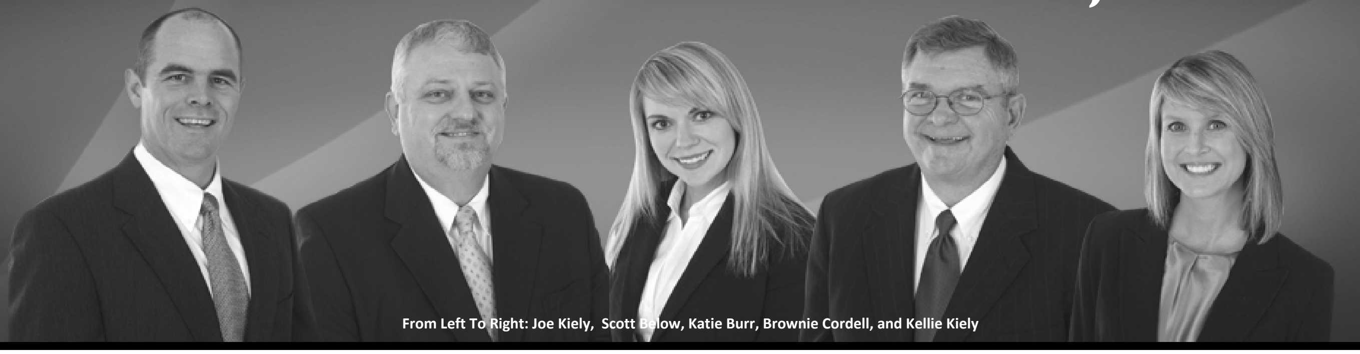
KIELY WEALTH ADVISORY GROUP, INC.



From Left To Right: Joe Kiely, Scott Below, Katie Burr, Brownie Cordell, and Kellie Kiely

BEHIND THE SCENES

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OPENING THOUGHTS

Each of our newsletters is designed, at least in part, to provide some insight into the complex workings of the financial markets or the fundamentals of successful investing. We generally prefer to focus each newsletter on a common investment theme, feeling this enhances continuity and improves clarity and understanding for our clients. This quarter, our focus is on the danger of investors getting too caught up in the concerns and informational chaos of the moment - which is all too easy in this age of the 24-hour news cycle.

Media outlets have become experts at pumping out mountains of largely inconsequential, uninformative, and even misleading noise on a daily basis. In order to attract an audience and survive, these entities have taken hyperbole and literary license to new levels. They ignore the simple fact that it's impossible to explain remarkably complex issues like healthcare reform or the economic stimulus package in 60-second sound bites or 500-word "news" articles - with predictable results. What we get in place of the informative, enlightened reporting we crave is largely just sensationalistic drivel. Today, we believe it's virtually impossible to sift through the sea of meaningless noise produced by the mainstream media and draw any sensible conclusions about any complex problems…particularly financial problems. No wonder people are so confused, emotional and infuriated!

For investors, getting caught up in the minutia of the daily news cycle shifts your focus from the long-run (healthy) to the short-run (unhealthy), often leading to unproductive investment decisions driven by emotion rather than logic and reason. In truth, when it comes to long term investing, there isn't much day-to-day information that will have a meaningful impact on a well-diversified portfolio. What matters most are larger macro-economic trends that tend to only reveal themselves over quarters, years or even decades. Our primary focus at KWAG is always on significant long-term trends as opposed to the daily noise pumped out by the media. As Joe's late Grandma Kiely, who was born in 1892, was fond of saying, "Nothing is ever as good as it seems or as bad as it seems…at any given time."

Our goal as a firm is to provide our clients with sound, well-considered, evidence-based investment advice and guidance in an environment free from concerns over conflict-of-interest or political bias. We believe you value our strong academic backgrounds, research-driven strategies, diversity of personal experience, and long commitment to doing the right thing for our clients. In this newsletter, as always, our main goal is to provide you with insight and perspective on some fairly complex issues related to investing. So if you picked up this

INSIDE THIS ISSUE:

ANNUAL COMPLIANCE OFFER:

ENCLOSED IN THIS QUARTER'S NEWSLETTER ARE A FEW IMPORTANT COMPLIANCE ITEMS:

KFS 2010
PRIVACY POLICY &
ANNUAL ADV OFFER

PLEASE LET US KNOW IF YOU HAVE QUESTIONS ON ANY OF THESE ITEMS.

UPCOMING UNCA SEMINAR:

TUESDAY NIGHTS
APRIL 27TH, MAY 4TH,
11TH, AND 18TH
6:00 - 8:00 PM

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newsletter expecting to find out everything you needed to know in 500 words or less, please prepare yourself to be thoroughly disappointed. If you have been reading our updates regularly over the past few years, this newsletter should reinforce our consistent long term message.

THE GOOD, THE BAD AND THE UGLY

The Good

As we move into the second quarter of 2010, we remain cautiously optimistic about the economy. There are many reasons for optimism, centering largely on the continuing signs of improvement in the economy. Consumer spending and corporate investment both continue to rise and we're seeing continued improvement in both the housing sector and exports. At our January dinners and subsequent updates we have outlined a variety of economic factors critical to the recovery and discussed how each of these components have clearly improved. Through the first quarter of this year those trends have continued to exceed most expectations. In fact, based on the nature and magnitude of the market declines in late 2008 and early 2009, we felt the bounce back would be dramatic. However, even we've been pleasantly surprised at both the scale and speed of the recovery to date. We believe the economy will continue to improve through 2010, and look for the markets to continue along that path as well (although at a more subdued pace than what we've seen in the previous twelve months). We also look for a moderately paced economic expansion to continue into 2011 and 2012, although forecasting that far out is notoriously difficult and fraught with uncertainty.

The Bad

We recognize that there are many potential impediments which could slow the economy as we move beyond 2010. These include things like increasing struggles in the housing sector, persistently high unemployment, state and local governments faced with unexpectedly large cash shortages, larger than anticipated federal deficits, and deteriorating global credit issues. In addition, the Fed will eventually have to extract itself from its current low interest rate policy without adversely affecting our financial markets. So the reasons to remain cautious in the near term are obviously still abound.

On the other hand, there are always reasons to remain cautious when it comes to investing. This is why we build "liquid" well-diversified portfolios—in order to be proactive if the circumstances should suddenly change. At this point, however, the macroeconomic signs of recovery significantly outweigh any near-term concerns. And unlike in late 2008, this time around we know what the concerns are, making them infinitely easier to deal with. In sum, the events of the past year indicate we have the ability to overcome steep odds. If you look back at history, this nation has always risen to the challenge and this time seems no different…with one small caveat .

The Ugly

Unless you have been living in a bubble or on another planet, you're obviously aware of the health care legislation that President Obama signed into law in late March. However, even if you've been paying close attention, you probably still know very little about what's actually in it. This legislation has fostered more strong reactions and vitriol on both sides of the aisle than anything we've seen in a very long time. In our opinion, there is no point in revisiting the debate here, as its clear that bipartisan support for an issue as controversial and complicated as healthcare reform is not likely to happen in Washington anytime soon. That's regrettable, because at the end of the day we're the ones who sent these legislators to Washington in the first place.

If you follow the legislative process closely, or even if you don't, it's sometimes hard not to get depressed about how our politicians behave. Our government clearly has its problems and we don't pretend to have any of the solutions. But we do find it comforting to know that the government has had its share of problems going all the way back to the 1700's…and yet we have still managed to thrive as a nation, and as a society. That's why we firmly believe it would be a mistake to extrapolate the government's inabilities and ineffectiveness into the business world and the financial markets. Well-run companies take what comes at them and they adapt and prosper in spite of the illogical obstacles. In fact, you may have noticed a significant rise in stock market prices prior to and immediately following the passing of the healthcare reform bill. One of the reasons for this is because companies (and their investors) dislike uncertainty. The passage of the bill provided at least some certainty and helped flesh out a variety of scenarios. Yes, there are still many issues to be worked out. In fact, the legislation uses the phrase, "The secretary shall…" more than a thousand times, meaning in each case that the decision on how to accomplish the task is being left up to the Department of Health and Human Services. And while the legislation might seem as

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clear as mud to us, it was enough to reduce the uncertainty level on Wall Street and reassure the financial markets that the bill was not financial suicide, as evidenced by the positive market reaction since its passage.

Ugly = Opportunity?

Perhaps the most unfortunate part of the healthcare reform process is that it was transformed from a public policy debate into a political game. Change invariably brings pain, but it also brings about opportunity. And with this legislation, flaws and all, we finally have an opportunity to begin reworking a healthcare system that itself was critically ill. The status quo is simply not a workable option. So even if you vehemently oppose what's in the health reform bill, remember that legislation is a fluid, ongoing process and that changes to the current bill are guaranteed. Will insuring 32 million people put additional stresses on the system? Undoubtedly. But it will also create great financial opportunities to any number of firms and industries. And perhaps more than anything, there is now a sense that we have finally begun to redesign and reorient a healthcare system that simply can't continue to function as it was for much longer. Thus, we view change as an opportunity. How so?

Service Matters Most

Remember, Kiely Wealth Advisory Group is itself a small business. And we can assure you that, like most small businesses, the government plays virtually no role in our success or failure. The role of health care reform, financial regulation, taxes, or the party in power has never affected the success of our firm because we make the necessary adjustments and continue to focus on the issue most critical to our success—servicing our clients. Over time, all good companies continue to adapt and thrive. Those that don't adapt, invariably fail. So while our government may frequently appear dysfunctional and ineffective, it's important to keep things in perspective. We invest in companies, not in governments. Our job (and the job of our managers) is to find companies and industries that will continue to thrive over time. In fact, our money managers feel there is no shortage of attractive companies or industries, both domestically and abroad, in which to invest. We find that very reassuring.

Pessimism Helps Us?

Another reassurance can be found in the high levels of pessimism that still exist among many investors. The truth is, a certain level of pessimism has always been healthy for the financial markets. For one thing, pessimism helps keep financial bubbles at bay. It also creates opportunities for our managers by keeping many attractive stocks underpriced. Looking back at previous recoveries, we find that year two has almost always been positive and in many cases is even better than year one. The stock market always has to climb the "wall of worry", and during year two of a recovery it is common for investors to harbor significant concerns. People will eventually get used to the idea that the economy is expanding again and not in danger of falling off a cliff. Over time, stocks will become more reasonably priced. It happens in every economic cycle. At some point in the future pessimism will fall off to levels which will allow stocks to become overpriced again. For now, however, that's a long way off. At present, we believe we're in a stock-pickers market, where excellent values still abound. In fact, periods such as this are where we've always felt talented managers could create the most value for investors. When you look at your quarterly returns and the growth of your portfolio over the last year, we think you'll agree.

LOOKING BACK: MARKET RETURNS

Looking back now, it is somewhat difficult to believe how far and fast the markets fell during the "Great Panic" of 2009. Likewise, it's equally difficult to believe how quickly they've recovered. From the beginning of 01/01/2009 through 03/09/2009, the S&P 500 lost fully 25% of its value. Since that time, however, through the end of the first quarter of 2010, the S&P 500 has gained 73% and the individual style boxes did even better! The table below shows the returns generated in the Russell Style Indexes from the market bottom in March, 2009 through the quarter that just ended. Take a good look, because it's doubtful you'll ever see a 12-month period like this again.

Russell Style Index Performance 03/09/2009-03/31/2010

Value	Blend	Growth	
84.72%	79.10%	74.22%	Large
111.17%	101.72%	93.03%	Mid
106.92%	100.81%	94.74%	Small

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While the rebound has been great for our clients, the same can't be said for most Americans. During the panic, a number of well-known economists and most media prognosticators lost their perspective, bought into the panic, and began predicting doom, gloom and another Great Depression. This dumped more fuel on an already raging fire of fear and panic and helped push many investors over the edge, with many of them liquidating their portfolios at or near the bottom. Sadly, those investors have now missed one of the most magnificent rallies in stock market history. Even if they got back in the market today, it could easily take a decade or more to generate the kinds of returns we've seen in just the past twelve months. Maintaining perspective is always important, but never more so than during market panics and economic bubbles.

1st Quarter, 2010: A Recap

After experiencing a significant market rally over the final ten months of 2009, the stock market stopped to catch its breath in January 2010, ending the month on a down note. However, February saw stocks regain most of January's losses, as economic data continued to surprise on the upside. With January and February basically offsetting each other, the bulk of the positive first quarter returns were generated in March, as the economic data and corporate profits continue to improve. At the end of the first quarter, the S&P 500 (large caps) were up 4.9%, while the Russell 2000 (small caps) finished up an impressive 8.5%. Clearly, diversification into small and mid cap stocks proved to be beneficial for our stock portfolios (and clients) once again. This should come as no surprise, especially if you have been following our message of "total diversification" over the years. On average, small and midsized firms simply grow faster than large firms. So to us, it only makes sense to weight small and midsized firms just as heavily as large firms in our portfolios. Why most of the investing world has yet to embrace this approach continues to mystify us.

Some Longer Term Perspective

As we look back over time, it's interesting to note that every calendar year from 2003 through 2007 our portfolios finished up on the year. In other words, we had five good years in a row with nary a bump in the road. In fact, over that period the value of our portfolios nearly doubled, and with almost no volatility. This was highly unusual. However, the low volatility meant people began to forget what "normal" volatility looked like and they began viewing price stability as the "new normal." They forgot that a typical year in the stock market includes a peak-to-trough decline of 10% or more because they hadn't seen it happen even once over half a decade. So when we began to experience normal volatility again in early 2008, people were surprised. When we experienced a near-collapse of the financial markets in late 2008, surprised turned to fear and then ultimately to panic. It left many wondering if they would ever see their portfolios grow again. But remember the words of wisdom imparted by Grandma Kiely: "Nothing is ever as good as it seems or as bad as it seems…at any given time."

Emotional Investing

Anyone who has worked in the financial services industry for any period of time knows that some investors have a tendency to beat themselves up emotionally. Today, for example, many investors anchor their portfolio values to the highest point their portfolio reached back in 2007. Then they use that value for their base calculations to see how much money they've lost. We're not sure why they do this, as it only serves to fuel their emotions. Markets vacillate continuously between being undervalued and overvalued, and after a five year run-up in stock prices fueled partly by sub-prime mortgages that should never have been granted, we're skeptical that the 2007 peak was an accurate picture of what the stock market was actually worth at that point in time. Still, if we go back and look at the broader market indexes at the end of 2007, we find that the S&P 500 index stood at 1468, with the Russell 2000 index at 766. Today, those two indexes stand at 1204 and 715, respectively, which is 17.9% and 6.6% below their 2007 year-end values. That may depress some people, but given that we've just gone through one of the worst recessions on record, we actually find the markets rally quite reassuring. We'll invariably push past the 2007 highs at some point and create new all-time highs for investors to use as unhealthy anchor points for their portfolios. Emotional investing behavior is difficult to change, but you can rest assured that we'll never quit trying to educate the public to stop this unhealthy practice.

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10 QUESTIONS WITH DR. JOE

Last quarter, we changed the "10 questions with Joe" segment from a group of random questions to a short interview format. The response from our clients was such that we've decided to use this format more frequently going forward. This quarter, we asked one of our long term clients to put together an interview based on an array of client questions that we forwarded to him. The following interview took place on March 31st, 2010. (Please keep the following in mind as you read this section. First, we are fiscal conservatives. We do not like government debt but understand that sometimes large deficits can be justified. So while we're not exactly Keynesians, we do believe that in order to avoid economic collapse, fiscal policy can be both reasonable and necessary as an adjunct to monetary policy. Second, we are not politicians, we're investors. As such, we're apolitical observers with no interest in either setting or influencing public policy. Our role as advisors is to take whatever comes out of Washington and react to it as appropriately as possible for the benefit of our clients. That will never change.)

1. Good Morning Joe. Thank you for letting me interview you on behalf of your clients. I will try to touch on the topics I believe most people are concerned about. Let's start with you - what are your biggest concerns right now?

Our biggest concern at present is to make sure we are managing client expectations correctly during this recovery phase of the economic cycle. We're also concerned about managing expectations post-recovery. When things are going well, people have a tendency to set their expectations too high and they tend to become emotionally tethered to whatever their highest portfolio value was, using that as a measuring stick. Conversely, in bear markets like the one we've just been through, people tend to get too caught up in the moment and become overly risk-averse. They forget that dips are part of investing and that large dips are invariably followed by large bounce backs. In general, we try to help our clients maintain their focus on the long run, as that's the only sensible way to invest. Some clients find this easier to accomplish than others, of course, but that's why we're here. Emotions are strong motivators, so we try to help keep emotions bay and keep clients from making emotional decisions, both in good times and bad.

A good example of this is when we started writing about the lack of volatility in the financial markets back in 2006. We knew the broader stock market had had one heck of a run going into 2007 and that investors were getting used to the unusually steady run up we'd seen without a meaningful pullback. It was clear (at least to us) that we were due for some sort of correction. There was no way to know when it would occur or how big it would be, of course, but at some point it WAS going to happen. Our goal then was to get out ahead of it and let our clients know that what we were experiencing was not normal, that a correction was eventually coming, and to be prepared for it.

On the opposite end of the spectrum, we knew that the "Great Panic Selloff" of 2009 was just that…a panic selloff. Anyone who looked at their portfolio values during that time felt ill, us included. However, if you had the ability to step back and recognize that stock market valuations driven by strong emotions, like fear or greed, can be wildly irrational in the short run, then you had a chance to overcome the voice in your head that was telling you to, "Get out now!" During this period we devoted a lot time to citing examples of how irrational most stock valuations had become. We felt we needed to convince our clients that, although the market had become temporarily insane, this was a short-run phenomenon driven by emotion and it could not last. Again, we were trying to manage client expectations and help them keep from following the rest of the lemmings off the cliff. Our clients were, for the most part, terrific. We know it wasn't easy for them, but they listened to what we had to say and in the end they trusted our judgment more than their emotions. We already knew we had the best clients in the country, but the way they came through the "Great Panic Selloff" of 2009 removed any doubt. We are very proud of them.

As my grandmother used to say, "Nothing is ever as good as it seems or as bad as it seems…at any given time." In essence, anchoring the value of your portfolio to the highest or lowest value at some point in time really makes no sense. The stock market takes emotional short run swings regularly. Looking back, we know now that the valuations in 2007 were overly optimistic. We also know the valuations in early 2009 were overly pessimistic. So using either point to evaluate your portfolio over the long run makes no sense to us.

Today, we think the market is fairly valued given the level of uncertainty that remains. There are still more pessimists out there than optimists, but that's a good thing in our view. Analysts seem evenly split on whether stocks are overvalued or undervalued and that's good as well

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since a broad consensus among analysts means we are in the midst of a bubble or a bust. Today, the S&P 500 is still roughly 18% below its 2007 year-end value, while the Russell 2000 is roughly 7% below where it finished 2007. The recovery still has a long way to go, so we believe there is still significantly more upside going forward. In the short-run, a pullback of 10% or more in stocks would not be a surprise. Pullbacks that size are the norm, especially following such rapid recoveries, so a normal pullback is probably overdue.

2. Okay, that makes sense. As a follow-up, what are some of the better known Wall Street experts and managers saying about the broader bond and stock market values today?

Let's start with the bond market. Bill Gross, manager of PIMCO Total Return (PTTRX) believes the easy money in bonds is over. For almost 30 years interest rates have trended downward and they bottomed at some point last year. Going forward, he believes it will be a real struggle to create significant returns in the bond market. Of course, this should sound familiar because we've been saying the same thing for the last three months. Still, Dan Fuss, who runs Loomis Sayles Strategic Income (NEFZX) for our clients' portfolios, has managed to create an additional 5% over the first quarter of this year. I guess there is a reason he has been given so many awards over the years, including Morningstar's manager of the year in 2009. Going forward, however, Bill Gross believes it will be hard earn more than 4 -5% annually in bonds. Rising interest rates are a major impediment for bond investors and we all know interest rates eventually have to go back up.

On the equity (i.e. stock) side things look much better, although we believe investors will need to be patient over the next few years and expect some ups and downs. Remember, we've had a heck of a run in stocks since they bottomed in March 2009. A few weeks ago John Bogel, founder of the Vanguard group was interviewed on CNBC and said investors should expect no more than 8% annually going forward, given the current constraints in employment and the nation's debt load. It should be noted that Bogel is talking about large cap index funds, which track indexes like the S&P 500. On that front, we don't disagree. An 8% return in large caps (or the S&P 500 index) would actually make us happy. However, remember we only invest about a third of our stock portfolios in large cap stocks…and we use active managers as opposed to unmanaged indexes. On top of that, we rebalance our positions when our portfolios become unbalanced. We think that by using small and midsized company stocks, active fund managers with stellar track records, and rebalancing, this gives us three layers of improvement over straight "large cap" indexing. We know small and mid-sized company stocks have outperformed large company stocks by a significant margin historically. In addition, we only choose fund managers who have demonstrated the ability to outperform their benchmark indexes over long periods. Finally, we know from our own published research that rebalanced portfolios outperform identical portfolios that aren't rebalanced—and with less risk! If you ask us, that's three pretty significant advantages for our portfolios over indexes like the S&P 500 and it's why we believe "evidence based investing" will continue to pay off for our clients going forward.

3. That's one of the things I've always admired about the way your firm manages money. You embrace smaller companies and you embrace active money managers and rebalancing. This has clearly helped my portfolio over time and based on your research is easy to understand. However, one concept which took me a while to grasp was how "active" our mutual fund managers really were. Could you comment on our money manager's strategies and approach?

Absolutely. I believe you're right when it comes to our managers. I'm not sure people understand just how proactive our managers are. Many clients who come to us are used to seeing individual stocks move up and down. When you own mutual funds, you only get to see the mutual fund prices move, as opposed to the 100+ stocks in the fund portfolio that are trading each day. So you don't get to see the individual changes in stock values that occur each day. Overall, our money managers have very strict disciplines that each one follows. They continuously evaluate the value of every stock in their portfolio and if they believe a stock is overvalued it gets purged. If they think a stock is undervalued they will hold on to it or may even buy more. The thing you notice when you meet with a top money manager is their lack of emotion and their attention to detail. They leave very little to chance. They have specific price targets where they want to buy a stock and specific targets where they want to sell. Good managers don't get caught up in the emotion of investing and they never get attached to a particular company. Conversely, many individual investors get emotionally attached to a stock that they own and they'll hold it for years after its run its course. Our managers simply don't get emotional.

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4. Right. I like that they're proactive. Until recently, I didn't understand how this helped me. For example, as a retiree who no longer contributes to my portfolio, I always wondered how I could buy low and sell high if I was not contributing cash to my account regularly. I know now that your managers and your firm (KWAG) actually does this for me, and I have come to understand that I don't have to actually contribute new cash in order to get things on sale.

That's correct. There are basically three ways for investors to take advantage of dips. First, you can contribute regularly to a retirement account or you can send in a check to TDA when the market experiences a dip and we invest the cash for you while the market is down. If you're retired, of course, this is not likely to happen. However, I believe you're right when you say that many retirees don't understand that they are still taking advantage of market dips without a contribution.

For example, as I mentioned above, our managers constantly alter their portfolios, selling overpriced assets and buying underpriced assets. This means our client portfolios are being tweaked a little bit every day. In fact, as new dollars enter a mutual fund that you own (through someone else's contributions), new stocks are being purchased. This helps all investors - even if you're not contributing - since the mutual fund returns are shared by all. Finally, as you mentioned, we proactively rebalance all of our client's accounts on a regular basis by selling out of areas that have been hot and become overpriced and buying into the underpriced areas that are on sale. So, you don't have to contribute cash to benefit from a market dip!

As a side note, every Saturday Brownie sends out a report that compares all of our managers to their specific benchmark indexes. This gives us an indication of how well each manager is performing and it shows us how our general portfolios are performing. Every day, we spend time looking at individual accounts. On average, we probably go through our entire client base every two or three weeks–which is more frequently than other advisors in our industry. As we look at each client account, if it needs rebalancing, we do so. But we also know from our research that you can rebalance too frequently. So we try to let a portfolio become moderately out of balance before pulling the trigger. The idea is to let whatever asset class is hottest run for a while before taking profits, as this allows us to generate greater benefit from the market's fondness for fads. Of course, fads are fickle and there is no hard and fast rule telling you the best time to act. So rebalancing is both an art and a science, which definitely keeps things interesting.

5. What are your thoughts regarding the health care issue?

Well, this issue is obviously controversial and highly emotional. We believe there is a great deal of consensus that the pre-reform status quo was not an option and that something needed to be done. Few would argue that there are a number of healthcare reforms that need to occur and that we need to control costs in a number of areas. The differences of opinion don't seem to be so much over whether the system is broken, but in how to fix it. Since Congress does not seem to be able to work together, we have ended up with a partisan health care bill with a very uncertain future. That said, the financial markets have appeared to like what they've seen out of the new legislation. (Note: For those who are interested we can share some of our research on how we think some of the specific industries will fare under the new legislation.) In the meantime, the approach we've been taking is to stress the following:

- Most of the bill won't take effect for quite a while yet and the things that will take effect soon aren't that onerous. In fact, based on the stock market's response, the new changes are being viewed as more positive than negative at this point.
- The Congressional Budget Office (CBO, non-partisan) claims the new health care legislation will actually reduce the budget deficit. Although plenty of others (us included) think their numbers are overly optimistic, we don't think the bill as it stands now will have a major impact on our national debt one way or the other.
- The bill does help fix some of the problems with Medicare that have vexed some of our clients in the past - like the donut hole.
- It should help get the focus back on primary care and preventative medicine, which studies show will save everyone money in the long run.
- No one knows for sure how this bill will finally shake out and what will happen to it before it is finally all enacted in 2014 or beyond. Anyone that tells you they know the macro impacts of the bill at this point has an agenda to

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support. It's simply too complex and there are far too many questions about the final form of the legislation to know with any degree of certainty how this will all shake out. Eventually, the Republicans could take back control and kill either all or parts of the legislation, rendering this analysis a big exercise in futility.

- As with all things, it's neither as bad as those against it make it sound, nor as good as those in favor of it make it sound. At this point, we like to let the market decide what it thinks, and the truth is that the market's been up since the bill was passed and seems largely unfazed by it. We'll take that as a good thing.

6. Okay, I can see your firm is not taking sides here. In essence, you believe the market has digested the passage of the bill in a positive way - at least for now. So, how do you believe this will affect our deficit going forward? I am certain many people are worried about the level of debt held by our country. How does your firm feel about the debt load?

You're right. Many people are worried about the deficit. We at KWAG are also concerned, but to a much smaller degree than some of our clients. We don't like large deficits and believe in "pay-as-you-go" budget restrictions. That said, there are a few observations I'd like to make, since you've tied this question to healthcare. First, the CBO claims that the new health care legislation will actually reduce the deficit over time. We're not so sure that's true, but we don't think it will be nearly as expensive as some people do. Our expectation is that it will only marginally increase the deficit over time.

Second, our government is borrowing at one of the lowest rates in recorded history, so the cash we're currently using to fund our deficit is dirt cheap. In the short run this is helpful. Over the long run, however, we believe the economic recovery; increased tax receipts; greater efficiencies; and some monetizing of the debt (printing additional money) will take place. Each of these incremental steps will help push the deficit back down in real dollar terms. In addition, over time, we believe some of the current entitlement programs will be cut or eliminated.

Third, the pullout in Iraq is on schedule and winding down our presence there should help shrink the deficit by a non-trivial amount. The war in Afghanistan is still being scaled up, of course, but it is a much smaller war in terms of the commitment of troops and equipment than Iraq is. Plus, if the lessons learned in Iraq about fighting an insurgency can be used to help bring an earlier end to the war in Afghanistan, so much the better. This would obviously save us more money, but it would also save more lives, and how do you put a monetary value on that?

Finally, let's not lose sight of the fact that the government doesn't have to pay back the entire national debt. In fact, that will probably never happen. The government just needs to get the debt down to a reasonable level where the interest payments don't overwhelm other government programs. Most Americans hold debt (in the form of a home mortgage, student loans, etc.) over most of their lifetimes. If debt is used correctly, it can actually help individuals, corporations and even governments grow their wealth. Also, remember that there are many differences between individuals and the government when it comes to borrowing. The federal government borrows at the lowest rate possible. You and I don't have that option. The government can print money. You and I can't (not without going to prison, anyway). The U.S. dollar is still the safest currency in the world and when the rest of the world gets scared they still buy dollars. This gives our government great leeway in their borrowing. In essence, the government operates far differently from individuals. If we can get to a point where we have a balanced budget, or nearly so, we will be fine.

I should note again that we don't like debt and we believe Washington needs to focus on moving toward a balanced budget as soon as possible. That said, we're not overly concerned about the national debt – yet, at least – and we don't think it's something you should be losing sleep over. Once the recovery is farther along and the wars in Iraq and Afghanistan are over, (or our role is reduced to supporting those nations' sovereign armies) serious belt tightening will be needed.

7. During your January dinners, you touched on the different economic issues that worry many of us. If I'm not mistaken, you basically said the things that worry you the most are NOT the things that we hear about and read in the media. Right?

Exactly. The media's main job is to get people to tune into their station. To do this, they have to create a story line that gets you to check in on a regular basis. They want you to feel like the economic story line is developing as we go along, and thus you need to tune in to make sure you don't miss anything. Your future depends on it!!

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In reality, most of the economic discussions you see on TV or hear on the radio are pure nonsense. You'd be better off tuning out most "news" stations, and that includes CNBC.

If you go back in history and examine things that have resulted in the most damage to our economy, they are invariably things we couldn't have predicted. Look at the two most recent examples in the 9/11 attacks and the unregulated (and therefore unknown) trading activities in mortgage derivatives. And that's my point. The things you hear about in the media today will not be the things that bring the economy to its knees. It's the events like a nuclear missile attack or a dirty bomb we worry about, not the weak dollar, large deficits, or high unemployment.

8. I met you through one of your educational seminars that you taught through UNCA. Are you doing anymore seminars through the University? Do you speak much during the year?

This spring, we have a four-week educational seminar set up for Tuesdays, on April 27th, May 4th, 11th and 18th between 6-8 PM. We charge $100 per person for the series, but our clients are welcome to come at no charge. We only ask that you bring a friend or family member. If you know anyone who is interested in attending, they can call Kristen Below in our main office at 877-366-5623. Scott, Brownie and I also speak regularly for local clubs, regional conferences and national professional meetings. If you need a speaker, please let us know, as our schedules fill up quickly.

9. Banks still seem to be in some trouble on several fronts. First, they still have to work through their bad commercial loans that are coming due, right? And second, they do not seem to be making many loans to the public. How will this hinder the economy going forward?

You're right. Banks are still working through some bad loans on their portfolios. The good news is that the Fed knows about them and has made sure the banks are well-capitalized. So the system as a whole is healthy. The bigger problem is the lack of loan activity. If our economy is going to grow, we need banks to make loans. Unfortunately, they appear to be overly cautious with their lending standards right now and only want to make loans to those with the very best credit ratings. Alternative lenders, like private equity firms, are stepping in to fill that gap, though, and this will eventually force banks to either begin lending again or risk losing their main business to non-banks. We applaud a return to sound lending practices, where you need things like a sound credit history and a decent down payment to qualify. But after the days of subprime mortgages, where even those with no hope of ever paying off the loan could buy a half-million dollar McMansion with zero down, the banks have overdone it on their lending standards and it will take time for them to adjust. In the long run, we want fiscally sound borrowers who have a stake in the game (via a decent down payment) and we are headed in that direction, which is good. It will just take time.

10. You've limited me to ten questions, so I'll finish with the topic that seems to be getting the most coverage: Unemployment. Won't this affect our recovery in a measurable way going forward? Isn't this time different?

Every recession is different, but we've been down the high unemployment road before…a few times. And in each case, the economy and jobs came back. Remember, unemployment is a lagging indicator and it typically lags the economy by nine months. This past month, private businesses created over 162,000 jobs. This continues a trend of losing many jobs six months ago, then losing a few jobs four months ago, holding steady two months ago…and now growing. It will take some time to get back to full employment given the huge loss of jobs. However, we tend to be more optimistic than most and, at least so far, we've been correct. Again, we hate the fact that so many people are out of a job. But we don't feel it will affect our portfolios in any measurable way going forward. In fact, if job growth is greater than expected, the markets will rally even more over time.

Interestingly, even though overall unemployment is running around 10%, the unemployment rate for college graduates is only around 4% or 5%. That's terrific by global standards and even by our own historical standards, and points out the importance of education (and spending on education) to the overall economy. Scott, being the Finance Department Chair at ECU, keeps close track of the salaries of grads in business and this past year he was surprised to see that new-hire salaries in finance and accounting both grew. This means demand for grads in those fields remained strong even though the economy overall was weak and the hiring of college grads in general was down. We think that's a good sign that the economy is recovering, but as we would expect, some areas are recovering more rapidly than others.

As we have stated a number of times in this newsletter, when the economy looks great, it probably isn't really as

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great as everyone thinks. Conversely, when things look bad, they are probably not as bad as most think. The economy is recovering nicely but we still expect ups and downs going forward. We're optimistic about the next three to five years and have positioned our portfolios accordingly. That said, we remain a bit more conservative in our allocations than normal. We've had a terrific run and our portfolios have recovered nicely, so we think it's only prudent to ratchet up our focus on preservation versus growth, at least in the near term.

A Final Note

As usual, if you have any questions regarding the markets, the economy, our managers or your personal portfolio do not hesitate to call or e-mail us. Your confidence in our management and your recent client referrals are much appreciated. Remember, we are always looking out for your best interest and are here to help you with any of your financial needs. Enjoy the beautiful spring weather…

~ Joe and The Gang at KWAG

Compliance Notes

A Note From KWAG's Chief Compliance Officer

It is time again to offer our annual Disclosure Document. This document gives a brief overview of our firm, its employees and our practices and policies. If there is anyone who would like to receive a copy of this document, please email me at the address below or call our headquarters office at #877-366-5623. We will be happy to send one to you.

In addition to the newsletter and statements, we have also included in this mailing our most current Privacy Policy for you to read. As always, we want you to know how important your confidential information is to us and the policies we follow to ensure your privacy.

As always, we are committed to better understanding your investment objectives, goals and knowing how we can better serve you.

Best Regards,
~Katie Burr
katie@thekielygroup.com

The Gang at Kiely Wealth Advisory Group

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

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