# Advisory Notes

September 2023

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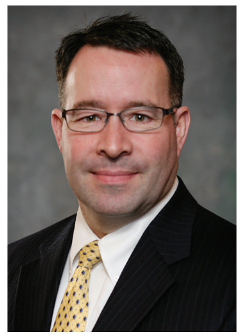
## Third Quarter In Review



The market took a step back in the third quarter, as interest rate hikes and quantitative tightening finally gained traction. The Dow, S&P 500 and the Nasdaq Composite declined approximately 5%, 6% and 7% respectively during August and September (see Market Table). Year to date, the numbers are still positive for the S&P 500 and Nasdaq Composite and slightly positive for the price weighted Dow. Bonds continue to fight the uphill battle during the year and the quarter with unprecedented rate hikes, but we believe that is coming close to, if not at, the end. For savers, short-term rates hover above 5% but consumer, commercial and mortgage lending rates have risen above 6.5% to 7%.

The economy is slowing and we have witnessed the signs in the data points from employment numbers and job openings decreasing, to mortgage applications dropping and inventories starting to build.

Market volatility has certainly come on strong as international developments with China and Russia continue to unfold. The battle over our domestic government leadership and possible shutdown and the United Auto Workers threat to disrupt the automotive and sub-industries with its calculated labor dispute and strike will continue to fuel uncertainty.

While we believe the markets are reacting normally and have hit the reset button

*See* **Third Quarter** *on Page 2*

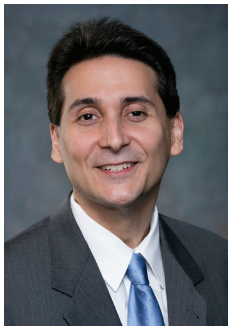
## Market Table

**Valicenti Advisory Services, Inc.**
**Comparative Index Period Returns**
**From 06-30-23 THROUGH 09-30-23**

| | DJIA | S&P 500 | NASDAQ | Russell 2000 Index | BBG Barclays AGGR Bond Index | BBG Barclays Muni Bond Index | FTSE Corporate Bond Index | U.S. Treasury Bill Index (90 day) |
|---|---|---|---|---|---|---|---|---|
| 06-30-23 to 07-31-23 | 3.44 | 3.21 | 4.08 | 6.12 | -0.07 | 0.43 | 0.39 | -0.01 |
| 07-31-23 to 08-31-23 | -2.01 | -1.59 | -2.05 | -5.00 | -0.64 | -1.56 | -0.72 | -0.04 |
| 08-31-23 to 09-30-23 | -3.42 | -4.77 | -5.77 | -5.89 | -2.54 | -3.18 | -2.51 | 0.01 |
| **Cumulative Returns** 06-30-23 to 09-30-23 | -2.10 | -3.27 | -3.94 | -5.13 | -3.23 | -4.29 | -2.84 | -0.03 |
| **YTD Returns** 12-31-22 to 09-30-23 | 2.73 | 13.07 | 27.11 | 2.54 | -1.21 | -1.50 | 0.37 | -0.26 |

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

## Director's Chair



During the final week of September, the 10-year Treasury bond yield flirted with rising to 4.75%, a level not seen since 2007. One year ago, the Treasury stood at 3.71%, a significant near 100 basis point (1%) rise in interest rates driven by repeated interest rate hikes by the Federal Reserve (Fed). The Federal discount rate stands at 5.5% versus where it stood a year ago at 3.25%. This stems from the Fed's battle to bring inflation down to its 2% target after nearly topping 10% in 2022. The Fed's lack of an immediate policy response, because it thought the inflation was "transitory," allowed inflation to move from the goods side of the economy to the services side, and that type of inflation is more difficult to tame because wages usually have to come down. Inflation currently is being persistent, clinging to a 4% rate. The question remains what the Fed will do since it has yet to achieve its inflation target. Will they lay on further rate hikes or will the strategy be one of holding the hikes that have already been taken for a longer period of time.

The Fed is currently playing its own version of *The Price is Right* gameshow, where contestants try to figure the correct price of items to win prizes. For Chairman Powell to be successful, he must feel confident that he can divine what forward prices will be so that he doesn't cause either a recession or embolden inflation to rise again. In effect, he is playing the gameshow's Cliff Hanger game where for every dollar off from a contestant's guess sends the climber yodeling up the mountain. The more a guessed price level is wrong, the longer the climber yodels toward the cliff's edge. If the Chairman misjudges the state of the economy or inflation too much, like the gameshow, the mountain climber falls and the contestant loses.

Unfortunately, the contestant is the American economy. Powell has a most difficult task not to repeat the past. Fed Chairman Burns, who presided over the institution during the 1970s, allowed inflation to go unchecked for too long creating record inflation that took decades to tame. To give you an idea, look up early 1980s episodes of *The Price is Right* on YouTube. There you can see brand new cars with $8,000-$11,000 price tags offered in the contests. Can you imagine paying those sums for a car today? That is the effect of inflation if allowed to go unchecked for too long. It is unlikely price levels for goods will ever return to pre-pandemic levels, as the Fed must now deal with ever-growing budget deficits from unconstrained government spending. Trillions of dollars will be pouring in for political pet projects via already appropriated legislation that will further inflame inflation. For this example, it can be said that Congress is yodeling past the graveyard.

Louis F. Ruize
*Director of Research/Portfolio Manager*

### Third Quarter

*(Continued from Page 1)*

in the third quarter, a year-end recovery is in the future. Consolidation of the market-weighted indexes vs. the equally weighted indexes shows us there is market breadth growing not just with the magnificent seven large cap stocks but also across the board. The Fed pause also gives the markets additional time to react to the yearlong tightening policy.

We hope you have a great fall season and, as always, we will work diligently to manage your portfolios to meet your individual goals and objectives.

Joseph M. Valicenti
*President/CEO*

## IRS Scam Updates

This summer, the Internal Revenue Service warned taxpayers to be on the lookout for a new scam mailing that tries to mislead people into believing they are owed a refund.

The new scheme involves a mailing coming in a cardboard envelope from a delivery service. The enclosed letter includes the IRS masthead and wording that the notice is "in relation to your unclaimed refund."

Like many scams, the letter includes contact information and a phone number that do not belong to the IRS. However, it also seeks a variety of sensitive personal information from taxpayers – including detailed pictures of driver's licenses – that can be used by identity thieves to try obtaining a tax refund and other sensitive financial information.

"This is just the latest in the long string of attempts by identity thieves posing as the IRS in hopes of tricking people into providing valuable personal information to steal identities and money, including tax refunds," said IRS Commissioner Danny Werfel.

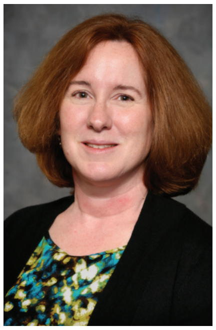
"These scams can come in through email, text or even in special mailings. People should be careful to watch out for red flags that clearly mark these as IRS scams."

The Security Summit – a coalition between the IRS, state tax administrators and the nation's tax industry – continue to warn people to protect their personal information to protect against tax-related identity theft as well as scams like this.

In this new scam, there are many warning signs that can be seen in many similar schemes via email or by text. An unusual feature of this scam is that it tries tricking people to email or phone very detailed personal information in hopes of stealing valuable information.

*See* **Scam** *on Page 7*

## Prepare to Restart Student Loan Payments



The payment restart for student loans is set to begin in October 2023. For those that have federal student loan debt, you may have already received your first bill. The first bill will arrive at least 21 days before your due date.

You can find your loan details through your loan servicer or on your StudentAid.gov account. There are options for repayment – you may pick from plans that base your payment on your monthly income or plans that give you a fixed monthly payment.

If you do not pick a repayment plan, your loan servicer will put you in the Standard Repayment Plan, which is a 10-year fixed repayment plan.

Income-driven repayment plans (IDRs), base your monthly payment on your income and family size. What you still owe after a set number of years will be forgiven. The new SAVE Plan provides the lowest monthly payments of any IDR plan available to nearly all borrowers, allowing many borrowers to make no monthly payments and saving all other borrowers at least $1,000 per year. The SAVE Plan ensures that borrowers don't see their balances grow from unpaid interest.

If you haven't already done so, you need to take the following steps:

1. Update your contact information at StudentAid.gov.
2. Explore your repayment options.
3. Enroll (or reenroll) for Auto pay. This is optional, but it saves you 0.25% on your interest rate. You will likely need to reenroll if you were enrolled in auto pay before the payment pause.
4. Find out what your monthly payment amount will be. You should have already received this information. If you have not, log into your loan servicer's website.
5. Check to see if you qualify for a type of loan forgiveness. This can be found on StudentAid.gov.

Ann S. Nolan, FPQP™
*Administrative Assistant*

## Schwab Updates - Stay Alert

Smishing is a cybersecurity attack via mobile text, Whatsapp or other social media messaging. The word is a combination of "SMS" and "phishing". These deceptive messages are designed to trick victims into acting on their emotions quickly and can have serious consequences.

### How does Smishing work?

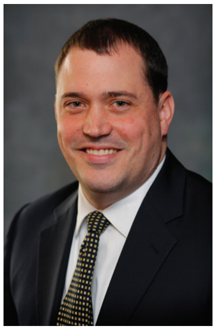
The attacker sends a serious-sounding message to thousands of people at once. Even though the message isn't customized at all, the bad actor is hoping that at least a few victims will take the bait. The message appears urgent, telling victims they must "click here to unlock their accounts" or "respond to suspicious account activity." The idea is to get the reader to click on a malicious link so that they end up on a spoofed website where the fraudsters can harvest credentials, install malware and collect personal data. Next, the attacker can use this information and access to commit fraud and/or identity theft.

**Keep in mind:** Unlike many other attacks, smishing isn't necessarily an indication that your client or someone with their personal data has been compromised—the attackers send a message to a large number of randomly chosen phone numbers, hoping some of those people will respond.

**Reminders:**

- Do not click on links or attachments included in a text message.
- Slow down if a message is urgent. You should approach urgent account updates and limited offers as caution signs of possible smishing. Remain skeptical and proceed with caution.
- Avoid using links or contact information from the message. Go directly to the official channels/websites.
- Double-check the phone number. Odd-looking numbers with only 4-digits can be a red flag that the scammer uses to mask their true phone number.
- Do not enter your username and password or personal information on a webpage if you clicked a link or copied and pasted an address from a text message. Instead, enter the address directly into your browser to visit the trusted website where the account is held to log in as usual.

## Analyst Corner



The later part of the third quarter of 2023 saw equity markets begin to stall which has erased some of the strong gains made year to date. The uptrend, which has been in place since last October is still largely intact though the market has pulled back over 6% since July and, for now, investors are generally growing less sanguine about the near-term as uncertainty reigns about the myriad set of economic, monetary, political and fiscal policy crossroads we face. The uncertainty will only likely increase heading into a difficult election year dynamic. The cost of capital via the interest rate channel is most probably hitting restrictive territory all across the curve and oil input costs are again headed higher. The S&P 500 was down -3.3% on a total return basis in the third quarter. Within the index, the Energy sector and the Communications Services sector served as bright spots returning 12.2% and 3.1% respectively, perhaps driven by near-term oil price and artificial intelligence trends. Other corridors of the global equity space, however, have not fared better. The innovation heavy Nasdaq Composite and the smaller cap Russell 2000 were each down slightly worse than the S&P 500 and given a resurgence of strength in the dollar, international equity market returns for dollar based investors remained elusive.

On the fixed income side, the FTSE US Big Corporate Bond Index was down as well, finishing the quarter off -2.8% as the upward rate momentum negatively impacted bond prices. The concentrated nature of the S&P 500's return attribution continues. Seven large and mega cap stocks: Apple, Microsoft, NVIDIA, Amazon, Meta, Tesla, and Alphabet, are contributing roughly 85% of the index's 13.1% total return year to date.

| Positive Market Influences | Negative Market Influences |
|---|---|
| Coincident Economic Data | Financial Conditions |
| Averting Government Shutdown | Monetary Policy |
| | Oil |

With the market less buoyant due in part to the recent bear steepening of the yield curve (longer rates rising faster than shorter rates), we may be witnessing the early innings of the Federal Reserve's tighter policy actually taking hold and impacting financial conditions more negatively. While market based fixed income credit instruments are still trading reasonably well, a tightening in bank lending standards is clearly beginning, which could start to impact credit supplied to commercial and industrial enterprises as well as to unsecured consumer borrowers. By the end of this year, the market should better understand whether or not an additional rate hike is in store, and whether or not the cyclical coincident economic data remains resilient.

### Positive Market Influences

- **Coincident Economic Data** – The current economic growth profile demonstrates some resilience. While broad data sets around payrolls, income, sales and industrial production have seen growth slow, they are not contractionary in a way that points to immediate recession.
- **Averting Government Shutdown** – For now, temporary funding is in place to fund the government into the middle of November.

### Negative Market Influences

- **Financial Conditions** – As inflation has been running higher than target for some time, monetary authorities are waging a campaign to fight it. With credit beginning to tighten and stock market valuations correcting nominally more recently, overall financial conditions have tightened indicating that the campaign is beginning to achieve some success.
- **Monetary Policy** – While we may still see an additional rate increase this year, in the background the Federal Reserve's balance sheet is also continuing to wind down on a monthly basis. With the private market having to absorb high levels of government debt issuance due to the large deficits and without the assistance of the Fed's balance sheet, over time, this will likely tighten conditions further regardless of the interest rate channel.
- **Oil** – The global Brent Crude spot price moved from a level near \$75/bbl to near \$95/bbl through the quarter. This key input cost to activity is moving up at a time when rates are also rising. The dual impact may begin to adjust consumer behavior negatively.

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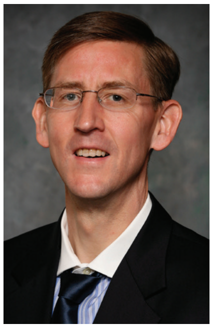
Daniel P. Burchill
*Security Analyst*

## Investment Strategy



In the third quarter the markets showed negative returns for August and September. Volatility returned as government shutdown talks and instability persisted within the beltway. The Federal Reserve finally gained some traction with rate hikes and paused in September to digest more economic data. The fear of rates "higher for longer" creates a headwind and the economic data points remain resilient, albeit, slowing.

The housing sector continues to see shortages of inventory, but 16-year high mortgages have been slowing demand in the sector. Employment and payrolls have been decreasing as the unemployment rate climbs to 3.8%. New job creation has been in the temporary or part-time workspace vs permanent employment. Oil prices have moderated from late summer, but are still trending higher for the year. The S&P500 is on track to deliver earnings growth of 7% and revenue growth 4% year over year amidst stubborn inflation, higher rates and moderating growth.

Our asset mix will remain agile in these markets with money markets, U.S. Treasuries and CD's at 5% to 15%, fixed income targets at 35% to 55% and equity targets at 45% to 60%.

These targets will vary based on specific client needs, objectives, risk and income levels.

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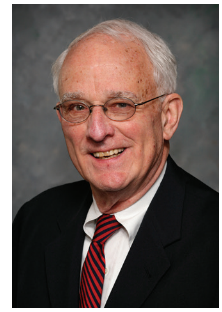
Jeffrey S. Naylor
*Executive Vice President/CFO*

## Bond Terminology



Like stocks, bonds have their own unique terminology. The following are some bond terminology that you should be familiar with:

1. Maturity – when a bond comes due or when the principal of a bond is paid to the investor. Maturity can be further defined as follows:
   - Short-term – maturity 1 to 5 years
   - Medium-term – maturity 5 to 10 years
   - Long-term – maturity 10 to 30 years
2. Secured/Unsecured – a secure bond pledges collateral to the bondholders should the company not be able to repay its obligation to the bondholder. Unsecured bonds are not backed by collateral. These bonds are also debentures and the risk is greater than secured bonds.
3. Liquidation Preference – the order that a firm pays its investors should it go bankrupt. Senior debt holders are paid first and stockholders get what is left.
4. Coupon – the interest paid to bondholders. The coupon is called the coupon rate.
5. Tax Status – taxable or tax exempt
6. Callability – the issuer of the bond can "call" it, or pay it off before maturity, usually at a premium to par or face value.
7. Bond Risk – a factor to consider before investing. Here are a few related bond terminology that help to explain unique risks:
   - Interest Rate Risk – the risk that rates could undergo significant changes if the down rates decline or rise.
   - Credit/Default Risk – the risk that interest and principal payments will not be made as promised.
   - Yield to Maturity (YTM) – measures what the return on a bond is if it is held to maturity.
   - Current Yield – calculated by dividing the bond's annual coupon by the bond's current price.
   - Nominal Yield – calculated by dividing annual coupon payment by the face value of the bond.
   - Yield to Call (YTC) – used to calculate the yield if the bond is called at a particular call date.
   - Realized Yield – the yield of a bond if the investor plans to hold the bond only for a certain period.

These are some of the terms that you will encounter when you invest in bonds.

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

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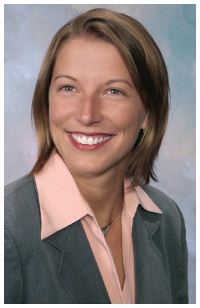
## Medicare Plans



More than 65 million Americans will soon be bombarded with ads for Medicare healthcare plans in which open enrollment begins October 15 and runs through December 7.

Each year, Medicare health and drug plans modify coverages, cost, additional benefits and what providers and pharmacies are in their networks. During open enrollment, Medicare beneficiaries with Medicare coverage can change their health plans and prescription drug coverage for the following year to better meet their needs -- whether dictated by health changes, finances or something else.

The options, though, can be overwhelming. According to the nonprofit KFF, nearly 4,000 Medicare Advantage plans were available nationwide. The average policyholder could choose from 43 of those plans, more than double the average number available in 2018 and the highest since KFF began tracking options in 2010.

No wonder choosing a healthcare plan can feel overwhelming and confusing. Nevertheless, it's an important decision that can hit your budget hard if you're not careful.

With so much at stake, here's what you need to know about the A, B, C's (and D) of Medicare.

### What is the difference between original Medicare and Medicare Advantage?

**Original, or traditional, Medicare:**

- Includes Medicare Part A, which covers inpatient hospital stays, care in a skilled nursing facility, hospice care, and some home healthcare.
- Includes Medicare Part B, which covers certain doctors' services, outpatient care, medical supplies, and preventive services.
- An option to buy Medicare Part D, a separate prescription drug plan that you must choose as soon as you start receiving Medicare. If you wait, you may have to pay more.
- Access to any doctor or hospital that takes Medicare in the U.S. and usually doesn't require a referral to see a specialist.
- An option to buy supplemental coverage (also called Medigap) from a private insurer within six months of having Medicare Part B if you're 65 or older. This coverage helps pay your out-of-pocket costs in Original Medicare (like your 20% coinsurance). The supplement is a one-time enrollment, and if you don't buy it within this window, you may not be able to add it later, or you'll have to pay more for it.

**Medicare Advantage (also known as Part C):**

- A "bundled" plan that includes Part A, Part B, and usually Part D.
- Usually, you must use doctors within the plan's network.
- Plans may have lower out-of-pocket costs than Original Medicare.
- Plans may offer some extra benefits that Original Medicare doesn't cover—like vision, hearing, and dental services.
- Plans may offer non-emergency coverage out of network, but typically at a higher cost.
- May need to get a referral to see a specialist.

### What if I don't do anything during Medicare open enrollment?

If you're satisfied with your healthcare plan, you don't need to do anything. You'll automatically be re-enrolled as long as it's still offered.

However, experts strongly encourage you to review your coverage because plans often change, especially drug coverage, and you may end up paying more.

### How do I know if I should change my Medicare plan?

To determine if you should switch plans, experts say you need to review what you have and determine if it still suits you. There are three main things you should review because they often change, experts say:

*See* **Medicare** *on Page 7*

## Medicare

*(Continued from Page 6)*

1. **Prescription Medications:** Know what drugs you're taking, their dosages, and whether they're branded or generic. See if your plan will still cover them and how much they'll cost. The best way to check this, experts say, is with the government's Medicare plan finder, a tool that lists which plans cover your drugs and their costs at different pharmacies.
2. **Doctors:** If you're in an advantage plan, make sure your doctors are still in your network. This isn't necessary for traditional Medicare because all doctors who accept Medicare are covered.
3. **Costs:** Check premiums and out-of-pocket maximums. A word of caution: Medicare Advantage plans often tout $0 premiums or low premiums. But those figures should be balanced with out-of-pocket expenses, which can be higher than in Medicare supplement plans used with original Medicare. Everyone must pay for Medicare Part B, and if you have a higher income, you will likely have to pay a higher Part B premium.

### Is there anything I should avoid?

- **Don't select a plan based on advertisements.**
  "It's easy for people to be attracted to advertisements that say they may be eligible for free dental or a grocery card," said Anthony Kavouras, chief executive at OpenMedicare, which helps seniors find the right coverage plan. "Don't make a decision based on that. Oftentimes, marketing firms will lead with those benefits freebies." Instead, examine the plan and the fine print to make sure it's from a reputable company, he said.
- **Don't wait too long.**
  Review your options in October. It allows you time to review and absorb the information.
- **Beware of coinsurance vs. copay.**
  Coinsurance is the percentage of the cost you pay after meeting a deductible, but a copay is a set dollar amount you pay. Sometimes coinsurance can end up costing you more. For example, if your plan changes your drug copay of $47 to 25% coinsurance and the cost of your drug rises to $200, you're now paying $50, $3 more than your old copay.

The staff at Valicenti Insurance Services, Inc., can assist with answering questions and providing Medicare options for review. Please call (607) 215-0242 today and make an appointment to have your coverage reviewed.

Suzanne M. Valicenti
*President/CEO*

## Scam

*(Continued from Page 2)*

The letter tells the recipients they need to provide "Filing Information" for their refund. This includes some awkwardly worded requests like this: "A Clear Phone of Your Driver's License That Clearly Displays All Four (4) Angles, Taken in a Place with Good Lighting."

The letter proceeds for more sensitive information including cellphone number, bank routing information, Social Security number and bank account type, followed by a poorly worded warning: "You'll Need to Get This to Get Your Refunds After Filing. These Must Be Given to a Filing Agent Who Will Help You Submit Your Unclaimed Property Claim. Once You Send All The Information Please Try to Be Checking Your Email for Response From The Agents Thanks."

This letter contains a variety of warning signs, including odd punctuation and a mixture of fonts as well as inaccuracies.

For example, the letter says the deadline for filing tax refunds is Oct. 17; the deadline for people on extension for their 2022 tax returns is actually Oct.16, and those owed refunds from last year have time beyond that and the IRS handles tax refunds, not "unclaimed property."

**Important reminders about scams**

Taxpayers and tax professionals should be alert to fake communications posing as legitimate organizations in the tax and financial community, including the IRS and states. These messages can arrive in the form of an unsolicited text or email to lure unsuspecting victims to provide valuable personal and financial information that can lead to identity theft, including phishing and smishing.

The IRS never initiates contact with taxpayers by email, text or social media regarding a bill or tax refund.

As a reminder: Never click on any unsolicited communication claiming to be the IRS as it may surreptitiously load malware. It may also be a way for malicious hackers to load ransomware that keeps the legitimate user from accessing their system and files. Individuals should never respond to tax-related phishing or smishing or click on the URL link. Instead, the scams should be reported by sending the email or a copy of the text/SMS as an attachment to phishing@irs.gov. The report should include the caller ID (email or phone number), date, time and time zone, and the number that received the message.

Taxpayers can also report scams to the Treasury Inspector General for Tax Administration or the Internet Crime Complaint Center. The Report Phishing and Online Scams page at IRS.gov provides complete details. The Federal Communications Commission's Smartphone Security Checker is a useful tool against mobile security threats.

The IRS also warns taxpayers to be wary of messages that appear to be from friends or family, but that are possibly stolen or compromised email or text accounts from someone they know. This remains a popular way to target individuals and tax preparers for a variety of scams. Individuals should verify the identity of the sender by using another communication method; for instance, calling a number they independently know to be accurate, not the number provided in the email or text.

*Source: IRS.gov*

## For ALL Your Tax and Business Services Needs

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- Audit assistance or representation before tax authorities
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- Business plan design and execution
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- Financial
- 401(k) review and analysis
- Income
- Retirement
- Taxes

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