Advisory Notes

Cultivating Relationships

30 Years

1984 - 2014

March 2015

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First Quarter Market Report

On the heels of a strong year and a strong fourth quarter, January of 2015 had a pull-back across the broad market indices, which consisted of fears over energy prices, the strengthening dollar and the possibility of the Fed raising rates in June of this year (see Market Table). February equity markets roared back to all-time highs as economic data came in softer than expected and energy prices bounced off the January lows and began to stabilize, thus pushing the possibility of rate hikes into the latter half of the year. In March, volatility made a mid-month resurgence as the "economic talking heads" were predicting a better than 50% chance of a Fed hike in June.

At the March 18 Fed meeting, Federal Reserve Chairman, Janet L. Yellen, removed the word "patience" from her speech and noted that the Fed will monitor economic strengths and weaknesses as to when to tighten the monthly supply. (See the article on page two by Andrew R. Clark, CFP®, for more details.)

Stocks are trading near all-time highs again. We believe that the Fed will wait until the economy heats up before raising rates, which is a positive for equity markets and asset values. With inflation subdued and energy prices still low, the "secular" bull market is still in place. The other foreign economies, i.e. the Eurozone and Japan, continue to ease monetary policy in order to stave off deflationary pressures. Corporate earnings in the first quarter were muted by harsh weather in the Northeast and the shutdown of ports on the West Coast. Unemployment

*See **First Quarter** on Page 2*

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 12-31-14 THROUGH 3-31-15

	DJIA	S&P 500	NASDAQ	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	U.S. Treasury Bill Index (90 day)	Russell 2000 Index
12-31-14 to 01-31-15	-3.46	-2.92	-2.13	1.96	2.92	0.00	-3.26
01-31-15 to 02-28-15	5.82	5.65	7.08	-1.14	-1.09	0.00	5.83
02-28-15 to 03-31-15	-1.77	-1.57	-1.26	0.32	0.41	0.00	1.57
Cumulative Returns 12-31-14 to 03-31-15	0.36	0.95	3.48	1.12	2.22	0.00	3.99

First Quarter

(continued from Page 1)

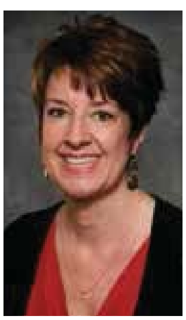
continues to decline, but as energy companies complete their contracts, new contracts will most likely be furloughed until pricing stabilizes or increases, thus creating additional layoffs in the energy sector.

Housing starts and mortgage applications were down in the first quarter, most likely due to the weather, but should return back to normalized rates in the next couple of quarters.

While we believe good risk/reward opportunities are available in the markets, we still feel there are many possible headwinds that could stall U.S. economic growth. We will continue to monitor these events and tailor your portfolios in accordance with your goals, objectives and risk tolerances.

Joseph M. Valicenti
President/CEO

Consider 529 College Savings Plans



Yes, 529 college savings plans are still a safe, wise vehicle to put after-tax money in for a beneficiary's post-secondary education. As a result of the State of the Union Address in January, when President Obama proposed eliminating tax breaks for 529 plan distributions, many clients had questions as to whether they should continue to consider this a beneficial way to save for college costs. Apparently, many across the country vehemently questioned this proposal and immediately the President was forced to drop the idea of changes to 529 accounts.

Sponsored by states, 529 plan assets are usually invested in a wide range of options, which are selected to fit personal risk tolerance and the age of the beneficiary, providing federally tax-free earnings

*See **529 College Savings Plan** on Page 3*

Fed Speak

When the Federal Reserve (Fed) held its March conference, the outcome was a bit of "double speak". As expected, the Fed removed the word "patient" from its official statement regarding the timing of an interest rate increase, but it also lowered its economic and inflation forecasts for 2015 and 2016. The lower projections led Fed officials to also lower its expectations for future interest rates, as demonstrated in what is now known as the FOMC Dot Plot (Chart 1). We believe there are several reasons the Fed acted in a conflicting manner.

The first reason is an attempt by the Fed to increase flexibility going forward versus market participants' expectations. Both markets have been fairly resilient in the face of worse than expected economic data points (Chart 2) and a belief that the Fed will lift rates sooner rather than later, having many warning that the markets are being complacent to growing levels of risk. By signaling that it is ready to raise interest rates as needed, but cognizant of the recent headwinds to the economy, the Fed is essentially preventing any major swings in investor sentiment in both the stock and bond markets. By keeping investors uncertain, the Fed can maximize its flexibility on the timing of any rate hike.

> *"…the Fed is essentially preventing any major swings in investor sentiment in both the stock and bond markets."*

Another potential reason for the Fed's double talk is a desire to soften the U.S. dollar. If the Fed can instill a degree of skepticism into the timing of an interest rate hike, it may slow the U.S. dollar's appreciation. The U.S. dollar has appreciated nearly 25% since the end of June and is beginning to put pressure on our nation's export business (Chart 3). Not only will lower exports slow the U.S. economy, but they will also negatively affect many U.S. companies that depend on foreign demand.

Furthermore, the strong U.S. dollar has also put negative pressure on inflation. As we outlined in last month's Bull & Bear Bulletin, the Fed has consistently said it is targeting a 2% inflation rate. With the current Personal Consumption Expenditure (PCE) Price Index at 1.3% and declining, the Fed has an incentive to talk down the dollar.

With investors believing there was a 50% chance the Fed was going to increase interest rates at some point this summer despite inflationary pressures cooling, the dollar continuing to push higher in anticipation of an interest rate increase and the economy proving to be less than expected, it is not a surprise that the Fed is looking to increase ambiguity without startling investors.

To be clear, the Fed has a desire to raise interest rates but has not had a reason to do so. In the near term, we expect the change in policy statement to be bullish for stocks and bonds. Long term, until the economy shows further signs of acceleration and mounting inflation pressures, it is unlikely they will be able to fulfill their desire.

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

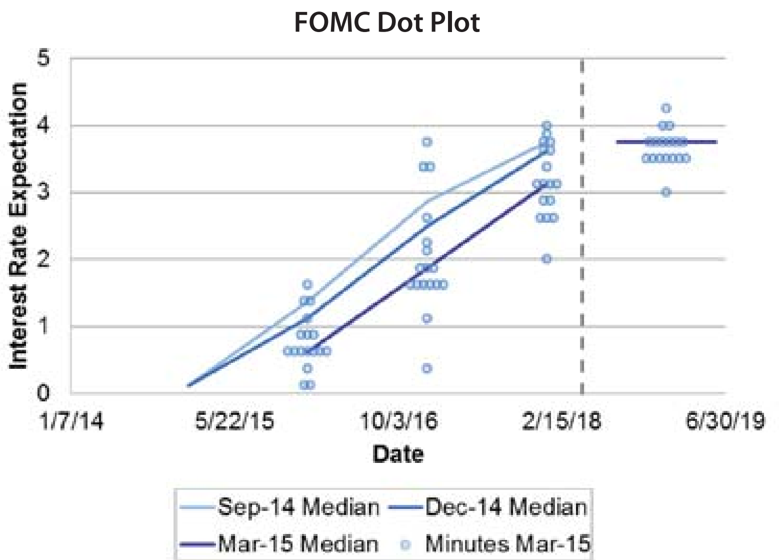


Chart 1

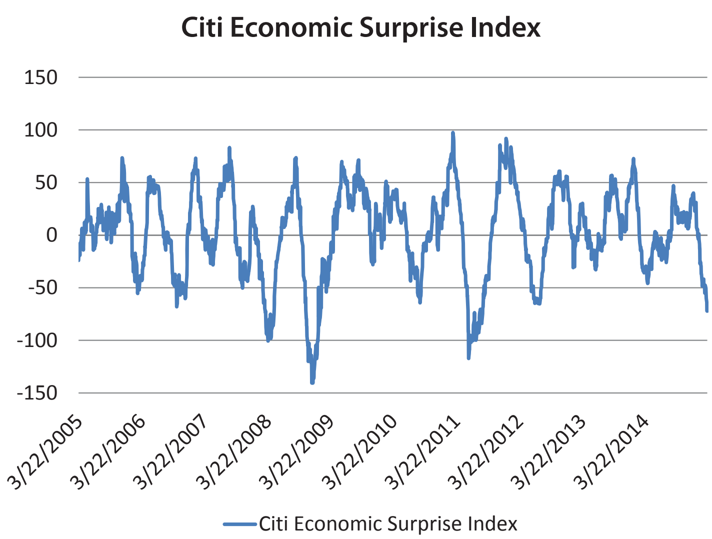


Chart 2

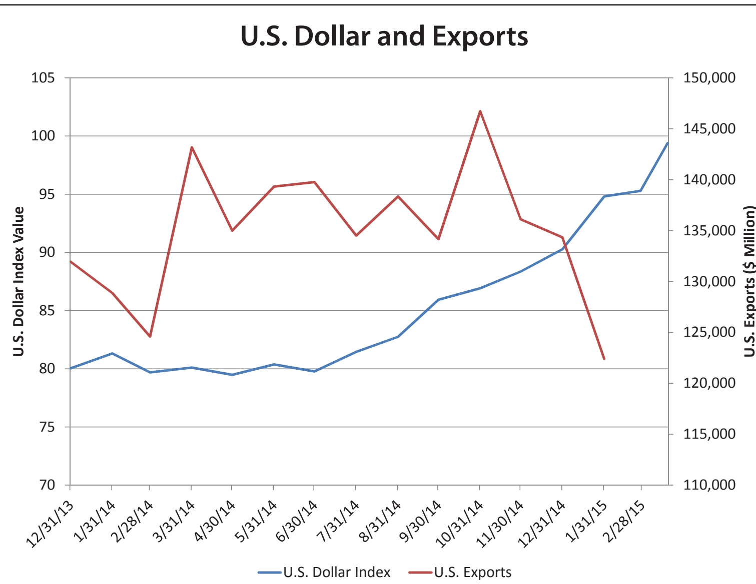


Chart 3

Source of charts: Bloomberg.com

529 College Savings Plan

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growth. As long as proceeds are used for qualified education expenses, withdrawals are tax-free. (Many states offer tax incentives as well.) Eligible education expenses include tuition, college fees, books, supplies and certain room and board charges at colleges, universities, vocational schools or any other post-secondary institution eligible to participate in a U.S. Department of Education student aid program. Also, if the beneficiary does not require the funds held in the college savings plan, there are no tax consequences for changing the beneficiary to another member of the family.

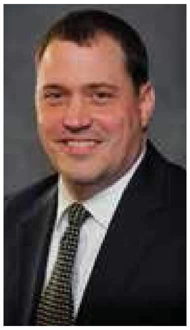
Contribution limits are much higher for 529 plans than they are for other educational savings plans and are not subject to income phase out limits. An account owner may contribute or gift up to $14,000 per year ($28,000 per couple) or, if counted as a five year gift, $70,000 ($140,000 per couple) in one year. Contributions to a 529 plan, however, are not deductible.

The President's proposed tax change to 529 accounts was initially intended to help fund another tax credit by using what the administration argued was primarily a benefit to the wealthy. Interestingly enough, a larger share of 529 college savings plans are opened by middle income families, not just those who have larger sums of disposable income to put away. These plans make the most sense for families whose children are not likely to qualify for much financial aid. Also keep in mind that account owners are not limited to parents. Many grandparents find this to be a rewarding savings tool also.

Planning for the future cannot happen too early or too late. Although not for everyone, 529 college savings plans allow many families to reduce their reliance on student loan debt by saving wisely for future higher education goals.

Kelly S. H. Diehr, RP®
Administrative Assistant

Market Symmetry



The first quarter of 2015 saw the S&P 500 oscillate between negative and positive territory ending up with a small gain towards the end of the period. Coincidentally, while there was no strong measurable uptick in the level of bearishness, sentiment has moved to a more neutral stance in the equity space. Moving beyond the "Fed Patience" theme of the prior quarter, the consensus view on the Fed Policy outlook has migrated towards a belief that policy makers will indeed act sooner in raising rates but follow this action with slower subsequent rate hikes relative to what has been seen in earlier rate lifting cycles. In tune with this, 5-year and 10-year U.S. yields did move lower throughout the quarter only to move back up again to levels seen at the start of the year as they performed a "round trip" similar to equities. From the global macro perspective, the longer term problems of structural issues and attempts at reflation persist for the Eurozone and Japan. Their respective equity markets are lifting to some degree, but it is unknown if a sustainable growth footing as in the U.S., can emerge. Balanced against this for now are the Emerging Market economies and the U.S. economy which are providing the only real impetus for global growth.

Positive Influence	Negative Influence
Consumer Confidence	Slowing Growth in China
Low Inflation	Prospect of Higher Interest Rates
Labor Market Strengthening	Anxiety Over Exit from Extraordinary Policy
Continued Share Repurchase Activity	Revenue and Earnings Growth Outlook
Consumer Deleveraging	Low U.S. Labor Productivity
Japanese and Eurozone Reflation	Stronger Dollar
Industrial Production	Emerging Market Concerns
Personal Consumption Expenditures	Trajectory of U.S. 2015 GDP

Positive Market Influences:

- Consumer Confidence – While there was a slight pullback to the index levels in Q1, confidence still remains elevated relative to the last seven years.
- Low Inflation – Market measures of expected future inflation and measures of actual core consumer price goods inflation which strip out volatile food and energy prices are running around 1.6%.
- Labor Market Strengthening – Average monthly gains in nonfarm payrolls are running north of 260K for the last 12 months. The recent February report showed gains in broad sectors of the economy with average hourly earnings up 2% over the last 12 months.
- Continued Share Repurchase Activity – Strong operating cash flow generation combined with weaker perceived investment opportunities will continue to lead many companies to continue buying their own shares with excess cash rather than investing the cash.
- Consumer Deleveraging – Regarding consumer debt, two things are happening post crisis. With the exception of student loans, which are problematic for the younger generation, the absolute levels of credit card, mortgage and auto loan debt are lower for the average person. Debt servicing payments as a percentage of disposable income are the lowest they have been in over 30 years.
- Japan and Eurozone Reflation – the equity markets in these developed nation areas have reflated to some degree in Q1, giving some momentum to the idea that prices will stabilize against deflationary scares and that the economies will begin to grow again.
- Industrial Production – Year over year this metric is up a strong 4.82% in Q1.
- Personal Consumption Expenditures – Year over year this metric is up a strong 3.4% in Q1.

Negative Market Influences:

- Slowing Growth in China – The rebalancing of the economy will not be along an easy path as growth was built on an investment binge and extreme credit growth cycle. Slowing these extraordinary levels of investment and handing off growth to domestic consumption remains a challenge and the growth rate is clearly slowing. The path and willpower to drive along this adjustment course are still uncertain.
- Prospect of Higher Interest Rates – The prospect of higher rates and in the face of dollar strength is creating some negative influence.
- Anxiety Over Exit from Extraordinary Policy – Realizing higher short term rates represents the beginning of a rate hike cycle the market has seen many times before. The ultimate effects of unwinding the accommodative stance several years on from the Global Financial Crisis is lesser known and there is even greater anxiety over the reversal to policy this time around.
- Revenue and Earnings Growth Outlook – The year over year estimates for Sales and Earnings per share are negative for Q1 largely due to the Energy Sector.
- Low U.S. Labor Productivity – Growth rates in productivity are seemingly stuck around 1% which is very low by historical standards. Only higher levels of business fixed investment will drive improvement in this number. At higher levels of productivity, workers may more easily be paid more.
- Stronger Dollar – The dollar has strengthened 8% against the Canadian dollar and 2% against the Mexican peso. The export prices which are rising for these major trading partners will have a negative effect on export growth.

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- Emerging Market Concerns – While still a general source of economic growth, the overall trend is slowing and the main worry about these developing economic centers is the extent to which they are funding via U.S. dollar revenue sources, as their currencies are weakening to various degrees making the cost of repaying the debt burdens that much higher.
- Trajectory of U.S. 2015 GDP – The relative strength in the U.S. economy over other developed nations is very much a positive influence; however, the slowing around the world combined with relatively quick currency adjustments leaves some doubt as to just how strong growth in the U.S. may ultimately be this year.

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!

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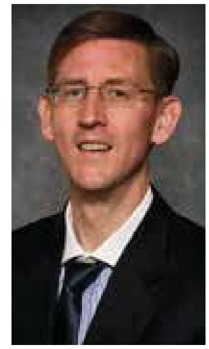
Cultivating Relationships for 30 years
Our Clients Come First

Investment Strategy



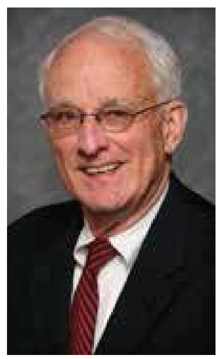
In the first quarter of 2015, the U.S. economy showed modest improvements and the U.S. markets continued higher but were volatile as headwinds persisted.

While inflation remains low, the Federal Reserve is watching the economy and is considering raising the federal funds rates. The U.S. dollar continues to gain strength and oil prices remain fairly low, but there are concerns with valuations. With the U.S. equity markets fluctuating, we continue to look for opportunities as we focus on companies with strong earnings growth and reasonable valuations.

With interest rates potentially on the rise and the dollar remaining strong, we will be flexible with our asset mix with equities between 40% and 60%, fixed income between 25% and 35% and cash between 5% and 20%. This asset mix will vary based upon client specific directives, needs for income and risk levels.

Jeffrey S. Naylor
Executive Vice President/CFO

401(k) and 403(b) Retirement Plans



Generally, employee pensions are no longer offered. For some time, there has been a shift to 401(k), 403(b) and other retirement vehicles where both the employer and the employee contribute. In most of these plans, the employer offers to match the employee contribution up to a certain percentage of an employee's pay. Taking advantage of the employer match is extremely important because it represents "free money" which is "left on the table" if the employee does not take it.

If the employer offers a retirement plan to which the employee contributes but there is not an employer match, it may be best to establish an IRA which will not limit your choices of investments and will give you maximum flexibility. Since each person's situation is different, we suggest that before you enroll in a company sponsored retirement plan that you discuss the opportunity with us so that we may provide you with proper guidance.

As people approach retirement from their current job, many decisions need to be made, not the least of which is what should be done with his/her 401(k), 403(b), etc. If a person is considering going to work for a new employer, he/she has four basic options:

1. Continue in the current employer's retirement plan with no further contributions either from the employee or the employer. You are limited to the plan's investment options.
2. If allowed, move the retirement assets to the new employer's retirement plan. You are limited to the new plan's investment options.
3. Rollover the retirement assets into an IRA Rollover. You have total control over the assets and how they are invested.
4. Cash out the retirement assets. This becomes a taxable event.

We suggest that you discuss the options with us to determine what is best to meet your goals, objectives and time frames.

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

What is Identity Theft?

Identity theft (also referred to as identity fraud) is the misappropriation of another person's identifying information in order to steal money from the victim's existing accounts, apply for loans, obtain credit fraudulently from banks and retailers, establish accounts with utility companies, rent an apartment, file bankruptcy, obtain a job or achieve other financial gain using the victim's name.

What are the most common ways your identity can be compromised?

- Retrieval of personal data from online sources, such as public records and fee-based information sites
- Stealing mail from unlocked mailboxes to get pre-approved credit offers and newly issued credit cards, utility bills, bank and credit card statements, investment reports, insurance statements, benefits documents or tax information
- Culling through trash bins for credit card statements, loan applications, and other documents containing names, addresses, account information and Social Security numbers
- Stolen wallets or stolen information during purchases in stores, dining out and traveling

What do I do if my identity is stolen?

- Call and report to the police. Make several copies of the police report
- Contact your credit card companies immediately. Explain what happened and ask where to send a copy of the policy report
- Complete a Federal Trade Commission (FTC) Theft Affidavit and FTC report (call 1-877-ID-THEFT) to request the forms
- Call your bank. They can place an alert on your driver's license number and Social Security number and freeze your account
- Call fraud units of credit reporting agencies: Experian, Equifax and Transunion

Fortunately, identity theft protection is available as an endorsement on most homeowner's policies at a relatively low cost. The coverage reimburses certain expenses associated with identity recovery. Guidance is also provided on how to protect yourself from identity theft before it happens and may assist with identity restoration.

If you are interested in learning more on identity theft coverage or would like a comprehensive personal insurance review, please contact us at 607.215.0242 or email info@valicentiins.com.

Suzanne M. Valicenti
President/CEO

VALICENTI INSURANCE SERVICES, INC.

Why a Home Inventory is Important

Can you list from memory everything you own? Are you confident that you could do that at the time of a loss?

The fact is most people own more things than they realize. It's easy to remember the cars, the computer and the TV's, but what about that holiday china in the garage? Or every pair of shoes?

All of it is regarded as personal property for insurance purposes. And if your home is destroyed by fire or some other disaster, having a list of your possessions makes filing a claim easier — and helps you put your life back together.

Why should I complete a home inventory? What's the best way?

Comparing the value of your belongings to the "contents" limit listed in your policy helps you make sure that you have enough insurance to replace them if they are lost, stolen or destroyed as a result of a covered loss. The easiest way to take an inventory is to use a video camera, recording and describing items as you walk through your house. Or, you may use a regular camera and create a home inventory checklist.

Here are a few tips for completing and storing your inventory:

- Add brand names and descriptions where you can, especially on large-ticket items. Serial numbers are helpful to note also.
- Keep any receipts you have with the list to make the claims process easier.
- Store your video or photo inventory off-site so you won't lose it if your house is damaged.
- Update your personal property records when you purchase new furnishings and valuables.

Though the task may seem daunting, it's important to try. An incomplete inventory is better than nothing at all.

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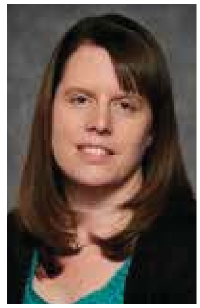
How much insurance do I need?

We can assist you in analyzing your insurance needs and help you decide how to most effectively protect your personal property. You should consider replacement cost coverage, which will pay for the replacement value of your personal belongings. A standard policy typically covers personal property only up to its actual cash value, determined by taking the replacement cost and deducting depreciation, which can be substantial. (For example, a 5-year-old TV is usually worth much less than what it would cost to purchase a new one.)

Finally, remember your homeowner's policy covers valuable items such as jewelry, furs, art and antiques, only up to set dollar amounts. If the cost of replacing them exceeds these limits, you may want to purchase scheduled personal property coverage.

Suzanne M. Valicenti
President/CEO

Electronic Delivery of Client Data and Statements



We now 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, 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. 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, 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 and we will begin the enrollment process with you.

Tracy L. Jenkins
Vice President of Operations

Record Retention Guidelines

As this is being written, you have either gathered all of the necessary documents for your tax preparer to complete your tax return(s) or you are in the process of collecting all of the required documents for your tax return(s) to be done. After your returns have been completed and submitted, you are left with the challenge of doing something with the collected documents.

With the above in mind, the partial list here will give you some general guidance on the retention of not only tax documents but other important documents.

In regards to any of the above guidelines applicable to taxes, you may want to review them with your tax preparer.

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

Documents to Keep	Retention Time
Bank Statements	Seven years
Birth/Death Documents	Indefinitely
Marriage and Divorce Documents	Indefinitely
Canceled Checks	Seven years
Charitable Contributions	With yearly tax returns
Credit Card Statements	Discard after payment appears on credit card statements
Health Insurance Policies	Until new policies are received
Home and Property Insurance	Until new policies are received
Income Tax Returns	Seven years
Medical Records	Permanently
Medical Expense Records	With yearly tax returns
Retirement Plan Statements	Three to six years – year end statements permanently
Pay Stubs	Cumulative pay stubs for the year
Real Estate Documents	Three to six years after property has been disposed of and taxes have been paid
Purchase and Sale of Securities	For proof of cost basis, keep these for six years
Residential Records	Indefinitely
Social Security Statements	Discard as current statements are received
Wills, POA's, Health Care Proxies	Permanently or until revised

Source: IRS

IRA Contribution Opportunities

The Internal Revenue Service continues to remind taxpayers that they still have time to contribute to an IRA for 2014 and, in many cases, qualify for a deduction or even a tax credit.

Available in one form or another since the mid-1970s, individual retirement accounts (IRAs) are designed to enable employees and self-employed people to save for retirement. Contributions to traditional IRAs are often deductible, but distributions, usually after age 59½, are generally taxable. Though contributions to Roth IRAs are not deductible, qualified distributions, usually after age 59½, are tax-free. Those with traditional IRAs must begin receiving distributions by April 1 of the year following the year they turn 70½, but there is no similar requirement for Roth IRAs.

Most taxpayers with qualifying income are either eligible to set up a traditional IRA, a Roth IRA or to add money to an existing account. To count for 2014, contributions must be made by April 15, 2015. In addition, low and moderate income taxpayers making these contributions may also qualify for the saver's credit when they fill out their 2014 returns.

Eligible taxpayers can contribute up to $5,500 to an IRA. For someone who was at least age 50 at the end of 2014, the limit is increased to $6,500. There's no age limit for those contributing to a Roth IRA, but anyone who was at least age 70½ at the end of 2014 is barred from making contributions to a traditional IRA for 2014 and subsequent years.

The deduction for contributions to a traditional IRA is generally phased out for taxpayers covered by a workplace retirement plan whose incomes are above certain levels. For someone covered by a workplace plan during any part of 2014, the deduction is phased out if the taxpayer's Modified Adjusted Gross Income (MAGI) for that year is between $60,000 and $70,000 for singles and heads of household and between $0 and $10,000 for married persons filing separately. For married couples filing a joint return where the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range for the deduction is $96,000 to $116,000. Where the IRA contributor is not covered by a workplace retirement plan but is married to someone who is covered, the MAGI phase-out range is $181,000 to $191,000.

Even though contributions to Roth IRAs are not deductible, the maximum permitted amount of these contributions is phased out for taxpayers whose incomes are above certain levels. The MAGI phase-out range is $181,000 to $191,000 for married couples filing a joint return, $114,000 to $129,000 for singles and heads of households and $0 to $10,000 for married persons filing separately.

The retirement savings contributions credit, also known as the saver's credit, is often available to IRA contributors whose adjusted gross income falls below certain levels. For 2014, the income limit is $30,000 for singles and married persons filing separate returns, $45,000 for heads of households and $60,000 for married couples filing jointly.

Eligible taxpayers get the credit even if they qualify for other retirement related tax benefits. Like other tax credits, the saver's credit can increase a taxpayer's refund or reduce the tax owed. The amount of the credit is based on a number of factors including the amount contributed to either a Roth or a traditional IRA and other qualifying retirement programs.

If you are interested in learning more about IRA contribution opportunities or would like us to review your previous year's tax return, please contact us at (607)733-9022 or email us at info@valicenti.com.

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

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