

THE SHADOW STOCK PORTFOLIO ...

... a different investment choice for 401(k) plan participants

The Portfolio Manager

The American Association of Individual Investors, a non-profit educational foundation established in Chicago in 1978, provides educational and research services for the individual investor. The association has consistently held that individual investors can and should outperform the market indexes and most mutual funds.

As a demonstration of an investment strategy, the Shadow Stock portfolio was created in 1993. John Cloonan, PhD. and his associated security analysts at the institute have demonstrated that a portfolio of small company stocks, diversified by sector or industry, offers significant returns for the risks assumed. The AAI notifies its members, including BenefitWorks, of periodic changes in the make-up of the portfolio.

The Place of a Micro-Cap Portfolio

The Stock market is dominated by large, institutional investors, such as mutual funds, investment bankers and brokerage firms. The stocks that perform best over the long run – small and less liquid issues, are too small for institutional investors. The best opportunity for outperforming institutional investors is by fishing in ponds where they don't fish – the micro-cap issues.

Historically it is evident that common stocks provide higher long-term returns compared to "safer" investments, and small company stocks provide higher returns than market averages. While the Shadow Stock Portfolio attempts to minimize risk, it is still prudent to take into account your personal risk tolerance. Even a properly diversified micro-cap portfolio will be more volatile than the total market. Keep in mind that due to the nature of the Shadow Stock Portfolio, it will offer very little income in the form of dividends.

The Investment Strategy of the AAI Shadow Stock Portfolio

Stock purchases must meet these criteria:

- Price-to-book value ratio of less than 0.80;
- Market capitalization must be between \$30 million and \$300 million;
- No bulletin board or pink sheet stocks will be purchased;
- The firm's last quarter and last 12-months' earnings from continuing operations must be positive;

- No stock on foreign exchanges or ADRs will be purchased because of different accounting and/or withholding on dividends;
- No financial stocks or limited partnerships will be purchased;
- The share price must be \$4 or greater;
- Any stock that was sold within two years will not be rebought; and
- Price-to-sales ratio must be less than 1.2.

Stocks are sold if any of the following occur:

- The stocks price-to-book ratio goes above three times the initial criterion;
- Market capitalization goes above three times the initial maximum criterion;
- If last 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;
- After two years, sell if not qualifying as a buy currently (But do not sell until there is a qualified stock to buy.) The two years should be measured from the last time the stock qualified, not from when you purchased it.

Portfolio Expenses

Because this is a Model portfolio, it carries none of the usual mutual fund sales commissions, selling concessions, administrative expenses and fund manager costs.

Through the institutional division of TD Ameritrade transaction costs are \$9.95 regardless of the number of shares, and BenefitWorks charges .0004583 monthly, or 55 one-hundredths of one percent of assets annually to unitize the portfolio and maintain the daily NAV (net annual value, or share price) calculation. The average "no-load" managed mutual fund charges 1.4% of assets. Mutual funds purchased through insurance companies or banks may have additional fees.

Portfolio Composition (December 31, 2013)

TICKER	COMPANY	MARKET-CAP (MILLION)	PRICE-TO-BOOK RATIO
ALG	Alamo Group	633	1.86
AOSL	Alpha and Omega Semi.	189	0.67
CSS	CSS Industries	256	1.02
DCO	Ducommun	312	1.29
EBF	Ennis, Inc	391	1.03
FVE	Five Star Quality Care	273	0.88
FLXS	Flexsteel Industries	203	1.32
GILT	Gilat Satellite Networks	199	0.86
HDNG	Hardinge Inc.	166	0.98
HOFT	Hooker Furniture Corp	170	1.27
ISH	International Shipholding	189	0.60
KTCC	Key Tronic Corp.	120	1.25
KBALB	Kimball International	574	1.39
LMIA	LMI Aerospace	181	0.86
MRLN	Marlin Business services	345	2.15
MDCI	Medical Action Industries	123	1.27
MIND	Mitcham Industries	197	1.14
ZEUS	Olympic Steel, Inc.	308	1.03
PCCC	PC Connection	584	1.83
PCMI	PCM, Inc	127	1.03
RCMT	RCM Technologies	86	1.37
REGI	Renewable Energy Group	365	0.68
REX	Rex American Resources	350	1.33
RCKY	Rocky Brands, Inc.	114	0.88
SALM	Salem Communications	214	1.08
SCVL	Shoe Carnival, Inc	496	1.56
SMP	Standard Motor Products	788	2.27
TA	TravelCenters of America	318	0.68
VOXX	Voxx International Corp.	337	0.71
WLFC	Willis Lease Finance Corp.	142	0.69

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