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Fourth-Quarter and Full-Year 2009 Market Review

New Year Brings Changes to Kalorama Wealth Strategies

January 2010 - What a difference a year makes! As 2008 came to a close, the financial system was on the verge of collapse, the economy was in the midst of a downward spiral unlike any since the Great Depression, the largest-ever Ponzi scheme was exposed, and the total loss for the Standard and Poor's 500-Stock Index was a depressing 37.0%. In 2009, we were stimulated (and some of us perhaps marinated!) with massive government fiscal and monetary intervention, and the total return for the S&P 500 was 26.5%. Fortunately, the worst of the "Great Recession" appears to be over.

The carnage initiated in 2008 continued through the beginning of March 2009, with stocks unloading more than 50% since their high-water mark in October 2007. Stocks sank in the first quarter of 2009, exploded with double-digit upside moves in the second and third quarter, and lodged more modest increases in the final quarter. For the year, all indices achieved multiple-digit gains ranging from a respectable 20% for Domestic Large and Small Cap Value to a whopping 79% for Emerging Markets. Despite the out-sized advances, equities have yet to recover the losses from their 2007 peak, as market bellwethers are still off by more than 25%.

Bonds wrote a different story in 2009 by not only recovering 2008's losses, but also, in some cases, surging ahead. Several sectors posted double-digit returns: Corporate High Yield skyrocketed 58.2%, International Emerging Markets leapt 34.2%, Municipals climbed 12.9%, and Treasury TIPs expanded 11.4%.

Although the Federal Reserve left short-term rates unchanged at its two meetings during the quarter, concerns about the government terminating or curtailing liquidity programs and future inflation saw the yield on the 10-year Treasury Note trade up to 3.84%, higher by 54 and 162 basis points for the quarter and year, respectively (the yield as of January 15th was 3.67%).

Below are rates of return for selected market indices for the fourth quarter of 2009, full-year 2009, and the three, five, and 10-year compound annual returns as of December 31, 2009.

	<u>4Q:2009</u>	<u>2009</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic Large Cap					
Russell 1000 - Growth	7.94%	37.21%	-1.89%	1.63%	-3.99%
Russell 1000 - Value	4.22%	19.69%	-8.96%	-0.25%	2.47%
Russell 1000 - Blend	6.07%	28.43%	-5.36%	0.79%	-0.49%
Domestic Small Cap					
Russell 2000 - Growth	4.14%	34.47%	-4.00%	0.87%	-1.37%
Russell 2000 - Value	3.63%	20.58%	-8.22%	-0.01%	8.27%
Russell 2000 - Blend	3.87%	27.17%	-6.07%	0.51%	3.51%
Real Estate (FTSE EPRA/NAREIT Global)	4.02%	41.25%	-11.71%	2.93%	NA
International					
MSCI EAFE Developed Large Cap	2.22%	32.46%	-5.57%	4.02%	1.58%
MSCI EAFE Developed Small Cap	-1.00%	47.32%	-7.25%	3.88%	NA
MSCI Emerging Markets	8.58%	79.02%	5.42%	15.88%	10.11%



	<u>4Q:2009</u>	<u>2009</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Fixed-Income (Bond) Indices</u>					
Barclays Capital					
Global Aggregate	-0.85%	6.93%	7.05%	4.55%	6.49%
U.S. Aggregate	0.20%	5.93%	6.04%	4.97%	6.33%
U.S. Treasury TIPs	1.76%	11.41%	6.69%	4.63%	7.70%
U.S. Corporate High Yield	6.20%	58.21%	5.97%	6.46%	6.71%
Municipal	-0.96%	12.91%	4.41%	4.31%	5.75%
International Emerging Markets	2.39%	34.23%	6.38%	8.25%	10.58%

Source: www.russell.com, www.reit.com, www.msicbarra.com, www.lehman.com

New Year Brings Changes to Kalorama Wealth Strategies

I am pleased to announce the following recent changes at Kalorama Wealth Strategies:

- Kalorama Wealth Strategies, LLC – After obtaining a Certificate of Organization from the District of Columbia, Kalorama began the new year operating as a Limited Liability Company.
- Registered Investment Adviser – as of January 2010, Kalorama Wealth Strategies, LLC, became a Registered Investment Adviser (RIA) in Washington, D.C.
- Portfolio management accounting services - Kalorama is no longer using Medallion Advisory Services, LLC for these administrative services. They are being performed internally and by a third-party data-management company.
- New broker-dealer/custodian - Kalorama is now using Shareholders Service Group, Inc. (SSG) for transaction execution and account services. SSG provides services solely to independent RIAs and their clients. SSG uses the clearing and custody services of Pershing, LLC, a subsidiary of The Bank of New York Mellon, which is among the world's largest asset custodians.

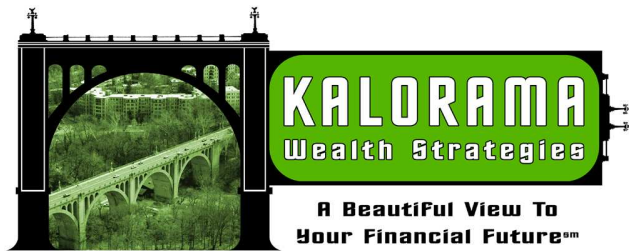


What will not change: my dedication to providing clients independent and objective advice, customized to meet their needs and goals.

One more minor change: looking to the future, although I will always be the founder of Kalorama, to align my title to my role, I will be using Chief Executive Officer and Chief Investment Officer. In addition, to avoid confusion among current and future clients, I will be dropping the CPA (I still do not prepare tax returns) and Chartered Realty Investor (CRI) certifications, and will retain the more relevant, and well known, Chartered Financial Analyst (CFA) and Certified Financial Planner (CFP®) designations.



Thank you for your continued business, trust, and referrals. Please feel free to forward this email 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

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