

April 2014 AAI MODEL PORTFOLIOS UPDATED -Ups and Downs



We are now a full quarter of the way through 2014 and the market still does not have a clear direction. March turned out to be a volatile month for stocks, but the market did end up slightly higher. The employment outlook continues to look better, although we are far from witnessing the hiring sprees normally attributed to fast economic expansions.

Our assumption is that without drastic news or significant change in economic policy coming from the Federal Reserve, the market will trade in a range with much movement upward or downward, especially between earnings seasons. A strong earnings season may give investors incentive to continue driving stock prices up, while a weak earnings season will likely have the opposite effect.

After a weak January and a strong February, the market was relatively flat during March. AAI's Model Portfolios followed suit. During March, the Model Shadow Stock Portfolio gained 0.3%, outperforming the Vanguard Small Cap Index fund (NAESX), which lost 0.3%, but underperforming the DFA US Micro Cap Index fund (DFSCX), which was up 1.0%. For the year, the Model Shadow Stock Portfolio is still down 3.4%, which trails NAESX, which is up 2.6% and DFSCX, which is up 0.6%. The Model Shadow Stock Portfolio has a compound annual return of 17.9% from its inception in 1993, while the Vanguard Total Stock Market Index fund (VTSMX) has gained 9.3% annually over the same period.

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