Yanni & Associates Investment Advisors, LLC
First Quarter 2014 Client Newsletter

Review of the Markets:

	1Q14	2014
S&P 500	1.81%	1.81%
S&P Mid-Cap	3.04%	3.04%
S&P Small-Cap	1.13%	1.13%
Morgan Stanley's EAFE (International Stocks)	0.66%	0.66%
Barclays US Aggregate (Bonds)	1.84%	1.84%

Economy – Fourth quarter GDP growth was reported at 2.6%, down from the third quarter growth of 4.1%. Real GDP increased 1.9% in 2013 from the 2012 annual level (For 2012, that figure was 2.8%). The March Unemployment Report remained the same as last quarter's figure coming in at 6.7%. A few interesting notes with this last report (A) Private jobs have now exceeded the peak from January, 2008, but have lagged behind the adult working age population. (B) Government jobs are at their lowest level since 2005. Why is the market soaring, but unemployment figures lagging? One argument is that the current low interest rate policy may be artificially boosting corporate profits. This may be seen with companies restructuring their high-interest rate debt to now low-interest rate debt, holding the excess cash and choosing to redeploy it into technology rather than human capital. Year-over-year inflation, as measured by the Consumer Price Index, was last reported still at a moderate level of 1.5%.

Equities – On March 3rd, we removed our short-term overweight stock position for clients Firm-wide. Previously, we shifted all client accounts to this overweight stock position on October 10th. We made this recent shift away from stocks due to the following reasons:

1. The continued escalation of the turmoil in the Ukraine.
2. The stock market once again re-touching its all-time high.
3. The Federal Reserve's continued comments and actions regarding its approach on unwinding the latest Quantitative Easing Strategy over the course of the next several months.

As we wrote in our last Newsletter, we believe the stock market is going to produce another positive return in 2014, but nowhere near the 32.39% return in 2013 and with a lot more volatility. From a valuation perspective (according to Factset), the S&P 500 is trading at a forward Price-to-Earnings Ratio (P/E) of 14.95. While the stock market can trade much higher-or-lower, a general P/E between 14-16 is a comfortable range.

Fixed Income – Overall, we are still not very optimistic for the bond market. The main reason is the anticipated actions by the Federal Reserve should continue to put upward pressure on longer-term interest rates. Theoretically, bond prices and interest rates move in an inverse direction. Overall, we are forecasting muted or even possible negative returns from traditional bond funds.

YAIA – Solutions for Complex Investment Strategies:

In this newly added section, we will be outlining a few of the "complex" investment strategies where we have worked jointly with clients' accountants and attorneys in an effort to provide superior professional advice:

1. "Back-door Roth IRA" - For high-income earners who do not qualify for traditional or Roth IRAs, this method may be of interest to you. The government still allows you to contribute to a Roth IRA, but it must be done carefully. Essentially, those high-income earners can contribute to a non-deductible IRA, then immediately convert it to a Roth IRA with no taxes being paid on the conversion (a conversion is when money is transferred from traditional IRA to Roth IRA and is a taxable event for pre-tax contributions). This mainly works best if you do not already have an existing deductible IRA in place.

2. Having both deductible and non-deductible contributions in my 401k – In this scenario, you may be eligible to roll the non-deductible monies into a Roth IRA or even take them outright (if you are over age 59.5) without paying any taxes. Potentially, this may make more sense than rolling the entire combined 401k to a traditional IRA. Rolling the entire pre- and post-tax 401k over to an IRA may complicate matters tax-wise at the time withdrawals start.

3. Calculating Required Minimum Distributions (RMD) while over age 70.5 and working – Those clients who are over 70.5 and still contributing to their company's 401k plan may not have to take that 401k plan into consideration when calculating their RMD. However, once the person retires and rolls that 401k to an IRA, the RMD must come out immediately.

We need to emphasize that these are not investment recommendations and are abbreviated explanations. All of these methods require a considerable amount of scrutiny and in most instances, working in conjunction with clients' accountants and attorneys. These are examples of extra efforts to which we normally provide to our clients. We plan to occasionally incorporate other subjects into future newsletters to demonstrate the additional efforts we employ with our clients. Please let us know if you have topics which you would like us to address.

Yanni & Associates Investment Advisors, LLC Firm update:

Yanni & Associates Investment Advisors, LLC recent quotes and recognition in various publications:
● *Pittsburgh Business Times, Markets down, but investors not panicking, Patty Tascarella, February 14, 2014*

A few other Firm related items:
1. Our new website will be operational within the next few weeks – www.yanniassociates.com

2. Starting April 1st, we began using a newly purchased email encryption software that will require clients to use a password to open. This is being done to provide an extra layer of protection for our clients in our email communication with them.

3. YAIA has retained an outside compliance consulting firm to conduct a "Books & Records Review / Mock Audit" in early May. We are doing this to ensure we are remaining compliant with the governmental authorities.

Current 2014 Portfolio Recommendations:

- Overall – **In the quarter, we trimmed our stock positions and shifted back to neutrally-weight stock exposure for our clients' asset allocations with respect to their customized individual guidelines**.

- Within equities - **neutral-weight stance on "growth" and "value".**

- Within equities – **neutral-weight small / mid-capitalization stocks in relation to large capitalization stocks.**

- Within equities – **under-weight international stocks relative to domestic stocks**.

- Within fixed-income – **over-weight to shorter maturity/duration vehicles, while favoring floating-rate bond funds, high-yield, and individual bonds.**

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