Second Quarter 2008 Client Newsletter
Yanni & Associates Investment Advisors, LLC

Investment Review:

The stock market (S&P 500) declined -2.73% for the quarter and -11.92% year-to-date. June alone was down -8.43%. That was the worst "June" month since the Great Depression and the worst individual month since September 2002. Using other Standard & Poor's Indexes, mid-caps were up 5.42% for the quarter, small caps were up 0.40%, and "growth" style outperformed "value" stocks on all capitalization levels. Morgan Stanley's EAFE Index (international stocks) was down -1.93% for the quarter. Overall, it was a very difficult quarter for equities as we saw oil prices rise by almost 30%. The past 45 days selling of stocks can arguably be called "panic selling" as we are probably not far enough into the earnings' season for such heavy selling to be justified on a fundamental basis.

Investment Forecast:

Economy – While over the next few weeks we will probably see a larger number of corporate earnings' disappointments in comparison to previous quarters, we should get further insight into financial institutions' exposure into real estate and other potentially adverse investments. We do believe higher oil prices are here to stay. As a result, consumers will continue changing their driving habits, and in the long-run, we will probably see a higher emphasis on alternative energy development. From an economic standpoint, we will probably see a bit more uncertainty over the next few weeks. Having this be a presidential election year where the incumbent is not eligible to re-run only accentuates matters as there could be policy changes.

Equities –While we do anticipate continued volatility in the future, we also note that historically the stock market has been a 3-5 month lead indicator of the economy. While the earnings' season may be disappointing through the summer, it would not be unthought-of for the stock market to start recovering before we see full economic recovery. Additionally, again historically speaking, the 12-month period after bear markets has commonly brought about sizable recoveries. From a technical (charting) perspective, the markets have approached a two-year low and valuations are again becoming more attractive.

Fixed Income - Currently, the markets are still forecasting that the Federal Reserve will "take a pause" and then start increasing rates at some point later in 2008. As a result, a variety of investment changes are planned to be implemented as we continue into the second-half of 2008.

Our actions and recommendations can be summarized as follows:

- Moderately underweighted stocks relative to bonds.
- Overweighted "growth" stocks relative to "value" stocks.
- Overweighted "mid / large" capitalization stocks relative to "small" capitalization stocks.
- Overweighted international stocks relative to domestic stocks.
- Favoring shorter maturity / duration fixed-income vehicles.
- Recommending a variety of niche investments some of which have included Treasury Inflation Protected Bonds (TIPS), a Global Natural Resources mutual fund, and an exchange-traded fund (ETF) that invests in developing "clean technology", pollution control, and energy & resource consumption, etc. . .

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