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Valicenti Advisory Services, Inc.

Asset management as individual as you

The First Quarter of 2012

By Joseph M. Valicenti
President/CEO

The results of the first quarter of 2012 were a continuation of the move that ended the year 2011 – strong, positive returns across the major indices (see Market Table). These results were fueled by consumer optimism, positive corporate earnings, the Fed's easy stance on monetary policy and the short term solutions to the Euro zone.

Consumer sentiment, which bottomed in the third quarter of 2011, improved greatly in the last two quarters. Investors began to spend some of their savings due to zero interest on cash balances and using revolving debt again for major purchases. Investors' employment outlook is strengthening and home values have improved slightly, both giving the consumer more confidence.

Corporate earnings for most of the larger broad indices came in positive and future forecasts are encouraging as well, albeit tougher comparison quarters lie ahead for most. With large cash positions on the balance sheet, some companies are turning to stock buybacks and dividend increases to return value to shareholders.

The Federal Reserve continues its stance on easing monetary policy to support the economy and will continue to do so until the growth of the economy is on solid footing. Then they may back out of some of the treasury purchases as well as raise interest rates once inflation begins to creep in. This lower rate environment has allowed most homeowners, corporations and municipalities, as well as the U.S. Treasury, to refinance debt at an extremely low level, which ultimately puts cash flow back into the system.

The Euro zone has been in a slowdown because of the financial crisis surrounding Greece as well as Portugal, Spain and Italy. We feel that in the short term a deep recession in Europe has been avoided, but the long term remains concerning due to the lack of growth in the region.

2012 is an election year and, while no new political initiatives will likely be implemented during the year, the political rhetoric is certainly abundant in Washington and many longer term challenges are looming. Gridlock in Washington seems likely no matter who wins the White House in November. Both parties need to address the mountain of debt and spending that the U.S. has absorbed in the past years.

Although 2012 looks like a bull market year, we continue to watch for "speed bumps" and "roadblocks" that may change the course of the economy. These include oil prices (see related article by Andrew Clark), inflation, a breakdown in consumer confidence and the Euro zone heating up again.

We continue to monitor the landscape of the economies, earnings and interest rates and to adjust allocations to fit our clients' individual goals and objectives.

VALICENTI ADVISORY SERVICES, INC.
COMPARATIVE INDEX PERIOD RETURNS
FROM 12-31-11 THROUGH 03-31-12

	DJIA	S&P 500	NASDAQ	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	US Treas. Bill Index (90 day)
12-31-11 to 01-31-12	3.68	4.61	8.01	2.59	2.20	0.00
01-31-12 to 02-29-12	2.74	4.24	5.44	0.11	0.81	0.00
02-29-12 to 03-31-12	2.24	3.32	4.20	-0.72	-0.88	0.06
Cumulative Returns 12-31-11 to 03-31-12	8.91	12.66	18.67	1.96	2.13	0.06

March 2012

Will Oil Prices Doom The Economy?

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

There is a genuine concern that high oil and gasoline prices will derail the recent improvement in the U.S. economy and will lead to lower stock prices. While intuitively consumers are negatively impacted as gasoline

becomes a larger percentage of their disposable income, the historical data indicates that the economy and the markets can actually withstand higher oil and gasoline prices for an extended period of time.

Perhaps the best explanation for the positive correlation between oil prices, the economy and the stock market is explained via the "horse and cart" placement scenario. Traditionally strong economic growth has led to increased demand for industrial production and transportation of end products. As additional oil is utilized to fuel the higher production and transportation needs of the global economy, oil demand begins to outstrip supply, thereby pushing oil and gasoline prices higher.

With economic demand as the driving force behind oil and gasoline prices, we can better understand how the economy and the stock market can continue positive trends despite a continual increase in oil prices. The explanation, however, fails to explain how higher oil and gasoline prices ultimately limit consumer demand and place the economy and markets in jeopardy.

Early in an economic expansion, corporate profit margins benefit from the elimination of economic excesses and from improvements in employee productivity. With profit margins at higher levels and consumer demand still relatively tepid, corporations are more likely to shoulder the burden of higher oil prices.

As the economy and labor markets continue to improve, with oil prices and wages increasing simultaneously, corporate profitability begins to decelerate. In order to protect their profitability, corporations will begin transitioning the higher input costs to consumers through price increases.

As goods prices and gasoline prices continue to increase, they become a larger percent of each consumer's disposable income. This loss of purchasing power is what concerns investors. If economic demand fails to sustain sufficient economic activity or labor market gains, the loss of purchasing power eventually leads to a tipping point in the economy and the stock market.

The eventual loss of economic activity reduces the demand for oil and gasoline and allows prices to revert back to more "normal" levels. This lag effect between the economy and market prices usually occurs 6 to 9 months after the markets and economy have already turned lower, which is too late to reaccelerate the economy.

Chart 1

Chart 2

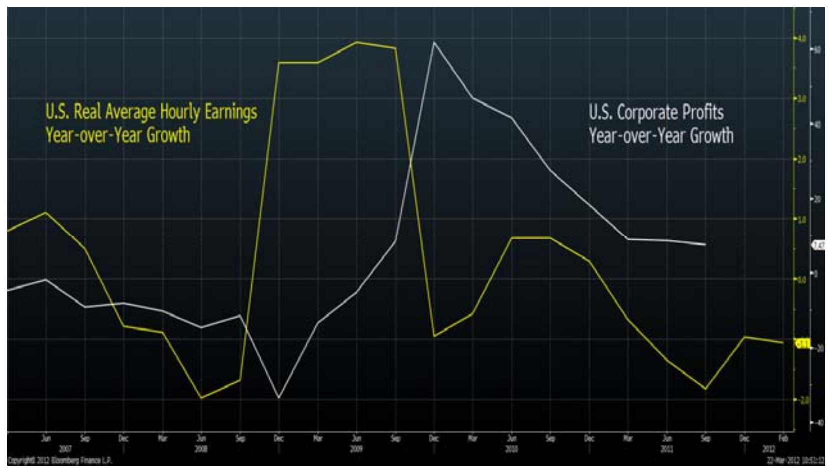
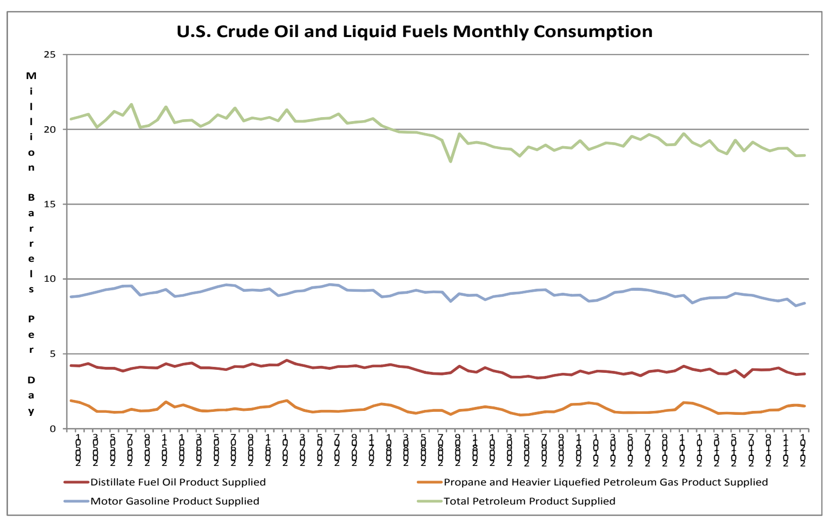


Chart 3

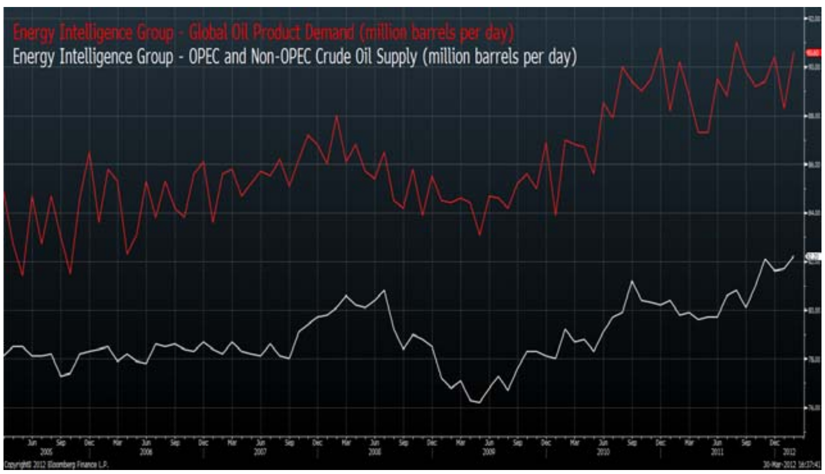


Having explained the economy/oil relationship and cycle, it is worth considering today's existing conditions. We currently have a very mixed picture between the variables previously discussed. The economy and the labor market have both improved over the past five months, supporting gains in the stock market, but gasoline prices are near a record high (Chart 1). We are also seeing corporate profits starting to decelerate and a continual decline in consumers' inflation adjusted purchasing power (Chart 2).

With the U.S. economic conditions reflecting some strain from higher prices, it is worth examining the global oil market for additional insight on the longevity of higher oil prices. The data indicates that a majority of the new demand for oil is coming from international markets, as U.S. consumption of crude related products has been declining over the past twelve months and remains below the pre-recession levels (Chart 3). It is probable that as emerging nations, such as China, India and Brazil become larger contributors to the global economy, their respective needs for oil and gasoline will continue to increase. This swell in global demand seems to be the primary strain on the global oil markets and for U.S. consumers.

The Energy Intelligence Group provides an estimated number of barrels of crude oil produced and consumed on a daily basis in the global economy. The numbers indicate a growing deficit between consumption and production. Despite the increased production levels of both OPEC and non-OPEC producers, crude production is still trailing global consumption on a daily basis, which will likely keep oil and gasoline prices at relatively high levels (Chart 4).

Chart 4



The longer oil and gasoline prices remain near record high prices, the more pronounced the impact is likely to be on consumer spending and corporate profitability. It is our belief that we are in the middle stage of the economy/oil cycle and that oil prices will remain above $80 for the remainder of this economic expansion and closer to the $100 level for the foreseeable future, barring any significant global economic slowdown or significant increase in the value of the U.S. dollar. The current data also appears to indicate that corporate profit margins, improvements in the labor market and a much healthier level of aggregate U.S. personal savings are still adequate to provide a buffer between the direct erosion of consumer purchasing power from any further increase in oil and gas prices, allowing for additional economic expansion and further upside in the U.S. stock markets.

Educating Our Clients and Potential Clients

By Matthew S. Clark
New Business Development

We are committed to providing our clients, as well as potential clients, with education about investments, the economy and tax and business services. Until recently, this has primarily been in the form of face-to-face meetings and our in-house publications, the Bull & Bear Bulletin, the Advisory Notes and the Tax Tidbits.

We have now expanded our educational services to include forums on the economy, investing principles and tax and business services. These presentations have been in group settings and have included both clients and potential clients. The feedback in response to these events has been extremely positive.

As a result of the positive feedback we have received from hosting these events, we have decided we will have them on a more frequent basis. We would encourage our clients and potential clients to attend these events so they may better understand the factors that influence the decisions we make.

If you would be interested in attending one of our events, please contact our New Business Development Department at (607)733-9022 so you may be placed on our list of invitees. As always, we strive to provide our clients with the highest possible service and we look forward to seeing you at future presentations.

Investment Strategy

By Jeffrey S. Naylor
Executive Vice President/CFO

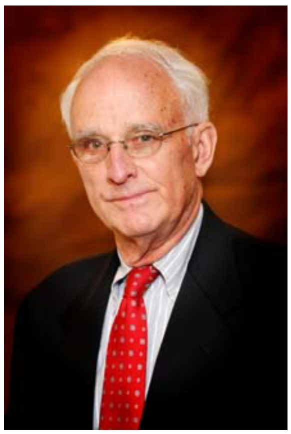
The first quarter of 2012 saw the U.S. equity markets off to a strong start. This strength was fueled by robust corporate earnings and a continued modest economic recovery here in the U.S.
With continued solid corporate earnings, many corporations have been increasing dividends and some share buyback programs to further increase shareholder value. In addition, corporate fundamentals are still improving and, despite the most recent move higher in the equity markets, valuations still remain attractive going forward.

On the fixed income front, we maintain a watchful eye on inflationary pressures. As such, we remain flexible with our asset mix with cash between 10% and 20%, fixed income between 30% and 35% and equities between 40% and 60%. This asset mix could change, based upon client specific objectives, needs for income and risk levels.

Putting Your Affairs in Order

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

We would like to remind you that certain documents and benefits need to be reviewed and updated from time to time. We all have good intentions but many times these items, which may have a profound impact on our lives, as well as the lives of others, are the last to receive our attention.



The documents include:

- ✓ Healthcare Proxy
- ✓ Trusts
- ✓ Powers-of-Attorney
- ✓ Last Will and Testament
- ✓ Mortgage

The benefits include:

- ✓ 401(k), 403b plans, etc.
- ✓ Pension Benefits
- ✓ Health Insurance
- ✓ Life Insurance

Planning for now and the future will not only benefit you, but also your heirs. As any of the following may apply to you, we suggest that you address them:

- ✓ Beneficiaries
- ✓ Educational Expenses
- ✓ Gifting
- ✓ Purchase of a Car
- ✓ Purchase of a Home/Second Home

Should you require banking or legal advice, etc., for any of the above listed items, we would be happy to furnish you the names of appropriate professionals.

Help Us Help Someone You Know!

By Matthew S. Clark
New Business Development

We appreciate the relationships we have forged with each of our clients over the 28 years Valicenti Advisory Services, Inc. has been in business. We strive to provide each client with individualized asset management to meet his/her specific needs. It is our hope that our clients are satisfied with the level of service that we provide.

We would greatly appreciate our clients referring potential clients who they feel could benefit from our services. These referrals could come in the form of providing your portfolio manager or another firm member with the name and contact information of the individual who you feel could benefit from working with us or by providing that individual with our contact information. As always, we promise you that client confidentiality will be maintained.

Again, we appreciate your business and we look forward to the opportunity to help someone you know with the same professional service that we provide you.

Giving Back to Local Communities

By Joseph A. Rohl
New Business Development

We encourage our employees to be active members of the communities we serve. We feel that it is important to partake in community functions for a variety of reasons.

Located in Elmira since 1984, being involved helps us support individuals and organizations with whom we have worked closely. Many in our firm are raising families in the area and understand how being involved helps us build safer, more enjoyable communities for everyone. Additionally, it gives us an opportunity to interact with our existing clients and potential clients in an "out of office" setting. If you see members of our firm at these events, we encourage you to take a moment to say hello. We look forward to continuing our partnerships with our fellow community organizations.

Look for members of our firm participating as members of the board of directors or committee members for any of the following organizations: Southern Tier Economic Development, Elmira College President's Council, Junior Achievement, Chemung Leadership Committee, Comprehensive Interdisciplinary Services (CIDS), Chemung Valley Soccer Association, West Elmira Baseball, AIM Independent Living Center, Campus Ministries Advisory, Professional Educators of Corning Community College and the Chemung County Library District 5 year Plan Committee. Also, look for us at Chamber of Commerce events.