Yanni & Associates
Investment Advisors, LLC

2017 Celebrates OUR tenth YEAR IN BUSINESS!

New Compliance Rules – Recently, the government has implemented new rules for custodians, which have affected many of our clients (we have received many questions on notifications from Schwab, our "custodian of choice"). The first part is that clients who have open money transfer links with other internal accounts need to be utilized once every three years; otherwise the link will be eliminated and the client will need to sign new paperwork. For example, a husband and wife both have individual accounts and have signed an authorization for their Advisor to transfer monies between the two accounts. If a transfer has not taken place within the last three years, this link will be eliminated. In a related note, Schwab has also notified clients of their existing authorization where they have given their Advisor the authority to move money from one Schwab account to a different related Schwab account. These letters are just standard notifications now required by custodians to its clients.

SECOND QUARTER – 2017 CLIENT NEWSLETTER

REVIEW OF THE MARKETS:

Index:	**2Q17**	**2017**
S&P 500	3.09%	9.34%
S&P Mid-Cap	1.97%	5.99%
S&P Small Cap	1.71%	2.79%
Morgan Stanley's EAFE (International Stocks)	6.12%	13.81%
Barclay's US Aggregate (Bonds)	1.45%	2.27%

ECONOMY & MARKETS:

The market strength again continued into the second quarter. Factset is reporting some of the smallest corporate earnings cuts' in history leading to record growth since 2011. The unemployment rate remains low at 4.4%, meanwhile inflation has softened slightly to 1.9%. First quarter GDP was relatively low at 1.4%. Oil is back down to about $40 a barrel as U.S. oil production appears to be taking advantage of the November OPEC oil output cuts. In summary, we still do not believe there are signs of a recession on the near-term horizon. <u>While corrections can occur at any point, we are still optimistic on the stock market with projected returns from bonds being a bit more muted.</u>

Federal Reserve ("The Fed") – As expected, the Fed raised its target range for the federal funds rate by a quarter of a percentage point in June. <u>The Committee continues to forecast another rate hike in 2017 and three more quarter-point increases in 2018</u>. Effectively, these interest rate increases will influence the market's short-term rates causing them to rise as well. Using a different method to raise longer-term interest rates, the Fed outlined plans that could start as early as this Fall to shrink its balance sheet over the next few years. After The Great Recession, the Fed purchased a variety of bonds and held them on its balance sheet. Now, the Fed is going to permit $10 billion bonds per month ($6 billion in Treasuries and $4 billion in mortgage-backed securities to roll off their balance sheet for the first three months, then increase those caps over time). The projected total amount of bonds maturing will be limited to $50 billion per month. Doing both methods should accomplish a few things:

1. These combined moves will influence <u>both</u> short and long-term interest rates upwards, limiting the ability for an inverted yield curve (where short-term rates are higher than long-term rates and has been known to be signal of an upcoming recession).
2. Should an unexpected recession occur in the upcoming years ahead, the Fed will now have the flexibility to reverse these monetary policies attempting to stimulate growth once again.
3. The Fed has taken these monetary policies to such an extreme in order to stimulate past economic growth, there has been a tremendous amount of discussions in regards to this creating the next "bubble". By moving slowly in the opposite direction raising short-term rates and reducing its balance sheet to raise longer-term rates, general "bubble" concerns should significantly lesson.

<u>It should be noted the general market's prediction of interest rate hikes still remains significantly below the projected path outlined by the Fed. This has been a consistent theme for the last few years and we tend to agree.</u>

__Department of Labor (DOL) Rule in effect__ – This new DOL rule that we have mentioned in the past has now taken effect in June. The entire premise behind the rule is to have brokers become more transparent in their fees (as they are commission-based). As mentioned in past newsletters, many of these commissions never show up on client statements, provide hidden incentives to be guided into one type of product or a certain fund over others, and tend to be well in excess of traditional management fees. Thus, the DOL has implemented this rule forcing brokers to become considerably more transparent with their fee structures mainly as it pertains to transferring retirement accounts (including IRAs) from one institution to another. As YAIA is a Registered Investment Advisor and thus, already a "Fiduciary", the impact of this rule will be limited. While there is potential for this rule to be amended or repealed, for now, we will have to adhere to at least these two additional rules:

1. Anytime a retirement account is transferred formally to be under our jurisdiction, we will need to outline the specific benefits and drawbacks as well as provide a quantitative fee comparison. While I wholeheartedly agree with the premise to this rule, providing that type of fee comparison puts an enormous burden on our existing client or prospect asking them to gather an immense amount of data. Clients or prospects who now partner with us for retirement plan rollovers will now be required to sign additional paperwork and potentially, get involved in a variety of information gathering for this analysis.
2. As has been discussed in the past, I (Matt) am now certified to sell life insurance as an Individual, not through YAIA. The DOL's stricter version of this new rule addresses the recommendation of withdrawing retirement funds (even Required Minimum Distributions aka "RMDs") to purchase life insurance. If this recommendation takes place, YAIA would then be bound to the stricter version of this new DOL rule.

SOLUTIONS FOR COMPLEX INVESTMENT STRATEGIES (Inherited Traditional IRA Rules):
When a loved one passes away with a retirement plan and names a person as a beneficiary, that person will very likely receive an Inherited IRA. Inherited IRAs are exceptionally complex and it must be disclosed; this is not a comprehensive list with all of their intricacies. In addition, RMDs for Inherited IRAs are calculated differently than Traditional IRA RMDs. Further, the rules may be slightly different for Inherited Roth IRAs.

Rules for Traditional Inherited IRAs:
1. Lump Sum Distribution – All of the assets are distributed on a one-time, after-tax payment.
2. Five-year Method – If the account holder was under 70.5 at the time of passing, you can transfer the assets to your own Inherited IRA, but the entire balance must be fully distributed after five years.
3. Open an Inherited IRA in your name – After opening your own Inherited IRA, annual RMDs are now mandatory and spread over your life expectancy. Assuming you are younger than the descendant, the annual RMD will be lower under your life expectancy as compared to the descendant's life expectancy. In one extremely rare case, we now work with a family whose prior broker had the descendant change his beneficiary designations about two weeks before his passing and neglected to maintain his two children as 25% primary beneficiaries. Thankfully, at that time the surviving spouse approached us with this dilemma and we guided the family to have the wife "disclaim" the children's half (letting the assets pass to the next legal descendant, which is this case was the estate itself). This technique enabled half the IRA to pass through his estate to his children. The two children each have Inherited IRAs, but since it passed to them via this method, their RMD calculation is now based on their Father's life expectancy (higher) rather than their own life expectancy (lower). The end result was not as tax-advantageous as to having Inherited IRAs based on their own life expectancy, but it was still preferable to the other options available at the time.
4. Spousal Transfer (only available to spouses) – Instead of opening an Inherited IRA, you can transfer your spouse's IRA to your own IRA. The benefit to this additional option is the surviving spouse is not required to start taking annual RMDs immediately and can thus wait until age 70.5.

In most instances, clients choose Option #3 or #4. An example of a situation where a spouse would be better taking Option #3 vs Option #4 would be if the surviving spouse was younger than 59.5, had no other assets, and needed money. It would potentially then be better to open up an Inherited IRA whereby annual RMDs could be taken before age 59.5 without penalty and now provide a source of income.

__**Please understand that due to the complexities, we did not list all of the different properties on the items above. Additional details and whether they pertain to you would be best suited for a discussion with us.**__