

First Quarter 2011 Client Newsletter

Yanni & Associates Investment Advisors, LLC

Review of the Markets:

	<u>1Q11</u>	<u>2011</u>
S&P 500	5.92%	5.92%
S&P Mid-Cap	9.36%	9.36%
S&P Small-Cap	7.71%	7.71%
Morgan Stanley's EAFE (International Stocks)	3.45%	3.45%

Economy – The economy continues to grow steadily with 4Q10 GDP being revised upwards to 3.1%, which was slightly higher than 3Q10 at 2.6%. As we have discussed in earlier newsletters, the economy slowly continues to add jobs. The March unemployment rate was reported as 8.8%. The latest employment report's second survey included a healthy gain in payroll employment of 212,000, of which was really a 230,000 increase in the private sector with a -14,000 decrease in the government sector. Aside from average hourly earnings being flat month-over-month, this was by far, the best unemployment report we have seen in a while. We're certainly headed in the right direction, but again, it's going to take many more months for these high levels of unemployment to reach more "normal" levels. Inflation continues to remain tame with the latest CPI report being 2.2% year-over-year (though again the CPI does not take into consideration medical expenses nor college tuition).

Equities – As we have previously noted, the market was poised and ultimately did have a minor correction. Unfortunately, this was due to the earthquake in Japan, the continued rebellions in various Middle Eastern countries, as well as European governmental budgetary issues & their banking problems coming to the forefront again. Just because the latter had not been on the first page of the newspapers for the last few weeks does not mean it has disappeared. Regardless of the reasons this short-term pullback occurred, we certainly thought it was overdue. We were recently quoted in the Pittsburgh Post Gazette and otherwise were informing clients that if the market were to have fallen well below 12,000 on the Dow Jones Industrial Average, we would have considered moving to an overweight in stocks. Our biggest concerns today for not making that shift would be if there would be a significant rebellion in Saudi Arabia or if the Japan crisis turns into a nuclear disaster.

Overall, we are still optimistic on the equities markets going forward and still believe we will be at higher levels twelve months from today. While we also believe oil prices are going to remain at slightly higher levels for a few weeks, we are forecasting them to ultimately return to more "normal" levels. As a result, we sold our Oil position on April 12th in order to capture profits in our clients' accounts. We realize higher levels of oil may act as a "tax" on the economy for the upcoming months, but do not believe it will be a substantial long-term factor.

Fixed Income – During the quarter, we exited out of most of our clients' bond funds and exchange-traded funds (ETFs). We did this due to inherent interest rate risk that may occur over the next few months. We have transitioned these assets to short-term floating-rate bond funds. These new types of bond funds should not be as susceptible to rises in interest rates. Otherwise, we are still favoring corporate bonds over municipal bonds and still believe there is heightened default risk to many municipalities.

Yanni & Associates Investment Advisors, LLC Firm Update:

We are announcing that my brother, Mark, has left his job with ING Bank in Los Angeles and is moving back to Pittsburgh to join YAIA. He is enrolled to start the MBA program at Robert Morris in May, 2011. During this MBA program, he will be employed with us part-time. Upon his completion in 2012, he will then join YAIA on a full-time basis. Mark's role will be to assist with compliance, operations, and other non-investment management responsibilities for the Firm. His primary responsibilities will be to free up my time so that I can concentrate my efforts on managing our clients' assets.

Yanni & Associates Investment Advisors, LLC recent quotes in various publications:

- *Pittsburgh Business Times, Personal Portfolio Section (investment forecast), Patty Tascarella, January 21, 2011*
- *Pittsburgh Post Gazette, Oil Prices Hurting the Economy?, Len Boselovic, March 13, 2011*

2011 Portfolio Recommendations:

- Maintaining our **neutral-weighted stocks relative to bonds** in relation to our guidance for asset allocation and otherwise customized portfolio structures for our clients on an individual basis.
- Within equities, we maintain our **slight overweight “value” stocks relative to “growth” stocks.**
- Within equities, we remain **over-weighted “small/mid” capitalization stocks relative to “large” capitalization stocks.**
- Within equities, we remain **underweight international stocks relative to domestic stocks.**
- Within fixed-income, we maintain our overweight to **shorter maturity/duration fixed-income vehicles**, while focusing on high-grade corporate bonds and FDIC insured certificates of deposit. We made a change this quarter exiting out of most bond funds & ETFs due to inherent interest rate risk and moved those proceeds into short-term fluctuating rate bond funds.
- While we continue to strongly encourage a diversified portfolio of more traditional securities, we do invest in niche areas as well, based on our views of the economy. A few of our “niche” type investments include:
 1. A position in an Oil ETF (SOLD April 12th) – As mentioned earlier, we sold our position in the Oil ETF realizing profits in our client’s accounts. We will be looking to redeploy this cash in the upcoming weeks.
 2. High Yield Bond ETF – We believe the economy will continue to grow, therefore high-yield bonds may prosper during the upcoming months.
 3. Treasury Inflation Protected Securities (TIPS) – Our expectations continue to be that inflation will start to rise at some point in the upcoming years.
 4. A “Bullish Dollar” ETF – We believe at some point inflation is going to rise. As a result, the government is going to be forced to raise interest rates, which should increase the value of the dollar. Further, we are not convinced the banking & otherwise government budgetary issues in Europe have been fully resolved, which may put weakness on the Euro.
 5. A Real Estate Fund – We do not believe there will be a double-dip housing recession and believe that the worst for home prices is behind us. While it may be a very slow recovery in the real estate market, we believe that the yields on REITS are quite attractive and the downside risk is minimal.
 6. A “clean technology” ETF – Over the next several years, we believe the government will continue to provide incentives for “green” businesses. Additionally, we believe we are in the early stages of a fundamental shift in consumer preferences to be more eco-friendly.
 7. A Technology ETF (3Q10) – In the third quarter of 2010, we initiated this position and we have now witnessed many positive earnings announcements from that sector.

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