



Weatherly  
Asset Management

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

## Third Quarter 2014 Weather(ly) Report October 2014

As fall rolls around the leaves begin to change color, so have the concerns and tone of geopolitical risks (Hong Kong, Russia, China, Ebola, ISIS), interest rates, growth rates, and employment around the globe. The US dollar appreciated by 8.4% during the third quarter, with the euro up 7.5%. Emerging market currencies were more varied, with the Brazilian real up 1.6% and the Russian ruble down -16.5%. The S&P 500 benchmark remained one of the toughest to beat internationally, up 6.7%, year-to-date. The Dow Jones Industrial Average was up 2.81%, S&P Mid Cap was up 6.7% and S&P Small Cap was down -4.6%, year-to-date.

Federal Reserve policymakers met and referenced a decrease in bond buying for the remainder of 2014, with indications of low rates through 2015. This change caused a sell-off in junk bonds and emerging market bonds as well. News of Bill Gross's departure from PIMCO to Janus left a scurry among PIMCO's bond investors, resulting in record outflows to competitors. Weatherly had been concerned over management changes announced previously and decided to sell our largest position held at PIMCO (PTY) prior to the "Bond King's" departure. The expected rise in interest rates also pummeled many real estate investors, causing a REIT index decline of -2.5% for the quarter. Global real estate still shows promise of price improvement.

While CPI and PPI numbers indicate inflation is under control for the present, broader measures including rent increases and wage increases specific to technology, healthcare, and engineering industries appear to show a shortage of "qualified" applicants. Oil prices remained soft with the US benchmark crude index off -15% from mid-June highs.

We continue to focus on investing in multinational companies that are taking advantage of the low rate environment in their operations. Healthcare and technology sectors still attract our attention due to strong global growth, human longevity, and biotech breakthroughs. Corporate credit markets remain difficult to find risk-adjusted yield while certain municipal credits offer slightly more attractive pricing for those clients requiring tax-free exposure.

### "Top Ten" Holdings \*

- |                      |                            |
|----------------------|----------------------------|
| 1. Apple Inc.        | 6. Adobe Systems Inc.      |
| 2. Netflix Inc.      | 7. iShares Select Dividend |
| 3. Roche Holdings AG | 8. Johnson & Johnson       |
| 4. Home Depot Inc    | 9. General Electric Co.    |
| 5. Starbucks Corp.   | 10. Wells Fargo & Co.      |

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 2014 and since inception are shown on the reverse side of this letter.

We continue to work holistically with each client family to optimize their investments based on liquidity needs, time horizon, tax circumstances, long term goals, and overall financial plan. As life expectancy grows and factors such as minimum required distribution, strategies for social security, pensions, real estate, or other income come into play, we work to optimize cash flow and performance while minimizing fees and taxes.

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](mailto: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&amp;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%			
2012	16.36%	15.36%	16.00%	5.99%	5.49%	0.43%	11.84%	11.09%	8.22%
2013	28.20%	27.20%	32.41%	-1.62%	-2.12%	0.36%	15.41%	14.66%	15.61%
3 <sup>rd</sup> Quarter 2014	-0.59%	-0.84%	1.13%	0.10%	-0.03%	0.03%	-0.34%	-0.53%	0.58%
2014 YTD	6.14%	5.39%	8.34%	4.97%	4.60%	0.44%	5.69%	5.13%	4.35%
10 Year Trailing	9.03%	8.03%	8.11%	4.35%	3.85%	2.52%			
Since Inception (Ann.)	9.52%	8.52%	9.71%	5.27%	4.77%	4.16%	13.23%	12.48%	11.26%
<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).

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 2014, 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 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%

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 12/31/10. Weatherly 2010-present 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 50% S&P 500 and 50% Merrill Lynch 1-3 Year representing the average 50% Equity and 50% Fixed Income allocation in the Composite.