

Kalorama Wealth Strategies, LLC

2136 12th Place, N.W., Suite 100
Washington, D.C. 20009-7507

Phone: 202.550.7262
Fax: 480.247.9620

www.kaloramawealth.com

Third-Quarter 2012 Market Review

Social Security: Claim Your Online Benefit Statement

October 2012 - Are your wages being recorded correctly for your future Social Security benefits? Read below about how you can now obtain your Social Security statement online.

An absence of market volatility in the third quarter masked a stealth rally among broad stock-market indexes, as barometers advanced by mid-single digits, reversing losses posted in the second quarter. For the first nine months of 2012, most asset classes and major bellwethers gained double digits, with the Dow Jones Industrial Average rising 10.0%, the Standard & Poor's 500-Stock Index climbing 14.6%, and the NASDAQ Composite Index jumping 19.6%. The only exception was the Dow Jones - UBS Commodity Index, up 5.6% after rebounding 9.7% in the third quarter.

As the sovereign debt crisis in Europe continued to simmer, investors turned to U.S. Treasury and other bonds, with the July heat bringing U.S. Treasuries to record-low yields. The coupon on five, ten and thirty-year U.S. government bonds sank to 0.54%, 1.39%, and 2.45%, respectively.

All major bond sectors finished higher for the third quarter and first nine months of 2012. Outperforming year-to-date are International Emerging Markets and U.S. Corporate High Yield, swelling 14.2% and 12.1%, respectively, after rallying 6.8% and 4.5%, respectively, in the third quarter.

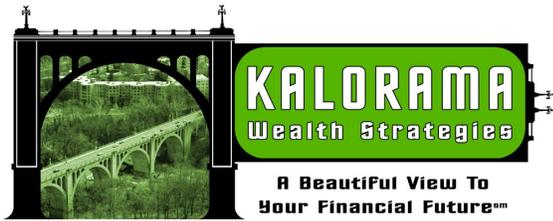
With continued weakness in the economy and no expectation of a reversal of fiscal gridlock on Capitol Hill, at its mid-September meeting, the Federal Reserve made no change to its short-term interest rate policy and initiated a third round of quantitative easing. With the goal of lowering long-term interest rates to stimulate the economy, the Fed will purchase \$45 billion of U.S. Treasury bonds per month through the end of 2012 and \$40 billion per month of agency mortgage-backed securities (MBS) with no set end date. The purchase of MBS is expected to continue "if the outlook for the labor market does not improve substantially."

The Fed also said that it expects to keep short-term interest rates near zero through mid-2015. This was an extension from the previous outlook through the end of 2014.

The central bank also stated that it "expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens." This shows the Fed's intention to assure investors and businesses that a recovery would not be stifled by an increase in interest rates even when economic growth starts to strengthen.

At the close of the quarter, the yield on the 10-year Treasury Note was 1.63%, shedding one and 25 basis points for quarter and first nine months of 2012, respectively (the yield as of October 18th was 1.83%).

On the next page are rates of return for selected market indices for the third quarter of 2012, year-to-date 2012, and the three, five, and 10-year compound annual returns as of December 31, 2011.



| | <u>3Q:2012</u> | <u>YTD-2012</u> | <u>3-Year</u> | <u>5-Year</u> | <u>10-Year</u> |
|---|----------------|-----------------|---------------|---------------|----------------|
| <u>Equity (Stock) Indices</u> | | | | | |
| Domestic Large Cap | | | | | |
| Russell 1000 - Growth | 6.11% | 16.80% | 18.02% | 2.50% | 2.60% |
| Russell 1000 - Value | 6.51% | 15.75% | 11.55% | -2.64% | 3.89% |
| Russell 1000 - Blend | 6.31% | 16.28% | 14.81% | -0.02% | 3.34% |
| Domestic Small Cap | | | | | |
| Russell 2000 - Growth | 4.84% | 14.08% | 19.00% | 2.09% | 4.48% |
| Russell 2000 - Value | 5.67% | 14.37% | 12.36% | -1.87% | 6.40% |
| Russell 2000 - Blend | 5.25% | 14.23% | 15.63% | 0.15% | 5.62% |
| Real Estate (FTSE EPRA/NAREIT Global) | 6.06% | 22.14% | 15.91% | -5.37% | NA |
| Dow Jones - UBS Commodity | 9.66% | 5.56% | 6.26% | -3.32% | 4.69% |
| International | | | | | |
| MSCI EAFE Developed Large Cap | 6.98% | 10.59% | 8.16% | -4.26% | 5.12% |
| MSCI EAFE Developed Small Cap | 7.94% | 13.55% | 15.00% | -3.80% | 9.42% |
| MSCI Emerging Markets | 7.89% | 12.33% | 20.42% | 2.71% | 14.20% |
| Global - MSCI All Country | 6.97% | 13.39% | 12.60% | -1.41% | 4.76% |
| <u>Fixed-Income (Bond) Indices</u> | | | | | |
| Barclays Capital | | | | | |
| Global Aggregate | 3.27% | 4.82% | 6.13% | 6.52% | 7.18% |
| U.S. Aggregate | 1.58% | 3.99% | 6.77% | 6.50% | 5.78% |
| U.S. Treasury TIPs | 2.12% | 6.25% | 10.38% | 7.95% | 7.57% |
| U.S. Corporate High Yield | 4.53% | 12.13% | 24.12% | 7.54% | 8.85% |
| Municipal | 2.32% | 6.06% | 8.57% | 5.22% | 5.38% |
| International Emerging Markets | 6.77% | 14.19% | 17.45% | 7.76% | 11.08% |

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

Social Security: Claim Your Online Benefit Statement

One of the most important retirement planning tools is now available online. Earlier this year, the Social Security Administration (SSA) began providing online access to Social Security statements through a "My Social Security" account. The statements, which were previously mailed annually prior to your birthday,

include a history of earnings, as well as an estimate of your retirement, disability, and survivors benefits. This information is an indispensable part of personal financial planning by making available essential data about future retirement income and serving as an unmistakable reminder of the need for personal savings to supplement those benefits.



my Social Security

A survey by SSA to determine the effectiveness of the statement as an educational tool found a clear link between receipt of the statement and understanding of Social Security benefits. More than half of those who read the statement reported that as a result, they increased their savings rate or revised their financial plans for the future. Twenty-five percent said they contacted a personal financial adviser.



As part of a 1989 law intended to help educate workers about their benefits and allow them to review the accuracy of their earnings record for calculating benefits, in 1999 SSA began mailing workers age 25 and older annual statements of their estimated Social Security benefits (from 1995 to 1999 the mailings were only sent to those over age 60). In 2010, more than 158 million statements were mailed to workers.

In April 2011, the SSA stopped mailing annual benefit statements due to budget constraints and an effort to save approximately \$70 million per year in printing and mailing costs. However, it left workers without any reporting about their benefits and the arduous task of contacting the SSA to simply confirm that wages had been accurately recorded.

In February 2012, SSA resumed mailing paper statements to workers close to retirement (age 60 and older if they are not already receiving Social Security benefits). Later this year, the SSA will initiate a one-time mailing to workers on their 25th birthday.

Online Access

In May, the SSA launched an online platform so that workers over the age of 18 would have access to information about their earnings history and estimated Social Security benefits. The online statements are a critical financial and retirement planning tool, as they provide an estimate of future income benefits, as well as estimates for disability and survivors benefits. Because these benefits are based upon average earnings, the statements should be checked for accuracy annually. The online statement can be saved or printed for future use.



The process for obtaining the online statements begins by going to the Social Security web site (www.ssg.gov) and clicking the "Get your Social Security Statement online" link to create a My Social Security account. The system takes you through a verification process based upon your personal information and credit file (Experian provides an external authentication service). You are then prompted to create a username and password, and to complete security questions that will be used in the future to verify the account owner if the username/password are forgotten. Within minutes you are provided your estimated benefits and earnings record, as well as access to an online version of the previously mailed paper statement.

The statement includes a year-by-year history of earnings, the total amount of Social Security and Medicare taxes paid through the last year reported, as well as estimates of monthly retirement, disability, and survivors benefits based upon current earnings. Retirement benefit estimates are provided for age 62, full retirement age (now 66, gradually increasing to 67 for people born in 1960 or later), and age 70. Notably, if the earnings record is not correct, you will still need to call or write the SSA to resolve the problem.

Claim Your Account Now!

The My Social Security accounts are waiting to be claimed. If you are concerned about someone accessing your account, you should claim your account with your Social Security number and then take advantage of the security settings available through the site. You can also request that the system send a text message to a specified cell phone every time anyone logs





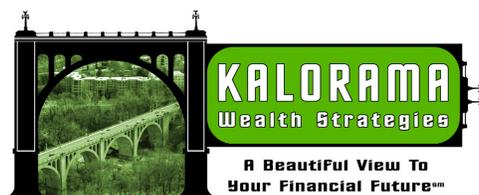
into your account so you will know immediately if your account has been breached.

Nevertheless, the My Social Security online account is only a platform for reporting benefits information and earnings record. It does not allow anyone to change benefits elections or personal details. It is merely an electronic version of the statement that was previously sent in the mail. Identity theft should not be a concern since private and personal information is not contained on the web site, but is actually used to access the web site.

The benefit statements are an important part of the Social Security program by giving workers ownership over their contributions and helping to plan for retirement. In the introduction to the statement, the SSA Commissioner states: "Social Security is the largest source of income for most elderly Americans today, but Social Security was never intended to be your only source of income when you retire. You will also need other savings, investments, pensions or retirement accounts to make sure you have enough money to live comfortably when you retire."

For most retirees, future Social Security benefits are a significant component of overall retirement planning. Please contact Kalorama Wealth Strategies if you would like to understand how Social Security benefits factor into your retirement income needs. For more information on our investment advisory and financial planning services, please see our web site at www.kaloramawealth.com.

Thank you for your continued business and referrals. Please feel free to forward 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.



Fee-Only Investment Advisory And Financial Planning

David M. Taube, CFA, CFP®
2136 12th Place, N.W., Suite 100, Washington, D.C. 20009
Phone: (202) 550-7262 Fax: (480) 247-5620
dtaube@kaloramawealth.com www.kaloramawealth.com