[PRINTED ON APPROVED LETTERHEAD]

January 2017 Market Letter

Come March I start my 34th year working with clients to plan, develop and build confidence for their financial future. Along the way, many of my colleagues fell by the wayside, and many in spite of the financial markets recent volatility have managed to retire. And while retirement is something many of our clients of the Barnes-East Group have already started or are earnestly pursuing a retirement plan, I find myself looking for the next hill to scale.

Tammy, who, by the way, is starting her 23rd year, and I are still dedicated to helping our clients in any way that we can.

As many of you know last year was a tumultuous year. We had a difficult election filled with name-calling and acrimony. Historians will tell you there has not been an election as bad as this one since Thomas Jefferson and John Adams went at each other in the 1800 Presidential election. Now the interesting thing about this election, both men campaigned by staying at home and writing campaign letters as a means to discredit their opponent. Jefferson even hired a man to say slanderous things about John Adams. That man went to jail for slander and when released two years later he decried that his former employer had fathered an illegitimate child out of wedlock.

Compare that to Donald Trump's boisterous campaign rhetoric, name-calling, and indefatigable Tweets, and Hillary's inability to convince the voters she was sincere and truly wanted to be an agent of change in spite of 30 years in the public arena, the 1800 Presidential election was tame. Now the election is over. Donald Trump has won, and is busy assembling people to staff his Executive Branch.

Okay, John so far you have told us you are not retiring, and Donald Trump is President. Where are you going with this missive?
So give us the meat of this letter. For the next four years the stock markets should open regularly as they have for well over hundred years. Stocks will be bought, stocks will be sold. Everyone will hang on every word regarding the direction of interest rates and when the Fed is going to raise rates.

Finally, some unexpected economic event will occur and the markets will take a tumble. When? I don't know. No one does.

What I do know, this country manufactures more goods now than ever before and put in numerical form, U.S. manufacturing contributes to about one-third of the annual Gross Domestic Product (GDP). That is according to the Wharton School of Business at the University of Pennsylvania and the article can be found at:

www.http://knowledge.wharton.upenn.edu/article/can-trump-anyone-bring-back-american-manufacturing/

According to business professors there the United States' "manufacturing output was at an all-time high of $5.9 trillion in 2013 while shedding more than seven million jobs in the past 35 years."

The increase in output with less employees is the result of increased efficiency brought about by technological advances. According to the Wharton professors, 80% of the jobs lost over the last three decades were not replaced by workers in China or Mexico, but by machines and automation.

In recent years productivity growth (output by each worker) has been slow, Raymond James Chief Economist Scott Brown wrote in the Raymond James Investment Strategy Quarterly for the first quarter of 2017. He attributed the anemic growth to lackluster capital spending by corporations.

However, Brown sees productivity growth picking up as corporate capital spending grows. He also warns longer term the advances in robotics and artificial intelligence could boost productivity "significantly" without a significant impact on job growth.

Another interesting finding by the Wharton professors is Americans in general do not find factory work attractive. In recent years General Electric restarted manufacturing factories in nearby states close to its headquarters in Cincinnati. After three days of work, many of the employees would quit. There was a stigma to factory work in spite of good salary and benefits. The community did not see themselves or coworkers as skilled workers.

Another thing hindering U.S. manufacturing is the unwillingness of the American consumer to pay more for an American-made product vs the same product manufactured overseas and sold for less. About 70% of those surveyed by the Associated Press said they would not pay more for a pair pants made in the U.S. selling for $85 vs. the same pair made overseas and selling for $50 per pair.

Recently I had a similar conversation with a plumber working on a job at my house. I told him the blue jeans he had on were too nice to work in the mud. He said he only paid $20 a pair for his jeans at Wal-Mart. The pair I had on cost $39.95 but were made in the United States with American-made denim. But I agreed with the plumber. If I had a job requiring working in wet, muddy situations, I would look to find cheap serviceable clothing, and would not care where they were made.

What I have learned in all these years in the securities business is the consumer is always right, and the companies understanding that make and sell their products accordingly are the ones who are profitable over time and continue making money for their shareholders.

As I entered this business in the early 1980s, Wal-Mart's new retailing concept was the new-new thing. As new stores opened and all kinds of products were flying off the WMT shelves, investors were buying the company's stock as fast as they could afford it. I had farmers in Cleburne County wanting to buy another 100 shares each time Wal-Mart had another stock split. Now Wal-Mart fights a battle with Amazon as the Bentonville-based chains invests billions of dollars to beef up its online presence. The consumer once again is rethinking how he or she makes purchases.

Speaking of retail stores and the Christmas shopping season, shoppers loosened the purse strings and went on a buying spree. Christmas retail sales were $658.3 billion up 4% over 2015. That is according to the National Retail Federation. Shoppers continue increasing the amount online. Online retail sales were up 12.6%. As this trend continues to grow the traditional bricks and mortar stores such as Macy's and Sears suffered. After Christmas Macy's said it was closing 67 stores and laying off 10,000 employees. Sears sales were down 12% and announced closing of another 150 stores.

Almost a billion dollars was on mobile games for Apple and Android operating systems. That was an increase of 53% over last year according to Sensor Tower Inc. a company tracking mobile game sales.

At the end of December, the Conference Board reported consumer confidence reached a 13-year high as Americans were feeling better about the economy, jobs and income prospects, as well as stock prices. The Detroit automakers had a record year with a total of 17.55 million vehicles sold. That beat the previous record set last year when 17.47 million vehicles were sold. The Ford F-series pick-up truck was the best seller and many customers bought more SUVs and pickups than the smaller fuel-efficient cars.

As for oil and gas, we are seeing improvement, but ever so slowly. Here, we are paying just above $2.00 per gallon for gasoline. Crude oil prices are slowing climbing and returning to a place with oil and natural gas producers can make money drilling and extracting these resources from the ground. Gas prices at the pump should remain in this range as the United States has a surplus of gas nationwide.

As for the stock market gains it came to those who were patient. For the most part the equity markets range-bound since early 2014. Finally last summer, the markets made several attempts to free itself from the bonds of the trading range, but on the day after the Presidential Election, stock prices started an 8-week rise with the Dow Jones Industrial Average flirting with the 20,000 mark. In general the S&P 500 Index was up 9.54% and the NASDAQ Index was up 7.50%. Smaller cap stocks as measured by the Russell 2000 Index was up 19.48%.

You want to know where an investor can make money? My years of experience has taught me to focus on companies with at least a 10-year history of making money, rewarding their shareholders with a dividend, and consistently raising that dividend.

Yes you can chase the trend in new medical technology, the exciting of world of digital entertainment and the new ways it is reaching the consumer. My late father, who made his living in the automobile business, would marvel at all of the technology on today's modern vehicles.

So, it is with optimism I greet 2017, and my attitude towards the financial markets remain positive. I look forward to discussing this further during our one-on-one meetings this year. Also please know that Tammy, Natalie and I stand ready to address any questions you may have.

Sincerely,

John Barnes	Tammy East	Natalie Gallant
Senior Vice President, Investments	Vice President, Investments	Registered Service Associate