Yanni & Associates
Investment Advisors, LLC

FIRST QUARTER – 2018 CLIENT NEWSLETTER

REVIEW OF THE MARKETS:

Index:	1Q18	2018
S&P 500	-0.76%	-0.76%
S&P Mid-Cap	-0.77%	-0.77%
S&P Small Cap	0.57%	0.57%
Morgan Stanley's EAFE (International Stocks)	-1.53%	-1.53%
Barclay's US Aggregate (Bonds)	-1.46%	-1.46%

YAIA Firm Update:

While we did share in our Annual Tax & Compliance letter, we also wanted to publish in our newsletter that we have a new Administrative Assistant – Camille Simon. She joined us in January after spending 37 years at an insurance firm handling similar responsibilities. She and her husband, Doug, reside in their hometown of Ambridge and are true Pittsburgh sports fans!

IN THE NEWS:

Pittsburgh Post-Gazette 02/10/2018: Regional shares take lumps in long-awaited correction – by Len Boselovic

ECONOMY & MARKETS:

The stock market started the year with an extreme amount of volatility not seen in nearly 15 months. As we stated in the last newsletter, prior to this recent volatility, we had been in the longest period in S&P 500 history without a correction of more than 3% (dated back to November 4, 2016). Originally, the precipitous of the January correction was due to heightened inflation concerns and the Fed's reaction to it. As time went on, further global and political pressures (trade wars) weighed in as well. Overall, the volatility has been driven more by technical and headline risk, not fundamentals (corporate earnings). **We want to stress "volatility is normal". The prior 15 month period without volatility is actually abnormal.** Technology stocks suffered towards the end of the quarter mainly due to Facebook's privacy and data-use standards as well as President Trump's comments towards Amazon not paying its fair share of taxes. Other technology stocks followed as concern this would prompt Washington to enact additional government oversight.

The tax cuts are now active, which according to Economists should positively affect most Americans and corporations. However, this tax cut also increased projections for the budget deficit, which could turn out to be a long-term issue. According to JP Morgan, the budget deficit is now expected to rise to 5% of GDP over the next several years, which is nearly double where we have been in recent years. In addition, recent Presidential tariff announcements may consequently act as a tax on consumers if businesses decide to pass off any additional expenses. Domestic tariff announcements were met with China retaliating with tariffs of its own. Overall, its yet to be seen if these extreme political gestures will truly take effect or are more of a negotiation tactic.

The Federal Reserve (The Fed) increased the Federal Funds rate on March 21st for the sixth time since December, 2015. The Committee is on pace for a total of three in 2018 and has slightly increased expectations for each of the next two years. They also raised their GDP forecast for the next two years and believe unemployment is going to fall a bit more than originally expected as well. The recent Fed report is a bit counterintuitive in that it is projecting a higher interest rate forecast, but only with slightly increased inflation expectations (and inflation to not get over its 2% target until 2019). As the Federal Reserve has increased rates, all interest rate barometers (short-term, long-term, and fluctuating-rate) have moved upwards as well. The three-month London interbank offered rate (Libor), which is a common interest rate barometer rose to its highest level since November 2008. Bond returns have suffered as the 10-year Treasury has moved up from 2.0% to 2.8%

General economic statistics continue to look very good for the health of the U.S. economy. The most recent GDP figure came in at 2.9% and unemployment remains low at 4.1%. While numerous inflation figures have moved up slightly, they are still less than 2% and remain at relatively tame levels. The current 12-month forward Price-to-Earnings on the S&P 500 is at 16 times earnings; that is the lowest since June 2016, down from a peak of 18.6 in late January. Earnings growth, as reported by Factset, is projected to be very strong for both the first quarter and 2018. Despite a strong economy and high projected earnings growth, the recent geo-political events in an upward rising interest rate environment pose enough risk that volatility will likely be present for the foreseeable future.

Differences between 401ks and IRAs:

This quarter we decided to outline some of the differences between 401ks and IRAs. *We must disclose this is not a comprehensive list and is meant to highlight most of the major differences.* As we have published in past newsletters, the Department of Labor (DOL) enacted a law requiring Advisors to adhere to additional compliance measures *(recent court measures may now block this new regulation).* In essence, the DOL wants Advisors to disclose in writing these differences for when we recommend clients roll 401ks into IRAs. Outlined below are many of the differences between the two types of retirement accounts:

1. Investment Options: In a 401k, investment offerings are limited to what the parent company chooses on its platform. Often times, in the first quarter of every year, the 401k plan will make slight investment changes replacing funds with "better" choices (whether this is truly necessary or not is debatable). In addition, while most 401ks have "good" fund choices, it's possible they may not be the "best" available options. The investment choices in IRAs are considerably more voluminous and you likely have access to different types of investment offerings (for example, individual stocks & bonds, and other bond alternatives which are critical in today's interest rate environment).

2. Contributions: By far, the 401k contribution limits are much higher permitting salary deferrals of $18,500 (plus $6,000 for "catch-up" contributions). Inside an IRA, the limits are only $5,500 per year (plus $1,000 for "catch-ups"). In addition, most companies will match employee contributions up to a certain percentage. This is free money and must not be overlooked! In addition, you can make contributions to your current employers 401k or a Roth IRA (income eligible) at any age; however, you cannot contribute to a Traditional IRA after age 70.5. However, as a non-working spouse, you can contribute to your own IRA.

3. Required Minimum Distributions (RMD): All types of retirement plans have RMDs requirements upon the account owner turning age 70.5 with the following exceptions: Roth IRAs do not have RMD requirements (Roth 401ks do though). Also, as long as you remain working, a plan participant, and do not have "a significant ownership in the company", RMDs are not required until you retire. We once guided a client who was over age 70.5 to wait until January to retire as to not be subject to the RMD rule on his 401k for the prior year.

4. Early Distributions and Loans: The rules for early distributions between these two types of retirement accounts share many similarities, but there are also quite a few differences too. For example, through "Separation of Service" if an employee leaves a company after age 55, it is possible for them to withdrawal money from their 401k penalty free (prior to age 59.5); this is not an option for IRAs. We must point you to the IRS website for further guidance on early distribution rules for these two types of retirement plans: https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions. Further, most 401ks permit loans; you cannot borrow from an IRA though.

5. Coordinating Rollovers: In order to rollover a 401k, a client will need to obtain a rollover form from their employer. Each rollover form is different. Some require a notarized spousal signature, the new custodian's (Schwab) signature, some neither and some both. The 401k provider will then issue a check (which could be immediately or once a quarter), which is likely then sent to the custodian. We internally term this as the client "pushing" the funds over to Schwab. On the other hand, IRA rollovers only require the client to sign a transfer form and provide a recent statement. Schwab will "pull" over the account, which is considerably more client friendly.

6. Fees & Active Management: Underlying fees inside a 401k are usually not exorbitant, but the account owner will have limited ability to control them based solely based on the investment offerings. In addition, 401ks may also have short-term redemption fees (for example, if you buy and sell a fund within 60 days, a 2% penalty may apply). In an IRA, underlying fees can be controlled considerably easier by choosing a less expensive investment offering. Short-term redemption fees may still apply to some, but not all investment choices. Professional management fees are more often affiliated with IRA accounts and may add an additional layer to be considered. It's very challenging to link an Advisor to a 401k. Most 401ks do not supply Advisors with their own website login nor access to conduct phone trades through a POA document. Having a professional manager should give you access to a wide variety of additional types of advice (related questions on social security, tax, estate planning, etc…).

We hope you enjoyed our outlined of a variety of differences between 401ks and IRAs. As we stated above, this is not a comprehensive list. Due to limitations on space, we were not able to address a variety of issues including creditor protection, tracking basis (which is important for Roth 401ks and non-deductible IRAs), income limitations, and others. If you have questions on this please feel free to give us a call and/or discuss this with your Accountant.