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## First Quarter 2017 Weather(ly) Report April 2017

The technology revolution continues to advance throughout the world, with innovation creating a multitude of opportunities for industries both new and old, with renewed focus on automation of manufacturing and subsequent increases in productivity. Amazon's dominance in e-commerce is proof of the dramatic shift in the retail space, as consumers purchase goods online at the expense of brick and mortar stores. Even with the surge in automation, unemployment numbers in the U.S. continue to improve; unemployment fell to 4.5% with wages rising 2.7%. U.S. political focus remains on bringing jobs and dollars back to America, however the increase in automation continues to erode manufacturing jobs in addition to competition from lower cost labor overseas. Retraining, retooling and relocating remain a key to continued growth of the world's slow growing economies. "Democracy cannot succeed unless those who express their choice are prepared to choose wisely. The real safeguard of democracy, therefore, is education," proclaimed by Franklin D. Roosevelt sums it up best.

Interest rates, having risen sharply since the U.S. Election, remained poised for further actions from the Federal Reserve in 2017. This year, the Fed raised rates 25 basis points, and recently announced easing monetary policy with potentially two more rate rises on the horizon. Global deflation continues and normalized global monetary policies remained focused on inflation and real interest rates. High-quality, intermediate taxable and muni bonds and TIPS remain attractive in this environment. Mortgage rates continue to rise, increasing the cost of home ownership, when for the first time in history major cities in the U.S. have reached 50% rental vs. primary residence ownership.

No industry is excluded from the impact technology has moving forward; examples are seen in Autos (battery life), Finance (fintech), Biotech (genome mapping), Entertainment (streaming), Cybersecurity (detection and minimization). Forward thinking individuals and companies continue to lead in this change. Our focus at Weatherly is to remain diligent on this investment opportunity now and in the future. Key themes also include investments in defense companies, infrastructure and global water. As the U.S. dollar's strength remained intact through the end of 2016, we began to diversify opportunistically in 2017 in strong international economies (Europe, Canada, and New Zealand).

Weatherly's largest holdings are highlighted below elaborating on sector and company focus:

### "Top Ten" Holdings \*

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

At this writing, the President announced "a targeted attack on the airfield in Syria where the chemical attack was launched." A six-year civil war has killed an estimated 400,000 people and displaced 11 million. The Syrian regime, backed by the Russian military, killed over 70 civilians with poison gas. President Trump moved without approval from Congress but received support of leaders in Europe and many around the world. With less than 100 days in office, Washington is busy with proposals surrounding income tax simplification (lower corporate and individual rates), repeal and replacement of health care policies, Border Adjustment Tax (BAT), infrastructure investment (public and private) and immigration reform. A lot of emphasis is being wagered on the U.S. Administration's ability to promote growth agendas while balancing tax reform, protectionism, infrastructure and defense spending.

We feel broad portfolio diversification will reward investors with single digit returns in the coming environment. We expect potential increases in volatility at this juncture and have continued to sell selectively (URBN, WFC), shave or donate concentrated positions, and move to a more neutral asset allocation while adding covered calls as appropriate per portfolio. We welcome your questions and calls and look forward to touching base regarding your unique financial situation in more detail at your convenience.

**\*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>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%
2016	8.70%	7.70%	11.95%	8.48%	2.79%	2.29%	0.88%	6.41%	5.66%	6.33%
1 <sup>st</sup> Quarter 2017	7.45%	7.20%	6.07%	7.05%	1.66%	1.53%	0.26%	5.31%	5.12%	3.17%
Since Inception (Ann.) Please see footnotes	9.53%	8.53%	9.69%	7.27%	4.96%	4.46%	3.77%	9.48%	8.73%	7.81%

**\*\* 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 1st Quarter 2017, 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, equity and fixed 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.

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