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

Review of the Markets:

	4Q14	2014
S&P 500	4.93%	13.69%
S&P Mid-Cap	6.35%	9.77%
S&P Small-Cap	9.85%	5.76%
Morgan Stanleyǿs EAFE (International Stocks)	-3.75%	-4.90%
Barclays US Aggregate (Bonds)	1.79%	5.97%

Economy & Markets ï The final revision to third quarter GDP growth showed an upward revision to 5.0%. In comparison, GDP growth for the first quarter was down -2.9% and the second quarter was up 4.6%. Unemployment also showed improvement with an additional 252,000 jobs in December, lowering the unemployment rate from 5.8% to 5.6%; the only downside in this report showed wage growth was slightly negative. Falling oil prices and a strengthening dollar have contributed to an annual inflation rate below the Fedǿs goal of 2%, at 0.7%. As a result, expectations for the Federal Reserve to raise short-term interest rates have been pushed from this upcoming summer to its October meeting. International markets continue to show weakness. However, the European Central Bank could potentially announce a quantitative easing program at its next policy meeting on January 22nd. Europeǿs economy has been particularly sluggish and recent unconventional methods of monetary policy (including a negative deposit rate, long-term loans to banks, and purchase of assets) have yet to provide a significant effect. As a result, we have exited virtually all of our International Equity segments in portfolios. While this goes against our traditional theory of diversifying our Equities portion into various asset classes, we believe it is best to remain on the sidelines for International stocks until better prospects arise.

As we projected in last quarterǿs newsletter, the volatility did continue into the fourth quarter and now into 2015. Calendar year 2014 was somewhat of a ñmixed-bagò as the S&P 500ǿs return propelled itself over other traditional equity asset classes. This divergence in performance is somewhat atypical and has only occurred one other time in the last sixteen years. Last year ended with a very volatile fourth quarter; one of the main explanations to this is the spiraling drop to oil prices. Oil prices have now fallen from approximately $100 a barrel to approximately $45 a barrel over the last six months. Articles have stated that there are reasons on both the supply and demand side. These include a substitution to Marcellus shale gas and other fuel alternatives, a continued slowing economy in Europe and China (and thus a decrease in the demand for oil), OPEC refusing to reduce their supply, higher U.S. production, and others. Some articles have even stated that ships are docked in ports holding oil with no place to go. Conventional wisdom would cause one to believe that a drop in oil prices translates into lower gasoline prices, which then bodes well for consumer spending and the general economy. However, there is some speculation that smaller oil companies (mainly in North Dakota and Texas) may not be able to operate at a profit with oil prices at these levels. Not only will layoffs occur at these companies, but it could also affect the companies to which these smaller oil companies have partnerships (banks with loans to the energy sector, technology companies who sell software to them, etcé). As of Friday, January 16th, the S&P 500 valuation is 16.14 times forward earnings ($125.11); that is slightly over its historical range of 14-16.

On the fixed-income side, aside from high-grade bonds, most other segments experienced a subpar year, also ending with a very volatile quarter. As a result, we have substantially reconfigured our fixed-income segments eliminating our high-yield bond holdings and significantly reduced our floating-rate bond positions in favor of high-grade corporate bonds. Due to what is mentioned above with some smaller oil companies (and partners) potentially experiencing adverse effects from this oil plunge, there is some speculation that defaults may be on the rise for 2015. Within months of an expected Federal Reserve rate increase, the fixed-income market is truly at a delicate point in time.

Yanni & Associates Investment Advisors, LLC Firm update:

Great news as Mallory Labik just passed the Series 65 Exam! The Series 65 exam is administered by the Financial Industry Regulatory Authority (FINRA) and is required to be registered as an Investment Adviser Representative.

YAIA – Solutions for Complex Investment Strategies:

We have been outlining a few of the ñcomplexò investment strategies where we have worked jointly with clientsô accountants and attorneys in an effort to provide superior professional advice:

1. Department of Aging Investigation ï Over the last six weeks, we have been through a turbulent time at YAIA. Unbeknownst to us, our 100 year-old, widowed client (whom we have worked with since our Firmôs inception) took in a renter (we will call him ñJohnò) who ultimately convinced her to name him as her Power of Attorney (POA). In the first week of December, John called me asking to transfer money to ñherò bank account; I refused. John then stated that he was her ñnewò POA, of which I asked him to send me a copy. After a few days of not receiving the ñnewò POA document, Mallory and I made an impromptu visit to our client. We then discovered John had been ñhidingò her bank statements. We called the bank and were told somehow he got his name onto her bank account. The bank representative stated that John had been using his debit card at restaurants, making ATM withdrawals, etcé Immediately afterwards, I called John and questioned him on these charges. He told me he would send me copies of all of the bank statements and again, failed to do so. I called the Pennsylvania Securities Commission to obtain guidance and also filed a preliminary report with the Department of Aging. Within 48 hours of my phone call to John, he drove our client to her Doctor apparently attempting to get her to be deemed incompetent. Thankfully, the Doctor recognized something was wrong with the situation and ñquarantinedò our client into the hospital. The Doctor had a hospital Social Worker begin conducting their own investigation. Through their own due diligence, they contacted me. I confirmed I had some ñsuspicionsò as well, but had yet to see the actual bank statements. I told the Social Worker that I filed a preliminary report with the Department of Aging, but asked that it not be made a case until I found ñconcreteò evidence. The Social Worker told me she was going to meet with John face-to-face in the afternoon. If she had the same suspicions as the Doctor and me, she would call the Department of Aging and escalate my original complaint into an actual investigation (which ultimately happened). Within 24 hours, the Department of Aging began its investigation which uncovered the new POA was signed in the summer (shortly after our client recovered from a stroke), a few months later his name was inserted into her will and he somehow managed to add his name onto her bank account. The Department of Aging assisted our client in revoking her current POA. Fortunately, a proper team of professionals quickly intervened. Weôd like to thank all of you who were involved in the teamwork effort of preventing a potential financial elder abuse event from occurring.

2. 529 Plan Rule Changes ï New legislation passed this year permitting 529 plans to now have two reallocations annually. Until this new law passed, 529 plans were only permitted to have one allocation change (aside from one year during The Great Recession).

Current 2014 Portfolio Recommendations:

- Overall ï **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"; did add a small niche segment to the health care sector.**

- Within equities ï **Over-weight large-size company stocks in relation to small/mid-size counterparts.**

- Within equities ï **Very low or no-weight for international stocks relative to domestic stocks**.

- Within fixed-income ï **Over-weight to high-grade corporate bonds with now decreased exposure to floating-rate bonds and individual bonds (No longer recommending high-yield bonds).**

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