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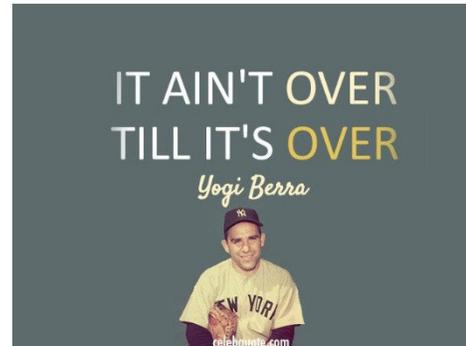
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Third-Quarter 2015 Market Review ~ Déjà Vu All Over Again

October - In honor of the late-great Yogi Berra (who passed on in September to the great diamond in the sky), volatility reminiscent of the 2008-09 financial crisis returned to stock markets during the third quarter like "déjà vu all over again." Economic storm clouds over China (as if they don't have enough pollution to worry about) and concerns about when the Federal Reserve would begin to raise interest rates spooked global stock markets.



During the third week of August, U.S. stocks suffered their worst weekly decline since 2011. As the market opened the following Monday, the Dow Jones Industrial Average took a 1,000-point dive, ultimately closing down nearly 600 points for the day, resulting in the Dow's worst three-day point loss in history. The carnage was enough to put all widely followed U.S. market barometers into "correction" territory (defined as a drop of at least 10% from a recent peak; a "bear" market is when stocks sink 20% or more below the peak).

What appears so unusual about recent market volatility is that investors were lulled by months of steady markets. The last time the Standard & Poor's 500-Stock index sank more than 10% was four years ago (the S&P 500 shrank 19.4% over 154 days in 2011). In the past, markets have dropped by 10% about every 20 months.

Equity indices were lower across-the-board in the third quarter, and nearly so for the first nine months of 2015. The only year-to-date bright spot is International Developed Small Caps, adding 2.9%. The China economic slowdown had a big effect on energy and natural resources stocks during the quarter, with commodity-focused emerging market countries taking the brunt of the sell-off. The Dow Jones Global Equity Commodity Index collapsed 21.5% and Emerging Markets relinquished 17.8%.

With the third-quarter decline, the S&P 500 and Dow Jones shed 6.8% and 8.6%, respectively, for the first nine months of 2015. The quarterly slump ended a 10-quarter win streak for NASDAQ Composite index, which retreated 7.4% for the quarter and has slipped 2.5% year-to-date.

Chinese stocks have taken investors on a wild ride: the Shanghai Composite index soared 52% in 2014, surged another 52% to a record high on June 10 of this year, and then tumbled more than 40% by the end of September, leaving investors with a year-to-date loss of 9.2%.

Despite the Federal Reserve's intention to begin raising interest rates by the end of 2015, the first time since 2006, the era of easy money was extended when the Fed omitted a rate



increase at its July and September meetings. Although there has been progress in the economy with second-quarter gross domestic product growth of 3.9%, as well as an August and September unemployment rate of 5.1%, stagnant wage growth, persistently low inflation rates, and international economic developments have kept the Fed on hold. The central bank continues to emphasize that its decision when to raise rates will depend on the outlook for the economy and that future increases would be gradual.



At quarter-end, the yield on the 10-year Treasury note was 2.04%, down 31 and 13 basis points for the quarter and year-to-date, respectively (the yield as of October 13th was 2.05%).

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

	<u>3Q:2015</u>	<u>YTD-2015</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic					
Russell 1000 - Large Cap	-6.83%	-5.24%	20.62%	15.61%	7.96%
Russell Midcap	-8.01%	-5.84%	21.98%	17.43%	9.43%
Russell 2000 - Small Cap	-11.92%	-7.73%	19.21%	15.55%	7.77%
Real Estate (FTSE EPRA/NAREIT Global)	-3.18%	-5.03%	15.06%	10.93%	6.86%
Commodity (Dow Jones Global Equity 100)	-21.50%	-25.80%	-3.89%	NA	NA
International					
MSCI EAFE Developed Large Cap	-10.19%	-4.91%	11.56%	5.81%	4.91%
MSCI EAFE Developed Small Cap	-6.78%	2.91%	14.20%	8.98%	6.40%
MSCI Emerging Markets	-17.78%	-15.22%	4.41%	2.11%	8.78%
Global - MSCI All Country IMI	-9.48%	-6.38%	14.90%	10.03%	6.91%
<u>Fixed-Income (Bond) Indices</u>					
Barclays Capital					
Global Aggregate	0.86%	-2.25%	1.47%	3.15%	3.85%
U.S. Aggregate	1.16%	1.06%	2.67%	4.45%	4.71%
U.S. Treasury TIPs	-1.14%	-0.80%	2.80%	5.58%	5.10%
U.S. Corporate High Yield	-4.86%	-2.45%	7.11%	8.23%	7.34%
Municipal	1.66%	1.77%	5.32%	5.77%	5.04%
International Emerging Markets	-2.39%	0.30%	7.73%	8.58%	8.41%

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

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