



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

Fourth Quarter 2017 Weather(ly) Report January 2018

New year, new page, new memories, and new opportunities; 2018 presents a chance to learn, re-invent, improve, pay-it-forward, listen, laugh, appreciate and hope. As we head into the New Year, we want to express gratitude to those around us and continue to offer help to those in need of our expertise, empathy or education. *The Ripple Effect* theme swells as we head into new frontiers personally, locally and globally. We strive to create *Dialog for Impact* with each person or family we connect with. We *Prioritize for Progress* and utilize an *Ask.Share.Repeat.* process to maintain a contiguous and synergistic relationship with clients, colleagues and community. Over the years, we have learned from our past, mistakes and collaboration and hope to infuse you with the same enthusiasm to work toward your best future yet. We offer a huge welcome to the New Year.

Key reflections on 2017 include generally low interest rates, inflation and growth around the globe. The U.S. economy continued in a positive direction nearing full employment with unemployment at a 4.1% low and the Dow Jones Industrial Average reaching a historical 25,000 the first week of 2018 with no single month having a negative return for the whole of 2017. The year ended with a 22% rise in the S&P 500 Index, a 28% rise in the DJIA and a 25% rise in MSCI All-Country World Index. Technology, materials, financials and health care led the pack and international markets rallied past domestic. Brent crude reached a 3-year high up 18% in 2017 with a positive outlook in 2018 given tensions in the Middle East and economic deterioration in Venezuela. Geopolitical risks loomed into 2018 with continued concern over North Korean relations. Domestically, our country saw the threat of natural disaster with hurricanes, fires and record snowfall across the nation.

U.S. Interest rates remained stubbornly low in 2017, albeit the Fed raised rates three times with a strong signal that 2018 will see a continued low interest rate environment. Janet Yellen's successor, Jerome Powell, will take chair of the Fed in February and is expected to hold similar policies. The U.S. ten-year bond traded in a narrow band, 2.2% to 2.4%, yet the yield curve flattened as short-term interest rates rose. Inflation continued to hover below the 2% target and, while tax cuts may fuel inflation, the incoming Chairman may see below target rates.

Our cashless world continues to expand with 2016 mobile payments in the U.S. totaling \$112 billion and China \$9 trillion. Fees and data collection remain paramount around companies and currencies adapting to this change in mobile transactions. We stand alongside this new frontier and expect further opportunity and risk into the New Year. While asset allocation and portfolio diversification remain key to clients, our top ten holdings generally helped portfolio performance in 2017.

"Top Ten" Holdings *

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|--------------------------------|------------------------|
| 1. Apple Inc. | 6. Home Depot Inc. |
| 2. Netflix | 7. Starbucks Corp. |
| 3. Amazon | 8. Boeing Co. |
| 4. Guggenheim Global Water ETF | 9. AT&T Inc. |
| 5. SPDR Biotech ETF | 10. Adobe Systems Inc. |

With promises of tax simplification and cuts since the 2016 U.S. elections, the Tax Cuts and Jobs Act (TCJA) was signed into law December 22, 2017, keeping seven individual brackets, limiting new mortgage deductions to \$750k, capping SALT (state and local tax) and property tax deduction at \$10k, doubling the standard deduction and revamping the allowable pass-thru income tax rate to drop from 35% to 21% for U.S. companies that qualify.

Education remains paramount in our Firm's values. In 2017, we reaped the benefits of team members gaining new knowledge from completing Masters in Finance and Tax, achieving their CFP® designation, moving on to the next level of CFA, attending the Executive Certification Stanford Vistage course in Innovation and Design, and participation in the Leading Change and Transformation e-Learning Exchanging Program. In the news, our partner Candise Holmlund received recognition as one of San Diego's Top 500 Influential Business Leaders, stay up to date on our Firm's Newsroom, <http://www.weatherlyassetmgt.com/newsroom>. We look forward to educating ourselves and clients in the New Year while we keep *The Ripple Effect* in motion.

*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&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%	8.18%
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 st Quarter 2017	7.45%	7.20%	6.07%	7.05%	1.66%	1.53%	0.26%	5.31%	5.12%	3.17%
2 nd Quarter 2017	2.99%	2.74%	3.09%	4.45%	1.49%	1.36%	0.17%	2.34%	2.15%	1.63%
3 rd Quarter 2017	5.11%	4.86%	4.48%	5.31%	0.98%	0.85%	0.23%	3.65%	3.46%	2.36%
4 th Quarter 2017	7.05%	6.8%	6.64%	5.84%	0.29%	0.16%	-0.25%	4.75%	4.56%	3.20%
2017	24.52%	23.52%	21.82%	24.62%	4.49%	3.99%	0.42%	17.01%	16.26%	10.75%
Since Inception (Ann.)	9.91%	8.91%	10.02%	7.73%	4.92%	4.42%	3.65%	10.17%	9.42%	8.07%
<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). Periods from 12/31/10 are calculated in a similar manner but GIPS standards no longer permit carve 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 4th 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 1995-2017 combined 8.91%. 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%, for 1995-2017 combined 4.42%.

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.