

February 2014 AAI Model Portfolios Updated – Market Pulls Back to Open the Year



After pulling back to begin 2014, it seems that the market has stabilized slightly and is in need of a catalyst to spur any movement in either direction. While our recovery seems to be ongoing, the improvements have been slow, especially in the labor markets. We have now had two months of weak jobs growth. And although the unemployment rate is decreasing, there are still a record number of long-term unemployed as well as underemployed workers. On a positive note, however, we will not be seeing a repeat of 2013's gridlock on the debt ceiling. The Republican-controlled House passed a "clean" bill to increase the debt ceiling, meaning that the bill did not include any other demands. It is almost certain to pass the Democrat-controlled Senate. Additionally, new Federal Reserve Chair Janet Yellen spoke before Congress, highlighting the still-weak labor market. She will likely continue slowly tapering government bond-buying while keeping interest rates near zero.

AAII's Model Portfolios were not able to escape the weakness of the overall stock market last month. During January, the Model Shadow Stock Portfolio lost 7.6%, underperforming both the Vanguard Small Cap Index fund (NAESX), which lost 2.1%, and the DFA US Micro Cap Index fund (DFSCX), which fell 4.4%. The Model Shadow Stock Portfolio has a compound annual return of 17.8% from its inception in 1993, while the Vanguard Total Stock Market Index fund (VTSMX) has gained 9.1% annually over the same period.

[Read more »](#)