



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

Second Quarter 2014 Weather(ly) Report July 2014

The “tipping point,” a term coined by Malcolm Gladwell, is that magic moment when ideas, trends, and movements reach critical threshold and tip and pour into mainstream society; the point when little things can make a big difference. Technology is a game changer and has acted as the tipping point in many industries, from energy, education and health care, to entertainment, banking and data protection. Technology is causing both positive and negative changes in more heavily controlled, regulated and monitored environments, while mini and massive explosions are occurring in other arenas. Being on the positive side of a tipping point movement while mitigating negative risks is key toward growth and progress on the government, business and investment level. Being inquisitive, innovative, and open to fresh ideas while improving from “mistakes” is critical to survival of the fittest in the future.

Low interest rates around the globe have created critical mass so that uninvested cash is earning next to nothing. Real estate financing has been exhausted and corporate and public sectors have de-levered. Investors seeking measured risk saw attractive returns in real estate, stock, private equity and IPO markets. While the second quarter got off to a rocky start, US stocks delivered 3.71% for the quarter, with value stocks modestly outperforming growth stocks, at 4.35% versus 4.27%. Equity sector performance varied, with natural resources up 12.54% and precious metals up 14.23%, compared to financials up only 1.10%. Global equities outperformed domestics, playing catch-up year to date.

Bond markets continued to advance as the Fed continued to taper. Again, it is important to remember that tapering is the only the slowing of asset purchases and easy money policies, not tightening. Inflation remains subdued in the Fed’s eyes, but signs of price increases are apparent in many goods and services. We are keeping an eye on employment, as future wage growth may be the tipping point to kindle the inflation fire.

As the second quarter proceeded and equities advanced, Weatherly opportunistically sold or shaved positions, added covered calls and reallocated portfolios to specific high growth sectors. Weatherly’s “Top Ten”, our largest holdings, are shown below:

“Top Ten” Holdings *

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

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

Global recovery of economies is still widely dispersed as is income disparity in nearly every nation. Basic needs (clean water, food, shelter) are not met by much of the population. In a world of seven billion, enabling the population while training and re-training the underemployed is a tipping point we need to resolve. Innovation and technology require brain power, infrastructure and educational resources for needed resolution. We continue to be vigilant on our client’s behalf, striving for optimal asset allocation and maximizing returns after fees and taxes while looking to invest in a new common future. 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%			
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%
2 nd Quarter 2014	5.98%	5.73%	5.23%	2.22%	2.09%	0.27%	4.59%	4.40%	2.75%
2014 YTD	6.77%	6.27%	7.14%	4.87%	4.62%	0.41%	6.05%	5.68%	3.75%
10 Year Trailing	9.02%	8.02%	7.78%	4.61%	4.11%	2.62%			
Since Inception (Ann.)	9.68%	8.68%	9.78%	5.34%	4.84%	4.21%	13.38%	12.63%	11.00%
<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 2nd 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.