WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

Private Client Update July 10, 2017

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Strategy – Our strategy is to own a well-crafted mix of individual stocks and bonds, ETF's, and actively managed funds. We build tax-efficient balanced portfolio's that are designed for safety, income, and moderate growth, while spreading the risk and opting for low cost investments. Our goal is to give you peace of mind and financial security for the rest of your life.

E-Money Advisor – I am pleased to announce a new service that is now available to clients at no additional charge. This cloud-based financial management system allows you to create your own personal financial web site. The login requires dual authentication password protection, so the site is extremely secure. For those approaching retirement, there are helpful tables and graphs that plot your future net worth given various assumptions. There is a client vault where you can store valuable documents like your living trust, and health care directives. Your quarterly portfolio reports can also be uploaded to the vault, so if you would like to go paperless, please let us know. Your Schwab accounts have already been pre-loaded into the system. To get started, please email Olivia Goldson, our IT associate at olivia@walkerfinancial.com and she will walk you through the process and orientation. I am also available to discuss any investment and retirement planning questions/issues, after you get set up.

Equities Update – It's been blue sky and sunshine for the first half of the year with large cap growth stocks, particularly in the technology sector, leading the way. We have participated with **Microsoft, Google parent Alphabet, Amazon, Intuit, Visa**, and new holding **Square**. We trimmed back took some profits on the **PowerShares QQQ Trust**, a tech heavy ETF that owns the Nasdaq 100 stocks, after a large YTD gain.

Do to deteriorating relative performance and the threat of higher interest rates, we eliminated our highest dividend issues in the telecom, REIT, and utility sectors. Other stocks jettisoned last quarter include **General Electric**, **Pfizer**, **Walt Disney**, and **Under Armor**. Their charts turned negative and growth is slowing, and we see a long wait for any turnaround to the upside. There is better relative value and price action in financials, technology, biotech, and international stock funds that we own. Our largest holding is **Berkshire Hathaway,** which we continue to like. This financial behemoth is headquartered in my home state of Nebraska. The Omaha conglomerate is still headed by 86-year old Mr. Warren Buffett. Berkshire has two classes of stock, "A" & "B" shares. The "A" shares were issued in the mid-1960's and are now the highest price stock traded on the NYSE at $255,000/share. Each Class "B" share represents a 1/1,500 interest in an "A" share, so the "B" shares are priced at $170/share. Berkshire is a holding company with a valuable mix of operating businesses along with common stock holdings. Biotech

Regeneron Pharmaceutical was our top performer last quarter. This health care leader has the preferred medication for age-related macular degeneration of the eye, and some promising candidates in the pipeline to treat inflammatory diseases and cancer.

Many overseas economies are on the mend and also sport attractive valuations, so we have increased our international exposure with our old friend David Herro, lead manager of the **Oakmark International Fund,** which has lots of exposure in Europe. Emerging markets have been on a tear this year and we hold a concentrated exposure with the **Matthews India Fund**, avoiding the drag of Latin America with an index fund.

Prices have run up and many securities are currently overbought, so we are cautious in the near-term as we move into the seasonally weak time of year for stocks.

Electronic Payments - Technology and financials are the two sectors where we have the largest concentration of holdings. Both of these areas converge in the electronic payments business and present excellent investment opportunities. Incentives such as travel award points or cash back continue to drive higher volumes of credit card transactions. **Visa**, one of our top holdings, is the largest processor of transactions in the world, with 58% market share. Card issuance is facilitated through a network of participating banks, then Visa collects a small toll on each transaction. Last quarter, revenue was up 23% and earnings up 26%.

New holding **Square** has a $9 billion market cap and is revolutionizing the merchant card industry with no monthly account fees and the same low rate for all major credit cards. The Square point of sales app is free and works with both Apple and Android smart phones and tablets. Square also has an E-Commerce solution for on-line stores that integrates with Intuit's Quickbooks for financial reporting. Square has also expanded into financing loans to small business.

New position **Bank of America** is reasonably valued with a 15 P/E and we expect them to grow earnings per share by 23% next year. The bank just received a favorable report from regulators regarding their annual stress test. This will allow BofA to return more cash to shareholders via increased dividends and stock buybacks. A strong economy plays into their hands with higher interest rates boosting profit margins.

Your holdings may not include all securities discussed due to client inception date and manager discretion.

New Trade Settlement Timeline – Currently with equity and bond trades, the settlement date is T+3, meaning trade day plus three days. Beginning September 5, 2017 this will change to T+2. This means that cash from sales will be available one day sooner.

Interest Rates & Bonds – During the last week of the quarter global government bond yields spiked higher with the 10-year U.S. Treasury ending at 2.30%. Key central bankers convened in Portugal to discuss the global economy and exhibited a hawkish tone with a tightening bias. Although inflation has been well contained, they are intent on taking preemptive steps to keep any pricing pressures at bay.

Janet Yellen and the Federal Reserve have indicated a willingness to continue raising the Fed funds rate barring any unforeseen hiccups in the economy. Have bond prices finally put in a top? If the recent price action is any guide, the answer is probably yes. As a result, we have assumed a defensive stance knowing the pain that higher rates can inflict on bond prices. We intend to hold our individual bonds to maturity, so any declines in price will be temporary. However, it's another story with bond funds. These vehicles have no set maturity date and can lose value through share price declines. That is why it's imperative to have a sell stop discipline in place on any bond fund. The most volatile and highest yielding sector of the bond market is emerging market bonds. The high yield is sweet and when the share price goes up it's frosting on the cake. The problem occurs when prices start to reverse and head lower. The dividend can quickly be offset by a decline in principal if the downtrend continues. For this reason, we recently sold the **Fidelity Advisor Emerging Markets Bond Fund** to preserve capital and nail down a profit. Once the storm subsides, we will certainly entertain buying back in.

At this time, our bond fund holdings are concentrated in floating-rate securities with two actively managed funds, the **T. Rowe Price Institutional Floating Rate** (4.5% yield), and the **PIMCO Income Fund** (5.4% yield). We also continue to hold the short and intermediate term **Vanguard Bond ETF's** for low-cost high quality corporate bond exposure.

Tax Planning – Be sure to do a mid-year check to confirm your estimated payments and tax withholdings are on track. For those still working, hopefully you are maxing out your 401(k) or other pre-tax retirement savings plan. The annual contribution limit is $24,000/year, which includes $6,000 catch up for those age 50 and over. Roth IRA's are a smart idea for younger people that meet the eligibility guidelines.

Tax Reform is having difficulty gaining any traction in Washington with efforts still under way to dismantle the Affordable Care Act. The firing of FBI Director James Comey and the Justice Department appointment of a special counsel to investigate ties between the Trump campaign and Russian officials has taken center stage. It would be nice to get this behind us so our elected officials can focus on getting back to work and hammer out some beneficial legislation for the U.S. economy.

Estate & Retirement Planning – How complicated are you going to make it for your heirs? At a minimum, please be sure to have a current living trust, will, power of attorney, and health care directive in place that reflect your wishes should you become unable to act for yourself. We will be happy to provide you with the name of a qualified attorney if you need assistance. Also, feel free to give us a call if you would like to review your beneficiary designations on IRA and retirement plan accounts. If you choose to restrict access to IRA money, you can name your trust as beneficiary of your IRA; however, it is generally recommended to name individuals as IRA beneficiaries for administrative ease in setting up new Inherited IRA accounts for each beneficiary following the death of the original IRA owner.

Long-Term Care Insurance – The traditional type of L/T care insurance is an indemnity policy where you receive a monthly benefit for a set period of time (typically 3-5 years) after an elimination period, when you qualify for benefits. If you end up not needing the coverage, your premiums are gone. A new type of policy is now being offered that combines life insurance with a long-term care rider. This type of universal life policy allows an advance monthly payment of the death benefit for long-term care expenses. Typically, 2% of the face amount is paid per month when a claim starts. Any remaining death benefit is paid to your heirs. If you do not use the L/T care feature, the full death benefit is paid tax-free to the beneficiary. Always compare premiums and other policy features, but having the ability to get something back for your money if you don't file a L/T care claim makes this new option something to certainly consider.