Yanni & Associates
Investment Advisors, LLC

FIRST QUARTER – 2016 CLIENT NEWSLETTER

REVIEW OF THE MARKETS:

Index:	1Q16	2016
S&P 500	1.35%	1.35%
S&P Mid-Cap	3.78%	3.78%
S&P Small Cap	2.66%	2.66%
Morgan Stanley's EAFE (International Stocks)	-3.01%	-3.01%
Barclay's US Aggregate (Bonds)	3.03%	3.03%

ECONOMY & MARKETS:

The 2015 fourth quarter GDP has been revised for the second and final time up from 1.0% to 1.4% in comparison to the fourth quarter of 2014 with growth of 2.2%. Unemployment rose slightly from 4.9% to 5.0% in February, though wages have increased a healthy 2.3% annually. As we reported in the fourth quarter newsletter last December, the Federal Reserve (Fed) made the decision to increase the Federal Funds rate for the first time in nine years by 0.25%. At that time, the Fed had projected increasing rates four times in 2016 contributing to the volatility in both the bonds and stocks markets. This aggressive four rate hike projection along with the oil price crash and China's struggling economy all caused the market correction we experienced in January. As we released in late January, we temporarily took a defensive position reducing our stock exposure. On February 11th, the markets and oil prices ultimately touched calendar year lows. Later in the quarter, the Fed drastically changed its guidance, lowering its projections from four interest rate hikes to two with an exceptionally accommodating tone easing market volatility. In our last quarter's newsletter, we predicted two rate hikes. Given the Fed's comments and tone at the follow-up press conferences, we now believe there is a chance they may not even implement two rate hikes. After the change in guidance by Fed officials and signs of oil price stabilization, we started redeploying our cash back into the markets and are now once again neutrally weighted stocks. With the Fed's new outlook on policy, the markets have once again adopted the "Don't fight the Fed" mentality which has considerably aided both stocks and bonds. Despite the recent market comeback, equity valuations remain quite high. As of April 14th, the S&P 500 price is currently 16.8 times earnings; this valuation is above the 10 year historical average of 14.2.

One of our major near-term concerns is the continued decline in projected corporate earnings. According to Factset, the S&P 500 is expected to report its fourth consecutive quarter of year-over-year decline in earnings; this has not happened since the third quarter of 2009. Projections for the first quarter's earnings have been lowered from a positive 0.7% growth stated at the beginning of the year, to now a -9.1%; though, the rebound in oil prices will likely provide better results. While first quarter projections are concerning, analyst projections for the latter part of the year are quite positive. In addition, and looking beyond 2016, corporate earnings are projected to have a substantial increase in 2017. Expectations for 2017 are that the energy industry will find relief from oil price stabilization, and companies are predicted to adjust to a potentially stronger dollar.

FIRM UPDATE:

We are proud to announce that 2016 marks the 10th year in business for YAIA!

SOLUTIONS FOR COMPLEX INVESTMENT STRATEGIES:

Life can be very unpredictable with extreme situations occurring out of nowhere.

Recently, one of our clients experienced a situation where his Power of Attorney was required to make decisions on his behalf. Fortunately, he & his family had up-to-date estate plan documents. Over the course of a few days, our assistance was still called upon to help coordinate efforts with the family's attorney. While this family was prepared for an emergency, many families are not. YAIA cannot stress enough the importance of having a Power of Attorney for both financial and health situations, as well as other estate plan documents aligned to your goals. While we commonly ask our clients in our meetings if they have up-to-date estate documents, this recent situation has put an emphasis on its importance. In the past, we have attended meetings with our clients and their attorneys drafting these estate documents.

Once again, we always offer our assistance to our clients if they want us to join them in estate plan meetings with their attorneys!

During the tumultuous start of the year, the stock market experienced high correlation to the sharp decline in oil, as prices fell to a low of $26 a barrel. Since then, they have rebounded and are now floating around the $40 range. While the price has improved, it is still considerably low for many domestic companies to successfully produce a profit; many defaults have already occurred. Oil continues to have a supply issue with inventory remaining at high levels. OPEC and non-OPEC countries are scheduled to have a meeting on April 17th to discuss a possible freeze on oil output. Iran, an OPEC member, has planned to attend the meetings. However, it has recently been released from various economic sanctions and has stated it will increase oil production until it has reached pre-sanctioned levels. Though Iran is not anticipated to be included in an oil production freeze, the meeting has given hope that oil prices will continue to stabilize.

China's devaluation of the yuan to combat slowing economic growth also contributed to the market correction we experienced at the beginning of the quarter. While markets have stabilized, many believe China's slowing economic growth problems still remain. Thus, the future possibility of devaluing the yuan further has not been ruled out. Its government has projected a growth of 6.5 - 7% for 2016, but most economists anticipate the lower end of that range. In its most recent GDP release on April 14th, China had annual growth of 6.7%; its weakest figure since the height of the financial crisis in 2009. However, other economic statistics provide signs that various stimulus measures put into place are at least having a short-term positive impact.

Though the U.S. is transitioning to a tightening interest rate policy, many major countries are still implementing monetary easing techniques. The divergence in these policies is contributing to the recent market volatility. In a surprise move in January, the Bank of Japan (BoJ) announced a negative interest rate policy. The European Central Bank (ECB) also lowered its interest rates even further into negative territory, adding many other accommodative monetary easing techniques, as well. Negative interest rates are typically used as an additional stimulus to encourage bank lending, rather than paying a fee for holding deposits at the ECB. Sweden, Switzerland, and Denmark are also utilizing negative interest rates. Despite these efforts, some economists are concerned that these major central banks' extreme measures and monetary easing tactics (including the Fed's actions) that have taken place since The Great Recession may not have the desired long term effect.

One last item worth mentioning is a UK referendum that has been scheduled on June 23rd to give citizens a vote on potentially leaving the European Union (also known as the "Brexit"). Most do not believe the UK will leave the EU, but it is still very much a possibility. Whether the UK decides to leave the EU or not, there will be an impact on its currency, trading and other relationships with European Union members.

In summary, there are numerous factors significantly impacting our economy and the markets. As mentioned, our concerns include a continued decline in corporate earnings, high market valuations, global monetary policy divergence, and a weakening Chinese economy. In the upcoming months, the OPEC and non-OPEC oil countries production collaboration, a potential Brexit, and the US presidential election in November are bound to have an impact on the market, as well. Positive contributors still include the continued strength in various economic data and the overwhelming "Don't Fight the Fed" mentality. Oil price stabilization likely will not fall back into the $20's again in the near future and should provide the expected boost to 2017 corporate earnings. Overall, we are still forecasting a positive year for the stock market, albeit not with substantial returns. While large-cap stocks have outperformed other equity allocations for the past two years, we are still recommending fully diversified portfolios. Since the Fed has softened its interest rate forecast and appears to be maintaining an accommodating position, the bond market has had a positive impact on portfolios and will likely outperform our initial expectations. Given these factors, volatility will remain with us throughout this year.

CURRENT 2016 PORTFOLIO RECOMMENDATIONS:

- Overall – **Neutral weight stock positions for our clients' asset allocations with respect to their customized individual guidelines.**
- Within equities **– Slightly overweight growth stocks in relation to value stocks.**
- Within equities – **Slightly overweight large-cap company stocks in relation to small and mid-cap peers.**
- Within equities – **Slightly underweight international stocks.**
- Within fixed-income – **Overweight to high-grade corporate bonds with diversified exposure to multi-sector and individual bonds; absent high yield bonds.**

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