# Third Quarter 2009 Client Newsletter
# Yanni & Associates Investment Advisors, LLC

## Review of the Markets

The stock market has continued its positive upward trend through the third quarter of 2009. Quarterly and year-to-date equity returns can be summarized below:

| | 3rd Quarter 2009 | Year-to-Date |
|---|---|---|
| S&P 500 | 15.61% | 19.26% |
| S&P Mid-Cap | 19.98% | 30.14% |
| S&P Small-Cap | 18.66% | 19.46% |
| Morgan Stanley's EAFE (International Stocks) | 19.52% | 29.58% |

## Investment Forecast

**Economy** – The economy continues to show signs of recovery, despite having unemployment at 9.8%. We continue to believe that the unemployment rate will rise over 10% in 2010 and then plateau before the end of that year. As we noted last quarter, even though job layoffs have slowed there are very few signs of job creation. Thus far, corporate profit growth has been more of a result of cost-cutting initiatives, rather than increasing revenue. **Overall, we do believe the economy is poised to continue its rebound into 2010.**

Yanni & Associates Investment Advisors, LLC quarterly quotes in various publications:
● Pittsburgh Post Gazette, TIPS Can Provide Inflation Protection, Len Boselovic July 5, 2009

**Equities** – During the past quarter, we increased our equities' exposure again and are now neutrally weighted stocks relative to bonds. We added to equities during the quarter mainly in the international emerging markets arena.

Even with the continued positive signs in various economic indicators, we believe there is potential for the stock market to either pull back or plateau for a few weeks before continuing its positive upward trend for a variety of reasons:

1. The market has rebounded over 50% since its March 2009 low.
2. Historically, 10,000 on the Dow Jones Industrial Average has been a psychological ceiling.
3. A sustained high unemployment rate could equate to defaults on commercial real estate debt.
4. The government's "extended" unemployment benefits will begin to end.

However, we are reiterating from last quarter's newsletter that we do believe the worst in the market is behind us and that the economy is poised to continue to come out of this recession. Again, it's possible we may see a pause in the markets before continued strengthening next year.

**Fixed Income** – We continue to favor short-term CDs & high-grade corporate bonds as well as callable, step-up corporate bonds. We continue to underweight money market and other cash instruments as their yields remain extremely unattractive. During the quarter we initiated a position in an international bond fund for diversification purposes as well as to hedge against a continued declining dollar.

At some point in 2010, we would expect the Federal Reserve to begin raising the federal funds target rate aggressively. Many of the government spending initiatives passed in an effort to abruptly end the recession (which arguably worked) may start having their "side-effects" exposed in 2010. We have already seen a sharp decline in the dollar. We are expecting to see a rise in inflation followed by a rise in interest rates. We have positioned our clients' portfolios to take advantage of these scenarios.

## Yanni & Associates Investment Advisors, LLC Firm Update

Our Firm has continued to grow with the addition of one new client relationship over the past quarter, which now makes 10 new clients thus far in 2009. Additionally, we have two other pending verbal commitments of new clients who have agreed to sign with us in the fourth quarter. Our assets remain just shy of $25 million. With the Firm's ongoing growth, we continue to position ourselves internally for the best interests of our clients. We have continued outsourcing non-critical responsibilities (recently partnered with a "part-time" accountant) and will again be hiring at year-end.

Our "custodian of choice", Schwab Institutional, is still waiving all equity trading fees and reimbursing "transfer of account fees" for all new-to-Schwab clients through June 2010 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.

## Our Actions and Recommendations Can Be Summarized As Follows

- We are now **neutral stocks relative to bonds**.
- We maintain our **slight overweight "value" stocks relative to "growth" stocks**.
- We are now **slightly underweighted "large" capitalization stocks relative to "small/mid" capitalization stocks**.
- We are now **slightly overweighted 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) – Our expectations continue to be that inflation will start to rise over the next few months.
    2. An Exchange-Traded Fund (ETF) that invests in developing "clean technology".
    3. An International Bond Fund – We invested in this intra-quarter to further diversify our fixed-income holdings and to enable us to capture any further weakness in the dollar relative to other currencies.
    4. A Gold ETF – Our belief is inflation will continue to rise in the long-run and investors will re-examine commodities, in particular gold, as safe-haven investments. We initiated this position in client accounts over a year ago.

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