Yanni & Associates Investment Advisors, LLC
Third Quarter 2014 Client Newsletter

Review of the Markets:

	3Q14	2014
S&P 500	1.13%	8.34%
S&P Mid-Cap	-3.98%	3.22%
S&P Small-Cap	-6.73%	-3.72%
Morgan Stanley's EAFE (International Stocks)	-5.88%	-1.38%
Barclays US Aggregate (Bonds)	0.17%	4.10%

Economy – The final revision to second quarter GDP growth showed an upward revision to 4.6% from the prior estimate of 4.2% and compared to the first quarter decline of -2.1%. The latest unemployment report showed job growth of 248,000 and the jobless rate dropping to a six-year low of 5.9%. While unemployment is falling and more people are finding work, Federal Reserve policy makers are monitoring other economic figures in order to properly gauge the strength of the labor market. Expectations are the Federal Reserve will begin raising short-term interest rates in June, 2015 (we believe it actually may be later than this). Inflation continues to remain tame with the last reported annual rate of 1.7%. Recently, there have been signs that the European economies may beginning to "lose steam" in their recovery. This has contributed to the sharp decline in the stock market in early October.

Equities – Over the last quarter, the Equities market accelerated it's divergence between capitalization ranges (size of companies). As shown above, there was about an 8% negative difference between the performance of large capitalization stocks and their smaller size counterparts (1.13% versus -6.73%). That is a considerable divergence and something we have not witnessed in several years. As valuations swelled for Small-Cap stocks, comments from the Federal Reserve's July report to Congress stating that their valuations "appear to be stretched" added to this segment's unease. International stocks were also off about -5.9% for the quarter as well. Using historical figures, while a diversified portfolio encompassing different asset classes has proven to outperform an undiversified Index over the long-term, there are certainly periods where that theory simply is not true. Last year, this was completely the opposite whereby Large Cap stocks had a phenomenal year being up 32%, but Small-Cap stocks were up even higher at 41%.

We want to communicate to clients that the stock market experienced volatility throughout the third quarter and now considerably so into October. Towards the end of July, the continued fighting in Syria and Ukraine initially contributed to a short-term correction. For a while, it appeared as if all major stock market indices would be negative for the quarter (again, the Large-Cap S&P 500 was up about 1.13%). While we continue to believe the stock market will move higher over the next several months, our expectations remain that the future will bring us more "normal" returns with additional volatility than we have experienced over the last few years. The last few years for the stock market were great; however, we are not confident that will be replicated in the upcoming years ahead. Even though GDP Growth, unemployment, and overall S&P 500 valuations appear to be showing signs of a growing economy, the main "market mover" thus far had been the Federal Reserve. Now into October, the perception that the European economic weakness may be "spilling-over" into the United States has caused a sharp pullback. Given the economic news that has been released recently, again a correction was due, but it is not quite following the "fundamentals" (earnings) either. We are also not quite sure the market has hit bottom just yet. If things keep proceeding in this manner without rational substantiation, we truly may get to a point where it is deemed a good opportunity to invest cash. Currently, the S&P 500 valuation is at 14.37 times earnings ($129.63); that is still within an acceptable historical range of 14-16.

Fixed Income – The bond market still looks "shaky" with the Federal Reserve anticipated to start raising short-term interest rates next year. Thus far, the bond market has been able to peacefully absorb the Federal Reserve's early stages of unwinding its Quantitative Easing Program. Due to this recent stock market volatility, the rate on the 10-year Treasury Bond has fallen as some investors have chosen a "flight-to-safety". As the 10-year Treasury continues to retreat to lower levels, we believe it's only going to make it that much more difficult for the Federal Reserve to attempt to raise interest rates in the upcoming months and years ahead.

YAIA – Solutions for Complex Investment Strategies:

We added this Section earlier in 2014. Here, we will be outlining a few of the "complex" investment strategies where we have worked jointly with clients' accountants and attorneys in an effort to provide superior professional advice:

Estate Planning Assistance – Several years ago, we partnered with a local widow client. Her main concern with her prior advisor was that he failed to make one investment change, let alone contact her, during The Great Recession. Upon transferring her assets over to YAIA's jurisdiction, we noticed many estate plan inconsistencies: both a Revocable Trust and Individual Account, many retirement accounts with inconsistent beneficiary designations, and even one account that was still titled jointly with her deceased husband who passed several years prior. Through some persuasion, our client agreed to meet with an estate planning attorney. We joined our client for what ended up being three very productive meetings in about 45 days to realign her estate plan and accounts to be in accordance to her wishes. Most of our efforts included pre-meetings with the client to prepare her for the various questions that her lawyer would ask her as well as considerable efforts "behind-the-scenes". We believe we were able to add value to her and the lawyer after having worked with her for a few years and knowing her personal circumstances. On that note, in our next quarterly newsletter we are going to prepare a comprehensive list of some of the various estate plan/account titling inconsistencies we have found over the years that other advisors, mostly brokers, simply neglect to address. Again, we pride ourselves deeply at YAIA in that we attempt to provide a holistic/comprehensive approach to financial management. To us, it's not just about picking investment vehicles that work well in bull markets; it's about fully taking care of our clients financial needs.

Yanni & Associates Investment Advisors, LLC Firm update:

YAIA hired our new Investment Analyst, Mallory K. Labik, who just started this past week. Mallory comes to us after spending four years at one of Pittsburgh's large financial institutions. Her past responsibilities included assistance with trade settlements and coordinating efforts between outside Advisors and the Firm's custodial group. Mallory graduated from Duquesne University with a double-major in Investment Management and Finance. She was also a Golden Key Honor Society Member - Director's Circle Member (maintaining a 3.0 GPA or higher in each semester). Mallory and her husband reside in the city of Pittsburgh.

Current 2014 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 – **neutral-weight small / mid-capitalization stocks in relation to large capitalization stocks.**
- Within equities – **under-weight international stocks relative to domestic stocks**.
- Within fixed-income – **over-weight to shorter maturity/duration vehicles, while favoring floating-rate bond funds, high-yield, and individual bonds.**

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