



Weatherly  
Asset Management

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## Second 2012 Weather(ly) Report July 2012

Rock and Roll was the continued theme for economies and markets around the globe. While US stocks earned a return of 9.5% year-to-date, Second Quarter gave up 2.8% of First Quarter's return. Foreign markets, in general, were more volatile and earned 3.4% year-to-date for investors. Eurozone uncertainty and slow global recovery caused a continued hangover for global equity investors during the Second Quarter. Meanwhile, gold was barely at the breakeven point year-to-date, commodities remained volatile and inflation "appeared" to be at bay for the moment. Sector stars during the Second Quarter were real estate, health care and utility stocks, returning 3.5%, 2.6% and 2.2%, respectively. Technology, energy and natural resource stocks were negative, returning -8.2%, -8.6% and -12%, respectively.

On June 20<sup>th</sup>, the Federal Reserve announced that it would continue "Operation Twist" through year-end in order to extend the maturities on its balance sheet. The Fed reiterated that if economic conditions warranted, they would keep their benchmark interest rate near zero through 2014. This prompted another rally in bond prices during the Second Quarter, with taxable bond returns up 1.3% and municipal returns up 1.9%. State and local governments continued to focus on budgets with an eye on steadier tax revenue versus expenses, which weighed heavily with pension and health care costs. Municipal bond defaults remained historically low, yet Stockton and Mammoth Lakes declared Chapter 9 during the Quarter. Weatherly continued to add high quality, short-term, corporate and municipal bonds during the Quarter.

We continue to seek additional yield opportunities to help improve portfolio return and dampen volatility. Weatherly increased investment upside in real estate via mutual funds, exchange traded funds and preferred stocks for both yield and price potential. With interest rates held at historic lows, real estate offered both investment and refinance opportunities and delivered borrowing rates in the 3% lows, with sector returns of 14.2% year-to-date and over 30% for the trailing 3 years.

With debt and politics in the US and Europe causing rifts in an already slow global recovery, companies (large, medium and small) and individuals continued to deleverage, monitor expenses and look for attractive investments with income and upside. Private sector employment tread forward while government layoffs continued stalling the US unemployment rate, at 8.2% in June.

Given continued gyrations in global equities due to uncertainty in the Eurozone and the slow pace of economic recovery around the world, Weatherly implemented a five-fold strategy to help deliver attractive returns year-to-date. This strategy included shaving gains opportunistically in equities, writing additional positions in covered calls, adding to portfolio yield with real estate, and adding preferred stock as appropriate while continuing an investment tilt to large-cap, dividend stocks. While large-cap, dividend stocks were the darling sector during 2011, First Quarter saw a reversal in this trend, and then these stocks returned as a favorite during the Second Quarter.

Weatherly's "Top Ten", our largest holdings, are shown below:

### "Top Ten" Holdings \*

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

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

Weatherly's team continued to work with clients holistically to deleverage their balance sheets and work portfolios toward higher yields and tilted to growth for the future. We appreciate your continued confidence in our Firm and look forward to working with you as election results dictate estate and tax law changes through year-end. Please do not hesitate to call, or e-mail us at [carolyn@weatherlyassetmgt.com](mailto:carolyn@weatherlyassetmgt.com). Also, please visit our new website ([www.weatherlyassetmgt.com](http://www.weatherlyassetmgt.com)), and contact us via Facebook ([www.facebook.com/weatherlyassetmgt](http://www.facebook.com/weatherlyassetmgt)), LinkedIn ([www.linkedin.com/company/weatherly-asset-management](http://www.linkedin.com/company/weatherly-asset-management)) and Twitter ([www.twitter.com/weatherlyasset](http://www.twitter.com/weatherlyasset)).

\*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 Equity **</u> <u>(gross of fee)</u>	<u>WAM Equity</u> <u>(net of fee)</u>	<u>S&amp;P 500</u>	<u>WAM 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>
2003	28.70%	27.70%	28.69%	2.89%	2.39%	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%	-6.58%	2.12%	4.37%	3.87%	1.55%
2nd Quarter 2012	-2.38%	-2.63%	-2.75%	0.66%	0.54%	0.19%
2012 YTD	9.93%	9.43%	9.49%	3.13%	2.88%	0.11%
7 Year Trail (Annualized)	5.35%	4.35%	4.09%	4.89%	4.39%	3.32%
WAM Since Inception (Annualized)	8.48%	7.48%	8.40%	5.61%	5.11%	4.64%

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 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 1<sup>st</sup> 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 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.