Advisory Notes

December 2019

A Year in Review - End of a Decade

We wish you and your family a healthy, peaceful and prosperous New Year!

The end of the decade finished on an upbeat note with 2019 returning positive returns in both the equity and the fixed income markets (see Market Table). Posting returns of over 30% in the S&P 500 and over 8% in the bond market seemed very unlikely last year, as we faced the following challenges:

- Hawkishness of the Federal Reserve
- Inverted yield curve
- Global trade tensions
- Inflationary fears
- Unfilled jobs

Today we face some of the same issues, but it is really more about two tales of the economy. First, the Federal Reserve changed course and cut rates in the face of slowing economic data. This has put life back into the consumer, housing and discretionary sectors. Consumer and service sectors supported the economy and created a boost to the markets as low interest rates, low unemployment, low inflation and positive stock and bond markets helped increase consumer confidence.

Secondly, trade discourse continued creating great uncertainty in 2019. This trade risk largely affected manufacturing, which has slowed and has led to waning CEO's and CFO's confidence. Hopefully, some baby steps are being taken toward signing a trade agreement in the first quarter. If the trade discrepancies can be resolved in part or in whole in 2020, some additional tail winds may be added to the slowing economy.

As always, we individually manage your investment objectives with your portfolio goals. If you wish to discuss or adjust your goals and objectives, please contact us.

Joseph M. Valicenti
President/CEO

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 12-31-18 THROUGH 12-31-19

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE Corporate Bond Index	U.S. Treasury Bill Index (90 day)
12-31-18 to 03-31-19	11.81	13.65	16.49	14.18	2.94	3.16	5.07	0.66
03-31-19 to 06-30-19	3.21	4.30	3.58	1.74	3.08	2.33	4.30	0.76
06-30-19 to 09-30-19	1.83	1.70	-0.09	-2.76	2.27	1.71	3.17	0.57
09-30-19 to 12-31-19	6.67	9.07	12.17	9.52	0.18	0.80	1.01	0.50
YTD Returns 12-31-18 to 12-31-19	25.34	31.49	35.23	23.72	8.72	8.23	14.20	2.51

Celebrating 35 Years

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Director's Chair

Third quarter performance of the S&P 500 was relatively flat, but improved strongly in the fourth quarter as worries of a 2019 recession faded away. The ups and downs during the second half reflected reassessment of economic growth and forecasting when the next recession will occur, coupled with political headwinds from a trade dispute with China.

There is no clear indication of a pending recession beginning in the first quarter of 2020 with unemployment at a 50 year low aiding consumer spending, low interest rates aiding company borrowing, low inflation enabling higher stock market multiples and Gross Domestic Product (GDP) annualizing at an approximate 2% rate. This all equals a decent investment environment, at least for the near term.

Potential headwinds for the economy focus on a slowdown in capital spending by corporations due to uncertainty over trade policy and the outcome of the 2020 elections. New job creation has slowed and it is unclear whether it is caused by a slowing economy or by full employment being achieved. Lastly, tariffs have raised corporate costs, thereby lowering earnings growth, which are a negative toward stock market appreciation.

A decent near-term investment environment through the first quarter is supported by market valuations being at 19X earnings. Since 1926, during eras with inflation at or below 2%, valuations around 19X have been typical. Such a projection is only near-term, since the economy has been slowing through 2019 and recessions are difficult to predict. So focusing investment in areas of the economy that continue to grow is the safest path. The U.S. consumer has held up the economy through 2019 and, adjusting for one less shopping week on the calendar this season, the Christmas holiday season would suggest that this will be a good year. Companies that focus on consumer sales appear to be a safer harbor with the exception of retail, which is being decimated by online shopping. We are seeing a slight uptick in spending within the home as millennials age and form their households, another pocket of strength. Lastly, spending on technology continues to advance as data storage and harvesting within "the cloud" is a clear shift from corporate owned mainframes, coupled with new investments in wireless 5G technology aided by government tax subsidies offer tailwinds. In some way or another, our clients' portfolios incorporate these aspects as we look for the best risk-adjusted returns into a new year, while avoiding sub-sectors that show zero growth prospects.

Expect 2020 to be like Martin Scorsese's *The Irishman*, a long drawn out period where the pace will pick up as the year goes on culminating in a pinnacle event, which for us will be the November elections and its impact on the stock market. It need not be said that both the film and the congressional and presidential elections involve a menagerie of crooks and future criminals, sadly only the former will be fulfilling.

Louis F. Ruize
Director of Research/Portfolio Manager

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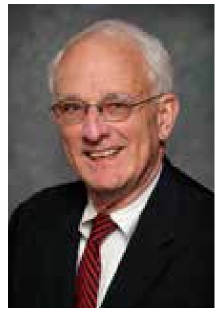
2019 SECURE Act



Just before the end of 2019, Congress passed a major piece of legislation called the SECURE Act, an acronym for the "Setting Every Community Up for Retirement Enhancement." Some of the major provisions of the bill in the retirement saving portion are:

- **Change to RMD age:** The age at which an individual must begin taking RMD's (required minimum distributions) from their retirement accounts has been raised from 70½ to 72.
  Note: This new law only applies to people who turn 70½ after December 31, 2019. If a person turned 70½ in 2019, the law does not apply – that person must take an RMD in 2019, 2020 and beyond.
- **Contributions to traditional IRAs after age 70½:** Individuals may continue contributing to an IRA (individual retirement account) at any age, as long as they have earned income.
- **Inherited retirement accounts:** Currently, inherited retirement accounts (often referred to as "Stretch IRAs") can be distributed over a beneficiary's lifetime. Under the new law, the assets must be distributed within 10 years. This provision has potentially significant estate planning implications. There are exceptions for spouses, minor children, disabled individuals and people less than 10 years younger than the decedent. The bill does not affect existing inherited accounts. It only applies to accounts that are inherited in 2020 and beyond.
- **Penalty-free withdrawals for birth/adoption expenses:** For the first year after a birth or adoption, new parents can withdraw up to $5,000 to pay for birth and/or adoption expenses from an IRA or an employer sponsored retirement plan. Taxes still need to be paid on pre-tax contributions, but no penalties apply to the withdrawal.
- **Part-time workers can participate in a 401(k) plan:** Employees must have worked at least 500 hours a year for three consecutive years in order to be eligible.
- **Change to 529 plans:** The assets in a 529 plan can now be used to repay up to $10,000 in student loans.

We suggest that you discuss these new provisions with your financial and tax advisors.

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

Thank You!

As we complete our 35th year, which was busy and successful, the U.S. markets are at or near all-time highs. Our commitment to technology saw an upgrade of both software and hardware in the fourth quarter. Our various departments are focused on the usual year-end duties and planning for 2020.

We have much for which to be thankful, not the least of which are our diverse and loyal clients who have given us the opportunity to know them, to work with them and to help them along their "financial journey." At the same time, a thank you to our wonderful staff for dedication and hard work.

We continue to use a teamwork approach to our business and we continue to "Cultivate Relationships" while always adhering to our moto *"Our Clients Come First."*

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

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

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

Analyst Corner

The final quarter of 2019 brought investors solid equity returns which were in marked contrast to the steep peak to trough equity price drop which occurred in the final quarter of 2018. Superior returns over the year, while likely a product of various factors, may best be summed up as a stable reality beating back risks associated with late cycle economics. As we move into 2020, consensus opinions for the next few months appear to be more sanguine with financial conditions still supportive of mild growth narratives. One bit of caution remains and that is that after some slowing and contraction in the global industrial cycle, there is yet to be seen a strong upturn in leading indicators in many parts of the globe. The data over the first half of this year will provide more information to investors.

Health Care, Information Technology and Financials were the leading sectors that outperformed the S&P 500 total return of +9.07% in Q4, as rates dropped and there seemed to be a continued preference for secular growers. The Communication Services sector performed roughly in line with the index while names in the Industrials, Materials, Energy and Consumer Discretionary and Staples sectors broadly lagged but still produced positive returns. All sectors put up double digit total returns over the full calendar year, with the overall index up a superior 31.49%.

Fixed income markets absorbed a countertrend move higher in Treasury yields in Q4, after falling much of the year, as some optimism about near-term prospects fueled a mildly reflationary growth narrative. The U.S. Government 10YR yield moved higher by 24 basis points from 1.68% to 1.92%. Corporate credit spreads to the Treasury actually tightened 20 basis points in the same period, which stabilized corporate bond prices against the adverse Treasury rate move. The FTSE U.S. Broad Investment Grade Bond Index was up 1.01% on a total return basis for the quarter and a very strong 14.20% year to date.

Positive Market Influences	Negative Market Influences
Fed Asset Buying	Industrial Cycle
Consumer Strength	Slowing Growth in Business Investment
Brexit Clarity	Uncertain Global Growth Pickup
Trade Resolutions	

In our view, market symmetry is mildly positive over the intermediate term, given Fed liquidity support and rate policy guidance, budgetary and fiscal stability and a stable employment outlook over the next several months, which is likely to be supportive of a healthy consumer. Possible downside risks to this near-term dynamic include first half deepening of the industrial cycle weakness, erosion in business investment plans and possibly negative emerging trends from the credit and lending space.

Positive Market Influences

- **Fed Asset Buying** – Money markets have been supported throughout the quarter as the Federal Reserve expanded programs aimed at providing additional liquidity to the broad system on a short-term lending basis. While not a direct focus for retail investors, these institutional money markets, when stressed, can impact institutional positions in equities and fixed income.
- **Consumer Strength** – While the pace of retail spending growth has slowed throughout the year, it appears to still be supported in the 3% growth range, at present, and consumer spending is also aided by resilient labor markets dynamics.
- **Brexit Clarity** – A decisive Tory win in the recent UK elections points towards an end to the uncertainty emanating from the Brexit vote and an ultimate withdrawal from the Euro bloc.
- **Trade Resolutions** – A phase one U.S.-China deal and a movement on the United States – Mexico – Canada Agreement in Congress have alleviated near-term uncertainty regarding these trade negotiations. For the time being, both developments appear positive for risk assets.

Negative Market Influences

- **Industrial Cycle** – The ISM Purchasing Managers Index still indicates contraction in the U.S. with December's reading below the 50 mark at 47.2. There are early signs of industrial pickup with the JP Morgan's World Manufacturing Sector PMI index registering at 50.1 in December and mildly in growth territory the last two months. Signs of trend change towards stronger growth appear to be nascent.
- **Slowing Growth in Business Investment** – Growth rates in new orders for nondefense capital goods and nonresidential fixed investment have slowed to yearly growth rates of just north of 1% YoY down from a cycle peak of roughly 7% to 8% growth. A pickup in this type of private sector investment activity would signal increased confidence about global demand and also portend increased expectations for higher productivity growth.
- **Uncertain Global Growth Pickup** – Composite leading indicators for The Organization for Economic Co-operation and Development (OECD) countries, while pointing to stability, also point to growth remaining below trend for now. What would move this to a positive factor would be early indications that growth is picking up more broadly as opposed to simply not deteriorating further.

Daniel P. Burchill
Security Analyst

Get Ready for Taxes: Important Things to Know About Refunds

As tax filing season approaches, the Internal Revenue Service (IRS) cautions taxpayers not to rely on receiving their refund by a certain date, especially when making major purchases or paying bills. Some tax returns may require additional review and those refunds may take longer.

Just as each tax return is unique and individual, so is each taxpayer's refund. Here are a few things taxpayers should keep in mind if they are waiting for their refund, but hear or see on social media that other taxpayers have already received theirs. Different factors can affect the timing of a refund. The IRS, along with its partners in the tax industry, continues to strengthen security reviews to help protect against identity theft and refund fraud.

Even though the IRS issues most refunds in less than 21 days, it is possible that a particular taxpayer's refund may take longer. Some tax returns require additional review and take longer to process than others. Additional time may be necessary when a return has errors, is incomplete or is affected by identity theft or fraud. The IRS will contact taxpayers by mail when more information is needed to process a return.

By law, the IRS cannot issue refunds before mid-February to people claiming the Earned Income Tax Credit (EITC) or Additional Child Tax Credit (ACTC). The law requires the IRS to hold the entire refund, including the portion not associated with the credits. This helps ensure that taxpayers receive the refund they are due by giving the IRS more time to detect and prevent fraud.

Using the "Where's My Refund?" link in the IRS website, taxpayers can check the status of their refund within 24 hours after the IRS has received their electronically filed tax return or four weeks after mailing a paper return. It provides a personalized date the taxpayer can expect a refund after the IRS processes the return. Taxpayers should also take into consideration the time it takes to receive a check by mail or for financial institutions to post the refund to their account.

Various financial transactions, especially those occurring late in the year, can often have an unexpected impact on taxes and any potential refund. Examples include year-end and holiday bonuses, stock dividends, capital gains distributions from mutual funds and stocks, bonds, virtual currency, real estate or other property sold at a profit. Taxes must be paid as income is earned or received during the year, either through withholding or estimated tax payments. If the amount of tax withheld from salaries or pensions is not enough, the taxpayer may have to make estimated tax payments.

Taxpayers whose 2019 federal income tax withholding unexpectedly falls short of their tax liability for the year, can still make a quarterly estimated tax payment directly to the IRS. The deadline for making a payment for the fourth quarter of 2019 is January 15, 2020.

Taxpayers who pay too little tax during the year, either through withholding or estimated tax payments, may be charged a penalty when they file. In some cases, a penalty may apply if their estimated tax payments are late, even if they are due a refund when they file.

By law, the Department of Treasury's Bureau of the Fiscal Service (BFS) issues IRS tax refunds and conducts the Treasury Offset Program (TOP). Under TOP, BFS may reduce a taxpayer's refund and offset all or part of the refund. This is done to pay past due federal tax, state income tax, state unemployment compensation debts, child support, spousal support or other federal nontax debts, such as student loans. BFS will reduce the refund to pay off the debt owed and will send a notice to the taxpayer if an offset occurs. Any portion of the remaining refund after offset is issued in a check or directly deposited to the taxpayer as originally requested on the return. Separate from the TOP, refund amounts may also be adjusted due to changes the IRS made to the tax return. When that happens, the taxpayer will get a notice explaining the changes.

The vast majority of taxpayers get their refunds faster by filing electronically and using direct deposit. It is simple, safe and secure. This is the same electronic transfer system used to deposit nearly 98% of all Social Security and Veterans Affairs benefits into millions of accounts. Taxpayers select it as their refund method through their tax software and by typing in their bank account number and routing number. Taxpayers can also let their tax preparer know they want direct deposit. It is even also available to the small number of taxpayers still filing by paper. Refunds should only be deposited directly into accounts that are in the taxpayer's name, their spouse's name or both, if it's a joint account. No more than three electronic refunds can be deposited into a single financial account or prepaid debit card. Taxpayers who exceed the limit will receive an IRS notice and will be mailed a paper refund check. Whether a taxpayer files electronically or on paper, direct deposit gives them access to their refund faster than a paper check.

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

A Hybrid Approach to Life and Long-Term Care Insurance Coverage

One of the greatest risks of purchasing long-term care insurance is spending tens of thousands of dollars on a policy that may never be utilized. This type of insurance coverage provides a benefit for nursing home care, assisted living care or home health care. What if you never need these types of services? There are now several life insurance companies providing a permanent life insurance benefit while combining long-term care insurance. I refer to these types of policies as hybrid policies that certainly should be reviewed.

Hybrid policies that provide both benefits pay for long-term care that regular health insurance or Medicare will not cover. If the policies limits are not exhausted on long-term care benefits, the insurer will pay a benefit to your beneficiary upon your death.

These types of policies are referred to as asset-based or linked policies and function in the following way:

These policies provide an allowance for long-term care that is equivalent to several times your premium payments. Based on the type of policy you purchase, you may pay one lump sum or several large premium payments.

The policy's death benefit may reduce according to how much of the long-term care benefit you use. Some policies provide a death benefit guarantee, usually a very small amount, even if you use all the money allocated for long-term care benefits.

There has been much turbulence in the standard long-term care insurance market, as low interest rates have not provided the returns that can sustain the expenses being paid on today's long-term care claims. Millions of standard long-term care policyholders have seen their premiums double or triple in past years based on the circumstances. An advantage of the hybrid option is the stabilization of planned premiums, without the unexpected rate hikes of today's long-term care contracts.

If you would like a comprehensive review of your life insurance or would like to explore one of the hybrid options available, please contact our office at 607-215-0242.

Suzanne M. Valicenti
President/CEO
Valicenti Insurance Services, Inc.

Roth IRAs and Conversion Key Takeaways

The main benefits of a Roth IRA are clear as long as the account has been open over five years and you are over 59½. Enjoy tax-free withdrawals in retirement and allow your money to grow tax-free for longer, since required minimum distributions are not required.

Not everyone, though, may annually contribute after-tax money to a Roth IRA. In 2020, if you have earned income up to the limit, you may contribute $6,000 if under age 50 or $7,000 if over 50, as long as your modified adjusted gross income is less than $124,000 for single filers or less than $196,000 for married couples filing jointly. If your income is above these limits, your contribution may be reduced or not allowed at all, but there are ways to work around this. A Roth conversion can get you into a Roth IRA even if your income is too high. This "backdoor" strategy involves making the contribution to your traditional IRA and then converting those funds over to a Roth IRA.

The quickest way to get a significant sum into a Roth IRA is to convert all or portions of a traditional IRA to a Roth. BEWARE before converting a traditional IRA to a Roth IRA. Each situation is unique and should be discussed with a tax professional, since several factors may influence your decision of whether to convert your traditional IRA.

One of the most important things to think about is where you plan to live in retirement? Keep in mind that conversion is treated as a taxable distribution from your traditional IRA, triggering federal and state income tax bills for the year. Even if you feel your federal tax rate will remain similar at retirement, if you move to another state after retiring, the impacts of state income tax may be a major consideration! If you have worked in a high-income-tax state, such as New York or California and you then retire to a low-income-tax state, such as Florida or Texas, you have the ability to avoid state income taxes on both the retirement savings as well as the retirement income. A Roth conversion in this case might be foolish if you move to a state that levies little or no income taxes and you've already paid them!

How will you pay for the cost of the conversion? It usually makes sense to use after-tax funds to pay for the tax liability created by a conversion – if you must use some of the converted assets that would be going to the Roth to pay the conversion cost, you are decreasing your rate of return on the Roth since those potential earnings are tax-free.

Do you plan to leave money to others? Those who inherit your Roth IRA will have to take required distributions for the inherited Roth IRAs, but they will not have to pay any federal income tax on the distributions as long as the account has been open at least five years. Roth conversions are disadvantageous, however, to those who intend to leave assets to charitable institutions, since traditional IRAs can typically be left to charity without any tax bill for either party.

If you believe your federal and state taxes will be higher in retirement, you may have the ability to pay for a conversion. If you want to maximize your estate for your heirs and you understand that you cannot reverse a Roth conversion, you may want to consider a Roth IRA conversion. The deadline to make a Roth IRA contribution for 2019 is April 15, 2020, so you have time to first evaluate your situation and then consult with your financial and tax advisors and estate planning attorney.

Kelly S. Diehr, FPQP™
Administrative Assistant

Valicenti Advisory Services, Inc.

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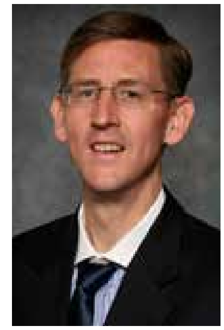
Investment Strategy



Happy New Year! We closed out 2019, a year filled with many hurdles, challenges and exciting innovations!

Some of the concerns last year ranged from the global economic slowdown, uncertainty with Federal Reserve policies and political uncertainty both here in the U.S. and overseas, just to name a few.

Despite those challenges, U.S. equity markets climbed to all-time highs and U.S. fixed income markets moved broadly higher. Some reasons behind the all-time equity highs came from exciting technological advancements, adaptations and implementations. In addition, strong U.S. consumer confidence and low unemployment rates helped buoy U.S. economic conditions. The Federal Reserve also helped market conditions, as they changed course from their 2018 policy by cutting interest rates three times in 2019.

In 2020, markets will likely be confronted with many of the same issues as in 2019 and, as such, our asset allocation will be flexible as we move throughout the year. With employment data steady and continued strength in consumer spending, we will continue to look for companies with good balance sheets, reasonable earnings growth and stable cash flow. Our asset mix, which will vary based on client risk levels, income needs and specific directives, will remain flexible with our equities in a range of 35-60%, fixed income 35-45% and cash 5-15%.

Jeffrey S. Naylor
Executive Vice President/CFO