

# Advisory Notes

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## Second Quarter Review

By Joseph M. Valicenti  
President/COO

With some renewed optimism on Wall Street, the second quarter has bounced back and the media is touting that all of the “Green Shoots” are beginning to spread. While consumer confidence as well as the equity markets have rebounded from the March 2009 low points, the economy still needs much nutrition and cultivation for the “shoots” to become a field and further a forest. The broader market indexes have rebounded stronger in the second quarter to show positive results year to date (see chart). The Dow



Jones Industrials lagged significantly because of the poor performances of General Motors and Citibank, which ultimately were replaced in the Dow by Cisco Systems and Travelers Insurance.

The Obama administration has to conduct a delicate balancing act with our economy and our world trading partners in order to ensure a steady recovery (see “A Recovery, China, the Dollar, Oh My!” by Andrew Clark). Some of the economic variables that need balancing include inflation, the value of the dollar, long-term and short-term rates, corporate earnings growth, employment data and available credit, all of which will have to be on the forefront for economic growth. The Obama administration is looking into ways to boost the

economy by printing U.S. dollars but ultimately will have to raise taxes across the board to pay for it because the money is just not getting to the end consumer to help spur economic growth. We have seen investors creeping back into riskier asset classes from money market funds and FDIC insured instruments due to the lackluster lower interest rates. Corporate and municipal bond yields have begun to tighten as well. This yield tightening tells us that liquidity is returning to the fixed markets which may lead to the easing of available money and in turn should help consumers refinance higher cost debt that ultimately will increase savings and investments.

We will analyze all of the economic data available and each client’s individual goals and objectives in order to manage within the confines of the current market conditions to meet those goals and objectives.

Valicenti Advisory Services Inc. Comparative Index Period Returns From 03-31-09 Through 06-30-09						
	DJIA	S & P 500	NASDAQ	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	US Treas. Bill Index (90 day)
03-31-09 to 04-30-09	7.60	9.60	12.35	2.30	2.66	0.03
04-30-09 to 05-31-09	4.36	5.53	3.32	1.21	3.34	0.00
05-31-09 to 06-30-09	-0.33	0.24	3.42	-1.07	3.11	0.00
<b>Cumulative Returns:</b> 03-31-09 to 06-30-09	11.92	15.94	20.05	2.43	9.39	0.03
<b>YTD Returns:</b> 12-31-08 to 6-30-09	-2.00	3.26	16.36	7.43	8.24	0.19

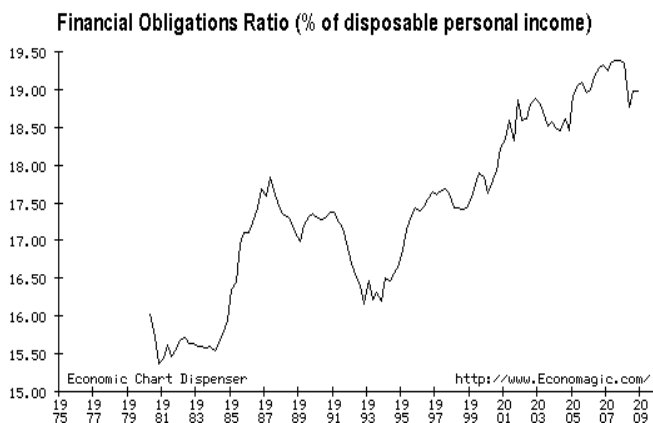
## “A Recovery, China, the Dollar, Oh My!”

By Andrew R. Clark, CFP®  
Portfolio Manager

As the market rallies off its March lows, the media has been quick to call the next bull market. As data points begin to show a slowing in the deterioration of economic activity, many financial pundits have been using the term “green shoots” and claiming that the U.S. economy is now in the clear. Despite the rosy outlook and commentary, the economy still may have several significant challenges to overcome before the U.S. GDP growth rate is consistently at or above the historical long-term average.

The primary issue opposing a V-shaped economic recovery is the continual challenges consumers face on a day-to-day basis. The facts continue to show that consumers are working to reduce debt and improve their personal balance sheets (Chart 1). Ask any individual about the ease of reducing mortgage debt and credit card debt and they will all convey the same underlying struggles. If reducing consumer debt is such a difficult process that requires time and hard work, why do so many financial experts believe the economy is back on solid footing?

Chart 1



Simply look at the unemployment rate. While the rate of layoffs is slowing, the overall unemployment rate continues to push higher. Recognizing that unemployment is a lagging indicator to the overall recovery of an economy, how can consumers repay their debt when every month a greater percentage of our society is

unemployed? Unlike the previous recession, the government cannot rely upon home equity withdrawals to offset lower consumer consumption. U.S. consumer debt levels have peaked (Chart 2). No amount of dollar printing by the U.S. Treasury or zero percent interest rate policy by the U.S. Federal Reserve can force consumers to accept additional leverage (Chart 3). Consumers appear to have altered their mentality toward debt and are now pushing back. So despite the available credit being made by the government, consumers continue to reduce their overall debt.

Chart 2

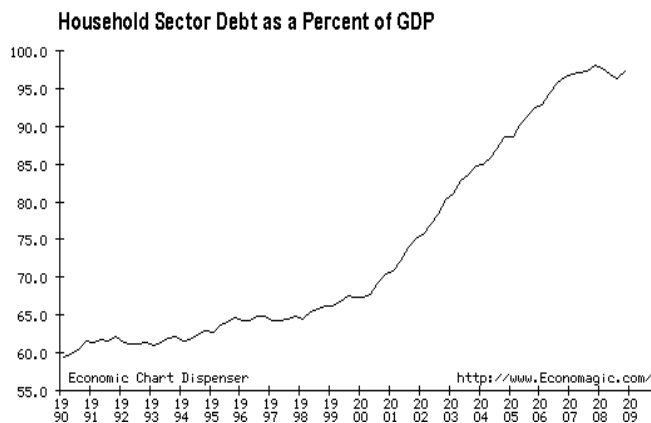
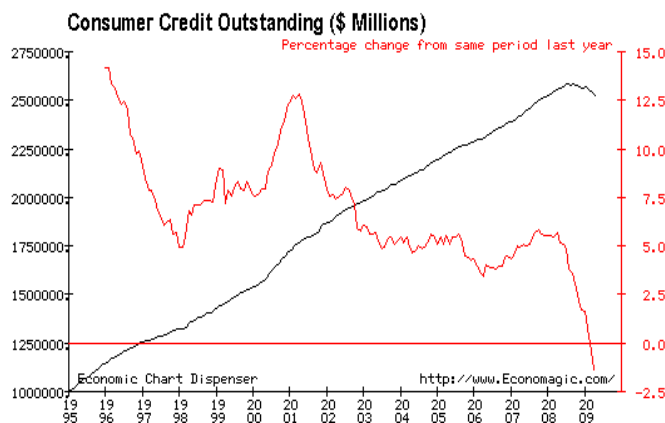


Chart 3



As our government officials continue to seek ways to push debt upon U.S. citizens, they only further undermine the standing of the U.S. dollar. The Chinese, who have acted as the piggy bank for the rapid growth of U.S. consumer and government debt, are now beginning to challenge openly the U.S. economic stimulus policies and having the brazen audacity to laugh during a speech in China by the U.S. Secretary of Treasury on the security of the U.S. dollar and the fiscal

restraint of the U.S. government. Our elected officials need to wake up and concede defeat. Our society, empowered by the government's fiscal and monetary policies and Wall Street's financial engineering, has over extended itself. It is now time to repay a good portion of the debt and reestablish a strong financial base.

While the economy will likely display significant year-over-year growth in the second half of 2009, please remember that nearly all economic activity seized in the second half of 2008 making for easy comparison. It is important to look further out. It is unlikely that as 2010 approaches, year-over-year growth rates will remain above the long-term average trend line. If indeed consumer debt remains an issue into 2010, the Federal Reserve and the Treasury Department may find themselves in a significant bind. Before such an event occurs and additional dollars are printed, the two departments designed to protect the living standard of our society should begin seeking out a new source of U.S. economic growth - China.

The government should embrace savings in our society, not force additional debt upon its citizens. Furthermore, our government should seek

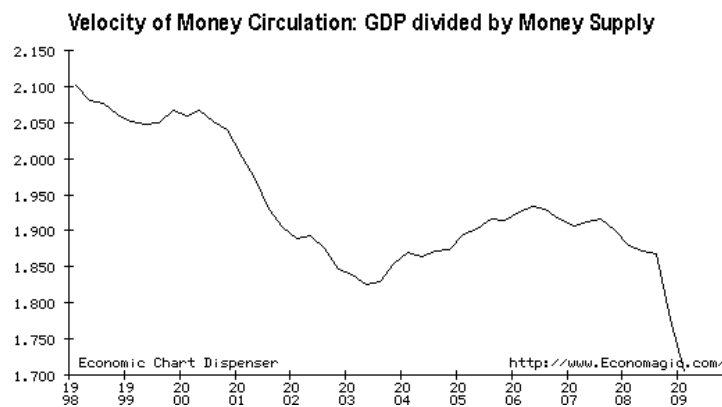


to rebalance its relationship with China and any other major U.S. debt purchasing country. The Chinese maintain significant savings, an excessive trade surplus and the largest population in the world. Our government

officials should be kindly asking the Chinese to begin spending a little more frivolously and to increase their imports of U.S. goods and services. Historically, the global economy has relied on U.S. consumption to spur growth. It may be time to pass the torch and to ask the emerging markets that possess significant capital surpluses, to now be the leading driver of economic activity.

Unless our government decides to alter its current strategy, it appears likely that the velocity of money and consumers' willingness to spend will continue to limit the incremental benefit for each dollar printed (Chart 4). So despite the leveling off of economic deterioration, it appears too early to unfold the "Mission Accomplished" banner that many Wall Street analysts and media commentators continue to celebrate.

Chart 4



Analyzing the evolving economic environment, the likely impact on the stock market may very well be a "range-bound" market that will have to continue to battle between the positive signs of re-inflating dollar denominated asset classes (i.e., oil and raw materials) as the dollar is debased and the negative consequences of consumers' desire to reduce debt and increase savings. Like any good investor, let us hope that our government knows how to cut a loss and move to a new strategy while there is still capital (or in this case capitalism) to preserve!

## Employee Spotlight

By *Ralph H. Roberts, Jr.*  
VP/Client Services

**A**ndrew R. Clark obtained his CERTIFIED FINANCIAL PLANNER™ certification in June 2009. The CERTIFIED FINANCIAL PLANNER™ certification is based on proficient knowledge in the areas of estate planning, taxes, investments, retirement planning, insurance and complying with the CFP® Board Approved Code of Ethics.

Andy graduated Cum Laude from Binghamton University with a Bachelor's degree in Financial Economics in 2004. He joined Valicenti Advisory Services, Inc. in June 2004 as an Assistant to the Portfolio Managers. In 2006, Andy was promoted to Portfolio Manager. As a Portfolio Manager, he works closely with clients in establishing and meeting their financial goals and objectives. Andy has served as Chairman of the firm's Investment Committee since 2007 and he

works with the other members of the committee to implement the overall investment strategy of the firm.

## 25<sup>th</sup> Anniversary Business After Business Event

*By Elise A. Clark, CRPS, RP  
New Business/Retirement Specialist*

On April 6, we celebrated our 25<sup>th</sup> year of serving our clients' wealth management needs. To celebrate this special anniversary and the opening of the new Business Development office, we hosted a Business After Business event at our 350 West Church Street location. The Chemung County Chamber of Commerce did a wonderful job organizing this community wide event. We had over 50 attendees who joined us in celebration. Barb's Soups On catering provided us with a delicious menu and the office was beautifully decorated with spring arrangements from Flowers by Christopher.

We would like to thank all of our clients and the community for supporting us over the last 25 years. We look forward to serving your wealth management needs over the next 25 years!

## Investment Strategy

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

The second quarter of 2009 has shown some signs of stabilization. The economy, once seemingly in a free fall, began to show a slower rate of deceleration. The financial markets have also shown improvement, moving well off their first quarter lows. While recovery will take time, the second half of 2009 should continue to show further stabilization in both the economy and the markets.



Over the past several months, we have looked to find opportunities in both the equity and

fixed income markets. Our fixed income strategy still remains on the shorter term, providing us with flexibility as we move into the second half of 2009. While we are cautiously optimistic, our asset mix remains in a flexible range of 5% to 15% in cash, 30% to 45% in bonds and 45% to 55% in equities. Accounts with special needs, such as higher income, will reflect a different asset mix.

## Referrals

*By Elise A. Clark, CRPS, RP  
New Business/Retirement Specialist*

Do you know someone who needs help with retirement planning, tax planning, estate planning or managing an inheritance? Maybe you know someone who has recently sold his/her home or business? Do you have a friend or relative who is dissatisfied with his/her current financial advisor?

Valicenti Advisory Services, Inc. provides *asset management as individual as you*. Every person and every financial situation is different. We are an educated group of professionals with expertise ranging from portfolio management to tax preparation and everything in between. If you are concerned that your referral will not meet our desired client profile, do not worry. It is our job to determine a potential client's goals and to determine whether we can be of help to him/her.

If you know someone who can benefit from client-focused guidance, a disciplined approach and specialized expertise and may be interested in beginning a financial advisory relationship, please have him/her contact us at 733-9022 or, if out of the area (866) 734-2665, or send an e-mail to [clarkea@valicenti.com](mailto:clarkea@valicenti.com). We will send an informational packet about our firm and will arrange a meeting to discuss the options available. Don't keep us a secret!

*"The first lesson of economics is scarcity: There is never enough of anything to satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics."*

*~Thomas Sowell*