BARNES • PETTEY
FINANCIAL ADVISORS, LLC
Independent Registered Investment Advisor

IT'S A GREAT TIME TO BE AN INVESTOR!!!

The 2017 year brings to a close one of the best years for global markets in nearly a decade. The S&P set repeated records and gained 19.4% for the year, only to be outperformed slightly by international developed markets and emerging market stocks. Overall large cap stocks outperformed small cap stocks and growth stocks outperformed value stocks. See the chart below for the details.

As you know from our most recent meetings and correspondence, we have favored foreign stocks due to their undervaluation to domestic stocks and spent considerable print in the last Newsletter discussing "home bias" in investing. We are witnessing a global macroeconomic cycle that is the strongest and most broad corporate earnings cycle in the last 7 years. The backdrop of strong corporate fundamentals, combined with low global interest rates and inflation, is a positive environment for stocks that could help power on the global bull market well past a typical "expiration date".

On the other hand, the US fixed income market is likely to face headwinds over the coming year due to rising interest rates and a less accommodative Federal Reserve. Most economists are predicting 3 to 4 interest rate increases in 2018. Although fixed income will be challenged to contribute much toward total return, fixed income plays an important diversification role for its ability to mitigate the risk of equities. Interest rate risk is further mitigated by investing in shorter term securities, those tied to corporate credit, having floating rate characteristics, and global in nature.

Tax reform was a big contributor to stock market performance. Glenn has written a short article on changes in our tax code so be sure to read it. We will be happy to discuss these with you but also suggest a visit with your tax advisor. When corporate taxes were lowered from 35% max to 21%, earnings automatically increased. We expect to see earnings revisions early in 2018 and for estimates to be HIGHER. Higher earnings lower valuations, a real positive for stocks!!

Comments were made about the energy sector in last quarter's Newsletter and WTI crude pricing has crept back up in the 60's. The energy sector was the second best performer in the S&P for December!! Conversation is building on global re-inflation. According to Investor's Business Daily, Dec 2017, all 45 countries tracked by the Organization for Economic Cooperation and Development (OECD) showed year over year growth in GDP in the third quarter: now two quarters in a row. This global GDP growth is making investors look at the cyclical commodity rebound more seriously!!

KEY INDEX RETURNS

Index	YTD%
Dow Jones Industrial Average	28.11
Nasdaq Composite	29.64
S&P 500 Index	21.83
Russell 2000 Index	14.65
MSCI EAFE	25.03
MSCI Emerging Markets**	37.28
Bloomberg Barclays US Aggregate Bond TR	3.54

Source: Morningstar data as of 12/31/17

We continue to see strong consumer sentiment and low market volatility!! In fact, volatility is about as low as it has been in my entire career!! It will change and markets will again go down: we just don't know when. That's why we ALWAYS have defensive investments in your portfolio and don't make huge bets!!

Consistently adding money to a diversified portfolio in both good and bad times has really served us well over the last 40 years. Paying close attention to the specific money managers who have the money is a discipline we follow very closely.

When I am asked the biggest key to my clients' long term success, however, it is always answered with our approach to defining family goals, identifying a family's most passionate desires, and consistently monitoring their progress toward those goals.

If we can help you in any financial area, let us know.

Dudley

Tax Cuts and Jobs Act of 2017

1. **State and Local Tax deduction limits.** (SALT). The act caps the annual deduction for state and local taxes to $10,000 beginning in 2018. State and local taxes include state income tax, sales tax and property taxes.
2. **Home Equity Loans.** (HELOC). No deduction for HELOC interest starting in 2018.
3. **Standard Deduction.** The standard deduction, which can be taken in lieu of itemized deductions, will increase in 2018 to $12,000 for individuals, $18,000 for heads of household, and $24,000 for married couples filing jointly. Itemized deductions generally consist of mortgage interest, state and local taxes, and charitable giving. Depending on one's situation, it might be beneficial to bunch charitable giving into an "every other year exercise" so that every other year the taxpayer can deduct two years' worth of contributions.
4. **Miscellaneous Itemized Deductions.** The deduction for miscellaneous itemized deductions in excess of 2% of adjusted gross income (AGI) has been eliminated starting in 2018. It is important to remember that this deduction was only available to the extent allowable expenses were in excess of 2% of AGI. That said, the expenses that qualified for a deduction were numerous and included casualty and theft losses, family office expenses related to investments, fees to collect dividends and interest, hobby expenses, investment fees and expenses, safe deposit box fees and business liability insurance premiums to name a few.
5. **Expensing of Business Property Purchases**. For certain types of business property, the Section 179 deduction has been increased to $1 million for 2018 to provide an incentive for businesses to purchase otherwise depreciable assets.
6. **Annual Gifting.** The annual gift allowance increases from $14,000 to $15,000 for 2018.

Glenn Cofield,
Branch Manager

Holmes's daughter, Beverly Grace, completed a "bucket list" item with a sky dive on her 18th birthday!!

Income Tax Brackets.
INDIVIDUAL

• Seven income tax brackets (same as now) with a 37% maximum marginal bracket
• AMT exemption $109,400 for married couples, $70,300 for single taxpayers
• Mortgage deduction maintained. Lowered from $1,000,000 to $750,000
• Deduction of up to $10,000 for state and local income taxes, property taxes, sales taxes
• Medical expense deduction (2017 and 2018) is 7.5% of AGI
• Repeal ACA individual mandate (fine for not having health insurance)
• Estate Tax Exclusion Amount: $11,200,000 per person (Sunsets in 2026)

CORPORATE

• C corporation income tax bracket reduced to 21%
• Corporate AMT repealed
• Pass-Through Entities; Owners apply a 20% deduction to business income subject to limits that begin at $315,000 for married taxpayers and $157,500 for single taxpayers. The balance will pass through and be taxable in the taxpayer's individual tax bracket.

College Funding update:

According to the College Board, a child born in 2017 that begins kindergarten in the fall of 2022 would attend college between the years of 2035 and 2039. If that child attended an average public in state 4 year college and if the annual price increases for public colleges experienced over the last 30 years (5.47% per year) continued into the future, the aggregate 4 year cost of the child's college education (including tuition, fees, room and board) would be $235,264 or $58,816 per year.

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