The two words that can best describe last year are surprise and frustration. The surprises included the Arab Spring, the Japanese disaster, the deaths of despised world and terrorist leaders and Netflix’s (NFLX) blundering. Frustration came from Washington, D.C., politics and the performance of the global financial markets, among other events.

If your portfolio went nowhere, or declined in value, you are not alone. The median performance of the 63 screens tracked on AAII.com was –3.8%. The market’s volatility and the economy’s slow growth took their toll. There were some bright spots, however, as 24 of AAII’s screening strategies were up on a year-to-date basis as we went to press. Wayne Thorp tells you which screens performed best in his annual screening review, which starts on page 7.

Our Model Shadow Stock Portfolio was not unscathed, but it was showing a year-to-date gain (albeit small) at the end of November. Small-cap stocks overall improved late in 2011, and this could be a bullish sign, according to AAII Founder and Chairman James Cloonan. His latest market and portfolio commentary appears on page 33.

Following a tough year, there is always the inclination to make a change to your portfolio. Though some changes, such as rebalancing, make sense, other changes can do more harm than good. My latest Beginning Investor column gives guidance for managing your portfolio during difficult markets on page 32.

The temptation is always to allocate money to the best-performing strategy, though doing so assumes the future will be just like the past. An alternative is to look for the stocks that pass the most screens. Though this latter strategy will not always guide you toward a diversified portfolio, it can be a starting point for further research. John Bajkowski lists the 23 stocks that passed four or more of the stock screening strategies tracked at AAII.com on page 31.

You should also pay close attention to the performance claims made by investment advisers at this time of year. Some, hoping to capitalize on investor frustration, may tout returns that are unsustainable. Investment newsletter expert Mark Hulbert tells you what warning signs to look out for on page 21.

The new year has brought three new features that I am excited about.

The first is a new AAII Journal series of articles on financial statement analysis. Joe Lan will explain the role financial statements play in stock analysis and will show you how to look at the numbers from the viewpoint of a security analyst. The first article gives an introduction to the three major financial statements and starts on page 16.

The second new feature is AAII Dividend Investing. This will be an optional service focused on dividend-paying stocks. Subscribers will have access to education about dividend investing, a brand new dividend stock portfolio, a monthly newsletter and weekly updates. I am a big believer in dividend-paying stocks, and I think you will find AAII Dividend Investing to be of great value. More information can be found on page 27.

The third new feature is the AAII Blog, which will alert you to AAII updates and featured content. It is located at www aaai com aaiblog.

On the subject of portfolio income, real estate investment trusts (REITs) are another option. REITs are required to pay out 90% of their income to shareholders. We will exclude them from AAII Dividend Investing because their dividends can be taxed at ordinary income rates, instead of the lower dividend tax rates. This said, you may want to consider REITs for their diversification benefits, which increase with time, as Brad Case of NAREIT shows on page 23.

Finally, if one of your new year’s resolutions is to donate more to charity, you should consider donating stocks, bonds or funds instead of cash. The IRS allows you to both avoid capital gains taxes and claim a tax deduction if you donate appreciated assets to a charitable organization, a double bonus. Julian Block expounds on page 28.

Wishing you a happy, healthy and prosperous new year,

Charles

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