Advisory Notes

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Historic Changeover

By Joseph M. Valicenti
President/COO

As we predicted in the December 2008 Advisory Notes, the first quarter of 2009 was a bumpy ride. The historic moment of the inauguration of President Barack Obama was witnessed by many Americans who made the journey to our nation's capitol. His inauguration speech was watched by millions, as people looked to the new leader for optimism and hope in the midst of the economic crisis.

President Obama has been very engaged during this first quarter, more so than past presidents. He is communicating his plan of action to Americans on a regular basis and is outspoken when the government's investments are abused (i.e., AIG executive bonuses). His financial team, Federal Reserve Chairman Ben Bernanke and Treasury Secretary Tim Geithner, still have an ongoing uphill battle with the financial system, the housing market and the ailing automotive industry.

The monies from the plans that were "rushed in" during 2008 are being allocated more stringently with strings attached for performance. The "Good Bank - Bad Bank" plan for toxic mortgages is finally coming to fruition and is relieving pressure on the banking industry with discussion of lifting mark-to-market accounting on certain financial instruments.

With all of these "balls" up in the air, one by one they will be addressed without, hopefully, falling to the ground. With some economic indicators turning slightly positive (see Portfolio Manager Andrew Clark's "Hope Springs Forward"), the markets and the economy will push forward into a year end recovery.

Hope Springs Forward

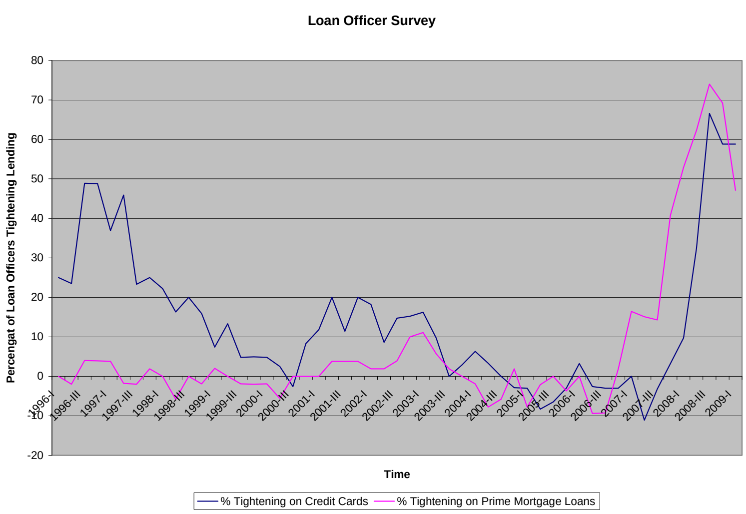
By Andrew R. Clark
Portfolio Manager

While many market participants are beginning to question their risk tolerance as they perhaps find little reason to remain optimistic, I am reminded of the quote, "It is always darkest before dawn." Despite the growing momentum of unemployment and seemingly endless poor economic news, there appear to be several slivers of hope that the economy and market may have experienced the worst of the current recession.

I have noted in previous Advisory Notes, and still continue to believe as a free-market economist, that time and price may be the only true cures for our current debt-created recession and that the Government's numerous attempts at artificially stimulating demand may prove to be a significant waste of taxpayer money. However, there have been several recent data points that may give reason for optimism. The reason for optimism stems from a possible future break in the negative feedback loop that exists between a decline in housing prices, the financial industry, growing unemployment and an increase in mortgage foreclosures.

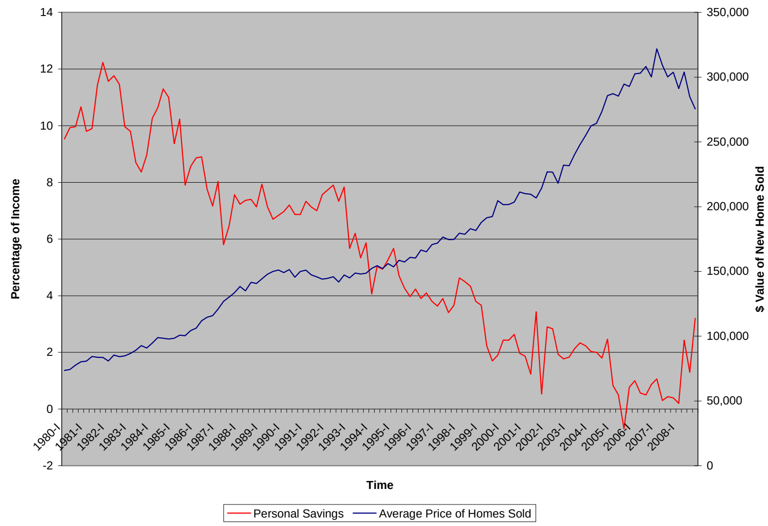
The first data point that is worth exploring is the recent improvement in the percentage of loan officers continuing to tighten their lending standards. Without willing and able lenders, an economy based on credit and lending will fail to recover. While lending standards moved to extremely stringent levels starting in 2008, the recent surveys of loan officers have revealed a leveling-off of lending standards for both credit cards and mortgage applications (Chart 1). While it goes without saying that lending remains quite restrictive, the absence of greater tightening should prevent additional uncertainty surrounding the entire consumer credit market. When coupling the lack of tighter lending standards, lower interest rates and falling home values, those consumers willing and able to participate in the real estate market should find more success now than just a few months ago.

Chart 1



Other economic components that should give market participants a source of optimism are the recovery of the savings rate and a decline in housing values that should provide for more affordable housing in the future. Housing affordability has several components, with the first and most obvious being the amount of down-payment a person has available to purchase a home. Gone are the days of 100% financing. As consumers continue to increase their savings (Chart 2), they improve their future financial flexibility. The significant drop in home values over the past four years has also helped make housing more affordable. With lower home prices and higher personal savings rates going forward, housing affordability will only continue to improve and the housing market will continue to move ever closer to achieving an equilibrium where the number of buyers equals the number of willing sellers.

Chart 2

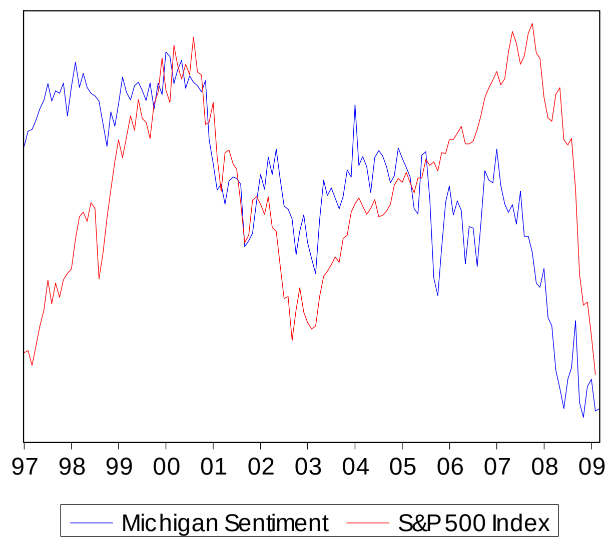


The next component of economic activity and market movement relates to the psychology of society. Consumer confidence is a cross section of society's general outlook for the economy and employment. The sentiment has shown signs of stabilization despite the plethora of poor economic news relayed by the general media on a daily basis. While it is always possible that sentiment will deteriorate even further, any improvement will surely be a significant boost to both the economy and the stock market (Chart 3). As consumers become more optimistic about their future employment and corporate earnings outlook, the more likely they are to purchase new products, thereby creating a new wave of economic activity. As the chart conveys, the S&P 500 Index bottomed and topped nearly lock step with consumer sentiment during the previous recession. While consumer sentiment never conveyed the run-up in the stock market in 2007, it certainly may have been a warning sign of the pending collapse. Looking forward, if indeed consumers begin to shrug off the current economic recession and believe there are better times ahead, the stock market will likely share in the optimism.

Although these are just a few components that may help end the negative feedback loop that is hindering our economy, there are certainly many other variables to the overall equation. The

Federal Government has committed to an all-out assault on solving the variables that are holding back the economy. The direct and indirect results of its decisions are reflected in numerous economic variables. While it is too soon to stake a claim that the economy and market are clearly on the mend, it appears that short of any significant and game changing event the worst of the economic deterioration has occurred. Certainly there were moments of extreme darkness during the past six months. Hopefully, these few rays of hope may lead to a full spectrum of optimism going forward.

Chart 3



Celebrating 25 Years

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

In celebration of our 25th anniversary, we are pleased to announce the expansion of the Business Development office to our location at 350 West Church Street in Elmira.

On April 6, 2009, we will mark 25 years of providing comprehensive wealth management services for more than 600 client families in 30 states, as well as internationally.

In conjunction with the Chemung County Chamber of Commerce, we will be hosting a Business After Business reception on Thursday, June 11, 2009. We invite you to join us from 5pm to 7pm at our newly expanded office. Hors devours and refreshments will be served.

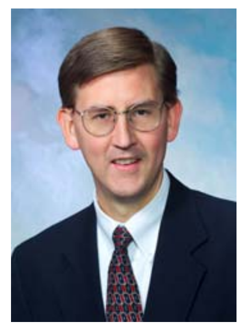
If you would like to attend this event, please R.S.V.P. to Ashley Singerhoff or myself at (607) 733-9022.

Thank you for your support over the last 25 years and we look forward to serving your financial needs for the next 25 years.

Investment Strategy

By Jeffrey S. Naylor
Executive Vice President/CFO

The first quarter of 2009 was impacted by many challenges and major decisions in Washington. With our economy continuing to show signs of weakness and needing a "jump start", the new administration put forth an unprecedented stimulus package designed to help pull us out of the economic downturn that has affected us all.



During the quarter, we put some cash back into both the equity and fixed income markets. We continued to focus on quality companies with strong product lines that should realize additional benefits from the massive stimulus package signed into law by President Obama.

Our fixed income strategy remains short term, allowing us to be flexible as market and economic conditions change while, at the same time, producing short term income. We remain cautious, but continue to tweak our asset mix with a range on cash of 5% to 20%, 30% to 40% in bonds and 45% to 55% in equities, depending on the goals and objectives of the account.

Duplication of Statements for Your Protection

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

In light of some of the recent events in the market, investors are increasingly concerned about who they can trust to manage their assets. Along with our primary custodian Charles Schwab & Co., Inc., we are committed to protecting the security of your accounts and are constantly working to enhance security measures. For example, every quarter you receive statements in the mail directly from both Schwab and VASI. Receiving both statements is part of our checks and balances system which allows you to see that the statements match and that there are no inconsistencies. We are in the process of going paperless and we expect to be offering your quarterly statements via our website by the end of this year.

If your assets are held at Schwab, you can now receive your statements, trade confirmations, tax reports and shareholder materials via email, directly from Schwab. All you need is a valid email address and you can have all of the benefits that e-delivery has to offer. Some of the features of e-delivery through Schwab are:

- **Faster delivery** – you receive documents as they become available rather than waiting for them to arrive by mail
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- **Convenient access** – you can search and retrieve up to 10 years of documents anytime
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Employee Spotlight

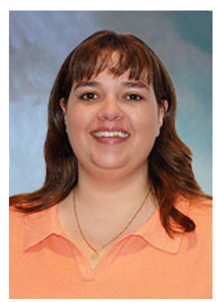
By Ralph H. Roberts, Jr.
Vice President/Client Services

A**shley L. Singerhoff** (left) joined the firm in June of 2008 as the Business Development Assistant. She graduated Summa Cum Laude from the SUNY College of Technology at Alfred with a Bachelor degree in Financial Planning. Among her many responsibilities while studying at Alfred, she worked as a peer tutor for courses including Accounting, Marketing, Economics and Statistics.

Her current duties include sending out new and closed account letters to clients, organizing corporate events and assisting the Marketing and Tax and Business Services departments. She also plans to pursue the CFP designation in the near future.

Krystal R. Stickler (right) joined the firm as Receptionist in August 2008 and then moved to her current position as Data Manager in January 2009. She received her Bachelor degree in Business Administration from Mansfield University and Colorado Technical University.

Krystal's duties include account reconciliation and daily posting to client accounts, as well as maintaining the accuracy of our clients' portfolios.



Heather D. Hall achieved her Registered Paraplanner designation in 2008. The Paraplanner designation demonstrates the next level of financial services training for our administrative staff. In addition to the technical support role, a Paraplanner may also assist with client services.

PASS IT ON…

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!