WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

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Market Update – Bonds were strong again last quarter, while U.S. stocks finished mixed, and foreign markets rallied which brought international stock funds back to life. The bull market in U.S. stocks has now passed the six year mark, but we believe the current environment with low inflation and low interest rates is still conducive for stocks. Our balanced global approach fared well with the average client account posting a net return of 1.16% for the first quarter.

Consumer discretionary stocks stole the show last quarter since lower prices at the pump puts more money into consumer's pockets. So **Amazon**, **Apple**, **Costco**, and **Starbucks** were our top performers. Starbucks just completed a 2for1 stock split. **Boeing** flew higher with a strong new order flow from airlines flush with cash. Energy names are bouncing off oversold levels as oil prices stabilize in the $50/bbl. range. We added shares in **Williams Companies** last quarter to client accounts. Williams, based in Tulsa, OK, owns and operates pipelines and storage facilities, and sports a hefty dividend yield of 4.6%. Their operation is similar to **Kinder Morgan**, another mid-stream company we own with a 4.3% yield. We are also continuing to hold a long-time position in the #1 U.S.-based major **ExxonMobil,** believing that the bulk of the oil price decline is already behind us and discounted in the price. The stock's dividend yield is 3.2%. Interest sensitive utilities and REIT's are coming off big multi-year runs and have turned lower in price. We reduced exposure and took profits by selling 50% of our **Sempra Energy** shares.

Our weakest performers last quarter were **Abbvie**, **Qualcomm**, and the **SPDR Gold Trust**. Abbvie announced a large acquisition which weighed on the stock price, but we remain committed to this health care leader with a 3.3% dividend yield. Qualcomm issued a disappointing report for the second consecutive quarter, so we exited the position. We reestablished a position in gold bullion after the precious metal jumped early this year. Gold serves as portfolio insurance in an unstable world.

Our strategy remains the same: To own a low-cost diversified portfolio of high quality securities acquired at favorable prices. The focus is on wealth preservation and conservative growth through a balanced approach that seeks total returns from a combination of dividends, interest, and capital appreciation.

Schwab Cuts Mutual Fund Transaction Fees – Minimizing costs for clients has always been important to us, so I am happy to announce that recent negotiations with

Schwab Institutional have resulted in a favorable outcome. Mutual funds offer different share classes of the same fund to investors. If you don't pay a transaction fee to Schwab, you get a share class with a higher expense ratio, as the fund company pays Schwab. We prefer to pay a modest transaction fee to buy the "institutional share class" of the fund which carries the lowest expense ratio. Effective immediately, the Schwab transaction fee has been reduced from a maximum fee of $49.95 per trade to $25 per trade. The Schwab commission on equity trades remains unchanged at $8.95.

Stock Market History – Based on historical returns, the third year of the four-year Presidential election cycle has been better than any other year. The theory behind the outsized performance is that since the President's time in office is winding down, he is more willing to push spending bills through Congress to goose the economy and help his party garner votes. This may be a tall order for President Obama as his working relationship with Congress is tenuous at best. Nevertheless, since 1931 the average third year return for the S&P 500 has been 13.46%, which is more than twice the average return of the next best year (Year 4 with an average gain of 5.53%). Another interesting historical fact is that since the S&P was created in the late 1920's, every year ending in five has been positive. Starting in 1935, the eight years ending in five produced a stellar average gain of 25.3%. Given the gains we've had in recent years, it may be a stretch to hit these averages this year, but it still presents an interesting historical context.

International Stock Funds – After a mediocre 2014, this asset class was a leader in the first quarter. We continue to hold and add to all the funds discussed last quarter. In addition, we have initiated a conservative emerging markets position with the **American Funds New World Fund**. This unique fund provides flexible exposure to developing markets by investing in developing world stocks and bonds, as well as the stocks of multinational companies with significant ties to the developing world. It provides a smoother ride compared to other emerging market vehicles. Asia and the Pacific Basin represent 35% of the fund, while Europe is also heavily weighted at 28% of fund assets.

The Fed, Interest Rates, and Bonds – Treasury bond prices rallied (and yields declined) for the fifth straight quarter with the 10-year Treasury yield ending at 1.93%. The prospect of the Fed tightening was pushed back to the second half of this year given weaker than expected reports on hiring and wages. When the Fed votes to increase short-term rates, it will likely be a small 0.25% bump. This action is likely to temporarily jolt financial markets, but does not mean that long-term interest rates will also go up and bonds decline. The Fed does not control long-term rates, and with U.S. 10-year notes yielding 1% more than their group of seven counterparts, foreign money continues to flow to the U.S. Inflationary pressures can exert an upward influence on long-term interest rates, but this is not a concern at this time.

Bond Funds – The current yields available on new individual bonds are anemic, so we have been gravitating toward actively managed funds and ETF's. Funds pay us monthly, while individual bonds pay interest semi-annually. Following a dividend cut in March, we sold the Loomis Sayles Strategic Income Fund, so we ended the quarter with an above average cash allocation. Warren and I have been gradually repositioning the money. Our top choice remains the **Doubleline Total Return Bond Fund**. Lead manager, Jeffrey Gundlach and his L.A. based team are experts in mortgage-backed securities. Interest rate risk is low with a short 3.2 year duration, and a current yield of 4%. We also own a smaller position in **Doubleline Income Solutions** (DSL), a more volatile, closed-end fund with the same management team that employs leverage to produce a 9% current yield. Last quarter we added the **SPDR Barclays High Yield Bond ETF**. We get intra-day trading flexibility, low expenses, and a 5.7% current yield.

Tax-exempt municipal bonds continue to see brisk demand from insurance companies, banks, and high bracket individual investors. Our fund trifecta covers all corners of the CA muni market. The **Franklin CA Tax-Free Advisor Class**, **American Century CA High Yield Municipal** and the **Vanguard CA Intermediate Term** have done an excellent job of pumping out tax-free income, along with low share price volatility.

Cyber Security – Hackers that commandeered a data breach at health insurer Anthem last quarter stole current and former customer names, employment information, addresses, birth dates, and social security numbers. An identity thief who has your social security number might open up new credit accounts in your name. To protect yourself, you can sign up with an ID theft monitoring service like Lifelock or IDT911. For extra protection you could contact each of the three credit reporting agencies and place a security freeze on your credit files. A freeze completely blocks your credit report from being accessed and credit from being issued until the freeze is lifted. Call or go online to the three main credit bureaus (Experian.com, Equifax.com, and Transunion.com) to implement. Costs vary, but expect to pay $3 to $10 to each reporting agency each time a freeze is lifted.

Last quarter, WFA implemented a written Information Security Plan where an outside IT professional came in to audit our systems. The purpose was to ensure the effectiveness of security controls over sensitive data and to verify that current safe guards will adequately protect data against any potential threats. No deficiencies were found, as WFA uses the latest version of AVG Anti-Virus Software on our server and all workstations. We also use a Sonicwall business class firewall, which is regularly monitored by our IT support vendor. **The confidentiality and security of your personal information is extremely important to us**.

Thank you for your continued trust and confidence. We appreciate your business and look forward to working together in the years ahead.

Scott Walker