WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

Private Client Update July 12, 2018

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Pledge to Clients: We will work to prudently manage the assets entrusted to our care as your fiduciary advisor and earn a respectable total return from a mix of interest, dividends, and capital gains to meet your retirement income needs. We are always cognizant of the downside risk and will cut a position that moves against us at a reasonable level to avoid a large loss.

Performance Results - I trust that you all are enjoying the summer with family and friends. We prefer to take a longer-term view but are pleased that our performance picked up last quarter. Year-to-date, across all client accounts, our net size weighted return was 2.05%, which includes a gain of 1.79% for the past three months. You can see your portfolio return %'s and $$ investment gain on page 3 of your quarterly report package.

Winners & Losers – The **Wisdomtree Smallcap Dividend ETF** lead our funds with a 3-month gain of 8.82%. Small caps operate domestically for the most part and will be more insulated from the various tariffs versus the large multi-national companies. Tariffs and trade war rhetoric didn't faze the **Invesco QQQ Trust**. This index ETF tracks the NASDAQ-100 index and gives us the cream of the crop in large-cap growth stocks. QQQ's top holdings include names that we also own individually like **Apple, Amazon.com, Microsoft, Alphabet**, and **Intel.** Other big gainers for us included **Intuit, Visa, Square, Costco**, and **Home Depot**. Energy stocks rallied following U.S. sanctions on Iran, so we participated with **Exxon Mobil** and **Chevron.**

Financials exhibited the most weakness, as long-term interest rates dipped. **Berkshire Hathaway**, our largest individual stock position was -6.4% for the quarter. We are holding and buying more for new clients. **Starbucks** missed growth estimates, and long-time Chairman Howard Schultz departed, so we chose to sell all residual shares. **Raytheon** also had a rough quarter, but the company has the wind at its back with the current administration, so we are hanging with them for now. *Please note: Your holdings may not include all securities discussed due to client inception date and manager discretion.*

Fraud Protection – Seniors lose about $3 billion annually to fraud and scams, so Schwab now allows you to add one or two "trusted contacts" to your accounts. This is a person(s) whom you are permitting Schwab to contact if necessary and disclose information to about your account to address possible financial exploitation, to confirm your contact information, or health status. You may wish to name your successor trustee, or myself, or Warren as the trusted contact. If you are 65 or older, brokerage firms are now permitted to put a hold of up to 15 business days on any questionable disbursements of funds from your account if they reasonably suspect you are being financially exploited.

New Stock Buy – Interest sensitive stocks like utilities have been crushed this year with the Fed tightening cycle under way. We're going against the grain and having sifted among the bargains we decided to buy **Nextera Energy**, a leading clean energy company based in Juno Beach, Florida. The real key is that the company is the world's largest generator of renewable energy from the wind and sun. As more businesses and consumers move to reduce their carbon footprint, NextEra will be ready. The dividend yield is 2.8%, and the company has been increasing the amount paid per share at a 12% annual clip.

Interest Rates and Bonds – The new Chairman of the Federal Reserve, Jerome Powell, is picking up right where his predecessor left off. He engineered a second 0.25% increase this year to the short-term Fed funds rate. The Fed will continue normalizing interest rates as their dot plot plans for 2 additional hikes this year, and three more next year. They are justifying the rate increases to keep inflation under control and not let the economy overheat. The pleasant result of this is that interest rates for short-term (One year or less) Treasury Bills have moved up in tandem with the Fed rate moves. Six-month T-Bills now yield 2.12%, and the interest is exempt from CA state income tax. Banks quickly adjust their variable rate loans higher, which is a key reason we own **Bank of America** common stock.

The story on long-term interest rates is not as cut and dry. Those rates moved up through May in anticipation of the Fed tightening but hit a wall when the 10-year Treasury yield reached 3.10% and has since backed off to 2.86%. U.S. dollars and long-term Treasury bonds are still considered a safe haven for international capital flows, so whenever there is trouble in the world, or the stock market gets clobbered, high-quality long bonds rally in price. Offsetting this is the supply side of the equation with a federal government needing to borrow more to fund the deficit. The tax cut is expected to boost economic growth and future tax receipts, but in the short-term there will be a revenue shortfall that must be financed through increased Treasury issuance. Interest rate risk is the highest with long bonds, so we remain underweight duration and are defensively positioned with many **T-Bills** and short-term **municipal bonds**. Our only exception is a position in the **Vanguard CA Long-Term Tax-Exempt Fund**, with a monthly dividend and a tax-exempt yield of 3.3%, and a super low 0.09% expense ratio. California municipal bonds are currently in favor with strong demand from a concentration of high net worth residents that benefit from the tax-exempt interest.

<u>Dividend Stalwarts</u> – Common stock quarterly cash dividends play an important role in our strategy. Mature well-managed companies make it a habit to increase the dividend per share on an annual basis. Here are four blue chip stocks that we own which were recently named by Kiplinger to a list of Best Dividend Stocks for 2018 and Beyond. All four are also components of the 30-stock Dow Jones Industrial Average.

Chevron, current dividend yield 3.5% - With 30 consecutive years of annual growth in its cash payouts to shareholders, Chevron's track record instills confidence that the dividend will continue to rise well into the future. Chevron's origins as a company date back to the 19th century and run through John D. Rockefeller's legendary oil empire, as Standard Oil of California.

Exxon Mobil, current dividend yield 4% - Over the last 35 years, amid cycles of oil booms and busts, the company has increased its dividend payment at an average annual rate of 6.3%. Exxon has been part of the Dow since 1928. Back then it was known as Standard Oil of New Jersey. XOM is the largest integrated major in the U.S. with a market cap of $353 billion.

Microsoft, current dividend yield 1.7% - In 1975, Bill Gates dropped out of Harvard to start a computer company with childhood friend Paul Allen. In 1985, the first Windows operating system went on sale. A year later, the company went public at $21 a share (or the equivalent of 6 cents a share once the price is adjusted for stock splits and dividends). Not long ago, Microsoft's glory days looked to be behind it as sales of desktop PCs declined amid the consumer shift to mobile technology. However, the company is experiencing a renaissance thanks to CEO Satya Nadella, and their move away from licensed software to cloud-based subscription software. Microsoft joined the Dow in 1999 at the height of the dot-com boom and has been paying rising dividends since 2004.

Apple, Inc., current dividend yield 1.6% The iPhone, introduced in 2007 has powered the eye-popping run-up in the value of the stock, with over 1 billion of the devices sold. Before founder Steve Jobs debuted the revolutionary smartphone, Apple was a well-regarded maker of pricey personal computers. The company is now the #1 company in the U.S. by market capitalization, and holds a $285 billion cash pile, so it's safe to say that dividends are going to be a fixture of Apple's future. The company first started paying dividends in 1987 but was forced to scrap the payout in 1995 amid a cash crisis. Apple brought the dividend back in 2012 and has hiked it annually ever since.

<u>Reflections from Omaha</u> – Berkshire Hathaway has been our largest individual stock position for years, so I joined 42,000 others at the annual meeting in May to experience the event. Starting on Friday afternoon, only those with a shareholder credential can enter the Centurylink Center to take advantage of special discounted pricing on products offered by Berkshire-owned subsidiaries like GEICO, See's Candies, Fruit of the Loom, Pampered Chef, Duracell, South County Lexus, etc. On Saturday, the Chairman, Warren Buffet, age 87 sat at a table with Vice Chairman, Charlie Munger, age 94, and took questions from shareholders for 5 ½ hours (with a break for lunch). I learned that Berkshire generates cash flow of $400 million per week from its various operating subsidiaries, and they now have over $100 billion in cash to deploy. Capital allocation is handled at headquarters, but the operating businesses are run locally on a decentralized basis. Mr. Buffet told the audience to think of stock investments like a family farm, something to be held for capital appreciation over many years. They exhibited a candor and transparency that was refreshing. Rest assured that succession planning has been addressed with trusted associates ready to step in when needed.

Last Thought – It's important to know that Warren and I eat our own cooking. We hold many of the same securities in our personal accounts that we buy for our client accounts. Please let us know if there is anything we can do to be of further service to you.