

# Advisory Notes



JUNE 2015

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## Second Quarter Market Focus: Fed vs. Greece

While the equity markets reached all-time highs in the NASDAQ composite and the S&P500 index, investor excitement was a far cry from previous euphoria over the Dow hitting 10,000. The indices ranged 2% to 6% in the positive, but the returns were more like a balancing act than an upward bullish trend. The bond market lost some ground as the inevitable U.S. federal rate hike is upon us in the second half of the year. (see Market Table)



The Federal Reserve's delay in moving interest rates higher in June fueled some equities higher following the Fed meeting. Meanwhile, the battle across the pond in Europe between Germany and Greece on the restructuring plan of Greece's debt leaves much to

be desired as they band-aid together a plan. The U.S. economy continues to improve with higher employment, positive trending labor participation rates and the highest new housing starts in seven years. Inflation could be a real speed bump in the future. Global economies are continuing to ease monetary policies which prop up asset values in those respective regions.

Energy has temporarily bottomed and reached \$60 per barrel in crude oil and prices at the pump have jumped as the summer travel season is upon us. (See the article on page two by Andrew R. Clark, CFP®, for more details).

While we remain positive on the U.S. markets, the global markets are beginning to provide a good risk/return relationship. We will continue to monitor your portfolios for individual goals and objectives as this year continues to unfold.

Joseph M. Valicenti  
President/CEO

## Market Table

Valicenti Advisory Services, Inc. Comparative Index Period Returns From 3-31-15 THROUGH 06-30-15							
	DJIA	S&P 500	NASDAQ	Russell 2000 Index	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	U.S. Treasury (90 day)
03-31-15 to 04-30-15	0.54	1.02	0.83	-2.61	-0.58	-0.61	0.00
04-30-15 to 05-31-15	1.14	1.21	2.60	2.16	-0.30	-0.60	0.00
05-31-15 to 06-30-15	-1.97	-1.93	-1.64	0.59	-0.10	-1.72	0.00
<b>Cumulative Returns</b> 03-31-15 to 06-30-15	-0.32	0.27	1.75	0.09	-0.98	-2.91	0.00

## CNBC's Top 100 for the Second Year

We are honored to be recognized among the best in the business and included in CNBC's Top 100 Fee-Only Wealth Management Firms for the second consecutive year. On June 3, 2015, CNBC



announced that Valicenti Advisory Services, Inc. ranked number 49th from 90th in 2014, in the nation. We sincerely thank each of you for all of your support in what we believe in and the passion our firm has for delivering a unique client experience based upon relationships, expertise and trust.

The CNBC Digital editorial team, along with Meridian-IQ, created the following ranking methodology for its Top 100 Fee-Only Wealth Management Firms rankings. Scores for each measure listed below were weighted according to a proprietary formula to arrive at a final total rank (see full story at [cnbc.com](http://cnbc.com)):

- assets under management
- having staff with professional designations such as a CFP or CFA
- working with third-party professionals such as attorneys or CPA's
- average account size
- client segmentation
- growth of assets
- years in business
- number of advisory clients
- providing advice on insurance solutions

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

## An Update on the Oil Market

After one of the most dramatic oil market selloffs in the past 30 years, oil prices have rebounded back near \$60 per barrel. With a decent percentage of the U.S. shale oil revolution requiring energy prices above \$60 per barrel for exploration and production (E&P) companies to earn a profit, we anticipated a significant shift by energy companies to reduce activity and supply in an effort to push prices higher. As we review the latest data from the energy industry, it may be premature to believe the U.S. oil industry has succeeded in moving oil prices higher.



While U.S. energy companies have drastically reduced the level of new drilling, as captured by the number of drilling rigs in use, production has continued to push to record highs (Chart 1). The industry's struggle to inflate oil prices has also been affected by flat domestic consumption of oil. With record production and flat demand, U.S. oil inventories have swelled to multi decade highs (Chart 2).

International headwinds are also compounding the energy industry's struggles. As the Organization of Petroleum Exporting Countries (OPEC) looks to recapture market share lost to the U.S. over the past several years, it has lifted production by 3.8% YTD to 31.6 million barrels per day. By flooding the market with additional supply, OPEC can leverage its ultralow cost of production to seize additional market share and put high cost E&P companies potentially out of business. While OPEC nations will face lower cash receipts from selling oil at a lower price, their strategy has a long-term focus.

There is also a belief that if Iran reaches

a nuclear deal some of the oil sanctions could be lifted. Iran has indicated a desire to pump an additional 4 million barrels a day, compared to its current production level of 2.8 million barrels per day. Any significant production by Iran would only add to the excess oil demand throughout the world.

A deceleration in the global economy is also going to further exacerbate the excess supply issue. Based on data compiled by Bloomberg, the global Gross Domestic Product (GDP) is growing just 1.7% compared to a 5-year average of 2.6%. China has long been a major catalyst for global growth and oil consumption, with annual average GDP growth of 10% and oil consumption growth of 6% over the past 30 years (Chart 3). However, the Chinese economic growth has moderated over the past 8 years and its oil consumption actually declined for only the second time in 25 years. The outlook for oil demand looks more in question as global economic growth prospects diminish and questions mount surrounding China's growth.

The future of the energy market has long ago moved past concerns of "peak production" and limited supply due to new drilling techniques and exploration technology. Unfortunately, these advancements have pushed the energy markets to the opposite extremes where supply outweighs demand. As more companies adjust to the realities of the post shale boom, we would anticipate a return to a more normal industry relationship between supply and demand. The question for investors is how fast will this adjustment occur? Based on the data, oil prices may remain contained for the near-term and potentially the intermediate-term, as additional industry adjustments may be needed.

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Andrew R. Clark, CFP®  
*Vice President of Investment Research,  
Portfolio Manager*

## Employee Spotlight

We are pleased to announce that Daniel P. Burchill, our Security Analyst, who joined the firm in April 2014, has recently been awarded his Master of Science in Finance by the University of Rochester's Simon Business School. This thirteen months of dedicated study included residency weeks in Rochester, NY and Switzerland. The MS in Finance program in New York City helps one gain a competitive advantage in today's fast paced business environment.

Dan, a graduate of The University of Rochester with a Bachelor of Arts degree in Economics, began his career at the Bankers Trust Company in New York City and also worked at CIBC Oppenheimer where he traded in the fixed income and equity markets. He served as an officer in the U. S. Army and is a Distinguished Military Graduate of the U.S. Army's Officer Candidate School.

An integral part of the firm's investment committee, Dan is responsible for economic and security analysis, fixed income and equity trading and assisting the firm's three portfolio managers.

We know that you join us in congratulating Dan on this achievement.

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

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

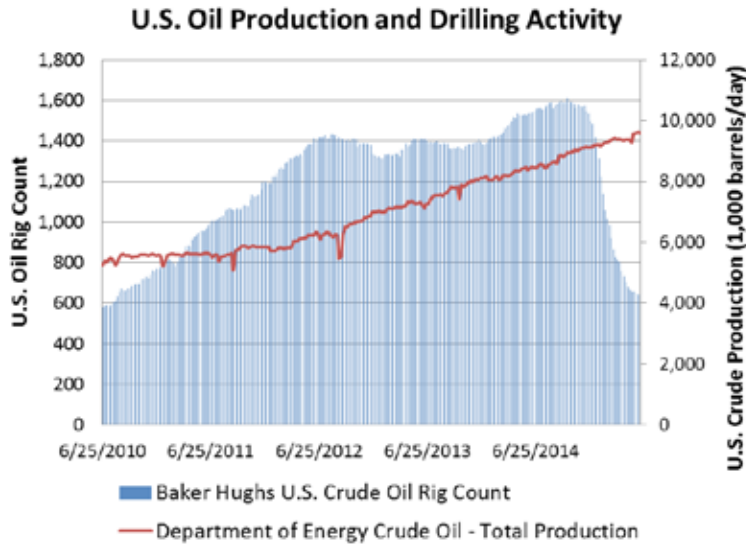


Chart 1

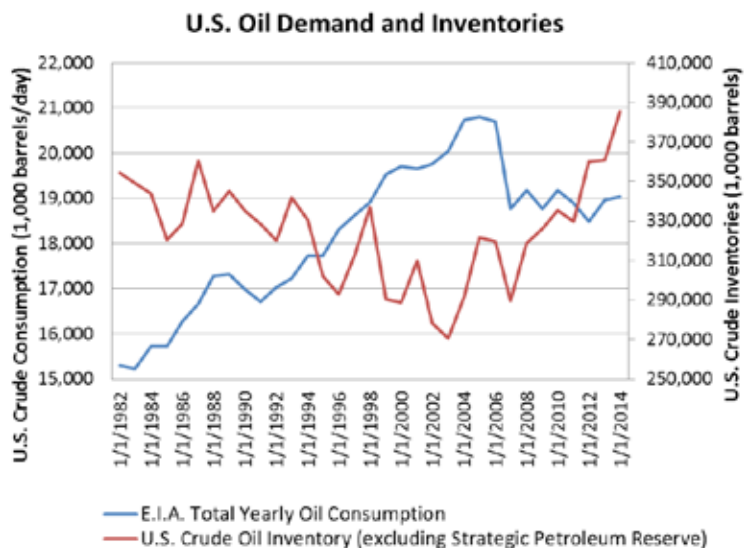


Chart 2

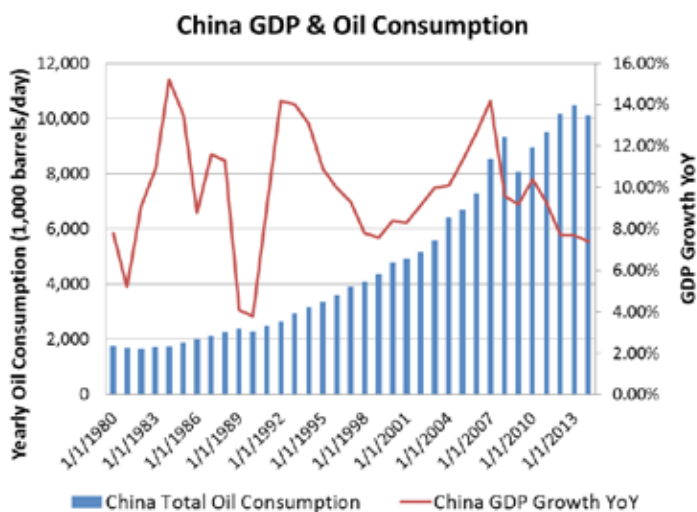


Chart 3

## Market Symmetry

The second quarter of 2015 saw the notable occurrence of three main indices, the S&P 500, the Nasdaq Composite and the Russell 2000 closed at all-time highs. The latter two indices, the Nasdaq Composite and the Russell 2000, have both outperformed the Large Cap and growth oriented S&P 500 and reached their zeniths with relative momentum being driven by the Small Cap and the Health Care and the Financial Sector constituents. Consumer Staples, Utilities and Telecom Services, while not breaking down, have lagged in Q2. On the bond side of the market, two things can be taken away from the recent market action. First, there has been a bounce off of historically extreme low yields as the 10-year government yield has risen from 1.92% at the start of the quarter to around 2.35% at present. Second, looking at the rates from a multiyear perspective, they have yet to technically break out in such a way that a sustained path to even higher levels from here looks certain. Monetary policy was brought to a slightly more focused place in the quarter. We have migrated from “Fed Patience” to increasing anxiety over the pace of rate hikes, to what now can be described as a less anxious view where “liftoff” is upon us at some point in 2015, but quick, successive “follow on” hikes are not yet signaled. In regards to a continuing trend commented on last quarter, the level of investor bullishness has waned with most of the gain moving into the neutral camp.



### Positive Market Influences:

- Low Inflation – Market measures of core consumer price goods inflation, which strips out volatile food and energy prices, remain low. Core Personal Consumption Expenditures (PCE) is presently coming in around 1.2% and core Consumer Price

### Positive Influence

- Low Inflation
- Labor Market Strengthening
- Corporate Share Repurchase Activity
- Monetary Policy
- Fade of Recent Dollar Strength
- Average Hourly Earnings
- U.S. Markets vs Rest of World

### Negative Influence

- Slowing Growth in China
- Low U.S. Labor Productivity
- Industrial Production
- Personal Consumption & Savings
- Consumer Confidence
- Grexit & Contagion
- Emerging Market Concerns

Index (CPI) as of the end of May, is running around 1.7%.

- Labor Market Strengthening – Average monthly gains in nonfarm payrolls are running north of 250K for the last twelve months as of the May report.
- Corporate Share Repurchase Activity – Strong operating cash flow generation combined with weaker perceived investment opportunities will continue to lead many companies down the road of buying back their shares.
- Monetary Policy – At the end of Q2, increased certainty around the timing of Fed “liftoff” alongside the lowering of growth and inflation forecasts relieved some of the anxiety about the pace of future rate normalization and, with it, concerns over potential adverse financial asset price resets.
- Fade of Recent Dollar Strength – The Dollar Index has strengthened 25% since the summer of last year. The pace of the strengthening in itself was disconcerting in regards to corporate profits but, since the end of Q1, the index has faded around 6%, perhaps paving the way forward for a more measured adjustment in the future.
- Average Hourly Earnings – The twelve month growth in average hourly earnings is up 2.3% which is the highest since May of 2009. More of a boost is likely needed in order to flow through to stronger consumer spending numbers, but the directional trend combined with other labor data is still skewed towards more of a net positive.
- U.S. Markets vs Rest of World – With developed Asian and European market performance dependent on extraordinary

policies and reform potential, as opposed to a genuine growth led deflation, and with developing Emerging Market growth waning, the U.S. Markets and U.S. Dollar assets at present are still benefiting from a more subdued but relatively strong growth position in the world.

### Negative Market Influences:

- Slowing Growth in China – Slower growth is necessary for rebalancing the Chinese economy away from an unsustainable investment-led engine, yet uncertainty about what the ultimate path and trajectory will look like is a source of concern.
- Low U.S. Labor Productivity – Historically low growth rates in this key metric have been near zero in the last two quarters.
- Industrial Production – Month over month rates have been either very near zero or in contraction for the last six months.
- Personal Consumption & Savings – Since late last year, the personal savings rate has been on the rise and personal consumption has been more subdued. On a positive note, advanced retail sales in May showed a nice improvement, but markets will be on the lookout for a continuing trend.
- Consumer Confidence – While still at relative historical high levels, confidence has been slipping somewhat since the beginning of the year.
- Grexit & Contagion – The Greek drama is back in the news and that alone is enough to exert an unwanted negative influence. Underlying the issue more deeply for

*(Continued on next page)*

## Personal Finance

**Y**ou know your credit score is important, but are you “clued in” on what you might inadvertently be doing to cripple it?

Your three digit number acts like a grade for your financial life and is calculated based on the information in your credit reports, like taking out loans and your history of paying credit card bills. Lenders use it to determine your eligibility for credit cards, car loans and mortgages, plus how high of an interest rate you’ll pay.

A FICO score, which is used by the vast majority of lenders, ranges from 300 to 850. FICO scores are calculated from many different pieces of credit data in your credit report. This data is grouped into five categories: 30% is for credit amounts owed, 35% is based on payment history, 15% is for the length of credit history one has, 10% is the types of credit in use and 10% is



for opening new accounts in a short period of time. Anything above 780 is considered very good and anything below 600 is considered fair to bad.

Here is a list of things that may hurt your credit score:

**Maxing Out Your Credit Card** – Your credit card balance should never exceed 30% of your credit limit and ideally it should stay below 10%, experts say. Accumulating large balances on your credit card, relative to your allowance, is harmful to your score.

**Paying Bills Late** – Your history of making payments is one of the most important factors that goes into your credit score, whether it’s for a student loan, credit card or mortgage.

**Not Paying Bills At All** – A collection listed on your credit report will typically remain there for seven years, regardless of whether or not you pay it off at a later date.

**Co-Signing** – When you co-sign a loan for someone else, you open yourself up to “blowback” from any bad activity that happens down the road. The loan will show up on your credit reports, almost as if it’s

yours, and any lapse like late or missed payments will negatively impact your credit score.

**Evading Credit** – It may seem counterintuitive, but steering clear of credit and debt isn’t the responsible thing to do either. When it comes time to purchase a car or a house and you don’t have enough cash on hand to do so, the bank you approach for a loan will assess your risk. About 15% of your credit score is based on the age of your accounts and older ones help demonstrate your responsibility over a long period of time.

These days, your credit score is everywhere. Many banks now print credit scores on your monthly credit card statement. There are companies like CreditKarma that gives credit scores for free or Experian that charges as little as a \$1.00, so that we may increasingly understand how our scores are calculated and how to improve them.

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Melissa B. Dixon  
*Marketing Assistant*

## Market Symmetry

*(Continued from previous page)*

markets are real longer term concerns over outcomes and policy in the Euro area.

- **Emerging Market Concerns** – Weaker currencies and capital flowing out of some markets will coincide with weaker growth in some of the developing economies.

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Daniel P. Burchill  
*Security Analyst*

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## Investment Strategy

**T**he first half of 2015 showed modest improvement in both the U.S. economy and the U.S. equity markets. Persistent headwinds existed in the first six months, highlighted by concerns over Greece and its debt problems and the possibility that the Federal Reserve might raise rates soon. In addition, consumers still remained cautious with their spending, as evidenced by the increase in savings rates.

Despite persistent headwinds, there are signs of economic improvement. The jobs market has shown an upside, the housing market is seeing progress in the short term and vehicle sales have been increasing over the last several weeks.

With the potential of interest rates moving higher, our asset mix remains flexible as our fixed income mix is between 25% and 35%. We continue to look for opportunities in the equity markets with an emphasis on companies that have strong earnings growth. As such, our equity mix remains in a range of 40% to 60%. Our cash position is from 5% to 20%, as we look for opportunities when they present themselves. Our asset mix will vary based on client specific directives, needs for income and risk levels.




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Jeffrey S. Naylor  
*Executive Vice President/CFO*

## The Basics of Long-Term Care Insurance

Long-term care differs from traditional medical care in that this care provides services for someone with a prolonged physical illness, a disability or a cognitive impairment, such as Alzheimer's disease. Long-term care services may include assistance with daily activities, home health care, respite care, hospice care, adult day care, care in a nursing home or care in an assisted living facility.



Long-term care can be costly. The cost depends on the amount and type of care needed. According to a Genworth cost of care survey in 2014, the national average cost of nursing home care was \$87,600 per year, assisted living facilities reported \$42,000 per year and home care costs averaged roughly \$20.00 per hour of care.

Individuals pay for long-term care in a variety of ways. These include using personal resources, long-term-care insurance and Medicaid for those who qualify. Long-term-care insurance generally will pay for some or all of long-term care services, depending on the type of coverage purchased.

The factors to consider when evaluating the cost and coverage associated with purchasing a long-term-care insurance policy are:

- Age when the policy is purchased
- Health & medical conditions
- Income & assets
- Overall retirement goals

Individuals may look to a long-term-care policy as part of a financial strategy in which assets are protected and will not be exhausted to pay for long-term care needs.

A long-term-care insurance policy may be available from the following resources:

- Private insurance companies
- Employer or association membership
- Life insurance policies with a rider, may provide ancillary long-term care benefits

Many states, including New York, participate in the long-term-care Insurance Partnership Program. This program is designed to encourage planning for long-term care. The Partnership Program allows individuals to retain more assets than would otherwise be allowed under state Medicaid eligibility requirements. Policyholders under this program are able to retain assets they would otherwise have to spend down prior to qualifying for Medicaid benefits.

In most cases, individuals are eligible to participate in their respective state's Partnership Program by owning a long-term-care policy that meets the requirements for the Partnership Program. Policies that qualify under the Partnership Program typically do not cost more than non-qualified policies with similar benefits.

I'm often asked how Medicare coverage factors into the overall cost of long-term care. Medicare is the federal program that provides hospital and medical insurance to those who are 65 or older and those that are disabled. Benefits may be available for home health care, but only if certain conditions are met. Medicare may pay up to 100 days of care in a skilled nursing facility per

benefit period at an amount of 100 percent for the first 20 days after a three-day hospital stay, should skilled care be needed. For days 21-100, Medicare requires a co-payment. Typically, many individuals have a Medicare supplemental insurance policy to cover what Medicare does not pay; however, once Medicare stops paying for care, the supplemental payment will also end.

Medicaid typically pays for certain health services and nursing home care for those with low incomes and limited resources. Medicaid sets limitations on the amount of assets you may own and the amount of income you may receive each month before you are eligible for benefits. Eligibility and what services are covered vary by state. There are also very strict rules on transferring assets to others in order to qualify for Medicaid.

Please contact us to review your long-term care goals and options in detail. Valicenti Insurance Services, Inc. is a New York Partnership Plan licensed and certified agency. We will work with you and your Portfolio Manager on a strategic plan to meet your financial goals and objectives.

Suzanne M. Valicenti  
President/CEO



## For ALL Your Insurance Needs

### Personal Insurance

- Auto
- Homeowners
- Umbrella
- Recreational Vehicles
- Motorcycle
- Watercraft

### Business Insurance

- Property
- Liability
- Automobile
- Professional Coverages
- Workers Compensation
- NYS Disability

### Life & Health Insurance

- Life
- Long-Term Care
- Disability

### Group Benefits Plan

- Health Insurance
- Dental Insurance
- Life Insurance
- Disability Insurance
- Customized Benefit Insurance

*The mission of Valicenti Insurance Services, Inc. is to provide personalized insurance products and services with unparalleled customer service to protect the assets of individuals, families and businesses that we serve.*

## IRS, Industry and States Fight Identity Theft Together

**O**n June 11, 2015 the Internal Revenue Service joined with representatives of tax preparation and software firms, payroll and tax financial product



processors and state tax administrators to announce a sweeping new collaborative effort to combat identity theft, refund fraud and protect the nation's taxpayers.

The agreement — reached after the project was originally announced March 19 — includes identifying new steps to validate taxpayer and tax return information at the time of filing. The effort will increase information sharing between industry and governments. There will be standardized sharing of suspected identity fraud information and analytics from the tax industry to identify fraud schemes and locate indicators of fraud patterns. Moreover, there will be continued collaborative efforts going forward.

IRS Commissioner John Koskinen convened a Security Summit on March 19 with the chief executive officers and leaders of private sector firm and federal and state tax administrators to discuss emerging threats on identity theft and expand existing collaborative efforts to stop fraud.

Three specialized working groups were established as part of the Summit, with members from the IRS, states and industry co-chairing and serving on each team. During the past 12 weeks, the teams focused on developing ways to validate the authenticity of taxpayers and information included on tax return submissions, information sharing to improve detection and expand prevention of refund fraud, and threat assessment and strategy development to prevent risks and threats.

The groups agreed to several important new initiatives in this unprecedented effort, including:

**Taxpayer authentication** - The industry and government groups identified numerous new data elements that can be shared at the time of filing to help authenticate a taxpayer and detect identity theft refund fraud. The data will be submitted to the IRS and states with the tax return transmission for the 2016 filing season. The verification includes reviewing the transmission of the tax return, including the improper and or repetitive use of Internet Protocol numbers, the Internet 'address' from which the return is originating, reviewing computer device identification data tied to the return's origin, and reviewing the time it takes to complete a tax return, so computer mechanized fraud can be detected.

**Fraud identification** - The groups agreed to expand sharing of fraud leads. For the first time, the entire tax industry and other parts of the tax industry will share aggregated analytical information about their filings with the IRS to help identify fraud. This post-return filing process has produced valuable fraud information because trends are easier to identify with aggregated data. Currently, the IRS obtains this analytical information from some groups. The expanded effort will ensure a level playing field so everyone approaches fraud from the same perspective, making it more difficult for the perpetration of fraud schemes.

**Information assessment** - In addition to continuing cooperative efforts, the groups will look at establishing a formalized Refund Fraud Information Sharing and Assessment Center (ISAC) to more aggressively and efficiently share information between the public and private sector to help stop the proliferation of fraud schemes and reduce the risk to taxpayers. This would help in many ways, including providing better data to law enforcement to improve the investigations and prosecution of identity thieves.

**Cybersecurity framework** - Participants with the tax industry agreed to align with the IRS and states under the National Institute of Standards and Technology (NIST) cybersecurity framework to promote the protection of information technology (IT) infrastructure. The IRS and states currently operate under this standard, as do many in the tax industry.

**Taxpayer awareness and communication** - The IRS, industry and states agreed that more may be done to inform taxpayers and raise awareness about the protection of sensitive personal, tax and financial data to help prevent refund fraud and identity theft. These efforts have already started, and will increase through the year and expand in conjunction with the 2016 filing season.

"Industry, states and the IRS all have a role to play in this effort," Koskinen said. "We share a common enemy in those stealing personal information and perpetrating refund fraud and we share a common goal of protecting taxpayers. We want to build these changes into the DNA of the entire tax system to make it safer."

Many major system and process changes will be made this summer and fall by the participants in order to be ready for the 2016 filing season. The public-private partnership also will continue this cooperative, collaborative approach to address not just short-term issues but longer-term issues facing the tax community and taxpayers.

The partnership parties recognize the need to continuously improve our tax system defenses for combating this threat to taxpayers and our tax system, Koskinen added. Those defenses include a continually improving multi-level identity proofing and authentication capability that anticipates and stops threats.

We in the Tax & Business Services Department think that this initiative shows a lot of promise in combating identity theft. Having the agencies, as well as tax prepara-

## Identity Theft

(Continued from Page 7)

ration software companies share information such as data transmission information, Internet file information and computer device identification data, it will set up virtual barriers for individuals trying to fraud the system. People trying to file fraudulent tax returns will be going up against the real identification information and hopefully this will bring about even more innovation in identity theft prevention. This entire scenario is very indicative of “good” versus “bad” and “good” absolutely needs to win.

What this initiative is basically doing, is identity proofing. The system will be offering a multi-level approach to include technology enabled “remote” proofing, opt-in models and even in-person proofing. Concepts such as customer account validation via “trusted computer”, multifactor authentication and auto-email generation will be used for trusted source verification. The key is that the system needs to evolve as refund fraud does.

The participants have vowed to raise taxpayer awareness. The prevention of identity theft refund fraud can be helped by taxpayers being more aware of protecting their personal information, their financial information, their tax records and their electronic devices. The Tax & Business Services Department will be continuing to keep our clients aware of identity theft protection by sharing information about emerging threats and scams through newsletters, emails and general communications.

Paul E. Hornbuckle, CPA

*Vice President of Tax and Business Services*

## Electronic Delivery Reminder

**A**s a reminder to our clients, we offer electronic delivery of your daily account data along with PDF delivery of your quarterly financial reports. If you are interested in this service, we will send you a temporary password (initial password is active for 24 hours) to access your data and document vault. Once you log in with your temporary password, you will be prompted to change the password to a permanent password of your choosing.

Each day, your daily data including holdings, gains/losses, transactions and income information will be uploaded to the website for you to view at any time. Every quarter, you will receive an email with links to your quarterly reports that are saved in a secure “vault” on our website. The reports may be viewed by going to our website, [www.valicenti.com](http://www.valicenti.com), and logging in or by clicking on the links within the email.

If your account is held at Charles Schwab & Co., Inc., you may also have



access to your account through Charles Schwab’s client website, [www.schwaballiance.com](http://www.schwaballiance.com). First time users will need to choose the “New User” link to the right of the Login ID area to set up your account. Once you’ve set up your account and log in credentials, you may view data such as balances, positions, account history and research.

Schwab also offers edelivery of account statements, trade confirmations, shareholder materials and tax forms. In order to enroll in this service, once you are logged into [www.schwaballiance.com](http://www.schwaballiance.com), go to the Service tab and choose Paperless. Your account will come up with a list of reports that are eligible for edelivery. Please note that Schwab offers a discounted equity trade commission rate for those accounts that are fully enrolled in edelivery.

If you are interested in these services, please contact us at (866) 734-2665 or email, [jenkinstl@valicenti.com](mailto:jenkinstl@valicenti.com) and we will begin the enrollment process with you.

Tracy L. Jenkins

*Vice President of Operations*



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