

* See box, page 54, for representative indexes.

Rates of Interest

As of June 22, 2018

Government Obligations¹

Fed Funds Rate	1.91%
3-Month Treas. Bill	1.99%
10-Yr. Treas. Note	2.89%
30-Yr. Treas. Bond	3.03%
10-Yr. TIPS	0.78%
Muni Bonds - Nat'l 10-Yr.	2.40%

Mortgage Rates²

15-Yr Fixed	4.00%
30-Yr Fixed	4.52%

Banking³

Savings	0.08%
Money Market	0.13%
12-month CD	0.42%

[1] Federal Reserve, fmsbonds.com. Annualized Rates. Notes, bonds, TIPS reflect yield to maturity.

[2] Freddie Mac. Average (National average, 15-year mortgages with 0.4 points, 30-year mortgages with 0.5 points).

[3] FDIC. Average national rates, non-jumbo deposits (<\$100k).

e+ r = o, a Formula for Success¹

Investors are beset with alarming stories in the media that include a global trade war, rising price inflation and pending interest rate increases, just to name a few. Below we reprint a section of a poignant article² reminding readers that during such times the value of a prudent investment philosophy cannot be overstated.

Over their lifetimes, investors face many decisions, prompted by events that are both within and outside their control. Without an enduring philosophy to inform their choices, they can suffer unnecessary anxiety, leading to poor decisions and outcomes that are damaging to their long-term financial well-being.

When they don't get the results they want, many investors blame things outside their control. They might point their finger at the government, central banks, markets, or the economy. Unfortunately, the majority will not do the things that might be more beneficial—evaluating and reflecting on their own responses to events and taking responsibility for their decisions.

Some people suggest that among the characteristics that separate highly successful people from the rest of us is a focus on influencing outcomes by controlling one's reactions to events, rather than the events themselves. This relationship can be described in the following formula:

$$e+r = o \text{ (Event + Response = Outcome)}$$

Simply put, this means an outcome—either positive or negative—is the result of how you respond to an event, not just the result of the event itself. Of course, events are important and influence outcomes, but not exclusively. If this were the case, everyone would have the same outcome regardless of their response.

Let's think about this concept in a hypothetical investment context. Say a major political surprise, such as Brexit, causes a market to fall (event). In a panicked response, potentially fueled by gloomy media speculation of the resulting uncertainty, an investor sells some or all of his or her investment (response). Lacking a long-term perspective and reacting to the short-term news, our investor misses out on the subsequent market recovery and suffers anxiety about when, or if, to get back in, leading to suboptimal investment returns (outcome).

To see the same hypothetical example from a different perspective, a surprise event causes markets to fall suddenly (e). Based on his or her understanding of the long-term nature of returns and the short-term nature of volatility spikes around news events, an investor is able to control his or her emotions (r) and maintain investment discipline, leading to a higher chance of a successful long-term outcome (o).

This example reveals why having an investment philosophy is so important. By understanding how markets work and maintaining a long-term perspective on past events, investors can focus on ensuring that their responses to events are consistent with their long-term plan. An enduring investment philosophy is built on solid principles backed by decades of empirical academic evidence. Examples of such principles might be: trusting that prices are set to provide a fair expected return; recognizing the difference between investing and speculating; relying on the power of diversification to manage risk and increase the reliability of outcomes; and benchmarking your progress against your own realistic long-term investment goals.

1. Jack Canfield, *The Success Principles: How to Get from Where You Are to Where You Want to Be* (New York: HarperCollins Publishers, 2004).
2. Adapted from "E+R=O, a Formula for Success," *The Front Foot Adviser*, by David Jones, Vice President and Head of Financial Adviser Services, EMEA.

QUARTERLY REVIEW OF CAPITAL MARKETS¹

The U.S. stock market provided positive returns for the second quarter while foreign developed and emerging markets turned in losses.

Based on the indexes we track, U.S. microcap and small cap value stocks were the best performing asset classes. Their outperformance relative to large companies may be in response to expectations of higher tariffs on U.S. goods sold abroad. Small companies are generally less dependent on foreign sales versus larger firms, especially very large multinational firms that dominate stock market index returns.

Commercial real estate surged as well; REITs were the top performing asset class for the month of June and returns through mid-year were positive, following a rough first quarter.

Among large cap stocks, growth shares once again outperformed value, a result driven almost entirely by four companies -- Amazon, Microsoft, Apple, and Netflix. Together these firms accounted for 84 percent of the total return of the S&P 500 through the first half. Bonds continue to show modestly negative returns amidst rising interest rates. However, rates ebbed in the last few weeks of the quarter as stocks struggled.

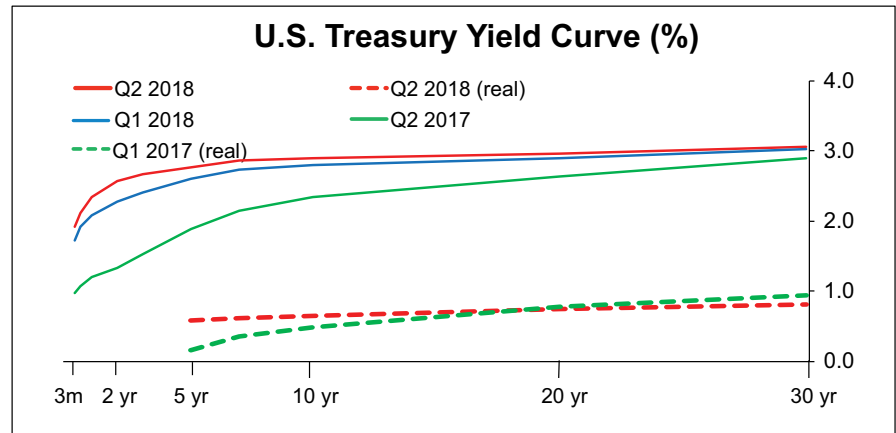
Cash Equivalent Assets²

Short term interest rates rose again during the second quarter. Three month Treasury bills, which began the year yielding 1.39 percent, were yielding 1.93 percent at the end of June. The 1-year Treasury bill yield closed the quarter at 2.33 percent versus 1.76 percent when the year began.

The Federal Reserve boosted its federal-funds target rate by another 0.25 percent in June, citing strong economic growth. The upper limit now stands at 2.0 percent. The Fed signaled its intentions for two additional hikes this year of 0.25 percent each.

Price inflation, measured by the non-seasonally adjusted Consumer Price Index (CPI), increased by 0.98 percent during the quarter. This was less than half the increase in AIER's Everyday Price Index (EPI), which rose by 2.05 percent.

Over the past twelve months the CPI rose by 2.87 percent while the EPI



increased 3.85 percent. These recent rates exceed their longer term averages by wide margin; over the past five years the CPI has increased, on an annualized basis, by 1.5 percent, while the EPI has increased at a 0.8 percent annualized rate. At quarter-end, the market was projecting price inflation of 2.1 percent per year over 5, 10, 20, and 30 year spans, up slightly from the first quarter.

Fixed Income

Bond returns were modest through the first two quarters of the year as interest rates have increased. We remind investors that the primary role of fixed income in the portfolio is stability. Bonds are meant to mitigate poor returns when stocks fall. Even though they have not provided much in the way of positive returns for the year, bonds remain an essential component in well-diversified portfolios.

Intermediate and long term interest rates climbed slightly during the quarter, as depicted in the yield curve above. The yield on the 5-year Treasury note rose 17 basis points (bps), ending at 2.73 percent. The yield on the 10-year T-note rose 11 bps to 2.85 percent while the 30-year Treasury bond yield climbed 1 bps to 2.98 percent.

The overall U.S. bond market returned -0.16 percent while short/intermediate bonds were up slightly, with a 0.17 percent quarterly return. U.S. investors who maintain exposure to the global developed bond market were again rewarded, as foreign intermediate term bonds (hedged to the dollar) turned in a positive return of 0.34 percent return, bringing

year-to-date return to 0.96 percent.

Short-term municipal bonds rebounded from a negative first quarter, returning 0.87 percent. TIPS, which are appropriate for investors who are sensitive to unexpected price inflation, reversed losses from the first quarter by returning 0.77 percent.

At quarter-end, the average 30-year fixed mortgage rate stood at 4.55 percent with 0.5 points.

Real Estate³

REIT returns snapped back sharply after sustaining large losses in the first quarter, in part because commercial real estate earnings are less susceptible to trade risk that adversely affected the broader equity markets. Global REITs, which include both U.S. and foreign holdings ended the quarter up 6.05 percent, more than offsetting first quarter losses. International REITs registered slight losses while U.S. REITs returned 10.37 percent.

U.S. Equities⁴

The overall U.S. stock market returned 3.79 percent during the second quarter, topping non-U.S. developed and emerging markets. Within the U.S., returns varied sharply across the size and style spectrums. Small stocks well outperformed large caps, with returns of 7.75 percent and 3.57 percent, respectively. Small cap value shares were strongest, returning 8.30 percent while large cap value stocks trailed all other U.S. equity asset classes, registering only 1.18 percent.

(continued on page 52)

AIS Sample Standard Allocations ⁽¹⁾ For the Period Ending June 30, 2018

Asset Class ⁽⁵⁾	Sample Percentage Allocations ⁽²⁾			Asset Class Statistics: Risk and Return (annualized, %)				
	Conservative	Moderate	Aggressive	Total Return				Std. Dev.
				1 Year	5 Year	10 Year	15 year	15 year
Cash & Equivalent Assets ⁽³⁾	as needed	as needed	as needed	1.36	0.42	0.35	1.29	0.49
U.S. Inv. Grade Fixed Income	70.00	35.00	15.00	-0.20	1.13	2.24	2.62	1.87
Global Real Estate	2.50	6.00	8.00	4.05	6.31	5.36	7.87	19.17
U.S. Stocks	15.00	36.00	48.00	14.78	13.29	10.23	9.61	13.60
Foreign Stocks	7.50	18.00	24.00	7.28	5.99	2.54	7.74	16.77
Gold Related	5.00	5.00	5.00	1.12	1.05	3.05	8.98	17.89

Sample Standard Portfolio Statistics: Risk, Return (%) and Growth ⁽⁴⁾			
	Conservative	Moderate	Aggressive
Portfolio Return 1 Year	2.19	6.27	8.52
Portfolio Return 5 Year (annualized)	2.84	6.13	7.96
Portfolio Return 10 Year (annualized)	3.33	5.34	6.21
Portfolio Return 15 Year (annualized)	4.18	6.53	7.66
Portfolio Standard Deviation 15 Year (annualized)	4.04	8.60	11.46
Growth of \$10,000 over 15 Years	\$18,479	\$25,839	\$30,260

AIS Sample Enhanced Allocations ⁽¹⁾ For the Period Ending June 30, 2018

Asset Class ⁽⁵⁾	Sample Percentage Allocations ⁽²⁾			Asset Class Statistics: Risk and Return (annualized, %)				
	Conservative	Moderate	Aggressive	Total Return				Std. Dev.
				1 Year	5 Year	10 Year	15 year	15 year
Cash & Equivalent Assets ⁽³⁾	as needed	as needed	as needed	1.36	0.42	0.35	1.29	0.49
Fixed Income								
U.S. Investment Grade	46.67	23.33	10.00	-0.20	1.13	2.24	2.62	1.87
Foreign Investment Grade (hedged)	23.33	11.67	5.00	1.93	1.76	2.33	2.70	1.12
Real Estate								
U.S. REITs	1.67	4.00	5.33	3.62	8.08	7.82	9.89	22.77
Foreign REITs	0.83	2.00	2.67	7.17	5.49	3.83	7.10	17.38
U.S. Stocks								
Large Cap	5.00	12.00	16.00	14.54	13.37	10.20	9.54	13.36
Large Cap Value	5.00	12.00	16.00	6.77	10.34	8.49	8.63	13.83
Small Cap	2.50	6.00	8.00	17.57	12.46	10.60	10.50	17.92
Small Cap Value	2.50	6.00	8.00	13.10	11.18	9.88	9.93	17.87
Foreign Stocks								
Developed Markets	5.00	12.00	16.00	7.04	6.23	2.63	7.31	16.19
Emerging Markets	2.50	6.00	8.00	8.20	5.01	2.26	10.70	21.38
Gold Related								
	5.00	5.00	5.00	1.12	1.05	3.05	8.98	17.89

Sample Enhanced Portfolio Statistics: Risk, Return (%) and Growth ⁽⁴⁾			
	Conservative	Moderate	Aggressive
Portfolio Return 1 Year	2.34	5.72	7.58
Portfolio Return 5 Year (annualized)	2.82	5.80	7.45
Portfolio Return 10 Year (annualized)	3.33	5.30	6.17
Portfolio Return 15 Year (annualized)	4.31	6.80	8.00
Portfolio Standard Deviation 15 Year (annualized)	4.01	8.95	11.99
Growth of \$10,000 over 15 Years	\$18,841	\$26,842	\$31,736

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 the 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.

2 See page 54 for a list of investment vehicles that correspond to each asset class.

3 Investors should maintain a cash balance tailored to one's circumstances. Considerations should include anticipated short term spending, an emergency reserve and price inflation.

4 Sample Portfolio Statistics are hypothetical and do not reflect historical recommendations of AIS. Annual portfolio rebalancing is assumed. Sample portfolio returns reflect the deduction of 0.725% management fee, the PAM rate charged to \$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.

5 Benchmarks used for returns are as follows: Cash and Equivalents - BofA Merrill Lynch Three-Month US Treasury Bill Index; U.S. Inv. Grade Fixed Income - Bloomberg Barclays U.S. Government/Credit Index 1-5 Years; Foreign Inv. Grade Fixed Income - Citi World Government Bond Index ex USA 1-5 Years (hedged to USD); Global Real Estate - S&P Global REIT Index (net div.); U.S. REITs - S&P United States REIT Index (gross div.); Foreign REITs - S&P Global ex US REIT Index (net div.); U.S. Stocks - Russell 3000 Index; U.S. Large Cap - Russell 1000 Index; U.S. Large Cap Value - Russell 1000 Value Index; U.S. Small Cap - Russell 2000 Index; U.S. Small Cap Value - Russell 2000 Value Index; Foreign Developed Markets - MSCI World ex USA Index (net div.); Foreign Emerging Markets - MSCI Emerging Markets Index (net div.); Foreign Stocks - MSCI All Country World ex USA Index (net div.); Gold Related - Gold London PM Fix Price. All data from DFA Returns 2.0 program, except Gold data from World Gold Council.

Hypothetical returns for our High-Yield Dow strategy compared favorably with those of its benchmarks for the second quarter (see page 54 for more detail).

International Equities⁵

In U.S. dollar terms, developed markets outside the U.S. underperformed the U.S. but outperformed emerging markets during the second quarter. Political uncertainty in Italy and Spain weighed on European markets. Growth shares outperformed value stocks while large caps outperformed small caps. In U.S. dollar terms, Israel and Norway recorded the highest country

performance in developed markets, while Austria and Singapore posted the lowest returns for the second quarter.

Emerging market shares fell off sharply in the second quarter posting a return of -7.96 percent, underperforming developed markets including the U.S.

Dollar denominated emerging and developed market returns suffered from heightened threats of a trade war and a stronger dollar. On a trade-weighted basis the dollar rose by 4.3 percent against major currencies and by 5.57 percent against the broad-market index.

Gold⁶

The gold price began the quarter at

\$1,324, rose as high of \$1,351 in mid-April before falling back to its low of \$1,250 the last day of the quarter. Gold and U.S. Treasuries are both regarded as safe haven assets. Rising U.S. Treasury yields along with Fed confirmation of further hikes may have curtailed demand for gold (which provides no income) so the gold price fell even as the U.S.-China tariff battle escalated.

Price inflation has been trending upward and international turmoil remains high. We continue to recommend gold a source of portfolio insurance.

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. 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 results. The results portrayed in the Sample Allocation tables reflect the reinvestment of dividends and capital gains. Returns depicted are hypothetical and do not reflect historical recommendations of AIS.
2. Sources for cash and equivalent and fixed income statistics: U.S. Treasury, U.S. Labor Department (Bureau of Labor Statistics), St. Louis Federal Reserve, Fidelity Management and Research Company, Dimensional Fund Advisors. EPI: American Institute for Economic Research. EPI, CPI not seasonally adjusted. U.S. bond market: Bloomberg Barclays U.S. Aggregate Bond Index. U.S. short intermediate term bonds - Bloomberg Barclays U.S. Government/Credit Index 1-5 Years; Global short intermediate bonds - Citigroup WGBI 1-5 Years (USD hedged); Short term municipal bonds - Bloomberg Barclays Municipal Bond Index 5 Years; TIPS - Bloomberg Barclays U.S. TIPS Index. Mortgage rates: Freddie Mac.
3. Global REITs - S&P Global REIT Index (net div.); U.S. REITs - S&P United States REIT Index (gross div.); Foreign REITs - S&P Global ex US REIT Index (net div.). (Source: Dimensional Fund Advisors, Standard & Poor's). Global REIT dividend yield - FTSE EPRA/Nareit Global Real Estate Index
4. U.S. Market - Russell 3000 Index; Small cap value stocks - Russell 2000 Value Index; Small cap stocks - Russell 2000 Index; Small cap growth stocks - Russell 2000 Growth Index; Microcaps: Russell Microcap Index; Midcap stocks: Russell Midcap Index; Large cap stocks: Russell 1000 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. Source: Dimensional Fund Advisors and Fidelity Management and Research Company.
5. Non-U.S. Developed Markets: Market - MSCI World ex USA Index (net div.); Value - MSCI World ex USA Value Index (net div.); Growth - MSCI World ex USA Growth Index (net div) Small cap - MSCI World ex USA Small Cap Index (net div.); Emerging Markets: MSCI EM Index (net div.). 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 U.S. currency (except as noted) and net of withholding tax on dividends. MSCI data copyright MSCI 2016, all rights reserved. Currency data: St. Louis Federal Reserve.
6. Gold Price: London PM Fix. Source: World Gold Council.

RETIREMENT RISK: THE LONGEVITY QUESTION

Retirement researchers generally group the financial risk factors associated with retirement planning into three buckets: market risk, inflation risk, and longevity risk. We include a fourth distinct risk, emergency expense risk.

As investment advisors, our discussions tend to focus on market risk and inflation risk. These can be addressed with a prudent investment approach. The possibility of costly emergencies can be addressed with insurance, either self-insurance or through various types of insurance policies.

Longevity risk is sometimes ignored or addressed simplistically, even when investors turn to financial professionals for advice. Conversations about longevity are often brief and formulaic. Conservative life expectancies are often adopted with little discussion

or thought to the investor's individual circumstances.

Longevity may be under emphasized because it involves a trade-off that is difficult to confront, even among family members. On one hand, investors want to be conservative, by assuming a long life span to ensure they will not deplete their savings. On the other hand, no one wants to unnecessarily restrict current consumption for a planning horizon that is unrealistically long.

Here we describe a framework for managing this trade-off. We hope retirees in particular will find it useful for estimating their planning horizon.

Longevity Risk

In our experience, many investors are understandably risk averse when it comes to longevity. They fear "living

too long" and exhausting their financial resources more than they fear looking back and realizing that they could have spent more while they were younger.

Having a sensible planning horizon is essential to developing a sound portfolio allocation plan, calculating reasonable spending strategies, and assessing the likelihood of meeting long-term goals. The difference in "sustainable" spending is quite different when planning for 20 years versus planning for 30 years.¹

Research suggests that investors seeking to estimate life expectancy should begin by addressing the following questions:

1. Are you a smoker?
2. What is your gender?
3. For your age, how do you rate your health? Poor, Good, or Excellent.

Table 1:
Of 100 men and women currently age 70, the number expected to survive to various ages:

Age	Men	Women
70	100	100
75	87	91
80	69	77
85	47	58
90	25	35
95	8	14
100	1	3

Source: Social Security Actuarial Life Tables

4. How long have your family members (especially parents) lived? Shorter than Average, Average, or Longer than Average.

The Social Security actuarial life table shows that an average man who is currently 70 years old can expect to live until 84, while an average woman of the same age will live until 86. Table 1 nearby shows the expected number of individuals, out of 100 current 70 year old men and women, still living in the future, at 5-year increments.

We can develop a reasonable planning horizon by combining these data with answers to these four questions.

Table 2 provides relatively conservative life expectancy guidelines. There are, of course, countless other factors that affect longevity, but this is a starting point, based on a current age of 70. These planning ages are intended to be conservative (to avoid underestimating the projected lifespan), but without under-budgeting the level of present consumption that the retiree can afford.

Other Factors

Smoking, gender, health, and genetics are the primary inputs to our analysis. However, there are many other factors that researchers have linked to predicted life expectancy.

- Race: It is well documented that life expectancy in the U.S. differs between races. According to a 2014 study, the average life expectancy was highest for Latinos at 81.2 years. Whites had an average life expectancy of 78.8 years and African-Americans had a life expectancy of 74.5 years.²
- Income: Life expectancy is directly linked to income. Individuals with higher incomes tend to live longer, and vice versa.³
- Education: Life expectancy increases along with the level of formal education obtained (i.e. high school vs. college degree).⁴

- Physical activity: Not surprisingly, people who exercise regularly have higher life expectancies.⁵
- Mental health: Recent research suggests that one's mental health has a significant impact on life expectancy. People suffering from chronic depression or related mental illnesses live shorter lives. This applies to people who are in otherwise good physical health.⁶

Conclusion

Prudent retirement planning should account for market risk, inflation risk, emergencies and longevity risk. Among these, longevity risk is often neglected.

We have laid out a framework for thinking about developing a reasonable and conservative planning horizon. Many online calculators exist to help individuals seeking assistance in establishing a planning horizon. We recommend <https://www.blueprintincome.com/tools/life-expectancy-calculator-how-long-will-i-live/> to our readers.

Table 2: Longevity Estimates, Individuals Currently Age 70, Adjusted for Various Factors

	Non-smoker		Smoker	
	Male	Female	Male	Female
Poor health				
Shorter than average family longevity	87	89	81	82
Average family longevity	89	91	83	84
Longer than average family longevity	92	93	85	86
Good health				
Shorter than average family longevity	89	91	83	84
Average family longevity	92	93	85	86
Longer than average family longevity	94	96	87	88
Excellent health				
Shorter than average family longevity	92	93	85	86
Average family longevity	94	96	87	88
Longer than average family longevity	97	99	89	91

1. AIER's "Retirement Withdrawal Calculator" is a helpful tool. Consider a single woman with a 20-year planning horizon, and \$1 million in savings who is comfortable seeking an 80% probability of not exhausting her assets. She could withdraw \$65,000 per year and meet this goal. With a 30-year horizon however, the same level of confidence would allow her to withdraw only \$50,000 per year. <https://www.aier.org/retirement-withdrawal-calculator>
Also see: <https://www.aier.org/article/what-your-retirement-planning-horizon>.
2. Elizabeth Arias, "Population and Vital Statistics Report, January 2014," Statistical Papers - United Nations (Ser. A), Population and Vital Statistics Report, 2014, doi:10.18356/7ed94efa-en.
3. Paul D. Sorlie and Eugene Rogot, "Mortality By Employment Status In The National Longitudinal Mortality Study," American Journal of Epidemiology 132, no. 5 (1990), doi:10.1093/oxfordjournals.aje.a115741.
4. S. Jay Olshansky et al., "Differences in Life Expectancy Due To Race and Educational Differences Are Widening, And Many May Not Catch Up," Health Affairs 31, no. 8 (2012), doi:10.1377/hlthaff.2011.0746.
5. Ferrucci L, Izmirlian G, and Leveille S, "Smoking, Physical Activity, and Active Life Expectancy," Clinical Journal of Sport Medicine 9, no. 4 (1999), doi:10.1097/00042752-199910000-00015.
6. Thomas Munk Laursen et al., "Mortality and Life Expectancy in Persons with Severe Unipolar Depression," Journal of Affective Disorders 193 (2016), doi:10.1016/j.jad.2015.12.067.

THE HIGH-YIELD DOW INVESTMENT STRATEGY

Recommended HYD Portfolio

As of July 15, 2018

	Rank	Yield (%)	Price (\$)	Status	—Percent of Portfolio—	
					Value (%)	No. Shares (%) ¹
Verizon	1	4.59	48.06	Holding**	25.57	32.76
IBM	2	4.30	145.39	Buying	19.85	8.96
Exxon Mobil	3	3.94	80.66	Buying	21.09	16.67
Pfizer	4	3.62	36.36	Holding**	14.01	24.58
Proctor & Gamble	5	3.62	77.38	Holding	1.61	1.34
Chevron	6	3.61	124.04	Selling	15.58	8.27
Boeing	22	1.95	357.88	Selling	0.00	0.00
General Electric	NA	3.46	13.3	Holding	1.57	7.42
Cash (6-mo. T-Bill)	N/A	N/A			0.72	N/A
Totals					100.00	100.00

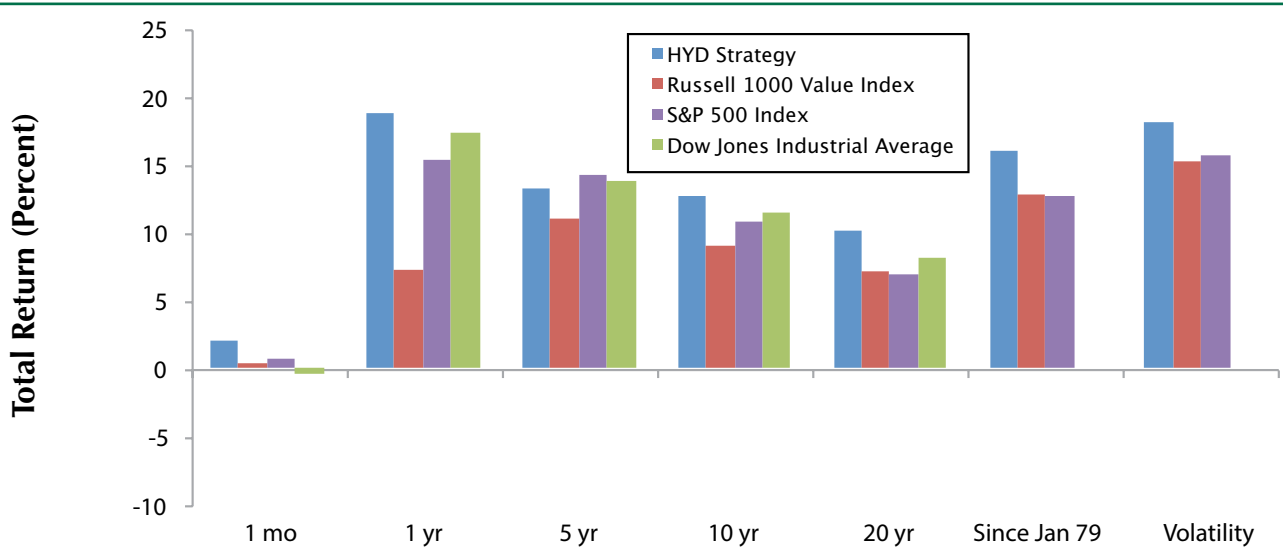
**Currently indicated purchases approximately equal to indicated purchases 18 months ago. 1 Because the percentage of each issue in the portfolio by value reflects the prices shown in the table, we are also showing the number of shares of each stock as a percentage of the total number of shares in the 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 June 30, 2018*. 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	1.80	17.64	12.48	11.93	9.52	15.09	17.09
Russell 1000 Value Index	0.25	6.77	10.34	8.49	6.69	12.02	14.35
S&P 500 Index	0.62	14.37	13.42	10.17	6.46	11.87	14.74
Dow Jones Industrial Average	-0.49	16.31	12.96	10.78	7.60	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.

Representative asset class indexes: U.S. large cap value - Russell 1000 Value Index; U.S. small cap value - Russell 2000 Value Index; U.S. Marketwide - Russell 3000 Index; Global REITs - S&P Global REIT Index; foreign developed markets - MSCI world ex-U.S.(net div.)Index; emerging markets - MSCI Emerging Markets Index(net div.); U.S. Bonds - Barclays U.S. Aggregate Bond Index; Foreign Bonds - Citi World Government Bond Index ex USA; Gold - London PM Fix. 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 individual investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges, the deduction of mutual fund fees, or the deduction of advisory fees, the incurrence of which would have the effect of decreasing historical performance. The results portrayed above reflect the reinvestment of dividends and capital gains.

RECENT MARKET STATISTICS

Precious Metals & Commodity Prices (\$)

	7/13/18	Mo. Earlier	Yr. Earlier	Prem. (%)
Gold, London p.m. fixing	1,241.70	1,285.25	1,230.30	
Silver, London Spot Price	15.81	17.23	15.71	
Crude Oil, W. Texas Int. Spot	71.03	65.01	46.54	

Coin Prices (\$)¹

American Eagle (1.00)	1,266.70	1,310.25	1,243.00	2.01
Austrian 100-Corona (0.98)	1,210.87	1,253.55	1,187.64	-0.49
British Sovereign (0.2354)	292.30	302.55	286.72	0.00
Canadian Maple Leaf (1.00)	1,251.70	1,295.25	1,228.00	0.81
Mexican 50-Peso (1.2056)	1,488.99	1,541.50	1,460.42	-0.53
Mexican Ounce (1.00)	1,259.70	1,303.25	1,236.00	1.45
S. African Krugerrand (1.00)	1,248.70	1,292.25	1,225.00	0.56
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	1,280.00	1,310.00	1,215.00	6.55
Liberty (Type I-AU50)	2,000.00	2,000.00	3,000.00	66.48
Liberty (Type II-AU50)	1,325.00	1,325.00	1,325.00	10.29
Liberty (Type III-AU50)	1,270.00	1,290.00	1,195.00	5.71
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	12,240.50	12,240.50	11,466.50	8.28
40% Silver Circ. (292 oz.)	4,821.00	4,895.50	4,476.50	4.43
Silver Dollars Circ.	23,250.00	22,875.00	21,750.00	90.14

¹Note: Premium reflects percentage difference between coin price and value of metal in a coin. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

Recent Market Returns²

Data through June 30, 2018

	U.S. Stocks (Mktwd)	Foreign Dev. Stocks	Foreign Emerg. Stocks	Global REITs	U.S. Bonds	Foreign Bonds (hedged)	Gold
1-month	0.65%	-1.10%	-4.16%	2.29%	-0.12%	0.44%	-4.21%
	↑	↓	↓	↑	↓	↑	↓
3-month	3.89%	-0.75%	-7.96%	6.05%	-0.16%	0.34%	-5.11%
	↑	↓	↓	↑	↓	↑	↓
1 year	14.78%	7.04%	8.20%	4.05%	-0.40%	1.93%	1.12%
	↑	↑	↑	↑	↓	↑	↑
5 year (annualized)	13.29%	6.23%	5.01%	6.31%	2.27%	1.76%	1.05%
	↑	↑	↑	↑	↑	↑	↑
15 year (annualized)	9.61%	7.31%	10.70%	7.87%	3.77%	2.70%	8.98%
	↑	↑	↑	↑	↑	↑	↑

Best and worst one-year returns, Jan. 2001 - June 2018

Best	56.0%	57.2%	91.6%	85.7%	13.8%	7.1%	57.6%
During:	03/2009-02/2010	04/2003-03/2004	03/2009-02/2010	04/2009-03/2010	11/2008-10/2009	07/2008-06/2009	06/2005-05/2006
Worst	-43.5%	-50.3%	-56.6%	-59.5%	-2.5%	0.1%	-27.4%
During:	03/2008-02/2009	03/2008-02/2009	12/2007-11/2008	03/2008-02/2009	09/2012-08/2013	04/2010-03/2011	12/2012-11/2013

²For representative asset class indexes see box on page 54.

THE DOW JONES INDUSTRIALS RANKED BY YIELD*

Ticker Symbol	Market Prices (\$)			12-Month (\$)		Latest Dividend Amount (\$)	Record Date	Payable Date	Indicated Annual Yield† (%)		
	7/13/18	6/15/18	7/14/17	High	Low				Dividend (\$)	Yield (%)	
Verizon	VZ	51.41	48.06	43.56	54.77	43.20	0.590	7/10/18	8/1/18	2.360	4.59
IBM	IBM	145.90	145.39	154.24	171.13	137.45	1.570	5/10/18	6/9/18	6.280	4.30
Exxon Mobil	XOM	83.31	80.66	81.28	89.30	72.16	0.820	5/14/18	6/11/18	3.280	3.94
Pfizer	PFE	37.53	36.36	33.43	39.43	32.32	0.340	8/3/18	9/4/18	1.360	3.62
Procter and Gamble	PG	79.31	77.38	87.10	94.67	70.73	0.717	7/20/18	8/15/18	2.869	3.62
Chevron	CVX	124.04	124.04	104.44	133.88	102.92	1.120	5/18/18	6/11/18	4.480	3.61
Coca-Cola	KO	44.74	44.12	44.68	48.62	41.45	0.390	6/15/18	7/2/18	1.560	3.49
Cisco	CSCO	41.78	44.25	31.42	46.37	30.36	0.330	7/6/18	7/25/18	1.320	3.16
Merck	MRK	62.89	62.03	63.06	66.41	52.83	0.480	6/15/18	7/9/18	1.920	3.05
Johnson & Johnson	JNJ	125.93	122.61	132.60	148.32	118.62	0.900	8/28/18	9/11/18	3.600	2.86
3M Company	MMM	201.18	204.97	211.77	259.77	191.44	1.360	5/18/18	6/12/18	5.440	2.70
Walgreen's	WBA	65.17	65.80	78.91	83.89	59.07	0.440	8/20/18	9/12/18	1.760	2.70
McDonald's	MCD	158.51	166.46	155.28	178.70	146.84	1.010	6/4/18	6/18/18	4.040	2.55
Caterpillar	CAT	140.75	150.02	108.77	173.24	105.11	0.860	7/20/18	8/20/18	3.440	2.44
Travelers	TRV	126.63	129.37	125.72	150.55	113.76	0.770	6/8/18	6/29/18	3.080	2.43
Wal-Mart Stores	WMT	87.70	83.70	76.34	109.98	75.55	0.520	8/10/18	9/4/18	2.080	2.37
Intel Corp	INTC	52.22	55.11	34.68	57.60	34.25	0.300	5/7/18	6/1/18	1.200	2.30
DowDupont	DWDP	66.36	67.75	84.75	77.08	61.27	0.380	8/31/18	9/14/18	1.520	2.29
United Tech.	UTX	129.51	126.91	123.41	139.24	109.10	0.700	8/17/18	9/10/18	2.800	2.16
J P Morgan	JPM	106.36	107.90	92.25	119.33	88.08	0.560	7/6/18	7/31/18	2.240	2.11
Home Depot, Inc.	HD	198.69	200.54	152.88	207.61	144.25	1.030	5/31/18	6/14/18	4.120	2.07
Boeing	BA	350.79	357.88	208.51	374.48	207.53	1.710	8/10/18	9/7/18	6.840	1.95
Microsoft Corp.	MSFT	105.43	100.13	72.78	105.82	71.28	0.420	8/16/18	9/13/18	1.680	1.59
Walt Disney	DIS	110.00	108.85	105.09	113.19	96.20	0.840	7/9/18	7/26/18	1.680	1.53
Apple	AAPL	191.33	188.84	149.04	194.20	147.30	0.730	5/14/18	5/17/18	2.920	1.53
Goldman Sachs	GS	226.41	231.92	228.60	275.31	214.64	0.800	8/30/18	9/27/18	3.200	1.41
American Express	AXP	100.50	98.52	85.28	103.24	83.33	0.350	7/6/18	8/10/18	1.400	1.39
Unitedhealth Group	UNH	258.70	255.98	186.90	259.01	183.86	0.900	6/18/18	6/26/18	3.600	1.39
Nike	NKE	77.38	75.84	58.00	81.00	50.35	0.200	6/4/18	7/5/18	0.800	1.03
Visa Inc.	V	139.42	135.10	96.93	139.55	93.19	0.210	8/7/18	9/4/18	0.840	0.60

* See the Recommended HYD Portfolio table on page 54 for current recommendations. † Based on indicated dividends and market price as of 7/15/18. Extra dividends are not included in annual yields. All data adjusted for splits and spin-offs. 12-month data begins 7/15/17.

ASSET CLASS INVESTMENT VEHICLES

Data as of June 30, 2018

Fixed Income

	Security Symbol(s) (1)	Avg. Market Cap / Avg. Maturity	Number of Holdings	Expense Ratio (%)	Turnover (%)	Price-to-Book Ratio	Trailing 12-Mo. Yield (%)	Annualized Returns (%)				Tax Cost Ratio - 3 Years (%) (3)
								1-Year	3-Year	5-Year		
Short-Term Bonds	Vanguard Short-Term Bond	2.90 yrs	2502	0.15	50		1.58	-0.40	0.70	0.96	0.68	
Short-Term Bonds	SPDR Portfolio Short Term Corp Bd ETF	2.03 yrs	1069	0.07	67		2.02	0.43	1.28	1.31	0.75	
Short-Term Bonds	iShares 1-3 Year Treasury Bond ETF	2.01 yrs	68	0.15	85		1.24	-0.11	0.28	0.45	0.37	
Interm-Term	Vanguard Total Bond Market	8.40 yrs	17453	0.15	55		2.34	-0.70	1.55	2.09	1.09	
Interm-Term	iShares Core US Aggregate Bond ETF	8.22 yrs	6816	0.05	252		2.46	-0.54	1.69	2.24	1.04	
Tax-Exempt	Vanguard Ltd-Term Tax-Exempt	2.90 yrs	4932	0.19	19		1.50	0.64	1.16	1.30	0.05	
Tax-Exempt	SPDR Nuveen Blimbg Barclays ST MunBd ETF	3.03 yrs	1414	0.20	32		1.10	0.04	0.63	1.07	0.00	
Tax-Exempt	Vanguard Interm-Term Tx-Ex Inv	5.50 yrs	7665	0.19	15		2.54	1.05	2.40	3.05	0.08	
Inflation-Protected	iShares TIPS Bond ETF	8.31 yrs	39	0.20	32		2.50	2.01	1.88	1.57	0.69	
Inflation-Protected	Vanguard Inflation-Protected Securities	8.30 yrs	41	0.20	22		3.06	1.50	1.71	1.52	0.86	
International	Vanguard Total International Bond	9.40 yrs	4913	0.13	19		2.19	2.97	3.45	3.83	0.78	

Real Estate (REITs)

U.S. REITs	Vanguard REIT	11.16 B	188	0.26	6	2.17	3.47	2.06	7.42	7.76	1.34
U.S. REITs	SPDR Dow Jones REIT	10.93 B	102	0.25	9	2.13	3.00	4.19	7.47	8.03	1.54
Int'l REITs	Vanguard Global ex-US Real Estate (2)	6.68 B	630	0.34	6	1.02	4.72	8.00	5.85	5.72	1.54
Int'l REITs	iShares International Developed Property	6.74 B	382	0.48	11	0.96	4.62	7.44	5.32	5.88	1.60
Global (incl. U.S.)	SPDR Dow Jones Global Real Estate ETF	9.12 B	231	0.50	13	1.48	3.48	4.46	5.20	6.14	1.45

U.S. Stocks

Large Cap (blend)	Vanguard S&P 500	99.72 B	514	0.14	3	2.95	1.75	14.41	11.88	13.26	0.57
Large Cap (blend)	iShares Core S&P 500	98.81 B	508	0.04	4	2.93	1.86	14.34	11.90	13.42	0.54
Large Cap (blend)	iShares Russell 1000 ETF	75.02 B	992	0.15	4	2.88	1.65	14.35	11.51	13.14	0.48
Large Cap Value	Vanguard Value	90.06 B	343	0.17	9	2.15	2.34	10.26	10.23	11.49	0.72
Large Cap Value	iShares Russell 1000 Value	56.26 B	733	0.20	15	1.90	2.22	6.63	8.10	10.15	0.60
Small Cap (blend)	iShares Core S&P Small-Cap ETF	1.71 B	603	0.07	12	2.12	1.17	20.55	13.81	14.55	0.40
Small Cap (blend)	Schwab US Small-Cap ETF	2.76 B	1735	0.05	11	2.12	1.18	16.54	10.13	12.39	0.44
Small Cap Value	Vanguard Small Cap Value	3.70 B	893	0.19	19	1.85	1.77	12.52	10.23	12.25	0.67
Small Cap Value	iShares Russell 2000 Value	1.66 B	1374	0.24	23	1.41	1.69	13.02	11.10	11.09	0.60
Small Cap Value	iShares Micro-Cap	0.49 B	1452	0.60	22	1.82	0.99	20.09	10.39	12.72	0.39
Marketwide	Vanguard Total Stock Market	56.21 B	3633	0.14	3	2.81	1.61	14.88	11.59	13.14	0.63
Marketwide	Fidelity Total Market Index	54.96 B	3354	0.09	2	2.72	1.61	14.89	11.62	13.16	0.91

Foreign Stocks

Developed Markets	Vanguard FTSE Developed Markets ETF	23.32 B	3882	0.17	3	1.53	2.95	7.06	5.47	0.00	0.78
Developed Markets	iShares Core MSCI EAFE ETF	23.45 B	2561	0.08	2	1.54	2.97	7.13	5.68	7.14	0.73
Emerging Markets	Vanguard Emerging Markets Stock	20.13 B	4117	0.32	6	1.67	2.40	6.49	3.97	4.13	0.81
Emerging Markets	Schwab Emerging Markets Equity ETF	31.73 B	962	0.13	7	1.59	2.49	6.66	4.18	4.67	0.68

Gold-Related Funds

Gold ETFs	SPDR Gold Minishares			0.18			0.00	n/a	n/a	n/a	0.00
Gold ETFs	GraniteShares Gold Trust			0.20			0.00	n/a	n/a	n/a	0.00

Data provided by the funds and Morningstar. (1) Some funds are available as mutual funds and ETFs, in which case both symbols are shown. In these cases, data represent the mutual fund. The ETF may offer a lower expense ratio and returns may deviate. For Vanguard funds, the investor share class is shown. The Admiral share class, which has a higher minimum investment, may offer lower expenses. (2) VIGRX includes a 0.25% fee on purchases and redemptions, which are paid directly to the fund. (3) This represents the percentage-point reduction in an annualized return that results from income taxes. This calculation (source: Morningstar) assumes investors pay the maximum federal rate on capital gains and ordinary income.

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 have positions in the investments referred to herein.