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Second-Quarter 2014 Market Review ~ Onward and Upward

July 2014 - Stocks shrugged off overseas turmoil in the Ukraine and Middle East, as well as lower forecasts for global economic growth, to move onward and upward in the second quarter. With an accommodative monetary policy, rising asset prices, and improving economy, major market barometers continued to set records and close in on new milestones. The Dow Jones Industrial Average finished the mid-point of 2014 at 16,826.60, adding 1.5%, while the Standard & Poor's 500-Stock index rose 6.1% to 1,960.23. The S&P 500 has been higher for six consecutive quarters, the longest quarterly streak since 1998.

Real estate stocks took the lead in the second quarter, jumping 7.2%. Domestic Large Caps outperformed Small Caps, up 5.1% versus 2.1%, while International Emerging Markets bested International Developed Markets, climbing 6.7% versus 4.3% for Developed Large Caps and 2.2% for Developed Small Caps.

Central banks around the globe continued to maintain a stimulative monetary posture. In June, the European Central Bank unveiled new measures to revive its economy by lowering its main refinancing rate from 0.25 percent to 0.15 percent and cutting the rate it pays on bank deposits from zero to *negative* 0.1%, thus now charging banks to hold money overnight. Further, it announced a long-term lending program of as much as 400 billion Euros (about \$545 billion) to get credit to households and businesses. Next up may be large-scale bond purchases (i.e., Quantitative Easing) if inflation stays far below a 2% target.

On the home front, despite lowering its economic forecast for 2014, the Federal Reserve continued to phase out its quantitative easing. As a result of a harsh winter, Gross Domestic Product (GDP) fell 2.9% in the first quarter, leading to a cut in growth expectations from 3.0% to a range of 2.1% to 2.3%.

The central bankers voted unanimously in June to cut the Fed's long-term bond purchases by another \$10 billion, bringing the amount of monthly purchases to \$35 billion. Nevertheless, no indication was provided of when the Fed might end the reinvestments in long-term bonds that keep its balance sheet from shrinking as securities mature. The reinvestments are averaging about \$16 billion a month.

The Fed left its interest rate policy unchanged during the second quarter and reiterated that it would likely keep interest rates at zero for a "considerable time" after the wrap up of new bond purchases later this year.

Bonds continued to rally in the second quarter, in most cases eliminating losses posted in 2013. International Emerging Markets surged 4.5%, while U.S. Treasury TIPs improved 3.8%. Through June 30, Emerging Markets swelled 7.4% and TIPs rebounded 5.8%, compared with declines in 2013 of 4.1% and 8.6%, respectively.

At quarter-end, the yield on the 10-year Treasury note was 2.53%, down 19 and 50 basis points for the quarter and year-to-date, respectively (the yield as of July 15th was 2.55%).



Below are rates of return for selected market indices for the second quarter of 2014, year-to-date 2014, and the three, five, and 10-year compound annual returns as of December 31, 2013.

	<u>2Q:2014</u>	<u>YTD-2014</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic					
Russell 1000 - Large Cap	5.12%	7.27%	16.30%	18.59%	7.78%
Russell Midcap	4.97%	8.67%	15.88%	22.36%	10.22%
Russell 2000 - Small Cap	2.05%	3.19%	15.67%	20.08%	9.07%
Real Estate (FTSE EPRA/NAREIT Global)	7.15%	11.42%	6.84%	15.64%	NA
Commodity (Dow Jones)	0.23%	4.70%	-4.42%	5.25%	6.03%
International					
MSCI EAFE Developed Large Cap	4.34%	5.14%	8.66%	12.96%	7.39%
MSCI EAFE Developed Small Cap	2.24%	5.76%	9.62%	18.89%	9.85%
MSCI Emerging Markets	6.71%	6.32%	-1.74%	15.15%	11.52%
Global - MSCI All Country IMI	5.02%	6.54%	10.40%	16.22%	8.13%
<u>Fixed-Income (Bond) Indices</u>					
Barclays Capital					
Global Aggregate	2.47%	4.93%	3.14%	4.42%	4.72%
U.S. Aggregate	2.05%	3.93%	3.92%	4.84%	4.75%
U.S. Treasury TIPs	3.81%	5.83%	5.98%	7.11%	5.58%
U.S. Corporate High Yield	2.41%	5.46%	7.99%	18.06%	8.22%
Municipal	2.59%	6.00%	5.85%	6.51%	4.59%
International Emerging Markets	4.49%	7.44%	8.48%	14.10%	9.13%

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

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