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First-Quarter 2016 Market Review

Profits vs. Probabilities

April 2016 - It was the worst start of a year in the history of U.S. stock markets. At the same time, the biggest lottery jackpot in world history, Powerball, offered a lucky winner the chance to win a prize of nearly \$1.6 billion. The extremes are where the similarities end. Stock prices or investment performance ultimately rely on profits, while lottery success is based on probabilities (in this case, one in 292 million!). A wager on profits should hopefully provide a nice payoff in the long run.



It was a see-saw quarter for stocks: sinking in January, essentially flat for February, and rebounding in March. Plunging oil prices, a slowing China economy, and weaker-than-expected U.S. economic data sent investors to the sidelines at the start of the year. With stocks sliding into correction territory (defined as a loss of 10% or more from a recent high), it was the largest quarterly turnaround since 1933. By quarter end stocks managed a small gain, with the Standard & Poor's 500-Stock index (total return) adding 1.4% (equal to the 2015 loss) and the Dow Jones Industrial Average rising 1.5%.

Top performing sectors for the quarter included the Dow Jones Global Equity Commodity Index, regaining 8.0% of the 27.0% surrendered in 2015, and Emerging Markets, recouping 5.8% of last year's 14.6% drop.

Bonds were up across the board. With the value of the dollar reversing course from recent strength, Global Aggregate Bonds jumped 5.9%, erasing the 3.2% decline for all of 2015. Other bond sectors also put in solid first-quarter moves, with U.S. Treasury TIPs and International Emerging Markets both climbing 4.5% and U.S. Corporate High Yield swelling 3.4%.

The Federal Reserve held steady on its interest rate policy during the quarter, citing concerns about global economic weakness. Further, the central bank revised its forecast for the number of 2016 rate increases to two from four.

At quarter end, the yield on the 10-year Treasury note was 1.77%, down 50 basis points for the first three months (the yield as of April 7th was 1.69%).

Below are rates of return for selected market indices for the first quarter of 2016, full-year



2015, and the three, five, and 10-year compound annual returns as of December 31, 2015.

	<u>1Q:2016</u>	<u>2015</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic					
Russell 1000 - Large Cap	1.17%	0.92%	15.01%	12.44%	7.40%
Russell Midcap	2.24%	-2.44%	14.18%	11.44%	8.00%
Russell 2000 - Small Cap	-1.52%	-4.41%	11.65%	9.19%	6.80%
Real Estate (FTSE EPRA/NAREIT Global)	5.08%	-0.41%	5.32%	6.86%	5.16%
Commodity (Dow Jones Global Equity 100)	8.00%	-26.95%	-14.31%	-11.66%	NA
International					
MSCI EAFE Developed Large Cap	-2.88%	-0.39%	5.46%	4.07%	3.50%
MSCI EAFE Developed Small Cap	-0.52%	9.94%	10.79%	6.67%	4.90%
MSCI Emerging Markets	5.75%	-14.60%	-6.42%	-4.47%	3.95%
Global - MSCI All Country IMI	0.44%	-1.68%	8.41%	6.66%	5.52%
<u>Fixed-Income (Bond) Indices</u>					
Barclays Capital					
Global Aggregate	5.90%	-3.15%	-1.01%	1.34%	4.00%
U.S. Aggregate	3.03%	0.55%	1.45%	3.25%	4.52%
U.S. Treasury TIPs	4.46%	-1.44%	0.03%	3.99%	4.66%
U.S. Corporate High Yield	3.35%	-4.47%	0.45%	4.27%	6.56%
Municipal	1.67%	3.30%	4.16%	5.96%	5.02%
International Emerging Markets	4.52%	1.29%	2.40%	6.26%	7.30%

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

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