Smart Investing: Seeking Reward While Reducing Risk

Charles Rotblut, CFA
Vice President & *AAII Journal* Editor
American Association of Individual Investors

"As in driving, the secret to success is not making big mistakes."

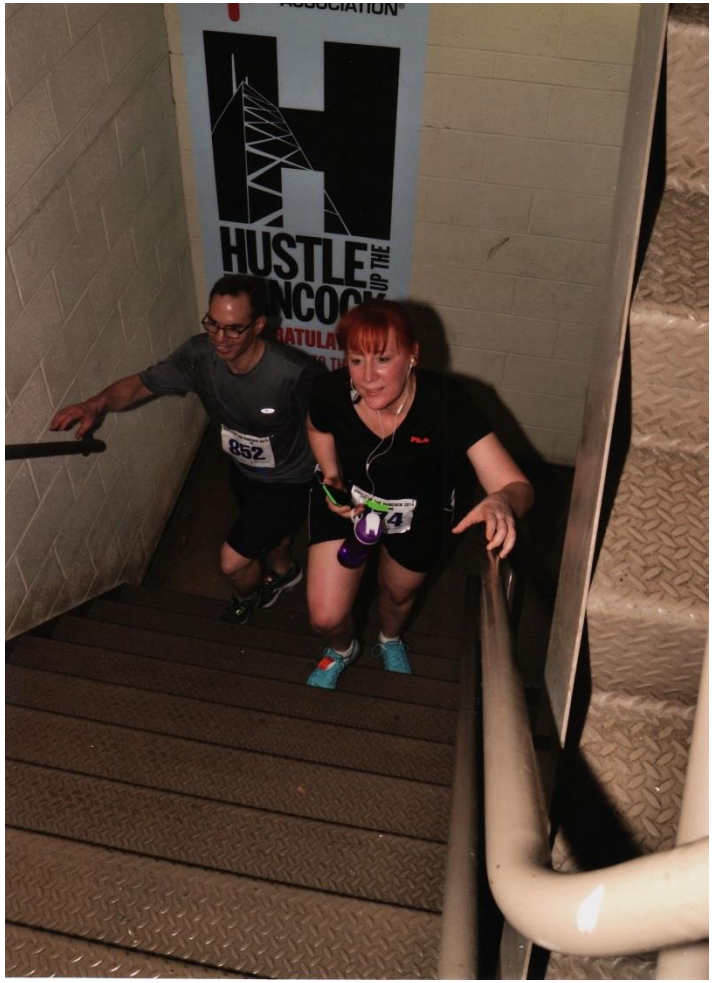
Source: Charles Ellis, "My Investment Letter: Words of Advice for My Grandchildren," *AAII Journal*, October 2013

"We learn from our mistakes, especially the expensive ones."

Source: Anonymous

The optimal strategy is not one that maximizes return, but rather one that helps you stick to your long-term investing plan and achieve your goals.

Hustle up the Hancock, Floor 2, April 2014

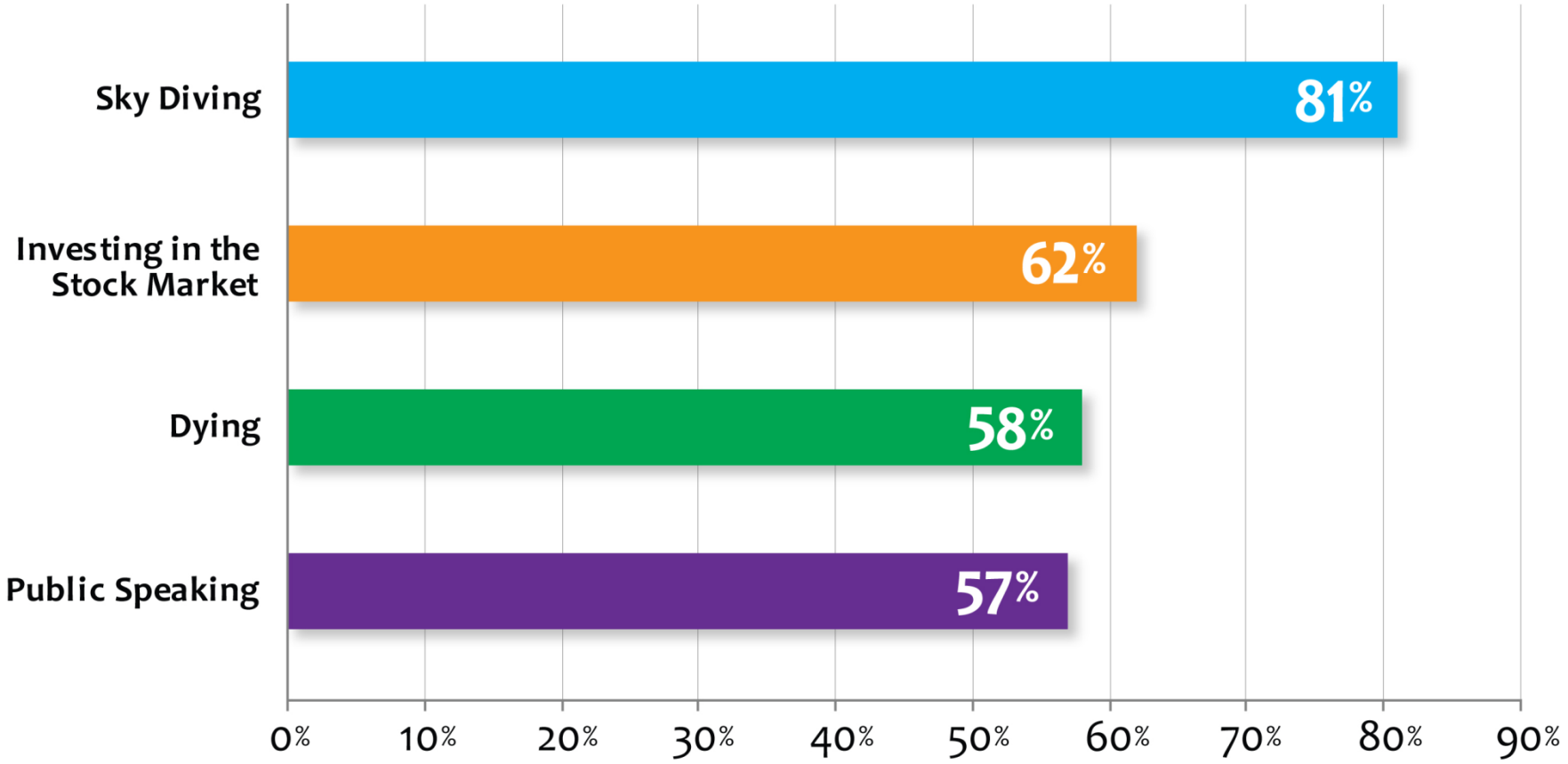


Hustle up the Hancock, Floor 92, April 2014

Economic and financial theory assumes humans act in rational ways.

Behavioral scientists have evidence suggesting otherwise.

What Scares People



Source: "Fear of Financial Planning Consumer Study," Nationwide Financial, July 2013

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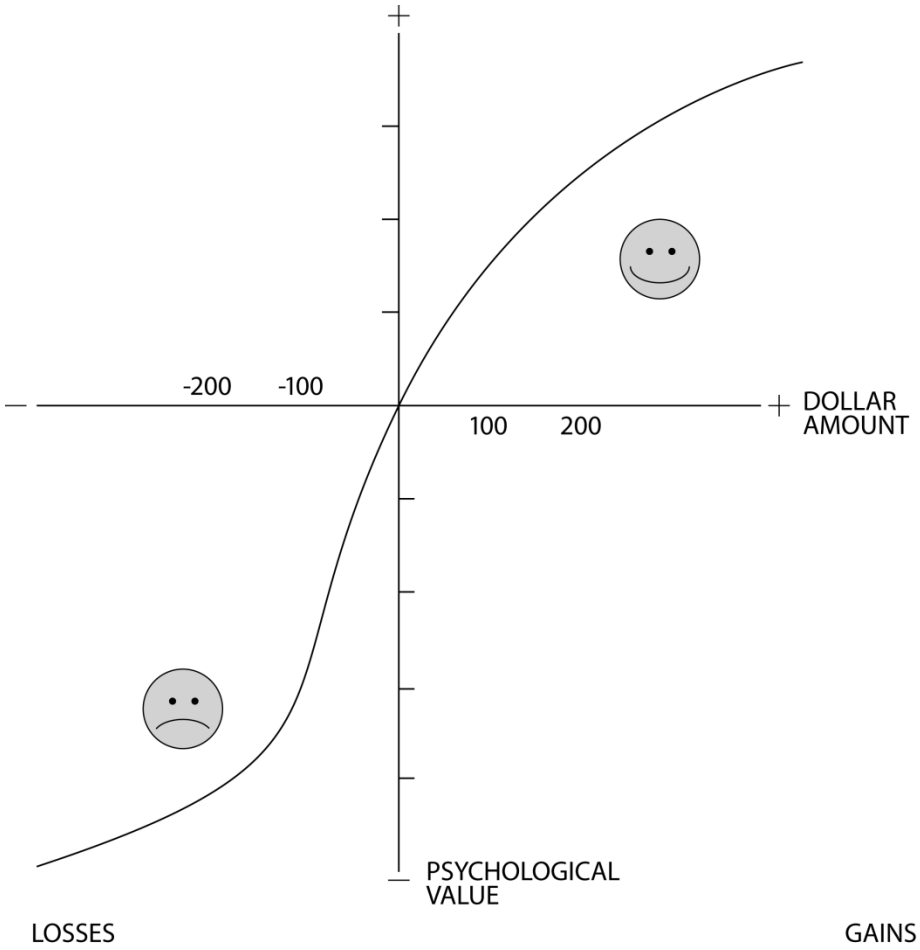
We Do Not Consider Expected Outcomes

Source: Illinois Lottery; Overall odds of winning are 1:14.71

Us Humans Are Risk-Averse



Source: ”Thinking, Fast and Slow,” Daniel Kahneman (Farrar, Straus and Giroux, 2011)

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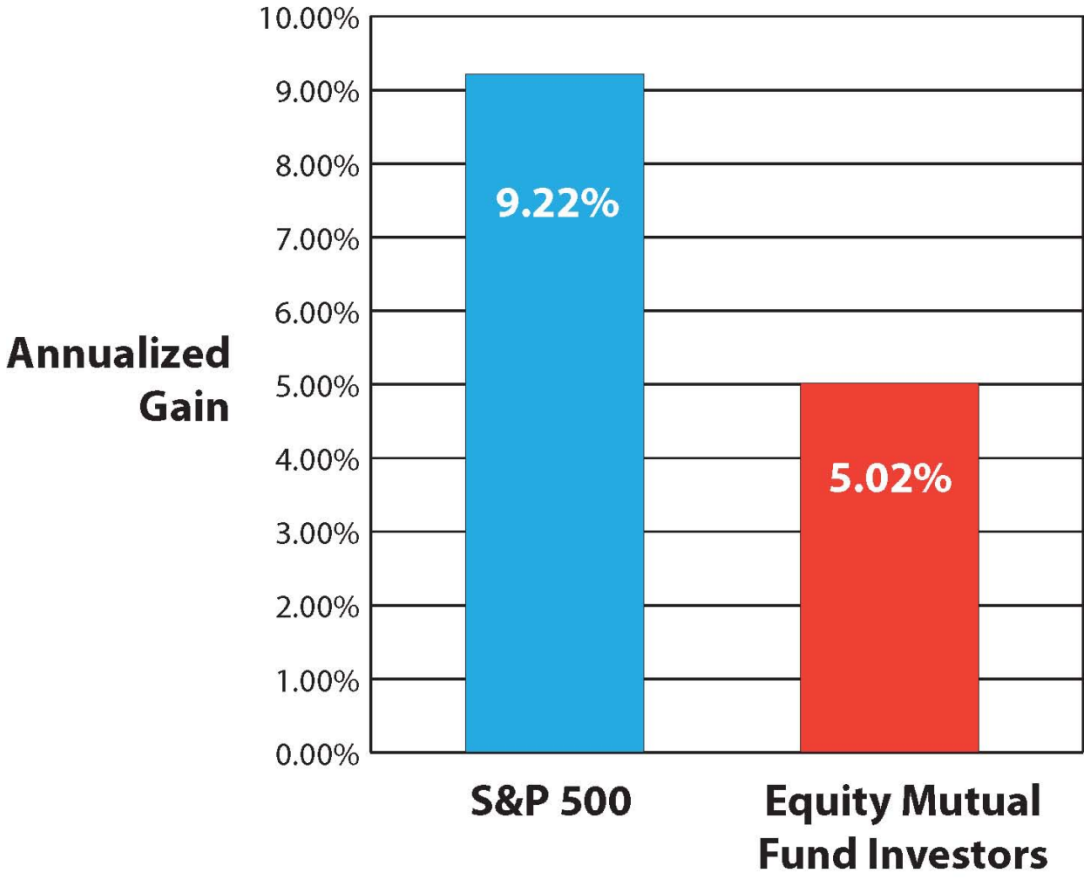
How Our Brains Rationalize

- Overconfidence: We humans are likely to believe our decisions are correct
- Confirmation Bias: We look for information confirming our beliefs
- Recency Bias: We assume present conditions will continue into the future

The Impact of Behavioral Errors



Source: "2014 Dalbar QAIB Highlights Futility of Investor Education," Dalbar, data from 1994 to 2013

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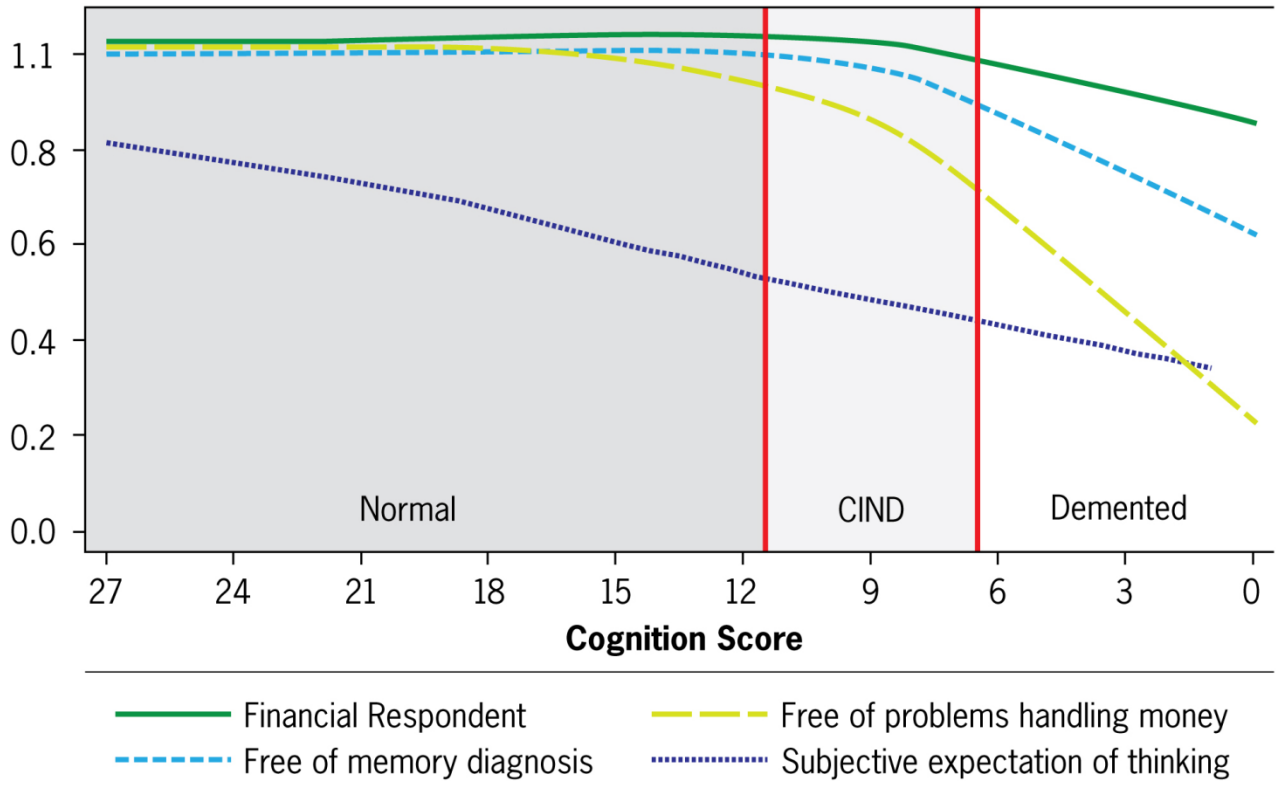
What If You Are Nervous?

- Admit you are scared by the markets, take a deep breath and wait a day before making changes to your portfolio
- Sell investments that keep you up at night
- But realize that if you want to beat inflation, you have to accept some volatility and down markets

Cognitive Decline

- The ability to make sophisticated decisions peaks at age 53
- Approximately 1 in 7 Americans age 71 or older have dementia according to the Alzheimer's Association

Many Manage Their Finances While Cognitively Impaired



Source: "Dementia Risk and Financial Decision Making by Older Households: The Impact of Information," Joanne W. Hsu and Robert J. Willis, Federal Reserve Board Working Paper, 2013-45

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Simplify your strategy and be cautious about making big changes as you age

Use the Power of the Written Word to Your Advantage

Write and maintain emergency instructions on how to manage your portfolio.

Need another reason for writing down instructions for managing your portfolio?

Psychologists say people make more rational decisions when they are not in a crisis situation.

All AAII Portfolios Have Written Buy and Sell Rules

Shadow Stock Portfolio Rules

> PURCHASE & SALES RULES
> STOCK ORDER RULES
> MANAGEMENT RULES

Purchase & Sales Rules

Stock purchases must meet these criteria:

- No bulletin board or pink sheet stocks will be purchased.
- Price-to-book-value ratio must be less than 0.80. (This figure will change gradually with changes in overall market values.)
- Market capitalization must be between $30 million and $240 million. (This figure will change gradually with changes in overall market values.)
- The firm's last quarter and last 12 months' earnings from continuing operations must be positive.

Model Shadow Stock rules located at http://www.aaii.com/model-portfolios/stock-rules

My Favorite Investing Tool

(It’s a spiral notebook)

AAII Dividend Investing Log

Wells Fargo & Co.	WFC	
Date	News/Research Notes	Link
3/26/2014	The Fed approved Wells Fargo's plan to raise the dividend and buy back more shares. The bank intends to boost its quarterly dividend by 16.7% to $0.35 per share in the second quarter, pending approval by its board of directors in April. The board of directors has approved an increase of 350 million additional shares and Wells Fargo says it intends to buy back more shares this year than it did last year.	https://www.wellsfar plan
4/1/2014	CFO Tim Sloan will succeed David Hoyt as head of the Wholesale Banking group, effective May 15, 2014. John Shrewsberry, the current head of Wells Fargo Securities and an executive vice president, will become the new CFO.	https://www.wellsfar wholesale-banking
4/8/2014	Capital requirements for the U.S. banks will increase from 3% to 5% on January 1, 2018. The liqudity calcualtion will also be changed to match the Basel standards. Wells Fargo seems to be already meeting stricter standards	http://www.federalres
4/11/2014	Q114 Earnings: EPS = $1.05 up 14% from $0.92 in Q113 & above I/B/E/S consensus estimate of $0.97; 17th consecutive quarter of growth; net income +14% to $5.9 bil; Revenue -3.3%, to $20.6 billion; Noninterest income ~flat at $1.215 bil; Net interest margin = 3.20%, down from 3.27% in Q413 & 3.49% in Q113	https://www08.wellst
4/11/2014	Q114 Earnings Details: Mortgage originations were $36 bil, -67% from Q113 & -28% from Q413, no Q2 forecast; $423 mil tax benefit reduced tax expense by 6%, effective tax rate to be higher rest of year; Noninterest income flat at $1.215 bil; net charge-offs 0.41% vs. 0.47%	https://www08.wellst

What I Write Down

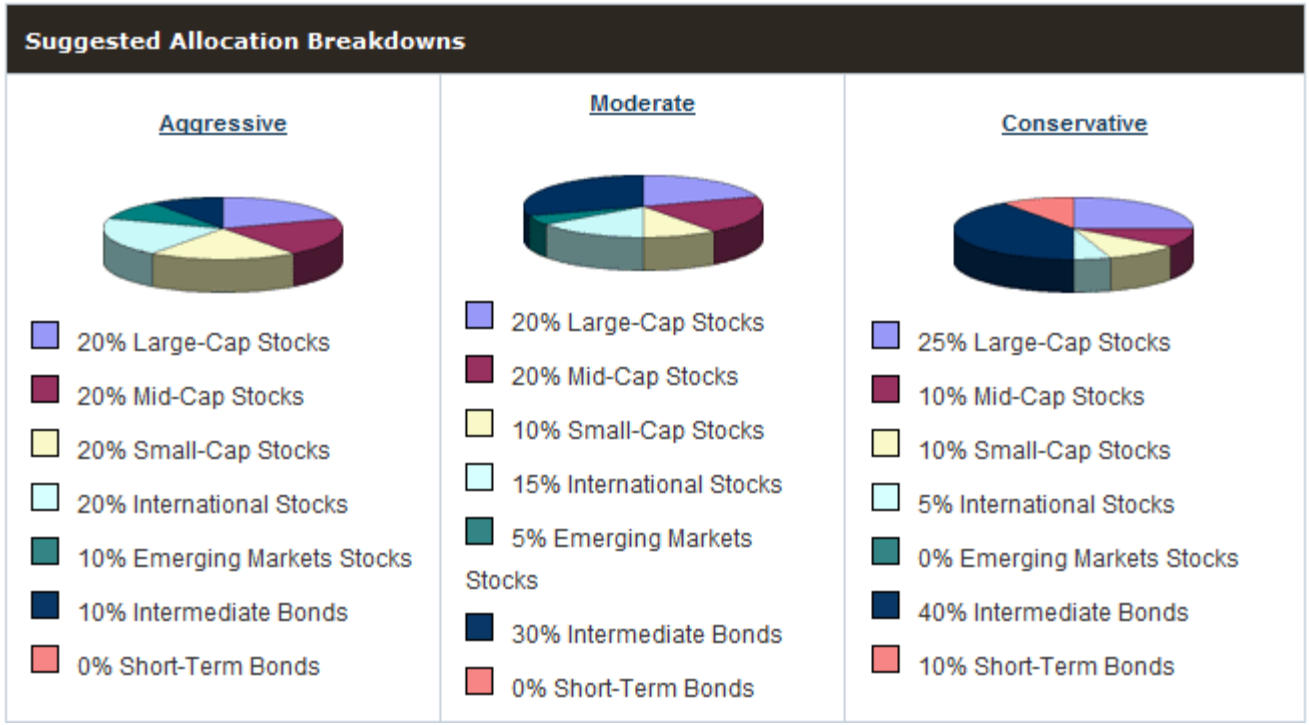
- The reasons why I bought an investment
- The reasons why I would sell an investment
- Updated news and fundamental data about the investments I own and monitor
- Research notes about what I've looked at

Write down everything that matters to your portfolio, rather than keeping it in your head.

It’s more important to remember birthdays and anniversaries than the details of your portfolio.

You can also create luck by sticking to a good, long-term allocation

AAII Allocation Models



AAII Asset Allocation Models located at http://www.aaii.com/asset-allocation

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Key Points About Diversification

- The mix of stocks, bonds and cash will have the biggest impact on your returns
- Nobody knows how much inflation or interest rates will rise in the future

"If you don't know what is going to happen, don't structure your portfolio as though you do!"

Source: "The Purgatory of Low Returns," James Montier, GMO Quarterly Newsletter, July 2013

Diversify, Then Rebalance

- Rebalancing prevents allocation drift, maintaining diversification benefits
- Gives you a strategy for volatile markets
- Forces you to buy low and sell high
- Vanguard suggests annual or semiannual rebalancing when allocations are off target by 5% or more*

Source: "Best Practices for Portfolio Rebalancing," *AAII Journal*, May 2011

Rebalancing and Returns

- A $100K portfolio based on AAII's moderate allocation model
- No retirement withdrawals taken
- 5% threshold used for rebalancing
- Performance calculated from 1988 – 2013
- Vanguard index funds used to avoid impact of active management

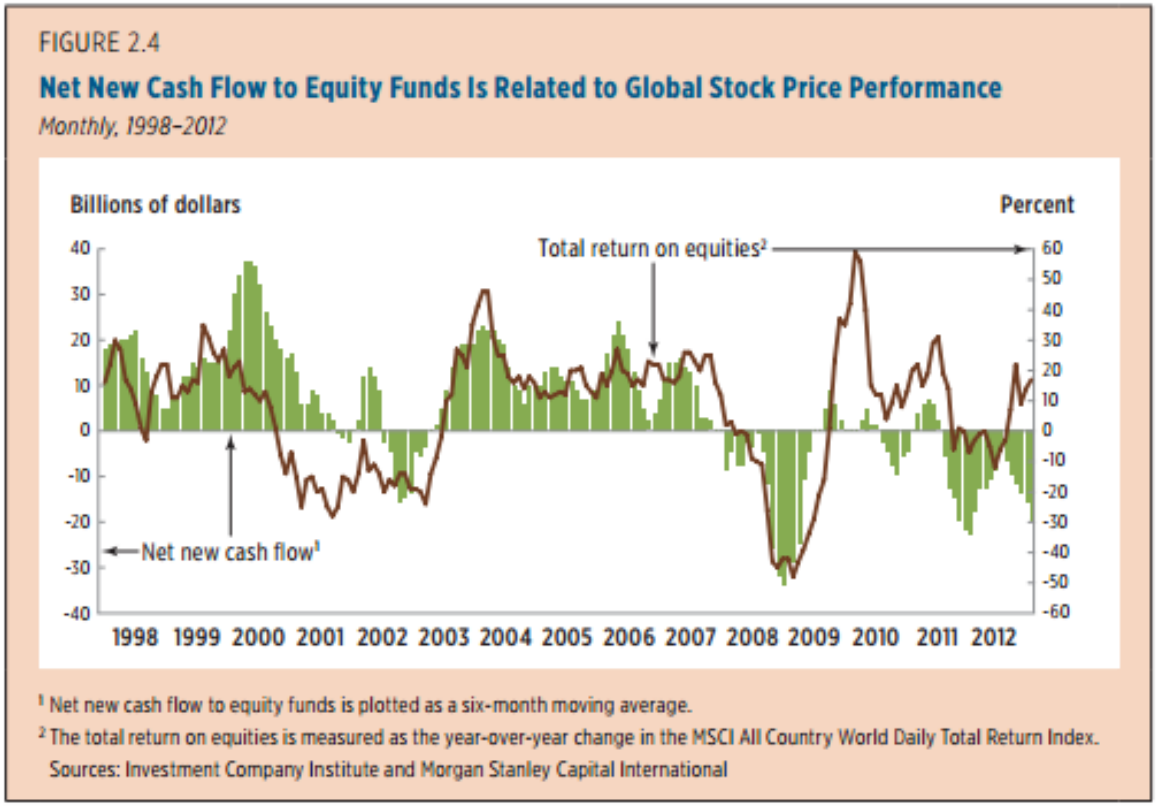
Results From 26 Years of Data

Non-Withdrawal Portfolio

Portfolio Strategy	Rebalance at 5% Thresholds	No Rebalancing
Ending Portfolio Value	$1,087,803	$1,110,308
Total Return	987.8%	1010.3%
Standard Deviation	12.6%	14.2%
Annualized Return	9.6%	9.7%
Largest Drawdown	($204,880)	($253,424)
Largest Annual Loss	(26.9%)	(32.8%)
Ending Equity Allocation	75.4%	85.7%
Ending Fixed-Income Allocation	24.6%	14.3%

Source: "The Danger of Getting Out of Stocks During Bear Markets," by Charles Rotblut, *AAII Journal*, May 2014

Instead of Rebalancing, Many Buy High and Sell Low



Source: 2013 Investment Company Fact Book, Investment Company Institute

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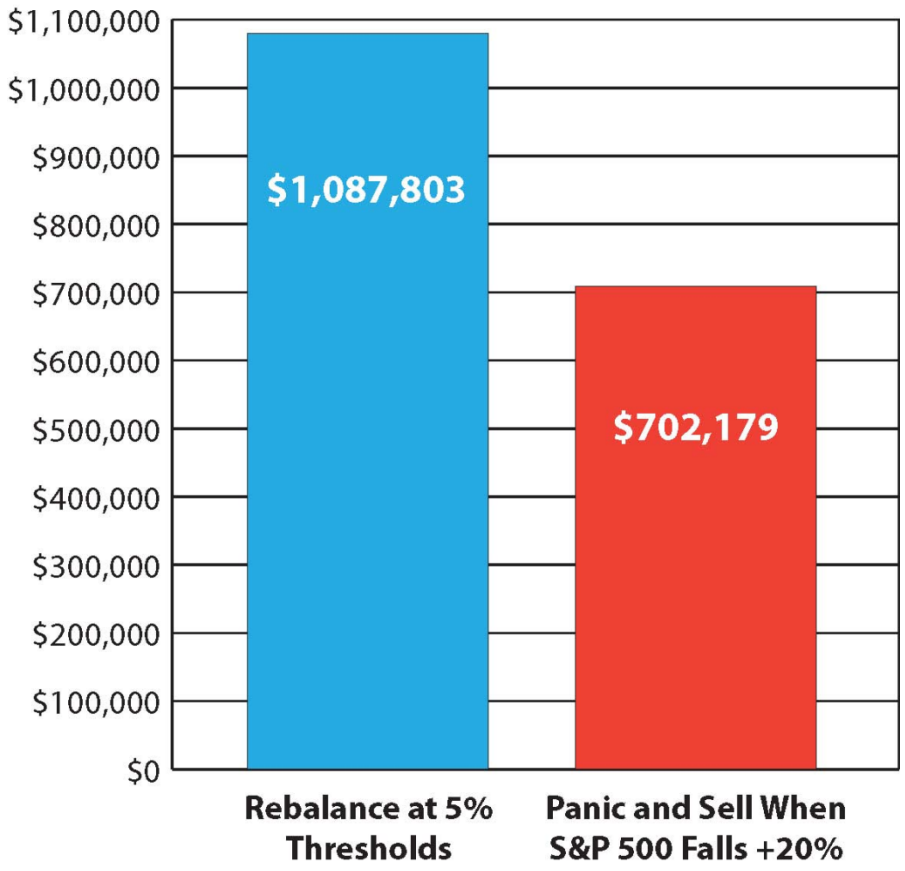
Rebalancing Beats Panicking



*Allocation shifted to all bonds in 2003 and 2009 and back to target allocation in 2004 and 2010; Source: *AAII Journal*, May 2014

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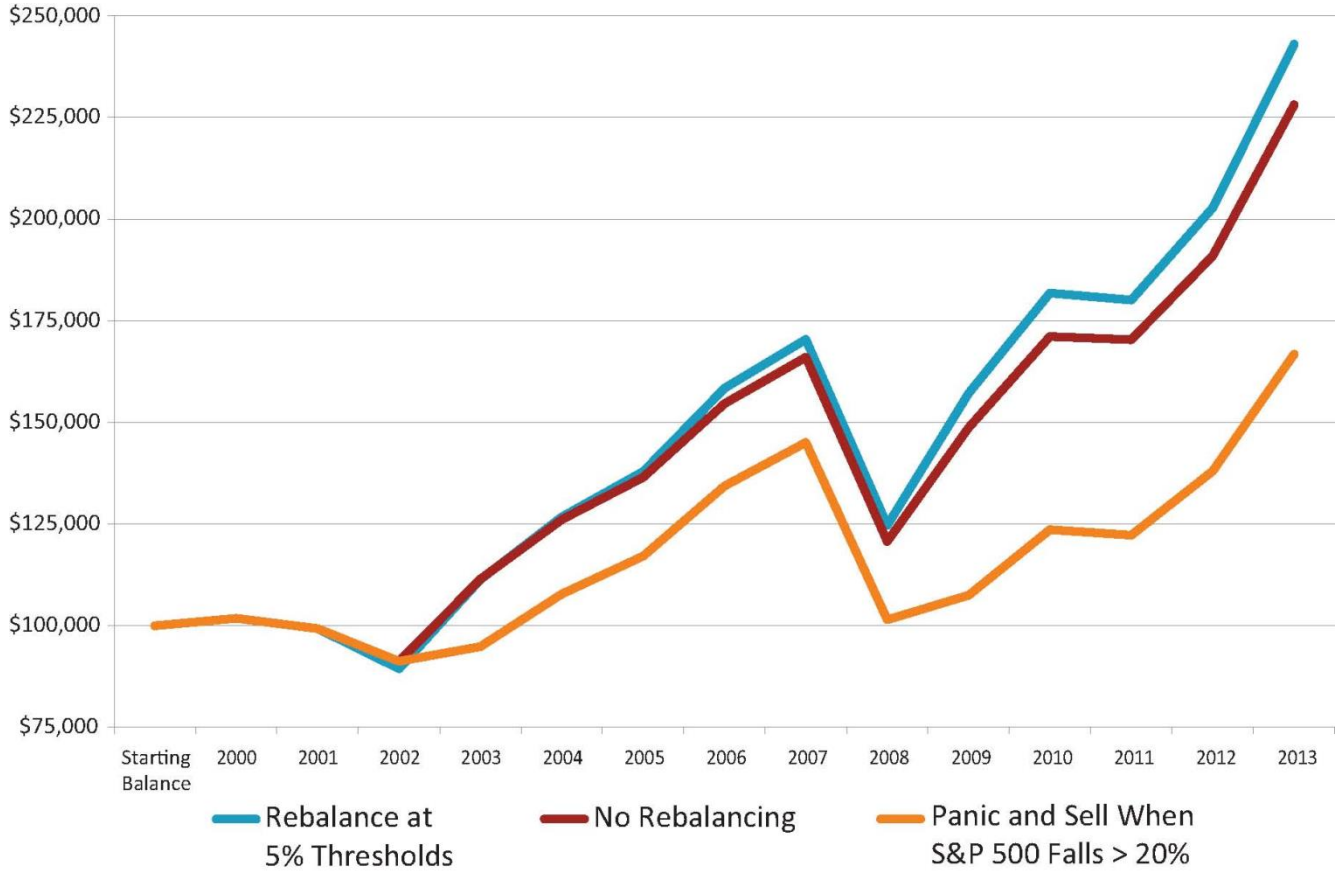
What If Your Timing Is Bad?



*Allocation shifted to all bonds in 2003 and 2009 and back to target allocation in 2004 and 2010; Source: *AAII Journal*, May 2014

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Rebalancing Is a Long-Term Strategy

- Rebalancing and diversification provide the most benefits over the long term
- Will cause a portfolio to underperform during bull markets for its largest asset class (e.g., stocks)—a compromise for reduced volatility
- Losses will be smaller during bear markets, but they will not be avoided

Good investment practices only work if you select good securities and funds

The first decision in security selection is not determining what to buy, but choosing whether to use an active or a passive strategy.

Active vs. Passive

- Active – More control, can beat the market or reduce volatility, requires more time and effort
- Passive – Gives you the index's returns, easy diversification, lower tax and transaction costs, requires less time and effort

How Do You Choose?

- Do you have the time to research individual securities and funds?
- How good have your previous stock and bond picks been relative to the broad market?

Is This Interesting to Read?

"We have a diverse portfolio of owned and partner brands which are positioned to meet a wide range of consumer segments and occasions in a variety of markets, including signature brands."

*Source: Molson Coors Brewing Company 10-K Filing for 2013

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Choose Both Passive and Active

- Choosing both allows you to take advantage of each strategy's strengths
- Active management gives you the opportunity to beat the market
- Passive management ensures that, no matter what, part of your portfolio will always track the market's performance

Index funds (passive investments) should be your default option when you can't find an attractive stock, bond or fund to buy.

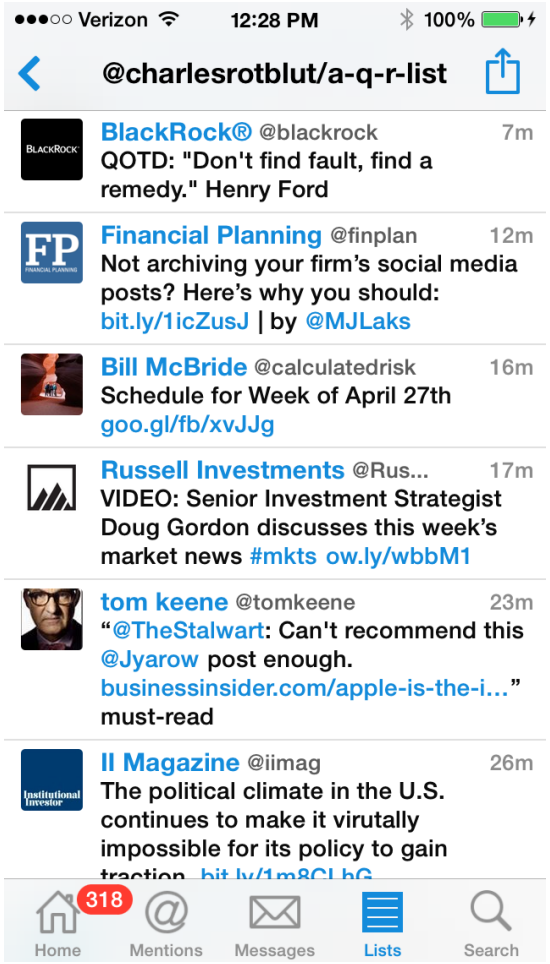
Source: "Dishonesty, Choices and Investing," Dan Ariely, *AAII Journal*, June 2012

Stocks: Key Traits to Look For

- Strong Business Model–products fulfill needs, barriers to entry exist and the company is profitable
- Good Financials–positive cash flow, adequate cash, low debt, rising sales and profits
- Attractive Valuation–both price-to-book (P/B) and price-to-earnings (P/E) ratios are reasonable

Downward-Facing Dog

Where Are the Ads, Twitter?



Cash Flow Matters

JC Penney: Cash Burn Still Big Concern

By Ben Levisohn

JC Penney (JCP) has made a lot of progress but there's one area that undermine all the good work it's done so far–its need for cash.

Sterne Agee's Charles Grom and team explain why they think JC Penney will need to raise more cash:

> We had always expected a sales recovery at JC Penney, but running our model at the current pace of recovery raises concerns about JC Penney's liquidity in a few quarters. To this point, our base case currently incorporates a 2.0% comp in FY14 and a potentially generous gross profit margin recovery to 35.5%, but this still results in ~$800 million in cash burn, including ~$1.26 billion burn through 3Q14's peak seasonal inventory build – as a result, cash levels fall to very low sub $250 million levels in 3Q14, which we believe may be too tight for vendors' comfort…
>
> In our view, dangerously low liquidity levels augment the odds of another capital raise and we believe the company may/should choose to act sooner rather than later (particularly with the stock rallying from $5 to $6 recently) when options are

Associated Press

Source: Barron's, February 20, 2014

It's Just a Sandwich Shop

Investors take big bite of Potbelly IPO

CNNMoney

By Hibah Yousuf @CNNMoneyInvest October 4, 2013: 4:23 PM ET

Recommend 119

PHOTO: BREWBOOKS/CC

Source: CNN Money, October 4, 2013; Forward P/E is 48.6 as of April 26, 2014

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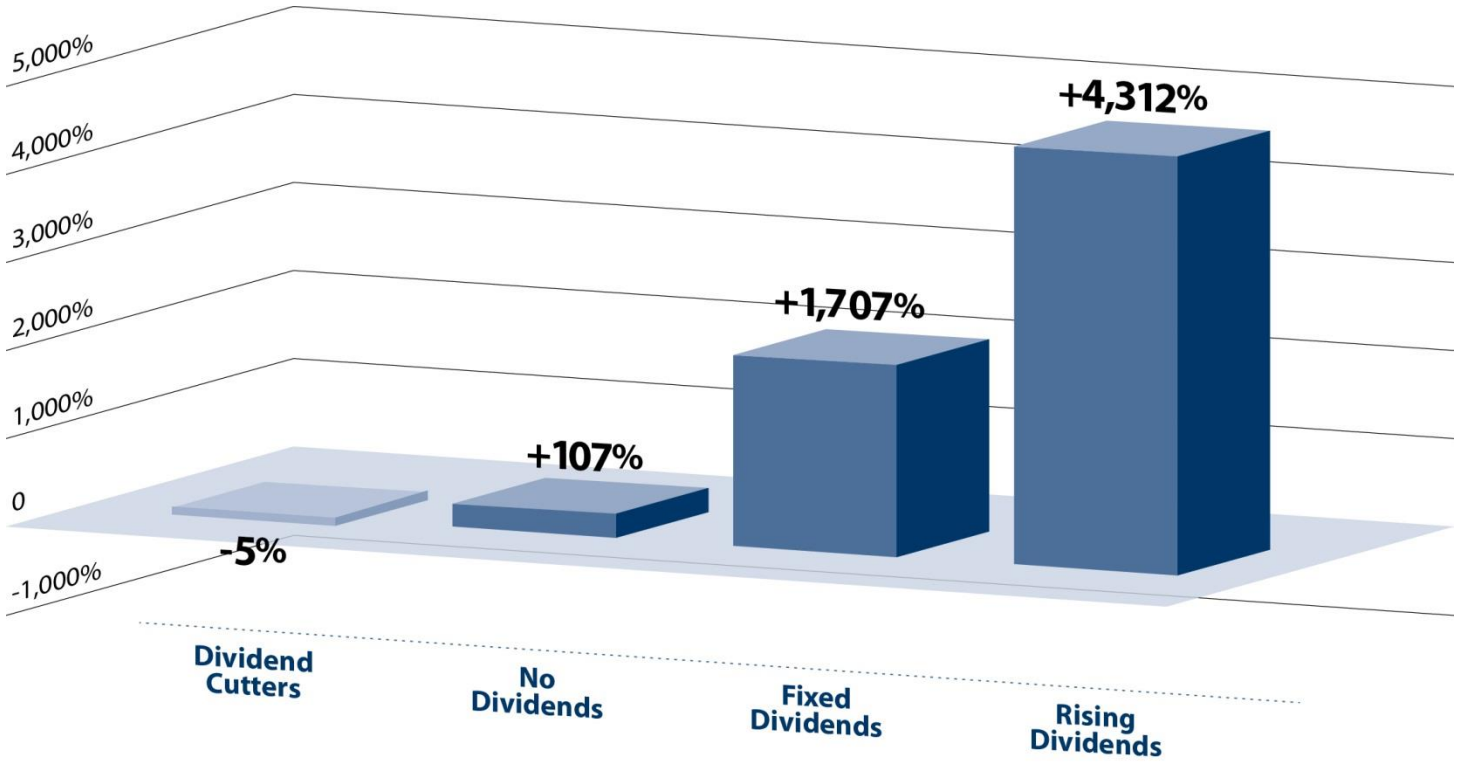
Dividends Boost Returns



Source: Ned Davis Research, data for period of February 1972 through January 2013

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Momentum Helps Too

- Stocks with 26-week relative strength rankings of 60% or higher tend to outperform
- Combine momentum with valuation measures such as the price-earnings ratio
- Momentum strategies have more turnover, and therefore are more costly

Source: James O'Shaughnessy, "What Works on Wall Street", Fourth Edition" (McGraw-Hill, 2011); Richard Tortoriello, "Quantitative Strategies for Achieving Alpha" (McGraw-Hill, 2008)

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Liquidity: An Overlooked Style

			Liquidity				Liquidity Premium
			Low →			High	
			1	2	3	4	Q 1 - Q4
Size	Small ↓	1	16.17%	17.26%	10.83%	2.56%	**13.61%**
		2	15.81%	14.24%	12.20%	6.46%	**9.35%**
		3	13.94%	13.14%	12.38%	8.40%	**5.55%**
	Large	4	11.58%	11.31%	11.04%	9.03%	**2.54%**
Size Premium		Q 1 - Q4	4.59%	5.95%	-0.21%	-6.48%	

Source: Ibbotson, Chen, Kim & Hu, "Liquidity as an Investment Style" forthcoming Financial Analysts. Also see April 2013 *AAII Journal*

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My Stock Screening Criteria

Price to Book < 3
Price to Earnings < 20
Dividend Growth = 1+ Years
Share Turnover < 192%
Market Cap < $1 Bil Better
Earnings Estimates Revised Up
26-Week RSI Rank > 60%
Operating Margin Rank > 60%
EPS Up Year-over-Year

Current Ratio > 1.0
Debt to Equity < 0.50
Times Interest Earned > 2
Intangibles < 50% of Equity
Sales Growth = 3+ Years
EPS Growth = 3+ Years
Free Cash Flow = 3+ Years
Return on Equity Rank > 60%
EPS Up Quarter-over-Quarter

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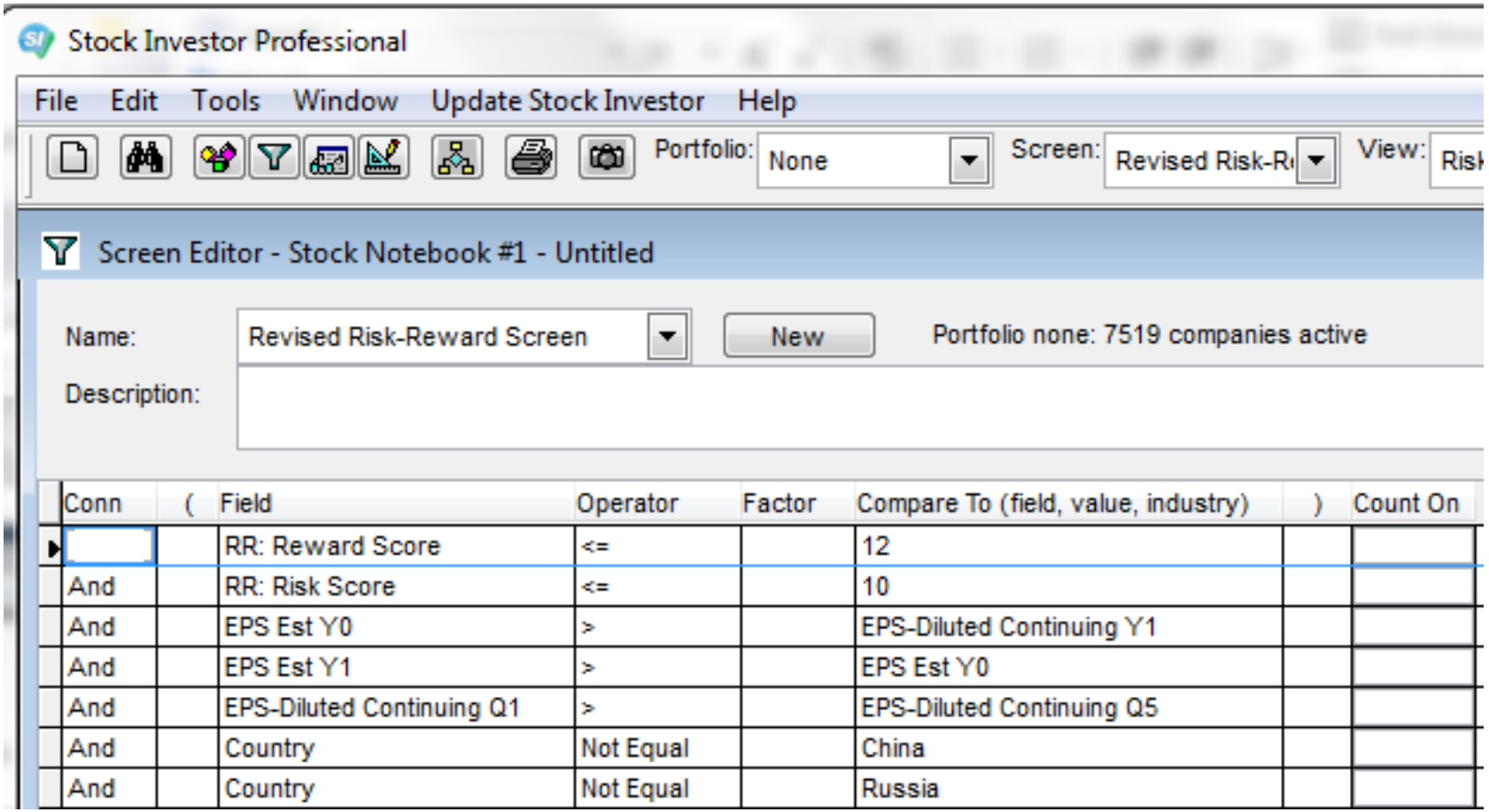
Seven Reward Criteria

- Price-to-Book
- Price-to-Earnings
- Dividend Growth
- Liquidity (Share Turnover)
- Market Cap
- Positive Estimate Revisions
- Momentum (Relative Strength)

Seven Risk Criteria

- Balance Sheet Liquidity (Current Ratio)
- Level of Debt
- Intangibles as a Percentage of Book Value
- Sales and Earnings Growth
- Free Cash Flow
- Return on Equity
- Operating Margin

My Stock Screening Criteria



Conn	(	Field	Operator	Factor	Compare To (field, value, industry)	)	Count On
		RR: Reward Score	<=		12		
And		RR: Risk Score	<=		10		
And		EPS Est Y0	>		EPS-Diluted Continuing Y1		
And		EPS Est Y1	>		EPS Est Y0		
And		EPS-Diluted Continuing Q1	>		EPS-Diluted Continuing Q5		
And		Country	Not Equal		China		
And		Country	Not Equal		Russia		

Source: AAII's Stock Investor Pro (http://www.aaii.com/stock-investor-pro/)

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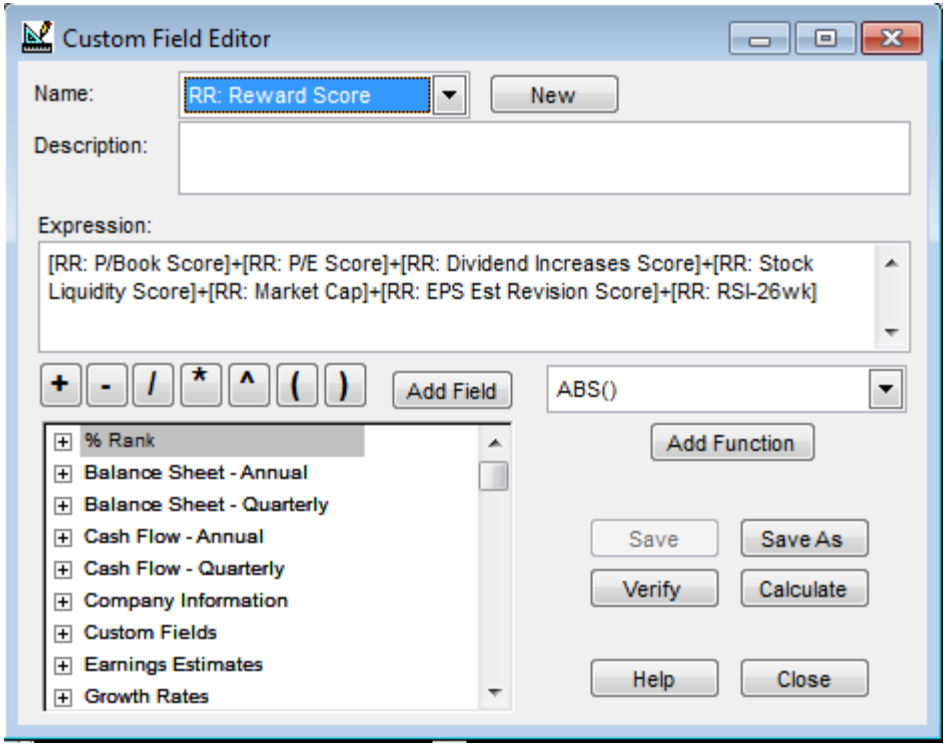
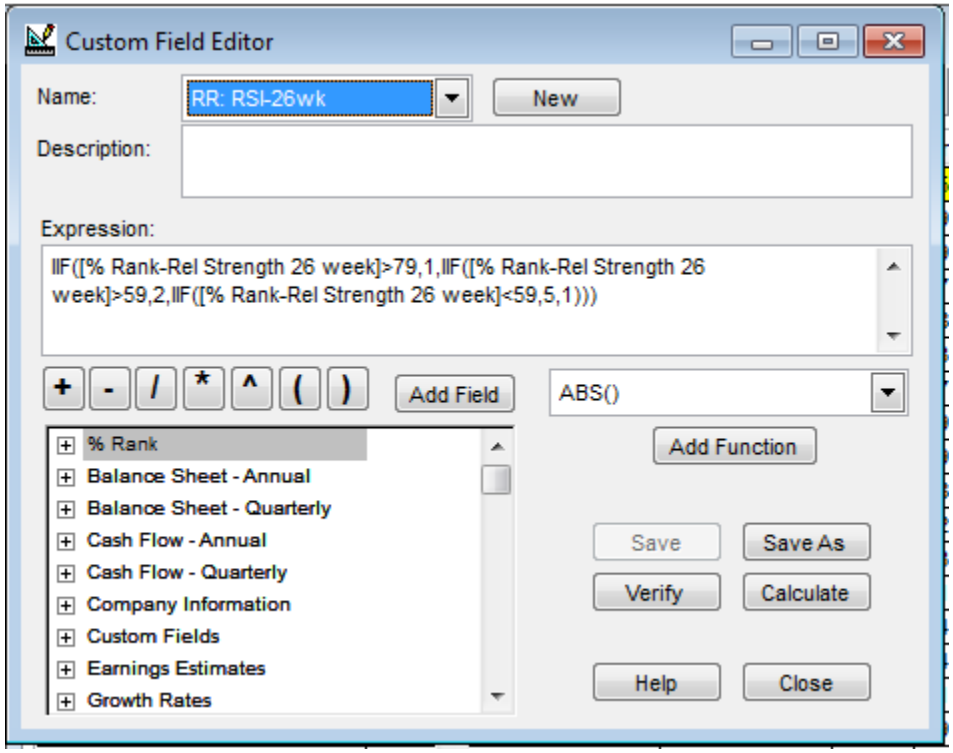


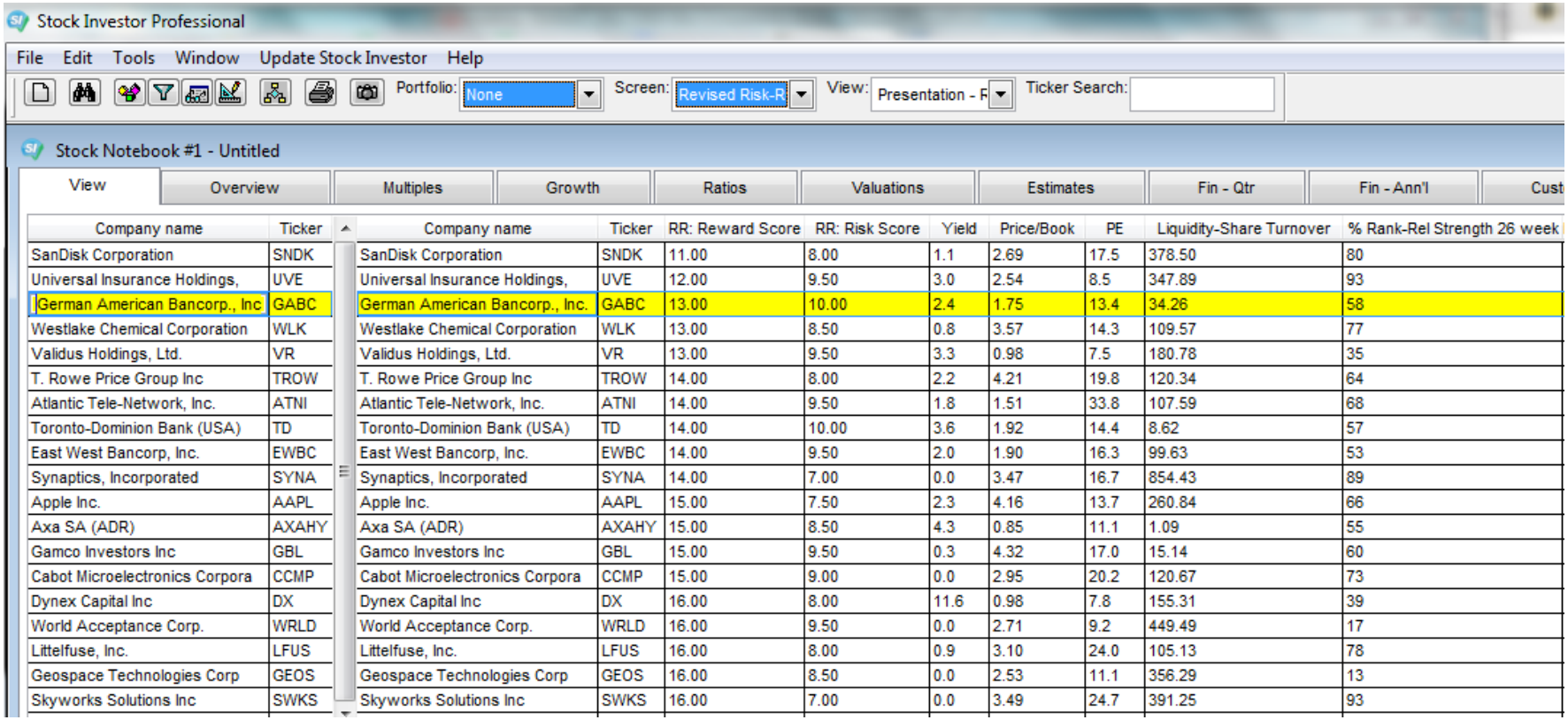
Source: AAII's Stock Investor Pro

Momentum Score



Source: AAII's Stock Investor Pro

Stocks Passing My Screen



Company name	Ticker	Company name	Ticker	RR: Reward Score	RR: Risk Score	Yield	Price/Book	PE	Liquidity-Share Turnover	% Rank-Rel Strength 26 week
SanDisk Corporation	SNDK	SanDisk Corporation	SNDK	11.00	8.00	1.1	2.69	17.5	378.50	80
Universal Insurance Holdings,	UVE	Universal Insurance Holdings,	UVE	12.00	9.50	3.0	2.54	8.5	347.89	93
German American Bancorp., Inc	GABC	German American Bancorp., Inc.	GABC	13.00	10.00	2.4	1.75	13.4	34.26	58
Westlake Chemical Corporation	WLK	Westlake Chemical Corporation	WLK	13.00	8.50	0.8	3.57	14.3	109.57	77
Validus Holdings, Ltd.	VR	Validus Holdings, Ltd.	VR	13.00	9.50	3.3	0.98	7.5	180.78	35
T. Rowe Price Group Inc	TROW	T. Rowe Price Group Inc	TROW	14.00	8.00	2.2	4.21	19.8	120.34	64
Atlantic Tele-Network, Inc.	ATNI	Atlantic Tele-Network, Inc.	ATNI	14.00	9.50	1.8	1.51	33.8	107.59	68
Toronto-Dominion Bank (USA)	TD	Toronto-Dominion Bank (USA)	TD	14.00	10.00	3.6	1.92	14.4	8.62	57
East West Bancorp, Inc.	EWBC	East West Bancorp, Inc.	EWBC	14.00	9.50	2.0	1.90	16.3	99.63	53
Synaptics, Incorporated	SYNA	Synaptics, Incorporated	SYNA	14.00	7.00	0.0	3.47	16.7	854.43	89
Apple Inc.	AAPL	Apple Inc.	AAPL	15.00	7.50	2.3	4.16	13.7	260.84	66
Axa SA (ADR)	AXAHY	Axa SA (ADR)	AXAHY	15.00	8.50	4.3	0.85	11.1	1.09	55
Gamco Investors Inc	GBL	Gamco Investors Inc	GBL	15.00	9.50	0.3	4.32	17.0	15.14	60
Cabot Microelectronics Corpora	CCMP	Cabot Microelectronics Corpora	CCMP	15.00	9.00	0.0	2.95	20.2	120.67	73
Dynex Capital Inc	DX	Dynex Capital Inc	DX	16.00	8.00	11.6	0.98	7.8	155.31	39
World Acceptance Corp.	WRLD	World Acceptance Corp.	WRLD	16.00	9.50	0.0	2.71	9.2	449.49	17
Littelfuse, Inc.	LFUS	Littelfuse, Inc.	LFUS	16.00	8.00	0.9	3.10	24.0	105.13	78
Geospace Technologies Corp	GEOS	Geospace Technologies Corp	GEOS	16.00	8.50	0.0	2.53	11.1	356.29	13
Skyworks Solutions Inc	SWKS	Skyworks Solutions Inc	SWKS	16.00	7.00	0.0	3.49	24.7	391.25	93

Source: AAII's Stock Investor Pro, data as of April 25, 2014

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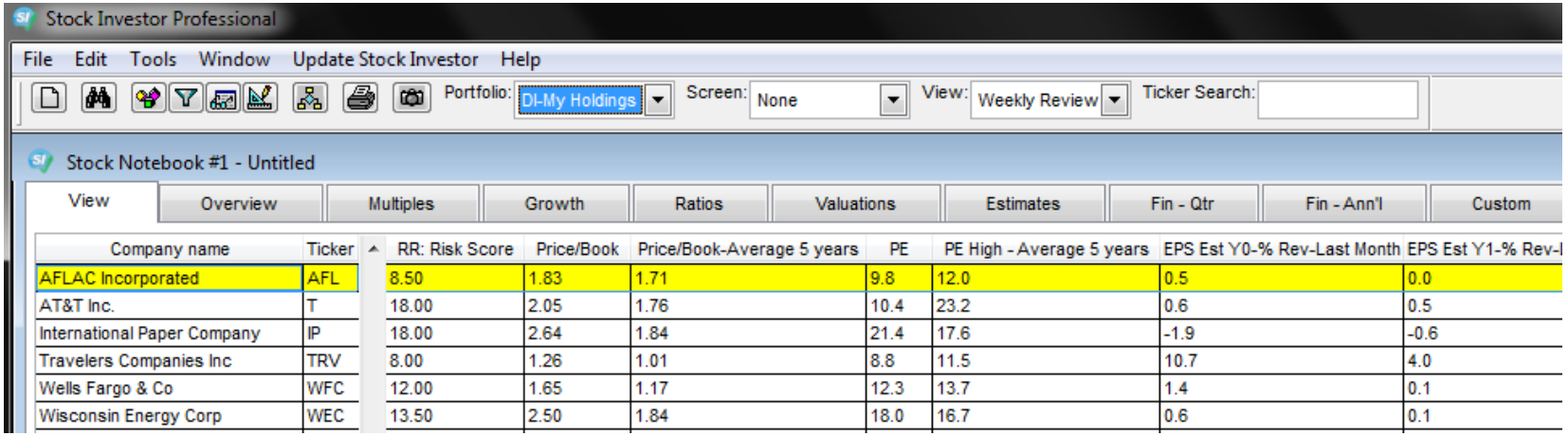
Quantitative Weekly Review



Company name	Ticker	RR: Risk Score	Price/Book	Price/Book-Average 5 years	PE	PE High - Average 5 years	EPS Est Y0-% Rev-Last Month	EPS Est Y1-% Rev-L
AFLAC Incorporated	AFL	8.50	1.83	1.71	9.8	12.0	0.5	0.0
AT&T Inc.	T	18.00	2.05	1.76	10.4	23.2	0.6	0.5
International Paper Company	IP	18.00	2.64	1.84	21.4	17.6	-1.9	-0.6
Travelers Companies Inc	TRV	8.00	1.26	1.01	8.8	11.5	10.7	4.0
Wells Fargo & Co	WFC	12.00	1.65	1.17	12.3	13.7	1.4	0.1
Wisconsin Energy Corp	WEC	13.50	2.50	1.84	18.0	16.7	0.6	0.1

Source: AAII's Stock Investor Pro, data as of May 2, 2014

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Stocks: When to Sell

- The reason you bought the stock no longer applies (follow your sell rules)
- The valuation becomes excessive
- Business conditions, the fundamentals or the outlook deteriorates
- The dividend is cut or suspended
- You need to rebalance

A Few Final Words of Investing Advice

Be a Proactive Investor

- No one cares more about your wealth than you do, so treat investing like a business
- Track your investments for any changes that make them less attractive
- Ensure that your asset allocations remain on track to meet your financial goals
- Read the annual reports and prospectuses

2 Rules for Investing Success

- Rule #1: Develop a consistent, well-defined approach to investing
- Rule #2: Stick to Rule #1

Source: James Cloonan, "Adherence to Rules Helps Model Shadow Stock Portfolio's Performance," *AAII Journal*, October 2012

Smart Investing: Reducing Risk While Seeking Reward

Charles Rotblut, CFA
Vice President & *AAII Journal* Editor
American Association of Individual Investors

Bonus Material

How to Follow the Model Shadow Stock Portfolio

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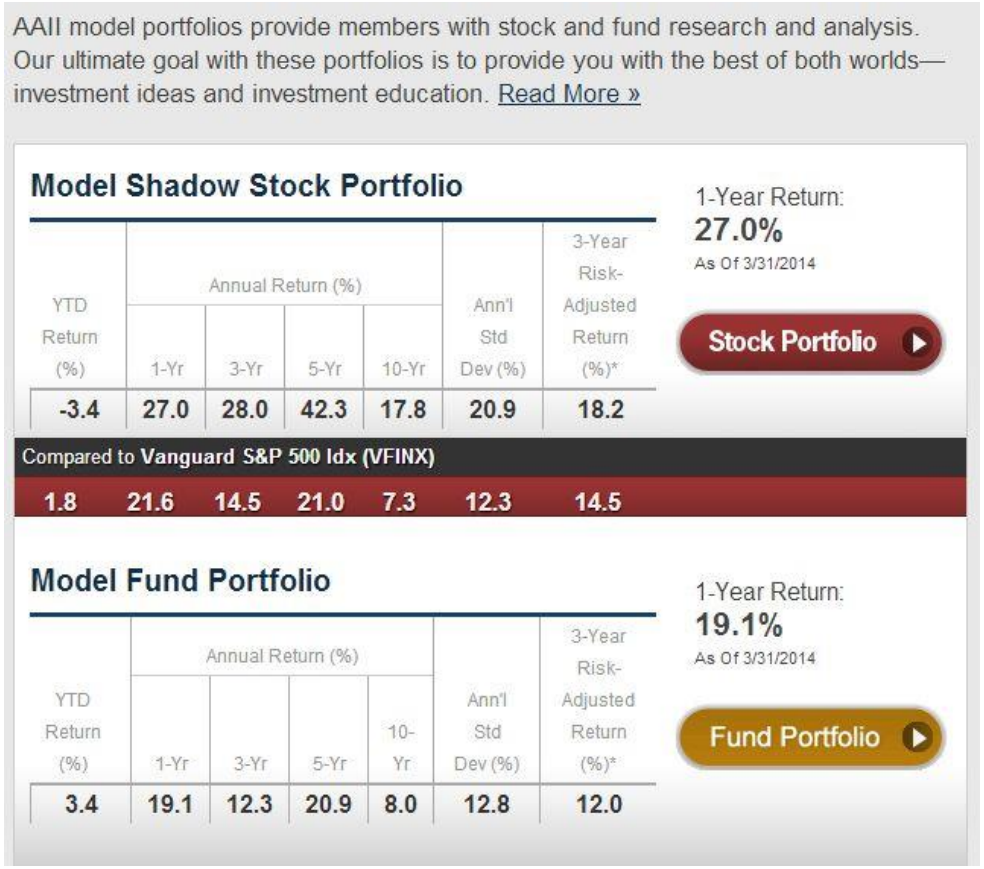
AAII Model Portfolios



AAII model portfolios provide members with stock and fund research and analysis. Our ultimate goal with these portfolios is to provide you with the best of both worlds—investment ideas and investment education. Read More »

Model Shadow Stock Portfolio

1-Year Return: **27.0%** As Of 3/31/2014

Stock Portfolio

YTD Return (%)	Annual Return (%) 1-Yr	3-Yr	5-Yr	10-Yr	Ann'l Std Dev (%)	3-Year Risk-Adjusted Return (%)*
-3.4	27.0	28.0	42.3	17.8	20.9	18.2
Compared to **Vanguard S&P 500 Idx (VFINX)**						
1.8	21.6	14.5	21.0	7.3	12.3	14.5

Model Fund Portfolio

1-Year Return: **19.1%** As Of 3/31/2014

Fund Portfolio

YTD Return (%)	Annual Return (%) 1-Yr	3-Yr	5-Yr	10-Yr	Ann'l Std Dev (%)	3-Year Risk-Adjusted Return (%)*
3.4	19.1	12.3	20.9	8.0	12.8	12.0

(www.aaii.com/model-portfolios)

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Model Shadow Stock Portfolio

- Invests in undervalued micro-cap stocks
- Requires a commitment to sticking with it
- Stocks are added once every three months: January, April, July and October
- Portfolio notes updated on the 15th of each month

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Purchase Rules

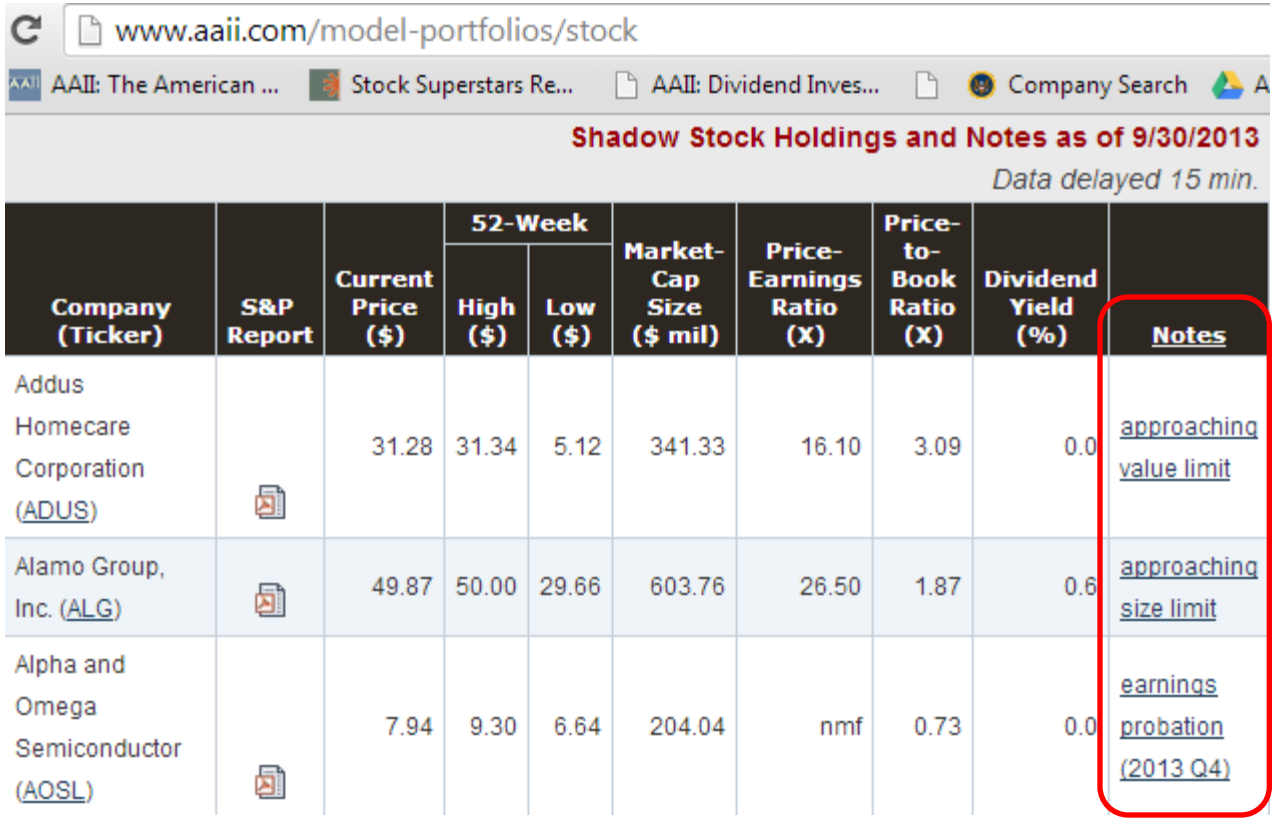
Stock purchases must meet these criteria:

- No bulletin board or pink sheet stocks will be purchased.
- Price-to-book-value ratio must be less than 0.80. If the price-to-book-value moved up a bit since the stock was included in the portfolio, it is still OK to purchase the stock unless this ratio goes above 0.90.(This figure will change gradually with changes in overall market values.)
- Market capitalization must be between $30 million and $300 million. (This figure will change gradually with changes in overall market values.)
- The firm's last quarter and last 12 months' earnings from continuing operations must be positive.
- No financial stocks or limited partnerships will be purchased.
- No stock on foreign exchanges or ADRs will be purchased because of different accounting and/or withholding tax on dividends.
- The share price must be greater than $4.
- In order to reduce trading by avoiding stocks that are forever marginal, any stock that was sold within two years will not be rebought.
- Note second item under Stock Order Guidance concerning spreads when buying shares.
- Price-to-sales ratio must be less than 1.2. (This figure may change gradually with changes in overall market values.)
- Eliminate any company that failed to file a 10-Q (quarterly) report in the last six months.

Shadow Stocks to Buy

TravelCenters of America LLC (TA)		7.86	12.50	4.18	232.42	157.20	0.65	0.0	
VOXX International Corp (VOXX)		14.26	15.00	5.55	346.24	11.10	0.76	0.0	
Willis Lease Finance Corporati (WLFC)		16.59	16.64	11.70	141.47	18.60	0.67	0.0	qualified as of 9/30/2013

Signs a Stock Could be Sold



www.aaii.com/model-portfolios/stock

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Shadow Stock Holdings and Notes as of 9/30/2013

Data delayed 15 min.

Company (Ticker)	S&P Report	Current Price ($)	52-Week High ($)	52-Week Low ($)	Market-Cap Size ($ mil)	Price-Earnings Ratio (X)	Price-to-Book Ratio (X)	Dividend Yield (%)	Notes
Addus Homecare Corporation (ADUS)		31.28	31.34	5.12	341.33	16.10	3.09	0.0	approaching value limit
Alamo Group, Inc. (ALG)		49.87	50.00	29.66	603.76	26.50	1.87	0.6	approaching size limit
Alpha and Omega Semiconductor (AOSL)		7.94	9.30	6.64	204.04	nmf	0.73	0.0	earnings probation (2013 Q4)

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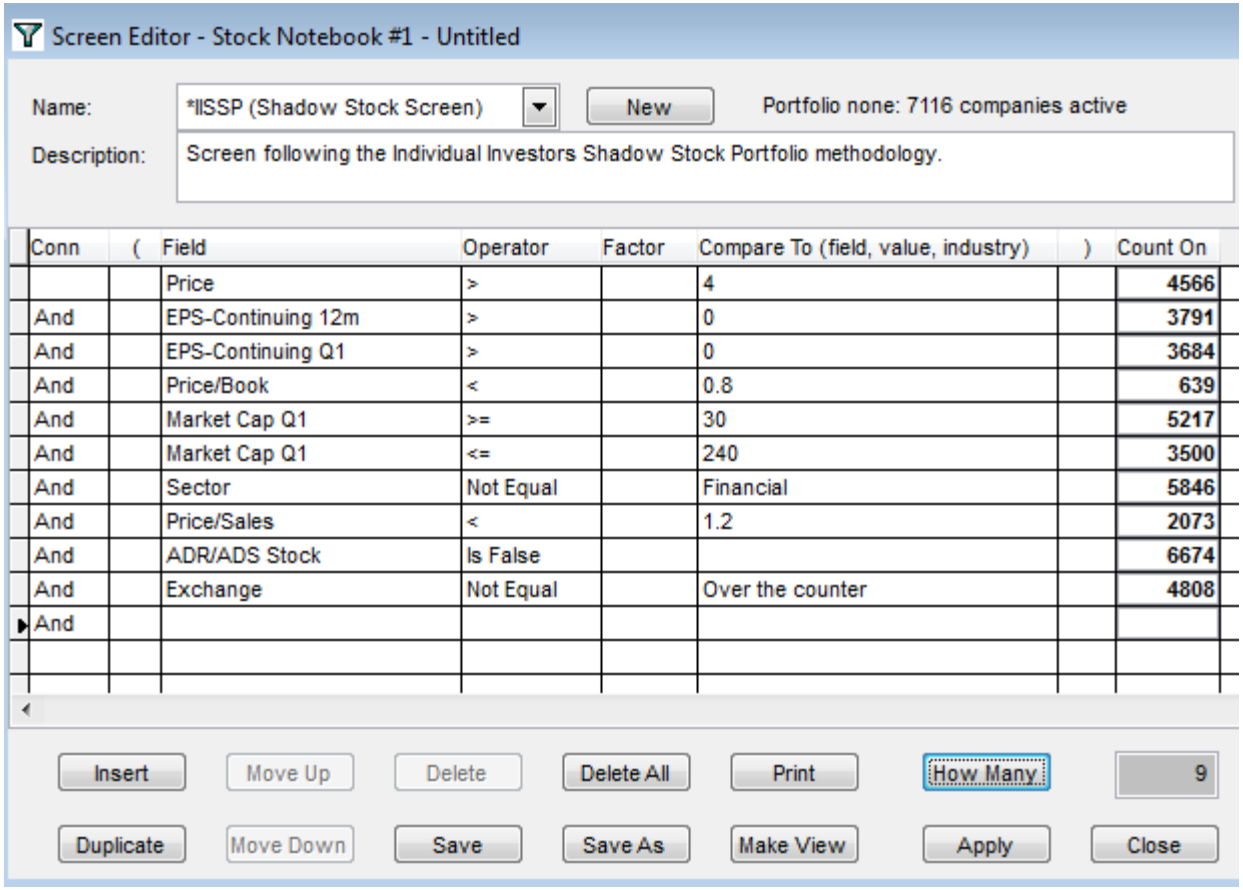
Shadow Stock Buy Screen



Screen Editor - Stock Notebook #1 - Untitled

Name: *IISSP (Shadow Stock Screen) New Portfolio none: 7116 companies active

Description: Screen following the Individual Investors Shadow Stock Portfolio methodology.

Conn	(	Field	Operator	Factor	Compare To (field, value, industry)	)	Count On
		Price	>		4		4566
And		EPS-Continuing 12m	>		0		3791
And		EPS-Continuing Q1	>		0		3684
And		Price/Book	<		0.8		639
And		Market Cap Q1	>=		30		5217
And		Market Cap Q1	<=		240		3500
And		Sector	Not Equal		Financial		5846
And		Price/Sales	<		1.2		2073
And		ADR/ADS Stock	Is False				6674
And		Exchange	Not Equal		Over the counter		4808
And							

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Source: AAII's Stock Investor Pro, data as of May 2, 2014

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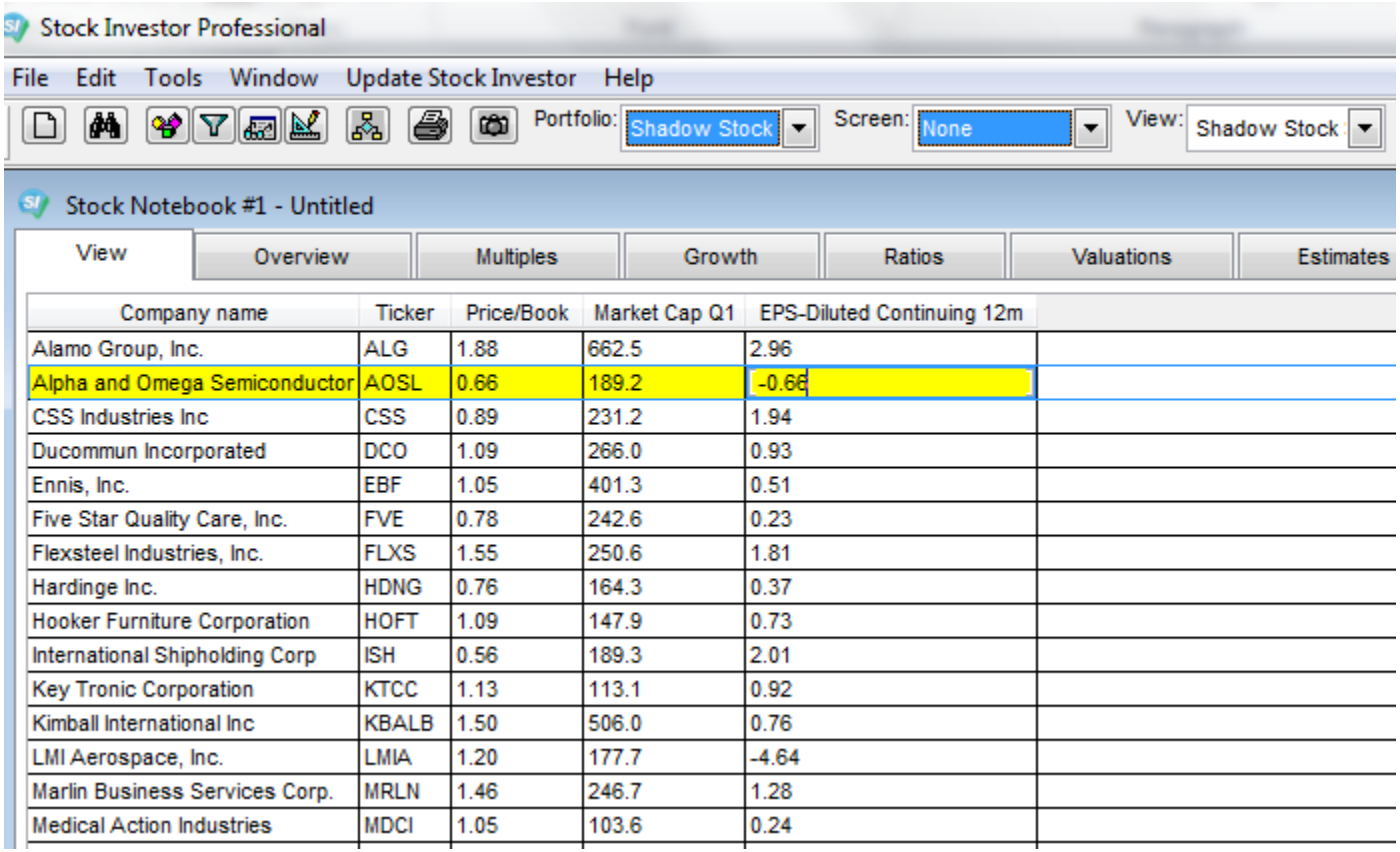
Deletion Rules

Stocks are sold if any of the following occur:

- If last 12 months' earnings from continuing operations are negative, the stock is put on probation; if a subsequent quarter has negative earnings prior to 12-month earnings from continuing operations becoming positive, the stock is sold.
- The stock's price-to-book-value ratio goes above three times the initial criterion.
- Market capitalization goes above three times the initial maximum criterion.

Tracking Shadow Stocks



Company name	Ticker	Price/Book	Market Cap Q1	EPS-Diluted Continuing 12m
Alamo Group, Inc.	ALG	1.88	662.5	2.96
Alpha and Omega Semiconductor	AOSL	0.66	189.2	-0.66
CSS Industries Inc	CSS	0.89	231.2	1.94
Ducommun Incorporated	DCO	1.09	266.0	0.93
Ennis, Inc.	EBF	1.05	401.3	0.51
Five Star Quality Care, Inc.	FVE	0.78	242.6	0.23
Flexsteel Industries, Inc.	FLXS	1.55	250.6	1.81
Hardinge Inc.	HDNG	0.76	164.3	0.37
Hooker Furniture Corporation	HOFT	1.09	147.9	0.73
International Shipholding Corp	ISH	0.56	189.3	2.01
Key Tronic Corporation	KTCC	1.13	113.1	0.92
Kimball International Inc	KBALB	1.50	506.0	0.76
LMI Aerospace, Inc.	LMIA	1.20	177.7	-4.64
Marlin Business Services Corp.	MRLN	1.46	246.7	1.28
Medical Action Industries	MDCI	1.05	103.6	0.24

Source: AAII's Stock Investor Pro, data as of May 2, 2014

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AAII Email Updates

Don't Fret Over the Market's Recent Volatility

Thursday, April 17, 2014

Charles Rotblut, CFA
AAII Journal Editor

It certainly feels as if Mr. Market has reverted back to being a toddler: happy one minute and cranky the next. Those who own highly valued momentum stocks such as Netflix (NFLX) and Facebook (FB) have certainly felt the impact of the volatility.

Though some stocks have been whipsawing, the markets overall have been less volatile than they feel or some headlines suggest. As of last Friday's close, the S&P was just 3.9% below its record high closing. The large-cap index has also only ended up or down by 1.5% or more four times this year. The action feels more volatile because the recent decline has occurred quickly, as downward moves typically do. Plus, last year was a calm one. I counted just eight days with a closing price change of 1.5% or greater and only four days with a closing price change of greater than 2% for all of 2013. Depending on what stocks are in your portfolio, you may have experienced more or less volatility than the S&P 500 has this year.

As to whether the recent decline is a precursor of a market correction, I couldn't tell you. The same holds true for all market forecasters. We are about to enter what has historically been the worst six-month period for stock prices (May through October). On the other hand, optimism in the AAII Sentiment Survey is at a level that has historically been followed by above average S&P 500 returns. Neither indicator has a perfect record, so we might have better accuracy trying to predict who is going to win this year's World Series.

(www.aaii.com/email/signup)

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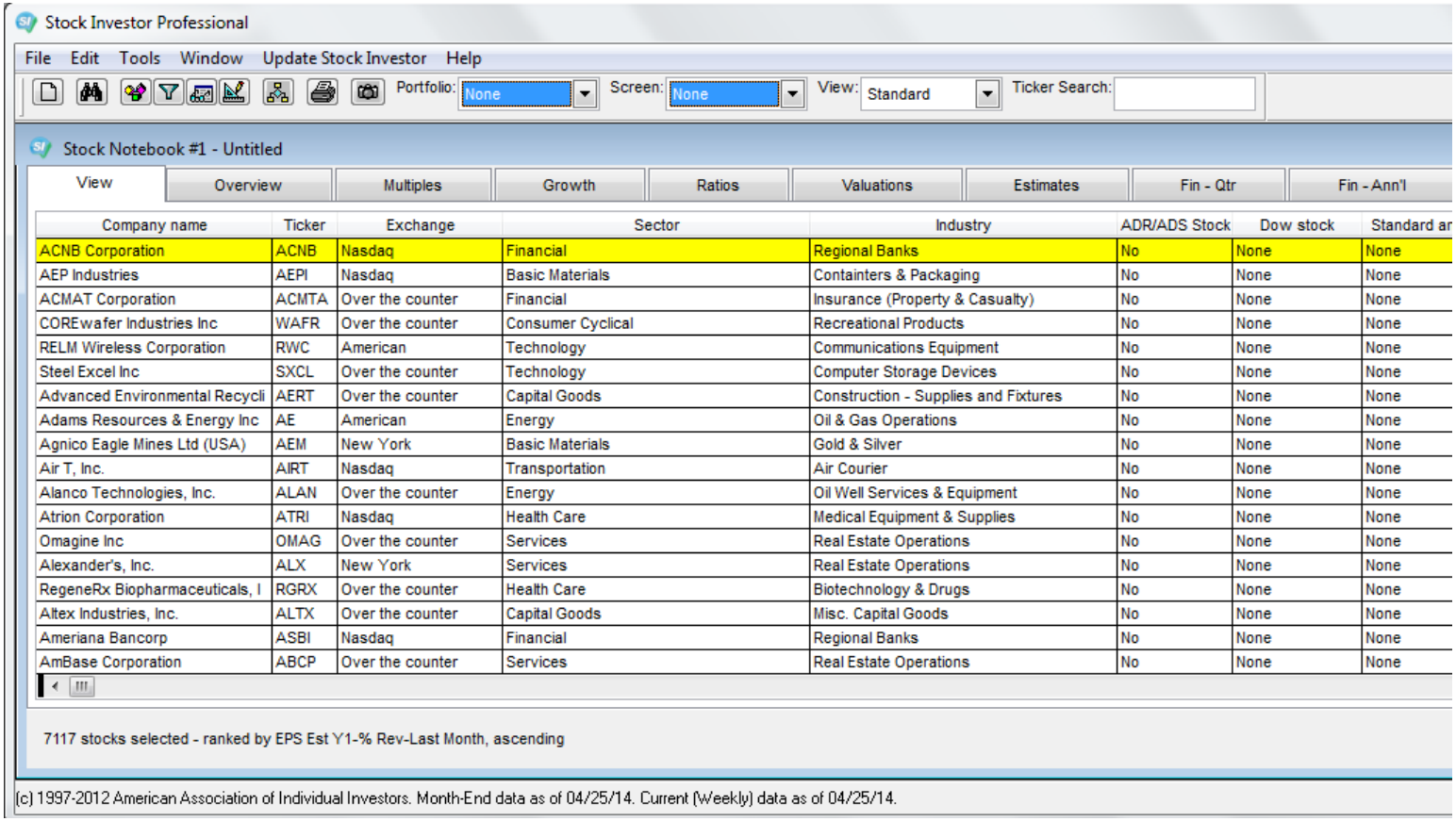
Other AAII Resources

Stock Investor Pro



Company name	Ticker	Exchange	Sector	Industry	ADR/ADS Stock	Dow stock	Standard ar
ACNB Corporation	ACNB	Nasdaq	Financial	Regional Banks	No	None	None
AEP Industries	AEPI	Nasdaq	Basic Materials	Containters & Packaging	No	None	None
ACMAT Corporation	ACMTA	Over the counter	Financial	Insurance (Property & Casualty)	No	None	None
COREwafer Industries Inc	WAFR	Over the counter	Consumer Cyclical	Recreational Products	No	None	None
RELM Wireless Corporation	RWC	American	Technology	Communications Equipment	No	None	None
Steel Excel Inc	SXCL	Over the counter	Technology	Computer Storage Devices	No	None	None
Advanced Environmental Recycli	AERT	Over the counter	Capital Goods	Construction - Supplies and Fixtures	No	None	None
Adams Resources & Energy Inc	AE	American	Energy	Oil & Gas Operations	No	None	None
Agnico Eagle Mines Ltd (USA)	AEM	New York	Basic Materials	Gold & Silver	No	None	None
Air T, Inc.	AIRT	Nasdaq	Transportation	Air Courier	No	None	None
Alanco Technologies, Inc.	ALAN	Over the counter	Energy	Oil Well Services & Equipment	No	None	None
Atrion Corporation	ATRI	Nasdaq	Health Care	Medical Equipment & Supplies	No	None	None
Omagine Inc	OMAG	Over the counter	Services	Real Estate Operations	No	None	None
Alexander's, Inc.	ALX	New York	Services	Real Estate Operations	No	None	None
RegeneRx Biopharmaceuticals, I	RGRX	Over the counter	Health Care	Biotechnology & Drugs	No	None	None
Altex Industries, Inc.	ALTX	Over the counter	Capital Goods	Misc. Capital Goods	No	None	None
Ameriana Bancorp	ASBI	Nasdaq	Financial	Regional Banks	No	None	None
AmBase Corporation	ABCP	Over the counter	Services	Real Estate Operations	No	None	None

(www.aaii.com/stock-investor-pro, $198 per year)

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AAII Stock Screens

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Stock Screens

The purpose of AAII's Stock Screen area is to provide you with access to a wide range of stock strategies and investment approaches.

We update our stock screens monthly, covering over 60 stock investment strategies as well as the companies that pass each screen.

Data as of 3/31/2014

YTD | 3-Year | 5-Year | 10-Year | Inception | Risk Index | Category | Alphabetical

Screen Performance Snapshots (click tabs to change sort order)

Screen	Annual Price Gain (%) YTD	3 Yr	5 Yr	10 Yr	Inception	Risk Index	Category
1. **ADR Screen** An ADR stock screen seeks out foreign companies with attractive PEG ratios and increasing price strength.	25.2%	6.1%	20.9%	8.4%	9.3%	1.48	Growth & Value With Price Momentum
2. **O'Shaughnessy: Tiny Titans** O'Shaughnessy tries to predict the future using historical long-term trends.	19.7%	17.1%	29.7%	12.4%	26.8%	1.92	Value With Price Momentum

(http://www.aaii.com/stock-screens)

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Stock Screen Performance

Data as of 3/31/2014

Performance of All Stock Screens

Value | What is a Value Screen?

Strategy	Price Gain (%)																
	YTD	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	Annualized Total*
Cash Rich Firms	5.8	36.6	10.5	-32.8	14.4	56.9	-38.0	7.7	17.2	-2.5	18.6	64.0	-9.4	20.1	40.5	37.1	**11.4**
Dogs of the Dow	0.8	27.9	9.6	10.7	19.4	8.1	-45.4	-1.8	26.8	-9.8	-1.3	20.4	-9.8	-1.2	4.1	5.7	**2.9**
Dogs of the Dow: Low Priced 5	-0.7	34.5	15.7	13.1	17.3	-7.7	-58.7	-2.7	34.9	-11.8	6.1	17.6	-6.5	7.2	3.2	-2.0	**2.2**
Fundamental Rule of Thumb	1.5	46.1	-6.9	-35.2	17.7	92.1	-41.5	4.1	31.0	5.0	49.6	83.3	4.7	42.3	28.7	11.7	**14.5**
Graham--Defensive Investor (Non-Utility)	0.9	33.9	18.9	7.0	31.4	57.9	-32.0	20.6	26.6	26.2	11.7	32.7	3.1	61.5	12.0	3.6	**18.0**
Graham--Defensive Investor (Utility)	6.9	10.0	1.2	8.6	4.6	7.9	-18.4	1.8	29.4	18.5	16.2	16.6	-15.9	5.2	51.4	-8.4	**8.1**
Graham--Enterprising Investor	-4.8	9.6	1.1	-1.1	43.5	48.5	-40.7	28.1	72.3	21.3	18.9	25.9	43.5	55.3	24.2	-5.0	**17.0**
Graham--Enterprising Investor Revised	6.2	2.1	-4.9	-4.1	32.9	168.4	-22.6	29.4	34.5	48.2	10.2	50.1	2.2	65.8	-1.4	5.5	**21.2**
Magic Formula	1.7	27.9	7.9	-30.6	26.6	97.0	-36.3	-5.6	27.9	-9.2	6.5	66.6	6.3	76.1	1.0	9.3	**11.2**
O'Shaughnessy: Value	-0.3	29.6	20.3	-11.2	7.4	31.5	-49.1	-4.2	24.4	2.2	20.2	47.2	-12.1	10.6	22.3	-3.9	**6.1**

(http://www.aaii.com/stock-screens/performance)

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AAII Dividend Investing

AAII DIVIDEND INVESTING™

April 2014
Volume III Issue 4
www.AAIIDividendInvesting.com

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Locking in Big Gains; Adding Tech and Paper

For the first time in more than a year, we are replacing two stocks at the same time. The transactions will result in a larger cash balance too. We'll walk you through the process so you can understand what we are doing and why.

We'll start with the stock changes.

Gentex Corp. (GNTX) and Waddell & Reed Financial (WDR) are both being deleted from the portfolio. Gentex is being removed because of a change in its dividend policy and its low relative yield. Waddell & Reed is being removed because of its valuation. Both stocks have performed exceptionally well for us.

Replacing the two stocks will be Apple Inc. (AAPL) and International Paper Co. (IP). Apple's unique combination of brand loyalty, large cash balance, significant free cash flow generation, low valuation and above-market yield make it attractive from a total return standpoint. Apple also replenishes some of our former exposure to the technology sector. International Paper's yield of 3.1% will help to boost the DI portfolio's income generation. Plus, a focus on improving profitability combined with targeted divestures and acquisitions has positioned the company to increase its free cash flow.

(www.aaiidividendinvesting.com, $149 per year)

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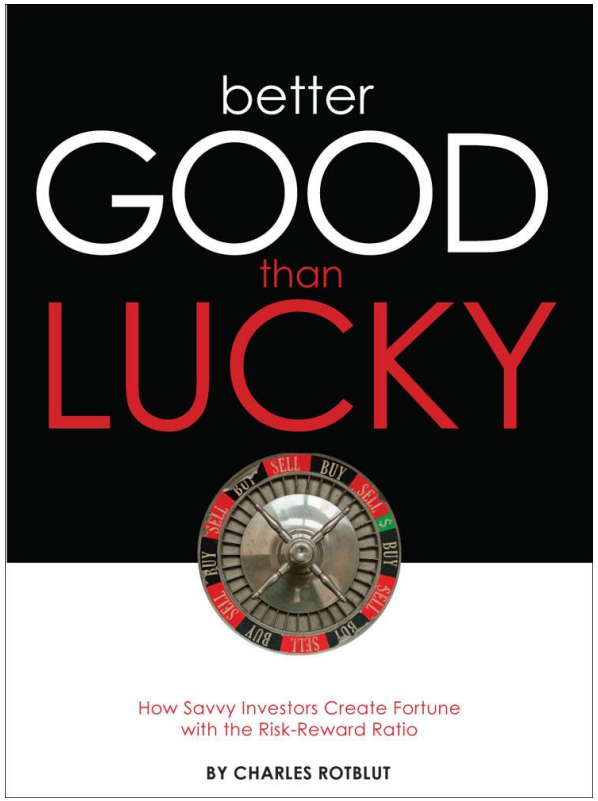
My Book



(W&A Publishing / Traders Press)

Smart Investing: Reducing Risk While Seeking Reward

Charles Rotblut, CFA
Vice President & *AAII Journal* Editor
American Association of Individual Investors