Yanni & Associates
Investment Advisors, LLC

SECOND QUARTER – 2016 CLIENT NEWSLETTER

REVIEW OF THE MARKETS:

Index:	2Q16	2016
S&P 500	2.46%	3.84%
S&P Mid-Cap	3.99%	7.93%
S&P Small Cap	3.48%	6.23%
Morgan Stanley's EAFE (International Stocks)	-1.46%	-4.42%
Barclay's US Aggregate (Bonds)	2.21%	5.31%

ECONOMY & MARKETS:

In mid-July, the S&P 500 soared past its May, 2015 record high. However, over the last 18 months, market volatility has been quite severe and included two very sharp corrections. From an economic perspective, the economy has continued with the same theme of low economic growth and inflation, weak earnings growth, but strong unemployment figures and now a slight rebound in oil. First quarter GDP has been revised for the second time up from 0.8% to 1.1%, compared to a year earlier when growth was 0.6%. The June unemployment report posted a significant recovery from May's weak report adding about 287,000 jobs massively topping the 180,000 figure analysts expected. The unemployment rate for June did tick upwards from 4.7% to 4.9%, but actually reflects strength as discouraged workers re-entered the labor force. May's weak unemployment report produced a downwardly revised 11,000 new jobs figure causing additional volatility at the time. However, it has proven to be just a one-month blip as overall, the jobs market remains quite strong. Wage growth continues to show improvement now at 2.6% year-over-year, a positive indicator for the economy and something the Federal Reserve (Fed) monitors. As of July 13th, the S&P 500 valuation is 16.9 times projected earnings; still above the 10 year historical average of 14.3. When examining the S&P 500's P/E in relation to low interest rates and other measures, more reasonable valuations are displayed. While earnings growth has been negative recently, expectations are for positive growth for the next few quarters.

Back in December when the Fed first raised interest rates, it also planned four additional rate hikes for 2016; its forecasts have changed drastically since then. In the March meeting, it reduced its economic outlook and projected about two rate hikes. In the June meeting, the Fed softened its economic outlook even further and reduced its expectation again to now only one interest rate increase. Over six months, that is a significant change! To note, the June Fed meeting took place after the weak May unemployment report and prior to the "Brexit" vote. Investors are concerned the Fed's projections have become unreliable which in turn has contributed to this year's volatility. At this point, it is unclear as to whether the Fed will raise rates at all in 2016. Overall, we are still expecting interest rates to gradually increase over the course of several years, which likely will continue to support equity prices, but not without continued fluctuations. Historically, the stock market has had larger returns with lower and slower interest rate tightening cycles as compared to a faster and more aggressive schedule.

The June 23rd Brexit vote shocked the world when the United Kingdom (England, Scotland, Wales, and Northern Ireland) voted to leave the European Union, the first member to leave since its creation. Global stocks immediately

IN THE NEWS:

Pittsburgh Post-Gazette 06/24/2016: Pittsburgh financial advisers urge calm on investment front in wake of EU vote – by Patricia Sabatini and Joyce Gannon

Click here to read the article!

SOLUTIONS FOR COMPLEX INVESTMENT STRATEGIES:

Many small business owners and self-employed individuals are unaware they may have many retirement plan options. While traditional and Roth IRAs are still valuable options, there are other vehicles such as SIMPLE IRAs, SEP IRAs, small business 401(k) plans, and potentially others that may permit qualified individuals to make higher contributions. YAIA has experience assisting clients in implementing the proper retirement plan.

Please feel free to contact us with any questions regarding your retirement plan options.

The importance of saving for retirement cannot be emphasized enough!

plummeted as investors shifted to safe-haven investments. European stocks dropped -8.9% on June 24th, the US Dow fell about -3.4%, and the British Pound fell to its weakest levels since 1985 (although all have since recovered). Prime Minster David Cameron, a "Remain" supporter, announced he will be stepping down from his position.

The UK's decision to leave the EU has created uncertainties in countries around the world. There has been speculation that other members will potentially consider leaving the EU, as well. In a twist, Scotland citizens, who had originally voted 62% to remain in the EU, may consider leaving the UK and reentering the EU alone. Economists also warned that future investment in the UK will be limited given that the region may no longer have access to free trade with the 27 remaining countries in the European Union. In addition, The Bank of England (BOE) is expected to reverse its original plans from increasing interest rates and may now elect a low interest rate environment. A low interest rate policy may be intended to boost the UK's economy during projected financially difficult times, but may negatively impact its financial sector. A projected BOE low interest rate policy is similar to the United States' strategy, but not quite as extreme as the negative interest rate tactics used by countries/regions as mentioned in prior newsletters.

The unexpected Brexit vote also brought about unanticipated consequences in currencies outside of the United Kingdom. Investors flocked to traditional safe-haven currencies such as the U.S. Dollar and Japanese Yen. Other more risky currencies, such as the Chinese Yuan suffered. The recent strength of these safe-haven currencies may influence the Fed and the Bank of Japan into considering additional monetary easing tactics at a time economists are questioning whether further stimulus measures will be effective. If the dollar continues to hold onto these gains, it could weaken already struggling US company earnings that have international exposure. Further, it could also put additional pressure on oil and other commodity prices to remain low, just as we were starting to see prices rebound.

The UK has numerous adjustments and agreements to make with the European Union, but the changes made from the Brexit are not expected to be abrupt. In its first step, Theresa May, also a supporter of the "Remain" campaign has replaced David Cameron as Prime Minister. Before any formal Brexit negotiations can take place, the UK must invoke EU's Article 50 which officially announces its exit. Once initiated, a two-year time frame for negotiations begins, although extensions may be made. Fortunately in the meantime, YAIA continues to be limited in exposure to international investments. Furthermore, our lone equity exposure in European stocks is one offered with a currency hedge to offset the strengthening dollar.

We continue to believe that a recession is not on the near-term horizion and returns for 2016 are anticipated to be positive, but below average. Overall, US economic data has proven to be resilient, but not yet exceptionally strong. Given the circumstances internationally, YAIA maintains its overweight stance on domestic markets. Global growth projections have been lowered, market valuations remain high, and monetary policy uncertainties continue to add to the market volatility. The November US Presidential elections may also bring short-term fluctuations to the markets. Although returns are not expected to be glamorous, it is important to maintain our long-term diversified approach. Given the environment over the last year and now projected going forward, having patience and coping with more traditional volatility will be necessary in order to achieve financial goals.

CURRENT 2016 PORTFOLIO RECOMMENDATIONS:

- Overall – **Neutral weight stock positions for our clients' asset allocations with respect to their customized individual guidelines**
- Within equities – **Transitioned to a neutrally weighted position on value and growth stocks this quarter**
- Within equities – **Slightly overweight large-cap company stocks in relation to small and mid-cap peers**
- Within equities – **Slight-to-moderate underweight international stocks**
- Within fixed-income – **Overweight to high-grade corporate bonds with diversified exposure to multi-sector and individual bonds; absent high yield bonds**

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