



# AIS

# INVESTMENT GUIDE

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\* HYD is a hypothetical model based on back-tested results. See p.6 for full explanation.

We offer two discretionary management services: Our Professional Asset Management (PAM) service covers all of our recommended assets and allows us to place trades in stocks, bonds, and mutual funds directly in our clients' accounts. (The accounts remain the property of our clients at all times—we are only authorized to trade on their behalf.) Our High-Yield Dow (HYD) service operates similarly, except it invests only in the highest-yielding Dow stocks, using the 4-for-18 model on a fully invested basis. Investors interested in these low-cost services should contact us at 413-528-1216 or Fax 413-528-0103.

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## New Year's Resolutions

*Patient investors were amply rewarded in 2010, but it was a rough ride (see our chart on page 6). Investors who adhered to the principles below would have avoided impetuous decisions that so often spell disaster for individual investors.*

- I will understand my own circumstances and formulate an investment plan based on my needs, not in anticipation of market trends.
- I will remind myself that investing is not a form of entertainment—if I have an urge to gamble, I will go to Las Vegas.
- I will stick to my plan.
- I will not attempt to pick winning stocks.
- I will ensure that my holdings are adequately diversified within each asset class I own.
- I will focus on minimizing my investment-related costs.
- I will stay abreast of changes in investment-related tax laws.
- I will not purchase any financial instrument I do not understand.
- I will ignore money managers or others selling products rather than advice.
- I will ignore market prognosticators.
- I will take full advantage of my qualified retirement plans by making the maximum allowable contributions I can live with.
- I will hold my least tax-efficient assets in my tax-deferred accounts.
- I will rebalance my portfolio infrequently, but at regular intervals regardless of the current state of the markets.
- I will not allow the price I have paid for a security to influence my future investment decisions—except for tax considerations regarding capital gains and losses.
- At year end I will harvest tax losses simply and without ever deviating from my portfolio's target allocations, by selling and buying index-type funds within the same asset class.
- I will appreciate the simplicity of the AIS approach; instead of worrying about factors that are not within my control, I will establish my plan and turn my attention to enjoying life.

## QUARTERLY REVIEW OF INVESTMENT POLICY

Given all of the “action” that surrounded capital market activity in 2010 (see chart on p.6), overall returns were decidedly and perhaps surprisingly, well...average. To be sure, there were standout performances turned in by Small Cap stocks, REITS & Gold (all up over 20 percent for the year), as investors continued their push into riskier assets. But the difference, or spread, between the best performing asset classes and the worst performing ones was significantly smaller than historical averages, and just about all asset classes turned in encouraging results.

Equity returns were buoyed by a solid second-half performance. Mild inflation figures, an improving economy, the Fed's roll-out of an additional \$600 million stimulus package, and an extension of tax cuts all helped to offset the fear that had predominated earlier in the year. Investors had been rattled by the Greek debt and Euro-zone crises and by the “flash crash” events of May

6<sup>th</sup> when stunned investors were glued to media coverage of the event, much like the many American citizens who were gripped with panic while listening to the original Orson Welles “War of the Worlds” radio broadcast in 1938.

Fortunately for investors in 2010 these events proved to be ephemeral. As always, market participants evaluated these occurrences in the context of longer-term economic prospects and set prices accordingly. Much like 2009, there was an abundance of panic and uncertainty at certain points. Once again we did not waiver but instead encouraged our readers to adhere to their target allocations. Those who did were in good shape at year-end.

The end of 2010 came with some rumblings in the fixed income markets. After beginning the year in a position where many people thought interest rates had no place to go but up, rates continued to slide downward throughout the year, pushing bond prices higher. The fourth quarter saw a reversal of this

trend; rates “finally” drifted higher and returns on many fixed income asset classes suffered, though still turning in respectable results for the full year.

Also of note was the Treasury's issuance of \$10 billion worth of 5-year Treasury Inflation Protected Securities (TIPS) at a negative real yield (-0.55 percent). This was the first time that a TIPS issue was priced at a negative real yield, which could portend rising price inflation over the next five years. Municipal bonds came under additional pressure in the fourth quarter (see accompanying article on p.4).

We have made no changes to our recommended portfolio allocations, presented in the accompanying AIS Model Portfolios table below.

### Cash and Equivalent Assets<sup>1</sup>

The U.S. economy has been showing incremental signs of improvement as indicated by GDP growth, which increased 2.6 percent in the third quarter

### AIS Model Portfolios(1) For the Period Ending December 31, 2010

Asset Class	Index	Recommended Percentage Allocations (2)			Asset Class Statistics: Risk and Return (%)			
		Conservative	Moderate	Aggressive	Total Return (annualized)	Std. Dev. (annualized)	1 Year	10 Year
Cash & Equivalent Assets (3)	3 Month CD Index	20	10	0	0.32	2.56	3.85	1.94
Short/Int. Fixed Income	Barclays Capital 1-5 Yr Govt/Cred	40	30	0	4.08	4.88	5.88	3.59
Real Estate	DJ US Select REITs Index	10	10	10	28.07	10.42	11.52	20.53
U.S. Large Cap Growth	Russell 1000 Growth Index (USD)	5	5	10	16.71	0.02	8.33	23.78
U.S. Large Cap Value	Russell 1000 Value Index (USD)	15	20	30	15.51	3.25	10.09	17.66
U.S. Small Cap Value	Russell 2000 Value Index (USD)	5	7	13	24.50	8.42	12.94	19.26
	DFA US Micro Cap Portfolio (USD)	0	3	7	31.29	9.63	13.49	22.00
Foreign Developed Markets	MSCI EAFE Index (USD) Gross Div	5	7	13	8.21	3.94	6.22	20.83
Foreign Emerging Markets	MSCI Emg. Mkts. Index (USD) Gross Div	0	3	7	19.20	16.23	12.17	37.05
Gold Related	Gold EOM gold (London PM Fix)	0	5	10	29.24	17.75	6.67	14.90
	Total	100	100	100				

#### Model Portfolio Statistics: Risk, Return (%) and Growth

	Conservative	Moderate	Aggressive
Portfolio Return 1 Year	9.48	13.46	20.11
Portfolio Return 10 Year (annualized)	5.34	6.75	7.80
Portfolio Return 20 Year (annualized)	7.65	8.82	10.69
Portfolio Standard Deviation			
20 Year (annualized)	7.05	9.55	15.80
Growth of \$100 over 20 Years	\$437	\$542	\$762

(1) 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. Model 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 8.

(3) Investors should maintain cash balances adequate to cover living expenses for up to 6 months in addition to the cash levels indicated.

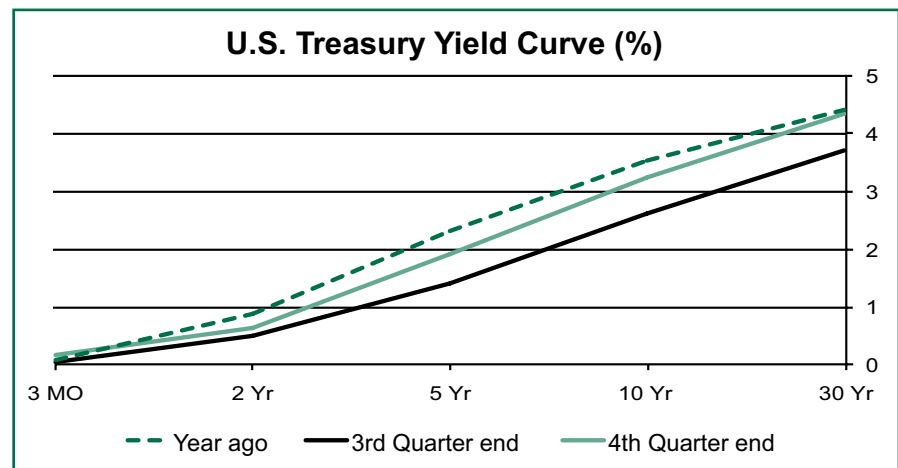
of 2010. This follows real GDP growth of 1.7 percent in the second quarter. However, these improvements have yet to impact the unemployment rate, which currently stands at 9.4 percent. The targeted federal funds rate remains at historically low levels of between zero to 0.25 percent, with the fed indicating that current economic conditions are “likely to warrant exceptionally low levels for the federal funds rate for an extended period.” The yield on three month Treasuries, which stood at 0.15 percent at the end of the third quarter, fell slightly to 0.14 percent as the year ended. Through December 31 the Consumer Price Index rose 1.5 percent on a year-over-year basis, indicating that the government spending initiatives have yet to cause significant overheating of the U.S. economy.

The recent pricing of 5-year TIPS at a negative real yield was a first. This could signal rising inflation expectations or else just be a result of unusually low nominal yields on Treasuries. Currently, the expected annual price inflation over the next five years, measured by the “breakeven rate” between U.S. Treasury bonds and TIPS, stands at 1.72 percent.

## Fixed Income

Bond trends reversed in the fourth quarter, as interest rates edged higher and sent prices lower. The effect was most significant at the long-end of the curve, with 30 year Treasury yields rising 65 basis points to end the quarter at 4.42 percent. The yield spread, or the difference between yields on investment grade corporate bonds and Treasury bonds of similar maturity, fell during the year as corporate visibility improved and corporate balance sheets strengthened.

Overall, bonds dropped 1.3 percent



for the quarter, as measured by the Barclays Capital Aggregate Bond Index. For the year, this same index gained 6.5 percent, close to its historical average. Similar to the equities markets, riskier sectors of the bond market fared best throughout the quarter (and year). Leveraged loans, high-yield bonds and commercial mortgage-backed securities (CMBS) were among the best performers in the quarter with returns of 3.2 percent, 3.1 percent and 1.1 percent, respectively.

Municipal bonds proved to be the most volatile bond sector in the quarter, tumbling 4.2 percent, and were the worst performing sector for the year, generating a (still positive) 2.5 percent return. See page 4 for more detail on the evolving muni bond market.

## Real Estate<sup>2</sup>

U.S. Equity Real Estate Investment Trusts (REITs) were a top performer in the fourth quarter delivering a 7.43 percent return. For the year, REITs were up 28 percent – almost identical returns to those seen in 2009. Attractive dividend yields versus Treasuries and signs of stabilization in the commercial

real estate market contributed to the subsequent recovery and price rise in this asset class.

REITs provide a high level of dividend income and strong total returns that are not highly correlated with those of common stocks or bonds, thus enhancing a portfolio's total risk-adjusted returns. Because dividend income accounts for a significant portion of their returns, REITs are best suited for tax-deferred accounts such as IRAs or qualified retirement plans.

## U.S. Equities<sup>3</sup>

Equities built upon the positive momentum of 2009 to turn in a solid year for 2010. The S&P 500 gained 15.1 percent for the year, following a robust 26.5 percent rise in 2009. Notably, the index rose 10.8 percent in the final three months of the year, making the fourth quarter rally the significant driver of full year returns.

The market's valuation, measured by its price/earnings ratio using one year trailing earnings, stood at 15.2 at year-end, below its historical average of 17. Stocks have now recovered 90 percent

	Total Return (%)												Entire Period 2Q 2008- 4Q 2010
	2008		2009				2010						
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Barclay Capital 1-5 Yr. Govt./Credit	-1.09	-0.31	<b>3.60</b>	0.53	1.46	2.14	0.42	1.20	1.78	1.66	-0.60	11.24	
Vanguard REIT Index	-5.39	5.35	-38.16	-32.09	30.03	<b>34.54</b>	9.05	10.02	-4.01	13.10	7.42	2.48	
Vanguard Value Index	-6.18	-5.72	-20.44	-16.41	16.71	17.38	4.41	6.16	-10.93	9.71	10.17	-3.82	
High-Yield Dow 4/18	-11.39	<b>8.77</b>	-22.71	-23.83	15.66	16.55	8.13	1.81	-8.97	<b>20.83</b>	6.69	-1.17	
Vanguard Small Cap Value Index	-3.80	1.51	-25.57	-18.14	23.83	23.89	3.79	<b>10.15</b>	-10.15	10.68	<b>13.95</b>	18.25	
Vanguard Growth Index	<b>2.34</b>	-12.04	-23.88	-4.24	15.59	14.13	7.88	4.85	-12.16	13.37	12.02	9.23	
Vanguard Developed Markets Index	-2.42	-18.89	-19.41	-15.82	25.59	19.25	1.67	1.26	-14.61	17.60	6.74	-11.26	
Vanguard Emerging Markets Index	-1.35	-25.98	-27.82	0.07	<b>34.14</b>	21.15	8.26	2.47	-9.12	18.74	7.49	10.29	
Gold (London PM Fix)	-0.35	-4.92	-1.67	<b>5.38</b>	1.96	6.55	<b>9.21</b>	2.57	<b>11.52</b>	5.06	7.54	<b>50.54</b>	

since hitting the low point established in March of 2009.

Stocks were buoyed during the fourth quarter by third quarter earnings reports. Overall earnings increased 37 percent year-over-year for the third quarter, with 72 percent of S&P 500 companies reporting results that were above analysts' expectations. The earnings growth over the past few years has come primarily from cutting costs and increasing productivity. These operational adjustments went a long way to pave the road to recovery, but with perhaps much of the "fat already trimmed", businesses and investors alike are looking toward top-line revenue growth as the way to drive profits in the future.

Among sectors, energy companies, materials and consumer discretionary stocks led the way in the fourth quarter, rising 21.5, 19.0 and 12.6 percent respectively. While still positive for the quarter and year, traditionally "defensive" industries such as health care and utilities turned in lackluster results on a relative basis, up 3.6 and 1.1 percent respectively, for the last three months of 2010.

Among U.S. equity asset classes, small growth stocks led during the quarter and the year, with returns of 17.1

percent and 29.1 percent, respectively, as measured by the Russell 2000 Growth Index. Small cap value shares were not far behind with returns of 15.4 and 24.5 percent for the quarter and year. Large cap issues, both growth and value, lagged their smaller company peers with returns of 11.8 and 10.5 percent for the fourth quarter.

It was a good year to be invested in U.S. equities, if you managed to stay the course and didn't attempt to jump off and back on the train at various points along the way. There was ample opportunity to give in and submit to emotion over the past year, but investors who maintained investment discipline were rewarded for doing so.

### International Equities<sup>4</sup>

For the full year there was a stark division between developed and emerging markets. Though both provided positive results, emerging market stocks were up 19.2 percent while their developed market peers were up 8.2 percent.

Developed markets, measured by the MSCI EAFE Index, rose 6.7 percent for the quarter (in U.S. dollars) and 5.3 percent in local currencies. Emerging markets stocks, measured by the MSCI

Emerging Markets Index, were up 7.4 percent for the quarter (in U.S. dollars) and 14.4 percent in local currencies. A strengthening dollar relative to emerging market currencies added some drag to fourth quarter performance, but for the year U.S. investors benefitted from a generally weaker dollar compared with most foreign currencies.

### Gold Related Assets

The gold price reached another peak in 2010, and ended the fourth quarter up 7.5 percent at \$1,405.50 per ounce. This marked the tenth consecutive year in which the gold price rose on a year-over-year basis.

The rise in the gold price paralleled a rise in fear regarding unabated government spending, the debt crisis in Greece and other emerging countries, and events such as the "flash crash" in the U.S. All of these developments served to undermine confidence in fiat monetary systems. Increased demand for gold in China and other growing economies bolstered the price as well.

Gold remains our most volatile recommendation, so investors' target allocations should stay within the ranges outlined in the accompanying AIS Model Portfolios table.

1 Sources for cash and equivalent and fixed income statistics: U.S. Treasury, Fidelity Management and Research Company, The Vanguard Group. Investment Grade bonds: Barclays Capital (BC) Credit Bond Index; High Yield bonds: Bank of America Merrill Lynch U.S. High Yield Master II Index; Municipal bonds: BC Municipal Bond Index; TIPS: BC U.S. TIPS Index.

2 REIT data provided by National Association of Real Estate Trusts (NAREIT).

3 U.S. Market: S&P 500 Index. Small caps: Russell 2000 Growth & Russell 2000 Value Indices, Large caps: Russell 1000 Growth & Russell 1000 Value Indices. Fidelity Management and Research Company.

4 Non-U.S. stocks: MSCI All Country World ex USA Index. Emerging markets: MSCI Emerging Markets Index. Developed markets MSCI EAFE Index. Currency data: Fidelity Management and Research Company, Oanda.com.

## MUNICIPAL BONDS RISK: FACE AND EMBRACE

*Local property tax revenues have fallen precipitously along with property values and some local governments are facing a fiscal crisis. While some municipalities may default on their bond obligations in coming months, speculation regarding systemic defaults has been loudly trumpeted in the media. Fear is pervasive, and indeed bond prices have tumbled and yields have risen as many investors have headed for the exits. Meanwhile "contrarian" prognosticators only add confusion by asserting that their relatively high after-tax yields make municipal bonds a bargain.*

*Wise investors will ignore this conflicting clamor. Current prices and yields simply reflect heightened risk, based on all available information currently, and are in fact the best*

*estimate of future prices and yields. They suggest neither an imminent crisis nor a buying opportunity.*

Our parent organization recently described the declining fiscal condition of municipalities throughout the nation.<sup>1</sup> Declining property values and reduced aid from states have placed some local governments in a severe fiscal bind.

These conditions have raised concerns that local governments may not meet interest payments on their outstanding bonds. According to the Investment Company Institute, over the past 29 weeks a cumulative \$17.3 billion has flowed out of municipal bond funds while taxable bond funds gained \$110.6 billion. Muni bond prices have fallen accordingly. Currently municipal bonds, which provide tax-exempt

interest, are providing *pre-tax yields* that nearly match or exceed those of taxable Treasury bonds with similar maturities (see table).

### A Solid History

According to a recent study by the Vanguard Group<sup>2</sup>, no state has defaulted on its obligations since 1933. Furthermore, between 1969 and 2009 only 54 municipal bonds rated by Moody's Investor's Services defaulted. To put this in perspective, the five-year cumulative default rate during this period for corporate bonds was 30 times that of municipal bonds.

Unfortunately news stories tend to focus on anecdotal cases of default, or near default, rather than empirical

evaluation. But even in many of those high profile cases the outcome was not a disaster for bondholders. The Orange County default of 1994 has reappeared in the media, but many investors may not realize that the county's general obligation creditors were paid off 18 months after the default. Recent attention has also focused on Harrisburg, Pennsylvania, which defaulted on a revenue bond. Though the city had to rely on state support, its debt payments were ultimately paid. Hurricane Katrina wreaked havoc on New Orleans' finances, but the city never missed a bond payment.

### Will They Pay?

History, however, is only a guide; the question for investors is the capacity and willingness of municipalities to meet their future obligations.

While some local governments face severe difficulty, many municipal bond issuers are in sound financial condition. For many, debt burdens are less than 5 percent of assessed property values. But municipal bonds are often treated monolithically by the media. When discussing the likelihood of municipal debt default, commentators often fail to distinguish between credit categories. Among the 18,000 municipal issues

rated by Moody's, 60 percent are rated AA or AAA.

It is unlikely that local governments would seek bankruptcy protection to escape paying bondholders. Vanguard points out that states cannot declare bankruptcy and that over half the states prohibit local government bankruptcies. Municipalities furthermore must file bankruptcy under Chapter 9, which offers few of the protections offered under Chapter 11 bankruptcy that is extended to corporations. Chapter 9 is often not pursued because it requires municipalities to cut spending, raise taxes, or sell assets before filing.<sup>3</sup>

### How to Manage Credit Risk

A higher than average default rate may emerge in coming months. But in our estimation individual investors are not well served by the rising chorus suggesting systemic default is imminent. Future bond prices will be driven by news yet to emerge. Wise investors will not speculate but instead

assume that every municipal bond is priced to reflect its own potential for default given what is known.

When risk is managed properly it can be embraced rather than feared, and municipal bonds are no exception. Diversification is the most valuable risk management tool at your disposal. Most municipal bond investors are best served by utilizing a short-term, high credit quality, nationally diversified index type mutual fund or ETF. We list two such funds on page 8. Alternatively, very wealthy investors can invest directly in municipal bonds by maintaining a municipal bond ladder with similar characteristics.

Pre-Tax Yields (%)			
Maturity			
	2 Year	5 Year	10 Year
U.S. Treasury	0.60	1.97	3.42
AAA Muni	0.87	1.88	2.81
AA Muni	0.93	2.15	3.25
Taxable Equivalent Yields (%)			
Maturity			
	2 Year	5 Year	10 Year
U.S. Treasury	0.60	1.97	3.42
AAA Muni	1.34	2.89	4.32
AA Muni	1.43	3.31	5.00
Yield to maturity as of 1/27/2011. Assumes 35% fed. tax bracket. Source: Yahoo			

<sup>1</sup> Lenndee Kemmett, Research Fellow, AIER "Local Governments Feel the Squeeze" Research Reports, Vol. LXXVIII, No. 1, January 17, 2011, p.1.

<sup>2</sup> Daniel W. Wallick, Christopher W. Alwine, Michael A. Griffin. "California is not Greece," Research Commentary, The Vanguard Group, January, 2011 p. 2.

<sup>3</sup> Vanguard, p. 5.

## TAX RELIEF ACT SUMMARY

The recently enacted "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010" includes several provisions that are of importance to individual investors. The most significant changes are summarized here:

- Current Federal income tax rates will be retained for two years (2011 and 2012), with a top rate of 35% on ordinary income and 15% on qualified dividends and long-term capital gains.
- Employees and self-employed workers will receive a reduction of two percentage points in Social Security payroll tax in 2011, bringing the rate down from 6.2% to 4.2% for employees, and from 12.4% to 10.4% for the self-employed.
- A two-year Alternative Minimum Tax (AMT) "patch" for 2010 and 2011 will keep the AMT exemption near current levels and allow personal credits to offset AMT. Without the patch, an estimated 21 million additional taxpayers would have owed AMT for 2010.
- Key tax credits for working families that were enacted or expanded in the American Recovery and Reinvestment Act of 2009 will be retained. Specifically, the new law extends the \$1,000 child tax credit and maintains its expanded refundability for two years, extends rules expanding the earned income credit for larger families and married couples, and extends the higher education tax credit (the American Opportunity tax credit) and its partial refundability for two years.
- Many of the "traditional" tax extenders are extended for two years, retroactively to 2010 and through the end of 2011. Among many others, the extended provisions include: the election to take an itemized deduction for state and local general sales taxes in lieu of the itemized deduction for state and local income taxes, the \$250 above-the-line deduction for certain expenses of elementary and secondary school teachers, and the research credit.
- After a one-year hiatus, the estate tax will be reinstated for 2011 and 2012, with a top rate of 35%. The exemption amount will be \$5 million per individual in 2011 and will be indexed to inflation in following years. Estates of people who died in 2010 can choose to follow either rules for 2010 or 2011.

**THE HIGH-YIELD DOW INVESTMENT STRATEGY**

**Recommended HYD Portfolio**

As of January 14, 2011

	Rank	Yield	Price	Status	—Percent of Portfolio—	
					Value	No. Shares <sup>1</sup>
AT&T	1	6.05	28.43	Holding**	23.37	24.42
Verizon	2	5.50	35.46	Holding**	25.31	21.21
Merck	3	4.44	34.23	Holding**	15.94	13.84
Pfizer	4	4.36	18.34	Buying	15.81	25.61
Kraft	5	3.70	31.34	Holding	2.53	2.40
DuPont	9	3.29	49.80	Selling	16.08	9.59
Frontier Communications	N/A	N/A	9.39	Selling	0.92	2.92
Cash (6-mo. T-Bill)	--	--	--		.03	--
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](http://www.americaninvestment.com).

**Hypothetical Total Returns: HYD and Relevant Indices (percent)**

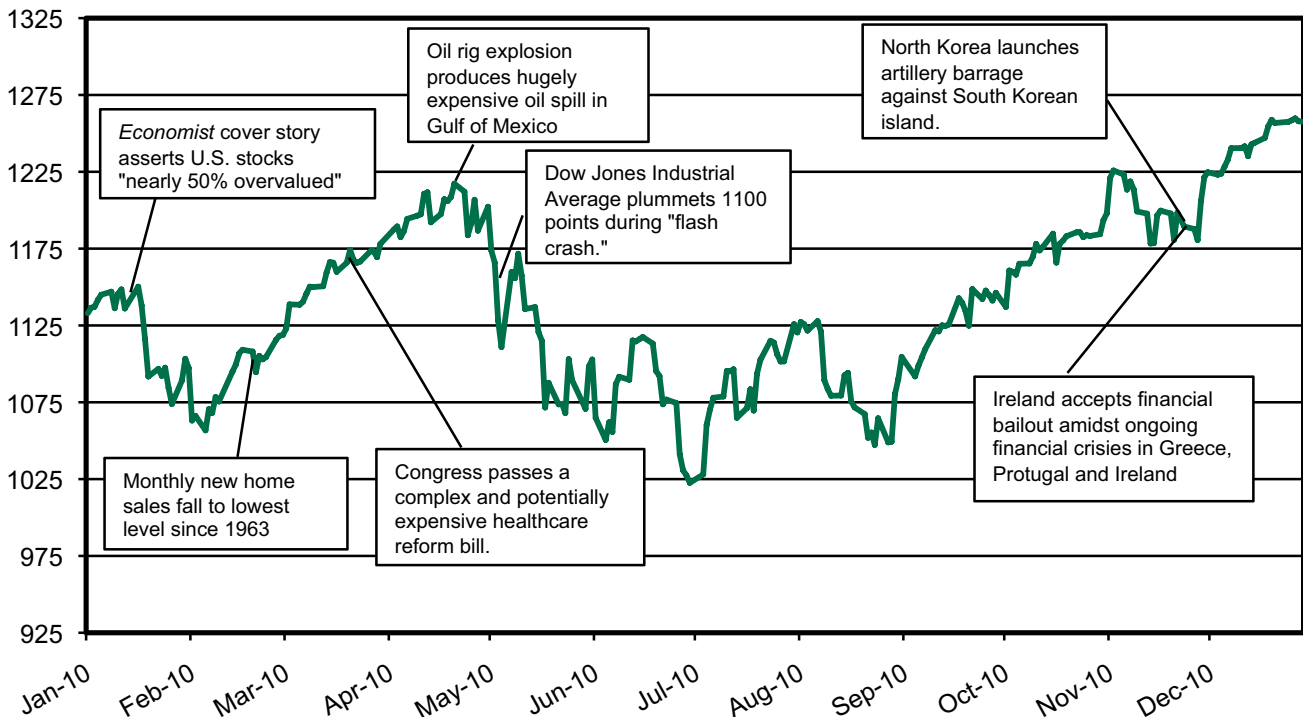
The total returns presented in the table below represent changes in the value of a hypothetical HYD portfolio with a beginning date of January 1979 (the longest period for which data was available for the HYD model and relevant indexes) through December 31, 2010\*.

	<u>1 mo.</u>	<u>1 yr.</u>	<u>5 yrs.</u>	<u>10 yrs.</u>	<u>20 yrs.</u>	<u>Since 1/79</u>	<u>Std. Dev.</u>
HYD Strategy	7.44	19.48	5.30	5.60	13.78	15.89	18.16
Russell 1000 Value Index	7.89	15.51	1.28	3.25	10.09	12.18	15.02
Dow	5.33	14.07	4.31	3.15	10.25	NA	NA

\*Data assume all purchases and sales at mid-month prices (+/- \$0.125 per share commissions), reinvestment of all dividends and interest, and no taxes. The 5-, 10- and 20-year total returns are annualized, as is the standard deviation of those returns since January 1979, where available. Model HYD calculations are based on hypothetical trades following a very exacting stock-selection strategy, and are gross of any management fees. They do not reflect returns on actual investments or previous recommendations of AIS. Past performance may differ from future results. 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.

**A ROLLERCOASTER YEAR**

**S&P 500 Index  
(Price Only)**



## RECENT MARKET STATISTICS

## Precious Metals &amp; Commodity Prices (\$)

	1/14/11	Mo. Earlier	Yr. Earlier
Gold, London p.m. fixing	1,367.00	1,388.75	1,053.50
Silver, London Spot Price	28.52	29.06	17.54
Copper, COMEX Spot Price	4.40	4.13	2.85
Crude Oil, W. Texas Int. Spot	91.53	88.61	77.57
Dow Jones Spot Index	459.91	438.30	341.35
Dow Jones-UBS Futures Index	161.67	154.61	133.32
Reuters-Jefferies CRB Index	333.06	318.84	273.72

## Interest Rates (%)

U.S. Treasury bills - 91 day	0.15	0.14	0.06
182 day	0.18	0.20	0.15
52 week	0.27	0.30	0.32
U.S. Treasury bonds - 10 year	3.36	3.53	3.70
Corporates:			
High Quality - 10+ year	5.01	5.17	5.12
Medium Quality - 10+ year	6.07	6.27	6.18
Federal Reserve Discount Rate	0.75	0.75	0.50
New York Prime Rate	3.25	3.25	3.25
Euro Rates			
3 month	1.00	1.03	0.68
Government bonds - 10 year	3.02	2.97	3.31
Swiss Rates - 3 month	0.17	0.17	0.25
Government bonds - 10 year	1.74	1.83	1.91

## Exchange Rates (\$)

British Pound	1.587400	1.561300	1.624000
Canadian Dollar	1.009897	0.996711	0.972101
Euro	1.332800	1.330600	1.437600
Japanese Yen	0.012050	0.011899	0.011014
South African Rand	0.144111	0.146499	0.135355
Swiss Franc	1.035518	1.039609	0.974279

## Securities Markets

	1/14/11	Mo. Earlier	Yr. Earlier
S & P 500 Stock Composite	1,293.24	1,235.23	1,136.03
Dow Jones Industrial Average	11,787.38	11,457.47	10,609.65
Dow Jones Bond Average	267.79	262.37	250.23
Nasdaq Composite	2,755.30	2,617.22	2,287.99
Financial Times Gold Mines Index	3,569.79	3,940.24	3,126.23
FT EMEA (African) Gold Mines	3,321.92	3,648.00	2,964.45
FT Asia Pacific Gold Mines	17,384.79	18,737.36	14,330.98
FT Americas Gold Mines	2,986.34	3,315.89	2,628.45

## Coin Prices (\$)

	1/14/11	Mo. Earlier	Yr. Earlier	Prem (%)
American Eagle (1.00)	1,419.07	1,442.68	1,193.28	3.81
Austrian 100-Corona (0.9803)	1,333.72	1,356.63	1,117.63	-0.47
British Sovereign (0.2354)	335.70	341.30	283.00	4.32
Canadian Maple Leaf (1.00)	1,402.60	1,426.20	1,188.20	2.60
Mexican 50-Peso (1.2057)	1,643.50	1,671.45	1,377.40	-0.28
Mexican Ounce (1.00)	1,383.50	1,406.90	1,162.70	1.21
S. African Krugerrand (1.00)	1,401.18	1,424.78	1,182.07	2.50
U.S. Double Eagle-\$20 (0.9675)				
St. Gaudens (MS-60)	2,835.00	1,520.00	1,380.00	114.35
Liberty (Type I-AU50)	1,625.00	1,625.00	1,675.00	22.87
Liberty (Type II-AU50)	1,560.00	1,560.00	1,462.50	17.95
Liberty (Type III-AU50)	1,445.00	1,480.00	1,302.50	9.26
U.S. Silver Coins (\$1,000 face value, circulated)				
90% Silver Circ. (715 oz.)	20,325.00	20,750.00	13,150.00	-0.33
40% Silver Circ. (292 oz.)	8,337.50	8,550.00	5,237.50	0.12
Silver Dollars Circ.	23,100.00	22,700.00	15,337.50	4.70

Note: Premium reflects percentage difference between coin price and value of metal in a coin, with gold at \$1367 per ounce and silver at \$28.52 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

## THE DOW JONES INDUSTRIALS RANKED BY YIELD\*

Ticker Symbol	Market Prices (\$)			12-Month (\$)		Latest Dividend Record			Indicated Annual Yield†		
	1/14/11	12/15/10	1/15/09	High	Low	Amount (\$)	Date	Paid	Dividend (\$)	(%)	
AT&T	T	28.43	29.13	25.79	30.10 H	23.78	0.430	1/10/11	2/1/11	1.720	6.05
Verizon	VZ	35.46	34.63	30.58	37.70 H	25.99	0.488	1/10/11	2/1/11	1.950	5.50
Merck	MRK	34.23	36.66	39.47	41.56	30.70	0.380	12/15/10	1/7/11	1.520	4.44
Pfizer	PFE	18.34	17.08	19.49	20.36	14.00	0.200	2/04/11	3/1/11	0.800	4.36
Kraft	KFT	31.34	31.48	29.58	32.67	27.09	0.290	12/31/10	1/14/11	1.160	3.70
Johnson & Johnson	JNJ	62.55	62.57	64.56	66.20	56.86	0.540	3/01/11	3/15/11	2.160	3.45
Intel Corp	INTC	21.08	21.28	20.80	24.37	17.60	0.180	2/07/11	3/1/11	0.720	3.42
McDonald's	MCD	74.06	76.98	62.28	80.94	62.39	0.610	12/01/10	12/15/10	2.440	3.29
Dupont	DD	49.80	49.24	34.01	50.54 H	31.88	0.410	11/15/10	12/14/10	1.640	3.29
Chevron	CVX	92.83	88.01	79.23	92.88 H	66.83	0.720	11/18/10	12/10/10	2.880	3.10
General Electric	GE	18.82	17.49	16.44	19.70	13.75	0.140	12/27/10	1/25/11	0.560	2.98
Procter and Gamble	PG	65.53	63.64	60.82	65.66 H	39.37	0.482	1/21/11	2/15/11	1.927	2.94
Coca-Cola	KO	63.13	64.74	56.29	65.88 H	49.47	0.440	12/01/10	12/15/10	1.760	2.79
Travellers	TRV	54.63	55.15	48.79	57.55	47.69	0.360	12/10/10	12/31/10	1.440	2.64
Home Depot, Inc.	HD	35.89	34.79	28.57	37.03	26.62	0.236	12/02/10	12/16/10	0.945	2.63
Boeing	BA	70.07	64.24	60.82	76.00	57.14	0.420	2/11/11	3/4/11	1.680	2.40
3M Company	MMM	88.10	85.81	83.37	91.49	67.98	0.525	11/19/10	12/12/10	2.100	2.38
Microsoft Corp.	MSFT	28.30	27.85	30.86	31.58	22.73	0.160	2/17/11	3/10/11	0.640	2.26
Exxon Mobil	XOM	77.84	71.85	69.11	78.00 H	55.94	0.440	11/12/10	12/10/10	1.760	2.26
Wal-Mart Stores	WMT	54.81	54.23	53.68	56.27	47.77	0.303	12/10/10	1/3/11	1.210	2.21
United Tech.	UTX	79.08	78.95	71.99	79.90 H	62.88	0.425	11/19/10	12/10/10	1.700	2.15
Caterpillar	CAT	94.01	93.12	60.12	94.89 H	50.50	0.440	1/20/11	2/19/11	1.760	1.87
IBM	IBM	150.00	144.72	131.78	150.00 H	116.00	0.650	11/10/10	12/10/10	2.600	1.73
American Express	AXP	46.25	46.12	42.39	49.19	36.60	0.180	1/07/11	2/10/11	0.720	1.56
Walt Disney	DIS	39.29	36.95	30.60	40.00 H	28.71	0.400	12/13/10	1/18/11	0.400	1.02
Alcoa	AA	15.97	13.96	15.63	16.72	9.81	0.030	11/05/10	11/25/10	0.120	0.75
Hewlett-Packard	HPQ	46.25	41.23	52.47	54.75	37.32	0.080	12/15/10	12/30/10	0.320	0.69
J P Morgan	JPM	44.91	40.21	43.68	48.20	35.16	0.050	1/06/11	1/31/11	0.200	0.45
Bank of America	BAC	15.25	12.29	16.26	19.86	10.91	0.010	12/03/10	12/24/10	0.040	0.26
Cisco	CSCO	21.21	19.47	24.40	27.74	19.00	0.000			0.000	0.00

\* See the Recommended HYD Portfolio table on page 6 for current recommendations. † Based on indicated dividends and market price as of 1/14/11. Extra dividends are not included in annual yields. H New 52-week high. L New 52-week low. (s) All data adjusted for splits and spin-offs. 12-month data begins 1/16/10.

RECOMMENDED INVESTMENT VEHICLES

Security Symbol	Avg. Market Cap./Avg. Maturity	No. of Holdings	Ratios		P/B	12 Mo. Yield (%)	Annualized Returns <sup>8</sup> (%), as of 12/31/10					
			Sharpe	Turnover (%)			Total	3 yr.	5 yr.	1 yr.	3 yr.	5 yr.
<b>Short/Intermediate Fixed Income</b>												
Vanguard Short-Term Bond Index	2.7 Yrs.	1294	0.22	1.49	77	2.16	3.92	4.54	4.98	3.03	3.44	3.67
iShares Barclays 1-3 Yr. Credit Bond	1.9 Yrs.	685	0.20	0.91	23	2.48	3.69	4.69	--	2.79	3.42	--
iShares Barclays 1-3 Year Treasury	1.8 Yrs.	36	0.15	1.38	62	1.03	2.22	3.10	4.08	1.86	2.32	2.99
Vanguard Limited-Term Tax-Exempt	2.9 Yrs.	1406	0.20	1.08	11	2.34	1.97	3.47	3.61	1.97	3.47	3.61
SPDR Short-Term Municipal Bond	3.1 Yrs.	358	0.20	0.78	14	1.60	1.40	3.88	--	0.78	3.67	--
<b>Inflation-Protected Fixed Income</b>												
iShares Barclays TIPS Bond	8.7 Yrs.	31	0.20	0.49	15	2.51	6.10	4.82	5.19	5.17	3.39	3.69
Vanguard Inflation-Protected Securities	9.3 Yrs.	31	0.25	0.48	14	2.44	6.17	4.55	5.07	5.26	3.46	3.77
<b>Real Estate</b>												
Vanguard REIT Index	5.3 B.	101	0.26	0.23	16	3.28	28.30	1.53	3.38	26.73	0.16	2.10
SPDR Dow Jones REIT	6.1 B.	84	0.25	0.20	10	2.94	27.83	0.10	2.27	26.41	-1.43	1.00
<b>U.S. Large Cap Value</b>												
Vanguard Value Index	37.6 B.	424	0.26	-0.10	31	2.22	14.28	-4.35	1.36	13.88	-4.77	0.94
iShares Russell 1000 Value Index	33.4 B.	669	0.20	-0.10	24	1.98	15.29	-4.49	1.17	14.42	-5.01	0.71
<b>U.S. Small Cap Value</b>												
iShares Russell Microcap Index	0.3 B.	1353	0.60	0.10	35	0.82	28.80	-0.98	0.32	28.39	-1.20	0.16
Vanguard Small-Cap Value Index	1.3 B.	990	0.28	0.24	33	1.82	24.82	3.40	4.14	24.36	2.93	3.68
<b>U.S. Large Cap Growth</b>												
iShares Russell 1000 Growth Index	38.6 B.	628	0.20	0.06	19	1.27	16.47	-0.62	3.58	15.89	-0.94	3.33
Vanguard Growth Index	34.8 B.	427	0.28	0.06	29	1.01	16.96	-0.56	3.83	16.76	-0.73	3.67
<b>U.S. Marketwide</b>												
Vanguard Total Stock Market Index	24.2 B.	3377	0.18	0.01	5	1.68	17.09	-1.74	2.94	16.77	-2.04	2.65
Fidelity Spartan Total Market Index	25.1 B.	3085	0.10	0.01	7	1.65	17.41	6.84	11.66	17.09	-2.13	2.64
<b>Foreign-Developed Markets</b>												
iShares MSCI Growth Index	25.9 B.	582	0.40	-0.11	28	1.79	11.92	-5.93	3.32	11.14	-6.25	3.08
iShares MSCI Value Index	31.1 B.	526	0.40	-0.15	30	3.25	3.18	-8.17	1.27	1.92	-8.69	0.77
Vanguard Europe Pacific Index	29.5 B.	949	0.20	-0.13	9	2.44	7.30	-6.83	2.76	7.06	-7.06	2.52
Vanguard Developed Markets Index	29.4 B.	987	0.10	-0.13	14	2.79	8.54	-6.70	2.61	8.02	-7.23	2.04
SPDR S&P International Small Cap	1.1 B.	694	0.60	0.08	17	2.38	24.44	-1.34	--	23.33	-1.77	--
<b>Foreign-Emerging Markets</b>												
Vanguard Emerging Market Index	18.2 B.	822	0.40	0.14	12	1.43	17.97	-0.68	11.98	17.69	-1.05	11.61
<b>Gold-Related Funds</b>												
iShares COMEX Gold Trust	--	1	0.40	0.90	0.00	0.00	27.94	18.52	21.68	27.94	18.52	21.68
streetTRACKS Gold Shares	--	1	0.40	0.90	0.00	0.00	27.25	18.55	21.94	27.25	18.55	21.94
<b>Recommended Gold-Mining Companies (\$)</b>												
Ticker Symbol	1/14/11	Month Earlier	Year Earlier	--- 52-Week ---		Distributions		Yield (%)				
				High	Low	Last 12 Months	Frequency					
AU	44.67	49.23	40.81	52.86	34.11	0.1850	Semiannual	0.4141				
ABX	47.08	52.53	39.70	55.72	33.65	0.3740	Semiannual	0.7944				
GFI	16.67	17.94	13.26	18.53	10.88	0.1610	Semiannual	0.9658				
GG	40.59	45.85	39.65	48.94	32.84	0.1785	Monthly	0.4398				
NEM	55.72	60.57	47.61	65.50	42.80	0.5000	Quarterly	0.8973				

Data provided by the funds and Morningstar. <sup>1</sup>Exchange Traded Fund, traded on NYSE. <sup>2</sup>1% fee for redemption in 1 yr. <sup>3</sup>0.5% fee for redemption in 90 days. <sup>4</sup>1% fee for redemption in 5 yrs. <sup>5</sup>2% fee for redemption in 60 days. <sup>6</sup>0.5% fee for purchase and 0.25% fee for redemption. <sup>7</sup>For Vanguard funds, Expense Ratios shown are for Mutual Funds. ETFs have lower expenses. <sup>8</sup>For Vanguard Funds, returns shown are for Mutual Funds; ETFs' returns may deviate. \* 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 and individual tax situations. † Dividend shown is after 15% Canadian tax withholding.

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