Yanni & Associates Investment Advisors, LLC
First Quarter 2013 Client Newsletter

Review of the Markets:

	1Q13	2013
S&P 500	10.61%	10.61%
S&P Mid-Cap	13.45%	13.45%
S&P Small-Cap	11.81%	11.81%
Morgan Stanley's EAFE (International Stocks)	5.13%	5.13%

Economy – Fourth Quarter 2012 GDP was revised marginally higher from 0.1% to 0.4%. For calendar year 2012, the overall GDP growth was 2.2%. As we mentioned in our last newsletter, growing over 3% is considered fairly robust. The February 2013 unemployment report fell slightly from 7.7% to 7.6%; this latest month's decline mainly came from nearly 500,000 workers leaving the labor force. The non-farm payroll report (a separate report) showed only 88,000 new workers for March, which was well below expectations. As we also mentioned in our last newsletter, similar to the rate of GDP growth, the unemployment rate is gradually improving, but at a "snail's pace". Inflation (as measured by the Consumer Price Index) continues to remain tame with the latest figure posting a 2.0% annualized rate. The domestic economy has continued its theme of slowly heading in the right direction without showing any major signs of a recession on the immediate horizon.

Equities – Starting late in 2012, we began moving back to being neutrally-weighted stocks. We completed that transition early in 2013. While domestic equities are trading at their all-time highs, they seem to be the only "safe-haven"; the Cyprus situation has brought back doubt in Europe and international stocks, bond prices appear to have no-where to go but down (when interest rates ultimately do rise), and "cash-is-trash" as money market funds returns are dismal in this ultra-low interest rate environment.

According to Factset, the S&P 500 is trading at 13.95 times 12-month forward earnings-per-share (EPS) estimates. This is based on April 10th's S&P 500 close of 1,587.73 and Factset's 12-month forward EPS estimate of $113.81. We are interpreting that forward P/E as meaning the S&P 500 still has a bit of room to grow, but is approaching fair value.

Fixed Income – The Federal Reserve has continued to maintain its easing policy stance into 2013. Further, the latest disappointing March unemployment report has also provided the Fed with ammunition to maintain an easing bias for the next several months, if not into 2014. Yields on bonds continue to remain low and the supply of high-grade individual bonds has virtually vanished. Many of the high-grade individual bonds which we purchased for our clients have been getting called at incredibly rapid rates.

Overall, while we are much more comfortable with the markets than six months ago; our biggest concerns are the following:

1. The technical fear (chart-perspective) of the S&P 500 trading at its all-time high; in prior instances, which has led to sharp corrections in the past
2. We are once again approaching the traditional summer stock market pull-back commonly called "Sell-in-May-and-Go-Away"
3. The domestic economy ultimately slowing with high unemployment levels remaining status-quo
4. The debt situation in Europe reigniting
5. Due to inflation increasing, the Federal Reserve is forced to raise interest rates prematurely. Or, the Federal Reserve is put in a position where they have to act more aggressively than they desire.

Overall, earnings to continue to grow, unemployment is slowly decreasing, and housing remains strong. At this point, we do not believe there are significant signs of a recession on the horizon. With that said, many reasons beyond what we listed could cause a short-term market correction. Our biggest fear of a future "bubble" would be #5 above where the Federal Reserve will be forced to unwind their easing stance prematurely or more aggressively than planned.

Yanni & Associates Investment Advisors, LLC recent quotes in various publications:

● *Pittsburgh Post-Gazette,* *Analysts credit strong earnings for market ascendance, Len Boselovic, March 6, 2013*

● *Pittsburgh Post-Gazette,* *Hiring rate slows in March, Ann Belser, April 6, 2013*

Current 2013 Portfolio Recommendations:

- Overall – **neutral-weight stock exposure for our clients' asset allocations with respect to their customized individual guidelines**.
- Within equities - **neutral-weight stance on "growth" and "value".**
- Within equities – **"slightly" under-weight small / mid-capitalization stocks in relation to large capitalization stocks.**
- Within equities – **"slightly" under-weight international stocks relative to domestic stocks**.
- Within fixed-income – **over-weight to shorter maturity/duration vehicles, while favoring floating-rate bond funds and high-yield bonds.**

Miscellaneous Section: Registered Investment Advisors (RIAs) vs Brokers:

Many of our new clients are families who formerly worked with Brokers. While most people are not aware of these differences, we thought we would outline a few differences between RIAs and Brokers:

1) RIAs and Brokers are actually regulated by two different entities; RIAs are either regulated by their own State's Securities Commission or the SEC (typically, once the RIA's assets are over $100m). Brokers are regulated by a non-government entity called Financial Industry Regulatory Authority (FINRA).

2) RIAs typically are pure investment managers. Brokers sell investment products; it's also very common for Brokers to be licensed to sell insurance and annuities as well. Brokers tend to "lead" with insurance and annuities as they can generate commissions of 5-8% upfront. In fact, some brokers are not only paid more for selling their own firm's products, but may also get incentives (trips, bonuses, etc…) if they hit certain sales targets.

3) RIAs are fee-based; often charge on a percentage-of-assets; our fees can potentially be tax-deductible. Brokers are commission-based and their fees are not tax-deductible. A few examples of Broker's fees are:
   - Class A mutual funds – up-front mutual fund fees ("front-end loads") normally around 5.75%
   - Class B mutual funds – fees for selling out of a fund before a certain time period ("back-end loads"). Typically, these fees start at 5% for the first year, scaling down to 0% after six years.
   - Class C mutual funds – Similar fee structure to Class B funds, but loads are only for the first year. However, the underlying expense ratios of Class C funds are typically the highest.
   - 12b-1 fees – Ongoing "trailers" typically at 0.25% (can be higher); often in addition to loads.

4) Most importantly - RIAs are Fiduciaries; we have a legal obligation to place our client's best interest ahead of our own. Brokers are not Fiduciaries and are only required to make sure their sold products are "client-appropriate".

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