WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

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Retirement Strategy – You work hard and save money to build your nest egg and pay down debt. The goal is to accumulate enough in assets and future income streams to let your money do the work, so you can cruise and take it easy. Once you've hit critical mass and achieved financial independence, it's all about keeping plenty of money safe to cover future withdrawal requirements. Market beating returns take a back seat to increased safety and the comfort of a balanced portfolio. Dividends and interest take on greater importance and are a vital component of our total returns.

Our strategy continues to focus on constructing all-weather portfolios of individual stocks and bonds, ETF's, and actively managed funds. We want to own best of breed, spread the risk, and keep investing costs low. Our goal is to provide a tax-efficient wealth management solution and dial in your retirement income stream. Your peace of mind, and knowing that you are financially secure is our ultimate goal.

World's Best CEO's – *Barron's* recently released their annual list of 30 outstanding corporate leaders whose actions have paid off handsomely for shareholders. I am happy to report that five companies we hold in client accounts were named. New to the list is Satya Nadella who has transformed **Microsoft** into a cloud computing force with the Azure platform. Their Windows and Office software dominates the PC environment and has been upgraded to an on-line model that generates steady licensing and subscription fees.

Warren Buffet, the CEO of **Berkshire Hathaway** since 1965 has the longest tenure of anyone on the list. The holding company's class A shares have risen from $20 to $255,000 over the past 52 years propelled by astute stock picking and business acquisitions (GEICO, See's Candies, Dairy Queen, BNSF Railroad, South County Lexus in Mission Viejo, etc.) Mr. Buffet has a well thought out succession plan, although at age 86 he is going strong and still working full time.

Howard Schultz, **Starbucks** CEO since 1985, is stepping down this month. He has overseen the expansion of company stores to 75 countries with total revenue of $21.3 billion last year. We are watching for signs of oversaturation and will be monitoring the new chief closely.

Amazon.com CEO, Jeff Bezos, 53, turned an internet bookseller into an e-commerce juggernaut that has redefined retailing. Their Amazon Prime service has been a big hit, and Amazon Web Services (AWS), a cloud computing offering has seen tremendous growth. Now over $900/share, the $400 billion company continues to defy expectations.

Larry Page is CEO of Google's parent company **Alphabet**. The 44-year old co-founder never speaks to Wall Street and rarely does interviews anymore. The holding company has invested in two start-ups that are working on flying cars. Alphabet's sales have now risen more than 20%, on average, for 23 quarters in a row.

Schwab Cuts Commissions – Last quarter, Schwab reduced their commission rate for stocks and ETF's from $8.95 to $4.95 per trade, when paired with electronic document delivery. Client account relationships over $1 million may still receive paper confirmations and statements if desired and still qualify for the reduced rates. Although we are not high frequency traders, any cost savings is always a good thing. We will continue to pay a $20 transaction fee for no-load mutual funds in order to buy the share class with the lowest expense ratio.

Fixed-Income: Bonds / Funds & ETF's – The Federal Open Market Committee (FOMC) chaired by Janet Yellen is on a gradual tightening campaign to raise short-term interest rates. Will long-term rates follow suit and move up in tandem as monetary stimulus is dialed back? Not necessarily. Even though the Fed boosted the short-term Fed funds rate by 0.25% in March, long-term interest rates have actually dropped since that day. Long rates are driven more by inflation expectations, along with competing global yields & international capital flows. New offerings of individual bonds have been coming at unattractive premium prices, so we've been opting for more actively managed bond funds and bond index ETF's for steady income & safety.

High yield bond prices started to roll over last quarter so we chose to lock in our gains and sold the **Vanguard High Yield Corporate. Shortly thereafter, the funds were redeployed into two high quality bond index ETF's.** The **Vanguard Intermediate Corporate Bond ETF**, 3.2% yield; and the **Ishares 20+ Year Treasury Bond ETF**, yield 2.5%. Both of these investment grade ETF's act as an excellent stock market hedge, and give us some additional duration exposure to bolster our heavy short-term bond weighting.

The **Vanguard Short-Term Corporate Bond ETF** is our top low risk cash alternative with a 2.1% yield and a rock bottom 0.07% expense ratio. We continue to hold a wide variety of individual tax-exempt municipal bonds and expect to hold them to maturity. The **Franklin CA Tax-Free Income** (no-load advisor class shares) is the best alternative at this time to add municipal bond exposure, with a 3.7% tax-free yield.

International & Emerging Markets – This area caught fire last quarter after trailing U.S. stocks for several years. We participated with **Grandeur Peak Global Reach**, a micro to mid-cap equities firm out of Salt Lake City. The **Matthews India Fund** rebounded strongly as monetary reforms take hold and technology adoption continues to accelerate. We are limiting out international & emerging market stock exposure to a 10% overall weighting, knowing that this area can be extremely volatile given the political and currency risks that are inherent with overseas holdings.

Common Stocks & ETF's – Last quarter money rotated into large company growth stocks, particularly tech stocks. We participated in the price appreciation with Alphabet, Amazon.com, Intuit, and Microsoft. These stocks along with 96 other leading NASDAQ-listed companies are held by the **Powershares QQQ ETF**, our best performing equity ETF last quarter, with a 55% technology weighting. Small company stocks lagged, after topping the performance charts in the fourth quarter, but we are sticking with the **Wisdomtree Smallcap Dividend ETF** for the long haul knowing that small cap dividend payers have historically been the best performing equity asset class.

San Francisco based **Visa** was one of our top performers last quarter, +14.1%. The new relationship with Costco is bearing fruit and helped propel revenue and earnings per share gains of 25% last quarter. New CEO, Alfred Kelly has plenty of industry experience having worked for American Express for 23 years.

Diebold Nixdorf was a new acquisition last quarter and is well known as the market leader in ATM machines for the banking industry. Diebold acquired German rival Nixdorf last year and the stock declined amidst integration concerns. The shares currently trade at a bargain level of 0.60 price to sales and are ripe for a turnaround. They have developed a new Extreme ATM which uses a smartphone and fingerprints rather than a card.

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

Actively Managed U.S. Stock Funds – For a smoother ride, we own a couple of balanced funds that fall under U.S. Stock Funds on your pie chart. The **Vanguard Wellington Fund** has been a long-time core holding for many of our conservative clients. The fund is closed to new accounts at Schwab, but we are allowed to buy more shares for existing shareholders. The top four holdings are: Microsoft, JPMorgan Chase, Chevron, and Intel. Another lower risk fund we own for those locked out of the Vanguard fund is the **Income Fund of America**. This fund is a stalwart of the American Funds family. We own the F-2 share class which is no-load and carries the very lowest expense ratio. Both of these funds pay a quarterly dividend that is reinvested into additional shares for a 2.5 -3.0% yield. Add in the share price appreciation over time and we enjoy higher total returns.

Earthquake Insurance – The CEO of the CA Earthquake Authority (CEA) recently spoke at my Rotary club and outlined recent changes to earthquake coverage for CA homeowners. Given the fact that many of our clients have paid off their mortgage, your home equity represents a significant part of your net worth. Earthquake insurance is a low-cost risk management tool to protect that equity. Earthquake coverage is typically excluded from a standard homeowner's policy. Following the Northridge earthquake in the mid-1990's, the CA legislature created the CEA as a not-for-profit publicly managed, privately funded entity. CEA does not offer policies directly to the public. Instead, you may purchase a CEA policy from your homeowner's insurance company. New enhancements now give homeowner's more choices in tailoring a policy to meet their needs. For example, you choose a deductible ranging from 5% to 25% of the dwelling coverage. The CEA currently has over $14 billion in claims paying ability. For more information, visit: https://www.earthquakeauthority.com and then speak with your property and casualty agent.

Tax Planning – Hopefully your income tax is filed and there were no major surprises. For taxable accounts, we are sensitive to the holding period when selling, and much prefer to wait twelve months or longer from date of purchase to receive favorable long-term capital gains treatment on any profits we harvest. The interest paid on bonds issued by most CA domiciled municipal-related entities remains tax-exempt (Fed. & State). Assuming a 38% combined marginal tax bracket, a 3.7% tax-free yield is the same as a 5.97% taxable equivalent yield.

We Eat Our Own Cooking – Warren and I own many of the same holdings in our self-directed company 401(k) that we hold in client accounts, so our interests are clearly aligned with yours. Our goal is to preserve and build your wealth, and we thank you for that privilege & trust.