

# Advisory Notes



SEPTEMBER 2017

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## Third Quarter in Review

Our hearts and prayers go out to those that have been affected by this severe hurricane season with Harvey, Irma and Maria causing havoc in Texas, Florida and Puerto



Rico. The widespread damage of winds and flooding have left many Americans without power and shelter for extended periods of time. It's wonderful to see dedicated volunteers and improved FEMA disaster plans step up and help immediately.

The markets have continued to be resilient while being faced with natural disasters, which can stunt economic growth temporarily, the geopolitical poker game with North Korea, which seems to be escalating and the executive branch's inability to focus on the

items at hand. Economic data has put the markets at or near all-time highs fueled by a continued low interest rate environment, strong corporate earnings, global growth and low employment (See Market Table Below).

The Federal Reserve is caught in a stalemate with some members citing low inflation as a reason for delaying further tightening and others wanting to push forward towards tightening due to the tightening labor market. The probability of a year-end rate hike is under 50% and, therefore, is highly unlikely. Winding down the Fed's massive balance sheet could start as early as the 4th quarter and may cause some volatility in the markets.

Some leading indicators are pointing toward additional growth in the markets from an uptick in global copper pricing to a broad based expectation of the Global PMI (Purchasing Managers' Index) and the ISM (Institute for Supply Management) for

See **Third Quarter** on Page 5

## Market Table

Valicenti Advisory Services, Inc. Comparative Index Period Returns From 6-30-17 THROUGH 09-30-17							
	DJIA	S&P 500	NASDAQ	Russell 2000 Index	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	U.S. Treasury Bill Index (90 day)
06-30-17 to 07-31-17	2.68	2.06	3.38	0.69	0.89	0.79	0.13
07-31-17 to 08-31-17	0.65	0.31	1.27	-1.39	0.83	0.69	0.13
08-31-17 to 09-30-17	2.16	2.06	1.05	6.09	-0.56	-0.22	0.09
<b>Cumulative Returns-Q3</b> 06-30-17 to 09-30-17	5.58	4.48	5.79	5.33	1.16	1.27	0.34
<b>YTD Returns</b> 12-31-16 to 09-30-17	15.45	14.24	20.67	9.85	5.13	5.15	0.53

*\* See Page 5 For Paperless Information \**

## Director's Chair

**A** Case for Infrastructure: America's infrastructure is aging and badly deficient, costing the economy hundreds of billions of dollars in lost productivity. The expense can be



felt for every minute spent in a traffic jam, every barge that cannot dock in a timely manner, every canceled flight when air traffic is overwhelmed, every bridge that is forced to close and for every student that sits in a poorly heated and lit school. As a nation, if we do not act soon, industry and labor will be at a significant disadvantage to our global competitors.

According to the U.S. Bureau of Economic Analysis, from 1997 to 2015 the average age of roads and highways has increased to 28.4 years from 22.5, public transportation 20.1 years from 17, power (plants and lines) 24.4 years from 21 and water treatment 26.5 years from 23. The American Society of Civil Engineers has issued regular report cards on the nation's infrastructure and we have earned a D+ in the 2017 report—far from a prideful moment. When the first report card was commissioned in 1988, we earned a C, the highest cumulative grade the United States has ever achieved. Back then, aviation, drinking water and inland waterways were rated B-, the highest marks granted. The commission recommended doubling infrastructure spending over the next 10 years to improve the nation's backbone and we did make those expenditures earning us the cumulative grade of D for the 1998 report. What the authors of the report did not recognize was how great government is at wasting money. As an example, The Davis-Bacon Act of 1931 helps drain the effectiveness of taxpayer money in construction projects. It does so by requiring government contractors to pay the prevailing wage in a region, thereby protecting higher wage union jobs, which drives up the cost of a project. It is estimated that the law consumes 10% of feder-

al highway expenditures. It should be noted that Davis-Bacon is rooted in racism, as the law was intended to stop lower wage black workers from traveling north to compete with higher wage unionized white workers.

As America has grown, infrastructure spending has failed to fully catch up. In the early 1960's, public works outlays were over 3.5% of Gross Domestic Product (GDP). This declined below 3% by the late 1980's and is down to 1.4% of GDP in 2017. In that time, spending on social welfare programs exploded in absolute dollar terms and as a percentage of GDP, robbing the government's capacity to fund projects. This brings us to our current grade of D+. Keep in mind that the highest scoring category, rails, earned a B. This segment is mostly funded by private corporations—not the government. The next best graded category is "solid waste", earning a C+ and, no, we are not talking about Congress – it wouldn't get such a good grade. We are referring to trash and recycling collection and processing, another enterprise that is heavily privatized.

The American Society of Civil Engineers advises that the United States would have to spend \$4.59 trillion to approach a grade of B. Since 2012, there have been calls for the Federal government to engage in greater infrastructure spending. These calls have met with limited success. The FAST Act highway bill added \$226 billion over 5 years starting in 2016. But largely it has been the states that have been more active, with 10 states increasing gas taxes in the last 12 months, 5 others debating increasing taxes and 22 state initiatives passed to increase borrowing to fund highway construction. What America needs is the Federal government to meet its constitutionally mandated requirement to provide for roads and to regulate navigable waterways, which would require more infrastructure spending.

A new infrastructure act would improve road, water, rail and air commute times which would save billions of dollars to Americans, in effect paying for itself. Currently, there is a proposal to privatize the air traffic control system as is done in Europe, Oceania and most of Asia, shifting the cost of modernization to the air-

lines. The airlines actually support this measure because they would rather pay for a modern system that would streamline operations instead of the 1950's vacuum tube driven system in existence today. Another proposal is a \$1 trillion infrastructure plan that would be funded 80/20 with the government paying the smaller percentage and private companies the larger, with private enterprise being able to make a profit by imposing tolls on new roads. Either way, infrastructure spending must increase. America's roads are rated a D costing over \$100 billion in congestion time and wasted fuel. It is a matter of national security to have an effective infrastructure, which leads us to believe spending will only increase in the future. This should favor infrastructure stocks that specialize in road construction, buildings and rails over the next few years, as a tailwind of state and federal spending seems overwhelmingly likely, particularly from the states.

The question remains, can a large Federal bill emerge, as there are Democrats and Republicans who support infrastructure spending because it helps them win reelection, but there are always opponents from both parties. Republican deficit hawks oppose government spending that adds to the debt and some Democrats (when they are not busy tearing down statues and erasing history) do not like the current proposed plan because it relies on and allows private business to profit, heaven forbid. In a situation worthy of Alec Guinness and William Holden's film characters in *The Bridge on the River Kwai*, the former cooperates in the construction of a bridge during World War II while the latter is under orders by the Allies to destroy it. Today, opposing political forces within both parties support and oppose moving forward with an infrastructure plan. Unfortunately, to quote Alec Guinness' character of Colonel Nicholson, "It's a matter of principle. If we give in now, there'll be no end to it." This is why Congress gets an F.

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Louis F. Ruize  
 Director of Research/Portfolio Manager

## How to Respond to a Data Breach

**T**ime is of the essence, whether your personal data has been compromised as part of a larger targeted cyberattack or you are the victim of an individual cybercrime. You'll need to take immediate action to minimize the impacts. These are steps you should take within specified timeframes after discovering your data has been breached.

### Within the First 24-48 Hours

1. Call your advisor, regardless of where or how the breach occurred, so he/she can watch for any suspicious activity in your accounts and collaborate with you on extra precautions to take in verifying your identity prior to any fund transfers.
2. Call the Social Security Administration's fraud hotline at 800-269-0271 if you suspect your Social Security number has been compromised. The Office of the Inspector General will take your report and investigate activity using your Social Security number. The Social Security Administration also provides helpful materials, such as the pamphlet *Identity Theft and Your Social Security Number*.
3. Contact the Federal Trade Commission (FTC), either at [www.identitytheft.gov](http://www.identitytheft.gov) by calling 1-877-IDTHEFT (TTY 866-653-4261) or by visiting [www.ftc.gov](http://www.ftc.gov). Click on Report Identity Theft to access the Identity Theft Recovery Steps. This one-stop resource for victims of identity theft will guide you through each step of the recovery process, from reporting the crime to creating a personal recovery plan and putting your plan to action.
4. Visit the IRS website <https://www.irs.gov/uac/taxpayer-guide-to-identity-theft> if you're the victim of tax fraud. You'll be able to access the Taxpayer Guide to Identity Theft, which provides education on tax-related identity theft, tips to reduce your risk and steps for victims to take.
5. Call either your advisor or your Schwab Alliance team at 800-515-2157 if

you suspect you're a victim of fraud. Schwab will escalate your matter to the Fraud Prevention & Investigations team to investigate your case and take necessary precautions to prevent further unauthorized debits.

6. Call either your advisor or your Schwab Alliance team at 800-515-2157 if you suspect you're a victim of identity theft to discuss general identity theft questions or specific questions, such as how Schwab handles accounts of clients who've had their identity stolen or their account hacked.
7. If appropriate, close any compromised or unauthorized accounts. Alternatively, you may request a cloned account through Schwab Alliance. This allows an identical account to be opened, your assets moved, and the compromised account closed.
8. Run reputable anti-virus/anti-malware/anti-spyware software to clean your computer.
9. Once you've ensured your computer is virus/malware/spyware free, you should change passwords on your accounts. Make each password unique, long and strong and use two-factor authentication when available.

### Within the First Week

1. If the breach occurred at a firm with whom you do business, be sure to follow the legitimate directions provided by that firm. If it offers credit protection services, sign up for the service.
2. Report the crime to your local police, even though the incident may cross multiple jurisdictions. Your local police will file a formal report and may be able to refer you to additional resources and agencies that can help.
3. Report your stolen money and/or identity to one of the three main credit bureaus. Provide the credit bureau with your police report number and ask them to place a fraud alert on your account to prevent additional fraudulent activity. Once the fraud alert is activated, the two other credit bureaus will

receive automatic notification and the fraud alert on your credit report will be in place for seven years with all three credit bureaus. (Without your police report number, the alert will only be in place for 90 days.)

Equifax: 800-525-6285

Experian: 888-397-3742

TransUnion: 800-680-7289

4. Put a freeze on your credit report with each of the main credit bureaus to prevent the unauthorized opening of accounts. Executing a freeze with one credit bureau will NOT automatically update the others. You can easily unfreeze your credit report when needed. Contact the credit bureaus using this contact information for freezes.

Equifax

800-685-1111

[freeze.equifax.com](http://freeze.equifax.com)

Experian

888-397-3742

[experian.com/freeze/center.html](http://experian.com/freeze/center.html)

TransUnion

888-909-8872

[transunion.com/securityfreeze](http://transunion.com/securityfreeze)

5. Review all recent account statements for unauthorized activity and report any suspicious transactions to the business where the unauthorized or suspicious activity occurred.
6. Consider what other personal information (e.g., birthdate, Social Security number, PIN numbers, account numbers and passwords) may be at risk and alert the appropriate businesses.
7. Begin collecting and saving evidence such as account statements, canceled checks, receipts and emails that may be useful if an investigation is warranted regarding the cybercrime.

### Within the Next 30 Days and Beyond

1. Carefully review statements on all accounts as soon as they arrive. Look for unauthorized activity and report any suspicious transactions to the business

*See Data Breach on Page 5*

**Analyst Corner**

After the first half of the year produced solid stock and bond market returns, the third quarter saw a clear continuation of these uptrends. The quarter also served up periods of higher market price volatility as investors reacted to and digested information flow from geopolitical events surrounding North Korea’s ballistic missile and nuclear tests. Unfortunately, world events also threw into the mix some natural disasters as Harvey and Irma impacted Texas and Florida in significant and destructive ways. As we finish up September and move into the final quarter of 2017, the key observation for now is that serious deleterious impacts to the overall market health that might have arisen from August’s external events were clearly rejected. Equity markets are once again pushing all-time highs as we conclude the summer.



By the numbers, the S&P 500 has gained over 13% on a total return basis YTD while the Barclays U.S. Aggregate Corporate Credit index is up over 5%. Driving returns in the equity market was the innovative Information Technology sector which was up over 7% in Q3 alone. The pro-cyclical sectors such as Financials, Consumer Discretionary and Industrials either did not pace as well or lost a bit of ground over the last three months. Going forward, should these economic growth sensitive sectors find positive catalysts, then that could underpin continued positive results in the broad market. Expectations around growth and inflation outcomes that can be obtained in the U.S. Economy will, therefore, need to

**Positive Market Influences**

- Debt Ceiling Standoff Avoided
- Dollar Weakness
- Economic Growth
- Continued Policy & Reform Expectations

**Negative Market Influences**

- North Korea/U.S. Standoff
- Hurricanes Harvey & Irma
- Spike in Market Volatility

be constructive over the longer-term and there are many potential changes in monetary, fiscal and tax policy upon us that market participants will have to wade through. The overall symmetry of the market skews positive for now, as current sentiment and equity strength cannot be ignored.

**Positive Market Influences:**

- **Debt Ceiling Standoff Avoided** – Any disruption from a potential government shutdown over lifting the federal debt ceiling was avoided as President Trump cut a deal with lawmakers from across the aisle.
- **Dollar Weakness** – The move in Q3 for the dollar was decidedly weaker over the last several months. This removes some negative pressure on multinational corporations that may derive a good percentage of sales overseas and across the globe. The long-term trend is unclear.
- **Economic Growth** – Real growth for Q2 came in at 3% and present estimates for Q3 are north of 2%, which is mildly constructive. More robust longer and lasting higher growth levels are desired, but we are nowhere near stall speed at the moment.
- **Continued Policy & Reform Expectations** – Tax reform is clearly on the table, though it may roll over until early next year. Expectations that something positive will be accomplished are high. Additionally, healthcare reform may be on the table once again by the end of September.

**Negative Market Influences:**

- **North Korea/U.S. Standoff** – Ballistic missile as well as nuclear tests by the rogue nation of North Korea have roiled markets and necessitated an uptick in counteractions as well as rhetoric by those global and regional states that need to push back against the behavior.
- **Hurricanes Harvey & Irma** – The combined costs of these two hurricanes could be well over \$100 billion dollars. While certain sectors may see increased demand due to the rebuilding efforts, destruction of this type is negative as structures are destroyed and existing capital that could have been directed elsewhere has to be reallocated in order to rebuild.
- **Spike in Market Volatility** – The dispersion of market prices is a complicated topic. Most of the time, spikes in volatility are associated with selling pressures and downward movements in prices, however, there have been times that the greater dispersion of prices is coincident with rising markets as well. Recent negative external events such as those in North Korea pressured equity prices downward within the equity complex, as safer allocations were bid in the short-term.

Daniel P. Burchill  
Security Analyst

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### Third Quarter

(Continued from page 1)

manufacturing and non-manufacturing indices to show continued economic expansion.

In Washington, it looks highly unlikely that changes to health care and tax reform will get passed this year. The White House continues to be distracted by less pertinent issues and not be focused on more pressing issues faced by the U.S.

As always, we will try to navigate these markets to meet your overall goals and objectives to achieve your financial goals in the short-term and long-term.

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Joseph M. Valicenti  
President/CEO

### We are Going Green with Paperless Publications

Valicenti Advisory Services, Inc. is always looking for better ways to keep you informed. With that in mind, we have decided to go paperless with our Advisory Notes and Tax Tidbits. Not only is this a fast and convenient way to keep you up-to-date, but it also helps us toward our goal of “going green” with more eco-friendly publications.



Starting in 2018, we will email all publications as well as have them on our website. Please make sure you call us at (607) 734-2665 or email at mickleymb@valicenti.com to update your email address, so you can stay current with our publications and our views on what is going on in the economy and the markets.




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Melissa B. Mickley  
Administrative and Marketing Assistant

### Data Breach

(Continued from page 3)

where the unauthorized or suspicious activity occurred.

2. Notify your friends, family, business associates and other relevant parties in your contact list that you were hacked. Tell them to beware of emails that may have been sent to them from your account.
3. Speak with your advisor regarding precautions you'll jointly take to enhance the identity verification process when you want to execute financial transactions. For additional protection, consider using a Schwab security token when accessing your Schwab accounts. You can order a free token through Schwab Alliance at 1-800-515-2157.
4. If you're a victim of Social Security fraud, go to [www.socialsecurity.gov/myaccount](http://www.socialsecurity.gov/myaccount) and create an online Social Security account. This will enable you to access and review your statement online and to verify its accuracy.
5. Request a credit report every six months to check for unauthorized activity. It will NOT affect your credit score.

Be diligent for the next year in taking precautions to avoid further security incidents.



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### Investment Strategy

Much of 2017 has seen the U.S. equity markets grinding higher. In addition, the markets end the third quarter at or near all-time highs.



While many indicators are positive, we continue to keep a watchful eye on several key issues that could create volatility going forward. Political uncertainty both at home and abroad, the full economic costs of Harvey and Irma (will take some time), impacts of potential tax reform and infrastructure spending and interest rate moves in the 4th quarter and into 2018 are a few of the issues that could affect volatility in the markets.

Markets march higher, led by stronger than expected earnings, reasonable economic growth both in the U.S. and abroad, a strong U.S. employment picture and a Federal Reserve that has been a bit more passive than many have expected.

While there seems to be a “wall of worry” that the markets have had to contend with over the last several quarters, we believe the markets are being led by strong corporate earnings that can aid them in continuing to move higher. With our focus on companies that continue to show improvement in fundamentals, we will use market pullbacks as buying opportunities. Our current asset mix is 40-65% in equities, 25-35% in fixed income and 5-10% in cash. Asset mix will vary based on client specific goals, risk tolerances and income needs.

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Jeffrey S. Naylor  
Executive Vice President/CFO

## Retirement Plans Can Make Loans, Hardship Distributions to Victims of Hurricanes

The Internal Revenue Service (IRS) announced on September 12, 2017 that 401(k) plans and similar employer sponsored retirement plans can make loans and hardship distributions to victims of Hurricane Irma and members of their families. This is similar to relief provided last month to victims of Hurricane Harvey.

Participants in 401(k) plans, employees of public schools and tax-exempt organizations with 403(b) tax-sheltered annuities, as well as state and local government employees with 457(b) deferred-compensation plans, may be eligible to take advantage of these streamlined loan procedures and liberalized hardship distribution rules. Though IRA participants are barred from taking out loans, they may be eligible to receive distributions under liberalized procedures.



Retirement plans can provide this relief to employees and certain members of their families who live or work in disaster areas affected by Hurricanes Harvey and Irma and designated for individual assistance by the Federal Emergency Management Agency (FEMA). To qualify for this relief, hardship withdrawals must be made by January 31, 2018.

The IRS is also relaxing procedural and administrative rules that normally apply to retirement plan loans and hardship distributions. As a result, eligible retirement plan participants will be able to access their money more quickly with a minimum of red tape. In addition, the six-month ban on 401(k) and 403(b) contributions that normally affects employees who take hardship distributions will not apply.

This broad based relief means that a retirement plan can allow a victim of Hurricanes Harvey or Irma to take a hardship distribution or to borrow up to the specified statutory limits from the victim's retirement plan. It also means that a person who lives outside the disaster area can take out a retirement plan loan or a hardship distribution and use it to assist a son, daughter,

parent, grandparent or other dependent that lived or worked in the disaster area.

Plans will be allowed to make loans or hardship distributions before the plan is formally amended to provide for such features. In addition, the plan can ignore the reasons that normally apply to hardship distributions, thus allowing them, for example, to be used for food and shelter. If a plan requires certain documentation before a distribution is made, the plan can relax this requirement according to recent IRS announcements.

The IRS emphasized that the tax treatment of loans and distributions remains unchanged. Ordinarily, retirement plan loan proceeds are tax-free if they are repaid over a period of five years or less. Under current law, hardship distributions are generally taxable and may also be subject to a 10% early withdrawal tax. Unlike loans, hardship distributions may not be repaid to the plan and, therefore, permanently reduce the employee's account balance.

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

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## For ALL Your Tax and Business Services Needs

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- Fringe benefit evaluation

## Medicare ID Card Changes

**B**eginning in April 2018, new Medicare cards will be issued without Social Security numbers. As an extra security precaution, the cards will be sent directly to beneficiaries. According to Centers for Medicare and Medicaid Services (CMS), this will meet a deadline set by Congress to replace all cards by April 2019. The Social Security based Health Insurance Claim Number (HICN) will be replaced with a unique, randomly assigned combination of letters and digits that will be known as the Medicare Beneficiary Identifier (MBI).



The MBI will be an 11-character code so it can be easily distinguished from the

9-digit Social Security numbers. CMS has promised an easy transition for Medicare providers as well. Through December 2019, providers will be allowed to use either the MBI or the old HICN.

The Medicare.gov website provides the following information about the new Medicare cards:

- You don't need to take any action to get your new Medicare card.
- The new card will not change any of your Medicare coverage or benefits.
- Medicare will never ask you to give personal or private information to get your new Medicare number and card.
- There's no charge for your new card.

### Beware of scam opportunities

Unfortunately, there are threats of scams to obtain current Medicare numbers and other personal information by contacting you about your new Medicare card.

These scam artists often claim to be from Medicare and they use various approaches to get your Medicare Number including:

- Asking you to confirm your Medicare or Social Security Number so they can send you a new card.
- Telling you that there is a charge for your new card and that they need to verify your personal information.
- Threatening to cancel your health benefits if you don't share your Medicare number or other personal information.

In the event your information is compromised or if someone calls you and asks for your Medicare number or other personal information, hang up and call the Medicare hotline at 1-800-MEDICARE (1-800-633-4227).

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Suzanne M. Valicenti  
President/CEO



## VALICENTI INSURANCE SERVICES, INC.

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- Umbrella
- Recreational Vehicles
- Motorcycle
- Watercraft

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- Health Insurance
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- Disability Insurance
- 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.*

## What is a Preferred Stock?

When you hear the word “stock”, probably the first thing that comes to mind is common stock. A common stock is a share of equity in a company and its price and dividend, if a dividend is paid, goes up or down depending on the profitability of the company.

A preferred stock is more like a bond. A preferred stock is issued by a company to raise capital and, in so doing, the company agrees to pay an investor a certain interest rate. The rate can either be fixed or variable based on the preferred stock’s par value, typically \$25. The share price will fluctuate over time. Most preferred stocks are issued by banks, but it isn’t uncommon for pre-



ferred stocks to be issued by companies in other industries.

There are some differences between preferred stocks and bonds. Preferred stocks trade on major stock exchanges and usually are more liquid than bonds. Also, they are more readily available for smaller investors, whereas bonds typically sell in \$1,000 increments.

A potential downside of preferred stocks is that they are lower in priority to bonds, but higher in priority than common stock should a company go bankrupt. This is why preferred stocks usually pay higher interest rates than bonds issued by the same company. Preferred stocks do not ordinarily have voting rights.

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

## Employee Spotlight

We are pleased to announce that Ann E. Connolly has recently joined our firm. She is a graduate of Le Moyne College in Syracuse with a Bachelor of Science degree in Industrial Relations and Human Resource Management. Prior to joining VASI, Ann was the Marketing Coordinator and the Assistant to the Principal for one of our local schools in Elmira. Before that, she was the Manager of Benefits and Compensation for a firm in Syracuse, where she also acted as Benefits Team Leader for a 24-month software conversion project.



As the Client Paying and Receiving person and a member of the Operations Department, Ann is responsible for client transactions such as receipts and disbursements, performs account reconciliations and she processes bills, which the firm pays on behalf of its clients. She is also involved in the processing of new accounts and transfers between accounts.

Please join us in welcoming Ann to the firm. We are very pleased to have her part of our team.

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Melissa B. Mickley  
*Administrative and Marketing Assistant*



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