Please Let Us Know

The investment newsletter industry has changed profoundly over the past 40 years, and for the better, from investors’ perspective. For many years it included purveyors who peddled too-good-to-be-true investment strategies to unsuspecting subscribers. So-called “sucker lists” became commodities traded among publishers, who prospered at the expense of unwary readers.

The expanded availability of investment information has changed all this. Investors today can obtain reliable information very quickly at zero (or very low) cost through the internet. An overwhelming body of data and analysis are available directly, literally at investor’s finger tips, through the click of a mouse. While irrelevant data and shoddy analysis has expanded as well, this technological progress has, on balance, made it far more difficult for shady publishers to survive, leaving truly valuable newsletters to continue.

We are happy to say that this publication is among those that have not only survived, but prospered. The Investment Guide, together with its predecessor, Investment Bulletin, has served as a pillar of AIS and AIER research for decades. This has in turn supported a steadily rising client base.1

At the same time the ascent of information technology and availability of data undreamed of at AIER’s founding have vastly accelerated the application of statistical reasoning to financial economics. Factor-based investing has risen to the fore, while stock picking and market timing are met with unprecedented skepticism.

We like to think that, unlike most other advisors, we perceived these trends early on. While we have remained circumspect, we have embraced many of the insights that emerged as evidence mounted. The portfolio approach we advocate today is on the surface far different from our past recommendations, but at root simply reflects an evolution of AIER’s longstanding empirical approach to economics as applied to investing.

continued on next page
Rather than prognosticate, our aim is to separate the irrelevant from the relevant, and sound analysis from facile data mining. Most recently we have added a new table, Rates of Interest (intended to be of interest to you, forgive the pun), on the front page. We have also enhanced the Recent Market Statistics table that appears on page 23. All of this data is readily available elsewhere, but we extract only that which is valuable among a sea of extraneous statistics, compile the results and deliver it to you every month, along with articles intended to serve as ever-evolving "instructions" regarding how to use it effectively.

At the end of the day the continued success of this newsletter will depend on how useful you find it.

To that end, we want to know what you think. While we cannot accommodate every request, we will make our best effort to identify common suggestions and to incorporate changes.

Please contact us at (413) 528-1216 (ext. 3127) email: luked@americaninvestment.com with any comments.

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1. Our regulatory assets under management now exceed $800 million.

### THE CAPE RATIO APPROACHES 30

Nobel-prize winner Robert Shiller tracks the level of the S&P 500 versus trailing 10-year earnings, known as the Cyclically Adjusted Price-to-Earnings Ratio, or CAPE. The CAPE is said to be a key measure for many investors because it has historically shown to be a reasonable gauge by which to set long-term stock market expectations. When the CAPE is high, it suggests lower-than-average returns will prevail over the next seven to 10 years. When it is low, it suggests higher-than-average returns in the future. According to Shiller's research, the CAPE ratio and the "mean regression" that it supports may explain about one-third of stock market variance.

The CAPE ratio is on the verge of breaching 30 for only the third time in its history. The previous two occasions preceded significant market pullbacks. It peaked at almost 44 in 1999 and almost 33 in 1929. We don't like to make predictions about stock market growth, but many investors are asking about what all-time highs in the stock market and high relative prices mean for the future. There are three predominant narratives that we see as reasonable stories – unfortunately the narratives vary quite a bit in their conclusions.

Fortunately, rational investors can rely on diversification as a reasonable means of preparing for all scenarios.

### The Optimistic Scenario

There are investors who believe that a higher-than-average CAPE ratio is warranted. The most notable of these investors may be Jeremy Siegel, the "perma-bull" who suggests the CAPE may be elevated compared to history for good reason. According to Siegel, the CAPE ratio does not adjust to the growth rate of earnings. He argues that during high earnings growth periods, the CAPE ratio will be elevated. He has also pointed to changes in the way that earnings are reported that biases the CAPE ratio upward under today's accounting guidelines.

Siegell and others provide additional arguments suggesting that the historical average CAPE ratio – somewhere around 16 or 17 – is irrelevant today. The composition of "the market" is constantly changing and the companies that comprised the S&P 500 historically are very different from today's largest companies. As recently as 1990, technology and health care comprised less than one-sixth of the S&P 500. At the end of last year, those two sectors comprised more than one-third of the S&P 500. The S&P 500 is now dominated by these growth stocks, whose earnings grow at an above average rate and therefore justify higher price-to-earnings multiples than the multiples observed among slower growth industrial, energy, and utilities stocks. As tech and health care comprise a larger share of the market, it stands to reason that the "market" price-to-earnings ratio should also increase.

We can address this industry-composition difference by splitting the data into "old economy" and "new economy" time periods. Pre-1990, the average CAPE ratio was just over 14 (from 1881 through 1989). Since 1990, the average has been closer to 25. This suggests the current level of 30 is far more reasonable. Optimists make a strong argument that the older historical ratios are not meaningful.

Some pessimists also point to a discrepancy between U.S. valuations and global valuations as evidence that U.S. markets are "overvalued." Optimists point to a stronger rule of law and more transparent capital markets as valid reasons for higher U.S. valuations. Emerging markets stocks are "cheaper" from a valuation perspective, but certainly more suspect when it comes to transparency and the potential for detrimental government intervention.

Finally, optimists view historically low interest rates as fuel that has driven valuations higher. Lower discount rates mean that the present value of firms' future earnings, and hence their stock prices, should be higher, other things equal. Other arguments in support of high recent valuations include robust earnings growth and as well as national politics, which are said to support a friendlier regulatory environment.

### The Pessimistic Scenario

The flip side of this narrative is the common argument that the CAPE must at some point revert to its historical average, or perhaps even lower. This portends a big drop in markets. Robert Shiller, perhaps the best known proponent of this argument, is always on watch for the next "bubble." He correctly forecasted poor stock market returns during the decade at the outset of the century, as well as the housing market bubble.

If the CAPE fell to 15, for instance, it would imply a nearly 50% drop in markets from today's prices, if earnings were held constant. The pessimist considers the entire history of the CAPE and does not put faith in a paradigm shift. Pessimists suggest that all we need is a "trigger" to send the market in the wrong direction and for the bottom to fall out.

Purveyors of the negative narrative also cite national politics. The
uncertainty engendered by the current administration could become so erratic that the current valuation premium could disappear, driving U.S. stock prices (and price-to-earnings multiples) lower.

Cautious Optimism

A cautiously optimistic narrative asserts that although CAPE ratios may be high today, earnings can grow to “catch up” to prices, bringing the CAPE ratio down without the market tanking. If the economy remains strong and we’re in the midst of a long-term “secular bull” market, such as the one from 1980 through 1999, then we have some time before a major pullback occurs.

This scenario suggests that maybe the market just needs to move sideways for a year or two, and if company earnings grow, then the CAPE ratio can revert to a more reasonable level without major losses. This narrative means that U.S. stock returns may be diminished in the near-term, but a resumption of growth will reward patient investors who regularly re-balance to target allocations.

Our Take

In our view using the CAPE ratio to predict the market is not a productive use of time or intellect. The temptation to pursue a timing strategy is understandable: a successful strategy could provide enormous returns. But as one researcher put it, timing strategies are the fountain of youth of investing.

The particular problem with the CAPE ratio is implementation, that is, the adoption of a trading rule to indicate when to overweight or underweight equities. Research suggests that a successful trading rule based on past CAPE data is elusive.

More fundamentally, forecasting by the CAPE ratio confronts the same impediment common to all timing strategies: over the past nine decades markets have generally gone up more often than they have gone down, so attempts to avoid losses from a bear market risks missing out on gains of greater magnitude during a bull market.

Thankfully, a well-balanced and diversified portfolio is the answer to any of the possible outcomes we have described. Investors should hold stocks for their potential growth, bonds to temper stock market volatility, and cash for emergencies. Diversify across asset classes and rebalance to minimize volatility.

Investors using such an approach are unlikely to “beat” the S&P 500 every year, but can rest assured they are embracing the best approach available for meeting their financial goals.

Regular readers of the Investment Guide are familiar with “tilts” among our recommended portfolios, which assign higher allocations to certain asset classes that have rewarded investors with higher returns relative to less risky asset classes. These “risk premiums” are generated by the overall stock market (versus the bond market) and by small cap and value stocks (versus the overall stock market).

Chart 1 depicts the growth of $100 invested in each of these alternatives since 1979. Over this 38 year span, a portfolio comprised purely of small cap value stocks would have grown to $11,567 versus $7,127 for the S&P 500 and $1,651 for bonds. This reflects an average annual return on the U.S. stock market (approximated by the commonly cited S&P 500 Index) of 11.8%, versus only 7.6% for U.S. bonds (represented by the Barclays U.S. Aggregate Bond Index). The Russell 2000 Value Index, which reflects the returns of U.S. small cap value stocks, returned 13.3%.

The stock market premium, first described by William Sharpe and developed in the Capital Asset Pricing Model (CAPM), served as the prevailing investment framework for decades. It still underlies the most fundamental question for investors: how much should be invested in stocks versus bonds?

This premium asserts that stocks should outperform bonds over time, but with greater volatility because stocks bear much greater risk. All earnings accrue to stock holders, while bondholders earn only a fixed coupon payment and redemption value when the bond matures. But future earnings are highly uncertain and, if a company fails stockholders have only a subordinate claim on liquidated assets (as creditors, bond investors get paid back first).

This presents a trade-off for investors to weigh. Stocks are essential for investors who hope to earn positive returns that outpace price inflation. In theory during inflationary times firms can raise their prices and pass on higher nominal profits to stockholders, while bond holders are “stuck” with fixed nominal payments. Bonds, however, serve a critical role because they offset the volatility inherent in stocks and thereby minimize the highly destructive behavioral tendency among investors to buy stocks when prices are rising and to abandon them when prices are falling.

Fama and French’s seminal paper on the source of portfolio returns went beyond this fundamental stock market premium by identifying two new sources of stock returns among stocks: the small cap and value premiums. These premiums show up empirically both across time and across countries, and are consistent with the notion that higher returns can only be achieved through greater risk exposure. For example, small cap stocks may have more difficulty raising capital, may have a less diversified product base, or be more reliant on key personnel in comparison with larger firms.

### Where are the Premiums?

In recent years, the small cap and value premiums have been scarce. For the 10-year period ending February 2017, the total return on the S&P 500 was 108% versus only 84% for the Russell 2000 Value Index. This has led many investors to question whether these small cap and value premiums still exist. Some assert that these premiums were never explained by risk but by an inefficient market that had consistently underpriced these firms, and that the premiums have now vanished after finally being discovered.

We believe it is premature to conclude that the market had for decades failed to price these securities properly. There have been similar long term spans when the overall stock market premium did not materialize, but these episodes did not spawn similar claims that stocks could no longer be expected to outperform bonds. Even in the aftermath of the so-called “lost decade” from 2000 through 2009, when the S&P 500 fell 9% while the Barclays’s U.S. Aggregate Bond Index increased by 85%, few were willing to conclude that stocks were dead.

If long-term history is a guide to the future, it is essentially a toss-up as to whether the small and value premiums will occur over any particular span, even over extended periods. Among the 458 months between January 1979 and February 2017, the Russell 2000 Value Index outperformed the S&P 500 Index on only 238 occasions – about 52% of the time. Likewise, during rolling 10-year periods, the Russell 2000 Value Index has outperformed the S&P 500 only about 53% of the time. It’s clear that investors who “tilt” their stock exposure toward small cap and value stocks risk a strong chance of sustained underperformance relative to the overall market.

In addition to only a slight edge in terms of frequency of these premiums showing up, the magnitude of outperformance is also unimpressive on average. The average outperformance among those 238 months when the Russell 2000 Value “won” was about 2.25%. When the S&P 500 won (the remaining 220 months) the average outperformance was a similar 2.14%.

These outcomes might seem puzzling. In Chart 1 we demonstrate that the long term outperformance of small cap value stocks relative to the overall stock market is profound. But we have shown that the frequency and magnitude of these premiums appear modest.

The explanation is twofold. First, compounding a small advantage over a long period makes a big difference. Second, this modest average monthly small cap advantage disguises the fact that just a few months with extremely high returns accounted for virtually all of the substantial outperformance over the entire 38 years. Such months are few and far between, so investors who hope to partake in these premiums may need to endure stretches of underperformance relative to the market in order to capture upswings. These premiums cannot be realized by jumping on the bandwagon only after they appear. By the time they have materialized, the bandwagon has usually left town.

### The Trouble with Timing

If premiums showed up predictably, arriving every other month and showing persistent outperformance, investors would be quite comfortable tilting their portfolios toward them. But in fact we see long periods where premiums do not occur at all, and short bursts where premiums emerge powerfully.

It’s risky enough just attempting to time positive returns, let alone specific premiums. For example, the growth depicted in Chart 1 for the S&P 500 reflects a total return of 7,027% over the entire 458 months since 1979. The total return on just the best 59 best months was 7,223%. So an investor who was out of the market during those 59 months would have seen a zero total return!

It is even more difficult to time specific premiums. Consider the value...
and size premiums. Since 1979, the five “best” months for small cap value stocks constitute a 59% cumulative outperformance over the S&P 500. But the premium of the remaining 453 months is roughly zero. The table on page 20 displays the magnitude of this premium during each of these five months. Investors tempted to time the small cap value premium would have been severely hobbled had they failed to capture just a few very successful months.

This irregularity became starkly apparent quite recently. In November 2016 the Russell 2000 Value Index jumped 13.3% for the month, compared with an increase of 3.7% for the S&P 500. This was the fourth largest monthly disparity since 1979. During that episode, two-and-a-half years of small cap value underperformance was erased in the matter of weeks (see Chart 2).

Investors who employ our hypothetical High Yield Dow strategy experienced a similar surge in returns for the full year, as this particular value strategy returned about 28% for 2016. Likewise, returns on the DFA U.S. Small Cap Value Fund and DFA U.S. Microcap Fund (both small cap value strategies) returned 28% and 26%, respectively. Both benefited from a year-end surge.

Investors who did not employ steady premium tilts, but instead tried to capture the surge only after it started, were probably disappointed. The Russell 2000 Value Index was up just 0.7% during January and February, while the S&P 500 was up 5.9%.

Conclusion

As is the case with U.S. and international stocks, real estate and gold, small cap and value premiums are unpredictable. The best way to pursue these elusive returns is to remain consistently invested in order to ensure participation in the unpredictable months where premiums show up the strongest.

We recommend exposure to small cap and value stocks and to the stock market in general, even when the “experts” can provide no reason for them to surge. Investors who maintain their positions and regularly rebalance to target allocations should be rewarded.

GREENSPAN ON GOLD

In the February 2017 edition of Gold Investor, published by the World Gold Council, former Federal Reserve Chairman Alan Greenspan provided his views on gold.

In his interview for Gold Investor magazine, Greenspan makes several very important observations about the economy and the role of gold. First, the risk of inflation is beginning to rise in the United States. The combination of a tightening labor market, rising demand, and accelerating wages is stoking inflationary pressures.

Second, significant increases in inflation are likely to push up the price of gold. “Investment in gold now is insurance. It’s not for short-term gain, but for long-term protection,” said the former chairman.

Third, even though full gold standards are generally rare in the world, the metal plays an important role in the global financial system. “View gold as the primary global currency,” Greenspan says.

Fourth, he has deep concerns about other major economies around the world. “The eurozone is not working,” he states. While concerns over rising inflationary pressures in the U.S. could lead to accelerating inflation or stagflation, the situation in Europe is worse. “Northern Europe has, in effect, been funding the deficits of the South; that cannot continue indefinitely.” In addition, there’s heightened uncertainty surrounding Brexit, and both Japan and China are struggling with financial and economic issues as well.

Fifth, echoing the sentiment in the closing paragraph of my blog on March 15, 2017 following the decision by the Federal Reserve to raise interest rates, he believes that sound fiscal policy is more fundamental than monetary policy, and that sound fiscal policy would make implementing monetary policy easier. He also believes higher capital requirements for banks and other financial intermediaries would help prevent financial crises from impacting the non-financial part of the economy.

Unfortunately, currently fiscal policy is unsustainable and is destabilizing the financial system.

1. Financial advisor and author Larry Swedroe estimates that the entire market return is accounted for by about 1 out of every 12 months.
2. We calculate the small cap value premium as monthly returns on the Russell 2000 Value minus the monthly returns on the S&P 500 Index. This may understate returns because it does not compound at the same pace as stock market returns, but the point remains: the small cap value outperformance is concentrated in a handful of months.
4. See page 22 for important information and disclaimers regarding indexes displayed.

2. https://www.gold.org/research/gold-investor
**THE HIGH-YIELD DOW INVESTMENT STRATEGY**

### Recommended HYD Portfolio

<table>
<thead>
<tr>
<th>Rank</th>
<th>Product</th>
<th>Yield (%)</th>
<th>Price ($)</th>
<th>Status</th>
<th>—Percent of Portfolio—</th>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Value (%)</td>
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<tr>
<td>1</td>
<td>Verizon</td>
<td>4.61</td>
<td>50.14</td>
<td>Holding**</td>
<td>22.60</td>
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<td>2</td>
<td>Chevron</td>
<td>3.97</td>
<td>108.88</td>
<td>Holding**</td>
<td>24.35</td>
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<tr>
<td>3</td>
<td>Pfizer</td>
<td>3.70</td>
<td>34.63</td>
<td>Buying</td>
<td>10.46</td>
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<tr>
<td>4</td>
<td>Exxon Mobil</td>
<td>3.66</td>
<td>82.00</td>
<td>Holding**</td>
<td>4.02</td>
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<tr>
<td>5</td>
<td>Cisco</td>
<td>3.39</td>
<td>34.24</td>
<td>Holding</td>
<td>3.01</td>
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<td>6</td>
<td>Caterpillar</td>
<td>3.30</td>
<td>93.36</td>
<td>Selling</td>
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<td>7</td>
<td>IBM</td>
<td>3.19</td>
<td>175.81</td>
<td>Holding</td>
<td>14.41</td>
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<td>8</td>
<td>Boeing</td>
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<td>178.71</td>
<td>Holding</td>
<td>3.40</td>
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<td>9</td>
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<td>N/A</td>
<td>N/A</td>
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<tr>
<td></td>
<td>Totals</td>
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**Notes:**
- **Currently indicated purchases approximately equal to indicated purchases 18 months ago.**
- **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 February 28, 2017*. 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).

<table>
<thead>
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<th></th>
<th>1 mo</th>
<th>1 yr</th>
<th>5 yrs</th>
<th>10 yrs</th>
<th>20 yrs</th>
<th>Since Jan 79</th>
<th>since 1979</th>
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<tr>
<td>HYD Strategy</td>
<td>2.78</td>
<td>26.15</td>
<td>16.41</td>
<td>8.55</td>
<td>10.06</td>
<td>15.29</td>
<td>17.27</td>
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<tr>
<td>Russell 1000 Value Index</td>
<td>3.59</td>
<td>29.13</td>
<td>14.02</td>
<td>6.20</td>
<td>8.22</td>
<td>12.26</td>
<td>14.53</td>
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<tr>
<td>Dow Jones Industrial Average</td>
<td>5.17</td>
<td>29.33</td>
<td>12.77</td>
<td>8.25</td>
<td>8.15</td>
<td>N/A</td>
<td>N/A</td>
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</table>

**Volatility (Std. Dev.):**

- HYD Strategy: 17.27
- Russell 1000 Value Index: 14.53
- S&P 500 Index: 14.94
- Dow Jones Industrial Average: 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 benchmark indexes 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
- Global Bonds - Citi World Government Bond Index
- Gold - London PM Fixed Price

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.
### Precious Metals & Commodity Prices ($)

<table>
<thead>
<tr>
<th></th>
<th>3/15/17</th>
<th>Mos. Earlier</th>
<th>Yr. Earlier</th>
<th>Prem. (%)</th>
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</thead>
<tbody>
<tr>
<td>Gold, London p.m. fixing</td>
<td>1,198.80</td>
<td>1,224.40</td>
<td>1,232.00</td>
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<tr>
<td>Silver, London Spot Price</td>
<td>16.91</td>
<td>17.88</td>
<td>15.32</td>
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<tr>
<td>Crude Oil, W. Texas Int. Spot</td>
<td>48.86</td>
<td>53.11</td>
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**Coin Prices ($)**

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<th></th>
<th>3/15/17</th>
<th>Mos. Earlier</th>
<th>Yr. Earlier</th>
<th>Prem. (%)</th>
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<tbody>
<tr>
<td>American Eagle (1.00)</td>
<td>1,238.50</td>
<td>1,268.70</td>
<td>1,293.50</td>
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<td>Austrian 100-Corona (0.9803)</td>
<td>1,172.45</td>
<td>1,202.05</td>
<td>1,232.88</td>
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<td>British Sovereign (0.2834)</td>
<td>283.07</td>
<td>293.18</td>
<td>306.66</td>
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<td>Canadian Maple Leaf (1.00)</td>
<td>1,223.50</td>
<td>1,253.70</td>
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<tr>
<td>Mexican 50-Peso (1.2057)</td>
<td>1,441.73</td>
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<td>Mexican Ounce (1.00)</td>
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<td>S. African Krugerrand (1.00)</td>
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<td>U.S. Double Eagle-$20 (0.9675)</td>
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<td>Liberty (Type I-AU50)</td>
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<td>Liberty (Type III-AU50)</td>
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<td>1,265.00</td>
<td>1,265.00</td>
<td>3.89</td>
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<td>U.S. Silver Coins ($1,000 face value, circulated)</td>
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<tr>
<td>90% Silver Circ. (715 oz.)</td>
<td>12,482.50</td>
<td>13,026.50</td>
<td>12,860.00</td>
<td>3.24</td>
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<tr>
<td>40% Silver Circ. (292 oz.)</td>
<td>4,895.50</td>
<td>5,120.50</td>
<td>4,572.50</td>
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<td>Silver Dollars Circ.</td>
<td>21,750.00</td>
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<td>23,000.00</td>
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</table>

**Coin Prices (calculations)**

- 90% Silver Circ. (715 oz.): 12,482.50
- 40% Silver Circ. (292 oz.): 4,895.50
- Silver Dollars Circ.: 21,750.00

1Premium reflects percentage difference between coin price and value of metal in a coin, with gold at $1198.80 per ounce and silver at $16.91 per ounce. The weight in troy ounces of the precious metal in coins is indicated in parentheses.

### Recent Market Returns

- **Data through February 28, 2017.**
- **Best**
  - 12-month returns, Jan. 2001 - Feb. 2017
  - 56.0% 57.2% 91.6% 85.7% 13.8% 7.1% 57.6%
- **Worst**
  - 12-month returns, Jan. 2001 - Feb. 2017
  - -43.5% -50.3% -56.6% -59.5% -2.5% 0.1% -27.4%
- **Best and worst 12 month returns, Jan. 2001 - Feb. 2017**
  - **Best**
    - 56.0% 57.2% 91.6% 85.7% 13.8% 7.1% 57.6%
    - **Worst**
      - -43.5% -50.3% -56.6% -59.5% -2.5% 0.1% -27.4%
  - During: 03/2008- 02/2009
  - During: 02/2009- 03/2010
  - Data through February 28, 2017.
### RECOMMENDED INVESTMENT VEHICLES

<table>
<thead>
<tr>
<th>Security Symbol(s) (1)</th>
<th>Annualized Returns (%), Data as of Feb. 28, 2017</th>
<th>Avg. Market Cap / Avg. Maturity</th>
<th>Number of Holdings</th>
<th>Expense Ratio (%), Turnover (%), Price-to-Book Ratio</th>
<th>Tax Cost Ratio - 3 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short/Intermediate Term Fixed Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vanguard Short-Term Bond VBISX</td>
<td>2.90 yrs</td>
<td>967</td>
<td>0.19</td>
<td>0.15</td>
<td>1.30</td>
</tr>
<tr>
<td>SPDR Blmbg Barclays ST Corp Bd ETF SCPB</td>
<td>1.93 yrs</td>
<td>1005</td>
<td>0.20</td>
<td>0.15</td>
<td>1.48</td>
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<tr>
<td>Shares of 1-Year Treasury Bond ETF</td>
<td>1.97 yrs</td>
<td>967</td>
<td>0.31</td>
<td>0.20</td>
<td>1.01</td>
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<tr>
<td>Vanguard Short-Term Bond ETF BSV</td>
<td>2.90 yrs</td>
<td>967</td>
<td>0.20</td>
<td>0.19</td>
<td>1.30</td>
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<tr>
<td><strong>Inflation-Protected Fixed Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iShares TIPS Bond ETF TIP</td>
<td>8.34 yrs</td>
<td>38</td>
<td>0.20</td>
<td>0.18</td>
<td>2.57</td>
</tr>
<tr>
<td>Vanguard Inflation-Protected Securities VIPSX</td>
<td>8.50 yrs</td>
<td>37</td>
<td>0.20</td>
<td>0.15</td>
<td>1.01</td>
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<tr>
<td><strong>International Fixed Income</strong></td>
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<tr>
<td>Vanguard Total International Bond VTIBX</td>
<td>9.10 yrs</td>
<td>4248</td>
<td>0.15</td>
<td>20</td>
<td>1.83</td>
</tr>
<tr>
<td>iShares Russell 1000 Value IWD</td>
<td>57.04 B</td>
<td>699</td>
<td>0.20</td>
<td>15</td>
<td>2.35</td>
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<tr>
<td><strong>U.S. Large Cap Value</strong></td>
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<td></td>
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</tr>
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<tr>
<td><strong>U.S. Mid Cap</strong></td>
<td></td>
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<tr>
<td>Vanguard Small-Cap Value VISVX</td>
<td>3.25 B</td>
<td>838</td>
<td>0.19</td>
<td>18</td>
<td>1.79</td>
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<tr>
<td><strong>U.S. Small Cap Value</strong></td>
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<tr>
<td>Vanguard Small-Cap Value VISVX</td>
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<td>18</td>
<td>1.79</td>
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<tr>
<td><strong>Foreign - Developed Markets</strong></td>
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<td>iShares MSCI EAFE Growth ETF EFG</td>
<td>29.81 B</td>
<td>551</td>
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<td>2.56</td>
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<tr>
<td>Vanguard Developed Markets ETF EFA</td>
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<td>0.40</td>
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<td>2.13</td>
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<td><strong>Foreign - Emerging Markets</strong></td>
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<td>Vanguard Emerging Markets Equity ETF VWO</td>
<td>20.88 B</td>
<td>4208</td>
<td>0.32</td>
<td>13</td>
<td>1.15</td>
</tr>
</tbody>
</table>

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