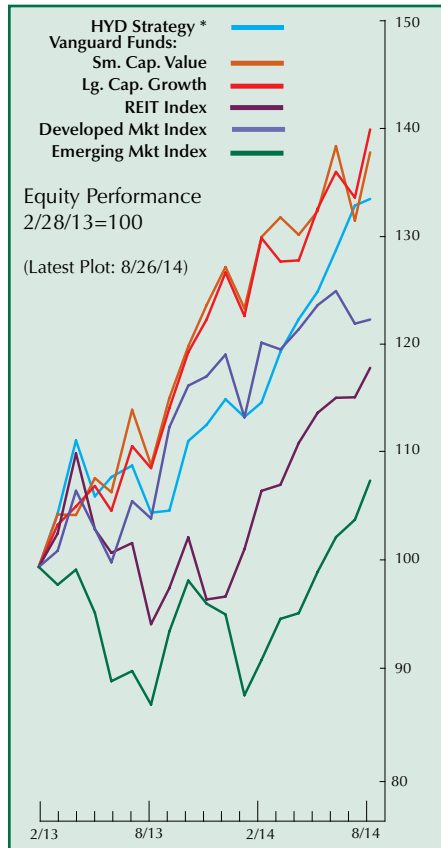
INVESTMENT GUIDE

Published Monthly by
American Investment Services, Inc

Vol. XXXVI, No. 8

Great Barrington, Massachusetts 01230

August 31, 2014



* HYD is a hypothetical model based on back-tested results. See p.62 for more information.

The True Cost of Price Inflation

In a world of fiat currencies the threat of unexpected price inflation is always with us. While many articles and commentators decry inflation, they do so for the wrong reasons because they tell only a partial story. They frequently ignore the fact that while many suffer from rising price levels, others gain. Make no mistake: inflation is bad. But the true cost of inflating is that the actions we take to minimize its impact are not offset by gains elsewhere.

Inflation exacts costs but also bestows benefits. If you buy a fixed income security (a bond), and subsequent inflation unexpectedly rises, you will receive fixed nominal interest payments that have lost purchasing power. But the borrower who issued the bond will gain because these interest payments are made with depreciating dollars. These effects are exactly offsetting, so from an economic perspective there is no loss of efficiency. Conversely, if you are a homeowner with a fixed rate mortgage you get to pay back your debt with depreciating dollars. But the lender suffers by an exactly offsetting amount, so again efficiency is unaffected.

In times of pronounced inflation, we take actions to reduce its impact. For example we carry less cash, which means fewer spontaneous purchases, more trips to the ATM, etc. In the economist's ledger these count as costs. But because there are no offsetting gains for anyone these costs are considered a "deadweight loss" in economic jargon, and therefore inefficient. Similarly, firms may maintain lower cash balances during inflationary times, and this lack of liquidity could force a costly recapitalization; again, because there is no offsetting gain to anyone, this would be a deadweight loss. It has been estimated that deadweight losses generated by a year of 3 percent inflation in the U.S. add up to about \$18 billion, or about \$60 per American.¹

We have frequently explained that inflation effectively forces investors to assume greater risk by purchasing stocks instead of holding cash or short-term bonds, because stocks have better prospects for outpacing inflation over the long term. But this entails a portfolio with far more volatile returns. The enclosed article *The Tradeoff: Preserving Capital or Preserving Purchasing Power* describes this trade-off in detail.

Our portfolio recommendations are designed to help investors manage this trade-off effectively, by offering a variety of portfolio allocation plans that can be adopted to meet your particular tolerance for risk, including the risk of unexpected inflation.

¹ These examples and these statistics are drawn from Steven E. Landsburg *The Armchair Economist, Economics & Everyday Life* (New York: Free Press a division of Simon & Shuster, 2012, p. 81-82),

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

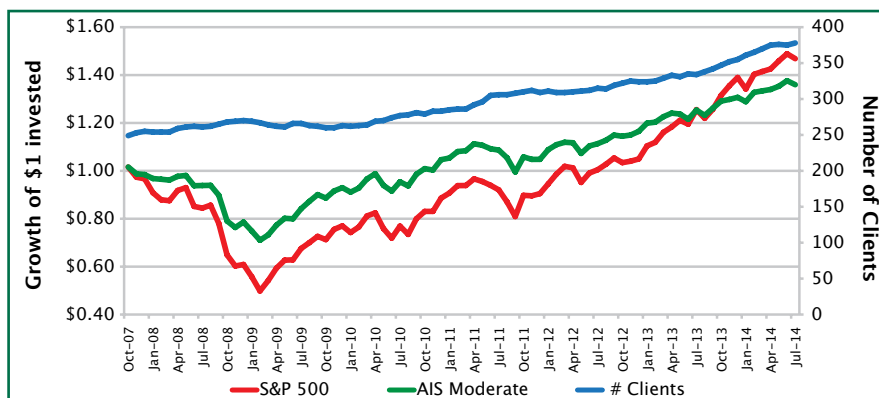
RIDING OUT THE STORM

Over five years have passed since the U.S. stock market hit bottom in March 2009. The S&P 500 is currently near its all-time high. This strikes us as a good vantage point from which to look back and review what has transpired.

Our objective is to prosper as a business by helping investors meet their personal financial objectives. It is impossible to know how every *Investment Guide* subscriber has fared financially during this period. However, if the experience of clients enrolled in our Professional Asset Management service is a reasonable guide, then we suspect our readers have on average experienced a favorable outcome.

The financial crisis was the worst in over 80 years. If there was a silver lining, it provided a rare opportunity to test our long-held convictions that investors should stay the course, even during the most severe of bear markets.

Of all the charts we have produced the one nearby is one of the most important to us. Our clients by and large maintained their faith in our approach, a decision that in retrospect appears prudent. The blue line tracks the number of household and institutional clients enrolled in our PAM service. The market's decline began in the fall of 2007, when we were servicing 249 clients. During the next 14 months, through the end of 2008 our client count increased to 270, even as the S&P 500 (the red line) plummeted by an alarming 40 percent. During the next two months the S&P fell another 18 percent before rebounding 55 percent by year-end



(December 2009). Despite this extreme volatility we ended that year managing assets on behalf of 264 clients. Over the entire span, October 2007 through December 2009, our client count never fell below its starting point of 249.

During the depths of the crisis some clients terminated their service with us (the blue line shows our total client count, so it reflects *net* changes). We can only hope these investors managed to participate in the market's subsequent recovery. While we regret these departures we are quite pleased that we retained the confidence of the vast majority of our clients, and that these investors were ultimately rewarded for staying the course throughout this harrowing period of capital market history.

The green line depicts the hypothetical growth of \$1 invested in our AIS moderate portfolio. Our strategy throughout the downturn was then as it is now: our trading was confined, for the most part, to periodic rebalancing

to match each client's target allocations. This typically entailed modest sales of those asset classes that had held up the best (gold, cash and short term bonds), and reinvestment of the proceeds in asset classes that had fallen the most (the broad U.S. and foreign stock markets).

At the depths of the crisis our clients' portfolios lost value, but most held up far better than an all-stock portfolio, in this case represented by the S&P 500. Over very long time periods we fully expect the all-stock index to "outperform" our moderate portfolio, albeit with greater volatility.

Today we manage \$665 million on behalf of 378 clients, the highest in our history. This growth is not attributable to forecasting prowess; during this period we made no attempt to predict market developments. To the contrary, our clients' experience is testimony to the wisdom of accepting market returns and maintaining steadfast discipline.

ECONOMICS, EFFICIENCY AND INVESTING

The widely adopted textbook *Principles of Economics* defines economics as "the study of how society manages its scarce resources."¹ We have written a great deal about the Efficient Market Hypothesis (EMH), which focuses on efficiency as it pertains to capital markets. Indeed EMH and what it portends for investors' portfolios has inspired an immense body of academic research and is hotly debated among investment professionals. But EMH is relevant not just to the study of financial markets; it is central to the efficient allocation of all resources.

Efficiency Explained

Because our resources are limited and our wants unlimited, most economists deplore policies or practices that lead to inefficient outcomes. When it comes to proposed policies addressing distribution, such as income tax rates or medical care, economists typically avoid philosophical and moral questions regarding who should gain or who should sacrifice. But they do not hesitate to identify inefficient outcomes, that is, situations in which there is a net loss to society.

To help demonstrate let's consider taxes. Taxes are inevitable if there is to be any form of government at all. The problem is that when a tax is imposed, people take measures to avoid paying it, so our behavior relative to that we would exhibit in a world without taxes is distorted. This results in an overall inefficiency.

The sales tax is a convenient way to show how taxes in general create inefficiencies. Suppose you wanted to purchase a sweater and that you'd be willing to pay as much as \$60 for it. You search online and find someone willing to sell the exact sweater you want for

\$55, so you make the purchase. As a result you are now \$5 richer, and not only that, you enjoyed this gain at no one else's expense; after all, the person who sold it to you for \$55 would not have done so if it made them any worse off. Since you are better off and no one else is worse off, all of society is better off. Economists refer to this \$5 gain as *consumer surplus*.

Now suppose the government imposed a sales tax that adds \$3 to the sales price. You would still purchase the sweater at \$58. You'd now be worse off by \$3 versus a no-tax scenario, but that \$3 will ultimately go to someone else, so all is well from an efficiency standpoint. But suppose the tax was \$6. Now you'd no longer be willing to make the purchase at all. The transaction would simply not take place and the \$5 consumer surplus would vanish altogether. Nobody would win and the world would be unambiguously worse off. The lost consumer surplus is referred to as a *deadweight loss*.²

Economists are generally skeptical toward policies that interfere with prices determined through voluntary exchange; the sales tax is just one way to demonstrate how distorted prices result in inefficient outcomes. Other examples abound. When trade tariffs are imposed voluntary transactions are sacrificed. When gasoline prices were held below the market clearing level in the 1970s shortages resulted virtually overnight. Rent control limits the supply of housing available, and when agricultural prices are pegged above market clearing prices, surpluses generally result.

EMH: Your Portfolio and Beyond

Economists are also concerned with the efficiency of capital markets. Once again, most economists are loath to second-guess market prices. The price of a stock provides an assessment of the relative risk and prospective return associated with taking ownership in a firm. When news breaks that Apple, Inc. has developed a new product, the market immediately provides an opinion reflecting the consensus view of thousands of market participants weighing in on whether this latest innovation will prove valuable to consumers, and whether Apple will be able to produce it efficiently. If the opinion is favorable, Apple's share price will rise as investors' capital flows

toward its stock.

EMH simply asserts that security prices determined in this manner provide the best available estimate of a firm's value in light of information currently available to the public. The main implication for investors is that no one can consistently outperform the market's overall returns on a risk-adjusted basis by selecting securities or timing the market, in other words, second-guessing market prices is a fool's errand. In our example the impact of the news regarding Apple's new product will change its share price almost instantly. But these price changes are unpredictable because they are based on news, which by definition comes randomly.³

But the implications of EMH extend well beyond investors' portfolios. It is central to the efficient use of societies' scarce resources. EMH asserts that while investors compete with each other for returns, firms compete with each other for capital. This relentless quest drives security prices to their fair value. The market rewards well-managed, innovative firms with rising stock prices and a low cost of capital, while risky, distressed firms find capital to be scarce and could ultimately face bankruptcy. In our example, the rising stock price for Apple means provides a lower cost of capital for the firm, because management can now sell shares to investors at this new, higher price.

The end result is that capital flows toward well-managed firms, which in turn invest efficiently in materials, labor and technology to produce highly valued goods and services. Capital flees poorly managed firms that would employ these resources less productively.

Market Skeptics

EMH skeptics assert, at least implicitly, that voluntary exchange fails to set prices properly, and that they know the correct price. Hardly a day passes without brazen commentary from brokers, advisors, financial commentators, and money managers telling us that XYZ stock is either "undervalued" or "overpriced" or that market itself is "overvalued" or "due for a correction."

But if the EMH did not hold, that is, if mispricings occurred as often as the financial media and these pundits would have us believe, capital would be inefficiently allocated on an

ongoing basis. Investors' savings would flow disproportionately toward these allegedly overpriced firms, apparently those producing goods and services inefficiently or that are not in demand, while efficiently run, innovative firms would be underpriced and therefore be starved for capital.

The EMH cannot be rejected based merely on anecdotal evidence that would appear to contradict it. It has withstood hundreds of studies based on decades of data gathered from capital markets worldwide. Scholars have identified occurrences when securities appear to have been priced in a manner inconsistent with the EMH, but these apparent anomalies alone are not grounds for rejecting the theory. Instead explanations consistent with EMH must be pursued exhaustively. When an explanation does not immediately emerge, it would be erroneous to reject prevailing theory until both an overwhelming body of contradictory evidence accumulates and a better theory of asset pricing emerges.

It is difficult to explain why so many investors are persuaded by active managers who emphatically reject EMH. It may be that the EMH is misunderstood. It does not assert that market prices are "right." It only posits that compared with alternatives current stock prices determined through voluntary exchange represent the best available estimate of a firm's value, in light of information available.

Why Pick on Stock Markets?

The constant noise and opinion regarding prices seem peculiar to capital markets. After all, prices for bread, haircuts or virtually any other product or service fail to generate brash proclamations. Few feel compelled to broadcast their views regarding the price of Nike running shoes, and those opinions certainly don't make the headlines on Yahoo! In most markets, if consumers or producers find a price unattractive, they simply walk away.

There are the occasional exceptions. Opportunistic politicians decry rising gasoline prices (only to remain silent when they fall), and during hurricanes the price of food might spike temporarily and generate resentment. But for the most part the rejection of market prices within our capitalist system is confined, ironically, to self-proclaimed capital

(continued next page)

market experts -- brokers, money managers and gurus among the financial media.

There of course have been entire national economies predicated on an

ideological, wholesale rejection of market prices, in favor of centrally-determined prices. These nations mismanaged resources so poorly that they collapsed entirely. Indeed it has

been said that there remain in the world three groups of people who still think markets don't work, the North Koreans, the Cubans, and the people on Wall Street.⁴

1 Principles of Economics, 7th Edition, N. Gregory Mankiw, p. 4

2 For a superb discussion of economic efficiency, we highly recommend the book *The Armchair Economist, Economics and Everyday Life*, by Steven E. Landsburg, from which this example was adapted.

3 Evidence of short term momentum suggests that price changes may not be completely random, but transaction costs prohibit profitable trading strategies that could exploit these patterns.

4 This is said to be attributable to Rex Sinquefeld, co-founder of Dimensional Fund Advisors

THE TRADEOFF: PRESERVING CAPITAL OR PRESERVING PURCHASING POWER¹

Many aspects of life require careful consideration and balancing of the tradeoffs that arise from competing demands. For example, a common lifestyle tradeoff is working longer hours versus spending more time with your family. The competing demands within this decision are the income necessary to provide a suitable quality of life for your family versus the immeasurable benefits of quality time with your family. There is no right answer, but most people understand the tradeoff and attempt to find the balance that is right for them.

Successful investing and financial planning also require balancing tradeoffs. For example, a common investment tradeoff is that of risk and return. One of the competing demands is preservation of capital versus preservation of purchasing power. The former may allow for a better night's sleep during periods of heightened uncertainty and corresponding volatility, but the latter helps ensure you'll have a comfortable bed in the future when accounting for rising prices from inflation. Once again, there is no right answer, no "optimal" solution. Understanding the tradeoffs between preserving capital and preserving purchasing power will help investors find the balance that is right for them. This balance will depend on their definition of risk and attitude towards it.

Some investors may consider risk to be volatility. They have difficulty stomaching the daily ups and downs associated with investing in asset classes that experience significant price

fluctuations, such as equities, because declining prices are often accompanied by predominantly negative headlines. Although information will be reflected in prices before one can react to it, this is little solace to investors who extrapolate the recent past into the future and see the bad news as an indicator of what's to come rather than a commentary on what has already happened. These investors yearn for short-term preservation of capital.

Other investors may define risk as a diminishing standard of living. They have long-term financial obligations, such as spending during their retirement years, and their primary goal is building wealth to meet those future expenses. They recognize that, while the cumulative effects of inflation are sometimes glacially slow or even undetectable in real time, inflation can be the silent killer of a financial plan. These investors desire long-term preservation of purchasing power.

Investing is relatively straightforward when the definition of risk and attitude toward it are so black and white. For example, you can virtually guarantee the preservation of capital by investing in the equivalent of Treasury bills as long as you accept the corresponding potential for the loss of purchasing power. On the other hand, you can preserve purchasing power by investing in asset classes with

Country	Inflation	Bills	Equities
Australia	3.9%	4.6%	11.6%
Canada	3.0%	4.7%	9.1%
US	3.0%	3.9%	9.4%
UK	3.9%	5.0%	9.5%

In local currency. Dimson Marsh Staunton (DMS) Global Returns Database. Past performance is no guarantee of future results.

expected returns exceeding inflation, providing you accept price fluctuations that can temporarily impair your capital.

Unfortunately, in practice, investing isn't that simple. Individual investors rarely have black and white objectives or well-defined definitions of and attitudes towards risk. Some expect long-term preservation of purchasing power and short-term preservation of capital. Making matters worse is the tendency for the priority and relative importance of their competing demands to change through time, often in response to what's happened in the recent past.

Investors who succumb to the cycle of fear and greed end up chasing a moving target. Advisors can try to mitigate this destructive behavior by focusing investors on the tradeoffs that were made at the outset when determining their balance between assets that are expected to grow faster than inflation and those that stabilize the portfolio and reduce its fluctuations. So if an investor is now fearful and therefore more focused on capital preservation, it is time to reframe the tradeoffs by emphasizing why growth assets were in the portfolio to begin with and how the so-called "riskless" asset (i.e., bills) can actually be extremely risky in the long run.

For example, Table 1 contains annualized returns from Australia, Canada, the US, and the UK for more

Country	Equities Period	Total Return	Bills Period	Total Return
Australia	1970–1974	-50%	1950	7.5%
Canada	1929–1934	-64%	1945	3.7%
US	1929–1932	-69%	1938	-0.02%
UK	1973–1974	-61%	1935	5.0%

Table 3: Worst Performing Periods for Equities, Real Returns (1900–2010)

	Peak to Trough Decline		Subsequent Recovery	
Country	Period	Total Return	Years	Years
Australia	1970–1974	–66%	5	11
Canada	1929–1932	–55%	4	3
US	1929–1931	–60%	3	4
UK	1973–1974	–71%	2	9

Table 4: Worst Performing Periods for Bills, Real Returns (1900–2010)

	Peak to Trough Decline		Subsequent Recovery	
Country	Period	Total Return	Years	Years
Australia	1937–1977	–61%	41	21
Canada	1934–1951	–44%	18	34
US	1933–1951	–47%	19	48
UK	1914–1920	–50%	7	7

than a century. Bills only slightly beat inflation before tax, but this small return advantage can easily disappear on an after-tax basis.² Nonetheless, the table clearly demonstrates that equities have delivered returns exceeding both bills and inflation by a wide margin, even when accounting for taxes.³

However, the tradeoff for pursuing higher expected returns of equities is accepting the risk of substantial declines compared to the relative stability of bills. Table 2 shows that equity values in the four markets have dropped from 50–69% over a two- to six-year period, whereas bills have always been flat or better (if you consider minus 2 basis points a rounding error).

The risk and return relationship from a preservation of capital perspective is apparent in these nominal returns, but the picture is a bit different after considering the impact of inflation. In terms of preserving purchasing power, now the “riskless” asset looks far from risk free.

Table 3 contains the biggest peak-to-trough declines, in real terms, for equities in these four countries over the same time period. It likely comes as no surprise that the magnitude of the real declines is substantial, with stock prices dropping anywhere from 55–71% after inflation. However, the duration of the declines is still relatively short, ranging from two to five years, and it took equity

investors in these countries anywhere from three to eleven years to break even.

In contrast, the data in Table 4 for bills, or the “riskless” asset, in these four countries is revealing. The biggest peak-to-trough declines after inflation now remarkably range from 44–61%, a similar order of magnitude to equities. Furthermore, the duration of the declines extends to a range of seven to forty-one years with investors in bills waiting an astounding seven to forty-eight years to recover!

More than ever, comparisons like these are needed when discussing the tradeoff of preserving capital versus preserving purchasing power. Investors feel the risk of equities in real time. Volatility is immediate and apparent as their portfolio value shows up in the mail every month or on their computer screen every day. Conversely, the risk of investing in bills and other low-volatility assets is less discernible and may take time to detect as it shows up when investors open their wallet at the grocery store or gas station many years later.

Investors may still want to revisit the tradeoffs they made and alter course if appropriate. However, changes to a long-term plan should reflect an informed decision rather than an emotional one. Fear and greed are powerful forces, but we should resist letting them dictate the tradeoffs we make in our lives or in our portfolios.

As the Most Interesting Man in the World would say, “stay invested, my friends!”

1 This article was produced by Dimensional Fund Advisors (DFA) and is reprinted in its entirety. Written by Brad Steiman, Director, Head of Canadian Financial Advisor Services, Vice President, DFA.

2 Returns in this table are pre-tax, but actual consumption, as represented by inflation, requires after-tax dollars; therefore, if the marginal tax rate on interest income exceeds $[1 - (\text{Inflation}/\text{Bill Return})]$, the real return is negative. (e.g., Canada: $[1 - (3.0/4.7)] = 36\%$ but the highest marginal tax rate on income is roughly 45%.)

3 The difference in the real return of equities versus bills would increase after taxes in countries where the tax rate on income exceeds the tax rate on dividends and capital gains.

New Study by AIER Examines Retirement Spending Strategies

Staff researchers of our parent organization, AIER, recently published a highly useful book, “From Savings to Income: Retirement Drawdown Strategies.”

“From Savings to Income” expands upon research presented in our March 2014 Investment Guide article “The 4 Percent Withdrawal Rule: An Update”. This research informs our recommendations when developing investment drawdown strategies and allocation plans for our clients. The book provides highly detailed analysis and goes in to considerably more depth than the article in evaluating the trade-offs involved between alternative drawdown strategies.

Orders can be placed at the AIER bookstore at <https://www.aier.org/bookstore> or by request to Kelly Fox, Director of Member Services: email Kelly.fox@AIER.org, or by phone (413) 528 1216 ext. 3102. AIER members receive a 50% discount.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of August 15, 2014

	Rank	Yield (%)	Price (\$)	Status	—Percent of Portfolio—	
					Value (%)	No. Shares (%) ¹
AT&T	1	5.30	34.74	Holding**	22.34	26.06
Verizon	2	4.34	48.80	Holding**	22.62	18.78
Pfizer	3	3.63	28.64	Buying	7.01	9.92
McDonald's	4	3.45	93.79	Buying	2.79	1.20
General Electric	5	3.43	25.64	Holding	1.35	2.13
Chevron	6	3.39	126.10	Holding	4.34	1.39
Cisco	8	3.11	24.43	Holding	1.46	2.43
Merck	9	3.00	58.61	Selling	14.27	9.86
Intel Corp	16	2.63	34.17	Selling	23.80	28.22
Cash (6-mo. T-Bill)	N/A	N/A	N/A		0.02	N/A
Totals					100.00	100.00

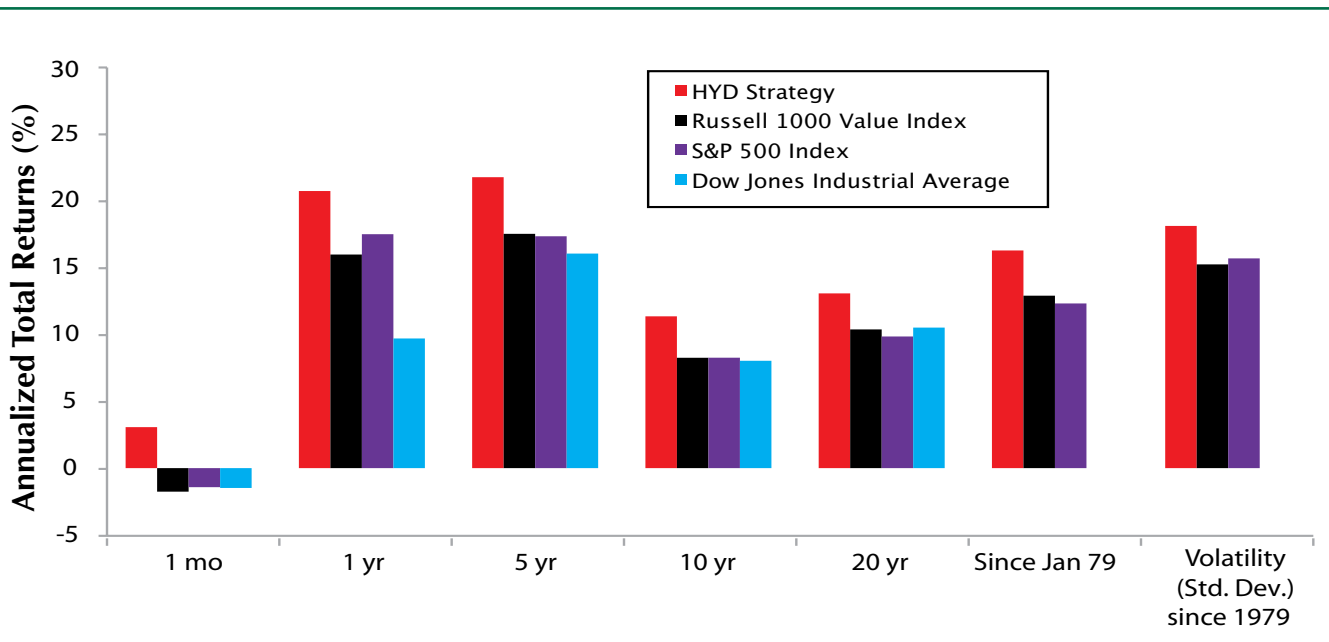
**Currently indicated purchases approximately equal to indicated purchases 18 months ago. 1 Because the percentage of each issue in the portfolio by value reflects the prices shown in the table, we are also showing the number of shares of each stock as a percentage of the total number of shares in the 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 July 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	2.97	20.07	21.07	10.99	12.65	15.76	17.54
Russell 1000 Value Index	-1.70	15.47	16.97	7.99	10.04	12.49	14.75
S&P 500 Index	-1.38	16.94	16.79	8.00	9.53	11.92	15.19
Dow Jones Industrial Average	-1.44	9.39	15.54	7.77	10.18	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 (\$)

	8/15/14	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	1,296.00	1,310.00	1,329.75
Silver, London Spot Price	19.86	20.93	22.00
Copper, COMEX Spot Price	3.10	3.24	3.34
Crude Oil, W. Texas Int. Spot	97.34	99.95	107.32
Dow Jones Spot Index	395.22	407.71	407.63
Dow Jones-UBS Commodity Index	125.71	131.95	129.53
Reuters-Jefferies CRB Index	290.61	296.72	293.01
U.S. Treasury bills - 91 day	0.04	0.02	0.05
182 day	0.05	0.06	0.08
52 week	0.09	0.10	0.12
U.S. Treasury bonds - 10 year	2.41	2.56	2.77
Corporates:			
High Quality - 10+ year	4.08	4.19	4.60
Medium Quality - 10+ year	4.71	4.76	5.47
Federal Reserve Discount Rate	0.75	0.75	0.75
New York Prime Rate	3.25	3.25	3.25
Euro Rates 3 month	0.20	0.20	0.23
Government bonds - 10 year	1.03	1.20	1.82
Swiss Rates - 3 month	0.02	0.01	0.02
Government bonds - 10 year	0.53	0.69	1.10

Exchange Rates (\$)

British Pound	1.668600	1.714900	1.557300
Canadian Dollar	0.916600	0.928900	0.967000
Euro	1.339200	1.357300	1.326300
Japanese Yen	0.009785	0.009841	0.010000
South African Rand	0.094340	0.093360	0.100100
Swiss Franc	1.107900	1.116900	1.071400

Securities Markets

	8/15/14	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	1,955.06	1,973.28	1,661.32
Dow Jones Industrial Average	16,662.91	17,060.68	15,112.19
Barclays US Credit Index	2,554.20	2,525.11	2,346.43
Nasdaq Composite	4,464.93	4,416.39	3,606.12
Financial Times Gold Mines Index	1,634.89	1,618.52	1,756.49
FT EMEA (African) Gold Mines	1,565.37	1,615.42	1,482.42
FT Asia Pacific Gold Mines	5,012.89	4,897.38	5,256.97
FT Americas Gold Mines	1,453.15	1,424.01	1,616.55

Coin Prices (\$)

	8/15/14	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	1,349.82	1,357.03	1,363.03	4.15
Austrian 100-Corona (0.9803)	1,270.82	1,277.82	1,282.82	0.03
British Sovereign (0.2354)	317.40	319.10	320.30	4.04
Canadian Maple Leaf (1.00)	1,332.20	1,339.40	1,347.60	2.79
Mexican 50-Peso (1.2057)	1,566.10	1,574.60	1,580.90	0.22
Mexican Ounce (1.00)	1,319.20	1,326.40	1,331.50	1.79
S. African Krugerrand (1.00)	1,334.18	1,341.38	1,351.57	2.95
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,365.00	1,420.00	1,380.00	8.86
Liberty (Type I-AU50)	2,225.00	2,225.00	2,225.00	77.45
Liberty (Type II-AU50)	1,550.00	1,550.00	1,825.00	23.62
Liberty (Type III-AU50)	1,340.00	1,380.00	1,360.00	6.87
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	14,470.00	15,737.50	17,262.50	1.90
40% Silver Circ. (292 oz.)	5,850.00	6,087.50	6,237.50	0.88
Silver Dollars Circ.	20,250.00	20,312.50	21,625.00	31.80

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$1,296.00 per ounce and silver at \$19.86 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses. The Bloomberg Commodity Spot Index and the Bloomberg Commodity Index were previously the Dow Jones Spot Index and the Dow Jones-UBS Commodity Index, respectively, as of 7/1/14. Data that was being retrieved from Dow Jones is now being retrieved from Bloomberg.

THE DOW JONES INDUSTRIALS RANKED BY YIELD*

Ticker Symbol	Market Prices (\$)			12-Month (\$)		Latest Dividend Amount (\$)	Record Date	Payable Date	Indicated		
	8/15/14	7/15/14	8/15/13	High	Low				Annual Dividend (\$)	Yield [†] (%)	
AT&T	T	34.74	36.24	34.35	37.48 H	31.74	0.460	7/10/14	8/1/14	1.840	5.30
Verizon	VZ	48.80	50.71	48.54	53.66 H	45.08	0.530	7/10/14	8/1/14	2.120	4.34
Pfizer	PFE	28.64	30.41	28.80	32.96	27.76	0.260	8/01/14	9/3/14	1.040	3.63
McDonald's	MCD	93.79	100.30	95.39	103.78	92.22	0.810	9/02/14	9/16/14	3.240	3.45
General Electric	GE	25.64	26.61	24.00	28.09	22.92	0.220	6/23/14	7/25/14	0.880	3.43
Chevron	CVX	126.10	129.26	120.25	135.10 H	109.27	1.070	8/19/14	9/10/14	4.280	3.39
Procter and Gamble	PG	81.78	81.26	80.48	85.82	73.61	0.644	7/18/14	8/15/14	2.574	3.15
Cisco	CSCO	24.43	25.67	24.49	26.08	20.22	0.190	7/07/14	7/23/14	0.760	3.11
Merck	MRK	58.61	57.91	47.97	59.84	44.62	0.440	9/15/14	10/7/14	1.760	3.00
Coca-Cola	KO	40.88	42.10	39.09	42.57 H	36.83	0.305	9/15/14	10/1/14	1.220	2.98
Dupont	DD	65.25	64.58	58.74	69.75	56.08	0.470	8/15/14	9/12/14	1.880	2.88
J P Morgan	JPM	56.75	58.27	53.29	61.48	50.06	0.400	7/03/14	7/31/14	1.600	2.82
Exxon Mobil	XOM	99.03	102.39	88.16	104.76 H	84.79	0.690	8/13/14	9/10/14	2.760	2.79
Johnson & Johnson	JNJ	101.17	103.28	89.55	106.74	85.50	0.700	8/26/14	9/9/14	2.800	2.77
Caterpillar	CAT	105.74	109.85	85.86	111.28 H	81.46	0.700	7/21/14	8/20/14	2.800	2.65
Intel Corp	INTC	34.17	31.71	22.03	34.83 H	21.89	0.225	8/07/14	9/1/14	0.900	2.63
Wal-Mart Stores	WMT	73.90	76.84	74.41	81.37	71.51	0.480	8/08/14	9/3/14	1.920	2.60
Microsoft Corp.	MSFT	44.79	42.45	31.79	45.45 H	30.95	0.280	8/21/14	9/11/14	1.120	2.50
3M Company	MMM	141.92	145.06	115.85	146.43 H	112.36	0.855	8/22/14	9/12/14	3.420	2.41
Travelers	TRV	92.13	95.95	81.07	96.18	79.12	0.550	9/10/14	9/30/14	2.200	2.39
Boeing	BA	123.16	129.10	102.73	144.57	102.57	0.730	8/08/14	9/5/14	2.920	2.37
IBM	IBM	187.38	188.49	185.79	199.21	172.19	1.100	8/08/14	9/10/14	4.400	2.35
Home Depot, Inc.	HD	83.69	79.86	75.14	84.09 H	72.21	0.470	6/05/14	6/19/14	1.880	2.25
United Tech.	UTX	105.63	114.84	102.99	120.66	99.50	0.590	8/15/14	9/10/14	2.360	2.23
Unitedhealth Group	UNH	81.47	83.90	71.40	86.76 H	66.72	0.375	9/12/14	9/23/14	1.500	1.84
Goldman Sachs	GS	171.90	169.17	160.75	181.13	151.33	0.550	8/29/14	9/29/14	2.200	1.28
Nike	NKE	77.13	78.03	63.49	80.26	62.60	0.240	9/02/14	10/6/14	0.960	1.24
American Express	AXP	86.60	94.45	74.88	96.24	71.47	0.260	10/03/14	11/10/14	1.040	1.20
Walt Disney	DIS	89.28	86.15	62.38	89.47 H	60.41	0.860	12/16/13	1/16/14	0.860	0.96
Visa Inc.	V	210.19	221.78	173.93	235.50	172.21	0.400	8/15/14	9/3/14	1.600	0.76

* See the Recommended HYD Portfolio table on page 62 for current recommendations. † Based on indicated dividends and market price as of 8/15/14.

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 8/16/13.

/ Dividend increased since 7/15/14 D Dividend decreased since 7/15/14

RECOMMENDED INVESTMENT VEHICLES

Descriptive Quarterly Statistics, as of 6/30/14

Annualized Returns⁴ (%), as of 7/31/14

Security Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Expense ³ (%)	Sharpe Ratio	Turnover (%)	P/B	12 Mo. Yield (%)	Annualized Returns ⁴ (%)					
								1 yr.	3 yr.	5 yr.	1 yr.	3 yr.	5 yr.
Short/Intermediate Fixed Income													
Vanguard Short-Term Bond Index	2.8 Yrs.	2000	0.10	1.29	49.6	--	1.13	1.12	1.09	2.21	0.60	0.51	1.53
iShares Barclays 1-3 Yr. Credit Bond	1.95 Yrs.	877	0.20	1.54	10	--	1.02	1.36	1.50	2.58	0.92	0.97	1.89
iShares Barclays 1-3 Yr. Treasury Bond	1.91 Yrs.	69	0.15	0.96	136	--	0.28	0.36	0.37	1.00	0.24	0.23	0.73
Vanguard Limited-Term Tax-Exempt	2.8 Yrs.	2548	0.20	1.32	14.4	--	1.65	2.21	1.64	2.21	2.21	1.64	2.21
SPDR N.B. Short-Term Municipal Bond	2.84 Yrs.	552	0.20	1.07	20	--	0.93	1.97	1.34	1.85	1.56	1.12	1.70
Inflation-Protected Fixed Income													
iShares Barclays TIPS Bond	7.64 Yrs.	39	0.20	0.64	47	--	1.29	3.63	2.14	5.39	2.97	1.41	4.39
Vanguard Inflation-Protected Securities	8.4 Yrs.	41	0.20	0.62	44.3	--	2.34	3.41	2.12	5.35	2.34	1.11	4.28
International Fixed Income													
Vanguard Total International Bond Index	8.3 Yrs.	2720	0.20	--	81.2	--	1.45	5.56	--	--	4.90	--	--
Real Estate													
Vanguard REIT Index	8.71 B	138	0.10	0.76	10.9	2.3	3.05	12.32	11.08	21.16	10.81	9.92	19.88
SPDR Dow Jones REIT	10.39 B	91	0.25	0.72	7	2.48	3.04	12.39	10.52	21.09	10.79	9.15	19.64
Vanguard Global ex-US Real Estate	5.81 B	555	0.27	0.53	8.3	1.1	3.49	12.75	8.65	--	10.72	7.05	--
iShares International Property ETF	6.72 B	338	0.48	0.59	10	1.48	4.12	15.35	9.53	12.31	13.72	8.02	10.82
SPDR Dow Jones Global Real Estate ETF	9.00 B	223	0.50	0.67	8	1.61	3.03	13.39	9.70	16.78	11.85	8.18	14.98
U.S. Large Cap Value													
Vanguard Value Index	72.89 B	311	0.09	1.26	24.8	2.1	2.21	14.70	16.75	16.18	14.10	16.21	15.68
iShares Russell 1000 Value Index	51.79 B	690	0.21	1.25	12	2.33	1.90	15.21	17.31	16.72	14.64	16.81	16.27
U.S. Small Cap Value													
iShares Russell Microcap Index	0.38 B	1377	0.72	0.91	26	3.66	1.04	8.06	14.16	15.87	7.73	13.79	15.57
Vanguard Small-Cap Value Index	2.87 B	830	0.09	1.08	47.2	2.0	1.73	14.37	16.46	18.33	13.78	15.90	17.82
U.S. Large Cap Growth													
iShares Russell 1000 Growth Index	50.85 B	676	0.20	1.24	15	7.04	1.28	18.44	15.82	17.02	18.05	15.49	16.72
Vanguard Growth Index	49.33 B	370	0.09	1.24	32.3	4.7	1.19	19.42	16.25	17.32	19.10	15.98	17.08
U.S. Marketwide													
Vanguard Total Stock Market Index	37.95 B	3740	0.05	1.25	4.3	2.7	1.74	16.19	16.45	17.04	15.70	16.02	16.65
Fidelity Spartan Total Market Index	38.15 B	3372	0.10	1.24	2	2.29	1.42	16.14	16.47	17.06	n/a	n/a	n/a
Foreign-Developed Markets													
iShares MSCI EAFE Growth Index	35.28 B	548	0.40	0.53	26	3.99	2.13	11.99	6.82	9.58	11.44	6.46	9.30
iShares MSCI EAFE Value Index	43.07 B	481	0.40	0.55	27	1.69	4.30	17.56	8.56	8.68	16.35	7.86	8.15
Vanguard FTSE Developed Market	33.94 B	1372	0.09	0.55	13	1.7	3.10	14.58	7.92	9.26	13.62	7.24	8.75
SPDR S&P International Small Cap	1.20 B	2022	0.59	0.51	21	1.32	2.73	17.33	6.32	11.64	16.28	5.64	11.05
Foreign-Emerging Markets													
Vanguard FTSE Emerging Market Stock	18.86 B	963	0.15	0.05	26	1.8	2.51	14.56	-0.10	6.89	13.68	-0.72	6.39
Gold-Related Funds													
iShares Gold Trust	--	1	0.25	-0.10	0.00	--	0.00	-2.51	-7.83	5.86	-2.51	-7.83	5.86
SPDR Gold Shares	--	1	0.40	-0.12	0.00	--	0.00	-2.61	-7.95	6.05	-2.61	-7.95	6.05

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 or individual tax situations.

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