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## Third Quarter 2018 Weather(ly) Report October 2018

Albert Einstein said “Life is like riding a bicycle. To keep your balance, you must keep moving.” Global backdrop, geopolitical and market changes continued to move forward, requiring investors to recalibrate their balance as we rode through the third quarter. US stocks outperformed global peers by the widest margin since 2013. YTD 2018, the S&P 500 is up 9.4%, Nikkei 6.5%, Stoxx Europe -1.4%, FTSE -2.5% and Shanghai index down 14.7%, excluding dividends. Emerging markets such as Turkey, Argentina and Brazil experienced higher volatility both in currency and markets. FAANG stocks (Facebook, Apple, Amazon, Netflix and Google) hung onto their year-to-date performance, albeit with less advancement in the third quarter. Toward quarter’s end, global trade tensions appeared to ease as the U.S. and Canada revised the North American Free Trade Agreement on Sunday, September 30<sup>th</sup> 2018.

Interest rates in the US continued to rise during the third quarter with changes occurring at both ends of the yield curve. The U.S. Treasury 10 year benchmark reached its highest yield since 2011, at 3.06%, and the 2 year yield ended at 2.82%. During the Federal Reserve’s September meeting, the Fed Funds rate increased for the third time in 2018 from 2% to 2.25% and a fourth rate rise by the Fed is widely anticipated. The U.S. dollar strength continued in 2018, with the greenback up 4.3% versus a 16 currency basket in 2018. Brent crude oil jumped 4.1% to \$87.72 a barrel during the third quarter, the highest level since the 2015 crash. Brent crude is up 24% year to date, with efficiency gains in battery technology and clean energy innovation systems. Amazon announced their sweeping minimum wage increase to \$15 an hour, although the wage hike came with a less well-received change to bonuses and stock compensation (Target, Costco and Walmart had previously announced their minimum wage increases of \$15, \$14 and \$11 an hour, respectively). With U.S. unemployment reaching 2.7% and wage growth at 2.8%, a tighter labor market put additional pressure on efficiency, automation, mobile payment systems, and robotics.

Weatherly continued to shift client portfolio positions toward their neutral asset allocations as we head into the 9<sup>th</sup> year of a bull market and the final quarter of 2018. Our goal is to best position clients for liquidity needs, minimum required distributions, qualified charitable distributions and appreciated stock donations to donor advised funds. Given new tax code opportunities due to the Tax Cuts and Jobs Act, effective for the 2018 tax year, Weatherly has shifted client portfolios to capture tax opportunities. We continue to incrementally adjust portfolios to minimize risk by reducing concentrated positions. In addition, we’ve targeted high quality short municipal bonds, corporate bonds and Treasury Inflation Protected Securities (TIPS) for portfolios given 2018’s trend in rising interest rates.

### “Top Ten” Holdings \*

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

As Weatherly enters its 25<sup>th</sup> year, we celebrate by bringing a fresh look to our website, logo, and our client communications. We hope you enjoy navigating [www.weatherlyassetmgt.com](http://www.weatherlyassetmgt.com) and we welcome your feedback.

We continue to put our clients’ families and their business interests first as a Fiduciary with focus on our core competencies of investments and planning. Our goal is to provide premier customized services to our clients, families, businesses and communities by having a dialogue for impact on their unique and changing situations. Together, we explore outliers of opportunity, and maximize your potential in unexpected ways; exploring the unknown and prioritizing the unseen deepens our teams’ problem-solving skills. This methodology brings tenacity to your planning behind the scenes, as we deeply learn about challenges and create solutions that are uniquely relevant. Weatherly strives to customize a plan that will be progress-driven in the short term, with the fluidity to maximize your long-term potential, knowing that change in life and environment is inevitable. Remember Albert Einstein’s wisdom “A ship is always safe at the shore, but that is not what it’s built for.”

\*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</u> <u>500t</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%
2017	24.52%	23.52%	21.82%	24.62%	4.49%	3.99%	0.42%	17.01%	16.26%	10.75%
3 <sup>rd</sup> Quarter 2018	7.36%	7.11%	7.71%	4.40%	0.28%	0.15%	0.19%	5.04%	4.85%	3.95%
Year-to-Date 2018	15.70%	14.95%	10.56%	4.26%	-0.18%	-0.56	0.29%	10.41%	9.84%	5.38%
3-Year Trailing (Ann.)	18.73%	17.73%	17.32%	14.03%	2.53%	2.03%	0.38%	12.85%	12.10%	8.63%
Since Inception (Ann.)	10.26%	9.26%	10.17%	7.67%	4.75%	4.25%	3.54%	10.60%	9.85%	7.98%
<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 2<sup>nd</sup> Quarter 2018, 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.