WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

Investments and Wealth Management April 2016

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First Quarter Recap – Following a dip to start the year, our account values rebounded to finish the quarter in the black. Warren and I continue to have our own money invested alongside you owning a balanced low-cost mix of individual stocks, bonds, ETF's, and open-end mutual funds. We build all-weather portfolios designed to control risk while still capturing competitive returns. I am happy to report that we posted a first quarter net average gain of 1.10% across all client accounts. The more conservative accounts took the performance honors as stocks finished mostly flat while bonds rallied. Interest rates took a nose dive after Fed Chair Yellen dialed back expectations for rate hikes this year. The 10-year government bond yield in Japan has gone negative, with the Eurozone not far behind. This makes the U.S. Treasury 10-year yield of 1.70% look very appealing. We've been waiting years for interest rates to rise, but with the accommodative policies of global central banks, low inflation, slow growth, and the insatiable demand for safe interest bearing securities by retirees, we believe rates will stay lower for longer. The Fed will show restraint as to not choke off the economic recovery or spike the value of the dollar higher.

Top performers last quarter came from the defensive sectors of telecom and utilities. **AT&T** and **Verizon** both posted double digit total returns while paying lush dividends of 4%+. **Amazon** and **Boeing** brought up the rear after nice gains during 2015. April is historically the strongest month of the year for the market, so we are cautiously optimistic moving forward.

New Regulation - A Department of Labor regulation was issued last week which imposes a higher fiduciary standard of care, and a new fee disclosure requirement on financial advisers when providing recommendations for retirement accounts. There is no change for us, since our firm has always operated under a high fiduciary standard as a Registered Investment Advisor. Thank you to our long-term clients for your loyalty and embracing our fee-only model of compensation. We welcome the new rules knowing they will benefit consumers. Once implemented in April 2017, commission driven brokers will find it more difficult to compete when offering high commission products like variable annuities and private REIT's.

U.S. Common Stocks – During the recent downdraft we were stopped out of several positions to cut losses and preserve capital. When the worst of the storm had passed and our indicators confirmed a bottom, replacement positions were acquired at favorable prices. Here are a few new positions and why we like them:

Microsoft – This Dow 30 tech titan sprung back to life once Steve Ballmer resigned as CEO and Satya Nadella took the reins. The company has embraced the cloud with its offerings and is one of the leading enterprise vendors along with Amazon, Apple, and Alphabet (formerly Google). The company sports a 2.6% dividend yield and carries S&P's highest financial strength rating of AAA.

Intuit – "Own It" is the companies advertising slogan and it's working as they continue to take share in the small business accounting market with QuickBooks. This Mountain View, CA based company has also embraced the web and is seeing big growth in emerging markets, especially India. TurboTax, payroll services, and their on-line payments network are also driving growth.

Stamps.com – We got rid of our Pitney Bowes postage meter and high cost lease and now pay a small monthly fee to this innovator that sells U.S. postage on-line. They provide a free scale, and it's easy to print postage on labels or envelopes.

Charles Schwab – Their Advisor Services division continues to set the standard for Registered Investment Advisors and their clients. We made the switch to the "fee-only" mode in 1990, and many other advisors have followed as consumers become more disgruntled with the old commission driven brokerage model that carries an inherent conflict of interest between the advisor and the client. The new Department of Labor rule discussed below will drive more business to discount brokers like Schwab.

Jones Lang LaSalle – This company provides commercial real estate strategy, services, and support to companies worldwide. We bought the shares when they were 46% off the 52-week high and too cheap to ignore. JLL is a respected market leader in their field with a history of smart acquisitions. Low debt, a compelling valuation, and steady revenue & earnings growth.

Bristol Myers Squibb – The company has introduced new medicines in the last several years that treat rheumatoid arthritis, hepatitis B, cancer, HIV/AIDS and diabetes. Last year they invested $4.4 billion in R&D and have 55 compounds in development. The company will benefit from aging baby boomers; 2.4% yield.

Please Note: Stocks held in separate client accounts will vary due to start date and individual preferences.

<u>U.S. Equity Exchange – Traded Funds (ETF's)</u> – These funds trade like stocks and give us diversified tax-efficient exposure to targeted sectors of the market. For large company growth stocks, the **PowerShares QQQ Trust** leads the pack. We compliment it with the **SPDR S&P Dividend ETF**, which owns dividend aristocrats, companies that have increased their dividend for 20 consecutive years or more. The **Wisdomtree Smallcap Dividend Fund** is another favorite. Smaller company stocks have lagged recently, but over longer periods of time, small cap value stocks have taken the performance crown.

<u>Bond Funds & Exchange Traded Funds (ETF's)</u> – Investment grade bonds were the leaders last quarter and we participated with the **Doubleline Total Return Bond Fund,** and two Vanguard index ETF's, the **Vanguard Intermediate Term Corporate Bond** (VCIT), and the more conservative **Vanguard Short Term Corporate Bond** (VCSH). Both ETF's carry a competitive expense ratio of 0.12%. We also bought back into **Vanguard High-Yield Corporate** after the price turned up, current yield 5.8%.

<u>Municipal Bonds</u> – These securities continued to lead the bond market during the first quarter. The voracious demand for tax-exempt paper and limited new supply has kept prices high and yields low. The fact that U.S. Treasury yields also moved lower is supportive to the muni market. For our tax-sensitive accounts we have built bond ladders with different maturity bonds forming the rungs on the ladder. The majority of new bonds coming to market now are being issued to refund and pay off older bonds that are being called in. This occurs when the original bonds are redeemed early by the issuer using fresh money raised today at lower interest rates. Municipal bonds are typically callable 10 years after being issued. We are very selective when choosing new bonds, preferring to buy issues used to finance local Orange County projects. We also own and are partial to actively managed funds from **Franklin** and **Vanguard**.

<u>International Stock Funds</u> – We were stopped out of our Japan ETF last quarter, so we are currently underweight in this area. We are holding up to a 5% weighting in the **Grandeur Peak Global Reach Fund**. Lead manager Robert Gardiner has a terrific long-term track record of uncovering value in global small cap stocks. To preserve the integrity of the portfolio, the fund is closed to new investors.

<u>Presidential Election</u> – We're in the midst of the State primaries and Hilary Clinton and Donald Trump have emerged as the two front runners. While these two candidates both leave a bit to be desired, our hope is that the eventual winner will introduce policies to help America maintain our competitive edge in the global economy. Providing incentives for business investment and a tax break for repatriating foreign profits will stimulate job and wage growth which will benefit us all.

Thank you for your continued trust and confidence. We are working hard to earn it every day.