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

Review of the Markets:

	3Q12	2012
S&P 500	6.35%	16.44%
S&P Mid-Cap	5.44%	13.77%
S&P Small-Cap	5.40%	13.80%
Morgan Stanley's EAFE (International Stocks)	6.98%	10.59%

Trending similar to earlier in the year, second quarter GDP initially posted a higher figure then became revised downward. The latest estimate for second quarter GDP was 1.3% (down from 1.7%). The figure is sharply slower than the 2.0% seen in the first quarter and especially the 4.1% boost posted in the fourth quarter of last year. The most recent payroll report included a surprise drop, but is statistically questionable. The unemployment rate unexpectedly dropped from 8.1% to 7.8%. Payroll jobs in September had a 114,000 increase (expectations were for 113,000). Experts say we need about 150,000 new jobs each month to maintain current economic growth.

Recently, I read a Time Magazine article titled – "The S&P Soars, the Economy Snores". **Given the various disappointing economic indicators, we are pleasantly surprised with the stock market's performance this year. However, we are still maintaining our underweight to equities**. We will reiterate that we do not believe a major recession is on the horizon; we just believe the stock market is a bit ahead of itself. We also do not believe it is the time to exit equities (nor invest too aggressively); but rather a time to trim back on one's exposure and ensure you are properly allocated in the event of a short-term market correction. Outlined below are a variety of both positive and negative issues that we are constantly monitoring:

1. GDP / Unemployment / Corporate Profits – Domestic GDP has slowed significantly this year. With that said, thus far corporate profits have remained healthy and companies are continuing to hold excess cash (though we are just entering third quarter's earnings reporting season). On one hand, companies are not completely sure who will win the November election or how the various tax laws will change at year-end. On the other hand, with corporate profits continuing to steadily grow, companies may not see the need to aggressively hire new employees. Having high unemployment levels, steady corporate profits, and low inflation provides a dis-incentive for companies to pay their employees "top-dollar" or to provide substantial annual raises.

2. Federal Reserve – On September 13th, the Federal Reserve announced another monetary / quantitative easing plan dubbed "QE3". This comes on top of multiple interest rate reductions, two other QE programs, Operation Twist, and others. There is another saying in the investment business pertaining to the stock market - "Don't fight the Fed". In our opinion, the Federal Reserve gets an "A+" on propelling the stock market, a "B-" on expanding the economy, and a "C-" on lowering unemployment. We are extremely fortunate inflation continues to remain at tame levels. As these types of extreme government interventions continues (and we're starting to see more of it in Europe too), it concerns us how this will "unwind" itself in future years.

3. Fiscal Cliff / Taxmageddon / Presidential election – Regardless of who wins the election, early speculation is that either candidate will not permit a full expiration of "Taxmageddon or 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.

4. Europe's debt situation / China – Europe continues to be a wild-card. It appears as if many European political & economic leaders continue to provide the public with "lip-service" on how these countries are truly going to fix their fiscal issues. On the other side of the globe, China's economy has continued to show signs of a slowdown. It's too premature to know how far China's economy will continue to slide. However, China's central bank has also participated in attempting to provide stimulus to its economy.

Yanni & Associates Investment Advisors, LLC Firm Update:

Mark Yanni graduated from Robert Morris with his MBA in July while obtaining a 3.92 GPA (all A's with one B+). He will be taking the Series 65 Exam in late October and will continue to become integrated into the Firm.

In an effort to ensure YAIA remains compliant with government standards, both Matt & Mark recently attended an all-day Compliance Seminar sponsored by the Greater Pittsburgh Compliance Roundtable.

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

● *Pittsburgh Business Times, Do you prefer Internet Marketing or Print Advertisements (Insights) Patty Tascarella, October 5-11, 2012*

● *Pittsburgh Business Times, Yanni finds success through research, patience, Kris Mamula, September 14-20, 2012*

● *Pittsburgh Post-Gazette, Jobless rate grows slightly, Ann Belser, August 4, 2012*

● *Pittsburgh Post-Gazette, Market sensitive to latest headlines, Len Boselovic, July 29, 2012*

● *Pittsburgh Magazine, 2012 Pittsburgh Five Star Wealth Managers, July 2012*

Current 2012 Portfolio Recommendations:

- Overall - **under-weight stock exposure for our clients' asset allocations with respect to their customized individual guidelines**.
- Within equities - **neutrally-weighted stance on "growth" and "value".**
- Within equities - **under-weight small / mid-capitalization stocks in relation to large capitalization stocks.**
- Within equities – **under-weight international stocks relative to domestic stocks**.
- Within fixed-income - **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 invest in various niche areas based on our views of the economy. Several of our recent "niche" ideas are the following:

  ➔ Floating-Rate Bond Fund – In an attempt to hedge our fixed-income positions against an increase in interest rates, we have been utilizing floating-rate bond funds. We have found some of these funds are also offering fairly attractive yields in today's low-yield environment.

  ➔ Gold ETF – As the Federal Reserve announced QE3 in September, our Gold ETF position performed very well for us last quarter. As a result of this recent run-up in Gold, we have recently sold this position. As the saying goes, "no one ever went broke taking a profit". We will look to possibly re-enter the position should circumstances change; traditionally, gold has been used as an inflation hedge.

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