



250 Division Street
Great Barrington, MA 01230
413-528-1216
413-528-0103 Fax
www.americaninvestment.com

*Wholly Owned by the
American Institute for Economic Research*

Professional Asset Management Service

Our Investment Approach

Professional Asset Management (PAM) is a low cost discretionary investment advisory service for your entire portfolio through which we invest and manage your assets in accordance with your financial goals and investment risk tolerance. We monitor and adjust your portfolio on an on-going basis and provide comprehensive reports each quarter listing your holdings, purchases, sales, performance and more.

Our PAM service brings over seven decades of objective economic research from our non-profit parent, the American Institute for Economic Research to your investment planning as well as dedicated service from our team of experienced professionals.

American Investment Services (AIS)

AIS is a registered Investment Advisor with the Securities and Exchange Commission. Founded in 1978 to provide low cost independent investment management and advice to individuals, estates, trusts, pension and profit sharing plans and charitable organizations, AIS has been working hard to meet client needs for over two decades during alternating periods of economic boom, recession, and inflation. AIS provides investment services on a fee only basis and does not receive any commission or other compensation, either directly or indirectly, from any party other than clients, including brokers and investment companies.

AIS also publishes a monthly newsletter, Investment Guide.

AIS is wholly owned by the American Institute for Economic Research (AIER) and regularly meets with AIER's staff of economists and researchers to review economic trends, investment policy, and AIER's decades of research.

American Institute for Economic Research (AIER)

AIER, founded in 1933, is an independent scientific and educational organization. The Institute's research is planned to help individuals protect their personal interests and those of the Nation. By publishing the results of scientific inquiry, carried on with diligence, independence, and integrity, AIER hopes to help citizens preserve the best of the Nation's heritage and choose wisely the policies that will determine the Nation's future.

AIER represents no fund, concentration of wealth, or other special interests. Advertising is not accepted in its publications. Financial support for the Institute is provided primarily by the small annual fees from thousands of sustaining members, by receipts from sales of its helpful publications, by tax-deductible contributions, and by earnings of AIS. Experience suggests that information and advice on economic subjects are most useful when they come from a source that is independent of special interests, either commercial or political.

AIER's Charter and Bylaws ensure that neither the Institute itself nor members of its staff may derive profit from organizations or businesses that happen to benefit from the results of Institute research. AIER's financial accounts are available for public inspection during the normal working hours of the Institute.

Our Portfolio Management Principles

Each of our principles is discussed in the numbered sections of this pamphlet. They can be summarized as follows:

1. We employ a passive investment approach as opposed to active management
2. We construct each of our client's portfolios to match their unique situation, goals, and risk tolerance
3. When determining the best weights for each asset class, we consider the long term business outlook based on the statistical indicators of AIER's staff economists
4. We strive to keep our management fee among the lowest available
5. We search for the lowest cost method to implement our investment approach and we do not limit ourselves to utilizing any particular product or service

1. Passive Versus Active Management

There are two general approaches to investing in the capital markets, active and passive, and it is important that an investor understands the basic philosophy of their advisor.

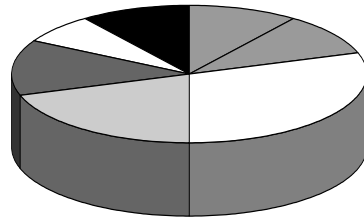
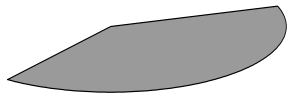
Active managers attempt to "pick stocks" as they "time the market." They claim to be able to consistently recommend securities that will be stellar performers and to know in advance the direction of the market. They believe, implicitly, that securities and markets are "mispriced" and that they possess a unique ability to determine the "correct" price.

Passive managers make no attempt to forecast prices. They believe that current market prices are the best estimate of value since the price reflects all known information and the collective judgment of investors. This is also known as the efficient market theory. The passive manager feels there are no "bargains" and it is impossible to consistently predict future prices. Instead they look at the characteristics and performance of classes of investments, e.g. large cap stocks or short term bonds, and then seek to invest in securities representative of the overall class. They often structure their portfolios to mirror the performance of common market indexes such as the S&P 500 or Russell 2000.

Note, these descriptions depict extremes. There is plenty of middle ground for a proponent of one view to utilize elements of the other.

We have adopted a passive approach. Statistically speaking, index funds have outperformed the vast majority of actively managed funds over the long term. Our research has convinced us that asset class portfolio allocation gives investors the best risk adjusted returns at the lowest cost.

2. Construct Each Portfolio to Reflect the Client's Situation



3. AIER's Research and Staff Economists

Economics is a social science. Finance is that branch of economics concerned with identifying sources of investment returns. Our research methodology is predicated on the empirical methods of scientific inquiry employed by our parent, the American Institute for Economic Research (AIER).

Our approach to wealth management reflects an abiding belief in the ability of capital markets to reward investors for the capital they supply. Markets are competitive—and that is good news for investors. Firms compete with each other for investment capital, while investors compete for returns. This relentless quest drives security prices to their fair value so that no investor can expect greater returns without bearing greater risk. This concept is formally known as the “Efficient Market Hypothesis.”

We employ statistical reasoning to identify *asset classes* – groupings of securities that have unique risk and return attributes. This framework allows us to construct a portfolio designed to meet the particular needs of each client in a manner that is measured and deliberate. Our objective is to provide the strongest returns possible consistent with each client’s tolerance for risk. In order to avoid sharp variations in portfolio value, we choose from asset classes with historical returns that have been positive, but not highly correlated with one another. We include asset classes that have performed well during both the inevitable “boom” and “bust” phases of the business cycle that the long-term investor is sure to encounter.

Our structured, rationale and quantifiable approach to portfolio construction stands in sharp contrast to the rudderless approach of traditional investment managers who implicitly believe that markets fail—they attempt to pick stocks that are “mispriced” and second guess the fluctuations inherent in capital markets. Though their rhetoric may be compelling, their track record is typically not. The evidence clear: Investors are better served by simply maintaining broad exposure to the appropriate segments of capital markets in a disciplined manner, consistent with their preference for risk.

4. Keep Our Fee Among the Lowest

Our management fee is among the lowest in the industry. Like many advisors, we have a tiered, cumulative fee structure based on assets under management (AUM) where AUM is the combined value of all accounts you have with us. Our only source of management revenue is the fee we charge to you directly, we do not earn any commissions or other compensation on trades nor are we reimbursed by any third party.

| AIS Professional Asset Management Fee Tiers | | |
|--|---------------------------|--|
| Minimum Annual Fee is \$1,500 | | |
| Minimum Assets Under Management is \$100,000 | | |
| Tier | Applies to AUM | Annual Fee |
| 1 | \$100,000 - \$250,000 | 0.80% of AUM or \$1,500, whichever is greater |
| 2 | \$250,001 - \$500,000 | Tier 1 maximum fee plus 0.55% of AUM in Tier 2 |
| 3 | \$500,001 - \$1,000,000 | Tier 2 maximum fee plus 0.25% of AUM in Tier 3 |
| 4 | \$1,000,001 - \$1,800,000 | Tier 3 maximum fee plus 0.10% of AUM in Tier 4 |
| 5 | Over \$1,800,000 | Flat 0.30% of total AUM |

The actual fee is calculated and billed quarterly in arrears. For example, if you have \$600,000 in AUM, at the end of each calendar quarter you will be billed one quarter of the sum of: 0.80% of the first \$250,000 plus 0.55% of the next \$250,000 plus 0.25% of the last \$100,000. This is equivalent to 0.60% annually. The fee for various AUM (to the nearest dollar) is calculated below:

| Quarterly Fee Calculation for Various AUM | | |
|---|---------------|-------------------|
| AUM | Quarterly Fee | Annual Equivalent |
| \$100,000 | \$375 | 1.50% |
| 200,000 | 400 | 0.80% |
| 300,000 | 569 | 0.76% |
| 400,000 | 706 | 0.71% |
| 500,000 | 844 | 0.68% |
| 600,000 | 906 | 0.60% |
| 700,000 | 969 | 0.55% |
| 800,000 | 1,031 | 0.52% |
| 900,000 | 1,094 | 0.49% |
| 1,000,000 | 1,156 | 0.46% |
| 1,250,000 | 1,219 | 0.39% |
| 1,500,000 | 1,281 | 0.34% |
| 1,750,000 | 1,344 | 0.31% |
| 2,000,000 | 1,500 | 0.30% |

5. Search for the Lowest Cost

Cost matters more than many investors realize—what may seem to be an inconsequential difference, say half a percentage point, can compound to much larger differences over the long term. The following table demonstrates the impact of costs on total performance over time. This assumes that two portfolios begin with \$500,000 each, and that each grows at 10% annually, before expenses. However, portfolio “A” has total annual expenses equal to 0.80% of the assets under management, while portfolio “B” has expenses equal to the mutual fund average (1.37%):

| | <u>Portfolio A</u> | <u>Portfolio B</u> |
|--------------------------|--------------------|--------------------|
| Starting Value | \$500,000 | \$500,000 |
| Ending Value in 15 years | \$1,872,016 | \$1,730,679 |

The difference accumulates to \$141,336, or 8.2% of the ending value of portfolio B.

It might be argued that Portfolio B has better prospects for superior returns, so that an assumption of equal 10% gross returns is invalid, but this would be pure conjecture. Past returns are at best only a rough guide to what the future might bring, and only results covering very long time periods and encompassing a variety of market conditions should be considered relevant. *Past and present costs, however, are excellent indicators of future costs.*

Investors face two types of costs: commissions and management fees and expenses.

Commissions: We place trades using limited powers of attorney in accounts that clients maintain with either Charles Schwab or TD Ameritrade. Unlike many advisors, we ensure competitive rates and services by working with more than one custodian.

Commission Rates Through AIS

| | Web Equity Trades | | Web Mutual Fund Trades |
|--|--|-----------------------------|---------------------------------|
| | Under Threshold ^{1, 2} | Over Threshold ¹ | |
| Charles Schwab (\$1M threshold) | <300 shares = \$15 301-399 shares = 5¢ per share >399 shares = \$19.95 | \$9.95 | 0.10% (\$20 min/\$49.95 max) |
| TD Ameritrade (\$500k threshold) | <2500 shares = \$15 (\$18 for limit orders) >2500 shares = 1¢ per share | \$9.95 | \$24 |

¹ Charles Schwab and TD Ameritrade have lower commission rates if you exceed their total household asset thresholds. The Schwab threshold is \$1,000,000 and the TD Ameritrade threshold is \$500,000. Transaction costs are seldom disclosed by mutual funds or investment advisors, but turnover (purchases and sales as a percent of total invested) can provide an indication of their extent. Once we have established our targeted positions in an account,