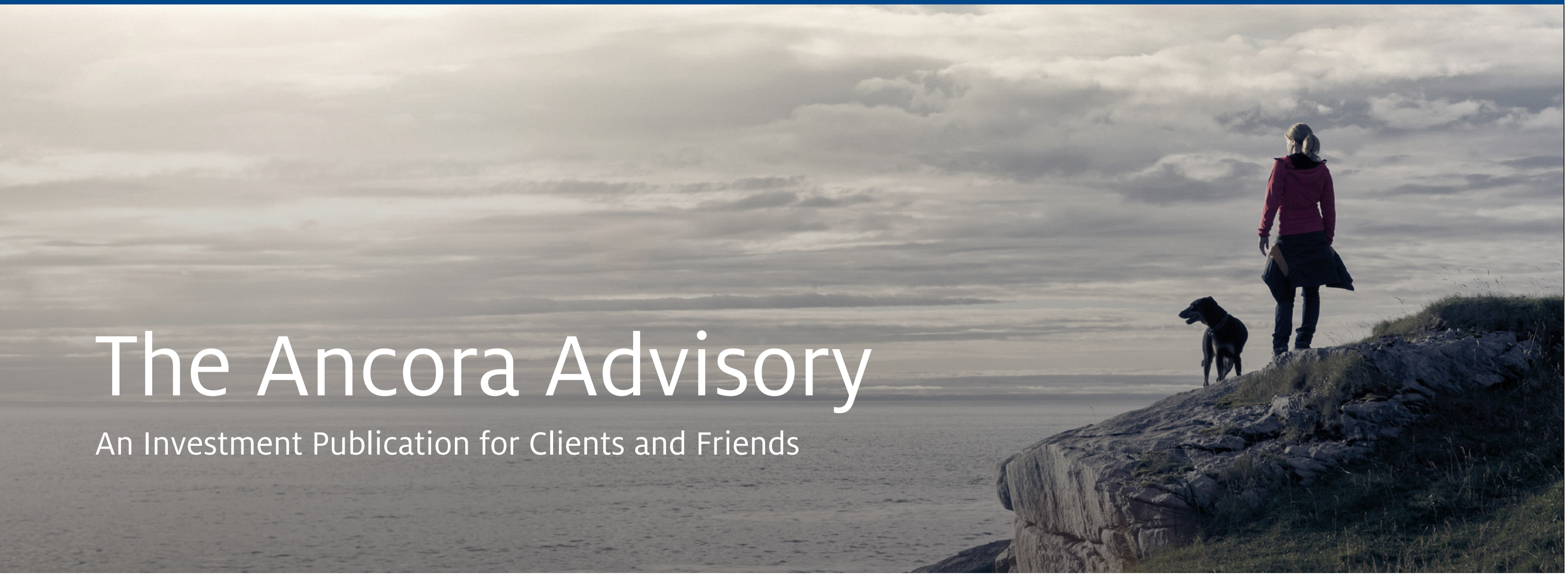
ANCORA™
FAMILY WEALTH
ASSET MANAGEMENT
RETIREMENT PLANS

Fourth Quarter 2018



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.

Portfolio Beta: What is Your Number and Why Should You Care?

John Micklitsch, CFA CAIA
Chief Investment Officer

According to Investopedia, beta is defined as "a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the entire market or a benchmark." This definition, as usual, is a mouthful for most investors who are simply trying to understand certain aspects of risk in their portfolio. Although beta applies to both individual securities and portfolios, to simplify the concept for the purpose of this article, we are going to use the example of beta as it relates to an overall portfolio and are going to make the reference benchmark the S&P 500 Index or the "market" as it frequently is called.

Beta could be positive or negative and combines elements of return, volatility and direction. The directional aspect of beta is a function of whether the portfolio's beta is positive or negative. A positive beta is associated with a tendency of the portfolio to move in the same direction as the market. A negative beta is associated with the expectation that a portfolio will move in the opposite direction of the market. A beta close to zero indicates the portfolio is not influenced by the market's direction.

The magnitude of the portfolio's expected move is measured relative to the market's beta, which is set at +1.0. For example, a portfolio with an overall beta of +0.7 would be expected to earn 70% of the market's return under normal circumstances. Portfolios, however, can also have betas greater than 1.0, such that a portfolio with a beta of +1.25 would be expected to earn 125% of the market's return and so on. In this case, the 25% additional return is the compensation the investor expects to receive for holding riskier assets, which is where the volatility component of beta comes into play. In a down market, the portfolio with a beta of +0.7 would only be expected to be down 70% as much as the market. The portfolio with a +1.25 beta, however, would be expected to be down 125% of the market's decline, an outcome that represents the other side of the coin for riskier portfolios.

In terms of how you calculate a portfolio's beta, there are two primary ways. One is derived from the portfolio's actual past returns relative to the assigned benchmark (e.g. S&P 500) and the other is calculated from the ground-up, security by security, on a weighted average beta basis. Typically speaking, equity-oriented assets have betas close to +1.0, core fixed income has beta close to 0.0, alternative investments can have lower but still positive betas and outright portfolio hedges, such as S&P 500 puts, have negative betas. Simply weighting the expected beta of the various securities in the portfolio will give you a rough estimate of the portfolio's overall beta before taking into consideration any correlation benefit between asset classes.

The reason that knowing your portfolio's approximate beta is so useful is that it gives you an estimate of the expected volatility of your portfolio during weaker market environments, such as the one we are currently experiencing. This is an important step in managing emotions during market selloffs. If an investor's portfolio has a beta of +0.5, for example, and the market is down 10%, one could reasonably expect their portfolio to decline by 5%. Could you live with that? If the market was down 20%, that same portfolio could be expected to be down 10%. Could you live with that? If there is a point where you no longer feel comfortable with the expected portfolio downside, then adjustments can be made to the overall asset allocation to reduce beta, because trying to time market volatility is not a winning long-term strategy in our view.

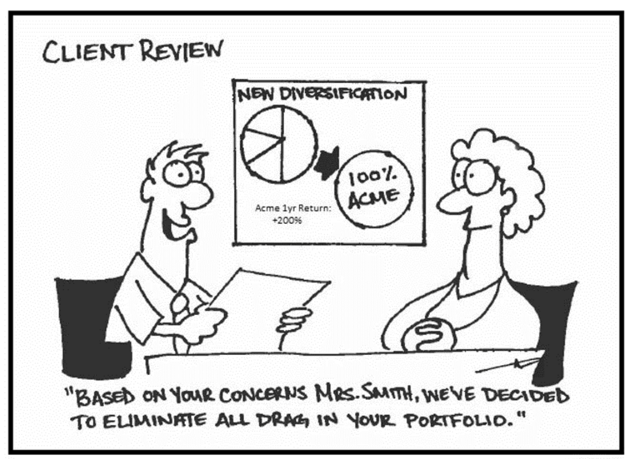
With this knowledge in hand, if you have any general questions about beta or are interested in a specific conversation around beta and your portfolio, we would be happy to discuss further. Please feel free to reach out to your Ancora relationship manager and we will get it scheduled. ◊

Diversification or Di-WORSE-ification; A Risk Management Tool or a Drag on Returns?

Michael Santelli, CFA
Director, Portfolio Manager

Diversification is a primary tool in the important process of risk management, which, in our opinion, is an important part of portfolio management. Risk management, at some level, means trading off the possibility of big upside returns for a reduction in the possibility of big downside returns.

We have the ability to build diversified portfolios for clients that include domestic stocks, international stocks, bonds and alternatives when appropriate. Through the first three quarters of the year, the only major asset class that had generated positive returns was US stocks and, in particular, growth stocks. As the cartoon suggests, why don't we just allocate all client assets to the best performing asset class? Of course, if we could, we would. However, markets are uncertain and we are not clairvoyant. Harry Markowitz, one of the fathers of modern finance and 1990 Nobel Prize winner in Economics, called diversification "the only free lunch in finance".



361 Capital

Cartoon reprinted with permissions from 361 Capital.

The theory is that by diversifying into asset classes that are not highly correlated with one another, that is, they move up and down at different times, an investor can either reduce risk without sacrificing expected returns, or increase expected returns without adding risk. As these uncorrelated asset classes generate different returns, an investor has the choice of whether to rebalance or not. Rebalancing trims the winners and adds to the losers in the expectation that there is mean reversion over time. The problem is that this strategy works in the long run. In the short run, there always seems to be one asset class that is significantly outperforming others. In recent years, that outperforming asset class has been domestic large cap growth stocks. Despite the poor performance of international stocks and bonds so far this year, we will continue to encourage investing in diversified portfolios that include those asset classes, but will tailor the exposure to the risk tolerance and needs of each individual client. It is worth noting that history is littered with examples of today's outperforming asset classes becoming tomorrow's underperformers.

In terms of defining risk, we believe a good starting place is the likelihood of a permanent impairment of capital. To reduce this form of risk, we do not put all of our eggs in one basket and focus on quality in both the equity and fixed income sides of the portfolio. Where appropriate, we add alternatives for further diversification of return streams. We believe this approach limits the risk of permanent impairment of capital, because quality tends to endure and risks are spread across different asset classes.

If a portfolio has more risk than an investor is comfortable with, there is another risk to consider, the increased likelihood that the investor is unable to hold on for the long haul through the normal ups and downs of the markets. If this is the case, the investor may bail from the portfolio at precisely the wrong time, turning a temporary impairment of capital into a permanent impairment of capital. To mitigate this risk, we tailor portfolios to the personal risk tolerance and return needs of each client. We are not swayed by investment fads nor overly attracted to the current "hot" asset class du jour that can also cool so quickly. We will stay focused on the task at hand; to protect and prudently grow client portfolios to meet their long-term goals, utilizing best practices around portfolio construction that have withstood the test of time. ◊

Q&A on The Role of Technical Analysis

Rick Renner
President, Family Wealth

Q: Rick, let's discuss the basics of technical analysis. In a nutshell, what does the term technical analysis mean?

A: When investing in securities, technical analysis means using market statistics, market history and chart patterns in an attempt to establish the best time to purchase a given stock (or any other type of security). Many different types of charts can identify specific patterns which may reveal preferential timing of the buy/sell decision. Technical analysis is based on three main assumptions:

1. The market discounts everything
2. Price movement follows trends
3. History repeats itself

We have all heard sayings like, "sell in May and go away," "the trend is your friend" or, "the stock is trading at its support level." These are all examples of technical and historic indicators.

Q: How does technical analysis differ from fundamental analysis?

A: Where fundamental analysis judges the merit and valuation of a specific company, technical analysis is not concerned with a stock's valuation, but instead focuses on past trading patterns and what information that data may provide about future price movements. To take this idea a little deeper, below is a list of some of the specific differences between fundamental and technical analysis:

Fundamental Analysis Focus	vs.	Technical Analysis Focus
What to buy		When to buy
Company management		Trend analysis

Fundamental Analysis Focus	vs.	Technical Analysis Focus
Earnings quality		Relative strength
P/E ratios		Momentum
Quality of products or services		Historical trading analysis
Competitive advantages		When to sell

Q: What are some of the key technical indicators to consider when looking at the overall market or a specific security?

A: At Ancora, we consider ourselves to be students of the market in all its forms. Therefore, we like to look at a variety of historical facts and trends in addition to strong fundamental analysis. More specifically, we review trends which show "over bought" or "over sold" conditions in individual securities or the overall market. We also will look at how stocks trade relative to a long-term trend chart and take note when a stock begins to have higher trading volumes.

We use technical analysis to determine what we consider to be the best time to buy a company that is trading at or near a 52-week low. Consequently, we can identify potential bargains by shopping in "unloved" sectors. While fundamental analysis of quality and corporate competitive advantages remain our best way to evaluate the long-term potential of an investment, technical analysis can be a valuable and complementary tool to potentially better understand more favorable times to buy or sell. ◊

Estate Planning for Digital Assets

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

Traditional estate planning addresses how your assets will be distributed at your death and provides for access to these assets if you become incapacitated. To make this process as smooth as possible, we always recommend that clients maintain a current list of assets such as bank, investment and retirement accounts, insurance policies, physical assets and real property. These days, many of us spend much of our time online, making it increasingly important to also address "digital assets" as part of an estate plan. Fortunately, there are now laws in many states, including Ohio, that help ensure that fiduciaries have access to these assets.

Digital assets may include the following, among others:

- Purely electronic items that have an actual monetary value, such as cryptocurrencies like Bitcoin and others, domain names, and online businesses
- Access to computing equipment, hard drives, smartphones, tables and other digital devices
- Online access to social media accounts, such as Facebook, LinkedIn, Twitter, etc.
- Online access to financial information, such as bank and investment accounts
- Electronic communications such as email accounts and private and public messages
- Personal items stored online, like photos and videos, genealogy information, etc.

The first step to prepare a digital estate plan is to complete an inventory of these assets. This inventory should include a list of the online accounts, login information, passwords, secondary passwords or dual-authentication methods and the location and passwords for the hardware itself. A written or electronic inventory can also be used, but it is important that this document be updated regularly and stored securely. There are many secure online storage programs built for this purpose, including eMoney, the online vault used by Ancora for our clients. No matter which method, you will also need to make sure that the person who you wish to manage these matters or your estate planning lawyer knows how to access your inventory.

It is important to consider who should have access and what they should do with the information. You may want to make sure that your family has access to family photos and other information. On the other hand, there may be sensitive information that you do not want shared with certain family members and which should be deleted from the digital realm. Digital assets that have monetary value may need to be sold or transferred to family members or business associates. You can document your directions as part of your inventory or in a separate document that is incorporated into your estate plan.

It is very important to note that just giving a third-party access to your list along with instructions is not sufficient. Without the proper authority under law, a third party accessing your accounts may violate the provider's Terms of Service, resulting in loss of access to the account. It may also be a violation of the law. In Ohio, for example, a properly designated fiduciary has legal access to your online accounts and the custodian of those accounts must provide access to manage the account. However, because the electronic communications are afforded greater protection under Federal law, the fiduciary does not automatically have the right to access these communications unless you specifically grant this authority.

Under this law, you can name this fiduciary authority in many ways. For example, the fiduciary could be the executor of your estate as designated by your will, a trustee of a trust, a guardian appointed by a court, or an agent named by you under a power of attorney. Also, some online services are now allowing for the designation of a legacy manager. Examples of this include Facebook's legacy manager and Google's Inactive Account manager. These online designations are recognized under Ohio law and have priority over other methods. With these new laws, many estate planning lawyers are now including specific language in their documents concerning digital assets.

Note: this article is intended to provide broad, general information about the law, and is not intended to be legal advice. Before applying this information to a specific legal problem, readers are advised to seek advice from a licensed attorney. ◊

IRS Approves Student Loan 401(k) Matching Program

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

Bill Koenig, JD, MBA
Director, Retirement Plan Advisor

At Ancora, we act as fiduciary investment advisors for employer-sponsored retirement plans, such as 401(k)s. We often meet with the employees of these retirement plan clients to discuss the benefits of contributing to their plan and encourage them to save for retirement and other life events. In these discussions, we hear a lot of concern from young professionals about the financial burden of paying back student loans. In some cases, these burdens are so great that the employee simply cannot afford to contribute to the retirement plan, possibly missing out on the employer matching contribution that is often a provision of the plan. A recent ruling from the IRS provides some interesting perspective on this problem and one employer's creative way to deal with it.

In this ruling, an employer (later publicly acknowledged to be Abbott Laboratories), asked the IRS for a ruling to approve a new matching contribution structure for their retirement plan. Under this structure, an employee who contributes at least 2% of his or her compensation to the plan would receive a matching contribution equal to 5% of compensation. In addition, and here's what's interesting, an employee who voluntarily participates in a student loan repayment program, and remits 2% or more of compensation toward loan repayment, would also receive the 5% match in the retirement plan. An employee would receive only one company match, even if he or she made contributions to both the 401(k) plan and participated in the student loan repayment program. The IRS approved this structure under very technical rules.

A few key points:

- The ruling is called a "Private Letter Ruling," and it applies only to this employer. Another company cannot rely on this letter in adopting a similar structure and would have to seek its own ruling; a time consuming and costly process.
- Abbott's simple matching structure made this program easy to comply with the very technical discrimination testing and other rules. Other more complex company matching structures might run afoul of these rules.

The key takeaway is that there may be new ways for employers to encourage their employees to repay student loans and to still reap a benefit through the employer's retirement plan. A number of retirement plan advisor trade groups have contacted the IRS urging them to issue a broader ruling, applicable to all retirement plans, that provides guidance on how a program like this can be implemented.

Stay tuned for more information. Of course, please let us know if you would like more information about Ancora's retirement plan advisory services. ◊

IRS Retirement Planning Limits

Bill Koenig, JD, MBA
Director, Retirement Plan Advisor

Each year, the Internal Revenue Service releases updated limits that impact the ability to plan and save for retirement. We have compiled a number of these data points that we believe may be relevant to you as we look ahead towards 2019.

Plan Type	2019 Deferral Limit
401(k) / 403(b) / 457	$19,000 (+ $6,000 catch-up if age 50+)
SIMPLE IRA	$13,000 (+ $3,000 catch-up if age 50+)
Traditional & ROTH IRA	$6,000 (+ $1,000 catch-up if age 50+)

Source: Internal Revenue Service ◊

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.