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Second-Quarter 2013 Market Review

Shutdowns, Lockdowns and Rundowns

Seesaw Quarter for Stocks and Bonds

October 2013 - All eyes are on Washington, D.C., as the political (and other) fringe is front and center in the nation's capital. With the impending threat of a federal government shutdown, stocks were lower in seven of the last eight trading days of the third quarter. Despite the fiscal showdown, stocks managed to rise in September and the quarter. It was a seesaw quarter for both stocks and bonds: up in July, down in August, and up again in September.

Domestic small cap stocks continued to outperformed large caps, with the Russell 2000 soaring 27.7% thus far in 2013, compared with a climb of 20.8% for the Russell 1000. Looking at market bellwethers, the tech-heavy Nasdaq Composite Index continued to stand out, surging ahead 10.8% for the quarter, versus a gain of 5.4% for the Standard and Poor's 500-Stock total return index and an advance of 1.5% for the Dow Jones Industrial Average. Year-to-date, the Nasdaq index has jumped 24.9%, while the S&P 500 swelled 19.8% and the Dow Jones tacked on 15.5%. The S&P 500 and Dow Jones rose to all-time highs in September.

Bonds reversed their second-quarter retreat, with all but the Municipal sector above water in the third quarter. Nevertheless, all major bond sectors, except U.S. Corporate High Yield, remain in negative territory for the year. U.S. Treasury TIPs and International Emerging Markets are at the back of the pack, shedding 6.7% and 5.2%, respectively.

The Federal Reserve met twice during the quarter and left its short-term interest rate policy unchanged, as well as its monthly purchases of \$85 billion of Treasury and mortgage-backed securities. The Fed plans to maintain these purchases until the outlook for the labor market improves substantially.

After central bank comments in June that it may begin to taper securities purchases later this year and end the quantitative easing entirely in 2014 if the unemployment rate falls to about 7%, it was widely anticipated that the reduction in purchases would begin in September. With investor surprise that no change was made at the September meeting, interest rates dropped while stocks rallied to all-time highs. Mixed economic signals, as well as the upcoming federal budget/debt ceiling face-off and its potential for putting a damper on the economy, led the Fed to hold off tapering until fiscal and economic matters are on a more stable footing.

At quarter-end, the yield on the 10-year Treasury note was 2.61%, up 12 and 85 basis points for the quarter and year-to-date, respectively (the yield as of October 10th was 2.68%).

On the next page are rates of return for selected market indices for the third quarter of 2013, year-to-date 2013, and the three, five, and 10-year compound annual returns as of December 31, 2012.



	<u>3Q:2013</u>	<u>YTD-2013</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic					
Russell 1000 - Large Cap	6.02%	20.76%	11.12%	1.92%	7.52%
Russell Midcap	7.70%	24.34%	13.15%	3.57%	10.65%
Russell 2000 - Small Cap	10.21%	27.69%	12.25%	3.56%	9.72%
Real Estate (FTSE EPRA/NAREIT Global)	2.07%	3.37%	12.71%	0.66%	NA
Commodity (Dow Jones - UBS)	2.12%	-8.60%	-0.03%	-5.54%	2.35%
International					
MSCI EAFE Developed Large Cap	11.61%	16.59%	4.04%	-3.21%	8.70%
MSCI EAFE Developed Small Cap	15.56%	22.42%	7.52%	-0.51%	12.34%
MSCI Emerging Markets	5.90%	-4.05%	4.98%	-0.61%	16.88%
Global - MSCI All Country IMI	8.39%	15.68%	7.57%	-0.20%	9.14%
<u>Fixed-Income (Bond) Indices</u>					
Barclays Capital					
Global Aggregate	2.79%	-2.17%	5.26%	5.50%	6.00%
U.S. Aggregate	0.56%	-1.89%	6.19%	5.95%	5.18%
U.S. Treasury TIPs	0.70%	-6.74%	8.90%	7.04%	6.65%
U.S. Corporate High Yield	2.28%	3.73%	11.86%	10.33%	10.62%
Municipal	-0.18%	-2.87%	6.57%	5.91%	5.10%
International Emerging Markets	1.37%	-5.24%	12.50%	10.25%	11.63%

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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