Advisory Notes

MARCH 2018

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Asset management as individual as you

Spring Fever Adds Volatility

The markets during the first quarter created a "March Madness" unlike any we have witnessed in the past few years. We saw a stunning upset in this year's NCAA men's basketball tournament where No. 1 seed Virginia was dominated by No. 16 seed University of Maryland Baltimore County and defeated 74-54, first time ever in the men's championship since 1939.

Like this upset, "March Madness" and the improbable can happen. In the short-term, the unexpected volatility can and will occur, but we need to focus on the long-term goal. One upset does not derail a market or, in this case, a tournament, as the Final Four played out over Easter weekend, where two 1-seeds, a 3-seed and an 11-seed made it to San Antonio.

The relevance of this analogy is that one "tweet" or one "veto" aimed at a specific industry or company will not derail the market growth and expectations that were put in place in 2017. Tax reform, de-regulation and repatriation of overseas funds have been big tailwinds behind the equity market. The bond market is becoming more normalized on a long-term trend and the U.S. economy finally has the means to increase rates by the conservatively led Federal Reserve Board. Raising interest rates in the face of economic growth is a good sign that the U.S. is becoming healthier.

Road blocks, as always, are geopolitical in nature and over the past quarter Russia, China and North Korea have been at the administration's center of attention.

As volatility increased in the second half of the first quarter of 2018, the markets ended up on a negative note and created two 10% corrections from their January highs (see Market Table). We believe the current fundamentals of the economy are strong GDP, low unemployment and fiscal stimulus even amidst rising short-term rates. We look for volatility to continue, but the positive underpinnings of the market should provide for a positive growth rate.

As always, we will evaluate your goals and objectives in order to structure your portfolio to meet your individual needs.

Joseph M. Valicenti
President/CEO

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 12-31-17 THROUGH 03-31-18

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	U.S. Treasury Bill Index (90 day)
12-31-17 to 01-31-18	5.88	5.73	7.36	2.57	-1.29	-1.05	0.09
01-31-18 to 02-28-18	-3.96	-3.69	-1.87	-3.97	-0.33	-1.54	0.13
02-28-18 to 03-31-18	-3.59	-2.54	-2.88	1.12	0.40	0.29	0.16
Cumulative Returns 12-31-17 to 03-31-18	-1.96	-0.76	2.32	-0.40	-1.21	-2.28	0.38

Director's Chair

Budget Away From Excess Spending: In the 1952 "Job Switching" episode of *I Love Lucy*, we learn that there are two kinds of people in this world, earners and spenders. For this article, earners earn and save money, while spenders earn and spend all of their money, and then some. Sadly, earners many times marry spenders and, even more depressing, is when a spender pairs up with another spender. Personal debt ballooned in the 1970's, with the wider spread adoption of credit cards in what would be known as the "Me Decade." Then the 1980's and 90's appeared with even higher levels of personal debt, as credit cards became ubiquitous along with second mortgages, which allowed people to invest in dot-com startups. That ended so well that Americans took on multiple mortgages to engage in "house flipping" and $4 a day cups of coffee in the 2000's bringing about the financial crisis. Just like Lucille Ball's character of Lucy Ricardo at the candy factory, Americans got slapped in the face with the melted chocolate of excess and unwise spending.

No matter how little one earns, as long as it is above the poverty level, the majority of your financial woes will be spending related and the first mistake is not having a budget or arguing that you do not need a budget. Without a budget, it is unlikely that you will fully recognize where your money is spent or how much is dedicated for non-essential items.

Begin by taking your after-tax income or combined income, if married, and sharing all finances – this should be the sole source of monthly spending. Then list all of your necessity expenses such as mortgage/rent, electric, heating, water, transportation, debt payments and food, as these expenses are less variable. Then list the expenses that you have the ability to increase or decrease, such as entertainment and discretionary shopping. Finally, build in a cushion that allows for unexpected expenses like car repair or a doctor's visit. The focus of spending should be to cover necessities first, but that sounds simpler than it really is for many people. The goal is to subtract your expenses from your income and for the number to equal zero and not a negative number. Again, a simple concept that millions of Americans do not grasp. It is at this moment that "spenders" should begin to realize something has to change if the expenses exceed income. Do you need that $4 cup of coffee or can of energy drink every day, do you need a luxury car, do you need to eat out multiple times a week, do your children need to wear Ugg boots, do your children need lavish birthday parties or do your children need to receive new toys weekly? If your expenses are larger than your income, then, "heck no," this spending is irresponsible. Maybe you can write notes on your checks for the bank like, "dear teller, please be a lamb and don't put this through until next month." Lucy Ricardo tried that in the 1950's and failed, I doubt it will work today. Recognizing what you and your family "need" versus what you "want" are two different concepts. Don't keep up with the Jones' and don't use your credit cards. A family needs to make tough choices to take care of its needs and to budget for its wants and to save.

Canceling cable, eliminating eating out and chopping up credit cards can quickly contribute toward financial stability. Pay for your "wants" with cash, as it will help deter debt. If you are a problem spender, pay for groceries in cash as well. It will limit what you can buy per week and will keep you on budget – no steak this week, but mac and cheese is three for $1.

Credit cards for a majority of people are a sucker's game. For those who keep balances, the average American pays 15% or higher in interest to corporate loan sharks who will make you pay for today's impulse purchases for over a decade with minimum payments and maximum interest. Yes, for those who do not carry a balance and are very disciplined, credit cards have benefits, but those benefits are for earners, not spenders.

It may take a few months of trial and error but, if dedicated, a family should be able to get its budget in order. After that, set long-term goals to pay off debt and increase savings. Debt is your current self robbing your future self of spending power and, if you can keep that in mind, the elimination of debt will enable a rewarding life and retirement.

Louis F. Ruize
Director of Research/Portfolio Manager

Valicenti Advisory Services, Inc.

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Weddings

Spring is in the air and perhaps you have a wedding in the planning stages. If so, you may want to keep in mind the money pit that the wedding industry has become. According to a 2017 survey of 13,000 couples by The Knot, a wedding planning website, the average cost of a wedding in the U.S. is $33,391. While the costs have traditionally been borne by the bride's family, the more modern approach is for the couple to pay for a good deal, if not all, of the expenses.

There are many ways to cut costs so that the happy couple does not have to go into debt for a celebration. The largest expense for most couples is the venue and this is the easiest expense to trim. Instead of having the reception in a hall, consider an outdoor venue, such as a local park or even a relative's large backyard. You will incur rental costs for a tent, chairs and linens, but this can be less expensive than renting a venue. Having the ceremony and reception in the same place will also save on transportation costs for the wedding party and the guests.

Some indoor venues will offer discounts, depending upon the day of the week. By having the wedding on a Friday or a Sunday, the couple may realize a savings of 20% or more. Also, consider the winter months for a wedding, as venues will usually be less expensive and some will be decorated for the holidays. Being flexible with the date can save a couple a significant amount of money.

Be selective with the guest list – those co-workers that were invited to the wedding won't be remembered in 10 years, much less 30 years. "Plus ones" should be for spouses, engaged partners, live-ins and significant others (together more than six months minimum). If possible, keep the number of people in the wedding party to a minimum, which will save on bouquets, boutonnieres, etc.

Food and beverage costs can be reduced by opting for fewer items on the menu and offering a limited bar with beer, wine and one or two liquors. The wedding cake can be trimmed down to a small cake for cutting and a large sheet cake to serve to guests. Some couples do away with the cake and serve a dessert bar, which reduces costs.

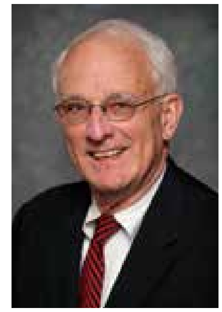
The grocery store can be a great place to purchase food, desserts (including cake) and flowers. Prices for flowers are normally much less at a grocery store than a florist and the cost for desserts and/or a cake will also be lower.

Gowns can be found in a number of places and don't necessarily have to be labeled "wedding" to be a beautiful dress for a bride or attendant. Some websites offer pre-owned dresses at much less cost than a traditional bridal store. Men can wear suits instead of renting tuxedos. Matching shirts and ties can be purchased for a lot less than renting a tuxedo.

There are hundreds of other ways to save when planning a wedding, from the photographer, the music, the flowers and cutting out things that the couple feels are unnecessary. Be ruthless and practical when planning and remember – the marriage is what is important. The wedding is just one day of many happy days. Being flexible and imaginative can prevent the couple from years of drowning in debt for a party that occurred on day one.

Ann S. Nolan, FPQP®
Administrative Assistant

It Is Time



As we do once a year, it is reminder time to get your "house in order" by having various documents executed and in place.

By now, we assume that you have gathered up the necessary documents to file your state and federal income taxes, so what better time to address the other important documents in your life.

The documents 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 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

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

Analyst Corner

Overall market performance in the first quarter of 2018 started off exceptionally strong with the S&P 500 powering 7% higher in the first few weeks of January alone only to then abruptly correct down by 10% in early February from the market high. Since this early bout of downside volatility, we resumed a slow uptrend only to have prices stall and rollover for a second time. As we conclude March, the S&P 500 Index is down -0.76% on a total return basis so far this year. In the fixed income markets, rates have nominally risen at the long end of the interest rate curve, which has pushed down bond prices somewhat. The Barclays U.S. Aggregate Corporate Credit Index is down -2.3%, as we wrap up the first quarter.

Market returns have largely been driven by pro-cyclical and innovative areas of the market with the Information Technology sector up 3.2% quarter-to-date, followed by Consumer Discretionary up 2.8%. The lagging sectors which have proven most vulnerable thus far are Telecommunication Services down -8.7%, Consumer Staples down -7.8%, Energy down -6.6% and Real Estate down -6.1% while the Financials, Health Care, Industrials, Materials and Utilities sectors have put in moderate performances.

Coming into the year and in the wake of the passage of tax reform, the consensus belief seemed to be that equities would have an easier glide path higher, at least in the first half of the year. Given the need to step away from very easy monetary policy support, market participants understood that adjustments to the rate complex could produce some volatility as the changing inputs of growth, investment, inflation and employment were absorbed. Equity levels are off of their lows of the last six months and are still in an uptrend for now, while interest rates at the long end have faded from their highs over the same time period and are thus restrained from shooting higher at the moment. Current market symmetry is balanced.

Positive Market Influences	Negative Market Influences
U.S. Real GDP	Debt & Deficit Concerns
Core Capex Gauge	Monetary Tightening
Consumer Confidence	Interest Rate Curve
Purchasing Managers Indices	Election Year Uncertainty

Positive Market Influences:

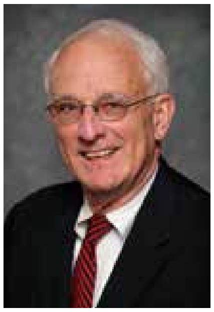
- **U.S. Real GDP** – After growing only 1.5% after inflation in 2016, the U.S. economy grew 2.3% for the twelve months ending in December. With wages and hours supplied trending positively and core inflation still subdued, there is a reasonable expectation that 2018 will show similar and consistent growth output.
- **Core Capex Gauge** – New orders for nondefense capital goods have grown 5.9% over the last year, indicating an appetite for new equipment purchases which could lead to higher levels of productivity in the future. This dataset has struggled to find a positive trend since the global financial crisis.
- **Consumer Confidence** – As measured by the University of Michigan Consumer Sentiment Index and the Conference Board's Consumer Confidence Index, confidence levels have not been this high since at least 2004.
- **Purchasing Managers Indices** – The Institute for Supply Management's readings for its Manufacturing and Non-Manufacturing Purchasing Managers Indices are at 60.8 and 59.5 respectively (Above 50 => Expansion). On the manufacturing side, these levels have not been seen since 2004.

Negative Market Influences:

- **Debt & Deficit Concerns** – Depending on how the long-run growth rate in the U.S. economy shakes out, there are concerns post tax reform that the budget deficit is set up to weaken in the future. Given the level of leverage in the system, should unexpected future inflation emerge, a negative feedback into the markets could result if the Federal Reserve has to tighten with higher rates faster than what is currently expected.
- **Monetary Tightening** – Though the tightening posture of central banks around the world has been slow and incremental, there are concerns that ultimately the waning flow of liquidity that has been provided in earnest over the recovery years will upset markets eventually.
- **Interest Rate Curve** – The spread between the 30-year Treasury yield and the 5-year Treasury yield is around 40 basis points (.4 of one full percentage point). The 30-year average for this measure is 1.12% and these flatter levels have been associated with the latter part of a hiking cycle in the past. At present, it appears that three more Fed hikes of the target overnight interest rate are in the cards.
- **Election Year Uncertainty** – At this point, the level of polarization in the political space is probably well priced in, however, the outcomes impacting policy trajectory and the makeup of Congress after a midterm election cycle won't be known until later this year.

Daniel P. Burchill
Security Analyst

Educational Tidbit



Did you know that March 11, 2018 marked the 100th birthday of daylight saving time in the United States? It was first enacted by the U.S. Government on March 19, 1918, during WWI, as a way to conserve coal. It was stopped nationally later in 1918, but continued at local and state levels until 1966, when the Uniform Time Act was passed by the U.S. Congress.

Interestingly, the Department of Transportation (DOT) is in charge of daylight saving time in all U.S. time zones. According to the DOT, daylight saving time saves energy, saves lives by preventing traffic accidents thereby saving lives and reduces crime. Also, since people tend to spend more time outside during the eight months of daylight saving time, households use less energy. As you might guess, the savings is debatable as there are increases in heating and air conditioning.

Daylight saving time was expanded in 2007, so that it now is in effect for about 65% of the year. The decision to observe daylight saving time is left up to the individual states. Hawaii and most of Arizona, as well as American Samoa, Guam, Puerto Rico and the Virgin Islands, do not observe daylight saving time.

The reversion back to standard time comes at 2:00 a.m. on November 4, 2018.

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

Charles Schwab Fund Transfer Confirmations

Have you received information from Charles Schwab confirming your funds transfer request? As an added layer of fraud protection, Charles Schwab is currently sending notifications to clients of third party funds transfers or check requests, either by specific request or as a regular recurring transfer. These notifications are just confirmation that they have transferred money, per either your one time request or your standing periodic distribution request. No action is required on your part. If you have any questions, please contact us at 607-734-2665.

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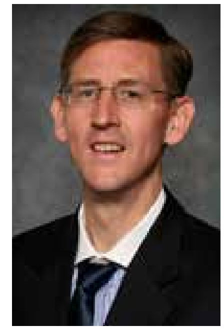
Investment Strategy



During the first quarter of 2018 the equity markets both in the U.S. and abroad continued with their "wall of worry" which led to a move higher in market volatility. Concerns have been over trade wars, a more hawkish tone coming out of the Federal Reserve, data breaches and further political uncertainty from both Washington and abroad.

While all this seems distracting, there are a few bright spots out there. Strong consumer confidence, corporate earnings growth, tax cuts passed at the end of last year, additional merger and acquisition activity and increased spending in areas such as technology should all help the U.S. economy and the U.S. equity markets going forward.

With the first quarter corporate earnings to kick off shortly, we continue to remain cautiously optimistic about the equity markets moving forward. Our asset mix will continue to remain flexible with a cash position of 5-15%, as we look to find opportunities as they present themselves in both the fixed income and equity markets. In the fixed income, we will look at a range of 25-30% and equities 40-65% depending on the client specific directives, risk levels and income needs.

Jeffrey S. Naylor
Executive Vice President/CFO

Interest on Home Equity Loans Under the New Law

The Internal Revenue Service (IRS) has advised taxpayers that in some cases they can continue to deduct interest paid on home equity loans. Responding to many questions received from taxpayers and tax professionals, the IRS said that despite newly-enacted restrictions on home mortgages, taxpayers can often still deduct interest on a home equity loan, home equity line of credit or second mortgage, regardless of how the loan is labelled. The Tax Cuts and Jobs Act of 2017, enacted on December 22, suspends the deduction for interest paid on home equity loans and lines of credit, from 2018 until 2026, unless they are used to buy, build or substantially improve the taxpayer's home that secures the loan.

Under the new law, for example, interest on a home equity loan used to build an addition to an existing home is typically deductible, while interest on the same loan used to pay personal living expenses, such as credit card debts, is not. As under prior law, the loan must be secured by the taxpayer's main home or second home (known as a qualified residence), not to exceed the cost of the home and to meet other requirements.

There are new dollar limits on the total qualified residence loan balances. For anyone considering taking out a mortgage, the new law imposes a lower dollar limit on mortgages qualifying for the home mortgage interest deduction. Beginning in 2018, taxpayers may only deduct interest on $750,000 of qualified residence loans. The limit is $375,000 for a married taxpayer filing a separate return. These are down from the prior limits of $1 million or $500,000 for a married taxpayer filing a separate return. The limits apply to the combined amount of loans used to buy, build or substantially improve the taxpayer's main home and second home.

The following examples illustrate these points:

Example 1: In January 2018, a taxpayer takes out a $500,000 mortgage to purchase a main home with a fair market value of $800,000. In February 2018, the taxpayer takes out a $250,000 home equity loan to put an addition on the main home. Both loans are secured by the main home and the total does not exceed the cost of the home. Since the total amount of both loans does not exceed $750,000, all of the interest paid on the loans is deductible. However, if the taxpayer used the home equity loan proceeds for personal expenses, such as paying off student loans and credit cards, then the interest on the home equity loan would not be deductible.

Example 2: In January 2018, a taxpayer takes out a $500,000 mortgage to purchase a main home. The loan is secured by the main home. In February 2018, the taxpayer takes out a $250,000 loan to purchase a vacation home. The loan is secured by the vacation home. As a result of the total amount of both mortgages not exceeding $750,000, all of the interest paid on both mortgages is deductible. However, if the taxpayer took out a $250,000 home equity loan on the main home to purchase the vacation home, then the interest on the home equity loan would not be deductible.

Example 3: In January 2018, a taxpayer takes out a $500,000 mortgage to purchase a main home. The loan is secured by the main home. In February 2018, the taxpayer takes out a $500,000 loan to purchase a vacation home. The loan is secured by the vacation home. Because the total amount of both mortgages exceeds $750,000, not all of the interest paid on the mortgages is deductible. A percentage of the total interest paid is deductible based on a calculation.

You can visit the Tax Reform page on IRS.gov to see many other aspects of the new tax law.

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

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Spring Maintenance for Your Home

When springtime rolls around in the Southern Tier, almost everyone thinks of cleaning. That's fine (we probably all need to do a little more of that, after all), but there's something even more important to keep in mind: home maintenance.

So, when it's time to set your clocks ahead for daylight saving time and to change the batteries in your smoke and carbon monoxide detectors, give your home a checkup. Here are some suggestions from the Department of Housing and Urban Development:

Interior and appliances

- Check the basement and/or crawl space for any signs of standing water or dripping.
- Pull your dryer out and clean the exhaust hose and vent (lint found here is a common cause of house fires).
- Vacuum refrigerator/freezer coils for efficiency.
- Clean exhaust fan outlets and screens.
- Check all air filters and replace, if necessary.

Roof, siding, windows

- Check for damage to your roof and have a professional inspection, if necessary.
- Go into the attic. If there is visible moisture or discoloration, your roof might be leaking.
- Examine the paint on your siding and trim. If it is peeling, you might need new paint to protect against the effects of weather.
- Check for leaks around window and door sills. Improving your seals can lower your energy bills.

Yard and exterior

- Check for signs of rodents and other pests.
- Clean debris from gutters and downspouts and make sure they are draining away from the home.
- Trim overhanging tree branches and shrubs.

Remember, winter weather can cause significant damage that is easy to spot, but it often results in wear and tear that homeowners can miss if they aren't looking closely. It's well worth it to spend a little time on home maintenance this spring, so that wear and tear doesn't turn into something more serious.

Suzanne M. Valicenti
President/CEO

Traveling Tips

Before you travel:

- Update your contact information and let us know you will be traveling. If we suspect unauthorized account access, we may need to contact you. You can help by ensuring that we have your most recent phone numbers and email address. It is particularly important that we have your cell phone number on record, in case we need to reach you while you are traveling. Please call our office at 607-734-2665 and Charles Schwab at 800-435-4000, if you need to make any changes.
- Pack your laptop. If you have a laptop, bring it. Using your personal computer is usually more secure than a public one. Update your laptop's anti-virus, browser and other software before leaving.
- Switch to online statements. Paper statements can be lost or stolen. Paperless statements can be accessed securely on Valicenti.com for one year or Schwab.com for up to 10 years. To sign up for Valicenti paperless statements, call our office at 607-734-2665 and, to sign up for paperless statements with Charles Schwab, go to Schwab.com before you travel.

Away from home:

- Make your login more secure. Memorize your login ID and password rather than writing it down. At login, Charles Schwab may ask you for additional authentication. You can simplify this step by requesting a Personal Identification Number (PIN). Call Charles Schwab at 800-435-4000 to learn more or to request a PIN.
- Consider a token when logging into your Charles Schwab account. You can make every login more secure by using a token, a small device that creates a six-digit number that serves as an additional password every time you log in. A token, in essence, gives you a new numeric password each time you log in. To order a token free of charge, call Charles Schwab at 800-435-4000.

Be aware of security when you're online:

- Remember to log out of Valicenti.com and Schwab.com after every session.
- Report any email that says it's from Charles Schwab and asks for personal financial information at 866-734-2665.
- Avoid using unsecured wireless networks. These are networks that you, and others, can access without a password.

If you suspect identity theft, unauthorized access to your account or if you suspect fraud, the faster you act the better. Here is what you need to do, right now.

- Call Valicenti's at 866-734-2665 and Charles Schwab at 800-435-4000. If you're abroad, call Charles Schwab at +1-602-355-7300.

If unauthorized activity is confirmed, let the credit bureaus know.

- Equifax: Call 800-525-6285 or visit www.equifax.com.
- Experian: Call 888-397-3742 or visit www.experian.com.
- TransUnion: Call 800-680-7289 or visit www.transunion.com.

After contacting the credit bureaus, notify the appropriate government agency.

- Visit the Federal Trade Commission Identity Theft site at www.identitytheft.gov to learn more.
- Forward suspicious emails to nophishing@cbbb.bbb.org.

Melissa B. Mickley, FPQP®
Administrative and Marketing Assistant

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