



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

Fourth Quarter 2016 Weather(ly) Report January 2017

2016 was a year of surprises for many. Notable trends continued with slow growth, improving unemployment, low interest rates, a strong U.S. dollar and increasing disparity of income throughout much of the world. Frustrated citizens in many countries utilized their voting power to opt for change, feeding into the populist movement seen first with the outcome of Brexit in the U.K. and then the Republican sweep of the House, Senate and Presidency in the U.S. Populist candidates in the Netherlands and Germany are also slated for 2017 elections.

Polls exhibited their flaws, incorrectly predicting the outcome of the U.S. Presidency, and the win by Donald Trump resulted in a dramatic shift in U.S. markets. A sharp increase in interest rates, the strengthening of the U.S. dollar, and equity prices nearing highs by year end were some highlights. Sector returns varied widely as Trumponomics proposed policies of less regulation and lower corporate and individual taxation, along with expansion policies to increase infrastructure spending and protectionist policies to boost U.S. based manufacturing. The S&P 500 index rose 11.95% for 2016, the DJIA rose 18%, and the MSCI all country world index 8.5%. Energy, small cap and telecom were top sectors returning 27.4%, 26.6%, and 23.5%, respectively. Financials alone rallied 22% since the election. Healthcare and biotech were a notable drag on indices with generally negative performance due to potential repeal of Obamacare, regulatory changes as well as uncertainty in the insurance and healthcare industries.

Interest rates increases, while influenced by the results of the U.S. Election, were further affected by the Federal Reserve rate rise in December 2016, and their projection of three rate hikes for 2017. Mortgage rates rose, hitting 4.41% on jumbo fixed loans. In tandem, millennials and retirees both saw the price of real estate flatten and rent versus buy decisions coincide. Municipal bonds eked out slightly positive returns of 0.2% for 2016 after stellar returns in 2014 and 2015, as a result of the increased growth and inflation expectations; fixed income assets in general sold off, offering more attractive yields for investors with income needs.

Weatherly continues to focus on efficient after-tax, after-fee returns for client portfolios. Our focus on specific companies and sectors specific (exchange traded funds) are shown below. Reference to our holdings highlight these choices.

"Top Ten" Holdings *

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

We continue to view clients' financial well-being and road map as key to investment and planning decisions in 2017. As we forge forward with a new Administration, the first 100 days and decisions beyond, potential notable changes include healthcare (repeal of Obamacare), tax brackets, estate tax laws, deductions for individuals and businesses. We look to incorporate potential and actual change into each client strategy as appropriate. Regarding investments, we see a rise in rates and inflation (rising wages pressure) on the horizon, we also see continued sector specific opportunities in water, defense, infrastructure, cybersecurity and secure data storage. We believe the tech, biotech and European markets reversal of fortunes will continue through the first quarter of 2017.

We welcome your thoughts and look forward to continuing problem solving with our clients into 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&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%
3 rd Quarter 2016	4.10%	3.85%	3.85%	5.43%	0.89%	0.76%	-0.11%	2.89%	2.70%	1.87%
4 th Quarter 2016	1.91%	1.66%	3.82%	1.30%	-2.35%	-2.48%	-0.44%	0.55%	0.36%	1.69%
2016	8.70%	7.70%	11.95%	8.48%	2.79%	2.29%	0.88%	6.41%	5.66%	6.33%
Since Inception (Ann.)	9.29%	8.29%	9.51%	7.02%	4.94%	4.44%	3.80%	8.85%	8.10%	7.55%
<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 carry 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 4th 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%, 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, 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.