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**Major Index YTD Performance
(As of 1/23/18)**

Dow Jones Indust. TR	+6.13
S&P 500 Index TR	+6.28%
NASDAQ Comp.	+ 8.07%
MSCI World Ex US	+5.77%
Russell 2000 TR	+4.93%
Barclay US Aggregate	
Bond Index	-0.85%
Long Commodity Idx.	+2.08%

All performance data provided by Morningstar

Equities Enjoy Strong 2017

The end of 2017 brought to a close one of the best years for global equity markets in nearly a decade. The S&P 500 set repeated records and gained a whopping 19.42% for the year, only to be outperformed slightly by international developed markets and emerging markets. Overall, large caps outperformed small, and growth outperformed value.

Despite a rising interest rate environment in the United States, core fixed income also posted a positive return for the year, taking in stride the three increases in the federal funds rate that raised the target range to 1.25% to 1.50%.

Late additions to the tax law passed in late December, which reduced corporate taxes, among other things, could add a little growth to GDP in 2018. Economic growth will likely face headwinds from a tight job market and slow labor force growth, as unemployment is at the lowest levels in almost two decades and jobs growth continues.

The Federal Reserve's transition in leadership early in 2018 is expected to be smooth. Despite the change in leadership at the Federal Reserve, The Fed will likely maintain its gradual and data-driven approach to raising interest rates, with the expectation of two or three increases to the federal funds rate for 2018. Depending on the data, however, the Fed could opt for more or fewer increases.

Equities

2018 has the potential to be a positive year for stocks, again. The global economy is enjoying economic growth in countries both large and small, developed and emerging. Stabilizing economic conditions, still relative and historically low interest rates around the world, improving corporate earnings on a broad basis and at least for the moment, positive investor sentiment, are a solid backdrop for a potentially positive year in stocks.

Much concern has been expressed by clients over the probability of a market "blow up" due, in large part, to the duration of this recent bull market run. It should be noted that bull markets do not end due solely to longevity. They are usually ended by economic forces. A recession is the most common culprit and there is currently no indication that a recession is even mildly expected in the near future. This does not mean throw caution to the wind. It simply means that until a real reason for stocks to decline is in the making, there should not be any undue concern over such an event taking place.

That said, it is entirely possible that we may get a mid-year decline of some note (the first in several quarters), which, based on the current economic climate, would likely be a buying opportunity rather than a reason to run for the hills. Intra-year market declines of high single to low double-digit declines are the historical norm, not the exception. What has been unusual, as of late, has been the lack of volatility in the equity markets, over the most recent several quarters. A return to the norm seems ever more likely now, as monetary policy and economic forces move the markets towards more normal behavior and outcomes.

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Raymond James Home Office
St. Petersburg, FL.



James N Barr, Jr.
Financial Advisor

Office Address

17220 Newhope St #216
Fountain Valley, CA 92708

(714) 708-7265

Toll Free (800) 362-0314

Fax (714) 708-7259

E-Mail

James.Barr@RaymondJames.com

Website www.jamesnbarr.com

International Markets

Despite German Chancellor Angela Merkel's inability to form a new majority government just yet, European optimism rose to multi-year highs during December, helped by economic growth uplifts and an improving tone to the Brexit debate talks, which have moved to a second, more detailed stage.

The Chinese economy and its currency, the yuan, were surprisingly resilient during 2017, and the announcement of a new round of anticorruption initiatives to accompany ongoing economic reform measures continues to show leadership's commitment to change.

While emerging market assets pulled back somewhat during December, overall it was a positive year. Emerging markets continue to represent an excellent opportunity, especially if current economic conditions persist.

Fixed income

Based on a variety of factors, the predictability of bond market behavior continues to be in flux. Among the forces at play continue to be tax legislation, Federal Reserve policy and actions, the global economy and central bank policy.

Though challenged to contribute to total return in a rising interest rate environment, fixed income plays an important diversification role for its ability to mitigate the risk of equities.

Additionally, certain alternative strategies can help with risk management as well, by endeavoring to reduce correlation amongst various investment holdings, while potentially generating positive returns over time.

Bottom line

Looking to 2018, the equity markets remain bullish, with any volatility representing the first real buying opportunity for more than a year.

The 2018 outlook for fixed income markets is uncertain, with economic and political factors likely to play key roles in the coming months.

As we head into a new year, we will continue to monitor economic developments and breaking headline news, and will keep you updated with the most relevant information.

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Happy and Healthy New Year!

What's Happening- A Personal Note

The New Year came in rather interestingly as Beki and I, along with one of her close friends, decided to spend it at a tiki bar in the North Hollywood area called Kahuna Tiki. The restaurant is technically an outside dining experience but wedged between two fairly tall buildings, so it has the feeling of a protected area. Inside the area are about a dozen tables covered by thatched "umbrellas" and lit by small candles. Trees are interspersed throughout the area and there is a fire pit near the back of the restaurant to enjoy and warm yourself, if needed. There are several water features including at least two waterfalls. All in all, a very relaxing setting.

The food we chose was mostly a fair of sushi and rice dishes, but there were more traditional offerings with an island twist.

The big entertainment for the evening was a group of Polynesian dancers who started to perform in an open area of the restaurant around 11:00 p.m. They performed for a little over a half an hour and then the restaurant sent glasses of champagne to each of the tables. Just before midnight, there was a countdown to the New Year. At midnight we all cheered, sang a couple of songs and toasted in 2018. It wasn't long after that we realized that we were all tired and so we decided to head home. But this was a very relaxed and enjoyable way to bring in the New Year.

Disneyland, as everyone is probably aware, is one of our favorite destinations. For Beki, Christmas time is the best time to visit. We decided that a trip was in order to see the amazing decorations that line the Main Street shopping area during this time of year. They did not disappoint. In our minds, Disneyland is truly a magical place but during the holidays it has a particular charm. Mostly because the looks on the faces of the children as the sun goes down and the lights come on all at once, is the most uninhibited, natural response. When they see the whole area lit up and decorated so beautifully, is quite entertaining. Wide-eyed and open-mouthed, the youngest kids can't help themselves but respond verbally, even if they aren't old enough to talk. It is quite entertaining to watch.

Not to be outdone during the holidays, Knott's Berry Farm also has a holiday decorating tradition that we also decided to visit. Probably not as elaborate as Disneyland, it is still very quaint and very much in line with the Old West theme of the park. They have decorations to be sure, but they also have a fake snow fall that occurs about every hour and fills the air with white fluff, which I believe is just very light soap bubbles. But the experience is again one of fun and merriment. Many of the kids in the park have probably never seen snow, so to watch them enjoy this display, even though it is clearly not real, still brings a smile to their face and yours.

It is hard to say what this year will bring or what actions we will take. That is one of the great things about the New Year. It always seems to represent potential and prospects. Even though every day affords us an opportunity to make plans, set goals and think about breathing life into our dreams, the beginning of another year seems to provoke us into thinking about who we are and who we want to be. And then, to be active in making those hopes and desires a reality. But whatever 2018 holds for you, I hope that this is a year of great joy, good health, and outstanding, positive experiences.

Disclosures

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 - Past performance may not be indicative of future results.
 - Diversification and asset allocation do not ensure a profit or protect against loss.
 - The **S & P 500** is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market
 - The **NASDAQ Composite** is an unmanaged index of securities traded on the NASDAQ system.
 - The **MSCI World ex USA** index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries excluding the United States. With 1020 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
 - The **Russell 2000** index is an unmanaged index of small cap securities which generally involve greater risks.
 - **Morningstar Long-Only Commodity Index.** The Long-Only Commodity Index is a fully collateralized commodity futures index that is long all eligible commodities.
 - **Barclays US Aggregate Bond Index** is a broad based index often used to represent investment grade bonds being traded in the United States
 - The **Dow Jones Industrial Average**, commonly known as "The Dow" is an index representing 30 stocks of companies, maintained and reviewed by the editors of the Wall Street Journal.
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