AAII's Model Shadow Stock Portfolio: Putting Theory Into Practice

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Presentation Overview

- Underlying Academic Research
- Model Shadow Stock Portfolio Buy & Sell Rules
- Portfolio Management Guidelines
- AAII Tools & Resources

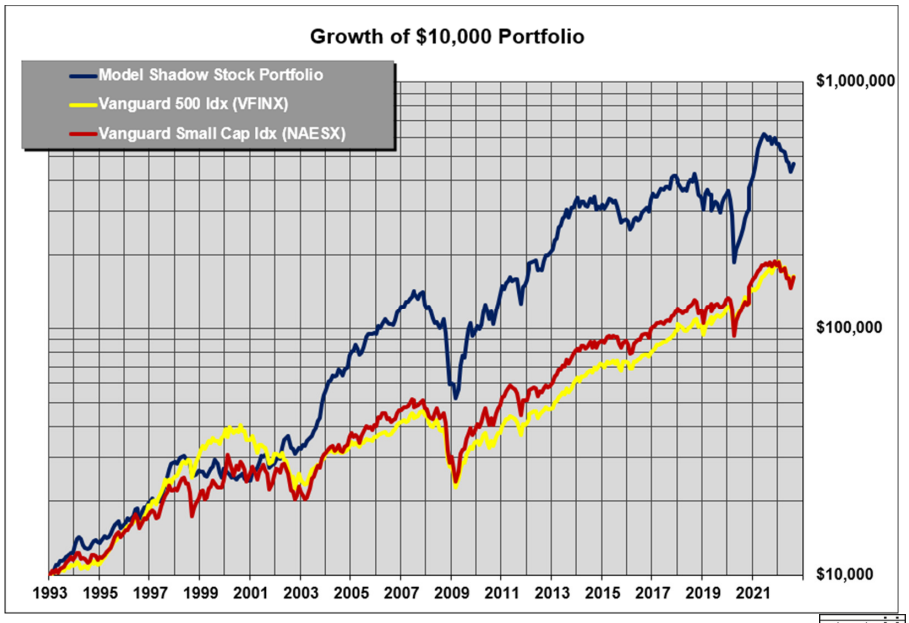
Model Shadow Stock Portfolio

Sound Academic Research

Practical Selection & Trading Rules

Year	Average Annual Return (%) Model Shadow Stock Portfolio	Vanguard 500 Index (VFINX)	Vanguard Small Cap Index (NAESX)
1993	32.3	9.9	18.7
1994	2.0	1.2	(0.5)
1995	20.7	37.4	28.7
1996	22.3	22.9	18.1
1997	44.3	33.2	24.6
1998	(8.9)	28.6	(2.6)
1999	(0.0)	21.1	23.1
2000	(7.7)	(9.1)	(2.7)
2001	21.4	(12.0)	3.1
2002	10.8	(22.1)	(20.0)
2003	73.1	28.5	45.6
2004	43.7	10.8	19.9
2005	17.9	4.8	7.4
2006	29.4	15.6	15.6
2007	(1.8)	5.4	1.2
2008	(50.8)	(37.0)	(36.0)
2009	72.3	26.5	36.1
2010	45.4	14.9	27.7
2011	6.3	2.0	(2.8)
2012	33.3	15.8	18.0
2013	61.0	32.2	37.6
2014	(5.8)	13.5	7.4
2015	(15.2)	1.3	(3.8)
2016	29.8	11.8	18.2
2017	14.0	21.7	16.1
2018	(24.4)	(4.5)	(10.5)
2019	19.6	31.3	27.2
2020	13.8	18.3	19.0
2021	35.3	28.6	17.6
YTD*	(16.8)	(12.7)	(13.4)
Inception	**13.9**	**9.9**	**9.8**

*Through Jul 31, 2022.



Large-Cap vs. Micro-Cap

SINCE 1926, MICRO-CAP EQUITIES HAVE BEEN POSITIVE 69% OF THE TIME

	Large-Cap Equities (S&P 500)	Micro-Cap Equities (9-10 decile)
Average Annualized	12.2%	16.2%
# of Positive	70 years	66 years
# of Negative	25 years	29 years

Source: Ibbotson SBBI, 2020.

Perritt Capital Management

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Trends in Micro-Cap Stocks

LIKELY TRENDS OCCUR IN MICRO-CAP EQUITY RETURNS

Equity Risk Premium	0.02	Random
Small Equity Risk Premium	0.34	Possible Trend
Bond Default Premium	-0.31	Possible Cycle
Inflation Rates	0.64	Trend
Real Interest Rates	0.63	Trend

Source: Ibbotson SBBI, 2020

Perritt Capital Management

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Trends in Micro-Cap Stocks

ONLY FIVE INSTANCES OF MULTIPLE YEARS OF NEGATIVE PERFORMANCE SINCE 1926

Micro-Cap Equities

	Positive Return Periods	Negative Return Periods
Consecutive Years	19	5
Single Year	4	17

HOW SERIAL CORRELATION IN MICRO-CAP EQUITIES IMPACTS INVESTORS

	Total Return	Average Annualized
1933-1936	597.0%	62.5%
1949-1952	84.5%	16.6%
1975-1983	1,421.0%	35.3%
1991-1997	332.1%	23.3%
2003-2006	133.7%	23.6%

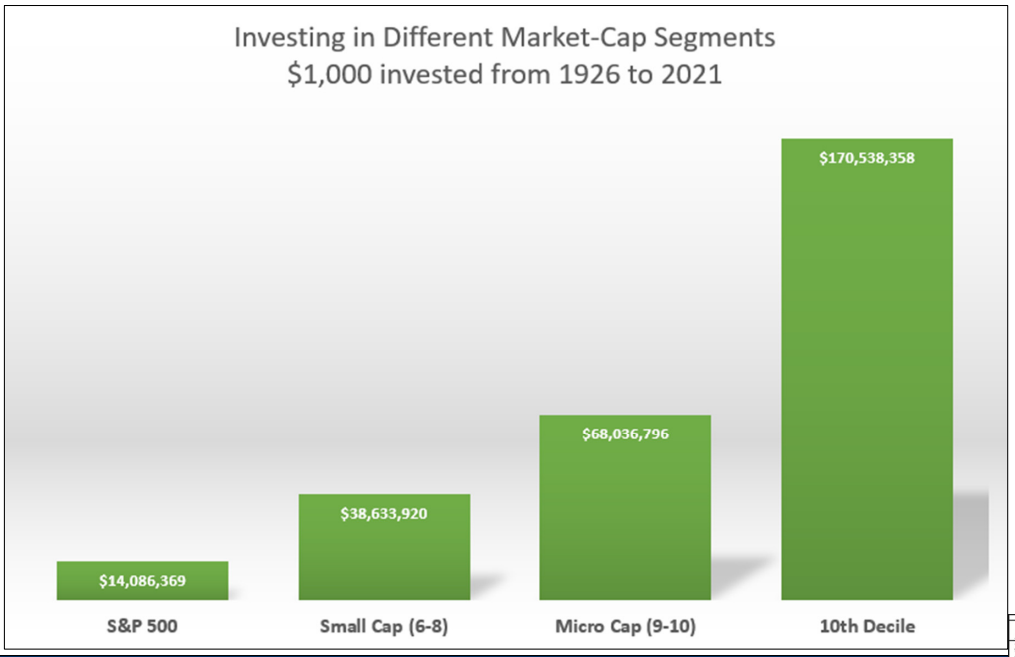
Source: Ibbotson SBBI, 2020.

Primary Size Consideration: Market Capitalization

Performance by Market Cap

Decile	1926 to 2021 Annual Return (%)	Average Return (%)	Standard Deviation (%)	Return Above Decile 1	No. of Firms	Largest Stock	% of Total Market Cap	% of Total Cos
1-Largest	9.8	11.5	18.7	--	227	$2,324.4 bil	73.3	6.6
2	10.9	13.0	21.1	1.1	224	$36.10 bil	11.2	6.6
3	11.2	13.7	22.9	1.4	227	$16.74 bil	5.5	6.6
4	11.0	13.8	25.1	1.2	252	$8.21 bil	3.3	7.4
5	11.5	14.5	25.7	1.7	276	$5.00 bil	2.3	8.1
6	11.5	14.8	26.6	1.7	292	$3.28 bil	1.6	8.6
7	11.9	15.5	28.5	2.1	328	$2.16 bil	1.2	9.6
8	11.4	15.8	32.2	1.6	468	$1,306 mil	0.9	13.7
9	11.7	16.9	36.3	1.9	469	$627.8 mil	0.5	13.7
10-Smallest	**13.4**	**20.0**	**41.5**	**3.6**	**651**	**$289.0 mil**	**0.2**	19.1
Large Cap, S&P 500	10.5	12.3	19.6		500	$2,324.4 bil	84.5	14.6
Mid Cap, Deciles 3-5	11.2	13.9	23.9		755	$16.74 bil	11.2	22.1
Small Cap, Deciles 6-8	11.6	15.2	28.1		1,088	$3.28 bil	3.7	31.9
Micro Cap, Deciles 9-10	12.3	17.9	37.9		1,120	$627.8 mil	0.7	32.8
Treasury Bills	3.3	3.3	3.1					
Inflation	2.9	3.0	4.0					

Past performance is no guarantee of future results.
Source: Kroll, Morningstar, CRSP



Invest Where YOU Have the Advantage

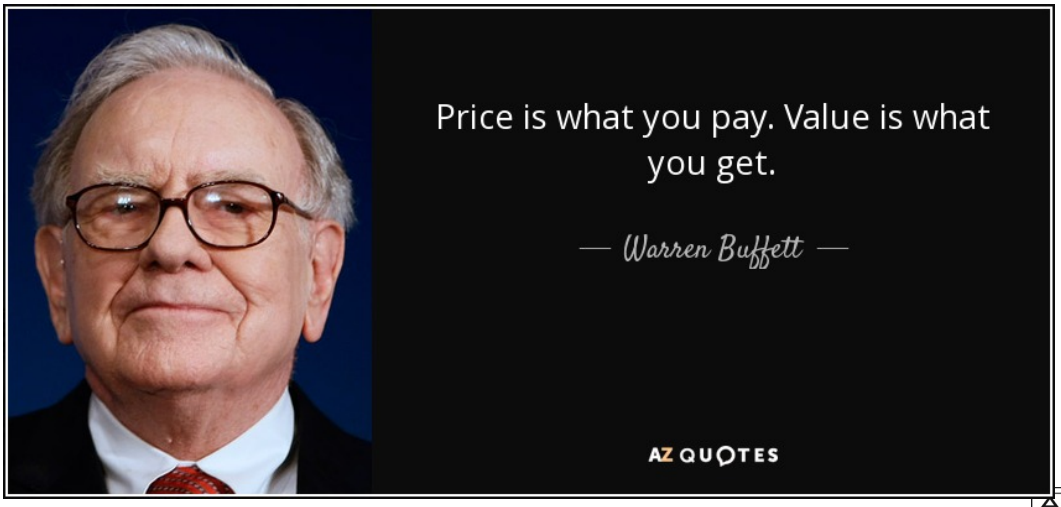
Primary Size Consideration: Market Capitalization

- Market Cap <= $350 million
  - Lowest 10% of NYSE-listed stocks
  - Current cutoff established in September 2022
    - Original cutoff: $55 million in 1993
    - Highest cutoff: $500 million between June 2021 and February 2022

Secondary Size Consideration: Liquidity

- Market Cap >= $30 million
  - Current minimum set in December 2013
    - Original minimum of $10 million in 1993
- No OTC stocks (bulletin board or pink sheets)
- Share price > $4
- Use limit orders to control buy/sell prices
- Average daily trading volume >= 10x position you are seeking

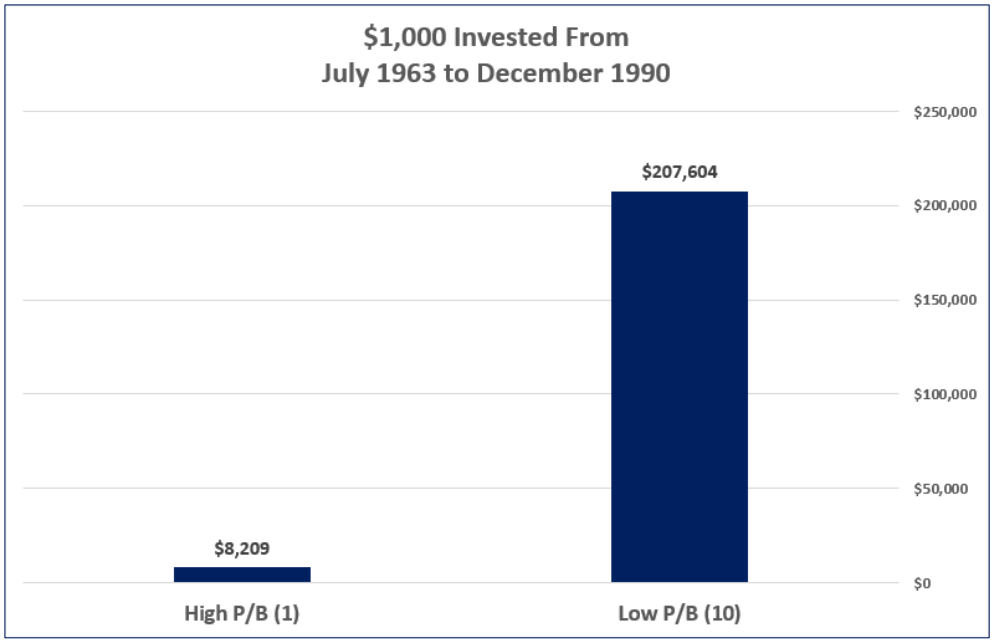
Primary Value Consideration: Price-to-Book-Value Ratio

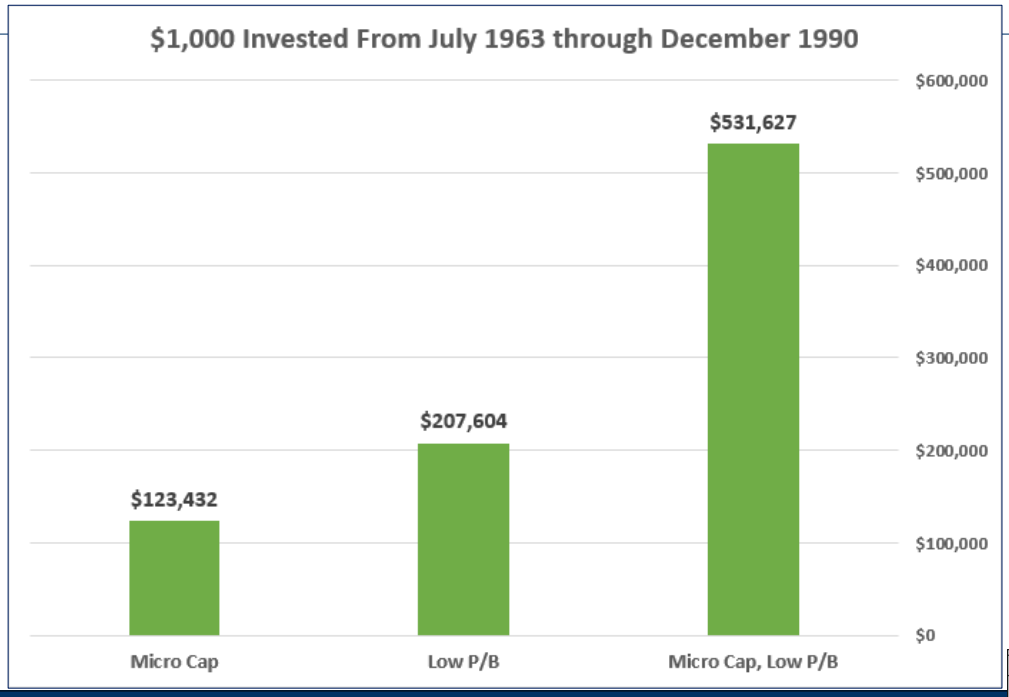


Primary Value Consideration: Price-to-Book-Value Ratio

	Average Monthly Returns (July 1963 to December 1990) (%)										
		High				Price-to-Book-Value Ratio					Low
	All	1	2	3	4	5	6	7	8	9	10
All Stocks	1.23	0.64	0.98	1.06	1.17	1.24	1.26	1.39	1.40	1.50	1.63
Size Deciles											
1-Largest	0.89	0.93	0.88	0.84	0.71	0.79	0.83	0.81	0.96	0.97	1.18
2	0.95	0.44	0.89	0.92	1.00	1.05	0.93	0.82	1.11	1.04	1.22
3	1.08	0.66	1.13	0.91	0.95	0.99	1.01	1.15	1.05	1.29	1.55
4	1.07	0.95	1.00	0.99	0.83	0.99	1.13	0.99	1.16	1.10	1.47
5	1.15	0.70	0.98	1.14	1.23	0.94	1.27	1.19	1.19	1.24	1.50
6	1.24	0.88	0.65	1.08	1.47	1.13	1.43	1.44	1.26	1.52	1.49
7	1.19	0.39	0.72	1.06	1.36	1.13	1.21	1.34	1.59	1.51	1.47
8	1.22	0.56	0.88	1.23	0.95	1.36	1.30	1.30	1.40	1.54	1.60
9	1.22	0.43	1.05	0.96	1.19	1.33	1.19	1.58	1.28	1.43	1.79
10-Smallest	1.47	0.70	1.14	1.20	1.43	1.56	1.51	1.70	1.71	1.82	1.92

Source: The Cross-Section of Expected Stock Returns, Eugene Fama & Kenneth French, The Journal of Finance, June 1992





Primary Value Consideration: Price-to-Book-Value Ratio

	Annualized Returns												
	1920s*	1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s	2010s	2020s**	Trailing 10 Yrs***	1926 - 2021
Large Growth	20.5%	1.7%	6.9%	17.7%	8.0%	3.5%	15.9%	19.8%	(1.2%)	15.2%	30.7%	19.3%	10.3%
Large Value	19.6%	(4.6%)	16.2%	22.4%	10.7%	12.2%	20.4%	16.0%	2.9%	11.1%	15.1%	14.9%	12.0%
Small Growth	0.9%	5.0%	11.2%	17.6%	10.6%	5.8%	10.3%	11.5%	(1.4%)	12.8%	27.2%	16.1%	9.2%
Small Value	7.8%	1.7%	21.2%	20.3%	15.8%	15.1%	21.6%	16.4%	10.5%	10.9%	21.3%	13.6%	14.6%

**period July 1926 - December 1929*
***period January 2020-December 2021*
****period January 2012 - December 2021*
Source: Kenneth French, CRSP

Primary Value Consideration: Price-to-Book-Value Ratio

- Price-to-book-value ratio <= 0.9
  - Bottom 10% of NYSE stocks
  - Current maximum set in March 2022
    - Original cutoff of 0.61 in 1993
    - Lowest cutoff of 0.60 between August 2001 & October 2003
    - Highest cutoff of 1.10 between June 2021 and February 2022
  - S&P 500 P/B currently 3.93 (multpl.com, 8/31/2022)
    - Year Ago 4.38 (multpl.com, 9/30/2021)
  - Primary ranking variable

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Momentum Tie-Breaker: Relative Price Strength

- "Of all the potential embarrassments to market efficiency, momentum is the primary one."

  —*Eugene Fama*

- "Growth and value investing are joined at the hip."

  —*Warren Buffett*

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Momentum Consideration: Relative Price Strength

- Relative Strength 4-week used as a tie breaker to narrow down passing companies, if needed

Levels of Key Factors Over Time

	Maximum Value of Lowest (10th) NYSE Decile		Maximum Values for Shadow Stock Candidates			Annual Return (%)	
Period Ending	Market Cap ($ Mil)	Price-to-Book-Value (X)	Market Cap ($ Mil)	Price-to-Book-Value (X)	Price-to-Sales (X)	Shadow Stock Portfolio	500 Index (VFINX)
Jun 1993	60	0.85	55	0.61	--		
Dec 1993	66	0.99	55	0.61	--	32.3	9.9
Dec 1994	60	0.87	60	0.65	--	2.0	1.2
Dec 1995	81	0.95	60	0.65	--	20.7	37.4
Dec 1996	93	1.01	100	0.70	0.54	22.3	22.9
Dec 1997	123	1.13	125	0.85	0.54	44.3	33.2
Dec 1998	100	0.82	125	0.85	1.00	(8.9)	28.6
Dec 1999	95	0.65	125	0.85	1.00	(0.0)	21.1
Dec 2000	90	0.50	125	0.85	1.00	(7.7)	(9.1)
Dec 2001	115	0.73	125	0.60	1.00	21.4	(12.0)
Dec 2002	130	0.68	125	0.60	1.00	10.8	(22.1)
Dec 2003	243	1.02	125	0.70	1.20	73.1	28.5
Dec 2004	300	1.20	200	0.80	1.20	43.7	10.8
Dec 2005	310	1.09	200	0.80	1.20	17.9	4.8
Dec 2006	380	1.19	200	0.80	1.20	29.4	15.6
Dec 2007	303	0.84	200	0.85	1.20	(1.8)	5.4
Dec 2008	127	0.52	200	0.80	1.20	(50.8)	(37.0)
Dec 2009	230	0.79	200	0.80	1.20	72.3	26.5
Dec 2010	287	0.93	200	0.80	1.20	45.4	14.9
Dec 2011	238	0.76	200	0.80	1.20	6.3	2.0
Dec 2012	266	0.85	240	0.80	1.20	33.3	15.8
Dec 2013	385	1.06	300	0.80	1.20	61.0	32.2
Dec 2014	326	0.94	300	0.80	1.20	(5.8)	13.5
Dec 2015	249	0.77	300	1.00	1.20	(15.2)	1.3
Dec 2016	370	1.04	400	1.00	1.20	29.8	11.8
Dec 2017	387	1.00	400	1.00	1.20	14.0	21.7
Dec 2018	276	0.72	400	1.00	1.20	(24.4)	(4.5)
Dec 2019	280	0.82	300	0.90	1.20	19.6	31.3
Dec 2020	300	0.97	300	1.00	1.20	13.8	18.3
Mar 2021	370	1.02	400	1.00	1.20	13.8	18.3
Jun 2021	470	1.11	500	1.10	1.20	13.8	18.3
Aug 2021	460	1.06	500	1.10	1.20	13.8	18.3
Nov 2021	479	1.04	500	1.10	1.20		
Mar 2022	429	0.90	400	0.90	eliminated		
Jun 2022	383	0.89	400	0.90			

Source: Kenneth R. French, AAII's Stock Investor Pro. Data as of 6/13/2022.

Shadow Stock
Financial Considerations

- Trailing 12m EPS from continuing operations > $0
  - When available, consensus estimates must also be positive for current quarter and year
- Avoid any stock that was sold from the portfolio in the last two years

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Shadow Stock
Financial Considerations

- Avoid stocks not listed on U.S. exchanges and Chinese firms
- Avoid financial stocks, leasing & rental companies, real estate investment trusts (REITs) & limited partnerships, etc.
- Avoid companies that have not filed a quarterly SEC report (10-Q) in last six months

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Building Your Shadow Stock Portfolio: Placing Trades

- **Average daily trading volume > 10x number of shares you want to buy**
  - You may need to slowly move in & out of positions
  - Be willing to build positions slowly by placing partial orders

Building Your Shadow Stock Portfolio: Placing Trades

- Avg. Daily Volume: 352,256
  - $5,000 ÷ $7.34 = ~680 shares × 10 = 6,800 minimum daily volume
  - 352,256 ÷ 10 = ~35,200 shares maximum supported position
  - 35,200 × $7.34 = $258,368 maximum dollar position

Mesa Air Group, Inc. (MESA)
NasdaqGS - NasdaqGS Real Time Price. Currency in USD
Add to watch

7.34 +0.32 (+4.48%)
As of 1:48PM EDT. Market open.
Buy

Summary | Company Outlook | Chart | Conversations | Statis

Previous Close	7.03	Market Cap	230.574M
Open	7.08	Beta (3Y Monthly)	N/A
Bid	7.33 x 800	PE Ratio (TTM)	4.50
Ask	7.34 x 1000	EPS (TTM)	1.63
Day's Range	7.05 - 7.41	Earnings Date	Dec 2, 2019 - Dec 6, 2019
52 Week Range	5.35 - 15.95	Forward Dividend & Yield	N/A (N/A)
Volume	399,419	Ex-Dividend Date	N/A
Avg. Volume	352,256	1y Target Est	12.17

Building Your Shadow Stock Portfolio: Placing Trades

- Cancel open orders if price move pushes price-to-book ratio or market cap beyond buy limits
  - Keep shares you already have

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Use Limit Orders for Buy & Sell Trades

- Bid/ask spread > 2%: Place limit orders between the bid and ask price to keep the transaction cost low
- Bid/ask spread < 2%: Place limit orders at the ask for a buy and at the bid for sell

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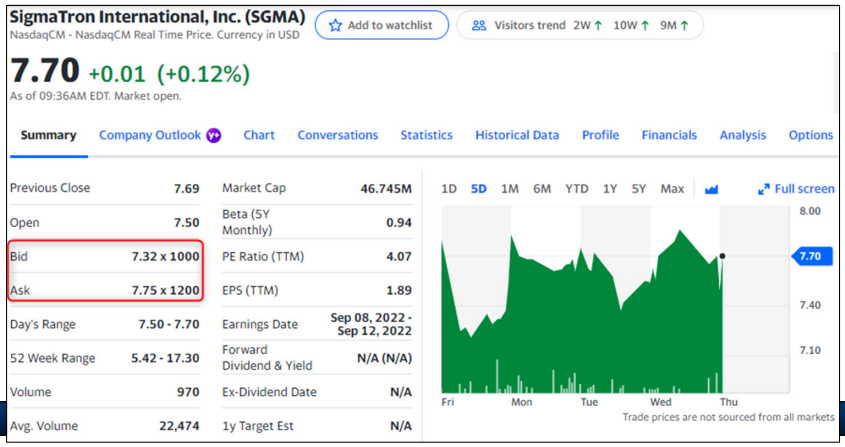
Bid-Ask Spreads

- Bid-ask spread: (ask – bid) ÷ ask

  ($7.75 – $7.32) ÷ $7.75

  = 0.5548 or 5.55% → Place limit order ~$7.54



Use Limit Orders for Buy & Sell Trades

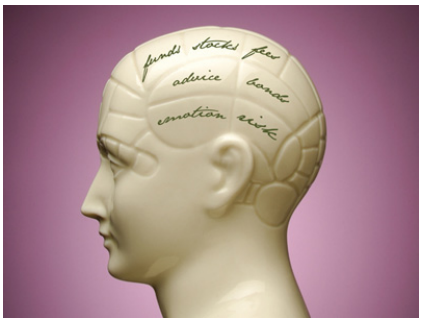
- **Nasdaq:** Use day orders that expire at end of day if not filled
- **NYSE & Amex:** Use good-til-canceled orders to keep your place in the specialist book
- Adjust limit price if market is not close to desired price after a few days

Portfolio Construction

- Use online discount broker to keep trading fees low
- 10-stock portfolio minimum number of holdings
  - $25,000 minimum investment
- 15 to 20 stocks: $100,000 to $1 million
- 25+ stocks: Over $1 million
- Invest equal dollar amounts in each security

Knowing When to Sell

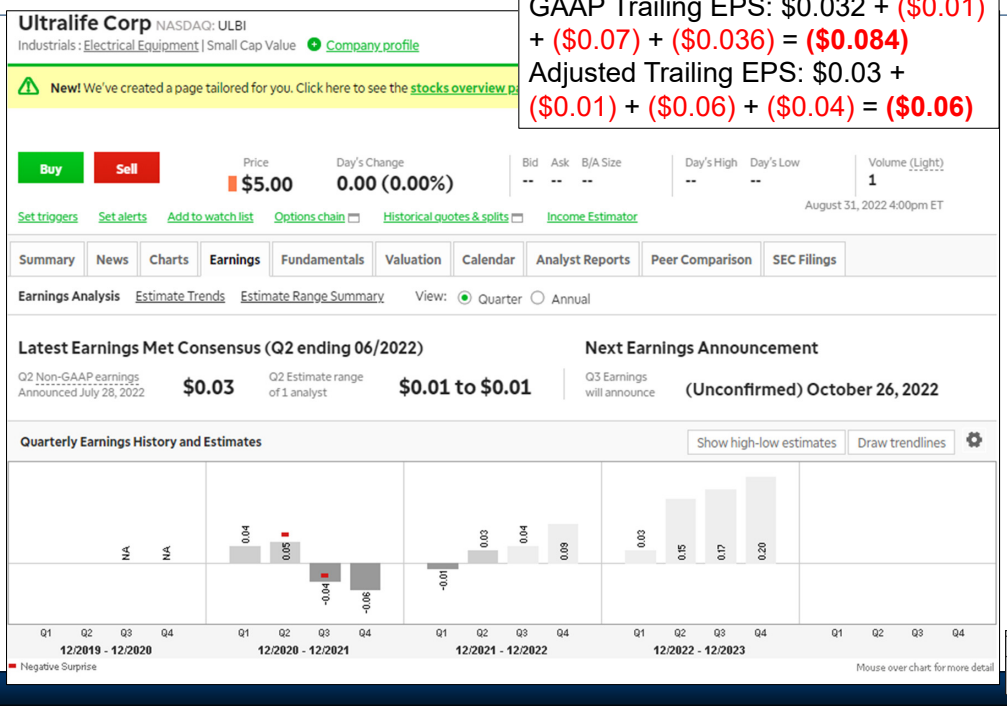
Rules to Overcome Emotion



Shadow Stock Portfolio Sell Rules

- Price-to-book-value ratio > 3x current buy factor
  - 3 × 0.9 = 2.7
  - Sell if there are suitable replacements
- Market cap > 3x current buy factor
  - 3 × $350 million = $1.05 billion
  - Sell if there are suitable replacements
- Adjusted EPS 12m < $0
  - Not GAAP earnings
  - Stock placed on probation when quarterly results push trailing EPS negative
  - If subsequent quarter has negative EPS while trailing EPS still negative, stock is sold
    - If subsequent quarterly EPS is positive but trailing EPS is negative, stock remains on probation
  - Sell even if no suitable replacements
- Sell holdings older than four years, unless up more than 40% since purchase (~10% annual gain)
  - Sell if there are suitable replacements

GAAP Trailing EPS: $0.032 + ($0.01) + ($0.07) + ($0.036) = **($0.084)**
Adjusted Trailing EPS: $0.03 + ($0.01) + ($0.06) + ($0.04) = **($0.06)**



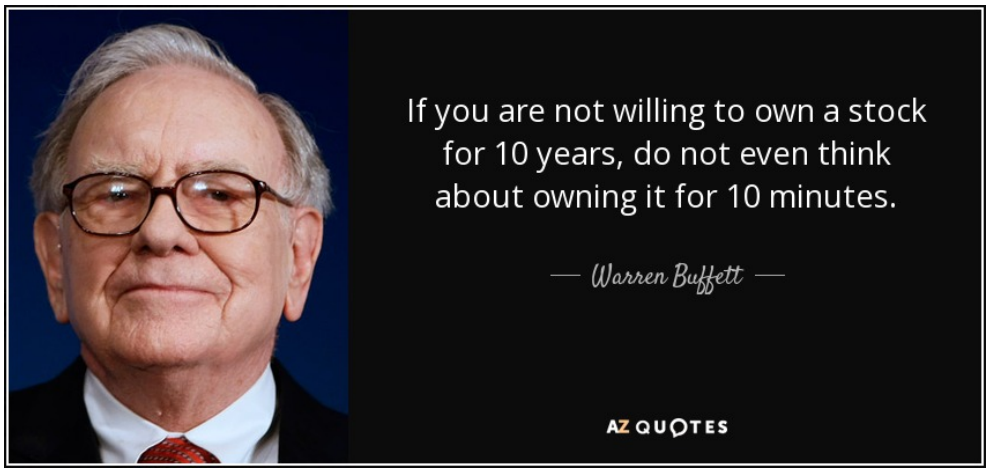
Shadow Stock Portfolio Management Rules

- Decisions are made at the end of the quarter once the earnings results have been announced
  - Typically, in late February, May, August & November
- Use best judgment for mergers/tenders, but still follow rules
- Best to focus on transaction costs
  - Give preference to stocks with lower bid/ask spreads

Shadow Stock Portfolio Management Rules

- Sales proceeds > average position
  - Invest average portfolio position in qualified stocks
  - Excess cash held for future purchases
- Sales proceeds < average position
  - Do not buy undersized position(s)
  - Hold proceeds in cash for future purchases

Keep a Long-Term Perspective



Keys to Shadow Stock Success

- Time
- Interest
- Discipline
- Minimize turnover

AAII Resources

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Welcome to AAII Shadow Stocks

August Model Shadow Stock Portfolio Update

Only 28 stocks met the initial selection criteria for the Model Shadow Stock Portfolio in early August, down from 38 passing stocks last month. This is a reversal of trend that we have witnessed this year and reflects the strong market rebound during July. AAII members can see and research which companies are currently passing the initial selection criteria in the Shadow Stock Ideas table on AAII.com. The list of new Shadow Stock Ideas is updated daily—Tuesday through Saturday.

Read more

Latest Journal Commentary:

Adhering to Shadow Stock Portfolio Rules Is Vital in Shaky Times

While the S&P 500 index squeaked out a 0.2% gain during May, growing concerns over persistent inflationary pressure and need for tightening monetary policy weighed on investor sentiment, pushing the S&P 500 into a bear market during June. Figure 1 shows returns for the Model Shadow Stock Portfolio compared to benchmarks over longer periods of time.

Inflationary pressure has spread from a relatively narrow segment of goods tied to pandemic-related shortages to a wide array of goods, food, housing, energy and even services. Transitory inflation has turned persistent. Consumer purchasing patterns are changing. Supply constraints of goods and services continue. The war continues between Russia and Ukraine with human, political and economic impact. Even the coronavirus continues to mutate and disrupt the world.

Read more

Latest Shadow Stock Portfolio Alerts

COMPANY (TICKER)	ACTION	DATE
Orion Group Holdings Inc. (ORN)	SELL	3/14/2022
Ranger Oil Corp. (ROCC)	SELL	3/14/2022
Rayonier Advanced Materials Inc. (RYAM)	SELL	3/14/2022
SIFCO Industries Inc. (SIF)	SELL	3/14/2022
Advanced Emissions Solutions Inc. (ADES)	BUY	3/14/2022
Fonar Corporation (FONR)	BUY	3/14/2022
SigmaTron International Inc. (SGMA)	BUY	3/14/2022

See Historical Alerts →

Shadow Stock Portfolio Performance

	YTD Return (%)	Annual Return (%)			Since Inception		
		1-Year	5-Year	10-Year	Ann'l Ret (%)	Risk-Adj Ret (%)	Ann'l Std Dev (%)
Shadow Stock Portfolio	(16.8)	(20.1)	4.3	10.4	13.9	11.8	21.6
Vanguard 500 Idx (VFINX)	(12.7)	(4.8)	12.7	13.6	9.9	9.9	14.8
Vanguard Small Cap Index (NAESX)	(13.7)	(11.2)	8.4	11.4	9.8	9.3	18.9

As of 7/31/2022

See Performance →

User's Guide

To help you start investing in your own Shadow Stock Portfolio, we created this User's Guide. Here you will find information about the strategy used for the Shadow Stock Portfolio, instructions on how to set up your initial portfolio, as well as how to follow the portfolio after setting it up and the rules for when to sell.

See User's Guide →

- User's Guide section has link to PDF version of latest Model Portfolio pamphlet or view as a web-based guide

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conceived to show the membership of AAII how to capitalize on the most promising academic research to manage a stock portfolio without having to commit a great deal of time and effort to day-to-day monitoring. *In fact, AAII manages this real-money stock portfolio (it is not a hypothetical portfolio) by simply reviewing holdings on a quarterly basis.*

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A True Do-It-Yourself Model

To pick the right stocks for AAII's Model Shadow Stock Portfolio, the focus is primarily on portfolio formation and risk reduction. The stocks in the AAII Model Shadow Stock Portfolio are largely risky stocks when evaluated separately. But when taken together as a portfolio, most of that individual stock risk has been diversified away. In fact, the average risk of the individual stocks has been reduced by about 70%. The central point of our Model Shadow Stock Portfolio is that the risk of any individual stock is not important if your portfolio is well diversified. What is important is how the addition of that stock affects the risk of your overall portfolio.

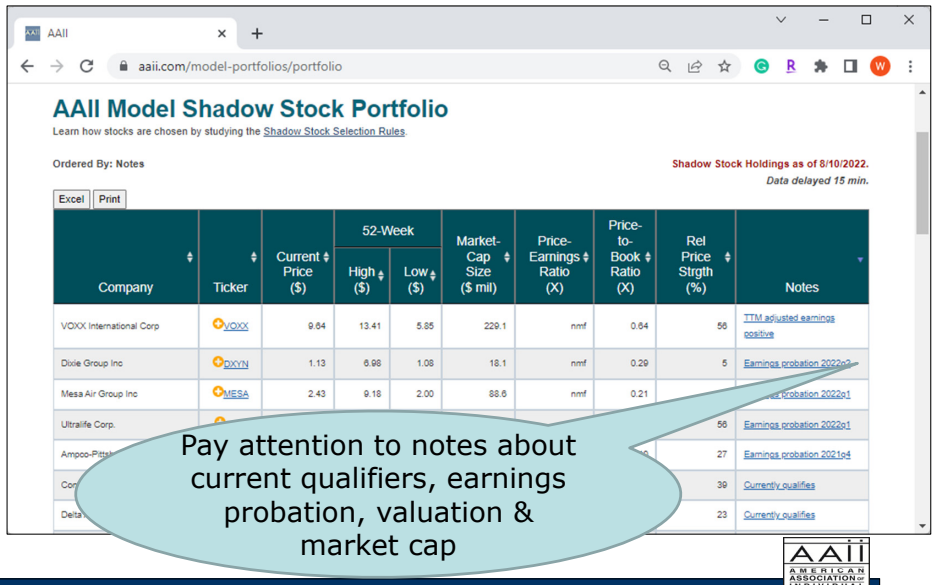
If you are not following the full model portfolio but instead use the list of stocks as a tool to generate investment ideas, it is suggested that you adhere to the overall strategy by selecting and monitoring a portfolio that consists of at least 10 stocks. Choosing stocks in different sectors will provide added diversification and protect your portfolio from some sector volatility. Furthermore, be sure to consider

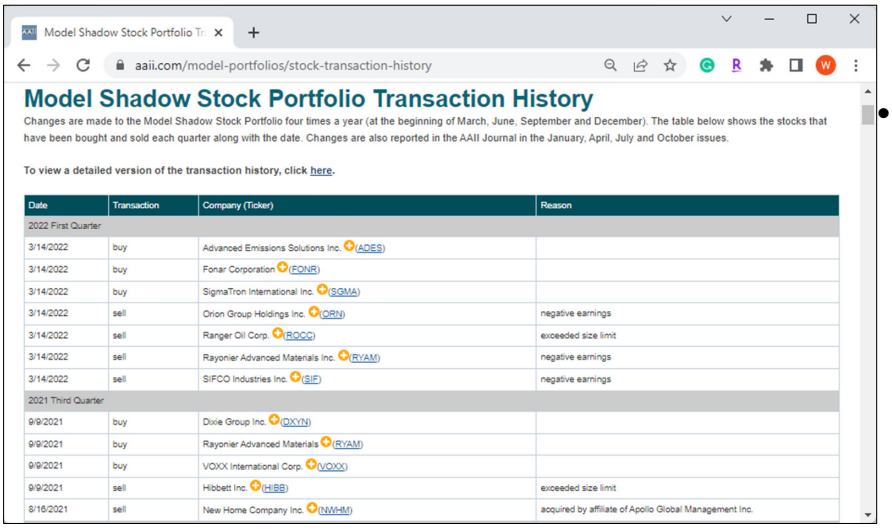
https://www.aaii.com/model-portfolios/usersguide

commended minimum, investments should

Actual AAII Model Shadow Stock Portfolio

- Portfolio section updated monthly & lists current portfolio holdings
- Current price-to-book ratio & market cap
- Special notes (e.g., currently qualifies, earnings probation)





- Transaction History page lists the Model Shadow Stock Portfolio transactions dating back to 2003

AAII

aaii.com/model-portfolios/ideas

Shadow Stock Ideas

We run AAII's Shadow Stock selection methodology daily against a universe of over 6,000 stocks to uncover specific companies that meet our selection criteria.

Ordered By: Price-to-Book Ratio

Passing Companies as of 8/31/2022.

Data delayed 15 min.

Excel | Print

Company	Ticker	Current Price ($)	52-Week High ($)	52-Week Low ($)	Market-Cap Size ($ mil)	Price-Earnings Ratio (X)	Price-to-Book Ratio (X)	Rel Price Strgth (%)	Industry	Held in Tracking Portfolio
China Yuchai International Limited	CYD	8.33	15.35	8.17	343.6	20.90	0.26	27	Auto, Truck & Motorcycle Parts	
EuroDry Ltd	EDRY	14.20	44.99	13.51	40.9	0.80	0.40	16	Freight & Logistics - Marine	
Key Tronic Corporation	KTCC	4.76	7.00	4.24	51.2	20.40	0.41	43	Computer Hardware	✓
Eneti Inc	NETI	8.37	18.69	4.81	295.4	39.10	0.48	96	Freight & Logistics - Marine	
Capital Product Partners L.P.	CPLP	15.19	19.65	12.04	301.4	3.10	0.52	77	Oil & Gas - Transportation Services	
Manitowoc Company Inc	MTW	9.55	24.46	9.52	345.8	23.70	0.52	18	Heavy Machinery & Vehicles	

- "Shadow Stock Ideas" list is updated **daily** and lists all stocks currently passing initial buy rules
- You will need to monitor any stocks purchased from this list since they may not be part of our model portfolio

Shadow Stock Portfolio Rules | A

aaii.com/model-portfolios/stock-rules

Shadow Stock Portfolio Rules

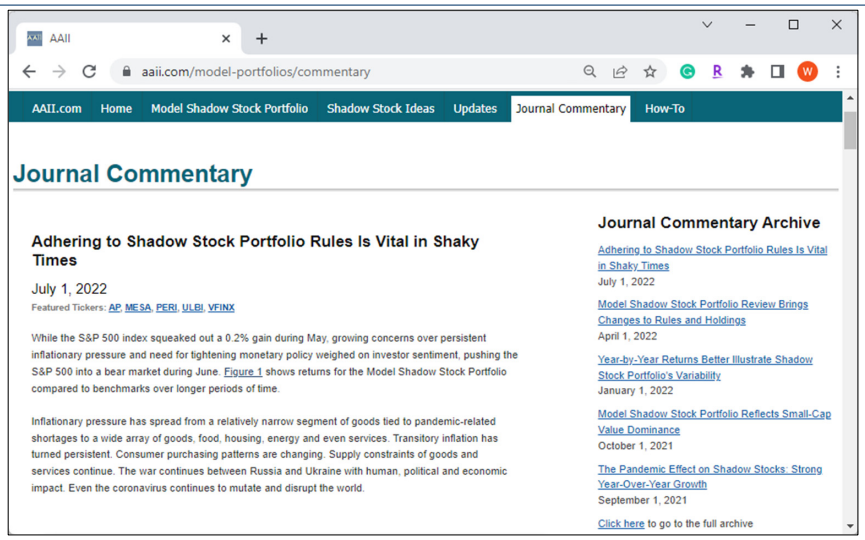
> PURCHASE & SALES RULES
> STOCK ORDER RULES
> MANAGEMENT RULES

Purchase & Sales Rules

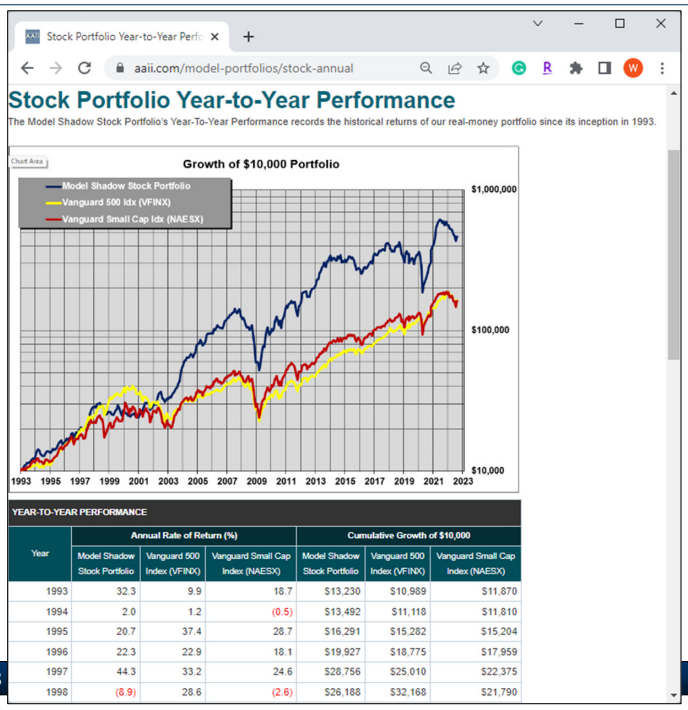
Stock purchases must meet these criteria:

- No bulletin board or pink sheet stocks will be purchased.
- Price-to-book-value ratio must be less than or equal to 0.90. If the price-to-book-value ratio moved up a bit since the stock was included in the portfolio, it is still OK to purchase the stock unless the ratio goes above 1.00. (This figure will change gradually with changes in overall market values.)
- Market capitalization must be between $30 million and $400 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 and, if there are consensus earnings estimates, the estimates must be positive for the current quarter and year.
- No financial stocks or limited partnerships will be purchased.
- No stocks in the utility sector will be purchased.
- No stocks in the rental and leasing industry will be purchased.
- No stock on foreign exchanges or ADRs will be purchased because of different accounting and/or withholding tax on dividends. Foreign stocks traded on U.S. exchanges are OK with one exception: The stock of any company whose primary business is in China will not be purchased.
- 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.
- Eliminate any company that failed to file a 10-Q (quarterly) report in the last six months.
- Price momentum is used as a tie-breaker among qualifying stocks. A ranking on the weighted four-quarter relative strength rank is used to rank qualifying candidates.

- Current Model Shadow Stock Portfolio rules can always be found in this section
- Rules are divided into sections dealing with initial buy criteria, sell criteria, guidelines for placing orders and overall portfolio management rules



- Past *AAII Journal* articles dealing with Model Shadow Stock Portfolios are presented in the "Journal Commentary" section
- Helpful articles to gain an overview of the issues that come up in managing a micro-cap portfolio and how the rules evolve as market conditions change



YEAR-TO-YEAR PERFORMANCE

Year	Annual Rate of Return (%)			Cumulative Growth of $10,000		
	Model Shadow Stock Portfolio	Vanguard 500 Index (VFINX)	Vanguard Small Cap Index (NAESX)	Model Shadow Stock Portfolio	Vanguard 500 Index (VFINX)	Vanguard Small Cap Index (NAESX)
1993	32.3	9.9	18.7	$13,230	$10,989	$11,870
1994	2.0	1.2	(0.5)	$13,492	$11,118	$11,810
1995	20.7	37.4	28.7	$16,291	$15,282	$15,204
1996	22.3	22.9	18.1	$19,927	$18,775	$17,959
1997	44.3	33.2	24.6	$28,756	$25,010	$22,375
1998	(8.9)	28.6	(2.6)	$26,188	$32,168	$21,790

- Year-to-Year Performance link brings up performance chart and table of annual performance

https://www.aaii.com/model-por

aaii.com/model-portfolios/stock-faqs

Model Shadow Stock Portfolio FAQs

Site Mechanics

See latest changes to the model portfolio
Get notification of portfolio changes
See actual buy and sell prices
Model Shadow Stock Portfolio list versus the Shadow Stock Ideas
How often the Shadow Stock Ideas list is updated

Implementing the Portfolio

How to get started
Using AAII's Stock Investor Pro to find shadow stocks
How much money should be invested
How to choose your starting 10 stocks
Diversifying your stock picks
Why many qualifying stocks are trending down
Best way to place orders when buying small stocks
Handling spreads in small stocks
Choosing a broker
What to do if stock price moves up when buying
Is there a mutual fund that follows the model?

Portfolio Management Issues

Stocks that no longer show up on Portfolio or Ideas lists
Stocks bought between quarterly reviews
Holdings that are losing money
Buyouts
Delistings
Handling dividends
Rebalancing your portfolio

FAQs (Frequently Asked Questions)

AAII_ The American Association

aaii.highroadsolution.com/aaii_preference_center/For...

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Newsletters & Updates

AAII Membership Emails

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Get information and updates on local chapter events. To specify the local chapter communication you would like to receive, click here and login.

☑ **AAII Investor Update**
Weekly insights on how to invest better from *AAII Journal* editor Charles Rotblut.

☑ **AAII Journal Update**
Get email notifications when the latest edition of the *AAII Journal* is available.

☑ **AAII Model Shadow Stock Portfolio Update**
Monthly insights and portfolio alerts for our Model Shadow Stock Portfolio.

☑ **AAII Stock Ideas Update**
Ideas on how to find winning stocks from legendary investors and proven strategies.

- Members subscribing to the "AAII Model Shadow Stock Portfolio Update" receive a monthly email with the latest portfolio changes and current performance

AAII Shadow Stocks Update Email

AAII
SHADOW STOCKS
UPDATE

Model Shadow Stock Portfolio Change

August 16, 2021

Dear Member,

The Model Shadow Stock Portfolio is reviewed quarterly to determine stock sales and additions, a practice put in place since the portfolio's inception in 1993. The quarterly portfolio review cycle is tied to the standard reporting cycle of most publicly traded firms in the U.S. Companies are examined for meeting the earnings, valuation, size and age sell rules of the Model Shadow Stock Portfolio. The next quarterly review is scheduled to take place near beginning of September 2021. Occasionally, a special situation arises that requires more immediate action.

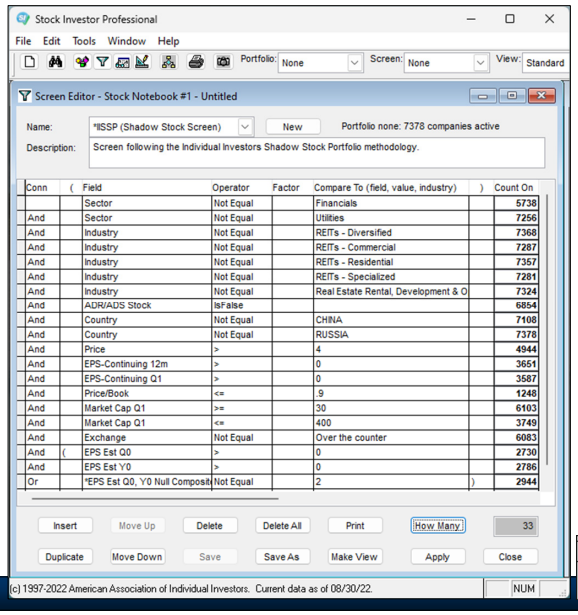
On July 23, 2021, Model Shadow Stock Portfolio holding New Home Company Inc. (NWHM) announced that it had entered into a definitive merger agreement to be acquired by Apollo Funds, which is managed by affiliates of Apollo Global Management Inc. Under the terms of the agreement, Apollo Funds will commence a tender offer to acquire all outstanding shares of New Home Company for $9.00 per share in cash. The purchase price represents an 85% premium to the closing stock price on July 22, 2021, of $4.86 per share and a 51% premium to the 90-day volume-weighted average price.

Stock Investor Pro

- 312-676-4307 - www.aaii.com/stock-investor-pro
- Systems: Windows 8 and 10
- Price: $299 a year
- Daily data updates
- System used by AAII to build and maintain Shadow Stock Portfolio
- Includes Shadow Stock Screen (*IISSP) for performing initial screen
- Has screening and analysis tools to monitor portfolio for quantitative sell process

Stock Investor Pro

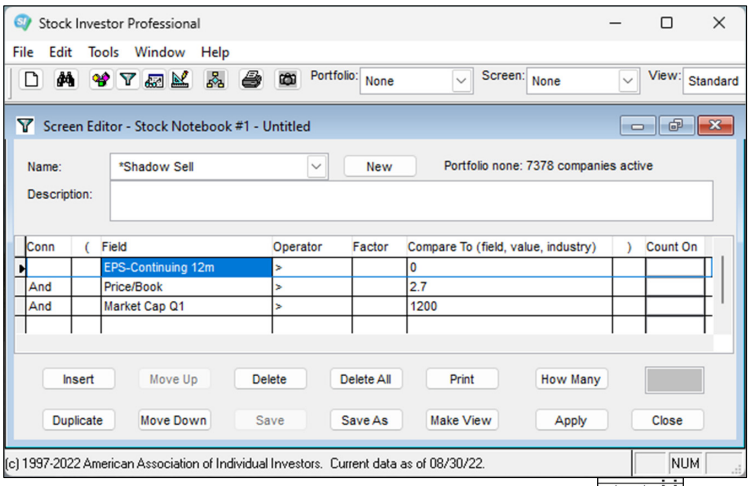
- *IISSP (Individual Investor's Shadow Stock Portfolio) screen is built into Stock Investor Pro



Conn	(	Field	Operator	Factor	Compare To (field, value, industry)	)	Count On
		Sector	Not Equal		Financials		5738
And		Sector	Not Equal		Utilities		7256
And		Industry	Not Equal		REITs - Diversified		7368
And		Industry	Not Equal		REITs - Commercial		7287
And		Industry	Not Equal		REITs - Residential		7357
And		Industry	Not Equal		REITs - Specialized		7281
And		Industry	Not Equal		Real Estate Rental, Development & O		7324
And		ADR/ADS Stock	IsFalse				6854
And		Country	Not Equal		CHINA		7108
And		Country	Not Equal		RUSSIA		7378
And		Price	>		4		4944
And		EPS-Continuing 12m	>		0		3651
And		EPS-Continuing Q1	>		0		3587
And		Price/Book	<=		.9		1248
And		Market Cap Q1	>=		30		6103
And		Market Cap Q1	<=		400		3749
And		Exchange	Not Equal		Over the counter		6083
And	(	EPS Est Q0	>		0		2730
And		EPS Est Y0	>		0		2786
Or		*EPS Est Q0, Y0 Null Composit	Not Equal		2	)	2944

Stock Investor Pro

- You can also create a sell screen that you can run against a portfolio of Shadow Stocks to see if there are any potential sell candidates



Conn	(	Field	Operator	Factor	Compare To (field, value, industry)	)	Count On
		EPS-Continuing 12m	>		0		
And		Price/Book	>		2.7		
And		Market Cap Q1	>		1200		

Thank You!

Email your comments or questions to
wayne@aaii.com