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## Third Quarter 2015 Weather(ly) Report September 2015

Investors required perspective to stomach the third quarter of 2015. While the quarter got off to a good start, the volatility surrounding the Chinese Yuan devaluation, the impact of slower Chinese growth on emerging markets and uncertainty surrounding the U.S. Federal Reserve's next move in interest rates caused tremors around the world in both equity and fixed income markets. Domestic indices at (-8.5%) fared better than foreign at (-10.1%) and large company funds (-6.3%) outperformed mid-cap (-9.74%) and small cap (-11.99%). The expected slowdown in China slammed commodity prices again, with energy and basic material funds off -24.94% and -20.75% respectively. Emerging markets followed commodities off -16.02%. Through the market chaos, real estate, utilities, consumer goods, and services were the more resilient sectors.

Fixed income funds displayed a large disparity in performance. While, money funds yields average 0.01%, investors in US Treasuries and municipals were rewarded in the quarter with 3.02% and 1.58% returns, respectively. Emerging market bonds plummeted down -4.75% and junk bonds fell -4.48%. While inflation remained lower than the Fed's target, unemployment numbers continued to improve, hovering around 5%, although the skill set mismatch and shortage of qualified workers for open positions grew more apparent. While the Federal Reserve has not yet made the move to raise the Federal Funds rates, we expect an action shortly with the Fed eyeing both unemployment and inflation. With the general elections just a year away, candidate debates and the political circus began in the U.S..

The Dow Jones Industrial Average saw its worst 1 day price drop since 2008 the morning of August 24<sup>th</sup>, when it declined over 1,000 points in early trading; the drop was likely a result of systematic trading. The Weatherly team strategically reviewed the market volatility thru the quarter, and drew a parallel to the correction in 2011 more so than the 2008 crisis. We opportunistically purchased new positions in specific portfolios (either with long term time horizons, such as retirement accounts, or new cash inflows), choosing domestic companies such as, Under Armor, Kimberly Clark, Norfolk Southern and 3M, as appropriate. The "Fab Five" tech sector got crushed (AAPL, AMZN, FB, GOOG, and NFLX) in the August 24<sup>th</sup> sell-off with subsequent recovery proceeding into early October. Volkswagen's emissions scandal surfaced mid-September shaking both the stock itself and investor and buyer confidence in the auto sector. Concerns about the depth of the fraud at the company, the needed technology to fix approximately 11 million vehicles worldwide and the class action suits and potential litigation all caused major concerns. Immediate resignations of Chief Executive Winterkorn occurred within days and the company set aside \$7 billion for fines, car fixes, and consumer lawsuits. These steps, plus congressional testimony by the U.S. Chief Executive Horn, all helped push the stock up over 25% from its lows.

### "Top Ten" Holdings \*

- |                      |                                  |
|----------------------|----------------------------------|
| 1. Apple Inc.        | 6. Adobe Systems Inc.            |
| 2. Netflix Inc.      | 7. Amazon Inc.                   |
| 3. Starbucks Corp    | 8. Wells Fargo & Co.             |
| 4. Home Depot Inc.   | 9. SPDR Series Trust S&P Biotech |
| 5. Roche Holdings AG | 10. IShares Tr Russell Midcap    |

As of this writing, the U.S. equity markets have advanced 7% from their market correction status. Sector shifts have occurred with a sell-off in large cap tech names such as AAPL, and sectors such as healthcare and biotech. We view many of these changes as an opportunity to make shifts in client portfolio exposure. We continue to also add municipal bonds, covered calls and other income sources to portfolios. As we enter the final months of 2015, we are working closely with clients on year-end tax, charitable, and retirement planning to optimize their positions for 2015 year end. We suggest you schedule a call or appointment to review your specifics with our team of advisors.

The challenge as tax rates, and often capital gains rates, rise for many of our clients; is how to plan and invest with the best after-tax, after-fee approach for each client. Often our guidance surrounding opportunities in the retirement arena such as self-employed 401(k), profit sharing plans, and defined benefit funding have been key in securing more money in our clients' wallets. Proper guidance with our team of advisors on estate planning has also allowed for significant savings for current and future generations. Particularly for entrepreneurial business owners, keeping perspective has been critical in allowing client assets and planning to focus on which developments require impact or change.

We hope you are enjoying our new portal and we welcome your questions and calls. We value 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](mailto: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 fee)</u>	<u>WAM</u> <u>Equity</u> <u>(net fee)</u>	<u>S&amp;P 500</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%	8.22%
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%
1 <sup>st</sup> Quarter 2015	3.61%	3.36%	0.95%	2.44%	0.93%	0.80%	0.52%	2.62%	2.43%	0.74%
2 <sup>nd</sup> Quarter 2015	1.75%	1.50%	0.28%	0.52%	-0.61%	-0.74%	0.15%	0.89%	0.70%	0.22%
3 <sup>rd</sup> Quarter 2015	-6.93%	-7.18%	-6.44%	-9.33%	0.44%	0.32%	0.31%	-4.31%	-4.49%	-3.07%
YTD	-1.88%	-2.63%	-5.29%	-6.62%	0.76%	0.39%	0.98%	-0.93%	-1.49%	-2.14%
10 Year Trailing (Ann.)	8.44%	7.44%	6.78%	5.24%	4.10%	3.60%	2.54%			
Since Inception (Ann.)	9.08%	8.08%	9.16%	6.90%	5.07%	4.57%	4.01%	8.84%	8.09%	7.47%
<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 3rd Quarter 2015, 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 8.54%, 1995-2014 combined 8.54%. 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 4.73%, 1995-2014 combined 4.73%.

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.