October 2016

BARNES · PETTEY
FINANCIAL ADVISORS, LLC
Independent Registered Investment Advisor

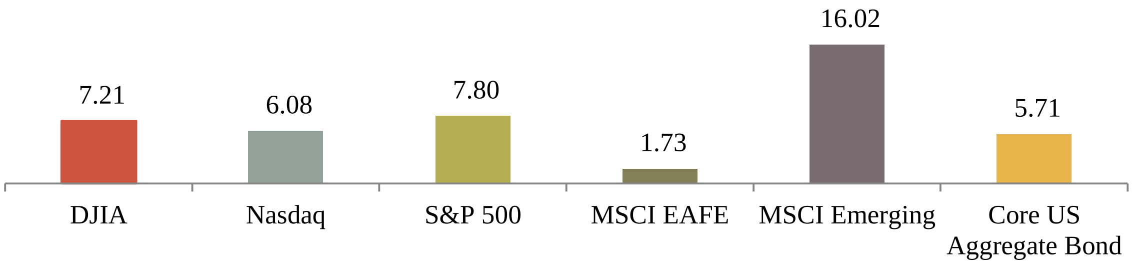
RISING TIDE LIFTS BOTH GLOBAL AND DOMESTIC SECURITIES

Summer ended on a positive note for both domestic and international equities. Emerging markets and U.S. small caps dominated the returns for September, as well as for the third quarter. When the stock market is doing well, smaller companies generally offer more upside potential due to the increased risk of holding them, and that is exactly what we have seen since early this year, according to Andrew Adams, CMT, Senior Research Associate for Raymond James, although all three major indices ended the quarter solidly in positive territory, with the NASDAQ climbing close to double digits.

The Federal Open Market Committee was split in September, but most committee members voted against raising short-term interest rates. Fed officials remain in tightening mode, expecting to resume monetary policy normalization at some point, and they can afford waiting for more information on the strength of the economy. Future policy action will depend on the amount of slack in the job market and the outlook for inflation.

A quarter-point increase will likely cause the equity markets to stutter, but the overall impact on the economy should be minimal, according to Chief Investment Strategist Jeff Saut, who believes "any pullbacks are for buying."

YEAR TO DATE RETURNS



Below are additional thoughts on the factors that are influencing the domestic and global markets.

Economy

- Consumer and housing fundamentals remain strong. Job growth has remained strong, wage growth is moderate, and gasoline prices are expected to remain relatively low, according to Brown.
- Economic data are inherently noisy; and with a slower trend rate of economic growth, driven largely by slower population growth, the figures are likely to send mixed messages.
- Inflation-adjusted median household income rose 5.2% between 2014 and 2015; the largest gain in nearly 50 years, but remains below the pre-recession level.

Equity markets

- The broad market S&P 500 rallied immediately after the Fed decided not to raise rates in its September meeting, and while the index gave back much of the gain, it may be inching its way toward its all-time high.
- Saut believes the long-term secular bull market remains in force.
- Election and global concerns remain in place, particularly the anticipated aftermath of Brexit negotiations and China's economic and credit woes.

Fixed income

- As many anticipated, bond markets experienced increased volatility in September, resulting in higher interest rates across the entire fixed income universe.
- Fixed Income Strategist Benjamin Streed attributed the abrupt selloff to two main factors: U.S. economic data surprised to the upside, and global bond investors were generally disappointed when foreign central banks (e.g., European Central Bank and Bank of Japan) did not announce additional monetary stimulus.
- Markets rebounded quickly after the Federal Reserve chose to leave interest rates unchanged.
- Throughout September, credit spreads (a measure of credit risk) remained relatively unchanged as the volatility was contained to Treasury/government rates.

Global

- Talk about the United Kingdom's intended exit from the European Union continues but with no concrete news or progress.
- This uncertainty appears likely to continue into 2017, according to Chris Bailey, European strategist for Raymond James, and therefore underpins a rising expectation that both the Bank of England and the European Central Bank will undertake more policy stimulus over the next six months.

Bottom line - The U.S. economy is expected to grow moderately for the fourth quarter, but a soft global economy and election uncertainty will act as headwinds.

YEAR END TAX TIPS

- **Defer income to next year** – Consider opportunities to defer income to 2017, particularly if you think you may be in a lower tax bracket then.
- **Accelerate deductions** – You might also look for opportunities to accelerate deductions into the current tax-year.
- **Factor in the alternative minimum tax** – If you're subject to the AMT, traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. Taking the time to determine could help save you from making a costly mistake.
- **Bump up withholding to cover a tax shortfall** – If it looks as though you're going to owe federal income tax for the year, consider asking your employer to increase your withholding for the remainder of the year to cover the shortfall.
- **Maximize retirement savings** – deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2016 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.
- **Take any required distributions** – Once you reach age 70 ½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans. Take any distributions by the date required- year end for most. The penalty for failing to do so is 50% of amount failed to distribute.
- **Weigh year-end investment moves** – You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make.
- **Beware of the net investment income tax** – Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified AGI exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately, $200,000 if head of household).
- **If you're over 70 ½, consider paying RMD to charity** – Donating IRA funds directly to qualified charities allows the IRA holder or beneficiary to avoid taking possession of the funds and the tax bill that comes with them. A qualified charitable distribution (QCD) from an IRA can be made only by an IRA owner or beneficiary age 70½ or older, and can total up to $100,000. A spouse age 70½ with an IRA could give up to $100,000 as well. A QCD can be used to meet your required minimum distribution. The funds, which cannot come from active SEP or SIMPLE IRAs, must be sent directly to the qualified (IRS-approved) charitable organization.

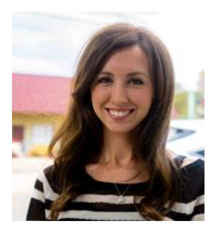
CHECK OUT OUR NEW WEBSITE

We believe every solid relationship should center on open communication. As part of the Barnes Pettey family, you have several options to access the information you need to know about your portfolio, our firm, Raymond James and the financial markets. In addition to our in-person meetings and one-on-one calls, we also like to communicate with you through other channels, such as our website, email blasts, newsletters and social media.

If you have already been receiving regular updates and emails from us, these communications are designed to provide you with insight into the ever-evolving financial markets and help build the confidence that comes from working with an experienced advisory team. If you haven't already done so, we encourage you to go to www.barnespettey.com to learn more about our firm and access some of the recent research and articles available to you.

We also utilize a variety of social media channels like Facebook or LinkedIn. If you already have an account on any of these sites, consider following Barnes Pettey. These channels provide an excellent way for us to keep you up to date with relevant, timely news. Please let us know how you prefer to receive important communications and how frequently. We'll do our best to deliver.

Guiding you toward financial independence is a collaborative process and we hope you feel comfortable to reach out to us whenever you have questions, concerns or even new ideas to help us better serve you. Feel free to contact us any time.



Brook Hodges

It is a pleasure working with you and we welcome your questions and comments.

Dudley M. Barnes, CFP® | Branch Manager | Office 1 662 627 2225 | Fax 1 662 627 2088 |
Barnes Pettey Financial Advisors, LLC | PO Box 1234 | 252 Sunflower Avenue | Clarksdale, MS 38614 | www.barnespettey.com