WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

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Stock Seasonality – October has a bad reputation due to the market crashes of 1929 and 1987, and who can forget the 2008 meltdown? However, over the past 20 years, October is actually the second strongest month for the Dow following April, and the October / November 60-day stretch has been the best time to be in the market. Also, since 1928, the fourth quarter is seasonally the strongest time of year for equities, with an average Q4 change of 2.7%. When the S&P 500 is up YTD, the average Q4 change is higher at 4.3%, (up 81% of the time). Interesting historical information, but no guarantees.

We are cautious bulls, and espouse a conservative lower volatility approach to mitigate downside risk. We combine fundamental and technical analysis to opportunistically pick stocks, bonds, ETF's, and no-load funds. Keeping the investment cost low is an important consideration when deciding which securities we choose to buy.

Performance Results – Our average net gain for the past three months across all client accounts was 1.55%. Year-to-date we are up 4.33% net, and for the past one-year 6.29%, net of all fees and costs. Clients with municipal bonds achieve higher taxable-equivalent yields. Your individual returns can be found on the Portfolio Performance Review following the two graphs in your quarterly report package.

Our most conservative accounts with larger weightings in bonds have enjoyed above average returns this year from price gains that resulted from a declining interest rate tailwind that is unlikely to be repeated. On October 5th, we sold all longer term municipal and corporate bond funds to lock in our gains, and avoid the inevitable reversion to the mean that bond prices will see as interest rates slowly inch higher. The process has started and with the economy continuing to grow, the Fed will likely raise rates in December, so caution is in order regarding fixed-income securities.

Fixed-Income: Bonds / Funds & ETF's – As long-time bond investors we know how quickly prices can reverse when markets sense higher interest rates and/or inflation ahead. The highest quality longer maturity funds are the most interest rate sensitive, and will decline the most if the recent bond market weakness gathers steam. The place to be at this point in the cycle is high yield non-investment grade funds, like **Vanguard High Yield Corporate**, 5.4% yield, and **T. Rowe Price Institutional Floating Rate**, 4.5% yield, as credit spreads continue to tighten. Short-duration funds also limit interest rate risk, so the **Doubleline Total Return Bond Fund**, 3.6% yield, remains our largest "safe money" holding. Individual bonds have a set maturity date when our principal is returned, so we remain long-term holders of individual bonds. Bond funds and ETF's carry no such maturity date, so it pays to be more tactical with those holdings.

Please remember that it's dangerous to look in the rear view mirror when investing in bond funds and that past performance most certainly will not be an indication of future returns. Our goal is to reap the dividends, while the share price stays within a normal range. We watch price trends closely, and if our technical indicators start flashing yellow, we will not hesitate to sell and lock in gains, or cut a loss to preserve capital.

Valuations – Stocks set all-time record highs in July, and remain in a near-term uptrend having held long-term support. Valuations are a bit frothy with the S&P 500 trailing P/E ratio at 21.0, versus a median of 15.9, since 1929. However, when compared to interest-bearing alternatives, valuations are a lot more reasonable. The dividend yield on the S&P 500 stands at 2.13%, and continues to be higher than the current 10-year U.S. Treasury yield of 1.72%.

Common Stocks – Technology stocks led the gainers last quarter paced by **Microsoft, Apple, Amazon.com, and Alphabet (formerly Google**). Financial stocks carry the most attractive valuations and stand to benefit from a higher interest rate environment. We own **Charles Schwab & Co., Visa, and Ally Financial**. Ally is the former GMAC, and has branched out to become a leading on-line bank that does not have the legacy overhead costs that the big banks are burdened with. We took profits on Wells Fargo last quarter, and much prefer Ally, which trades 20% below its IPO price, at <1.00x sales, and .70x book value, with a 1.6% dividend.

Although the Fed maintained their dovish stance and voted to stand pat and not raise the Fed funds rate last month, interest-sensitive defensive stocks sense a rate hike coming and have started to weaken. We took profits and sold **Verizon;** ditto for multi-family REIT, **Camden Properties** (following payment of a special $4.50/share cash dividend). **Bristol Myers Squibb** was also sold following disappointing clinical trial results for their major cancer drug. We are taking a wait and see approach to health care stocks at this time, remembering how Hilary Clinton went after the industry in the early 90's as the First Lady.

Consumer discretionary stocks **Costco, Starbucks, and Walt Disney** lagged last quarter, as did industrial behemoth **General Electric**, but we remain constructive on these best of breed U.S. blue chips, and expect continued annual dividend increases.

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

U.S. Equity Exchange-Traded Funds (ETF's) – ETF's continue to see positive inflows at the expense of actively managed funds due to their greater tax-efficiency, all-day tradability, and lower expense ratios. We are long-term holders of three core ETF's for exposure to different areas of the U.S. stock market. Dividend focused ETF's have beaten the S&P 500 this year, and we have benefitted by owning the **SPDR S&P Dividend ETF**, and the **Wisdomtree Smallcap Dividend Fund.** Last quarter, money started to rotate out of the defensive dividend payers and into large company technology stocks. We caught the ride with the **Powershares QQQ,** which posted a 10.7% gain for the quarter. This ETF is based on the Nasdaq-100 Index, and its top holdings are Apple, Microsoft, Amazon.com, Facebook, and Alphabet.

For targeted industry exposure, we also hold three sector **SPDR** ETF's which own slices of the S&P 500 focused in **energy**, **industrials**, and **materials** stocks. These economically sensitive areas were crushed earlier in the year, and as the economy continues to gain traction these three areas stand to prosper. **SPDR** is one of the largest brands of exchange-traded funds and are owned by State Street Global Advisors in Boston.

Emerging Markets – Given the resurgence of this asset class and relative outperformance lately versus the S&P, we have re-established small positions via two actively managed funds. Choosing to avoid Latin American and Europe, we purchased the **Matthews Asia Dividend Fund** and the **Matthews India Fund**. This region of the world has the most dynamic economic growth coupled with reasonable valuations, an intelligent workforce, with a strong work ethic. The Matthews organization specializes only in this region and provides boots on the ground access to many small and mid-sized companies that the large index funds ignore.

Year-End Planning – It would be good to see you again and catch up, so expect a call from my assistant Lori over the next few weeks to request a meeting at our office. Just confirming that you are happy and that all areas of your finances are on track.

New Team Members – I am happy to announce that Theresa Klopfner has joined us as a bookkeeper, and that Olivia Goldson, a recent University of Arizona graduate, started last week as an information technology specialist.

In Conclusion – You can rest assured that Warren's and my interests are clearly aligned with yours, as we eat our own cooking by owning many of the same securities ourselves which are also held in client accounts. Our goal is to preserve and build your wealth, and we thank you for that privilege.