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## Fourth-Quarter and Full-Year 2013 Market Review

### Bulls Return to Wall Street

**January 2014** - The bulls returned to Wall Street in 2013 as stocks rallied in the fourth quarter after U.S. government financial default was averted with an eleventh-hour short-term deal on the nation's budget and debt ceiling. Market bellwethers closed the year at record highs with double-digit returns. The Standard and Poor's 500-Stock total return index had its best advance since 1997, vaulting 32.4%, while the Dow Jones Industrial Average posted its greatest gain since 1995, expanding 26.5%. The Nasdaq Composite Index surged 38.3%, moving to 13-year high, but still 17.3% below its all-time closing record of 5,048.62 set in March 2000 at the peak of the tech-bubble.

Developed markets were the place to be in 2013. In addition to the 30% plus returns for domestic measures, Japan's Nikkei, France's CAC, and the U.K.'s FTSE indexes hit their best levels since 2007, with the Nikkei skyrocketing 57.8%, the CAC climbing 18.0%, and the FTSE rising 14.5%. Germany's DAX hit an all-time high in December, jumping 25.5% for the year. Meanwhile, the MSCI Emerging Markets index slipped 2.3%.

The fourth quarter began with a federal government shutdown as lawmakers were initially entrenched in a fiscal showdown. Markets leapt after politicians reached a short-term deal that pushed the day of reckoning into early 2014. In mid-December, Congress passed budget legislation that reduces federal spending cuts and avoids the risk of another budget-induced government shutdown. Unresolved is another face-off on the debt ceiling due to hit in February.

With interest rates on the rise, all major bond barometers, except U.S. Corporate High Yield, finished 2013 in negative territory. The worst performer was U.S. Treasury TIPs, slumping 8.6%, while domestic high yield bonds tacked on 7.4%.

Although the Federal Reserve left its short-term interest rate policy unchanged during its two fourth-quarter meetings, after its December session, the central bank announced that it would begin to taper its securities purchases. Beginning in January 2014, the Fed will reduce its \$85 billion of monthly purchases by \$10 billion, split equally among Treasury and mortgage-backed securities. In its decision, the Fed cited a strengthening economy and employment outlook. Further cuts to the stimulus program will be dependent on future economic data. If the "quantitative easing," designed to lower interest rates and stimulate the economy, is cut at a steady pace, it would end completely in late 2014.

The Fed also emphasized that the decision to begin tapering does not affect its commitment to keep short-term interest rates near zero. Rates are expected to remain low well after the unemployment rate reaches 6.5 percent or as long as inflation remains below its target of 2%. Based on forecasts, short-term rates are not expected to increase until 2015.

At year-end, the yield on the 10-year Treasury note was 3.03%, up 42 and 127 basis points for the quarter and year, respectively (the yield as of January 10th was 2.86%).



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

	<u>4Q:2013</u>	<u>2013</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<b><u>Equity (Stock) Indices</u></b>					
Domestic					
Russell 1000 - Large Cap	10.23%	33.11%	16.30%	18.59%	7.78%
Russell Midcap	8.39%	34.76%	15.88%	22.36%	10.22%
Russell 2000 - Small Cap	8.72%	38.82%	15.67%	20.08%	9.07%
Real Estate (FTSE EPRA/NAREIT Global)	-1.10%	2.24%	6.84%	15.64%	NA
Commodity (Dow Jones - UBS)	-1.07%	-9.58%	-8.17%	1.41%	-0.72%
International					
MSCI EAFE Developed Large Cap	5.75%	23.29%	8.66%	12.96%	7.39%
MSCI EAFE Developed Small Cap	5.94%	29.69%	9.62%	18.89%	9.85%
MSCI Emerging Markets	1.86%	-2.27%	-1.74%	15.15%	11.52%
Global - MSCI All Country IMI	7.35%	24.17%	10.40%	16.22%	8.13%
<b><u>Fixed-Income (Bond) Indices</u></b>					
Barclays Capital					
Global Aggregate	-0.44%	-2.60%	3.14%	4.42%	4.72%
U.S. Aggregate	-0.13%	-2.02%	3.92%	4.84%	4.75%
U.S. Treasury TIPs	-2.01%	-8.61%	5.98%	7.11%	5.58%
U.S. Corporate High Yield	3.58%	7.44%	7.99%	18.06%	8.22%
Municipal	0.33%	-2.55%	5.85%	6.51%	4.59%
International Emerging Markets	1.18%	-4.12%	8.48%	14.10%	9.13%

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

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