

Advisory Notes

400 East Water Street • Elmira, NY 14901-3411
607-734-2665 • Fax: 607-734-6845

350 West Church Street • Elmira, NY 14901-2637
607-733-9022 • Fax: 607-734-6157

24 West Market Street • Corning, NY 14830-2617
607-936-1203 • Fax: 607-936-0213



Asset management
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Moving Forward

By Vincent R. Valicenti
Chairman of the Board

I have been reflecting upon the past year and the word which comes to mind the most often is “challenge.” In 2009, we were faced with many financial events, from the economy to personal frustrations such as the reduction of housing prices and lack of employment, to mention a few. These events created the “challenges.” Our task is how to deal with these trying events. We will not be ostriches and put our heads in the sand. Your management team at Valicenti Advisory Services, Inc. will continue to confront the issues head on. It is our responsibility



and our commitment to you to take care of your financial matters within the context of the economic, political and social environments over the short and long term. Our professional staff has been working hard during the year to decipher these events and to react to them in a positive way for your financial welfare. The “unsung heroes” are the analysts, Lisa and Andy, the strategists Joe and Jeff, along with all of the supporting staff, and they will continue to provide the best possible outcome in this environment where we have little control. We have expanded our web site at www.valicenti.com adding more information, created a new paperless office system to increase efficiencies and continue to upgrade our educational pieces in the Advisory Notes, Tax Tidbits and now the new Bull and Bear Bulletin. We are dedicated to meet these challenges on your behalf by using all of our abilities, hard work and technologies. We wish you a very happy

holiday season and look forward to a prosperous new year.

2009 – A Year to Remember

By Joseph M. Valicenti
President/CEO

While Michael Jackson, Bernard Madoff and Tiger Woods captured headlines for the year, the U.S. economy licked its wounds from 2008 and started rebuilding.

At the start of this year, most analysts were forecasting a continuation of 2008 and a weak economy. The first quarter of 2009 began in a downward trend and most investors felt the “sky was falling”. We stayed with our strategy of a solid asset allocation mix of cash, fixed income and equities.



Throughout the second and third quarters, interest rates were at historic lows and both the fixed income and the equity markets rebounded nicely. Although unemployment reached a peak near the 10% level in the middle of 2009, U.S. companies began meeting and exceeding forecasts and earnings, not only on the bottom line but on the top line as well. This spurred renewed optimism in the markets and pushed the economy and markets higher in the fourth quarter (see chart on following page).

Valicenti Advisory Services Inc. Comparative Index Period Returns From 12-31-08 Through 12-31-09						
	DJIA	S & P 500	NASDAQ	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	US Treas. Bill Index (90 day)
12-31-08 to 03-31-09	-12.43	-10.93	-3.07	4.89	-1.05	0.16
03-31-09 to 06-30-09	11.92	15.94	20.05	2.43	9.39	0.03
06-30-09 to 09-30-09	15.73	15.56	15.66	8.16	8.27	0.00
09-30-09 to 12-31-09	8.09	6.01	6.91	-1.09	1.03	0.06
Cumulative Returns: 12-31-08 to 12-31-09	22.60	26.50	43.89	14.94	18.41	0.25

While we expect 2010 to have slow growth gains, we will be keeping up on all market, economic and political events that may change our outlook.

2010 Outlook

*By Andrew R. Clark, CFP®
Portfolio Manager*

As we close the book on a volatile year, we begin to forecast our expectations for the New Year. The leading question on many people's minds is whether the equity markets can continue to rally or should we proceed with caution? While the odds of successfully forecasting market movements tend to decrease when expanding the time frame in question, there are some key issues that could potentially influence the market movements over the next twelve months. Some of these influences are economical while others are political. It is the probability of each factor coming to fruition that impacts our expectations for the equity markets for 2010.

The greatest impact on the equity markets is the continual recovery of the economy. While we exited the recession during the summer months, any continued economic weakness could create a wall of worry prohibiting any additional equity market gains. With government spending scheduled to be reduced in the second half of 2010, economic growth will become more dependent on bank lending and the resumption of manufacturing activity. While bank lending standards remain conservative, there are fortunately encouraging signs that manufacturing activity is improving from the recession lows (Graph 1). Considering the significant deterioration of manufacturing capacity and inventory, any momentum in good orders should create a positive outcome for GDP. We expect the resumption of good orders and the rebuilding of inventory levels to be a positive for the economy in 2010.

Interest rates should also play a significant role in 2010. It is the direct influence the Federal Reserve has on interest rates that we believe will have the greatest impact on both equity and fixed income markets. With the Federal Funds rate just above 0.0%, there is only one direction for interest rate movements going forward. The magnitude of the interest rate hikes will be the pivotal issue over the next twelve months. In the latest Federal Reserve Board meeting, the Board of Governors voted to maintain interest rates at their existing levels despite many Wall Street pundits voicing their concerns over pending inflation. The Federal Reserve outlined the same argument we provided in our November edition of the Bull and Bear Bulletin (posted on our website) that inflation will not be an immediate issue due to the excess slack in the economy created by high levels of unemployment, low levels of manufacturing capacity utilization and the banking industry's tight lending standards. In addition to the excess slack in the U.S. economy, it is unlikely that the Federal Reserve risks prematurely raising interest rates and forcing the economy back into a recession. As opportunity cost exists for every decision, the Federal Reserve currently prefers the risk of creating a new asset bubble over the prospects of retrenching back into a recession.

There are numerous outcomes as it relates to interest rates in 2010. While each condition presents a unique set of circumstances and reactions, it would require an extensive explanation beyond the allotted space for this article. Below, we have tried to simplify the general reaction of the markets under multiple economic and interest rate scenarios.

Interest Rate Environment	State of the Economy	Equity Market Reaction	Fixed Income Market Reaction
Low	Weak Recovery	Modestly Positive	Positive
Low	Strong Recovery	Positive	Modestly Negative
High	Weak Recovery	Negative	Modestly Negative
High	Strong Recovery	Modestly Positive	Negative

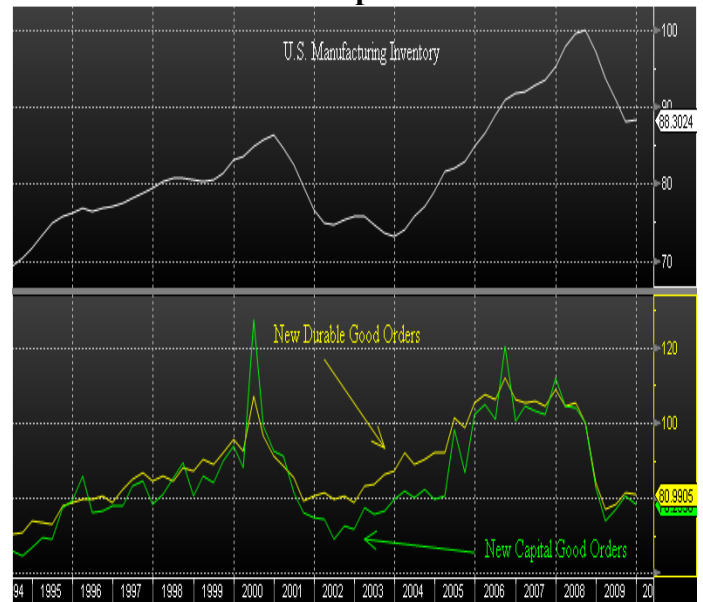
While the strength of the economy and the change in interest rates may be the predominate themes for 2010, the size of the Federal deficit could also become an issue for the markets. With the efforts to stimulate the U.S. economy out of the

recent recession, the U.S. government has issued over a trillion dollars in new Treasury obligations. In addition, the likely passage of a Federal Healthcare Plan will require the U.S. government to issue billions of additional Treasury obligations to cover the upfront costs of the Plan. With the explosion in Treasuries outstanding and tepid GDP growth, the ratio between the two has increased nearly 25% over the past two years (Graph 2). The relationship between Treasuries outstanding and GDP is similar to an individual's level of debt versus his/her income. As all consumers know, the more debt accumulated compared to annual income earned, the harder it is to service the debt. With economic growth expected to remain near the long-term annualized average of 3.0%, it is unlikely that the government will have success reducing the debt-to-GDP percentage anytime soon. While it is possible the government's balance sheet stress may not become an issue in 2010, there will be a moment in time that government action will be required. The government's response to this mounting issue will almost certainly have an impact on the markets.

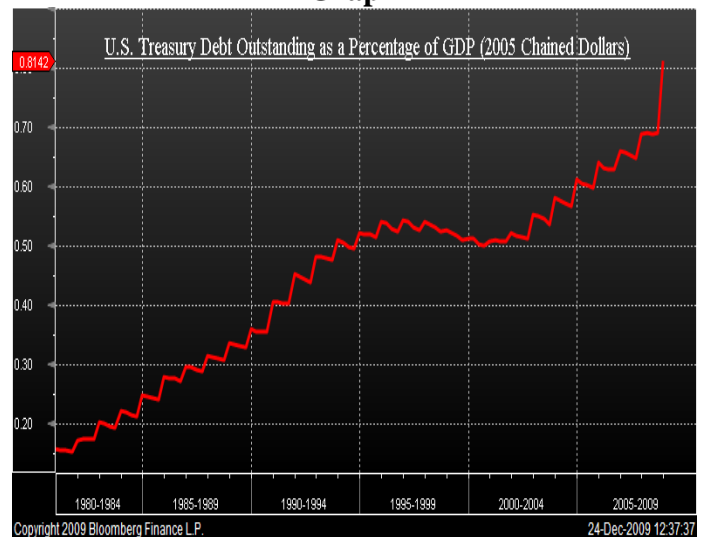
Not all market factors in 2010 are likely to be economic and budgetary based. We continue to watch the escalating tension surrounding Iran. Iran's President, Mahmoud Ahmadinejad, continues to test the U.S. and Israel's patience on a monthly basis. Some of the provoking actions appear aimed at testing the response system of the U.S. and its Middle East allies, while others are aimed at drawing a line in the sand to determine what countries will likely support Iran and those that will side with the U.S. and its allies. This unfortunate situation appears to be trending closer and closer to military interaction. While it is our ultimate hope that all disputes can be solved diplomatically, any military confrontation with Iran will have a direct impact on energy markets. With oil prices hovering around their five-year average of \$71.00 per barrel (Graph 3), a confrontation with Iran could push oil prices well above their current levels.

We have outlined only a handful of the potentially significant issues for the next 12-months. There are numerous other issues that could directly and indirectly alter the path of the financial markets in 2010. It is important to determine what factors will have long-lasting effects and those that present short-term market fluctuations. As always, it is our goal in 2010 to not only decipher between short-term events and those that present a change in long-term trends, but to align strategically our investments to take advantage of the market influences. Here's to a great 2010!

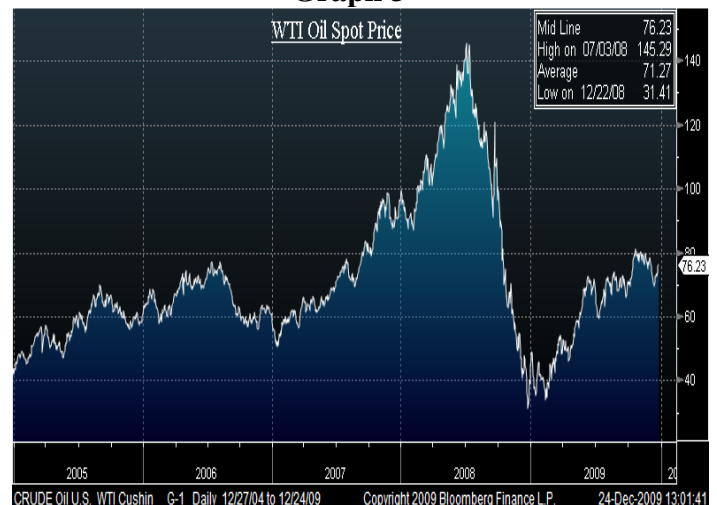
Graph 1



Graph 2



Graph 3



Employee Spotlight

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

Tina M. Heinze (left) joined Valicenti Advisory Services, Inc. in October 2009 as the receptionist in our Investment Office. Tina has extensive customer service experience from working in the medical field for 15 years. Tina's current job responsibilities include fielding phone calls and processing mail and client correspondence.

Monica S. Rundell (right) joined Valicenti Advisory Services, Inc. in October 2009 as Payroll/Bookkeeping Assistant. Monica holds an accounting certificate from Elmira Business Institute and has over 20 years of office management experience. Monica's responsibilities include payroll and sales tax preparation, bookkeeping, bank reconciliations and monthly account summaries for our clients.



VASI Pocket Calendars

A notice for pocket calendars was mailed with our Tax Tidbits and Privacy Notice mailing in November. If you would like a 2010 pocket calendar, please contact Elise Clark at (607) 733-9022 or clarkea@valicenti.com

REFERRALS...

We are accepting referrals from existing clients. If you think we do a good job for you, please refer your friends and family. We will make sure they can't wait to thank you!

Please pass it on.

New Schwab Statements Coming Soon

*By Elise A. Clark
New Business/Retirement Specialist*

When you receive your January Charles Schwab statement in the beginning of February, you will notice there are some additions to the statement format. The additional information includes a percentage of assets column, an account value bar chart and market monitor indices. We hope that this additional information will help keep our clients even more informed about their accounts and the markets in general. The information that has always been available including a portfolio composition chart and detail, starting account value, ending account value, transaction details and investment details will continue to be provided. If you have any questions regarding this transition or need assistance reading your new statement, please contact us at (607) 734-2665.

Investment Strategy

*By Jeffrey S. Naylor
Executive Vice President/CFO*

With 2009 now behind us, we reflect on a challenging year and look forward to continued improvement in both the economy and the markets. While our markets and the economy entered 2009 with uncertainty and doubt, over the past several months we have seen many improving signs in the economy and a strong recovery in both the equity and the fixed income markets. As we enter a new decade, while challenges still exist, we see signs of continued economic improvement.

We believe the U. S. economy will continue to have moderate growth which will allow corporate earnings to also show continued growth as we move forward through the year. We continue to look for investment opportunities in solid companies with strong fundamentals. On the fixed income front, we continue to have a shorter term strategy.

Our asset mix remains in a flexible range as we move forward, with 5% to 15% in cash, 30% to 45% in fixed income and 45% to 55% in stocks. Cash will be used for equity opportunities as they present themselves. Accounts with special needs, such as income, will reflect a different asset mix.