Advisory Notes

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VALICENTI ADVISORY SERVICES, INC.

400 East Water Street
Elmira, NY 14901
607-734-2665
Fax: 607-734-6845

447 East Water Street
Elmira, NY 14901
607-733-9022
Fax: 607-734-6157

24 West Market Street
Corning, NY 14830
607-936-1203
Fax: 607-936-0213

www.valicenti.com

Asset management as individual as you

Third Quarter in Review - Half Full or Half Empty?

The Federal Reserve (FED) reversed its 2018 hawkish mission of fighting inflation to lowering interest rates twice in the third quarter (.25 bps each), as the manufacturing index and capital expenditure spending weakened slightly. The Fed is focused on supporting the rate of growth in the economy that is in line with its long-term forecasts of around 2% GDP. Uncertainty in the trade disputes with China, which seem to flip flop weekly, oil disruption in the Middle East and overall global slowdown in Europe and the Pacific Rim are causes for concern.

With interest rates dropping in the third quarter, the consumer and services part of the U.S. economy continue to strengthen slightly with a tight labor market and a stable housing sector (see Chart 1 on page 3). As a result, the third quarter squeaked out positive market results amid a short-term pullback in July to continue the 2019 momentum (see Market Table below).

As investors become less content with continued trade war negotiations and are wary going into the 2020 elections, will these remain their focus or will they pay more attention to lower interest rates and

See **Third Quarter** *on Page 3*

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 06-30-19 THROUGH 09-30-19

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	BBG Barclays Muni Bond Index	FTSE Corporate Bond Index	U.S. Treasury Bill Index (90 day)
06-30-19 to 07-31-19	1.12	1.44	2.11	0.51	0.88	0.65	0.19
07-31-19 to 08-31-19	-1.32	-1.58	-2.60	-5.07	1.71	3.26	0.22
08-31-19 to 09-30-19	2.05	1.87	0.46	1.91	-0.87	-0.73	0.16
Cumulative Returns 06-30-19 to 09-30-19	1.83	1.70	-0.09	-2.76	1.71	3.17	0.57
YTD Returns 12-31-18 to 09-30-19	17.51	20.55	20.56	12.96	7.37	13.06	2.00

Director's Chair

During 2019, most 1% or greater swings in the S&P 500 were linked to news involving the United States and China trade situation. As tariffs have been increased slowly on both sides, concerns grow on the longer term impact to Gross Domestic Product (GDP), in effect, the future growth rate of the economy. On days where rumors of a trade settlement or positive negotiations occur, the market has rallied offset by days where announced tariff hikes and news of broken negotiations send the market lower. Essentially, trade talk is the marginal mover for the market this year. Why are we doing this?

An argument can be made as to whether tariffs are an effective tool to encourage change in China's trade policies. It is surprising to see some members of the leadership from the opposite isle support the administration and in some cases advocate for even tougher measures. There are three overt goals by the United States: end the theft of intellectual property, open the Chinese markets to U.S. exports and curtail state subsidized corporations that compete against U.S. companies. The covert goal is to slowly reduce the amount of trade between the two nations to limit the economic and military growth of a potential rival.

The most important of the overt goals is the end of intellectual property theft. China has required western manufactures to partner with Chinese companies in "joint ventures" if they wish to sell their goods within a multitude of product categories. These "joint ventures" require the Chinese side to own at least 51% of the operations and have full access to blueprints and formulas. Since the 2001 ascension of China into the World Trade Organization giving them expanded access to trade markets, China has used these "joint venture" clauses to steal intellectual property from western corporations. In effect, our companies pay for the research and development and the Chinese corporations, many of which are state owned entities, copy our designs for sale in their home market as well as for export. The United States Trade Representative estimates Chinese theft of American intellectual property costs $225-$600 billion annually. The Commission on the Theft of American Intellectual Property estimates the figure to be $180-$540 billion. On the low-end, that would be the equivalent of stealing New Zealand's GDP every year, on the high-end Sweden.

Investors need to understand that volatility has returned to the market especially when compared with an incredibly tranquil 2017. A full settlement between the two sides is unlikely as China's president must appease hard-liners who recently eliminated term limits, meaning he is President for life, while the U.S. administration has to deliver some type of victory befitting the effort. With an election coming in 2020, a full resolution is doubtful. At best, we may see a small agreement that deals with one of the stated goals, but in limited fashion, so both parties save face until after the 2020 elections. No deal will be a market headwind, but we could see a decent rally if a limited agreement comes about. These are two polar opposite outcomes, which means more volatility for the market and the portfolios. It's as if the two presidents are rival kings on *Game of Thrones*, anything can happen, victory snatched from the claws of defeat, defeat snatched from the claws of victory. Comparatively, a small trade agreement would be like the final episode of the series, where you would say "we wasted all our time for that?"

Louis F. Ruize
Director of Research/Portfolio Manager

Asset management
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Valicenti Advisory Services, Inc.

Cultivating Relationships for 35 Years

Our Clients Come First

Third Quarter

(Continued from page 1)

job opportunities? Will investors see the glass as half empty or half full?

Our stance on the domestic economy is "half full" and markets should provide for stable growth, albeit at a slower rate than in past years. As always, we will manage your portfolio in accordance with your goals and objectives.

Joseph M. Valicenti
President/CEO

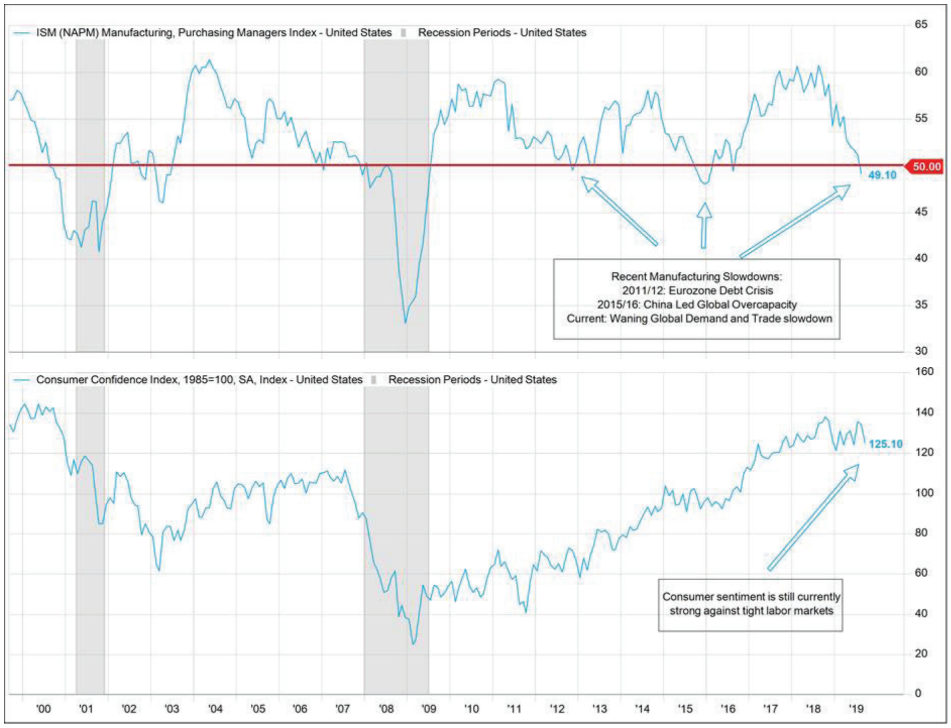

Chart 1

What Is An IPO?

An IPO or an Initial Public Offering is a corporation's first offering of its stock to the public. It's an opportunity for existing investors and venture capitalists to make big profits, because for the first time their shares will have a market value reflecting the company's future growth. IPOs are highly regulated by federal laws which seek to ensure that investors get all of the information that they need to evaluate the offering in order to make an informed decision.

Before selling shares to the public, a company may spend several years and a substantial amount of money to get ready for an IPO. Any company considering an IPO should have a strong management team and board of directors, both of which should have experience with public companies. Additionally, it should have solid accounting and reporting systems as well as large growth opportunities. When a company decides on an IPO, it will also need to engage attorneys and an investor relations/public relations firm. This process will also require underwriters and/or investment bankers.

A registration statement will be developed and submitted to the Securities and Exchange Commission (SEC) which may suggest some alterations to the registration statement. Once the SEC signs off on the registration statement, the company is allowed to market the offering through a "road show."

During the "road show," the company's senior management will spend time making presentations in major U.S. cities and perhaps in Europe and Asia. The "road show" will help the underwriters assess investment interest in the IPO which will allow them to establish the number of shares to be offered at what price.

At the conclusion of the "road show," the pricing of the deal will be finalized, normally shortly before the IPO is launched. As you can imagine, the company's senior management will want to get a high price and the investment bankers, being mindful of investors, will want an attractive price.

Since an IPO is a high achievement for a company, the day of the IPO will be extremely busy. The company's senior management may be doing media interviews and perhaps opening or closing the markets and ringing the bell at the New York Stock Exchange.

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

Analyst Corner

The third quarter of 2019 saw two Federal Reserve policy meetings, July and September, both resulting in measured quarter point reductions in the short-term policy interest rate. This effectively stopped the hiking path which had been in place since 2015. The key uncovering may have been that stock and bond markets had been factoring in more of an absolute longer term inflection in policy towards a decisively dovish stance as the real economy down shifted as opposed to the more nuanced "mid-cycle correction" language that was rhetorically offered. Late in the quarter, markets also absorbed an attack on Saudi oil infrastructure which caused a spike in oil prices and seemed to remind investors of the ever present nature of geopolitical event risk. In the end, returns for equities and fixed income asset classes for the quarter were positive, while some defensiveness in the sector leadership emerged amidst what was a volatile and eventful summer.

Equity REITs, Utilities, Communication Services, Technology, Consumer Staples and Financials were the sectors that outperformed the S&P 500 Index total return of +1.7%. This may indicate a near-term preference for real assets, dividend payers, secular innovation and value over the more cyclically sensitive areas of the market. Consumer Discretionary and Industrials sectors put up small gains but underperformed the index while Health Care, Energy, and Materials all contracted in the quarter.

In Q3, fixed income markets saw longer term interest rates reach a near-term floor following a significant downtrend which has been in place since November of last year. The U.S. Government 10YR yield has significantly fallen from a level of 3.20% to 1.46% over the course of the last ten months.

Positive Market Influences	**Negative Market Influences**
Recent Central Bank Actions	Lack of Earnings Growth Momentum
Trend Growth Assumptions	ISM Manufacturing Index
Low Rates & Inflation	Business Confidence

In the current month, however, we have bounced off of the low and rallied 20 basis points to 1.66%. Corporate credit spreads to the Treasury have remained relatively stable in the quarter. The FTSE US Broad Investment Grade Bond Index is up 3.2% on a total return basis for the quarter and a very strong 13.1% year to date.

Market symmetry, in our thinking, is balanced in the near-term with support provided by a steady labor market, income and credit conditions combined with recent central bank support. Possible risks to the balance could come from a further deepening of the downturn in the industrial manufacturing cycle, hastening weakness in other areas of the economy, extreme commodity or interest rate shocks or abrupt erosion in sentiment and confidence amidst tightening conditions caused by all the former.

Positive Market Influences

- **Recent Central Bank Actions** – European Central Bank and Federal Reserve actions around policy rate reductions and liquidity support, while incremental in nature, have seemingly demonstrated a willingness to provide further support should further economic weakness warrant it.
- **Trend Growth Assumptions** – The latest forecast of the Atlanta Fed's GDPNow is for 1.8% growth in Q3 in line with what is considered a longer term trend growth rate for the U.S. economy.
- **Low Rates & Inflation** – As growth has tempered since the conclusion of 2018, rates and inflation have tempered as well without crashing towards a more hurtful deflationary type of environment. It appears to be mildly supportive generally speaking for asset markets and risk seeking investor behavior as the deleterious effects of higher inflation and funding costs are not present for capital allocators.

Negative Market Influences

- **Lack of Earnings Growth Momentum** – S&P 500 earnings for Q2 dipped into negative territory year-over-year for the quarter or down -0.35% as per FactSet. This follows a similarly flat result for Q1 of this year. Forward expectations for Q3 are presently down -3.9% and the market is left wanting for a stronger earnings growth dynamic.
- **ISM Manufacturing Index** – U.S. industry has lagged but now followed much of the rest of the world into what is likely a contractionary state for some goods producing sectors as new orders and production have declined. The Institute for Supply Management's Manufacturing Index reading for September came in at 47.8 indicating a mildly contractionary environment for the industrial complex as a whole. August and September readings marked the first time the index has fallen below the 50 level since the cyclical weakness last seen in the summer of 2016.
- **Business Confidence** – The Conference Board CEO Confidence Survey's measure of CEO Confidence Index has fallen considerably since mid-2018 from an index level of 63 in June of last year towards a much weaker 43.2 more recently. This coincides with a cooling of business investment spending as growth in Nondefense Capital Goods new orders has noticeably slowed.

Daniel P. Burchill
Security Analyst

Qualified Plan Uncashed Distribution Check Guidance

On August 14, 2019, the Internal Revenue Service (IRS) issued Revenue Ruling 2019-19, providing guidance to both tax-qualified plan administrators and participants on the tax treatment of plan distribution checks that are not cashed. Yes, it is true. There are people that request money from their 401(k) plans and apparently never cash the checks, whether they lose them, burn them, throw them out or simply go swimming with them in their bathing suit pocket.

The issue of uncashed distribution checks has gained increased attention from the Department of Labor (DOL) and the IRS and, as a result, has become a primary concern for plan administrators. Despite the best efforts of plan administrators to ensure that terminated participants receive their funds, it is not uncommon for checks to go uncashed, particularly in those situations where distribution was mandatory, such as when account balances are less than $1,000 and minimum required distributions.

A distribution from a tax-qualified plan generally is subject to income tax withholding and reported on IRS Form 1099-R for the year of distribution and the participant must include the amount of the distribution in gross income for that year. When a check goes uncashed, one question that plan administrators commonly face is what to do about the income tax withholding and Form 1099-R reporting, i.e., should the plan administrator issue a corrected Form 1099-R for the uncashed check and recoup the tax withholding, reversing the transaction?

The Ruling specifically addresses the situation where a plan administrator is required to make a distribution under $1,000 to a plan participant in 2019. The plan administrator sends a check to the participant for the amount of the mandatory distribution, less applicable withholding taxes. The participant receives the check, but does not cash it or roll over any portion of the distribution.

The Ruling addresses three concerns relating to the uncashed check, one related to income inclusion for the participant and two addressing the plan administrator's withholding and reporting obligations. The Revenue Ruling specifically says that:

1. The distribution is taxable to the participant and must be included in the participant's gross income for 2019. The participant cannot escape this tax liability by not cashing the check in 2019 for whatever reason (even if the check is cashed in a later calendar year).
2. The fact that the participant did not cash the check in 2019 does not change the plan administrator's withholding requirements. The plan administrator must withhold and be liable for depositing the applicable withholding tax (or direct the third-party payor to withhold the tax as permitted under law).
3. The plan administrator must report the distribution and the federal income tax withheld on a Form 1099-R for 2019 to satisfy its reporting obligation. This obligation is unchanged by the fact that the distribution check was not cashed in 2019.

The Revenue Ruling seems to distinguish between a plan participant who simply refuses to cash a check versus a plan participant who truly does not receive the distribution check. The facts on which this Ruling is based make it clear that the plan participant could have cashed the check, but chose not to do so. It does not appear that the holdings in the Ruling would also apply in the case of a participant who never actually received the distribution check, such as because of an incorrect mailing address.

In actuality, if a check is returned to the plan uncashed, demonstrating that it was never received, the administrator could still have an obligation to reverse the reporting and withholding on the distribution. In reality, the issue involves a check that is neither cashed nor returned. If the check is mailed to a proven accurate address, it appears that the administrator may assume that the check was received and simply uncashed.

Both the DOL and the IRS have indicated that additional guidance relating to missing participants and uncashed checks is forthcoming. In addition, the Ruling specifically states that the IRS will continue to pursue issues that give rise to other situations involving uncashed checks, as well as situations involving missing participants.

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

Protect Your Boat With Insurance *and* Winterization

Now that summer's over and the weather is cooling down, it's time to think about pulling your boat out of one of our gorgeous Finger Lakes and putting it away until next year.

As you begin to prepare your boat for the winter, take the time to make sure it still has the right insurance protection. We at Valicenti Insurance Services, Inc. want to make sure you're ready for the next boating season! (And maybe, just maybe, you'll also be ready to invite your favorite insurance agent out for a day on the lake. Just a thought.)

First Things First: Insurance

If you have a small boat with limited power, you may have some coverage under your New York homeowners or renters insurance policy. If you aren't sure, please check with us. Of course, larger and faster boats, along with personal watercraft, require their own policies and we can help with those, too!

But do you even need boat insurance during the offseason when your boat won't be in the water? Well, that depends. Keep in mind that your boat can still be damaged no matter where it is kept. Often, damage from fire and theft isn't covered unless you have a watercraft policy. There is always the chance that we could get a streak of great weather in November that lures you to take the boat out for a day or two! Plenty of reasons exist for the need to keep year-round coverage but, if you have questions about seasonal policies, give us a call (607) 215-0242.

And while you're thinking about insurance, consider your current watercraft coverage. Is your boat older? It might be time to move to cash value coverage instead of agreed value. Do you have a lot of expensive fishing equipment? Make sure you have enough optional coverage so your gear isn't at risk. You might also want to consider uninsured boater coverage and a personal umbrella policy, which provide more liability protection than a standard watercraft policy.

Remember, you might be able to save money on your insurance by taking a boating safety course, increasing your deductible or bundling your policies with one company.

Now: A Different Kind of Protection

After you've squared away protecting your boat with the right insurance options, it's time to think about protecting your boat in a more literal sense – by properly preparing it for winter. Below are some general tips to follow but, of course, you should check your owner's manuals for manufacturer recommendations.

See **Protect Your Boat** *on Page 7*

Protect Your Boat

(Continued from page 6)

Your Engine

Follow the manufacturer's instructions when winterizing your engine. You will want to flush the engine with fresh water and to make sure to drain fuel from the carburetor to prevent a buildup of deposits. Use fogging oil in the cylinders to lubricate cylinder walls and pistons.

Stern Drive

Do a thorough inspection and remove plant life or barnacles from the lower unit. Drain the gear case and clean the lower unit with soap and water.

Fuel Tanks

Fill your fuel tanks to avoid a buildup of condensation and add fuel stabilizer, following the product's instructions.

Fresh Water System

Drain the fresh water tank and water heater and pump a nontoxic antifreeze into the system. Then, turn on all faucets until you start to see the antifreeze coming out.

Interior

Remove all valuables from the boat. Clean drawers thoroughly and turn cushions on their edges to allow air to circulate. Clean the refrigerator and freezer.

Cover It Up!

A cover will keep your boat clean and will also protect it from water and UV rays, which can break down hoses and fade upholstery.

Now, with your boat safely stowed, you can focus on your other toys this winter. Snowmobiles, anyone?

Suzanne M. Valicenti
President/CEO

Valicenti Advisory Services, Inc. Drop-off Tax Service

During last year's tax season, a number of our clients found that our drop-off tax service was convenient, fast and stress free. No appointment is necessary.

Here is how the process works:

1. You fill out our client organizer and drop it off with your tax documents at our 447 E. Water Street office OR upload the organizer and your tax documents to your personal client vault.
2. Your tax professional will prepare your return using the information provided by the tax documents and the client organizer.
3. If any additional information is required, our office will contact you in order to complete the return.
4. Once the return is completed, our office will call to set up a review appointment or a conference call.

This tax season make your life easier and take advantage of our drop-off tax service.

Charles Schwab Updates

Adding Trusted Contacts Can Help Protect Your Assets

When it comes to your finances, being prepared can help you reduce your risk of fraud and financial exploitation. One important step you can take is to designate a Trusted Contact for your accounts.

What is a Trusted Contact? A Trusted Contact is someone you select to be notified to:

- Discuss activities or other red flags that might indicate you're being financially exploited.
- Confirm your mental or physical health status if there is a reason to be concerned.
- Confirm the identity of any legal guardian, executor, trustee, or holder of a power of attorney.

Why do I need a Trusted Contact?

A Trusted Contact may help us move more quickly and decisively when addressing suspected financial exploitation or diminished capacity situations, even if you already have a power of attorney or spouse on your accounts. Adding a Trusted Contact is voluntary, but it is encouraged that all clients designate up to two Trusted Contacts in the event that one is not reachable in the future.

Who should I designate?

When selecting Trusted Contacts, consider choosing people who are not already authorized to transact business or receive information about your accounts. Family members or close friends are often in the best position to know your current situation and provide assistance when needed. The Trusted Contacts must be at least 18 years old. The Trusted Contact will not be able to view your account information, execute transactions in your accounts, or inquire about account activity, unless that person has that authority through another role on the accounts, such as a trustee or power of attorney. Only you as the account holder have the ability to add, update, or move a Trusted Contact from your accounts.

Training for a Financial Marathon

While you certainly would not attempt to run a marathon without training for it, you also don't want to be nearing retirement without having some type of savings set aside and your debt under control. The days of a company pension are coming to an end (most younger generations may not even know what a company pension is) and reliance on your 401k, Roth or other retirement savings accounts will be necessary to take you through the latter part of your life. In training for a marathon, if you are not a runner, you start out by walking then working your way up to running distances. Since most people are not financially savvy at the age of 18, we also start out by "walking." This would include not using credit cards for living expenses or getting too far into debt for an education. Keep in mind that the latest iPhone or latte is not necessary. By spending your money on frivolous items, you lose out on the initial training for the marathon. While "walking" sounds easy, you can get tripped up from time to time. Just make sure to keep your eye on the long-term goal of being able to retire comfortably. Your next training sessions should include running some short distances or, in this case, starting to put funds in a 401k or another retirement vehicle. Aim to save a minimum of 10% of your pre-tax salary in some type of retirement account. Some companies provide a contribution match which is basically free money in your retirement account. If you cannot afford to contribute much, try to contribute at least up to the company match. Hypothetically, if you start at age 22 making $35,000 a year and put in 10% with no match from the company (assuming a pay increase each year of 2% and a rate of return of around 7%), you will have almost $16,000 at the end of 4 years. Your contributions from salary would be $14,426. If you leave this job and do not contribute any further, in 10 years you will have about $25,000 (assuming the same rate of return). In 20 years, with absolutely no additional contributions, you would be looking at about $47,000, all from $14,426. Compounding interest is a beautiful thing. As with everything in life, moderation is the key. Slowly increasing the amount of mileage each week will help you get to the point where you can run that marathon (26.2 miles, in case anyone needs to know). If you increase your retirement contributions by a percentage each year, this will lessen the impact of having to save larger amounts during your 40's and beyond. You would not want to give yourself a month to train for a marathon, so you will want years to train for the retirement marathon, not just a decade. A marathon is a one-day event – your retirement will need to last for many years.

Ann S. Nolan, FPQP™
Administrative Assistant

Investment Strategy

Despite the increased volatility in 2019, U.S. markets remain strong and have continued on an upward trajectory. While the global economy continues to show signs of slowing down, there remains a bright spot and it lies within the U.S. consumer. Many uncertainties have hit the consumer, yet they remain resilient with their confidence and their spending in 2019. In conjunction with the strong consumer sentiment and spending, U.S. employment levels are remaining steady, helping to buoy the U.S. markets.

On the earnings front, the second quarter earnings matched expectations, setting up for an interesting third quarter earnings season from which we will shortly see the results. We will continue to focus on corporate earnings and management guidance moving forward. As market conditions present themselves, we will look for buying opportunities. Our focus will be on companies that are showing stable and improving fundamentals.

As earnings and economic data continue to roll in, our asset mix will remain flexible with money markets in a range of 10-20%, equities 40-60% and fixed income 30-40%. This asset mix will vary depending on client specific goals, such as income needs and risk levels, to name a few.

Jeffrey S. Naylor
Executive Vice President/CFO