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Fourth-Quarter and Full-Year 2011 Market Review

Resolve to be Financially Resolute in 2012

January 2012 - Stocks rode a roller coaster back to square one in 2011. As measured by the bellwether Standard & Poor's 500-stock index, stocks were virtually unchanged with the S&P 500 off a minuscule 0.04 points to 1,257.60. Including dividends, the S&P 500 rose 2.11%. The ride peaked in late April with an 8.4% year-to-date gain and troughed in early October with a 12.6% loss. A rally during the balance of October was enough to lift U.S. stocks to nearly break-even for the year. November and December were little changed.

Markets and investors contended with several significant economic and political issues during 2011: the ongoing European sovereign-debt crises; uprisings in the Middle East and North Africa; Japan's earthquake, tsunami, and potential nuclear fallout; political gridlock in the U.S. over the nation's budget and debt ceiling, leading the country to the brink of default, and resulting in an S&P downgrade of the U.S. credit rating to AA+ from AAA; and a weak global and generally sluggish, but improving, U.S. economy.

Nevertheless, the U.S. was the best house on the worst block when it came to where investors parked their assets. Although U.S. stocks didn't move much, international stocks didn't fare as well. Both international developed and emerging markets indexes tumbled double digits, giving up nearly 12% to more than 18%.

As investors sought a safe haven from all the uncertainty, U.S. bonds were the place to be. U.S. Treasury TIPs surged 13.6%, Municipals swelled 10.7%, while the broader U.S. Aggregate index advanced 7.8%.

Actions and announcements by the Federal Reserve to push long-term interest rates lower and stimulate the economy sent treasury yields and home mortgage rates to record lows. In August, the Fed announced that it would maintain its near-zero target for short-term interest rates for two more years. This was followed in September by the Fed's decision to address "significant downside risks" in economic outlook by initiating a "maturity extension program," whereby the Fed would sell \$400 billion of short-term portfolio securities to purchase long-term bonds. At the same time, the Fed said that it would reinvest proceeds from maturing portfolio securities in mortgage-backed securities in an attempt to lower mortgage rates and encourage home buying.

These measures lead the yield on the 10-year Treasury Note to sink to a record-low 1.70%, while five-year and 30-year Treasuries slid below 1.0% and 3.0%, respectively. Home mortgage interest rates dropped to their lowest levels since records have been maintained, with the rate for 30-year fixed-rate mortgages dropping below 4.0%.

At year-end, the yield on the 10-year Treasury note was 1.88%, down three and 141 basis points for the quarter and year-to-date, respectively (the yield as of January 19th was 1.98%).

Below are rates of return for selected market indices for the fourth quarter of 2011, full-year 2011, and the three, five, and 10-year compound annual returns as of December 31, 2011.



	<u>4Q:2011</u>	<u>2011</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic Large Cap					
Russell 1000 - Growth	10.61%	2.64%	18.02%	2.50%	2.60%
Russell 1000 - Value	13.11%	0.39%	11.55%	-2.64%	3.89%
Russell 1000 - Blend	11.84%	1.50%	14.81%	-0.02%	3.34%
Domestic Small Cap					
Russell 2000 - Growth	14.99%	-2.91%	19.00%	2.09%	4.48%
Russell 2000 - Value	15.97%	-5.50%	12.36%	-1.87%	6.40%
Russell 2000 - Blend	15.47%	-4.18%	15.63%	0.15%	5.62%
Real Estate (FTSE EPRA/NAREIT Global)	6.74%	-8.14%	15.91%	-5.37%	NA
Dow Jones - UBS Commodity	0.34%	-13.37%	6.26%	-3.32%	4.69%
International					
MSCI EAFE Developed Large Cap	3.38%	-11.73%	8.16%	-4.26%	5.12%
MSCI EAFE Developed Small Cap	-0.52%	-15.66%	15.00%	-3.80%	9.42%
MSCI Emerging Markets	4.45%	-18.17%	20.42%	2.71%	14.20%
<u>Fixed-Income (Bond) Indices</u>					
Barclays Capital					
Global Aggregate	0.23%	5.64%	6.13%	6.52%	7.18%
U.S. Aggregate	1.12%	7.84%	6.77%	6.50%	5.78%
U.S. Treasury TIPs	2.69%	13.56%	10.38%	7.95%	7.57%
U.S. Corporate High Yield	6.46%	4.98%	24.12%	7.54%	8.85%
Municipal	2.12%	10.70%	8.57%	5.22%	5.38%
International Emerging Markets	4.93%	6.97%	17.45%	7.76%	11.08%

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

Resolve to be Financially Resolute in 2012

With the turn of the new year, there are endless lists of financial resolutions suggesting that you prepare a budget, get out of debt, spend less, save more, and invest for retirement. Rather than repeat the recommendations, below are links to some of the more useful and interesting resolution lists I came across:

The Washington Post had both angles covered with its two-part series on how to spend less and save more:

1. This year, really, save some dough

(http://www.washingtonpost.com/lifestyle/style/this-year-really-save-some-dough/2011/12/09/gIQAofPkQP_story.html)

2. Savings strategies for the new year

(http://www.washingtonpost.com/lifestyle/style/savings-strategies-for-the-new-year/2011/12/21/gIQAwrQWfP_story.html)





Forbes put together a nice 12-step program covering many financial planning topics:

12 Financial Resolutions for 2012

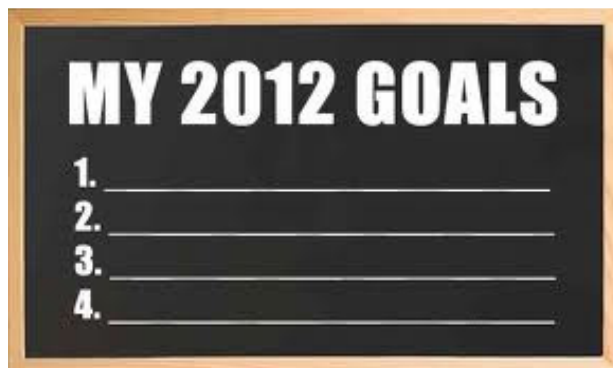
(<http://www.forbes.com/sites/financialfinesse/2011/12/28/12-financial-resolutions-for-2012/>)

So as not to be overwhelmed by lumping all these resolutions into January, Fidelity Investments provides a month-by-month guide to getting your finances in order:

12 financial resolutions you can keep

(https://guidance.fidelity.com/viewpoints/new-years-slides-intro?ccsource=email_weekly)

And if you are really ambitious, instead of resolutions, create a Mission Statement:



Forget Resolutions -- What's Your Mission?

(http://advisors4advisors.com/index.php?option=com_content&Itemid=316&task=view&id=14731)

A study revealed that 80% of those surveyed declare resolutions for the new year. Unfortunately, 80% of the resolvers fail to stick to their resolutions. Strive to be in the determined 16% minority.

Please contact Kalorama Wealth Strategies if you would like to discuss how we can help you keep your financial resolutions. 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.



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