Advisory Notes

March 2014

Cultivating Relationships

30 Years

1984 - 2014

Valicenti Advisory Services, Inc.

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Asset management as individual as you

Cultivating Relationships for 30 Years

Valicenti Advisory Services, Inc. is pleased to announce its 30 Year Anniversary! It is hard to believe that 30 years has passed in what seems like a blink of an eye.

What started as a small investment advisory firm in a two office setting on Baldwin Street in Elmira has developed into a full service independent wealth and investment advisory firm with two dozen dedicated professionals in three locations. Our services have expanded from portfolio management to retirement services, tax and business services and a newly opened full service insurance affiliate.

As a junior in high school, I watched my father, Vince Valicenti (now Chairman of the Board), take a huge entrepreneurial risk when he left the comfort of the banking industry to embark on a journey in the investment advisory business now governed by the Securities and Exchange Commission (SEC). Our foundation and fundamental beginnings are based on cultivating client relationships that were built from the experience Vince gained in the Trust Department that he previously managed at Marine Midland Bank (more recently known as HSBC).

I did not realize my college experience in business and finance would one day lead me back to Elmira working side by side with my father. Twenty-three years later, I still believe it was an opportunity of a lifetime.

Jeffrey Naylor, our Executive Vice President and my business partner, joined the firm 21 years ago and we have been working together to engage our clients' wealth and investment needs ever since. In March of 2006, the baton was passed from Vince to Jeff and me, as we purchased a majority of the company in a transitional process. Additional members of our management team are Andrew Clark, Vice President of Investment Research, Ralph Roberts, Vice President of Client Services, Tracy Jenkins, Vice President of Operations, Paul Hornbuckle, Vice President of Tax and Business Services, Elizabeth Zarnoch, Tax and Accounting Manager and Suzanne Valicenti, Vice President of Insurance Services.

In 1993, a second floor satellite office was opened on historic Market Street in Corning. In 1997, we renovated and moved to our main office on East Water Street in downtown Elmira. The tax and business services division on West Church Street in Elmira was created in 2003 and, in 2013, an insurance services unit was opened as a direct affiliate company. The firm has seen some ups and downs in the market but, as a whole, we have grown steadily from zero assets under management in 1984 to over $350 million under management.

The relationships between our professional staff and our clients are what have been our key to growth and success. Our long-term motto, "Our Clients Come First," is what we strive to live by everyday. Our employees helped create this motto fifteen years ago and it is what guides us. As an independent investment advisor, transparency, objectivity, trust and loyalty are what set us apart from others.

*See **Cultivating Relationships** on Page 4*

1st Quarter Review 2014

The first quarter began with some profit taking toward the end of January, as companies exceeded earnings expectations in the United States. However, revenue targets were mundane as was the future guidance. Quarterly equity returns remained mixed across the major indices with both the S&P 500 and NASDAQ reporting modestly positive results while the Dow Jones Industrial Average posted slightly negative results (Market Table).

Following the strength of the market in 2013, confidence began to waiver slightly due to soft economic data attributable to the harsh weather conditions across the country and the building tensions between Russia and the Ukraine. Although the markets seemed to ignore some of this data and pushed through to new record highs, the volatility index rose during these events.

Federal Reserve Chairwoman Janet Yellen continues on the path of pulling back quantitative easing (QE3) in order to create a normalized retraction from government buying of Treasury debt as long as the economic signs point to continued slow growth.

This year should be a good year for companies to increase capital spending as corporate balance sheets remain healthy and the replacement cycle is extended. Corporate managers' confidence also shows improvement, which is indicated by the Purchasing Managers Index.

Europe continues to recover from the bottom of its recession with its own reforms and strong monetary policy from the European Central Bank. China's economy, however, has been slowing to a rate of 7.5% and commodity pricing and bank lending have come under scrutiny as of late. The Chinese government has many levers to pull to maintain a healthy growth rate in the economy, but these will warrant some patience.

As always, we continue to monitor the global and domestic economic data in order to make prudent decisions for your portfolios within your individual goals and objectives.

Joesph M. Valicenti
President/CEO

Market Table

Valicenti Advisory Services, Inc. Comparative Index Period Returns
From 12-31-13 through 03-31-14

	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 01-31-14	-5.07	-3.36	-1.74	2.17	1.75	0.03
01-31-14 to 02-28-14	4.15	4.48	4.98	1.30	1.06	0.03
02-28-14 to 03-31-14	1.03	0.86	-2.53	0.19	0.10	0.00
YTD Returns 12-31-13 to 03-31-14	-0.11	1.84	0.54	3.69	2.93	0.06

Housing Recovery in Jeopardy?

In 2013, the U.S. housing market experienced its best year since the housing bubble burst in 2006, as home prices in twenty of the nation's top metropolitan areas increased 13% and foreclosure filings declined nearly 30%. Unfortunately, 2014 has not ushered in a strong start to the seasonal selling season, leaving investors to wonder if the rally is taking a break or if it has come to an end.

One of the biggest disappointments recently has been the decline in pending home sales. Much of the recent weakness may be attributed to the higher costs associated with purchasing a property. Last summer, the average 30-year fixed mortgage rate increased 1% and, when combined with the 13% increase in the average price of a home, buyers face more substantial costs on property purchases (Chart 1).

While consumer sensitivity to the higher costs of home ownership is a concern, some of the weakness may prove temporary as buyers get accustomed to both higher interest rates and home prices. Buyer sensitivity is also limited among certain cross sections of potential buyers. First time home buyers and those in the market for homes valued at under $250,000 have accounted for most of the weakness, as slow wage growth leaves most of these potential buyers unable to absorb the higher costs of ownership.

New home construction has been more resilient than the rest of the housing market. Despite being well below the number of new homes sold during the previous decade, new home sales and prices have steadily improved since 2011. Homebuilders have been more cautious in their development of communities and new home prices have appreciated significantly as buyer demand has outpaced new construction.

Additional factors that may support the housing market include the number of cash buyers still using the recovery as an investment opportunity and the inventory of homes available for sale. Cash transactions accounted for 35% of all home purchases last month, despite distressed sales accounting for only 16% of all transactions. Similar to new homes, existing home inventory is limited to roughly five months' worth of homes available for sale.

Lastly, cold weather may be delaying the seasonal improvement in buyer activity. Based on February housing data, the decline in purchasing activity was led by an 11.3% drop in the Northeast. Meanwhile, purchasing activity improved in both the South and the West.

After looking at the various market data, it appears that the housing recovery is probably in a temporary pause. As long as mortgage rates remain relatively stable and the labor market continues to improve, buyer demand should remain stable; however, further price appreciation may be limited if home owners and speculative buyers decide to capture some of the recent gains in home values. It will bear watching how the spring selling season develops as temperatures return to normal. Leading indicators for a resumption of the housing market recovery will include mortgage application volumes and the ratio between homes available for sale and homes purchased.

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

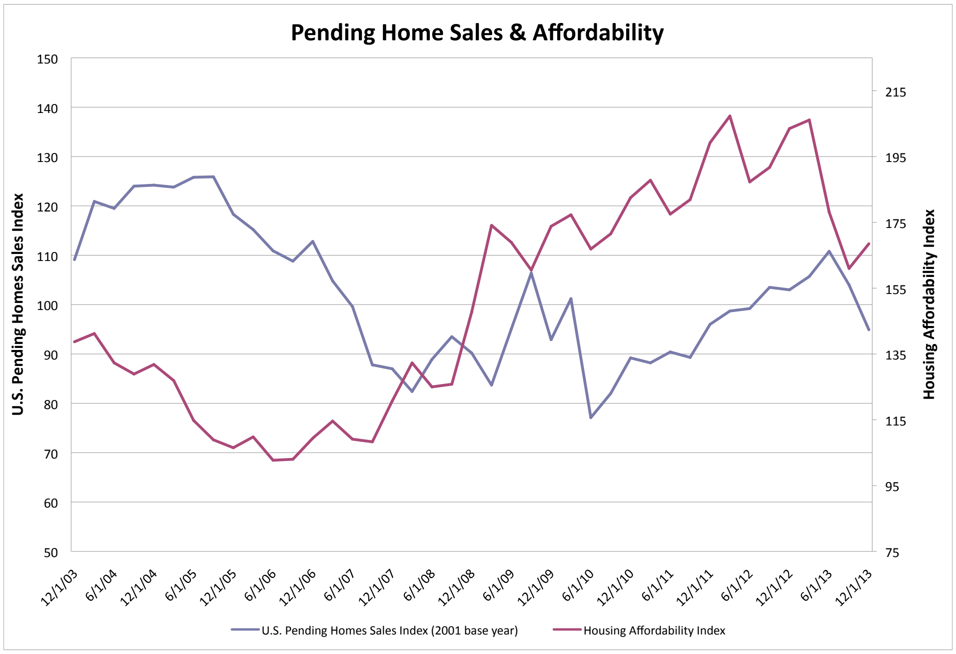


Chart 1

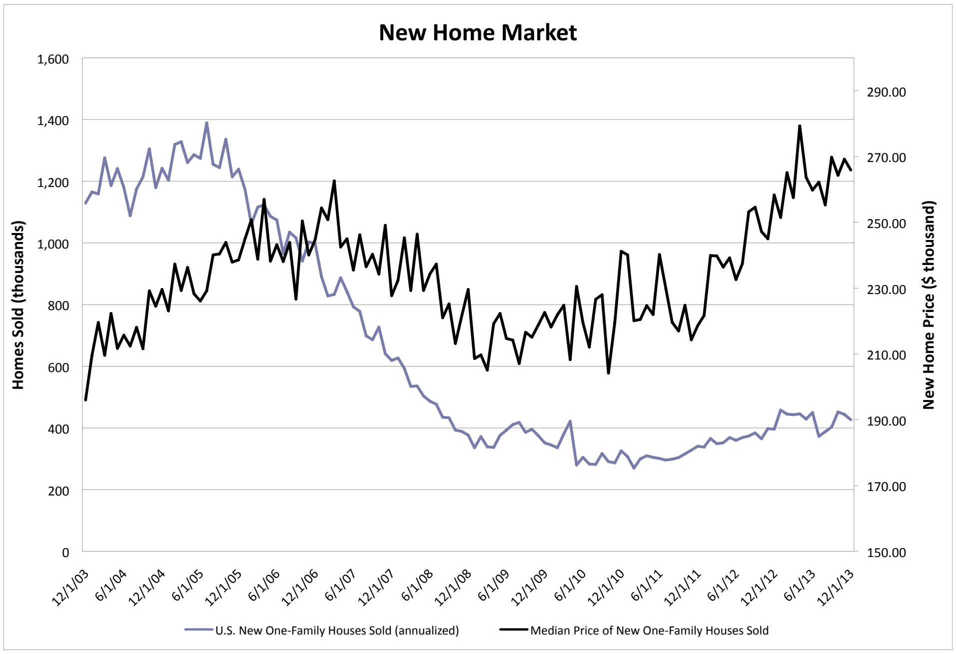
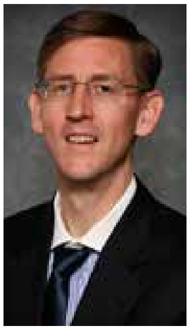


Chart 2

Source of charts: Bloomberg.com

Investment Strategy



Much like 2013, the markets in the first quarter of 2014 started off choppy. The U.S. equity markets have been driven by U.S. economic data points, politics in Washington, concerns abroad and, to a small degree, the extreme weather conditions this winter.

Despite the headwinds, the private sector employment outlook has been showing slow but steady signs of improvement. In addition, inflation remains in check and price-to-earnings multiples are still below previous market highs, leaving further upside in the U.S. markets as we move through the year.

Large corporations have strong balance sheets and modest earnings growth. Many corporations are flush with cash so we are likely to see an increase in capital spending throughout 2014. We continue to focus on large companies with strong earnings growth at a reasonable price. Our equity range is flexible between 40-65%. Fixed income continues to be challenging as we monitor the Federal Reserve's actions, specifically the quantitative easing (QE) measures. Our fixed income remains in a range of 25-35% and cash between 10-15%. Our asset mix ranges are dependent on client specific goals such as specific directives, need for income and risk tolerance levels.

Jeffrey S. Naylor
Executive Vice President/CFO

Cultivating Relationships

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We are very proud of our long history and of our commitment to cultivating relationships into the future. The management and staff of Valicenti Advisory Services, Inc. would like to thank all of our loyal clients for supporting us. Please save the date June 10, 2014 for a special celebration that we are having for all of you who have made us what we are today – a full service investment firm that puts its clients first.

Joesph M. Valicenti
President/CEO

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