Yanni & Associates Investment Advisors, LLC
First Quarter 2012 Client Newsletter

Review of the Markets:

	1Q12	2011
S&P 500	12.59%	2.11%
S&P Mid-Cap	13.50%	-1.73%
S&P Small-Cap	11.99%	1.02%
Morgan Stanley's EAFE (International Stocks)	10.98%	-11.73%

Economy – As expected, Real GDP was up 1.7% for 2011 compared to 3.0% in 2010. Last year's increase was mostly due to a strong fourth quarter figure that was up 3.0% as well. **We are forecasting GDP to grow between 2%-3% for 2012.** As the economic budgetary struggles continued in Europe, domestic growth and corporate profits appear to have remained resilient. The most recent payroll report surprisingly came in below expectations as payroll jobs advanced a modest 120,000, well below the 201,000 expected figure. The unemployment report (a separate report) did fall slightly from 8.3% to 8.2%. Overall, this was the first disappointing jobs report we have witnessed over the last few months; we still believe the long-term trend will continue to show job creation increasing over the next few years. The year-over-year inflation (as measured by the CPI) is still hovering around 3%. Overall, our nation has been one of the best economies world-wide for managing growth and inflation while reducing unemployment over the last few years.

Equities – Surprisingly, the stock market exceedingly surpassed most experts' expectations for the first quarter of 2012. This comes immediately after a volatile 2011 that had mixed index results (last year's returns shown above), yet ended with an exceptional fourth quarter. **While we are exceptionally pleased with the last few months of stock market returns, we are still cautioning clients not to be overly exposed to stocks. Having worked through several economic cycles, we have witnessed multiple occasions where sudden and sharp market corrections can seemingly come out of nowhere.**

While we were optimistic heading into 2012, our three major concerns were the European budgetary issues, uncertainty with the upcoming 2012 Presidential election, and miscellaneous issues that included China's GDP slowing, U.S. relations with Iran worsening, and continued high oil prices. It still appears the European Union is set on assisting Greece with a proper bailout. While we do have some apprehension that Greece's bailout may not prove to be adequate in the long-term, the short-term outlook looks considerably better than a few months ago. On that note, we are reiterating our continued concern that other European countries may need further assistance (Spain, Italy, or Portugal, for example) at some point. China's latest GDP reports showed a slight decline, but nothing that we believe will be the start of a long-term negative trend. Oil prices have remained high since mid-November 2011. If these high oil prices are going to affect economic growth, we should start to see signs of this in upcoming economic releases. On that note, while not in the headlines as much, the situation with Iran does not appear to have improved.

Fixed-Income – As the stock market continued its upward trend in 2012, bonds had meager returns of approximately 0.30%. Overall, we are maintaining our bias towards short-term, high-grade investment vehicles. It has become increasingly difficult to find short-term fixed-income vehicles with attractive yields. We continue to remain diversified into other segments of the fixed-income markets including Treasury Inflation Protected Securities (TIPS), high-yield bonds, and floating rate bond funds. We are recommending these positions be used in conjunction with mostly individual, high-grade, corporate bonds. The Federal Reserve appears willing to take all necessary actions attempting to maintain interest rates at low levels. While not in the immediate future, there will be a time when interest rates rise which gives us concern of a bond recession on the horizon. While this may not take place for several months, if not years, the Federal Reserve is not going to be able to keep interest rates low forever. Given this as a possible long-term scenario, we have properly positioned clients' portfolios to hedge against a bond recession.

Current 2011 Portfolio Recommendations:

- YAIA is still maintaining its guidance for clients to remain **neutrally-weighted in their asset allocation with respect to their customized individual guidelines**.
- Within equities, we are also maintaining our **neutrally-weighted stance on "growth" and "value".**
- Within equities as well, we are remaining **neutrally-weighted small / mid-capitalization stocks in relation 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 vehicles**, while focusing on high-grade corporate bonds and FDIC insured Certificates of Deposit.
- While we continue to encourage a diversified portfolio of more traditional securities, we also do invest in various niche areas based on our views of the economy. One of our recent "niche" ideas is the following:

    ➔ High-Dividend Yielding Stock ETF – In mid-January, YAIA initiated a position in a high-dividend yielding stock fund. Our belief was that if the market continues to move higher, it will allow us to participate in the rise. If stock market volatility returns or if it plateaus, we will still be able to collect the dividend yield of approximately 3.5%.

Educational Update – 529 plans

For this newsletter, we thought we'd provide clients with a few educational bullet points for using 529 plans. Generally speaking, 529 plans are state-sponsored plans that permit saving for higher education on a tax-free basis. They can be "Guaranteed Plans" (terrible choice of words) whereby tuition credits are prepaid with qualifying schools or "Savings Plans" whereby you invest the monies into a selection of mutual funds. There is one designated "Owner" who retains controls on various aspects and one designated "Beneficiary" for whom the account is created. 529 Savings Plans (our preference) have the other following characteristics:

1. Most states require residents to use their own state-sponsored plans (multiple 529 plans could be offered in one state) for contributions to be state income tax deductible (PA residents can use any state's plan!).
2. Contributions can then potentially qualify to be state-income tax deductible; the assets grow tax-free; withdrawals are tax-free as long as they are used for higher-education purposes (fairly broad language).
3. Withdrawals can be made to the Owner, the Beneficiary, or directly to the School.
4. Current legislation limits investment changes to only once per calendar year; future contribution allocation changes can be made at any point in time (this will probably change at some point though).
5. The Owner of the plan can change the Beneficiary to other blood relatives (some restrictions) if the original Beneficiary would not need the funds (example, scholarship, armed forces instead, etc…).

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