



carolyn@weatherlyassetmgt.com  
T 858.259.4507 F 858.259.0782  
832 Camino Del Mar, Ste 4 | Del Mar, CA 92014  
WWW.WEATHERLYASSETMGT.COM



If you prefer to receive this letter via e-mail, please let us know: [carolyn@weatherlyassetmgt.com](mailto:carolyn@weatherlyassetmgt.com)

## Fourth Quarter 2018 Weather(ly) Report January 2019

Growing pains... an experience all humans have as they sprout up from childhood into adulthood; the same experience can be felt as companies move from a concept to a concrete business model, and as young couples grow into a family and then into retirement years. Growing pains are now being experienced after almost a decade of economic expansion in the US and around the world, as interest rates adjusted upward, global growth slowed, and equity markets entered a period of volatility at the end of 2018. Global markets experienced uncertainty surrounding Brexit, US tariff wars with China, issues with the ECB's change of power and Italy's budget concerns. US stocks started the year with healthy earnings fueled by tax cuts, continued investment in technology and robotics, and low interest rates. Market highs were reached by September with the S&P 500 up 9% through the third quarter only to end the year down -6.2% excluding dividends, the weakest return in 10 years. Domestic equity indices finished in the red, with the DJIA down -5.6%, the NASDAQ down -3.9% and international stocks were off 15.5% for 2018.

Focus on the Federal Reserve and monetary policy intensified in October as economic, political and trade concerns heightened, but the Fed kept steady and raised rates for the fourth time in 2018 to 2.5%. Predictions for the Fed dot plot in 2019 hover at 1 to 3 rate hikes, with speculators focused on the flattening and inversion of the yield curve, often indicators of recession. 10-year Treasury yields started the year at 2.46%, reached a high of 3.24% and dipped at year end to 2.65%. Higher mortgage rates also slowed real estate investment across the US. The Fed continued its dual mandate with a focus on employment (jobless rate at 3.9%) and inflation (at 3.2%). Student, auto, credit card and personal debt are expected to top \$4 trillion in 2019, while unemployment neared 50-year lows. Short-term Treasury bills delivered 1.9% in 2018 while tax-free municipals posted returns of 1.3% for the year.

Energy tumbled 38% in the fourth quarter driven by fears of slowing global growth, falling a total of 20% in 2018. OPEC discussions in early December to reduce production did little to help this decline as shale production in the US reached record production numbers, raising concerns about excess oil supply in 2019. Trade disputes between China and the US only added fuel to the fire. The US dollar remained strong, up 4.3% in 2018 with the Yen following up 2% for the year. Gold began 2018 at \$1312.80 per ounce, reached highs of \$1360 for the year only to close at \$1277, down -1.48%.

Weatherly continued to work with clients throughout 2018 on planning and investments. Shifts early in the year to shave highly appreciated equities including Boeing and Netflix, outright sales of emerging market and domestic real estate mid-year, and reduction in international equity holdings in early September helped move most clients towards a neutral asset allocation. Netflix closed out 2018 as the best performer of the FAANG stocks (Facebook, Apple, Amazon, Netflix and Google) with Amazon not far behind. Weatherly also took advantage of higher interest rates, adding high-quality, investment grade, short-term notes and callable tax-free municipals as appropriate. Additional swaps of equities into domestic dividend-payers and healthcare helped reduce volatility during Q4. While we believe 2019 will bring more volatility, a slowdown of corporate earnings growth, stock share buy backs and the winding down of fiscal stimulus, fundamentals still point to positive but slower growth for 2019.

### "Top Ten" Holdings \*

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

Kelli Ruby CFP® has joined our team of Partners to help steward Weatherly Asset Management into the New Year. We continue to focus on offering our clients the best of our core competencies – planning and investment advice. Our 2019 Key Data Chart is now available at [www.weatherlyassetmgt.com](http://www.weatherlyassetmgt.com) as well as a recent interview exploring our approach to financial planning, using real world scenarios. We personally thank you for your business and look forward to our dialog and impact throughout the New Year.

\*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</u> <u>500t</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>
<b>2003</b>	<b>28.70%</b>	<b>27.70%</b>	<b>28.69%</b>	<b>34.63%</b>	<b>2.89%</b>	<b>2.38%</b>	<b>1.90%</b>			
<b>2004</b>	<b>14.70%</b>	<b>13.70%</b>	<b>10.87%</b>	<b>15.75%</b>	<b>4.05%</b>	<b>3.55%</b>	<b>0.91%</b>			
<b>2005</b>	<b>12.65%</b>	<b>11.65%</b>	<b>4.92%</b>	<b>11.37%</b>	<b>2.43%</b>	<b>1.93%</b>	<b>1.66%</b>			
<b>2006</b>	<b>16.21%</b>	<b>15.21%</b>	<b>15.78%</b>	<b>21.53%</b>	<b>4.94%</b>	<b>4.44%</b>	<b>3.95%</b>			
<b>2007</b>	<b>11.18%</b>	<b>10.18%</b>	<b>5.49%</b>	<b>12.18%</b>	<b>5.47%</b>	<b>4.97%</b>	<b>7.32%</b>			
<b>2008</b>	<b>-34.04%</b>	<b>-35.04%</b>	<b>-36.99%</b>	<b>-41.84%</b>	<b>-0.95%</b>	<b>-1.45%</b>	<b>6.61%</b>			
<b>2009</b>	<b>32.36%</b>	<b>31.36%</b>	<b>26.47%</b>	<b>35.41%</b>	<b>10.63%</b>	<b>10.13%</b>	<b>0.78%</b>			
<b>2010</b>	<b>11.93%</b>	<b>10.93%</b>	<b>15.06%</b>	<b>13.21%</b>	<b>6.77%</b>	<b>6.27%</b>	<b>2.35%</b>			
<b>2011</b>	<b>-5.58%</b>	<b>-6.85%</b>	<b>2.12%</b>	<b>-6.86%</b>	<b>4.37%</b>	<b>3.87%</b>	<b>1.55%</b>			
<b>2012</b>	<b>16.36%</b>	<b>15.36%</b>	<b>16.00%</b>	<b>16.80%</b>	<b>5.99%</b>	<b>5.49%</b>	<b>0.43%</b>	<b>11.84%</b>	<b>11.09%</b>	<b>8.18%</b>
<b>2013</b>	<b>28.20%</b>	<b>27.20%</b>	<b>32.41%</b>	<b>23.44%</b>	<b>-1.62%</b>	<b>-2.12%</b>	<b>0.36%</b>	<b>15.41%</b>	<b>14.66%</b>	<b>15.61%</b>
<b>2014</b>	<b>8.53%</b>	<b>7.53%</b>	<b>13.69%</b>	<b>4.71%</b>	<b>5.55%</b>	<b>5.05%</b>	<b>0.62%</b>	<b>7.43%</b>	<b>6.68%</b>	<b>7.01%</b>
<b>2015</b>	<b>4.86%</b>	<b>3.86%</b>	<b>1.38%</b>	<b>-1.84%</b>	<b>1.31%</b>	<b>0.81%</b>	<b>0.54%</b>	<b>3.55%</b>	<b>2.80%</b>	<b>1.09%</b>
<b>2016</b>	<b>8.70%</b>	<b>7.70%</b>	<b>11.95%</b>	<b>8.48%</b>	<b>2.79%</b>	<b>2.29%</b>	<b>0.88%</b>	<b>6.41%</b>	<b>5.66%</b>	<b>6.33%</b>
<b>2017</b>	<b>24.52%</b>	<b>23.52%</b>	<b>21.82%</b>	<b>24.62%</b>	<b>4.49%</b>	<b>3.99%</b>	<b>0.42%</b>	<b>17.01%</b>	<b>16.26%</b>	<b>10.75%</b>
<b>4<sup>th</sup> Quarter 2018</b>	<b>-15.23%</b>	<b>-15.48%</b>	<b>-13.52%</b>	<b>-12.65%</b>	<b>0.79%</b>	<b>.66%</b>	<b>1.30%</b>	<b>-10.16%</b>	<b>-10.35%</b>	<b>-6.11%</b>
<b>Year-to-Date 2018</b>	<b>-1.92%</b>	<b>-2.92%</b>	<b>-4.39%</b>	<b>-8.93%</b>	<b>0.61%</b>	<b>.11%</b>	<b>1.59%</b>	<b>-0.80%</b>	<b>-1.55%</b>	<b>-1.06%</b>
<b>3-Year Trailing (Ann.)</b>	<b>9.90%</b>	<b>8.90%</b>	<b>9.24%</b>	<b>7.17%</b>	<b>2.62%</b>	<b>2.12%</b>	<b>0.96%</b>	<b>7.29%</b>	<b>6.54%</b>	<b>5.23%</b>
<b>Since Inception (Ann.)</b>	<b>9.39%</b>	<b>8.39%</b>	<b>9.39%</b>	<b>6.98%</b>	<b>4.73%</b>	<b>4.23%</b>	<b>3.56%</b>	<b>8.53%</b>	<b>7.78%</b>	<b>6.72%</b>
<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 4<sup>th</sup> Quarter 2018, 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 1995-2017 combined 8.91%, for 1995-2018 combined 8.39%. 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%, for 1995-2017 combined 4.42%, for 1995-2018 combined 4.23%.

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.