40 Years of Cultivating Relationships

ADVISORY Notes

DECEMBER 2023

Happy New Year!

As we reflect upon the past twelve months in the economy, we also look forward to the future and what it may hold for investment returns.

Following a disappointing 2022, 2023 came back with big returns mainly in the last quarter of the year. The Federal Reserve hit the pause button on rates, waiting for economic data to downshift into a slower, more manageable rate. The market reacted and surged in the fourth quarter with double digit returns across most major indices. The bond markets also pushed up in the final quarter and the fifteen-month, 500 basis point rate raise cycle paused and high single digit returns hit the fixed income markets (See Market Table).

While the NASDAQ and Dow hit new all-time highs, the S&P 500 stopped just a few points shy of new highs. The NASDAQ led the way with the tech-heavy index getting rewarded with artificial intelligence (AI) stocks followed by the S&P 500, the small cap index and then the Dow Jones Industrials. While most of the returns in the major indices came from the cap weighted 2023 magnificent seven stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla), especially in the first half of the year, the breadth of the market began to widen to other sectors, industries and stocks in the fourth quarter. The equal weighted S&P 500 index returned 13.87% vs. the market cap weight S&P 500 at 26.29%.

The Santa Claus rally carried on as consumers continued to spend as prices at the pump and the cost of travel and goods and services all began to ease. Although the consumer is resilient, savings in general have been spent down to levels lower than pre-pandemic. As long as employment and wage inflation continue in the right direction, the consumer feels pretty confident about the economy.

Headwinds in the geopolitical arena have some risk but, so far, the markets have stayed patient watching for additional developments. We will continue to monitor the Middle East, Eastern Europe and the Far East for additional major developments. Trade route disruptions, pirating, energy price instability and all-out war have created a wall of worry.

Over the next couple of economic cycles, we look for average equity growth rates with marginal returns on cash and fixed income, as inflation heads back to a normalized 2-3% rate. As always, VASI will manage your portfolios according to your goals and objectives.

We wish you and your families a healthy, happy, safe and wealthy New Year!

Joseph M. Valicenti
President/CEO

MARKET TABLE

VALICENTI ADVISORY SERVICES, INC.
Comparative Index Period Returns From 12-31-22 THROUGH 12-31-23

	Dow Jones Industrial Average	S&P 500 Equal Weight Index	S&P 500 Index	NASDAQ	Russell 2000	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE USBIG Corporate Bond Index	US Treasury Bill Index (90 day)
12-31-22 to 03-31-23	0.93	2.93	7.50	17.05	2.74	2.96	3.02	3.58	-0.10
03-31-23 to 06-30-23	3.97	3.99	8.74	13.05	5.21	-0.84	-0.11	-0.27	-0.13
06-30-23 to 09-30-23	-2.10	-4.90	-3.27	-3.94	-5.13	-3.23	-4.29	-2.84	-0.03
09-30-23 to 12/31/23	13.09	11.87	11.69	13.79	14.03	6.82	8.60	8.32	0.04
YTD Returns 12-31-22 to 12-31-23	16.18	13.87	26.29	44.64	16.93	5.53	6.96	8.71	-0.22

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447 East Water Street
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24 West Market Street
Corning, NY 14830
607-936-1203

Director's Chair

Eighteen months ago, this column compared Federal Reserve (Fed) Chairman Jerome Powell to actor Clint Eastwood's portrayal of Police Inspector Harry Callahan from film to highlight how much monetary force was being applied to the economy and financial markets. Now, eighteen months later, we have seen the Fed put through 500 basis points of rate hikes. The Federal Funds rate stood at 0%-0.25% before March 17, 2022 and after five .025%, two 0.50% and four 0.75% rate hikes have brought rates to 5.25%-5.5%. In an effort to tame inflation, these eleven volleys created one of the fastest rate hike cycles since the very early 1980s. Such action raised the cost of capital for consumers and businesses alike, making spending on mortgages, car loans, business loans and real estate projects significantly more expensive in an effort to slowdown the economy. Those desiring an auto loan at the beginning of this cycle for 48 months were paying 1.99%, while those looking at a 30-year mortgage were locking in at 3.75%. Today, that auto loan would average 6.75% while the mortgage is going for 7.22%. As can be expected, housing sales have fallen off as only "cash" buyers can afford to buy at this juncture.

Over the past three Fed Open Market Committee meetings on September 20, November 1, and December 13, the Board did not enact any further rate increases and instead stated they were "data dependent" as to whether further hikes were necessary. The December 13 meeting was even more dovish as the Fed outlined projections by its members that signaled the equivalent of three rate cuts in 2024. It would appear that the Fed has overtightened interest rates, as it always does during hiking cycles and is now concerned about inducing a recession. If Chairman Powell were channeling the character of Harry Callahan, as was said in the movie *Magnum Force*, "a man's got to know his limitations."

We have seen a multitude of manufacturing indicators that would show that side of the economy has been in contraction for a year. The services side of the economy has continued to grow as consumers tapped credit lines to maintain lifestyles coupled with increased government spending from the Bipartisan Infrastructure Bill, the Chips Act and the Inflation Reduction Act, which really is an environmental bill.

The question for 2024 is whether Powell can orchestrate a "soft landing," where the economy continues to grow while inflation returns to the Fed's 2% target or do we get some sort of hard landing that would involve some kind of recession. Also a possibility, although the lowest probability of the three potential outcomes, would be a reigniting of inflation post a rate cut, as previous Fed Chief Paul Volcker experienced in 1980.

With the Federal government engaging in record high deficit spending, Chairman Powell's work is cut out for him as he controls only the monetary system, not the Federal purse. Powell must know his limitations in applying Magnum Monetary Force to curb inflation while avoiding a recession. At Valicenti, we continue to look out for potential shocks to the economy while digesting economic data to best position the portfolios.

Louis F. Ruize
Director of Research/Portfolio Manager

What is EBITDA?

You may have seen in the financial media the term EBITDA used, but what is it and why do we care? EBITDA is short for Earnings Before Interest, Taxes, Depreciation and Amortization. It represents the cash operating profits of a business. The DA part is an add back for the allocation for the cost of building a company's factory and other major investments. For example, if a factory costs $100 million and is expected to have a 20-year life, an annual $5 million expense covers the annual depreciation in the value of that factory. Amortization generally relates to less tangible investments, such as patents. Depreciation and amortization are not cash expenses. Adding back the non-cash expenses to operation profits gives the cash operating profits of the business. Cash operating profits are the major reason to own a business. A business is purchased to capture the future stream of the operating profits it generates in cash. A business is purchased to get its EBITDA.

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

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40 Years of Cultivating Relationships!

2024 marks our 40th year. Four whole decades of doing what we love — cultivating relationships! As we embark on this new decade, Valicenti Advisory Services, Inc. will be celebrating and reflecting on 40 years of business.

The following timeline shows where it all began and how far we have come, with the help of our clients and our dedicated employees.

- **April 6, 1984** – VASI was established, located on 100 Baldwin Street in Elmira, NY
- **June 1993** – VASI opens a branch office on historic Market Street in Corning, NY
- **December 1993** – VASI Historical Market value hits $100 million in assets under management
- **October 1997** – VASI moves to new location at 400 East Water Street, Elmira, NY
- **December 1998** – VASI Historical Market value hits $200 million in assets under management
- **April 2003** – Tax and Business Services move to new location at 350 West Church Street, Elmira, NY
- **April 2006** – VASI Historical Market value hits $300 million in assets under management
- **December 2006** – Tax and Business Services Department expands by acquiring a local Tax and Payroll business
- **March 2013** – Valicenti Insurance Services, Inc. is established as an affiliate of VASI
- **September 2015** – Tax and Business Services Department and Insurance Division move to new location at 447 East Water Street, Elmira, NY
- **February 2017** – VASI Historical Market value hits $400 million in assets under management
- **November 2020** – VASI Historical Market value hits $500 million in assets under management
- **2021** – offices at 400 East Water Street remodeled
- **January 2023** – VASI Historical Market value hits $600 million in assets under management

You will see some updates in our 40th year. Along with our offices being remodeled last year, we have "refreshed" our logo and will be incorporating it into everything going forward. We will keep the same message, but softened the colors and brightened it up. We hope you like it as much as we do.

VASI would not be able to celebrate our 40th year without recognizing our staff – those that make the day-to-day work with our clients and each other seem effortless. They come together as a team to achieve a common goal. Our staff does truly care about our clients and it shows. We are extremely proud of our team!

Ashley M. Edwards, *Staff Accountant* — < 1 year
Eileen A. McDonald, *Receptionist* — < 1year
Nathaniel C. Adams, *Data Manager* — 1 year
Trevor L. Welch, *Tax Administrative Assistant/Payroll Processor* — 2 years
Samson D. Lin, *Investment Analyst* — 2 years
Jessica M. Brenzo, *Business Services/Tax Specialist* — 5 years
Ann E. Connolly, *Client Paying and Receiving* — 6 years
Louis F. Ruize, *Director of Research/Portfolio Manager* — 7 years
Molly L. Ray, *Receptionist* — 8 years
Daniel P. Burchill, *Security Analyst* — 9 years
Mary Jo Naida, *Tax Specialist* — 10 years
Andrew S. Cartwright, *Security Analyst and Trader* — 11 years
Kelly S. Diehr, *Administrative Assistant* — 12 years
Elizabeth A. Zarnoch, *Vice President of Tax and Business Services* — 12 years
Melissa B. Mickley, *Administrative and Marketing Assistant* — 15 years
Elizabeth C. Stage, *Tax Specialist* — 16 years
Ann S. Nolan, *Administrative Assistant* — 20 years
Theresa R. Stewart, *Human Resources* — 22 years
Tracy L. Jenkins, *Vice President of Operations* — 25 years
Ralph H. Roberts, Jr., *Vice President of Client Services* — 29 years
Jeffrey S. Naylor, *Executive Vice President/CFO/CCO* — 30 years
Joseph M. Valicenti, *President/CEO* — 32 years

Melissa B. Mickley, FPQP®
Administrative and Marketing Assistant

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Analyst Corner

When we completed the third quarter, the year-to-date strong move higher in interest rates was visibly starting to weigh on equities and tighted financial conditions. By the end of the quarter, a disinflation trend helped to spark a remarkable rally in equities as interest rates across the curve fell rather precipitously. Heading into the new year, equities and rates are tactically in a pause at the moment, as market participants are digesting the changing circumstances, recent strong moves, and forming outlooks for 2024. The S&P 500 reversed the downtrend observed in Q3 and was up sharply 11.7% in Q4 on a total return basis. Within the index, the Real Estate sector and growth oriented Information Technology sector both outperformed returning 18.8% and 17.2% respectively. Energy was the lone sector that returned negatively. The sector was down -7% for the quarter, as oil prices fell over 15%. Alongside broad declining inflation rates, the oil move helped solidify the slowing growth and disinflationary trend.

On the fixed income side, the FTSE US Big Corporate Bond Index showed an impressive 8.3% gain for the quarter which put the total return for the entire year also in solid positive territory up 8.7%. Across the fixed income space, bonds rallied aggressively. On October 20, the U.S. Government 10YR yield traded intraday up to 5.02%. Since that time, the yield has moved sharply lower pushing bond prices higher. The 10YR rate closed a full 114 basis points down and finished the year at 3.88%.

Positive Market Influences	Negative Market Influences
Disinflation	Labor Market
Liquidity	Monetary Policy Lag
2024 Earnings Expectation	Geopolitical Concerns

As we start 2024, market narratives are generally mildly optimistic while still maintaining a level of caution as growth slows. The main concerns are around the potential for employment and economic data to deteriorate further. On the flip side, inflation measures cooling faster than what was expected, a well reserved banking system and positive earnings expectations even in the face of slower growth are currently keeping expectations for the new year positive.

Positive Market Influences

- Disinflation – Headline YoY CPI has fallen from a peak of greater than 9% in the middle of 2022 to a more reasonable level closer to 3% as of November 2023.
- Liquidity – In the face of some banking stress earlier in the year and in the face of reducing the size of the Federal Reserve's balance sheet source of liquidity, there are signs that the banking system is still well reserved.
- 2024 Earnings Expectation – Earnings expectations for the new year are positive with investor's currently looking for 10% earnings growth for 2024, mainly propelled by the Information Technology, Healthcare and Communication Services sectors.

Negative Market Influences

- Labor Market – While there has been a lengthy period of resilience in the labor markets, data such as continuing claims and the unemployment rate are mildly worsening, indicating that the backdrop may be softening.
- Monetary Policy Lag – The rapid interest rate rises that were seen in 2023 may take more time to fully work through the system. For the time being, policymakers have seemed to open the door to normalizing rates lower again.
- Geopolitical Concerns – The conflicts in the Middle East and Europe are still in the background and, by proxy, issues on the sea lanes in the Suez are beginning to cause mild disruption to global trade routes.

Daniel P. Burchill
Security Analyst

Welcome to the Firm!

We are pleased to announce that Ashley Edwards has joined the firm as Staff Tax Accountant. In this position, she will be preparing federal and state tax returns for individuals, partnerships and corporations. She will ensure compliance with appropriate state and federal tax jurisdictions. Ashley will maintain strong client relations and will have active communication with management to ensure satisfaction and making sure deadlines are met.

Ashley graduated from the State University of New York at Oswego with a Bachelor of Science in Accounting and also a Master of Business Administration from the same institution.

Ashley brings with her previous tax and accounting experience.

"Welcome and congratulations, Ashley! We're confident that you will exceed expectations in this role and we look forward to working alongside you as a team." said Liz Zarnoch, Vice President of Tax and Business Services.

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

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Happy New Year!

As we ring in the New Year, we will take a look back and briefly review 2023. Overall, the markets and the economy remained resilient, despite continued interest rate hikes by the Federal Reserve. The U.S. economy was strong overall. Housing and consumer confidence showed some weakness as the year progressed. The Federal Reserve's actions were largely successful in slowing inflation on many fronts.

In 2023, the equity markets were led by mega cap companies by a wide margin for most of the year. The focus was largely on higher beta technology companies with a focus on artificial intelligence (AI). With the concentration primarily on seven mega cap companies, a large divergence was created between the SP500 weighted return of 26.29% and the SP500 equal weighted return of 13.87%. The difference in returns shows just how much the higher beta mega cap companies influenced market returns in 2023.

Additionally, in the later part of the year, there was renewed optimism as the Federal Reserve signaled a dovish tone that gave market forecasters an indication of coming rate cuts in 2024. With that signal, the equity and fixed income markets broadly rallied into the end of 2023. This rally allowed more than the mega caps to participate in the closing weeks of the year. While fixed income was volatile during the year as markets kept running ahead of what direction the Federal Reserve would take, the change in signals at the end of the year spurred even a broad bond market rally to close our 2023.

While there will be challenges in 2024 as the economy slows, we are cautiously optimistic about both equities and fixed income. The focus will be on companies with strong fundamentals. Our asset mix will remain nimble as we go through 2024, with equities 45% to 65%, fixed income 25% to 45%, money markets and short-term Treasuries 5% to 10%. Our asset mix will vary based on client specific needs, objectives, risks and income requirements.

Jeffrey S. Naylor
Executive Vice President/CFO

Financial Health in the New Year

With most back to work post pandemic and inflation gradually slowing, the New Year seems a good time to check your financial health and possibly make a few tweaks to your budget or goals. Just like physical health, a few personal factors should be examined to gauge financial health.

Cash flow is usually an obvious first indicator of whether you feel on track or not. Look at your discretionary income, which is the amount of net, after-tax income you have left after monthly necessities are paid. The key word is necessity – sort out non-necessities or wants. A common budgeting framework is the 50/30/20 rule, which recommends up to 50% of your net income for needs, leave no more than 30% of your net income for wants and commit 20% of your net income to savings (and additional debt repayment). If your budget is more than a little off balance, you may want to look for ways to reduce monthly needs expenses or to increase your income.

This leads us to another measure of financial health, your debt-to-income (DTI) ratio. DTI ratio is the percentage of gross monthly income you spend on monthly debt payments. To calculate your DTI, divide your total monthly debt payments by your gross monthly income. Typically, borrowers with low debt-to-income ratios are likely to manage their monthly debt payments more easily. Lending institutions' preference for low DTI ratios makes sense since lenders want to be sure a borrower isn't over-extended, meaning they have too many debt payments relative to their income. According to the Consumer Financial Protection Bureau, lenders prefer a DTI ratio lower than 36%, with no more than 28% of that debt going towards servicing a mortgage or rent payment.

Although important, the DTI ratio is again only one metric used in making a credit decision. A borrower's credit history and credit score also weigh heavily in determining financial health. A credit score is a numeric value of your ability to pay back a debt. Several factors impact a score negatively and they include late payments, frequent delinquencies, too many open credit accounts and high balances on credit cards relative to their credit limits. Credit scores 670 and above are generally considered good.

Saving is an essential part of financial freedom. Saving for emergencies is critical, but having a savings goal and keeping tabs on your progress will allow you to plan for major purchases, to plan for retirement and to simply breathe easier.

Finally, your net worth is a depiction of how your financial situation is evolving over the long-term, not just on a monthly basis. Calculate net worth by adding up the total of your assets such as bank, investment and retirement accounts, value of your home, real estate, vehicles and permanent life insurance policies with cash values. Then subtract your liabilities on mortgages, loans and credit cards. The balance is your net worth, which should be positive, and that number will hopefully get larger as you become more established and stable in your financial picture.

Just like our physical health, improvements to financial stability take time and effort but the rewards for our well-being and peace of mind are many. Cheers to a prosperous New Year!

Kelly S. Diehr, FPQP®
Administrative Assistant

Insurance Coverage

Many might agree that 2023 was a year of uncertainty, volatility in the market with interest rates, significant inflationary changes and certainly a tremendous amount of discord throughout the world. Given all that occurred in 2023, New Year's resolutions for 2024 may likely be different. Yes, many will still vow to get into the gym to lose weight, eat better and drink more water, spend more time enjoying experiences, while others may resolve to financially prepare for the unexpected.

For many, the best way to protect yourself and your loved ones is to be sure you have adequate insurance coverage, especially life insurance. As you move into 2024, here is a list of life insurance resolutions to consider:

1. **Purchase a Life Insurance Policy** – If you have family members that rely on you for financial support, your top resolution should be to purchase life insurance coverage to protect them if something happens to you. You have several choices when purchasing life insurance, specifically the type of life insurance coverage as well as length of coverage. I recommend working with an independent life insurance broker that can find the right company for your specific needs. Independent brokers do not align themselves with one carrier. They work on behalf of the client and depending on factors such as cost, coverage needs, health and underwriting matters, they will know which carriers can offer you the best policy for the best price.
2. **Make Sure You Have Enough Life Insurance** – You may already have life insurance coverage, however, is it enough? As life changes, your needs for life insurance may change and the coverage you purchased several years ago may not be adequate for your needs today. Resolve to review your policy to verify how much coverage you should have.
3. **Review the Performance of Your Policy's Cash Value** – If you have a whole life or a universal life policy, a portion of those premiums are allocated to building cash value. It is very possible that the cash value feature might have been one of the reasons you purchased the coverage. It is extremely important to review the cash value on an annual basis (at a minimum), as the insurance company's policy fees could lower the cash value enough to cause the policy to terminate. Ask your insurer or agent for an in-force illustration of your current policy. This will give you an idea of how your policy is performing and what action you may need to take to keep it in force.
4. **Review Your Beneficiary Information** – Resolve to review your beneficiary information. The main reason for life insurance is to provide a financial resource to your loved ones should something happen to you. It is especially important to review and update your life insurance beneficiaries if major life changes have occurred.

Lastly, resolve to communicate your life insurance policy to your loved ones. Many are reluctant to share their finances, however, your beneficiaries may not be able to claim the life insurance payout if they do not know a policy exists. Beneficiaries do not need to know the policy or policy number, they only need to know the name of the company in order to begin the claim process. Share with them your advisor's name and contact information.

If you have existing life insurance policies, would like to discuss obtaining coverage or would like to schedule a personal review, please contact our office at (607) 215-0242. Valicenti Insurance Services, Inc. is an independent broker with access to many carriers to provide the coverage for your unique situation.

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

Fraud Reminders!

The holidays provide a great opportunity for fraudsters to unleash their schemes, knowing that we are busy traveling, shopping and spending time with friends and family.

I will start with UPS text messages. I am sure many of you know what I am referring too. You receive a text message stating that in order to receive your package you need to provide your personal information and/or a payment in advance of receiving a package or may indicate a need to update your account by obtaining personal information or a copy of your UPS invoice. The links in the text message may contain malware or may direct you to a fraudulent website. These come at the perfect time as we all have ordered things for the holiday and are waiting for them to arrive. Do not click on the link in this text message; instead, log onto whichever actual site you purchased something from and track your package.

Ever think about clicking on ads for big markdowns or closeout sales on your social media? Social media seems to know what is on your shopping list, whether it is clothes, outdoor furniture or toys. The problem, scammers are impersonating real companies in ads on popular social media platforms. This happens all too often! Some things to help with phony ads:

- Do some research before you buy. Unusually low prices are a sign of a scam. If you see an ad for a familiar company, but you are not sure the ad is real, try going to the company's website using a page you know is official, not the link in the ad.
- Take note that only scammers demand you to pay with gift cards, wire transfers, payment apps or cryptocurrency. Sending money this way is like sending cash and it is nearly impossible to get back if there is a problem. Pay by credit card when possible. Credit cards offer more protection and you can dispute charges.

Fraudsters are also getting good at impersonating. Some imposters have been posing as Schwab employees, contacting advisors and clients via phone and other channels including email and text messages. Other imposters pretend to be from the IRS, Social Security Administration, a business or charity. Some reminder tips going forward:

- Avoid supplying any personal identifying information in an email or over the phone, even if you think you are talking to the correct person. Note: clients can verify that they are speaking with the correct agency by ending the call and calling the phone number that is known to them.
- Remember, the IRS will not call you if you owe money and Social Security will not reach out to you either. These types of agencies do not call the individual.
- Imposter scams may include: a call from a tech support company about a problem on your computer. A letter or call stating that you just won a prize, but you have to pay fees to get the prize. A friend or grandchild is in trouble and needs your help or you received a check for too much money and you need to send back the extra.

These are just a few of the scams happening. We have to be cautious of everything now days. Take the extra few minutes to think about the situation and ask questions. Fraudsters will never stop, ever! All it takes is one person to fall for something and the fraudsters benefit. Remember, you can call us at any time and ask any questions to make sure if something does not feel right or, even if it does, call us and ask! We try constantly to keep this in front of you, as we have seen these types of things happen to our family members, our clients and ourselves.

Melissa B. Mickley, FPQP®
Administrative and Marketing Assistant

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Beneficial Ownership Information

Starting January 1, 2024, many companies in the United States will have to report information about their beneficial owners, i.e., the individuals who ultimately own or control the company. They will have to report the information to the Financial Crimes Enforcement Network (FinCEN). FinCEN is a bureau of the U.S. Department of the Treasury.

For immediate release on November 29, 2023, FinCEN extends deadline for companies created or registered in 2024 to file beneficial ownership information reports (Fincen.gov). FinCEN issued a final rule that extends the deadline for certain reporting companies to file their initial beneficial ownership information (BOI) reports with FinCEN. Reporting companies created or registered in 2024 will have 90 calendar days from the date of receiving actual or public notice of their creation or registration becoming effective to file their initial reports. FinCEN will not accept BOI reports from reporting companies until January 1, 2024—no reports should be submitted to FinCEN before that date.

"This deadline extension will have significant benefits and will provide valuable extra time for company applicants and for reporting companies created or registered in 2024 to understand this new regulatory obligation and obtain the required information to file their BOI reports," said FinCEN Director Andrea Gacki.

This extension will give reporting companies created or registered in 2024 more time to become familiar with the guidance and educational materials located at https://www.fincen.gov/boi, and to resolve questions that may arise in the process of completing their initial BOI reports. FinCEN also anticipates that this deadline extension will make compliance easier for these first filers under the new reporting requirement and will promote the creation of a highly useful BOI database, as required by Congress.

Reporting companies created or registered before January 1, 2024, will continue to have until January 1, 2025, to file their initial BOI reports with FinCEN, and reporting companies created or registered on or after January 1, 2025, will continue to have 30 calendar days to file their initial BOI reports with FinCEN.

Businesses with questions about the upcoming reporting requirements may contact FinCEN at https://www.fincen.gov/contact.

We are here to help you with any questions you may have regarding this new rule.