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## Third Quarter 2017 Weather(ly) Report October 2017

Hope, innovation, collaboration and conversation with purpose are not dead. Disruptive technology enhancements to most industries are changing a multitude of things; training of employees, methods of payments, treatments and tracking of healthcare, delivery of education and demands on privacy protection. As with any revolution, change is both a risk and opportunity. Advancements may outpace regulation, training and architecture available to support consumers, businesses and governments. Cyber security concerns (Anthem, IRS, and Equifax) are only on the rise, guarding PII (Personally Identifiable Information) is key. E-commerce, e-music, e-books, e-learning, e-charity, internet of things and driverless cars are here to stay. Learning how to utilize technological advancements wisely with backup systems, security, dual-authentications and appropriate regulation and oversight will be integral to our clients' future.

World events and concerns surrounding North Korea, ISIS, and the horrific shooting in Las Vegas this week continue to raise concerns for safety in travel and ramifications of political negotiations. Discussions of a path forward, prevention and detection remain paramount to protect citizens around the world. Gold prices in September fell 2.6% down from the high reached on September 8<sup>th</sup>, yet are up 10% for 2017 on geopolitical uncertainty and dollar weakness.

Global interest rates and inflation remained low. Domestic inflation stayed under the Federal Reserve target of 2%, with the US 10-year Treasury yield trading in a tight range (ending 2016 at 2.44% and at 2.35% currently). Opportunities to borrow or refinance remain attractive with the outlook for the next Fed rate rise at 70% probability in December 2017. Proposed additional term or replacement of the Fed Reserve Chair, Janet Yellen, is under discussion at this writing. We continue to add high quality tax-free, corporate and floating rate securities to accounts. In the second quarter, U.S. economic output grew at a 3.2% annual rate with U.S. jobless rate at 4.2%.

Equity markets around the globe rallied to near all-time highs, with international stocks outperforming U.S. stock and large cap out performing mid and small cap for 2017. The S&P 500 information technology index reached record levels not seen since June 1997 (dot.com bust). International markets in general outperformed U.S. indices YTD while providing similar double digit returns for 12 month trail.

Position performance remains critical to portfolio performance. Several of our holdings have outsized gains YTD with Boeing up 67%, PayPal up 62%, Symantec up 38% and Visa up 36% respectively. Themes we continue to incorporate in portfolios include FAANG, biotech, water, infrastructure and defense with newer trends emerging in both cybersecurity and money-less money. While virtual currencies such as Bitcoin and Ethereum grab headlines for opportunities and risk, we believe the industry is in its infancy and global and country digital currencies will evolve into the norm of the future. See our next team blog post!

### "Top Ten" Holdings \*

- |                                |                        |
|--------------------------------|------------------------|
| 1. Apple Inc.                  | 6. Home Depot Inc.     |
| 2. Netflix Inc.                | 7. Starbucks Corp.     |
| 3. Amazon.com Inc.             | 8. AT&T Inc.           |
| 4. Guggenheim Global Water ETF | 9. Boeing Co.          |
| 5. SPDR S&P Biotech ETF        | 10. Adobe Systems Inc. |

Proposed changes to the U.S. tax code remain foremost in our mind as we head into year end. The proposed framework lowers corporate Federal tax rate from 35% to 20% with the goal of freeing up dollars to hire people and invest in plants, equipment, technology, productivity, and lure company investments from abroad back to the U.S. The proposed package also allows business owners (S corp, partnership, and sole proprietorships) to avoid pass through income at their respective individual progressive tax rates and instead be subject to a flat 25% corporate rate. Individual Federal Rates proposed would reduce tax rates from seven to three brackets (12%, 25%, and 35%). The plan doubles the standard deductions to \$24k for married couples and \$12k for single filers and eliminates local and state tax deductions, increases child care deductions (\$1k vs \$2k) repeals AMT (Alternative Minimum Tax) and eliminates or lowers estate (death tax).

Year-end conversations with our clients regarding positioning for asset allocation, 2017 tax year end, retirement account funding and liquidity coupled with charitable and gifting strategies all are dialogues we have scheduled for review. We look to create impactful change through purposeful discussions and value our role in collaborating with clients' to achieve year-end financial goals.

\*Please see reverse side

-The Weatherly Crew

**\* TOP TEN DISCLOSURE**

Top Ten” holdings consist of Weatherly’s largest stock positions as of quarter end. A full list of holdings is available upon request. It should not be assumed that any of the securities, transactions, or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account’s portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account’s entire portfolio and in the aggregate may represent only a small percentage of an account’s portfolio holdings.

	<u>WAM</u> <u>Equity**</u> <u>(gross fee)</u>	<u>WAM</u> <u>Equity</u> <u>(net fee)</u>	<u>S&amp;P 500</u>	<u>MSCI ACWI</u> <u>(gross USD)</u>	<u>WAM</u> <u>Fixed**</u> <u>(gross fee)</u>	<u>WAM</u> <u>Fixed (net</u> <u>fee)</u>	<u>Merrill</u> <u>Lynch 1-3</u> <u>year</u>	<u>WAM</u> <u>Balanced**</u> <u>(gross fee)</u>	<u>WAM</u> <u>Balanced</u> <u>(net fee)</u>	<u>Blended</u> <u>Benchmark</u>
2003	28.70%	27.70%	28.69%	34.63%	2.89%	2.38%	1.90%			
2004	14.70%	13.70%	10.87%	15.75%	4.05%	3.55%	0.91%			
2005	12.65%	11.65%	4.92%	11.37%	2.43%	1.93%	1.66%			
2006	16.21%	15.21%	15.78%	21.53%	4.94%	4.44%	3.95%			
2007	11.18%	10.18%	5.49%	12.18%	5.47%	4.97%	7.32%			
2008	-34.04%	-35.04%	-36.99%	-41.84%	-0.95%	-1.45%	6.61%			
2009	32.36%	31.36%	26.47%	35.41%	10.63%	10.13%	0.78%			
2010	11.93%	10.93%	15.06%	13.21%	6.77%	6.27%	2.35%			
2011	-5.58%	-6.85%	2.12%	-6.86%	4.37%	3.87%	1.55%			
2012	16.36%	15.36%	16.00%	16.80%	5.99%	5.49%	0.43%	11.84%	11.09%	8.18%
2013	28.20%	27.20%	32.41%	23.44%	-1.62%	-2.12%	0.36%	15.41%	14.66%	15.61%
2014	8.53%	7.53%	13.69%	4.71%	5.55%	5.05%	0.62%	7.43%	6.68%	7.01%
2015	4.86%	3.86%	1.38%	-1.84%	1.31%	0.81%	0.54%	3.55%	2.80%	1.09%
2016	8.70%	7.70%	11.95%	8.48%	2.79%	2.29%	0.88%	6.41%	5.66%	6.33%
1 <sup>st</sup> Quarter 2017	7.45%	7.20%	6.07%	7.05%	1.66%	1.53%	0.26%	5.31%	5.12%	3.17%
2 <sup>nd</sup> Quarter 2017	2.99%	2.74%	3.09%	4.45%	1.49%	1.36%	0.17%	2.34%	2.15%	1.63%
3 <sup>rd</sup> Quarter 2017	5.11%	4.86%	4.48%	5.31%	0.98%	0.85%	0.23%	3.65%	3.46%	2.36%
YTD	16.32%	15.57%	14.24%	17.75%	4.19%	3.81%	0.67%	11.71%	11.14%	7.32%
Since Inception (Ann.)	9.69%	8.69%	9.82%	7.55%	4.96%	4.46%	3.70%	9.74%	8.99%	7.85%
<i>Please see footnotes</i>										

**\*\* PERFORMANCE DISCLOSURE**

Please note, the Weatherly Asset Management (WAM) Equity performance is a mid- to large-cap value equity approach and the WAM Fixed Income performance is a high-quality intermediate-maturity investment approach. Performance numbers up to 12/31/05 are prepared in compliance with Association of Investment Management Research Performance Presentation Standards (AIMR PPS). Periods from 12/31/05 to 12/31/10 meet the requirements of the revised version of Global Investment Performance Standards (GIPS). Periods from 12/31/10 are calculated in a similar manner but GIPS standards no longer permit carve outs, therefore we no longer claim GIPS compliance. The gross of fee returns shown above are presented after deduction of all transaction costs, but prior to the deduction of advisory fees and such other possible expenses as custodial fees. The net of fee return is calculated by subtracting the advisory fees. Investment advisory fees are described in Part II of Weatherly’s Form ADV. For the 3rd Quarter 2017, the maximum quarterly management fee is 0.25% for Weatherly’s Equity Composite and 0.125% for the Fixed Income Composite.

Composite rates of return, since inception on an annualized basis after deduction of the maximum quarterly management fee is as follows for equity accounts for 1995, 32.41%, for 1995 and 1996 combined, 28.50%, for 1995-1997 combined, 30.24%, for 1995-1998 combined, 26.15%, for 1995-1999 combined, 25.06%, for 1995-2000 combined, 18.31%, for 1995-2001 combined, 12.70%, for 1995-2002 combined, 7.44%, for 1995-2003 combined, 9.53%, for 1995-2004 combined, 9.94%, for 1995-2005 combined, 10.05%, for 1995-2006 combined, 10.48%, for 1995-2007 combined, 10.46%, and for 1995-2008 combined, 6.36% for 1995-2009 combined 7.87%, for 1995-2010 combined, 8.06%, for 1995-2011 combined, 7.14%, for 1995-2012 combined, 7.58%, for 1995-2013 combined 8.57%, for 1995-2014 combined 8.54%, for 1995-2015 combined 8.31%, for 1995-2016 combined 8.29%. For fixed income accounts 1995, 11.49%, for 1995-1996 combined, 8.35%, for 1995-1997 combined, 7.63%, for 1995-1998 combined, 7.58%, for 1995-1999 combined, 6.18%, for 1995-2000 combined, 6.50%, for 1995-2001 combined, 6.37%, for 1995-2002 combined 6.37%, for 1995-2003 combined, 5.92%, for 1995-2004 combined 5.68%, for 1995-2005 combined, 5.33%, for 1995-2006 combined, 5.25%, for 1995-2007 combined, 5.23%, for 1995-2008 combined, 4.74%, for 1995-2009 combined, 5.09%, for 1995-2010 combined, 5.17%, for 1995-2011 combined, 5.09%, for 1995-2012 combined, 5.11%, for 1995-2013 combined 4.72%, for 1995-2014 combined 4.73%, for 1995-2015 combined 4.54%, for 1995-2016 combined 4.44%.

Composite returns consist of all 100% discretionary accounts under management utilizing individual stock and bond holdings selected by WAM. Balanced portfolio segments have been included in single asset composites. Effective 1/1/06 to 12/31/10, cash and cash returns have been allocated to the segment returns according to the procedures outlined by Association of Investment Management Research (AIMR). Effective 1/1/16, equity and fixed composite returns no longer include cash or a weighting to cash. Dividends and interest received is generally not reinvested in the same security but is included in total return calculations. Effective 2010, Equity Composite performance excludes two related family groups which hold a concentrated position that due to tax considerations cannot be managed in the same manner as the overall equity composite. The composite performance represents the performance of an aggregate of the firm’s managed accounts that align with a particular strategy. Individual account performance will vary and some clients may have experienced returns significantly different from the composite. Investing entails risk and past performance is no guarantee of future performance.

These performance numbers are provided under the flash reports provision of these said standards. “As prospective and current clients have received past results that were in compliance with the required disclosures within a 12-month period, firms may present interim data and returns (i.e. “Flash numbers”) without quarterly disclosures.” A full presentation, including all required disclosures, is available upon request. The WAM Balanced Composite represents actual portfolios utilizing strategic asset allocation with both equity and fixed income components. The fixed income component for individual portfolios underlying the balanced composite have allocations tailored specifically for that account and client, and varies between 5% and 80%, whereas the blended benchmark is 50% S&P 500 Total Return and 50% Merrill Lynch 1-3 Year representing an average of a 50% Equity and 50% Fixed Income benchmark allocation in the Composite.