Yanni & Associates
Investment Advisors, LLC

SECOND QUARTER – 2018 CLIENT NEWSLETTER

REVIEW OF THE MARKETS:

Index:	2Q18	2018
S&P 500	3.43%	2.65%
S&P Mid-Cap	4.29%	3.49%
S&P Small Cap	8.77%	9.39%
Morgan Stanley's EAFE (International Stocks)	-1.24%	-2.75%
Barclay's US Aggregate (Bonds)	-0.16%	-1.62%

ECONOMY & MARKETS:

The stock market was volatile, but was up for the quarter; international stocks and the general bond market were down. GDP growth remains healthy with the final 1Q18 report being up 2%. Unemployment continues to remain at very low levels being at 4%. Various inflation measures have slightly increased near or above the Federal Reserve's 2% target rate, which may support its potential path of interest rate increases as discussed later. Corporate earnings growth rate comparisons are anticipated to be healthy and positive, yet will slow from their robust growth rates in recent years. The forward 12-month P/E for the S&P 500 is 16.1 down from its recent 10-year peak in January of 18.5, and still in an acceptable range.

Throughout the quarter, we witnessed many ups-and-downs with continued political escapades on this ongoing trade war with China and other major trading partners. President Trump's meeting with Kim Jong-un was a historic event that hopefully will lead to good outcomes over the next several years. In Italy, political turmoil temporarily shook the markets mid-quarter. The Country has been very anemic for a long-time; unemployment is over 10%, its banking system is struggling, and there are talks about it leaving the Eurozone (countries utilizing the Euro). Further elections will take place later this year in Italy, but it appears less likely they will leave the Euro.

In June, the Fed announced its second interest rate increase for the year. Future projections now lean more towards two more additional increases this year, rather than one. They are also projecting three more increases in 2019 and one more in 2020. <u>The Fed's projected path of future interest rate increases is still slightly more aggressive than most major economists</u>. We are inclined to air more on the side that the path of future interest rate increases will be slower than what is projected today, but still firmly believe we are in an upward rising interest rate environment. As short-term interest rates have increased substantially over the last year or so, Treasury Bills have become a much more attractive safe bond investment. On the other hand, many other traditional bond funds have been under pressure. Also, the yield curve continues to flatten; i.e., short-term rates are getting closer to long-term rates. Using Treasury Bill yields as examples, four month rates are around 2% and going all the way out to ten years, the interest rate is only around 2.87%. One major obstacle the Fed will face is the possibility of an inverted yield curve (short-term rates higher than long-term rates), which has traditionally has been a very strong indicator of an upcoming recession. While there is a joke in the investment business that an inverted yield curve has projected seven of the last five recessions, it is not another phenomenon I believe the Fed would want to initiate.

<u>**We still believe the stock market will be positive by year-end. But, we are continuing to communicate the two biggest risks today (geopolitical trade war news & the Fed increasing interest rates) are likely going to cause the stock market to remain volatile for the foreseeable future.**</u> If a few things go right including an agreement on the trade issues, we may see the stock market break out of this trading range to the upside (consequently, the reverse could occur too). While we do not believe a recession is on the near-term horizon, investor expectations should be prepared for more volatility.

Compliance Updates:

1. There is a new SEC rule requiring Advisors to have written confirmation of "Trusted Contacts" for clients over age 65. As we are still a State Registered Advisory Firm (until we get over $100 million), we are not officially obligated by this new law. However, we still have decided to incorporate this as a part of "best practice". Further, we will be requesting select clients under 65 sign Schwab's new Trusted Contact Form as well.

2. Another relatively new SEC rule pertains to maintaining links with affiliated bank accounts and other respective Schwab Accounts. When clients sign up with us, we often have them sign a variety of paperwork enabling us to transfer money (if necessary) to their outside bank accounts and other related Schwab accounts. If money transfers do not take place within a three year time frame, Schwab (as the custodian) is now obligated to terminate these instructions. We found this to be a bit frustrating as it forces the Advisor to make a small money transfer (even if only $1) or have the client sign new paperwork to start a new three-year time frame. Every time money is transferred through one of these existing electronic links, the three-year time frame starts over.

Financial Tips for the Parents & Grandparents of Recent Graduates!

As many recent questions have come up on this topic, we have decided to make this a topic of this quarter's newsletter. Financial tips for recent graduates can be an extremely broad topic. Outlined below are several financial & non-financial topics to consider for your recent high school or college graduate:

Financial-tips:

1. <u>Start saving early</u> – One method is for the parent to match the child's earnings by contributing to a Roth IRA on their behalf. As long as the child has earned income that is at least equal to the amount contributed, a maximum of $5,500 can be contributed to an IRA. Making this contribution will start the child on early education of investing in the markets with monies that generally are geared more for retirement. We would also recommend the child contribute to their 401k (do not lose the company match) and to attempt to save a small amount of their paycheck otherwise (perhaps in a savings account, CD, or brokerage account). Doing this will help start an emergency fund and instill fiscal discipline that will be beneficial later in life. It is also a general belief that young adults who grow up to be fiscally responsible generally are more prepared for retirement, receiving inheritances, and other related topics.

2. <u>Consider letting your child pay for part of their higher education and/or post college expenses</u> – This topic involves personal choice and many families we work with have different views on this topic. Whether your child works during college is your family's choice, but ensuring they work the summer months will give them money for their spending needs. Further, guide them to control the major expenses after college (housing, meals, & commuting). Learning financial self-control will help them later in life. If your child lives with you after college, consider having them pay for their ancillary expenses (car insurance, gas, clothing, etc…). For college graduates, encourage them to understand the various taxes withheld from their paycheck and possibly handling their own tax return at year-end.

3. <u>Buy your child a financial magazine and a planner</u> - There are so many publications and ways to get news in today's world. For a more introductory to finance, I'd consider Money Magazine, Forbes, or even Business Week. Also, getting your child (particularly, a college graduate) a planner will help them stay organized for their new endeavors.

4. <u>Provide contact information to your trusted advisors</u> – In extreme situations, we (your Accountant & Lawyer also) may need to get in touch with your adult children or vice-versa. It may not be critical for a formal introduction to take place, but at some discretionary point in the future, that may change. After all, your children likely may become your "Trusted Contacts" as noted on page one. In a more advanced step, having your children become intimately involved in your financial affairs is truly a delicate topic and have seen families handle with different approaches.

5. <u>Consider letting your child get a debit and/or credit card</u> – Building credit can be important for a variety of reasons later in life. We would urge your children to pay off their credit cards monthly. On a related note, after high-school, we would only recommend your child only take on debt if it's directly related to higher education. Finally, guide your children to avoid unnecessary ATM & overdraft fees and have them check the account activity periodically.

Non-Financial tips:

1. <u>While in college, tell them to look for student discounts at restaurants, vendors, local venues, etc…</u>

2. <u>Review your child's resume and practice mock interviews with them</u> – The "knock" on millennials is they have this entitlement approach to job interviews and work, in general. Beyond that, who isn't nervous during a job interview? Providing guidance to your recent graduate throughout the interview process will be critical on whether they get the job and how to conduct themselves in the work place. Discuss goals with your child and spend time helping them decide how to achieve their future goals.

3. <u>Some professionals may argue to buy life insurance while it's cheap</u> – As certified to sell Life Insurance, I can see both sides to this argument. However, I tend to fall more on the side of buying insurance when there is a need, rather than doing it because it's cheap.

4. <u>Network</u> – Everyone can agree that networking is an invaluable tool. For college graduates, staying in touch with friends and proactively developing new friendships, can be very useful later in life. Sometimes, these connections do not materialize for many years, but more often than not – they do!

5. <u>Keep learning new skills</u> – Many college graduates believe their studies in life have just ended. In most occupations, that is far from the truth. There are always different skills to be learned and utilizing a time in one's life traditionally before families are started can be extremely beneficial to their long-term career objectives.