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

Review of the Markets:

	2Q12	2012
S&P 500	-2.75%	9.49%
S&P Mid-Cap	-4.93%	7.90%
S&P Small-Cap	-3.58%	7.98%
Morgan Stanley's EAFE (International Stocks)	-6.85%	3.38%

Market & Economic Summary:

First quarter 2012 Real GDP was initially reported to have risen 2.2%, but has since been revised downward to 1.9%. The most recent payroll report again came in below expectations as payroll jobs advanced a modest 80,000, which is below the 100,000 expected figure. The unemployment report (a separate report) held at 8.2%. Overall, the last few jobs reports have been quite disappointing. The year-over-year inflation (as measured by the CPI) is still relatively tame, hovering around 3%. For the most part, corporate earnings have remained positive though.

What a quarter for the markets… The stock market continued its upward trend in April. Then, May brought about a correction large enough to virtually wipe out the entire gain for the year (once again the saying "sell in May and go away" came to fruition). Surprisingly, June was then another good month for stocks, then early July started off negative again. Overall, it was a very second volatile quarter with the S&P falling nearly 3%. Small-cap, mid-cap, and international stock index counter-parts all performed worse.

At the end of May, YAIA shifted to an under-weight stock position. In most instances, we trimmed back on our international exposure and small-cap exposure. We replaced these positions with four different vehicles: a Gold ETF, a volatility measured ETF, a high-grade corporate bond ETF, and a stock utility ETF. Our rationale is that the situation in Europe continues to worry us as well as subtle economic signs of our economy slowing. More specifically, enormous budget deficits in many countries in Europe continue to haunt the euro-zone (mainly Spain, Greece, Italy, Ireland, and Portugal). Spain and Greece both have unemployment rates close to 25% (Spain's jobless rate is over 50% for those under age 25). As euro-zone budget deficits have soared, these troubled countries have few options. The main problem comes from having a shared currency (the Euro). Historically, weaker countries would see their currencies weaken, which would attract tourists and demand for their (cheaper) goods. The absence of individual currency fluctuations is now creating problems. Greece has accepted "austerity measures" in exchange for bailout funds. The austerity measures are forced regulations by the other euro-zone countries for Greece to cut its government spending (for example, minimum wage reduction and public sector job losses) in order to generate enough funds to pay back this borrowed debt. A majority of the Greek public does not want to accept these austerity measures (but does not want to leave the euro-zone either); they desire pro-growth measures. In some instances, this is "putting a Band-Aid on a broken arm". It also does not help that we are entering a traditional European slow-down period of July-August known as "holiday".

On related international news, foreign central banks continue their efforts to stimulate their own economies through monetary easing. In early July, both China and the European Central Bank (ECB) lowered their key interest rates in efforts to stimulate their economies. This is the second time in less than a month that China's central bank acted to jumpstart its economy. Also, the Bank of England (BOE) launched another round of quantitative easing through another asset purchase program. It's a bit coincidental that China's central bank decided to lower rates on the same day that the ECB and BOE held their scheduled announcements.

While not as much of a near-term concern as Europe, we are also concerned with what has been labeled "Taxmageddon" and the "fiscal cliff". "Taxmageddon" is the term dubbed for former President Bush's tax cuts expiring at the end of 2012. Those include tax rates increasing for all brackets, investors paying more for capital gains and dividends, and others. The "fiscal cliff" is the coincidental timing of $1.2 trillion in automatic spending cuts going into effect. Being an election year obviously complicates matters.

Yanni & Associates Investment Advisors, LLC Firm Update:

Mark Yanni will be finishing up his M.B.A. at Robert Morris University the third week of July and will be joining us full-time afterwards. Throughout his studies for the last year or so, he has met virtually all of our clients.

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

● *Pittsburgh Business Times, What pending tax law changes should be of most concern to investors? (Insights) Patty Tascarella, May 18-24, 2012*

● *Pittsburgh Post-Gazette, Facebook prepares itself for buttoned-up Wall Street, Deborah M. Todd, May18, 2012*

● *Pittsburgh Post-Gazette, Jobs data worst of year, Ann Belser, June 2, 2012*

Current 2012 Portfolio Recommendations:

- At the end of May, YAIA shifted to an **under-weight stock exposure for our clients' asset allocations with respect to their customized individual guidelines**.

- Within equities, we are maintaining our **neutrally-weighted stance on "growth" and "value".**

- Within equities as well, we are now **under-weight 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. Several of our recent "niche" ideas are 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% (higher than the current inflation rate).

  ➔ Corporate Bond ETF – As part of our reduction in stocks in May 2012, we re-initiated a position in a corporate bond ETF. This particular ETF invests in high-grade corporate bonds and will serve as a hedge against downward pressure in the stock market.

  ➔ Bullish Dollar ETF – We have held this position for several months citing our continued concerns overseas. Given all the budgetary turmoil overseas, we believe holding a small, niche position in a bullish dollar fund is appropriate and will diversify our client's assets beyond the traditional equity and fixed-income markets.

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