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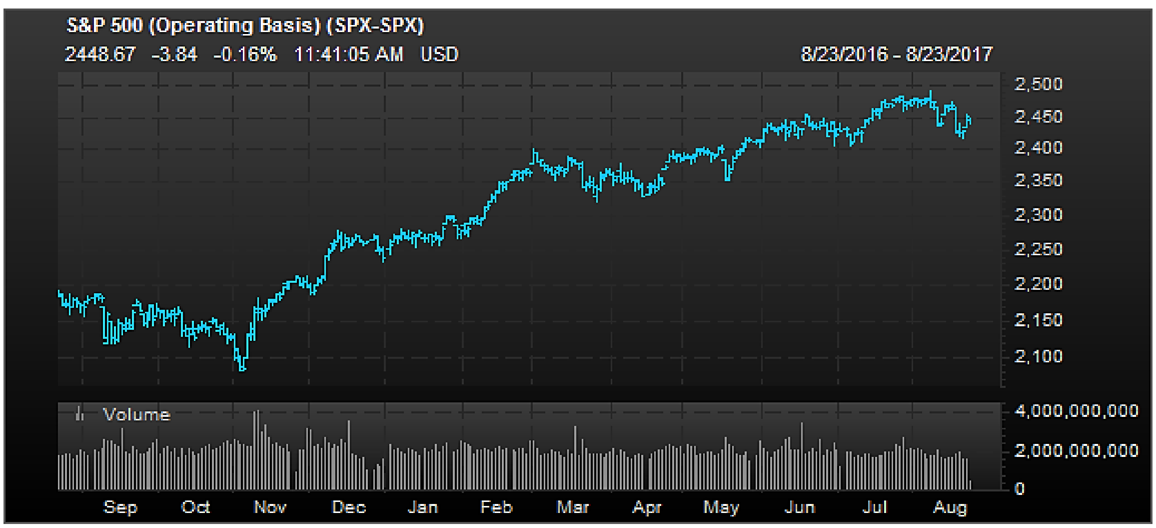
Ancora Holdings Inc. consists of three business units: Family Wealth, Institutional Strategies and Retirement Plan Services. Each unit operates with the highest level of integrity and honesty in all aspects of its operations. This is accomplished through a culture of entrepreneurial spirit that encourages teamwork, excellence, accessibility, humility and accountability. We invite you to learn more about Ancora Holdings Inc., our operating units and what our years of market experience can do for you or your organization by visiting our website at www.ancora.net.

LATEST ARTICLES

Temporary vs. Permanent Risk

John Micklitsch, CFA, CAIA
Chief Investment Officer

Following the presidential election on November 8, 2016, the S&P 500 rallied roughly 17%, reaching several all-time highs before hitting a few bumps in the road over the past couple of weeks. Not a bad run for equity oriented investors. Moreover, the period has been marked by extraordinarily low volatility as hope for the administration's pro-growth agenda fueled investor sentiment along the way. However, as political mistakes have mounted, the likelihood of executing the administration's regulatory, tax, and infrastructure platforms has been called into question. Fortunately, strong corporate earnings, a resilient domestic economy, signs of increased economic activity overseas, goldilocks $45-50 oil and still low absolute levels of interest rates have stepped in to support the market's fundamental underpinnings.



Source: FactSet

Nevertheless, the North Korean standoff, the response to the events in Charlottesville and a new series of terror attacks have rattled investors and stirred up market pundits who essentially call for people to get into the losing game of trying to time markets. While the players on the market's "wall of worry" frequently change, how to respond to them over the long-term generally should not. Quality, diversification and time are the allies of long-term investors, while the "money in motion" crowd generally is not. Nevertheless, pullbacks and corrections are normal, to be expected, and in some cases even healthy to combat complacency and to remind us that the market is not a super charged savings account. Volatility, like a hand to a hot stove, reminds us to handle risk with care, prudence and in suitable quantities for the task at hand.

Another concept we have been discussing internally recently and that could be helpful to investors is the idea of temporary (market) risk vs. permanent (business) risk. Basically, if a person invests in a diversified fashion, they are mainly exposed to temporary or “market” risk which is the risk that the market will drop in value temporarily from time to time. Temporary is loosely defined in terms of length but the concept is that, in a diversified portfolio you are not dealing with single company/sector product obsolescence, litigation risk, fraud etc. that could cause permanent impairment of capital. Rather with market risk, you are mainly dealing with economic cycles, investor sentiment and geo-political events, all of which ebb and flow but generally do not derail the tendency of markets to rise over time. If, however, an investor is not diversified and holds highly concentrated positions in individual securities (including private holdings) or sectors that could suffer from balance sheet troubles, outdated offerings, fraud or extreme valuation levels, then they are exposed to the potentially more permanent form of risk known as “business risk” (eg. Blockbuster, Enron, Worldcom, K-Mart, technology stocks from a valuation perspective in late 1999 etc.) which investors rightfully tend to fear the most.

In conclusion, if investors follow the three tenants of quality, diversification and time, market related volatility can be viewed more as a temporary rather than permanent form of risk. This mindset can help investors avoid panicking and perhaps even shift their mentality to thinking like an opportunistic buyer during periods of market weakness. Importantly, temporary risk can become permanent if a high quality, diversified portfolio is sold during corrections in an attempt to time the market. Of course, everybody’s time horizon and asset allocation needs are different, resulting in different tolerance bands for even temporary risk. However, asking yourself if you are truly exposed to permanent risk or just perhaps temporary market risk, could be a helpful concept for investors to consider when evaluating their portfolios during volatile periods.

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

The Incredible (Shrinking) FED Balance Sheet

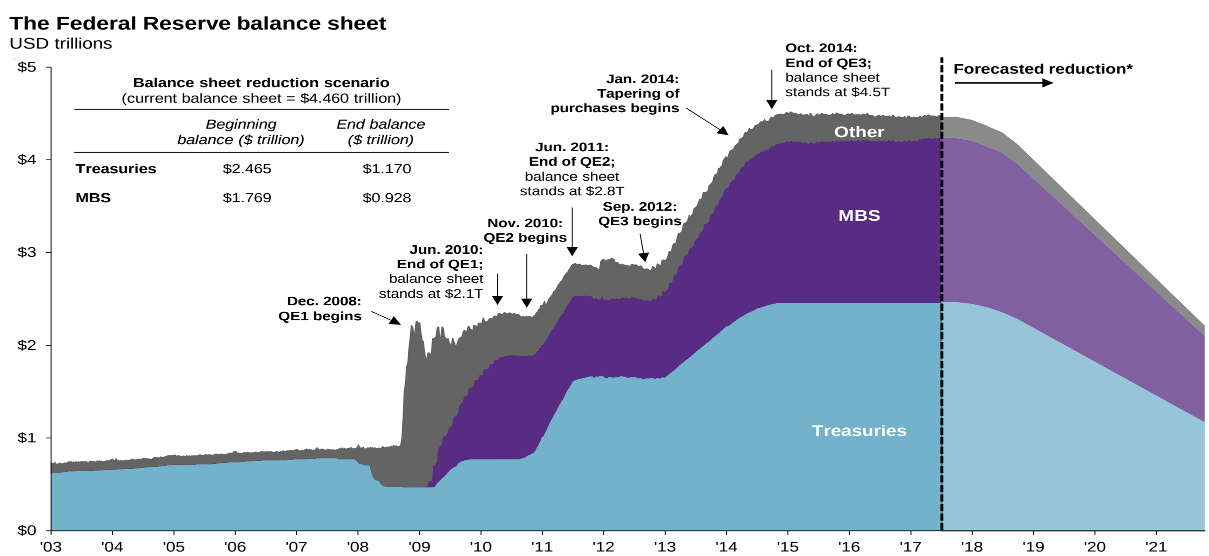
Jim Bernard, CFA

Managing Director, Fixed Income

Historically, securities markets have faced many extreme valuation situations caused by numerous factors not limited to supply-demand imbalances, strong vs. weak economies and earnings environments. In recent years (post 2008) we have experienced a prolonged period of extremely low interest rates both domestically and in many developed markets around the world. A significant contributor to lower rates, in addition to low inflation and relatively weak economies, has been added demand primarily for government bonds as a result of the expansion of the FED balance sheet.

Starting in early 2009 and continuing over three separate quantitative easing programs, the U.S. Federal Reserve balance sheet expanded from just under $800 billion to over $4.6 trillion, where it remains today. The majority of this expansion occurred as the FED purchased U.S. Treasury Notes and government backed mortgage backed securities in the new issue and secondary markets. The significant additional demand for these securities contributed to driving rates down to historic lows and keeping them there.

Fixed income



Source: Federal Reserve, FactSet, J.P. Morgan Asset Management.
*Balance sheet reduction assumes reduction from current level, beginning October 2017 and lasting four years, concluding in October 2021. Reduction of Treasuries and MBS is per FOMC guidelines from the June 2017 meeting minutes: Treasury securities will be reduced $6 billion per month initially and reduction rate will increase in steps of $6 billion at three-month intervals over 12 months until reaching $30 billion per month; MBS will be reduced $4 billion per month initially and reduction rate will increase in steps of $4 billion at three-month intervals over 12 months until reaching $20 billion per month; Other assets are reduced in proportion. Forecasts do not take into account months where maturing assets do not exceed the stated cap nor do they consider the reinvestment of principal or interest repayment in excess of the stated cap.
Guide to the Markets – U.S. Data are as of July 31, 2017.

Recently the FED has announced their intention and desire to reduce the size of their large balance sheet closer to the low $2 trillion range. This is a reduction of approximately $2.5 trillion, which they indicate they would like to see happen over the next 4-5 years. Such a reduction in a central bank balance sheet has never occurred before as a balance sheet had never expanded like that in the past. All other economic factors being equal, conventional wisdom would indicate that when you add massive funds to a securities market in a finite period of time, prices will increase. Obviously, this price impact occurred as noted previously, therefore one may assume when this process is reversed prices will fall.

Even though the FED has tried to make this pending reduction of the balance sheet as transparent and well signaled as possible during their periodic speeches, comments, and in the FED minutes released to the public, it appears logical that either higher interest rates or wider credit spreads or both will occur sometime during the FED reduction program. As an indication of just how extreme some valuations currently are, the high yield euro 1-5-year corporate bond index currently yields **1.46%,** with an average quality rating of BB- and an average maturity of 2.26 years as compared to a 2.25-year U.S. Treasury Note currently yielding **1.33%**. In other words, investors are receiving very minimal additional yield for investing in non-investment grade, highly leveraged euro corporate bonds when compared to a similar U.S. Treasury Note. Historically the gap between the yield on a U.S. Treasury Note and the yield of a BB corporate bond is at least 500 basis points or 5%. This implies that today, BB corporate bonds should be yielding closer to **6.33%** rather than **1.46%**.

Our conclusion is that while there are other factors besides supply-demand imbalances that can influence valuations in securities markets, reversing the current supply-demand imbalance should likely produce either higher interest rates or wider credit spreads or both in coming years. Other events such as changes in economic growth or changes in inflation rates can also influence future levels of interest rates, but the effect of a balance sheet reduction bears watching closely.

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 Inverness Securities, LLC. (Member, FINRA/SIPC)

A Primer on Market Sentiment

Rick Renner

President, Family Wealth

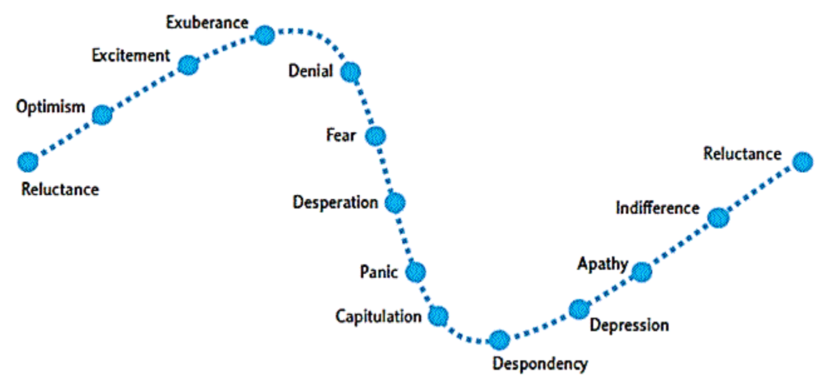
Much has been made lately about market sentiment. But not everybody knows what market sentiment refers to and how it could impact their portfolio in both the short and long-term. For those answers, we sat down with Rick Renner, President of Ancora's Family Wealth Division.

Q) When you hear the term market sentiment, what does that mean?

A) Have you heard sayings like; "Buy when there is blood in the streets," or "the market climbs a wall of worry." All these are tied to market sentiment and the "emotions of the markets." More formally, Wikipedia defines market sentiment as the general prevailing attitude of investors as to anticipated price development in the market. Sentiment or emotion of the markets are very powerful and should be understood, especially during extreme times.

Q) What are some of the more common sentiments that investors should be aware of?

A) The two main emotions that investors should understand are greed and fear. Succumbing to these emotions can be detrimental. Investment markets go to excess both up and down. When you lose money or underperform, fear takes over and can lead to panic. This is a time for patience and long-term focus. When the market is at highs and the "cocktail party" talk is all about how much money everyone is making in a certain asset class (i.e. stocks, gold or real estate) that is generally a time to evaluate possibly taking a little off the table. Other sentiments expressed during the course of a full market cycle are expressed in the below chart:



Source: Barclays.

Q) In your opinion, what is the current market sentiment?

A) Today the markets are at all-time highs, but we do not see the greed or excesses typically associated with market highs. The market has been climbing a "wall of worry" today. Just about every lead article today is how negative the political landscape is or how long the bull market has run. This emotion is not historically typical of a "bear market" (20% drop).

Q) How does market sentiment impact your short and long-term investment thinking?

A) It is easy to get caught up in market sentiment particularly on the greed side of things. Examples are the tech bubble of the late 1990's or Florida real estate in late 2005. We heard a lot of investors saying, "Why not put all my money in tech stocks and I can't lose money in real estate!" When you hear talk like this, it is generally a time to be cautious on that space.

Q) What does it mean to be a market contrarian?

A) Value investors tend to be contrarians. This is an investment style that goes against prevailing market trends by buying stocks at their lows looking for a long-term recovery when the cycle changes. Contrarians tend to buy and sell against the grain.

Q) What are the one or two things investors can do to make the study of market sentiment a positive influence on their portfolio's results?

A) Basically, you need to understand the market's emotions and how that can impact prices in the short term. You also need to be aware of your own emotional strengths and weaknesses as an investor. Be patient with your investments provided they are diversified and of a high-quality nature and think long term.

Thank you, Rick, for your thoughts and insights.

Rick Renner is the President of Ancora's Family Wealth division.

Ancora in the Community

On July 21st 2017, seven bike riders representing the inaugural Team Ancora set out in new, yellow jerseys on long distance bike rides as part of VeloSano's annual community initiative to raise funds for cancer research at The Cleveland Clinic. A strong show of corporate and citizen support allowed 100% of all money raised to go directly to cancer research.

Early morning thunderstorms threatened to wreak havoc on the day's events, but the skies cleared by late morning and Team Ancora took off with riders participating in both the 25 and 50-mile rides. However, this was no Sunday stroll as the terrain challenged all riders. In the end, every Team Ancora member finished successfully and collectively raised over $17,000 from co-workers, friends and families towards this worthy cause. It was a great event and a great deal of appreciation to all who participated or donated. We look forward to even more success next year!

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