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First-Quarter 2011 Market Review

Retirement Confidence Hits New Low; Planning Crucial

April 2011 - Stocks continued higher in 2011 until turmoil in the Middle East and North Africa sent them into a mid-February retreat. Despite the widespread uprisings, as well as the possible damper on the global economy from the Japan earthquake, tsunami, and potential nuclear fallout, stocks managed to improve by mid-single-digits for the quarter. Better-than-expected employment growth and consumer spending rallied the Standard & Poor's 500-stock index to its best first-quarter advance in 13 years, climbing 5.4%.

In line with global events, domestic equities took top billing, with Small Caps swelling 6.6% to 9.2% and Large Caps tacking on 6.0% to 6.5%. International stocks edged ahead by 2.1% to 3.5%.

The Federal Reserve maintained its no-change interest rate policy in the New Year, stating its expectation to continue with low interest rates. Nevertheless, Treasury-bond yields sustained their upward trajectory, but retraced some of the gain after the Japan earthquake. At the end of the first quarter, the yield on the 10-year Treasury note was 3.46%, up 17 basis points for the year (the yield as of April 18th was 3.38%).

With the economy continuing on the mend, U.S. Corporate High Yield bonds picked up 3.9%, followed by U.S. Treasury TIPs, adding 2.1%.

Below are rates of return for selected market indices for the first quarter of 2011, full-year 2010, and the three, five, and 10-year compound annual returns as of December 31, 2010.

	1Q:2011	2010	3-Year	5-Year	10-Year
Equity (Stock) Indices					
Domestic Large Cap					
Russell 1000 - Growth	6.03%	16.71%	-0.47%	3.75%	0.02%
Russell 1000 - Value	6.46%	15.51%	-4.42%	1.28%	3.26%
Russell 1000 - Blend	6.24%	16.10%	-2.37%	2.59%	1.83%
Domestic Small Cap					
Russell 2000 - Growth	9.24%	29.09%	2.18%	5.30%	3.78%
Russell 2000 - Value	6.60%	24.50%	2.19%	3.52%	8.42%
Russell 2000 - Blend	7.94%	26.85%	2.22%	4.47%	6.33%
Real Estate (FTSE EPRA/NAREIT Global)	2.04%	20.03%	-4.67%	3.49%	NA
International					
MSCI EAFE Developed Large Cap	3.45%	8.21%	-6.55%	2.94%	3.94%
MSCI EAFE Developed Small Cap	3.02%	22.40%	-1.37%	3.17%	9.87%
MSCI Emerging Markets	2.10%	19.20%	-0.03%	13.11%	16.23%

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	1Q:2011	2010	3-Year	5-Year	10-Year
Fixed-Income (Bond) Indices					
Barclays Capital					
Global Aggregate	1.24%	5.83%	5.85%	6.72%	6.76%
U.S. Aggregate	0.42%	6.54%	5.90%	5.80%	5.84%
U.S. Treasury TIPs	2.08%	6.31%	4.97%	5.33%	6.90%
U.S. Corporate High Yield	3.88%	15.12%	10.38%	8.91%	8.88%
Municipal	0.51%	2.38%	4.08%	4.09%	4.83%
International Emerging Markets	1.57%	12.84%	8.89%	8.36%	10.49%

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

Retirement Confidence Hits New Low; Planning Crucial

Facing the realities of economic conditions, American workers' confidence in being able to afford a comfortable retirement slid to its lowest level since the Retirement Confidence Survey® began 20 years ago. More than a quarter (27%) of workers said they are "not at all confident" about retirement, up 5% from a year ago. Results of the 2011 RCS released in March reveal that the economy, unemployment, government fiscal crises, investment returns, and health care costs are creating a "New Normal" in which retirees are delaying retirement.

Meanwhile, confidence and saving habits continue to be better among those who have prepared a retirement needs calculation. Further, confidence, likelihood of having saved, and total savings and investments all increase with higher household income and education, and good health status. Other important factors include participation in employer-sponsored retirement plans and debt level.

Highlights of the survey, conducted by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates through random telephone interviews with 1,258 individuals, include the following about workers and retirees:

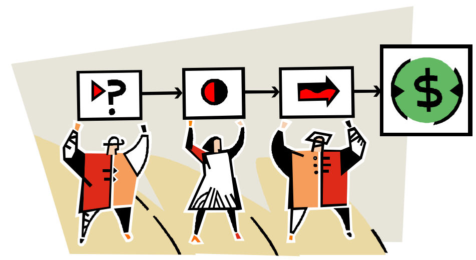
- Consistent with the record lack of confidence, the percentage of workers "very confident" about having enough money for a "comfortable retirement" sank to a low of 13%, down from 16% in 2010 and equal to 2009. This measure has tumbled from 27% in 2007 with the financial markets turmoil in 2008 and ensuing economic malaise.

- Nearly a quarter (24%) of retirees reported that they are "very confident" in having a "financially secure" retirement, statistically equal to the 19% tallied in 2010. The proportion of "somewhat confident" retirees dropped to 36% from 41%, while retirees "not too confident" and "not at all confident" was essentially unchanged at 38% versus 39%.

- Planning by Workers: With only 42% of workers saying that they and/or their spouse have tried to calculate how much of a nest egg they will need for a comfortable retirement, a majority remains unaware of how much they need to save for retirement. Although this measure has remained relatively stable since 2003, ranging from 43% to 47%, it retreated from 46% in 2010.

- Planning by Retirees: Nearly seven in 10 retirees (69%) indicate they did some type of financial planning for retirement, with 43% of these retirees saying they began to plan 20 years or more before they retired. Another 23% report beginning to plan between 10 and 19 years before retirement. However, 13% started planning five to nine years before retirement and 16% started less than five years before retirement.

- Instead of doing a systematic retirement needs calculation, 42% of workers "guessed" how much they will need to accumulate. Only 11% of those who report having done a calculation guess how much they will need to accumulate, while 65% who have not done a calculation guess. An equal number (21%) each report asking a financial advisor and doing their own estimate, while 9% read or hear how much is needed, 7% use an online calculator, and 5% base their estimate on their current expenses or lifestyle or fill out a worksheet or form.



- Confidence about achieving goals is enhanced for workers who have prepared a retirement needs calculation: 26% who have done a calculation, compared with 11% who have not, say they are "very confident" that they will be able to accumulate the amount they need. Conversely, 27% who have not done a calculation, compared with 15% who have, report they are "not at all confident" in their ability to save the needed amount.

- A retirement savings calculation is a very effective tool for changing retirement planning behavior, with 44% of workers who calculated a goal amount reported having made changes to their retirement planning as a result. More than half (59%) started saving or investing more.

- Savings and investments are minimal for many: more than one-half (56%) of all workers reported total savings and investments (not including value of primary residence or defined benefit pension plans) of less than $25,000. Further, 29% of workers said they have less than $1,000 in savings, up from 27% last year and 20% in 2009. Only 24% indicated savings and investments of more than $100,000, of which 10% had accumulated $250,000 or more.

- Economic factors continue to influence when workers will retire, with 20% expecting to postpone their retirement age. The long-term trend shows that the age at which workers plan to retire has stepped up over time, with the percentage of workers who expect to retire after age 65 climbing from 11% in 1991 and 1996, to 20% in 2001, 26% in 2006, 33% in 2010, and 36% in 2011.

Viewing the findings as a positive for future retirees, a possible explanation for the continuing decrease in overall retirement confidence among workers is that they are becoming more realistic about their prospects for a financially comfortable retirement. Jack VanDerhei, EBRI research director and co-author of the report said: "People are increasingly recognizing the level of savings realistically needed for a comfortable retirement. We know from previous surveys that far too many people [were overconfident]. People's expectations need to come closer to reality so they will save more and delay retirement until it is financially feasible."

Survey results support the "New Normal" reality: the proportion of workers "not at all confident" about having enough money for a comfortable retirement is primarily due to the expanding loss of confidence among those who have less than $100,000 in savings. This percentage increased significantly among those with savings less than $25,000 (surging to 43% in 2011 from 19% in 2007) and between $25,000 and $99,999 (jumping to 22% in 2011 from 7% in 2007). At the same time, the percentage "not at all confident" among those with savings of $100,000 or more remains low (5%, statistically equivalent to the 2% measured in 2007).

If you would like to enhance your retirement confidence, Kalorama Wealth Strategies can help you prepare a plan to determine the capital you will need for a comfortable retirement. For more information, 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.

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Fee-Only Investment Advisory And Financial Planning

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