Advisory Notes

JUNE 2014

Cultivating Relationships

30 Years

1984 - 2014

VALICENTI ADVISORY SERVICES, INC.

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Asset management as individual as you

Second Quarter Review

As the second quarter ended, the markets traded away from riskier assets in favor of more conservative equity names. The Dow Jones Industrial Average and the S&P 500 outperformed the NASDAQ during April (Market Table). As signs of economic stability continued to report on the positive side, that trend shifted in the latter part of the quarter.

The economy should continue on its slow and steady growth pattern as home prices continue to slowly improve albeit in the face of possible rising interest rates. The Federal Reserve's plan of tightening monetary policy through backing off of QE3 has been digested well in the markets and rates and inflation have been contained so far. We expect some improvements in the Far East economies, as well as in developed Europe, to help spur global demand. With Russian and Ukrainian tensions off the front page, Iraq continues to gain more attention as it relates to oil prices.

Merger and acquisition activity increased in the second quarter and so did stock buybacks and increases in dividends from many of the S&P 500 companies helping to support the current market valuations.

While the markets seem comfortable in their current state, we are always monitoring global and domestic economic conditions to meet the needs and objectives in your portfolios.

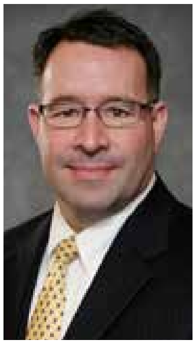
Joesph M. Valicenti
President/CEO

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 03-31-14 THROUGH 06-30-14

	DJIA	S&P 500	NASDAQ	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	U.S. Treasury Bill Index (90 day)
03-31-14 to 04-30-14	0.94	0.77	-2.01	1.33	1.18	0.00
04-30-14 to 05-31-14	1.00	2.27	3.11	1.43	1.34	0.00
05-31-14 to 06-30-14	0.84	2.07	3.90	0.10	0.14	0.00
Cumulative Returns 03-31-14 to 06-30-14	2.80	5.18	4.98	2.88	2.69	0.00

CNBC's Top 100



Valicenti Advisory Services, Inc. is listed among CNBC's Top 100 Fee-Only Wealth Management Firms for 2014.

This announcement came as a complete shock to me, as a friend had emailed me the link to the inaugural CNBC Top 100 Fee-Only Wealth Manager list and, at first, I thought it was a hoax, but we soon found out it was real. We were invited to New York City by CNBC to be part of the award ceremony, but it conflicted with our 30th year celebration with our clients and the choice was easy to spend a great evening with the clients who all make this possible. I have included excerpts below from our May 27th press release which is also available on our website.

"We are extremely proud of our continued success in building and cultivating our relationships with our clients that is driven by our dedicated employees," said Joe Valicenti, president and CEO. "Personal service has always been the focus of our firm over the last thirty years. We are very honored to be named in CNBC's Top 100 Fee-Only Wealth Management Firms for 2014, as it validates our employees' hard work and dedication to our clients."

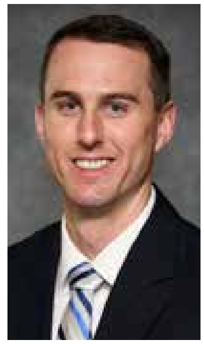
The CNBC Digital editorial team, along with Meridian-IQ, created the following ranking methodology for its Top 100 Fee-Only Wealth Management Firms rankings.

Scores for each measure listed below were weighted according to a proprietary formula to arrive at a final total rank:

- assets under management
- having staff with professional designations such as a CFP or CFA
- working with third-party professionals such as attorneys or CPAs
- average account size
- client segmentation
- growth of assets
- years in business

*See **CNBC's Top 100** on Page 7*

Market Sentiment: Cautiously Optimistic



A consensus sentiment is developing among stock market investors: cautious optimism. After an unexpected decline in first quarter GDP, the majority of economists and investors anticipate a strong recovery in the current quarter and the second half of the year. However, despite the optimistic economic outlook, investors remain concerned that the stock market may be heading for an 8% to 10% pullback. The growing sentiment is often accompanied by several market themes that help justify this group thinking.

One of the trending themes is the complacency among investors. A widely referenced measure of investor complacency is the Volatility Index (VIX). The VIX attempts to capture the expected future volatility of the market and the greater the value, the more volatility is expected in the market. Over the past ten years, the S&P 500 VIX has averaged a value of 20, with periods of economic and market uncertainty captured by significant jumps in the index. Today, the VIX is trading at 11.0 (Chart 1), close to the 10-year low of 9.9 recorded in January of 2007 – thirteen months before Bear Stearns needed a bailout by J.P. Morgan. While most investors would acknowledge that volatility may remain low for an extended period of time, it rarely does in the face of significant economic and geopolitical uncertainty.

Geopolitical risk is one uncertainty that continues to escalate as the year unfolds. We have witnessed a low-intensity battle in the Ukraine and instability in Iraq. While both conflicts currently appear to be contained within geographic borders, the economic consequences could be felt globally. The Ukrainian conflict could disrupt international trade between many developed nations including the U.S., Russia, the European Union and China, while the Iraqi sectarian fighting could upset energy markets if there is any disruption of the oil fields of the world's seventh largest oil producer. The geopolitical risks are developing at a time when global economic uncertainties are also building.

Over the past two months, foreign central banks have increased their stimulus measures, with China attempting to navigate a soft landing amidst slower economic growth and a growing debt balance, Japan ramping up its money printing efforts and the European Union introducing new steps to combat deflationary pressures. While the Federal Reserve has watched its foreign counterparts take action to increase stimulus, it has been reducing its stimulus measures with an anticipated exit from outright asset purchases by the end of the year.

It is the potential end of Quantitative Easing 3 (QE3) that may introduce the most volatility into U.S. markets. As the Federal Reserve ends its purchases of Treasury bonds and mortgage securities, the bond market will lose its largest buyer. The reduced demand could result in higher interest rates and a test of the U.S. economy. The last two times the 10-year Treasury yield hit 3.0%, the economy slowed (Chart 2). The net economic effect will be determined by whether the recent labor market improvements, consumer confidence and prospects for business spending are sufficient to absorb higher interest rates.

If the improved business and consumer sentiment surveys translate into higher overall spending, the economy should accelerate through the remainder of 2014. The better economic conditions would also enhance corporate profits and give stock investors a reason to remain optimistic. Greater interest rate volatility and a decrease in overall investor complacency are also likely to occur as we progress through the second half of the year, perhaps justifying the cautiously optimistic sentiment most market participants currently share.

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

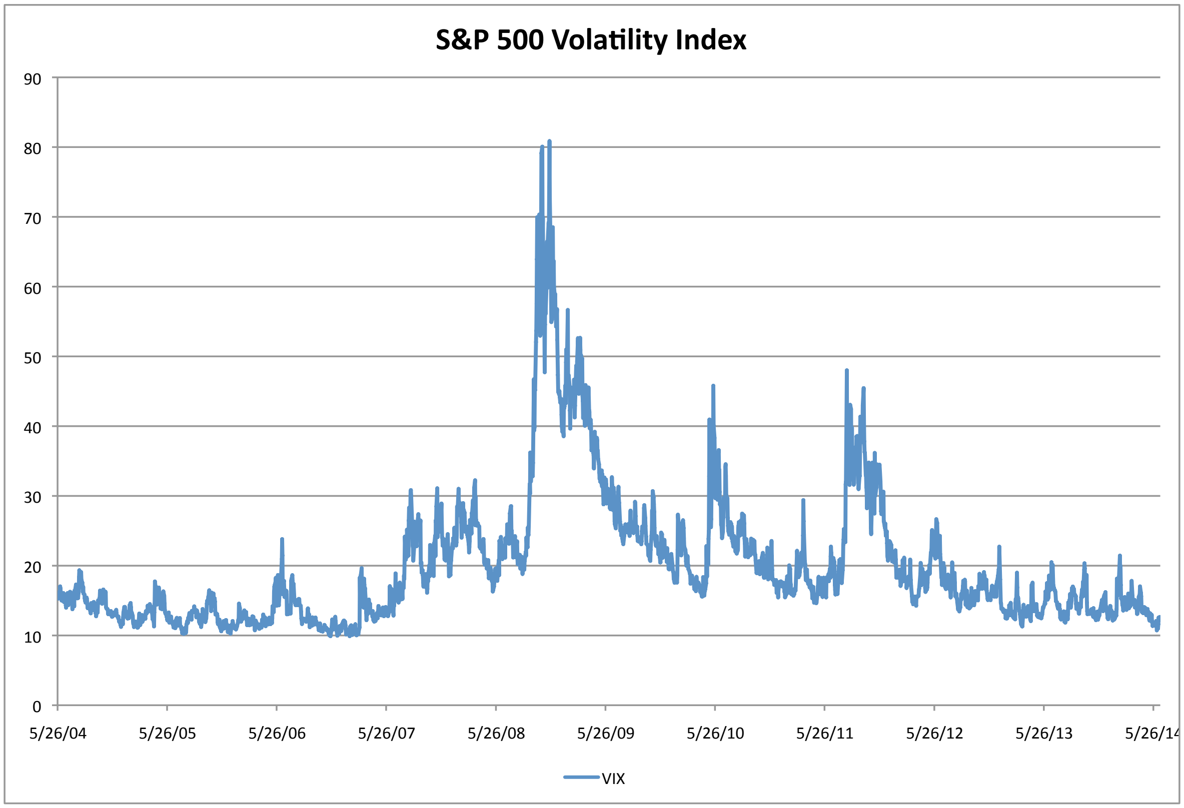


Chart 1

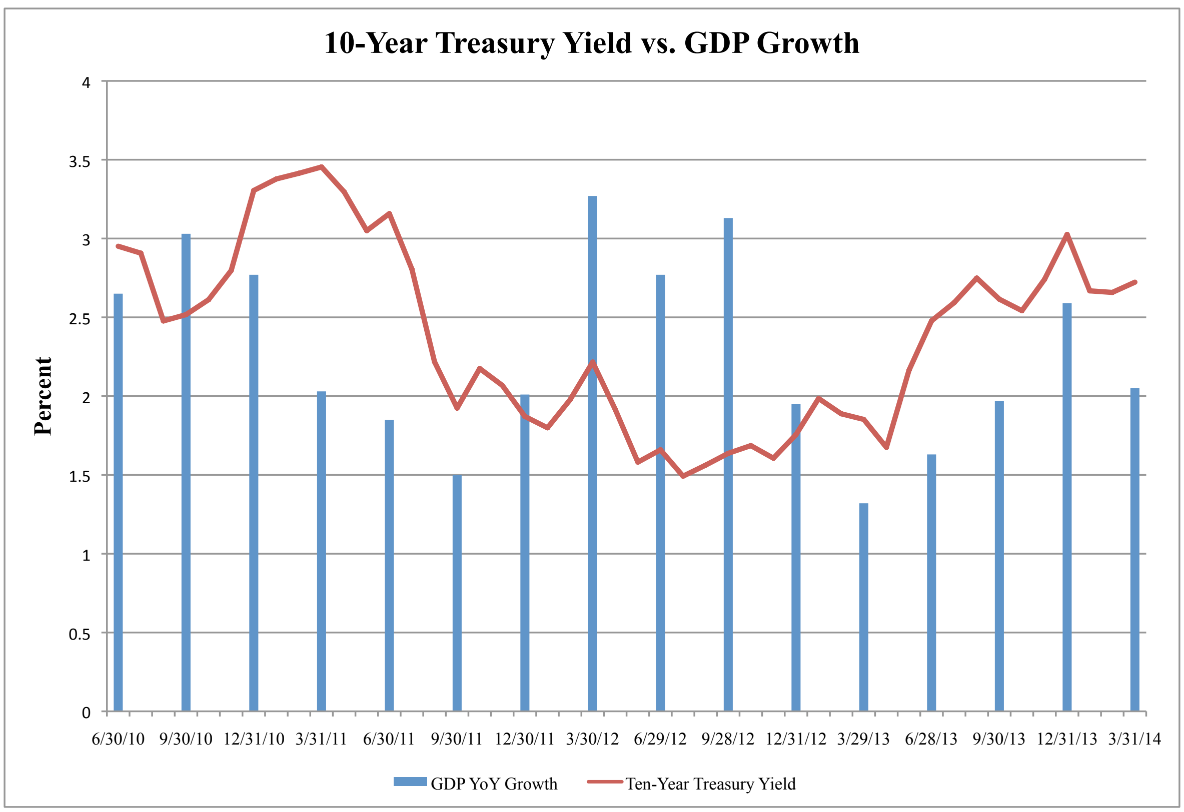


Chart 2

Source of charts: Bloomberg.com

Photos from our 30th Anniversary Celebration

Your Investment, Tax and Insurance Team!

Joe Valicenti, Jeff Naylor and Vince Valicenti (from left to right) – Proud owners of VASI.

Suzanne Valicenti and Kate Schermerhorn (from left to right) – Your Insurance Team.

Valicenti Advisory Services, Inc.

Asset management as individual as you

Vince Valicenti thanks Ralph Roberts, Jr. for 20 years of service to the firm.

Joe and Josephine Valicenti.

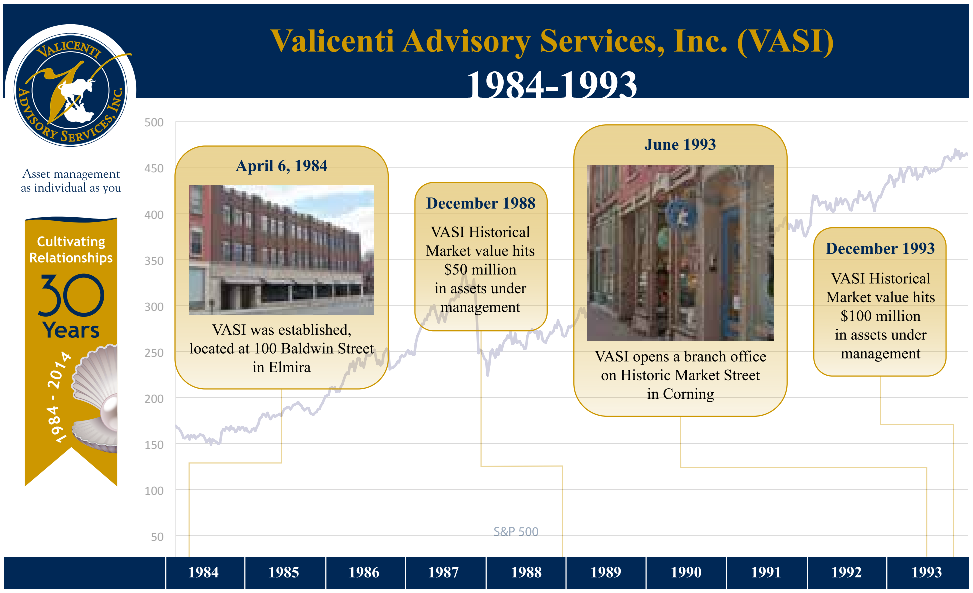
Paul Hornbuckle and Liz Zarnoch – Tax Managers.

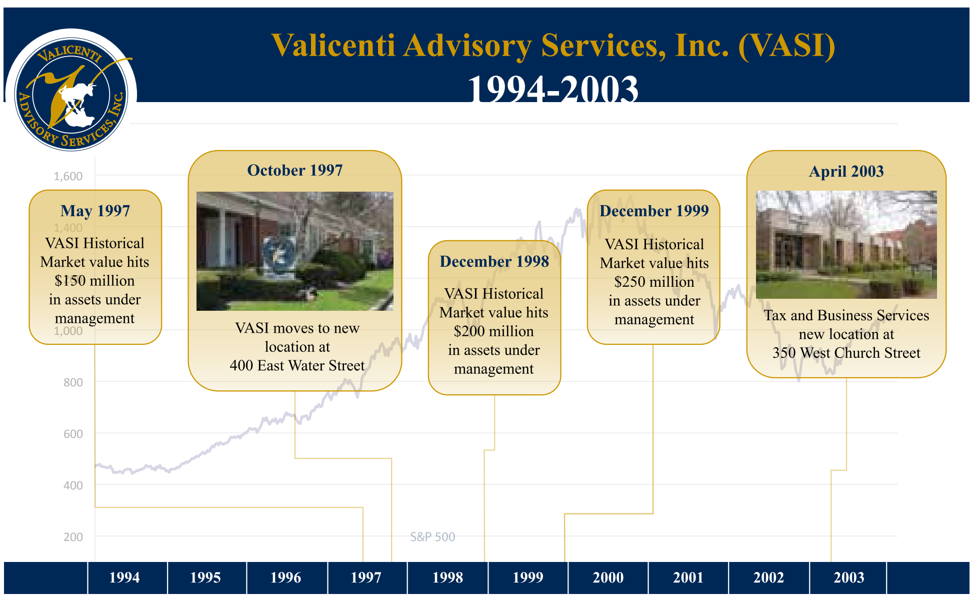
Jeff Naylor and Joe Valicenti (left to right) drawing the prize for the evening.

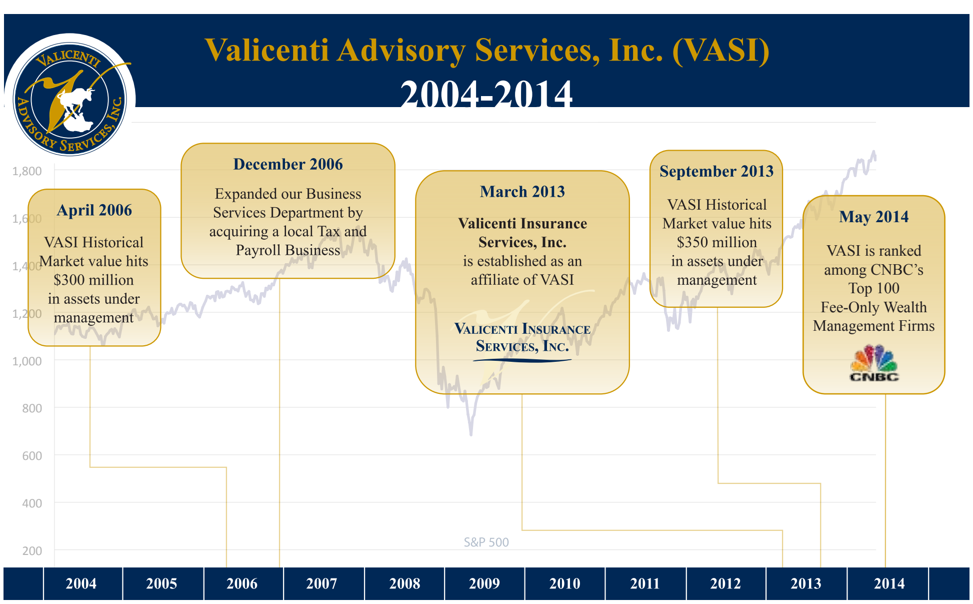
Cultivating Relationships for 30 years

Our Clients Come First

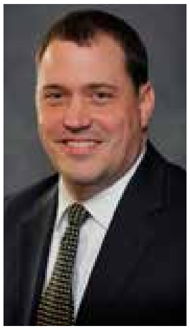
30 Year Highlights of VASI







Employee Spotlight



Daniel P. Burchill

Connie S. Blank

We are pleased to announce that Daniel P. Burchill and Connie S. Blank have recently joined our firm.

Dan is originally from Binghamton, NY and is a graduate of the University of Rochester with a Bachelor of Arts Degree in Economics and is presently attending on weekends the U of R's Masters in Finance Program in NYC, which is designed for working professionals. Dan began his career at the Bankers Trust Company in NYC and also worked at CIBC Oppenheimer where he traded in the fixed income and equity markets. He served as an officer in the U.S. Army and is a distinguished military graduate of the U. S. Army's officer candidate school.

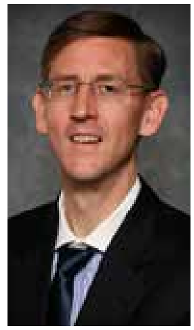
Dan's responsibilities include security analysis, trading and assisting the portfolio managers with portfolio management tasks and special projects.

Connie first started in November 2013 and accepted the position as receptionist in April 2014. Prior to joining VASI, she was employed as a project administrative assistant with Alstom Transportation and Corning Inc. with years of professional experience in the manufacturing and customer services related industry. Throughout her career, she has completed courses through Alfred State College, Corning Community College and BOCES in the fields of office technology, accounting, computer software systems and database management.

Connie's current duties include answering and directing phone calls, receiving clients and vendors, office supply ordering, distribution and handling of mail and client correspondence and supporting the staff.

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

Investment Strategy



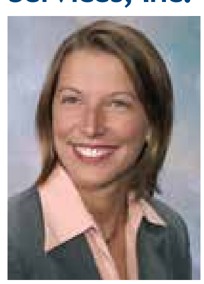
The second quarter of 2014 had modest improvement in both the U.S. economy and the U.S. equity markets. While many headwinds still exist, the economy and the markets remained resilient.

Consumer spending showed positive improvement, along with increasing consumer confidence. Banks also demonstrated a positive step with a modest loosening of lending standards.The second half of 2014 should likely show a pickup in capital expenditures.

With all of that in mind, we remain cautiously optimistic for the second half of 2014. Our focus remains on larger companies that continue to show positive earnings growth and improving balance sheets. We maintain flexibility with our asset mix as economic and earnings information continue to develop. Our equity allocation remains in a range of 40% to 65%, fixed income in a range of 25% to 35% and cash from 10% to 20%. The asset mix will vary based on client specific goals, risk tolerances and income needs.

Jeffrey S. Naylor
Executive Vice President/CFO

Valicenti Insurance Services, Inc.



We are pleased to announce that in addition to being licensed to write personal coverage in New York State and Pennsylvania, Valicenti Insurance Services, Inc. is licensed to do business in North Carolina, South Carolina and Florida. This broadens our ability to meet our clients' overall insurance needs.

Please contact myself or Kate Schermerhorn at (607) 215-0242 or visit us on the internet at www.valicentiins.com.

Suzanne M. Valicenti
Vice President/Director of Insurance Services

CNBC's Top 100

(continued from Page 2)

- number of advisory clients
- providing advice on insurance solutions

Firms with greater AUM totals were given a higher ranking in the case of numerical ties of the above formula. The Meridian/AdviceIQ team then applied the formula to the Meridian-IQ database of all RIAs to create the list. The final step to create the Top 100 Fee-Only Wealth Management Firms list for CNBC.com was to apply the AdviceIQ Regulatory Compliance Review (RCR) process to the master list and eliminate any firm that failed the RCR process. The RCR process is a due-diligence process whereby each advisory firm was compared to the RCR database of all regulatory actions from all four primary regulators: SEC, FINRA, state regulators and state insurance commissioners. In order to pass the RCR process, an advisory firm cannot have any complaints, actions or disclosures from any of the above regulators.

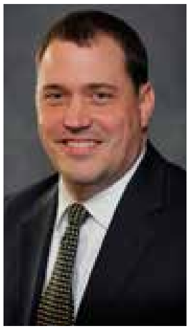
Valicenti Advisory Services, Inc. is also celebrating 30 years of cultivating relationships this year. It is proud of its long history. The firm's collective wisdom yields valuable, demonstrable advice that has met the needs of its clients for thirty years and it remains committed to cultivating new and existing relationships long into the future.

Joesph M. Valicenti
President/CEO

Electronic Delivery of Client Statements

In the effort of trying to go paperless for the environment and at the request of our clients, we are pleased to announce that electronic delivery of your investment statements is now available. If you are interested in this service, please contact Ann Nolan, Kelly Diehr or Melissa Dixon with your current email address to start the process.

Market Symmetry



The first half of the year challenged widely held beliefs coming into 2014 regarding the trajectory of interest rates, anticipated sector performance and the expected pace of growth in the U.S. economy. In the face of medium intensity conflicts in the Middle East and Ukraine and a general uptick in geopolitical anxieties, the equity and bond market complexes have responded with resilience and low volatility. While broader equity measures have performed positively, small cap and higher valuation momentum growth names avoided more serious technical damage after coming under significant pressure early in the year and have since rebounded off of key support levels. Although U.S. 10-year yields have moved lower this year, rates in the U.S. still remain higher relative to other developed nations such as Germany and Japan. This appears to be enabling the Fed to drive on with removing extraordinary policy support without a more serious backing up of rates in the short to intermediate term. Against a more neutral current investor outlook, we are looking for further discovery in the second half of the year as to the level of growth in wages and hours worked, business productivity and business capital expenditures in order to develop our view of employment health, pace of economic expansion, and outlook for corporate earnings.

Positive Influence	Negative Influence
Consumer Confidence	Chinese Credit & Growth Concerns
Low Interest Rates	Iraq & Syria Conflicts
Improving HoursWorked/Avg. Hourly Wages	Ukraine Conflict
Improving Household Balance Sheets	Crude Oil Price
Adequate Financial Sector Liquidity	Peak Corporate Profit Margins
European Central Bank Action	Restricted Bank Lending
Automobile Sales	Fed Taper
Lower Global Interest Rates	Suppressed Volatility

Positive Market Influences:

- Consumer Confidence – Consumer confidence is at the highest level since 2007. The increased confidence should continue to be supportive of higher levels of consumer spend.
- Low Interest Rates – The Federal Reserve continues to signal that it will keep the overnight policy rate low for some time.
- Improving Hours Worked & Average Hourly Wages – After disappointing Q1 growth there was a bounce back in the wage and employment measures in Q2. Continued expansion in growth rates and the development of a longer term trend are needed to provide more impact longer term.
- Improving Household Balance Sheets – Households have significantly repaired their balance sheets and increased their savings since the 2008-09 recession.
- Adequate Financial Sector Liquidity – The Federal Reserve has pumped the U.S. banking sector full of money with banks now holding nearly $2.0 trillion in excess reserves.
- European Central Bank Action (ECB) – Avoiding outright quantitative easing for now, the ECB increased efforts to provide unlimited access to liquidity for the banking sector by cutting the main overnight rate to near zero. The monetary authority also began charging a negative rate on deposits in order to provide an incentive to lend.
- Automobile Sales – Auto sales are one of the largest retail ticket items in the economy and annualized sales have nearly returned to pre-recession levels.
- Low Global Interest Rates – U.S. 10-year rates stand at 2.6% relative to 0.60% in Japan, 1.32% in Germany, and 1.67% in France supporting global flows towards U.S. paper.

Negative Market Influences:

- Chinese Credit & Growth Concerns – After a multi-year investment binge fueled by an expansion of credit which produced significant growth levels in the country, planners are managing a reform process to put the nation on a sustainable growth path.
- Iraq & Syria Conflicts – Continued Middle East turmoil and the failure of the Iraqi Army to guard against an external threat has led to increased concerns that a wider sectarian conflict will ignite within the country and region.
- Ukraine Conflict – A power struggle for eastern Ukraine continues between Pro-Russian and government forces feeding general geopolitical anxiety.
- Crude Oil Price – Brent Crude trading near $115 a barrel may impact negatively on growth if current levels are sustained or push higher from here.
- Peak Corporate Profit Margins – Corporate profit growth has decelerated due to a near-term peak in profit margins.
- Restricted Bank Lending – Cautious lending practices have been prohibitive to growth in the economy. Trend growth is turning modestly positive and Regional Bank loan portfolios have continued to increase relative to some of the majors.
- Fed Taper – The Federal Reserve continues to taper outright asset purchases. Current support level stands at $35 billion a month.
- Suppressed Volatility – Extraordinary policy actions globally have seemingly produced a suppressed level of market volatility across equity, bond and currency markets. Persistent low levels of equity volatility builds on fears that a trend reversal in equity prices is around the corner.

Daniel P. Burchill
Security Analyst