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

Review of the Markets:

Index:	4Q15	2015
S&P 500	7.04%	1.38%
S&P Mid-Cap	2.60%	-2.18%
S&P Small Cap	3.72%	-1.97%
Morgan Stanley's EAFE (International Stocks)	4.71%	-0.81%
Barclay's US Aggregate (Bonds)	-0.57%	0.55%

Economy & Markets – Third quarter GDP was revised from 2.1% down to 2.0% which compared to 5.0% in the third quarter of 2014. Unemployment has fallen to 5.0% since last quarter with an addition of 292,000 jobs last month. On December 16th, 2015 the Federal Reserve (Fed) announced for the first time in over nine years that there would be an increase in the Federal Fund's rate of 0.25%. Its press release implied four more quarter-point increases in 2016. However, the Fed's estimates have been notoriously high for the past several years. We believe the Fed is more likely to increase rates twice in 2016, maybe a third at most. Though the initiation of interest rate increases typically signifies the Fed is confident that our economy is strong enough to withstand a tightening cycle, we anticipate considerable bond and stock market volatility for the year. If this recent volatility in the stock market continues for another few weeks, we are not likely to see another rate hike until the summer. Thus far, the yield curve has begun to flatten with spreads tightening between short and mid-term Treasury Bonds. As of January 13, the S&P 500 valuation is 14.87 times Factset's projected forward earnings ($127.11).

Performance for 2015 was subdued across the board. The price-only return on the S&P 500 was actually negative for the year coming in at -0.73%; adding in its dividends gave it a positive return of 1.38%. This was the worst year for that Index since 2008. Small-cap and Mid-Cap stocks both had negative total returns for the year. A few of the notoriously large companies coined the "FANG" stocks (Facebook, Amazon, Netflix, and Google) produced substantial returns of over 60% on a cap-weighted basis in 2015. If we removed those four companies, the average S&P 500 stock was actually down -3.8% for the year. While portfolios constructed with a traditional diversified approach have demonstrated outperformance in the long-term with less volatility, allocating funds beyond large cap stocks proved to be disappointing in 2015. International stocks, as measured by EAFE produced a negative return of -0.81%. Emerging Market stocks were down even more at -14.92%. Throughout 2015, we remained absent international stocks. However, early in 2016, we moved back into that category through a hedged European-based equity fund. The European Central Bank's (ECB) President has stated it will take all necessary steps to ensure the Eurozone economy continues to recover. The ECB has recently extended its quantitative easing program through March 2017, which is expected to give European stocks a boost this year. In addition, we also added a position to a NASDAQ based technology-weighted fund as the prospects for that sector continue to remain attractive.

The first few trading days of 2016 have been extremely volatile. China started off the year with weak manufacturing and service sector data. In addition, the yuan has reached a five year low after the Chinese government took steps to weaken its currency. Though a weaker yuan may increase China's exports, this could have a negative impact on the surrounding emerging countries. Global markets have reacted negatively to these announcements, as many investors are concerned the Chinese economy is slowing well beyond its government produced data. Beyond China, the other major theme thus far this year continues to be the sharp decline in oil prices. We do not believe we are at the bottom in oil prices with some Wall Street reports projecting $20 a barrel (low $30s now). As we have discussed in past newsletters, this sudden drop in oil prices has had a multitude of consequences, one of which is its negative impact on earnings. Another factor contributing to the weakening earnings figures is the strengthening dollar which increases the price of our exports to foreign countries. According to Factset, year-over-year earnings growth in the fourth quarter of 2015 is projected to decline approximately -5%. This will give us three consecutive quarters of negative earnings growth. While those two cited factors are expected to continue to put pressure on corporate earnings, Factset is still projecting full-year earnings growth for 2016 to be approximately 7-8%. Overall, we still do not believe an economic recession (measured in GDP) is on the horizon. We expect the stock market to be quite volatile this year with the prospects for the bond market still remaining muted. Opportunities should still exist and we are encouraging clients to remain fully invested in their appropriate diversified long-term strategy.

YAIA – Firm Update:

We are proud to announce that 2016 will mark the 10th year in business for YAIA!

YAIA – Solutions for Complex Investment Strategies:

One of the biggest changes in the quarter was the elimination of two Social Security rules. While the Bipartisan Budget Act prevented a government shutdown, it also removed two non-traditional techniques. These two strategies are coined "file-and-suspend" and "restricted claim" and were often used in combination together. In the past, file-and-suspend was a strategy couples used whereby the higher-earning spouse filed for his/her benefits at their full retirement age and then immediately suspended them (this would enable the lower income earning spouse to file for spousal benefits). The suspension part of this strategy enabled the higher-earning spouse's benefits to grow by 8 percent annually until they reach age 70 (at that point, the higher earning spouse would then start taking their now increased Social Security). Unfortunately, Congress eliminated the file and suspend strategy for individuals not attaining age 66 by May of 2016. Going forward, in order to receive spousal benefits, the higher-earning spouse must file for benefits but can no longer suspend their own benefits to receive the lucrative 8 percent annual growth. Congress also removed a strategy often used in conjunction again titled, restricted claim. A restricted claim was typically used by the lower income earning spouse to receive spousal-only benefits at their full retirement age (not a combination of spousal and their own benefits); this would have permitted their own benefits to grow by 8 percent until age 70. Upon attaining age 70, this lower income spouse would swap back to his/her own benefits, which should now be substantially higher. Unfortunately, this technique is no longer an option for individuals who did not turn age 62 by the end of 2015. Without this restricted claim option, the lower income earning spouse will automatically receive a combination of both their own and spousal benefits (assuming their spouse has filed). **While we do not consider ourselves to be Social Security experts and always recommend clients discuss their options with their accountants and the Social Security office, <u>we did thoroughly review our client database and contacted those to whom we thought may be effected by these two changes</u>.**

In follow-up to our last newsletter, we have completed our thorough internal cybersecurity review. We wanted to provide a few more recommendations from an IRS publication that have also assisted us with shaping some of our own internal documents. First, be aware of imposters posing as IRS, bank, or credit card representatives contacting individuals by phone, email, or mail. There have been scenarios where IRS impersonators have called aggressively seeking payment. Some have even threatened lawsuits. These are not real IRS representatives and you should not provide information or payment to them. Second, everyone should check their credit report annually. Individuals should also check bank and credit card statements frequently to ensure there is no suspicious activity. Where offered, we highly encourage individuals to set up fraud activity notifications. Finally, shred all documents that contain sensitive information on them (the SEC requires Advisors to abide by this rule). These simple steps can assist in avoiding the breach of confidential information in a time where identity theft has become so much more common.

One last topic to which wanted to mention is the government is changing its rules on money market funds starting October, 2016. We will communicate this to clients as necessary and expand on this topic in a future newsletter. In short, some money market funds will no longer need to maintain a constant price (hence, their Net Asset Value may fluctuate slightly from a dollar).

Current 2016 Portfolio Recommendations:

- Overall – **Neutral-weight stock positions for our clients' asset allocations with respect to their customized individual guidelines**
- Within equities – **Slightly over-weight growth stocks in relation to value stocks**
- Within equities – **Over-weight large-size company stocks in relation to small/mid-size counterparts**
- Within equities – **Initiated a position in international stocks, specifically a hedged European-based stock fund; overall still remaining underweight international stocks though.**
- Within fixed-income – **Over-weight to high-grade corporate bonds with diversified exposure to multi-sector and individual bonds; absent high yield bonds**

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