



Kalorama Wealth Strategies, LLC

2136 12th Place, N.W., Suite 100
Washington, D.C. 20009-7507

Phone: 202.550.7262
Fax: 480.247.9620

www.kaloramawealth.com

Second-Quarter 2012 Market Review ~ Summer: Time to Jump in the Card Pool!

July 2012 - It's summer! Read below about how you can save money by jumping in the card pool.

Although stocks rose in the final month of the second quarter, including a final-trading-day surge of 2.5%, it was not enough to offset losses from April and May. Concerns about a weak domestic economy and employment, as well as the ongoing European sovereign debt crisis, weighed on equity performance for the quarter. Nearly all major asset classes were lower; the only exception was real estate, edging up 1.5%. For the first half of 2012, all the broad sectors moved ahead, except for energy and natural resources, as the Dow Jones - UBS Commodity index dropped 3.7%.

While stocks were struggling, investors continued to find a safe haven in U.S. Treasury bonds and other fixed-income securities. In reaction to a dismal May employment report, on June 1st the yield on the 10-year Treasury Note sank to a record intra-day low of 1.44%. All major bond sectors rose for the second quarter and first half of 2012. Leading the pack at mid-year were U.S. Corporate High Yield and International Emerging Markets, jumping 7.3% and 7.0%, respectively, with U.S. Treasury TIPs next in line, rising 4.0%.

After its June 20th meeting, the Federal Reserve announced that it would expand its "maturity extension program" to put downward pressure on long-term interest rates, reduce unemployment, and stimulate the economy. The "Operation Twist" program was initiated in September 2011 whereby the Fed would "twist the yield curve" by selling \$400 billion of Treasury securities in its portfolio with a maturity of less than three years and use the funds to purchase securities with maturities ranging from six to 30 years. The expansion will add \$267 billion through the end of 2012.

Unchanged was the Fed's policy on short-term interest rates at zero to 0.25%. Also unaltered was its policy of reinvesting its portfolio of maturing housing debt into agency mortgage backed securities, as well as the expectation that economic conditions will warrant keeping short-term interest rates "exceptionally low" through 2014.

At the close of the quarter, the yield on the 10-year Treasury Note was 1.64%, sinking 57 and 24 basis points for quarter and first half of 2012, respectively (the yield as of July 17th was 1.49%).

On the next page are rates of return for selected market indices for the second quarter of 2012, year-to-date 2012, and the three, five, and 10-year compound annual returns as of December 31, 2011.



	<u>2Q:2012</u>	<u>YTD-2012</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic Large Cap					
Russell 1000 - Growth	-4.02%	10.08%	18.02%	2.50%	2.60%
Russell 1000 - Value	-2.20%	8.68%	11.55%	-2.64%	3.89%
Russell 1000 - Blend	-3.12%	9.38%	14.81%	-0.02%	3.34%
Domestic Small Cap					
Russell 2000 - Growth	-3.94%	8.81%	19.00%	2.09%	4.48%
Russell 2000 - Value	-3.01%	8.23%	12.36%	-1.87%	6.40%
Russell 2000 - Blend	-3.47%	8.53%	15.63%	0.15%	5.62%
Real Estate (FTSE EPRA/NAREIT Global)	1.49%	15.15%	15.91%	-5.37%	NA
Dow Jones - UBS Commodity	-4.57%	-3.74%	6.26%	-3.32%	4.69%
International					
MSCI EAFE Developed Large Cap	-6.85%	3.38%	8.16%	-4.26%	5.12%
MSCI EAFE Developed Small Cap	-8.47%	5.20%	15.00%	-3.80%	9.42%
MSCI Emerging Markets	-8.77%	4.12%	20.42%	2.71%	14.20%
<u>Fixed-Income (Bond) Indices</u>					
Barclays Capital					
Global Aggregate	0.62%	1.50%	6.13%	6.52%	7.18%
U.S. Aggregate	2.06%	2.37%	6.77%	6.50%	5.78%
U.S. Treasury TIPs	3.15%	4.04%	10.38%	7.95%	7.57%
U.S. Corporate High Yield	1.83%	7.27%	24.12%	7.54%	8.85%
Municipal	1.88%	3.66%	8.57%	5.22%	5.38%
International Emerging Markets	1.36%	6.95%	17.45%	7.76%	11.08%

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

Summer: Time to Jump in the Card Pool!

With the ongoing economic malaise, consumers continue to seek ways to stretch their dollars. One way is to purchase gift cards at a discount. Gift card exchange web sites such as Card Pool (www.cardpool.com), Plastic Jungle (www.plasticjungle.com), and ABC Gift Cards (www.abcgiftcards.com) sell discounted gift cards from hundreds of retailers. The wide variety includes home improvement (Home Depot, Lowes), drug (CVS, Rite Aid), electronic (Best Buy, Apple), big-box (WalMart, Target), and department stores (JC Penney, Macy's).

The web sites pay up to 92% for unwanted or unused gift cards and then re-sell them at discounts ranging from 2% to 35%. There is no sales tax and shipping is free; electronic gift cards are also available. Some items to consider when purchasing discounted gift cards:



- Only purchase cards from stores where you actually shop and that sell items you really need. Otherwise, you will end up with cards collecting dust and be in the same position as the person who sold them to the web site.
- Only purchase cards from web sites that sell cards with no fees and no expiration date.
- Check out the guarantee program to determine the policy for returns and card value (read the fine print!). Cardpool guarantees the card will be valid at the merchant and to the dollar



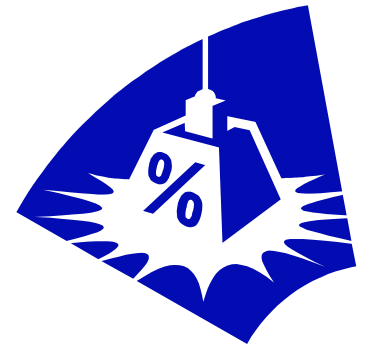
amount specified for up to 100 days from the date of purchase, up to a maximum of \$1,000 per customer. Plastic Jungle offers a guarantee for 60 days from the date of purchase and up to a maximum of \$1,000 per customer. ABC Gift Cards has a 45-day return policy for invalid cards or balance discrepancies.

- Upon receipt of a card, call the 800 number on the card and/or take it to the retailer to confirm its value.

Finally, to get a bonus on top of your discount, use a credit card with a cash back or rewards program to purchase the gift cards! Happy shopping!

Update: Further Markdowns on Interest Rates!

Following up from our October 2011 Newsletter (see *Interest Rates on Sale* at <http://www.kaloramawealth.com/docs/Q311.pdf>), the weak economy and Federal Reserve actions continue to drive home mortgage interest rates to their lowest levels since records have been maintained. Freddie Mac last week reported average rates of 3.56% and 2.86% for 30-year and 15-year fixed rate mortgages, respectively.



If you can qualify for a mortgage, it is an incredible opportunity to lock in low, long-term borrowing costs with a home purchase or refinance. Even if you have refinanced within the past couple of years, if your mortgage has an interest rate above 4%, it may make sense to consider going through the money-saving process again.

Please contact Kalorama Wealth Strategies if you would like to discuss whether refinancing makes sense. For more information on our investment advisory and financial planning services, please see our web site at www.kaloramawealth.com.

Thank you for your continued business and referrals. Please feel free to forward this newsletter to friends and colleagues who can benefit from information about investing and financial planning. If I can be of any assistance to you or anyone you know, please do not hesitate to contact me.



Fee-Only Investment Advisory And Financial Planning

David M. Taube, CFA, CFP®
2136 12th Place, N.W., Suite 100, Washington, D.C. 20009
Phone: (202) 550-7262 Fax: (480) 247-5620
dtaube@kaloramawealth.com www.kaloramawealth.com