

* See page 21 for representative indexes.

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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Pondering Negative Interest

In mid-March yields on the sovereign debt of several euro zone nations turned negative. The notion of investors accepting negative interest rates may seem bizarre, but it is not necessarily irrational. Readers should not be alarmed or change their strategy should negative nominal rates persist overseas or emerge in the U.S. But it is important to understand this phenomenon and its implications in the context of a well-diversified portfolio strategy.

Interest rates are negotiated by buyers and sellers, so bond investors are weighing their alternatives and choosing to buy securities with a promised return (yield to maturity) that is negative. Bonds cannot provide negative coupon payments, but German bond investors are in effect agreeing to pay more than €10,000 in exchange for a promise to be repaid only €10,000 when the bond matures, with no coupon payments in between. These are in effect zero coupon bonds promising a negative return if held to maturity. Similarly, bonds making coupon payments provide negative returns when their prices are bid high enough to provide a negative yield to maturity when all cash flows are accounted for.

Rational investors may well be tolerating negative returns as the price to be paid for security. Global risk is arguably very high. The fate of Greek debt remains in doubt, and fears persist regarding the sovereign debt of Spain and Italy. Investors who prize safety face limited options. Holding large sums of euros “under the mattress” is impractical and unsafe, while holding currency in a bank vault is subject to the limits of depository insurance. In this environment German bonds, which bear much lower risk of default, may be perceived as a safe alternative, even if it means paying 0.20 percent to own them.

It is not certain of course that buyers of these negative yield bonds will indeed end up with losses. They could ultimately reap positive returns if the European Central Bank were to subsequently push rates even lower, thereby pushing outstanding bond prices higher. Or, if price deflation were to materialize unexpectedly a bond with a negative nominal

(continued next page)

return could end up providing a positive *real* return because bond holders would be repaid with euros that have become more valuable. Foreign investors could also come out ahead if the euro were to strengthen in value relative to their home currency.

These scenarios only describe outcomes that might occur if current market expectations, as reflected in current interest rates and exchange rates, are not borne out. Investors should not alter their investment strategies in reaction to or in anticipation of market developments, but instead keep in mind that bonds are held in order to provide portfolio stability. The prudent approach is to simply maintain a target allocation to a well-diversified global bond portfolio consistent with one's circumstances and tolerance for risk.

In fact U.S. investors have experienced negative *real* interest rates for some time now, and those negative returns would hardly have spelled disaster for those willing to embrace alternative asset classes, such as common stocks, as a means of avoiding an overall loss of purchasing power. As we pointed out last month, over the five years ending December 2014 Treasury bills returned -7.7 percent, or -1.6 percent per year. But investors willing to accept equity risk would also have held common stocks, and we suspect they were not disappointed. Over that same five year stretch the U.S. stock market¹ provided a total return of 15.7 percent *per year*. This comports with theory; common stock prices represent the present value of future earnings discounted at prevailing interest rates, so

all else equal lower interest rates portend higher expected returns.

There is no shortage of prognosticators claiming that rates are sure to rise soon, and that a bear market in equities will surely follow. We note, however, that these claims rarely include specifics regarding the timing of magnitude of the impending peak and trough.

We don't know whether a bear market is imminent or for that matter whether stocks will reach new highs in coming months. But neither does anyone else.

What we do know is that since the last market trough in March 2009 we have helped our clients to ignore the forecasters and to rebalance their way to steady growth.

1. Total hypothetical annualized return, measured by CRSP 1-10 U.S. stock market index

INFLATION EXPECTATIONS AND THE INVESTOR'S DILEMMA

Our parent organization, AIER, has long maintained that fiat currencies almost always result in price inflation. Inflation is troubling to economists because it imposes costs with no offsetting benefits. This "deadweight loss" to society occurs in two ways; people change their day-to-day behavior in response to inflation they expect, and a second cost emerges because actual inflation often exceeds expectations.

Inflation risk can be managed, but there is no free lunch. Inflation-hedged assets can protect against unexpected

inflation, but at the cost of lower expected returns. Other alternatives, such as equities, have positive real return expectations, but are highly volatile.

Why Does Inflation Matter?

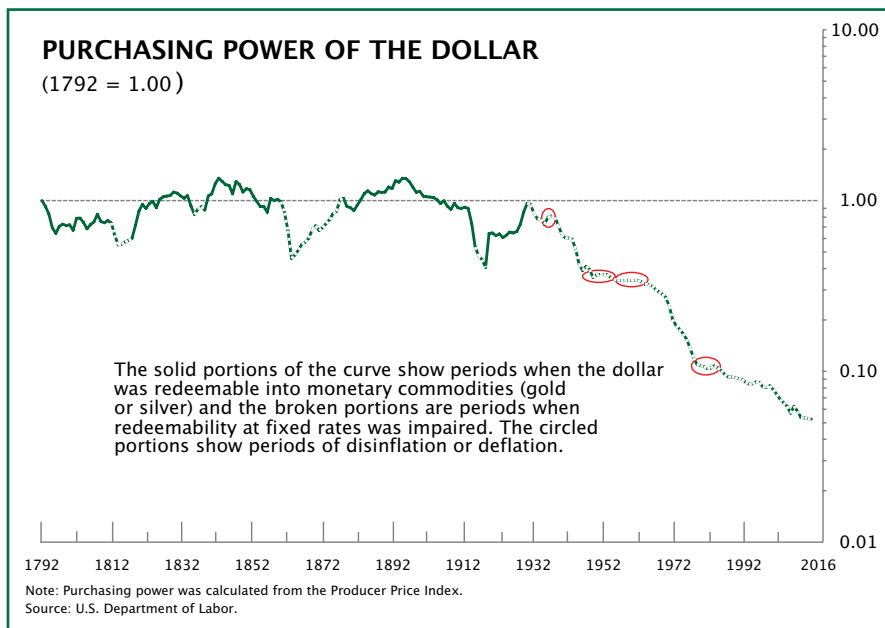
Inflation is costly because people rearrange their affairs to minimize its impact. For example, when prices are increasing rapidly, we carry less money in our pockets, and therefore have to make more trips to the ATM, or perhaps even forego spontaneous purchases for

a lack of ready cash. Similarly, firms may reduce their cash balances during inflationary times to levels they would otherwise prefer to avoid.

Post World War II Hungary provides a more extreme illustration. For nearly a year prices were multiplying by a factor of approximately 100 every month, so wages were adjusted several times a day. Husbands spent the day at the factory while their wives ran back and forth between the factory and the bank to collect the hourly paychecks and deposit them as fast as possible, before they lost all their value. The wives' efforts (which could otherwise have been directed toward something productive) were a pure deadweight loss.

Inflation is also unpredictable, and the prospect of *unexpected* inflation creates another form of deadweight loss because investors alter their behavior to cope with the possibility that actual inflation may exceed expectations.

As seen in the accompanying chart, from 1792 through the early 20th century, when the dollar was generally redeemable into monetary commodities (gold and silver), citizens with net savings could be relatively well assured that the value of their bank accounts or fixed income securities (bonds), would not be eroded by a depreciating dollar. The fixed coupon payments and fixed redemption value of bonds issued by



INFLATION THEN...AND NOW?

In the accompanying article we describe how bond investors suffered when price inflation rose profoundly and unexpectedly between 1962 and 1982. At the outset of that period, investors had experienced mild annual price inflation of 1.3 percent over the previous ten years, only to be shocked when it climbed to 5.8 percent over the next 20 years.

Some argue that the current environment is eerily similar to that which prevailed at the beginning of 1962. Today we observe annual price inflation of 2.4 percent over the past ten years, ranging between 0.10 percent and 4.1 percent, and that the market is currently projecting price inflation of only 1.65 percent over the next ten years. Current 20 year Treasury yields of 2.50 percent reflect similarly muted inflation expectations. Will bond investors be burned once again by accepting an inflation forecast that is far too low?

We do not know whether actual inflation will exceed current expectations. But readers should approach anecdotal comparisons of this nature with skepticism. After all, it is also easy to find experts armed with facts arguing for imminent deflation. With so many people guessing, some will be right just by chance, and will doubtless be proclaimed geniuses by an oblivious, headline-hungry media.

Inflation expectations implicit in the market have proven wrong and may well prove to be wrong again. But on balance it is better to avoid the advice of self-proclaimed experts and instead defer to collective wisdom of thousands of buyers and sellers who have a financial stake in the outcome. On that basis the Treasury market's implicit forecast of 1.65 percent is the best estimate of future inflation.

Readers who are nonetheless fearful that the markets might be undershooting inflation can take heart. Financial economics has advanced dramatically since 1962, and has given rise to an array of innovative investment vehicles designed specifically to hedge against unexpected inflation while maximizing total return. These include the inflation protected fixed income funds listed on page 24, which are concentrated in U.S. Treasury Inflation Protected Securities (TIPS). Through our Professional Asset Management (PAM) service we also provide inflation-hedged funds that invest in corporate bonds as well and in tax-advantaged municipal bonds.

governments were well suited for net savers who sought capital preservation; common stocks were considered the realm of speculators.

Today households with net savings confront a world that is quite different. Since the early 1930s when the dollar's link to gold was first impaired, the purchasing power of the dollar has followed a sharp downward, but variable trend. In other words, while inflation is quite likely to prevail, it is not predictable. This has created uncertainty that did not previously exist. Savers and borrowers have adapted to this new risk, but only by taking costly actions that otherwise could have been avoided.

Forced to Wager

To see this more clearly, first imagine that a citizen and his neighbor agree to a bet based on a single coin flip, in which the loser will pay the winner \$50,000. While many of us might decline to participate in such a wager, these individuals have agreed to enter it voluntarily. One will lose and doubtless be disappointed, but his losses will be exactly offset his neighbor's gain. At the end of the day there is no "net harm" done to society because wealth has only been transferred, not destroyed, and the transaction was entered voluntarily. For all we know they may even agree to

repeat the bet.

Now consider an alternative scenario, in which the government *compels* two neighbors to make such a bet, and further suppose that neither would accept this wager voluntarily. Once again, one will lose and his loss will be exactly offset by his neighbor's winnings. However, in this case *there is a net cost imposed on society because both parties have been forced to take an action they would otherwise have avoided.*

The second scenario is the one confronted by today's savers when they are forced to transact in a depreciating currency. Savers are compelled to rely more heavily on returns from risky assets such as stocks, which have positive real returns over time but are highly volatile in the short term. They may still buy bonds, but will insist that bond returns include an "inflation premium" to accommodate an expected loss in purchasing power. But there is no guarantee that this inflation premium will match actual inflation.

Conversely, issuers of capital (governments and firms) cannot be sure that they are not agreeing to pay an inflation premium that may well turn out to be excessive. Unless actual inflation matches the negotiated inflation premium exactly, then either investors or issuers will experience a gain that is

exactly offset by the other's loss. On the whole, however, unexpected inflation imposes a net cost on society because both parties are compelled to enter risky arrangements that otherwise could have been avoided.¹

Bonds and Inflation

Inflation exacts costs but also bestows benefits. If you buy a fixed income security (a bond), and subsequent inflation rises unexpectedly, you will receive fixed nominal interest payments that have lost purchasing power. The borrower who issued the bond on the other hand will gain as he repays his obligation with a currency that has unexpectedly depreciated.

Bond investors, however, do not always suffer as a result of price inflation, nor do bond issuers always benefit from it, even over periods of several years.

Bond prices and returns are not imposed unilaterally; they are determined by the supply of bonds from issuers (borrowers) and the demand for bonds among lenders (investors), each of whom is well aware of potential inflation.

Investors are neither docile nor ignorant of price inflation, but rational. They will insist on paying a lower bond price (and earning a correspondingly higher nominal yield-to-maturity) when

their inflationary expectations are high and be willing to pay a higher price (thereby accepting a lower yield) when his inflationary expectations are low. If the negotiated inflation premium embedded in nominal yield matches price inflation over the term of the bond, the investor will remain whole in real terms and the bond issuer will reap no windfall.

However, these inflationary expectations only reflect the market's best guess regarding future price levels. Actual inflation will almost certainly deviate from inflation premiums built into bond yields, and as a result either the bond buyer or the issuer will gain at the other's expense.

Consider that between 1962 and 1982 20-year U.S. Treasury bonds provided a nominal annual yield to maturity of 4.2 percent. This yield, which was locked in when the bonds were purchased in 1962, included some accommodation for expected price inflation, and appears reasonable considering that at the time investors had just experienced ten years (1952-1962) during which annual price inflation had averaged only 1.3 percent (based on CPI). *However, actual price inflation more than quadrupled over the next 20 years, averaging 5.8 percent per year, and as a result investors who held these bonds to maturity in December 1982 realized a loss in real terms of 1.5 percent per year.* Conversely this period proved fortuitous for borrowers (in this case the U.S. Treasury, or more accurately, taxpayers) because the bonds were paid off with depreciating dollars.

But the market's fallibility with regard to forecasting inflation can be a boon for bond investors and a hardship for bond issuers. Consider what happened during the *following 20 years (1982-2002)*, after so many investors had been so badly burned by inflation.

By January 1982 investors had gained a new perspective, having just come off a 20-year span during which average annual inflation had grown to 5.8 percent, including three consecutive years in excess of 8.5 percent (13.3 percent in 1979, 12.4 percent in 1980 and 8.9 percent in 1981). Rising price levels dominated the news and appeared intractable; the federal government had even resorted (in vain) to imposing price controls.

In this environment the U.S. Treasury could entice chastened investors

only by issuing 20-year Treasuries with nominal yields of 12.4 percent. But the Fed subsequently surprised the markets by clamping down severely on the money supply and raising interest rates for an extended period, even at the cost of inducing a painful recession. Over the next 20 years annual price inflation was sharply curtailed, never rising above 4.0 percent and averaging 3.2 percent. At the end of the day those bond investors who took the plunge and purchased those 12.4 percent bonds in 1982 did quite well after inflation, earning a real return of 8.9 percent per year when the bonds matured in 2002. The Treasury, meanwhile, paid dearly by compensating lenders handsomely for price inflation that never materialized.

These consecutive 20-year periods had starkly different outcomes for investors. This drives home the point that bears repeating: a significant cost of price inflation as it pertains to capital markets is the uncertainty it creates.

Defending Against Inflation

Capital markets do not provide a costless solution to the inflation dilemma. They do however offer asset classes that allow investors a means by which they can trade-off their desire to preserve purchasing power against their desire for capital preservation. Investors can select from alternative asset classes to construct a portfolio based on the balance that is right for them.²

Cash and equivalent assets generally include cash, checking and savings accounts, money market mutual fund shares, currency and checking account balances, savings and time deposits held in banks, savings and loans, and credit unions as well as high quality debt instruments that mature in one year or less. While cash equivalents are ideal for investors who prize capital preservation, they are highly vulnerable to loss of purchasing power. As we pointed out last month, an investor who continually rolled over one-month T-bills during the past five years would have retained the nominal value of his initial investment from month-to-month but the cumulative effect of price inflation would have resulted in a loss of purchasing power of nearly eight percent over that span. The optimal level of cash to hold should therefore be monitored closely, and be driven largely by one's need for liquidity. Bonds and bond funds with average

maturity of five years or less are riskier than cash equivalents with regard to capital preservation, but provide better protection against loss of purchasing power. Compared with longer term bonds these short term obligations are also better suited for tempering the volatility of a portfolio that includes substantial exposure to equities.

Treasury Inflation Protected Securities (TIPS) and TIPS funds are well designed for those investors who are concerned that current inflation expectations built into conventional bond yields might prove inadequate to offset actual inflation. Indeed TIPS were created precisely for this reason -- to provide an explicit hedge against *unexpected* price inflation. TIPS returns are guaranteed to move in lockstep with inflation (measured by the CPI) and because they are Treasury obligations, bear no default risk, so they guarantee investors the real, risk-free rate of return. But this guarantee, which is not provided by conventional Treasuries, is a feature that must be paid for in the form of expected returns that are below those of conventional Treasuries.

Common stocks have historically provided real returns that outpace price inflation over time, but in order to obtain this protection against loss of purchasing power, investors must be willing to sacrifice capital preservation in the short term, as equity returns are highly volatile. This tradeoff is apparent in decades of returns data generated in both U.S. and foreign stock markets.³

Gold has served as a form of money throughout history and over very long spans has served as a dependable store of value relative to fiat currencies. Gold has been especially effective as a form of portfolio insurance during periods of hyper-inflation and other financial crises, when other assets have failed to maintain their value⁴ and has proven its value during periods of deflation as well⁵. The gold price, however, is extremely volatile and it has served poorly as a hedge against price inflation when inflation has been mild.

The Final Word

All fiat currencies have invariably depreciated over time, and impose substantial costs on net savers, who are effectively forced to become gamblers.

The good news is that our knowledge of inflation's impact on

capital markets has advanced markedly over the past five decades. Investors today can better quantify the trade-offs

they are forced to confront and have at their disposal an array of investment vehicles that can be used to tailor a

portfolio that matches their willingness to accept those trade-offs.

1. We appreciate the comments of Steve Landsburg, PhD., Professor of Economics, University of Rochester, who suggested this analogy.
2. For more, see The Tradeoff: Preserving Capital versus Preserving Purchasing Power, Investment Guide, August 2014.
3. Ibid.
4. "Is Gold a Safe Haven?" Investment Guide, September 30, 2012.
5. "Gold and Deflation, What Investors Need to Know", Investment Guide, December 2011.

QUALIFIED DIVIDENDS VS. ORDINARY DIVIDENDS

In 2003, President George W. Bush signed into law the *Jobs and Growth Tax Rate Relief Reconciliation Act of 2003*. In addition to reducing all taxpayers' personal income tax rates, the act lowered the tax rate on qualified dividends from ordinary tax rates to long-term capital gains rates. Ordinary dividends, however, remained taxed at taxpayers' ordinary income tax rate. Thus, the main difference between qualified dividends and ordinary dividends is the way each is taxed. As a result, investors must determine and report accurately to the IRS whether they are receiving ordinary dividends or qualified dividends.

What Constitutes a Qualified Dividend?

Before we define qualified dividends, it is important to know exactly what a dividend is. A dividend is a distribution made by a corporation to its shareholders. The distribution must come out of the company's accumulated earnings or profits and can be distributed in the form of cash or additional shares of stock. If an unprofitable company

makes a distribution to its shareholders, the distribution is not considered a dividend, but rather a return of capital. Return of capital distributions are not taxed, as the investor has not earned any income on his or her initial investment.

In order for a dividend to be deemed a *qualified* dividend, a distribution must be a common stock dividend (not interest income) and:

- Be paid by a domestic corporation, a foreign corporation that meets certain tax treaty requirements, a corporation incorporated in a U.S. possession, or a foreign stock traded on an American stock exchange.
- Meet the holding period requirement. In order to satisfy the requirement, the investor must own the stock for at least 61 days during the 121-day period starting 60 days prior to the ex-dividend date.

If these criteria are met, the dividend qualifies for favorable tax treatment (see accompanying table). The specific rate at which a qualified dividend is taxed depends on the investor's tax bracket.

For investors in the 25%, 28%, 33% or 35% tax brackets, qualified dividends are taxed at 15%. Investors in lower tax brackets (10%, 15%) are exempt from taxes on qualified dividends, while investors in higher tax brackets (36.9%) are taxed at 20%. Minors are subject to the "Kiddie Tax Rate" and are taxed at their parents' rate.

Many distributions are called dividends, but some are actually interest income. Institutions such as credit unions and savings banks distribute interest income, preventing them from benefiting from the qualified dividend rule. Certain mutual funds and exchange traded funds (ETFs) hold debt securities that generate distributions of interest that are not qualified dividends. Generally equity REIT distributions generated from real estate investments do not qualify. Lastly, most but not all preferred stock payments are considered qualified dividends. *Your account custodian (typically your broker or mutual fund family) is responsible for reporting accurately all qualified and non-qualified distributions.*

If the investor's ordinary income tax rate is...	Then dividends received will be taxed at a rate of: ^{1,2}	
	Ordinary Dividends	Qualified Dividends
10%	10%	0%
15%	15%	0%
25%	25%	15%
28%	28%	15%
33%	33%	15%
35%	35%	18.8%
39.6%	39.6%	23.8%

1. The American Taxpayer Relief Act of 2012 raised the tax rate on qualified dividends from 15% to 20% for investors in the 39.6% income bracket.
2. Rates shown for the 35% and 39.6% brackets reflect additional Net Income Investment Tax (NIIT) of 3.8%.

Asset classes and representative index chart on page 17: large cap value, Russell 1000 Value Index; small cap value, Russell 2000 Value Index; large cap growth, Russell 1000 Growth Index; Global REITs, S&P Global REIT Index; foreign developed markets, MSCI EAFE Index; emerging markets, MSCI Emerging Markets Index

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of March 13, 2015

	Rank	Yield (%)	Price (\$)	Status	—Percent of Portfolio—	
					Value (%)	No. Shares (%) ¹
AT&T	1	5.74	32.76	Holding**	23.22	29.51
Verizon	2	4.50	48.84	Holding**	24.66	21.02
Chevron	3	4.21	101.62	Buying	11.86	4.86
General Electric	4	3.67	25.04	Buying	5.93	9.86
McDonald's	6	3.53	96.35	Holding	8.83	3.82
Pfizer	8	3.29	34.00	Holding	9.55	11.69
Merck	10	3.20	56.20	Selling	4.00	2.96
Intel Corp	12	3.10	30.93	Selling	10.35	13.92
Cisco	13	3.01	27.94	Holding	1.59	2.36
Cash (6-mo. T-Bill)	N/A	N/A	N/A		0.01	N/A
Totals					100.00	100.00

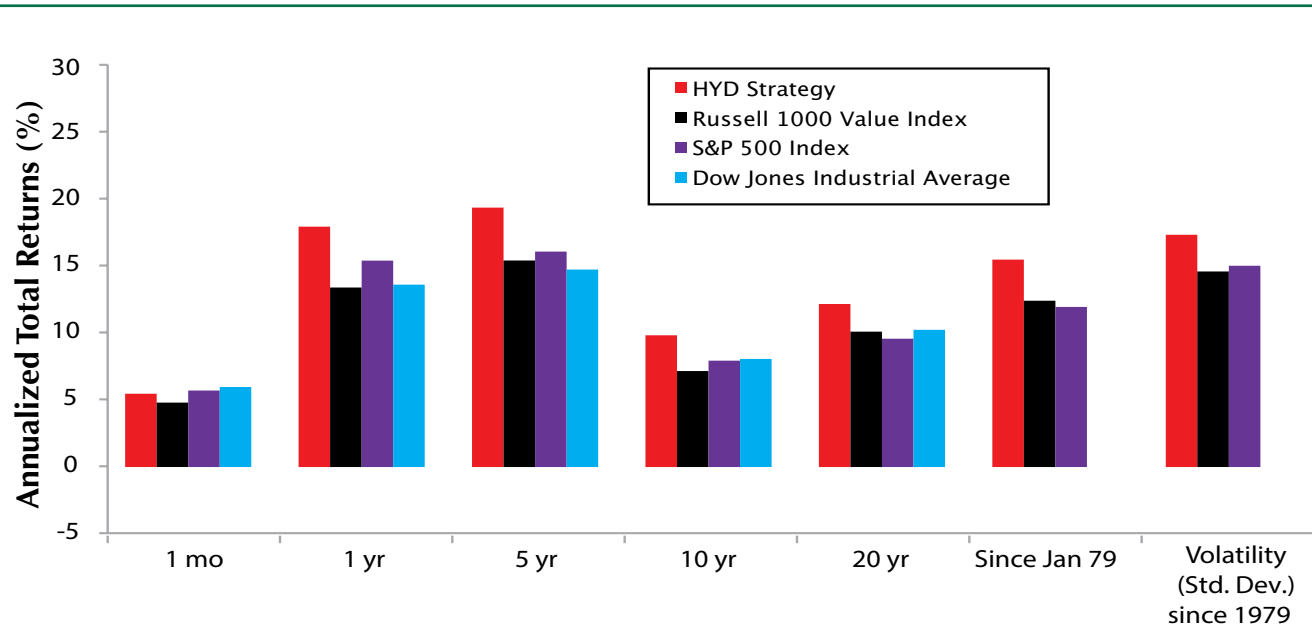
**Currently indicated purchases approximately equal to indicated purchases 18 months ago. ¹ Because the percentage of each issue in the portfolio by value reflects the prices shown in the table, we are also showing the number of shares of each stock as a percentage of the total number of shares in the 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 February 28, 2015*. 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	5.51	18.06	19.49	9.90	12.25	15.58	17.45
Russell 1000 Value Index	4.84	13.49	15.51	7.21	10.17	12.49	14.69
S&P 500 Index	5.75	15.51	16.18	7.99	9.64	12.03	15.12
Dow Jones Industrial Average	6.01	13.70	14.83	8.12	10.31	N/A	N/A



*Data assume all purchases and sales at mid-month prices (+/-\$.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 0.73% 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 (\$)

	3/13/15	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	1,152.00	1,232.50	1,385.00
Silver, London Spot Price	15.50	16.86	21.36
Copper, COMEX Spot Price	2.68	2.61	3.01
Crude Oil, W. Texas Int. Spot	44.84	52.78	98.89
Bloomberg Commodity Spot Index	317.33	338.35	428.69
Bloomberg Commodity Index	97.58	104.47	134.90
Reuters-Jefferies CRB Index	210.70	229.19	302.88

Interest Rates (\$)

U.S. Treasury bills - 91 day	0.03	0.01	0.05
182 day	0.11	0.07	0.08
52 week	0.24	0.23	0.12
U.S. Treasury bonds - 10 year	2.13	2.02	2.65
Corporates:			
High Quality - 10+ year	3.70	3.67	4.37
Medium Quality - 10+ year	4.60	4.57	5.05
Federal Reserve Discount Rate	0.75	0.75	0.75
New York Prime Rate	3.25	3.25	3.25
Euro Rates			
3 month	0.03	0.05	0.03
Government bonds - 10 year	0.26	0.35	1.60
Swiss Rates - 3 month	-0.81	-0.91	0.02
Government bonds - 10 year	-0.06	0.04	0.99

Exchange Rates (\$)

British Pound	1.475500	1.539400	1.663000
Canadian Dollar	0.781100	0.803300	0.902000
Euro	1.052400	1.140800	1.392400
Japanese Yen	0.008253	0.008425	0.009856
South African Rand	0.080200	0.086000	0.093300
Swiss Franc	0.995300	1.074300	1.147800

Securities Markets

	3/13/15	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	2,053.40	2,096.99	1,841.13
Dow Jones Industrial Average	17,749.31	18,019.35	16,065.67
Barclays US Credit Index	2,597.69	2,602.84	2,456.25
Nasdaq Composite	4,871.76	4,893.84	4,245.40
Financial Times Gold Mines Index	1,109.08	1,304.83	1,700.25
FT EMEA (African) Gold Mines	1,159.90	1,469.81	1,638.25
FT Asia Pacific Gold Mines	4,680.38	5,226.15	5,128.17
FT Americas Gold Mines	921.93	1,067.36	1,511.24

Coin Prices (\$)

	3/13/15	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	1,201.03	1,272.63	1,387.53	4.26
Austrian 100-Corona (0.9803)	1,126.72	1,196.03	1,307.43	-0.23
British Sovereign (0.2354)	282.20	299.20	326.30	4.06
Canadian Maple Leaf (1.00)	1,183.20	1,254.80	1,369.90	2.71
Mexican 50-Peso (1.2057)	1,388.60	1,473.90	1,611.00	-0.03
Mexican Ounce (1.00)	1,172.00	1,242.80	1,356.60	1.74
S. African Krugerrand (1.00)	1,185.47	1,256.97	1,371.88	2.91
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,260.00	1,285.00	1,405.00	13.05
Liberty (Type I-AU50)	2,225.00	2,225.00	2,225.00	99.63
Liberty (Type II-AU50)	1,450.00	1,450.00	1,675.00	30.10
Liberty (Type III-AU50)	1,230.00	1,250.00	1,385.00	10.36
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	12,212.50	13,025.00	15,575.00	10.20
40% Silver Circ. (292 oz.)	4,562.50	4,925.00	6,012.50	0.81
Silver Dollars Circ.	16,875.00	17,625.00	22,050.00	40.73

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$1,152.00 per ounce and silver at \$15.50 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 (\$)		Amount (\$)	Latest Dividend		Indicated		
	3/13/15	2/13/15	3/14/14	High	Low		Record Date	Payable Date	Annual Dividend (\$)	Yield [†] (%)	
AT&T	T	32.76	34.66	32.49	37.48	32.07	0.470	1/9/2015	2/2/2015	1.880	5.74
Verizon	VZ	48.84	49.31	46.08	53.66	45.09	0.550	4/10/2015	5/1/2015	2.200	4.50
Chevron	CVX	101.62	112.78	114.10	135.10	98.88	1.070	2/17/2015	3/10/2015	4.280	4.21
General Electric	GE	25.04	25.15	25.11	27.53	23.41	0.230	2/23/2015	4/27/2015	0.920	3.67
Caterpillar	CAT	79.23	85.13	95.39	111.46	78.19	0.700	1/20/2015	2/20/2015	2.800	3.53
McDonald's	MCD	96.35	95.65	97.58	103.78	87.62	0.850	3/2/2015	3/16/2015	3.400	3.53
Coca-Cola	KO	39.91	41.99	38.17	45.00	37.95	0.330	3/16/2015	4/1/2015	1.320	3.31
Pfizer	PFE	34.00	34.64	31.23	34.97	27.51	0.280	2/6/2015	3/3/2015	1.120	3.29
Exxon Mobil	XOM	83.87	93.37	93.47	104.76	82.68	0.690	2/10/2015	3/10/2015	2.760	3.29
Merck	MRK	56.20	58.81	55.70	63.62	52.49	0.450	3/16/2015	4/8/2015	1.800	3.20
Procter and Gamble	PG	81.83	85.90	78.98	93.89	77.29	0.644	1/23/2015	2/17/2015	2.574	3.15
Intel Corp	INTC	30.93	34.36	24.50	37.90	24.49	0.240	2/7/2015	3/1/2015	0.960	3.10
Cisco	CSCO	27.94	29.43	21.35	30.31	21.27	0.210	4/2/2015	4/22/2015	0.840	3.01
Microsoft Corp.	MSFT	41.38	43.87	37.70	50.05	37.79	0.310	5/21/2015	6/11/2015	1.240	3.00
Visa Inc.	V	66.26	269.63	220.77	278.65	194.84	0.480	2/13/2015	3/3/2015	1.920	2.90
IBM	IBM	154.28	160.40	182.21	199.21	149.52	1.100	2/10/2015	3/10/2015	4.400	2.85
Johnson & Johnson	JNJ	99.21	99.62	92.81	109.49	92.92	0.700	2/24/2015	3/10/2015	2.800	2.82
J P Morgan	JPM	61.00	59.67	56.80	63.49	52.97	0.400	1/6/2015	1/31/2015	1.600	2.62
3M Company	MMM	162.74	165.94	129.83	170.50	130.58	1.025	2/13/2015	3/12/2015	4.100	2.52
Boeing	BA	151.57	149.73	123.11	158.83	116.32	0.910	2/13/2015	3/6/2015	3.640	2.40
Wal-Mart Stores	WMT	81.90	85.81	74.28	90.97	72.61	0.490	5/8/2015	6/1/2015	1.960	2.39
Dupont	DD	80.50	76.18	65.77	80.65	63.70	0.470	2/13/2015	3/13/2015	1.880	2.34
United Tech.	UTX	118.74	121.25	112.60	124.45	97.30	0.640	2/13/2015	3/10/2015	2.560	2.16
Travelers	TRV	106.72	108.00	82.66	108.93	82.51	0.550	3/10/2015	3/31/2015	2.200	2.06
Home Depot, Inc.	HD	114.82	111.89	79.38	117.92	74.61	0.590	3/12/2015	3/26/2015	2.360	2.06
Unitedhealth Group	UNH	115.25	109.44	75.70	118.69	73.61	0.375	3/13/2015	3/24/2015	1.500	1.30
American Express	AXP	80.60	78.08	90.17	96.24	77.12	0.260	1/9/2015	2/10/2015	1.040	1.29
Goldman Sachs	GS	189.34	189.00	165.35	198.06	151.65	0.600	3/2/2015	3/30/2015	2.400	1.27
Nike	NKE	95.81	92.04	78.32	99.76	70.60	0.280	3/2/2015	4/6/2015	1.120	1.17
Walt Disney	DIS	106.44	104.17	80.07	107.73	76.31	1.150	12/15/2014	1/8/2015	1.150	1.08

* See the Recommended HYD Portfolio table on page 22 for current recommendations. + Based on indicated dividends and market price as of 3/13/15.

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 3/16/14.

/ Dividend increased since 2/15/15 D Dividend decreased since 2/15/15

RECOMMENDED INVESTMENT VEHICLES

Descriptive Quarterly Statistics, as of 12/31/14

Annualized Returns⁴ (%), as of 2/28/15

Security Symbol	Avg. Market Cap. / Avg. Maturity	No. of Holdings	Ratios		P/B	12 Mo. Yield (%)	Annualized Returns ⁴ (%)						
			Expense ³ (%)	Sharpe			Turnover (%)	1 yr.	3 yr.	5 yr.	1 yr.	3 yr.	5 yr.
Short-/Intermediate Fixed Income													
Vanguard Short-Term Bond Index	2.7 Yrs.	2049	0.10	1.05	45.2	--	1.20	1.08	1.06	1.84	0.55	0.52	1.20
iShares Barclays 1-3 Yr. Credit Bond	1.97 Yrs.	894	0.20	1.81	10	--	0.94	0.73	1.37	1.89	0.32	0.88	1.29
iShares Barclays 1-3 Yr. Treasury Bond	1.84 Yrs.	84	0.15	0.61	136	--	0.36	0.55	0.45	0.81	0.39	0.32	0.60
Vanguard Limited-Term Tax-Exempt SPDR N.B. Short-Term Municipal Bond	3.0 Yrs.	2724	0.20	1.09	15.2	--	1.60	1.13	1.23	1.84	1.13	1.23	1.84
	3.15 Yrs.	574	0.20	0.82	17	--	0.93	0.57	0.90	1.54	0.17	0.76	1.43
Inflation-Protected Fixed Income													
iShares Barclays TIPS Bond	8.35 Yrs.	39	0.20	0.08	47	--	1.67	3.01	0.32	4.28	2.28	-0.33	3.39
Vanguard Inflation-Protected Securities	8.6 Yrs.	46	0.20	0.08	39.1	--	2.13	3.02	0.29	4.23	2.06	-0.64	3.17
International Fixed Income													
Vanguard Total International Bond Index	8.8 Yrs.	3136	0.23	--	80.7	--	1.49	8.31	--	--	7.59	--	--
Real Estate													
Vanguard REIT Index	9.47 B	142	0.24	1.19	10.9	2.43	3.47	22.44	15.20	17.51	21.15	14.03	16.33
SPDR Dow Jones REIT	11.76 B	93	0.25	1.16	6	2.81	3.06	23.81	14.91	17.44	22.05	13.40	16.02
Vanguard Global ex-US Real Estate	5.28 B	631	0.37	0.99	7.5	0.96	3.96	9.99	10.74	--	7.87	8.97	--
iShares International Property ETF	6.07 B	393	0.48	1.05	10	1.20	3.95	10.61	11.84	10.73	9.14	10.27	9.35
SPDR Dow Jones Global Real Estate ETF	9.65 B	227	0.50	1.19	7	1.74	3.08	17.84	13.49	14.49	16.23	11.83	12.67
U.S. Large Cap Value													
Vanguard Value Index	75.29 B	316	0.24	2.07	5.5	1.91	2.08	13.96	17.52	15.02	13.37	16.96	14.52
iShares Russell 1000 Value Index	52.81 B	704	0.20	2.07	12	1.88	2.00	13.25	17.86	15.27	12.70	17.33	14.81
U.S. Small Cap Value													
iShares Russell Microcap Index	0.44 B	1424	0.60	1.42	26	1.86	1.11	0.64	17.92	15.79	0.33	17.54	15.48
Vanguard Small-Cap Value Index	2.87 B	829	0.24	1.70	12.4	1.72	1.62	10.56	18.56	16.43	10.03	17.97	15.91
U.S. Large Cap Growth													
iShares Russell 1000 Growth Index	54.53 B	686	0.20	1.94	15	5.31	1.33	16.04	17.82	16.97	15.66	17.46	16.67
Vanguard Growth Index	54.04 B	369	0.24	1.90	9.2	4.05	1.07	16.05	18.09	17.12	15.72	17.79	16.88
U.S. Marketwide													
Vanguard Total Stock Market Index	40.26 B	3796	0.17	2.02	2.9	2.43	1.65	13.93	17.83	16.25	13.46	17.37	15.87
Fidelity Spartan Total Market Index	40.94 B	3435	0.10	2.01	2	2.42	1.57	13.94	17.87	16.29	n/a	n/a	n/a
Foreign-Developed Markets													
iShares MSCI EAFE Growth Index	33.41 B	559	0.40	0.88	27	2.63	2.33	1.26	9.11	8.28	0.90	8.78	8.02
iShares MSCI EAFE Value Index	36.54 B	504	0.40	0.79	29	1.34	4.85	-1.84	9.10	6.74	-2.68	8.42	6.22
Vanguard FTSE Developed Market SPDR S&P International Small Cap	29.90 B	1402	0.09	0.84	4.4	1.48	3.70	-0.07	9.48	7.75	-0.94	8.84	7.26
	0.88 B	2222	0.59	0.77	51	1.26	1.84	-3.53	6.93	8.32	-6.77	5.14	7.03
Foreign-Emerging Markets													
Vanguard FTSE Emerging Market Stock	18.29 B	990	0.33	0.33	8.5	1.61	2.67	9.14	0.12	3.70	8.44	-0.35	3.34
Gold-Related Funds													
iShares Gold Trust	--	1	0.25	-0.36	0	--	0.00	-8.71	-12.04	1.38	-8.71	-12.04	1.39
SPDR Gold Shares	--	1	0.40	-0.44	0	--	0.00	-8.85	-12.17	1.43	-8.85	-12.17	1.43

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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