Yanni & Associates Investment Advisors, LLC (YAIA)
Third Quarter 2015 Client Newsletter

Review of the Markets:

Index:	3Q15	2015
S&P 500	-6.44%	-5.29%
S&P Mid-Cap	-8.50%	-4.66%
S&P Small Cap	-9.27%	-5.49%
Morgan Stanley's EAFE (International Stocks)	-10.23%	-5.28%
Barclay's US Aggregate (Bonds)	1.23%	1.13%

Economy & Markets – Second quarter GDP was revised up from 2.7% to 3.9% in comparison to 4.6% in the second quarter of 2014. Unemployment has fallen to 5.1%, though the latest report was disappointing with only 142,000 jobs added to nonfarm payrolls when estimates were for 180,000. In addition, the prior two payroll reports were revised down. The recent uncertainty of the global economy has had an impact on the Federal Reserve's (Fed) decision to delay interest rate hikes after its September meeting. This latest weak jobs report and a lack of improvement in inflation have many economists believing a rate hike may not occur in 2015. The Fed still insists there are various factors including the strengthening dollar and declining oil prices that are temporarily holding inflation down. Ideally, the Fed is still looking for inflation to increase at a faster pace to justify a rate hike. The unpredictability of the Fed rate hike and concerns over China's weakened economy should continue to create stock market volatility in the coming months.

Recently, domestic corporate earnings growth has slowed modestly. For this upcoming quarter, earnings are actually projected to decline by 4-5% on a year-over-year-basis. Despite this projected quarterly earnings decline, we still do not believe an economic recession is on the horizon. As of October 13th, the S&P 500 valuation is 15.70 times forward earnings ($127.62). This figure falls within the average range of 14-16 which is more attractive than what we've seen in previous quarters, but it is still not considered cheap by historical standards. Positives for the economy include a low unemployment rate, the housing market has seen recent improvement, and strong auto sales. With the holiday season approaching, we expect a boost in earnings for the upcoming fourth quarter. **As we have been communicating with clients for the last few months, we expect near-term volatility before the stock market moves upward in a more conservative fashion.** International stocks have had a larger decline than domestic stocks this quarter.

China's slowing economic growth continues to be a theme throughout 2015. However, its government appears destined to utilize a variety of monetary policies and other mechanisms in order to prevent a dramatic economic decline aka a "hard-landing". Due to many emerging market economies' reliance on China's demand of their natural resources, their economies and commodity prices have been punished. As China's impact on the global economy has increased substantially over the years, many fear its economic downturn will negatively affect other parts of the world. Although China's economic slowdown could indirectly affect the US economy, we believe it will not have a dramatic impact. In some regards, the US may benefit from lower commodity prices. As the data continues to be released from China, it is still a bit premature to draw a full conclusion. Given the developments in China, related commodity-driven emerging economies, and several other factors, we continue to remain absent from international markets.

Fortunately, a potential government shutdown was avoided after House Speaker John Boehner announced his resignation. Unfortunately though, this potential shutdown has now been postponed until December 11th where several spending disagreements still remain on the table. Infrastructure funding, raising the debt ceiling, and military & domestic spending are just some of the issues where agreements are needed. In the past, it has taken up until the last minute for an agreement to be made on related issues, and many believe it will be even more difficult to find a compromise on these items with a new House Speaker in office. In a recent twist, Mr. Boehner's anticipated replacement, Kevin McCarthy, unexpectedly withdrew his candidacy for House Speaker. While a government shutdown will likely contribute to stock market volatility, we believe the potential negative impact would be short-term. Despite our projection of near-term market instability, we encourage our clients to maintain their long-term investment approach.

YAIA Recent Quotes and Recognition in Various Publications:

Pittsburgh Post-Gazette, Stocks Slip in Summer Slide -Len Boselovic, August 22, 2015

YAIA Firm Update:

In the quarter, the Pennsylvania Banking & Securities Division (aka "PA SEC") completed an on-site, routine audit of our business. This is a quite normal procedure and in some regards, a bit overdue for us. In the past, we have paid two different Compliance Firms to conduct mock audits, but had yet to have the actual PA SEC audit us themselves. They interviewed all employees, pulled files, examined block trades, and took a variety of documents with them afterwards. In the end, we are proud to announce that no deficiencies were found. As we have stated in the past, the compliance obligations in our business can be quite overwhelming and we were delighted to learn the PA SEC believes we are operating according to its detailed rules. One area that is currently a compliance "hot topic" is cybersecurity. The PA SEC spent a bit of time reviewing our internal cybersecurity documents and procedures. While our overall process meets the PA SEC guidelines, we have chosen to spend time thoroughly reviewing our procedures, rewriting some of our policies, and paying an IT Firm to conduct a thorough review. Please see the section below for further details.

On a different note, Mallory Labik will be surpassing her one year anniversary with us this month. As we have mentioned, she is in the midst of her Certified Financial Planner course studies and will take the exam next summer. On a personal level, she will be running in her first full marathon in Baltimore on October 17th!

YAIA – Solutions for Complex Investment Strategies:

Cybersecurity – this will be part one of our two part write-up, with the latter coming in our next newsletter. While this topic may not necessarily fit this section, having tight cybersecurity is critical for all of us on a business and personal level.

On the software side, we believe everyone should have an adequate anti-virus program that automatically updates to the latest versions to combat the continually changing computer viruses. Other software that needs to be updated to combat viruses include Windows (non-Mac users) and your Internet browser.

Schwab has taken a proactive role in its efforts with cybersecurity. Periodically, webinars are offered to educate Advisors on the latest cyber threats. Schwab also offers free keyfabs to all users. If you do not have a keyfab, get one! It is a small keychain type device that generates a random six digit code to be entered after your password to the Schwab website (required for YAIA employees). Clients can order them by calling Schwab (1-800-515-2157) or electronically through the Schwab homepage. In a related manner, Schwab requires Investment Advisors to sign-off taking full responsibility for the client verification of all wires and third-party checks.

Backing-up your data is a necessity. YAIA pays an off-site data storage company to back-up our computers daily. More commonly used are external storage drives. Make sure you also password protect your storage device and do not store it in the same location as your computer (i.e., in an extreme event, such as a fire in your house, how do you recover your computer files?). Utilizing complex passwords on your computer, email, external hard-drives, and even your cell phone is necessary in today's world.

Current 2015 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 – **Over-weight large-size company stocks in relation to small/mid-size counterparts.**
- Within equities – **Very low or no-weight for international stocks relative to domestic stocks.**
- Within fixed-income – **Over-weight to high-grade corporate bonds with diversified exposure to floating-rate bonds and individual bonds; absent high yield bonds.**

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