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

For nearly two years we have been writing about our concern regarding the lack of any real stock market volatility and the long absence of a normal (and long overdue) 10%+ correction in the S&P 500 index. After the significant run-up in stocks prices during 2013 and into the first part of 2014, it was clear to most investors (including us) that the overall stock market was more than fairly valued - particularly in light of the elevated price to earnings (P/E) ratios, which were well above their long-run averages. The good news is that we don't have to write about these things anymore because, after peaking on June 23, 2015, the S&P 500 finally experienced the much anticipated (and much needed) 10%+ decline. In addition, the volatility index (VIX) spiked up sharply in July and has remained higher than normal for almost three months now.

We believe both the dip and the increase in market volatility are healthy for the stock market over the long term and, in fact, are precisely what we were hoping to see. Of course, as loyal readers, you already knew that the current dip and increase in volatility are typical market behaviors and nothing out of the ordinary. In fact, it was the LACK of a double-digit dip or any real volatility over the last few years that had been concerning, because a lack of periodic market corrections leads to irrational exuberance on the part of investors, which leads to the creation of unhealthy financial bubbles. And when financial bubbles pop it is an extremely painful experience, as witnessed with the tech bubble (2000) and the real estate bubble and resulting credit crisis (2008).

The Numbers

Entering the third quarter, the S&P 500 stock index (a bellwether index of large cap stocks) was up 0.20% on the year, while the Russell 2000 stock index (a bellwether index of small cap stocks) was up 4.09%. During July, stock market volatility began to escalate as the month came to a close. However, it was not until the middle of August that volatility (and the VIX) peaked and the stock market finally experienced a normal (and much needed) 10% dip! Between the relative peak of the market on June 23, 2015 and the first market valley on August 25, 2015 the S&P 500 index fell by over 12%, while the Russell 2000 index lost more than 14%. Over the next month, through the end of the quarter on September 30, 2015, the stock market gyrated up and down before finally finishing the quarter on a down note.

Over the course of the entire third quarter, the S&P 500 index lost more than 7% of its value, while the Russell 2000 index lost over 12%. So in essence, the overall stock market

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PLEASE EMAIL KATIE WITH ANY QUESTIONS YOU MAY HAVE AT katie@thekielygroup.com (large and small stocks combined) lost roughly 10% during the quarter. We don't know anyone who likes to see a 10% drop in their investment portfolio. However, keep in mind, these dips are part of normal market behavior, virtually always short term, provide excellent buying opportunities, and are necessary to set a firm foundation for the next long-term rally. For over a hundred years the stock market has behaved this way and we believe this time is no different.

When we examine the year-to-date numbers through September 30th, the S&P 500 stock index was off -6.74% on the year, while the Russell 2000 stock index was down -8.63%. In other words, well-diversified stock portfolios should be off (or down) between 6% and 8% year-to-date through the end of the quarter, depending on the level/type of stock market exposure each investor has. Again, no one likes to see the value of their investment portfolio decline. However, in order to generate inflation-beating returns over the long-run, weathering a few periods of decline are necessary part of investing. Patient long-term investors understand there is method to this short-term madness. Specifically, they know that short-term volatility results in four significant "silver linings" for investors who recognize volatility for what it is, and then deal with it accordingly.

Silver Linings

First, as we've frequently mentioned over the years, regular stock market dips provide critical opportunities for our managers to buy stocks at very attractive prices. Functionally, without normal market dips and the pricing inefficiencies they invariably create, skilled managers would find it much more difficult to distinguish themselves from the pack and generate market-beating returns. However, knowing these dips are normal and that one typically occurs every year, they provide recurring opportunities for proactive managers to scoop up well-run companies on the cheap. At the end of the third quarter, over half of all stocks trading on the NYSE were down more than 20% from their all-time highs, many were down more than 30%, and some were off more than 50% from their all-time highs! Buying opportunities like these are invaluable to money managers and any stock investor over time and it's the reason we welcome stock market volatility. After nearly two years of relative calm, it's nice to see our fund managers excited about the opportunities available in the market again!

Second, regular volatility spikes provide opportunities for our firm to rebalance our client portfolios, by rotating out of fully-valued or overpriced areas into underpriced areas. Keep in mind that we purposely build our well-diversified portfolios - which encompass the ENTIRE stock market - with these normal periods of volatility in mind. Since we know these market dips are going to occur nearly every year, our portfolios are set up to provide a common sense strategy and a simple triggering mechanism for proactive rebalancing. This proactive rebalancing can increase a portfolios return by as much as 2% annually, if done correctly. This is why we love a good short-term stock market dip!!

Third, if you are regularly contributing to your retirement portfolio on a monthly or semi-monthly basis, these dips allow you to "dollar cost average" or buy into the stock market at lower than normal prices. In essence, you are behaving like a seasoned professional money manager by embracing (and buying into) normal market dips. The net effect of dollar cost averaging is threefold. First, you get to buy stocks at below average prices during dips, so in the long run these purchases enhance your portfolio's value. Second, your year-to-date portfolio return is typically much better than the overall market return, since it includes these timely low priced buys. Finally, by investing an equal amount regularly into the stock market - through thick and thin - you buy more shares on sale when the markets are down, and fewer shares when the markets are up (or overpriced). The net effect of dollar cost averaging is significant over time. Why more people don't embrace these normal short-term market dips is beyond us, since they are one of the most valuable tools investors have access to. Honestly, every rational stock market investor should be hoping for a down day in the stock market when they make their monthly contribution…right? You would think buying stocks on sale is just simple common sense? Apparently its not, since behavioral research shows most retirement savers don't view normal market dips that way.

Finally, ordinary stock market dips generally pave the way to new all-time stock market highs. The last time we experienced a significant 10%+ market dip was in the third quarter of 2011. During that quarter, the S&P 500 fell by more than 13%, while the Russell 2000 lost over 21%!! That's an average drop of more than 17%!! At that time the credit crisis of 2008 was still firmly etched into peoples' minds, in spite of being three years removed. As a result, we provided a reassuring chart that showed how markets typically pause in the third year of a recovery from a significant market crisis. So what happened after the third quarter dip in 2011? Over the next three months stocks rose more than 10%! Over the next year (2012), stocks rose another 14%! And then in 2013, the stock market shot up more than 30%! That's quite a rebound!! And for those of you keeping track, as we write this newsletter, the S&P 500 has bounced back nearly 7% from the low it reached on September 29!!

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The truth is, nobody has any idea what will happen to the stock market over the next month, quarter or year. As we have discussed many times before, the short-term is entirely unpredictable. In addition, once volatility begins, it usually lasts a while, which means we could experience an additional drop. However, if history repeats itself, this normal market dip will set a foundation for a nice run-up over the next three, five and ten years. Based on the vast majority of feedback we get from our clients and friends - many of whom are sending in checks and/or increasing their monthly contributions - almost all of you seem to understand both the short-term nature of market dips and long term trend of the stock market over time. Thank you for keeping your longer-term perspective…it will serve you very well over time.

Some Additional Perspective

As most of you know, Scott and I have been managing investment portfolios for over 25 years now, so the recent market volatility and the 10% dip is something we've seen dozens of times. In our minds, there is nothing extraordinary about the current stock market dip. In addition, we don't see anything on the economic horizon that concerns us about the global economy or the stock market, assuming you hold a well-diversified portfolio run by excellent money managers. However, for some investors who may be new to the stock market or getting closer to retirement, the recent volatility may have left you a little nervous and wondering whether you should adjust your overall asset allocation to become more defensive. Those feelings are understandable and absolutely normal. In that light, we would like to offer some additional insight and perspective on the frequency and length of common stock market dips.

Below, we provide a table of the size of stock market dips, how frequently they tend to occur, and how long they tend to last. As you can see, 10%+ magnitude dips occur, on average, about once a year, while 15%+ dips happen roughly every other year. Given that the last time we saw a 10% dip was almost four years ago, we were clearly overdue for a 10% dip. This is why the recent 10%+ dip in large-cap stocks shouldn't come as a surprise and is viewed as a long-overdue buying/rebalancing opportunity by savvy long-term investors. In addition, if we experience another bigger dip in the coming months, it would not surprise us in the least bit, since dips of 15% happen every other year.

A HISTORY OF DECLINES (1900-2014)

Size of Decline	Average Frequency	Average Length (*)	Last Occurrence	Previous Occurrence
-5% or more	~3x a year	46 days	Dec– 2014	Oct -2014
-10% or more	~once a year	115 days	Oct -2011	Jul - 2010
-15% or more	~every 2 years	216 days	Oct-2011	Mar - 2009
-20% or more	~every 3.5 years	368 days	Mar– 2009	Oct - 2002

Measures market high to market

Experiencing a short-term stock market decline of more than 10% can be uncomfortable, but if you understand the following basic fundamental investing concepts you will be much better equipped to deal with them successfully:

- Market declines are a normal part of investing. (See above)
- No one can consistently predict when market declines will happen.
- No one can predict how long a decline will last.
- No one can consistently predict the right time to get into or out of the market.
- Markets declines provide excellent buying opportunities.
- Market declines always set the foundation for new market highs.

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Remember, uncertainty in the short-run is the main reason why we build and maintain well-diversified portfolios using the best possible money managers. While diversification will never eliminate all of the short-term discomfort of declines, it should comfort you to know we have meticulously planned for events just like these, and so have our managers. In fact, we go out of our way to find managers who excel in down markets and over volatile periods. All of them have a proven history of using short-term market corrections to their advantage.

Of course, we also want you to take the time to remember those conversations we have had together about your willingness, ability and need to tolerate market volatility in pursuit of your long-term goals. The last several months of turmoil serves as an excellent "Exhibit A" on just what market risk feels like when it happens. For some investors it feels painful, and is a little scary. However, as we've reinforced numerous times in the past, market corrections are normal and act like the pressure release valve on your water heater. If the water inside your water heater reaches a dangerous temperature level and the pressure begins to build, the pressure release valve trips and catastrophe is avoided. Without the stock market occasionally tripping its pressure relief valve, we would face the danger of an overheated market that could ultimately result in a catastrophic decline like we saw with tech stocks in the early 2000s.

So in order for markets to deliver long-term premium returns, these regular short-term declines and spikes in volatility are merely a sign that the system is healthy and working well and that the safety valve is functioning exactly as it should. The key to weathering these declines is to recognize that corrections are an integral part of a healthy market environment. Without them, markets would become seriously overheated and that's not good news for anyone.

The Stock Market

It's hard to believe, but the current bull market rally is now nearly 80 months old! For those of you who are mathematically challenged that over 6½ years! From the post-recession market lows reached on March 9, 2009, all nine of the stock market style indexes have now increased more than 220%. To say this has been an incredible run would be something of an understatement, but it has not come without some ups and downs. Every quarter over the past several years we've stressed that normal stock market pullbacks (in both large and small cap stocks) have occurred in 2009, 2010 and 2011. Since 2008, small caps have experienced a healthy 10% dip every single year, including this one, and we can now add 2015 to the list of 10%+ pullbacks for large-cap stocks as well.

In previous updates, we have written about how large company prospects are driven more by the global economy, while smaller companies tend to generate more of their revenue domestically. Over the last year (including the third quarter), the global economy has slowed significantly while the domestic US economic has continued to grow, providing small cap stocks with an advantage. In addition, the Federal Reserve has stopped the bond buying associated with its quantitative easing (QE) program, while foreign economies have now instituted QE strategies of their own. Combined, this has served to significantly strengthen the US dollar relative to virtually all other currencies. As the dollar gains strength, domestic companies who export goods and services see the cost of their product to overseas customers rise, making them less competitive globally and forcing them to slash prices and sacrifice profit margins. But since smaller firms are less likely to be involved in the global export market, this type of environment creates a relative advantage for small caps.

Please take note that we have NOT changed our view on any of these recent trends and remain committed towards keeping a well-diversified portfolio that embraces small and mid-cap stocks. As you know, we never alter our broad portfolio allocations based on what we think MIGHT happen in the near future because we're smart enough to know that the short-term is totally unpredictable. Behavioral research and the school of hard knocks has shown time and again, if an investor gambles on what they think is going to happen next…they will invariable lose. This is why we will always build (and invest in) well-diversified portfolio's using excellent managers.

The Numbers

Given the broad economic synopsis above, it may come as a slight surprise that large cap stocks (S&P 500) have outperformed small cap stocks through 9-30-15. We don't believe this trend will continue and, in fact, believe the recent 10% correction, combined with continued economic weakness overseas, creates an environment where small caps will thrive. Overall, we believe the entire market will continue to rally over the next three, five and ten years. However, we believe small and mid caps will lead the way...particularly on the "value" side of the equation.

As our long term readers and clients know, we wholeheartedly promote the wisdom of owning "value" stocks, since they have historically outperformed "growth" stocks by a significant margin over time. However,

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deviations from the long-run pattern do occur and in the table below it's clear large growth has led the way so far this year, declining by just -1.54%, while small value stocks have declined -10.06%. This clearly runs counter to the long-run return pattern and is precisely why we are rebalancing back into small and mid caps stocks with a value slant. We know it's just a matter of time until "the value cows come home". Right now the gate is open, the grain has been put out, and the dinner bell has been rung.

Russell Index Performance
YTD through 09/30/2015

Value	Blend	Growth	
-8.96%	-5.24%	-1.54%	Large
-7.66%	-5.84%	-4.15%	Mid
-10.06%	-7.73%	-5.47%	Small

The key to rebalancing using the size/style-based approach we have always embraced is knowing that style box leadership is not a constant each year. Instead, you need to recognize that the market leadership is constantly changing each year with a longer term trend line. To see this, all you need to do is look back at market history. If we go back to 1998-99 and 2007-08 we'll observe market leadership patterns very similar to what we're seeing today. During both of those periods – which were each approximately two years in length - large growth significantly outperformed small value, which typically occurs in aging bull markets. Scott, Brownie and I can still remember many of the conversations we had with impatient clients during those years, knowing it was just a matter of time until the tide changed and market leadership rotated back to its longer term trend. To bolster our conversations, we used the long-term return numbers to validate our convictions. Just like we know the market will increase over the long run…we also know it will be led by small and mid cap stocks with a value slant. After a short-term reversal in 1999, small value crushed large growth for seven straight years! And, after a short-term reversal in 2007 and part of 2008, small value crushed large growth over five of the next six years. Over the last few years, large growth has outperformed small value by a significant margin. However, we know it's just a matter of time until the trend reverses back to the norm. And if history is any guide, when it does rotate back to the long-term norm, the effect will be dynamic and long lasting.

When you examine the previous 12-month return patterns, it validates our growth stock concerns. As you can see, large cap growth has outperformed every other style index (with the exception of small growth) by a significant amount. The same type of return profile existed in 1999 and 2007 just before the "tech wreck" and prior to the "credit crisis" of 2008. We don't believe we are on the precipice anything approaching the sell-offs we saw in the past, but we do believe you should NOT be overweighting growth stocks at this juncture. This is why we have been proactively rebalancing away from larger, growth oriented stocks into smaller, value oriented stocks.

1-Year Russell Index Performance
year ending 09/30/2015

Value	Blend	Growth	
-4.42%	-0.61%	3.17%	Large
-2.07%	-0.25%	1.45%	Mid
-1.60%	1.25%	4.04%	Small

When you examine the longer-term five year annualized returns – which includes the market dips of 2011 and 2015 - you can see the long-term averages look much more balanced, particularly if you factor in last few year's significant outperformance in growth. The good news is that you can see every area of the stock market has increased by double-digits annually over the last five years, with large growth leading the way. No one knows which areas of the stock market will outperform in the near term so we don't waste our time attempting to predict it. Instead, we let the markets natural ebbs and flows reveal themselves over time and then rebalance as the areas that have been hot become overweighted while those that have underperformed become underweighted. This strategy is much more productive and less prone to major mistakes, since it doesn't rely on predicting which area of the market is going to be the best in a given year.

5-Year Russell Index
Performance ending 09/30/2015

Value	Blend	Growth	
12.29%	13.42%	14.47%	Large
13.15%	13.40%	13.58%	Mid
10.17%	11.73%	13.26%	Small

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Since we've been discussing our longer-term outlook, we thought it would also be helpful to include the 15-year and 20-year annual return data, which span the major speculative bubbles in tech stocks and real estate as well as minor speculative bubbles in both oil and gold. As you can see, the 15-year pattern of returns fall right in line with the long-run pattern we see going all the way back to the 1800s, with small and mid-cap stocks dominating their large-cap counterparts and value dominating growth. The interesting thing about the 15-year numbers is they start at the peak of what was the largest stock market bubble since the 1920s, and yet the long-term returns, if you had invested in a well-diversified portfolio that encompassed the entire stock market, are still surprisingly good. Even when you examine the 20-year returns (which include most of the tech bubble) the longer-term trends remain intact, with value generally beating growth and small and mid-cap stocks generally beating large caps. Clearly, it makes sense to build well-diversified portfolios that embrace small and mid-caps versus portfolios that over-emphasize large cap stocks.

15-Year Russell Index
Performance ending 09/30/2015

Value	Blend	Growth	
5.73%	4.14%	2.20%	Large
9.55%	7.63%	3.72%	Mid
8.53%	6.51%	4.15%	Small

20-Year Russell Index
Performance ending 09/30/2015

Value	Blend	Growth	
7.68%	7.32%	6.45%	Large
9.86%	9.39%	7.78%	Mid
8.57%	7.29%	5.53%	Small

Overall

Overall, we see very little on the economic horizon that concerns us about our economic future. The domestic economy remains stable and growing in spite of significant headwinds from weaker overseas markets; corporate American remains lean and highly profitable; and the U.S. is growing faster now than it has since the last recession. In addition, the employment picture continues to improve, energy remains cheap, the cost of borrowing is still near all-time lows, and inflation remains virtually nonexistent. As long-term investors, we remain optimistic and believe that as long as you remain well-diversified; use top-notch money managers; proactively rebalance; and control your emotions; the long term investment future over the next five and ten year is very bright.

BOND PORTFOLIOS

The performance of an equally-weighted portfolio of KWAG core bonds is displayed in a table on the following page. As we've discussed in the past, this portfolio is purposely constructed with different types of bond funds, spanning a broad swath of the fixed income spectrum. This diversified approach is designed to perform well in a variety of bond market environments, with safety of principal as the prime concern. As shown in the table, this diversified approach has significantly outperformed the broader bond market indexes over time.

Please note that we use this table ONLY as an example of how a well-diversified fixed income portfolio should work. It's important to stress that each client's fixed income portfolio is tailored to their specific needs and may differ from the composition of the portfolio shown below. It is also important to point out that our bond portfolios should be viewed in total, rather than as individual funds. We know some parts of the portfolio will underperform in certain environments while others will outperform, and this is the impetus behind building a diversified fixed income portfolio for our retirees.

This past quarter clearly illustrates this concept. Alliance Convertible (ANNPX) and Loomis Sayles Strategic Income (NEFZX) have been our best long-term performers as the economy and the stock market have rallied. However, their holdings are more dependent on a strong global economy and a strong stock market. During the quarter, the global economy weakened, the stock market took a dip, and both funds suffered. On the other hand, Metropolitan (MWTIX) and Double line (DBLTX) are much more traditional and conservative in their investing approach and are therefore

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more dependent on the direction of interest rates. As interest rates fell during the quarter, these funds increased. The final fund, Oppenheimer Floating Rate (OOSYX) tends to move with interest rates so as rates declined, it lost a bit of value over the quarter. Since we believe both the stock market and the economy are going to continue to grow over time and since we know interest rates will eventually increase, a diversified approach to fixed-income is still the best low-risk approach to preserving asset values while keeping pace with inflation.

Keep in mind, each advisor at KWAG uses the "core" portfolio as a starting point for their fixed income portfolios and makes adjustments based on the specific needs of each individual client. Clients with a greater need for current income will hold more conservatively positioned portfolios, which will have lower volatility (downside risk), but at the expense of somewhat lower long-run returns.

Clients who are still working or are not currently taking distributions will tend to have somewhat more aggressive fixed-income portfolios, which are designed to generate higher long-run returns, but with greater exposure to short-term downside risk. All of our clients typically have a portion of their portfolio allocated to multiple bond funds. The weights of each piece are adjusted according to your specific situation, taking into account your age, income needs, risk tolerance and any other relevant factors. Clearly, more aggressive holdings like NEFZX and ANNPX have had higher returns over the past three and five years, which is why many investors naturally gravitate towards them. However, as we have mentioned in many previous updates, both of these more-aggressive funds come with higher downside risk, which is why we like to hold them within well-diversified portfolios.

KWAG CORE BOND FUNDS

KWAG Core Bond Funds	2015 YTD	2014	2013	2012
Oppenheimer Floating Rate (**OOSYX**)	0.86%	0.79%	6.70%	8.75%
Allianz Convertible (**ANNPX**)	-3.17%	6.68%	25.58%	11.96%
Loomis Sayles Strategic (**NEFZX**)	-7.62%	5.65%	10.87%	13.56%
Metropolitan West Total Return (**MWTIX**)	0.69%	5.99%	0.50%	11.54%
Doubleline (**DBLTX**)	2.81%	6.73%	0.02%	9.16%
Average Fixed Income Return	**-1.29%**	**5.17%**	**8.73%**	**10.99%**
Barclays US Aggregate Bond Index	1.13%	5.97%	-2.02%	4.21%

***Note:** We swapped out PTTRX for MWTIX at the end of the third quarter, 2014.

If the recent bout of interest rate volatility taught us anything about our bond portfolios, it's that patience, diversification, and sound investing fundamentals matter. When you examine the big picture within the context of what happened over the last few years, our biggest takeaway is that we have an excellent mix of bond funds and bond fund managers, and we believe using them in combination will allow us to weather any type of future interest rate environment. In addition, a diversified portfolio of bond funds provides an attractive alternative to holding cash, CD's and/or a money market account, since they're liquid, safe and provide a significantly higher rate of return than other low-risk alternatives. If you are holding significant amounts of cash due to concerns over safety, you can see why it would make sense to hold a well-diversified portfolio of high-quality bond funds instead.

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Q & A with the Doctors

Big-picture strategy aside, we understand that you may still have questions about the many unfolding news events grabbing current headlines. Over the past quarter we have received a number of questions about the economy, our managers, rebalancing, price-earnings ratios and a number of other interesting financial and economic topics. If you have any follow up questions or need any clarification on our answers, we'll be happy to share our insights with you…any time. Enjoy the Q&A and thanks for the all of your constructive feedback.

Q1: Dr. Joe & Scott. Last quarter, I really enjoyed your section on the global economy and the macroeconomic factors that drive the world economy. I had never seen it presented that way before. It made so much common sense. In your opinion, has anything changed regarding those big -picture macroeconomic factors? B.M

Joe: Hey BM, A lot of investors like to spend a lot of time examining the economy and economic data, because they believe micro-economic indicators can provide valuable clues as to how the stock market and the Federal Reserve will behave over the short run. In our view investors should only spend a little bit of time debating these short-term issues. It's not that we deem these issues as being unimportant. They are very important. However, they need to be viewed within the context of larger more important **macroeconomic variables over the longer term**. Why do we focus more on macroeconomic factors? Well, if the proper macroeconomic conditions are in place, we know we have the necessary conditions for our markets to not only grow, but to also thrive. And so long as those factors stay in place, the long-run prospects for both the domestic and global economies (and by extension the stock and bond markets) remain excellent.

Scott: I don't see a lot that's changed. Below I provide a general synopsis on each of the major Macroeconomic variables affecting the U.S. and global economy.

A. Cheap, Abundant Capital: Nothing has changed on this front in our opinion. Interest rates in the U.S. remain near record lows. And, overseas China, Japan, Europe, Australia and a number of other countries are engaging in similar QE strategies. In general, a lower cost of capital is good for everyone…in small doses. However, it can easily be overdone and we believe inexpensive capital worldwide is creating bubbles in a number of foreign asset markets, particularly China.

B. Abundant Labor: Today, with the exception of a few very specialized high-tech fields, there is no shortage of highly educated labor. And there are plenty of signs that the U.S. and the global economy are putting this labor to work. That said, there is significant mismatch between job skills on the lower end and job needs. This mismatch is a concern for a number of U.S. workers, but it will not derail economic growth overall.

C. Technological Innovation. Technology has been a double-edged sword for every economy on the planet. On one hand, it is changing every industry by reducing costs and making processes more efficient and productive. In fact, one of the primary reasons we're currently seeing growth with almost no inflation is because technology continues to reduce production costs for virtually everything we consume… including oil. Unfortunately, greater efficiency also comes at the cost of jobs, particularly unskilled labor.

D. The Flow of Capital across Markets: On the corporate level, the free flow of abundant capital has resulted in more merger and acquisition (M&A) activity than ever before. The biggest mergers make the headlines, but it's the smaller ones behind the scenes that materially impact our portfolios. Companies like Apple, Google, Sony, Microsoft, Facebook and others are buying up smaller private companies that have incubated unique technologies and efficiencies that they can better-utilized by larger firms, taking advantage of their massive economies of scale. This M&A activity is all possible because of the unimpeded flow of capital across financial markets. It's also a reason why Corporations hold so much cash.

E. Global Growth: This is the one area of concern. As long as the world economy grows at a rate above 3%, corporate America will be not only do fine, but it will thrive. Recently, the International Monetary Fund (IMF) reduced its estimate for global growth to 3.3%, which caused some jitters in the financial markets. In addition, we know China is slowing…we just don't know how much. If it was just China slowing down, the rest of the world would pick up the slack. Unfortunately, we see softness in many parts of the globe, which we believe is transitory.

Q2: Dr. Joe & Scott: Over the last few months, I have noticed an increase in activity in my portfolio. Can you provide a quick synopsis of the changes that are being made?

Joe: Excellent question! We have made a number of changes to our portfolios on many different fronts. First, John Keeley passed away, so we sold off most of the Keeley Fund (KSCVX) where it made sense. Second, we added a few new managers to our arsenal, so we tried to rebalance new money into those new managers where appropriate. Third, given the

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markets sell off, we tried to harvest some "tax losses" and pro-actively rebalance where it made sense. Finally, we had some underperforming managers. The market dip allowed us to purge some of those managers without taking significant gains.

Scott: Keep in mind that we are constantly examining our client portfolios and rebalancing on as as-needed basis. During periods of relative stability fewer adjustments are required to maintain portfolio diversification so fewer trades occur. During periods of heightened volatility, however, things get out of balance more quickly and more frequent trading is needed to maintain the equal style-box exposures we want.

Q3: Dr. Joe & Scott, I know you guys follow the price to earnings (P/E) ratio because it provides a general picture of the overall stock market valuation. How do current P/E ratios compare to the longer run averages after the dip? D.F.

Scott: Today, the forward P/E on the S&P 500 is 16.05 times earnings, while the forward P/E on the Russell 2000 is 16.45x. The longer-term P/E average for the S&P 500 is 16.5x, while the longer term average on the Russell 2000 is 16.3x. So right now we're basically in line with the longer-term averages. That's good, because as long as P/E ratios are close to the longer-term averages we feel better about prospects for stocks going forward. The market correction has helped to bring us back into normal territory on forward P/Es and that implies we should expect to see normal market returns going forward. I'll gladly take that.

Joe: That's true. However, when you look at individual industries and specific companies within those industries, a different picture emerges. When the market sells off in the short run, some companies and industries get punished more, which creates the long-term opportunities we've been discussing throughout this newsletter. In those cases, the "price" you pay for a company's "earnings" and/or "cash flows" are much lower than normal. This is where money managers earn their keep over time. For example, there are a ton of energy stocks and industrial stocks, which sell at very low "relative" P/E ratios. Our managers are scooping these companies up. On the other hand, biotech stocks are still selling at significant premium to their longer-term P/E average, so our managers are avoiding them.

Scott: Exactly…this is precisely why we hire the best money mangers we can find. It's their job to identify the best opportunities and avoid the potential pitfalls and they've proven that they're very good at doing just that.

Q4: Dr. Joe. This year, I turned 70.5, so I know I have to take out my required minimum distribution or my RMD at some point. Do you and your company help me with this task? And, how do I figure out the amount of the RMD? M.J.

Joe: That's a very timely question, and the answer is…we can supply both the RMD amount and the paperwork. Many clients use their RMD's for monthly income each year, while others reinvest it. The amount of the RMD is calculated by taking the previous years "year-end value" on December 31st, and then multiplying it by a "percentage" provided by the IRS. TDA works diligently throughout the year to gather these amounts for our clients. If you have not taken your RMD this year, <u>Katie and her team will notify you and provide the RMD paperwork by November 15th.</u> Please complete the forms and return them as soon as you can, so the RMD are processed by year-end deadline of 12/31/2015.

Q5: What are your thoughts about the U.S. competitiveness worldwide? I read an article that said we were way behind the rest of the world on many fronts. Is that really true? M.P.

Joe: No M.P., that's not really true. Since 1979, the World Economic Forum (WEF) publishes an annual report on the Global competitive Index, which ranks the competitiveness of 140 different nations. The WEF defines competitiveness as "the set of institutions, policies and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that the country can earn". We agree with the definition, since its quite comprehensive. (Note: You can go to the WEF website and examine the 400 page report). The U.S. has ranked in the top five ever since I can remember and this year they rank 3rd, behind Switzerland and Singapore which are the tiny in comparison and thus much easier to manage. To provide some perspective, Switzerland's GDP is 20th, while Singapore's is 36th. Together they represent 5.8% of America's GDP or part of one state. We have always finished ahead of other large developed countries around the world. We are quite frankly light years ahead of any other industrialized country, on any number of economic measures.

Scott: That's true. Some people have a negative view of our economic competitiveness, perhaps driven by political agenda or lack of information, but industry in the U.S. is extremely productive and highly competitive. I think our ability to compete so well globally is the result of having the strongest university system on the planet. The

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graduates our universities are turning out are equipped with state-of-the art skills and knowledge that translate into a workforce that enriches America's greatest strength—the ability to innovate. Look at the world's greatest discoveries in areas like medicine, economics, engineering, electronics, and national defense and most of them were made right here in the U.S. The globe is currently being transformed by technology and technological innovation and most of that is also happening right here in the U.S., in place like Silicon Valley and North Carolina's own Research Triangle Park. There's an old saying that in the U.S. we innovate while the rest of the world imitates. That's still largely true and as long as we continue to have the world's best university system, it's unlikely to change.

Q6: There seems to be two big things driving the stock markets volatility…the Fed and China. What are your thoughts regarding the slow down in China's economy? What are your thoughts regarding the Fed and raising rates?

Joe: Nobody really knows what drives the stock markets movement over the short run, since there are so many different traders, with so many different trading agendas. In addition, today almost 70% of all trades are performed by computer programs, which are looking for small inefficiencies between different financial markets. Thus, daily market moves are totally random…even though media outlets like CNBC would like you to believe differently. Here's what we do know. On any given day, if the market is down, we know there were more sellers versus buyers. And on any given day, if the market is up, we know there were more buyers versus sellers. That really all we know, other than the fact that recent prices WERE somewhat higher than normal, given current earnings.

Scott: There seems to be an inordinate amount of coverage on the Federal Reserve and China. Yes, China's economy has slowed, but that is largely a function of their maturation into a developed economy from a developing one and the transition from being export driven to consumer driven. Evidence of this transition to consumerism can be seen in consumer-driven companies like Apple and Starbucks, who seeing phenomenal growth in China.

With respect to the Federal Reserve, there's not really much to tell. We know an interest rate increase is coming, and when the Fed feels the economy is robust enough to handle it, it will increase rates. However, we've known that for five years now. We also know that any rate increases in the next year or so will be so small as to be largely symbolic as opposed to functional. Had the global economy, led by Europe, not suffered a major downturn last year we would likely be two or three rate increases into the cycle by this point. The U.S. economy continues to grow and gain momentum but headwinds are being provided by sluggishness overseas. We expect to start seeing signs of life in the European economy in 2016, as a result of their transition from austerity to aggressive quantitative easing that finally occurred in 2013-14. Had they followed the same approach as the Federal Reserve and begun quantitative easing from the outset, it's likely the global economy would be back to normal by now, but that's obviously beyond our control. The good news is that the European Central Bank finally gave up on austerity, which was killing their collective economies, and began an aggressive, accommodative monetary policy approach similar to what the Federal Reserve adopted way back in 2008-09. Some people (and monetary institutions) are just slow learners…

Q7: Dr. Joe, What are your thoughts on current oil prices? How do you think this affects the U.S. economy?

Joe: When I personally think about oil prices, I think about how symbolic the oil industry is to all of the technological changes taking place across every industry worldwide. Five years ago, everyone was worried we'd run out of oil. Now we're energy independent. That's amazing. As we move forward, there are going to be huge changes in every industry and those changes will catch most people off guard. There will obviously be winners, losers and unintended consequences. Clearly lower oil prices leave more money in people's pockets at the end of every month, just like lower interest rates do. More money in US and global consumers pockets is only a good thing.

Scott: As we pointed out in January, low oil prices are a function of both supply and demand. Technological innovation (there's that term again) in the oil fields has made previously unrecoverable oil cheap and easy to recover and the domestic supply of oil has ballooned as a result. In addition, as prices fell foreign oil producers chose to increase production in order to maintain a constant revenue stream and this increased supply even more, driving prices lower still. In decades past, OPEC would have tried to control the global oil supply by setting production limits on member countries, but the growth in non-OPEC oil producing countries has reduced their influence dramatically.

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On the demand side of the equation, we've seen significant economic weakness in Europe, China and the developing world. This has reduced the global demand for oil substantially. If demand is falling while supply is rising, the result is rapidly dropping prices and that's exactly what we've seen. The good news is that lower oil prices have provided a boost to consumers domestically and, assuming they remain low for the next several months, could have a major impact on the all-important holiday retail season.

Q8: What are your thoughts on the various political primaries?

Joe: I'm not sure I want to touch this one with a ten-foot pole! As you know, we try to stay neutral on this topic, mostly because we're not really politically oriented. That said, I think the diversity of people running in the Republican party is fantastic. People will focus on Trumps bombastic statements, but those statements lead to discussion, discourse and in the long run serious solid debates. We live in a great country, but like all countries we're not perfect. I like the primaries because they provide a great venue for conversation, discourse and honest debate. They also provide some pretty funny moments if you can keep your sense of humor.

Scott: We tend to be apolitical pragmatists out of necessity. As we've stressed in the past, our job isn't to comment on public policy but react to it. The result of the primaries and general election are obviously beyond our control, so our interest in the political process is solely from the perspective of how the election might impact public policy in the U.S. and how, in turn, this might impact our portfolios. Historically, political shifts have had little impact on the financial markets or the economy (politicians, party officials and political pundits don't like to hear that, but it's true) so it seems unlikely the upcoming election would require us to make major changes to our portfolios, regardless of the result. However, we always monitor things closely just in case. At this point, of course, it's still way too early in the process to have a clue as to the direction of next year's election, so to be honest, it's not something we've spent much time thinking about.

Q9: At the beginning of the year, you provided a list of ten reasons why you though the market could be overvalued at that time. Can you provide that list again? G.M.

Joe: Absolutely. At the beginning of the year we provided 10 short-term "red flags" that gave us pause for current stock market valuations in the coming year:

1. No 10%-15% dip in the S&P 500.
2. Extremely low volatility.
3. "Bull" sentiment highest on record.
4. Top 10 "bull" years result in a return of 0.1%
5. Last time DJIA had 7 straight up years? 1870.
6. Strong dollar hurts global prospects of S&P 500
7. 50% drop in oil signals low consumer demand.
8. Small value outperforms large growth -bad sign.
9. Managers were holding more cash than usual.
10. "Adjusted 10-year" P/E ratios were very high.

Scott: Wow. Joe, are you descended from Nostradamus? Numbers 1 and 2 can be checked off the list. Numbers 3 and 4 are back down to within the normal range today, meaning investor sentiment is neither bullish nor bearish. We won't know about number 5 until year-end, although the DJIA is off 4% year-to-date. The stronger dollar has clearly affected earnings in the US, especially for major exporters. You were right on "lack of demand" being signaled with lower oil prices, although increased supply from techniques like fracking played a role as well. Small value is still lagging large growth, which is never a good sign. Managers are now putting that horde of cash to work, although most only report their holdings quarterly so it's still too early to determine the extent. Adjusted 10-year P/E ratios remain very high, but this is also being biased by the historical sell-off in 2008 and the record low interest rate environment we've been in for over 5 years now. In other words, it's hard to interpret 10-year P/E's, which even Robert Shiller (who came up with the measure) admits.

Q10: Dear KWAG team. I always look forward to the January client dinners and Joe's "state of the markets" address. Have you set the dates, times and venues yet? I like to get it on my calendar, so I can plan my return trip from Florida to coincide with your dinners. K.M.

Katie: We have set most of the dinner dates, with the exception of Ithaca, NY. We also have a number of much smaller luncheons, breakfasts and other client gatherings. The chart on the following page lists the dinners, locations and times so far for 2016.

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Client Appreciation Dinners 2016

Ocean Isle, NC | Monday, January 25th | Sea Trails Convention Center | 6:00-8:30PM

Greenville, NC | Tuesday, January 26th | Greenville Hilton | 6:00-8:30PM

Asheville, NC | Thursday, January 28th | Asheville Country Club | 6:00-8:30PM

Ithaca, NY | Tues or Wed, February 3rd or 4th | Hilton Garden In | 6:00-8:30 PM

For those of you who are out of state, we are taping the first dinner at Sunset Beach again. Last year, we posted the dinner video on YouTube. We'll do the same this year, within a week or two of the Sunset Beach presentation. Please mark your calendars, RSVP, and feel free to bring a guest/friend who may be interested in our common sense message. You can RSVP by calling our main office in Greenville, NC at (252-439-1888) or emailing Kristen Below at kbelow@thekielygroup.com.

Update Your Beneficiaries!

Compliance Note

Life changes such as death, divorce, and/or new children, often necessitate a change in your Beneficiaries. Unfortunately, some people actually overlook this important part of their investment planning. We would like to encourage all of our clients to review their IRA Beneficiaries and their current will to make sure everything is up to date regarding their Estate Planning. If you're unsure who the beneficiaries of your retirement accounts are, you should check with your advisor or log onto TDA's website to make sure they are updated. In many cases, IRA Beneficiary forms supersede a persons will. So it is very important that you keep these documents updated and your designations current. Please contact Katie Burr at katie@thekielygroup.com or your specific advisor to obtain IRA Beneficiary information or to discuss Beneficiary planning. This item is vital to your family's future welfare.

Thank you,
Katie Burr
Chief Compliance Officer, KWAG

A Final Note

As always, please be in touch whenever we can be of service to you and your family. If you have any questions about this newsletter, our views, your accounts, or our managers, please feel free to call or e-mail any time. The recent referrals are much appreciated and we thank you for your continued confidence in our firm and our services. 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.

Enjoy this beautiful fall season!!

~ Joe and The Gang at KWAG

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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.*

Past performance *may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, or equal either the performance results reflected or any corresponding historical index. The historical index performance results are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether the performance of a specific investment meets, or continues to meet, investment objective(s). It* ***should not*** *be assumed that any account holdings will correspond directly to any comparative index. The performance results do not reflect the impact of taxes.*

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.*

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