Second Quarter 2011 Client Newsletter
Yanni & Associates Investment Advisors, LLC

Review of the Markets:

	2Q11	2011
S&P 500	0.10%	6.02%
S&P Mid-Cap	-0.73%	8.56%
S&P Small-Cap	-0.16%	7.54%
Morgan Stanley's EAFE (International Stocks)	1.83%	5.35%

Economy – After a healthy 3.1% fourth quarter 2010 GDP figure, first quarter 2011 estimates were reduced to a lower than forecasted figure of 1.8%. The June unemployment rate rose from 9.1% to 9.2%; the second consecutive month of an upward trend. The other employment report featuring Non-Farm payrolls for June rose a dismal 18,000, well below a consensus projection of 105,000. Also this report included downward revisions for the prior two months totaling -44,000. On a lighter note, the unemployment rate for management / professional workers and those with four-year degrees remain well below the 9% levels. Inflation continues to remain relatively tame with the CPI being 3.6% year-over-year.

We continue to believe the economy is slowly expanding. We also continue to believe that the economy is not headed for a double-dip recession, but certainly has some issues which need resolved. In all likelihood, these employment figures will reverse the two-month upward trend, but are still going to take several years before they reach "normal" levels.

Equities – As a result of our cautionary stance, we first emailed our clients on Mother's Day notifying them that we had some concerns that the stock market may be due for a short-term pullback. At that time, we opted not to shift assets to an underweight stock position. However, we were explicit that we would be planning on actively holding an excess cash position due to the recent sale of our Oil ETF (which we sold at a profit) and would shift to an overweight stock position should the market fall to a certain point. In the following weeks, the stock market did fall by about 7-8% before sharply rebounding over a 10-day stretch. **On Friday, July 7th we actively decreased our client's asset allocation and went to an underweight stock position.** We cited the following as reasons:

1. Second consecutive month with a disappointing unemployment report.

2. From a charting perspective on the Dow, it had quickly rebounded back close to it's three-year high and also near the level it was when we wrote our Mother's Day (May 8th) email.

3. Continued concerns with Greece's economic and budgetary problems (there are similar problems in other European countries too). While it may be inevitable, "default" (by definition") may likely occur at some point in the upcoming years. Admittedly, it does finally appear that the European Union and Greek government are firmly set on attempting to resolve this country's budgetary & debt problems, but it still remains a concern in our view for stocks.

4. The Treasury Department has warned that the federal government will exhaust its debt limit by August 2nd, 2011 unless budgetary compromises are met. While we do not believe the U.S. will ultimately default on its debt, we would not be surprised if gridlock occurs up until the last minute (particularly with next year being an election year). Should we see gridlock continue to occur on this matter in the upcoming weeks, we will probably see increased volatility in the stock market.

We realize the potential ramification of moving to an underweight stock position could mean lower portfolio returns, should the stock market continue its upward trend. We believe our clients would much rather miss some potential upside, than see us take no-action and have their assets suffer in a downturn. While we do believe the stock market still has some short-term risk in it, we remain confident the stock market will be up from today's levels a year from now.

Yanni & Associates Investment Advisors, LLC Firm Update:

My brother, Mark, officially joined YAIA in June as an Associate. Most recently, he was employed as a Sales & Marketing Associate with ING Bank in Los Angeles. He will be working with us part-time until he completes his MBA from Robert Morris in approximately 12 months. Upon his completion of the MBA program, Mark's role will be to oversee our operations, human resources, and other non-investment management responsibilities for the Firm, while assisting with compliance and marketing as well. His primary responsibilities will be to free up my time so that I can concentrate my efforts on managing our clients' assets.

Current 2011 Portfolio Recommendations:

- On July 7th, we shifted our client's assets to an **underweight stock position relative to bonds** in relation to their customized portfolio structures.

- Within equities, we maintain our **slight overweight of "value" stocks relative to "growth" stocks**.

- Within equities, we remain **overweight "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 **<u>shorter maturity/duration</u> vehicles**, while focusing on high-grade corporate bonds and FDIC insured certificates of deposit. We continue to believe that long-term inflation is going to rise and the Federal Reserve will take actions to tighten monetary policy. We also remain very cautious that a rising interest rate environment could be detrimental to the bond market.

- While we continue to <u>strongly encourage a diversified portfolio of more traditional securities</u>, we do invest in niche areas as well, based on our views of the economy. A few of our "niche" type investments include:

    1. <u>High Yield Bond ETF</u> – We believe the economy will continue to grow, therefore high-yield bonds may prosper during the upcoming months.

    2. <u>Treasury Inflation Protected Securities (TIPS)</u> – Our expectations continue to be that inflation will start to rise at some point in the upcoming years.

    3. <u>A "Bullish Dollar" ETF</u> – 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 continue to have concerns with budgetary issues in some European countries, which may put weakness on the Euro.

    4. <u>A Real Estate Fund</u> – 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.

    5. <u>A "clean technology" ETF</u> – 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.

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