

Advisory Notes



DECEMBER 2016

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The Year in Review: 2016 The Year No One Predicted

From our family here at Valicenti Advisory Services, Inc. (VASI) to you and your families, we hope that you had a wonderful holiday season and we wish you a healthy and prosperous new year in 2017.



As we turn the page on 2016 and some memorable events, one is near and dear to me – 2016 marked the 25th anniversary of my tenure at VASI serving our many clients and working to fulfill their financial goals and life-long dreams.

The Brexit (British exit from the European Union) vote which was a close call for the pollsters, but unexpected by the markets, occurred during the middle of the year creating

some financial uncertainty in Europe. Then, in the U.S. 4th quarter, a long presidential debate season ended with the upset of Hillary Clinton, by businessman Donald Trump, surprising the markets and the world as the pollsters were wrong in predicting the U.S. presidential election. This has created some higher financial expectations domestically as Congress and the Oval Office will be controlled by the same party, although there is not exact harmony between the two.

November and December turned out to be strong months for the major U.S. stock indexes, with all three, plus the Russell 2000 index of small caps, hitting record highs (See Market Table). Seasonal tailwinds helped the market persist through the end of the year, but we do expect to see some sideways trading and consolidation of gains. We do believe a bull market is intact and our view is that U.S. domestic
(See Third Quarter on page 3)

Market Table

| Valicenti Advisory Services, Inc. Comparative Index Period Returns From 12-31-15 THROUGH 12-31-16 | | | | | | | |
|---|-------|---------|--------|--------------------------|---------------------------------|---|--|
| | DJIA | S&P 500 | NASDAQ | Russell 2000 Index | Lehman Muni Bond Index | Citi Corp Corporate Bond Index | U.S. Treasury Bill Index (90 day) |
| 12-31-15 to 03-31-16 | 2.20 | 1.35 | -2.75 | -1.92 | 1.84 | 3.95 | 0.03 |
| 03-31-16 to 06-30-16 | 2.07 | 2.46 | -0.56 | 3.40 | 2.87 | 3.63 | 0.06 |
| 06-30-16 to 09-30-16 | 2.78 | 3.85 | 9.69 | 8.66 | -0.33 | 1.54 | 0.12 |
| 09-30-16 to 12-31-16 | 8.66 | 3.82 | 1.34 | 8.43 | -3.97 | -3.01 | 0.19 |
| YTD Returns 12-31-15 to 12-31-16 | 16.50 | 11.96 | 7.50 | 19.48 | 0.27 | 6.08 | 0.41 |

Director's Chair

In the 1979 classic Rocky II, down and out fighter Rocky Balboa faces five to one odds in his attempt to win the World Heavyweight Boxing Title from the favored champion, Apollo Creed. In a stunning upset, Balboa shocked the world by knocking out the champion, setting himself up for a never ending line of sequels.



On November 8th, eight to one underdog Donald J. Trump shocked the world and knocked out Hillary Clinton's electoral career, creating the most unlikely of new political champions. He brought coattails with him as the Senate, which was favored to flip, remained in Republican hands along with the House of Representatives.

The next knockout victims will likely be personal deductions in the tax code as an overhaul is being mapped out by House Speaker Paul Ryan. There are differences between the House plan and President-Elect Trump's plan, but they have two points in common - neither eliminates the deduction on home mortgage interest or charitable giving. These two deductions are seen as untouchable politically and, therefore, exempt. Trump's plan would more than double the standard deduction to \$15,000 for singles and \$30,000 for married couples, while the House plan almost doubles the deduction to \$12,000 for singles and \$24,000 for couples. Higher standard deductions lead to a lower use of item-

ized deductions, currently 30% of filers. The House plan eliminates all other personal deductions such as medical expenses, state and local income tax, property tax, employee business expense and miscellaneous deductions. Trump keeps these other deductions, but limits the use of deductibles to \$100,000 for singles and \$200,000 for married couples, creating a cap. State and local income tax and property tax deductions are particularly vulnerable as they favor high tax jurisdictions such as New York, California, New Jersey, Minnesota and Massachusetts; in effect having the Federal government subsidize high tax rate behavior, which Republicans oppose. Since these areas are the least likely to vote for Republican candidates, this will likely embolden the removal of such tax incentives.

Either way, itemized taxes are the likely losers in future budgets as certain deductions are eliminated or their use curtailed via caps or higher standard deduction use. The value of such deductions will also decrease. This is because income tax brackets are slated to be reduced in both Republican plans. The lower the effective tax rate paid, the lower the value of an itemized deduction. For example, a \$1,000 charitable donation for someone in the highest current tax bracket of 39.6% would benefit from a \$396 reduction in tax liability. If the top rate were to be reduced to the highest proposed rate of 33%, then the reduction in tax liability would be \$333.

For private investment partnerships such as private equity firms, expect "carried interest", which allows investment manag-

ers compensation to effectively be taxed at the lower capital gains rate instead of regular income tax rates, to be eliminated. This special treatment has been derided by many in the Democratic Party and President-Elect Trump. Considering such firms made political contributions to Hillary Clinton and not Donald Trump, expect the concept of "carried interest" to be eliminated.

Bearing in mind the Republicans have a Congressional majority, the deduction rule changes are very likely to be implemented. The process known as "reconciliation", which the Democrats invented in 1974, prevents the use of a filibuster in the Senate for budget matters and allows for a simple majority to change items such as taxes. The ability to filibuster the nominee for Treasury Secretary, Steven Mnuchin, thereby enabling some bargaining power over tax policy was eliminated by Democrats in 2013, when rules were changed to allow the President's appointments to be free from filibusters. Expect reform of deductions and lower tax rates to pass in 2017 with implementation in the 2018 tax year or earlier considering this is a priority item for the administration.

It is far too early to predict whether President-Elect Trump will have a sequel into a second term. Then again, considering Sylvester Stallone continues making Rocky sequels, maybe the titular character can win the Presidency in Rocky VIII - why not, the host of The Apprentice did!

Louis F. Ruize

Director of Research/Portfolio Manager



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the referral of their friends and family.*

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Investment Strategy

We say good bye to 2016, a year filled with many uncertainties and changes. The year had many worries, from the Federal Reserve's policy on interest rates, the U.S. economic conditions, the Brexit vote and, of course, the U.S. Presidential election. While both here and abroad there were many obstacles and uncertainties, the U.S. equity markets seemingly climbed a "wall of worry" to all-time highs.



While we see persistent challenges in the upcoming year, we remain cautiously optimistic. The U.S. economy continues to show modest improvement and U.S. corporate earnings continue to show growth. With the Federal Reserve taking aim at further interest rate increases in 2017 and the change of leadership in Washington, we believe that volatility will likely persist. On the positive side, we see sustained modest growth in the U.S. economy.

We remain focused on larger companies that show growth in earnings, positive cash flow and improving balance sheets. Our asset mix stays flexible as we look to take advantage of buying opportunities when they present themselves. As such, our asset mix is flexible with equities 35-60%, fixed income 25-40% and cash 10-25%. Asset mix will vary based on client specific goals and needs, such as risk levels and income needs, to name a few.

Jeffrey S. Naylor
Executive Vice President/CFO

Third Quarter

(Continued from page 1)

stocks will continue their uptrend versus the rest of the world.

Business and investor confidence has resurged after consistent outflows from U.S. based mutual funds throughout this bull market. Inflows have been strong over the past few weeks. This trend could have significant legs into next year. In addition, the outperformance of more cyclical areas of the economy – financials, industrials and energy – all indicate greater investor confidence in economic growth. The improvement in investor confidence is matched by a boost in consumer confidence. According to The Conference Board, at 107.1, consumer confidence reached its highest level since July 2007. For several years, U.S. based mutual funds have experienced outflows and idle cash has been sitting on the sidelines. Since November 2016, the tide has reversed and U.S. based mutual fund inflows are strong.

With the dollar strengthening versus other currencies, momentum should continue into 2017 based on the new robust economic forecast that the U.S. economy will do better than the other economies around the globe. Some catalysts that support this momentum are: consumers have more discretionary earnings, home prices continue to rise, unemployment is tepid

2017 Standard Mileage Rates

Beginning January 1, 2017, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 53.5 cents per mile for business miles driven, down from 54 cents for 2016
- 17 cents per mile driven for medical or moving purposes, down from 19 cents for 2016
- 14 cents per mile driven in service of charitable organizations, same as 2016

and economic data has improved alongside a more business friendly incoming Trump Administration, helping bolster both stock and Treasury yields. As expected, at its December meeting, the Fed raised rates and also raised its forecasts for economic growth and the trajectory of interest rates for 2017.

The incoming Trump Administration is moving full steam ahead with a focus on tax reform, regulatory rollbacks and health care changes. Part of the recent equity rally and the spike in bond yields is likely due to high expectations for this fiscal stimulus. It is important to remember that "campaign promises" often change when sitting in the Oval Office. Not only could the plan and the pace of change be less than expected, some of the more economically damaging campaign promises, like protectionism and tariffs, could advance up the priority scale in 2017.

As always, our team of investment professionals, consisting of the portfolio managers, an economist and a financial strategist, will continue to look for opportunities that match our clients' overall goals and risk tolerance objectives.

Joseph M. Valicenti
President/CEO

The standard mileage rate for businesses is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable costs.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

Paul E. Hornbuckle, CPA
Vice President of Tax and Business Services

Analyst Corner

Coming into this year, we described the general conditions of the markets as one of muted inflationary pressures and loose monetary policy accommodation. Economic growth through-



out the year has proven to be resilient and positive although lower than desired. We have written about stock and bond market performance along the way and now that an election is behind us and a new year is on its way, it is time to recap this year's market results to date and to lay out what the general conditions are leading into 2017.

On a total return basis, the S&P 500 index has returned 12.8% YTD (through mid-Dec) while the Barclays U.S. Aggregate Investment Grade Corporate Credit index has returned 4.6%. Given a challenging overall earnings and top line sales growth environment this year, this is no mediocre performance. Aided by the low rate environment and the general conditions we have outlined, markets have returned very well in 2016.

Sentiment in the Energy sector was rock bottom coming into the year and, as the worst case scenarios for producers were avoided, this sector has outperformed all others. The large telecom names have also led most of the year as the higher dividend yields plus growth in a rapidly mobile and information age made an attractive combination. The very important Information Technology sector in terms of both size and innovation has seen some volatility but has also driven returns by being up a strong 13.5% up to now. The story in the last half of the year, to date, has been the outperformance of the Industrial and Materials sectors which, when combined with the significant rise in financial stocks and interest rates post Trump's election, has given a way to a reflation narrative in the markets. Financials, Industrials and Materials sectors are up a leading 20.7%, 18.1% and 16.2% respectively.



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Positive Market Influences

Fiscal and Tax Policy Optimism
Reflation

Negative Market Influences

Tightening Financial Conditions
Valuation Concerns
Re-emergence of European Bank Concerns

As we enter 2017, the current landscape is one of tightening financial conditions and a good deal of optimism over fiscal, regulatory, corporate and individual tax reform. Long-term rates are over 100 basis points (1%) higher than the lows of 2016 and the Federal Reserve for the second time in 12 months has raised the short-term borrowing rate by .25% and has signaled 2 to 3 more hikes next year. Risk as always abounds and problems could emerge from several corners in 2017. There could always be negative feedback into U.S. Markets from places like Asia and the Eurozone should problems like a second European Banking crisis arise, but it is also possible that we are headed towards a situation where we can deflect that type of externally generated adversity again. Secondly, as we normalize monetary rate policy after almost a decade of crisis era management, there is a risk that we progress too far, too fast. Interest rates

that move too high, too fast issuing in an era of a strong dollar versus world currencies could act as a significant braking mechanism should it all occur more rapidly than can be digested by businesses and markets. As we usher in the New Year, a certain level of true growth is needed to accommodate these moves and it is an exciting time for market participants.

From a market symmetry perspective, negative influences may slightly outweigh the positives at this juncture in so far as the post-election run-up has been very strong.

Positive Market Influences:

- Fiscal and Tax Policy Optimism – The incoming administration is offering a pro-growth and pro-commercial enterprise environment via an array of fiscal, tax and regulatory reforms.
- Reflation – Extreme low yields have
(See Analyst Corner on next page)

Analyst Corner

(Continued from page 4)

turned back higher for now. Commodity prices have reflatated to some degree giving hope to the idea that a reflation of sorts is taking hold.

Negative Market Influences:

- **Tightening Financial Conditions** – The taper of Quantitative Easing measures has concluded and short-term rates are very gradually being adjusted higher which in turn is causing the U.S. Dollar to strengthen against our trading partners. Long-term rates are similarly moving higher indicating that firms will have higher borrowing costs in the future.
- **Valuation Concerns** – Many years of low interest rates have expanded valuation multiples and increased financial asset prices and, upon normalizing, these low rate concerns about the opposite reversal effect possibly taking hold are out there. This reversal could be mitigated should a higher growth environment emerge.
- **Re-emergence of European Bank Concerns** – Back in 2011, when peripheral European yields lifted to higher levels, it set in motion some turbulence. Brexit and Italian referendum results have shunned elite proposals and positions with more European elections on the way in 2017. Underlying all of them are real and lingering concerns about certain areas of the banking sector.

Daniel P. Burchill
Security Analyst

Pension Lump Sum Payouts

A traditional pension plan is designed to provide you with a balanced stream of income once you retire. That is why your pension benefits are typically paid in the form of lifetime monthly payments.



More often, employers are making available to their employees a one-time payment for all or a portion of their pension. This is known as a lump sum payout option. If you decide to choose a lump sum payout instead of monthly payments, the responsibility for managing your money changes from your employer to you. Below are some things to think about before accepting this form of distribution.

Will you be at risk of running out of money? The monthly payment option offers a steady lifetime income, which may reduce your risk of running out of money later in life. This is important if either you or your spouse is in good health or if either of you has had a family history of longevity. A lump sum payout might make sense if you are in critically poor health or if you and your spouse already have enough income to cover your basic living expenses.

The monthly pension payment may be a good choice if you are concerned about the retirement security of your spouse or other beneficiaries. After your death, most plans allow you to provide monthly benefits to

your spouse or another beneficiary through a joint and survivor payout option.

Is a combination of payouts possible? Some plans allow people to take a combination of payouts. In some cases, married couples may choose to take one spouse's pension as a lump sum payout and the other spouse's pension as a monthly payment.

If you choose to take a lump sum payout, you may need to plan for tax consequences. You should know that you may pay taxes on your lump sum payout. Your lump sum money may be treated as ordinary income for the year in which you receive it and your employer may also be required to withhold 20% of the payout for federal income tax. If you are under 59½, you can add an additional 10% tax for early withdrawal.

You may want to also consider rolling it over into a qualified retirement account. If you don't need the money immediately, this will eliminate the 10% early withdrawal penalty and will defer income taxes until you withdraw the money.

In order to choose the right option, you may want to ask your employer for more specific information about your payout options. A financial advisor can also work with you to review your current financial situation and to provide advice for the future and your accountant can assess any tax consequences.

Melissa B. Dixon
Administrative and Marketing Assistant



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Cultivating Relationships for over 30 years
Our Clients Come First

Referrals

Do you remember how you became a client of our firm? Perhaps, it was a referral from an existing client.

Referrals are the “life blood” of our business. When a client refers someone to us, he/she is not only reflecting confidence in us, but is also comfortable that the person being referred most likely needs the services that we provide.

Whether its help with managing an existing investment account, retirement planning, tax planning, estate planning, an inheritance, etc., we have an educated, experienced group of professionals with expertise ranging from portfolio management to tax preparation and everything in between. If you are concerned that your referral will not meet our desired client profile, don’t worry, for we will determine if we may be of assistance to him/her.

If you have someone who can benefit from financial guidance, a disciplined approach and specialized expertise, please have him/her contact us at (607) 734-2665 or, if out of the area (866) 734-2665 or dixonmb@valicenti.com. We’ll be happy to call him/her to discuss our services further. The highest compliment our clients can give us is the referral of their friends and family. Thank you for your trust!

Ralph H. Roberts, Jr.
Vice President of Client Services



Employee Corner

As many of you will remember in 2014, Jeff Naylor was instrumental in reestablishing the Cross-Country program at Notre Dame High School in 2014. Since then, both the boys and the girls teams have garnered many honors.

This year the boys team repeated as Section Four Class D champions earning its second trip to the state championships, at which they placed fourth. Four boys and three girls were named to the all-region team.

Based on the above accomplishments, Jeff was named Coach of the Year. Please join us in congratulating Jeff and his team. Well done runners!

Ralph H. Roberts, Jr.
Vice President of Client Services

Thank You!

It is hard to believe that we are completing our 32nd year. It seems like only yesterday that we were celebrating our 30th. As we look back, many memories come to mind, but the bottom line is that we have survived in what is now a highly competitive business. We look forward, optimistically, to a successful 2017.

As this is being written, our various departments are focused not only on what is at hand but the usual year-end duties and planning for 2017.

We have much for which to be thankful, not the least of which are our diverse and loyal clients who have given us the opportunity to know them, to work with them and to help them in many different ways.

Kudos to our hard working and dedicated staff who working together as a team continues to help us to “Cultivate Relationships” and always adhering to our moto of “Our Clients Come First.”

From all of us to all of you a prosperous and safe New Year!

Ralph H. Roberts, Jr.
Vice President of Client Services

What Are Your New Year Resolutions?

It's that time of year again, when we look back on the past year and think about starting over and resolving to do things better than we did them previously. For me, it's a time of reflecting on the decisions of the past twelve months and finding areas for improvement. As an agent that focuses most of my time making sure that our clients have the protection they need, I find myself thinking about what I need to do to make sure my family and loved ones are protected should something happen. I've developed a list of four New Year's Insurance Resolutions that should be made for 2017. I will be addressing these items - please let us help you do the same.



1. Update Possessions

Think about all the things that you have purchased in a given year. If you have difficulty visualizing them, access your online bank account and credit card statements and create a 30-day list of transactions. Now multiply that times twelve. While there may be several meals out, some of

those purchases may be new possessions that need to be added to the home inventory list. As I've mentioned in previous articles, we have wonderful tools both online and, as my children would say, "the old fashioned paper way" of updating your home inventory to reflect new purchases and to keep your inventory updated should you ever need it.

2. Review Life Insurance Options

Many clients may not realize that healthier changes in lifestyle can affect the affordability of life insurance. Stopping tobacco use, losing weight, phasing out medications that are no longer needed and more may lead to a preferred rate qualification.

3. Become More Educated About Your Healthcare

Are you looking to trim your health insurance costs in the New Year? The best way is to resolve to become more educated and informed about your health care. For healthy individuals who rarely go to the doctor, it may make sense to seek lower premiums through a higher deductible plan. If you are Medicare eligible, there are also supplemental plans and Advantage plans that have a higher cost share should you use the

benefits. This also helps to keep the premiums lower.

4. Flood Insurance

According to the Federal Emergency Management Agency (FEMA), 90% of major natural disasters in the U.S. involve flooding. Yet many at-risk homeowners choose to roll the dice and to skip flood insurance. Your homeowners or renter's insurance probably doesn't cover flooding. One thing to keep in mind is that federal aid most likely will not cover you after a flood. If you are not in a declared disaster area, you will likely be responsible for your own repairs, unless you have flood insurance.

In the United States, the New Year is a time of renewal and all of us should use it to renew our commitment to financial responsibility, managing risk and protecting our families. As we enter 2017, we are thankful for your trust and support. We look forward to serving you in 2017 and the years to come. Happy New Year!

Suzanne M. Valicenti
President/CEO

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- Customized Benefit Insurance

The mission of Valicenti Insurance Services, Inc. is to provide personalized insurance products and services with unparalleled customer service to protect the assets of individuals, families and businesses that we serve.

Tax Records – What to Keep

As tax filing season approaches, the Internal Revenue Service (IRS) has information for taxpayers who wonder how long to keep tax returns and associated documents.



Generally, the IRS recommends keeping copies of tax returns and supporting documents at least three years. Some documents should be kept up to seven years in case the taxpayer needs to file an amended return or if questions arise. Keep records relating to real estate up to seven years after disposing of the property.

Health care information statements should be kept with other tax records. Taxpayers do not need to send these forms to the IRS as proof of health coverage. The records taxpayers should keep include records of any employer-provided coverage, premiums paid, advance payments of the premium tax credit received and type of cov-

erage. Taxpayers should keep these — as they do other tax records — generally for three years after they file their tax returns.

Whether stored on paper or kept electronically, the IRS urges taxpayers to keep tax records safe and secure, especially any documents bearing Social Security numbers. The IRS also suggests scanning paper tax and financial records into a format that can be encrypted and stored securely on a flash drive, CD or DVD with photos or videos of valuables.

Now is a good time to set up a system to keep tax records safe and easy to find when filing next year, applying for a home loan or financial aid. Tax records must support the income, deductions and credits claimed on returns. If the IRS asks questions about a tax return or to file an amended return, taxpayers need to have these records

It is even more important for taxpayers to have a copy of last year's tax return as the IRS makes changes to authenticate and to protect taxpayer identity. Beginning in 2017, some taxpayers who e-file will need to enter either the prior-year adjusted gross income or the prior-year self-select

PIN and date of birth. If filing jointly, both taxpayers' identities must be authenticated with this information.

Taxpayers who need tax information can request a free transcript of the past three tax years. The 'Get Transcript' tool on IRS.gov is the fastest way to get a transcript.

If taxpayers are still keeping old tax returns and receipts stuffed in a shoebox in the back of the closet, they might want to rethink that approach. Keep tax, financial and health records safe and secure whether stored on paper or kept electronically. When records are no longer needed for tax purposes, ensure that the data is properly destroyed to prevent the information from being used by identity thieves.

If disposing of an old computer, tablet, mobile phone or backup hard drive, keep in mind that it includes files and personal data. Removing this information may require special disk utility software.

Paul E. Hornbuckle, CPA

Vice President of Tax and Business Services

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