



PROUDLY CELEBRATING OUR tenth YEAR IN BUSINESS!

## FOURTH QUARTER – 2016 CLIENT NEWSLETTER

### REVIEW OF THE MARKETS:

| Index:                                       | 4Q16   | 2016   |
|--|--------|--------|
| S&P 500                                      | 3.82%  | 11.96% |
| S&P Mid-Cap                                  | 7.42%  | 20.74% |
| S&P Small Cap                                | 11.13% | 26.56% |
| Morgan Stanley's EAFE (International Stocks) | -0.71% | 1.00%  |
| Barclay's US Aggregate (Bonds)               | -2.98% | 2.65%  |

### ECONOMY & MARKETS:

The year 2016 wound up being a year of considerable volatility, both on the positive and negative sides. The stock market suffered its first correction in August 2015, then another severe one in January 2016, followed by another smaller drop due to the June Brexit vote and a completely unexpected sharp rise after the November presidential election. As stated in past newsletters, the January correction was caused by many factors including declining oil prices, projections of the Chinese economy slowing, and the Federal Reserve (Fed) not only increasing rates for the first time in December 2015, but aggressively forecasting four more rate increases in 2016. Well, that just never happened! After realizing the misguidance by the Fed, in March it considerably “back-peddled” stating it would raise rates possibly three more times. As the months passed, it became evident that the economy could only withstand one additional interest rate increase in the year, coming this past December. The Fed is now forecasting three more interest rate increases in 2017. We believe two is a more realistic number, unless President Elect Donald Trump’s fiscal stimulus packages are passed early through Congress leading to a meaningful pickup in economic growth and inflation increasing faster than expected (which may be unlikely so quickly).

Moving into 2017, we are forecasting another positive year for the stocks, but muted returns for bonds. Corporate earnings growth has finally turned a corner with the third quarter 2016 coming in positive with a 5.2% growth. This was the first annual increase since late 2014 and the strongest year-over-year growth since the fourth quarter 2012. Excluding the energy sector, earnings growth would have been up 7.9%. The latest year-over-year CPI inflation measure was reported at 1.7% and the general forecast is that inflation is set to rise in the future. The Fed’s last written statement even included language stating market based inflation forecast measures have moved up “considerably”, a word that has been omitted from past statements. The final third quarter GDP growth figure was revised up from 3.2% to 3.5%, the strongest in two years and well above the initial figure of 2.9% published in October. OPEC and other oil producing countries recently announced a deal to cut production in an effort to help raise prices. The December unemployment report had figures of 4.7% (and 156,000 new jobs added) with hourly pay increasing to its biggest rate in more than

**YAIA Firm Update:**  
This past year marked our tenth year in business! In celebration of this milestone, we gave all our clients gifts that included embroidered throw blankets along with other related items.

Thank you all so much for your confidence and business throughout the years! From our perspective, this wonderful ten years included many former PNC clients joining me in the new business venture back in 2007 and many other new partnerships formed who did not work with me while I was at PNC. As we worked hard for those folks, many of these clients then referred us to other friends and family. In reflecting back on ten years, we have worked with the formations of new families, addition of children, various estate planning matters, the unfortunate passing of clients and their family members, among many other personal and intimate situations.

Beyond this newsletter, the amount of marketing we do is minimal. As I often refer to myself as an Analyst who went into business for himself as most people know I’m not a “sales-person”. Over the years, people have asked me how I generate new business. My answer is “I take care of my current clients!” *Virtually every client we work with has been referred to us from existing clients or mutual people we know.*

Thank you all so much once again! It’s quite an honor!

seven years at 2.9%. This was all very much in-line with the Fed's planned actions. The current Price-to-Earnings ratio on the S&P 500 is approximately 17.1, still remaining slightly above its 10-year historical average of 14.4.

### **YAIA IN THE NEWS:**

**Pittsburgh Post-Gazette 10/02/2016: Presidential politics make investors nervous** – by Len Boselovic

### **INSURANCE UPDATE:**

As mentioned in our last newsletter, we recently became certified to sell life and long-term care insurance products. We have had numerous interests and a few people sign up already. We partnered with a Firm that “shops” multiple insurance companies for quotes, thus not being exclusive to one provider. I want to take a brief moment to list a few of the most common types of life insurance products:

1. Regular Term – this is the least expensive type of life insurance only covering a specific amount of years. Once the policy expires, the insurance coverage ceases. Though, some companies permit the policy to be renewed at a higher premium after end of coverage.
2. Return-of-Premium Term – similar to above, but when the policy expires, you will get your entire premium refunded. The premium cost is higher than regular term though.
3. Whole Life – aka “permanent insurance” covers typically one's lifetime and thus, does not expire. It is the most expensive and typically accrues a cash value that can be accessed during one's lifetime.
4. Universal – Similar to whole life in that it may provide permanent coverage, but without a cash value build-up, along with other potentially unique circumstances.
5. Variable – complex type of life insurance with the face value tied to underlying marketable securities. We do not plan to sell this type.

Please note that life insurance today is quite complex (partially why we partnered with this separate Firm). Many policies can also be hybrids and/or have riders making combinations or being slightly different from the above listed basic policies. Outlined below are the basic questions we will ask applicants prior to the more formal written application and underwriting process:

1. Tobacco usage
2. Special Considerations
3. Significant medical history
4. Medications currently being taken
5. Other information

Long-term care insurance tends to act as a hybrid of health and life insurance and actually can sometimes be covered through riders of life insurance. Life insurance can be appropriate in situations to protect against the unexpected passing of the family's high-income earner, the child-care costs for a stay-at-home parent, creating or protecting an estate, protecting small businesses against a key-employee's passing, among many other reasons.

**Department of Labor Rule (DOL) taking effect April 2017** – The new Administration may delay or amend this upcoming DOL Rule covering retirement plan rollovers that was initially discussed in our last newsletter.

### **CURRENT 2017 PORTFOLIO RECOMMENDATIONS:**

- Overall – **Neutral weight stock positions for our clients' asset allocations with respect to their customized individual guidelines**
- Within equities – **Neutrally weighted position on value and growth stocks**
- Within equities – **Slightly overweight large-cap company stocks in relation to small and mid-cap peers**
- Within equities – **Slight-to-moderate underweight international stocks (using hedged-dollar position)**
- Within fixed-income – **Using diversified exposure including high-grade corporate bonds, multi-sector, floating-rate, and individual bonds; absent high yield bonds**