

First-Quarter 2006 Market Review ~ Portfolio Spring Cleaning

April 2006 - Financial markets leapt out of the starting gate in the first quarter of 2006, with virtually all major asset classes posting solid advances. Reflecting merger and acquisition activity, as well as positive supply-demand fundamentals in commercial/industrial property markets, Real Estate Stocks were at the top of the list with a 15.8% rally. Double-digit gains were also achieved by Domestic Small Caps, rising from 13.5% to 14.4%, and International Emerging Markets, climbing 12.1%. Not far behind was International Developed Markets, higher by 9.5%. Even the long-beleaguered Domestic Large Caps showed momentum, improving from 3.1% to 5.9%.

In the bond market, U.S. Corporate High Yield and International Emerging Markets rose 2.9% and

1.6%, respectively. The only exceptions to the first-quarter upward trend were Global and U.S. Aggregate Bonds, off 0.1% and 0.7%, respectively. This was to be expected, as the Federal Reserve continued its long march to higher interest rates. During the quarter, the Fed again increased the Fed Funds rate twice by two-quarter point increments to 4.75%. At quarter end, the yield on the 10-year Treasury Note was 4.85%, up 46 basis points from the outset of the year (the yield as of April 17th was 5.01%).

Below are rates of return for selected market indices for the first quarter of 2006, calendar-year 2005, and the three, five, and 10-year averages as of December 31, 2005.

	<u>1Q:2006</u>	<u>2005</u>	<u>3-Yr. Avg.</u>	<u>5-Yr. Avg.</u>	<u>10-Yr. Avg.</u>
<u>Equity (Stock) Indices</u>					
Domestic Large Cap					
Russell 1000 - Growth	3.09%	5.26%	13.23%	-3.58%	6.73%
Russell 1000 - Value	5.93%	7.05%	17.49%	5.28%	10.94%
Russell 1000 - Blend	4.49%	6.27%	15.42%	1.07%	9.29%
Domestic Small Cap					
Russell 2000 - Growth	14.36%	4.15%	20.93%	2.28%	4.69%
Russell 2000 - Value	13.51%	4.71%	23.18%	13.55%	13.08%
Russell 2000 - Blend	13.94%	4.55%	22.13%	8.22%	9.26%
Real Estate (Wilshire REIT)	15.79%	13.82%	27.32%	19.16%	15.36%
International Developed Mkts (MSCI EAFE)	9.47%	14.02%	24.18%	4.94%	6.18%
International Emerging Mkts (MSCI EM)	12.12%	34.54%	38.52%	19.44%	6.98%
<u>Fixed-Income (Bond) Indices</u>					
Lehman Brothers					
Global Aggregate	-0.10%	-4.49%	5.76%	6.81%	5.35%
U.S. Aggregate	-0.65%	2.43%	3.62%	5.87%	6.17%
U.S. Corporate High Yield	2.89%	2.74%	14.28%	9.34%	6.92%
Municipal	0.25%	3.51%	4.44%	5.58%	5.71%
International Emerging Markets	1.62%	12.27%	17.03%	12.96%	13.15%

Portfolio Spring Cleaning



The clocks have been moved ahead for Daylight Saving Time and your tax returns have been filed (if not on extension), so it must be time for Portfolio Spring Cleaning! Has your investment portfolio been in hibernation so long that the cobwebs are longer than Rip van Winkle's beard? Does it smell like musty moth balls instead of the sweet aroma of Spring flowers? Below are some things to consider for organizing and optimizing the performance of your portfolio.

Is the portfolio still relevant to your goals? Identifying and prioritizing goals is the first step to determine the relevance of your portfolio. When saving for any financial goal, be it retirement, a home purchase, or education, it is important to know how much you will need to accumulate and how long it will take. Along the way you also need to monitor the progress to make sure you are still on track to meet your goals. You may have to invest more or increase risk, or conversely, you may be ahead of your targets and be able to invest less or reduce risk.

Is the portfolio risk level appropriate? Your individual circumstances will determine your tolerance for risk. If things have changed since the last time you developed your asset allocation, your current risk profile may no longer be suitable. Events that could require a re-evaluation of investment approach include marriage, divorce, the birth or adoption of a child, retirement, inheritance, or the start or sale of a business.

Is the portfolio asset allocation still in balance? The asset allocation should be consistent with your goals and risk tolerance. Since the equity markets have recovered from their 2000-2002 downturn, Domestic Small Caps have outperformed Large Caps, International has surpassed Domestic, Equities have exceeded Fixed Income, and Real Estate and Energy/Natural Resources have been among the top-performing market sectors. When was the last time you rebalanced your portfolio to account for these trends? There is no easier way to "sell high and buy low" than to reduce outperforming assets and reallocate to out-of-favor sectors.

Is the portfolio adequately diversified? Just because you hold a lot of investments, be they stocks, bonds, or mutual funds, does not mean you do not have all your eggs in one or a few baskets. The best strategy is to broadly diversify among many market sectors and asset classes. This way you will always capture the returns of the best performing assets classes.

Are the portfolio holdings appropriate? Investing is not just buy-and-hold, it is buy-and-homework! This includes making sure your reasons for buying an investment still hold, and the underlying style or strategies of the holdings have not changed. Also, are the investments held in the best type of account? Most investors have both taxable and tax-deferred accounts. Investments have varying tax attributes that lend themselves to be held in either a taxable or tax-deferred account.

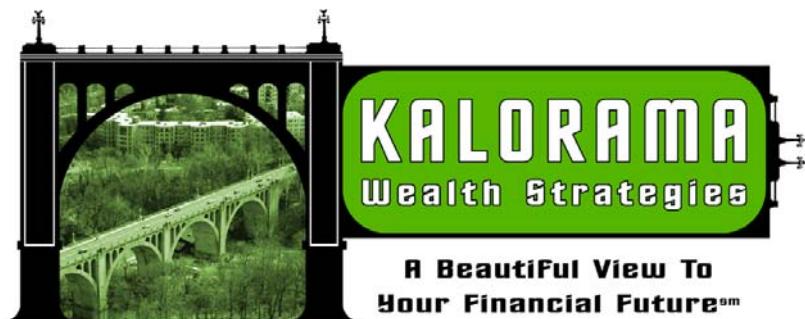
Finally, what returns did your portfolio generate in 2005 or prior years? You will need to know how your portfolio has performed to determine whether you are on track to reach your goals. Reviewing portfolio and investment performance relative to a benchmark will also provide insight into how your portfolio and its holdings stack up against other similar or alternative investments.

So now we know the “what” of Portfolio Spring Cleaning, but “how” and “why” do we do it? Where do we begin? In a series of briefs over the coming months, we will lay out the “how” (Does Your Financial Advisor Follow an Investment Management Process?) and “why” (Does Your Financial Advisor Have an Investment Philosophy?) of organizing and optimizing the performance of your portfolio to achieve your goals.

Kalorama Wealth Strategies can help you create a plan to invest your assets in a manner

providing professional management, diversification, marketability, and liquidity. For more information, please see our web site at www.kaloramawealth.com.

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