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* See page 29 for representative indexes.

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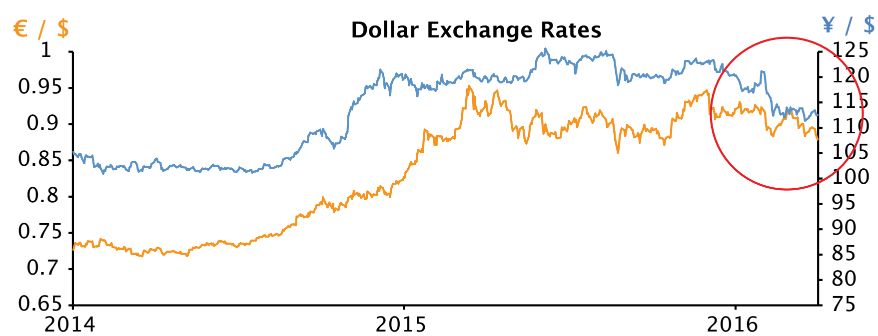
# Investing Globally

## Trivia Question:

Between 1970 and 2015 the U.S. stock market provided a hypothetical annualized return of 10.2%. During the same period the MSCI developed-market index, which includes 26 countries including the U.S., returned 9.5%. Over this span, in how many calendar years was the U.S. stock market the top annual performer among all countries in the MSCI index?

A. 0 B. 3 C. 8 D. 17

The answer is A. Many find it surprising that during the past 45 years there was no year when the U.S. stock market was the top performer. This illustrates the benefit of diversifying broadly across many different markets. The U.S. stock market is worth roughly $22 trillion, or 53% of the world market capitalization. A well-diversified portfolio will include equities that account for the remaining 47% that trade in non-U.S. developed and emerging markets.




Many investors vary their exposure to foreign equities based on forecasts of global growth or exchange rates. But most would be better served by targeting a level of foreign equity exposure suited to their circumstances, and sticking to it through periodic rebalancing (we provide sample portfolio allocations on page 27).

*(continued next page)*

Exchange rate fluctuations can have a heavy impact on foreign equity returns. For example, emerging market stocks returned 2.8% during the first quarter in local currency terms but 5.8% in U.S. dollars. Non-U.S. developed markets lost 6.4% in local currency, but fell by only 4.8% in dollar terms. These differentials were attributable to a weakening dollar during the quarter, depicted in the red circle in the chart on the previous page. For example, a dollar cost 0.92 euro when 2016 began (in orange, measured on the left axis), but had fallen to 0.88 euro by the end of the quarter.

A weakening dollar simply means that more dollars are required to purchase a foreign asset. So as time passes the dollar value of foreign securities increases as the dollar weakens. This is what happened during the first quarter, as the returns of both emerging market and developed market shares were boosted by the falling dollar.

Exchange rate fluctuations are highly volatile and notoriously unpredictable. The chart demonstrates that the dollar's first quarter decline ran counter to the trend since 2014. Other things equal, foreign investors avoid U.S. securities when U.S. interest rates fall, and the resulting decrease in demand for dollars puts downward pressure on the dollar. During the first quarter the dollar fell as consensus grew that the Fed's enthusiasm for further increases in the fed funds rate was weakening.

It would be folly to try to predict what might come next. The narrative presented describes just one variable (relative global interest rates) that drive exchange rates. In a global fiat currency regime exchange rates will change based on news of all types, though the sentiments of central bankers weigh heavily.  Wise investors will avoid the temptation to time these fluctuations.

## QUARTERLY REVIEW OF CAPITAL MARKETS[1]

Stock markets tumbled during the first few weeks of the New Year, reflecting higher perceived risk throughout the globe. Equities fell worldwide while gold and bonds returned to favor. As the quarter came to an end, however, global equities and commodities rallied sharply.

U.S. stocks overall ended in positive territory, returning just under 1%. Value stocks well outperformed growth shares, especially among small caps. In foreign developed markets the situation was reversed; shares were down overall, with growth stocks outperforming value shares. Foreign emerging markets turned in very strong returns, outperforming developed market shares by a wide margin.

Interest rates across U.S. fixed income markets generally decreased during the quarter, resulting in gains among most fixed income assets. Short to intermediate term bonds in the U.S. returned 1.6%.

Global REITs and gold provided the biggest gains for the quarter, returning 7.2% and 16.7%, respectively.

The three sample portfolio allocations in the table nearby are only a guide. Each of the asset classes listed provides a unique risk-return profile, but the proper level of exposure to any particular asset class depends entirely on the investor. The best approach is to use these asset classes as "building blocks" to structure a portfolio that fits your circumstances. Our intention is to provide a framework to begin this process. To that end we provide these sample portfolios, along with hypothetical (back tested) outcomes that demonstrate the trade-off between return and volatility that investors confront.

Mutual funds and ETFs that generally track the same asset classes as those cited in the table are listed on the back page of this publication.

### Cash Equivalent Assets[2]

AIER's Everyday Price Index (EPI) fell 1.7% over the past 12 months, while the CPI (non-seasonally adjusted) increased 0.9%. The EPI measures price changes in regularly purchased goods while the CPI assesses a broader index of goods and services. The EPI is more heavily influenced by fuel prices, which fell sharply over the 12 months despite a rebound in March.

At quarter-end Treasury market expectations for future annual price inflation (CPI) over the next 5 and 10 years (based on the TIPS break-even rate) stood at 1.49% and 1.62%, respectively. The 10-year outlook is at its lowest level since the financial crisis in early 2009.

At the end of March the target range for the federal funds rate remained unchanged at 0.25 to 0.50 percent. This stabilization followed a 0.25 percent hike in the target (the largest in nine years) that was announced as 2015 drew to a close. Over the quarter the Fed grew more cautious in light of weak global growth and falling energy prices, and tempered its previous guidance by suggesting a more gradual path to higher rates.

The yield on the 1-year Treasury bill dipped 6 basis points (bps) to 0.59% for the quarter. Most cash equivalent assets continued to offer negative inflation-adjusted yields.

### Fixed Income

Interest rates dropped sharply across the yield curve over the three months as the Fed signaled greater caution. Bond returns were boosted as a result, particularly among longer maturity obligations.

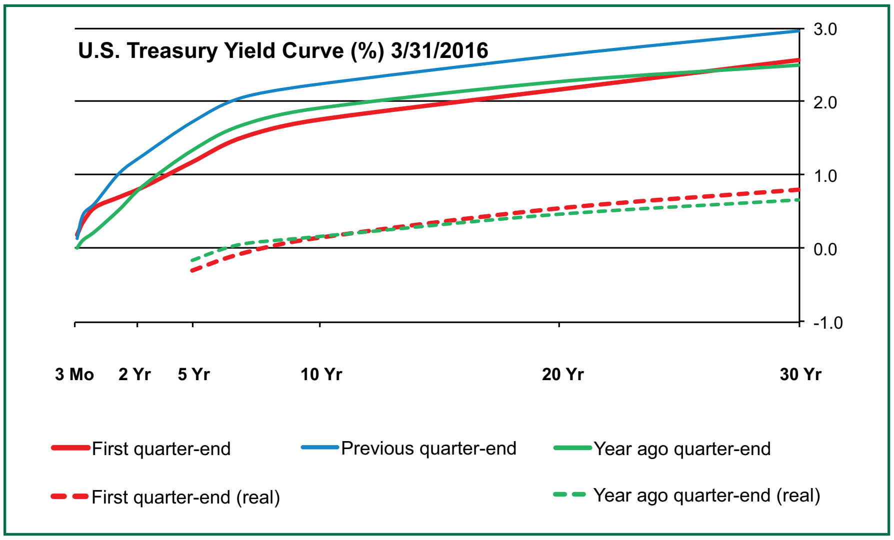
The yield on the 5-year Treasury note fell 55 bps to 1.21% while the yield on the 10-year Treasury note declined 49 bps to 1.78%. The 30-year Treasury bond declined 40 bps to finish at 2.61%.

The overall U.S. bond market returned 3.03% for the quarter with long term government bonds rising 8.06%. Treasury Inflation Protected Securities (TIPS) provided a 4.46% return. Investment grade (corporate) bonds gained 3.9% overall. Within the corporate market short-term bonds gained 1.16%, intermediate-term issues returned 2.76%, while long term obligations turned in a 6.83% return. Short term global bonds (1-5 year, hedged to the U.S. dollar) returned 1.14%.

Municipal bonds overall returned 1.67%; short-term munis registered a 0.71% gain versus 2.76% for intermediate term issues. As the second quarter began, 30 year mortgage rates were averaging 3.69% (nationwide) with 0.5 points.

### Real Estate[3]

U.S. Equity Real Estate Investment Trusts (REITs) returned 5.84% during the first quarter while foreign REITs gained 8.6%. Foreign and domestic REITs provide valuable diversification. U.S. REITs account for roughly 59% of




total global REIT market capitalization; the remaining 41% provide exposure to commercial properties in 22 developed market countries. U.S. REITs outperformed the overall U.S. stock market during the quarter, while foreign REITs vastly exceeded returns posted in developed market equities.

## U.S. Equities[4]

The U.S. stock market began the New Year with one of the weakest starts in history, falling by more than 11% by early February. But the market rebounded sharply at quarter-end to finish with a slight gain of 0.97%.

After several quarters of relative underperformance value stocks outperformed growth shares during the first three months. Small cap value stocks returned 1.70% versus -4.68% for small cap growth, while large cap value stocks returned 1.64%, topping the 0.74% return generated by large cap growth stocks.

Among industries defensive sectors such as telecoms, utilities and consumer staples fared well; these shares' relatively high dividend payouts may have grown attractive in the face of falling interest rates. Energy stocks posted positive returns as oil prices stabilized toward quarter-end.

## International Equities[5]

Emerging market stocks reversed a long decline, posting a U.S. dollar return of 5.75%, which topped the U.S. market as well as the -2.88% return registered by non-U.S. developed markets. Both emerging markets and developed markets were bolstered by a

*(continued next page)*

### AIS Sample Portfolios[1]
### For the Period Ending March 31, 2016

| *Asset Class* | *Index* | *Recommended Percentage Allocations*[2] | | | *Asset Class Statistics: Risk and Return (%)* | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | *Total Return (annualized)* | | | *Std. Dev. (annualized)* |
| | | *Conservative* | *Moderate* | *Aggressive* | *1 Year* | *10 Year* | *20 year* | *20 year* |
| Cash & Equivalent Assets[3] | Bank of America/Merrill Lynch 3 Mo. T Bills | 5 | 5 | 3 | 0.12 | 1.15 | 2.48 | 0.66 |
| Short/Int. Fixed Income | Barclays Capital 1-5 Yr Govt/Cred | 45 | 20 | 8 | 1.62 | 3.47 | 4.43 | 2.05 |
| | Citigroup World ex. US Govt. Bond 1-5 Yr | 20 | 10 | 4 | 1.49 | 3.00 | 4.27 | 1.32 |
| Real Estate | S&P Global REITs Index Gross Div | 4 | 5 | 6 | 3.85 | 5.47 | 10.41 | 17.74 |
| U.S. Marketwide | Russell 3000 Index (USD) | 5 | 9 | 13 | -0.34 | 6.90 | 8.04 | 15.73 |
| U.S. Large Cap Value | Russell 1000 Value Index (USD) | 2 | 4 | 7 | -1.54 | 5.72 | 8.31 | 15.30 |
| U.S. Mid Cap | Russell Midcap Index (USD) | 5 | 9 | 13 | -4.04 | 7.45 | 10.02 | 17.16 |
| U.S. Small Cap Value | Russell 2000 Value Index (USD) | 3 | 6 | 9 | -7.72 | 4.42 | 9.12 | 17.97 |
| | DFA US Micro Cap Portfolio (USD) | 1 | 2 | 2 | -5.21 | 6.01 | 10.46 | 21.47 |
| Foreign Developed Markets | MSCI EAFE Index (USD) Gross Div | 4 | 20 | 24 | -7.87 | 2.27 | 4.52 | 16.90 |
| Foreign Emerging Markets | MSCI Emg. Mkts. Index (USD) Gross Div | 1 | 5 | 6 | -11.70 | 3.34 | 5.43 | 23.84 |
| Gold Related | Gold (London PM Fix Price) | 5 | 5 | 5 | 4.21 | 7.83 | 5.86 | 17.08 |
| | Total | 100 | 100 | 100 | | | | |

**Sample Portfolio Statistics[4]: Risk, Return (%) and Growth**

| | *Conservative* | *Moderate* | *Aggressive* |
|---|---|---|---|
| Portfolio Return 1 Year | -0.29 | -3.01 | -4.14 |
| Portfolio Return 10 Year (annualized) | 3.75 | 4.17 | 4.48 |
| Portfolio Return 20 Year (annualized) | 5.05 | 6.04 | 6.74 |
| Portfolio Standard Deviation 20 Year (annualized) | 4.00 | 9.32 | 12.53 |
| Growth of $100 over 20 Years | $268 | $323 | $369 |

1 **Performance was achieved by means of retroactive application of a model designed with the benefit of hindsight.** Past performance may not be indicative of future results. Therefore, no current or prospective investor should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by AIS), or product made reference to directly or indirectly, will be profitable or equal to past performance levels. Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results.The results portrayed in this portfolio reflect the reinvestment of dividends and capital gains. **Sample Portfolio Statistics are hypothetical and do not reflect historical recommendations of AIS.** Annual portfolio rebalancing is assumed**.**
2 For our recommended investment vehicles for each asset class, see page 32.
3 Investors should maintain cash balances adequate to cover living expenses for up to 6 months in addition to the cash levels indicated.
4 Sample portfolio returns reflect the deduction of 0.725% management fee, the PAM rate charged to a $500,000 account managed by AIS. A maximum annual management fee for the PAM service of 1.50% applies to accounts of $100,000 (our minimum account size) in Assets Under Management ("AUM"). The fee decreases thereafter as AUM increases. Accounts with AUM less than $500,000 would incur a fee greater than 0.725% and, therefore, returns would be lower than indicated. See AIS ADV Part 2 for full details, available at http://americaninvestment.com/images/pdf/ADV_Part_2A.pdf.

weaker dollar; returns in local currencies were 2.8% and -6.4%, respectively. The chart on page 25 depicts this recent dollar weakness, perhaps driven by expectations of lower U.S. interest rates relative to global rates.

Within non-U.S. developed markets small caps outperformed large caps. The value effect was negative overall (measured by broad market indices). Drilling down further, large cap value indices underperformed large cap growth indices but small cap value indices outperformed small cap growth indices.

Within emerging markets value outperformed growth across all size ranges while small cap indices underperformed large cap indices.

## Gold[6]

In 2015 the gold price hit a calendar year low of $1,049 on December 17, when the Fed announced an increase in its fed funds target rate. However, as the New Year unfolded the case for further increases grew more tenuous, and the gold price rose sharply. The price reached a high of $1,277 in early March before closing the quarter at $1,242 for a gain of 16.7% for the three months, by far the highest quarterly gain among our recommended asset classes.

Gold is a safe haven investment, and while its price is influenced by a variety of factors, it is particularly sensitive to changing expectations regarding future interest rates. Gold generates no income, as do other competing safe haven investments such as U.S. Treasuries. If the U.S. economy strengthens, the Fed may prove more willing to increase rates, which would exert downward pressure on the gold price. A weaker economy on the other hand might portend a lower price.

The gold price quickly reflects changing expectations. As economic data is released, or as central bank sentiments become apparent, the price responds almost instantly. Investors should therefore avoid the temptation to buy or sell gold in reaction to these developments. The prudent course of action is to target a modest allocation to gold while periodically rebalancing holdings to match that target.

1. This article contains information and excerpts from The Vanguard Group, Fidelity Investments, and Dimensional Fund Advisors as well as data obtained from several index providers.
2. Sources for cash and equivalent and fixed income statistics: U.S. Treasury, U.S. Labor Department (Bureau of Labor Statistics), Fidelity Management and Research Company, Dimensional Fund Advisors EPI: American Institute for Economic Research. EPI, CPI not seasonally adjusted. U.S. bond market: Barclays U.S. Aggregate Bond Index. Long term U.S. government bonds: Barclays Long U.S. Government Bond Index Global bonds: Citigroup WGBI 1-5 Years (USD hedged). U.S Corporate (investment grade) bonds: Barclays U.S. Corporate Bond Index. Municipal bonds: Barclays Municipal Bond Index; TIPS: Barclays U.S. TIPS Index. Mortgage rates: Freddie Mac.
3. U.S. REIT data provided by National Association of Real Estate Trusts (NAREIT). U.S. REITs: FTSE NAREIT All Equity REIT Index. Foreign (Ex-US) REITS: S&P Global ex US REIT Index (Source: Dimensional Fund Advisors, Standard & Poor's).
4. U.S. Market: Russell 3000 Index. Small cap value stocks: Russell 2000 Value Index, Small cap growth stocks: Russell 2000 Growth Index, Large Cap Value stocks: Russell 1000 Value Index Large Cap Growth Stocks: Russell 1000 Growth Index. Sector returns represented by S&P 500 sectors.
5. Source: Dimensional Fund Advisors and Fidelity Management and Research Company: Non-U.S. Developed Markets: MSCI EAFE Index (Gross). Developed markets Large Cap-- MSCI World ex-USA Index, Small Cap -- MSCI World ex USA Small Cap Index. Value – MSCI World ex USA Value Index Growth – MSCI World ex USA Growth Index. Emerging Markets: MSCI EM Index; Emerging markets large cap: MSCI Emerging Markets Index, Small Cap: MSCI Emerging Market Small Cap Index. Value MSCI Emerging Markets Value Index, Growth MSCI Emerging Markets Growth Index. Country performance provided by Dimensional Fund Advisors, based on respective indexes in the MSCI All Country World ex USA IMI Index (for developed markets) and MSCI Emerging Markets IMI Index. All returns in US currency and net of withholding tax on dividends. MSCI data copyright MSCI 2016, all rights reserved. Currency data: Bloomberg.
6. Gold Price: London PM Fix. Source: World Gold Council

# CAN YOU DOUBLE YOUR MONEY IN 10 YEARS?[1]

Sometimes when I do a back-of-the-napkin estimate about how much I'll have saved in the future, I'll use a handy formula known as the "rule of 72." This rule says that if you divide 72 by your rate of return, the resulting number is roughly how many years it will take your money to double.

For example, if I expect returns of 7 percent a year, I would expect my money to double in about 10 years (72 / 7 = 10.3 years).

I was recently talking to an adviser who made a confident statement that he expected to double his clients' money every 10 years. Based on the rule of 72, this suggests that he thinks he can return an average of 7.2 percent per year over the next 10 years. Historically, the S&P 500 has returned almost 10 percent per year, so this statement doesn't seem outlandish. But let's dive a little deeper and play this out in the real world.

## Stock Returns Only

We have data since 1926 for the S&P 500. Using annual data, this means that we have 81 possible 10-year periods of overlapping historical data. If you were to invest 100 percent in the S&P 500, there would have been 59 of these 10-year periods during when you would have doubled your money. This is a pretty good success rate (about 73 percent), but nowhere near a guarantee.

Take, for instance, the period from January 2000 through December 2009. During this period, not only would you have failed to double your money, you actually would have lost money. On the other hand, the 10-year period ending in 1959 saw stock returns of over 600 percent. Suffice it to say, the range of possible outcomes is broad.

Of course responsible advisors realize that a 100 percent stock portfolio is rarely appropriate, even for the most risk tolerant investors. So what happens when we add a little diversification?

## Diversified (60/40) Portfolio

I looked back at returns for a portfolio comprised of 60 percent stocks (S&P 500) and 40 percent bonds (20 percent in long-term corporate bonds and 20 percent in five-year U.S. Treasuries). The good news is that this diversified portfolio would have mitigated the risk of that lousy 2000 through 2009 decade – you would have made about 36 percent instead of losing almost 8 percent.

But there is no free lunch. While diversification lowers your risk, now there are even fewer 10-year periods when you would have doubled your money with this 60/40 portfolio. Of the 81 possible periods, this portfolio would have doubled your money in only 52 of them (64 percent). Still not a bad rate of

| | S&P 500 Total Return | Simple 60/40 Portfolio | 60/40 Portfolio after fund fees | 60/40 Portfolio after fund and adviser fees | 60/40 Portfolio after all fees and taxes | 60/40 Portfolio after fees, taxes, and inflation |
|---|---|---|---|---|---|---|
| Number of 10-year periods | 81 | 81 | 81 | 81 | 81 | 81 |
| Number of 10-year periods where money was doubled | 59 | 52 | 46 | 41 | 35 | 10 |
| Percentage of periods money was doubled | 73% | 64% | 57% | 51% | 43% | 12% |

"Notes and Sources: Author's calculations based on data from Dimensional Fund Advisors Returns 2.0 application for January 1926 through January 2016. S&P 500 total returns provided by the Standard & Poor's Index Services Group. 5-year Treasury returns and long term corporate bonds provided by Ibbotson Associates. Consumer Price Index data are from Bureau of Labor Statistics. Reduced expectations from Horizon Actuarial survey of 2015 capital market assumptions from 29 investment advisors.

Past performance may not be indicative of future results. Therefore, no current or prospective investor should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by AIS), or product made reference to directly or indirectly, will be profitable or equal to past performance levels. Indexes are not available for direct investment. Historical performance results for investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. The results portrayed in this portfolio reflect the reinvestment of dividends and capital gains. Returns depicted are hypothetical and do not reflect historical recommendations of AIS."

success, but this doesn't yet account for any fees.

## Diversified Portfolio after Fund Fees

Mutual funds, index funds, and ETFs are subject to fees (often listed as "expense ratios"). The fees on ETFs using simple index funds can be low, ranging from 0.05 to about 0.30 percent. The fees on mutual funds tend to be higher, often ranging from 0.50 to above 1 percent. I have no idea what funds the adviser in question uses, but let's assume he's chosen a mix of mutual funds and ETFs with average fees of 0.50 percent.

After accounting for these fees, out of 81 possible historical 10-year periods, we're down to 46 (57 percent) that would have doubled your money. Oh wait, doesn't the adviser charge fees too?

## Diversified Portfolio after Fund and Adviser Fees

I'm betting the adviser didn't account for his own fees in his calculation of doubling up every 10 years. Let's add in a lower-than-average adviser fee of 0.75 percent (many adviser fees start at 1 percent or above).

After accounting for fund fees and adviser fees, our historical 60/40 portfolio doubles every 10 years in only 41 of 81 cases (51 percent). Things are looking a little less certain. And we've yet to look at the taxes.

## Diversified portfolio after Fees and Taxes

Capital gains taxes are 15 percent for most people. There may be other taxes paid during the course of the 10 years, but we'll just assume this base 15 percent rate. The investor may not actually realize these taxes during the period, but if he wants to use the money for something in 10 years, he'll need to sell his investments and realize the capital gains.

Accounting for these potential taxes, the number of periods where you could have doubled your money falls to 35 out of 81 (43 percent). This still fails to account for the purchasing power of the portfolio.

## Diversified portfolio after Fees, Taxes, and Inflation

If you doubled your money during the late 1970's and early 1980's, you barely kept up with inflation. In other words, prices of goods and services were skyrocketing as well, so doubling your money wouldn't have got you anywhere in terms of what you could do with it.

For example, in the decade from 1974 through 1983, our diversified portfolio after fees and taxes would have more than doubled (2.07 times). But after accounting for price increases during this period, the value of the portfolio would have actually been about 5 percent less than at the beginning of the period. You'd be worse off financially.

If we account for inflation in our historical examples, we drop to just 10 of 81 periods (12 percent) during which you could have truly doubled your money. Suddenly, this adviser's promise is looking doubtful, to say the least.

## Conclusion

Anyone that promises to double your money in 10 years may be using a back-of-the-napkin estimate instead of a rigorous analysis that accounts for fees and inflation. Will your money double in 10 years? Maybe, but it's far from a guarantee.

Instead of focusing on what you may or may not return over the next 10 years, it may be wise to focus on controlling what you can by minimizing costs, making efficient tax allocations, and diversifying your exposure. Save as much as you can and evaluate your situation only after the years have passed.

1. This article is written by Luke Delorme, Director of Financial Planning Services at AIS. It originally appeared on AIER's blog: https://www.aier.org/blog/can-you-expect-your-money-double-10-years

Asset classes and representative index chart on page 25: 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 April 15, 2016* | | | | | *—Percent of Portfolio—* | |
|---|---|---|---|---|---|---|
| | *Rank* | *Yield (%)* | *Price ($)* | *Status* | *Value (%)* | *No. Shares (%)*[1] |
| Chevron | 1 | 4.40 | 97.23 | Buying | 23.17 | 14.97 |
| Verizon | 2 | 4.40 | 51.35 | Holding** | 24.38 | 29.82 |
| Caterpillar | 3 | 3.89 | 79.17 | Buying | 15.74 | 12.49 |
| Cisco | 4 | 3.73 | 27.90 | Buying | 1.52 | 3.42 |
| Pfizer | 5 | 3.69 | 32.50 | Holding | 1.61 | 3.12 |
| Exxon Mobil | 6 | 3.44 | 84.97 | Holding | 5.32 | 3.93 |
| IBM | 7 | 3.43 | 151.72 | Holding | 6.11 | 2.53 |
| General Electric | 13 | 2.96 | 31.03 | Holding | 7.31 | 14.80 |
| McDonald's | 16 | 2.79 | 127.78 | Selling | 8.13 | 4.00 |
| AT&T | N/A | 4.99 | 38.48 | Selling | 6.69 | 10.92 |
| 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.

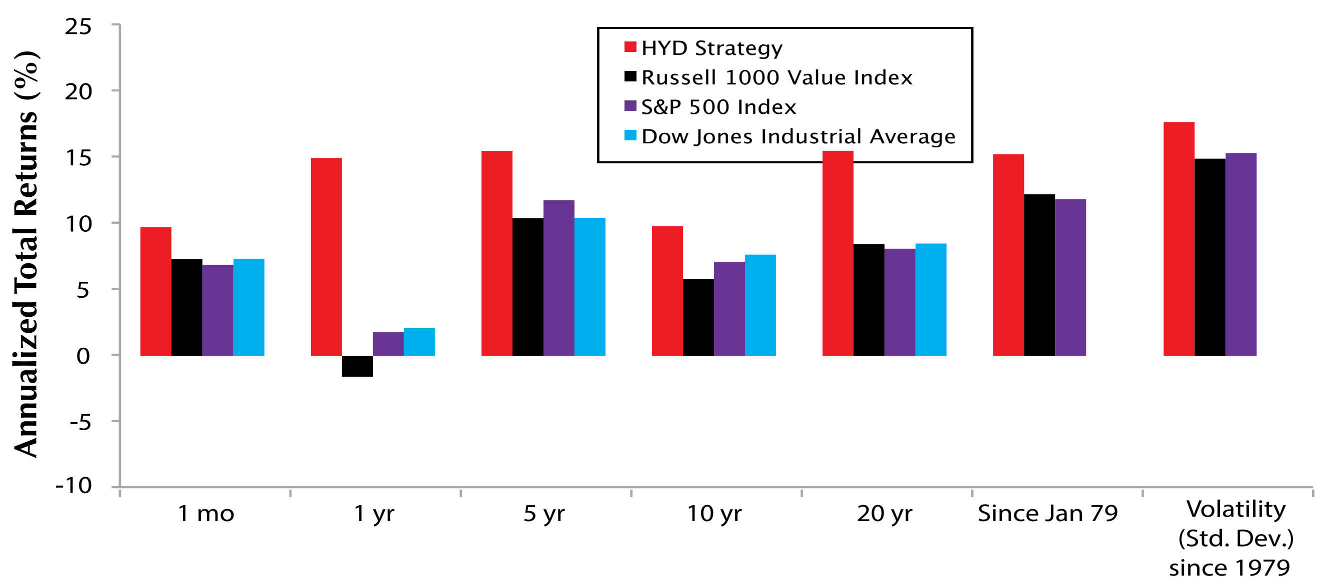
**Performance was achieved by means of retroactive application of a model designed with the benefit of hindsight.**

**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 March 31, 2016*. 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).

| | *1 mo.* | *1 yr.* | *5 yrs.* | *10 yrs.* | *20 yrs.* | *Since Jan 79* | *Volatility (Std. Dev.) since 1979* |
|---|---|---|---|---|---|---|---|
| HYD Strategy | 9.58 | 14.72 | 15.25 | 9.64 | 15.26 | 15.01 | 17.40 |
| Russell 1000 Value Index | 7.20 | -1.54 | 10.25 | 5.72 | 8.31 | 12.02 | 14.67 |
| S&P 500 Index | 6.78 | 1.78 | 11.58 | 7.01 | 7.98 | 11.66 | 15.09 |
| Dow Jones Industrial Average | 7.22 | 2.08 | 10.27 | 7.54 | 8.36 | 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. **Performance was achieved by means of retroactive application of a model designed with the benefit of hindsight.** 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 ($)

| | 4/15/16 | Mo. Earlier | Yr. Earlier |
|---|---|---|---|
| Gold, London p.m. fixing (oz) | **1,227.10** | 1,232.00 | 1,192.90 |
| Silver, London Spot Price (oz) | **16.17** | 15.32 | 16.18 |
| Copper, COMEX Spot Price (100 lb) | **215.30** | 223.35 | 271.40 |
| Crude Oil, W. Texas Int. Spot (bbl) | **40.36** | 36.34 | 56.39 |
| Bloomberg Commodity Spot Index | **291.07** | 281.02 | 333.45 |
| Bloomberg Commodity Index | **80.39** | 78.82 | 101.44 |
| Reuters-Jefferies CRB Index | **173.64** | 171.07 | 223.58 |

### Interest Rates (%)

| | | | | |
|---|---|---|---|---|
| U.S. Treasury bills - | 91 day | **0.22** | 0.33 | 0.01 |
| | 182 day | **0.36** | 0.52 | 0.08 |
| | 52 week | **0.51** | 0.70 | 0.20 |
| U.S. Treasury bonds - | 10 year | **1.75** | 1.97 | 1.89 |
| Corporates: | | | | |
| High Quality - | 10+ year | **3.59** | 3.79 | 3.48 |
| Medium Quality - | 10+ year | **4.75** | 5.16 | 4.45 |
| Federal Reserve Discount Rate | | **1.00** | 1.00 | 0.75 |
| New York Prime Rate | | **3.50** | 3.50 | 3.25 |
| Euro Rates | 3 month | **-0.25** | -0.24 | 0.01 |
| Government bonds - | 10 year | **0.17** | 0.21 | 0.11 |
| Swiss Rates - | 3 month | **-0.72** | -0.73 | -0.81 |
| Government bonds - | 10 year | **-0.34** | -0.38 | -0.14 |

### Exchange Rates ($)

| | | | |
|---|---|---|---|
| British Pound | **1.420200** | 1.415100 | 1.484200 |
| Canadian Dollar | **0.780100** | 0.748800 | 0.813700 |
| Euro | **1.128400** | 1.110900 | 1.068400 |
| Japanese Yen | **0.009195** | 0.008836 | 0.008394 |
| South African Rand | **0.068708** | 0.062797 | 0.082898 |
| Swiss Franc | **1.033300** | 1.013000 | 1.036700 |

**Note: As of 4/15/2016, the source for the exchange rates has changed to Bloomberg.

### Securities Markets

| | 4/15/16 | Mo. Earlier | Yr. Earlier |
|---|---|---|---|
| S & P 500 Stock Composite | **2,080.73** | 2,015.93 | 2,106.63 |
| Dow Jones Industrial Average | **17,897.46** | 17,251.53 | 18,112.61 |
| Barclays US Credit Index | **2,674.33** | 2,606.51 | 2,640.28 |
| Nasdaq Composite | **4,938.22** | 4,728.67 | 5,011.02 |
| Financial Times Gold Mines Index | **1,472.00** | 1,310.18 | 1,227.57 |
| FT EMEA (African) Gold Mines | **1,747.26** | 1,620.59 | 1,321.13 |
| FT Asia Pacific Gold Mines | **7,221.52** | 6,730.01 | 5,572.06 |
| FT Americas Gold Mines | **1,141.12** | 991.90 | 998.48 |

### Coin Prices ($)

| | 4/15/16 | Mo. Earlier | Yr. Earlier | Prem (%) |
|---|---|---|---|---|
| American Eagle (1.00) | **1,274.50** | 1,293.50 | 1,237.60 | 3.86 |
| Austrian 100-Corona (0.9803) | **1,215.73** | 1,232.88 | 1,158.43 | 1.06 |
| British Sovereign (0.2354) | **302.54** | 306.66 | 290.00 | 4.74 |
| Canadian Maple Leaf (1.00) | **1,258.50** | 1,276.00 | 1,216.90 | 2.56 |
| Mexican 50-Peso (1.2057) | **1,485.14** | 1,506.23 | 1,427.60 | 0.38 |
| Mexican Ounce (1.00) | **1,258.50** | 1,276.00 | 1,204.30 | 2.56 |
| S. African Krugerrand (1.00) | **1,259.50** | 1,277.00 | 1,217.28 | 2.64 |
| U.S. Double Eagle-$20 (0.9675) | | | | |
| St. Gaudens (MS-60) | **1,260.00** | 1,290.00 | 1,285.00 | 6.13 |
| Liberty (Type I-AU50) | **2,150.00** | 2,150.00 | 2,225.00 | 81.10 |
| Liberty (Type II-AU50) | **1,375.00** | 1,375.00 | 1,450.00 | 15.82 |
| Liberty (Type III-AU50) | **1,265.00** | 1,265.00 | 1,250.00 | 6.55 |
| U.S. Silver Coins ($1,000 face value, circulated) | | | | |
| 90% Silver Circ. (715 oz.) | **12,715.00** | 12,860.00 | 12,607.50 | 9.98 |
| 40% Silver Circ. (292 oz.) | **4,512.50** | 4,572.50 | 4,700.00 | -4.43 |
| Silver Dollars Circ. | **23,000.00** | 23,000.00 | 17,800.00 | 83.87 |

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $1,227.10 per ounce and silver at $16.17 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses. Note: 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 ($) 4/15/16 | 3/15/16 | 4/15/15 | 12-Month ($) High | Low | Latest Dividend Amount ($) | Record Date | Payable Date | Indicated Annual Dividend ($) | Yield† (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Chevron | CVX | | 97.23 | 94.27 | 110.41 | 112.20 | 69.58 | 1.070 | 2/18/2016 | 3/10/2016 | 4.280 | 4.40 |
| Verizon | VZ | | 51.35 | 52.67 | 49.39 | 54.49 *H* | 38.06 | 0.565 | 4/8/2016 | 5/2/2016 | 2.260 | 4.40 |
| Caterpillar | CAT | | 79.17 | 72.44 | 85.16 | 89.62 | 56.36 | 0.770 | 4/25/2016 | 5/20/2016 | 3.080 | 3.89 |
| Cisco | CSCO | | 27.90 | 27.66 | 28.25 | 29.90 | 22.46 | 0.260 | 4/6/2016 | 4/27/2016 | 1.040 | 3.73 |
| Pfizer | PFE | | 32.50 | 29.54 | 35.21 | 36.46 | 28.25 | 0.300 | 2/5/2016 | 3/2/2016 | 1.200 | 3.69 |
| Exxon Mobil | XOM | | 84.97 | 82.82 | 88.08 | 90.09 | 66.55 | 0.730 | 2/11/2016 | 3/10/2016 | 2.920 | 3.44 |
| IBM | IBM | | 151.72 | 142.96 | 164.13 | 176.30 | 116.90 | 1.300 | 2/10/2016 | 3/10/2016 | 5.200 | 3.43 |
| Boeing | BA | | 131.13 | 126.36 | 152.43 | 154.09 | 102.10 | 1.090 | 2/12/2016 | 3/4/2016 | 4.360 | 3.32 |
| Intel Corp | INTC | | 31.46 | 31.65 | 32.83 | 35.59 | 24.87 | 0.260 | 5/7/2016 | 6/1/2016 | 1.040 | 3.31 |
| Merck | MRK | | 56.14 | 52.42 | 58.45 | 61.70 | 45.69 | 0.460 | 3/15/2016 | 4/7/2016 | 1.840 | 3.28 |
| Procter and Gamble | PG | *I* | 82.30 | 81.31 | 83.51 | 83.98 | 65.02 | 0.670 | 4/18/2016 | 5/16/2016 | 2.678 | 3.25 |
| Coca-Cola | KO | | 46.10 | 45.24 | 40.40 | 47.13 *H* | 36.56 | 0.350 | 3/15/2016 | 4/1/2016 | 1.400 | 3.04 |
| General Electric | GE | | 31.03 | 30.28 | 27.46 | 32.05 *H* | 19.37 | 0.230 | 2/29/2016 | 4/25/2016 | 0.920 | 2.96 |
| Wal-Mart Stores | WMT | | 69.06 | 68.09 | 79.74 | 80.93 | 56.30 | 0.500 | 5/13/2016 | 6/6/2016 | 2.000 | 2.90 |
| J P Morgan | JPM | | 61.87 | 59.20 | 64.21 | 70.61 | 50.07 | 0.440 | 4/6/2016 | 4/30/2016 | 1.760 | 2.84 |
| McDonald's | MCD | | 127.78 | 123.43 | 96.44 | 128.88 | 87.50 | 0.890 | 3/1/2016 | 3/15/2016 | 3.560 | 2.79 |
| Johnson & Johnson | JNJ | | 110.18 | 107.76 | 100.60 | 111.10 | 81.79 | 0.750 | 2/23/2016 | 3/8/2016 | 3.000 | 2.72 |
| 3M Company | MMM | | 168.78 | 162.41 | 166.44 | 169.87 | 134.00 | 1.110 | 2/12/2016 | 3/12/2016 | 4.440 | 2.63 |
| Microsoft Corp. | MSFT | | 55.65 | 53.59 | 42.26 | 56.85 | 39.72 | 0.360 | 5/19/2016 | 6/9/2016 | 1.440 | 2.59 |
| United Tech. | UTX | | 104.57 | 96.29 | 117.87 | 119.66 | 83.39 | 0.640 | 2/19/2016 | 3/10/2016 | 2.560 | 2.45 |
| Dupont | DD | | 65.27 | 62.83 | 68.49 | 75.72 | 47.11 | 0.380 | 2/12/2016 | 3/14/2016 | 1.520 | 2.33 |
| Travelers | TRV | | 116.23 | 113.92 | 108.08 | 118.28 *H* | 95.21 | 0.610 | 3/10/2016 | 3/31/2016 | 2.440 | 2.10 |
| Home Depot, Inc. | HD | | 135.01 | 129.71 | 113.45 | 136.67 | 92.17 | 0.690 | 3/10/2016 | 3/24/2016 | 2.760 | 2.04 |
| Apple | AAPL | | 109.85 | 104.58 | 126.78 | 134.54 | 92.00 | 0.520 | 2/8/2016 | 2/11/2016 | 2.080 | 1.89 |
| American Express | AXP | | 62.14 | 59.23 | 79.75 | 81.92 | 50.27 | 0.290 | 4/8/2016 | 5/10/2016 | 1.160 | 1.87 |
| Goldman Sachs | GS | | 158.52 | 152.03 | 201.10 | 218.77 | 139.05 | 0.650 | 3/2/2016 | 3/30/2016 | 2.600 | 1.64 |
| Unitedhealth Group | UNH | | 127.33 | 124.85 | 117.32 | 131.11 *H* | 95.00 | 0.500 | 3/11/2016 | 3/22/2016 | 2.000 | 1.57 |
| Walt Disney | DIS | | 98.59 | 98.24 | 106.98 | 122.08 | 86.25 | 0.710 | 12/14/2015 | 1/11/2016 | 1.420 | 1.44 |
| Nike | NKE | | 59.50 | 61.40 | 49.92 | 68.20 | 47.25 | 0.160 | 3/7/2016 | 4/4/2016 | 0.640 | 1.08 |
| Visa Inc. | V | | 80.08 | 71.91 | 65.68 | 81.51 | 60.00 | 0.140 | 2/19/2016 | 3/1/2016 | 0.560 | 0.70 |

* See the Recommended HYD Portfolio table on page 30 for current recommendations. † Based on indicated dividends and market price as of 4/15/16.
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 4/16/15.
*I* Dividend increased since 3/15/16 *D* Dividend decreased since 3/15/16

## RECOMMENDED INVESTMENT VEHICLES

| | Security Symbol | Avg. Market Cap. / Avg. Maturity | *Descriptive Quarterly Statistics, as of 3/31/16* No. of Holdings | Expense[3] (%) | Ratios Sharpe | Turnover (%) | P/B | 12 Mo. Yield (%) | *Annualized Returns[4] (%), as of 3/31/16* Total 1 yr. | Total 3 yr. | Total 5 yr. | After Tax* 1 yr. | After Tax* 3 yr. | After Tax* 5 yr. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Short/Intermediate Fixed Income*** | | | | | | | | | | | | | | |
| Vanguard Short-Term Bond Index | BSV[1] / VBISX | 2.8 Yrs. | 2285 | 0.16 | 0.73 | 52 | - | 1.39 | 1.45 | 1.16 | 1.69 | 0.87 | 0.61 | 1.11 |
| iShares Barclays 1-3 Yr. Credit Bond | CSJ[1] | 2.01 Yrs. | 1039 | 0.20 | 1.14 | 17 | - | 1.26 | 1.17 | 1.10 | 1.54 | 0.63 | 0.62 | 1.01 |
| iShares Barclays 1-3 Yr. Treasury Bond | SHY[1] | 1.90 Yrs. | 106 | 0.15 | 0.57 | 122 | - | 0.58 | 0.78 | 0.64 | 0.75 | 0.54 | 0.47 | 0.57 |
| Vanguard Limited-Term Tax-Exempt | VMLTX | 3.3 Yrs. | - | 0.20 | 0.94 | 16 | - | 1.48 | 1.59 | 1.27 | 1.86 | 1.59 | 1.27 | 1.86 |
| SPDR N.B. Short-Term Municipal Bond | SHM[1] | 3.01 Yrs. | 700 | 0.20 | 0.59 | 20 | - | 0.93 | 1.50 | 1.09 | 1.55 | 1.39 | 1.05 | 1.53 |
| ***Inflation-Protected Fixed Income*** | | | | | | | | | | | | | | |
| iShares Barclays TIPS Bond | TIP[1] | 8.41 Yrs. | 41 | 0.20 | -0.26 | 47 | - | 0.32 | 1.33 | -0.81 | 2.88 | 1.19 | -1.24 | 2.18 |
| Vanguard Inflation-Protected Securities | VIPSX | 8.7 Yrs. | - | 0.20 | -0.27 | 43 | - | 0.73 | 1.43 | -0.86 | 2.89 | 1.10 | -1.51 | 1.99 |
| ***International Fixed Income*** | | | | | | | | | | | | | | |
| Vanguard Total International Bond Index | BNDX[1]/VTIBX | 9.1 Yrs. | 3960 | 0.17 | - | 13 | - | 1.54 | 2.34 | - | - | 1.64 | -- | -- |
| ***Real Estate*** | | | | | | | | | | | | | | |
| Vanguard REIT Index | VNQ[1] / VGSIX | 16.47 B | 156 | 0.26 | 0.56 | 8 | 2.37 | 4.22 | 3.75 | 10.20 | 11.59 | 2.25 | 8.87 | 10.40 |
| SPDR Dow Jones REIT | RWR[1] | 20.55 B | 97 | 0.25 | 0.58 | 6 | 2.65 | 3.62 | 4.59 | 10.78 | 11.68 | 2.88 | 9.14 | 10.21 |
| Vanguard Global ex-US Real Estate | VNQI[1] / VGXRX[5] | 8.92 B | 648 | 0.36 | -0.01 | 12 | 1.05 | 2.86 | -1.79 | 1.22 | 5.13 | -3.20 | -0.14 | 3.74 |
| iShares International Property ETF | WPS[1] | 10.27 B | 392 | 0.48 | 0.14 | 8 | 1.09 | 3.27 | -0.47 | 2.77 | 5.90 | -1.41 | 1.54 | 4.62 |
| SPDR Dow Jones Global Real Estate ETF | RWO[1] | 17.05 B | 232 | 0.50 | 0.39 | 7 | 1.76 | 3.15 | 1.92 | 7.02 | 8.86 | 0.56 | 5.49 | 7.41 |
| ***U.S. Large Cap Value*** | | | | | | | | | | | | | | |
| Vanguard Value Index | VTV[1] / VIVAX | 124.31 B | 328 | 0.22 | 0.90 | 8 | 1.96 | 2.61 | 1.15 | 10.41 | 10.39 | 0.55 | 9.81 | 9.84 |
| iShares Russell 1000 Value Index | IWD[1] | 110.57 B | 686 | 0.20 | 0.75 | 13 | 1.80 | 2.54 | -1.66 | 9.16 | 10.02 | -2.26 | 8.59 | 9.52 |
| ***U.S. Mid Cap*** | | | | | | | | | | | | | | |
| Vanguard Mid-Cap ETF | VO | 0.48 B | 1429 | 0.60 | 0.42 | 26 | 1.71 | 1.50 | -4.29 | 10.78 | 10.02 | -4.70 | 10.38 | 9.68 |
| iShares Russell Mid-Cap Index | IWR | 3.18 B | 856 | 0.20 | 0.65 | 16 | 1.65 | 2.95 | -4.18 | 10.27 | 10.14 | -4.61 | 9.83 | 9.74 |
| ***U.S. Small Cap Value*** | | | | | | | | | | | | | | |
| iShares Russell Microcap Index | IWC[1] | 141.10 B | 637 | 0.20 | 1.06 | 13 | 5.69 | 1.40 | -12.98 | 6.34 | 6.50 | -13.35 | 5.97 | 6.14 |
| Vanguard Small-Cap Value Index | VBR[1] / VISVX | 123.88 B | 351 | 0.22 | 0.92 | 9 | 4.49 | 1.28 | -4.76 | 9.41 | 9.54 | -5.32 | 8.83 | 8.99 |
| ***U.S. Marketwide*** | | | | | | | | | | | | | | |
| Vanguard Total Stock Market Index | VTI[1] / VTSMX | 107.87 B | 3703 | 0.16 | 0.89 | 3 | 2.56 | 1.93 | -0.56 | 10.98 | 10.86 | -1.00 | 10.50 | 10.44 |
| Fidelity Spartan Total Market Index | FSTMX[2] | 108.01 B | - | 0.10 | 0.89 | 2 | 2.55 | 2.40 | -0.48 | 10.98 | 10.89 | -1.06 | 10.50 | 10.48 |
| ***Foreign- Developed Markets*** | | | | | | | | | | | | | | |
| iShares MSCI EAFE Growth Index | EFG[1] | 55.17 B | 551 | 0.40 | 0.18 | 27 | 2.59 | 1.81 | -4.00 | 3.52 | 3.42 | -4.26 | 3.19 | 3.15 |
| iShares MSCI EAFE Value Index | EFV[1] | 54.00 B | 481 | 0.40 | -0.09 | 29 | 1.12 | 3.78 | -12.94 | 0.32 | 0.62 | -13.46 | -0.37 | 0.07 |
| Vanguard FTSE Developed Market | VEA[1] / VTMGX[6] | 39.64 B | 3708 | 0.09 | 0.09 | 3 | 1.40 | 2.95 | -7.33 | 2.55 | 2.53 | -7.96 | 1.82 | 1.94 |
| SPDR S&P International Small Cap | GWX[1] | 1.19 B | 2296 | 0.40 | 0.20 | 51 | 1.26 | 2.65 | 1.88 | 4.20 | 3.02 | 1.04 | 2.37 | 1.74 |
| ***Foreign- Emerging Markets*** | | | | | | | | | | | | | | |
| Vanguard FTSE Emerging Market Stock | VWO[1] / VEIEX | 37.05 B | 3451 | 0.33 | -0.51 | 7 | 1.44 | 3.04 | -12.63 | -4.35 | -4.15 | -13.39 | -5.13 | -4.76 |
| ***Gold-Related Funds*** | | | | | | | | | | | | | | |
| iShares Gold Trust | IAU[1] | 7.32 B | - | 0.25 | -0.39 | - | - | - | 3.94 | -8.42 | -3.22 | 3.94 | -8.42 | -3.22 |
| SPDR Gold Shares | GLD[1] | 32.19 B | - | 0.40 | -0.40 | - | - | - | 3.79 | -8.55 | -3.36 | 3.79 | -8.55 | -3.36 |

Data provided by the funds and Morningstar. [1]Exchange Traded Fund, traded on NYSE. [2]0.5% fee for redemption in 90 days. [3]For Vanguard funds, expense ratios shown are for mutual funds, ETFs have lower expenses. [4]For Vanguard Funds, returns shown are for mutual funds; ETFs' returns may deviate. [5]VGXRX includes a 0.25% fee on purchases and redemptions, which are paid directly into the fund. [6]These are admiral shares and have a $10,000 required minimum initial investment. *Pre-liquidation. Calculated using the highest individual federal income tax rates in effect at the time of each distribution and do not reflect the impact of state and local taxes or individual tax situations.

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.