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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.

## *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. We strive to keep our management fee among the lowest available
4. 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.

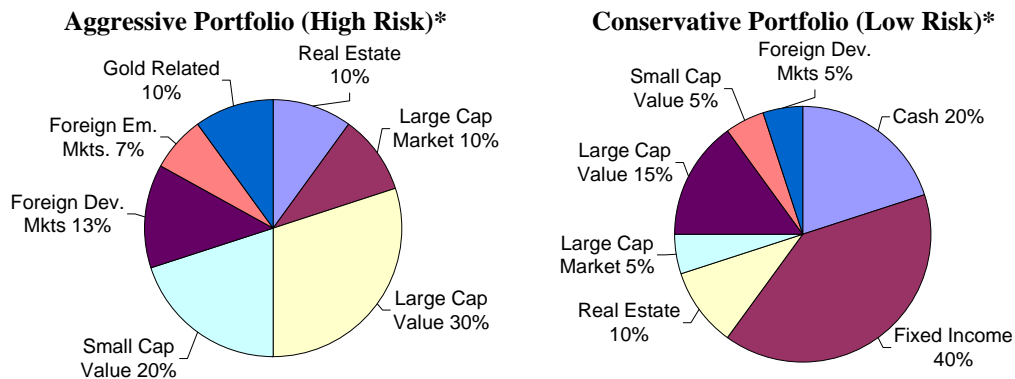
We have adopted a passive approach. Statistically speaking, index funds have outperformed the vast majority of actively managed funds over the long term. Our research has convinced us that asset class portfolio allocation gives investors the best risk adjusted returns at the lowest cost.

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

We have examined decades of historical data to develop an understanding of how various types of asset classes have performed in a variety of economic environments. By adjusting the percentages of a portfolio assigned to different asset classes, we can tailor the portfolio to provide superior risk-adjusted returns based on the client's needs and risk tolerance.

For example, a 30-year-old single person saving for retirement can assume more risk and, therefore, can be more heavily invested in a volatile asset class, such as small cap stocks, that has strong long term growth potential. However, a retired 70-year-old is less likely to be able to afford this risk, and, therefore, should be more heavily invested in a stable asset class such as short term bonds.

We design portfolios with an optimal mix of asset classes to meet the client's situation and personal risk tolerance. Then we select passive investment vehicles representative of the asset classes to create the portfolio. Examples of risk adjusted portfolios might be the following:



\* These are illustrative examples and should be not be construed as actual recommendations

#### **Consistent with AIER's Methods of Inquiry**

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.

#### **Science versus Salesmanship**

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.

<b>AIS Professional Asset Management Fee Tiers</b> 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:

<b>Quarterly Fee Calculation for Various AUM</b>		
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 Charles Schwab, TD Ameritrade or Fidelity Investments. Unlike many advisors, we ensure competitive rates and services by working with more than one custodian.

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, turnover is relatively low. Purchases and sales of our directly purchased “blue chips” usually equal about one-quarter of that segment of a portfolio per year compared to the 65% annual average reported by Morningstar, Inc. for 637 “Large Cap Value” mutual funds.

Management Fees and Expenses: We have already discussed our management fee. In addition, mutual funds carry an expense ratio. The passively managed funds we recommend have far lower turnover than active funds, as trades in a passive fund only reflect changes in the underlying index or segment they track, and therefore have among the lowest expense ratios in the industry.

Hiring us to invest in mutual funds on your behalf means, in effect, paying two parties to manage the same investment. However, the expense ratios of our recommended funds are so low that even in combination with our fee they amount to significantly less than the mutual fund industry average of over 1% per year, as illustrated in the following table of costs for a sample of our typical fund recommendations. Moreover, mutual fund expenses will only apply to the portion of your portfolio that is put into funds. Therefore the actual impact to your overall portfolio will be somewhat less than shown here:

This is a representative sample of our recommended funds and is intended for illustrative purposes only.

<u>Asset</u>	<u>Annual Fund Expense Ratio</u>	<u>Annual AIS Fee (\$1 mil portfolio)</u>	<u>Total</u>
AIS "HYD" Stock Strategy	0	0.46%	0.46%
Vanguard Growth Index Fund	0.22%	0.46%	0.68%
Vanguard Small Cap Value Index Fund	0.22%	0.46%	0.68%
Vanguard Developed Markets Index	0.22%	0.46%	0.68%
Vanguard Short-Term Corporate Bond Fund	0.21%	0.46%	0.67%
DFA 5-Year Global Fixed Income Portfolio	0.28%	0.46%	0.74%
DFA U.S. Large Cap Value Portfolio	0.27%	0.46%	0.73%
DFA Core Equity I	0.20%	0.46%	0.66%
DFA Emerging Markets Core Equity	0.65%	0.46%	1.11%
DFA Real Estate Securities Portfolio	0.33%	0.46%	0.79%
DFA Targeted Value (Small Cap)	0.41%	0.46%	0.87%
iShares Comex Gold Trust	0.40%	0.46%	0.86%
iShares MSCI EAFA Value Index	0.40%	.046%	0.86%

Data Source: MorningStar, Inc. as of 6/30/08.

Note, DFA (Dimensional Fund Advisors) does not sell their funds directly to individuals, they are sold exclusively through advisors that DFA has screened. We do not receive any form of commission or other type of reimbursement from either DFA, Vanguard or any other fund company.

*As noted earlier, past returns are not a guarantee of future results. Past and present costs, however, are an excellent indicator of future costs. A low cost structure therefore gives you a significant "head start."*

### *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, including brokers and investment companies, other than clients,.

AIS also publishes a monthly newsletter, Investment Guide.

AIS is wholly owned by the American Institute for Economic Research (AIER). Our research is generated internally and is consistent with the methods of inquiry employed by AIER. We also rely on research conducted by Dimensional Fund Advisors, Inc. and other academic and financial research sources.

### *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.

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