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Third-Quarter 2010 ~ A Fighting Chance & Happy Anniversary!

October 2010 - Stocks put in a seesaw third quarter: jumping in July, falling in August, and rallying in September to get back in the black for the year. Defying September's track record as the worst month for stocks, it was the best September since 1939. For the quarter, nearly all broad-market measures lodged double-digit returns. Global Real Estate led the pack, surging 19.1%, while International indices roared ahead by 16.5% to 18.2%.

The much-feared "double-dip" recession remained a no-show, while a panel of economists with The National Bureau of Economic Research "unofficially" declared that the recession ended in June 2009.

Yields on Treasury securities sank as the Federal Reserve maintained its interest rate policy and signaled that they were prepared to provide additional liquidity if needed. At quarter end, the yield on the 10-year Treasury Note was 2.51%, down 42 and 133 basis points for the quarter and year-to-date, respectively (the yield as of October 18th was 2.51%).

The most risky sectors of the bond market had the highest gains for the quarter, with International Emerging Markets swelling 8.1% and U.S. Corporate High Yield advancing 6.7%.

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

| | <u>3Q: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 | 13.00% | 4.36% | -1.89% | 1.63% | -3.99% |
| Russell 1000 - Value | 10.13% | 4.49% | -8.96% | -0.25% | 2.47% |
| Russell 1000 - Blend | 11.55% | 4.41% | -5.36% | 0.79% | -0.49% |
| Domestic Small Cap | | | | | |
| Russell 2000 - Growth | 12.83% | 10.23% | -4.00% | 0.87% | -1.37% |
| Russell 2000 - Value | 9.72% | 7.92% | -8.22% | -0.01% | 8.27% |
| Russell 2000 - Blend | 11.29% | 9.12% | -6.07% | 0.51% | 3.51% |
| Real Estate (FTSE EPRA/NAREIT Global) | 19.11% | 13.68% | -11.71% | 2.93% | NA |
| International | | | | | |
| MSCI EAFE Developed Large Cap | 16.53% | 1.46% | -5.57% | 4.02% | 1.58% |
| MSCI EAFE Developed Small Cap | 17.56% | 9.44% | -7.25% | 3.88% | NA |
| MSCI Emerging Markets | 18.16% | 11.02% | 5.42% | 15.88% | 10.11% |
| <u>Fixed-Income (Bond) Indices</u> | | | | | |
| Barclays Capital | | | | | |
| Global Aggregate | 7.29% | 6.96% | 7.05% | 4.55% | 6.49% |
| U.S. Aggregate | 2.48% | 7.94% | 6.04% | 4.97% | 6.33% |
| U.S. Treasury TIPs | 2.48% | 7.00% | 6.69% | 4.63% | 7.70% |
| U.S. Corporate High Yield | 6.72% | 11.53% | 5.97% | 6.46% | 6.71% |
| Municipal | 3.41% | 6.83% | 4.41% | 4.31% | 5.75% |
| International Emerging Markets | 8.13% | 14.24% | 6.38% | 8.25% | 10.58% |

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



A Fighting Chance to Strike a Good Deal!

Buying a new car can be a dreadful experience fraught with financial perils for the uninformed. The thought of driving onto a new car lot can send shivers down the spine of the most confident consumer. From negotiating the price to financing the deal, there are a multitude of opportunities for financial misstep.

The typical American purchases a new car every five to seven years, so a well-trained salesperson will have you out-gunned when it comes to navigating the process. With a car being the second most expensive purchase most people make, there has to be a better way!

After more than 14 years, two turns of the White House, and an equal number of economic recessions, I acquired a new car! I say acquired because I leased instead of buying. However, whether you are buying or leasing, the process should begin the same way: by obtaining the lowest possible price.



During the research for my new wheels, I discovered a wonderful service called Fighting Chance (www.fightingchance.com). For \$39.95, they arm you with all the tools needed to give you a Fighting Chance to Strike a Good Deal! This includes:

- complete pricing data (retail and dealer invoice) for the vehicles you are considering;
- a big-picture analysis of how the manufacturer(s) and the specific model(s) you're interested in have been doing in the market, including supply/demand fundamentals and final pricing versus invoice;
- a listing of current national cash incentive programs covering consumer rebates and factory-to-dealer incentives;
- and numerous articles to guide you through the car buying/leasing process.

The articles include information on how to sidestep test-drive anxiety by knowing what to say at the dealership, the truth about dealer cash incentives, what time of the month to purchase/lease to get the best price, how to avoid getting ripped off when leasing, dealing with a trade-in, buying an extended warranty, product quality and safety considerations.

The focal point of the service is a step-by-step process designed to escape haggling over the price of a new car while never setting foot in a dealership until the deal is finalized. The premise for the "Email/Fax Attack" strategy is that a new car is nothing more than an expensive commodity similar to gold, silver, etc. The same pricing structure for a vehicle exists at each dealership. The best price is obtained on a commodity by soliciting competitive price proposals and making the suppliers compete for your business. Only a fool would walk into a car dealership to negotiate a price, and only a bigger fool would make an offer! When you make an offer, that's as good as the deal can get since you put a floor under the selling price.





By conducting a competitive bidding process, you will make the dealers compete on price for your business. Several car dealers are contacted and each is submitted a request for proposal (RFP) via email or fax on the model you are interested in buying or leasing. Next, the lowest bid is reviewed with each dealer to see if they will beat it. Fighting Chance recommends a maximum of two rounds of bidding to avoid demeaning the process. This should uncover the dealer who is ready to lower the price to meet a sales goal and receive a cash bonus from the manufacturer.

A car dealer may actually be willing to take a loss on a car if a huge bonus is available. Wouldn't you sell one more "widget" at a \$1,500 loss if it meant getting a \$50,000 bonus for meeting a sales target? A dealer who is just a few sales away from a big bonus check is willing to lose money on certain transactions. It's impossible to identify the dealer up front, so casting a wide net with several dealers should result in an offer from a dealer in that position.

A key point is that the dealer invoice, which the dealer is more than willing to show you, is meaningless. Dealers receive multiple "below-the-radar" incentives from the manufacturer so that retail or invoice pricing has little relevance to the true dealer cost. The "unknowable" incentives will typically be reflected in a dealers' price proposal in a competitive bidding situation.

Also, do not fall for the trap of telling a salesperson how much you can afford per month. The purchase price, which will lead to a monthly payment, is more important. Use the line I always use when anyone asks me how much I want to pay for something: "As little as possible!"

In a future article, we will review the pros and cons of buying versus leasing.

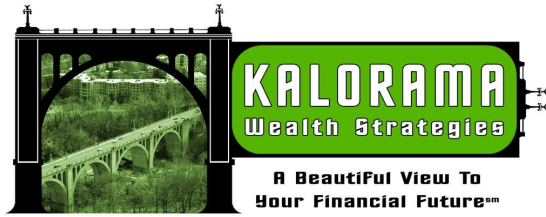
In case you are wondering, the car I am leasing is a Kia Forte Koup. Did I get a good deal? I think so. The lease is based on a price that is \$1,462 below dealer invoice!



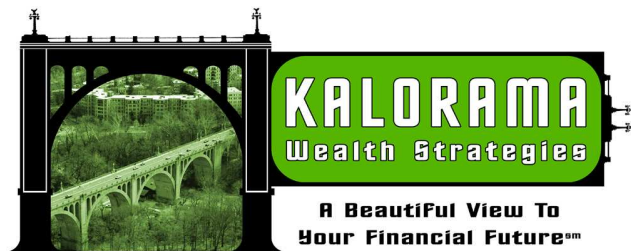
Happy Anniversary!

September 30th marked the Fifth Anniversary of Kalorama Wealth Strategies. Thank you for your continued business and referrals.

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Fee-Only Investment Advisory And Financial Planning

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