Advisory Notes

September 2018

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Third Quarter in Review

As we head into the fourth quarter of 2018, summer has ended, school has started, the leaves begin to change color and the retailers bypass Halloween with Christmas decorations. So, it's not too early to start looking at year-end, as we focus on end of the year earnings and results.

The equity markets in the second quarter have risen sharply off the strength of fundamental earnings growth and future guidance. The Dow Industrials and S&P 500 indices have hit all-time record highs in the third quarter. A tighter labor market and higher short-term interest rates have moved in accordance with the Fed's ability to keep rates increasing without disrupting the positive aspects of a growing economy (see Market Table).

Investors maintain some skepticism as to how long this bull market can run, but with that skepticism comes a lack of euphoria that we have seen in the past. This cautiousness should allow the markets to continue to excel into the near future. We do not believe that the trade skirmish has had a significant impact thus far and it should be able to create equilibrium for international trade. The Federal Reserve will continue to raise rates on the short end, but as of late it has been backing away from its hawkish commentary. It will continue to digest current rate moves and how they affect economic output both domestically and globally. Currently, U.S. GDP is trending around 3%.

Job claims have hit a low at 3.9% even though the Institute for Supply Management orders have been coming in stronger so there is continued demand for goods and services. The employment situation should remain strong. On the global front, there has been a

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Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 06-30-18 THROUGH 09-30-18

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	Bloomberg Barclays Muni Bond Index	FTSE Corporate Bond Index	U.S. Treasury Bill Index (90 day)
06-30-18 to 07-31-18	4.83	3.72	2.15	1.69	0.27	0.72	0.19
07-31-18 to 08-31-18	2.56	3.26	5.71	4.19	0.28	0.66	0.22
08-31-18 to 09-30-18	1.97	0.57	-0.78	-2.54	-0.71	-0.51	0.16
Cumulative Returns 06-30-18 to 09-30-18	9.63	7.71	7.14	3.26	-0.16	0.87	0.57
YTD Returns 12-31-17 to 09-30-18	8.83	10.56	16.56	10.49	-0.44	-2.40	1.36

Director's Chair

To paraphrase Hamlet, to Roth, or not to Roth: that is the conversion question. Whether 'tis nobler in the mind to suffer the slings and arrows of outrageous taxation tomorrow, or to take arms against a sea of troubles, and by opposing end them by paying the tax today? Such is the complex question individual investors must review if considering converting a traditional IRA into a Roth IRA. Roth IRAs have numerous advantages over their traditional counterparts such as tax-free distributions over age 59 ½, withdrawals that won't increase the Medicare surtax, no minimum required distributions and the ability to leave tax-free money to heirs. Is a conversion of existing assets really worth it? Many times a conversion can be a mistake.

If you do not have the funds available to fund the conversion and to pay the tax on contributions where you took a tax deduction in prior years to convert them into after-tax assets, then a Roth is unlikely to be for you. Funding a conversion by using monies within a traditional IRA shrinks the available asset base to invest, thereby limiting growth in those tax-free assets. It would take decades of investment appreciation to make up for the withdrawal to pay the tax.

If you will be in a lower tax bracket in retirement, then a Roth conversion makes little sense. For instance, why would someone in the current 37% Federal tax bracket incur taxes from a $28,000 conversion when funds could be withdrawn in the future when retirement would lower adjusted gross income into the 24% tax bracket. In this example, converting today would create a $10,360 Federal tax bill versus $6,720 for withdrawals in the future. For clients currently living in high state income tax coastal elite states such as New York, New Jersey, California, Massachusetts, Oregon and Hawaii doing a conversion now is like handing 5%-10% of your portfolio to high tax state politicians. If you plan on moving to a state like Florida or Texas with no income tax or a state like Pennsylvania that does not tax retirement withdrawals, a conversion today is not for you. The question is in retirement where do you want to be and what do you want to do or as in any faithful stage or film (1948, 1990 or 1996) version of *Hamlet* Ophelia would say, "Lord, we know what we are, but know not what we may be."

If you are getting student aid or have gross income above $200,000, get ready for more negatives or to paraphrase Claudius, when sorrows come, they come not single spies. But in battalions of IRS agents!" Doing a conversion raises your income during that tax year, which could trigger other taxes or losses of benefits. The 3.8% surtax on investment income is triggered when the adjusted gross income (AGI) is above $200,000. While IRA assets are not counted against student aid calculations, income is. A conversion would raise your AGI level during the tax year possibly eliminating student aid assistance.

If you are worried the United States government would renege on its promise not to tax Roth IRA distributions in the future, maybe paying the tax today is not for you. There have been bills to prevent future contributions or conversions into Roth IRAs, limiting the size of Roths to $3.4 million or to require mandatory minimum distributions starting at age 70 ½ from Roth IRAs with each bill failing. Some politicians have talked about taxing Roth distributions with large assets in the name of "fairness." Consider that U.S. Treasury bonds use to be sold with a contractual guarantee to be paid in cash or gold coin at a preset rate. In 1933, the Roosevelt administration (something is rotten in the state of Denmark or was it Washington D.C.) abrogated those contracts forcing individuals to accept cash when exercising the gold option, which would have netted a 69.4% higher return at the new gold exchange rate set by the government. Bear in mind, according to the Congressional Budget Office spending on Social Security, Medicaid, Medicare and debt interest will consume all tax revenue in 2044, leaving the government effectively bankrupt. Who is to say politicians will not use future economic emergencies to abrogate the tax-free status of Roth IRAs, "Oh, I am slain!"

Although Roth IRAs funded with new contributions are clearly a better deal due to the tax advantages, converting a traditional IRA to a Roth can be a very tricky situation with many facets to be considered. Whatever your choice, Polonius would have probably advised, this above all: to thine own investing self be true.

Louis F. Ruize
Director of Research/Portfolio Manager

Building An Emergency Fund — Hope for the Best, but Plan for the Worst!

According to a 2017 GoBankingRates survey, 57% of Americans have less than $1,000 in liquid savings. For this majority, this offers essentially no protection from even a somewhat minor emergency. While living paycheck-to-paycheck is a worrying reality for many, the good news is that building an emergency fund may not be as hard as you might think, no matter your current financial situation. Regardless of how much you start with or add to it each time, the discipline of consistently putting money away will help relieve your stress over how to handle life's smaller emergencies that may come up very unexpectedly.

What is an emergency fund? A true emergency fund is a stash of money set aside to cover the financial surprises life throws your way. These unexpected events can be stressful and costly. Some of the top emergencies people face is job loss, medical or dental emergencies, unexpected home repairs, car troubles or even an unexpected storm that hits your home. It should never be used as a replacement for your retirement fund or your child's college education fund. These funds should be planned, created and saved for separately. Most importantly, an emergency fund should only be used for "needs" and never for "wants." Using it for non-essentials can weaken its purpose of being there for you in your times of need.

Where should you begin? Start with a plan! A good recommendation to follow is you should have enough money set aside to cover three to six months of living expenses; however, you may want to be even more aggressive if you have the means and opportunity. Begin by determining your current living expenses making sure to include housing, debt payments and insurance.

How to get there? One easy way is to start an automatic savings plan at your bank. Simply instruct them to transfer a specific amount from your checking account to a savings account each month. Nowadays, you can even log onto your bank with your smart phone and transfer it yourself. While it may not seem like much, as little as $25 per week or $50 every two weeks will get you started and add up faster than you would think. Gradually, you will come to view that amount as a regular expense.

In addition to putting money away, there is always the option of cutting costs by reducing or even cancelling services you can live without for a period of time.

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Third Quarter

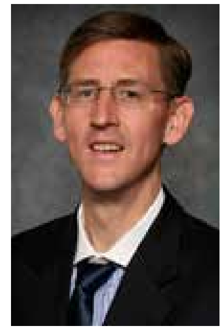
(Continued from page 1)

diversion in that the U.S. domestic markets have outpaced Japan and Europe not only in earnings forecasts but also with actual returns almost 2 to 1. Until their economies are turned around, we will continue to believe that the U.S. markets are the most optimal for future growth.

Short-term hurdles that may derail the markets could be higher than expected interest rates and a broader international trade war than is anticipated. Global emerging economies like Turkey and Argentina could create some speed bumps. We will be taking those details into consideration while managing your individual goals and objectives.

Joseph M. Valicenti
President/CEO

Investment Strategy



In the third quarter of 2018, the U.S. equity markets and the U.S. economy remained on a gradual upward path. Both continue to forge ahead despite many headwinds, ranging from but not limited to, additional rate hikes from the Federal Reserve, trade disputes and geopolitical issues both at home and abroad. In addition, it is likely that the concerns over the mid-term election may hang over the markets until November 6.

The U.S. employment picture continues to remain robust and corporate earnings have also continued an upward path. Inflation has remained controlled within the range of the Federal Reserve targets. Both business and consumer confidence remain positive. Additionally, some ground has been made on the trade disputes issues, gradually working to reasonable conclusions.

With the start of the third quarter earnings season right around the corner, we remain focused on larger U.S. companies with continued earnings growth, reasonable valuations and strong balance sheets. Our asset mix remains flexible with 5-15% in money markets, using them for buying opportunities when they present themselves. In addition, fixed income allocations will remain at 25-35% and equities will have a range of 40-65%. Our asset mix will vary based on client income needs, specific directives and risk levels.

Jeffrey S. Naylor
Executive Vice President/CFO

Analyst Corner

Market returns over the last two quarters have been on the robust side. The six month performance in the S&P 500, when annualized, comes in at over 20%. These types of returns generally do not happen in a vacuum. Inflation is running a tad higher with the headline Consumer Price Index coming in at 2.7% year over year. More importantly, real rates of growth able to be achieved in the current economy are much improved and, in this type of environment, there are simply more dollars out there that ultimately flow into corporate earnings, propelling financial asset prices higher. The S&P 500 in total has returned 7.7% in Q3 alone and has returned 10.6% for the full year. Interest rates moved higher in the period, which is usually price negative for bonds, though strong cyclical factors are preventing price compression. The credit quality component to prices is demanding less of a premium in the strong economy which is stabilizing corporate bonds in the face of the higher rates. The benchmark FTSE USBIG Corporate Credit Index was up 0.9% through the quarter and is down only -2.4% for all of 2018. This is a fair outcome given the size of the upward rate move absorbed.

Market returns were largely driven by the Health Care, and Industrial sectors. Health Care was up 14% led by pharmaceutical names like Eli Lilly and Johnson & Johnson, whose shares showed superior performance. Industrial names were up 9.5% quite broadly, as the industrial cycle continued to run hot. Interest rate sensitive and capital intensive sectors such as Real Estate and Utilities understandably lagged due to the upward rate pressures and each squeaked out small positive gains but well below the larger index return. The Energy space, after a strong rebound in Q2, was down -0.1%.

Positive Market Influences	Negative Market Influences
U.S. Real GDP	Tightening Dollar Liquidity
Target Level Inflation	Rising Interest Rates
Confidence Levels	Valuations

A strong uptrend is in place for equities, as the quarter saw the S&P 500 overtake January's high in August and then continue to move higher throughout September. Market symmetry is generally balanced between positive and negative factors as both powerful cyclical drivers, as well as potential longer run boundaries, need to be considered. We are in a time of significant change, as we are in the middle of a rate hike cycle and overall liquidity conditions are tightening. This serves as a serious catalyst for investors to remain vigilant as they optimistically move forward.

Positive Market Influences:

- **U.S. Real GDP** – Real GDP, which measures growth after the impact of inflation, ran at a seasonally adjusted annualized quarterly rate of 4.2% in Q2. Q3 growth is currently estimated to be at a 4.1% rate, as per the Federal Reserve Bank of Atlanta's GDPNow forecast.
- **Target Level Inflation** – The Core Personal Consumption Expenditures Price Index is running at the target rate of 2% YoY. The outlook for future inflation expectations will be an important factor in determining Fed rate policy.
- **Confidence Levels** – Consumer confidence measures are the highest seen since the early 2000's and small business optimism is at levels not seen in over 30 years.

Negative Market Influences:

- **Tightening Dollar Liquidity** – The Fed's balance sheet is shrinking by around $40B a month and, at the same time foreign countries are creating fewer U.S. dollar reserves. The supply of high powered money denominated in dollars globally is on the decline, which tightens overall liquidity conditions.
- **Rising Interest Rates** – The 10YR U.S. Government risk free rate has increased 62 basis points from 2.43% to 3.05% in 2018. The short end overnight funding rate has been raised from 1.5% to 2.25% with one more additional increase anticipated before the year concludes.
- **Valuations** – Risk assets such as growth oriented equities have been in high demand the last several years, as interest rate complexes around the world have persistently moved lower. Market valuations will ultimately be a function of where interest, inflation and growth rates settle. Some measures, such as the cyclically adjusted Price to Earnings ratio, are above their long-term averages though this by itself does not necessarily mean an immediate end to the equity bull market.

Daniel P. Burchill
Security Analyst

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

Withholding Tax Checkup

With nearly 10 million U.S. taxpayers facing a penalty for underpayment of estimated tax last year, the Internal Revenue Service (IRS) urges taxpayers to plan ahead to understand their options to and to avoid the penalty when they file in early 2019.

To help taxpayers avoid this common situation, the IRS is focusing on four recent news releases on key areas to help taxpayers pay the right amount of tax and to avoid an estimated tax penalty. The IRS is highlighting a variety of resources and tools – including the online Withholding Calculator – to help taxpayers determine if they need to make an additional tax payment to avoid an unwelcomed surprise at tax time.

This is part of the wider "paycheck checkup" campaign to encourage people to check their tax situation including withholding and estimated tax payments. Those who are self-employed or have other income such as interest, dividends, self-employment, capital gains, prizes and awards or have too little tax withheld from their wages may need to make estimated or additional tax payments. Estimated tax is used to pay not only income tax but other taxes such as self-employment tax and alternative minimum tax.

Pay As You Go

The U.S. tax system is essentially "pay-as-you-go." Taxes must be paid as income is earned or received during the year. For people who receive salaries, wages, pensions, unemployment compensation and the taxable part of Social Security benefits, tax can be withheld.

Taxpayers can adjust withholding from their paychecks or the amount of their estimated tax payments to help prevent penalties. This is especially important for people in the sharing economy, those with more than one job and those with major changes in their life, like a recent marriage, divorce or a new child.

Some income is not subject to withholding. This includes income from the sharing economy and income from self-employment or rental activities. Individuals, including sole proprietors, partners and S corporation shareholders, may need to make estimated tax payments unless they owe less than $1,000, when they file their tax return or they had no tax liability in the prior year (subject to certain conditions).

Perform a "Paycheck Checkup"

The Tax Cuts and Jobs Act, enacted in December 2017, changed the way tax is calculated for most taxpayers, including those with substantial income not subject to withholding. Because of the far-reaching tax changes taking effect this year, the IRS urges all employees, including those with other sources of income, to perform a "paycheck checkup". Doing so now will help avoid an unexpected year-end tax bill and possibly a penalty. The easiest way to do this is to use the Withholding Calculator available on the IRS.gov website.

Form 1040-ES, Estimated Tax for Individuals, available on the IRS.gov website, is designed to help taxpayers figure these payments simply and accurately. The estimated tax package includes a quick rundown of key tax changes, income tax rate schedules for 2018 and a useful worksheet for figuring the right amount to pay. The IRS also mailed one million Form 1040-ES vouchers with instructions in late March to taxpayers who used this form last year.

Employees who expect to receive long-term capital gains or qualified dividends or employees who owe self-employment tax, alternative minimum tax or tax on unearned income of minors may need to seek the advice of a tax professional to check whether they should change their withholding or pay estimated tax.

When and How To Pay Estimated Tax

Taxpayers normally make four estimated tax payments a year. The remaining payment for 2018 is due January 15, 2019. Those who make estimated payments may be charged a penalty if those payments are late.

Taxpayers have a variety of ways to pay estimated tax: online, by phone or from their mobile device. Direct Pay is a secure online service to pay a tax bill or pay estimated tax directly from a checking or savings account, at no cost. Visit the IRS.gov/payments website for easy and secure ways to pay taxes. If a taxpayer pays estimated taxes by mail, the payment vouchers that come with Form 1040-ES should be used.

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

How to Protect Your Most Cherished Possessions

If you're like most people, there are certain items that you own that you can't imagine ever losing—possessions you deeply cherish or those that would be impossible to replace due to the cost of re-purchasing them or simply because they're irreplaceable.

While your homeowners insurance is invaluable for covering the loss or destruction of many of your belongings (as well as damage to your home's structure), your policy might provide only partial coverage for your most cherished items.

The good news is that you can still protect the things that matter most to you, even if they're not fully covered under your homeowners policy, with a scheduled personal property endorsement that is tailored to meet your specific needs.

Not an easy name, but it can help you sleep better at night

A scheduled personal property endorsement is not something that everyone talks about, but we can help you determine if it would be a good fit for you. The first step begins with you. Look around your home and make a list of your cherished possessions. Be sure to consider the following:

- Jewelry
- Antiques
- Art
- Collections
- Musical instruments
- Silverware/China
- Autographed items
- Rare or one-of-a-kind items

Once you have taken an inventory, make the time to talk with us. We are always here to help you determine if your prized possessions need more coverage than your current policy provides.

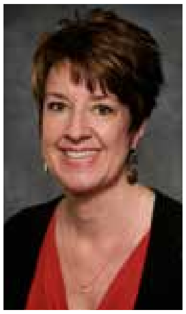
Please keep in mind that it is wise to complete an inventory every year or so, because it's easy to acquire new items over time that should be added to a scheduled personal property endorsement. It would be tragic to find yourself in a situation rendering you unable to replace what matters most to you.

Please call, we're here to help!

We will work with you to be sure that you've got the coverage you need, while at the same time using all possible credits and discounts to make that coverage affordable. Just give us a call at 607-215-0242 or send us a note at info@valicenti-ins.com. We want to help you meet your goals and to make sure what's important to you is protected!

Suzanne M. Valicenti
President/CEO

What is a Reverse Mortgage?



Reverse mortgages are often considered a loan of last resort for older retirees who worry about outliving their savings or who want to finance a comfortable lifestyle. A reverse mortgage is a loan for those ages 62 and older that allows homeowners to convert their home equity into cash with no monthly mortgage payments. A reverse mortgage is a kind of advance payment on home equity where the lender pays the borrower the proceeds in a lump sum, a line of credit or monthly payments.

Reverse mortgage loans are commonly used to pay for home renovations, medical expenses and daily living expenses. Homeowners who have an existing mortgage often use the reverse mortgage loan to pay off their existing mortgage and eliminate monthly mortgage payments. If there is an existing mortgage on the home, it must be paid off with the proceeds from the reverse mortgage loan.

Borrowers must live in the home as a primary residence, must continue to pay required property taxes and homeowners insurance and must maintain the home. Failure to meet these requirements can trigger a loan default that may result in foreclosure. When the last surviving borrower dies, sells the home or no longer lives in the home as a principal residence, the loan has to be repaid.

When the reverse mortgage loan does come due, the borrowers, the heirs or the estate can choose to repay the reverse mortgage loan and keep the home or put the home up for sale in order to repay the loan. If the home sells for more than the balance of the reverse mortgage loan, the remaining home equity value returns to the owner or passes to the heirs.

A reverse mortgage loan is "non-recourse," meaning that if the home is sold to repay the loan, there will never be more owed than the loan balance or the value of the property, whichever is less – no assets other than the home must be used to repay the debt.

Reverse mortgages can be an attractive financial tool. Seniors need to borrow cautiously, however, and consider the potential negative factors of such commitments. First of all, reverse mortgage loan fees and costs are typically higher than traditional mortgages and interest rates may increase over time, as most reverse mortgages have variable rates. Secondly, reverse mortgage balances GROW over time – as loan proceeds are taken, the loan increases, as does the interest owed. Finally, and perhaps most importantly, the borrower still keeps title to the home and remains responsible for all household expenses and utilities in addition to payment of property taxes and insurance. If the mortgage has allowed the homeowner to live beyond their means and a sudden unanticipated expense occurs, the home equity, perhaps one's largest asset, has already been expensed.

Reverse mortgage counseling is recommended and often required. Do not rely on a mortgage "salesman" who may also be tied to annuity or insurance products to have your best interest at heart. Speak with an independent financial advisor or a government approved housing counseling agency for unbiased advice.

If you're 62 or older and need money to supplement your income or to pay for home repairs or healthcare expenses, you may want to consider a reverse mortgage. A reverse mortgage loan may allow you to live a more comfortable and secure retirement, but take your time as a reverse mortgage can be complicated and may not be right for you. As with any major financial decision, it is important to take the time to educate yourself and to truly look at your personal situation.

Kelly S. H. Diehr, FPQP™
Administrative Assistant

Build

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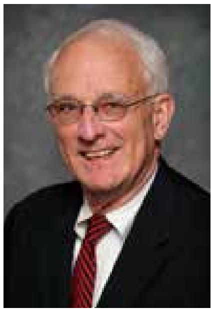
Look at your expenses and see what you can give up for a while, just be sure to add these savings to your emergency fund. Lastly, if you're really serious about building up your emergency fund quickly, take a couple of hours to look around the house; you'll be amazed at how many items you could convert to cash. Yes, I am talking about that old treadmill or things in the closet you think you might use one day all while cleaning and organizing at the same time. Some would also consider adding a seasonal or part-time job for a short time just for this purpose.

Whatever approach you take to help you get your emergency fund going, the first step is to get it started. The next step is to stick with it and stay out of it until the unexpected happens. In the end, you will have planned for the worst and hoped for the best. If you don't end up needing it, you will have a little more financial peace of mind and on your way to accumulating some additional wealth.

Melissa B. Mickley, FPQP™
Administrative and Marketing Assistant

Reverse Stock Splits



Because of their controversial nature, reverse stock splits are less frequently used in today's stock market. Opposite of a regular stock split when a company increases the number of its shares, a reverse stock split reduces a company's outstanding shares.

For example, if a company with 10 million outstanding shares trading at $10 dollars a share executes a reverse 1 for 10 split, the firm ends up with 1 million shares selling for $100 dollars each. Nothing changes except the reduction in the number of outstanding shares and the stock price having increased 10 fold.

The reasons for a reverse stock split include:

- The desire to increase the share price to bring attention to the company by Wall Street and brokerage houses.
- In order to meet the minimum dollar amount for the stock to be listed on a major stock exchange.
- An attempt to extend the life of a slipping stock.

While a reverse stock split isn't necessarily bad, a thorough analysis should be made in order to determine if the split makes sense for the company.

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

Credit Score

In recent years, we have all become aware of credit scores and the effect they can have on us.

To start, let's understand how a credit score is established. Using the widely used Fair Isaac Company (FICO) score as an example, payment history counts for 35%, amounts owed account for 30%, length of credit history counts for 15%, credit mix in use accounts for 10% and new credit accounts for 10%.

Your credit score can vary from provider to provider. The following are the credit score ranges used by major credit scoring models according to credit.com. The FICO score range is 300-850.

- Experian PLUS score: 330-830
- TransUnion new account score 2.0: 300-850
- Equifax credit score: 280-850

Although it's a personal choice, it's probably a good idea to check your credit once a year by going to www.annualcreditreport.com and downloading a free copy from each of the three main credit bureaus.

This will give you the opportunity to check for inaccuracies. If you believe that there is an error, you can submit a dispute letter with any documentation or proof that the information is wrong with the credit bureaus to attempt to have it removed. Please note that the credit bureaus do not communicate with each other.

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

New Schwab Alliance Summary Page

Over the next several weeks, Schwab will gradually switch clients over to the new Schwab Alliance summary page that they introduced last year. This enhanced view offers a complete, customizable view of all of your accounts in one place.

Notable features include:

- A new personal value chart featuring historical values.
- Easy customization of account views.
- No more need to toggle between pages to view account summary and positions.
- Order and nickname accounts with no navigation required.
- Personalized market news and information, all in one place, and the ability to monitor positions and obtain the latest financial news.

The new summary page will be introduced in a phased approach as the landing page for all clients. If clients choose, they will still be able to view the classic summary page.