



Weatherly
Asset Management

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

Third Quarter 2012 Weather(ly) Report October 2012

Economic repair and deleveraging continued around the globe during the third quarter. Companies, individuals, cities and states were able to take advantage of low interest rates and low inflation prevalent around the world. U.S. unemployment rates remained historically high; the private sector continued to slowly add workers while the government sector continued to shed workers. These structural unemployment changes resulted in surges in real estate and technology investments along with the streamlining of small, medium and large companies. Domestic equity markets performed well and investors continued their search for “yield with upside” in investments such as large-cap dividend stocks, preferred stocks, real estate and alternative investments, while remaining somewhat cautious on equities in general.

The Federal Reserve continued its dual mandate by keeping interest rates low and initiating QE3 bond buying to stimulate investing and encourage hiring. Specific sectors continue to have shortages in employment, including technology, engineering, bio-tech and medical fields. Retraining, retooling and relocating became a common theme as workers began to be re-employed. Men were hired at a faster pace than women and private sector jobs grew at a faster pace than government jobs.

With U.S. elections around the corner, a tight race and the start of debates prompted advisors and investors to focus on how best to allocate their assets and holdings for both 2012 and 2013 under either party’s policy. Bush tax cuts are scheduled to sunset December 31, 2012 so that qualified dividends at 15% and long-term capital gains at 15% may disappear and many individual tax rates may rise. With these potential changes on the horizon, one-time lifetime gifting strategies might be encouraged during this tax year. 2013 tax rates going higher for some individuals makes municipals more attractive at these levels.

International equities and emerging markets in general lagged those of U.S. equities. The “Fiscal Cliff,” Eurozone concerns and trouble in Iran kept investors at bay, pulling money from equity mutual funds with net inflows to bond funds while equities continued to surge. Concerns surrounding Spain and Portugal abounded during the quarter but they successfully kicked the can down the road when austerity and budget items were negotiated. We continue to hold small positions in non-U.S. assets at this juncture reflecting our overall concern of continued volatility in these areas. The summer stock market rally took indices to five year highs with U.S. stocks up 25.8%, international stocks up 16.7% and taxable and municipal bonds up 9.3% and 8.6% respectively for the 12-month period. Large-cap outperformed most mid-cap and small-cap sectors during the third quarter. Precious metals, natural resources and energy stocks performed well during the quarter with utilities, consumer staples and technology being the laggards.

We continued to layer portfolios with diversified positions in domestic and global real estate, large-cap dividend stocks, covered calls on existing positions and raw material holdings, as well as selling or shaving existing equity positions at these levels. Weatherly’s “Top Ten”, our largest holdings, are shown below:

“Top Ten” Holdings *

- | | |
|-----------------------------|------------------------------|
| 1. Apple Inc. | 6. iShares Select Dividend |
| 2. Home Depot Inc. | 7. General Electric Co. |
| 3. Pepsico Inc. | 8. AT&T Inc. |
| 4. Du Pont De Nemours & Co. | 9. Volkswagen AG |
| 5. McKesson Corp. | 10. Altegris Managed Futures |

Clients of Weatherly Asset Management (WAM) received their third quarter portfolio appraisals. The composite returns for all accounts under management for the periods 2003 through third quarter 2012, year-to-date 2012, and since inception are shown on the reverse side of this letter.

The Weatherly team expanded to include new hire Ryan Richardson at the beginning of October. We continued to work with clients holistically to capture tax, investment and gifting strategies unique to 2012. We appreciate your continued confidence in our Firm and look forward to working with you and your family on your particular financial needs. Please do not hesitate to call, or e-mail us at carolyn@weatherlyassetmgt.com.

*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 of fee)</u>	<u>WAM Equity</u> <u>(net of fee)</u>	<u>S&P 500</u>	<u>WAM</u> <u>Fixed**</u> <u>(gross of fee)</u>	<u>WAM Fixed</u> <u>(net of fee)</u>	<u>Merrill Lynch</u> <u>1-3 year</u>	<u>WAM</u> <u>Balanced**</u> <u>(gross of fee)</u>	<u>WAM</u> <u>Balanced</u> <u>(net of fee)</u>	<u>Blended</u> <u>Benchmark</u>
2003	28.70%	27.70%	28.69%	2.89%	2.38%	1.90%			
2004	14.70%	13.70%	10.87%	4.05%	3.55%	0.91%			
2005	12.65%	11.65%	4.92%	2.43%	1.93%	1.66%			
2006	16.21%	15.21%	15.78%	4.94%	4.44%	3.95%			
2007	11.18%	10.18%	5.49%	5.47%	4.97%	7.32%			
2008	-34.04%	-35.04%	-36.99%	-0.95%	-1.45%	6.61%			
2009	32.36%	31.36%	26.47%	10.63%	10.13%	0.78%			
2010	11.93%	10.93%	15.06%	6.77%	6.27%	2.35%			
2011	-5.58%	-6.85%	2.12%	4.37%	3.87%	1.55%			
3 rd Quarter 2012	5.85%	5.60%	6.35%	2.12%	2.00%	0.26%	4.27%	4.07%	3.91%
2012 YTD	16.36%	15.61%	16.44%	5.31%	4.94%	0.37%	12.13%	11.53%	10.01%
Since Inception (Ann.)	8.71%	7.71%	8.66%	5.65%	5.15%	4.59%			
Please see footnotes									

**** 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 1/1/11 meet the requirements of the revised version of Global Investment Performance Standards (GIPS).

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 2012, the average weighted 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 average weighted 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 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%.

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. Cash and cash returns have been allocated to the segment returns according to the procedures outlined by Association of Investment Management Research (AIMR) effective 1/1/06 to 1/1/11. Weatherly 2010-2011 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.

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 portfolios utilizing strategic asset allocation with both equity and fixed income components. The Blended Benchmark is comprised of 60% S&P 500 and 40% Merrill Lynch 1-3 Year representing the average 60% Equity and 40% Fixed Income allocation in the Composite.