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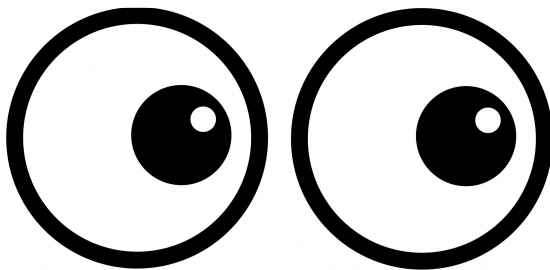
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First-Quarter 2015 Market Review ~ Earnings vs. Eyeballs

April - It took nearly 15 years, but in early March, the NASDAQ Composite stock index surpassed the 5,000 level for the first time since the year 2000. Setting its sights on the record close of 5,048.62 set on March 10, 2000, the index came within seven points on March 20 with an intra-day high of 5,042.14 (closing at 5,026.42).



A 15-year time span can certainly make a big difference in what determines the value of a company's stock. During the internet bubble, the measurement of success may have been number of eyeballs or clicks on a company's web site, while now earnings and cash flow are more likely to be in vogue. Market valuations were stretched to an earnings multiple in excess of 100, whereas today the NASDAQ trades at a multiple of approximately 23 times profits. Further, many of the web-based, initial public offerings of late consist of established, profitable companies, rather than cash-burning pipe dreams.

Meanwhile, the bulls continued to roar on Wall Street, with both the NASDAQ and Standard & Poor's 500-Stock indexes completing their ninth consecutive quarterly advance, the longest-ever streak for the NASDAQ and best for the S&P since 1998.

Other than the commodity sector, which was dragged down by declining oil prices, stock indexes were up across the board. Domestic bonds had widespread gains. With foreign central banks taking measures to contend with struggling economies, interest rates abroad were lower. This led foreign investors to purchase "higher-yielding" U.S. bonds, thereby increasing bond prices and decreasing yields. In January, the 30-year Treasury bond dropped to a record low of 2.25%.

Foreign investment in U.S.-dollar denominated bonds pushed the greenback higher, making exports more expensive, resulting in concerns that a fall in overseas sales could trim corporate profits. With foreign interest rates falling and concerns about U.S. company earnings, the Federal Reserve held short-term interest rates near zero during the quarter. In its post-March meeting announcement, the Fed omitted the "can be patient" phrase for when it will raise short-term interest rates, but maintained its position that it may be appropriate to increase rates when there is further improvement in labor markets and it is likely that inflation will hit its two percent target.

At quarter-end, the yield on the 10-year Treasury note was 1.93%, down 24 basis points for the quarter (the yield as of April 14th was 1.90%).



Below are rates of return for selected market indices for the first quarter of 2015, full-year 2014, and the three, five, and 10-year compound annual returns as of December 31, 2014.

	<u>1Q:2015</u>	<u>2014</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic					
Russell 1000 - Large Cap	1.59%	13.24%	20.62%	15.61%	7.96%
Russell Midcap	3.95%	14.75%	21.98%	17.43%	9.43%
Russell 2000 - Small Cap	4.32%	4.89%	19.21%	15.55%	7.77%
Real Estate (FTSE EPRA/NAREIT Global)	4.04%	14.73%	15.06%	10.93%	6.86%
Commodity (Dow Jones Global Equity 100)	-4.64%	-12.60%	-3.89%	NA	NA
International					
MSCI EAFE Developed Large Cap	5.00%	-4.48%	11.56%	5.81%	4.91%
MSCI EAFE Developed Small Cap	5.64%	-4.63%	14.20%	8.98%	6.40%
MSCI Emerging Markets	2.28%	-1.82%	4.41%	2.11%	8.78%
Global - MSCI All Country IMI	2.71%	4.36%	14.90%	10.03%	6.91%
<u>Fixed-Income (Bond) Indices</u>					
Barclays Capital					
Global Aggregate	-1.92%	0.59%	1.47%	3.15%	3.85%
U.S. Aggregate	1.61%	5.97%	3.32%	4.85%	4.91%
U.S. Treasury TIPs	1.42%	3.64%	2.80%	5.58%	5.10%
U.S. Corporate High Yield	2.52%	2.45%	7.11%	8.23%	7.34%
Municipal	1.01%	9.05%	5.32%	5.77%	5.04%
International Emerging Markets	2.30%	4.76%	7.73%	8.58%	8.41%

Source: russell.com, reit.com, djindexes.com, msci.com, barcap.com

Please feel free to forward this newsletter to friends and colleagues who can benefit from information about investing and financial planning. As always, if I can be of any assistance to you or anyone you know, please do not hesitate to contact me. It would be my privilege to assist with your investment and financial planning needs. For more information, please see our web site at www.kaloramawealth.com.



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