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Second-Quarter 2010 ~ Investing Rocks!

July 2010 - Stocks continued to gain ground in April, suffered their worst declines in decades in May, and continued to sink further in June. Concerns that European-country debt could spur another financial crisis, weak employment, and a sluggish economy weighed heavily on equities. After four consecutive quarterly advances, across-the-board losses for the second quarter were in the high-single and low-double digits, leaving all major indices in negative territory for the first half of 2010.

Investor weariness about financial markets and fears regarding the prospects of a double-dip recession sent investors to the relative safety of Treasury securities. Prices surged while yields plummeted to levels not seen in more than a year. In addition, the Federal Reserve maintained its interest rate policy, indicating that, due to subdued economic growth, it would keep rates at low levels for an "extended period." At quarter end, the yield on the 10-year Treasury Note was 2.93%, down 90 and 91 basis points for the quarter and year-to-date, respectively (the yield as of July 15th was 3.05%).

With investors seeking safe havens for their assets, government securities rallied. Leaders for the quarter were U.S. Treasury TIPs, swelling 3.8%, U.S. Aggregate, rising 3.5%, and Municipals, advancing 2.0%.

Below are rates of return for selected market indices for the second quarter of 2010, year-to-date 2010, and the three, five, and 10-year compound annual returns as of December 31, 2009.

	<u>2Q:2010</u>	<u>YTD- 2010</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic Large Cap					
Russell 1000 - Growth	-11.75%	-7.65%	-1.89%	1.63%	-3.99%
Russell 1000 - Value	-11.15%	-5.12%	-8.96%	-0.25%	2.47%
Russell 1000 - Blend	-11.44%	-6.40%	-5.36%	0.79%	-0.49%
Domestic Small Cap					
Russell 2000 - Growth	-9.22%	-2.31%	-4.00%	0.87%	-1.37%
Russell 2000 - Value	-10.60%	-1.64%	-8.22%	-0.01%	8.27%
Russell 2000 - Blend	-9.92%	-1.95%	-6.07%	0.51%	3.51%
Real Estate (FTSE EPRA/NAREIT Global)	-7.80%	-4.56%	-11.71%	2.93%	NA
International					
MSCI EAFE Developed Large Cap	-13.75%	-12.93%	-5.57%	4.02%	1.58%
MSCI EAFE Developed Small Cap	-11.19%	-6.91%	-7.25%	3.88%	NA
MSCI Emerging Markets	-8.29%	-6.04%	5.42%	15.88%	10.11%
<u>Fixed-Income (Bond) Indices</u>					
Barclays Capital					
Global Aggregate	-0.04%	-0.31%	7.05%	4.55%	6.49%
U.S. Aggregate	3.49%	5.33%	6.04%	4.97%	6.33%
U.S. Treasury TIPs	3.83%	4.41%	6.69%	4.63%	7.70%
U.S. Corporate High Yield	-0.11%	4.51%	5.97%	6.46%	6.71%
Municipal	2.03%	3.31%	4.41%	4.31%	5.75%
International Emerging Markets	0.97%	5.65%	6.38%	8.25%	10.58%

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



Investing Rocks! Advice from Ancient Texts of Classic Rock

In the spirit of summer-time fun, and with thanks to the CFA Institute's director of investor education, Thomas Collimore, below is a list of inspirational and practical financial and investment advice from classic rock n' roll.

10. Hotel California – The Eagles (1977)

“We are programmed to receive
You can check out any time you like
But you can never leave.”

The liquidity of an investment is an important consideration, especially in downward, volatile markets such as 2008 and the beginning of 2009. A fund manager (typically in the hedge fund world) may have the power to decline a redemption request.

9. Taxman – The Beatles (1966)

“(If you drive a car, car)
I'll tax the street
(If you try to sit, sit)
I'll tax your seat
(If you get too cold, cold)
I'll tax the heat
(If you take a walk, walk)
I'll tax your feet”

Understand the tax implications of transactions and account types before making a purchase, or contributing to or withdrawing from an account. It's the after-tax rate of return that matters.

8. Lady Madonna – The Beatles (1968)

“Lady Madonna, children at your feet,
Wonder how you manage to make ends meet.
Who finds the money when you pay the rent?
Did you think that money was heaven sent?”

Most people don't plan to fail, they fail to plan. Without a plan, you are a rudderless ship! A realistic financial and investment plan should consider your resources and obligations consistent with your current or future desired lifestyle. The plan should be conservative to provide for investment underperformance.

7. Stairway to Heaven – Led Zeppelin (1970)

“There's a lady who's sure
All that glitters is gold
And she's buying a stairway to heaven.”

Not all that glitters may be gold! Make sure you understand the risks of an investment by reading the prospectus or seeking help from an advisor.





6. Takin' Care of Business – Bachman Turner Overdrive (1973)

“If it were easy as fishin’,
You could be a musician,
If you could make sounds loud or mellow
Get a second-hand guitar
Chances are you’ll go far
If you get in with the right bunch of fellows”

Making money can sometimes be the easy part -- investing and managing it successfully is entirely another challenge. With all the investment options available today, many individuals use the services of a financial advisor. See below for more on selecting a financial advisor.



5. Sympathy for the Devil – The Rolling Stones (1968)

“But what’s puzzling you
Is the nature of my game, um mean it, get down
(woo woo, woo woo)”

Don't make a deal with the devil. You can check the background of an advisor on the Securities and Exchange Commission (SEC) web site (www.sec.gov/investor/brokers.htm).

4. When I’m Sixty-Four – The Beatles (1967)

“Will you still need me
Will you still feed me
When I’m 64.”

Long-term projections include many assumptions such as interest rates, rates of return, inflation, and taxes. The degree of uncertainty normally increases with the length of the future period covered. Your plan should be reviewed periodically, particularly if there are changes in family circumstances.

3. My Generation – The Who (1965)

“I hope I die before I get old (talkin’ ‘bout my generation)”

With life expectancy continuing to rise, longevity risk (i.e., outliving your money) is a significant matter. Moreover, the older you are, the longer you are likely to live. A girl born in the U.S. in 2005 was expected to live an average of 80 years. At age 80, she can expect to live, on average, an additional nine years.





2. Dream On – Aerosmith (1973)

“Everybody’s got their dues in life to pay”

Portfolio returns are affected by various costs, including transaction fees and operating expenses. Studies have shown that average mutual fund performance is inversely related to fund operating expenses. That is, the lower the operating expenses, the higher the average annual total return. You or your advisor should select investments with low transaction costs and operating expenses.

1. Teach Your Children – Crosby, Stills, Nash and Young (1970)

“You who are on the road
Must have a code that you can live by”

If you plan to hire a financial advisor, retain someone who has a fiduciary obligation to put your needs first. Credentials can be misleading. The Financial Industry Regulatory Authority (FINRA) lists more than 100 “professional” designations on their web site (www.finra.org → Investors → Tools & Calculators → Understanding Investment Professional Designations) and summarizes the experience, education, and examination requirements required, if any, for each. And consider the code of ethics with which the advisor is required to adhere.

I can't resist adding a couple of more favorite, and poignant, financial-related lyrics from Elton John:

Levon (1971)

"Levon, Levon likes his money
He makes a lot they say
Spends his days counting
In the garage by the motorway"

It's not what you make, it's what you save that counts. Create a habit of saving by paying yourself first. Set aside at least 10 to 15 percent of gross pay for future goals.

And finally:

Someone Saved My Life Tonight (1975)

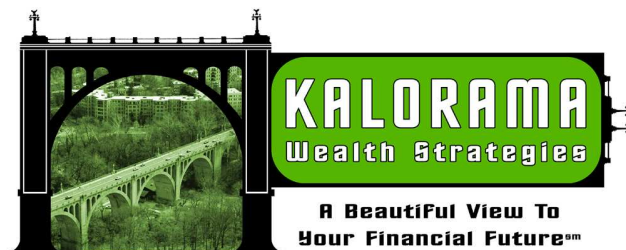
"Clinging to your stocks and bonds..."

You can't take it with you, so make sure to enjoy it while you can, but also have a plan for distribution upon your demise.



If you like to discuss your financial and investment matters with an experienced, independent advisor who can provide you with the objective guidance you need, please consider Kalorama Wealth Strategies. Our investment advisory and financial planning services are structured on a fee-only basis so that our interests are aligned with yours. We are compensated solely by our clients and do not accept commissions or compensation of any kind from any other source. Our focus is on strategies, advice, and client service, not products and sales. You can rest assured that any strategy we recommend is in your best interest. For more information, please see our web site at www.kaloramawealth.com.

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Fee-Only Investment Advisory And Financial Planning

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