Yanni & Associates Investment Advisors, LLC (YAIA)
Second Quarter 2015 Client Newsletter

Review of the Markets:

	2Q15	2015
S&P 500	0.28%	1.23%
S&P Mid-Cap	-1.06%	4.20%
S&P Small-Cap	0.19%	4.16%
Morgan Stanley's EAFE (International Stocks)	0.62%	5.52%
Barclays US Aggregate (Bonds)	-1.68%	-0.10%

Economy & Markets – First quarter GDP had its second revision from -0.7% to -0.2%, compared to first quarter of 2014 GDP of -2.1%. The negative first quarter GDP growth has been a consistent pattern the last few years. The unemployment rate has fallen to 5.3%, though the recent report showed the lowest participation levels since 1977. Both the -0.2% GDP measurement and low participation level in the labor market have been questioned based on seasonality quirks and timing. Many believe we will see better figures in the coming months. Inflation continues to remain tame at 0.1% year-over-year. Despite recent mixed unemployment report and low inflation, Federal Reserve (Fed) interest rate hikes are still anticipated to occur in September. As of July 16th, the S&P 500 valuation is 16.72 times forward earnings ($126.99); that is slightly over its historical range of 14-16. While the stock market has been relatively muted this year, part of this is a result of earnings. Second quarter 2015 year-over-year earnings have declined by -4.4%: the first time since the third quarter 2012.

China has been making headlines after its recent market turbulence. China's mainland A shares had increased over 100% to their peak in June of 2015. Since then, that market has fallen over 30%. Substantially increased margin debt has contributed to the selloff. As their stock market has plummeted, implemented margin calls have required additional shares to be sold in order to fulfill the debt requirements. The Chinese government has introduced a few strategies attempting to reverse the market decline including restricting the issuance of new shares (including IPOs), banning large corporate shareholders from selling shares for six months, and supporting brokerages that have pledged to buy ¥120 billion worth of stock. In addition, about 50 percent of the stock markets' companies have halted trading on their shares to avoid any further downfall. In the past couple of days Chinese shares have turned up again. The government's tactics may have assisted the markets for now, but with valuations almost twice of the S&P 500 we can predict that we will see more volatility in China this year.

Greece's economic woes and failure to make debt repayments have been another main headline. Greek markets and banks have been closed and capital controls have been implemented limiting the Greek people to €60 withdrawals per day. On July 13th, Greece Prime Minister, Alexis Tsipras, surprisingly came to a last minute agreement with Eurozone leaders that holds stricter austerity measures compared to a week ago. The Greek parliament also approved the plan, but it must gain approval in each of the other Eurozone member countries, as well. While Greece may remain in the Eurozone for the upcoming years, this still will not resolve its long-term depressed economic conditions; sharing a common currency that it cannot depreciate will still pose a problem.

Despite the recent international uncertainty, we still believe the Fed will begin raising interest rates this September. We believe this first interest rate hike has already been priced into the markets. A change in policy could be interpreted as a sign of confusion in the Fed's efforts to be overwhelmingly transparent. The Fed has repeatedly advised that any rate hike will rely on recent economic data. An energy price rebound has helped lift inflation, which helps support the Fed's stated plans. Most economists believe the Fed will make these rate hikes slowly. We also believe the second rate hike will probably not come until the Spring of 2016. While we anticipate volatility with each hike, we believe the "lower and slower" strategy will help dampen the market reaction.

Overall, we do not believe a recession is on the near-term horizon. While we remain neutrally weighted stocks relative to bonds, we are more optimistic on the stock side for client accounts even though we believe volatility will continue for the upcoming weeks. We are confident the stock market will be higher at year-end relative to today's levels. We are maintaining our niche exposure to the health care sector as that sector's earnings expectations remain strong. We continue to remain cautious on the international markets until some of these issues become resolved. With the recent pullback in stocks (international stocks have fallen more than domestic stocks in recent weeks), valuations are once again approaching attractive levels for long-term entry points.

YAIA Firm update:

We have several Firm updates this quarter:

First, YAIA recently partnered with a new client who resides in the state of Texas. We now have clients in 16 different states. Most states do not require registration if an Investment Advisor has less than five clients in that state, but due to specific compliance regulations by the State of Texas, we are now registered there as well. After we surpass $100 million in assets (currently around $55 million) we will switch from state to SEC registration.

Second, our new Administrative Assistant, Leslie Dinello, passed her Pennsylvania Notary exam and thus, she is now certified to notarize documents. As we published last quarter, Leslie replaced Nile Doaty who retired to be a full-time Grandmother.

Finally, we are happy to share that Nile's daughter (Terhea) gave birth to Xander Chase Golden. He was born on June 28th weighing 6.5 pounds and 20 inches. We have seen photos; he is beautiful and all are doing well.

YAIA – Solutions for Complex Investment Strategies:

Periodically, the IRS changes its tax laws that affect the investment community. We believe it is our responsibility to be educated on these matters, recognize them, and to understand the proper procedure as to how they should be handled. We will discuss a few IRA rules today.

Recently, an existing 40-year old client told us that her former employer mailed her an after-tax 401k check in her name. She questioned why this happened and wanted to know how to get the full pre-tax amount into her Roth IRA. Her former company could not get a hold of her for rollover instructions, and being an amount under $5k just sent her an after-tax check. We told her that since the check was made out to her and mailed to her, it is considered an "Indirect Rollover". The more preferable and less stringent rollover method is the Direct Rollover where a custodian (such as Schwab) receives the IRA funds directly from the former institution. This exercise with this client tested many different IRA rules, mainly pertaining to Indirect Rollovers.

First, the check was dated three weeks prior to her contacting us. The first rule permits her to execute this Indirect Rollover, but it must be done within 60 days. Time was now of the essence! The second relevant and new rule by the IRS only permits one Indirect Rollover in a rolling 12 month period. Our analysis of her transactions for the past 12 months determined that she only had one previous rollover, but it was a Direct Rollover. A question arose as to why she should not just deposit the after-tax check into her Roth IRA. The third rule encountered was she was not eligible to deposit the after-tax check into her Roth IRA because she already made her 2015 Roth IRA contribution. In order for her to get the full after-tax 401k rollover check into her Roth IRA, we ultimately recommended depositing the after-tax 401k rollover check into her bank account. She wrote us a check for the pre-tax figure which was deposited into her Traditional IRA as an Indirect Rollover within the 60 day time frame. Afterwards, we converted these funds to her Roth IRA. This will be reportable in her taxes and the conversion aspect will still be a taxable event to her, but she will not have to pay early withdrawal penalties.

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"**
- 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.**
- Within fixed-income – **Over-weight to high-grade corporate bonds with diversified exposure to floating-rate bonds and individual bonds.**

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