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Fourth Quarter 2012 Weather(ly) Report January 2013

As the New Year unfolded, many investors and professional advisors breathed a sigh of relief. Uncertainty surrounding the Fiscal Cliff in the U.S. and ongoing issues in the Eurozone continued to cause a drag on an already slow economic recovery around the globe. Worldwide businesses, individual households and government entities realigned low interest rate debt with investments in technology and streamlining operations, while keeping a close eye on spending and rehiring. The main events of 2012 also included Obama's re-election, India's wide-spread power failure, super storm Sandy, and the fiscal cliffhanger budget negotiations.

Year-end strategies surrounding potential estate and tax planning changes kept estate, tax and investment issues up in the air as the Washington crew played a game of chicken. At the thirteenth hour, an agreement was reached on creation of a new Federal income tax bracket at 39.6% (for joint filers with \$450k AGI and single filers with \$400k AGI), changes for dividend and capital gains rates on a select few, increase in payroll tax, and limitations on itemized deductions. While clarity on a number of code changes are still to be resolved, focus has turned to Federal debt ceiling deadlines and much needed austerity in Washington. While volatility and uncertainty continued to play a part in investment returns, 2012 ended with price returns of 13.4% on the S&P 500, 15.9% on the NASDAQ composite, 7.3% on the Dow and emerging markets up 15% with upside variation differing by country. Large-cap growth and value performed similarly for the year while mid-cap and small-cap value outperformed growth. Asset allocation remains the principal driver of portfolio returns. REITs and emerging markets delivered top notch returns at 19.7% and 18.6%, respectively, for 2012. The Russell 2000 was up 16.3% while the Barclays Aggregate was up 4.2%; cash returned 0.1% and commodities were off 1.1% for the year. Financials, health care, technology and consumer discretionary drove sector returns while utility and energy sectors created a drag on returns.

With the Federal Reserve continuing their stance of low interest rates and bond buying, activity and recovery were seen with refinances and in real estate markets. Investors were still in hot pursuit for yield, with the ten-year Treasury ending 2012 at 1.759%, a change of only 11 basis points on the year. Corporate and emerging market bonds returned 7% and double-digit returns respectively.

Weatherly added selectively to positions in individual stocks, exchange traded funds, preferred stocks and U.S. and non-dollar fixed income, both taxable and tax-exempt in nature. This approach was married with covered calls and real estate positions as appropriate.

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. McKesson Corp. | 8. Du Pont de Nemours & Co. |
| 4. Volkswagen AG | 9. AT&T Inc. |
| 5. Pepsico Inc. | 10. Amazon Inc. |

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

Our objective with clients for 2012 was to deliver positive risk adjusted returns. With diligence and a focus on diversification, yield and managing risk we were able to deliver on this goal for our clients. 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%			
4 th Quarter 2012	0.00%	-0.25%	-0.38%	0.64%	0.52%	0.07%	-0.26%	-0.46%	-0.16%
2012 YTD	16.36%	15.36%	16.00%	5.99%	5.49%	0.43%	11.84%	11.04%	8.22%
Since Inception (Ann.)	8.58%	7.58%	8.51%	5.61%	5.11%	4.52%			
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 4th 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 1995-2012 combined, 7.58%. 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%.

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 2010-2012 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.