Advisory Notes

December 2017

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Asset management as individual as you

A Year to Remember

As we turn the page on 2017 and look forward to 2018 and beyond, we have many issues to reflect upon. The S&P 500 will post, as of this writing, a 20% + return for the year (See Market Table). The global markets have rebounded as monetary policy creating "easy" money has lifted the Morgan Stanley Capital International All Country World Index (MSCI ACWI) for twelve straight months, setting a record for the last thirty years. Not only is the U.S. gross domestic product (GDP) beginning to accelerate, global GDP is also heading in a positive trend, as reflected by its returns.

Volatility remained low throughout 2017, but could get a slight uptick in 2018 as the market digests the new tax reform bill passed and signed, late in December. Consumer confidence is at a new high and investors and consumers alike are feeling more confident as monetary policies subside and fiscal stimulus gains traction to boost economic growth above 3% for the first time in a decade.

Although our country experienced horrible natural disasters this year, severe geopolitical tensions and historic infighting within the beltway, we feel optimistic going into 2018 with the tailwinds of the fiscal stimulus policy, strong corporate earnings, reasonable market valuations and higher consumer confidence.

Our team at VASI is here to guide you through the next financial hurdle and to meet your individual goals and objectives. From our home here at VASI to your home, we hope you had a wonderful holiday and we wish you a prosperous and healthy New Year!

Joseph M. Valicenti
President/CEO

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 12-31-16 THROUGH 12-31-17

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	U.S. Treasury Bill Index (90 day)
12-31-16 to 03-31-17	5.19	6.07	9.82	2.12	1.73	1.27	0.03
03-31-17 to 06-30-17	3.95	3.09	3.87	2.12	2.15	2.53	0.16
06-30-17 to 09-30-17	5.58	4.48	5.79	5.33	1.16	1.27	0.34
09-30-17 to 12-31-17	10.96	6.64	6.27	2.99	0.82	1.24	0.28
YTD Returns 12-31-16 to 12-31-17	28.11	21.83	28.24	13.14	5.99	6.46	0.82

Director's Chair

Every president since Carter has passed a significant piece of legislation, by November 30th of his first year in office. Carter had the Mine Safety Act and the Housing Community Development Act. Reagan had tax cuts and a repeal of dairy price supports. George H.W. Bush raised the minimum wage. Bill Clinton had the Family Leave Act, the National Voter Registration Act, the Religious Freedom Restoration Act, the Brady Handgun Act, and a tax increase. George W. Bush had tax cuts enacted. Obama passed a stimulus program and Cash for Clunkers. Each of these legislative efforts drew some support from the opposition party because an America tradition states that a President that wins an election is given a certain amount of deference to his legislative priorities, even by his opposition.

The current administration has had zero significant legislative wins, as it had been opposed unanimously by the minority party and faced some resistance from within its own party. If politics is going to devolve in this country to giving zero support by whomever is the opposition party, this country will not be able to deal with its long-term structural problems with entitlements, Social Security, Medicare, aging infrastructure, public education, drug addiction and declining manufacturing employment to name a few.

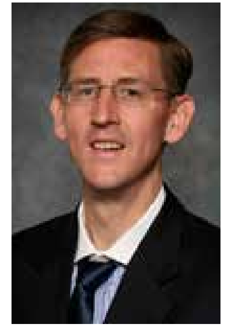
The national debt taken on by many previous administrations leaves little fiscal wiggle room to deal with the coming problems of the next two decades and, if politicians are ineffective, our demographic and structural problems will move the United States from superpower to being demoted in significance in the future. Obstructionist politicians are part of a larger problem, the current era of zero compromise, which includes far more politicians than can be named, but that will result, if this continues, in lower stock market returns and a lower standard of living for all Americans. As of this writing, it appears there are sufficient votes to pass tax reform legislation, which will be positive for a majority of Americans although there will be some who will be negatively impacted. This is still a far cry from the amount of legislation needed to ensure domestic growth and prosperity. Bipartisanship is needed if we are to improve the economic position of the American people.

Louis F. Ruize
Director of Research/Portfolio Manager

Cultivating Relationships for over 30 years

Our Clients Come First

Investment Strategy



Happy New Year! With 2017 behind us, let's recap some of the issues that impacted 2017 and what may impact 2018.

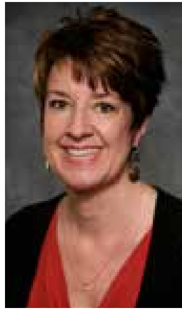
Once again, the U.S. equity markets continued to climb a "wall of worry" in 2017. These worries ranged from continued political uncertainty from both Washington and abroad, concerns over the Federal Reserve raising rates too much and too fast and natural disasters throughout the country, just to name a few.

While there were many reasons to fear the markets in 2017, there were also positive drivers, starting with the Federal Reserve and the rate policy. Overall, inflation remained in check and allowed the Fed to be more dovish than initially expected. This kept rates lower than some had forecasted. The main impact came from better than expected earning and economic growth both at home and abroad. Many companies hit record revenue and earnings growth and so too did their stock prices.

Looking forward into 2018, we see politics in Washington and abroad in the forefront of investors yet again. However, we continue to see a path were the U.S. equity markets can continue to move higher despite the news headline risk of Washington. The effects of the recent tax reform act remain to be seen and an area of focus will be on how it will impact corporate earning going forward. As such we will continue to look for companies that show growth in earnings, positive cash flow and improving balance sheets. Our asset mix will remain flexible with equities in a range 40-65%, fixed Income 25-30% and 5-15% in cash, as we look to take advantage of buying opportunities when they present themselves. This asset mix will vary based upon client specific directives, needs for income, and risk levels.

Jeffrey S. Naylor
Executive Vice President/CFO

Consider the Rule of 55



As part of the fiduciary responsibility when discussing employee benefit plans under the Employee Retirement Income Security Act of 1974 (ERISA) and plans under the Internal Revenue Code of 1986, including individual retirement accounts (IRAs), we must consider what is in the best interest of the individual. Clients and prospective clients considering a rollover from a qualified employer sponsored workplace retirement plan to an IRA are encouraged to investigate and to deliberate the advantages and disadvantages of an IRA rollover from their existing plan.

A plan participant leaving an employer typically has four options (and may elect a combination of these options), as follows:

1. Leave the money in his former employer retirement plan, if permitted,
2. Rollover the assets to his new employer's plan, if one is available and if rollovers are permitted,
3. Rollover employer retirement plan assets to an IRA, or
4. Take distribution of the employer retirement plan assets and pay the taxes due.

To discourage the use of retirement funds for purposes other than normal retirement, the IRS imposes an additional 10% tax on early distributions from qualified retirement plans, such as 401(k) and 403(b) plans, and IRAs before reaching age 59½. (In general, an eligible state or local government section 457 deferred compensation plan isn't a qualified retirement plan and any distribution from such a plan isn't subject to the additional 10% tax on early distributions.)

One exception to the 10% early distribution penalty that is often overlooked by early retirees, however, is the "Rule of 55" or "Age 55 Rule." If a participant is 55 years old or older in the year that he leaves his job and he feels he may need to take a withdrawal of some or all retirement plan funds before reaching 59½, he should leave the money in his company plan. The reasoning is because one can take penalty-free withdrawals from a company plan if he is at least age 55 in the year he retires and leaves his money in the former employer's plan. The "Rule of 55" only applies to assets in his current employer's plan – the plan at the job he's now leaving at age 55 or older. It's the year someone separates from service that matters, not the distribution date. To qualify for the penalty exception, separation from service must occur in the year the person turns age 55 or older.

The age 55 exception does not apply to IRA distributions. So, if a plan participant knows he may need to access some of his retirement money, he would be wise not to rollover the amount to an IRA without considering the "Rule of 55". Unfortunately, not all employer plans allow partial distributions following separation of service, so complete plan options need to be determined to make a sound decision. (Also remember that retirement distributions are still subject to income taxes.)

Another way to take money out of a 401(k), a 403(b) and even IRA retirement assets if you leave a job before the age of 59½ is known as the Substantially Equal Periodic Payment or SEPP exemption. It's an IRS Section 72(t) distribution, where substantially equal distributions based on your life expectancy are taken for at least five years or until age 59½, whichever is longer. These distributions can occur at any age and they are not bound by the same age 55 threshold as the "Rule of 55". Although this method of distribution also avoids the 10% early withdrawal penalty, 72(t) payments often force individuals to take more from their retirement accounts than really needed.

The ability to take money out early, especially penalty free, can be a great safety net for those who find that they must retire before age 59½. If it's possible to hold off, it usually makes more sense to let the retirement money continue to grow untouched. If you expect to live a long life, early distributions may put your future income at risk. Consider the timing of all portfolio withdrawal decisions carefully. Work with your retirement plan administrator, your financial planner and your investment and tax advisors to create a sustainable income strategy. We are here to help you make the best decisions for your personal situation.

Kelly S. Diehr, RP®
Administrative Assistant

Analyst Corner

Overall market performance in Q4 has been extremely robust, as the S&P 500 has returned 7.25% quarter to date on a total return basis, while the fixed income market has returned 1% as measured by the Barclays U.S. Aggregate Corporate Credit Index. These overall benchmark indices are up an extremely strong 22.5% and 6.2% respectively for the year. The only episode that produced some counter trend action was in early November, as fears about tax reform failure emerged and hourly earnings data disappointed significantly versus expectations. These concerns were quickly shrugged off and positive momentum was easily regained.

On the sector front, Information Technology was once again the driver in the quarter, as has been the case throughout this year. Technology names are up over 10% in the quarter and almost 40% year-to-date led by companies such as Google, Apple, Facebook and Microsoft which have all seen tremendous individual gains. Healthcare, Consumer Discretionary driven by Amazon and Netflix and Financials are sectors which have all seen 20%+ gains year-to-date. The one notable turnaround in the quarter was seen in the Telecommunications Services sector which has lagged this year due to strong competition and pricing pressures. In the middle of November, Verizon began an 18% rally, while AT&T pushed 14% higher indicating a turnaround in the perceived prospects for next year.

As 2017 concludes and we move into 2018, market participants know that anticipated global monetary policy changes and accelerating intermediate term growth projections combined with tax changes here in the U.S. are significant departures from the status quo dynamics of recent years. What the market will be absorbing throughout next year will be the resulting changes on individual and corporate suite behaviors, inflation and expected future inflation dynamics, interest rates, corporate earnings, capital flows and capital market prices.

Positive Market Influences	Negative Market Influences
Strong Intermediate GDP Trend	Budget Deficit
Subdued Inflation	Monetary Tightening
Tax Reform	Weaker Wage Gains
Capex Recovery	Long-Term Growth Concerns
Manufacturing Sector Strength	

Positive Market Influences:

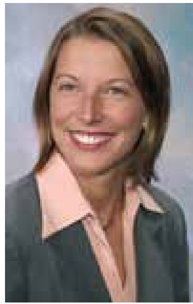
- **Strong Intermediate GDP Trend** – We are approaching three straight quarters of annualized real GDP growth above 3%. Global trends are similar which yields a strong dynamic for U.S. multinationals operating abroad.
- **Subdued Inflation** – The Personal Consumption Expenditures Price Index is up 1.59% YoY, but is down from 1.80% at the beginning of the year. The softening trend is good for consumers especially given reasonably positive income trends.
- **Tax Reform** – Providing a tailwind to businesses and consumers, the reform package may go some way towards getting corporate decision makers comfortable with aggregate demand once again and, therefore, willing to invest in the labor and capital which should lead to productivity gains.
- **Capex Recovery** – New orders for non-defense capital goods have grown 3.75% over the last year. This number was running negative to the tune of mid-single digits in 2016, indicating that the dataset had troughed.
- **Manufacturing Sector Strength** – The ISM Manufacturing Survey, capacity utilization rates and industrial production numbers all show a positive trending and a growing manufacturing sector.

Negative Market Influences:

- **Budget Deficit** – Depending on how the long-run growth rate in the U.S. economy shakes out, there are concerns post tax reform that the budget deficit is set up to weaken in the future given the strain on entitlements due to the demographic projections in the country.
- **Monetary Tightening** – Though the tightening posture of central banks around the world has been slow and incremental, there are concerns that ultimately, the waning flow of liquidity that has been provided in earnest over the recovery years will upset markets eventually.
- **Weaker Wage Gains** – While aggregate income is clearly trending up as production and non-supervisory workers are being offered more hours, middle income hourly earning rates are not breaking higher to the degree that many would like. Average hourly earnings are growing 2.47% YoY, but this is the slowest this measure has been in two years.
- **Long-Term Growth Concerns** – At present, the global economy is performing quite well and central bankers have upgraded their near-term real growth forecasts going into next year. However, developed market demographics, crisis era bias and concerns about debt are still dampening expectations about longer-run growth.

Daniel P. Burchill
Security Analyst

2018 Resolutions



A new year means new beginnings and most often a time that we resolve to make a fresh start. Making a fresh start often means getting more organized, creating a budget, living a healthier lifestyle and boosting a financial safety net. This is certainly a great time to review your insurance coverage to be sure it's adequate to help secure your financial safety and to avoid future property and casualty insurance claims.

There are several ways you can protect your financial well-being by resolving to follow a few recommendations.

1. Know what you have in your home
Damaged property after a fire or natural disaster can be devastating and filing the insurance claim can be overwhelming. A home inventory that you've kept up-to-date can help you justify the items that you're claiming.

The inventory can be neatly handwritten, on an Excel spreadsheet, on a form downloaded from the internet, in a video of your belongings, in information added to an app or in some other form of record. What's important is that every item is accounted for, with as much detail as possible. At Valicenti Insurance Services, Inc., we have resources to assist you with this process.

2. Review your insurance policies
Take time to review your insurance policies and their included endorsements, which are a key part of any insurance contract. The key to making a claim is understanding your policies and making sure you carry adequate limits.

For auto and home insurance, look for the policy's declarations page. Make sure you understand the limits and deductibles of each policy. Schedule an appointment with one of our agents who can walk you through your existing coverages and make any necessary recommendations based on your current needs.

3. Review and improve your credit
Most insurers now use a credit-based insurance score to underwrite your policy. This score is one of the most important and statistically valid tools to predict the likelihood of a person filing a claim and the likely cost of that claim.

Credit-based insurance scores are based on information like payment history, bankruptcies, collections, outstanding debt and length of credit history.

Having an adverse credit history can affect your auto insurance rates more than your actual driving record. There are only three states in the nation, California, Hawaii and Massachusetts that do not allow this practice.

4. Understand your health insurance coverage
One reason insurance issues can be so confusing is that the healthcare market is constantly changing and the coverage plans offered by insurers are hard to categorize. In other words, the lines between HMOs, PPOs, POSs and other types of coverage are often blurry. Still, understanding the makeup of various plan types will be helpful in evaluating your options.

Many employer sponsored plans and individual policies today are considered qualified high deductible health plans. With these types of plans, you may have a Health

See **Resolutions** *on Page 8*

For ALL Your Insurance Needs

Personal Insurance
- Auto
- Homeowners
- Umbrella
- Recreational Vehicles
- Motorcycle
- Watercraft

Life & Health Insurance
- Life
- Long Term Care
- Disability

Business Insurance
- Property
- Liability
- Automobile
- Professional Coverages
- Workers Compensation
- NYS Disability

Group Benefits Plan
- Health Insurance
- Dental Insurance
- Life Insurance
- 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.

The Tax Cuts and Jobs Act

As I have discussed in a few articles prior to this, the White House has been determined to change the current tax law. Well, it looks like they pulled it off! This bill, the Tax Cuts and Jobs Act, will affect most Americans and the taxes that they file. Many of the provisions are temporary and are set to expire after seven years.

Let's start with the tax brackets. The Act keeps seven tax brackets, but changes the tax rates, which shifts income into lower brackets. The long-term capital gains tax rates remain essentially unchanged and short-term capital gains will be taxed at the adjusted ordinary income tax rates.

Most taxpayers will owe less under the new rules, according to analyses by various independent think tanks, including the Tax Foundation and the Tax Policy Center. The impact of the changes will depend on each taxpayer's income level, amount of itemized deductions and other factors.

The Act nearly doubles the standard deduction to $12,000 from $6,350 for single filers and to $24,000 from $12,700 for married filers. About 70% of taxpayers claim the standard deduction, so most taxpayers claiming this deduction likely will benefit from this proposal.

The Act reduces or eliminates many itemized deductions in favor of a higher standard deduction. The itemized deductions that will be reduced or eliminated include:

- State, local, and property taxes will be limited to a $10,000 deduction.
- Mortgage interest deduction will be limited to $750,000 of indebtedness. The home equity loan interest deduction would be repealed through 2025.
- Casualty losses are limited to only those associated with a presidentially declared disaster area.
- Miscellaneous itemized deductions have been repealed through 2025.

The itemized deductions that will remain are as follows:

- Medical expenses: The Act keeps the deduction for medical expenses and temporarily reduces the limitation from 10% to 7.5% of adjusted gross income for tax years 2017 and 2018. Beginning in 2019, only medical expenses that exceed 10% of adjusted gross income are deductible.
- Charitable donations: The Act maintains all the major charitable donation deductions, with the exception of few specific deductions (such as the deduction for payments made in exchange for college athletic event seats).

Should you be in a high-income household in a high-tax state, with a mortgage and high property taxes, these changes could end up increasing your tax liability. If you do not normally itemize your deductions, however, these changes will not be an issue and the increased standard deduction should end up benefiting you.

The Act increased the child tax credit to $2,000 from $1,000 and the income level of households eligible for the credit. The tax credit is fully refundable up to $1,400 and begins to phase out for married/joint filers at income of $400,000 and for single filers at $200,000.

Tax credits are generally better than tax deductions because credits reduce your taxes dollar-for-dollar, while deductions only lower your taxable income and the tax benefit is based on the tax rate that your income is subject to. This change would benefit low- and middle-income households with children.

The Act eliminates the $4,050 personal and dependent exemption. When combining the increased standard deduction and the revised child tax credit, lower- and middle-income households should see an increase in tax benefit, even though certain deductions are being eliminated. On the other hand, higher-income taxpayers could see an increased tax bill from the Act if they have large families and will not qualify for the child tax credit, due to income phase outs within the Act.

The Act increases both the exemption amount and the exemption amount phase out thresholds for the individual AMT. Beginning in 2018 and ending in 2025,

See **Tax Cuts** *on Page 7*

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- Analysis of business direction and strategic planning
- Fringe benefit evaluation

Tax Cuts

(Continued from page 6)

the AMT exemption amount is increased to $109,400 for married taxpayers filing a joint return and $70,300 for all other taxpayers. The phase-out thresholds are increased to $1 million for married taxpayers filing a joint return and $500,000 for all other taxpayers. These changes should benefit many middle- and high-income households that were previously affected by this tax.

Alimony paid subject to an agreement of divorce or separation executed after December 31, 2018, will not be deductible by the payer spouse and the Act has repealed taxability of such payments by the payee spouse.

Moving expenses as a deduction are repealed through 2025 except for certain members of the armed forces on active duty.

Educator's classroom expenses were not changed under the Act and will remain at $250 as an above the line deduction for educator's expenses incurred to purchase classroom materials.

The Senate tax bill had a provision in it that would have required investors to use the "first-in, first-out" (FIFO) method to calculate cost basis for investment sales. This provision is not included in the Act.

The pass-through income deduction contained in the Act is complicated and it includes numerous changes to the taxation of income from pass-through entities such as S corporations, limited-liability corporations and partnerships. In general, the tax bill allows businesses to exclude 20% of their net income from taxation with certain limitations, like maintaining employees. The deduction would be disallowed for personal service entities, such as lawyers, doctors and accountants and businesses with income above a threshold. Overall, the changes to the taxation of pass-through entities will work out well for many business owners, unfortunately not for those businesses involved in transactional or personal service income.

The Act reduces the corporate tax rate from 35% to 21%. Lowering the corporate tax rate will increase the profits of many companies, which could provide additional capital for business expansion, increase dividends to shareholders and make the U.S. a more attractive place for businesses to open operations, including foreign companies. The additional hope is that hiring more employees may happen as a result of this new found cash flow.

It is important to remember that the impact of any of these changes on your personal tax liability will depend on your specific circumstances. In addition, the individual components of your tax bill, including earned income, credits, deductions and other factors work together, like interacting gears; therefore, each factor should not be assessed solely in isolation.

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

Employee Corner

Melissa Mickley

Melissa Mickley recently passed the Registered Paraplanner[SM] exam. The Registered Paraplanner[SM] 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 Managers by responding to client questions or concerns and by monitoring the client's progress with his/her financial plans.

Melissa joined our firm in January 2008, as the receptionist in our Tax Department and became the marketing assistant in our Marketing Department in 2010. She became the administrative and marketing assistant in 2014. Her duties involve working with Ralph H. Roberts Jr., Vice President of Client Services on media and marketing coordination, business development, website management and associated administrative duties. She also works as support staff for the portfolio managers with client communications, client presentations and scheduling client meetings.

Now, all three of our administrative assistants have achieved the Registered Paraplanner[SM] designation. This achievement bodes well for our firm both now and in the future.

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

Resolutions

(Continued from page 5)

Savings Account (HSA) in that you elect an annual contribution which will be deducted on a pre-tax basis from each of your paychecks in equal amounts. These contributions are to help you pay for current and future healthcare costs that your insurance does not cover. What funds you have left over at the end of the year will stay and continue to grow tax-free, as long as you use it for medical costs. The maximum contribution allowed by the IRS is $3,450 for an individual and $6,900 for a family. There is also a $1,000 catch-up provision allowed for those participants age 55 and older.

For those that have a traditional type of insurance contract, you may have the availability to contribute funds to a Flexible Spending Account (FSA). Your health and/or dependent care FSA contributions for 2018 must remain in effect through December 31, 2018. IRS regulations do not allow you to increase, decrease or stop your contributions during a plan year unless you have a qualified life event such as marriage, divorce, birth, death, etc. The maximum contribution allowed by the IRS for a medical flexible spending account is $2,650 for an individual or family and the benefit also allows for a pre-tax dependent care component of $5,000 for qualified dependent care. If you have additional questions on these types of pre-tax benefits or health insurance coverage, please contact our office for a review of your current coverage.

5. Download your insurers' apps

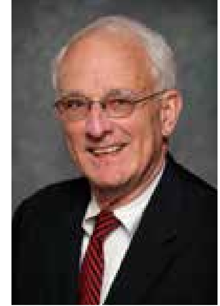
Most states allow drivers to provide electronic proof of car insurance during a traffic stop. That means you no longer have to remember where you put your paper insurance card.

Insurers will even let you start a claim, review your policy and pay your bill on their app. In a mobile environment, having this information at your fingertips can be helpful in certain situations. We are always a phone call away and can assist you with all of these services as well.

As 2017 comes to a close and we look forward to a prosperous new year, all of us at Valicenti Insurance Services, Inc. would like to take this time to thank you for your trust and relationship. We pride ourselves with serving you and are here for all your insurance needs.

Suzanne M. Valicenti
President/CEO

Thank you



33 years! My, my, where has the time gone?

We have much for which to be thankful. Our diverse and loyal clients and our hardworking and dedicated staff who working together as a team continue to help us "Cultivate Relationships" while always adhering to our motto *"Our Clients Come First."*

As this is being written, our various departments are focused not only on what is at hand, but also on the normal year-end duties and planning for 2018.

From all of us to all of you, we wish you a prosperous and safe New Year.

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

Asset management
as individual as you

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

Cultivating Relationships for over 30 years

Our Clients Come First

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Valicenti Advisory Services, Inc. ("VASI"), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from VASI. Please remember to contact VASI, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. VASI shall continue to rely on the accuracy of information that you have provided. VASI is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the VASI's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request.