

Yanni & Associates Investment Advisors, LLC (YAIA)

First Quarter 2015 Client Newsletter

Review of the Markets:

	<u>1Q15</u>	<u>2015</u>
S&P 500	0.95%	0.95%
S&P Mid-Cap	5.31%	5.31%
S&P Small-Cap	3.96%	3.96%
Morgan Stanley's EAFE (International Stocks)	4.88%	4.88%
Barclays US Aggregate (Bonds)	1.61%	1.61%

Economy & Markets – The most recent GDP release, which was for the fourth quarter of 2014, was unchanged in its second revision at 2.2%, a lower rate than the expected 2.4% growth. In comparison, the fourth quarter GDP for 2013 was 4.1%. Economic data has been somewhat mixed for the first quarter reinforcing the market volatility that we have experienced since the fourth quarter of 2014. Analysts believe the harsh winter weather, the labor dispute at the West Coast ports, lower oil prices, and the strong dollar are the cause of the weaker than anticipated figures. These factors are considered to be temporary and the economy is projected to improve in the spring. Payrolls have increased by 126,000 in March, a number considerably lower than the forecasted amount of 247,000 jobs. The unemployment rate has fallen from last quarter's 5.6% to 5.5%. As of Tuesday, April 14th, the S&P 500 valuation is 16.86 times forward earnings (\$124.30); that is slightly over its historical range of 14-16.

As we have discussed, the Federal Reserve is anticipated to start raising key interest rates later this year. There is some speculation this could take place in either June or September (though, we believe September is more likely). Afterwards, our forecast is for them to continue raising interest rates very slowly over the course of several years in quarter percent, not half-percent increments.

The European Central Bank has initiated its quantitative easing program, and many Economists now have a more optimistic outlook on its impact on the economy. Lower oil prices and a weaker Euro have also benefited the Eurozone economy, but progress on structural reforms has yet to be seen. Negotiations are still under way for Greece's financial recovery. Fortunately, Greece has made its most recent IMF loan repayment on April 9th, however, it is still uncertain if Greece will come to an agreement with its creditors. In the long-run and unless circumstances change, we believe there is a strong possibility that Greece may leave the Eurozone.

YAIA Firm update:

After five years with YAIA, Nile Doaty (our Office Manager) is retiring. She will be moving on to new endeavors as a full-time Grandma. Recently, Nile has put her house up for sale and will be moving to Charlotte to move in with her oldest daughter, Terhea, who is due with the family's first grandchild (a baby boy!). We certainly wish her the best of luck and have eternal gratitude for her assistance, service, and friendship. Recently, we hired Nile's replacement, Leslie C. Dinello. Over the last few weeks, Leslie has been introducing herself to clients. Leslie comes to us after spending the last 10 years working as an Administrative Assistant for another local Firm in Pittsburgh. She and her husband, Kevin, reside just west of our offices in Beaver, PA.

Recently, we added a client in the state of Texas expanding our clientele to 16 different states with approximately \$50-\$55 million under management. Mallory has started to prepare herself for the rigorous Certified Financial Planner (CFP) exam. After she passes the exam in the summer of 2016, our plans are to hire an additional support staff member. Very preliminarily, this new employee would either provide additional investment or administrative support. Our immediate plans are for Mallory to continue supporting my efforts with client meetings and to continue to assist with our Firm's research. I would like to emphasize that I do not have any plans whatsoever to pass off my existing clients to Mallory though; I have seen this practice take place at my former institution and was vehemently against it. At some point, we will either raise our current \$250k asset minimum or once certified, Mallory will act as the Relationship Manager for potentially new clients under a certain threshold. Being very up-front, I do not have the desire to grow YAIA into a "large" Firm. Currently, it is manageable and we demonstrate that we can deliver the quality of services that clients deserve.

YAIA recent quotes and recognition in various publications:

- *Pittsburgh Post-Gazette, Heard off the Street: The Elderly are Often Easy Targets of Financial Abuse*
Len Boselovic, March 8, 2015

YAIA – Solutions for Complex Investment Strategies:

One of the many “behind-the-scenes” complexities that we often encounter with newer clients or existing clients transferring additional assets to YAIA is ensuring their cost basis is properly recorded. The term “cost basis” is defined as the actual amount and date of original purchase for one’s investment (which, if done in increments, is termed “tax lots”). The main reasons this is important is so we can properly analyze a client’s potential tax situation as well as determining whether the former broker has back-end exit fees (called “back-end loads”) on any mutual funds that transfer. Many of these efforts to gather this data, including manual entry as well as double-checking the transferred figures, often goes undiscussed.

Sometimes obtaining proper cost basis figures can be quite labor intensive. Thankfully, the government has recently implemented rules requiring custodians (such as Schwab) to not only properly record, but to transfer these cost basis figures should a client ever change investment providers (the various rules are being phased-in over time). However, it is still not a perfect process. Over the years, we have encountered numerous situations where the prior broker has not fulfilled his responsibilities. In two recent instances of existing clients transferring over additional assets, the prior broker never updated inherited assets from their respective deceased parent’s estates. Currently, the tax laws permit that type of inherited assets to receive a “step-up-in-basis” on their tax lots, which essentially means the cost basis is updated to date-of-death value (essentially erasing all unrealized gains so the new owner will not have any capital gains taxes to be paid). In other instances, we have had to push-back on the broker (sometimes multiple times) in an effort to obtain the proper cost basis figures. We have also worked off-line with client’s accountants examining several years of past tax returns and former brokerage statements in order to collect this information. In an extreme event and for an out of town client, I once drove into Pittsburgh to gather numerous boxes from the client’s father’s estate. I then examined various documents of her father’s including past statements, cancelled checks, past tax returns, and others in an attempt to collect the proper tax cost basis. These assets were held jointly with her father and in some instances as custodial assets for her daughter. In this case, the step-up-in-basis rule is applied differently for these types of accounts. Although sometimes it is a tedious task, obtaining and updating clients’ cost basis is crucial to making future investment decisions.

Current 2015 Portfolio Recommendations:

- Overall – **Neutral-weight stock positions for our clients’ asset allocations with respect to their customized individual guidelines.**
- Within equities - **Neutral-weight stance on “growth” and “value”; we do have a small niche segment to the health care sector.**
- Within equities – **Over-weight large-size company stocks in relation to small/mid-size counterparts.**
- Within equities – **Very low or no-weight for international stocks relative to domestic stocks. However, we have begun examining hedged-currency international funds with considerable European exposure.**
- Within fixed-income – **Over-weight to high-grade corporate bonds with diversified exposure to floating-rate bonds and individual bonds.**

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