

Second Quarter 2009 Client Newsletter

Yanni & Associates Investment Advisors, LLC

Review of the Markets

We believe the stock market's bottom was reached in March, 2009. The markets have rebounded substantially since then. Quarterly and year-to-date equity returns can be summarized below:

	<u>2nd Quarter 2009</u>	<u>Year-to-Date</u>
S&P 500	15.93%	3.17%
S&P Mid-Cap	18.75%	8.47%
S&P Small-Cap	21.06%	0.70%
Morgan Stanley's EAFE (International Stocks)	25.84%	8.46%

Investment Forecast

Economy – The economy has certainly shown signs of recovery. It does appear that the housing price declines are showing definitive signs of stabilization. Most major companies appear to have halted their large layoffs (as we saw around year-end). However, the latest unemployment rate, which was for May, rose to 9.5%. We do anticipate that the unemployment rate will continue to rise and then plateau in the low teens before the end of the year. Again, while it does appear that the rate of job layoffs has slowed, there are very little signs of job creation. We do believe it's going to take several more months and well into 2010 for the unemployment rate to start moving lower. However, overall, we do believe the worst of this recession is behind us and sustained economic recovery will begin within a few months.

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

- Pittsburgh Business Times, Insights, Ben Semmes May 8-14, 2009
- Pittsburgh Post Gazette, TIPS Can Provide Inflation Protection, Len Boselovic July 5, 2009

Equities – During the past quarter, we increased our equities' exposure on multiple occasions and have nearly removed our underweight to stocks (still very slightly underweighted stocks relative to bonds). We added to equities during the quarter mainly in the following formats:

1. Increased our international exposure with an International Value ETF. This now puts us back to being neutrally weighted international stocks relative to domestic stocks. The dollar has weakened substantially versus most other major currencies over the last quarter, which has ultimately aided in international markets' recent outperformance.
2. Added a niche position in a financial services ETF. We believe that financial institutions will ultimately lead us out of this recession and are thus positioning ourselves for the long-term.
3. Increased our small-cap exposure with a small-cap ETF. We are now neutrally weighted small-cap stocks relative to large-cap stocks.
4. Added an actively managed large core equity mutual fund. This fund has been one of the top performers over the last few years and we believe it will fit appropriately with our diversified ETF approach.

Fixed Income – We have continued to invest in short-term certificates of deposit and taxable high-grade corporate bonds. Yields for short-term debt instruments continued to decrease over the last quarter. As a result, we found alternatives with using callable corporate bonds and step-up bonds (the bond's coupons are stepped-up every few years). An example of a recent purchase is a General Electric 02/13/19 maturity callable, step-up bond. It has a coupon of 5% that will "step-up" to 6% on 02/13/2011, and then to 8% on 02/13/16. We purchased the bond at \$99.10 where it was priced to yield 5.599% on the likelihood it will be called on 02/13/11 (which we believe will happen). If it's held to maturity, the yield will be 6.418% instead.

Yanni & Associates Investment Advisors, LLC Firm Update

Our Firm has continued to grow with the addition of four new client relationships over the past quarter. Proudly, we can report that we have added eleven relationships over the past eight months. Our assets under management are just shy of \$25 million.

Our “custodian of choice”, Schwab Institutional, announced it is waiving all equity trading fees and reimbursing transfer of account fees for all new-to-Schwab clients for up to one year for accounts that open by the end of this year. We do manage multiple accounts that are using other firms as custodian and are not exclusive to using Schwab Institutional.

As mentioned in the First Quarter Newsletter, we did hire an Office Manager, Irene Pike. We have started discussions with several people for various other positions and will be hiring again at the end of the year.

Our Actions and Recommendations Can Be Summarized As Follows

- We are now **very slightly underweighted stocks relative to bonds**.
- We maintain our **slight overweight “value” stocks relative to “growth” stocks**.
- We are now **neutral “mid/large” capitalization stocks relative to “small” capitalization stocks**.
- We are now **neutral international stocks relative to domestic stocks**.
- We maintain our overweight to **shorter maturity/duration fixed-income vehicles**, while focusing on high-grade corporate bonds and FDIC insured certificates of deposit.
- A few of our “niche” type investments include:
 1. Treasury Inflation Protected Bonds (TIPS) – Inflation continues to remain low in today’s environment. However, our expectations remain that inflation will increase in the long-run mainly due to the government’s numerous bailout packages.
 2. An exchange-traded fund (ETF) that invests in developing “clean technology”.
 3. A hedged currency international fund – This international equity fund hedges its foreign currency exposure, where appropriate, back into the U.S. dollar in order to reduce portfolio volatility due to currency fluctuations.
 4. A Gold ETF – Our belief is inflation will begin to rise in the long-run and investors will re-examine commodities, in particular gold, as a safe-haven investment.
 5. A Financial Services ETF – We believe that financial institutions will ultimately lead us out of this recession and have thus allocated a portion to this niche segment.

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