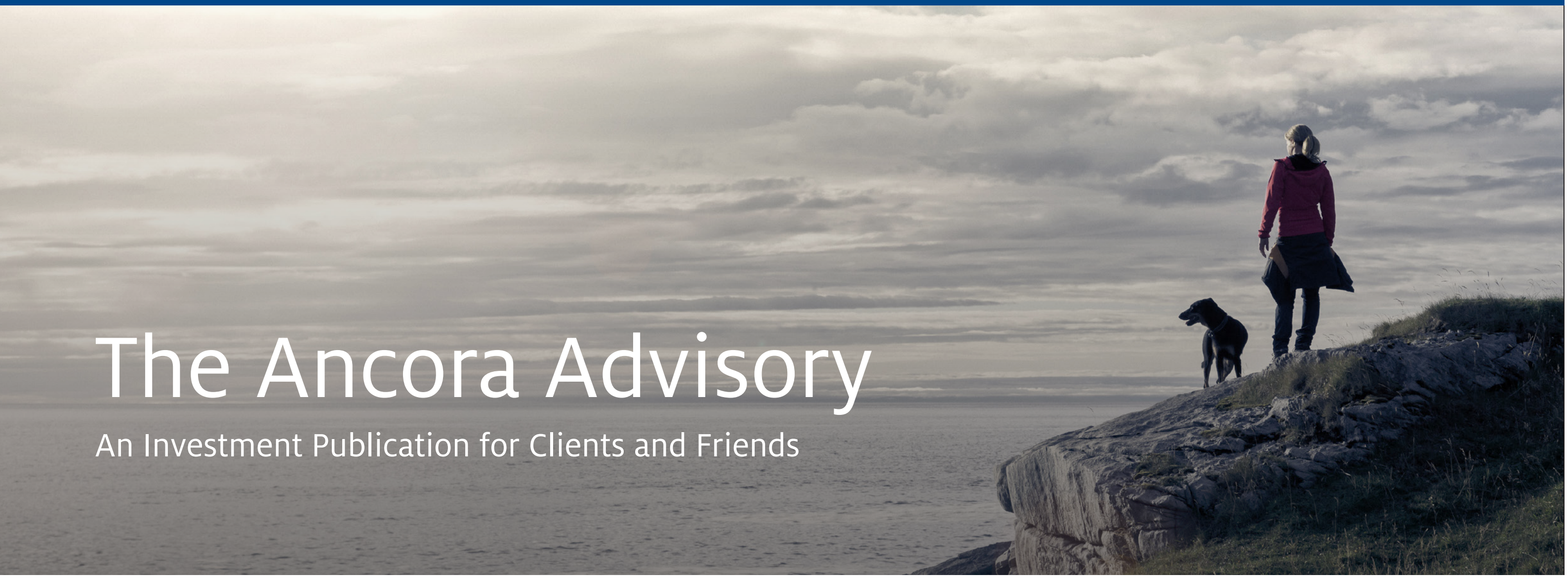
ANCORA

FAMILY WEALTH
ASSET MANAGEMENT
RETIREMENT PLANS

First Quarter 2019



The Ancora Advisory

An Investment Publication for Clients and Friends

Ancora Holdings Inc. consists of three business units; Family Wealth, Asset Management and Retirement Plans. With top-tier portfolio managers, unique investment strategies and an entrepreneurial spirit, Ancora delivers tailored solutions so you can achieve more … on your terms.

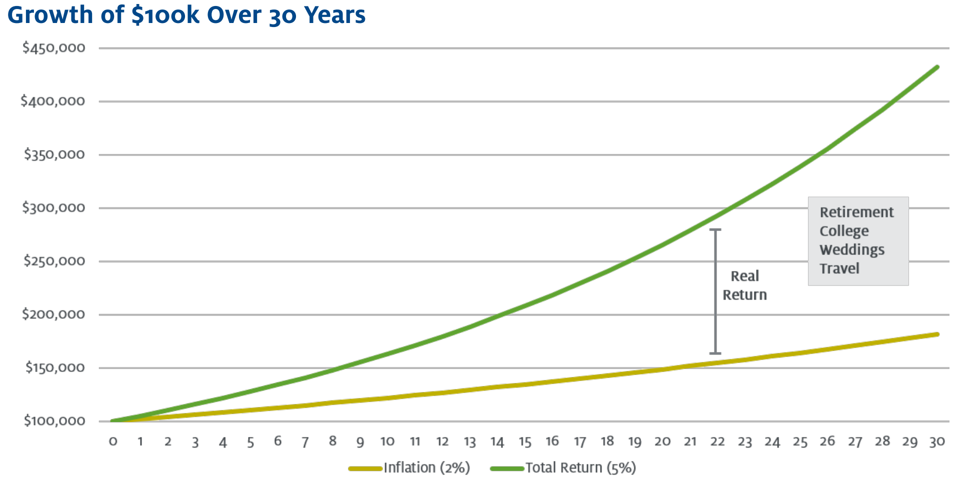
In Volatile Markets, Get Real

John Micklitsch, CFA CAIA
Chief Investment Officer

Most investors have in common a desire to see their money grow in "real" terms. A real return, as opposed to a nominal return, is the return generated in excess of inflation. It is the real return that grows purchasing power over time and makes it possible to enjoy greater consumption in the future than one can afford today. For example, if inflation runs at 2% and an investor earns a 5% nominal return, the investor is said to have earned a 3% real rate of return (5% - 2% = 3%) and the purchasing power of their assets has increased. If the investor's return only matches the rate of inflation, they have preserved their purchasing power but have not grown their wealth in any real terms. If they earn a return less than inflation, they are actually losing purchasing power, which is a position few long-term investors want to find themselves in for an extended period of time.

The reason earning a real rate of return over time is so important is that the real return is what allows individuals and institutions to accumulate enough wealth to afford things in the future, that they cannot afford today. For example, college tuitions, weddings and retirement are all life events that have enormous sticker shock when viewed in today's dollar terms. Earning a return higher than the rate of inflation is what "fills the gap" between your financial resources today and what is required to

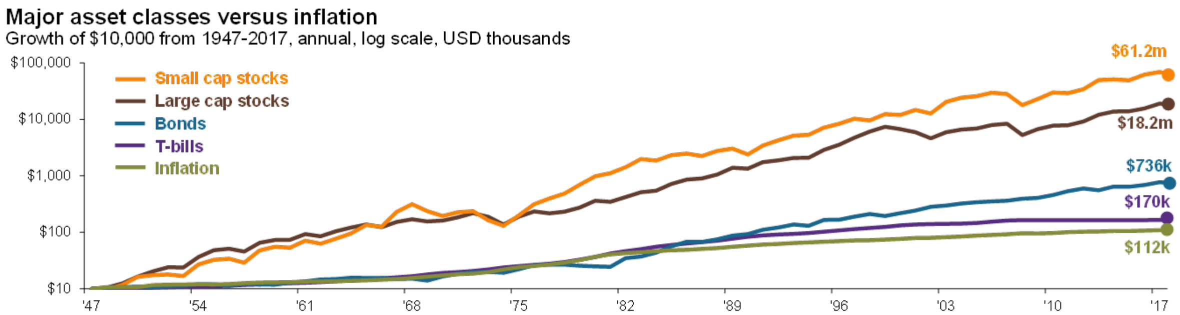
Growth of $100k Over 30 Years



Represents hypothetical growth over a 30 year period using 2% inflation rate and 5% total return rate.

fund tomorrow's larger ticket items.

The question for investors, therefore, is how to earn an attractive real rate of return on your assets. Cash and bonds are traditional asset classes at the more conservative end of the risk spectrum while stocks are generally considered to be on the more aggressive end. As a result of being less volatile, cash and bonds have "rewarded" investors with smaller real returns over time when compared to stocks. In his book, Stocks for the Long Run, Professor Jeremy Siegel indicates that from 1926 to 2006, stocks earned a real rate of return of 6.8% while long-term government bonds earned a 2.4% real return, making stocks the better choice for building long-term wealth as the below chart depicts.



Source: Ibbotson, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets - U.S. Data are as of December 31, 2018.
Chart courtesy of J.P. Morgan Asset Management, as published in *U.S. 1Q 2019 On the Bench*. Copyright 2019.

However, stock investors "pay" for that return premia by enduring periodic bouts of negative returns such as what we experienced in Q4 2018. In fact, according to JP Morgan, over the last 39 years the average intra-year correction for the S&P 500 index was 13.9%. Despite these occasional corrections, the S&P 500 still finished in positive territory in 29 out of the 39 individual years, or about 75% of the time. Not every investor needs or wants to take the level of risk associated with an all-stock portfolio because sometimes the drawdowns are deeper and take longer to recover than investors can withstand. As a result, many investors end up holding a mixture of both stocks and bonds to fit their unique risk and return objectives. Increasingly, investors are also including alternative return strategies into portfolios because they typically have lower correlations to traditional stocks and bonds. This can improve risk adjusted returns by potentially reducing overall portfolio volatility across a full market cycle.

In closing, when markets turn down, as they did in the fourth quarter of 2018, it becomes even more important to remind yourself why you are investing and tune out as much of the near-term market noise as possible. Retirement, travel, weddings and education are all very personal and tangible reasons "why" individuals invest. Pension obligations, operational support, future capital equipment needs and maximizing retained earnings are all reasons "why" institutions invest. No two investors' "whys" are exactly alike, but we all have in common the need to earn a real rate of return to achieve our goals. Long-term success in pursuing those goals is more likely to occur if we avoid focusing on near-term market distractions and redirect our attention instead to why we are investing in the first place. This will allow you to better stick to a long-term investment plan, which is a far better approach than attempting to time every uncomfortable, albeit temporary, dip in the market. ◊

Build It and They Will Come: Forecasting Future Capital Market Return Assumptions

Michael Santelli, CFA
Director, Portfolio Manager

Before we get started, let's define what is meant by "capital market return assumptions". This is a phrase the investment industry uses to frame the very important question, "What can investors expect to earn on their investments over the long-run?". These assumptions are therefore very important to our clients when analyzing their long-term financial plan. Key inputs to any plan include current financial resources, expected annual savings, expected returns on financial assets, expected retirement date, expected income needs in retirement and life expectancy. Lots of “expected” items on that list, which requires us to make assumptions in a sea of uncertainty. It is also important to note that the longer the time horizon of a financial plan, the more impactful the assumption for expected returns becomes.

The components of expected future returns are fairly simple to identify and involve income plus capital gain (or loss). The capital gain/loss component is further broken down between growth and valuation. This framework is often called a “building blocks” framework to estimate future returns. Many people rely on historical returns to estimate future returns, since they are known data points. We, however, believe this methodology is like driving forward while looking in the rearview mirror. The mirror may be clean, but you are still asking for trouble. We would rather look through the windshield, even if it is all fogged up. At Ancora, we determine appropriate capital markets assumptions using a building blocks framework, outlined below.

Building Block #1: Income or Yield

For bonds, the expected returns are simpler to discern than for stocks, because, if held to maturity with no credit issues, they pay off at par with no capital gains or losses. The expected return then is merely the yield at which the bond is purchased. For example, with the 10-year Treasury Note currently yielding about 2.6%, we can safely assume that an investment in that security will generate a 2.6% annualized return over the next 10 years. A good assumption for long-term expected returns for high quality bonds (i.e. those with minimal credit risk), is the current yield to maturity.

For stocks, the process is more involved and not nearly as precise. However, the simple formula of income plus capital gains still holds. Starting with the income component we’ll use the S&P 500 as a proxy for stocks in general for the purpose of this example. The forward dividend yield on the S&P 500 is currently about 2.1%. Conservatively, we can start with that as our income component. There is, however, a good case to be made that adding in some level of stock buybacks would be appropriate as an additional component of income. This is where things can get tricky because stock buybacks are pro-cyclical. That means companies buy back more stock when times are good, and they have more cash, than when times are bad. According to Yardeni Research, since 1999 the stock buyback yield has been, on average, somewhat greater than the regular dividend yield. Yardeni also notes that dividends plus buybacks together account for almost all S&P 500 operating earnings since the 2008 financial crisis. This does not leave much in the way of retained earnings to fund growth. It is also important to note that both yield components went down significantly in the 2008 crisis, so this income is not as certain as the bond income. As we can see, with equities things can get a bit messy.

Building Block #2: Growth

On to the capital gains component, starting with growth. Over the long-run, stock prices should follow earnings growth. Earnings growth, in the long-run, is a function of nominal economic growth, which is broken down into real economic growth and inflation. Long-run economic growth is a function of labor force growth and productivity growth. This is the building blocks framework. According to JP Morgan in their U.S. 1Q 2019 Guide to the Markets publication, the U.S. labor force is expected to grow at 0.2% going forward and productivity growth in the last 10 years was just short of 1%. Long-term productivity growth has been higher than 1%. The final component to growth is inflation since, over the long term, earnings should keep up with inflation.

Building Block #3: Valuation

This building block could be termed the “speculative” component and is merely trying to capture a normalization of valuation measures. To estimate this component, we need to assume that there is a “normal” earnings multiple that the stock market will gravitate to over time. This is trickier than it sounds. For example, JP Morgan’s 1Q 2019 Guide to the Markets estimates that the average forward price/earnings multiple since 1994 has been 16.1x. As of 12/31/2018, it was 14.4x. This would imply a slight tailwind to returns as multiples move back to normal. Meanwhile, the so-called Shiller PE, a cyclically adjusted price/earnings ratio, was at 33.2x as of the most recently available data from September 2018 with the average since 1994 at 26.8x. This would imply a fairly stiff headwind to returns as multiples normalized.

To add further debate on the valuation component of estimated forward returns, profit margins are currently at all-time highs. According to JP Morgan, S&P 500 operating margins touched 12.1% in Q3 2018 while the average since 1992 is closer to 8%. If current margins were to normalize to that average, it would be a gale force headwind to profits and, in that scenario, stocks would have a difficult time generating attractive returns.

Conclusion

Using the building blocks framework, we believe that over the next decade and longer, bond market and stock market returns will be lower than they have been in the past for a few reasons.

1. The starting yields for both the bond market and the stock market are lower than they have been historically.
2. Earnings growth is likely to be lower than it has been historically due to lower real economic growth going forward.
3. Valuation is likely to be either neutral or a mild headwind depending on multiple and margin normalization and the level of interest rates.

These assumptions are important for long-term planning purposes. As a result of this research, Ancora has incorporated fairly modest long-term return assumptions into financial plans for our clients. Please reach out to us with any questions you may have. ◊

Share Buybacks: What You Need to Know as an Investor

Sonia Mintun, CFA
Managing Director, Portfolio Manager

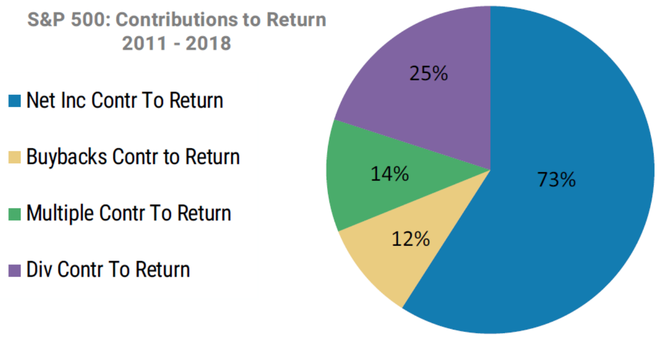
Recently, corporate share buybacks have become a target of scrutiny by a few politicians. There is even isolated talk of a proposal linking a ban on buybacks unless a company is paying at least $15 an hour, giving employees seven days of paid sick leave, a pension and healthcare. Another proposal would seek to place a tax on share buybacks in order to drive more domestic capital investment. Putting aside the political rhetoric, let's take a look at how share buybacks are used today and what their true impact is on the market.

Not all buybacks are created equal. Companies often buy back shares to boost earnings as, typically, earnings-per-share figures go up as the number of shares goes down. Buybacks can be made after a company has done analysis concluding that their stock is undervalued. Companies also frequently repurchase shares to offset the dilutive effect of employee stock options or restricted shares awarded to incentivize and align their staff as long-term shareholders. In addition, they are sometimes made late in the economic cycle when there are fewer attractive alternatives for spending cash. Buybacks are often viewed as investments in lieu of capital spending or dividends, but are usually made at times when cash flow is high and all options can be considered. Occasionally, repurchases are made to the detriment of the company, where debt is taken on for the repurchases only to see a subsequent and significant drop in the share price.

Recent tax reform has been a driver of share buybacks by permitting companies to repatriate foreign earnings back at a more attractive tax rate, which has provided an influx of capital for buybacks. The previous American Jobs Creation Act of 2004 specifically discouraged the use of repatriated cash for buybacks, while no similar restrictions exist now. In general, post the 2008-2009 financial crisis and subsequent quantitative easing era, there has been a sharp rise in the amount of stock repurchases, with low interest rates being a significant contributing factor. The S&P 500 index divisor is at a 20-year low, reflecting a reduction in equity supply. However, mergers and acquisitions are also a reason for decreased supply.

There may be a perception that share buybacks have made a large contribution to total return. However, a research study by Morgan Stanley, published 19 February 2019, shows that with cumulative total return of the S&P 500 of 124% between 2011-2018, net income growth led the increase with 73% contribution, dividends 25%, forward P/E multiple expansion 14%, while share buybacks were 12% of the return.

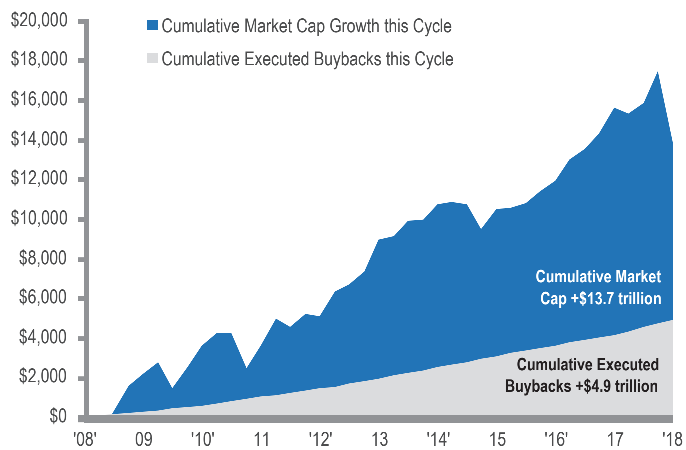
S&P 500: Contributions to Total Return (124%), Jan. 2011-2018



Source: FactSet, Morgan Stanley Research. A note on methodology: Return attributions above are approximations. Due to the multiplicative interplay between higher multiples and earnings, a clean additive disaggregation of their contributions is not possible. As such we used logs to disaggregate the return drivers into additive components and looked at proportional contribution of each additive component. Large changes over time make these rough approximations. As a secondary method, we allocated the change in EPS based on the ratio of the change in net income to the change in EPS. Results from both methods were similar. Returns are based on changes in LTM earnings and multiples. Dividend contribution to return derived as the difference between total return, with gross dividends, and index price appreciation. Chart courtesy of Morgan Stanley, as published February 2019. Copyright 2019.

Furthermore, buybacks as a theme through the current cycle have contributed approximately 2% to annual EPS growth as S&P 500 companies have returned about $5 trillion to shareholders via repurchases, as shown below from a 25 January 2019 research publication by J.P. Morgan.

Buybacks A Key Theme of the Cycle



Source: J.P. Morgan US Equity Strategy
Chart courtesy of J.P. Morgan Chase & Co., as published January, 2019. Copyright 2019.

Annual Change in S&P 500 CapEx $B

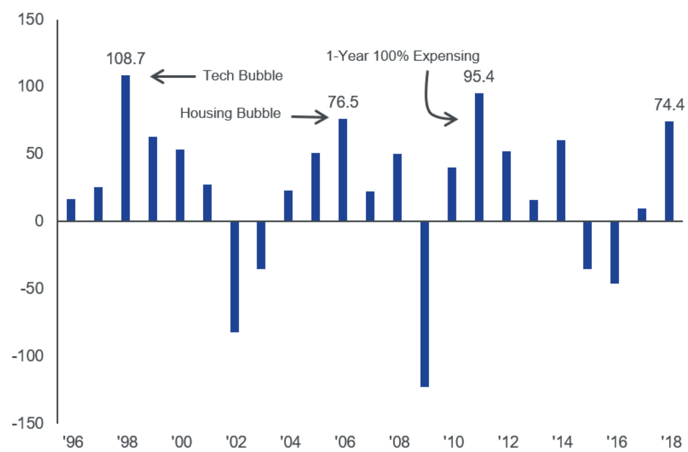
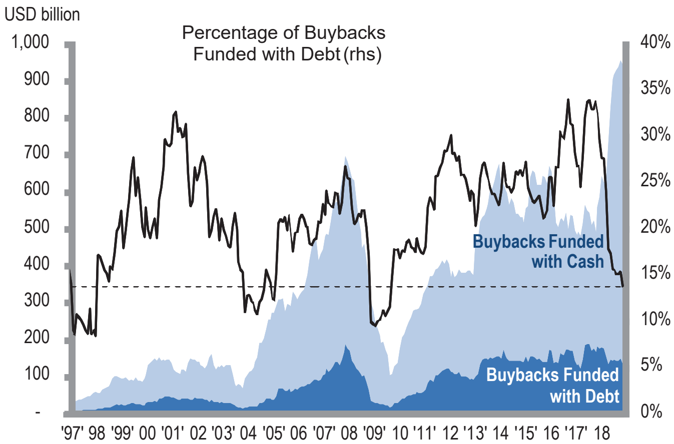


Chart courtesy of Strategas, as published February, 2019. Copyright 2019.

Despite higher shareholder payouts, S&P 500 companies have demonstrated their commitment to growth via investment with double digit increases in capital spending and R&D. In fact, S&P 500 capital expenditure, "CapEx," had the fourth largest increase on record in 2018, suggesting that investing for the future is not being ignored as some would have you think. This is shown above from a 14 February 2019 publication by Strategas Research Partners.

According to J.P. Morgan, companies that have returned capital to shareholders in the way of share buybacks and dividends tend to do better in challenged markets, outperforming their peers by 1.5% on average during corrections and by 2% during recessions looking back to 2000. In addition, these higher buyback yield stocks tend to be less volatile compared to their peers. We witnessed record buyback announcements of $938 billion in 2018 that were high quality in nature, funded predominantly by cash rather than debt. While the leverage spread, earnings yield less bond yield, remains attractive at over 200 basis points, there has been a noticeable decline in companies using debt funding of buybacks which peaked at ~34% in 2017, declining to ~14% most recently suggesting that as interest rates have ticked up, companies have begun to curtail their more opportunistic use of debt to fund repurchases. This can be seen in the next chart, also from the recent J.P. Morgan publication.

Buybacks Increasingly Cash Funded



Source: J.P. Morgan US Equity Strategy
Chart courtesy of J.P. Morgan Chase & Co., as published January, 2019. Copyright 2019.

In terms of sectors where share repurchases have been most prominent, Technology had the heaviest weight given their stronger growth, higher margins, lower capital requirements as well as higher overseas cash balances.

In summary, in our view, shareholder payout ratios, be it dividends or share buybacks, are low and sustainable. Late last cycle, companies returned 100% of profits to shareholders versus the current 75% level. Given the remaining share buyback authorizations and the high cash balances that remain overseas, as well as where we are in the current cycle, we believe that the trend for buybacks will continue and that efforts to put an end to them will be ineffective. ◊

The Value in Value Investing

David Sowerby, CFA
Managing Director, Portfolio Manager

Value investors have not had as much to cheer about in the last several years. While returns have been comfortably positive, the value approach of seeking to buy undervalued and more deeply discounted securities has lagged the growth style approach. The difference between the value and growth investor can be easily summarized as the value investor seeks stocks whose valuations, as measured by metrics such as their price to earnings ratio (P/E), sell at a discount to the overall market. The growth investor will typically seek securities with greater stability in profits and pay a higher P/E, or valuation.

The value and growth investment styles typically rotate through periods when one or the other has superior returns. Encouraging to the value investor, over the very long term, value investing has a stronger track record with lower volatility. The desire to not overpay for transactions, whether for a home, car or in this case, securities, has an intellectual appeal to value investors. That is supported by legendary investors such as Benjamin Graham, acknowledged as the godfather of value investing, and Warren Buffett.

In the last two years, value stocks have lagged growth stocks. Specifically, using typical Russell indexes for value and growth, the Russell 1000 Growth Index has a compound return of 13.2%, while the Russell 1000 Value Index has compounded at 2.1% as of 12/31/2018. The gap was noticeably wider in the last 18 months. There are sensible reasons for value stocks lagging, in this case think about the popularity of the FANG stocks made up of Facebook, Amazon, Netflix and Google (now Alphabet, Inc.). They are classified as growth stocks and have witnessed above average returns while trading at P/E ratios well in excess of the overall market that a value investor would be less likely to pay for a security. While each of the FANG stocks has its own business model success story, the average P/E ratio of the four is currently 66x trailing profits, compared to the S&P 500 selling at a P/E of 18x.

For the value investor there have been similar periods in the last fifty years where their style of investing has lagged due to some event in the market creating a greater headwind to achieving superior returns. The table below shows four prior periods where value stocks have lagged when the market has had a bias of rewarding much higher-P/E stocks. Eventually, valuation mattered and the outcome proved positive for the value-oriented investor. Those periods were the Nifty 50 in the 1970s, the Biotech-lead market in the early 1990s and the Internet-based Dotcom market of the late 1990s. In each episode, investors were willing to pay significantly higher valuations for stocks relative to their profitability. In each case, investors who pay heed to the value strategy and discipline were subsequently rewarded commensurate with their long-term returns of value investing strategies.

Period		CAGR - Growth	CAGR - Value
1970-2018	Value leading Growth in long-term	9.55%	11.81%
1970-1972	Nifty 50 period Growth leading Value	22.62%	15.55%
1972-1977	Post Nifty 50 Value leading Growth	-4.56%	11.08%
1989-1991	Biotech period Growth leading Value	18.70%	7.00%
1991-1996	Post Biotech Value leading Growth	13.36%	17.21%
03/1998-03/2000	Dotcom period Growth leading Value	31.08%	5.69%
03/2000-03/2005	Post Dotcom Value leading Growth	-11.28%	5.19%
2016-2018	FANG period Growth leading Value	13.24%	2.11%
2019	To be seen if the pattern continues		

Source: Ibbotson, Russell, FactSet

Utilizing French-Fama until 12/31/1978, Russell from 1/31/1979. ◊

Lifetime Planning Q&A: How it Benefits You

Howard Essner, JD
General Counsel, Family Wealth & Retirement Plan Advisor

Q: Howard, 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 road map to achieve those goals and overcome the risks that might stand in the 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 planning, legacy and estate planning and social security optimization, among many others.

Q: How does comprehensive planning help clients achieve their overall goals?

A: Achieving financial goals is not possible without first articulating what those goals might be. Therefore, 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. We will develop comprehensive reporting on all of the client's assets, not just those managed by us. A customized investment portfolio can then be developed around these goals and plans. Success is defined in terms of achieving long-term goals, rather than focusing on short-term benchmark comparisons. We have found this mindset, ironically, leads not only to better lifetime planning success but to better investment outcomes along the way as well.

Q: How are taxes taken into account in the planning process?

A: Most of our clients have different tax "buckets" of assets. These can include pre-tax assets (IRAs, 401ks and annuities), after-tax assets (taxable investment accounts and bank accounts), and tax-free assets (Roth). We will help identify the optimal withdrawal strategy from a tax perspective to maximize lower-rate tax brackets, while not overpaying by spilling over into a higher bracket. We will help evaluate Roth Conversion strategies as a way to minimize highly-taxed Required Minimum Distributions from large IRAs. We understand and take into account the IRMAA Medicare premium adjustments (which we wrote about last year) in this process as well.

Of course, estate taxes also play an important role. While fewer clients are subject to estate taxes these days, the estate and gift tax limits are in flux and could change dramatically over the next few years depending on the climate in Congress. For those clients who might be subject to estate taxes, we will work with the family's estate planning attorney to design a plan that optimizes tax saving opportunities.

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

A: Ancora's depth of experience, team approach and level of customization in the planning process are all unique. The Client's Lifetime Planning team will include professionals with experience in the areas of investments, insurance, tax and estate law. Our team members have earned many of the most respected professional designations and degrees in their field including Chartered Financial Analyst®, Certified Financial Planner® and Certified Public Accountant®, Juris Doctor (JD) and Master of Business Administration (MBA). In our opinion, that level of cross-discipline expertise in working with clients on their planning needs is unique and sets Ancora apart. Our only objective is to help clients understand and achieve their financial goals. Furthermore, all of this is done in close coordination with existing tax and legal advisors so as not to be disruptive to established relationships.

Q: Who is a good candidate for adding financial planning to their overall wealth management picture?

A: Anyone with questions or concerns about their financial future is a good candidate to tap into our experience, 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 the time when they will begin to draw on their investments.
> Elderly clients who want to maintain a lifestyle while providing a legacy for their family or charity in a tax-efficient way. ◊

As always, don't hesitate to contact your Ancora advisor or relationship team if you have any questions or would like to learn more about these topics. Visit our website at www.ancora.net to read past newsletters and find other news and insights from the investment professionals at Ancora.

Disclosures: The mention of specific securities, the securities of foreign exchanges and investment strategies in this presentation should NOT be considered an offer to sell or a solicitation of an offer to purchase any specific securities or securities listed on a particular foreign exchange. All data contained in this document is based on information and estimates from sources believed to be reliable. Please consult an Ancora Investment Professional on how the purchase or sale of specific securities can be implemented to meet your particular investment objectives, goals and risk tolerances. Past performance of investment strategies discussed is no guarantee of future results or returns. Investment return and principal value will fluctuate so that an investment when redeemed or sold may be worth more or less than the original cost. Statistics, tables, graphs and other information included in this document have been compiled from various sources. Ancora believes the facts and information to be accurate and credible but makes no guarantee to the complete accuracy of this information. An investment is deemed to be speculative in nature.

Ancora Holdings Inc. is the parent company of three registered investment advisers with the United States Securities and Exchange Commission; Ancora Advisors, LLC, Ancora Family Wealth Advisors, LLC and Ancora Retirement Plan Advisors, Inc. In addition it owns Inverness Securities LLC, a FINRA & SIPC member broker dealer. A more detailed description of Ancora, its RIAs, management team and practices are contained in the firm brochure, Form ADV Part 2a. Qualified prospective investors may obtain the ADV Part 2a by contacting the company at: 6060 Parkland Boulevard, Suite 200, Cleveland, Ohio 44124, Phone: 216-825-4000, or by going to www.ancora.net.