BEHIND THE SCENES

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OPENING THOUGHTS

There is nothing like a rousing Fourth of July fireworks display to remind us how lucky we are to be Americans. Each of us has the good fortune of living in the greatest country on earth. Things aren't perfect, of course, but they also aren't as bad as the popular media might have us believe. With the impending presidential election, the divisive health care debate, persistent unemployment problems, a slow-growing domestic economy and a myriad of European woes, there is no shortage of negative news items for the media to focus on, which can make it difficult for the casual observer to see the forest for the trees.

The truth, however, is that Americans are truly blessed and among the luckiest people on earth. Unfortunately, the vast majority of the world – even today – does not enjoy access to many of the things we take for granted, such as clean drinking water, ample food to eat, or a warm bed at night. As a whole, the world is making significant progress, but far too many people still have to deal with abject poverty, polluted drinking water, recurring famine, squalid living conditions, rampant crime, and civil war. Viewed in this context Americans have so much to be thankful for…yet so many remain dejected and cynical about our future as a nation.

We understand the reasons behind some of the pessimism, of course, but have a slightly different perspective on things. It's true the economy is not yet hitting on all cylinders, that Europe has problems galore, and so on. Yet, as we've discussed frequently in the past, most of these issues have had remarkably little impact on the health of American corporations. In fact, over the last few years the companies we invest in have proven time and again that they can adapt efficiently and effectively to whatever hand they're dealt—either domestically or across the globe. Companies have become amazing proficient at growing their businesses, even in difficult economic periods, as evidenced by the record cash flows and profits being reported again this year. Amazingly, domestic companies are forecast to grow earnings by double-digits again next year!!

Our Point

Stock investors need to separate their personal feelings from the investment process. The fact that the stock market is up roughly 8% through the first half of the year and more than 100% since the lows reached

INSIDE THIS ISSUE:

INVESTMENT TRIVIA

PLEASE SEE PAGE 10 FOR A NEW ADDITION TO OUR NEWSLETTER:

THE INVESTMENT TRIVIA SECTION

THIS SECTION WAS ADDED TO GIVE A LITTLE "FUN FACT" APPROACH TO INVESTING.

LOOK FOR IT AT THE END OF EACH NEWSLETTER.

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just a few years ago attests to the fact that American companies are able to thrive in weak economies and can overcome even the most malodorous of political environments. Could they do even better given improved economic and political conditions? Certainly. Yet they're still doing very well in spite of the suboptimal conditions they're faced with – and this fact has created a confusingly counterintuitive stumbling block for many stock investors.

Reality Versus Perception

In spite of a few claims to the contrary, this does not mean we're turning a blind eye to any of the vexing social, political, or economic issues of the day. All we're saying is that these issues are having far less impact on corporate financial statements than most people believe, in spite of the fact that audited corporate financials are reported each and every quarter for everyone to see. The problem seems to be that preconceived notions are very difficult to overcome, even when presented with ample data to the contrary.

In fact, the conflict between preconceptions and facts has a long history, and one of the best people at illustrating this is Professor Hans Rosling of Sweden's Karolinska Institute (home of the Nobel Prize in medicine). His statistically-based presentations document mankind's significant progress on many fronts over the past few decades. Dr. Rosling argues that the preconceptions people have are both persistent and generally wrong, in large part because they either don't have access to good data – or don't know how to interpret it, when they do have access to it. *(To find videos of his presentations Google "TED Hans Rosling". We recommend you look at a number of his videos, as they will make you feel good about our opportunity set going forward.)*

The point we're trying to make here is that this appears to be a Rodney Dangerfield recovery, in that corporate America gets no respect. Yet the data continues to roll in and scream long-term investment opportunity! As Americans, we become too focused on domestic news, at the expense of losing sight of the bigger global picture. Yes, we realize that we're stuck in a period of tepid, albeit consistently positive, domestic economic growth. However, the world economy, sans Europe, is expanding at a much more rapid rate, which bodes well for global companies.

In addition, the media has become so focused on the unemployment rate, that they fail to consider publicly available data that clearly shows consistent growth in hours worked, average work-weeks, payrolls and consumption. These are the very drivers of our economy at home, and they indicate things are improving. And, when you include factors like falling gas prices and reduced electrical rates in much of the Northeast, we believe this bodes well for accelerated GDP growth in the second half of this year.

Of course, profits at many S&P 500 companies are already at record levels and have been growing nicely for more than three years now, in spite of a constant string of daunting headwinds. Yet most people remain decidedly pessimistic, which suggests that the overall stock market is likely trading at a significant discount to the underlying fundamentals - even after the significant stock price run-up we've seen over the last three-plus years.

Investors need to keep in mind that fundamentals – like pristine balance sheets, significant corporate cash flows, skilled management, low input costs, and global growth – drive long-term results, while sentiment (i.e. emotions) drive short-term volatility. We understand why it's easy to get caught up in the short-term news cycle, but that only serves to divert focus from finding and investing in well run companies at attractive prices…and right now there is an abundance of both! To be successful investors we need to shrug off popular sentiment and focus on the things that are important in the long term…like underlying company fundamentals.

Historically, 70% of a corporation's stock value has been determined by a company's fundamentals, with the remaining 30% determined by macroeconomic events. Today, that ratio is basically reversed, which means far too much emphasis is being placed on the headline grabbing macroeconomic variables and far too little attention is being paid to the largely stellar corporate fundamentals. In other words, "fear" is playing a major role in driving short-term pricing, and we believe this fear has created a situation where many companies are selling at a nice discount to their intrinsic values. This is why we believe there is still plenty of upside potential for stocks over the longer term.

The Information Age and Good Data

We're aware that people will want to point at the high unemployment rate, the national debt, or some social issue that is near and dear to their heart to illustrate how bad things really are. As agnostic observers, our job is to analyze the entire data set – which includes the whole world – as only then can we hope to make informed investing decisions. Unfortunately, most people come at it from the other direction, beginning with preconceived

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notions of how they believe things are, and then set about looking for some data that will confirm their views. Keep in mind that there has never been a perfect economy, so if you're looking for negatives to confirm your preconceptions, you will likely always be able to find some, even in the best of times. However, this is NOT how one generates reliable research, and when the tail wags the dog it can lead to calamitous errors in judgment. Think about the poor people who have remained on the sidelines through one of the best three year market runs in our history…or those who bailed out of stocks after the debt ceiling debacle last year, only to miss out on TWO consecutive quarters of double-digit returns. Clearly, remaining anchored to your preconceptions can be quite costly.

Maximizing Wealth

Unbeknownst to many investors, one of the first things covered in any introductory college-level finance course is the primary goal of a company's management team (i.e. CEO, CFO, and Chairman of the Board). Stated simply, their primary goal is to **Maximize Shareholder Wealth**. This means that managers are tasked with doing whatever is necessary to maximize and perpetuate the profitability of the firm – and therefore its stock price – above all else. And they are expected to do so, regardless of the current challenges.

Additionally, a key characteristic distinguishing public corporations from privately-held companies, the government sector, and many individuals is the fact that public companies have a board of directors (BOD) tasked with holding them accountable. People often get frustrated with the government because they feel like there is no accountability - and rightly so. However, you don't have to worry about that issue when it comes to the companies we invest in. If management isn't doing what they're supposed to, the board of directors can simply replace them with someone who will create value.

The important thing for investors to recognize is that public corporations are designed to operate in a manner consistent with the best interests of the firm's owners – the shareholders. The board of directors, which is elected by the shareholders, provides oversight and helps assure managers are held accountable for their actions. Further, corporate compensation packages for the management team often include things like stock options and performance bonuses that are designed to help align the interests of managers with those of the shareholders. Finally, the Securities and Exchange Commission (SEC) acts as a final backstop, providing regulatory control and mandating compliance to a variety of reporting requirements and other issues in order to safeguard the interests of investors. If the companies managers violate SEC regulations, they can face large fines, jail time, or both.

As a result of these factors, American companies are characterized by; 1) a strong work ethic, 2) a high degree of accountability, 3) appropriate regulatory controls, and 4) access to efficient capital markets. That's obviously good news for long term investors, and even more so when companies are trading at discounts to their fundamental values. It is with these positive underlying factors in mind that we therefore move on to the macroeconomic issues of the day.

THE U.S ECONOMY

Recently, there have been a variety of economic issues grabbing headlines, and thus the attention of some investors. We're not overly concerned with most of the headline issues – mostly because the vast majority of the headlines provide very little new insight into any of the old regurgitated news. However, we know there is a good deal of interest in our views on these economic issues, so we'll re-examine these issues in light of how they affect the very companies we own. As you might expect, most firms have embraced the new world we live in and have turned many of the perceived negatives into positive outcomes. This is great news for long term investors.

The Unemployment Rate

For a number of decades now, our economy has been moving from one that was dominated by manufacturing to a more service-oriented economy dominated by things like healthcare, technology, and energy services. However, this migration has by no means proceeded in a straight line. Over the last decade, it has been detoured by the subprime mortgage boom and the tidal wave of leverage it spawned,. This wave in turn created the largest boom/bust cycle in the construction and real estate industries in history and led to the Great Recession. In the past few years, however, we've been making gradual progress back toward more normal economic conditions, as evidenced by the significant growth in the service sector and the pleasantly surprising comeback we've seen in the manufacturing sector.

It's important to recognize that fundamental shifts in an economy nearly always result in higher levels of unemployment, as workers adjust their skill sets to meet the needs of the new economy. In fact, there are more job openings today, (yes, more job openings) than there were

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prior to the credit crisis. However, in many cases workers don't yet have the requisite skills to meet the demands of employers, and in cases where they do, many are plagued by the inability to relocate due to underwater mortgages. These factors are transient, however, and will eventually be corrected over time, leading to higher employment rates and a stronger economy.

So, jobs are available during paradigm shifts...they are just not easily filled. Oddly, this actually benefits corporate America since higher rates of unemployment help keep labor costs (and inflation) muted, thereby making corporations more competitive and bolstering their bottom lines. In other words, the flip side of the unemployment problem is that companies now have access to a larger pool of applicants at a lower cost. As shareholders, these lower costs actually serve to benefit corporate America's bottom line, and they have been doing so for several years now.

Global Competition

The transition away from a domestic economy driven by construction and real estate toward one dominated by the service sector, technology, and a resurgent manufacturing sector, is being driven largely by the rapidly changing global economy. As the global economy evolves and becomes more technologically sophisticated, greater specialization is being required in the labor force to help meet demand. This, in turn, benefits countries with strong higher-education systems, like the U.S.

Today, more and more countries are embracing market -driven economies, resulting in rapid economic growth, higher personal incomes, longer life expectancies, more infrastructure, and increasing demand for virtually all goods and services. A higher tide lifts all boats, and the wave of global economic development has been fantastic for the world as a whole, and more specifically for corporate America. As India, China and other emerging nations continue to grow and mature, corporate America will continue to be one of the biggest beneficiaries for a variety of reasons, not the least of which is a well-educated, highly adaptable workforce. It's important to remember, however, that the transition towards more specialization takes time, even in America.

In fact, as more countries embrace and transition towards market driven economies, corporate America, particularly on the service side, will continue to thrive. In the past, corporate America's influence on emerging economies was primarily focused on providing expertise in the area of commodity extraction. Today, U.S. companies have expanded their roles to include every area of international commerce. The reason corporate America is more profitable than they have ever been is really quite simple - the opportunity to sell their goods and services is expanding each and every day. So as investors we should embrace global growth, as it is largely responsible for driving exports and profitability to record levels, and there is no end in sight.

Federal Reserve Stimulus

Over the past three years corporations and individuals have substantially reduced debt loads, which is precisely what the fiscal doctor ordered. However, in doing so, they have also necessarily reduced their consumption of goods and services. Over the long run, debt reduction is a good thing, as there needs to be a proper balance between consumption and the appropriate use of debt. However, the lack of consumer and corporate spending resulting from paying down existing debt loads has left us mired in an unusually long and tepid domestic recovery. As a result, the Federal Reserve has engaged in a number of innovative strategies designed to help stimulate the economy, largely by keeping short and long-term interest rates as low as possible. We believe these strategies are warranted and the evidence suggests they've been crucial in helping to keep the recovery going. In essence, since both individuals and corporations can now take out new loans or refinance existing debt at significantly lower rates, they have more money to spend. In addition, governmental entities are also benefitting from lower net borrowing costs, which allows them to allocate their significant resources elsewhere. When the economy picks back up, the Fed will simply reverse these monetary policies – as they have been doing for over 30 years now – and interest rates will be allowed to return to normal levels. However, for the foreseeable future the Fed intends to do whatever it takes to keep rates low and the economy growing.

From a corporate perspective, this is fantastic news. Now, not only do companies have access to relatively cheap labor, but they're also enjoying the lowest cost of capital ever! In fact, corporate America – through productivity gains - is getting a bigger bang for its buck than it ever has on the labor and capital markets. As stockholders, we should all be pleased with these developments.

The Dollar

One of the indirect consequences of Federal Reserve stimulus and deficit spending is a weaker dollar. However, the relative weakness of the dollar has boosted exports dramatically, since goods produced in the U.S. have suddenly become more competitive in overseas markets. How much more competitive? U.S. exports are now at all-time highs and U.S. manufacturing, in decline for decades, is now

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expanding rapidly. The net effect of the weaker dollar has been a major boost to the bottom line of American manufacturing and any company that exports goods and services. We know some people don't like the idea of a weaker dollar, but in times of economic recovery a weaker dollar can be a very good thing! Recently, the trend toward a weaker dollar has been reversing, which means media headlines will change as well. Last years headlines which formerly read, "Weak Dollar Drives Inflation!" will soon read "Strong Dollar Hurts Recovery!" You just have to love the media and their ability to cherry pick a negative story…

The Deficit

Perhaps the most misunderstood issue of the current economic situation is the federal budget deficit. In part, this is because the federal budget is extremely complex and the numbers are easily manipulated or misinterpreted. We encourage you to go back and review our 2011 quarterly newsletters, which covered the issues associated with the national debt and deficit spending in detail. If you do, you'll note that we don't advocate rampant or uncontrolled deficit spending, as large deficits can be debilitating to an economy in the long run. In the short run, however, draconian federal spending cuts could be equally debilitating, as they would act to stall an already fragile economic recovery and could very well push the economy back into recession. In other words, fiscal responsibility sometimes necessitates intentional deficits, and now is clearly one of those times. As the economy strengthens and returns normal, however, fiscal responsibility will dictate that the budget be brought back into balance, with deficits either being reduced dramatically or eliminated altogether.

In Sum

The truth is, many of the economic issues people are worried about today are actually serving to benefit the companies we're investing in. As discussed above, high unemployment, global competition, Fed stimulus, a weaker dollar, and deficit spending are actually boosting the profitability of American corporations – and once again illustrating how preconceptions and reality can be two very different things.

THE STOCK MARKET

If you regularly read our monthly updates and quarterly newsletters, you know we've frequently discussed the significant bounce back in the market over the last few years, and the benefits of being diversified over time. However, we've also stressed that markets rarely move in a straight line upwards and that dips occur routinely, with the stock market averaging one double-digit, peak-to-trough dip each and every year. Thus, the market dip we experienced in May (and into the first few trading days of June) should have come as no surprise to anyone who follows our advice and should have been viewed as the sort of normal market behavior knowledgeable stock investors should expect to see annually.

The reason we stress these things so often is because research shows that investors who fail to recognize and accept these dips for what they are (i.e. the normal behavior of the market) are prone to making the sorts of hasty, ill-advised decisions that cause irreparable damage to their nest eggs. So if you found yourself worrying about the most recent dip or getting caught up in the short-term, sensationalistic news cycle, please go back and reread the newsletter we sent out this past April. It pretty much describes what we thought would happen after the significant six month run-up in stock prices. No, we're not clairvoyant; we just know how markets tend to behave over time.

The Short Term

When we examine overall stock performance in the second quarter, the S&P 500 finished down 3.3%, while the Russell 2000 lost 3.8% of its value. In addition, in the style box performance data presented in the table below you'll see that growth stocks tended to take a larger hit in the quarter than value stocks. This result makes sense, since growth stocks have been outperforming value stocks for several years now and were hence probably due for a bigger correction.

Russell Style Index Performance
2nd Quarter, 2012

Value	Blend	Growth	
-2.20%	-3.12%	-4.02%	Large
-3.26%	-4.40%	-5.60%	Mid
-3.01%	-3.47%	-3.94%	Small

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When we go back and examine the first six months of 2012, the numbers remain quite good, in spite of the normal (and expected) 10% plus market dip we experienced during May and into early June. Through the end of June, large caps stocks (i.e. S&P 500) were up 8.3% year-to-date, while small cap stocks (i.e. Russell 2000) were up an average of 7.7%. In essence, the overall market was up roughly 8% through the first half of the year. When you examine the individual style boxes, they range between 7.7% and 10.1%, with large cap growth leading the way.

Russell Style Index Performance
Year to Date through 06/30/2012

Value	Blend	Growth	
8.68%	9.38%	10.08%	Large
7.78%	7.97%	8.10%	Mid
8.23%	8.53%	8.82%	Small

The Longer Term

If you can't go back and reread last quarter's newsletter – perhaps because you've misplaced it or already recycled it – please recall that the major theme of the newsletter was "Climbing the Wall of Worry". As we discussed, over the previous three-plus years, our markets have jumped from one major worry to the next in relatively quick succession… yet stock values have continued to grow significantly. In fact, since the market lows reached in March 2009, we've seen one of the best three-year periods for stocks in history – in spite of all the worries!!

In essence, we concluded that "The Wall of Worry" creates opportunities for investors who; 1) are long-term oriented, 2) expect normal market dips and volatility, and 3) react to them by rebalancing their portfolios into (as opposed to away from) the asset classes that are currently on sale.

Over the last three years, the stock market has risen dramatically. As one would expect, the pattern of performance follows the long-term general trend, with small and mid-cap stocks outperforming large caps by a decent margin. More specifically, the table below shows that in the past three years the small and mid-cap categories, taken as a whole, have averaged 22.3%, compared to large caps which have collectively averaged 19.6%.

3-Year Annualized Russell Style Index
Performance Ending 06/30/2012

Value	Blend	Growth	
18.43%	19.56%	20.47%	Large
24.15%	23.47%	22.86%	Mid
20.64%	21.15%	21.56%	Small

Looking back over the past decade, which includes the end of the tech wreck and the credit crisis of 2008, the markets still exhibit significantly positive returns. In fact, the average return for small and mid-caps over the last ten years has been a respectable 11.0% annually, while large caps averaged just 7.4%. That's a fairly substantial difference of 3.6% annually. At this point, we hope it's obvious to even the casual observer why, as long-term investors, we continue to embrace small and mid-cap stocks in our portfolios.

10-Year Annualized Russell Style Index
Performance Ending 06/30/2012

Value	Blend	Growth	
6.72%	7.43%	7.95%	Large
11.94%	12.51%	12.54%	Mid
8.77%	9.67%	10.41%	Small

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Fixed Income and Bonds

Our fixed income (i.e. bond) portfolios continued to provide consistently positive returns over the first half of the year. Through the end of June, our two largest fixed income holdings - Loomis Sayles Strategic Income (NEFZX) and PIMCO Total Return (PTTRX) - are up 5.92% and 5.75% respectively. In addition, one of our newest fixed income funds – Doubleline (DBLTX) – is up 4.66% through the end of June and is up 9.43% over the previous twelve months! As most of you remember, Doubleline looks for underpriced mortgages, which are now being sold off by banks which, in many cases, are being forced by regulators to reduce their mortgage holdings.

In this current low interest rate environment we have discussed the difficulty of generating acceptable, inflation-beating returns using the traditional approaches to bond investing. In addition, we've mentioned the catastrophic risks inherent in chasing yields in longer-maturity bonds – because as interest rates rise, we know long-maturity bond prices will fall precipitously. Our strategy to combat this vexing dilemma, therefore, has been by using innovative managers with unique skill sets that allow them to capture returns in less traditional areas without sacrificing the overall safety we require in our bond portfolios.

For example, Loomis Sayles Strategic Fund's manager, Dan Fuss, focuses his efforts on finding underpriced bonds both domestically and internationally. In fact, when there is a plethora of bad news, or an increase in fear across Europe or the United States, it is likely a large swath of bonds will be dumped indiscriminately. This allows opportunists, like Fuss, to go in and buy bonds at a nice discount. Over time, as those bonds increase in value, our clients make money on both the interest rate payments AND through the price appreciation in the bonds. Both PIMCO and Doubleline engage in the similar types of strategies, which have increased their bottom lines.

Of course, we also own the Vanguard Fixed Fund (VFIIX), which focuses on holding extremely safe Treasury-backed securities. Over the past quarter, as investors have dumped more risky mortgages and other corporate bonds, they have done so in favor of holding more Treasuries and Treasury-equivalents. This has pushed rates down to all-time lows and helped Treasuries, and thus VFIIX, increase more than 1% over the last quarter.

In terms of diversification, our goal in the fixed income arena is no different than our goal with our stock holdings. We recognize the importance of holding a well-diversified bond portfolio that can thrive in any economic environment. Interestingly, the increase in fear and the subsequent indiscriminant selling has benefitted our diversified fixed income portfolios - primarily because we have positioned our bond portfolios to capitalize on this irrational short-term fear.

Q & A Health Care, Europe and Rules of Thumb

Q1: A number of people are wondering what sort of practical and political repercussions we can expect from the Supreme Court's decision to uphold large portions of the Affordable Health Care Act, including the individual mandate?

Joe: On the practical side, the decision to uphold the bulk of the law provides some certainty going forward. For wealthier taxpayers, there's confirmation that new taxes *will* go into effect on January 1, 2013. Joint filers with adjusted gross incomes above $250,000 (and single filers with adjusted gross incomes above $200,000) will see a 0.9% increase in Medicare taxes and a new 3.8% Medicare tax on unearned income, including capital gains, dividends and interest. Beyond that, the law will take several years to implement, so there will be other changes down the road.

Scott: Politically, this is going to be very interesting as the Court's decision only serves to highlight the stark contrast between the Republican and Democratic positions heading into November. Republicans will no doubt continue to argue that the only way to change the law now is to elect them, so they can repeal it. Democrats will say that the Court vindicated their work and that the time has come to stop arguing and work together to implement the law. The only thing we know for certain at this point is that we won't know much about the future of the Affordable Care Act until after the election.

Q2: It seems like the public - just like the Court itself - is fairly evenly divided on the health-care reforms. After this decision, does the picture change for this fall's elections, not only for the President, but for control of Congress as well?

Joe: While it is likely to become fodder for more campaign ads in the months ahead, we don't think the landscape for the elections has dramatically changed as a result of this decision. At the end of the day, the economy

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and jobs will likely remain the issues of greatest concern to voters. In terms of the decision's impact on the presidential race, Mitt Romney said shortly after the decision came down that he would propose repealing the law on his first day in office if he is elected. That's a clear and simple talking point that you'll hear again and again.

Scott: At this point, I don't think anyone knows how this will ultimately impact the election, but I guarantee it's something political scientists will be studying for years to come. The great thing about this country is that we can disagree vehemently over any number of issues, but then can go settle those disagreements peaceably at the ballot box. That's democracy in action and is exactly how I think those brilliant men who framed our Constitution intended it. Nearly everyone agrees that health care in this country needs reform, but the disagreement comes when we start talking about how those reforms should be structured. In November we'll get a clearer picture of what Americans really think about the issue and hopefully we'll be able to move on constructively from there.

Joe: Correct. Republican leaders in the House have already announced they intend to vote on repealing the health-care reform law in the near future. While this will probably pass in the Republican controlled House, it has virtually no chance of even being considered in the Democrat controlled Senate, so the issue will ultimately need to be settled in November.

Q3: What does the Supreme Court's decision mean for long-term investors?

Scott: I honestly don't think it will have much impact in the long-run. In the health care industry, there will be winners and losers…like there always is after any type of legislation. When we look beyond the health care industry, we don't see much change since the vast majority of companies are driven by a slew of macro-economic factors beyond healthcare. As we've discussed before, the two most important factors driving corporate profitability are the cost of capital (i.e. interest rates) and labor costs, and we expect both to remain muted for the foreseeable future, which is a big plus because companies can continue using cheap money to grow and expand globally. This also bodes well for corporate expenditures on things that determine long-run corporate competitiveness and survivability, like R&D. In addition, lower labor costs mean more manufacturing jobs will continue moving back to the U.S., which is good news for all of us.

Joe: In addition, technology is only getting cheaper and more powerful, which means companies can leverage cheap input prices into significantly higher cash flows and profits by embracing these new technologies. Over the last few years, any company which has invested in new technology has seen its productivity and efficiency increase significantly. It's clear that greater cost savings and increased productivity have driven a lot of the increased corporate cash flows and profits. We do not see this trend changing any time soon. So, although the health care laws will have an effect on smaller companies…we don't see it affecting the publicly traded companies we own in any significant way.

Scott: Agreed. As long as the world economy continues to grow at a decent rate, corporate America is going to be just fine.

Q4: Let's change directions by examining the most recent European summit held at the beginning of July. What are your general thoughts about those meetings?

Joe: My first thought is…this is Deja' vu all over again. If you think about it rationally, we've been discussing and analyzing the Euro-crisis and the problems in Greece for over five years now, which means most of the issues have largely been "priced" into the market.

Scott: I agree. These summits tend to get people get worked into a frenzy and we were hearing all sorts of predictions about the demise of Europe and how this will lead to a contagion of epic proportions. However, at KWAG we tend to look at things like this a little differently. Basically we ask ourselves a simple question. "Is the headline news we're seeing today providing insight into a new problem that no one knew existed?" If the answer is no, as is the case currently, then you can generally rest assured the market dip associated with the worries will be temporary, and therefore provide an attractive opportunity to buy on the cheap.

Let's be honest, no one in Europe wants to see the Eurozone collapse and the participants all know what needs to occur in order to prevent a collapse from happening. They may not like the way the medicine tastes, and there will be lots of complaining, posturing, and foot dragging, but when push comes to shove they will be forced to swallow the medicine because they know they have no other choice. We think Eurozone-related dips will probably continue to occur with some regularity into the foreseeable future, as these aren't problems that can be fixed overnight. In other words, we expect to see more volatility and more opportunities.

Joe: To be truthful…there was a positive announcement and surprise with at least one major concession by Germany. But, we don't believe the concession was much of a surprise to most people who follow this sort of thing on a day-to-day basis.

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Q5: What was the concession?

Scott: Agreeing to use the Eurozone's bailout fund to support struggling banks directly. By not forcing the bank bailout obligations onto sovereign balance sheets, this helps break the connection between the troubled banks and the countries where they're located. Prior to this agreement, bank bailouts were essentially viewed by the markets as the responsibility of the individual governments. This concession helps mitigate that risk. Spanish 10-year bond yields fell 60 basis points on the day the agreement was announced, so the deal clearly had the desired effect. This was a fairly major concession by Germany, which is encouraging.

Joe: Right. Basically, Germany now stands alone, and thus had to work with the other countries, which we expected they would eventually have to do over time. In essence, Germany now recognizes that they can no longer impose their will on the other countries and expect the Eurozone to survive. To us, this is the major change in Europe right now. With the election of Hollande in France, the new troika of Hollande, Monti in Italy, and Rajoy in Spain, are forming an alliance against Merkel in Germany, espousing far easier terms in exchange for funding. Previously French President Sarkozy was aligned with Merkel, giving them unquestioned domination over decisions impacting the region.

Scott: We think this new balance of power will actually work better, too. We're already seeing Italy, Greece and Spain cutting spending and streamlining services. And, there seems to be more willingness to make the tough choices. Of course, we are going to be dealing with these issues for years, but at least we are moving in the right direction.

Q6: Okay…so, if I hear this correctly, you don't see the health care decision or the Europe crisis having much of an impact on the overall stock market over time?

Scott: Well, we don't expect either to have much impact on overall long-term returns, but we do believe they will affect both actual and perceived short-term volatility, which we will use to enhance and rebalance our portfolios.

Joe: Right. In our opinion, none of the short-term headlines have much of an effect on how we manage money over the long run. Over the last 20 years, our guiding principals have not changed that much. In fact, we have developed a short list of talking points that outline our core beliefs about the stock market over the short and long term. This is probably a good way to finish off the newsletter on a positive note. Here's what we believe to be true about our markets going forward.

1. We are NOT overly concerned by any normal market dip between 10-15%. We don't know what news story is going to drive the dip, but we do know everyone should expect an orderly stock market decline in virtually every calendar year.
2. We are fully aware of Europe's issues – and so is the rest of the world. This means these issues are already "priced" into the market, and have been for some time. In fact, the companies we own adjusted to these issues years ago!
3. We also fully aware of other well-known issues, such as the "fiscal cliff" approaching at the end of this year. We believe this is also "priced" into the market, which means any "positive outcome" will result in a market up-tick.
4. Our managers have made, and will continue to make, a number of proactive changes to their portfolios in response to both market valuations and economic developments. That's why we own pro-active managers.
5. Do not lose sight of the fact that we DO NOT own Greek or European debt. Instead, we own well run, profitable companies with REAL cash flows. Cash flows which are being shared with investors in the form of very healthy dividends.
6. Today, there are entire industries that pay a higher dividend than anyone could earn in CD's, money markets accounts, treasury bills and many corporate bonds. Thus, savvy long term investors get paid to be patient.
7. Where necessary, we at KWAG have made additional changes to our long-term portfolios by rebalancing <u>into</u> areas of the market that are undervalued and <u>out of</u> areas that have rallied. In essence, we don't like following the "herd".
8. We have always been long term investors, who embrace the normal market dips. We DO NOT try to time the market by going to cash…EVER. Market timers have exceedingly poor long-term track records.

(Continued on Page 10)

9. The truth is, no one knows what the market will do over the short run, no matter how much they try to convince you otherwise. Think about it. If someone really knew how to predict short term market swings, why would they tell anyone?
10. For over 20 years now, we have developed a long-term plan for each and every client, which factors in normal short-term volatility. It's why we take the time to craft well balanced portfolio's which own an array of both stocks and bonds.
11. This is particularly true for retirees. During normal market dips, we ignore the stock market, and use bonds for income. When the stock market rises, we leave bonds alone, and take profits from our growing stock portfolio's instead.
12. We believe any future dip this year will probably be temporary since it will most likely be driven by the political machine. We will use the inevitable dip to rebalance our portfolios…just as we always have.

A Final Note

As usual, if you have any questions about this update, our newsletter, your accounts or our managers, please feel free to call or e-mail us anytime. The recent referrals are much appreciated and we thank you for your continued confidence in our firm and our services. As we go forward, we remain committed to continuing to refine and improve our proactive strategies and portfolios. As always, our goal is to provide each of our clients with the best possible mix of assets given their particular situation. If you need anything or your goals or time horizons have changed, please do not hesitate to call or drop an e-mail to set up an appointment. We are here to serve your financial needs, whatever they may be.

~ Joe and The Gang at KWAG

Investment Trivia

The twenty-two prominent firms listed below share a common characteristic. What is it?

AT&T Inc.	Coca-Cola Co.	Merck & Co.
Abbott Laboratories	Colgate-Palmolive	Monsanto Co.
Allstate Corp.	Costco Wholesale	PepsiCo Inc.
Altria Group	Hershey Co.	Union Pacific
Amgen Inc.	Hormel Foods	Verizon Communications
Berkshire Hathaway 'A'	Johnson & Johnson	Wal-Mart Stores
Bristol-Myers Squibb	Kimberly-Clark	Weyerhaeuser Co.
	Eli Lilly & Co.	

Answer:
If you guessed each firm is a constituent of the S&P 500 Index, you would have been close-but wrong. (Weyerhaeuser is not included in the index) If you guessed that each firm pays a dividend, you were close again-but still wrong. (Berkshire Hathaway has not paid a dividend since 1967.) **The correct answer is that the stock price of every firm on the list (and dozens of others) hit a new fifty-two-week new high in the week ending July 6.**

We suspect many investors would be surprised to learn how many widely held stocks are quietly inching their way higher despite unsettling news regarding the unemployment numbers, European debt woes and the presidential campaign. Investors waiting for a more opportune time to purchase stocks may discover that, by the time cheerier news headlines appear, the price tags on a wide range of businesses are sharply higher.

Now you understand why we continue to be so optimistic...

THE GANG AT KIELY WEALTH ADVISORY GROUP

Left to Right: Brownie Cordell; Katie Burr; Joe Kiely; Kellie Kiely; and Scott Below

****IMPORTANT DISCLOSURE INFORMATION***

Performance results *represent results reported by each reflected mutual fund during the corresponding time period. Kiely Wealth Advisory Group, Inc. ("KWAG") currently utilizes these mutual funds in managing actual client portfolios. However, the individual mutual fund performance results* ***do not*** *reflect the results of any specific KWAG client portfolio or any KWAG composite.*

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Please Note*: the individual depicted mutual fund results* ***do not*** *reflect the results of any specific KWAG client portfolio or any KWAG composite.* ***For reasons including*** *variances in portfolio account holdings, market fluctuation, and any account contributions or withdrawals, the performance of a specific client's account may have varied substantially from the indicated reported mutual fund results. In addition, the above results only reflect the results as reported by each respective mutual fund company. Portfolios managed by KWAG would also incur a KWAG advisory fee, the deduction of which would result in decreasing the reported performance results.* ***For example:*** *a KWAG advisory fee of 1% compounded over a 10 year period would reduce a 10% return to an 8.9% annual return).*

Please Remember: *In the event that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise KWAG immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised or undertaken by KWAG) will be either suitable or profitable for a client's or prospective client's portfolio.* ***In addition****, the mutual funds depicted are funds that KWAG may utilize and/or recommend as of specific date, and are subject to change without notice* ***Accordingly****, no client or prospective client should assume that the above reflected mutual funds serve as the receipt of, or a substitute for, personalized advice from KWAG, or from any other investment professional.* ***Information*** *pertaining to each depicted mutual fund is set forth in each respective fund's prospectus, a copy of which is available directly from each mutual fund company or from KWAG upon request.*

All performance results *reflect the performance results reported by each respective mutual fund to Morningnstar****,*** *and have not been independently verified by KWAG. KWAG also maintains all information supporting the reflected mutual fund performance results.*

Information pertaining *to KWAG' advisory operations, services, and fees is set forth in KWAG' current disclosure statement, a copy of which is available from KWAG upon request.*

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