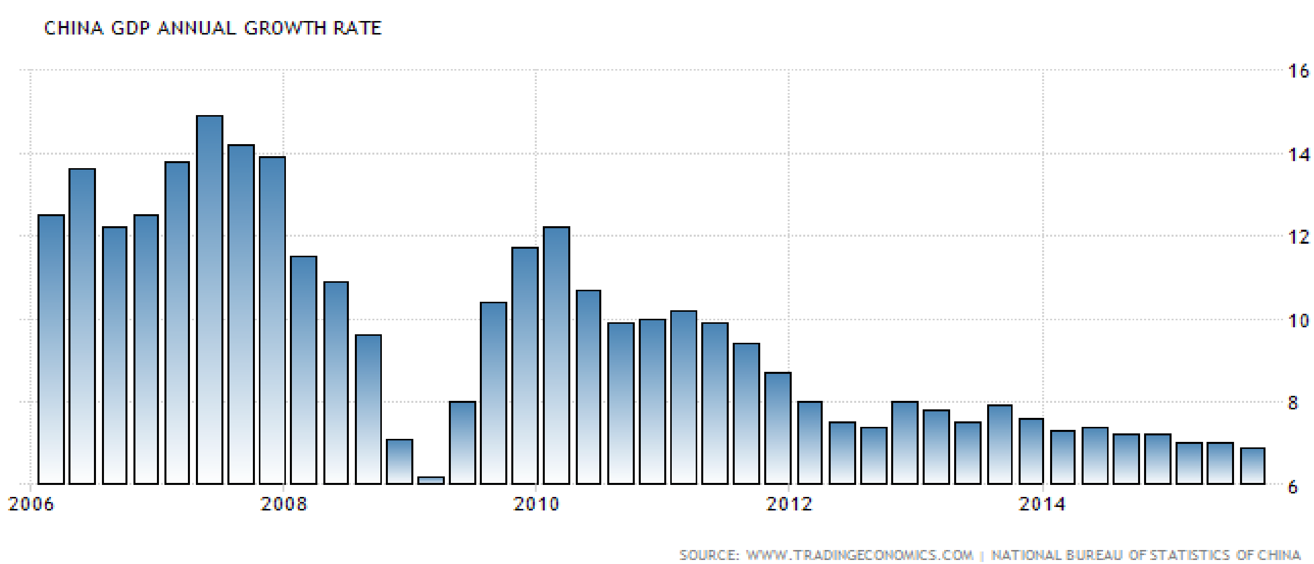
January 2016 Update to the Clients of Yanni & Associates Investment Advisors, LLC
01/25/2016

We are releasing this statement to clients to make them aware that last week; **we trimmed back on our stock exposure and are planning to temporarily hold the proceeds in a money market fund.** It was an incredibly difficult decision to make for several reasons. The main, of which, is it appears as if much of this January pullback in stocks is coming from two speculative points: 1. The potential slowing of global economic growth, particularly in China. Last Monday night, the Chinese government released economic data indicating its GDP growth slowed to a 25-year low of 6.9% for 2015 (many experts continue to challenge the validity of these figures). 2. The continued route in oil prices, of which some Analysts do not believe, has bottomed yet.

From a charting perspective, the markets recently fell below the August, 2015 levels. Although that August time period was also another sharp decline, the markets did rebound only a short six weeks later. Given the various uncertainties today, the chance of another quick rebound seems less likely. While the last thing I would want to do is to reduce stock exposure at depressed levels, only to see the market rebound in the near future, our concerns that the stock market may see additional selling before then has weighed more heavily into this decision. The severity of this recent correction has been so sharp that we felt it was necessary to take the appropriate actions in case this market continues to decline. Thus, we are weighing “Preservation of Capital” over “Potential Growth” until we see signs of market stabilization. As we have stated before, there have been very few signs that an economic recession is on the horizon (measured by GDP); however, heightened concern that the U.S. markets will continue to decline close to bear market territory (-20% drop) has increased significantly over the last few days.

Outlined below are our thoughts on a variety of market topics:

1. Chinese Economic Data: Last Monday night, China released its fourth quarter 2015 GDP figure. While the overall trend in Chinese economic growth does appear to be decreasing, its government still does have a considerable amount of monetary stimulus options. As we stated above, the validity of these economic figures has been highly questioned with many economists believing its growth rate is more around 4-6%. China’s direct trading exposure to the U.S. is minimal. It does most of its trading with neighboring and commodity-driven countries. Adding in those other emerging countries increases the exposure to the United States. Further, over the years China has increased its government debt significantly in an effort to spend money on projects to recapitalize its country. This appears to now have placed China in an overcapacity situation.



2. Oil prices continue to plummet in this egregiously oversupplied market. Several Wall Street Analysts are projecting a $20 bottom (currently around $30). Reports are now indicating that it appears as if oil is going to "need" to bottom-out, before rising slightly and stabilizing. According to a recent CNBC article, 81 oil and oilfield companies have filed for bankruptcy in 2015 alone. Major Wall Street banks have been actively holding cash reserves to cover additional scenarios. While bank exposure to the oil sector is nowhere near what they had in terms of mortgage exposure in 2008, it's still a risk we cannot ignore. Other related industries and areas of the economy could be affected such as energy industry suppliers or even an increase in home foreclosures in pocketed areas of the U.S. Overall, this is mainly a supply issue. OPEC and the U.S. are not decreasing their supply, and the lifting of the Iran sanctions will only add to this oil glut in the very near future. There is some thought OPEC will keep their supply steady in an effort to force the closures of smaller U.S. oil producers so it can better control the supply in the long-run. On the demand side, a projected slowing global growth (again, particularly in China as they continue to transform from manufacturing to consumer-based being less energy dependent) could also add to this problem.

3. Market valuations according to future projected earnings are now at 15.19 times projected earnings, which by historical measures is on the high side of an "attractively priced" range (14-16). Given the various global events outlined above, we have to assume guidance on future earnings is inflated and projected figures will ultimately be revised downwards. In the last two weeks alone, Factset has reported a decrease in 12-month forward earnings of about 1.3%.

4. As we outlined in our quarterly newsletter, the Federal Reserve implied an increase in its Federal Funds rate four times (quarter-point increases each time) in 2016, with now the timing of this being extremely disadvantageous. At the time our last newsletter was released, we were projecting an interest rate increase to occur twice, maybe three times at most. Given additional recent developments, it seems our original projections may even be high. If the U.S. economy were to begin to falter, the Fed has stated it will intervene as necessary. However, with interest rates already near zero and a robustly inflated balance sheet created through the quantitative easing programs, we are questioning what more it can do. The Fed meets on January 27th. We do believe meeting comments will need to delicately balance its long-term objective of increasing interest rates while also acknowledging a potential delay in its originally stated course of actions due to global economic weakness or a decrease in the domestic inflation figures. The actual wording of the Fed meeting comments will likely influence the already volatile markets. Further, as a result of this first December rate increase and the January flight-to-safety, many bond categories have performed erratically over the last two months which is why we are planning to hold these proceeds in cash.

Our projections are that at some point in the near future, oil will indeed stabilize. We believe it is going to remain at relatively depressed levels for some time before moving back upwards. The Federal Reserve, the European Central Bank, and the Chinese government may be forced to intervene, which probably will temporarily calm the markets. Again, we are still not projecting an economic recession in the U.S. We do believe the markets will ultimately begin to move back upwards. However, at this point, we are not placing a high probability on a "V-shaped" recovery. We are still maintaining stock exposure and have not completely sold out of equities. Our plans are to reinvest this cash slowly over the course of the next several weeks. However, given how rapidly the markets have moved over the last several months, we will be prepared to move quickly, if the situation arises.

Please feel free to call or email us with any questions.

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