

By: **Scott Walker, CFP®**

**Market Update** – Bonds rallied strongly during the first quarter, while stocks finished mixed. Industrials, utilities, technology and REIT stocks led, while energy and retail lagged. We recently passed the five year mark of the current bull market in stocks, but we believe there is more gas in the tank. Owning dividend paying blue chips is tough to beat in a low interest rate environment. Dividends provide an increasing stream of cash returned to shareholders. Our holdings include Dow 30 stocks like **Chevron, Exxon Mobil, AT&T, and Verizon, Caterpillar, DuPont, and IBM**. These stocks have dividend yields in the 1.7 – 5% range, with capital appreciation potential to boot.

Our strategy remains the same, to own a low cost diversified portfolio of high quality stocks, bonds, mutual funds and ETF's (Exchange-traded funds) acquired at favorable prices. We are long-term investors, not short-term traders.

**High Frequency Trading** – A *60 Minutes* interview with author Michael Lewis about his book *Flash Boys* aired recently and highlighted the issue of high frequency trading (HFT). This is where operators of high speed computer networks front-run market orders for stocks by milliseconds in an effort to pick up a penny per share on a trade. When done repeatedly with large numbers of shares, it can add up. The U.S. Department of Justice has opened an investigation to determine if this activity is in violation of insider trading laws. My associate, Warren Isenberg and I place limit orders, which specify the exact price at which we want to buy or sell, our trades are not subject to any distortion from HFT. However, we certainly do not condone the activity and will work with Schwab to avoid and abolish it in the future.

**Fixed-Income Investments** – The structure and poor yields on new individual bonds is currently unattractive, as most new issues are being offered at premium prices to par value. Instead, we have been buying bond funds and ETF's which are currently paying higher net yields. Floating-rate bank loan funds are a hedge against higher interest rates down the road. Our favorite fund is the **Loomis Sayles Senior Floating Rate**, with a 5%+ current distribution rate. We own the lowest cost institutional share class, so we paid Schwab a transaction fee in exchange for a .25% reduction in the expense ratio of the fund.

**PIMCO** – This Newport Beach firm known for their expertise in bonds and skippered by Bill Gross has been in the news since the abrupt resignation of Co-CEO Mohammad El-Erian. Their flagship total return fund has been hemorrhaging assets amid a flood of redemptions. We have not owned that fund and have no interest in buying it. Instead, we prefer a couple of niche products managed by other young stars at the firm. The first is a lower risk short-term fund, the **Pimco 0 – 5 Year High Yield Corporate Bond ETF**. The fund has low volatility and a 4.2% current yield. We also own the **Pimco Dynamic Income Fund**. This closed-end bond fund is trading at a discount to its net asset value and is managed by Dan Ivascyn, the head of

the mortgage credit management team at Pimco. Morningstar named him fixed income manager of the year (U.S.) for 2013. This fund is leveraged to enhance the yield so we expect more share price volatility in exchange for the 7.4% distribution rate.

**Balanced Funds** – The **Vanguard Wellington Fund** is a key core position for many conservative client accounts. This winner is closed to new investor's, but we are allowed to buy more for existing shareholders. The fund owns blue chip dividend payers like **Wells Fargo & Co., Exxon Mobil, and Microsoft**. The best substitute for newer accounts is the **Dodge & Cox Balanced Fund**. Low expenses and management that has the same value philosophy.

**International Stock Funds** – We established a new position last quarter in the **Grandeur Peak Global Reach** stock fund. Lead manager Robert Gardiner is a veteran alumnus from the **Wasatch Funds**. He specializes in small and micro-cap companies, with large holdings in technology, industrials, and financials. An experienced manager with a small \$100 million asset base is a recipe for success. For large company exposure, the cream of the crop is the **Oakmark International Fund**. Manager David Herro is a value shopper that insists on a discounted stock price compared to the intrinsic value of a business. His largest weighted country is Switzerland, with the European region representing 75% of the fund currently.

**Common Stocks** – We continue to like and own the names discussed in our last quarterly bulletin. However, prices have run up on many issues so caution is warranted at this time.

**Income Tax Savings** – How about doing something big for the hospital or another charity you favor? Set up a charitable remainder trust and transfer title from investment real estate or stocks into the trust. You pay no capital gains tax on the transfer, get a current income tax deduction, and the donor can receive a lifetime tax-favored income stream in the form of a monthly annuity payment. We are happy to assist with a qualified attorney and CPA.



**Welcome Lori Vermeer** – We would like to welcome Lori Vermeer to Walker Financial. Lori started in March as our administrative assistant. She manages general office support and performs administrative duties for the team.

Lori earned a Bachelor of Science degree in Business Administration - Finance from California State University, Long Beach in 1983. Her previous experience includes working for IBM as an Account Administrator and Expanding Horizons as an Operations Manager. Lori resides in Trabuco Canyon with her husband Dennis and daughter Isabella.

If you have any questions or comments regarding your portfolio, or any recent changes in your health or financial situation, please let us know.

*Scott Walker*