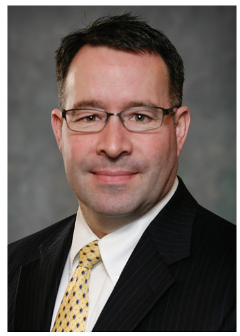
Advisory Notes

JUNE 2019

Second Quarter in Review

As we complete the first half of 2019, the equity markets have continued their upward momentum, as we predicted, albeit in the face of volatility. The gains that continued through the first quarter have built slightly in the second quarter and we anticipate momentum continuing into the second half of the year (see Market Table).



The global rate environment has forced Chairman Powell's hand, as the U.S. yield curve never developed like he hoped in 2018, so lower rates are on the horizon. The Fed, therefore, reversed course from the 2018 hawkish stances (higher rates) to now a more dovish position (lower rates). The trade war with China will, hopefully, be coming to an agreement soon and the Democratic election landscape is starting to shape up for 2020. We see positive momentum in domestic equities and lower yields in the bond market in the second half.

As always, we will continue to manage your allocations and risk tolerances to your individual goals and objectives. We hope you enjoy your summer of 2019!

Joseph M. Valicenti
President/CEO

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 03-31-19 THROUGH 06-30-19

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	BBG Barclays Muni Bond Index	FTSE Corporate Bond Index	U.S. Treasury Bill Index (90 day)
03-31-19 to 04-30-19	2.66	4.05	4.74	3.34	0.41	0.42	0.19
04-30-19 to 05-31-19	-6.32	-6.35	-7.93	-7.90	1.50	1.62	0.31
05-31-19 to 06-30-19	7.31	7.05	7.42	6.90	0.40	2.20	0.25
Cumulative Returns 03-31-19 to 06-30-19	3.21	4.30	3.58	1.74	2.33	4.30	0.76
YTD Returns 12-31-18 to 06-30-19	15.40	18.54	20.66	16.17	5.56	9.58	1.42

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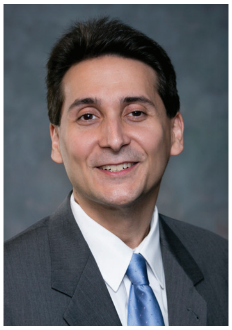

Markets had roared back during the first quarter as they discounted the odds of a first half recession that was to be triggered by higher Federal Reserve induced interest rates. When the Fed reversed course halting rate hikes, stocks appreciated. Looking for new fears, the markets found worries about trade wars with China, Mexico and possibly the European Union and a possible recession, which induced a correction during the second quarter for equity markets.

One of the largest concerns is with trade between the U.S. and China. Financial markets had already discounted that a trade agreement was a done deal as press reports commented on leaks from the negotiations that showed China was amenable to adhering to international trade policies that would include ending the theft of intellectual property, opening of its markets to U.S. exports and the curtailing of state subsidized corporations that compete against U.S. companies. But, as occurs on the game show *Deal or No Deal*, President Xi Jinping closed the hinged cover over the button that reads "deal" and said "no deal" to the agreement that his own negotiators had hammered out with the United States, triggering the beginning of a market correction of over 10%. Speculation circles around two possible reasons for Xi's actions. The first is with his newly elevated position of President (dictator) for life, he needed to appease the hardliners within the communist party, particularly those who privately opposed the removal of presidential term limits. The other reason is this is how the communist government negotiates, either agreeing and reneging or agreeing and backing away before consummating.

Xi is playing the part of the game show contestant saying "no deal," while U.S. trade negotiators are acting as the Host (Howie Mandell) trying to influence the outcome. In this trade game, President Trump is acting as the Banker, calling in new offers or, in his case, tweeting. The President should feel comfortable with the negotiations as he was a former game show host on the same network as *Deal or No Deal*, but he had higher ratings and he probably would say he has bigger hands than Mandell. What, you can't imagine him saying that?

Should we be worried about a second half recession this year? It is unlikely. First quarter GDP came in above expectations of 3.2% and the consensus for the full-year range between 2%-3%. Couple this with low unemployment and inflation and with a more accommodative Fed creates a higher probability that the economic expansion continues. The International Monetary Fund has estimated that U.S. GDP would decline by approximately half a percent if U.S. tariffs were expanded to nearly all Chinese imports, while China would have approximately triple the negative effect. A 0.5% slowdown should be insufficient to trigger a recession this year. If corporate earnings continue to grow, this growth coupled with modest economic expansion should eventually be positive for equity markets.

Whether Xi ever says "deal" is unknown, but American corporations are beginning to alter their supply chains to manufacture in other locales including the United States. Every half year that passes, American corporations will grow less dependent on China, weakening the long-term impact if "no deal" ever materializes.

Louis F. Ruize
Director of Research/Portfolio Manager

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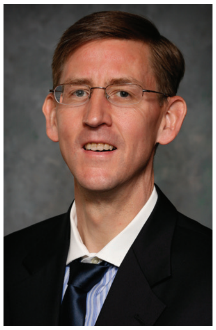
Investment Strategy



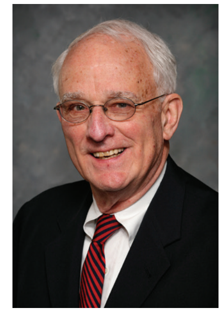
In the first half of 2019, the U.S. equity markets worked towards recapturing the 2018 highs. The U.S. bond markets were also in a rally mode and the U.S. economic conditions remained positive, but a bit tepid. Consumer confidence remains the bright spot at present and in general seemingly unphased by the geopolitical issues.

U.S. corporations are digesting the effects of the trade issues and look to be posturing in a more defensive mode, as the outcomes of many of the geopolitical issues remain in limbo. With inflation in check for the moment, the Federal Reserve has seemingly become dovish as we head into the third and fourth quarters. With second quarter earnings right around the corner, we are remaining cautiously optimistic for the second half of the year.

Our money market target remains flexible in a range of 5-20% depending on client risk levels, while fixed income allocations are in the range of 30-40% and equities range 35-60%. These ranges will vary based on client specific goals, income needs and risk levels. During the second half of the year, we will remain nimble looking for opportunities and viewing pullbacks in the market as opportunities for purchases. Our asset mix will remain flexible as data points become available and our attention will continue to be on those companies with improving fundamentals.

Jeffrey S. Naylor
Executive Vice President/CFO

Guess What?!



Once again, it is time to remind you to get certain documents in place or updated.

You have already gathered up the required documents to file your taxes for 2018, so why not continue along a similar path and get the rest of your "house in order." The documents that I am referring to are as follows:

- Durable Powers-of-Attorney
- Healthcare Proxy
- Last Will and Testament
- Living Will
- Trusts

In addition, certain items, as listed below, need to be reviewed from time to time:

- Beneficiaries of Retirement Plans
- 401(k), 403b Plans, etc.
- Pension Benefits
- Health Insurance
- Life Insurance
- Business Insurance
- Refinance of Mortgage

Planning for now and the future not only will benefit you but also your heirs. As any of the following may apply to you, we suggest that you address them:

- Educational Expenses
- Gifting
- Major Repairs to Your Home
- Purchase/Lease of a Car
- Purchase of a Home/Second Home

If you should require banking or legal advice, etc., for any of the above listed items, we would be happy to furnish you the names of appropriate professionals.

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

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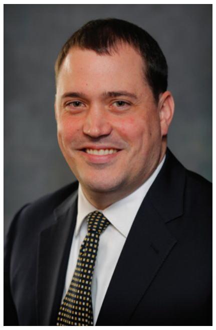
Analyst Corner



Following the first quarter's strong recovery in risk sentiment and equity prices in general, Q2 saw stock prices generally remaining buoyant across sectors in the quarter, with only the Energy sector posting a loss quarter to date as WTI Crude fell roughly 3% amid concerns over demand and slowing global growth. With the S&P 500 presently sitting very near all-time highs, the softening in interest rates as well as key commodity cost inputs such as oil can be seen as a sign of the moderating global demand, but the lower prices are also at the same time alleviating pressure against the slowing growth, which possibly could extend the cycle further. That some of the pro-cyclical sectors led the market in the second quarter may be indicative of this. Downside risks in the remainder of the year could present themselves should softer demand settle even lower than presently expected or should growth deceleration become significant enough to warrant contractionary or recessionary fears. On the positive side, the strength in the United States relative to the rest of the world may prove to be the important factor, leading to more resilient outcomes for markets.

Information Technology, Financial, Consumer Discretionary and Materials sectors led the way in the quarter, all returning between 5% and 7%. Communication Services, Industrials, Utilities and Consumer Staple sectors performed in line with the S&P returning near 4%. Real Estate and Health Care sectors produced small positive gains but lagged the overall index. Energy names rallied later in the quarter but were down -4%, representing the only negative mark in the index.

On the fixed income and the credit side of things, as the Treasury yields cooled off and headed lower, the pressure came off of credit and spreads over Treasuries have contracted more recently. At a time when corporates are carrying leverage above historical averages, due to the lower rate environment of the last few years, this is constructively healthy from the corporate point of view. A little less so if you are an investor looking for higher yielding income investments but, nonetheless, a stabilizing movement in corporate rates. The FTSE US Broad Investment Grade Corporate Index is up 4.3% on a total return basis for the quarter and a very strong 9.6% year to date.

Market symmetry in our view is balanced in the near term given the recent Fed rhetoric around moving towards an accommodative stance once again, though this is still tempered against a slowing global growth situation. At the end of the month, news coming out of the G20 meeting in Japan, may provide some information for market participants.

Positive Market Influences	**Negative Market Influences**
Forward Target Rate Expectations	Moderating Growth
Long-Term Interest Rates	China and U.S. Trade Negotiations
Credit	Industrial Cycle
Oil	Geopolitical Tensions

Positive Market Influences

- **Forward Target Rate Expectations** – Market expectations are leaning towards a reduction of 25bps to the overnight federal funds interest rate in July. This would mark an inflection from the tightening policy stance of the last few years.
- **Long-Term Interest Rates** – The U.S. 10YR benchmark rate saw a recent peak of 3.25% in the fall of last year, but has since fallen below 2% once again. This is a significant 125bp reduction in the discount rate.
- **Credit** – Investment grade corporate credit spreads over the Treasury rate had been rising through the quarter. Recently, as the Fed signaled a shift in stance, spreads began to contract.
- **Oil** – WTI has fallen 15% in the month from a level near $65 USD/bbl to $55.40 USD/bbl in the month, reducing the price of a key cost input for businesses and consumers.

Negative Market Influences

- **Moderating Growth** – The Atlanta Fed's GDPNow forecast currently sits at 2% for growth in the second quarter of 2019, a rate approaching trend but reduced from the recent near 3% run rate of the last year. The International Monetary Fund's April World Economic Outlook illustrated a slowing down of global growth relative to the rates achieved in 2017 and 2018.
- **China and U.S. Trade Negotiations** – The stalemate in the trade negotiations with China over the nature of the future relationship has weighed on corporate planning, as expectations for the future are uncertain.
- **Industrial Cycle** – The goods producing cycle has appeared to lose steam in hard and soft survey data in many parts of the world. In the U.S., the ISM Manufacturing Purchasing Manager's Index has dropped from a high of 60.8 in August 2018 to a reading in May 2019 of 52.1, a noticeable winding down.
- **Geopolitical Tensions** – Recent events in the Persian Gulf have seen the shooting down of an American military drone and a mine attack on a Japanese oil tanker. This serves as a reminder that geopolitical tensions are running hot which could dampen risk appetites in certain markets.

Daniel P. Burchill
Security Analyst

Record Retention Guidelines

In the article entitled *Guess What?!* in this publication, we gave you a gentle reminder about certain documents that you need to get in place or updated. Now we will give you, compliments of the Internal Revenue Service a list, not all inclusive, of documents you need to keep and for how long.

In regards to any of the below guidelines applicable to taxes, you may want to review them with your tax preparer.

Documents to Keep	**Retention Time**
Bank Statements	Seven years
Birth/Death	Indefinitely
Marriage and Divorce Documents	Indefinitely
Canceled Checks	Seven years
Charitable Contributions	With yearly tax returns
Credit Card Statements	Discard after payment appears on credit card statements
Health Insurance Policies	Until new policies are received
Home and Property Insurance	Until new policies are received
Income Tax Returns	Seven years
Medical Records	Permanently
Medical Expense Records	With yearly tax returns
Retirement Plan Statements	Three to six years – year end statements permanently
Pay Stubs	Cumulative pay stubs for the year
Real Estate Documents	Three to six years after property has been sold and taxes paid
Purchase and Sale of Securities	For proof of cost basis, keep these for six years
Residential Records	Indefinitely
Social Security Statements	Discard as current statements are received
Wills, POA's, Health Care Proxies	Permanently or until revised

Source: IRS

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

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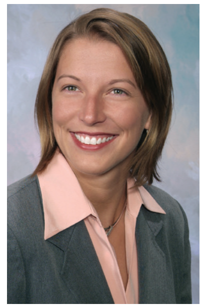
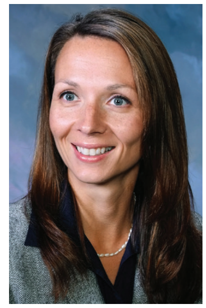
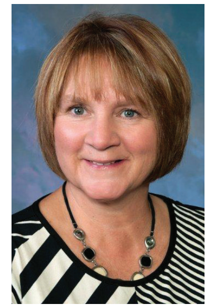
Getting to Know VISI



Suzanne M. Valicenti
President and CEO



Kate L. Schermerhorn
Account Executive



Christine Walck
Licensed Agent

In 2013, Valicenti Insurance Services, Inc., (VISI) was established as an affiliate of Valicenti Advisory Services, Inc. As an Independent Agency, it represents many of the Nation's leading insurance companies that provide multiple lines of coverage and superior claims service. This allows VISI the advantage of tailoring an insurance program suited to your specific needs and budget. The Agency is licensed to provide most personal coverage in New York, Pennsylvania, Florida, North Carolina, and South Carolina.

Suzanne M. Valicenti, President and CEO, has over 19 years of experience developing and servicing personal, business, life, health and group benefit insurance programs. An active member in the community, Suzanne is a past member of the Elmira College Alumni Board, the YWCA of Elmira & The Twin Tiers, the Chemung County SPCA, The Chemung County Chamber of Commerce and is a Founding Member of the Fund for Women. She is an advocate for rescue animals and has spent many years volunteering for various animal welfare groups in the Southern Tier and Rochester areas.

Kate L. Schermerhorn, Account Executive, has over 19 years of insurance management experience specializing in creating personal and business insurance programs for her clients. Kate spends most of her spare time working with her husband and son revitalizing the Christmas tree farm that they purchased in 2013.

Christine Walck, Licensed Agent, has over 40 years of personal lines insurance experience. In her spare time, Chris enjoys making beautiful wreaths and spending time with her family.

Since the inception of VISI, many of our investment and tax clients have availed themselves of its services. Have you considered using these services? We encourage you to contact VISI at (607) 215-0242 or by email at info@valicenti-ins.com for a no obligation quotation.

Mistakes College Students Make With Money

Money making decisions made now can cause harm that can last for decades, so making sure that your finances are in order can go a long way in helping you prepare for your future. As a young adult, one needs to figure out how to earn some spending money, pay for college and still get a good education. That can be a struggle for anyone, so it is no wonder that some college students end up making expensive mistakes when it comes to money. Below are some money mistakes college students make and tips on how to avoid them:

Colleges That Are Too Expensive: Is the name of the school on your diploma most important? While it is in some cases, in other career paths it may not be. Some students dream of going out-of-state to attend school or to a prestigious college, but financially this may not be the best decision. With some college degrees, it may not matter that much where your degree comes from so spending an extra $50,000 to $100,000 on a degree may not be needed. Cost wise, attending a community college or choosing a less expensive public university for the first two years, then transferring, may be the best option. Before enrolling in your chosen school, take the time to explore other options. Positioning yourself to begin your professional career with less student debt, you may find that a different school proves to be the better choice.

The Misuse of Student Loans: Most students rely on student loans to pay for a degree. Tuition has gone up exponentially in recent years and if the loans are used for school expenses only, that is one thing, but too often students are using some of this money to buy things that are not essential for school. As an example, using some of your student loan money to fund a trip to Switzerland will make for a good time, but is it worth it if you are digging an even deeper hole that you will need to climb out of before or after graduation? Stick to using your loan money for necessary living expenses or consider returning it and only accepting what you need.

Obtaining Too Much Credit Card Debt: Credit cards are an easy way to pay for things. Many cards have high interest rates and allow students to spend more money than they have the ability to pay back. Don't get into the habit of making only the minimum payment or you could be stuck trying to pay off the card long into the future. Credit cards help play an important role in establishing your credit history. That doesn't mean you need to avoid them, but they should be used wisely. That includes applying for new credit only when you need it, paying your bill on time every month in full. When you apply, ask if you can have a limit of $250 to $500, so that you don't overspend and so you can still build your credit score.

Keeping Your Credit Score Safe: There are dangers that come with credit card debt, so be careful. Many college students end up ruining their credit history with a few poor decisions. As a reminder, missed payments may remain on your credit history for seven years. The most important rule to follow with credit is to always pay on time. This can help contribute to a solid credit score.

Not Learning to Use a Budget: College can be a perfect time to get into the habit of budgeting. As a student, it is easy to get sidetracked when you don't have a mortgage to pay, kids to feed or other money obligations. Start with creating a simple budget. It won't take long, but if you take the time to review your income and how you are spending money, you can get a better idea of where your money is going and where you can cut back, if needed. The challenge is that you might have limited or sporadic income and if you don't track your spending carefully, it's easy to spend money on things that you may not need. Remember to leave room in your budget for savings, even if it's only $5 a week. This will add up over time. Debt ranks among the biggest challenges for most college students.

Melissa B. Mickley, FPQP®
Administrative and Marketing Assistant

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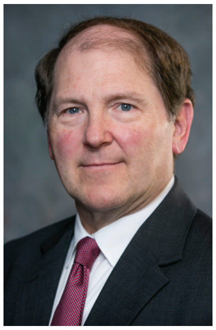
Final Regulations on Charitable Contributions and State and Local Tax Credits



On Tuesday, June 11, 2019, the U.S. Department of the Treasury and the Internal Revenue Service (IRS) issued final regulations that require taxpayers to reduce their charitable contribution deductions by the amount of any state or local tax credits they receive or expect to receive in return. In a notice, also issued on Tuesday, the IRS stated that taxpayers may treat payments they make in exchange for these credits as state or local tax payments. This allows some taxpayers to deduct a certain amount of the payments as taxes.

Treasury Decision 9864, available on June 11, 2019, in the Federal Register, finalizes proposed regulations published August 27, 2018, that were designed to clarify the relationship between state and local tax credits and the federal tax rules for charitable contribution deductions. The Treasury Department and the IRS issued the Treasury Decision after carefully reviewing the more than 7,700 written comments received during the comment period and 25 comments made at the November 2018 public hearing. About 70% of the comments recommended adopting the proposed regulations without change.

The final regulations, which apply to contributions made after August 27, 2018, and become effective on August 12, 2019, largely adopt the rules in the proposed regulations. Under the final regulations, a taxpayer making payments to an entity eligible to receive tax-deductible contributions must reduce the federal charitable contribution deduction by the amount of any state or local tax credit that the taxpayer receives or expects to receive in return. The regulations also apply to payments made by trusts or decedents' estates in determining the amount of their charitable contribution deductions.

For example, if a state grants a 70% state tax credit pursuant to a state tax credit program and an itemizing taxpayer contributes $1,000 pursuant to that program, the taxpayer receives a $700 state tax credit. A taxpayer who itemizes deductions must reduce the $1,000 federal charitable contribution deduction by the $700 state tax credit, leaving a federal charitable contribution deduction of $300.

The regulations provide exceptions for dollar-for-dollar state tax deductions and for tax credits of no more than 15% of the amount transferred. A taxpayer who receives a state tax deduction of $1,000 for a contribution of $1,000 is not required to reduce the federal charitable contribution deduction to take into account the state tax deduction. A taxpayer who makes a $1,000 contribution is not required to reduce the $1,000 federal charitable contribution deduction if the state or local tax (SALT) credit received or expected to be received is no more than $150.

The IRS also posted a Notice 2019-12 providing a safe harbor that allows an individual who itemizes deductions to treat, in certain circumstances, payments that are or will be disallowed as charitable contribution deductions under the final regulations as state or local taxes for federal income tax purposes. Eligible taxpayers can use the safe harbor to determine their SALT deduction on their 2018 tax return. Those who have already filed may be able to claim a greater SALT deduction by filing an amended return, if they have not already claimed the $10,000 maximum amount ($5,000 if married filing separately).

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

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