Fourth Quarter 2008 Client Newsletter
& Year-end 2008 Review
Yanni & Associates Investment Advisors, LLC

Investment Review

Calendar year 2008 witnessed the third worst year in stock market history (S&P 500) aside from a -47% return in 1931 and a -38.6% return in 1937. Quarterly and annual equity returns are summarized as follows:

	4Q08	2008
S&P 500	-21.94%	-37.00%
S&P Midcap	-25.55%	-36.24%
S&P Smallcap	-25.17%	-31.01%
Morgan Stanley's EAFE (International Stocks)	-19.90%	-43.06%

Investment Forecast

Economy – The economy continued to decline in the fourth quarter of 2008. The unemployment rate rose to 7.2% and now is one of the most highly watched monthly economic statistics. **Again we, do not believe the economy is heading towards another "1930's type depression"! However, we believe the unemployment rate will continue to gradually rise in 2009 as the economy worsens.** There are expected to be additional mortgage-resets in 2009 as many 3- and 5-year Adjustable Rate Mortgages are approaching their fixed-rate conversion dates. Thus, it is anticipated the housing crisis will continue to worsen in 2009. We do believe the fact that the election is over is a good thing for the market. It's just one less uncertainty with which to contend. Also, with a Democratic majority in Congress, there's the expectation bills will be passed with less gridlock. **We do believe the Obama administration is going to be very aggressive in combating the housing, banking, and distressed securities situations' with many unconventional methods. However, we do have some concerns with the long-term effects (mainly inflation) of now a second large stimulus package.**

During the last quarter, our Firm was quoted several times for opinions on current events:

- Pittsburgh Business Times - Kris Mamula's November 5th article "Pittsburgh's Business Community Weighs in on Obama's Victory"
- Pittsburgh Tribune Review - Thomas Olson's December 7th article "Boomers go Bust"
- Pittsburgh Post Gazette - Len Boselovic's December 14th article "U.S. Savings Bonds Seen as a Safe Bet"
- Pittsburgh Business Times - Patty Tascarella's December 19th article "What's Your New Year's Resolution for Your Personal Portfolio?

Equities – **We first trimmed our equity exposure in the fourth quarter of 2007 and maintained that stance throughout 2008.** In mid-October 2008, we invested some of the excess cash into "large value" stocks going to a neutral stance between "growth" and "value" stocks. There is some thought that the market may have bottomed in November and the S&P 500 did post a positive 1.04% return for December. We still believe volatility is going to continue for the upcoming months, but do not believe we will see the wide swings the market experienced in October 2008. **Therefore, as we enter 2009, we are maintaining our underweight to equities due to this anticipated continued volatility in the markets.**

Fixed Income – The Federal Reserve has lowered its target Federal Fund's rate to nearly 0%. Many other foreign countries and central banks continue to follow the United States in attempting to lower their countries' interest rates. **Due to the prospects of other countries & central banks continuing to do this, we have maintained our "bullish dollar" position, but are monitoring it very closely.** While many of the other central banks lowered their interest rates within a few days of the United States, the European Central Bank (ECB) is meeting in mid-January when it is expected to continue following the U.S.'s lowering trend.

<u>Our Actions and Recommendations Can Be Summarized As Follows</u>

- We continue to **<u>underweight</u> stocks relative to bonds**.

- We are now **<u>neutral</u> "growth" stocks relative to "value" stocks**.

- We continue to **<u>overweight</u> "mid/large" capitalization stocks relative to "small" capitalization stocks**. As we look to increase stock positions back to each client's appropriate long-term levels, small & mid-cap stocks are being given consideration.

- We are **<u>underweighted/neutral</u> international stocks relative to domestic stocks**. We believe most foreign economies are not as resilient as the United States and will take more time to recover from this global recession.

- We continue to **<u>favor shorter maturity/duration</u> fixed-income vehicles**.

- A few of our "niche" type investments include:

    1. <u>Treasury Inflation Protected Bonds (TIPS)</u> – While inflation remains low in today's environment, our expectations are it will increase in the long-term mainly from the government's numerous bailout packages.

    2. <u>An exchange-traded fund (ETF) that invests in developing "clean technology"</u>

    3. <u>A Bullish Dollar ETF</u> – Given that foreign banks still have the ability to lower interest rates, we have maintained this position. We may, however, take our profits in this position early in 2009.

    4. <u>A hedged currency international fund</u> – This fund attempts to earn long-term growth of capital by investing in a diversified portfolio primarily consisting of equities in international developed markets. Where appropriate, foreign currency exposure is then hedged back into the U.S. dollar in order to reduce portfolio volatility due to currency fluctuations.

    5. <u>A Gold ETF (4Q08)</u> – Our belief is inflation will begin to rise in the long-run and investors will re-examine commodities and in particular, gold, as a safe-haven investment.

<u>Yanni & Associates Investment Advisors, LLC Firm Update</u>

As we begin our third year as an independent Firm, we are proud to share that we now service approximately 20 family relationships across eight states. Even with the severe market declines, our assets under management now exceed $20 million and are approaching $25 million. As evidenced by the four newspaper quotations of our investment expectations, the Firm's reputation is growing. We thank our clients for their support during these trying times, and the referrals that have been directed to us.

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