Advisory Notes

JUNE 2016

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Asset management as individual as you

Summertime Is Here

The old saying "sell in May and come back after Labor Day" certainly doesn't apply this summer. While folks gear up for kids out of school, summer vacations, family picnics, barbeques, fireworks and amusement parks, this summer will also be one for investors to which to pay particular attention.

The Federal Reserve met on June 15 and lowered slightly its U.S. economic forecast, leaving rates unchanged. Fed Chairwoman Janet Yellen stated, "Recent economic indicators have been mixed, suggesting that our cautious approach to adjusting monetary policy remains appropriate."

Additional comments from Ms. Yellen suggested that the Federal Reserve Board is rethinking its stance and has downgraded the possibility of another interest rate hike this year. This stance could change as new economic data might shift the Fed's position, thus another important key to "Fed watching" this summer.

While riding roller coasters may be fun, investors are not fond of the ride they have taken over the last year with the ups and downs in the market, spiked volatility, very little gains and the lack of future direction. The U.S. stock market has yet to really break through to new highs, while the bond market's minimal yields remain frustrating. (See market table)

Some positive notes are coming from the consumer side in the housing market and the pent-up extra savings from the added fuel dividends consumers have been waiting to spend. Personal spending increased 1% month over

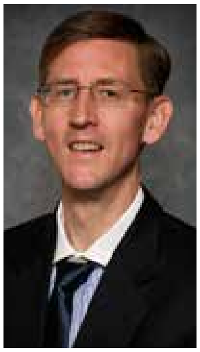
(See **Summertime** *on page 2)*

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 03-31-16 THROUGH 06-30-16

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	U.S. Treasury Bill Index (90 day)
03-31-16 to 04-30-16	0.62	0.39	-1.94	1.51	0.81	1.51	0.03
04-30-16 to 05-31-16	0.49	1.80	3.62	2.12	0.30	-0.12	0.03
05-31-16 to 06-30-16	0.95	0.26	-2.13	-0.25	1.74	2.21	0.00
Cumulative Returns 03-31-16 to 06-30-16	2.07	2.46	-0.56	3.40	2.87	3.63	0.06

Investment Strategy



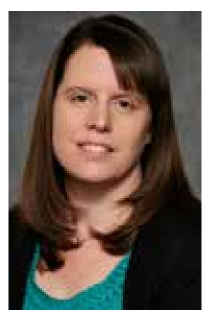
The second quarter showed continued volatility in the U.S. markets. The markets climbed a "wall of worry" from the lows in February and gained strength going into the last week of June. The markets even rallied into the Brexit vote after the Federal Reserve (Fed) decided not to raise rates. With the Fed giving pause to raising rates because of some weaker than expected economic data – in particular weakness in the job data – along with the United Kingdom (UK) vote to leave the European Union (EU), there is uncertainty remaining in the global equity markets.

While the markets are showing increased volatility since the Brexit vote, the Fed, along with other global central banks, has offered to provide liquidity to the markets if needed. While the decision for the UK to leave the EU will have an impact on global markets, it seems likely that the effect on many U.S. companies may be less than feared. As new data is presented during these extraordinary times, our asset mix will be flexible.

Our fixed income will be in a range of 30%-45%, cash between 5%-20% and equities from 40%-60%. Our focus remains on larger U.S. companies that continue to show positive earnings growth and improving balance sheets along with good cash flow. We view pullbacks in the market as opportunities for purchases and with our flexible asset mix, our attention will continue to be on those companies with improving fundamentals.

Jeffrey S. Naylor
Executive Vice President/CFO

Charles Schwab Statements



You should have received notification with your May account statement (sent in June) that starting in August, Schwab will continue to send monthly statements unless there is no activity. In such cases, Schwab will begin generating your Schwab account statements only once per quarter. Highlights of the notice include:

- This change will apply to eStatements, paper statements and bundled statements.
- You'll continue to receive a monthly statement for any account(s), with transactions such as deposits and withdrawals, trades and stock dividend distributions.
- You'll receive a quarterly statement for all account(s), including those with only minor transactions, such as payment of interest on cash in your account.
- Clients who receive bundled statements will only see balances on their bundled statement summary for accounts that have qualifying activity.

Schwab's goal is to limit communications to what's essential for your needs. If you have any questions or would like more information about any of your advised accounts, please contact us directly, visit schwaballiance.com or call Schwab Alliance at 1-800-515-2157.

Tracy L. Jenkins
Vice President of Operations

Quarter in Review

(Continued from page 1)

month in April due to the higher average hours worked. This instilled a slight boost in consumer confidence. Consumers are also spending on personal type items versus durable, tangible products.

One of two developments to focus on this summer is the "Brexit" (British exit) from the European Union (EU). The vote to exit the EU by the British citizens will have a long-term effect on developed Europe and the volatility surrounding the possibility of additional defections of the EU countries will put pressure on stocks globally.

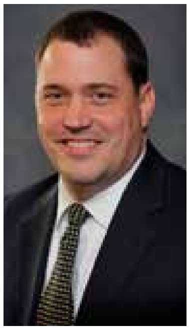
The other attraction to watch is the ever popular Presidential Election between the heavyweights of "trash talk", Clinton vs. Trump, as they head into the conventions. Most important will be the makeup of Congress following the November election. Certain areas of the economy will respond positively and others negatively depending on the winner of the Presidency.

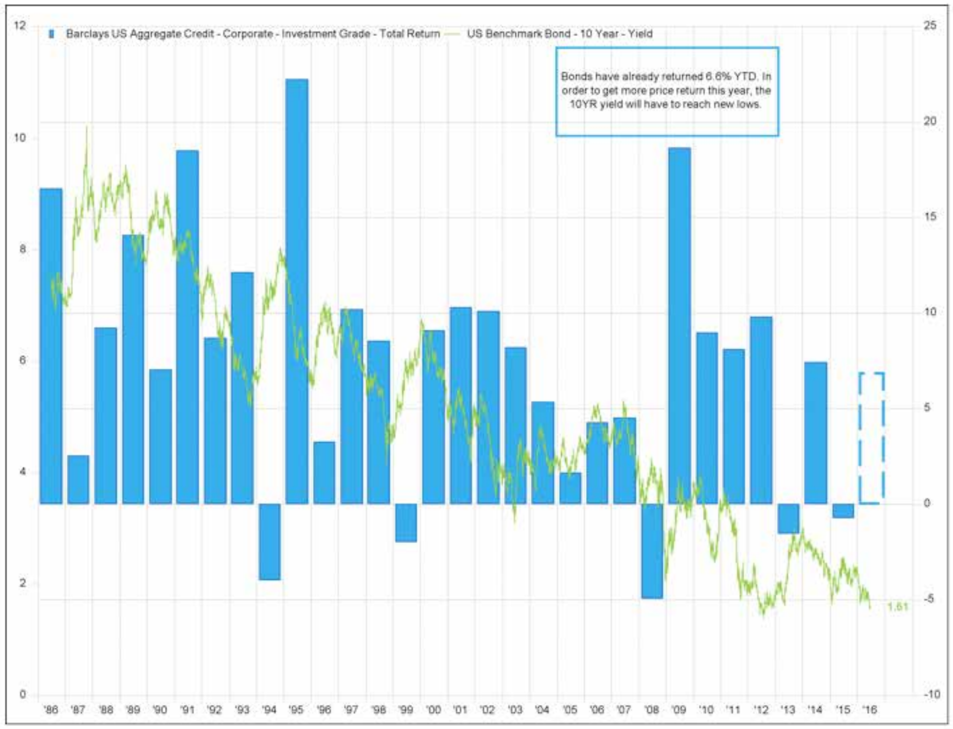
While we want our clients to enjoy these summer months with friends and family, plenty of newsworthy events will be taking place that could shape the next 12 to 18 months. We will be watching closely as events unfold and allocating positions within your individual strategies to make every effort to continue to accomplish your goals.

Have a happy and safe summer!

Joseph M. Valicenti
President/CEO

Analyst Corner





Source of chart: FactSet

Positive Market Influences	Negative Market Influences
Positive YTD Commodity/Energy Returns	Labor Market Conditions
Pause in Divergent Monetary Policies	Negative Global Sovereign Rates
	Slower Expected Global Growth
	Brexit

As we reach the conclusion of the first half of 2016, it is time to focus on the year-to-date investment returns of the major equity and fixed income markets in order to better understand what has driven performance this year. The S&P 500 on a total return basis, which includes price appreciation as well as dividends, is up 0.8% over the first six months. If the market were able to repeat this rate over the back half of the year, it would get close to an annualized rate of return of 1.6% in U.S. equities. Given sluggish top line sales growth and weaker earnings over the last several quarters, this type of small positive return could be looked on as a win this year should it come to pass. At times, it is hard not to over focus on the equity space, as individual company stories and equity returns are often more interesting to follow, but it is the corporate bond market which has provided a good deal of market overall return in 2016. Using the Barclays U.S. Aggregate Investment Grade Total Return Index as a guide, we can see that the index has returned close to 6.8% through the first two quarters. For the sake of comparison with equities, if we were to annualize this number it would get us to 13.6%. That type of year-end gain could be a tall order as rates would have to fall even further in order to produce such a result, but it does highlight how well the bond market has fared the first six months relative to the equity sector. As we came into this year, there was a heightened level of concern about depressed energy and commodity prices just as the Fed was initiating the liftoff of rate policy. The perception about the trajectory of these things has shifted significantly enough over the last six months to cause some repricing which has helped returns. Commodity and energy prices have rallied off of lows, which alleviated some of the pressure in credit markets and the expectation around the pace of future interest rate increases has continually adjusted downward since December. It is these reassessments, among a few other factors, which have driven the bond market towards higher prices throughout the year. It has also produced tailwinds over the same period for energy stocks and certain other equity sectors which have solid income characteristics. One optimistic scenario for future equity and fixed income returns involves growth oriented sectors taking the lead again against a backdrop of modestly higher rates.

From a market symmetry perspective, influences more recently have been skewed towards the negative side. Nearing the end of the second quarter, some softening in labor market conditions as well as Brexit fears elevated risks in the intermediate term.

Positive Market Influences:

- Positive YTD Commodity/Energy Returns – Reduced fears of extreme deflationary outcomes have seen the Energy sector return near 12% YTD. Similarly, the Rogers International Commodity Index is up 11%.
- Pause in Divergent Monetary Policies – As Federal Reserve policy tightening expectations have been reduced, tactical pauses in additional easing in Japan and the Eurozone have brought respective policies closer together in the intermediate return. This has reduced immediate concerns about excess dollar strength.

Negative Market Influences:

- Labor Market Conditions – The monthly change in nonfarm payrolls has noticeably decelerated since Q4 of 2015. May produced a gain of only +38K jobs, which was the lowest monthly gain in the last five years.

*(See **Analyst Corner** on page 5)*

Presidential Tax Platforms

Once again, we are in a Presidential election year. Our election delegate process seems to have narrowed down to a candidate for the Democratic Party and for the Republican Party. Hillary Clinton appears to be our nation's choice for the Democratic ticket. Donald Trump has gathered the necessary delegates to be chosen as the nation's Republican candidate. There are many topics that each candidate will need to address in his/her run for the White House. Among them are foreign policy, the U.S. economy and taxes. This article will present the "reported" tax platforms of the persumed candidates. We will probably not see any deep structural tax law changes from either candidate, but reforms within the laws may occur. Additionally, enacted tax law is rarely that which is "hawked" on the campaign trail. Most campaign promises are usually presented as broad concepts without details. Whoever wins, he/she will have to get any plan past Congress through political mire and procedural constraints. The data presented here was compiled from each candidate's website and/or campaign statements.

Democratic Party:

Hillary Clinton proposes eight tax brackets, ranging from 10% to a top bracket of 43.4%. The top bracket that she would keep is made up of the 39.6% plus the 3.8% net investment income tax. Once taxable income exceeds $5 million, Clinton's plan would tack on a 4% surtax, bringing the total tax rate to 47.4%. Clinton's capital gains tax structure would have the same look as it does now at the lower income levels where there still exists a 0% tax bracket for taxpayers that fall into the 10% and 15% range and meet certain other tests. Her plan continues to follow the current capital gains structure where the 15% capital gains rate applies to taxpayers falling into the 25% to 35% regular income tax brackets. The capital gains rate would increase to 20% for those taxpayers that are in the 39.6% tax bracket. Once an individual's income exceeds $5 million now, the long-term capital gains rate is 20% plus the 4% surtax; however, it does not stop there. The 24% top rate on capital gains after the 4% surtax applies only to assets held for six years and then sold. If the asset holding period drops to five years, the top marginal capital gains tax rate is 24% plus the 4% surtax on income over $5 million. The top marginal capital gains tax rate climbs 4% for every year that the holding period drops, until the rate returns to 39.6%.

Clinton also likes the Alternative Minimum Tax (AMT). She would establish a new 30% minimum tax on adjusted gross income exceeding $1 million. Some other major points regarding individual taxes are that her plan would calculate a tax value limit of itemized deductions of 28% and would establish limits on amounts that tax-deferred and tax-free retirement accounts can be valued and the enactment of a new $1,200 tax credit for caregiver expenses. As for business taxes, her plan would create tax credits for profit sharing and for creating new manufacturing initiatives. Her tax policy would deal with offshore earnings by creating an exit tax. As far as estate and gift taxes, her platform would roll back the exemption to $3.5 million with a 45% tax rate. Currently, the exemption is $5.45 million and the top tax rate is 40%. Among the last tax issues which Clinton's tax platform would address are excise taxes. She would be in favor of an excise tax on sugary soft drinks.

Republican Party:

According to Donald Trump's website, the "Goals of Donald J. Trump's Tax Plan" are as follows:

1. Tax relief for middle-class Americans
2. Simplify the tax code
3. Grow the American economy
4. Do not add to the nation's debt and deficit

*(See **Presidential** on page 5)*

Presidential

(Continued from page 4)

Trump's plan does not tax single filers earning less than $25,000 and married filing joint taxpayers making less than $50,000, which he claims will remove 75 million households – over 50% - from the income tax rolls. Trump's tax plan would consist of four brackets – 0%, 10%, 20% and 25%. His plan would eliminate the marriage penalty and the Alternative Minimum Tax (AMT). His plan would keep long-term capital gains rates starting at 0%, then to 15% and capping at 20%. The top capital gains rate will apply to single filers with $150,000 of taxable income and married filers with $300,000 of taxable income. Tax deductions in Trump's plan would phase out as taxable income increases. Charitable deductions and mortgage deductions would remain unchanged for all taxpayers.

As for business taxes, his plan would tax corporate income worldwide at 15%. This rate also would apply to pass-through business income on an individual's tax return (i.e. S-Corps). As far as repatriating the $2.5 trillion in overseas U.S. corporate cash, Trump's plan would impose a one-time 10% tax on bringing that money back into the U.S. His plan would then end income deferral, thus taxing corporate income wherever it is earned.

Trump's plan would eliminate a couple of other taxes and programs. He would repeal all estate and gift taxes. Additionally, his plan would repeal the Affordable Care Act and replace it with reforms determined by the market.

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

Analyst Corner

(Continued from page 3)

- Negative Global Sovereign Rates – While risk free sovereign yields have been the historical free market barometer of growth and inflation levels of national economies, the world is now grappling with the reality that trillions of dollars of sovereign debt is trading in negative rate yield territory.
- Slower Expected Global Growth – Median forecasts for U.S. growth in 2017 through 2018 have been lowered to 2%. Further, the IMF reduced its 2016 global growth forecast for 2016 in Q2 by 0.20 percentage points.
- Brexit – The vote in Britain on whether to remain in the EU or exit has created a lot of uncertainty for global markets and is negatively impacting risk appetites. Regardless of the outcome, the fractious debate around the political, economic and currency union seems likely to continue.

Daniel P. Burchill
Security Analyst

STAR Process, Not Benefit, Changing for New Homeowners

As part of the NYS budget plan that was passed earlier this year, the School Tax Relief (STAR) program will gradually convert from a real property tax exemption to a personal income tax credit. There is no change to the amount of the STAR benefit for taxpayers, only the mechanism used to claim the funds.

Preexisting exemptions are unaffected. A homeowner who owned his/her home on the taxable status date for the assessment roll used to levy taxes for the 2015-2016 school year, and who received a STAR exemption on that roll, may continue to receive a STAR exemption on that home as long as he or she still owns and primarily resides in it. No action is required.

New STAR exemptions, however, are prohibited. A new homeowner may receive a new personal income tax credit in the form of a check. The dollar benefit to eligible taxpayers will not change. A taxpayer who is eligible for the new credit will receive a check from NYS rather than receive the upfront savings on his/her tax bill, equal to the amount by which the STAR exemption would have reduced his/her school tax bill. Then he/she will have to claim the money on his/her income taxes the following year.

According to officials, the change from a credit to a rebate check is aimed at helping NYS to pay for new spending in the state budget, with the thought also that schools won't have to wait to get reimbursed for costs and homeowners should get their checks in September – in time to pay their tax bills. Eligible taxpayers who register by July 1 will be issued the STAR credit by September 30 of the applicable year. A qualified taxpayer who registers after July 1 is still eligible for the STAR credit but should not expect to receive the check by September 30.

Who must register?

-- Those who bought their home after August 1, 2015, must register with the NYS Department of Taxation and Finance.

-- Those who bought their home between May 1, 2014 and August 1, 2015 must register if they bought their home after the 2015 STAR application deadline or if they never applied for the STAR benefit on their primary residence.

Owners who purchased their homes before May 1, 2014 don't need to take any action. They will continue to get the STAR exemption on their property tax bills.

For more information regarding STAR eligibility or to register, go to the Department's website at www.tax.ny.gov or call (518) 457-2036 during normal business hours.

Kelly S. H. Diehr, RP®
Administrative Assistant

Using Technology to Complete Your Home Inventory

I published an article in the Advisory Notes last year about the importance of a home inventory. Again, I will ask, can you list everything you own from memory? Are you confident that you could do that at the time of a loss?

You need a home inventory because you don't just love your home, you love what's in it - your furniture, clothing, artwork, electronics, dishes, appliances, sports equipment, jewelry and so much more. Your personal belongings are usually worth much more than you realize. It's important to know how much and exactly what you have in the event that you ever need to file a personal property claim with your homeowner's insurance or renter's insurance carrier.

There may come a time when you need to file a claim for theft of your jewelry or electronics or for the loss of all your possessions due to a fire. In these and many other cases, would you know exactly what was missing and remember its cost or appraisal value?

With a home inventory, you don't have to remember or guess. You will have a comprehensive record of everything you own and you can easily submit it to your insurance company. It assists everyone tremendously in the claims process but, most importantly, helps you during a most stressful time.

I am pleased to share with you that one of our partner insurance companies, Safeco Insurance, has developed its own home inventory App, available now for iPhone and iPad use. The Safeco Home Inventory app makes it easy to catalog all of your belongings, from the large items you use daily like your sofa, to the smaller items such as jewelry. The features include the ability to:

- Catalog items by room and/or by category
- Take and store photos, scan barcodes, record purchase prices and enter other item details
- Quickly browse your belongings in a virtual gallery
- Save your home inventory as a spreadsheet or a PDF
- Upload your inventory to secure cloud storage for free in case your mobile device is ever lost or damaged

The Safeco Home Inventory app makes it easy. Simply download the app and start cataloging your belongings, room by room. You can include photos, purchase dates, receipts, serial numbers and other important details. You do not have to be a Safeco policyholder to take advantage of this free app. Download it and begin today!

Look for this app in iTunes.

Suzanne M. Valicenti
President/CEO

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- 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.

Getting to Know Our Teams!

It's not the products, services and profits that make a company great, it's the people who make things happen. Our employees are the ones who make our clients come first and we want to share more about them. This quarter, the Operations Team will be our spotlight. This team works closely with each other as well as the investment and administrative team. This team handles all of the daily account transactions as well as the monthly and quarterly mailings of the reports you receive. Get to know Tracy, Drew and Casey and what their responsibilities are as a team.

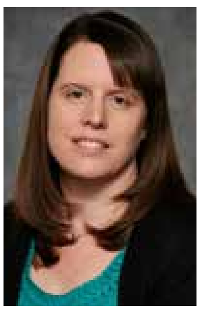
Help us in thanking our Operations Team for the outstanding job they do!

Valicenti Advisory Services, Inc.
The Operations Team

Tracy L. Jenkins
Vice President of Operations

Andrew S. Cartwright "Drew"
Systems and Reports Manager

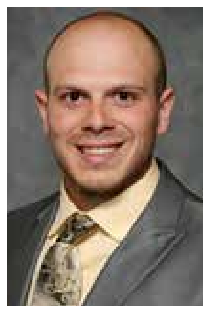
Casey L. Watkins
Client Paying and Receiving



TRACY L. JENKINS has been putting our clients first for 18 years. She joined the firm as the receptionist at the 400 office in 1998. In 1999, she was promoted to Administrative Assistant and in 2001 she moved to the Operations Department as the Operations Manager. In 2011, Tracy accepted the position of Vice President of Operations.

Tracy supervises the Operations staff, assists in preparing the monthly and quarterly reports, oversees audits and custody holdings, processes account transfers and ensures that IRA distribution requirements are met.

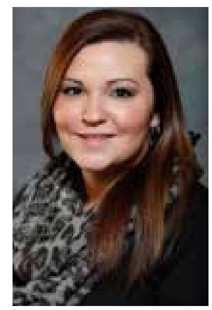
Tracy received a Bachelor of Science degree in Business Administration from Mansfield University. Tracy is a 2009 graduate of Leadership Chemung and a Commissioned Notary Public. She enjoys spending time with her husband and two children and volunteering her time in her community.



ANDREW S. CARTWRIGHT "DREW" has been putting our clients first for six years. He joined the firm as an intern in 2010 and assisted in our paperless initiative for the firm. In 2012, Drew joined the firm full time and accepted the position of Systems and Reports Manager.

Drew posts and reconciles daily account transactions and monitors system information ensuring the accuracy of all data. He also opens and closes accounts on the system.

Drew is a graduate of SUNY Brockport with a Bachelor of Science degree in Physical Education and Health Science. He enjoys spending time with his wife and being outdoors fishing and hunting. He spends most of his spare time working with children coaching cross country and track and field.



CASEY L. WATKINS has been putting our clients first for two years. She joined the firm as Client Paying and Receiving in 2014.

Casey is responsible for client transactions such as receipts and disbursements, journaling between accounts, processing bills, which the firm pays on behalf of its clients and reconciling bill paying clients' bank accounts. She is also involved in the processing of new accounts.

Casey is a graduate of Mansfield University with a Bachelor of Science degree in Business Administration. She enjoys spending time with her family and being outdoors on the lake. She volunteers her time working with a local youth wrestling club and adopting a family through Catholic Charities during the holidays.

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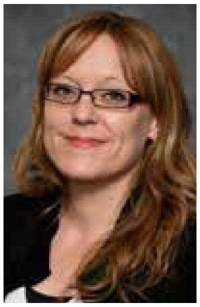
Our Clients Come First

New Website Coming Soon

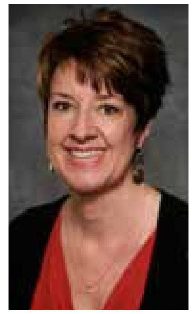


We are excited to inform you about the upcoming launch of our new website! Currently, we are working on a new design that allows for ease of accessibility for our current and prospective clients by incorporating a fresh, new look that is more user-friendly and easier to navigate. Our new site allows for online access to your account(s) via Charles Schwab, where you may also enroll in electronic delivery of important account documents. The site will incorporate a client vault area allowing you to log in to view your accounts and to receive your Valicenti quarterly reports and tax summary reports electronically. We want to give you an opportunity to know us better, to showcase who we are as a company and to profile the leaders who are driving the team. The new site will launch during the third quarter so please visit us at valicenti.com and share with us your experience with the new site. We hope you are as excited as we are!

Melissa B. Dixon
Administrative and Marketing Assistant

Asset management
as individual as you

"Cost" of Borrowing from Retirement Accounts



Summer has arrived and so have the wants for those dream vacations and shiny, fast boats. Friends are talking about their plans, but the lack of disposable cash might be holding you back with your plans. If you are like many people, your retirement accounts represent your largest savings. When you need, or want, to access funds for a personal financial reason, it's understandable why you may consider borrowing from your 401(k) account or withdrawing from your Individual Retirement Account (IRA). After all, it's your money and, in the case of a loan, the interest paid goes back into your retirement account. Win – win, right? Not necessarily. You should understand how borrowing from your retirement may "cost" you.

Borrowing or withdrawing from your retirement accounts prematurely should only be done when you truly have a need, not just a want, and when there really is not another option – all other assets having been considered.

If you are still working for your employer, you may have the option to borrow against your 401(k). Negatives that must be considered before you choose this option are as follows:

- Withdrawing from your 401(k) means that you are missing out on any potential gains that may have been realized on the principal you have taken out.
- Many plans prevent you from contributing while you have an outstanding loan.
- Repayments must be made with after-tax dollars, while the original contributions were made with pretax dollar; therefore, that money will be taxed again upon future distribution.
- If you leave your job while your loan is still outstanding, you will have to repay the loan immediately or it will be considered a taxable withdrawal – usually assessing a 10% penalty and requiring you to pay income taxes.

A current employer's retirement plan may, but is not required to, allow hardship distributions if there is immediate and heavy financial need, and then only for the amount necessary to satisfy the exact need. Terms of the plan and IRS regulations dictate what needs qualify as a hardship, but they usually involve medical, tuition, funeral and principal residence expenses. Again, a penalty and income tax will be incurred.

IRA owners can withdraw money at any time, but only without penalty if over age 59½ years. Again this is considered taxable income.

Keep in mind with both retirement loans and withdrawals, if you take your money out early, you will be missing out on any gains in the market. Consider using retirement funds for anything other than retirement only in an absolute emergency. The cost to you, especially come your time to finally retire, may be more than you wish to pay.

Kelly S. H. Diehr, RP®
Administrative Assistant