The Financial **Advocate**

Winter 2018

Our New Office Space

It's official, High Falls Advisors is now located in the recently renovated 3 City Center building! Our new space is just over 8,000 square feet and has 14 offices, 10 workstations, 3 small conference rooms, a boardroom and seminar room with meeting space for up to 30 people. It is home to the HFA resource library with collections of financial planning and investment management literature cultivated throughout our careers, and has a bright and open reception area to welcome you when you arrive.

The building features an enclosed bridge connection to the Washington Square Parking Garage. Parking spots have been reserved for HFA clients on level 3 of the garage, just to the left of the elevators. Just look for spots 003, 004, 005 and 006, or our "Reserved for High Falls Advisors" parking signs.

Located in the Downtown Innovation Zone, 3 City Center was renovated using a sustainable design aproach with a focus on energy efficient upgrades, sustainable materials and increased day lighting. The building has conference facilities that can accommodate up to 100 people. A farm-to-table concept restaurant is set to open on the first floor in early spring that will offer "grab and go" service during lunch, with plans to expand to a full dinner service later in the year.

Our new office is in a more central location in downtown Rochester. The larger space will better accommodate us as we continue to grow and allow us to provide you with a more welcoming and enjoyable experience when you visit. We are thrilled with our new home and look forward to giving you a tour. Plans for an open house event are in the works, although we'll wait until spring when the sub-zero temperatures will be a distant memory!

The Value of Financial Planning

By James Englert, CFP®, EA, President and CEO

Financial planning is the long-term process of preparing for the future and making financial decisions that will help you meet your life goals.

The biggest misconception about financial planning is that only the wealthy need it. That's just not true. I have always felt that regardless of age and financial situation, everyone can benefit from a formal financial review and a plan for the future.

Many years ago, prior to the creation of HFA, I was working as an independent financial planner in a small office in Irondequoit. I developed a loyal following of clients by delving in to the intricate details of their financial position, analyzing their employer benefits, recommending investment holdings and most importantly, helping them make sense of it all. I came to know their personal financial circumstances so well that my clients routinely started asking me for my blessing prior to making big decisions.

On one particular occasion, a young couple I'd been working with for a few years came in for a periodic review of their plan. After a bit of friendly small talk, their faces turned serious and they said they needed some advice on a big decision they were thinking about. That decision turned out to be if they could afford to start a family and whether or not I supported the idea. At the time, I will admit, I was a little dumbfounded—it seemed almost silly for me to be a part of that decision. The more I thought about it though, it made perfect sense. I had successfully helped them establish a plan for their financial future, so why wouldn't they ask me to help them modify that plan to accommodate their growing family? This experience has stayed with me throughout my career and, although not necessarily related to family planning, I have been involved in countless other big moments with my clients: retirements, layoffs, job changes, marriages, divorces, illnesses, deaths and everything in between. I am humbled to be a part of these milestones, yet each time I am reminded of the depth of the work we are able to do as financial planners.

HFA was built on the belief that financial planning is the core of all relationships. Over the years we have expanded our advisors to include experts across a wide range of subjects, allowing us to provide the kind of support needed for all of life's transitions. I am proud of the staff we have; their knowledge, experience and mindset we share in putting our clients' needs ahead of everything else. We consistently look for ways to grow and refine our services to accommodate changing needs, changing economic factors and support new ways of thinking. We recently added new tools and strategies to assist with budgeting, income planning and overall financial management, and we are excited about our new capabilities. When you are able to see all of your financial information in one place, set goals for yourself, monitor your progress and have the support of your advisor along the way, you'll feel more confident in your overall position.

If you haven't engaged in financial planning with us in the past or if it has been some time since your last review, please contact your advisor to start the conversation. We're grateful for the opportunity to work with you and your family, and we're always here to help.

"The biggest misconception about financial planning is that only the wealthy need it. That's just not true. I have always felt that regardless of age and financial situation, everyone can benefit from a formal financial review and a plan for the future."

MTA Future and Past

By James Englert, CFP®, EA, President and CEO

I have been managing investments for our clients using technical analysis for 16 years.

It all began after the horrendous decline in tech stocks that occurred in 2000 and 2001. As I recall, one of the favorite funds in Eastman Kodak's SIP (401(k)), was the T. Rowe Price Science and Technology Fund. During the late 1990s, this fund experienced annual returns exceeding 40% and 50% per year. Everyone wanted to participate in that great rate of return. When investors finally woke up to the "irrational exuberance," the value of tech stocks lost a great percentage of their value in a very short period of time. The Science and Technology Fund referenced above lost as much as 80% of its value in about 18 months.

Investors began to ask for a management service that would avoid participation in the inevitable downturns in the stock market. While it is impossible to accurately anticipate future market moves or the amount of time and severity of a decline, technical analysis calculations and chart patterns have given clues in the past regarding trends in investments. Markets demonstrate that trends and chart patterns tend to repeat themselves. Much of technical analysis is based on observations of investor behavior, and we as investors tend to react to similar circumstances in a similar manner.

In 2001, I began managing investments using technical analysis, specifically a 50-day and 200-day moving average. This determined whether we remained invested or moved to another investment we knew would not lose value. This method worked very efficiently in 2001 and 2002, and was very effective in 2008 and 2009. The idea of being invested during the upside of the market and avoiding the severe downside of the market was very powerful. The concept actually outperformed the traditional asset allocated portfolio during these periods of time.

Since these two events, the equity (stock) markets have experienced several short term declines that have been quite severe, but of limited duration—most recently in August of 2015 and again in January of 2016. During those periods of time, the long-range trend of the equity market flattened out and as I have communicated in the past, many technical indicators are not effective without a trend. These strategies continue to work efficiently in trending markets. In addition, there were short-duration declines both in 2010 and late 2011, which we reacted to and later discovered that it would have been a better decision not to have sold at those points. These reactions have, in fact, reduced the potential returns.

Always attempting to improve our process, I began to backtest these periods of time. We have identified those were periods where the investments should have been held instead of selling them and going to cash. Many variations were tested on the indicators. Several moving averages have been tested to determine which average signal would not have given us the indicator to sell during these severe, but short-term declines. I discovered, not surprisingly, that had longer moving averages been used, we would have remained invested during these periods. Hindsight tells us that would have been the desirable outcome. I also discovered that using weekly data instead of daily data removes much of the noise of the market activity.

Using these new moving average numbers, I also backtested the 2001 and 2008 exit points. The selling point was a bit later than when we actually sold using the old moving averages. This did not alter the effectiveness of the sale. Positions were sold in time to avoid the severe decline and maintained the safety of a short-term bond fund or cash. In the future, I will use these new data points (along with all of the old data points), to make the exit decision during the next declining period in the market. We have no idea when that next period will be, but as we investors know, it will happen sometime in the future.

> "Using weekly data instead of daily data removes much of the noise of the market activity."

When I was backtesting, I also reviewed our re-entry data points. We will continue to use daily data and daily moving averages to make our buy decisions. Using some shorter term moving averages will get us exposed to the markets sooner than our previous indicators. With the use of ETFs as our primary investment vehicle, we can be flexible with our re-entry strategies.

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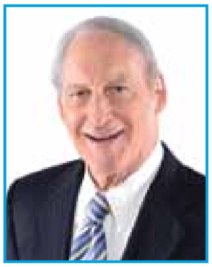
PORTFOLIO UPDATES

High Falls Portfolio Management Team

James T. Englert, CFP®, EA,
President and CEO

Michael Donnelly, CFP®, MBA,
Chief Investment Officer



Russell Mandrino,
Financial Advisor

Market Trends Analysis and Core Market Index Portfolio

The primary focus of our Market Trends Analysis (MTA) strategy is to minimize downside risk throughout the investment experience.

Core Market Index Portfolio (CMIP) is a low-cost index alternative providing a long-term investment strategy that remains invested throughout all market conditions.

The stock market had strong results in 2017, with the S&P 500 index up 18.8% as of mid-December. These results are much higher than traditional expectations regarding overall market performance. Unlike in years past, the market does not appear to be reacting negatively to media headlines or major events around the world. This lack of volatility tells us the value perceived by investors in the market is real, inflation is not an immediate concern, and we are optimistic about continued growth in 2018.

Market conditions throughout 2017 have been favorable for our MTA and CMIP strategies. As they have similar holdings, both strategies have remained strong, yielding returns competitive with market indicators. We have not had trading activity of real significance in MTA in 2017 because of stable growth in almost all asset classes. However, we continue to monitor the technical indicators that define this strategy and will take action if current trends reverse in any of our holdings. This month, we will rebalance CMIP accounts to their target asset allocations as part of our normal account management process. Rebalancing is done in January to keep market exposure in line with the intended portfolio allocations and is especially important during times of market movement in either direction.

Enhanced Allocation Strategy

The Enhanced Allocation Strategy (EAS) is a buy-and-monitor investment strategy that uses actively managed mutual funds to create a diversified portfolio.

The Enhanced Allocation Strategy can use liquid alternative investment funds to manage risk, in addition to traditional diversification offered by stocks, bonds, commodities and currencies. It remains fully invested at all times and diversification is its primary tool to manage market volatility. Overall, the strategy faced challenges during 2017. Our holdings in Energy have had a negative impact on returns, but we continue to hold the position based on a positive long-term outlook on the sector.

Through the first half of 2017, EAS held a heavier position in Mid/Small Cap stocks. In late summer, we rebalanced the domestic stock exposure to focus on Large Cap stocks that continue to thrive in the bull market and may reap greater benefits from recent tax changes. The rebalance also increased fixed income and international stock diversification in the strategy in anticipation of rising interest rates, slowing growth in the U.S. economy and the potential for market volatility to increase in 2018.

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"Enhanced Allocation Strategy," continued from previous page

At HFA we place an emphasis on the cost-effectiveness of our investment vehicles. We are currently conducting a review of the holdings in EAS to determine whether a lower-cost share class is available and a conversion of these holdings will take place when possible. In the event of a share-class conversion, it will appear as a line item on your statement. There is no transaction cost for this activity, it will not carry any tax consequences and will not disrupt the investment objectives of your account.

Select Sector Portfolio

The Select Sector Portfolio is a buy-and-monitor investment strategy that uses individual stocks and equity exchange-traded funds (ETFs).

The SSP strategy uses a top-down investment selection process that analyzes current market conditions and economic factors to determine industries and specific stocks or stock funds that meet both growth and income objectives. Overall, the SSP portfolios have performed well given global economic conditions. The individual equities benefited from upward momentum in corporate earnings and legislation favorable for larger businesses. We expect the new legislation reducing corporate tax rates could bolster equity returns for shareholders and create an expectation of domestic market growth in 2018.

In late summer of 2017, the cash position was increased across all SSP accounts. This move allowed the strategy to capture gains and determine a reallocation strategy in anticipation of increased volatility in Q3 and Q4. In September, we began to reinvest the cash balance, having identified opportunities for value and growth investments in the strategies. Overall, the returns of the SSP portfolios have been competitive with market indexes over the last twelve months.

The SSP strategy typically holds a small number of individual equity positions and can be concentrated in a sector. For this reason, the strategy is typically best suited for long-term investors comfortable with individual security risk. As with the other HFA portfolios, we are currently conducting a review of the holdings in SSP to determine if a rebalancing of the strategy is needed to align with intended portfolio allocations.

If you have questions about the recent portfolio updates, other investment strategies available or your own personal financial plan, we're here to offer our support. Your advisor or any member of our portfolio management team would be happy to discuss your circumstances in more detail and we encourage you to engage in a review of your situation when convenient.

DISCLOSURE

High Falls ADVISORS
Your Trusted Financial Guides

180 South Clinton Avenue, Suite 300
Rochester, NY 14604

Life After Retirement

By Maureen J. Pilato, CFP® Senior Financial Advisor

At High Falls Advisors, we offer a variety of planning services. Some of that work focuses on helping clients define financial freedom and what retirement, or the future, looks like to them.

For Lorraine and Kurt Engel, retirement means having fun while helping others to accomplish their dreams for the future. We hope you enjoy their story in this installment of our "Life After Retirement" series.

After more than 30 years at Eastman Kodak, where he had the opportunity to travel to many countries, Kurt Engel retired. Interested in doing something more fun, he and Lorraine decided to volunteer with a kindergarten class at School 50 in Rochester. The class was made up of refugee kindergarteners from Africa, the Middle East and Asia. It was there that Kurt and Lorraine realized how much they enjoy working with refugee children and learning more about their cultures.

In 2016, the class went on a joint field trip to the Seneca Park Zoo with the MAC Academy, a Rochester City School District program that helps 16-21 year old refugees. MAC is an acronym for Making A Connection, and those enrolled in the program have come from countries experiencing political and religious turmoil, seeking a fresh start and a brighter future.

During the outing, after noticing how busy the program's coordinator was, Kurt's wife inquired into the role of a MAC volunteer. After hearing that it is similar to that of a life coach—helping with resumes, driver's permits and licenses, education and English tutoring, and learning the value of teamwork and volunteerism—she promptly volunteered Kurt's services!

For the past two years, Kurt has been sharing his time, knowledge and life skills with the MAC Academy. He describes the experience as a wonderful ride with a bunch of young adults who are eager to learn, eager to become independent and eager to achieve. MAC Academy prides itself on reducing county social service costs by more than $450K annually by promoting meaningful employment and introducing students to college courses. Kurt says it's the best job he's ever had and while he earns no money, he has the satisfaction of helping great kids who have lived with more turmoil in their twenty years than he has in sixty-four. Kurt is grateful for the experience and skills he cultivated during his career at Kodak that allow him to give back in such a meaningful way. He is also appreciative of this opportunity to share his story with fellow Kodak retirees and friends.

Many High Falls Advisors clients know one another from years past. If you are interested in sharing your life after retirement story, please contact Maureen Pilato at mpilato@highfallsadvisors.com.

Pictured above: Kurt Engel and MAC Academy students on various program outings

Pictured above: Kurt and Lorraine with their three grandchildren in Boise, Idaho

Tax Tips

At the time of this writing, both the House and Senate have passed tax reform bills. The next step is for the House and Senate to come together to resolve the differences before any final legislation can reach the President's desk for signature.

By the time this publication hits your household, we will likely know if we have new tax legislation. We will be ready to provide insight and guidance for your 2018 taxes and beyond based on the outcome.

This article addresses the business of filing your 2017 taxes. Here are a few suggestions that might make the season a little less stressful.

Gathering Your Documents: Use your 2016 tax return as a reference to ensure you have all necessary 2017 income and deduction documents. Most tax documents start arriving in January, such as W2s from employers, Form 1099s from banks and other payers, and Form 1095-As for those covered on the Health Exchange Marketplace. Some forms, such as K-1s reporting partnership or trust income, may not arrive until late March or early April. Keep in mind many of your tax documents may only be available ONLINE, especially if you opted out of paper statements.

Refunds: The IRS recommends the fastest way to receive a refund is to file electronically and choose direct deposit of the refund. However, they also warn not to count on getting a refund by a certain date.

Charitable Donations: Review your check registers and credit card statements to capture all charitable contributions. Don't forget donations of tangible items or mileage driven for charitable purposes. Obtain any written acknowledgements, if required, from the charitable organization before you file your return. Be aware of the rule that for single cash donations of $250 or more, you must obtain a contemporaneous written acknowledgment from the organization. For IRS purposes, contemporaneous means no later than the date the donor actually files the return, not the due date of the return.

Contributions Counting for 2017 Returns: It may make sense, if you are eligible, to make a contribution to an IRA, Roth IRA or Health Savings Account before the tax filing deadline (April 17, 2018). These contributions, although made in 2018, can still qualify as a 2017 contribution.

Name Changes: If you were recently married or divorced and have changed your name, be sure to inform the Social Security Administration of the change. The IRS uses the SSA records to verify names and if there is a disparity, it could delay the processing of your return.

Amended Returns: Generally you have three years from the date you filed your original return to file a claim for a refund. For purposes of this filing season, taxpayers wishing to claim a refund for a 2014 return, must file by April 17, 2018.

Phishing Schemes: Continue to be vigilant about your personal data including social security numbers, date of birth, and account numbers. If you receive a call or email from someone purporting to be the IRS, do not provide any personal data and end the call or delete the email. If you're unsure, contact your financial or tax advisor. Keep in mind, the IRS will NOT contact you by phone or email.

Tax Preparation Tools: Visit our website at highfallsadvisors.com and select "Tax Tools" for checklists and worksheets that may be of assistance. If you have tax questions or are in need of tax preparation, we have a team of tax professionals, including an Enrolled Agent, CPA and Attorney, ready to assist you.

MTA Future and Past

(continued from page 3)

Our primary goal with the MTA (Market Trends Analysis) strategy remains what it has been from the very beginning. Participate in the market in upward trending times and be out of the market in the safety of short-term bonds or just simply cash during the long-term deep declining periods of market activity. This strategy can be appropriate for investors with a shorter time horizon and/or just to give peace of mind during declining market periods. The stock market remains impossible to predict, and is ever changing, but I feel these changes will enhance our efforts in managing your MTA accounts. Given periods of decline similar to those in 2001 and 2008, we may even enjoy better rates of investment return than other more traditional management styles during these periods of market decline.

Remember MTA represents only one of the in-house managed strategies offered by High Falls Advisors. Please feel free to discuss your specific strategy with your advisor.

The Financial **Advocate**

High Falls ADVISORS
Your Trusted Financial Guides

180 South Clinton Avenue, Suite 300
Rochester, NY 14604

Carefully navigating your financial future.

It's your future. You need to make financial decisions based on a myriad of factors. With a wide range of services, we can remain as flexible as you need us to be. Planning, investments and advice are just the beginning.

We work with you, to help you achieve your goals.

HighFallsAdvisors.com