WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

Investments and Wealth Management July 2015

By: Scott Walker, CFP®

Mid-Year Update – Returns have been tougher to come by this year with our fixed-income securities being marked down in price as longer-term bond yields have ticked higher. The benchmark 10-year U.S. Treasury yield is at 2.43% today, up from a 1.68% low at the end of January. Last quarter we took action to preserve capital and sold our more volatile higher yielding bond funds when share prices turned down. Consequently, we are defensively positioned for the time being with an above average cash allocation.

Bonds still serve a valuable roll by providing daily interest accrual which produces a steady income stream with less volatility than stocks. However, now is not the time to ramp up risk and extend maturities. It's O.K. to settle for a more modest payout and greater safety to principal by staying in the short – intermediate (3-7 year) maturity range. See "Bonds / Bond Funds & ETF's" below for additional detail.

Common Stocks – Our best gainers last quarter came from health care with **Abbvie**; consumer discretionary with **Starbucks** and **Amazon**; financials with **Wells Fargo & Co.**; and industrials with **General Electric**. Energy and telecom lagged, but we bucked the trend with **Williams Co.** and **AT&T** both climbing over 10% for the quarter.

Our weakest performers last quarter were retailers **Costco**, **Nordstrom**, and **Buckle**. Other decliners included our largest holding **Berkshire Hathaway**, along with **Exxon Mobil**, **Kinder Morgan**, **Boeing**, **Sempra Energy** and **Dupont**. It's always a judgement call whether to take a profit or cut a loss when a stock disappoints and heads south. We want to be long-term owners of great businesses and prefer to hold for many years, but when a stock breaks down and violates technical support levels on above average volume and growth has stalled, preserving capital becomes important. For this reason we recently sold Dupont, along shares in **Chemours**, a spinoff from Dupont on July 1. We are content with our remaining holdings and would look to selectively add more shares to existing holdings upon further price weakness.

Please Note: Stocks held in separate client accounts will vary due to client start date and risk tolerance level.

New Stock Holdings - We believe that the selling of interest-sensitive stocks was overdone, so we bought two REIT's that had declined in price. **Camden Property Trust**

is one of the largest multifamily apartment owners in the U.S. They have several properties in Orange County, and own interests in and operate 168 total properties. I can see their Mission Viejo property from my office and have made a due diligence visit to their sales office. Camden runs a first class operation with high occupancy and pays a 3.8% dividend yield. We expect demand for apartments to continue to outpace supply leading to upward pressure on rents. The story is similar for **Omega Healthcare**, which is a REIT that specializes in skilled nursing facilities. Strong demographics and a compelling valuation add to the allure of a 6.3% dividend yield.

HealthEquity is a small growth company that specializes in the administration of tax-advantaged health benefit plans for employers, individuals, and health plans. The Affordable Care Act has been driving growth in health savings accounts (HSA's) with the employer mandate to provide more affordable health coverage to workers. Companies have been pairing HSA's with high-deductible insurance plans that cost less than traditional HMO or PPO coverage. HealthEquity is one of America's largest HSA administrators and offers a comprehensive cloud based system for members. Steve Neeleman, the founder and vice-chairman is a board-certified physician and former general surgeon who brings specialized knowledge to the business.

International Stock Funds – The Greek debt crises is center stage again with all banks remaining closed in the country. The European Central Bank has agreed to kick the can down the road again with a fresh $96 billion in new aid in exchange for reforms. The Chinese Shanghai composite stock index peaked on June 12, following a huge move and has seen increasing volatility with large daily price moves. The government encouraged margin lending which supercharged the advance. Last week, Chinese authorities suspended trading in a number of stocks, and initial public offerings (IPO's) have ground to a halt. Foreign stocks carry country risk, currency risk, and company risk. Given the current fundamental and technical data, in our judgement the potential reward for taking those risks is no longer tilted in our favor. So we recently sold all shares in the Matthews Asia Growth & Income Fund, Oakmark International Fund, and American New World Fund. The iShares Korea ETF was also sold in May at a profit. We are continuing to hold **Grandeur Peak Global Reach**, which has been on a roll and is currently closed to new investors. Most all of our U.S. stocks have overseas operations, so we benefit from the foreign economic growth by owning them, while retaining the option of buying back international funds down the road.

Bonds / Bond Funds & ETF's – It has been very choppy waters for bonds this year. We chose to reduce risk and sold our highest yielding positions along with the majority of our California municipal bond funds when share prices turned lower last quarter. We allow a certain amount of share price fluctuation, but when downside supports are breached, preservation of capital becomes a priority. We have continued to hold all individual bonds, but it's been slim pickings for new bonds in this low yield environment.

We continue to monitor the municipal bond new issue pipeline for special tax bonds tied to real estate parcels in Orange County.

For our more conservative accounts, we have added two low-cost higher quality corporate bond products from Vanguard. The **Vanguard Short Term Corporate Bond ETF** (VCSH) is the lowest risk with a 1.9% current yield, and also the **Vanguard Intermediate Term Corporate Bond ETF** (VCIT) with a 3.2% yield. These two ETF's own investment grade bonds from the largest companies in the U.S. We have reduced exposure to high yield bonds, but still like and continue to own the Vanguard High Yield Corporate for high quality junk bonds, and a 5.4% current yield.

Last quarter we were stopped out of Doubleline Income Solutions, a closed-end fund that uses leverage (short-term borrowed money) to amp up the yield. We continue to hold the more conservative flagship **Doubleline Total Return Bond Fund.** This is a standard open-end fund that prices once daily. Jeffrey Gundlach and his L.A.-based team buy primarily mortgage-backed securities, and have positioned the fund defensively with a 3.5 year duration, so interest rate risk is contained. There is no leverage and a competitive 4.2% yield.

Thank you for your continued trust and confidence. We appreciate your business and look forward to assisting you in attainment of your lifetime goals.

Scott Walker