Weatherly Asset Management

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

Third Quarter 2016 Weather(ly) Report
October 2016

With Halloween around the corner, investors are hoping for more treats than tricks in historically shaky October markets. With U.S. Elections looming in early November and the Federal Reserve's deferral of a rate rise to possibly later this year, markets and investors are looking for guidance on where to seek positive returns. As 2016 comes into the final stretch, investors are examining a number of potential outcomes involving policy, politics and profits before drawing investment conclusions. Central banks around the world are keeping rates low while scouring their tool box to help form their monetary policy into 2017. Global political changes are also causing uncertainty, as the Brexit outcome elicited populist tremors, with specific concerns about Eurozone stability ("hard" vs. "soft" Brexit) along with potential parallel outcomes from the U.S. Electorate and accompanying fiscal policy. Corporate profits and a potential slowdown in growth and productivity also are hanging in flux; many arguments involved the paradigm of increases in technological efficiencies yet decreases in productivity in manufacturing. As you would expect all three P's are interrelated (policy, politics, and profits).

The Federal Reserve has continued on their course of "all talk, no action." At the beginning of 2016, the Fed "dot plot" indicated the number of Fed rate rises at four for the year. As of this writing, there is a 60% market prediction placed on one Fed rate rise, likely in December 2016. The Fed's dual mandate of unemployment (4.9% vs 4.8% target) and inflation (1.7% vs 2% target) has continued to contribute heavily on the Fed's "no action" at this juncture. We see investors' expectations of continued low interest rates and inflation to be misplaced. As oil prices shifted into higher gear, hovering around $50 per barrel after OPEC production talks, we see the impact on inflation and consumer purchases (autos, real estate, etc.). With the scenario of rising inflation in mind, we have purchased 5-year Treasury Inflation Protected Securities (TIPS) to help increase credit quality and insulate portfolios for the future.

For the year, oil services rallied up 33.95% and oil sectors up 19.9%, both have been stellar performers, with small-cap 11.4% and mid-cap 12.4% performance close behind. While dividend stocks have been standout returning 17.13% year to date, their high valuations came into question during quarter three. Value stocks at 10% have continued to outperform growth at 6%, year to date, and real estate returned 12.52%, however both domestic and global RE showed some weakness in the third quarter. Disappointing returns were generated by both healthcare 1.35% and biotech -14.22% during the year. Gold remains a wildcard for 2016 with huge swings in price seen throughout the year. We continue to position clients with a domestic dividend orientation given continued U.S. dollar strength. We have married this approach with selective investments in Europe/midcap exposure and low volatility broad based emerging market investments. Weatherly's "Top Ten", our largest holdings, are shown below:

"Top Ten" Holdings *

1. Apple Inc.
2. Netflix Inc.
3. Amazon.com Inc.
4. Starbucks Corp.
5. AT&T Inc.
6. Home Depot Inc.
7. SPDR Series Trust S&P Biotech
8. Johnson & Johnson
9. Adobe Systems
10. Roche Holding AG

Clients received via mail or secure portal their quarterly statements and Weatherly's quarterly client letter. Brooke Boone also joined the Weatherly team of advisors, with strong accounting and audit experience to offer Weatherly's businesses owners and high net worth clients. For details on Brooke's bio, please visit our team page at http://www.weatherlyassetmgt.com/team/.

We expect Federal tax codes to change with either U.S. President elect, also heavily dependent on U.S. voters' choices and which parties take or maintain control of the House and the Senate. Changes to Federal income tax rates, potential caps on municipals and estate tax exclusions will all factor into investment decisions, distributions, and gifting into the fourth quarter and the New Year. We look forward to working with our clients comprehensively to proactively address these changes and incorporate strategies into their existing financial and estate plans. We welcome your questions, comments, and calls.

***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.

	*WAM Equity** (gross fee)*	*WAM Equity (net fee)*	*S&P 500 Total Return*	MSCI ACWI (gross USD)	*WAM Fixed** (gross fee)*	*WAM Fixed (net fee)*	*Merrill Lynch 1-3 year*	*WAM Balanced** (gross fee)*	*WAM Balanced (net fee)*	*Blended Benchmark*
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%**
1st Quarter 2016	**0.39%**	**0.14%**	**1.35%**	**0.38%**	**2.13%**	**2.00%**	**0.90%**	**0.91%**	**0.72%**	**1.13%**
2nd Quarter 2016	**2.06%**	**1.81%**	**2.46%**	**1.19%**	**2.16%**	**2.03%**	**0.53%**	**1.93%**	**1.74%**	**1.50%**
3rd Quarter 2016	**4.10%**	**3.85%**	**3.85%**	**5.43%**	**0.89%**	**0.76%**	**-0.11%**	**2.89%**	**2.70%**	**1.87%**
YTD	**6.66%**	**5.91%**	**7.84%**	**7.09%**	**5.26%**	**4.88%**	**1.33%**	**5.83%**	**5.27%**	**4.56%**
Since Inception *(Ann.)* *Please see footnotes*	**9.30%**	**8.30%**	**9.44%**	**7.04%**	**5.11%**	**4.61%**	**3.86%**	**9.21%**	**8.46%**	**7.58%**

** *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 requirements have changed with carve outs no longer permitted.

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 2016, 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%, 1995-2015 combined 8.31%. 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%.

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, 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.