The Year 2015: the volatility continues

The Dow Jones Industrial Average is made up of 30 large, well-known companies. It is the best known and oldest of the many yardsticks that measure stock market performance.

While not necessarily a household name, the S&P 500 Index—as its name implies—is made up of 500 larger U.S. companies. It captures about 80% of the entire market capitalization (S&P Dow Jones Indices), and is the most often quoted measure of market performance among analysts.

While the S&P 500 made significant advances in 2013 and 2014, this past year action in stocks felt more like 2011, when overseas tremors reached our shores. While 2015's ride was not as volatile as that of 2011, the S&P 500 did experience its first 10%+ decline in four years (St. Louis Federal Reserve). In both years, the benchmark index ended the year pretty much where it started.

But that doesn't mean we didn't have winners and losers. In general, technology, health care, and consumer-driven issues posted modest gains (Bloomberg), the relentless drop in commodity prices hit the mining and energy sectors hard, large companies beat smaller companies, and U.S. stocks generally topped international.

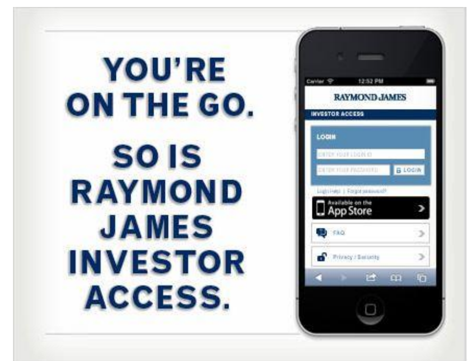
Even though valuation and European Bank stimulus is on the side of international, those shares still generally lagged U.S. stocks. Energy continued its decline taking the most conservative energy asset classes with them!!

Meanwhile, longer-term Treasury yields continue to hold near historic lows, which signaled there's still plenty of interest in the most creditworthy bond. Foreign bonds were decent performers but the high yield bond category, influenced by energy, did very poorly.

Expectations of an eventual Fed rate hike probably influenced yields in investment grade issues. But the sharp increase in junk bond yields were tied mostly to problems in the energy and mining sectors.

	2015%	3-year* %
Dow Jones Industrial Average	-2.23	+9.97
NASDAQ Composite	+5.73	+18.37
S&P 500 Index	-0.73	+12.74
Russell 2000 Index	-5.71	+10.18
MSCI World ex-USA**	-5.44	+1.27
MSCI Emerging Markets**	-16.96	-9.04

Source: Wall Street Journal, MSCI.com
2015 returns: Dec. 31, 2014–Dec. 31, 2015
*Annualized
**USD



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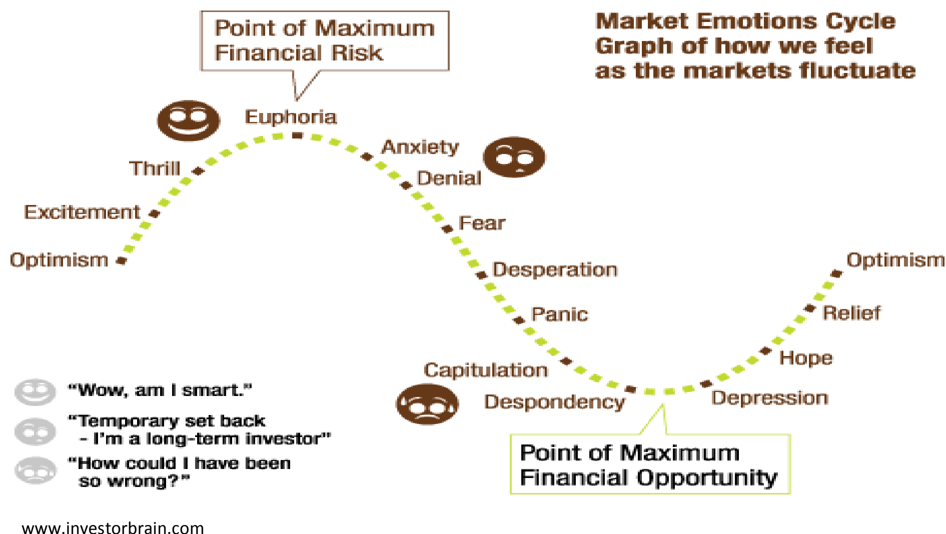
Emotional vs. Disciplined Investing

Last year's lackluster performance in key stock and fixed income sectors is a perfect segue into why long-term goals and sticking with a carefully crafted investment plan have historically been the best way of managing risk and reaching your financial goals. First your personal situation, goals, and risk tolerance influence your asset allocation. If your personal situation has changed, we may want to make a mid-course adjustment to your investment portfolio. But for many investors, the plan that was designed specifically for you remains the best long-term roadmap. Let me explain by highlighting a study published last year by DALBAR, one of the nation's leading financial research firms and one with a 40-year track record.

The study found that over a 20-year period ending December 31, 2014, the average equity investor posted an average annual return of 5.19%, which compares unfavorably to the average annual return for the S&P 500 Index of 9.85%. Going back 30-years, DALBAR paints an even gloomier picture, with the average equity fund investor earning 3.79% annually versus the S&P 500's average annual gain of 11.06%. As the study underscores, "Investor underperformance is present in all investment classes, therefore proving (the word it used in the study) that the failure is not primarily one of poor asset allocation." An all-stock portfolio, even one that is fully diversified, is too risky for most investors. I typically recommend a fixed-income component that can help reduce overall volatility and provide a steady stream of income.

So what may be the causes of such woeful underperformance? Some simply has to do with everyday cash needs and unplanned expenses. But the study concluded that the largest contributor came under what it called "voluntary investor behavior," which generally represents "panic selling, excessively exuberant buying, and attempts at market timing."



www.investorbrain.com

Prudential took the study one step further and analyzed equity cash inflows and outflows over the last 20 years ending December 31, 2014. Not surprisingly, investor interest was the highest when shares peaked in 2000 and outflows were largest when prices approached the bottoms in 2002 and 2009. It's what happens when emotions get in the way of a disciplined approach.

There is a temptation to sell when stocks are in downdraft, as we briefly saw last year. But as I have repeatedly stressed, your financial plan takes into account those hard-to-time downturns, which leaves us well positioned for a potential increase in the markets.

*Horsesmouth.com

China and a Look Ahead

Last year, international events played a role in hampering sentiment at home. A slowing economy in China provided just the right excuse for late summer's correction.

China's rocky transformation from an industrial-based, infrastructure-driven economy to one that is more balanced remains a headwind to sentiment.

But keep in mind that U.S. exports to China account for less than 1% of the total U.S. economy (U.S. Bureau of Economic Analysis). Hence, it's hard to imagine a scenario where weakness in China pulls the U.S. into a recession.

But political uncertainty on the continent and a wave of immigrants from the Middle East are creating challenges that must be addressed.

Manufacturing Woes and Oil

Closer to home, the U.S. service sector has continued to expand at a moderate pace, but manufacturing remains in the doldrums.

As we enter the New Year, two stiff headwinds remain – oil and a stronger dollar that is contributing to weakness in exports.

We are being treated to the lowest gasoline prices in years. But consumers are benefiting at the expense of producers, and not just the big oil companies.

Sharp cutbacks in capital spending in the energy sector, coupled with layoffs, are hampering manufacturing.

Yes, low oil and commodity prices help keep inflation in check, but again, that's creating big problems in the energy and mining sectors.

Junk gets Junkier

The well-documented problems in energy and mining have spilled over into high-yield bonds. In less than a year, yields with a 'CCC' rating have more than doubled, and the difference in yield between higher quality junk debt (BB) and lower quality junk (CCC) has widened considerably (St. Louis Federal Reserve). Measures of credit conditions used by the Federal Reserve indicate financial stresses in the economy remain muted as the New Year begins (St. Louis Federal Reserve).

If oil and the commodity sector begin to bottom and the economy continues to expand at a modest pace, historical analysis suggests that much of the damage in junk bonds is probably behind us. However, a lack of liquidity in the sector, the outside potential for a broader economic slowdown, and continued problems in mining and energy may generate additional uncertainty.

Seeking Clarity in Earnings

Corporate earnings are probably the most important variable in determining the direction of stocks over the medium and long term. Yes, other factors can create volatility shorter term, but profits are the lifeblood of stocks. According to Thomson Reuters, earnings for S&P 500 firms collectively fell by 0.8% in Q3 and are forecast to decline 3.7% in Q4. Much of the weakness can be pinned on a steep drop in earnings among energy companies. Pull out the energy sector and Q3 profits would have been about seven percentage points higher, according to FactSet Research.

The rise in the dollar has also weighed on profits of multinationals, as they translate sales abroad back into the stronger greenback. But Thomson Reuters is projecting that earnings will begin rising again in the first quarter of 2016 and accelerate in Q2 and Q3.

What happens to energy, the dollar, and the economy will ultimately determine the path of corporate earnings. But the forecast for an improving profit outlook, which I don't believe is fully priced into stocks, gives rise to cautious optimism as 2016 begins to unfold. **Remember what John Templeton said: "the point of maximum pessimism is the point of maximum opportunity."**

Bottom line

I always stress the importance of being comfortable with your portfolio. As we've talked about in our meetings, one of my goals is to help you accumulate wealth without taking on undue risk.

> **Stick to the plan**. Markets rise and market fall, but unless there have been changes in your circumstances or you've hit milestones in your life such as retirement, stay with the plan. By itself, a long run in stocks isn't a good reason to bail out of the market. But you must be comfortable with the level of risk you're taking as we set out to meet your objectives. If you are not, let's talk and recalibrate.
>
> **Rebalance**. Changes in various asset classes may have knocked you out of alignment with your target stock and bond allocations. Now may be the time to take profits on winners and selectively reallocate the proceeds.

I hope you've found this review to be educational and helpful. Let me emphasize, it is my job to assist you! If you have any questions or would like to discuss any matters, please feel free to give me or any of my team members a call.

As we enter 2016, I want to say once again that I'm honored and humbled that you have given me the opportunity to serve you and your family!!

RMD to charity is now a permanent part of the law!

Congress has FINALLY made permanent the provision to pay your Required Minimum Distribution from your IRA (must be over 70 ½) to a charity rather than take it taxable. In previous years we have waited, and waited, and waited, and finally found out this provision was available when it was too late to utilize it.

Talk to us about making this charitable donation. It can save income taxes and allow you to give to the charities of your choice.

Meet Strider Bowen, our new Client Services Rep for Barnes Pettey. Strider will be working with Holmes and Andrew, assisting in client account services and reporting. Strider has an undergraduate and Master's degree in Business from Delta State University. She and her husband, Jim, have one daughter, Ellison, who is two. She looks forward to working with Barnes Pettey and getting to know our clients.

Strider's email is strider.bowen@raymondjames.com

Vontobel Viewpoints - Emerging Market Sell-Off: Crisis or Opportunity?

Emerging markets experienced steep declines last year, suffering far worse than their developed counterparts; the aggregate emerging market equity indices have lost almost a quarter of their value since reaching highs in late April. Currencies of many developing countries have tumbled as well. Investors are asking whether this is the beginning of a major emerging market crisis.

The initial EM sell-off in May and June was triggered by renewed worries about the impending U.S. Fed rate hikes, which could lead to reduced flows into emerging market securities. More recently, concerns about China have taken center stage, as its economy has slowed and capital outflows have grown. In addition, there has been increased political uncertainty in countries like Brazil and Turkey, which has further lowered investor confidence. The combination of incessant headlines about these issues and the history of frequent severe EM crises have contributed to the recent volatility. While more realistic expectations about the long-term economic growth potential of developing countries were indeed warranted and some currency adjustments were needed, and actually helped to improve economic competitiveness, the recent correction appears overdone. Given the current circumstances, we do not see the underpinnings of a crisis similar to that of 1997. In fact, we believe the recent broad-based emerging market sell-off presents attractive value opportunities for a long-term investor, though short-term risk persists.

Barnes Pettey listed in the TOP 5 Registered Investment Advisors in MS!

Mississippi Business Journal has Barnes Pettey in good company in their November 2015 ranking of Registered Investment Advisors.

The Number 1 ranked firm works with banks.
The Number 2 ranked firm is one of the largest banks in MS.
The Number 3 ranked advisor invests only in timber.
The Number 5 ranked advisor is headed by Tim Medley, CFP, who mentored me in the early 80's with Edgeworth Advisory Corporation. (Raymond James is not affiliated with Tim Medley)

We are proud to be listed as Number 4 with such great firms!

Registered Investment Advisors

Registered Investment Advisers

RANK	Company Name	Address	Phone	Founded	Website	Assets under management
1	Smith Shellnut Wilson, LLC	150 Fountains Blvd., Ste A, Madison, MS 39110	601-605-1776	1995	ssw1776.com	$1,976,935,148
2	Trustmark Investment Advisors Inc.	1701 Lakeland Drive, Jackson, MS 39216	601-208-6576	1925	trustmark.com/wealth_management	$1,610,000,000
3	The Molpus Woodlands Group	654 N. State Street, Jackson, MS 39202	601-948-8733	1996	molpus.com	$1,073,349,877
4	Barnes Pettey Financial Advisors	252 Sunflower Avenue, Clarksdale, MS 38614	662-627-2225	1976	barnespettey.com	$868,645,614
5	Medley & Brown	795 Woodlands Pky., Ste. 104, Ridgeland, MS 39157	601-982-4123	1989	medleybrown.com	$610,241,800

List ranked by assets under management. Information provided by Mississippi Secretary of State's office and the Securities and Exchange Commission. Direct questions to Frank Brown at research@msbusiness.com.

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-The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete.
-Any opinions are those of Barnes-Pettey and not necessarily those of RJFS or Raymond James.
-Past performance may not be indicative of future results.
-There is no assurance any of the trends mentioned will continue in the future. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal.
-Standard & Poor's 500 (S7P 500) measures changes in stock market conditions based on the average performance of 500 widely held common stocks. S&P 500 represents approximately 68% of the investable U.S. equity market. MSCI EAFE (Europe, Australasia, Far East): a free cost-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consist of the country indices of 21 developed nations.
-Investing in the energy sector involves special risks, including the potential adverse effect of state and federal regulation and may not be suitable for all investors.
-Individuals cannot invest directly in any index, and index performance does not include transaction costs of other fees, which will affect actual investment performance. Individual investor's results will vary. Diversification and asset allocation do not ensure a profit or guarantee against a loss.
-The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks. MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indexes. The index's three largest industries are materials, energy, and banks. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.
-Securities offered through Raymond James Financial Services, Inc. Member FINRA/SIPC
-Rebalancing a non-retirement account could be a taxable event that may increase your tax liability. You should discuss any tax or legal matters with the appropriate professional.
-The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal .
-Holding Investments for the long term does not insure a profitable outcome.
-The NASDAQ Composite Index is an unmanaged index of securities traded on the NASDAQ system.
-High-yield (below investment grade) bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Investments mentioned may not be suitable for all investors. Bond Ratings are not recommendations to buy, sell or hold a security, nor do ratings remove market risk.
-Investing in emerging markets can be riskier than investing in well-established foreign markets.

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