

Advisory Notes

DECEMBER 2014



Cultivating Relationships

30 Years

1984 - 2014



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Fourth Quarter Review

We at Valicenti Advisory Services, Inc. hope that you had a wonderful holiday season and that you will have a healthy and prosperous new year in 2015. As we look back at 2014, we achieved many milestones as a company; with our 30th year, our assets under management growth and also being named to the CNBC Top 100 Fee-Only Wealth Managers. We have you, our clients, and our staff to thank for all of these accomplishments.



As 2014 posted positive gains in the equity markets, the fundamental backdrop of the U.S. economy is poised to continue through 2015 (see Market Table). We may encounter many obstacles as we navigate through the

markets in 2015. The recent drop in oil prices and the rising interest rates in Russia will cause some volatility in the markets in the near term. Domestically, we will see changes in Washington that may get some business tax reform enacted and a continued reduction in unemployment and a continued increase in hours worked. Positive consumer sentiment and lower energy prices should allow for more spending and debt reduction for consumers, which will help keep the U.S. economy moving forward.

Interest rates are likely to remain relatively low, which should help businesses and consumers. Volatility in the market continued to increase in the fourth quarter due to the sharp downturn in energy prices while international countries continued to struggle with their economic growth.

We are optimistic that the benefits of monetary policies and plans set forth by the Federal Reserve after the 2008 recession will continue
See Fourth Quarter on Page 2

Market Table

Valicenti Advisory Services, Inc. Comparative Index Period Returns From 12-31-13 THROUGH 12-31-14						
	DJIA	S&P 500	NASDAQ	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	U.S. Treasury Bill Index (90 day)
12-31-13 to 03-31-14	-0.11	1.84	0.54	3.69	2.93	0.06
03-31-14 to 06-30-14	2.80	5.18	4.98	2.88	2.69	0.00
06-30-14 to 09-30-14	1.88	1.15	1.93	1.65	-0.07	0.00
09-30-14 to 12-31-14	5.17	4.93	5.40	1.51	1.77	0.00
YTD Returns 12-31-13 to 12-31-14	10.03	13.70	13.40	10.08	7.49	0.06

Fourth Quarter

(continued from Page 1)

and that we are on the backside of the monetary printing process that helped to pull us out of the recession. We remain bullish on the U.S. economy. We will monitor all clients' individual needs in order to gauge asset allocation and investment risk/reward preferences for your portfolios.

We wish everyone a wonderful and happy new year.

Joseph M. Valicenti
President/CEO

*The highest compliment
our clients can give
is the referral of their
friends and family.
Thank you for
your trust!*



Asset management
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**Cultivating Relationships
for 30 years**
Our Clients Come First

Themes for 2015

The U.S. markets had another positive year in 2014, as the bull market marked its 70th month since the March 2009 bottom. Despite the positive returns of U.S. investments, market volatility increased in the second half of the year. We expect this trend to continue as macro-oriented concerns begin to reemerge. Furthermore, many of these global economic issues should take center stage and define market returns in 2015.

With the anticipated conclusion of the Federal Reserve's monthly asset purchases, the U.S. dollar has strengthened against most major currencies and is up nearly 12% versus a year ago. This strength could intensify if the U.S. Federal Reserve determines that it is appropriate to raise its benchmark rate in 2015, as many analysts predict. This overall dollar strength has started to put pressure on many global investments and may continue to do so as a divergence develops between the strength of the U.S. economy and the weakness of foreign economies (Chart 1).

The decline in oil prices has coincided with the strengthening of the U.S. dollar and are now down nearly 50% from their July highs and 34% below the 10-year average price per barrel. With the West Texas Intermediate crude price now trading below \$55 per barrel, it is at levels not seen since the recession. While we expect some reduction in U.S. oil production in 2015, in response to the decline in prices, we do not anticipate oil returning to \$100 per barrel barring a significant disruption in supply.

Historically, lower oil prices have been a positive for economic growth. Consumers generally have more discretionary spending as gasoline prices decline, while businesses face lower production and transportation costs from cheaper oil. However, the significant decline in such a short period of time has many investors concerned.



The dramatic decline in oil prices has investors concerned that the negative affect on the U.S. economy in the near term may be greater than the benefit of higher consumer spending. The U.S. energy revolution over the past five years has been a major catalyst for job creation, wage growth, business spending and general economic growth in this country. With many small energy companies expecting to face significant challenges from lower oil prices, we could see a quick response to cut production, employees and spending. While the impact may be more local given the location of the various energy fields, the consequences may still hit the aggregate economy.

Foreign nations that depend on oil exports are also beginning to struggle with budgetary deficits and have been forced to raise interest rates to keep money in the country. Unfortunately, the higher interest rates only slow their economic growth, making the situation more difficult. The first major crack from the lower oil prices has been found in Russia. While Russia faces economic sanctions due to its hostile actions in the Ukraine, the decline in oil prices has had a more significant impact on the country. Russia's currency has declined over 80% versus the U.S. dollar since the start of the year and corresponds with the government raising its overnight bank lending rate from 6.4% to 28.25% (Chart 2). Clearly, this situation is unsustainable and could have a major impact on global markets in 2015.

Russia is not the only global economic concern facing the markets heading into 2015. Japan recently launched the "mother" of all stimulus measures in an effort to end its nearly two decades of anemic growth and lack of inflation. Despite the nation's best efforts to reinvigorate its economy, the structural issues surrounding its aging population, the lack of natural resources and a debt-to-GDP ratio that exceeds 240% will all work against the efforts and may result in the need for additional stimulus over the long run. Continual money printing by the Bank of Japan will only put further down-

ward pressure on its currency and raise the nation's debt levels to even more unsustainable levels.

Europe is also considering ways to stimulate the Eurozone economy, with some calling for asset purchases similar to what the U.S. Federal Reserve conducted. While Germany has been reluctant to approve such measures, a slowing Eurozone economy may force its hand. While all eyes are currently on Greek elections and the possibility of Greece leaving the EU, investors may also key in on Italy, which is in a recession and is facing significant debt maturities in 2015.

With so many macro headwinds converging, investors should anticipate an increase in market volatility. Despite the

“As long as the U.S. economy can remain resilient and labor markets continue to heal, we expect positive U.S. equity returns and modest fixed income returns.”

volatility, investors may want to avoid becoming ultra conservative. It is clear that most major central banks will continue to inject large sums of money into the markets at any hint of a crisis. These capital injections can help stabilize, if not lift, asset prices until a short-term solution can be implemented. Furthermore, some of the risks associated with these macro issues have already been factored into asset prices.

As long as the U.S. economy can remain resilient and labor markets continue to heal, we expect positive U.S. equity returns and modest fixed income returns. Internationally, there could be large swings in prices but, with most central banks firmly back-stopping their markets and economies, we would not be too cautious at this time.

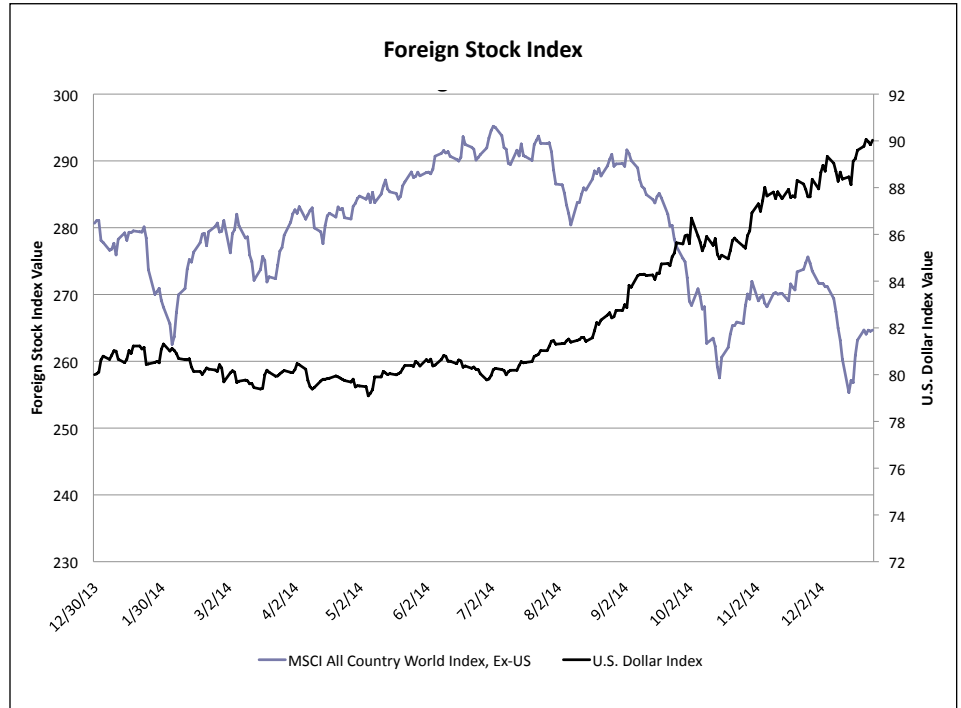


Chart 1

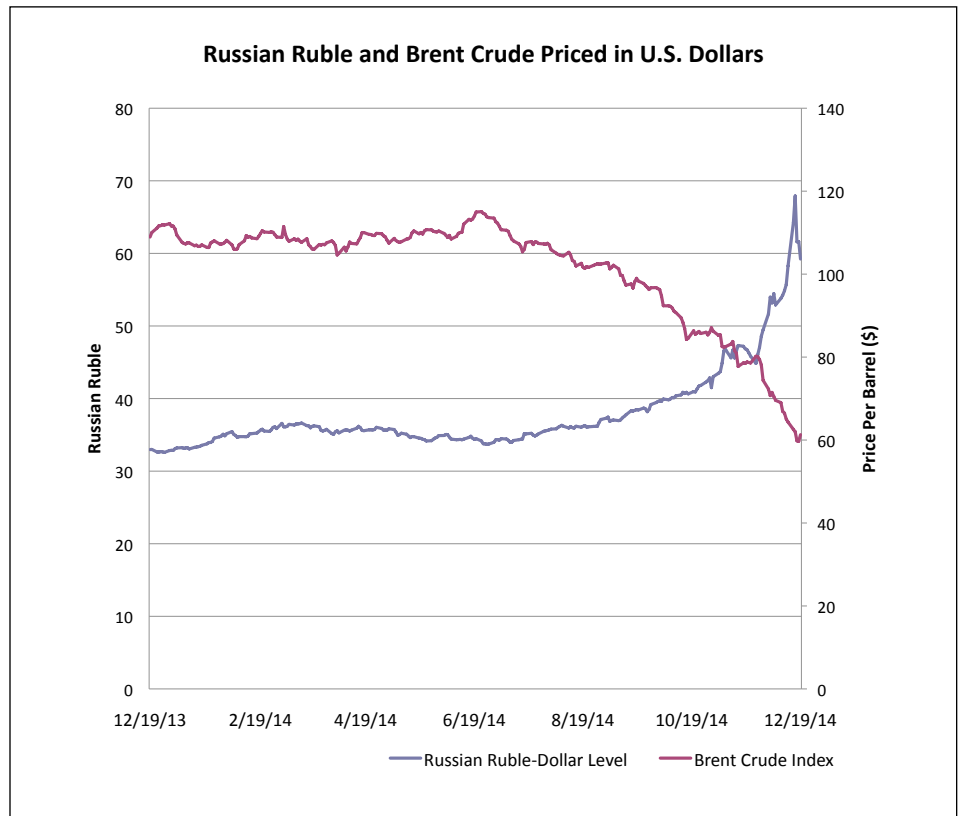


Chart 2

Source of charts: Bloomberg.com

Andrew R. Clark, CFP®
 Vice President of Investment Research,
 Portfolio Manager

Market Symmetry

From a market perspective, the fourth quarter of 2014 will most probably be remembered as being marked by a return to volatility in both the equity and bond markets. Volatility measures actually



spiked to levels not seen since the Fiscal Cliff debate fueled uncertainty at the end of 2012. While upticks in volatility are usually accompanied by selling and near term price declines which can be emotional, the recent prolonged absence of it was fueling a negative sentiment all by itself. It is now hoped that the recent bursts of volatility, most notably in the middle of October and more recently in December, are actually delivering some market rigor as we power through events. The increased resilience may help the market better absorb those events that will be before us in 2015. The U.S. economic and market strength will likely be faced with some global economic disparity and change, intense monetary policy focus, debates over structural issues in fiscal, tax and regulatory policies and ubiquitous geopolitical concerns. The market influences appear balanced for now and the influences which are negative are largely stemming from required adjustments needed to correct existing global imbalances.

Positive Market Influences:

- Consumer Confidence – Confidence levels as measured by both the University of Michigan and the Conference Board are at their highest levels in over seven years.
- Low Inflation – Market measures of expected future inflation and measures of actual core consumer price goods inflation, which strip out volatile food and energy prices, are running around 1.7%.
- Reduced Energy Costs for Consumers - Weaker consumer prices for fuel and

Positive Influence

- Consumer Confidence
- Low Inflation
- Reduced Energy Costs for Consumers
- Labor Market Strengthening
- Prospect of Higher Business Fixed Investment
- Corporate Earnings
- Consumer Deleveraging
- Fed Patience & Flexibility

utilities may be constructive and may allow greater spending in the discretionary part of the economy.

- Labor Market Strengthening – Average monthly gains in nonfarm payrolls are running north of 220K. The recent November report showed gains in broad sectors of the economy with average hourly earnings trending higher, up 2.61% over the last 12 months.
- Prospect of Higher Business Fixed Investment – Clearly, the energy producers are curtailing business fixed investments due to oil price declines; however, lower energy input costs may present the other sectors of the economy an opportunity to invest again, at higher levels than have been seen post crisis.
- Corporate Earnings – While some may argue that the all time high level of corporate profits as a percentage of GDP is a negative, it may simply be representing peak efficiency within many areas of business. This is a necessary prerequisite for higher levels of growth in the U.S.
- Consumer Deleveraging – Two things regarding consumer debt are happening post crisis. With the exception of student loans, which are problematic for the younger generation, the absolute levels of credit card, mortgage and auto loan debt are lower for the average person. Debt servicing payments as a percentage of disposable income are the lowest they have been in over thirty years.
- Fed Patience & Flexibility – The central bank is preparing market participants for a possible rate tightening mode sometime in 2015, but is signaling that

Negative Influence

- Slowing Growth in China
- Japanese and Eurozone Economic Outlooks
- Impact of Lower Oil Prices on Producers
- Prospect of Higher Interest Rates
- Stronger Dollar as a Trade and Profit Headwind
- Low U.S. Labor Productivity
- Russian Currency Crisis
- Emerging Market Concerns

it will conduct policy in a patient manner while remaining flexible and dependent on the data.

Negative Market Influences:

- Slowing Growth in China – The euphoria of this developing Asian nation growing at 10% a year has definitely worn off. A difficult rebalancing, which is aimed at limiting the size of the ever expanding credit contribution towards growth, is occurring, curtailing extraordinary levels of investment and handing off growth to domestic consumption. The path and willpower to drive along this course are uncertain.
- Japanese and Eurozone Economic Outlooks – These two major developed nation economic zones are contributing virtually no growth to the World's GDP. In Japan, monetary policy and fiscal stimulus are at levels way left of center, whereas in Europe, the opposite is true for now. Common to both zones is a lack of true structural reforms driving a better growth footing.
- Impact of Lower Oil Prices on Producers – It is expected that in the near term the producing nations with high cost structures will experience some stress. The fact that Iran, Venezuela, Russia and Nigeria are producing nations overly reliant on the oil economy creates some concern regarding the outcomes.
- Prospect of Higher Interest Rates - While near term market anxiety about early and rapid rate increases from a tightening cycle has abated, the overhang, the prospect of that scenario is still a consideration.

- Stronger Dollar as a Trade and Profit Headwind – Should the U.S. dollar decisively strengthen relative to world currencies even further, it is clear that U.S. goods will become less competitive and U.S. corporate profits will likely be negatively affected. How far any currency adjustments go is the concern.
- Low U.S. Labor Productivity – The most recent twelve month percentage change in this measure came in at a paltry 0.96%. Only higher levels of business fixed investment will drive improvement. At higher levels of productivity, workers can easily be paid more.
- Russian Currency Crisis – The significant drop in oil prices combined with the consequences of western sanctions have devalued the ruble significantly, creating fear internally and some concern externally regarding possible further collapse of the Russian economy.
- Emerging Market Concerns – While a repeat of the late 90's emerging market crisis is probably not "in store" due to a variety of factors, the strengthening of the U.S. economy has brought with it some concern in emerging nations about potential destabilizing capital outflows.

Daniel P. Burchill
Security Analyst

Thank You!

As this is being written on December 17, 2014, our departments are focused on the usual year end duties and planning for 2015.

One of the highlights of this year was the 30th year celebration attended by many of you in June. It's because of you, our loyal clients, and our dedicated and hardworking staff, that believes in our mission of "Our Clients Come First," that we continue to "Cultivate Relationships."

Happy New Year and a prosperous 2015!

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

Insurance to Value

As an advisor, we often ask clients if they have enough insurance to replace their home in the event of a substantial loss. Many find the answer to be surprisingly "NO."

The value of a home can increase for many reasons, adding an addition, a garage or remodeling just to name a few. Statistics show that one in four remodeling projects will increase the value of a home by 25% or more.

Selecting the proper amount of coverage is the single most important decision you can make with your homeowners policy. Without it, you may not have enough coverage to rebuild after a total loss. This is called "Insurance to Value." Below are some explanations and suggestions to assist you in making the right choices for your needs.

What is Insurance to Value?

Insurance to value is the relationship between the amount of coverage selected (typically listed as "Coverage A" or "Dwelling Coverage" on your policy declarations page) and the amount required to rebuild your home. Insuring your home for anything less than 100% insurance to value could mean you wouldn't have enough coverage to replace your home in the event of a total loss.

Why is the Cost to Rebuild Different from the Market Value?

A home's market value reflects current conditions, taxes, school districts, the value of the land and location, and other factors



unrelated to construction cost. The cost to rebuild your home is based only on the cost of materials and labor in your area. It is important that you insure your home based on its reconstruction cost, NOT its current market value.

Why is Reconstruction More Expensive than New Construction?

New home builders typically build many homes at once and solicit bids from various sub-contractors to receive the best pricing. Their business model is based on economies of scale. Purchasing twenty bathtubs at once, secures a much lower unit cost. These economies of scale don't exist when building a single home.

How Can I Make Sure I Have the Correct Amount of Insurance?

Work with your agent to provide detailed information at the time of purchase or the time of policy review to be sure that you receive a thorough and accurate quote. At Valicenti Insurance Services, Inc., we have several tools available that can assist you in determining your home's true replacement cost and can recommend the accurate level of homeowners insurance.

Please contact our office at (607) 215-0242 for a comprehensive insurance review. As an independent agent, we have several companies that we work with to provide our clients the best coverage and price for their unique and specific needs.

Suzanne M. Valicenti
President/CEO



Investment Strategy

While 2014 was a very volatile year, the U.S. markets remained resilient and there are signs that 2015 will be more of the same.

During 2014 and into 2015, we have faced many obstacles in both the U.S. economy and the U.S. equity markets. Geopolitical issues seemed to be at the forefront, along with the strength in the U.S. dollar and a sharp decline in oil prices. U.S. economic conditions continued to show improvement with the GDP growth over 4%. Corporate earnings sustained moderate strength along with corporate margins.

Looking out to 2015, we see further modest growth in the U.S. equity markets as we focus on companies with strong earnings growth at reasonable prices. On the fixed income front, it is likely that the Federal Reserve will start to raise rates at some point in 2015, which could put pressure on fixed income pricing.

Our asset mix going into 2015 remains flexible, with equities between 40% and 60%, fixed income between 25% and 35% and cash between 5% and 20%. This asset mix could change based on client specific directives, needs for income and risk levels.

Jeffrey S. Naylor

Executive Vice President/CFO



New Standard Mileage Rates

The Internal Revenue Service has issued the 2015 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on January 1, 2015, the standard mileage rates for the use of a car, van, pickup or panel truck will be:

- 57.5 cents per mile for business miles driven, up from 56 cents in 2014
- 23 cents per mile driven for medical or moving purposes, down half a cent from 2014
- 14 cents per mile driven in service of charitable organizations

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile, including depreciation, insurance, repairs, tires, maintenance, gas and oil.

The rate for medical and moving purposes is based on the variable costs, such as gas and oil. The charitable rate is set by law.

Taxpayers always have the option of claiming deductions based on the actual costs of using a vehicle rather than the standard mileage rates.

A taxpayer may not use the business standard mileage rate for a vehicle after claiming accelerated depreciation, including the Section 179 expense deduction, on that vehicle. Likewise, the standard rate is not available to fleet owners (more than four vehicles used simultaneously).

If you have any further questions on these and other tax issues, please consult with the Tax and Business Services Department.

Paul E. Hornbuckle, CPA

Vice President of Tax and Business Services

Putting Your Affairs in Order

We would like to remind you that certain documents and benefits need to be reviewed and updated from time to time. We all have good intentions but many times these items, which may have a profound impact on our lives, as well as the lives of others, are the last to receive our attention.

The documents include:

- Healthcare Proxy
- Trusts
- Powers-of-Attorney
- Last Will and Testament
- Mortgage

The benefits include:

- 401(k), 403b plans, etc.
- Pension Benefits
- Health Insurance
- Life Insurance
- Business Insurance
- Automobile Insurance
- Homeowners Insurance

Planning for now and the future will not only benefit you, but also your heirs. As any of the following may apply to you, we suggest that you address them:

- Beneficiaries
- Educational Expenses
- Gifting
- Purchases of a Car
- Purchase of a Home/Second Home

Should you require banking or legal advice, etc., for any of the above listed items, we would be happy to furnish you the names of appropriate professionals.

Ralph H. Roberts, Jr.

Vice President/Client Services



Employee Corner for VASI

Kelly Diehr recently passed the Registered ParaplannerSM exam. The Registered ParaplannerSM designation demonstrates the next level of financial services training for our administrative staff. In addition to the technical support role, the Paraplanner also assists with client services. The Paraplanner works in conjunction with the Portfolio Manager by responding to client questions or concerns and by monitoring the client's progress with his/her financial plans.



Kelly Diehr

Kelly joined our firm in July 2011. She is the Administrative Assistant to Joe Valicenti, President/CEO. Her duties involve working as support staff to Joe and the other Portfolio Managers with client communications, client presentations and scheduling client meetings. This investment in our employees will strengthen our commitment to our clients and will ensure our growth now and in the future.

We are pleased to announce that **Casey L. Watkins** has recently joined the firm. She is a graduate of Mansfield University with a Bachelor of Science degree in Business Administration. Prior to joining VASI, Casey was a Senior Accounting Specialist with a local firm.



Casey L. Watkins

As a member of the operations team, she handles client transactions such as receipts and disbursements, performs bank account reconciliations, processes bills the firm pays on behalf of our clients, and transfers between accounts. She is also involved in the processing of new accounts.

As some of you know, **Jeff Naylor** is a cross-country "aficionado." This year, Notre Dame High School re-established their cross-country program and asked Jeff to be the head coach. With his normal enthusiasm and as a volunteer, Jeff's efforts this year paid off in that two of his runners were voted top newcomers of the fall sports season. Three of the athletes went to the state meet, one of which placed fifth. The same runner was both Section Four Class D and the IAC champion. Based on the team's successes and the individual performances, Jeff was voted all regions girls' cross country coach of the year as well as the region's top three female sports coach of the year.



2014 Notre Dame High School Cross Country Team.



(Above left) Coach Naylor with two of the three state qualifiers. (Above right) Third state qualifier.

Please join us in congratulating Kelly, welcoming Casey to the firm and thanking Jeff for all he does for our firm and the community. We are very pleased to have these employees as a part of our team.

Employee Corner for VISI

We are pleased to announce that **Suzanne Valicenti**, formerly Vice President/Director of Insurance Services was recently elected President/CEO of Valicenti Insurance Services, Inc. (VISI). Prior to Suzanne's arrival at Valicenti Insurance Services, Inc., she was Vice President and Chief Operating Officer for an independent insurance agency. She has over 15 years of insurance experience.



Suzanne Valicenti

VISI is also happy to announce that **Chris Walck** has joined the personal lines team. Chris brings over forty years of personal lines insurance experience to the agency. She is knowledgeable on all of the insurance companies the agency represent and has spent most of her career developing and servicing personal insurance programs for families in the Southern Tier.



Chris Walck

As an Independent Agency, VISI represents many of the Nation's leading insurance companies that provide personal lines coverage and superior claims service. They believe in protecting the assets of the clients they serve. Information on products and services can be found by visiting www.valicentiins.com or by calling (607) 215-0242.

Please join us in congratulating Suzanne and welcoming Chris to the agency. We are very pleased to have these employees as a part of our team.

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

Tax Increase Prevention Act of 2014

On December 16, 2014, the Senate passed a bill, by a vote of 76–16, to retroactively extend more than 50 expired tax provisions through 2014. President Barack Obama signed the bill into law on December 19, 2014.



The bill, H.R. 5771, known as the Tax Increase Prevention Act of 2014, temporarily extends a host of expired individual, business and energy tax breaks, as well as certain provisions relating to multiemployer defined benefit plans. The bill also makes some technical corrections to prior legislation.

Tax incentives for individuals that are extended through 2014 include:

- The Section 62 deduction for certain expenses of elementary and secondary school teachers
- The Section 108 exclusion from gross income of discharge of qualified principal residence indebtedness
- The Section 132 provision providing parity between employer-provided mass transit and parking benefits

- The Section 163 treatment of mortgage insurance premiums as qualified residence interest
- The Section 164 deduction for state and local general sales taxes
- The Section 170 special rule for contributions of capital gain real property made for conservation purposes
- The Section 222 above-the-line deduction for qualified tuition and related expenses, and
- The Section 408 provision allowing tax-free distributions from individual retirement plans for charitable purposes.

In my opinion, most taxpayers are not even aware that these tax provisions expired on December 31, 2013, because these provisions have been around for a number of years. The Internal Revenue Service has anticipated that these provisions will be returned into the law. The respective lines have been marked on the tax form as “reserved.” This way the lines on the tax form can be reactivated; therefore, minimizing the delays that are caused by late passage of tax provisions, as has happened in the recent past.

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



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Reducing Debt

The holidays are over and the presents are largely forgotten now, but the bills will still need to be paid. How far into 2015 will you be paying for the 2014 holiday season? Did you budget for the season or, like most Americans, did you put the expenditures on a credit card?

Credit is a marvelous tool that, used judiciously, can enhance your lifestyle and assist in monthly budgeting. However, if balances are left to roll over month after month and only minimum payments are made on the card, credit can become a drain on finances and can lead to budget struggles and possible bankruptcy.

The average household's credit card debt was estimated at \$6,802 in September 2014. According to the National Retail Federation, Americans spend on average \$730 for gifts, decorations and other holiday related purchases. If even half of the \$730 is put on a credit card, the average balance increases to \$7,167. With interest rates averaging 15.7%, you are looking at monthly interest payments of approximately \$92. This is only interest and does not include any principal payments towards the balance.

Don't carry 2014's debt well into 2015. Pay off the credit cards as quickly as possible and use them for short term loans (no more than 20 to 30 days) – not long term solutions to cash flow problems. You don't want to be paying for 2014's holiday season when December 2015 rolls around.

Ann S. Nolan, RP®
Administrative Assistant



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