Advisory Notes

March 2016

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First Quarter in Review

After a late surge in December, the first quarter of 2016 started off with some negative selling pressure in the equity markets producing an average of -6.75% across the indices. February was a stabilizing month and March recovered nicely to negate most of the losses posted earlier in the quarter. See Table below.

Although the market has made an impressive rebound with fleeting fears of recessionary data, volatility still remains high as the economic data unfolds domestically and globally. Some of the most beaten down sectors in the S&P 500 this year, such as energy, materials and financials staged a nice comeback in March, pulling the market even for the year. Some other positive movements came in the form of higher Treasury yields, rising oil prices and lower junk bond yields that signaled an appetite for risk among investors. Although we are coming off a couple of quarters of negative earnings growth in the S&P 500, we expect a modest turn around in the latter half of the year.

The modest economic outlook will be influenced by the earnings picture and the inflation gauge of 2 to 2.5% GDP. The "muddle along" economy will continue as business confidence remains tepid and the consumer has yet to spend its "fuel dividends" from lower gas prices. Unemployment at 4.9% seems to be a silver lining in this economy and a positive uptick in the labor participation rate has boosted confidence.

The Federal Reserve left the interest rates unchanged but kept future rate hikes in play.

(See **Quarter in Review** *on page 3)*

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 12-31-15 THROUGH 03-31-16

	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 01-31-16	-5.39	-4.96	-7.86	-8.85	1.31	0.31	0.00
01-31-16 to 02-29-16	0.75	-0.13	-1.21	-0.14	0.17	0.74	0.03
02-29-16 to 03-31-16	7.22	6.78	6.84	7.75	0.35	2.87	0.00
Cumulative Returns 12-31-15 to 03-31-16	2.20	1.35	-2.75	-1.92	1.84	3.95	0.03

Keys to a Successful Financial Plan

Most households discuss and develop a strategy for the “chaos” of each week. The plan typically involves how to accommodate for previously planned engagements, the necessary family logistics, the ability to sustain a routine for children and how to handle unexpected interruptions to the plan. These are some of the same skills needed to develop a successful financial plan.

The first step to successful financial planning is discussing, developing and drafting a plan. Households may find more success by starting with a basic plan. A simple plan will allow a household to focus on one or two main goals and avoid becoming frustrated and paralyzed by the complexity of too many variables. Additional goals or variables can always be added later.

Financial planning logistics consist of determining the necessary “vehicles” to reach your financial goals. Different savings “vehicles” may include tax-deferred retirement accounts, such as a 401(k), 403(b) or Roth IRA. For college savings, it may include a 529 account or a custodial account. When discussing estate planning, clients may opt to explore the advantages of a trust or life insurance to maximize their financial plan. No matter the objective, a meeting with a financial advisor can help a household determine the best “vehicles” for the financial plan.

Many households subscribe to keeping their children on a routine and instituting household rules as part of their parenting efforts. Likewise, consistency and sticking to a routine are essential to be successful with any financial plan or investment strategy. Committing to a consistent savings strategy and avoiding the natural tendency to chase returns is likely to yield a more successful future than constantly changing strategies and investments.

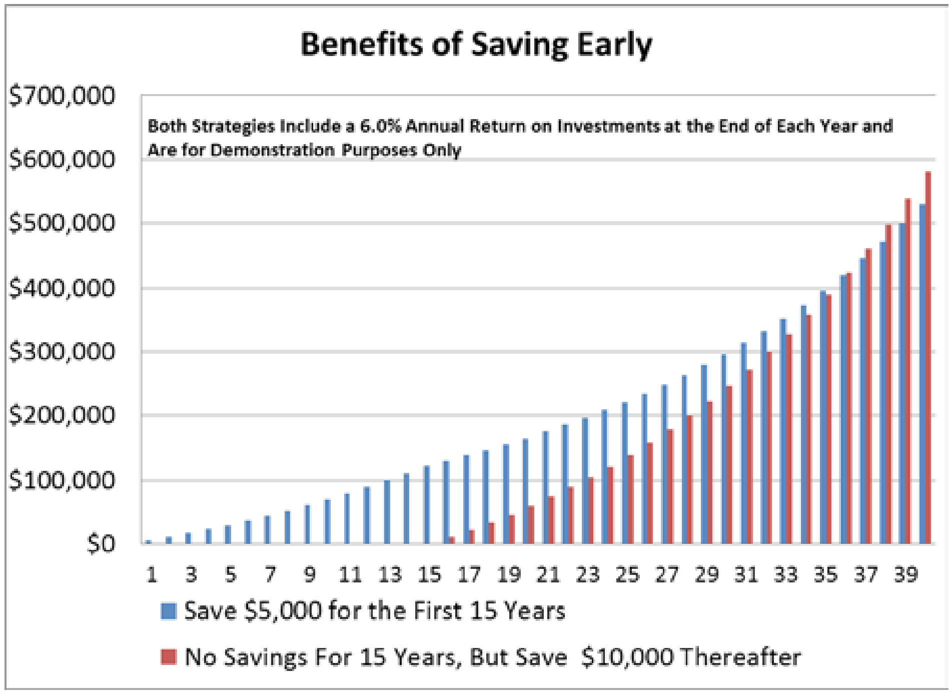


Chart 1

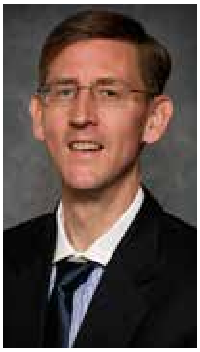
Starting a plan early will also help to ensure success in both financial planning and investing. While it is never too late to start, the earlier a household plans the more flexibility it will likely achieve in meeting its goals and accommodating for interruptions and changes to its plan. A great example involves retirement savings. If an investor postpones saving for 15 years, it would require him/her to save twice as much and to invest 6 years longer to achieve the same result as an investor that saved only during the first 15 years (Chart 1). The increased flexibility is achieved through the time value of money and the compounding of interest over time.

Unplanned interruptions in the week are never fun, but the more flexibility you have created, the easier it is to manage the interruption. This same principle applies to a financial plan. By incorporating more conservative estimates or planning for unexpected risks, a household may find it easier to manage an interruption when it happens. The “stress test” of a plan may include the temporary loss of income, an unexpected roof repair or the ability to manage long-term care costs. Exposing your plan to various issues will allow a household to gauge areas of weakness and potentially address them before they become a reality.

Most households would agree that it is not any single decision made on a particular day that determines the success of a household, but the constant discussion, assessment and execution of goals that does. The same can be said for establishing a financial plan. A financial plan may be enacted in a single day, but it is the consistent evaluating, testing and execution that make a plan a success. The more a household commits to a plan and makes it a part of the weekly planning, the greater flexibility and long-term success is likely to be achieved.

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

Investment Strategy



The U.S. equity markets certainly got off to a rough start this year. There were many issues leading the markets lower, ranging from concerns on what direction the Federal Reserve will be taking in the months ahead, to politics in Washington moving to new all-time lows to economic growth concerns both at home and abroad.

Over the last few weeks, the markets have shown resiliency and have rallied back to a slight positive for the year. The employment picture is showing modest improvement both from an increase in employment and modest increases in wages. A March upturn in auto sales, a slight recovery in oil prices and expectations that consumer confidence may be showing a slight increase have all contributed to this short-term market rally.

We continue to remain flexible with our asset allocation. Fixed income will be in a range of 35–45%, equities 35–55% and cash 5-20%. We look for opportunity both in the U.S. fixed income and U.S. equity markets. Our focus continues to be on companies with strong balance sheets, strong cash flow and strong earnings growth. The asset mix will vary based on client income needs, risk levels and client specific directives.

Jeffrey S. Naylor
Executive Vice President/CFO

VISI Sponsored Defensive Driving Courses

Valicenti Insurance Services, Inc. has partnered with the National Safety Council to provide defensive driving courses at our three locations beginning in May 2016. The benefits of taking a defensive driving course vary by state, but often include a reduction of points on your driver's license following a ticket and the assurance that insurance rates will not increase. In New York State, taking the defensive driving course may also mean up to a 10% reduction in your liability, no-fault and collision insurance premiums for a period of three years.

The contents of the defensive driving course are regulated by each state and are designed to train you based on the laws of your state. Most defensive driving classes contain similar information. The defensive driving course in New York State is six hours long and can be completed either in a classroom setting or online.

The classroom course that is offered by Valicenti Insurance Services, Inc. is being taught by Frances Allis, Licensed Agent. She is a certified instructor and has been teaching classes throughout New York State for over seven years.

The course schedule will be published on our website beginning in April. Those interested in taking the class may contact the office at (607) 215-0242 to register. For anyone who does not want to take the course in a classroom setting or who is a resident of another state, an online class link will be available on our website www.valicentiins.com.

Suzanne M. Valicenti
President/CEO

Quarter in Review

(Continued from page 1)

With a tight labor market, inflation rising and financial markets calming down, we may see a rate hike or two in the latter half of the year.

The "made for TV reality show" that has become our political election season has likely contributed to market volatility and is not inspiring a lot of confidence amongst business owners. The grandiose announcements from both sides of the aisle placing high trade hurdles globally and restricting free market trading will surely not inspire the business community and show that economic growth is promising.

While the U.S. is looking at tightening monetary policy, we have reached the seven year anniversary of the bull market domestically. The Eurozone, Japan and China are all easing their respective currencies in order to facilitate a change in economic output and to help their economies. This is starting to benefit them, but caution needs to be observed as short-term missteps could derail the long-term goals. This phenomenon has us favoring more domestic based industries over the foreign based until the waters get a little calmer abroad.

We will continue to monitor the economic data, earnings forecasts and shifts in monetary policies in order to manage your portfolios in accordance with your goals and objectives.

Joseph M. Valicenti
President/CEO

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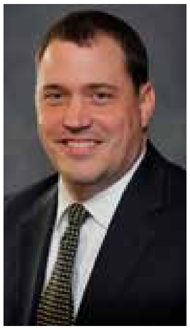
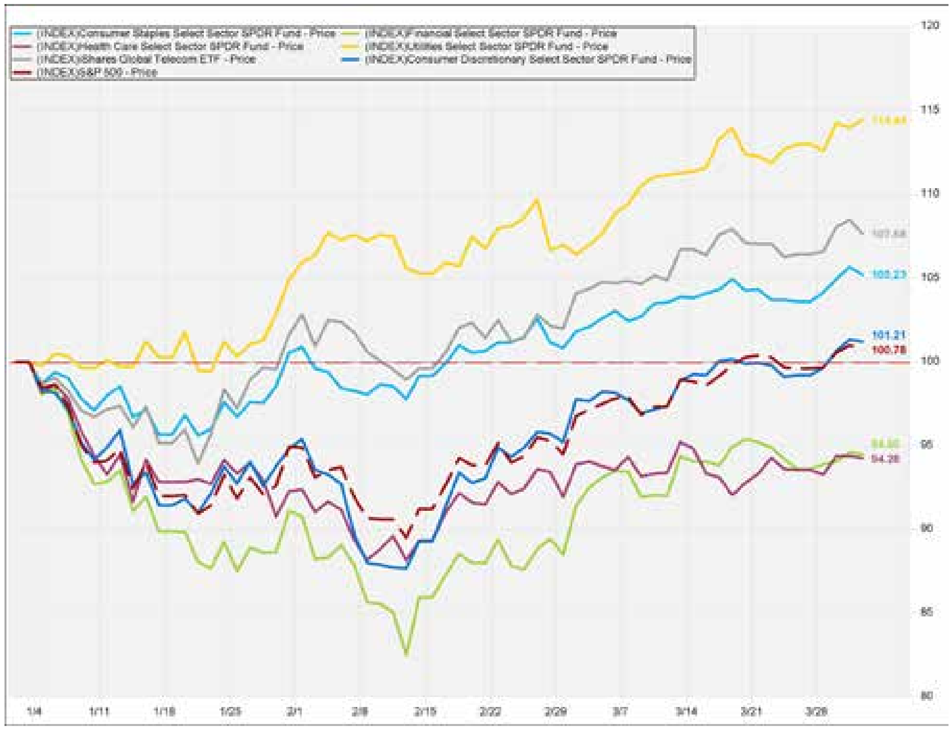
Analyst Corner



Now that we have Q1 2016 behind us, it seems appropriate to look at specific stock sector performance year to date in order to identify some trends but, first, let's revisit the larger framework of general condition measures that we looked at in the beginning of the year. Financial conditions overall are still loose and accommodative. Inflation has moved higher to a run rate around 1.67% from 1.33% at year-end, as measured by the core Personal Consumption Expenditures price index and, commodity prices, while still broadly low, have seen a bounce off of depressed levels in certain markets. At present, the immediate downward pressures of disinflation and declining commodity prices have alleviated. The backdrop is still one of economic growth though it is remaining very much on the slow side with Q1 GDP most recently estimated to be just 0.6%. How are the different equity sectors performing in this environment? In this slow growth world, the Federal Reserve has recently reduced the expectations about the pace of tightening and chose not to increase short-term rates after the initial raise in December. The Japanese and European central banking authorities are continuing to ease with large quantitative easing programs and negative rate policies. We can see in the following chart of sector indexed performance that the stable and mature business sectors with assets in place and strong dividend payouts such as Utilities, Telecomm and Consumer Staples are up 14%, 8% and 4% respectively. These sectors are negatively correlated to rising rates due to their higher yields and as the expectations on that front are tempered, they continue to do well. On the opposite side of that coin, Financials, which largely include banks and capital markets type companies, need the healthy spread between the return on their assets and the cost of their funds. In the low interest rate and increasingly negative rate world we inhabit, the sector struggles. At mid- February, Financials were down almost 18% but have since rallied to down 5% on the year. The special situation and underperformance in the Health Care sector has recently been negatively affected by large Pharmaceuticals which are plagued by controversial drug pricing programs and reimbursement challenges. The sector overall is down almost 6% year to date and, like Financials, lags behind the market. The Consumer Discretionary sector performance like the overall S&P 500 index is muted this year, after selling off by 10% and rallying back to around flat for the year. Remaining sectors such as Industrials, Technology and Energy have performance results that fall in between.



Source of chart: FactSet

Positive Influence	**Negative Influence**
U.S. Growth Outperformance	Global Growth Concerns
Recent Energy Price Bounce	Negative Interest Rates
Lower Forward Rate Guidance	Corporate Earnings

Market symmetry is balanced at present, as much of the volatility that showed up in the middle of the quarter has been reduced. Current positive and negative influences are as follows:

Positive Market Influences:

- U.S. Growth Outperformance – The expectation for U.S. growth and future inflation verses that of Japan and the Eurozone is considered to be higher. This combined with higher interest rates is a continual "beacon" attracting global capital flows toward the U.S.
- Recent Energy Price Bounce – West Texas Intermediate Crude has bounced over 50% to around $40/barrel from a February 11th low of $26.19/barrel. Whether or not this is a speculative bounce that is not yet backed up by fundamentals needs to be affirmed, but for now Equity markets and High Yield corporate credits have responded favorably alongside this rally.

*(See **Analyst Corner** on next page)*

Analyst Corner

(Continued from page 4)

- Lower Forward Rate Guidance – A more shallow rate path to rate normalization was announced at the March FOMC meeting, bringing the official guidance more in line to where the market expectations already were placed.

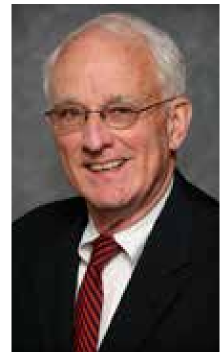
Negative Market Influences:

- Global Growth Concerns – The export areas of Asia, which include the important economies of China, Japan and South Korea, are experiencing significant year over year contractions in their export activity, signaling a deeper global growth slowdown. Developed European markets also remain sluggish.
- Negative Interest Rates – While loose monetary policies are generally supportive of asset markets, the movement of many developed areas such as Japan, the Eurozone and Switzerland into negative interest rate territory may be causing some distortions to traditional functions and causing a higher degree of uncertainty in financial markets.
- Corporate Earnings – There have been 3 consecutive quarters of year over year decline in U.S. corporate earnings.

Daniel P. Burchill
Security Analyst

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

Putting Your House in Order



Periodically, we like to remind you how important it is to put your "house in order." When interviewing prospective clients and reviewing their completed Personal Planning Questionnaire, we always have a discussion about the various documents that they should have in place. In most cases, their answer is that they are in what I call the "Round-to-it Pile." Recently, there was an article in our local paper about the ramifications of dying without a will. I hope that those who read the article took it to heart and will act before that day comes. The documents everyone should consider are as follows:

- Healthcare Proxy
- Trusts
- Durable Powers-of-Attorney
- Last Will and Testament
- Living Will

Benefits which need to be reviewed from time to time include:

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

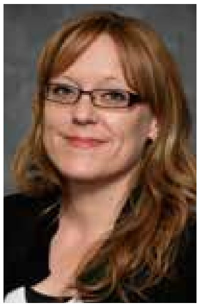
You must realize that planning for now and also the future will not only benefit you, but also your heirs. As any of the following may apply to you, we suggest that you address them:

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

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

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

Social Security Changes for 2016



If you rely on Social Security for a large portion of your income, you may be wondering about the changes you are seeing in 2016.

One feature that remains unchanged is the payout for retirees. The Bureau of Labor Statistics calculates the Consumer Price Index (CPI) for Urban Wage Earners and Clerical Workers (CPI-W) and this calculation ensures that a person's Social Security check has the same buying power that it did the previous year. If the CPI-W increased more than 0.1% year over year between the third quarter of the previous year to the third quarter of the current year, Social Security raises beneficiaries' checks by the same amount. Unfortunately, the CPI-W didn't change from 2014 to 2015, so Social Security recipients did not receive a raise this year. This is only the third time in 40 years that this has happened and economists believe that the CPI-W remained flat largely due to lower gasoline prices.

If you are still paying into Social Security but not yet pulling out, there is no cost-of-living adjustment again due to the stagnant CPI-W figure. For example, once you earned more than $118,500 in 2015, no additional Social Security taxes were taken from your income. That number would normally rise based on CPI-W, but no change in that figure means no change across the board.

If you work and receive Social Security before reaching full retirement age, you know that you can only make so much money before your benefits are reduced and deferred. In 2015, the amount was $15,720 for individuals 65 years old or younger or $41,880 for those turning 66 sometime in the year. If you bumped up against either limit, a slight increase in those figures was good in terms of the size of your Social Security check, but the limits did not change this year.

The file-and-suspend strategy is going away. Currently, if you are age 66 or older, you can file for full benefits and then turn around and suspend them. For each year you suspend your benefits up until age 70, you get an extra 8% added to your check. By age 70, you could see a 32% increase in your checks. It had entitled the person's spouse — provided he or she is the lower wage earner — to receive spousal benefits even if the beneficiary suspends his/her payouts. Furthermore, if the person receiving spousal benefits also qualified for his/her own benefits, that individual could wait until age 70 and get an 8% annual raise too. Under the new law, starting April 30, 2016, if you file and suspend, your spouse is no longer eligible for spousal benefits.

There will no longer be a lump-sum payout. Once you turn 66 years old, you're eligible for full retirement benefits. If you choose to suspend your benefits, you can later collect those back benefits in one of two ways: an increase on each of your future checks or a lump-sum payout for back benefits. Under the new budget law, the option of a lump-sum payout will end once the spring deadline hits.

The Social Security Administration is continuing to expand its online offerings as well as increasing its office hours.

The bottom line, full retirement age is age 67 if you were born in 1960 or later, compared to age 66 for those born six years earlier. The claims that Social Security will likely be gone within a few years is alarming, but if you are still well below retirement age, putting your trust in Social Security to provide most of your retirement income may not be a good idea, given how expensive costs of living are now and given the growing cost of healthcare. Practice responsible retirement planning habits to boost the balances in your own accounts and use Social Security as the added financial piece. Your retirement is much too important to do on your own, so try to become as educated as you can on financial planning topics.

Melissa B. Dixon
Administrative and Marketing Assistant

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Boating Check-up

I find myself getting a bit anxious this time of year. The daylight grows longer and the weather is warming. It's time to start thinking about the summer months and enjoying the beauty that our Finger Lakes region has to offer. I look forward to packing lunches, grabbing towels and life jackets and racing my kids to the dock to board the boat for an afternoon of swimming, water sporting and, most importantly, some quality family time. If you love the water as much as I do, very few things are better than boating season.

Boating is not without its share of pre-summer preparation. If you're not on the ball early, it's easy to find yourself midway through July still on dry land.

At Valicenti Insurance Services Inc., we want to ensure that you are first in line at the boat launch at the first sign of the season change, so here are a few tips for being ahead of the game.

- **Tune it up.** It's always a good idea to have your boat winterized at the end of each season, but whether you did or didn't get it done last year, make sure to get a full tune-up before you hit the lake this summer.
- **Charge it.** Make sure your battery is fully charged.
- **Clear it out.** If there's a chance any bit of gas from last season is still in your tank, fill it up with fresh gas as well as a stabilizer. This will prevent buildup in the gas line and the injection system.
- **Give it a test.** Before you take the boat off the trailer all the way into the water, lower the motor into the water and make sure it will turn over.
- **Plug it up.** Ensure your drain plug is in and the bilge pump is functioning properly.
- **Double- and triple-check.** The last thing you want is to be turned away at the ramp for not having an updated registration or for missing your ski flag or life vests. Double check that your documents are updated and that your boat is fully stocked with everything you need.
- **Boater Safety Courses.** If you have children that want to begin driving the boat or family members that are not familiar with boating, please check with your local Sheriff's Department on when Boater's Safety Courses are being held. This is a great way for everyone to learn the rules of the water and the necessary guidelines to keep our waterways safe for everyone to enjoy.
- **Insurance.** It's just as important for you to be protected for bodily injury and property damage on the water as it is when you are driving an automobile on the roadways. Contact our office if you would like a review of your current watercraft insurance policy. We have many carriers that specialize in writing policies for boats of all sizes.

We at Valicenti Insurance Services, Inc. wish you a fun filled and safe boating season!

Suzanne M. Valicenti
President/CEO

Keep Track of Your Miscellaneous Deductions

Miscellaneous deductions can reduce your tax liability. Some people do not realize that they can deduct costs incurred for items that fall into this category. These may include certain expenses that you incurred at your job, if you are an employee. You must itemize deductions when you file to claim these costs. If you usually claim the standard deduction on your tax return, you should consider itemizing your deductions instead. You might pay less tax if you itemize. Here are some pointers that you should know which may help you reduce your tax liability:

Most miscellaneous costs are deductible only if they total more than 2% of your adjusted gross income. These include expenses such as:

- Unreimbursed employee expenses
- Job search costs for a new job in the same line of work
- Some work clothes and uniforms, if required and not suitable for everyday use
- Tools and supplies used for your job
- Union dues and expenses
- Work-related travel and transportation
- The cost you paid someone to prepare your tax return. These allowable expenses include the cost you paid for tax preparation software if you prepare your own tax return. They also include any fee you paid for e-filing your return.

Some deductions are not subject to the 2% limit. They include:

- Certain casualty and theft losses. In most cases, this rule applies to damaged or stolen property you held for investment. This may include property such as stocks, bonds and works of art
- Gambling losses up to the total of your gambling winnings
- Losses from Ponzi-type investment schemes

There are many expenses that you cannot deduct. For example, you cannot deduct personal living or family expenses. If you need to clarify what may qualify as a miscellaneous deduction, please call us at the Tax and Business Services Department. We can help you get the most deductions for the amounts that you are spending.

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

For ALL Your Tax and Business Services Needs

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