WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

Private Client Update ____ October 10, 2017

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Economic & Market Update – Stocks ended the third quarter at record high levels, driven by robust corporate earnings, along with low interest rates and inflation. We believe the current expansion has further to run with no signs of a recession on the horizon. However, with valuations stretched, a healthy dose of caution is also in order. The Fed has embarked on a slow monetary tightening cycle by signaling their intent to raise short-term interest rates moving forward. Their action will be dictated by economic data, but it would not be surprising to see 2-3 rate hikes over the next fifteen months. In addition, the Fed will begin the process of normalizing its balance sheet this month which will remove a source of demand for Treasury bonds. Normally, this would push interest rates up, but foreign buyers have been stepping in to fill the void. Overseas developed market bond yields are still substantially below U.S. yields, and the dollar has an excellent reputation as a reserve currency. Our portfolios are balanced and diversified with each client's risk tolerance and goals in mind. Controlling downside risk is important, so we hold many fixed-income positions and a cash buffer to weather any downturns. Warren Buffet says his favorite holding period for a stock is forever. The big money is made by not trying to time the market, but by your time in the market.

Charles Schwab & Co. – When we buy mutual funds at Schwab we purchase the institutional share class with the lowest expense ratio and pay Schwab a small transaction fee. Last quarter that fee was negotiated down from $20 to $15 per trade. Earlier this year, Schwab reduced their commission on electronic equity trades down to $4.95 per trade. They have been rated "Highest in investor satisfaction two years in a row" by: JD Power. **Charles Schwab Corp.** has a sterling reputation and our close association with the company led us to purchase their stock last year at an average cost of $28.89/share; the 9/30/17 price was $43.74/share.

Common Stocks – We were fortunate to acquire some new positions at lower prices during the last three months. **Intel** manufactures semiconductors, which are computer chips that power the servers in data centers which form the cloud. They are also rumored to be a supplier to **Apple**, given the current dispute between Apple and chip supplier Qualcomm. Intel has also made a push into autonomous vehicles with the acquisition of Mobileye, a vision processing specialist, and Nervana, a San Diego company developing deep learning technologies to communicate with driverless cars through cloud computing. Trading at a 13 P/E, with a 2.8% dividend yield, you get a blue-chip value stock with new growth drivers.

We also bought back into **AT&T** last quarter after noticing that the stock had bottomed and was moving back up on above average volume. Their DirecTV NOW service allows you to stream TV live & On Demand with no equipment and no annual contract. The Time Warner acquisition is still pending approval by the U.S. Department of Justice. Another value play trading at a low price to earnings multiple with a juicy 5% yield.

Packaging Corp. of America was acquired as a play on the blossoming growth in e-commerce activity. The demand for corrugated boxes is strong with more consumers buying from Amazon and other online channels. This best in class operator announced an earnings triple play in August, meaning they beat the estimates on sales and earnings per share, and also guided higher.

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

Performance Highlights – Top performers last quarter were E-Commerce technology companies **Visa** and **Square**. Energy stocks rebounded strongly with oil topping $50/bbl., so reacquiring **Chevron** in June has worked out well. European financial stocks are prevalent in **Oakmark International** and led it be our top performing fund for the quarter.

Laggards included **Starbucks** which was cut back and sold due to a rich valuation amidst slowing growth. Howard Schultz has stepped down as CEO, and oversaturation and cannibalization of existing stores was another concern. **Allergan** disappointed last quarter, but their fundamentals remain strong, so we're holding with a $200/share stop loss sell point. **Diebold Nixsdorf** tanked on a disappointing report, so we cut the loss and purchased Intel with the proceeds in early July.

California Municipal Bonds & Mutual Funds – Our strategy with muni bonds is to buy creditworthy local individual issues and hold until maturity. We also supplement with bond funds, but tend to be more tactical regarding the holding period. Since bond funds carry no set maturity date, one can be lulled into a false sense of security, so monitoring the share price closely is imperative to avoid a slow bleed in the net asset value. We allow some wiggle room, but will sell when a price trend changes direction and heads lower. Such was the case last week with the sale of the **Franklin CA Tax Free Income Fund**. The fund has a small position in Puerto Rico bonds, and given the current state of affairs, we were no longer comfortable holding the fund. The bulk of our position was purchased earlier this year at a lower price, so we made money on the trade and got tax-exempt monthly dividends to boot. We will continue to hold the **Vanguard CA Intermediate-Term Tax-Exempt Fund** for now. The Franklin sale proceeds will remain in cash temporarily pending suitable replacement(s).

Taxable Bond Funds / ETF's – Our holdings are concentrated in two stellar open-end bond funds that carry a low duration to minimize interest rate risk. The Newport Beach based **PIMCO Income Fund** (5.4% current yield) takes a multi-sector approach and has recently been reducing high yield debt in favor of emerging market bonds and variable rate mortgage securities. The **T. Rowe Price Institutional Floating Rate Fund** (4.4% current yield) holds securitized bank loans. We also continue to hold the short and intermediate term **Vanguard Corporate Bond ETF's** for low-cost high-quality exposure.

Tax Planning – Next month we will be reviewing all taxable brokerage accounts to assess any opportunities to harvest capital losses to offset realized gains. There's not much in the way of unrealized losses this year, which is a good thing! For those still working, remember to max out your 401(k) salary deferral contribution ($24,000 annually for those age 50 & over) **prior to December 31**. The self-employed are eligible to make an additional employer contribution up until the due date of their 2017 tax return. This is the best way to generate guaranteed income tax savings and turbo charge your tax-deferred retirement account.

Gift Tax Exclusion – The annual gift tax exclusion will increase next year to $15,000. Thus, you will be able to give up to $15,000 per person without having to tap your $5,490,000 lifetime estate and gift tax exemption. Your spouse can also give $15,000 to the same donee. There is no income tax consequence to the donors or recipients.

Year-End Review Meeting – Lori Vermeer, our corporate secretary, will be giving you a call this month to check in and see if you would like to schedule an appointment to review your accounts and catch up. We can also discuss and test drive the new eMoney Advisor platform together. Thank you for your business, we are working hard to continually earn your trust every day.