



## Second-Quarter 2008 Market Review ~ Independence Day Revisited

**July 2008** - After staging a bit of a rebound in April and May, stocks were hammered in June. The Standard & Poor's 500-Stock Index suffered its worst June performance since 1930, sinking by 8.4%, and retreated by 11.9% at mid year. Record-high oil prices, weak employment, and continued turbulence in credit markets weighed heavy. Nevertheless, results for the quarter were mixed for domestic indexes, while international barometers were all down. Year-to-date, the declines for all equity indices are in the high-single or double-digit range.

To improve credit market conditions, during the quarter the Federal Reserve increased its term auction facility by \$50 billion, expanded its term securities lending to include "AAA"-rated asset-backed securities as collateral, and lifted the amount of its swap lines

with the European Central and Swiss National Banks. In addition, at its two regularly scheduled Open Market Committee meetings, the Fed lowered its discount rate by 25 basis points to 2.0% at the first and held steady at the second.

Inflation concerns led bond prices to reverse course from first-quarter gains. The 10-year Treasury Note rose above 4.00% during the second quarter and at quarter-end the yield was 56 basis points higher to close at 3.98% (the yield as of July 15th was 3.83%).

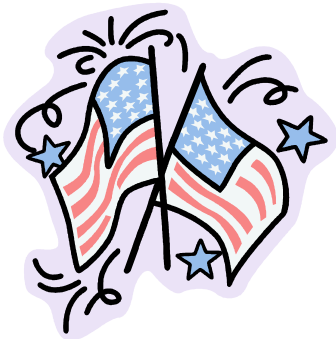
Below are rates of return for selected market indices for the second quarter of 2008, year-to-date 2008, and the three, five, and 10-year compound annual returns as of December 31, 2007.

	<u>2Q:2008</u>	<u>YTD-2008</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<b><u>Equity (Stock) Indices</u></b>					
Domestic Large Cap					
Russell 1000 - Growth	1.25%	-9.06%	8.68%	12.10%	3.83%
Russell 1000 - Value	-5.32%	-13.57%	9.32%	14.63%	7.68%
Russell 1000 - Blend	-1.89%	-11.20%	9.08%	13.43%	6.20%
Domestic Small Cap					
Russell 2000 - Growth	4.47%	-8.93%	8.11%	16.50%	4.32%
Russell 2000 - Value	-3.55%	-9.84%	5.27%	15.80%	9.06%
Russell 2000 - Blend	0.58%	-9.37%	6.80%	16.25%	7.08%
Real Estate (FTSE EPRA/NAREIT Global)	-8.56%	-13.71%	15.17%	24.28%	12.75%
International					
MSCI EAFE Developed Large Cap	-1.93%	-10.58%	17.32%	22.08%	9.04%
MSCI EAFE Developed Small Cap	-4.30%	-10.19%	15.55%	26.84%	NA
MSCI Emerging Markets	-0.80%	-11.64%	35.60%	37.46%	14.53%
<b><u>Fixed-Income (Bond) Indices</u></b>					
Lehman Brothers					
Global Aggregate	-2.91%	3.53%	3.70%	6.51%	6.08%
U.S. Aggregate	-1.02%	1.13%	4.56%	4.42%	5.97%
U.S. Treasury TIPs	-0.29%	4.88%	4.85%	6.27%	7.46%
U.S. Corporate High Yield	1.76%	-1.31%	5.39%	10.90%	5.51%
Municipal	0.63%	0.02%	3.90%	4.30%	5.18%
International Emerging Markets	-0.42%	-0.21%	9.11%	13.03%	10.02%

Source: [www.russell.com](http://www.russell.com), [www.nareit.com](http://www.nareit.com), [www.msibarra.com](http://www.msibarra.com), [www.lehman.com](http://www.lehman.com)

## Independence Day Revisited

In last quarter's newsletter we covered Independence Day from the perspective of taxes -- the day on which Americans have earned enough money to pay all their federal, state, and local taxes for the year. This article will focus on Independence Day from the standpoint of retirement -- the day on which you have obtained enough assets and sources of income to no longer work. After all, with the dictionary defining "retirement" as the withdrawal "from office, business, or active life, usually because of age," doesn't Independence Day sound much better?



The turn of the calendar to 2008 marked the beginning of the so-called "silver tsunami," when the leading edge of the baby boom is eligible to begin collecting Social Security. Last year, New Jersey-grandmother Kathleen Casey-Kirschling, born January 1, 1946, was the first of nearly 80 million boomers born from 1946 to 1964 to apply for Social Security. Approximately 50% of eligible recipients are choosing early retirement benefits at age 62 and begin receiving 75% of the Social Security income they would get if they were to wait four years to collect. Hopefully they have a plan!

Results of the Retirement Confidence Survey<sup>®</sup> released in April 2008 reveal that American workers' confidence in being able to afford a comfortable retirement decreased in the past year. Highlights of the survey, conducted by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates through random telephone interviews with 1,322 individuals, include the following about workers and retirees:

- The percentage of workers "very confident" about having enough money for a "comfortable retirement" fell sharply, from 27% in 2007 to 18% in 2008, the biggest one-year drop since the survey was begun 18 years ago. The percentage of "somewhat confident" workers was unchanged at 43%. The share of workers who are "not too confident" and "not at all confident" they can save enough to retire comfortably jumped to 37% from 29%.
- Retiree confidence in having a "financially secure" retirement decreased from 41% to 29% in 2008. The portion of retirees who think they are likely to live long enough to use up their entire savings rose to 39% from 29%.
- Almost half of workers (47%) disclosed that they and/or their spouse have tried to calculate how much money they will need for a comfortable retirement, up considerably from the low point of 29% found in 1996.
- Preparing a retirement savings calculation is effective in changing worker behavior: 44% who calculated a goal changed their retirement planning, and of those, 59% started saving or investing more.
- Of those workers who have performed a retirement needs calculation, 27% expect they will need to accumulate at least \$1.0 million before retirement and 60% think they will require less than \$1.0 million, compared with 12% and 70%, respectively, for those who have not attempted the calculation. (Percentages do not add up to 100% as the balance of respondents did not know or remember.)
- However, overall savings are modest: nearly one-half (49%) of all workers reported total savings and investments (not including value of primary residence

or defined benefit pension plans) of less than \$25,000. Only 27% indicated savings and investments of more than \$100,000, of which 12% had amassed \$250,000 or more.

- As expected, older workers age-55 and up have saved more: 41% report savings of more than \$100,000, of which 23% have amassed \$250,000 or more. However, 36% reveal savings of less than \$25,000.

Commenting on the survey, EBRI president Dallas Salisbury said: "If there is a silver lining, it's that Americans finally may be waking up to the realities of being able to afford retirement." The survey revealed that more workers are saving for retirement: 72% report that they and/or their spouse are saving, compared with 66% in the prior year.



Just how critical is it to for you to get a handle on the state of your retirement capital needs? Here's what Christopher Cox, Chairman, U.S. Securities and Exchange Commission, told this year's graduates at Northeastern University's May 2<sup>nd</sup> commencement:

"Most Americans do a poor job of planning their finances for the future. And given the daunting demographics facing Social Security, you're going to need a plan. You'd better start now."

Due to the importance of planning for yet-to-come Independence Days, in future articles we will explore related topics such as how to develop retirement confidence, avoid mistakes, and make sure retirement is a happy adventure. And along the way we'll check in with the Retirement Confidence Survey<sup>®</sup> to get updates on how the rest of Americans will be spending their Independence Days!

If you are not confident about having enough money for a comfortable retirement, Kalorama Wealth Strategies can help you prepare a plan to determine the capital you will need for your Independence Days. For more information, please visit our web site at [www.kaloramawealth.com](http://www.kaloramawealth.com).

Thank you for your business, trust, and referrals. Please feel free to provide a copy of 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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