WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

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Portfolio Update – It's been four years since we experienced a stock market correction like the last quarter. Perhaps all the bad news has finally been priced into the market, as stocks staged their best week of the year after the end of the third quarter. Our recommended strategy continues to emphasize maintaining a balanced portfolio of quality individual securities, funds, and ETF's. We view our stock holdings as long-term ownership interests, and while short-term declines are never pleasant, they are normal and to be expected. We accept market volatility in exchange for the long-term appreciation potential that equities provide, and maintain plenty of high quality bonds and cash to cushion the downside. We view the correction as a temporary decline in value, as opposed to a permanent impairment of capital. Although stock prices have gone down, the positive fundamentals of our holdings are intact. Quarterly cash dividends continue to be paid, and many companies have increased dividends this year based on higher revenue and cash flow. We are temporarily holding an above average amount in cash from previous sales as Warren and I work diligently to manage portfolio risk and uncover opportunities to make money moving forward.

Interest Rates – Last week, for the first time ever, the U.S. Treasury recently auctioned 3-month Treasury bills at a 0.00% yield. The demand for dollar-denominated risk free paper is at historic highs. Those who have been waiting for higher interest rates are likely to have longer to wait given the recent tone of the September Fed meeting minutes. Given the unsettled global landscape and the current strength of the dollar, we see no reason for the Fed to be in any hurry to raise rates. The central bank could easily wait until next year which would give the economy more time to gather momentum. We are in the midst of a global deflationary environment, so any moves by the Fed will be very measured and gradual. Another factor keeping interest rates low is that 10,000 baby boomers are turning age 65 each day, so the demand for safe income producing assets continues to swell.

Bonds – Our individual bond holdings have been golden this year amidst the equity market volatility. Our strategy has always been to buy individual issues at par (price of 100) or a discount to par value and hold bonds until they are called or mature. There is little value and minimal yields in short-term bonds, but we recently bought into a new issue from the County of Orange for the Village of Escencia in Rancho Mission Viejo. This non-rated bond came with an attractive structure: 4% coupon priced at a slight discount resulting in a yield to maturity in 2031 of 4.05%. The interest accrues daily and is paid semi-annually. The bonds are tax-exempt from Federal and State of CA income tax, which results in a higher taxable equivalent yield.

Bond Funds & ETF's – There are two ways to get higher yields with bonds: Extend the maturity date and take interest rate risk, or go down in quality and take credit risk. We are uncomfortable with accepting a high amount of either type of risk at this point and have reduced credit risk by selling all high yield "junk" bond funds. We have never favored long term 30-year bonds, since you can capture 80% of the yield with half the risk using intermediate-term bonds.

Our favorite actively managed investment grade bond fund continues to be the **Doubleline Total Return Bond Fund.** Lead manager, Jeffrey Gundlach has been dubbed the king of bonds by *Barron's*, and is a whiz with mortgage-backed securities. He has positioned the fund with a relatively short 3.8 year duration, so interest rate risk is contained. Due to superior security selection the fund carries a very competitive 4.0% current dividend yield. We also continue to like two low-cost Vanguard ETF's for high quality bond exposure. 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.

New Growth Stock Pick – Which Dow 30 stock is at the center of the electronic payments world? You guessed it, **Visa, Inc**. We recently bought this digital currency leader on a dip for our risk tolerant accounts. Growth drivers include the new Costco co-branded account they recently won from American Express which is scheduled to come on-line next April. The Apple Pay alliance is also starting to gain traction through increasing payments with mobile devices. The beauty of their business model is that the company gets a very small part of every transaction done on a Visa card. The company partners with the big banks who market the Visa cards for them. The banks incentivize people to charge purchases versus paying cash in order to earn points for cash back or travel awards. CEO Charles Scharf is a former JP Morgan executive who took over Visa in 2012. The company has a sterling balance sheet with no debt. Profit margins are strong with a 20% return on equity. The current dividend yield is 0.60%, but sure to grow in the years ahead.

Stock Recap – Winners were sparse last quarter, but a few of our holdings managed to buck the downtrend including retailers **Amazon**, **Costco**, and **Starbucks**. The coffee giant's mobile order and pay app lets customers skip lines by pre-ordering and paying for items before they enter a store. Serving craft beer and wine in the evening is also being tested. With the Fed on hold, REIT's and utilities staged a comeback, so **Camden Property Trust**, **Omega Healthcare Investors**, and **Sempra Energy** have turned around.

Decliners overwhelmed the few bright spots lead by pipeline operator **Williams Companies**. Williams has agreed to a $37 billion buyout from **Energy Transfer Equity** at $43.50/share. The combined company will be the largest transporter of natural gas in the U.S., and we are staying with them. Other notable decliners for the 3-month period were **Abbvie**, **FedEx**, **Wisdomtree Investments**, **Walt Disney**, and **Apple**. Disney recently expanded availability of its Movies Anywhere streaming video service to in-home and mobile devices sold by Amazon and Microsoft. The service first debuted on Apple mobile devices and works with Roku devices and Google Android TV. We continue to hold all of these stocks and will be closely monitoring their next earnings report to verify our thesis for owning the shares, or discern any concerning trends that would necessitate a change. At this point it appears that the declines were based on general market action and not anything company specific to be concerned about.

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

Tax-Loss Harvesting – This is the time of the year when we begin to evaluate all taxable client accounts to check on realized gains and see if we have any unrealized losses that can be harvested to offset the gains. Once any capital gains are offset, any excess realized losses may be used to offset up to $3,000 of ordinary income annually. We most certainly prefer gains over losses, but it's nice that Uncle Sam helps to share the pain when a position moves against us. Assuming we still like the security that is ripe for harvest, new shares may be purchased 31 days before or after the sale of the original shares. Acquiring new shares inside of the 31 day window would disallow the loss for tax purposes. We always suggest checking in with your tax preparer prior to year-end to confirm there are no surprises when the time comes to file for 2015. We are happy to consult directly with your accountant in an effort to minimize your income tax.

Grandchildren College Funding Accounts: The preferred option for this type of account is a tax-favored 529 Plan. Federal laws govern the plans which are then offered by each State. Unlike custodial accounts, 529 Plans allow the donor to maintain control of the account and change beneficiaries at any time. There are no tax deductions for contributions, but qualified plan distributions for educational expenses are tax-free. Furthermore, 529 Plans have no income limits or annual contribution limits. Those looking to reduce estate taxes can elect to treat a 529 Plan contribution of between $14,000 and $70,000 as if it were made over a five calendar-year period to qualify for the annual gift tax exclusion. You can search online for 529 plans and set it up yourself, or call us to set up and implement with investment advice for $250 per account.

Thank you for your continued trust and confidence. We appreciate your business and look forward to a prosperous future together.