

June 2014 AAI Model Portfolios Updated – Mixed Up May



While the broad market steadied itself near its all-time high, economic data continued to reflect the economy's Jekyll & Hyde personality. Car sales rose to levels not seen since February 2007, to the delight of auto manufacturers, but the labor force participation rate remained mired at a 36-year low of 62.8%. Concern over the possibility of a market correction is foremost in investors' minds. The Dow Jones industrial average has spent much of 2014 in a range between 16,000 & 16,700, and May was no different. This could be indicative of a decline in risk appetite. This attitude has clearly hurt the Model Shadow Stock Portfolio, which invests in more volatile micro- and small-cap stocks and significantly underperformed its target. The same trend, however, has resulted in the Model Fund Portfolio outperforming its benchmark.

The Model Shadow Stock Portfolio lost 0.5%, underperforming the Vanguard Small Cap Index fund (NAESX), which gained 1.2%, and the DFA US Micro Cap Index fund (DFSCX), which gained 0.1%. For the year, the Model Shadow Stock Portfolio is now down 7.5%, trailing NAESX, which is up 1.3%, and DFSCX, which is down 2.8%. The Model Shadow Stock Portfolio has a compound annual return of 17.5% 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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