

Yanni & Associates Investment Advisors, LLC

Second Quarter 2014 Client Newsletter

Review of the Markets:

	<u>2Q14</u>	<u>2014</u>
S&P 500	5.23%	7.14%
S&P Mid-Cap	4.33%	7.50%
S&P Small-Cap	2.07%	3.22%
Morgan Stanley's EAFE (International Stocks)	4.09%	4.78%
Barclays US Aggregate (Bonds)	2.04%	3.93%

Economy – First Quarter GDP surprised to the downside falling to a revised -2.9% after rising 2.6% in the Fourth Quarter. This was obviously disappointing given the 1.9% rise in GDP in 2013 and 2.8% rise in 2012. Some Economists are blaming the harsh winter as main detractor, but remain confident that there will be a “snap-back” later this year. Perhaps in the first sign of a potential upcoming reversal, the June unemployment report fell from 6.3% to 6.1%, the lowest it has been since the financial meltdown of September 2008! This last report also included upward revisions to both April and May's job figures. Year-over-year inflation, as measured by the Consumer Price Index, was last reported at a moderate, but slightly higher rate of 2.1%.

Equities – According to Factset's latest forward 12-month earnings estimate of \$126.17, the price-to-earnings (P/E ratio) for the S&P 500 is 15.7. We generally view a range between 14-16 as a comfortable range and thus, believe the market is fairly valued. We will repeat from past newsletters that we do not believe a major recession is on the horizon at these levels. We also still believe the stock market will still finish higher at year-end, but may continue to experience “head-winds” in the near future. There is still some thought that the continued low-interest rate environment may be artificially boosting corporate profits. On a side note, in the last quarter we began becoming more comfortable with International Equities and have been slowly adding to those positions. However, the recent news on the suspension of the shares of Banco Espirito Santo in Portugal has us once again, wanting to see further evidence of economic stabilization before committing substantially more assets to that market segment.

Fixed Income – Surprisingly, the bond market (as measured by Barclays US Aggregate Index) is up over 2% year-to-date. Most major Economists as well as ourselves have been anticipating an upward rise in interest rates that has yet to happen. We still remain very cautious on the bond market and continue to believe that an upward rise in interest rates will gradually occur in the upcoming months. Finally, the recent news on unemployment coming down and inflation rising may force Janet Yellen and the Federal Reserve to be less accommodating with their monetary policy stance.

YAIA – Solutions for Complex Investment Strategies:

We added this Section last quarter. Here, we will be outlining a few of the “complex” investment strategies where we have worked jointly with clients' accountants and attorneys in an effort to provide superior professional advice:

1. **Social Security Options for Divorcees** – While we do not proclaim ourselves to be social security experts, we recently assisted one of our clients with a complex social security technique. Our client was divorced, still working, and due to turn 66 in August. She expressed an interest in starting her Social Security checks upon turning 66. We gave her advice that she may be eligible to collect on her ex-spouse's benefits, while letting her Social Security benefits grow. To get the proper guidance we needed, we ended up driving her to the Social Security office in Pittsburgh. In fact, our guidance was correct. Her plan is to now collect one-half of her ex-spouse's benefits (which were larger than her 100% benefit) for the next four years, while letting her personal benefits grow. Then, at age 70, she will switch from her ex-spouse's benefits to her then much higher personal benefits.

2. Unique Rules for certain Profit Sharing Plans – Recently, we partnered with a Doctor (age 71) who owns a small practice that has a Profit Sharing Plan (type of retirement plan for a small business). As we wrote in our last quarter’s newsletter, if you are working after age 70 and still contributing to your company’s 401k, you may not be required to take out a Required Minimum Distribution from the 401k. However, in the instance of some Profit Sharing Plans (again, different from 401ks), that rule may not hold. Upon doing extensive research with this new client’s Accountant as well as the Plan Administrator, we realized the former broker had neglected to take out his 2013 Required Minimum Distribution. After recognizing this, we immediately made the client aware of this and made arrangements to fulfill this IRS obligation.

Yanni & Associates Investment Advisors, LLC Firm update:

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

- *Pittsburgh Post Gazette, Nation’s Jobless Rate Fell to 6.1% in June, Ann Belser & Len Boselovic, July 4, 2014*

A few other Firm related items:

1. Our website (www.yanniassociates.com) has been fully renovated. Please stop by for a visit!
2. As mentioned in the last newsletter, YAIA retained an outside consulting firm to conduct a “Books & Records Review / Mock Audit” in May. The final report was just submitted to us at the end of June. Minor internal compliance modifications will be made to continue to place our clients’ interest as our highest priority. Again, YAIA does these exercises to ensure we are remaining compliant with the governmental authorities (this is the second one we have completed).
3. YAIA will be hiring in the next few months. Most likely, we will be looking for a “junior” Investment Analyst. Ideally, this professional will be able to handle some of the research and otherwise, ongoing internal investment maintenance on accounts. I do not plan to pass off relationships to this person; he/she will be brought into YAIA to free up more of my time for ongoing face-to-face meetings with our clients.

Current 2014 Portfolio Recommendations:

- Overall – **neutral-weight stock positions for our clients’ asset allocations with respect to their customized individual guidelines**
- Within equities - **neutral-weight stance on “growth” and “value”.**
- Within equities – **neutral-weight small / mid-capitalization stocks in relation to large capitalization stocks.**
- Within equities – **under-weight international stocks relative to domestic stocks.**
- Within fixed-income – **over-weight to shorter maturity/duration vehicles, while favoring floating-rate bond funds, high-yield, and individual bonds.**

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