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Ancora Advisors is a client focused investment advisory firm that operates with the highest level of integrity and honesty in all aspects of our business. This is accomplished through a culture of entrepreneurial spirit that encourages teamwork, excellence, accessibility, humility and accountability. We invite you to learn more about Ancora and what our years of market experience can do for you.

— LATEST ARTICLES —

Where Do We Go From Here?

John Micklitsch, CFA, CAIA
Chief Investment Officer

- How long can this bull market last?
- How will equities respond if interest rates begin to rise?
- If the dollar continues its upward trajectory what impact will that have on markets?
- What is the outlook for oil and how does that impact markets?
- How would a Greece exit from the European Union impact investor sentiment?
- What do the geopolitical events in the Ukraine and the renewed war on terror portend for market volatility?
- How will the 2016 election impact the markets?

If you have found yourself asking any of the above referenced questions recently, you are far from alone as an investor. We could write entire papers on any one of the questions, a process Wall Street is famous for in an effort to keep money in motion. In reality, the answers could be a few short words or sentences as indicated below taken from common sense, practical experience and a healthy dose of long-term investment perspective.

Q. How long can this bull market last?

A. "Longer than you think is the short answer. The long answer is the average bull market lasts, according to Forbes, 97 months or a little over eight years. The average bear market according to the same source lasts 18 months or about 1.5 years." (Of course, past performance is not a guarantee of future results).

Q. How will equities respond if interest rates begin to rise?

A. “They actually tend to go up initially, especially if the increases are accompanied by an improving economic backdrop. According to JP Morgan Asset Management, when yields are below 5%, rising rates are generally associated with rising stock prices.”

Q. If the dollar continues its upward trajectory what impact will that have on markets?

A. There are pros and cons. The pro is that capital should continue to seek out dollar denominated assets. The con is that the price of U.S. produced goods and services become more expensive around the world. The verdict is mixed, but longer-term a strong dollar is a net positive for U.S. investors in our view.

Q. What is the outlook for oil and how does that impact markets?

A. Oil prices appear to have stabilized for now as forecasted 2015 exploration and production (E&P) company capital expenditures have been cut by 15-30%, indicating the beginning of the oil cycle’s built in self-correcting mechanism. Furthermore, the drop in oil prices is a boon for consumers and corporate profitability outside the energy sector, which makes up only 8.3% of the S&P 500 as of 1/31/15. It should be a net positive for the other 91.7% of the S&P 500.

Q. How would a Greece exit from the European Union impact investor sentiment?

A. In the short term it would probably lead to volatility and uncertainty because people would wonder who is next. In reality, Greece’s economy represents 0.3% of global GDP. Eventually, we believe the world’s markets would get over it and that their exit, if it were to happen, would not be the long-term end of the world as we know it.

Q. What do the geopolitical events in the Ukraine and the renewed war on terror portend for market volatility?

A. History is littered with geopolitical tension and outright war. Notwithstanding the tragedy of war, the world’s economies and markets march on as for profit companies relentlessly pursue innovation to improve the basic human condition. It is in mankind’s DNA to do so.

Q. How will the 2016 election impact the markets?

A. The United States of America has held 20 presidential elections over the past 80 years. Republicans won nine of them and Democrats won eleven. Every one of them seemed big at the time. Yet over that period, the market as measured by the S&P 500 returned roughly 7% per year turning $1 into approximately $216 (before adjusting for inflation). As a result, we pose the question why spend any energy trying to predict something that is difficult at best to handicap and that in reality will have little or no bearing on the size of your portfolio 10-20-30 years down the road.

Which brings us to the point of the article; While markets currently appear fairly valued by historical standards and the potential for increased volatility exists based on the length of the current bull market, investors should be aware of the important events and topics of the day, but should not be overly consumed by them. Things have a way of working themselves out and it can be very disruptive to the long-term miracle of compounding to speculate or try to time otherwise. This is not to say that investors can’t decide to take a few chips off of the table from time to time, but assuming a reasonably diversified portfolio is in place, we would suggest that investors spend the majority of their investing related energy focused on understanding what they own, the role it plays in the portfolio and the intermediate to long term asset allocation decisions that ultimately will have the greatest impact on pending life events such as college payments, weddings, home purchases, retirement etc., making adjustments where needed based on the proximity of those events.

History is littered with issues of the day that at the time appeared unprecedented. In many ways, 2015 feels very unique but so did 2014, 2013 and so on. At a juncture such as this, we remind investors once again of Warren Buffet’s time tested observation, “in the short term the market is a voting machine, in the long term it is a weighing machine.” While some may get the voting machine timing right, the odds, in our opinion, are in your favor focusing on the weighing machine side of the equation.

John Micklitsch, CFA, CAIA is the Chief Investment Officer at Ancora Advisors LLC a SEC Registered Investment Advisor.

Impact of the Detroit Bankruptcy Settlement

Jim Bernard, CFA
Managing Director, Fixed Income

In November 2014, the bankruptcy filing by the City of Detroit was approved and finalized only 16 months after it was filed in July 2013. Initially, pensioners were threatened with cuts of at least 34%. Thanks to a "Grand Bargain" by various entities (primarily the Detroit Art Museum), the final settlement included most pensioners having their benefits cut by 4% and most giving up their COLA adjustments. Conversely, bondholders did not fare as well as a result of the settlement, with "haircuts" wiping out between 26% and 66% of their value. Overall, $7 billion of bondholders' obligations were wiped out at the stroke of a pen by the bankruptcy judge.

Even with these massive cuts to the pension obligations of Detroit their pension funds remain well underfunded. The City of Detroit is unable to fund the annual contributions needed to maintain a financially viable status for these funds. For instance, the annual pension obligations due pensioners is currently over $500 million, or nearly twice the total operating budget of the City of Detroit. Unless Detroit accomplishes a significant recovery including new jobs and expanding their population, it is unlikely the remaining pension obligations can be honored. Detroit has already indicated that they plan to only partially fund their pension obligations over the next few decades or longer.

It is interesting to note that even with this recent outcome in Detroit, other pension obligation bonds continue to trade with little adjustment as a result. Certain areas, such as Illinois, have seen some depressed price action for their pension obligation bonds, but most other states and municipalities continue to trade in line with other high grade bonds. Nevertheless, many states and municipalities continue to underfund their pension obligations and/or borrow additional funds in lieu of contributing cash towards these obligations. While better investment returns and some job growth recovery have modestly improved some districts underfunding, most districts continue to be well underfunded.

We continue to advise our clients and our portfolio managers to be very cautious in selecting municipal credits directly or indirectly tied to pension obligations. It is our belief that the major rating agencies have not adjusted their ratings on these bonds adequately enough to factor in the risk of their underfunded obligations. While we realize that many of these General Obligation bonds involve analyzing the legal risks of various entities, we believe it is best for individual bond buyers to avoid these uncertainties whenever possible.

Jim Bernard, CFA, is the Managing Director, Fixed Income at Ancora Advisors LLC a SEC Registered Investment Advisor. He is also a Registered Representative and Registered Principal of Safeguard Securities, Inc. (Member, FINRA/SIPC)

Ancora Spotlight: Compliance 101

Joe Spidalieri
Chief Compliance Officer

In this edition of the Ancora Advisory Newsletter, we sit down with Ancora's Chief Compliance Officer, Joe Spidalieri to discuss the role compliance plays at a Registered Investment Advisory ("RIA") firm.

Joe, tell us a little bit about your background and how you got involved in compliance.
I started at Ancora Advisors at its inception in 2003. Throughout my tenure, my responsibilities have been wide ranging as Ancora grew from a four person operation to a firm that now employs over 40 individuals. I spent my first eight years focusing mainly on the equity trade desk and administering the firm's portfolio accounting system. In 2011, Ancora named me Chief Compliance Officer in an effort to fill the role with an employee who knew the firm, inside and out, and could effectively tailor a compliance program to meet our specific needs.

What does compliance entail at a firm like Ancora Advisors?
The role of compliance really has two main responsibilities. First, the compliance department must document and administer a set of policies and procedures that integrate regulatory rules with the firm's practices. Second, the compliance department acts as an advocate for Ancora's clients. Each day compliance officers must ensure that all clients are being treated fairly and equitably, regardless of their asset size, and that all actions are in line with the clients stated objectives and goals.

How has the role of the Compliance Officer changed since the Madoff scandal?

The role of compliance officers has changed dramatically since Bernie Madoff was arrested in 2008. The SEC has drastically revamped their practices and has significantly added to their staff to combat the negative public sentiment arising from its very public failure to detect a fraud of that magnitude. Consequently, Registered Investment Advisers have responded by hiring more and more qualified employees to serve in their compliance departments as well as vastly increasing their budget for compliance technology. The days of the compliance department being viewed as a cost center mandated by the government and holding no real authority are long gone. In fact, today most institutional clients will spend as much, if not more, time researching an adviser's compliance program as it will the portfolio management aspect. Ultimately, firms understand that clients must feel their assets are safe when they hand them over to be managed by an adviser.

What is the top myth, in your opinion, about the role of compliance within an investment management firm?

The biggest myth, in our view, about compliance is that the compliance department is always at odds with employees. Most employees, at least speaking from my experience here at Ancora, want to do things the right way. No shortcut is worth the reputational risk to either the employee or the firm. That is especially true at an employee owned firm like Ancora. That said, it is incumbent upon the compliance department to properly educate employees on regulatory rules and firm policy while encouraging communication to avoid any involuntary missteps.

Joe Spidalieri is the Chief Compliance Officer at Ancora Advisors LLC a SEC Registered Investment Advisor. He is also a Registered Representative and Registered Principal of Safeguard Securities, Inc. (Member, FINRA/SIPC)

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