

Model Portfolios Follow Broad Market in Weak August



Performance in August trended to the downside with a range of concerns weighing on stocks. August and September are historically two of the weakest trading months of the year, according to the Stock Trader's Almanac. The S&P 500 index's total return was down 6.0% for the month of August.

The Model Fund Portfolio declined by 5.1% in August, while the Model Shadow Stock Portfolio, which invests in micro-cap value stocks, was down 6.9%.

The Model Shadow Stock Portfolio underperformed both of its comparison benchmarks in August: The Vanguard Small Cap Index fund (NAESX) declined 5.9% and the DFA U.S. Micro Cap Index fund (DFSCX) was down 4.4%. The Model Shadow Stock portfolio was hurt by weak performances from Travel Centers of America (TA), CDI Corp. (CDI) and Flexsteel Industries (FLXS); these three companies accounted for nearly half of the portfolio's decline in August. Year to date, the Model Shadow Stock Portfolio has declined 9.3%, while the Vanguard Small Cap Index fund is down 2.3% and the DFA U.S. Micro Cap Index fund is down 2.8%. Since its inception in 1993, the Model Shadow Stock Portfolio has a compound annual average return of 15.8%, while the Vanguard Total Stock Market Index fund (VTSMX) has gained 9.0%.

The Model Fund Portfolio's 5.1% decline in August compares to a 6.0% decrease for the Vanguard Total Stock Market Index fund. Since its inception in June of 2003, the Model Fund Portfolio has a compound annual average return of 8.3%, approaching the 8.7% return of the Vanguard Total Stock Market Index fund over the same time period.

August Updates

There are no changes to the Model Shadow Stock Portfolio this month. The portfolio underwent its quarterly review at the beginning of September and no stocks met the sell criteria. Because this is an actual and fully invested portfolio, no new stocks are added without the removal of a current holding.

Thirty-two stocks passed the screen at the end of August. Four stocks in the portfolio qualified for

purchase at the end of August: L.S. Starrett Co. (SCX), Rocky Brands (RCKY), Salem Media Group (SALM) and Vishay Precision Group (VPG). Qualified stocks are companies held within the Model Shadow Stock Portfolio that currently meet the purchase rules. (They are designated as “qualified” in the notes column of the Model Shadow Stock Portfolio table.)

One stock in the portfolio, Olympic Steel, Inc. (ZEUS), has been put on earnings probation because its last 12 months’ earnings from continuing operations are now negative. No stocks currently in the portfolio are approaching their value or size limit. A stock on earnings probation or approaching a value or size limit would be a potential sell candidate at the next quarterly review in December.

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