THE ANCORA ADVISORY

An Investment Publication for Clients and Friends

First Quarter 2016 *Vol. 6 No. 1*

Ancora Holdings Inc. is a client focused firm resulting from the recent merger between The Ancora Group, Inc. and Inverness Holdings, LLC. The firm operates with the highest level of integrity and honesty in all aspects of its 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 Holdings and what our years of market experience can do for you.

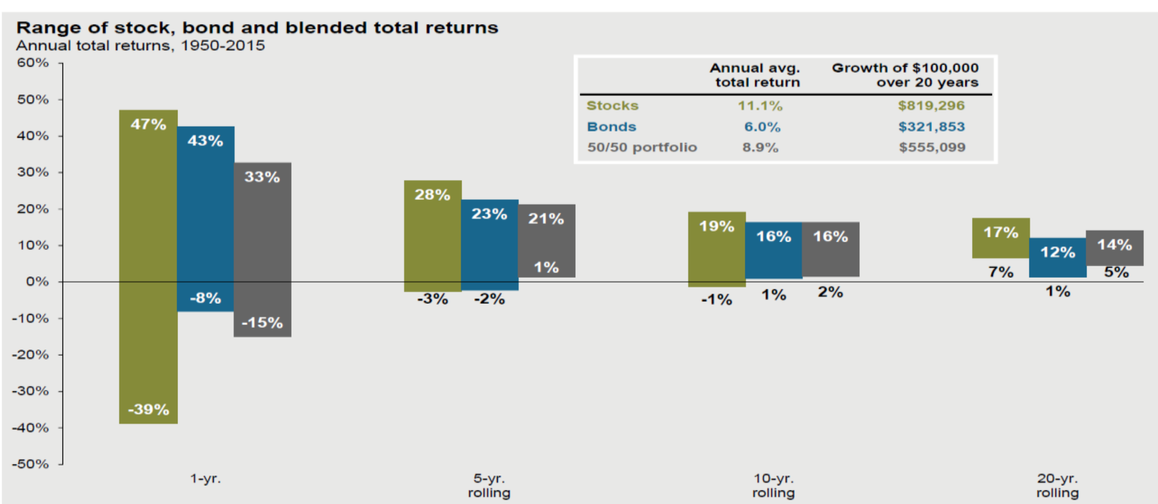
LATEST ARTICLES

It's About Time

John Micklitsch, CFA, CAIA

Chief Investment Officer

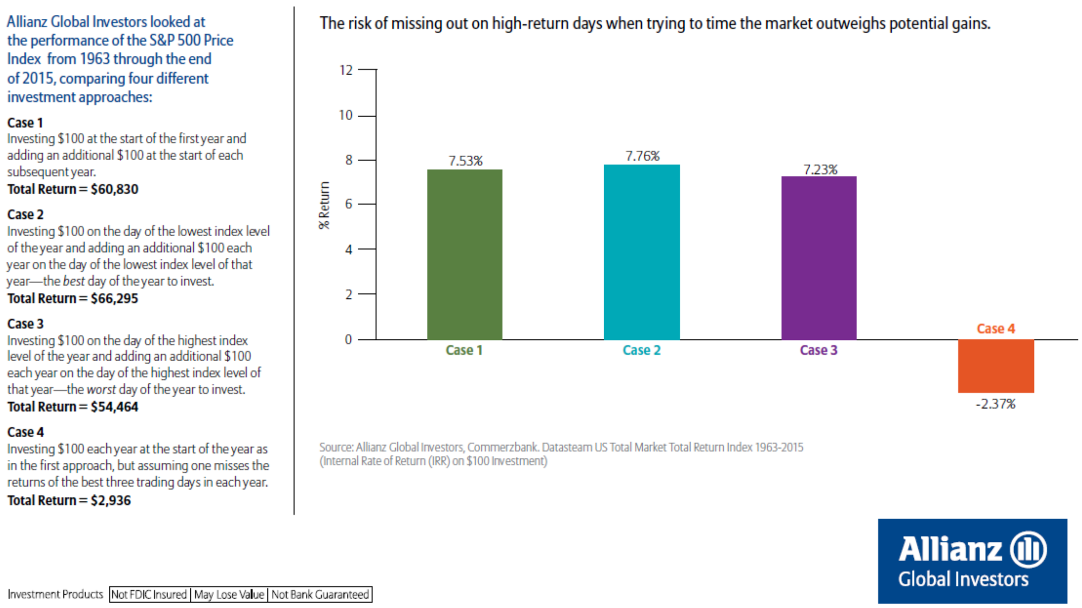
As the equity markets fell roughly 10% to start the year, many market doomsayers could be heard saying, "It's about time." While we agree with them that it is about time, we choose to associate those words with a totally different frame of reference. In goals oriented investing it is "about time." However, the time referred to should be about time in the market, not timing of the markets. This "time in the market" mindset, and it can never be stressed enough, creates the highest probability, in our opinion, of generating positive returns and reaching your long-term goals. As the below slide from JP Morgan's Guide to the Markets illustrates, in the very short run, stocks, bonds and the combination of the two can and do produce negative returns. However, by simply shifting the time horizon from one year to five years the degree of potential negative returns diminishes significantly. It disappears for the most part at ten years and disappears altogether with a twenty year time horizon. So time in the market, not timing of the market, dramatically increases the odds of generating positive returns from a diversified portfolio.



Source: Barclays, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2015. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to1980 and Barclays Aggregate after index inception in 1980. Growth of $100,000 is based on annual average total returns from 1950 to 2015.
Guide to the Markets – U.S. Data are as of January 31, 2016.

J.P.Morgan Asset Management

Another investor regret associated with time is fear of investing at the wrong time. The reality is, that given enough runway, even the most poorly timed entries into the market end up working out just fine. Allianz Global Investors circulated the following chart recently that illustrates this point. In the slide, the firm measured the total return of a $100 investment into the S&P 500 each year from 1963-2015. In the first scenario, the $100 was consistently invested on the first day of each year. The $5,300 of total capital (53 years x $100) generated a total return of $60,830. In the second scenario the $100 was invested on the best day of each year, meaning the lowest price for the S&P 500 in any given year. Under this optimistic scenario, the $5,300 generated a total return of $66,295. In the third pessimistic scenario, the $100 was invested on the worst day of the year, meaning the highest priced day for the S&P 500, yet still generated a total return of $54,464. Remarkable results regardless of whether you had good timing or terrible timing as it was the time in the market that mattered most. For those of you who are curious, had you missed the three best days in each of the 53 years while trying to time the perfect entry point, the total return generated fell off of a cliff to $2,936. The flipside, of course is what would it have earned had you avoided the three worst days in the market, but with the low probability of actually being able to consistently time those days, combined with the shortfall risk of missing the best days, scenarios 1-3, which focus on time in the market, clearly look like the highest probability paths for goals focused investors.



All too often, market pundits with little or no accountability for maximizing the probabilities of real world, goals based investment outcomes, spout off about the state of the markets essentially encouraging investors to market time. The implication is that there is easy money to be made moving your assets in and out of the market. In practice, however, this sounds to us like speeding through the parking lot of a state trooper convention. You may get through the parking lot and get to where you're going a little faster, but chances are you're going to get caught. So while the Mt. Rushmore tenants of successful goals oriented investing include asset allocation, diversification and security selection, time deserves to have its face on the monument too.

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

Negative Interest Rates: What You Need To Know

Jim Bernard, CFA

Managing Director, Fixed Income

Talk of negative interest rates has recently picked up following Janet Yellen's response to a question on the subject addressed to the FED chairperson. She indicated in her response that while negative interest rates are not a current discussion point of the FED, the subject is not off the table for future consideration. Negative interest rates as a central bank policy tool are now being used in the Eurozone, Japan, and many other countries around the world. In fact, close to 1/3 of the non-U.S. short-term sovereign debt outstanding around the world is currently subject to negative interest rates.

So what are negative interest rates and why are they being considered as a policy tool by central bankers? Quite simply, negative interest rates occur when a fixed income investment is purchased, and if held to maturity, returns the investor less than they paid initially for the investment. Another way of looking at negative interest rate is to assume that your money will be returned to you at maturity less a "penalty fee" imposed by the issuer of the investment. This can occur either by policy, such as a central banker targeting a negative yield (or penalty) to their fed fund target rates, or it can occur through normal market trading activity. In the latter case government bond prices are bid up to a level in which the cost exceeds the total of the face value and all subsequent interest payments. Typically this excess demand for government bonds is initiated by central bank purchasing activity.

So who can be helped and potentially harmed by negative interest rates? As with any form of lower interest rates, savers are harmed, earning less interest on their funds and potentially paying fees just for the right to save their own money. Borrowers are rewarded with a lower cost to borrow funds. Banks, in general, are hurt, as usually their net interest margins fall and their profits decline. Said another way, bankers are being charged a fee to hold conservative funds rather than to loan them out to borrowers.

Thus, a central bank would impose negative interest rates on their economy in order to stimulate additional borrowing/lending activity hoping for a greater level of economic growth. History does not provide much in the form of empirical evidence that negative interest rates succeed in stimulating additional economic activity, as our experience with negative interest rates is very limited. Europe has imposed negative interest rates on their banks for the last 18 months with little if any evidence that economic activity is picking up.

If negative interest rates were to occur here one would expect this to happen in a period of low economic growth or a recession. One would also expect credit spreads to be wider as default risk increases during weaker economic periods. This may be partially offset by greater demand for credit related debt to avoid having to purchase negative yielding short to intermediate term government bonds. Nevertheless, negative interest rates should be viewed as a last option only after all other forms of fiscal and monetary policy have been exhausted.

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Is Cash Flow Part of Your Equity Analysis?

Sonia Mintun, CFA

Director, Portfolio Manager

Both earnings per share and cash flow per share give investors an idea of how a company is doing. Many investors value stocks focusing upon earnings per share and the popular Price to Earnings ratio (PE). Often times, however, the earnings figure alone does not reveal a company's real profit levels because there is tremendous leeway in reporting earnings, which can manipulate and smooth earnings, potentially distorting a company's true intrinsic value.

Earnings are subject to numerous esoteric accounting rules, many of which can reduce or inflate reported earnings. A prime example is pension accounting where a company can estimate a greater future expected return on investments in order to minimize today's impact on profitability. The actuarial return assumption is subjective, non-cash, and therefore vulnerable to abuse which can lead to overestimations of profitability and true intrinsic value.

Simply put, reported earnings represent sales made and billed for, while cash flow reflects earnings as they are paid. As an owner of a business, you want to know what the cash flow is on the business in terms of what you've been paid because ultimately that is all you can withdraw as an owner to earn a return on your capital, aside from an outright sale. There is no difference between a public company with thousands of shareholders and a single shareholder lemonade stand other than the public shareholder interest can be sold with the click of a mouse typically. The mindset should be the same, which is to think as a business owner.

We've established that cash flow represents the true measure of a company's profitability determined by the net change in cash that enters or leaves a company in a given period, but in terms of how cash flow is reported on financial statements, it is broken down into three parts:

1. Operating flows- cash generated from operations.
2. Investing flows- the net result of capex, investments and acquisitions.
3. Financing flows- cash changes resulting from financing activity such as equity or debt issuance.

Cash flow from operations (CFO) and ultimately free cash flow (CFO minus maintenance cap-ex) represent the real wealth creation of the company, in our view. By focusing on cash from operations and drilling down to free cash flow you can better analyze what levels of recurring cash are generated by the business to drive future growth.

Cash flow may require an additional layer of analysis if a company has an erratic change; sometimes the cash can be directed towards an internal investment or a company may experience a sharp decrease in revenue or cash collection from customers. Erratic patterns of cash from operations can be indicative of financial distress or an inconsistent business model. While it is not fail-safe, cash flow analysis is a powerful investment metric to monitor, particularly when it comes to whether a company has the ability to fund capital expenditures to grow its business, sustain and grow dividends or buy back stock in order to create value for shareholders.

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Lifetime Planning Q&A

Howard Essner, JD

General Counsel, Managing Director, Family Wealth Advisor

With the recent combination of Ancora and Inverness "Lifetime Planning" will become an integral part of the services we provide to our family clients. In the conversation that follows, we discuss how we approach Lifetime Planning and why it helps our family clients.

Q. What does "Lifetime Planning" mean?

A. "Lifetime Planning" is an individualized process that helps our family clients identify their financial goals and then develops a roadmap to achieve those goals and overcome the risks that might stand in their way. We believe that no two families are the same, so we customize our approach to meet each family's circumstances and concerns. Lifetime planning can cover such topics as retirement income planning, college education planning, charitable giving strategies, insurance reviews, income tax reviews, estate reviews, and social security optimization, among many others.

Q. How does comprehensive, Lifetime Planning help clients achieve their overall goals?

A. Achieving financial goals starts with articulating and establishing what those goals might be. So the first part of any planning engagement is a detailed discovery process that helps our clients develop their goals and identifies their concerns. This discovery process allows our planners and clients to work together to develop savings goals, an appropriate investment risk profile, proper income and estate tax strategies and legacy planning, all done in coordination with a client's trusted tax and legal advisors. We will develop reporting on all of the client's assets, not just those managed by us, for a comprehensive overall net worth picture. A customized investment portfolio can then be developed around these goals and plans. Success is defined in terms of achieving goals, not an artificial portfolio benchmark. Most of our clients have different tax "buckets" of assets, and we help identify the optimum withdrawal strategy from a tax efficiency perspective.

Q. Can you describe how Ancora Inverness' Lifetime Planning approach is different than the typical financial plan?

A. Ancora Inverness' depth of experience, team approach and level of customization is unique in our opinion. A client's Lifetime Planning team draws on the capabilities and experience of our professionals with backgrounds as attorneys, accountants, Certified Financial Planners®, Charted Financial Analysts®, and accredited insurance specialists. Our only goal is to help clients understand and achieve their goals.

Q. Who is a good candidate for adding Lifetime Planning to their overall wealth management picture?

A. Anyone with questions or concerns about their financial future is a good candidate to seek our advice, but here are some typical situations we deal with every day:

- Younger families trying to develop college education and retirement savings goals and evaluate insurance needs.
- More established families thinking about retirement and future income and health care needs.
- Elderly clients who want to maintain a lifestyle while providing a legacy for their family in a tax-efficient way.

All of this has to be coordinated and measured against a plan in our opinion, in order to optimize the probability of achieving lifelong financial success.

For more information on how you can begin your Lifetime Planning process with Ancora Inverness, please contact your Ancora Inverness relationship manager or Howard Essner directly at essner@investinverness.com/216-839-5130.

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