



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

Second Quarter 2016 Weather(ly) Report July 2016

With our Nation's 240th birthday just behind us, investors head into the second half of the year with hopes of seeing less fireworks than the first. With slow growth and low to negative interest rates around the globe, investors were rewarded with U.S. centric, large-cap, dividend payers and high quality fixed income during the first six months of the year. The S&P 500 returned 3.84% led by utilities, consumer staples and telecom stocks. The U.S. 10-year Treasury rallied 7.97% and municipal bonds delivered 4.33%. With oil prices hovering near \$50 a barrel, junk bonds, dominated by the oil sector, delivered 9.06%. Global markets rose with the Stoxx Index up 3.2% and London's FTSE up 5.4%. Emerging markets rallied up 5% after seeing negative double digits returns in 2015.

With market volatility, the strong dollar, and low inflation, U.S. Central bankers remain poised to keep rates lower, longer. The Fed continues to keep an eye on slow global growth holding off on rate hikes year-to-date. We continue to work with clients on attractive levels of debt vs. equity given lending rates at historical lows. The unwanted uncertainty of the Brexit vote on June 23, 2016 to leave the European Union along with a surprisingly weak May jobs report in the U.S. further added to volatility and pushed back market expectations for a rate rise. The Brexit vote, highly driven by age, education and location, drew a strong parallel to the same heat map of the U.S. primaries. While the shakeout of Brexit, refugees, and negative rates are still being assessed, some early victims were clients and advisors who were unable to trade on the Betterment platform the morning after the vote. With an emphasis on robo-advisors this last year, Betterment's decision to halt trading during the post-Brexit volatility caused concerns about limits on automated investing given their ability to control client entries and exits.

ISIS appears to be expanding their tactics, frequency and reach across multiple continents. Strategies as to how best to confront this spread of "urban warfare" continues to be of utmost importance in global and domestic policy. With the U.S. Presidential election drawing closer, we continue to learn more about each parties suggested policy changes. Seats in both the House and Senate are up for grabs too, leading to uncertainty about which party will dominate Congress. *The Wall Street Journal* quoted the S&P 500 average third quarter rise since 1950 was 0.9% during election years.

Weatherly continues to focus on principally large, domestic and multinational dividend payers coupled with high quality-fixed income in both municipals, preferred stock and corporate bonds. Our top ten equity holdings exemplify this approach with a focus on technology, consumer staples, healthcare and telecom. We are pleased to see mergers and acquisitions activity percolating through the year. Healthy liquidity and opportunity are keys to healthy financial markets.

"Top Ten" Holdings *

- | | |
|--------------------|-------------------------|
| 1. Apple Inc. | 6. AT&T Inc. |
| 2. Netflix Inc. | 7. Johnson & Johnson |
| 3. Home Depot Inc. | 8. Roche Holding AG |
| 4. Starbucks Corp. | 9. General Electric Co. |
| 5. Amazon.com Inc. | 10. Adobe Systems Inc. |

De-globalization has become a prevalent theme over the past 18 months. While unemployment has declined to 4.9% in the U.S., underemployment and disparity of income gap between the wealthy and everyone else has widened. With the 2016 U.S. Elections on the horizon, these factors weigh heavily on U.S. voters looking for jobs, quality of living and opportunities. We continue to see education, location, and willingness to retrain or retool as important "fixes" to the unemployed.

We also see technology continue to disrupt, innovate and alleviate hiring needs across many industries. We continue to work with our affluent clients on new, more secure portals, updating our website, and secure use of passwords and client information. We are happy to teach you the benefits of this approach if you are not yet onboard. Our goal is to continue to post monthly meaningful and timely topics to our "blog" so that clients and third parties can learn from our team's high level of comprehensive advice on financial, estate and wealth planning for their individual needs. Please keep an eye out for our next blog post on estate planning ABC's.

We welcome your calls and questions and encourage you to schedule a call or meeting as needed to review your specific financial and planning needs.

*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&P 500</u> <u>Total</u> <u>Return</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%
1 st Quarter 2016	0.39%	0.14%	1.35%	0.38%	2.13%	2.00%	0.90%	0.91%	0.72%	1.13%
2 nd Quarter 2016	2.06%	1.81%	2.46%	1.19%	2.16%	2.03%	0.53%	1.93%	1.74%	1.50%
YTD	2.46%	1.96%	3.84%	1.58%	4.34%	4.09%	1.43%	2.86%	2.48%	2.64%
Since Inception (Ann.)	9.21%	8.21%	9.36%	6.86%	5.13%	4.63%	3.91%	9.05%	8.30%	7.57%
<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 requirements have changed with carve outs no longer permitted.

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 2nd Quarter 2016, 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%, 1995-2015 combined 8.31%. 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%.

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, composite returns no longer include cash or a weighting to cash. Weatherly 2010 to 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 Balanced composite continues to include cash. The Blended Benchmark is comprised of 50% S&P 500 Total Return and 50% Merrill Lynch 1-3 Year representing the average 50% Equity and 50% Fixed Income allocation in the 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.