Fourth Quarter 2009 Client Newsletter
& Year-end 2009 Review
Yanni & Associates Investment Advisors, LLC

Review of the Markets

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

	4th Quarter 2009	Year-to-Date
S&P 500	6.04%	26.46%
S&P Mid-Cap	5.56%	37.38%
S&P Small-Cap	5.12%	25.57%
Morgan Stanley's EAFE (International Stocks)	2.22%	32.46%

Investment Forecast

Economy – The economy and stock market rebounded significantly starting around March, 2009. It appears as if the government's various bailout packages worked to limit bankruptcies, restructuring mortgages, retaining jobs, and perhaps not allowing the economy to sink into a depression. However, nothing comes without a cost. We continue to believe that inflation will start to rise in the second half of 2010 as a result of these government spending initiatives. We also believe that the Federal Reserve will attempt to aggressively raise interest rates in an attempt to combat inflation. Finally, we do believe that the unemployment rate (currently 10%) will plateau in early 2010 and start a slow decreasing trend. **Overall, we continue to believe the economy is poised to continue its rebound into 2010.**

Equities – We stated in our last quarterly newsletter that there was a high probability that the market would plateau or pull back. As you know, since early November, the Dow Jones Industrial Average has mostly traded between the 10,200 and 10,700 range.

We do believe that the S&P 500 will be higher at year-end 2010, though not as much as the 26% we witnessed in 2009. Should we see the Federal Reserve start to aggressively raise interest rates, we may start to see the American dollar rise versus other currencies. We may then be looking to remove our overweight to international stocks in relation to domestic stocks.

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. We are continuing to hold a position in an international bond fund for diversification purposes as well as to hedge against a continued declining dollar.

Currently, longer term bonds are yielding higher than shorter term bonds, or what's known as a positively sloped yield curve. Historically, a positively sloped yield curve has often signaled the potential for a strong economic recovery. However, we again believe starting around the second half of 2010, the Federal Reserve will begin raising the federal fund's target rate aggressively. If this happens, we should start to see short-term rates rise significantly in response to the Federal Reserve's action. As a result of this potential scenario, we are still favoring short to mid-term individual bonds. One reason is that as these shorter term maturity bonds mature, interest rates should be higher and we can then reinvest at higher rates. Another explanation is that interest rates and bond prices move in inverse directions. We often explain this inverse relationship in terms of a "see-saw". The length of the see-saw is comparable to a bond's maturity date. So, if interest rates rise, longer maturity bonds tend to perform worse than shorter term bonds. Also, to this point, bond funds do not have a set maturity and thus, there is potential for the price of bond funds to fall in a rising interest rate scenario.

Yanni & Associates Investment Advisors, LLC Firm Update

Our Firm has continued to grow with the addition of three new client relationships over the past quarter, which now makes 12 new clients in 2009. We now have clients in 12 different states: Alabama, Arizona, California, Connecticut, Florida, Georgia, Illinois, Maryland, Michigan, New York, North Carolina and Pennsylvania. We are proud to report that during what many people refer to as "The Second Great Depression", all of the clients we have added this past year have come to us through referrals by our other satisfied clients or our other relationships.

Our Actions and Recommendations Can Be Summarized As Follows

- We are still **neutral-weighted stocks relative to bonds**.
- We maintain our **slight overweight "value" stocks relative to "growth" stocks**.
- We remain **underweighted** "**large" capitalization stocks relative to "small/mid" capitalization stocks**.
- We remain **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.
- While we continue to strongly encourage a very diversified portfolio of more traditional securities, we do invest in niche areas as well, based on our views of the economy. 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 in the second half of 2010.
    2. An Exchange-Traded Fund (ETF) that invests in developing "clean technology".
    3. An International Bond Fund – We continue to believe it will diversify our fixed income holdings and enable us to capture any further weakness in the dollar relative to other currencies.
    4. A Gold ETF & Gold Mining Mutual Fund – We continue to believe inflation will rise in the second half of 2010 and are thus hedging client portfolios accordingly.
    5. High Yield Bond ETF – We initiated a position in a high yield bond ETF with the idea that the economy is going to continue to rebound. Thus, we should continue to see the trend of investors willing to take on additional risk by investing in higher yielding corporate bonds.
    6. Emerging Markets – We continue to believe that emerging markets will perform well in 2010.
    7. Health Care ETF (1Q10) – With the pending legislation to increase the number of citizens covered by health care, we believe that the demand for drugs and other health care related products will increase.

Observations for a Business Publication

During the first week in January, we were contacted by a business publication and asked to address six investment issues. Our responses to several of these issues are already covered in the basic newsletter on the first two pages. However, we thought the following three questions were of such importance that we should share them, along with our responses, in the event you do not receive that publication.

Question: Are there any legislative or regulatory changes taking place in 2010 that investors need to be aware of?

There are several and I will list a few: 1. Obviously, most people are aware of the estate tax being eliminated. There's some discussion that the government will pass legislation to change that later in 2010 and "attempt" to make it retroactive. 2. Another regulatory change this year is that allocations changes in 529 plans are back to being permitted only once in a calendar year. Last year, the government allowed owners to make two changes per calendar year, but that legislation expired. So, investors need to be very cognizant of when they execute their 529 plan allocation changes for 2010. This only affects existing funds, as future contributions can be changed as often as one wants. I do also expect, before year-end, the government to change this back to permitting two allocation changes or more for 529 plans. 3. Last year and due to the recession, the government waived Required Minimum Distribution (RMD) requirements for calendar year 2009. The law in 2010 reverts back to requiring IRA account owners ages 70.5 and above to be obligated to withdrawal their RMDs. 4. In 2010, there are no longer income limitations on account owners converting their traditional IRAs to Roth IRAs. Additionally, during 2010, you can divide the taxes on your conversion between your 2011 and 2012 federal returns. Of course, be sure to consult your tax advisor before acting on any of the above items.

Question: What's the best way to counter a downturn?

The best way to counter a downturn is to be prepared for it ahead of time. Anyone can pick stocks and be a winner during a bull market. It takes a tremendous amount of discipline to be remain properly diversified in preparation for potential negative market circumstances. Another way to counter a downturn is to be proactive in reducing clients' stock percentages to more conservative allocations on the onset. We decreased our stock allocation and recommended underweighting stocks in November, 2007, and were very active with our clients and their portfolios during that time.

Question: What lesson did you take away from the recent recession?

The lesson we learned is that our proactive style of communicating with clients really paid off. We were underweight stocks and very active in communicating with our clients during the treacherous bear market. We found that many other advisors were not. A recession is not the time to stick your head in the sand; it's the time to pick up the phone and have discussions with your clients about the economy and their assets. We signed a tremendous number of new clients during that time as a result.

Lastly, we sincerely appreciate your continued confidence in Yanni & Associates Investment Advisors and, as always, we stand ready to answer any questions you might have on your investment or financial matters. It is our privilege to be of service to you.

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