THE ANCORA ADVISORY

An Investment Publication for Clients and Friends

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On June 3, 2016 our merger partner and colleagues from Inverness Holdings Inc. move into our combined office located in Mayfield Heights, OH. Together, we will operate Ancora Inverness LLC the family wealth division of Ancora Holdings Inc. As you can see from the below construction photos, we have been busy expanding our space as we continue to grow in ways that will allow us to even better serve our family wealth client's needs. This includes a highly personalized and integrated planning and investment solution that we believe is unique in today's wealth management marketplace. We look forward to welcoming our new Ancora Inverness family wealth clients and colleagues to their new office.

LATEST ARTICLES

The Impact of Low Interest Rates on Investors and the Economy

John Micklitsch, CFA, CAIA

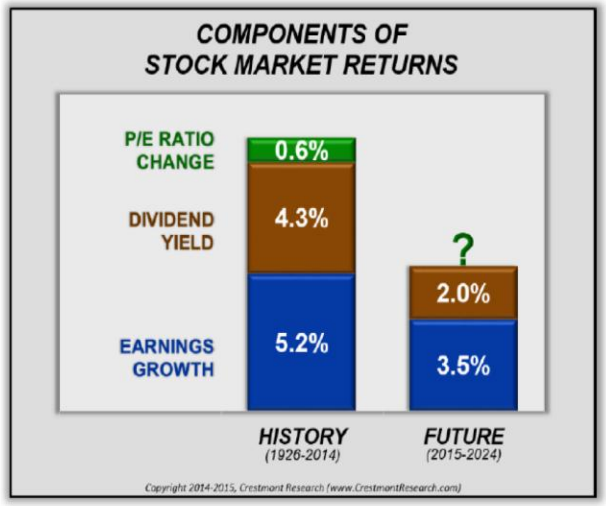
Chief Investment Officer

With interest rates hovering at historically low levels across the globe, the question of who benefits from low interest rates and what unintended problems they can cause is once again on investor's minds. For starters, debtors benefit which is perhaps why economies and governments around the world find themselves locked in the current low rate environment in the first place. However, low interest rates alone are not the answer to the current low growth environment. In reference to life's roadblocks, my father always said, "if it was easy, everyone would do it." This sentiment could be applied to interest rates because if the key to sustainable growth was simply having low interest rates then every country around the world would just have low interest rates and we would all grow to the moon.

But capitalism doesn't work that way. In fact, for capitalism to work properly, capital itself has to have a cost that honors the needs of both savers (who supply capital) and businesses (which require capital). Savers seek an adequate return for supplying capital and businesses use the cost of capital as a measure to determine which projects should be funded and which should not. When interest rates are abnormally low, savers are inadequately rewarded for the risk they take, which can erode their willingness to share their hard earned treasure with the businesses that require it. This is detrimental to business expansion and formation which is not good for the long-term health of the economy. On the flipside, capitalism requires that businesses act rationally and make efficient capital allocation decisions by measuring and funding only the highest return opportunities. This relationship, which is built on the fundamental cost of capital, is a critical component to economic efficiency. In a period of extended low interest rates, however, projects that ordinarily would not be funded can receive funding due simply to low borrowing costs. On the surface, this can make certain projects appear economical, but in the long run these unwarranted projects can marginalize a company's well-being as they lower overall margins and potentially lower long-term returns on shareholder capital. Moreover, low interest rates can cause companies to bypass capital reinvestment all together and focus instead on simply buying back their own stock with borrowed funds. In doing so, companies may be boosting earnings in the short run at the expense of long-term results by failing to reinvest as necessary in the business itself. Simply said, low interest rates can distort the historical relationship between risk and reward, suppliers of capital and consumers of capital.

In terms of future capital market returns, low interest rates have the effect of increasing present valuations on securities. Lower hurdle rates for return mean higher prices can be paid for securities. However, there is a limit to returns and ultimately there is a consequence to valuation expansion without commensurate earnings growth, and it comes in the form of diminished future returns. This is where we find ourselves today as the S&P 500 is trading at roughly 17x forward future earnings. This level is justifiable, in our opinion, given the current interest rate environment and lack of compelling alternatives. It does, however, present a predicament for investors in terms of future expected returns in a lower growth environment. The following chart illustrates the issue facing investors today.

It is important to distinguish between negative returns (which we are not forecasting) and positive but lower than historical average future returns (which we are forecasting). Our job of course, will be to maximize the opportunities that are available and deliver them on a risk appropriate basis. Nevertheless, we are nearing a point where monetary policy (low interest rates) is reaching the limits of its effectiveness and meaningful fiscal policy (tax reform, regulatory reforms and targeted infrastructure spending) is needed to potentially re-accelerate growth and reverse the potential of lower future expected returns on stocks and bonds.



Against this backdrop, what is an investor to do? The first thing all investors can do is to develop or revisit a concrete plan. Although markets are uncertain, everybody and every institution can develop a sound financial plan. You should know what you own in your portfolio and why you own it and develop a complete picture of your financial net worth. For example, what assets are liquid, which are not? How much do you need to work to amass sufficient assets for retirement if future returns are lower? What is your confidence score that if future returns are lower you won't run out of money? Can you answer these questions? If not, it may be time for a sit down with one of our financial planning experts to analyze them. Whether you are an individual or institutional investor it is also a good time to focus on asset allocation. Should you take more long-only equity risk to offset potentially lower future returns? Should you position your portfolio in more conservative investments given less attractive risk/reward tradeoffs or are hedged strategies a better compliment to your portfolio at this point in the market cycle? The answer to any of these questions is not the same for any two investors. Individual circumstances can and will lead to different answers to many of these questions. We look forward to having discussions about these topics with you in the future.

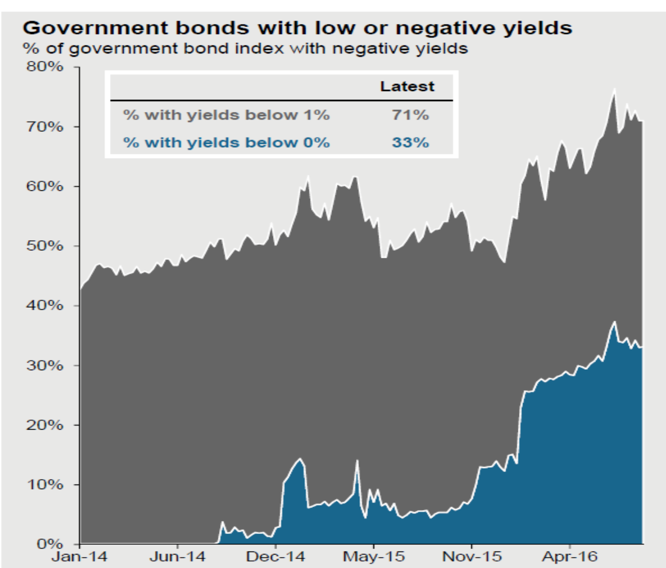
John Micklitsch, CFA, CAIA is the Chief Investment Officer at Ancora Advisors LLC a SEC Registered Investment Advisor.

The Impact of Foreign Demand on the U.S. Bond Market

Jim Bernard, CFA

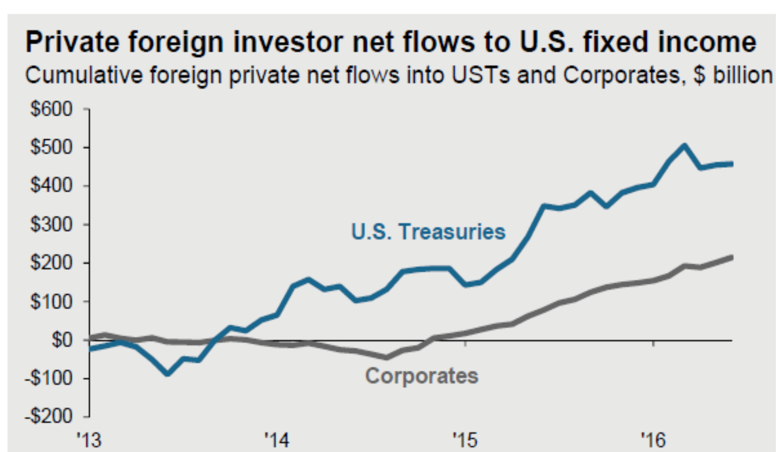
Managing Director, Fixed Income

Currently, nearly 71% of worldwide government issued bonds trade at yields of under 1% and approximately 33% of worldwide government issued bonds trade at negative interest rates.



Source: Bloomberg, J.P. Morgan Asset Management; (Right) BofA/Merrill Lynch.
*Target policy rates for Japan are estimated using EuroYen 3m futures contracts less a risk premium of 6bps. Government bond index is the BofAML Global Government Bond Index, which includes investment-grade sovereign debt denominated in the issuer's own domestic currency. The index includes all Euro members, the U.S., Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway and Sweden.
Guide to the Markets – U.S. Data are as of August 31, 2016.

With this backdrop, the U.S. bond market looks attractive to foreign investors, and has seen significant demand from non U.S. buyers in recent years. We expect this trend to continue and possibly accelerate. Many foreign buyers are not only attracted to our modestly higher relative interest rates but also may find investing their funds in our currency to be appealing.



Source: FactSet, J.P. Morgan Asset Management; (Bottom left) U.S. Treasury.
*Rolling six-month correlation of weekly change in yield.
Guide to the Markets – U.S. Data are as of August 31, 2016.

The effect of this buying certainly has held down our interest rates, flattened our yield curves, and reduced credit spreads on many of our corporate issued bonds. In addition, many foreign buyers are finding our very developed and mature mortgage backed securities markets to also be relatively appealing to them. The net effect of this foreign demand, added to our own demand for yield, has driven credit default spreads (the premium an investor pays for credit protection/insurance) down close to their all-time lows. Mortgage backed securities and government agency bonds also trade at or near historically low yields when measured on an option adjusted basis.

As the FED continues to seek out a "goldilocks domestic economy" (enough economic growth to satisfy them, with some, but not too much, inflation, and full employment, but not too tight of a labor market) – they continue to find excuses to not raise interest rates. While we still expect some modest increases in rates in coming years, with the current length of this economic recovery (almost 7 years) one could argue that an economic slowdown in the next few years is also likely. If this were to occur the FED could again be under pressure to stimulate economic activity, which could possibly include lowering interest rates once again. In other words, get used to things, we may not be going anywhere meaningfully on rates anytime soon.

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)

Important Information if You Are a Resident of Florida with a Home in Ohio

Howard Essner

General Counsel, Managing Director, Family Wealth Advisor

The Problem

Over the years, we have seen clients purchase second homes in Florida. We've also seen many of you establish domicile in Florida while keeping your Ohio home for occasional use. You now consider your Florida home as your primary residence. When you established your domicile in Florida, you applied for a Florida driver's license, registered to vote, and filed an affidavit of domicile, among other steps. During this process, you may have also claimed the Florida homestead exemption. But did you notify your county tax department that you were no longer entitled to your Ohio Owner Occupancy Credit (previously known as the 2½ Rollback Credit)? If not, you might be facing a claim from your Florida county property appraiser that you have committed homestead exemption fraud and owe back taxes, interest and penalties. This is especially true if you live in Sarasota, Duval or Pinellas County.

Some Background

The Florida homestead exemption generally permits a person to receive a tax exemption on up to $50,000 of assessed value of property in Florida if the property is your "permanent residence." However, under Florida law, a person receiving or claiming a tax credit in another state where permanent residency is required to obtain a credit is not entitled to the Florida homestead exemption. This is true regardless of whether Florida is the person's state of domicile, and whether the person is receiving or claiming the credit knowingly and willingly or mistakenly. Some counties in Florida (Sarasota, for example) believe that the Ohio's Owner Occupancy Credit is a residency-based credit, and anyone receiving it is not entitled to the Florida homestead exemption. They also conclude that not knowing that the Ohio credit is being provided or not knowing that it is a residence-based credit is not a defense.

In the past, Florida counties have enforced law themselves, and somewhat haphazardly. However, we've learned that property appraiser offices in Sarasota, Duval and Pinellas Counties have hired a law firm to investigate homestead fraud, and are paying the law firm a 30% commission on any back taxes, penalties and interest owed. That's a big incentive to find any technical violation. We do not know if other counties in Florida will following this strategy.

The Penalty

The lookback period for homestead exemption fraud in Florida is 10 years. If a Florida appraiser office finds that in any of the past 10 years you claimed a Florida homestead exemption while not being entitled to it, you will receive a Notice of Intent to record a Notice of Tax Lien for Homestead Exemption. The liability is for the back taxes owed, plus a penalty of 50% and interest at 15% per annum. Depending on how long you have owned both homes, your penalty could be thousands or even tens of thousands of dollars. Your only defense to a claim is that you were granted the exemption in Ohio as a result of a clerical error, e.g., you can prove that you notified the Ohio county to remove the Credit and they failed to so.

The Next Steps

If you own homes in Florida and Ohio (or any other state that grants a similar credit), you should review your property tax records in both states for the past 10 years. If you have not received a Florida homestead exemption in Florida, but believe you are entitled to receive one, you should contact your local appraisal office to obtain the necessary forms, while at the same time informing your Ohio tax official to remove your Owner's Occupancy Credit. If you have been receiving both a Florida homestead exemption and an Ohio Owner's Occupancy Credit, you should have the Ohio credit removed and contact your attorney or accountant to determine if there is anything you can do to minimize your exposure.

Howard Essner, JD, is the General Counsel at Ancora Holdings Inc.

401(k) Lawsuits: What You Need to Know as a Fiduciary

Peter Mooney
President, Ancora Retirement Plan Services

In light of recent activity surrounding 401(k) related lawsuits, we interviewed Ancora Retirement Plan Services President, Peter Mooney to get his take on the current 401(k) environment.

Q. There has been a lot of press lately about 401(k) plan related lawsuits. What are the major issues or drivers surrounding this wave of litigation?
A. There has been quite a bit of press lately about plan sponsors being sued by their employees as it pertains to their 401(k) plans. The major issue is the allegation of failing to monitor underperforming and high cost funds in the plan thereby driving up participant costs. The suits also go on to discuss that retirement plans have a duty to systematically and regularly monitor the plan investments, review the fees and also the number of investments that are available to participants in the plan.

Q. What steps or best practices should plan sponsors be taking right now to protect themselves from potential litigation?
A. Two things come to mind. First, every 401(k) plan should have an Investment Policy Statement that outlines a set of objective criteria by which plan investment options are evaluated. Second, plan sponsors should insist on meeting with the service providers who support the 401(k) plan on at least an annual basis. Meetings should review the responsibilities (and associated fees) of each provider as well as a review of the investment options available in the 401(k) plan.

Q. How can Ancora help plan sponsors right now with their current plans in light of the current environment?
A. Ancora Retirement Plan Services can help by conducting a comparative analysis for plan sponsors. This comparative analysis will provide a detailed review of the current investment options and a breakdown of the service provider fees on the current 401(k) plan for the plan sponsor. Gathering and evaluating this information is a critical part of the plan sponsor's fiduciary responsibilities to the 401(k) plan.

Q. How can they get in touch with Ancora for a 401(k) plan consultation?
A. Plan sponsors can feel free to contact me or Bill Koenig and we would be happy to discuss any aspect of your current 401(k) plan. Of course you can also reach out to your Ancora relationship manager who will coordinate the consultation. In the current environment it is a very good time to have a fresh set of eyes review your plan from a best practices standpoint.

Ancora Retirement Plan Services

Peter Mooney, President
216-593-5095
peter@ancora.net

Bill Koenig, Director
216-593-5093
bill@anora.net

Peter Mooney is the President, Ancora Retirement Plan Services at Ancora Holdings Inc.

About Ancora Holdings Inc.: Ancora Holdings, Inc. is a Cleveland, Ohio based holding company which wholly owns three separate and distinct SEC Registered Investment Advisers, Ancora Advisors, Inc., Ancora Inverness, Inc. and Safeguard Securities, Inc., which oversee assets under management in excess of $4 billion in aggregate. Ancora Advisors, LLC is an institutionally focused investment manager with dedicated equity and fixed income strategies as well as acting as the investment manager to both mutual funds and alternative investments. Ancora Inverness, LLC is a leading, regional investment and wealth advisor managing assets on behalf families and high net-worth individuals. Safeguard Securities is a dual registrant SEC Registered Investment Adviser and FINRA member broker dealer focusing on open architecture Retirement Plan Services. For more information on Ancora or Safeguard, please visit www.ancora.net, and for more information on Ancora Inverness, please visit www.invernesswealth.com.