WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

Client Bulletin October 2014

Account Safety at Schwab – With recent electronic security breaches at Target, Home Depot, and JP Morgan Chase, I want to assure you that Schwab continues to dedicate significant resources to stymie hackers and safeguard your accounts. For extra protection I recommend that you change passwords with Schwab and your email service. This will help to thwart any thieves that could attempt to assume your identity and perpetrate a fraud. Furthermore, you can add a security token to your Schwab account. The token is a key fob that Schwab will mail to you. It produces a random 6-digit code that is required for on-line access. Adding a verbal password to your account is another line of defense. To implement one or both of these measures, you must call Schwab Alliance directly at 800-515-2157.

Quarterly Recap – Last quarter saw a dip in account values with most of the price weakness attributable to small caps and international funds, along with energy and real estate related issues. OPEC overproduction along with the U.S. energy renaissance has expanded the supply of petroleum and pushed the price of oil down to $90/barrel. **Chevron** and **ExxonMobil** dropped in price, but we are holding our positions believing that the bulk of the decline is behind us. Our biggest gainers last quarter were **Berkshire Hathaway**, **Costco**, and **Dupont**. **AT&T**, **Verizon**, and health care company **Abbvie** also made money. High yield bonds dipped in price, while tax-exempt municipals held firm. The average net client return for the quarter was -1.17%. Year-to-date, the average total return through 9/30 was 3.39%, net of all fees. Client holdings will vary based on start date.

Common Stocks – Our client portfolios favor dividend paying blue chip stocks. These titans of industry are leaders in their field with a history of increasing their quarterly cash payouts. Last quarter, we added **Boeing** to the mix. The company has been dialing down their defense business while accumulating a backlog of orders for new airplanes equal to five years' worth of revenue. The 787 Dreamliner has ironed out early glitches, and a monthly production increase from 42 to 52 planes was recently announced for the work horse 737. The stock is reasonably valued and pays a dividend of 2.4%. CEO Jim McNerney is well seasoned with prior employment at 3M and General Electric. Growing demand for passenger and air cargo flights, especially in emerging markets, combined with fuel efficiency gains will power Boeing for many years to come.

Stock Returns & Mid-Term Election Years – The recent downdraft in stocks can wear on your patience, but some backing and filling is par for the course given the big advance we've enjoyed over the past 5+ years. What lies ahead is open for debate, but we are encouraged by looking at the data for the fourth quarter of previous mid-term election years. Since 1942, the S&P 500 has posted gains in 16 of the 18 mid-term election years, for an 89% win rate. While there are no guarantees, the average 4th quarter return for the 18 mid-term election years was 7.8%.

<u>Bond Funds</u> – The big news at the end of September was that Bill Gross resigned from Pimco. The "bond king" has been the target of recent criticism and his results have suffered. We sold all our Pimco related holdings earlier during the summer, so we have no exposure to the mass redemptions that are now occurring at Pimco. Once the smoke clears we plan to sift through the rubble for possible bargains. One primary beneficiary of the outflows is the Doubleline Funds in Los Angeles. Jeffrey Gundlach, age 54, the lead portfolio manager, has been dubbed the "new bond king" by Barron's. Given this series of events, we have started to reestablish a position in the **Doubleline Total Return Bond Fund**. The fund is defensively positioned with a duration of 3.2 years, but still pays out a respectable current yield of 4.5%. We also hold a small position in **Doubleline Income Solutions**, a closed-end fund that is trading at a 7% discount to net asset value. Expect more volatility from this fund due to the use of leverage which gooses the yield to over 8%.

<u>Municipal Bonds</u> –The muni market has been the most resilient sector of the bond market this year. Muni investors got a shot in the arm last week when a federal judge ruled that bond holders do not have to take a back seat to pensioners. In the City of Stockton bankruptcy proceeding, the judge ruled that CalPERS and general obligation bondholders are both unsecured creditors. CalPERS had argued that that state law and constitutional protections could not be altered by the federal government and retiree pensions could not be cut.

We still hold many short to intermediate term individual bonds that were acquired in recent years at higher yields and lower prices. These are gems in the current low-rate world and we plan to hold to maturity. Some of these bonds are now being "called" by the issuer. This results in an involuntary redemption where the bond is redeemed at par value. Bonds are called when the issuer can refinance the original bonds at lower interest rates. Typically, bonds are non-callable for the first five years from issue. The yields on new muni's are currently weak, so we continue to favor the **American Century CA High Yield Municipal Fund.** Monthly dividends are 100% tax-exempt (Fed & CA), so the 3.6% current yield works out to a 5.75% taxable equivalent yield for those in the 28% federal bracket, plus 9.3% for the State of CA.

<u>Words of Wisdom</u> – Twenty years ago, Peter Lynch, the retired manager of the Fidelity Magellan Fund, penned an article titled "The Biggest Investment Mistakes to Avoid." Mistake #1 – Becoming too concerned about whether the stock market is going up or down. Expect declines and make the most of them by accumulating stocks. Mistake #2 – Trying to time the market. Over time the market will advance more than it will decline. Mistake #3 – Not knowing the story behind the company in which you are buying stock. Mistake #4 – Buying stocks for the short-term. Returns over a year or two are totally random. Stocks are for long-term investors who plan to hold for 5, 10, or 20 years.

If you have any questions or comments regarding your portfolio, or any changes in your health or financial situation, please let us know. Thank you for your continued trust and confidence.

Scott Walker