



AIS

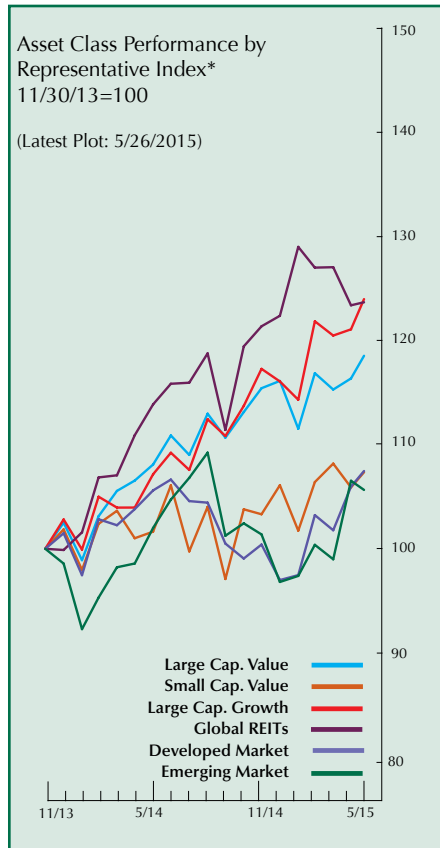
INVESTMENT GUIDE

Published Monthly by
American Investment Services, Inc

Vol. XXXVII, No. 5

Great Barrington, Massachusetts 01230

May 31, 2015



* See page 34 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.

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

Spending and Taxes: Beyond the Soundbites

U.S. federal deficits and the growth of federal debt make for attention-grabbing headlines and compelling soundbites. Investors often hear that we are “burdening our grandchildren” with exorbitant taxes in the future, and inferences are made that a return to higher marginal tax rates will ensure a return to “the good old days” when current government revenues could pay for all the government spending we cared to fund.

Rarely do the major media place fiscal policy in useful perspective; their claims often fail to withstand sound reasoning or empirical evidence. For example, it is true that to the extent we choose not to finance current spending with current taxation succeeding generations will be saddled with a higher tax bill; but it often goes unmentioned that current taxpayers are also free to invest on behalf of those future generations any money that is not taxed today. This is not an abstraction; as investment advisors we often encounter clients seeking to do exactly that.

To cut through the media clamor, it is important first to separate the question of how government spending should be financed (i.e., taxes versus borrowing) with considerations pertaining to the level and nature of spending itself. We can then focus on policy matters with serious consequences for economic growth and efficiency, particularly the composition and efficacy of government spending and the efficiency of various income tax rates and alternative tax structures.

Recent research by AIER, our parent organization, goes to the heart of these questions. Below we reprint AIER’s recent summary of their observations.

Taxes Haven’t Changed Much, But Spending Has¹

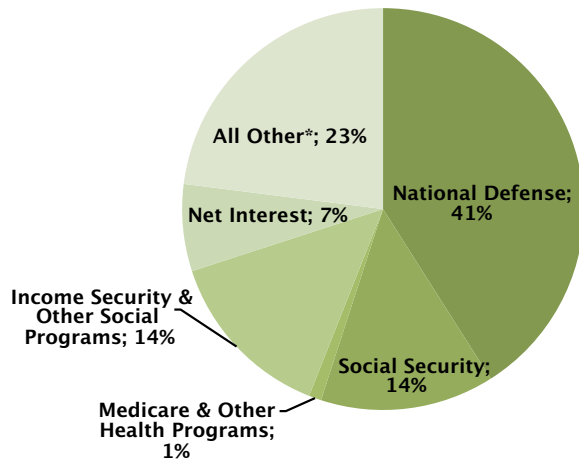
by Polina Vlasenko, AIER Senior Research Fellow

When issues of taxes and government budget are discussed, we sometimes hear of the “good old days” when top marginal tax rates and corporate tax rates were much higher.

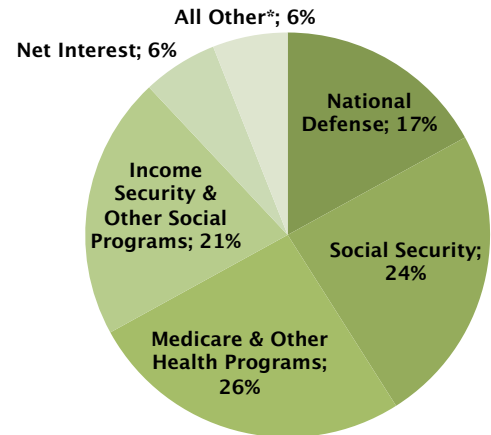
Back then, the federal government was able to fund everything we wanted to fund, like investment in infrastructure and in science and education. Those “good old days” usually reside somewhere in the 1950’s and 1960’s. And today we don’t seem to be able to “fund everything we want to fund.”

(continued on next page)

**Federal Outlays in 1965:
\$124 billion 17.5% of GDP**



**Federal Outlays in 2014:
\$3,594 billion or 20.8% of GDP**



* All other includes investment in infrastructure, community & regional development, science & technology, administration of justice, international affairs, etc.
Source: Office of Management and Budget

This view implicitly assumes that the federal government used to collect a lot more money in taxes, presumably due to higher tax rates. And if we could just manage to collect more in taxes today, we would be able to fund all those wonderful programs, too.

But the reason for the more restrained fiscal circumstances today is not that we collect less money in taxes than we did in the 1960's.

In 2014, the federal government collected 17.5 percent of GDP in tax revenues. Throughout the 1960's, the federal government collected, on average, 17.3 percent of GDP in taxes. While this value fluctuated, it did so in a fairly narrow band. Thus, today, we collect about the same amount in taxes, relative to the size of the economy, as we did in the 1960's.

What *did* change dramatically since the 1960's is the composition of federal spending, and it is this change in composition that restrains the fiscal options today.

In the charts nearby we compare the composition of the federal outlays in

2014 (the latest year for which we have data) and 1965 (the year Medicare was introduced; comparison to a year earlier than 1965 would take us to an even more different era, when there were no major federal health programs).

Judging by the composition of federal spending, in 1965, the federal government was mostly providing national defense and investing in infrastructure, community & regional development, science & technology, and the like – about 64 percent of federal outlays went for these purposes. The government was also providing some social insurance, and was paying interest on the debt still outstanding from WWII.

By 2014, judging by the composition of the spending, the federal government was mostly focused on proving social insurance – more than 70 percent of outlays go toward various social insurance programs (Social Security, Medicare, income security, other health programs, etc.).

Federal spending on the social insurance programs constitutes what is called *mandatory outlays*. These

outlays are preset by the legislation that governs the social insurance programs and they are not subject to the annual appropriations process.

The fact that more than two-thirds of the federal outlays go to mandatory programs means that most of the money the government collects in taxes is spoken for right away – it goes to cover mandatory outlays. As a result, “everything else we want to fund” (like education, infrastructure, research, environmental protection, disaster relief -- anything that goes in that “all other” slice of the pie) accounts for a much smaller portion of the federal spending than was the case in 1965.

This is a dramatic change in the composition of outlays. Today the government essentially performs different functions than it did 50 years ago. It is not that we collect less in taxes. Rather, it is that we spend most of the money collected on things that did not even exist in 1965, leaving much less for all the other things we were so successful in funding back in the 1960s.

1. See AIER's website: <https://www.aier.org/blog/taxes-haven%E2%80%99t-changed-much-spending-has>. For a more detailed analysis see Polina Vlasenko, PhD, Senior Research Fellow “The Federal Budget: Constraints Limit the Options” Issue Briefs, May 2015. <https://www.aier.org/research/federal-budget-constraints-limit-options>

* Asset classes and representative index chart on page 33: 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

INDEX FUNDS AND CORPORATE OVERSIGHT

Are index fund managers on the ball when it comes to holding accountable the companies in which they invest? This question, which was recently considered by researchers at the Wharton School, University of Pennsylvania, is of increasing importance to capital market participants.¹ Index fund investing has grown enormously popular. Prior to 1976 there were no index funds, but they have since made tremendous inroads. At the end of 2014 U.S. equity index funds accounted for roughly 36% of U.S. equity mutual fund assets, and over 20% of all equity mutual fund assets are now held in index mutual funds (see accompanying chart).

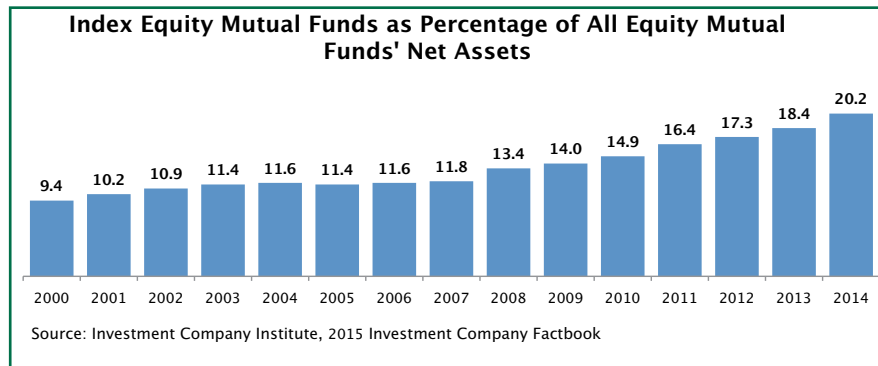
Few would argue that active managers, who are rewarded for predicting market trends or for picking winning stocks, lack incentive to keep pressure on managers who run companies held in their portfolios. Some claim, however, that index fund managers might be less attentive to corporate oversight because they simply maintain a market capitalization-weighted portfolio of all the stocks in index they are seeking to replicate, regardless of any constituent firm's performance.

Since fund companies hold the voting rights for the companies they own, this distinction raises important questions: Are index fund managers "lazy investors" when it comes to firm-level governance? Do they in fact take a hands-off approach instead of holding companies accountable? The evidence, as put forth by the researchers, indicates otherwise. Index fund managers appear to support policies that improve corporate governance.

Why Get Involved?

The premise of index investing is that active management, that is, the attempt to earn market-beating returns through trading based on research and new information, is futile. Instead it is better to avoid the hefty costs of active management by simply matching the performance of the market (or some segment of the market such as small cap stocks) by holding every security listed in an underlying index intended to represent the market (or market segment).

At first blush it might seem that



index fund investors have little reason to be actively engaged in corporate oversight. While active managers are often measured by their ability to outperform an index, index fund managers are charged with matching the performance of the index. But that can be achieved regardless of whether any particular firm in the index is well run.

Index managers may also have little influence over firms' management because they lack leverage. Index funds will not jettison shares of a firm they might perceive to be underperforming, nor will they seek to accumulate shares of a firm perceived to be well-run.

Corporate oversight, moreover, is not cost free, and index fund portfolios include hundreds and sometimes thousands of companies. Index fund managers, it is argued, lack the resources required to monitor each company individually.

On the Other Hand

Indexing advocates point to three fundamental considerations that counter these concerns. First, all institutional investors have a fiduciary obligation to vote their proxies in the best interest of shareholders, and index-type managers have vigorously defended their efforts to do so.² Second, index fund managers are still concerned with absolute returns so they have a general incentive to see that firms in the index do well. Third, the fact that an index has no choice but to retain poorly run firms can also provide strong incentive to see that they improve.

Several additional mechanisms encourage index managers to be actively engaged in oversight. Company managers may give more weight to the concerns of indexers, who are typically long-term owners, compared with active managers, who through

high share turnover indicate that they may not be around for the long haul anyway. Relatedly, index funds often hold substantial but not exclusive voting power for a firm, which provides increased incentive for the remaining activist shareholders to lobby for reform. After all, when voting rights are spread across numerous small activist investors, consensus can be difficult to achieve. But if activist shareholders can enlist the support of just a few index managers who hold large, concentrated voting blocks, change can be more easily enacted, or at least threatened.

Finally, to the extent that effective corporate oversight requires economies of scale, the efforts of index fund managers may be more effective than those of active fund managers. As the authors state "While passive institutions may lack the resources necessary to monitor each stock in their large, diversified portfolios, they may engage in widespread, but low-cost, monitoring of firms' compliance with what they consider to be best governance practices."

Evidence Please

The Wharton research team sought to assess empirically the level to which index fund managers participate actively in corporate oversight. They did so by comparing the level of shareholder engagement among companies that had significant index fund ownership with those that did not.

The first step was to find comparable publicly traded firms that could be further divided into two groups: firms with a large percentage of index fund ownership and those with a smaller percentage of such ownership. To do so the authors applied a clever technique

(continued on next page)

to identify such firms listed in the Russell 1000 and the Russell 2000 indexes. The former includes the 1000 largest publicly traded U.S. stocks (considered “large caps”) when ranked by market capitalization, while the latter includes the next-largest 2000 stocks (considered “small caps”).

From these broad indexes the researchers further narrowed their data set by forming a sample that included only those firms at the margin of being included in either index; that is, they only considered the smallest of the Russell 1000 (the “smallest of the large”) and the largest of the Russell 2000 (the “largest of the small”). The sample included firms that, while comparable in size, could be further differentiated into stocks in which index funds had significant voting power, and stocks that did not. This is because both indexes are market cap weighted, so a dollar invested in either index is more heavily invested in larger cap firms compared with smaller cap firms. As a result, index fund ownership among companies listed in the study’s Russell 2000 subset was between 5% and 10% higher³ than the sample average compared with firms listed in the Russell 1000 subset.

The researchers were now in position to compare corporate governance activity between stocks with significant index fund ownership, and

those not so dominated. Shareholder rights activists favor certain practices, such as the appointment of independent corporate board members over corporate insiders (such as management), the exclusion of “poison pill” provisions (which can prevent takeovers that may benefit shareholders but can pose a threat to management), and other restrictions such as the right to call special meetings or measures that result in unequal voting rights, such as dual stock registration.

By these criteria, the findings showed that index fund investors in fact exert influence through the power of their large voting blocks, to the benefit of shareholders. Most notably, the authors found that index fund ownership was associated with reduced support for management proposals and higher support for governance proposals. Specifically, the paper asserts that “Relative to the sample average, a 10% increase in ownership by passive investors is associated with about a 4% decline in support for management proposals and about a 10% increase in support for governance proposals.”

The data showed that ownership by passive investors was associated with an increase in the number of independent directors.⁴ Higher index ownership was similarly associated with the removal of antitakeover provisions

and with the removal of restrictions against special meetings. Firms with high index ownership were also less likely to maintain dual class shares.

The study found no evidence that greater concentration of ownership by index fund managers prompted greater activism on the part of activist shareholders such as hedge fund managers. However, the authors noted that this does not preclude the possibility that the concentration of voting power among index funds can increase the *threat* of activism by others, thereby obviating the need for activist campaigns.⁵

Performance

The study also considered the connection, if any, between index fund ownership and firms’ future performance. After controlling for firms moving between the indexes, the researchers found that higher levels of index fund ownership was associated with an increase in return on assets (ROA)⁶. Increased index fund ownership was also associated with lower holdings of cash, a higher dividend yield, and generally favored shareholders regarding agency problems associated with free cash flows.

1. Appel, Ian and Gormley, Todd A. and Keim, Donald B., “Passive Investors, Not Passive Owners” (April 22, 2015). Available at SSRN: <http://ssrn.com/abstract=2475150> or <http://dx.doi.org/10.2139/ssrn.2475150>
2. In our Professional Asset Management (PAM) service we utilize index-type funds from firms such as Dimensional Fund Advisors (DFA) and The Vanguard Group, both of which have exhibited strong commitment to shareholders. See: David Booth (CEO, DFA) “Challenging Management but Not the Market”, New York Times, March 16, 2013. Glenn Booraem (Vanguard Group Controller), “Passive Investors, Not Passive Owners” April 2013. <https://personal.vanguard.com/us/insights/article/proxy-commentary-042013>.
3. This is a statistically significant difference.
4. The study examined this relationship prior to 2003. Beginning that year all NYSE and Nasdaq firms were required to have a majority of independent directors.
5. Vanguard for example frequently engages management through dialogue that can preempt shareholder proposals. During 2013 Vanguard sent out 923 letters to firms, and 80 of these companies subsequently adopted substantive governance changes. McNabb, F. William III, 2014, Getting to know you: Sharing practical governance viewpoints, University of Delaware, John Weinberg Center for Corporate Governance, speech on October 30, 2014.
6. On average a 10% increase in index fund ownership was associated with about a fifth standard deviation increase in return on assets (ROA).

A READER INQUIRES: WILL BOOMERS TRIGGER A BEAR MARKET?

Q – I have read in several places that as the baby boomers retire they are likely to transition out of equities in order to fund spending in retirement, and that this will push equity prices lower. Should I be concerned and perhaps reduce my exposure to common stocks?

A – The short answer is no, you should not change your investment allocation based on this premise. However, because this notion is so widely promulgated by the financial

media our readers and clients often ask this question. We therefore take this opportunity to provide a detailed answer.

Fear Not Old News

The market moves in response to unanticipated events, not fully anticipated events, and as you make clear the aging of America is well publicized. Any selling by baby boomers, or by pension funds or others that might be net sellers of stocks, will impact future

prices only if it comes as a surprise. It is highly unlikely that the market is gauging the level of those sales exactly right; actual sales will probably be higher or lower than expected. All else equal, if future equity sales are higher than expected then indeed we might see a market decline, but it is equally likely that sales will be lower than expected, in which case security prices would rise.

Those predicting a market downturn based on this demographic trend either fail to understand that capital markets



“Bobby, I never noticed any damn baby boom, did you?”

continually evaluate and discount information, or they are assuming that investors are currently underestimating future selling. Neither of these justifies changes to a well-constructed allocation plan.

Your question exemplifies how the media can tempt investors to veer off course. The baby boomer narrative is compelling on its face, and makes a great story for those in the media who are compensated for garnering attention. When confronted with any argument predicting future market changes based on currently available information, wise investors will pause and ask whether there is any reason to think that this information has not already been “priced in.”

Age and Equity Ownership

The aging of the U.S. population (see accompanying chart) gives rise to serious economic challenges. The trend toward greater retirees per worker poses a clear threat to Medicare and Social Security income funding and to the future distribution of the burden of income taxes, to name just a few of the difficulties that lie ahead. These are of far greater concern to households than the arguments put forth by alarmists regarding the relationship between

demographics and the equity market, which is in fact highly uncertain.

The Vanguard Group¹ took a closer look at that relationship from an empirical perspective. Their study pointed out several factors that cast in doubt the theory that retiring boomers will push equity valuations lower.

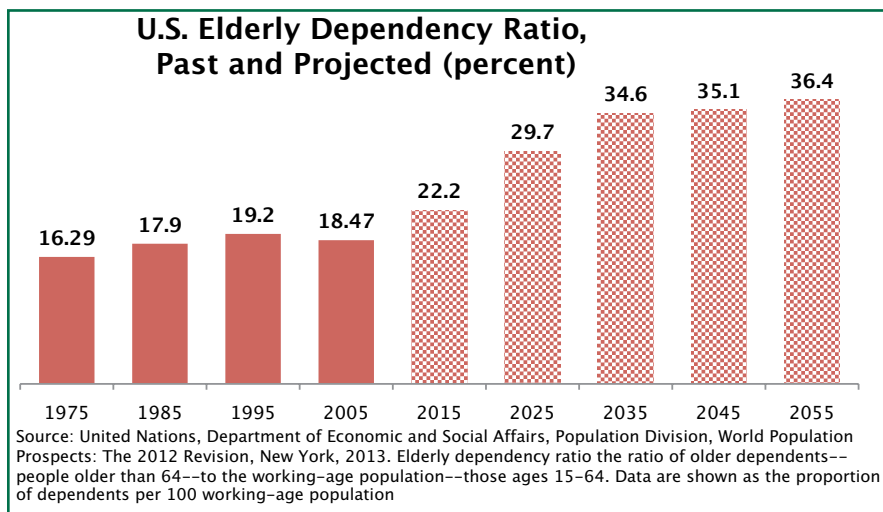
First, it is evident that births during the baby boom generation were widely disbursed over 18 years (1946 - 1964), so boomers will not retire all at once. This suggests that any net liquidation of equities as a result of retirement would occur gradually over several years.

Second, the 46 – 64 year old age

cohort’s (the pre-retirement cohort) stake in equity ownership has remained fairly steady, averaging 48% between 1992 and 2010 (the last year before the first boomers reached age 65), and the baby boom generation is no exception. As boomers approached the 46 - 64 year cohort, their percentage ownership in equities rose from 8.4% (in 1992 when their ages spanned 28 – 46) to 47% in 2010 (when their ages ranged from 46 – 64). During that span (1992 – 2010) there was no evidence of a stock market downturn as a result of that cohort’s retirement. Since the baby boomer’s stake in equities on a percentage basis is in line with the historical norm for this pre-retirement age group, there is no reason to believe boomers’ impact on equity markets will be unique as they begin to retire.²

Third, the equity holdings of baby boomers are highly concentrated among the top 20% of boomers based on net worth. It is reasonable to assume that these wealthier boomers are largely concerned with estate planning and intergenerational wealth transfers, and would therefore benefit from the long term growth expected from holding equities. This would undermine the assumption that boomers are poised to liquidate equities en masse in order to fund retirement spending.

The Vanguard study also pointed out that the notion of a net sell-off of equities driven by an aging U.S. population fails to account for increasing foreign ownership. The proportion of U.S. stocks held by foreigners tripled from 7% in 1990 to nearly 21% in 2012.



1. Daniel W. Wallick, Julieann Shanahan, CFA and Christos Tasopoulos “Baby Boomers and Equity Returns: Will a Boom in Retirees Lead to a Bust in Equity Returns?” Vanguard Research, October 2013.
2. We note that the first group of boomers reached retirement age (65) in 2011 and the U.S. stock market is currently near an all-time high.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of May 15, 2015

	Rank	Yield (%)	Price (\$)	Status	—Percent of Portfolio—	
					Value (%)	No. Shares (%) ¹
Verizon	1	4.42	49.79	Holding**	24.47	21.85
Chevron	2	3.96	108.03	Buying	14.83	6.11
McDonald's	3	3.47	98.04	Buying	11.49	5.21
General Electric	4	3.37	27.27	Buying	9.07	14.79
Pfizer	6	3.30	33.99	Holding	8.97	11.73
Merck	11	2.99	60.23	Selling	1.34	0.99
Intel Corp	13	2.91	32.99	Selling	7.47	10.06
Cisco	14	2.84	29.55	Holding	1.58	2.37
AT&T	N/A	5.60	34.33	Selling	20.77	26.89
Cash (6-mo. T-Bill)	N/A	N/A	N/A		0.01	N/A
Totals					100.00	100.00

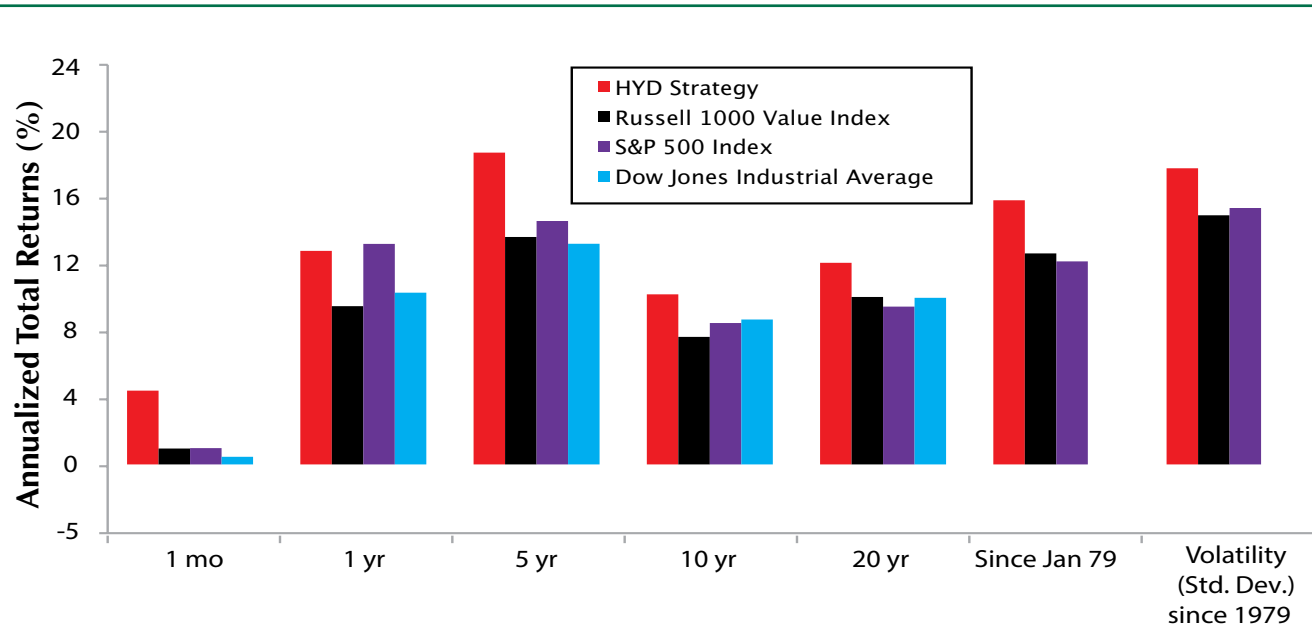
**Currently indicated purchases approximately equal to indicated purchases 18 months ago. ¹ Because the percentage of each issue in the portfolio by value reflects the prices shown in the table, we are also showing the number of shares of each stock as a percentage of the total number of shares in the 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 April 30, 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	4.34	12.57	18.35	10.01	11.86	15.55	17.43
Russell 1000 Value Index	0.93	9.31	13.39	7.51	9.85	12.42	14.66
S&P 500 Index	0.96	12.98	14.33	8.32	9.29	11.95	15.09
Dow Jones Industrial Average	0.45	10.11	12.99	8.53	9.80	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 0.73% 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 (\$)

	5/15/15	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	1,220.50	1,192.90	1,299.00
Silver, London Spot Price	17.25	16.18	19.66
Copper, COMEX Spot Price	2.95	2.73	3.16
Crude Oil, W. Texas Int. Spot	59.69	56.39	101.50
Bloomberg Commodity Spot Index	346.66	333.45	432.35
Bloomberg Commodity Index	105.35	101.44	135.79
Reuters-Jefferies CRB Index	231.46	223.58	307.08

Interest Rates (\$)

U.S. Treasury bills - 91 day	0.02	0.02	0.03
182 day	0.09	0.08	0.05
52 week	0.23	0.23	0.09
U.S. Treasury bonds - 10 year	2.14	1.91	2.50
Corporates:			
High Quality - 10+ year	3.95	3.48	4.08
Medium Quality - 10+ year	4.86	4.45	4.72
Federal Reserve Discount Rate	0.75	0.75	0.75
New York Prime Rate	3.25	3.25	3.25
Euro Rates			
3 month	-0.01	0.00	0.34
Government bonds - 10 year	0.62	0.11	1.30
Swiss Rates - 3 month	-0.79	-0.81	0.01
Government bonds - 10 year	0.05	-0.18	0.81

Exchange Rates (\$)

British Pound	1.577200	1.478200	1.679100
Canadian Dollar	0.832700	0.807900	0.918500
Euro	1.142800	1.059600	1.371200
Japanese Yen	0.008378	0.008387	0.009858
South African Rand	0.085000	0.082200	0.096000
Swiss Franc	1.090000	1.028700	1.123800

Securities Markets

	5/15/15	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	2,122.73	2,106.63	1,870.85
Dow Jones Industrial Average	18,272.56	18,112.61	16,446.81
Barclays US Credit Index	2,595.66	2,640.28	2,518.47
Nasdaq Composite	5,048.29	5,011.02	4,069.29
Financial Times Gold Mines Index	1,288.01	1,227.57	1,468.58
FT EMEA (African) Gold Mines	1,319.34	1,321.13	1,525.16
FT Asia Pacific Gold Mines	5,933.35	5,572.06	4,622.02
FT Americas Gold Mines	1,061.55	998.48	1,271.30

Coin Prices (\$)

	5/15/15	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	1,237.40	1,237.60	1,335.63	1.38
Austrian 100-Corona (0.9803)	1,158.22	1,158.43	1,257.13	-3.20
British Sovereign (0.2354)	289.90	290.00	314.00	0.90
Canadian Maple Leaf (1.00)	1,216.70	1,216.90	1,317.90	-0.31
Mexican 50-Peso (1.2057)	1,427.40	1,427.60	1,549.10	-3.00
Mexican Ounce (1.00)	1,204.20	1,204.30	1,305.20	-1.34
S. African Krugerrand (1.00)	1,217.07	1,217.28	1,319.97	-0.28
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,260.00	1,285.00	1,380.00	6.70
Liberty (Type I-AU50)	2,225.00	2,225.00	2,225.00	88.43
Liberty (Type II-AU50)	1,450.00	1,450.00	1,600.00	22.79
Liberty (Type III-AU50)	1,250.00	1,250.00	1,360.00	5.86
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	12,472.50	12,607.50	15,117.50	1.12
40% Silver Circ. (292 oz.)	4,707.50	4,700.00	5,637.50	-6.54
Silver Dollars Circ.	17,740.00	17,800.00	21,600.00	32.94

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$1,220.50 per ounce and silver at \$17.25 per ounce. The weight in tray 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		
	5/15/15	4/15/15	5/15/14	High	Low		Record Date	Payable Date	Annual Dividend (\$)	Yield [†] (%)	
Verizon	VZ	49.79	49.39	47.96	53.66	45.09	0.550	4/10/2015	5/1/2015	2.200	4.42
Chevron	CVX	108.03	110.41	123.81	135.10	98.88	1.070	5/19/2015	6/10/2015	4.280	3.96
McDonald's	MCD	98.04	96.44	102.50	102.98	87.62	0.850	3/2/2015	3/16/2015	3.400	3.47
General Electric	GE	27.27	27.46	26.60	28.68	23.41	0.230	2/23/2015	4/27/2015	0.920	3.37
Exxon Mobil	XOM	87.35	88.08	100.78	104.76	82.68	0.730	5/13/2015	6/10/2015	2.920	3.34
Pfizer	PFE	33.99	35.21	29.06	35.53	27.51	0.280	5/8/2015	6/2/2015	1.120	3.30
Procter and Gamble	PG	81.05	83.51	80.53	93.89	77.29	0.663	4/27/2015	5/15/2015	2.652	3.27
Coca-Cola	KO	41.52	40.40	40.52	45.00	39.06	0.330	6/15/2015	7/1/2015	1.320	3.18
Caterpillar	CAT	88.43	85.16	104.99	111.46	78.19	0.700	4/20/2015	5/20/2015	2.800	3.17
IBM	IBM	173.26	164.13	186.46	196.40	149.52	1.300	5/8/2015	6/10/2015	5.200	3.00
Merck	MRK	60.23	58.45	55.89	63.62	52.49	0.450	3/16/2015	4/8/2015	1.800	2.99
Johnson & Johnson	JNJ	102.30	100.60	100.69	109.49	95.10	0.750	5/26/2015	6/9/2015	3.000	2.93
Intel Corp	INTC	32.99	32.83	26.01	37.90	25.75	0.240	5/7/2015	6/1/2015	0.960	2.91
Cisco	CSCO	29.55	28.25	24.18	30.31	22.49	0.210	4/2/2015	4/22/2015	0.840	2.84
Dupont	DD	70.25	72.10	66.83	80.65	63.70	0.490	5/15/2015	6/12/2015	1.960	2.79
Microsoft Corp.	MSFT	48.30	42.26	39.60	50.05	39.46	0.310	5/21/2015	6/11/2015	1.240	2.57
3M Company	MMM	163.30	166.44	140.98	170.50	130.60	1.025	5/22/2015	6/12/2015	4.100	2.51
Boeing	BA	146.88	152.43	131.21	158.83	116.32	0.910	5/8/2015	6/5/2015	3.640	2.48
Wal-Mart Stores	WMT	79.24	79.74	76.83	90.97	72.61	0.490	8/7/2015	9/8/2015	1.960	2.47
J P Morgan	JPM	65.88	64.21	53.51	66.50	53.06	0.400	4/6/2015	4/30/2015	1.600	2.43
Travelers	TRV	102.68	108.08	92.37	110.49	88.81	0.610	6/10/2015	6/30/2015	2.440	2.38
United Tech.	UTX	118.49	117.87	115.70	124.45	97.30	0.640	5/15/2015	6/10/2015	2.560	2.16
Apple	AAPL	128.77	126.78	84.12	134.54	85.33	0.520	5/11/2015	5/14/2015	2.080	1.62
Home Depot, Inc.	HD	113.35	113.45	76.24	117.99	76.37	0.590	3/12/2015	3/26/2015	2.360	1.46
American Express	AXP	80.22	79.75	87.60	96.24	76.53	0.290	7/2/2015	8/10/2015	1.160	1.45
Goldman Sachs	GS	202.97	201.10	156.64	205.18	155.61	0.650	6/1/2015	6/29/2015	2.600	1.28
Unitedhealth Group	UNH	119.33	117.32	76.48	123.76	76.36	0.375	3/13/2015	3/24/2015	1.500	1.26
Nike	NKE	104.98	99.83	72.94	105.50	73.11	0.280	6/1/2015	7/6/2015	1.120	1.07
Walt Disney	DIS	110.30	106.98	80.15	113.30	78.54	1.150	12/15/2014	1/8/2015	1.150	1.04
Visa Inc.	V	69.57	65.68	51.86	70.69	48.80	0.120	5/15/2015	6/2/2015	0.480	0.69

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

Extra dividends are not included in annual yields. H New 52-week high. L New 52-week low. All data adjusted for splits and spin-offs. 12-month data begins 5/16/14.

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

RECOMMENDED INVESTMENT VEHICLES

Descriptive Quarterly Statistics, as of 3/31/15

Annualized Returns⁴ (%), as of 4/30/15

Security Symbol	Avg. Market Cap./ Avg. Maturity	No. of Holdings	Expense ³ (%)	Sharpe Ratio	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	2.80 Yrs.	2069	0.20	0.88	-	1.37	1.50	1.11	1.86	0.95	0.56	1.23
iShares Barclays 1-3 Yr. Credit Bond	1.95 Yrs.	889	0.20	1.74	-	0.95	0.96	1.38	1.82	0.54	0.90	1.24
iShares Barclays 1-3 Yr. Treasury Bond	1.89 Yrs.	92	0.15	0.58	-	0.41	0.81	0.49	0.86	0.63	0.35	0.66
Vanguard Limited-Term Tax-Exempt	3.00 Yrs.	-	0.20	0.90	-	1.57	1.20	1.21	1.83	1.20	1.21	1.83
SPDR N.B. Short-Term Municipal Bond	3.07 Yrs.	604	0.20	0.49	-	0.92	0.78	0.90	1.57	0.38	0.73	1.45
Inflation-Protected Fixed Income												
iShares Barclays TIPS Bond	8.34 Yrs.	39	0.20	0.07	-	1.63	2.33	0.09	3.81	1.61	-0.53	2.96
Vanguard Inflation-Protected Securities	8.60 Yrs.	-	0.20	0.06	-	2.19	2.37	0.06	3.76	1.43	-0.84	2.75
International Fixed Income												
Vanguard Total International Bond Index	8.40 Yrs.	3301	0.23	-	16	1.52	7.13	-	-	6.54	-	-
Real Estate												
Vanguard REIT Index	11.08 B	141	0.24	1.11	11	3.55	12.80	10.59	12.71	11.54	9.44	11.58
SPDR Dow Jones REIT	15.66 B	92	0.25	1.08	6	2.69	13.49	10.32	12.68	11.95	8.88	11.31
Vanguard Global ex-US Real Estate	6.58 B	630	0.37	0.79	8	1.22	11.38	12.15	-	9.24	10.36	-
iShares International Property ETF	7.50 B	376	0.48	0.84	10	3.63	10.25	12.68	10.10	8.87	11.02	8.73
SPDR Dow Jones Global Real Estate ETF	12.98 B	226	0.50	1.05	7	1.79	10.92	10.65	11.51	9.48	9.04	9.75
U.S. Large Cap Value												
Vanguard Value Index	80.71 B	313	0.23	1.71	6	2.34	10.07	16.76	13.24	9.50	16.18	12.74
iShares Russell 1000 Value Index	57.73 B	699	0.20	1.73	12	1.89	9.09	16.94	13.15	8.56	16.40	12.69
U.S. Small Cap Value												
iShares Russell Microcap Index	0.53 B	1411	0.60	1.20	26	2.13	7.80	16.89	12.09	7.43	16.50	11.77
Vanguard Small-Cap Value Index	3.35 B	818	0.23	1.48	12	1.94	10.34	17.97	13.27	9.81	17.38	12.76
U.S. Large Cap Growth												
iShares Russell 1000 Growth Index	63.30 B	678	0.20	1.71	15	5.75	16.45	16.37	15.26	16.07	16.00	14.96
Vanguard Growth Index	60.03 B	370	0.23	1.70	9	5.04	16.26	16.39	15.13	15.94	16.08	14.88
U.S. Marketwide												
Vanguard Total Stock Market Index	46.33 B	3786	0.17	1.73	3	2.87	12.57	16.66	14.21	12.10	16.19	13.82
Fidelity Spantail Total Market Index	48.39 B	-	0.10	1.73	2	2.87	12.62	16.70	14.27	n/a	n/a	n/a
Foreign-Developed Markets												
iShares MSCI EAFE Growth Index	36.83 B	548	0.40	0.76	27	2.47	3.80	10.31	7.84	3.42	9.97	7.58
iShares MSCI EAFE Value Index	47.40 B	491	0.40	0.67	29	1.26	-1.03	11.48	6.43	-1.88	10.79	5.92
Vanguard FTSE Developed Market	33.57 B	1401	0.09	0.74	4	1.65	1.61	11.25	7.54	0.92	10.55	7.02
SPDR S&P International Small Cap	1.14 B	2214	0.40	0.57	51	1.28	2.57	9.43	7.45	-0.87	7.60	6.18
Foreign-Emerging Markets												
Vanguard FTSE Emerging Market Stock	17.93 B	1017	0.33	0.09	9	1.70	10.35	3.54	3.15	9.66	3.04	2.77
Gold-Related Funds												
iShares Gold Trust	6.40 B	1	0.25	-0.63	-	-	-8.65	-10.82	-0.26	-8.65	-10.82	-0.26
SPDR Gold Shares	28.70 B	1	0.40	-0.64	-	-	-8.77	-10.95	-0.38	-8.77	-10.95	-0.38

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.

The information herein is derived from generally reliable sources, but cannot be guaranteed. American Investment Services, the American Institute for Economic Research, and the officers, employees, or other persons affiliated with either organization may from time to time have positions in the investments referred to herein.