Advisory Notes

JUNE 2017

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Second Quarter in Review

As we close the second quarter, we have witnessed a few themes that have pushed markets higher, albeit with some recent volatility.

Technology hit a brief speed bump in the middle of the second quarter, but bounced back rather resiliently. Higher domestic valuations and opportunistic lower global valuations were the primary source of the volatility and the temporary sell-off in that area. Most sectors, with the exception of energy and telecommunications, have shown good, positive movements during the first half of 2017 (See Market Table).

We believe strong earnings and a stable, stronger economy will support future gains, although volatility will be expected to increase as Washington continues to muddle through its agenda (Refer to Dan Burchill's article).

According to the Job Openings and Labor Turnover Survey (JOLTS), the labor market continues to tighten and we have more job openings, with approximately six million unfilled positions. Housing continues to be strong, as interest rates have only risen on the front-end of the curve and housing remains affordable.

The Fed will be date driven by its interest rate policy and should not negatively affect economic growth for the sake of policy. The conversation at the last meeting, however, seemed to become more "hawkish," which means another rate hike could be in the cards before year-end.

As always, we are mindful of managing your portfolios in accordance with your overall goals, objectives and risk tolerances.

Joseph M. Valicenti
President/CEO

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 3-31-17 THROUGH 06-30-17

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	U.S. Treasury Bill Index (90 day)
03-31-17 to 04-30-17	1.45	1.03	2.30	1.05	0.80	1.08	0.00
04-30-17 to 05-31-17	0.71	1.41	2.50	-2.16	1.74	1.25	0.03
05-31-17 to 06-30-17	1.74	0.62	-0.94	3.30	-0.39	0.19	0.13
Cumulative Returns Q2 03-31-17 to 06-30-17	3.95	3.09	3.87	2.12	2.15	2.53	0.16
YTD Returns 12-31-16 to 06-30-17	9.35	9.34	14.07	4.29	3.92	3.84	0.19

Director's Chair

Clash of the 401(k)s: The American taxpayer continues to be under siege with some bleak long-term prospects as the national debt approaches $20 trillion. According to the Congressional Budget Office, combined spending for Social Security, Medicaid, Medicare and debt interest will consume all tax revenue in 2044 leaving nothing for defense or other programs. Sooner or later a different administration will be elected that will attack citizens with higher taxes to pay for runaway social spending. If only we could receive the same divine gifts Zeus bestowed Perseus in 1981's "Clash of the Titans," a helmet that cloaked its wearer in invisibility, an impenetrable mirror like shield and Bubo an all knowing mechanical golden owl.

In a sense, the tax code does give tools to our advantage against government confiscators. The traditional 401(k) allows us to take an upfront deduction to contributions and permits investments to grow tax-free with only distributions being taxable as ordinary income. In effect, the traditional 401(k) is like a helmet that makes you invisible from the IRS until you want to take your money out. Traditional 401(k) contributions seem to be the best bet if you are currently in a high tax bracket and believe that you will be in a much lower bracket at retirement. For instance, if you are a six-figure earner, it is likely that you are in the 28%-39.6% tax bracket. Individuals who believe their retirement income to be substantially reduced from current levels may find themselves in the 15% bracket. In such a scenario, a traditional 401(k) is more advantageous shielding current income that would be taxed at 28% plus in favor of future withdrawals that would be taxed at a lower 15%. It should be noted that traditional 401(k) rules mandate required minimum distributions to begin at age 70.5 meaning your invisibility from the taxman will run out at a certain date.

In 2006, we saw the implementation of the Roth 401(k) as a new savings option for workers. With a Roth, individuals would forgo a current tax deduction in preference for tax-free investment growth and distributions. No matter how much is gained within a Roth, it is entirely tax-free like having Perseus' shield versus the IRS. Roth's are optimal if the saver's future tax rate is equal to or higher than current rates. Individuals should realize that social security, interest, dividends and most pension payments will be added up to compute what tax bracket that they fall into making it easy to qualify for a high bracket. Coupled with projections for dire fiscal circumstances for the federal government over the next 25 years creates a scenario in which rates will only head up starting a decade from now. For the majority, probabilities tend to favor Roth 401(k) contributions over their traditional counterparts. Roth 401(k)s also have an additional benefit, although the instrument requires minimum distributions beginning at age 70.5, the saver has the option to roll over proceeds into a Roth IRA where no required minimum distribution is mandated.

In the movie, Perseus must fulfill his destiny by killing Medusa, whose gaze can turn anyone to stone and ultimately destroy the Kraken, a tremendous sea monster that can eliminate entire cities. For savers, fulfilling the goal of a comfortable, well funded retirement and/or accumulation of wealth to pass on to future generations or charitable endeavors, can be almost as arduous. Use of the right type of 401(k) will help savers to minimize their tax bill over a lifetime. If your employer does not offer a Roth 401(k) option, inquire about possible adoption, as these vehicles have been allowed for over 11 years and almost 60% of employers offer the choice – it's not like its 400 BC after all.

As America continues to gray with aging Baby Boomers, its actuarial situation will grow worse, unless it generates substantial improvements in Gross Domestic Product growth. Politicians lacking the backbone to curtail social programs will "release the Kraken," unleashing higher taxes on the populous. Those who have protected their assets in a Roth will be spared much of the pain of confiscatory tax rates. Which type of 401(k) is ultimately right for you? If you don't have all knowing Bubo to guide you, consult your tax or investment professional at Valicenti. As Zeus said in his final words, "there is sufficient cowardice, sloth and mendacity down there on earth to last forever." There is no better description of Congress or the IRS.

Louis F. Ruize
Director of Research/Portfolio Manager

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

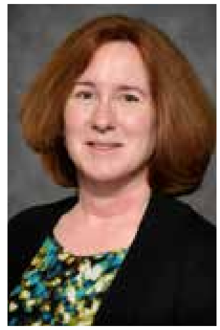
SCHWAB UPDATE

In June, Schwab will send clients their first annual reminder reconfirming the client's Standing Letter of Authorization (SLOA). Schwab is implementing a new set of processes with regard to SLOAs and this notification is to confirm your written instructions regarding the authorization you have given Valicenti to transfer assets from your account(s) on your behalf. For clients with an account email address on file, communications will be sent via email. For those without an email address on file, Schwab will send notification via standard mail. The notice will list each account that has a SLOA set up. If the information in the letter is consistent with your understanding of the instructions, you do not need to take any action. If the information in the letter is not consistent with your understanding of the instructions you have given, it will need to be updated.

If you have any questions, please contact us at any time at (607) 734-2665.

Melissa B. Mickley
Administrative and Marketing Assistant

Inherited IRA Questions



An inherited IRA occurs when an IRA owner dies and the beneficiaries of the IRA inherit the funds. Just as there are many rules regarding IRA contributions and withdrawals, the inherited IRA has its own set of rules that may create tax implications if transactions are not processed correctly. This article will discuss the areas of concern when a non-spouse beneficiary inherits an IRA.

The first question about inherited IRAs we usually hear is "can it be rolled into my IRA?" Non-spouse beneficiaries must keep inherited IRA funds separate from their own IRA and not combine them with their own IRA. The beneficiary also cannot combine inherited IRAs from different individuals; however, if a beneficiary inherits multiple IRAs from the same person, those funds can be combined into one inherited IRA.

Other questions that often arise regard distributions. Non-spouse beneficiaries are required to take out the funds over specified time periods. If the owner dies before taking the required distributions (prior to age 70.5), the beneficiary can distribute the account within 5 years of the owner's death or the beneficiary can stretch it out over his/her life expectancy, which may be a preferable option for tax purposes. If the owner was over the age of 70.5, the beneficiary can distribute the account over his/her own life expectancy or use the remaining life expectancy of the original owner. In most cases, it is better for the beneficiary to stretch the distributions out over his/her life expectancy.

This brings up the question, particularly if the beneficiary is under the age of 59.5, of penalties on the withdrawal. Distributions from non-spouse inherited IRAs are not subject to the 10% penalty for early withdrawal, no matter the beneficiary's age. All inherited IRA distributions are subject to the beneficiary's federal and state taxes on ordinary income.

As always, if you have any questions regarding inherited IRAs, please give us a call.

Ann S. Nolan, RP®
Administrative Assistant

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Analyst Corner

As we ended the first quarter, it was starting to come into focus that some of the reflationary trades and upward price moves in cyclical sectors that began globally in the middle of 2016, began to take a breather. Here at home, business optimism was still ascending and equity markets were still in a generally bullish condition. Some caution about the pace of fiscal, tax and health reform was creeping in and the Federal Reserve was still on a very gradual tightening path. Much of this is unchanged; however, it is important to note that at present we are coming to a head in two key areas. First, action or inaction on policy through legislation is up against a political calendar that is only getting shorter. The market seems to be in a "wait and see" pattern in regards to what may be coming as details are scarce as the process plays out. Second, the Federal Reserve surprised markets slightly by laying out plans to reduce the size of the central bank's balance sheet, adding a level of hawkishness which seemingly was not previously feeding into the markets. These legislative and monetary policy agendas as well as the shape of the global industrial cycle are likely to be the main catalysts as we move into the last half of the year.

The strength of the influences in the present marketplace in either direction are actually pointing to potential sources of market volatility should the scale tip in any one direction. This simply means to say that global commodity and rate weakness in the face of Fed tightening could roadblock equity prices, if at the end of that road, is economic weakness. For right now, however, we are not really near that point as low historical borrowing rates, low oil input costs and low inflation are combining to create a resilient asset price environment for both stocks and bonds amidst a modestly strong economic engine in the U.S.

Positive Market Influences	Negative Market Influences
Resilient Equity Markets	Fed Tightening
Strong Service Sector Economy	Yield Curve Weakness
Earnings Growth	Commodity Price Weakness
Subdued Inflation	Ongoing Russian Investigation

Positive Market Influences:

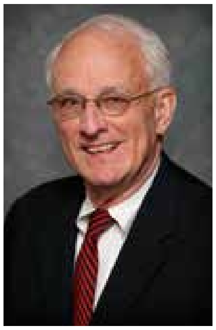
- Resilient Equity Markets – As we conclude the first half of the year, the S&P 500 Index has returned a solid 10% YTD on a total return basis. Though a decent portion of this return can be attributed to a handful of large capitalized companies, nearly all the sectors with the exception of Energy and Telecommunication Services have returned well.
- Strong Service Sector Economy – The Non-Manufacturing Purchasing Managers Index has consistently pointed towards a growth environment driven by the Services economy. This contrasts with the goods producing industrial sector where strength is fading in the intermediate term.
- Earnings Growth – The outlook for Q2 earnings has been reduced in the last few months, yet 9 out of the 11 sectors are expected to report earnings growth. According to FactSet, estimates for the S&P 500 companies show earnings growth coming in around 6.5%.
- Subdued Inflation – CPI inflation YoY measured 1.9% in May, slightly weaker than expectations and down from the previous month's number of 2.2%.

Negative Market Influences:

- Fed Tightening – The Federal Reserve has just raised the target short-term interest rate for the third time in six months to a target rate of 1.25%. This is still relatively low and another rate hike has been signaled by year-end. More importantly, the Federal Reserve has also announced plans to reduce its large balance sheet of government securities and mortgage backed securities by not fully reinvesting maturing paper back into the market. This is another form of financial tightening outside of the standard interest rate hikes.
- Yield Curve Weakness – A positively upward sloping yield curve is a healthy free market economic signal and most important to the banking sector where profits depend on funding with short-term rates and lending for longer terms. Since the Fed has begun raising the short-term rate, the long end of the interest rate curve out to 10 and 30 year maturities has actually fallen relative to the rising short-term rates.
- Commodity Price Weakness –The Journal of Commerce – ECRI Industrial Commodity Price Index has fallen 32% since the middle of February, which mirrors the signal sent by the flattening of the yield curve. Since raw commodities are keenly sensitive to global supply and demand, market participants tend to view this type of trend as a cautionary signal about the global industrial cycle.
- Ongoing Russian Investigation – To the extent that the Russian investigation negatively feeds into the already uncertain environment regarding fiscal, tax and healthcare reform, the markets will listen for further clarifying developments in this investigation.

Daniel P. Burchill
Security Analyst

Dying Without a Will



Ever wonder what will happen to your assets, possessions, etc., if you die without a will? While the laws vary from state to state, generally what happens to your assets will be determined by the state in which you reside. Every state has intestacy laws in place that parcel out property and assets to the decedent's closest relatives when there is not a will or a trust, but these laws vary from state to state.

The following is a general list of what can happen to a person's assets, depending on whom he/she leaves behind.

Married with children: When a married person with children dies without a will, all property, investments and financial accounts that are "jointly owned" automatically go to the surviving co-owner (typically the spouse or child), without going through probate, which is the legal process that distributes a deceased person's assets. For all other separately owned property or individual financial accounts, the laws of most states award one-third to one-half to the surviving spouse, while the rest goes to the children.

Married with no children or grandchildren: Some states award the entire estate to the surviving spouse or everything up to a certain amount. Many other states award only one-third to one-half of the decedent's separately owned assets to the surviving spouse, with the remainder generally going to the deceased person's parents or, if the parents are dead, to brothers and sisters. Jointly owned property, investments, financial accounts or community property automatically goes to the surviving co-owner.

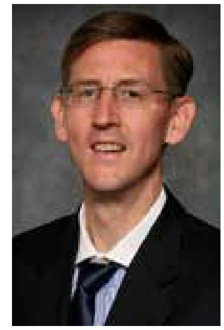
Single with children: All state laws provide that the entire estate, in equal shares, goes to the children. If an adult child of the decedent has died, then that child's children (the decedent's grandchildren) split their parent's share.

Single with no children or grandchildren: In this situation, most state laws favor the deceased person's parents. If both parents are deceased, many states divide the property amongst the brothers and sisters or if they are not living, their children (your nieces and nephews). If there are none of them, it goes to the next of kin and, if there is no living family, the state takes it.

To ensure that your assets go to those that you want to receive them, you need to create a will. If you want or need assistance or if you have a complicated financial situation, blended family or have considerable assets, you should hire an experienced attorney that can make sure you cover all your bases, which can help avoid family confusion and issues after you are gone.

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

Investment Strategy



During the first half of 2017, the U.S. economy and markets continued to gain strength despite leadership changes and policy uncertainties both at home and abroad.

The U.S. economy continued to move forward, with the unemployment rate remaining at 4.3%, while the housing sector showed growth and further mortgage application improvement. The Federal Reserve is on its course to raise interest rates in an effort to get back to a more normal interest rate level. While the actions from the Federal Reserve may result in short-term volatility in the markets, this will likely create buying opportunities, as continued strong earnings by U.S. companies should allow the markets to progress higher despite pullbacks.

The U.S. market valuations appear to be reasonable and we continue to look for opportunities as they present themselves. With sustained modest growth in the economy and in corporate earnings, we will focus on those companies with improving fundamentals and will use pullbacks in the market as buying opportunities. Our asset allocation remains flexible as we work through all the market, economic and political uncertainty. Currently, our asset mix is 35-60% in equities, 30-45% in fixed income and 5-20% in cash. This asset mix will vary based on client specific goals, risk tolerances and income needs.

Jeffrey S. Naylor
Executive Vice President/CFO

New Phone Scam Involving Bogus Certified Letters

The Internal Revenue Service (IRS) warned people on June 15, to beware of a new scam linked to the Electronic Federal Tax Payment System (EFTPS), where fraudsters call to demand an immediate tax payment through a prepaid debit card. This scam is being reported across the country, so taxpayers should be alert to the details.

In the latest twist, the scammer claims to be from the IRS and tells the victim about two certified letters purportedly sent to the taxpayer in the mail, but returned as undeliverable. The scam artist then threatens arrest if a payment is not made through a prepaid debit card. The scammer also tells the victim that the card is linked to the EFTPS system when, in fact, it is entirely controlled by the scammer. The victim is also warned not to contact his/her tax preparer, an attorney or the local IRS office until after the tax payment is made.

"This is a new twist to an old scam," said IRS Commissioner John Koskinen. "Just because tax season is over, scams and schemes do not take the summer off. People should stay vigilant against IRS impersonation scams. People should remember that the first contact received from the IRS will not be through a random, threatening phone call."

EFTPS is an automated system for paying federal taxes electronically using the Internet or by phone using the EFTPS Voice Response System. EFTPS is offered free by the U.S. Department of the Treasury and does not require the purchase of a prepaid debit card. Since EFTPS is an automated system, taxpayers won't receive a call from the IRS. In addition, taxpayers have several options for paying a real tax bill and are not required to use a specific one.

Telltale Signs of a Scam:

The IRS (and its authorized private collection agencies) will never:

- Call to demand immediate payment using a specific payment method such as a prepaid debit card, gift card or wire transfer. The IRS does not use these methods for tax payments. Generally, the IRS will first mail a bill to any taxpayer who owes taxes. All tax payments should only be made payable to the U.S. Treasury and checks should never be made payable to third parties.
- Threaten to immediately bring in local police or other law enforcement groups to have the taxpayer arrested for not paying.
- Demand that taxes be paid without giving the taxpayer the opportunity to question or appeal the amount owed.
- Ask for credit or debit card numbers over the phone.

For anyone who doesn't owe taxes and has no reason to think that he/she does:

- Do not give out any information. Hang up immediately.
- Contact the Treasury Inspector General for Tax Administration to report the call. Use their IRS Impersonation Scam Reporting web page. Alternatively, call 800-366-4484.
- Report it to the Federal Trade Commission. Use the FTC Complaint Assistant on FTC.gov. Please add "IRS Telephone Scam" in the notes.

For anyone who owes tax or thinks that he/she does:

- View your tax account information online at IRS.gov to see the actual amount you owe. You can then also review your payment options.
- Call the number on the billing notice or
- Call the IRS at 800-829-1040. IRS workers can help.

The IRS does not use email, text messages or social media to discuss personal tax issues, such as those involving bills or refunds. For more information, visit the "Tax Scams and Consumer Alerts" page on IRS.gov. Additional information about tax scams is available on IRS social media sites, including YouTube videos. You are always invited to call the Tax & Business Services department here at Valicenti Advisory Services, Inc. for assistance in these, as well as other tax matters.

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

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- Fringe benefit evaluation

All Terrain Vehicles in New York State

My family recently purchased an ATV so that we could enjoy the many trails on our property. Through that purchase process, I learned a few things about New York State's regulations and insurance requirements that I want to share with you.

NYS requires that all ATV's that will be used within the state of NY be registered with the DMV. There are a few exceptions which include out of state use, special events and agricultural purposes or when the ATV will be used for snowplowing (other than for hire).

According to the NYS DMV website, "You may not operate an ATV anywhere in New York State, except on your own property, unless it is covered by liability insurance. Minimum required coverage is $50,000/$100,000 for death, $25,000/$50,000 for injury, and $10,000 for property damage in any one accident. You must show proof of this insurance upon the request of a judge, the police or a person claiming to have suffered injury or property damage from your operation of the ATV." These limits are just the state minimums and, like all insurance coverages, one should discuss his/her financial situation with his/her agent to make sure that the coverage limits are adequately covering the insured assets.

Most homeowner's policies will provide liability coverage for the ATV, but ONLY while it is being used at the insured's residence address listed on the policy. Whether the ATV is ridden to the neighbor's house or trailered to another location, a stand-alone ATV policy would need to be purchased to comply with insurance regulations and to provide adequate coverage in the event of an accident. An ATV policy is also a good choice if one wants to insure the vehicle for physical damage or theft, as those coverages are excluded on a homeowner's policy no matter where the ATV is located.

If you would like more information or if you are interested in obtaining a quote for your ATV, please email info@valicentiins.com or give us a call at 607-215-0242 to discuss your coverage needs.

For more information on NYS regulations, please visit the NYS DMV website at https://dmv.ny.gov/brochure/atvs-information-owners-and-operators.

Kate L. Schermerhorn
Account Executive/Licensed Agent

Valicenti Insurance Services, Inc.

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Group Benefits Plan
- Health Insurance
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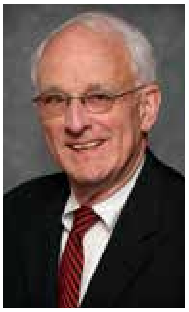
- Life Insurance
- Disability Insurance
- Customized Benefit Insurance

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.

Estate and Inheritance Taxes



While most people aren't concerned about estate and inheritance taxes, those that should be haven't necessarily addressed these issues and their estate may end up paying. A little homework up front can either reduce or eliminate these taxes.

In the past three years, nine states have either eliminated or lowered estate taxes and there are indications that additional states will follow suit.

The following charts show the states with the highest estate and inheritance taxes and the estate tax exemption for the same states with the highest estate taxes.

If you will be impacted by these taxes, we suggest that you may want to discuss these issues with your investment advisor and/or your lawyer.

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

Death and State Taxes

Eighteen states plus the District of Columbia still have an estate tax, an inheritance tax, or both, but many states have reduced these levies in recent years. Here are top rates and exemptions for 2017.

ESTATE TAX	Top rate	Exemptions in millions
Connecticut	12%	$2.00
D.C.	16	2.00
Delaware	16	5.49
Hawaii	16*	5.49
Illinois	16	4.00
Maine	12	5.49
Maryland	16	3.00
Massachusetts	16	1.00
Minnesota	16	2.10
New Jersey	16	2.00
New York	16	5.25
Oregon	16	1.00
Rhode Island	16	1.52*
Vermont	16	2.75
Washington	20	2.13*

INHERITANCE TAX	Top rate
Iowa	15%
Kentucky	16
Maryland	10
Nebraska	18
New Jersey	16
Pennsylvania	15

Inheritance-tax exemptions are highly variable, typically depending on how the heir is related to the decedent.

*Rounded Source: Wolters Kluwer

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