Yanni & Associates Investment Advisors, LLC
Fourth Quarter 2011 Client Newsletter
Proudly Celebrating Our Five-Year Anniversary!

Review of the Markets:

	1Q11	2Q11	3Q11	**4Q11**	**2011**
S&P 500	5.92%	0.10%	-13.87%	**11.82%**	**2.11%**
S&P Mid-Cap	9.36%	-0.73%	-19.88%	**12.98%**	**-1.73%**
S&P Small-Cap	7.71%	-0.16%	-19.83%	**17.17%**	**1.02%**
Morgan Stanley's EAFE (International Stocks)	3.45%	1.83%	-18.95%	**3.38%**	**-11.73%**

Economy – The domestic economy continues to show signs of strength. In the last few weeks, we have (finally) witnessed a variety of indicators suggesting that domestic unemployment is gradually falling. While these signs are encouraging, we continue to believe it is going to take years before we see unemployment return to more sustainable economic levels. Inflation continues to remain tame with the latest year-over-year figure being reported at 3.4%. GDP was fairly anemic in 2011 (estimates 1%-2%); however, we may start to see it rise in 2012 (over 2%). Overall, U.S. corporate profits have displayed some signs of resiliency to the European Debt issues. We have thus far been very encouraged with corporate earnings growth for 2011.

Equities – The stock market experienced an extremely volatile year, particularly in the third and fourth quarters. It rebounded substantially in the fourth-quarter as the European Union countries exhibited signs of controlling their various debt issues. **Our forecast for 2012 is that the stock market is poised to return slightly less than its historical average (< 10%).** We still believe volatility could play a role in market returns for the upcoming year. As we have witnessed over the last few years, "headline news" has shown it has the ability to "spook" the market downwards well below reasonable fundamental support. We are still cautioning investors not to be overly exposed to stocks unless they are comfortable with potential volatility. While we are encouraged with a variety of domestic economic indicators, our biggest concerns for 2012 are:

1. European Budgetary issues – It finally appears that the European Union is ready to address and attempt to fix some of the smaller country budgetary issues (mainly Greece, Portugal, & Ireland). Our concern is that if any of these countries go bankrupt, the European banks and governments that hold their debt would be placed under insurmountable strain. If that happens, the debt contagion could spread in a domino effect to larger European countries (Italy, for example), which the European Union would not be able to fully rescue.

2. 2012 Presidential Election – As we get closer to the 2012 election, we expect to see signs of market concern in regards to political uncertainty as more gridlock will likely unfold.

3. Miscellaneous issues – China's GDP growth slowing would concern us; but we could also see U.S. relations with Iran worsening or oil prices rising.

Fixed-Income – As the stock market rebounded in the fourth quarter, bonds had meager returns of about 1%. In today's low-interest rate environment, finding attractive, yet safe fixed-income investments can be difficult. We are continuing to maintain our bias towards short-term, high-grade investment vehicles. Additionally, we believe adding positions to high-yield bonds and Treasury Inflation Protected Securities (TIPS) via Exchange-Traded Funds (ETFs) or mutual funds continues to make sense. While a bit more volatile, high-yield bonds can offer investors attractive yields. Treasury Inflation Protected Securities can offer clients a hedge against a potential rise in anticipated inflation. We are recommending those two positions be used in conjunction with mostly individual, high-grade, corporate bonds.

Yanni & Associates Investment Advisors, LLC Five-Year Highlights:

● YAIA started out as a one-person operation (myself) in a single furnished office for its first six months of existence. Over the course of five-years, we have hired two additional staff members; an Assistant Nile Doaty and an Associate Mark Yanni.

- Nile's experience includes positions in Human Resources at both PNC and M&T Bank; she also has a Marketing Degree from Pennsylvania State University.
- Mark's most recent experience was working as Sales & Marketing Associate with ING Direct in Los Angeles. Mark has a Marketing Degree from Pennsylvania State University and is also pursuing his M.B.A. at Robert Morris University (he will graduate in July 2012).

● In five-years, YAIA has accumulated approximately $40 million in assets under management with clients in 14 different states. YAIA has added at least one client every quarter since its inception; all but one of our clients have come from referrals from existing clients or mutual relationships.

● YAIA has been quoted approximately 20 times in various newspaper publications. A full listing can be found on our website (www.yanniassociates.com); fourth-quarter 2011 quotes are:

- *Pittsburgh Business Times, Insights, Patty Tascarella, October 21-27, 2011*
- *Pittsburgh Business Times, Supreme Court challenge won't affect health reform, experts say, Kris Mamula, November 18-24, 2011*

● Compliance – YAIA has made considerable efforts to ensure the Firm meets or exceeds industry compliance standards.

- Matt has attended both full-day seminars in Harrisburg (2011 & 2008) sponsored by the Pennsylvania Securities Commission.
- Matt has attended every annual Pittsburgh Compliance Symposium sponsored by the Pittsburgh Compliance Roundtable.
- In 2010, YAIA retained an investment compliance firm to execute a mock audit. In 2011, YAIA then retained the investment compliance firm to assist in the re-writing of our ADV Part II to adhere to the new governmental standards.

The Future of the YAIA:

● Account Minimum will be raised: we have discussed this many times internally. While we are still maintaining our $250k asset minimum, we will be raising that at some point in the future. We have an exceptionally high level of standards when it comes to the level of service we provide to our clients. We are not the type of Firm that employs either a "set-it-and-forget-it" strategy or sells clients high-commission products, and then never revisit their circumstances for years. In order to provide this level of service, we need to be selectively choosing clients with whom we partner.

● We will most likely be moving our offices in July; we will keep everyone posted about our new location.

● Mark will assume a more comprehensive role when he finishes graduate school in July 2012. Upon his completion of the MBA program, Mark's role will be to oversee our operations, human resources, and other non-investment management responsibilities for the Firm, while assisting with compliance and marketing as well. His primary responsibilities will be to free up my time so that I can concentrate my efforts on managing our clients' assets.

● Tara & I just had our third child on January 2nd 2012 – a boy named Jacob James Yanni. He joins Katie (7) and Ella (4) as hopefully, the next generation of Yanni investment advisors!

Highlights of YAIA's Market Recommendations Over the Last Five Years:

YAIA utilizes a diversified approach that encompasses many different asset classes. At the onset of new relationships, we have thorough discussions with each of our clients to develop an appropriate long-term asset allocation strategy. Occasionally, we will need to adjust that asset allocation. Most commonly, that will be due to either client circumstances changing or our views on the markets changing. Inside our client's asset allocation, we then utilize a strategy that involves investing a majority of clients' assets in "core" or more traditional-type equity and fixed-income investments. We then blend around our "core" holdings with smaller "niche" ideas based on our views of the economy (typically less than 5% of clients' assets). Sometimes, these "niche" ideas can take the form of commodities, currencies, or other non-traditional type investments.

● Notable Asset Allocation changes: **YAIA shifted to an "underweight" stock position for all of its clients twice in the last five years.** This meant we significantly reduced our clients' equity exposure in relation to their long-term asset allocation strategies.

- November 2007 *"due to the increased turmoil surrounding the subprime mortgage crisis"*. We then reversed this position moving back to neutral-weight stocks starting in June 2009 and into the third quarter 2009.
- July 2011 *for several reasons including "continued concerns with Greece's economic and budgetary problems"*. We then reversed this and shifted back to neutral-weight stocks in August 2011.

● Notable Core Holding changes:

- In June 2009, *we shifted us to an overweight international stock position* within our equities' segment. Then in May 2010, *we reversed the latter position shifting to underweight international stocks due to our concerns over Greece's budgetary issues*.
- In August 2011, *we added to large cap growth moving back to being neutrally weighted in growth and value stocks.*
- Since inception, *we have always maintained a bias towards high-grade, short-term corporate bonds.*

● Notable Niche ideas:

- Invested in a *Gold ETF from* October 2008 until May 2010, earning approximately 27%.
- Invested in an *Oil ETF from* May 2010 until April 2011, earning approximately 25%.

Closing Remarks

We all would like to thank all of our clients, friends and family for their continued support. For a variety of compliance reasons, we do not publish our investment performance. However, we can share with you that our client retention rate is close to 100%. We believe that speaks volume for the type of service our Firm provides.

Thank you all again so much! Have a wonderful 2012.

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