Yanni & Associates
Investment Advisors, LLC

2017 Celebrates OUR tenth YEAR IN BUSINESS!

THIRD QUARTER – 2017 CLIENT NEWSLETTER

REVIEW OF THE MARKETS:

Index	3Q17	2017
S&P 500	4.48%	14.24%
S&P Mid-Cap	3.22%	9.40%
S&P Small Cap	5.96%	8.92%
Morgan Stanley's EAFE (International Stocks)	5.40%	19.96%
Barclay's US Aggregate (Bonds)	0.85%	3.14%

ECONOMY & MARKETS: Second quarter GDP growth was reported up 3.1%, the strongest in two years. Consumers account for about 2/3 of GDP growth and their spending increased a healthy 3.3% this past quarter. Most Economists predict the overall economy will continue to grow 2-3% in the third quarter. However, they are not convinced that high of a growth rate will continue in the absence of meaningful fiscal stimulus and at a time when the Federal Reserve is unwinding its monetary policy. In a very rare occurrence, the latest monthly unemployment report indicated a loss of 33,000 jobs (the first negative monthly reading in seven years). Economists are speculating this loss is due to Hurricanes Harvey & Irma (eating and drinking establishments lost 105,000 positions due to layoffs from the record-breaking hurricanes). The unemployment rate was predicted to hold steady at 4.4%, but actually fell to 4.2%. Surprisingly, hourly wages rose from 2.5% to 2.9%. The Fed is looking for stronger wage growth as a sign the market will need less stimulus in the form of lower interest rates. Inflation, measured by the CPI, rose a bit higher last month due to the hurricanes and was reported being up an annualized 2.2%. Other measures of inflation that the Fed monitors have risen slightly over the last month as well, also supporting its outline to raise interest rates again later this year.

YAIA Firm Update: Earlier this year, we added a client who resides in the State of New Jersey. We are now servicing clients in 18 different states.

PA Securities Commission Conference: Matt will be attending the all-day, on-site Compliance Seminar in Harrisburg in late October hosted by the PA Securities Commission. We have attended every one that has been offered. It's been a great opportunity to meet the State's Compliance staff and develop relationships with them, as ongoing questions and communication with them occurs on a regular basis. We will provide bullet points in our next newsletter on any developments arising from this meeting.

DOL Rule Update: The government continues to make changes to the "DOL Rule" that has been outlined in past newsletters, recently delaying certain aspects. We plan on adhering to the parts that pertain to YAIA, which includes offering a comparison analysis for when we recommend retirement accounts roll to IRAs under our jurisdiction until further clarification is given.

Federal Reserve ("The Fed"): In its past September meeting, the Fed decided not to raise interest rates, but projected it would do so one more time this year (likely in late December). Again, when the Federal Reserve adjusts interest rates, this more commonly has an effect on short-term, rather than long-term interest rates. In comparison to past meetings, the Fed's path of projections of interest rate hikes continues to come down (essentially this means that several months ago, the Fed had been anticipating more aggressive rate hikes by now and going forward).

In addition in this past meeting, the Fed outlined plans to slowly start reducing its $4.5 trillion portfolio of mortgage and Treasury bonds purchased during and after the crisis. It will do so starting in October by permitting $10 billion bonds to mature without repurchasing them. Every quarter, the Fed will increase this by $10 billion and thus, we can assume around a year from now, the Fed will be permitting about $50 billion of bonds to mature (maximum stated amount). They also have been telegraphing this for several months. Most major Economists consider this to be a "baby-step" towards normalization and to note, $50 billion per month is still less than the $85 billion per month in what it added before the "taper" program began in 2014. We will also note that other Central Banks are still moving in the opposite direction whereby increasing liquidity. This unprecedented shift coined "reducing the Fed's balance sheet" still may potentially influence longer-term interest rates to rise.

Finally, Janet Yellen's term as Federal Reserve chairperson is due to expire on February 3, 2018. It is yet to be determined if she will continue for another term or we will have a new Fed leader at that time.

ADDRESSING THE EQUIFAX DATA BREACH: Recently, we received a few phone calls seeking guidance as how to best handle the Equifax data breach situation. As a result, we have developed a few comprehensive documents covering the following few topics and thought it would be best to summarize them in this newsletter.

Suggestions for Actions to Prevent an Identity/Computer Breach – As addressed in prior newsletters, we strongly encourage all clients to obtain a Schwab key fob (aka security token of which, they offer an App version too). The key fob generates a random six digit code that is entered after one's password and further secures Schwab's website. This device has to be ordered from the client and you must call into Schwab @ 1-800-515-2157 to obtain one (Advisors cannot order them for clients). Also, we strongly encourage all of our clients to use complex passwords, change them periodically & use different ones for different secure sites, back-up your computer (helpful in case you get ransomware or your computer simply breaks), install an antivirus program that updates automatically, review financial transaction at banks and other places often, shred sensitive documents after a few years, amongst other things. I would also strongly encourage setting up alerts with your banks and credit cards for online purchases or transactions above a certain limit and utilizing dual-factor authentication (using two "passwords") where offered.

What do in Case of an Identity/Computer Breach - If you have confirmation or suspicions of your data being compromised due to Equifax or a previous breach at a different company, you can use this site as a resource www.identitytheft.gov. It, among other sources state you should be monitoring your credit report annually. Equifax is offering complimentary identity theft protection and credit file monitoring. Through the site above, you may also consider instituting a Fraud Alert (still permitting creditors to get a copy of your credit report as long as they take steps to verify identity) or even a Credit Freeze (locks down your credit). In extreme situations, you may also want to consider contacting the Social Security Administration, the IRS, and even filing a police report.

Schwab's Procedures for Handling Data Breaches - Schwab is constantly on the "lookout" for fraudulent situations. As many of their measures are proprietary and secure, I am only privy to a few of their internal procedures. They do have computer programs to check if, when, where, & frequency of online password attempts failing, have signature experts on staff, among other high security measures. It is common for Schwab to call us to verify client information on a variety of items. In more extreme situations, Schwab's current policy is to lock client accounts only if an actual data breach has occurred. Schwab prefers to handle the locking accounts in this manner as it is an onerous process to unlock accounts afterwards. If client's information has been compromised (for example through Equifax), but no Schwab data breach has been determined, they encourage clients to order the key fob, instill a verbal password for inbound phone calls, and to take advantage of Schwab's security experts for various computer guidance. Clients can reach this Schwab security department at the same number above (1-800-515-2157).

States' Securities Commissions Technology Requirements for Registered Investment Advisors - YAIA just completed its compliance requirement for a complete annual technology review with our outsourced IT Company. We place a high priority on information security and have several internal documents outlining in great detail the measures we have in place. As a part of conducting this review, we have also purchased additional security software to protect our clients' confidential information. In addition, we go through a variety of ongoing training on topics not only how to prevent, but how to detect potential fraudulent situations. Coincidently this past quarter, I received a suspicious email from a client telling me they were overseas and asking for money. Immediately, I called the client on her cell phone and it was determined her email had been compromised. While this is not a typical occurrence for us, it has happened before. Our personal connections to our clients and the ongoing training & internal policies helped properly prepare us. In another odd, but related situation this past quarter, the SEC itself confirmed its document filing database (coined EDGAR) had been breached back in 2016.

MUTUAL FUND CAPITAL GAINS REPORTING SEASON: Every year, typically in the late Fall, mutual funds will provide estimates to their capital gains distributions. Holders of those mutual funds at that point will be forced to pay a tax on these capital gains, which are reported on clients' 1099s. Heading into this time of year, we track and examine these "pass-through capital gains" on both a Firm and individual client level to determine whether it's in that parties best interest to remain in the fund and incur that tax liability. Typically, we utilize exchange-traded funds (ETFs), which historically are very low-cost, low-tax vehicles that enable us to obtain general market returns. We build around those ETFs with actively managed mutual funds that also traditionally have low-pass-through gains. Next newsletter, we will be discussing this concept in more detail along with how to understand the details of a 1099.