Yanni & Associates
Investment Advisors, LLC

> *We want to proudly announce that Komal Motwani was selected for a prestigious award: **"Investment News Women to Watch in the category of Portfolio Power Performer".** In mid-November, Komal flew to New York City to be presented with this award at an industry conference. 2022 was Investment News' seventh year of publishing the Women to Watch list. An eight-member selection committee handpicks award winners from a pool of hundreds of nominees to recognize women who have made an impact on the industry through their success, leadership, willingness to share their expertise and contributions to the community.*

FOURTH QUARTER – 2022 CLIENT NEWSLETTER
REVIEW OF THE MARKETS:

Index:	4Q22	2022
S&P 500	7.56%	-18.11%
S&P Mid-Cap	10.78%	-13.06%
S&P Small Cap	9.19%	-16.10%
Morgan Stanley's EAFE (International Stocks)	17.34%	-14.45%
Barclay's US Aggregate (Bonds)	1.87%	-13.01%

ECONOMY & MARKETS:
Calendar year 2022 certainly brought back volatility in both the stock and bond market that we have not witnessed in years. It was the fourth worst performing year for the S&P 500 since 1940 and arguably, the worst year ever for the Bond Market. Last January, we had concerns for the bond market with the Federal Reserve's (The Fed) highly anticipated start to an interest rate hike cycle. However, Russia's invasion of Ukraine, the spike in oil, gas, and food prices, along with continued supply-chain bottlenecks from China quickly propelled inflation figures well above most experts' original projections. Headline inflation (Consumer Price Index, CPI) reaching to 9.1% in June, 2022, largest increase in four decades.

At the beginning of 2022, it was widely anticipated The Fed would begin an interest rate hike cycle. *We documented in our fourth quarter 2021 newsletter, the Fed released projections to "only" increase interest rates three times at 0.25% each.* Their first interest rate hike started at 0.25%, only to quickly realize "dipping-their-toe-in-the-water" was too slow of an approach. Soon afterwards, they began to press on the gas pedal more and more each time. This resulted in raising interest rates seven times for a total target of 4.25- 4.50% throughout 2022. After the most recent 0.50% Federal Funds rate increase on December 14th, here are the current market consensus projections:

- February 1st, 2023: 65% probability of a 0.25% rate hike
- March 15th, 2023: 59% probability of a 0.25% rate hike
- May 3rd, 2023: 48% probability of a pause
- June 14th, 2023: 46% probability of a pause
- July 26th, 2023: 38% probability of a pause
- September 20th, 2023 36% probability of a 0.25% rate hike *(projections become mixed)*
- November 1st, 2023 32% probability of a pause *(projections become mixed)*
- December 13th, 2023 32% probability of a 0.25% rate hike *(projections become mixed)*

** Source of information -* *www.investing.com/central-banks/fed-rate-monitor*

Outlined below are material changes to IRS laws in 2023 that may be applicable to our clientele:
- Annual gift exclusion rises from $16,000 to $17,000.
- IRA contribution limit rises from $6,000 to $6,500 (+$1,000 catch-up contribution).
- Lifetime unified estate & estate tax exemption from $12.06 million to $12.92 million, but scheduled to return to $5.49 million adjusted to inflation.

Economic Statistics	*Most Recent*	*Previous report*
▪ GDP growth rate	3Q22 up 3.2%	2Q22 down -0.6%
▪ Inflation (CPI)	December up 6.5%	November up 7.1%
Core CPI *(excludes food & energy)*	*December up 5.7%*	*November up 6.0%*
▪ Unemployment rate	December up 3.5%	September up 3.5%
▪ S&P 500 Forward P/E ratio	16.50	19.20

YAIA's behind-the-scenes effort for analyzing year-end gains & losses:

As the markets were down this year, we proactively realized losses in clients' accounts. Our thoughts are if the market is down, this is at least one way to save clients' money (save on taxes!). As the topic has arisen in several client meetings, we felt appropriate to outline a summary of the internal process we followed:

- Throughout the year, we produced an internal realized gains & loss report (RGLs) for all client's non-IRA accounts. RGLs are capital gains / losses already incurred.
    - It is sorted two ways; alphabetically and numerically (by amount of gain). We will then analyze specific accounts in detail normally under two parameters:
        - First, which clients still have gains and why?
        - Second, which clients have instructed us to realize as much losses as possible *(to potentially offset gains incurred from business sales, second home real estate transactions, etc…).*

- As deemed appropriate, we then take additional action in client accounts:
    - A common strategy utilized is swapping one investment for another with a similar strategy. It can't be identical nor have been purchased within 30 days in a related client account *(these actions would deem it a "wash sale" which would disallow the realized loss for tax saving purposes).*

- Our investment philosophy commonly utilizes inexpensive vehicles to track certain market segments that also commonly do NOT generate high capital gains distributions (as will be explained below). This is the main reason we heavily utilize passively managed ETFs. Actively managed mutual funds are then used to complement our passively managed ETF positions. However, actively managed mutual funds more commonly incur higher capital gains distributions. Throughout the year, the mutual fund manager is buying-and-selling securities. Typically, once a year (record date), mutual fund companies announce capital gains distributions. If you own that mutual fund on the record date, you will have to pay the tax consequences (this is termed the mutual fund's capital gains distribution). Normally, the capital gains distribution is a one-day event publicized in advance that takes place in the fourth quarter whereby if you hold the fund as of that date, you will incur this taxable distribution. In what turned out to be an odd year with the market being down, many mutual funds were still set to distribute these capital gains distributions (even though positions may be down for the year). Thus, this year we developed a second spreadsheet outlining all client's positions in our recommended mutual funds in non-IRA accounts and analyzed the potential capital gains distribution in relation to other tax consequences. **We then compared each client's position in the fund versus those other tax circumstances and where appropriate, we sold these mutual funds prior to their record date and swapped them with similar investments.**
    - *EXAMPLE OF WHAT NOT TO DO: Calendar year 2018 was the last time the stock market was negative for the full year and we signed a new client just before year-end. In examining the client's brokerage statement, we noted her prior Broker invested her money in several American Fund mutual funds (Brokers often utilize American Funds, which historically have had high capital gains distributions). As the new client held these positions with unrealized losses due to the market being down, it was perplexing to us as to why the Broker did not sell the funds prior to their Record Date. We estimated she ended up incurring about $17,000 in gains as compared to realizing approximately -$44,000 in losses. In our opinion, that's a big miss!* Our point to this real-life example is not all Advisors go to the behind-the-scenes details we do for our clients!

- We realize the concepts discussed above are quite technical and detailed. This is another area which we believe we excel and also differentiates us from other Advisors. Let us leave you with one final confusing detail 😊. Capital gains can be segmented between short-term and long-term depending on how long the security has been held. In most instances, realized short-term gains and losses can be used to offset each other with one exception: Realized losses CANNOT offset short-term mutual fund capital gains distributions. Further, those short-term capital gains distributions are also taxed at one's ordinary income rate. Thus, it's prudent your Advisor examines these details for you!