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

Financial markets, global economies, and governmental economic policies are more complex and interconnected today than ever before. This complexity leaves many investors uncertain about their investment strategies, and the uncertainty is only heightened by the piecemeal, segmented fashion in which financial and economic information is presented to the public. Growing up, most of us probably got our domestic and world news through one of the three main television networks and our local newspaper. Today, information is highly segmented and disseminated based on factors like your geographic location, your choice of media, your connections on your social networks, and your political views. The result is that much of the information people receive online or via email is specifically targeted to them individually, and more often than not is intended to persuade more than inform. This makes it difficult for the average investor today to know which events are important and which are agenda-driven and therefore likely to be greatly exaggerated. Our newsletters and monthly updates are written to help fill in some of those gaps and help you make sense of recent events and their potential impacts on your portfolio in an impartial manner. Our only agenda is to inform.

2014 Events

Although the broader markets changed little over the first quarter, there were plenty of domestic and global highlights, including a change of Fed leadership (a known important event); the Russian occupation in Ukraine (a previously unknown event); and the recent Michael Lewis book and 60 Minutes interview on High Frequency Trading (selling fear). In addition, there were plenty of other economic news events that affected short-term pricing in both the bond and stock markets throughout the quarter. We want to focus on the first three items, however, because they involve topics we like to touch on and reinforce in our newsletters. Namely, how markets and investors act and react to known and unknown events, and the selling of fear.

A Change in Leadership

To us, the biggest news event during the first quarter of 2014 - which will likely have the largest impact on our portfolios over the next five to ten years - was the change in Fed leadership. We believe the selection and confirmation of Janet Yellen as the new

INSIDE THIS ISSUE:

IMPORTANT

WE ARE CHANGING OUR HEADQUARTERS OFFICE ADDRESS:

STARTING MAY 1ST, OUR NEW HEADQUARTER'S ADDRESS WILL BE

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PLEASE SEE PAGE 12 FOR MORE INFORMATION

Chair of the Federal Reserve is great news for our clients and their portfolios. The day she took over the reins of the Federal Reserve she immediately became the most powerful woman on the planet. We believe she was an excellent selection and the best person for the job for a number of reasons. First, Ms. Yellen was a major advocate of many of Ben Bernanke's innovative and transparent strategies. In addition, the fact that she rose up through - and now leads - the male-dominated Federal Reserve tells you a lot about her strengths, not the least of which are her leadership skills, political neutrality, and extraordinary intelligence. Given the male-centric nature of the Federal Reserve Board of Governors, Ms. Yellen likely had to be twice as smart as the next "guy" in line to reach the position she now is in. While it's disconcerting to realize glass ceilings are still common in this country - particularly in banking and finance - Ms. Yellen's rise to prominence should be encouraging for all Americans. It certainly is for us.

A Change in Volatility

A variety of unrelated global events seemingly conspired to increase market volatility in the first quarter of this year. These events included geopolitical tensions between Russia and the Ukraine; uncharacteristically cold and snowy conditions throughout much of the U.S. which took a toll on a number of economic fronts; and weaker than expected economic growth (and the first ever corporate default) in China. Each of these unforeseeable events were deemed important and noteworthy individually, although none were viewed as particularly alarming and could therefore be categorized as "transitory events" in terms of our long-term investment strategies. That said, we study each transitory event (in detail) as it occurs, since each event may provide an opportunity to rebalance our stock and bond portfolios over the short run. We tend to worry more about unknown events versus those that are discussed and disseminated each day by our media. Over the first quarter, we observed an expected uptick in volatility, but none of the events were particularly worrisome to our overall financial markets.

No Change in Fear

When it comes to the global financial markets, the element of "fear" never seems far away. This is why there is never a shortage of dodgy pitchmen and media outlets attempting to use "fear" to sell something, whether it be questionable investment products, books, advertising, or poor investment advice. In the first quarter, we encountered a number of "fear-driven" stories, led by some of the usual suspects like hyperinflation, market bubbles, money printing, and global terror. The first quarter, was punctuated by a "60 Minutes" story on High Frequency Trading (HFT). For those who have followed financial markets for decades, HFT is nothing new. For as long as there have been organized financial markets, investors have been trying to gain an "edge" on their peers and one of those advantages in terms of short-term speculative traders has always been "speed". Unfortunately, 60 Minutes and Michael Lewis equated HFT with cheating, and went so far as to call the stock market "rigged" which is complete and utter nonsense. The truth is HFT has actually lowered bid-ask spreads (or trading costs) for investors over the last ten years, and this has significantly benefitted long-term investors, including our clients. How do we know this? Dr. Joe wrote his Ph.D. dissertation on "market microstructure" which is the study of short-term stock market behavior and pricing. In addition Scott & Joe together have published a number studies in high ranking academic journals dealing specifically with things like rapid trading, bid/ask spreads, and other aspects of market microstructure. Let's just say we know how it works…and it's nothing like what Michael Lewis wants you to think. Of course, we're not selling a book.

We'll be the first to admit that the financial services industry has plenty of problems, especially when it comes to dispensing financial advice (which is precisely why we started KWAG twenty years ago). Please believe us when we tell you that the LAST thing you need to worry about is high frequency trading, which isn't even a blip on the radar screen of problems in the financial services industry. Unfortunately, selling fear effectively all boils down to packaging, and if you like the person selling (or packaging) the fear, you're more apt to believe it. Michael Lewis has written some good books on a number of worthy topics, but this is NOT one of them.

The Role of the Federal Reserve

Given the change in Fed leadership - and the fact that we believe monetary policy is the largest single influence on the economy and our financial markets over time - we thought it would be a good time to look back upon the significant influence the Federal Reserve has had on our domestic economy over the last thirty (plus) years. Unfortunately, the Federal Reserve, and many of their policy initiatives are often misunderstood. That's too bad, since the Fed and their innovative strategies have provided incredible economic stability and growth which has benefitted all Americans for over thirty years now.

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A Change in Policy

Most people remember the period from the late 1970's into the early 1980's when interest rates were at all-time highs–with rates hovering around the high teens. What many people don't remember is the innovative change in strategy made at the Federal Reserve to target "core" inflation at 2%. Core inflation excludes food and energy prices, which are primarily driven by events beyond the control of monetary policy, such as war, meteorological events, or, in the case of the late 1970s, the Arab oil embargo.

At that time, the Federal Reserve was led by a visionary named Paul Volcker. Mr. Volcker was initially appointed as Fed chairman by Jimmy Carter, and then reappointed by Ronald Reagan. In 1981, inflation peaked at a painful 13.5%. However, following Mr. Volcker's highly controversial actions to raise the federal funds rate to an unheard of 20% in 1981, inflation fell to just 3.2% by 1983. The period under Volcker essentially marked the birth of monetary policy as the primary economic catalyst in this country. Prior to this time the federal government had always attempted to influence economy using fiscal policy. Unfortunately, political infighting got in the way, which rendered fiscal policy impotent and thus no match for the record high inflation and record high unemployment seen in the late 1970s and early 1980s. Once monetary policy moved to the forefront, inflation fell almost immediately and has remained low for the last three decades. History clearly shows that monetary policy works, particularly in this new complex global economy.

A Forgotten History

For over 30 years now, the Federal Reserve has been controlling interest rates, by increasing rates when they fear the economy may be overheating, and decreasing rates when the economy needs a boost. You can think of the Federal Reserve as a big truck, with a brake pedal and an accelerator pedal. When the economy is growing slowly and the Fed wants to speed things up, they can step on the accelerator by lowering interest rates and increasing the money supply. Conversely, when the economy is in danger of overheating and the Fed fears inflation may become a problem, they can step on the brake pedal by raising interest rates and reining in the money supply.

Prior to the dot-com bust of 2000, the Federal Reserve tried to shrink the tech bubble by aggressively raising interest rates. This policy was very controversial at the time and then Fed Chairman Alan Greenspan came under an enormous amount of criticism for his actions, from Wall Street to Main Street. In retrospect, the Fed needed to be more aggressive with their rate increases, not less. Even so, while the bursting of the tech bubble was painful, it would have been far worse had the Fed not acted when they did. To the Fed's credit, the recession following the tech wreck was actually quite short and shallow, in large part because the Fed wasted no time lowering interest rates in order to stimulate the economy. And in spite of the events of 9/11, the economy recovered quickly and grew steadily between 2003 through most of 2008.

"Déjà Vu" All Over Again

If you go back to 2002 and 2003, you'll find numerous articles claiming that the Federal Reserve's "easy money" strategies/policies would ultimately lead to hyperinflation and throw us into another recession—or even a depression. Sounds eerily familiar, doesn't it? Of course, none of the dire predictions came true because what these people forgot was that the Fed has both an accelerator <u>AND</u> a brake. During the ensuing economic expansion between 2003 and 2008, the Fed gradually stepped on the brake (by raising interest rates) and continued increasing the pedal pressure through 2008. The result was one of the least volatile five-year periods in the history of our financial markets.

The Perfect Storm

Unfortunately, the Federal Reserve has little control over human emotion or perfect storms. In 2008, we experienced the "perfect" financial storm. Deregulation, shadow banking, politics (on both sides of the aisle) and corporate greed all combined to create a "perfect" financial storm that nearly took down the global financial system in 2008. Many people blame the Federal Reserve and their interest rate policies, but even monetary policy has limits. So while the Federal Reserve has the accelerator and the brake, the steering wheel is controlled by extraneous factors that can drive any economy into a ditch, as we saw in 2008. The causes of the Great Recession are complex, and there is plenty of blame to go around. (Note: we have documented most of the 2008 events in detail in previous newsletters, which you can find on our website). Fortunately, however, when we once again found ourselves at a critical economic crossroads, the Federal Reserve was there to bail us out one more time.

Unintended Consequences

Five years ago, after the collapse of Lehman Brothers, our economy was at the precipice. Everyone remembers Lehman Brothers (and all the other major banks) were heavily engaged in shady dealings in the subprime mortgage market. However, almost everyone also forgets these

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financial institutions also act as critical "third party intermediaries" in the all-important global credit markets. When Lehman Brothers failed, the unintended consequence was all of their good work as a "third party intermediary" went down the tubes as well. This unintended consequence along with "fear" - which was driven by the fact that no one knew the extent to which the major banks were exposed to the subprime crisis - led to the "credit crisis". Basically, global commerce ground to a halt because no one knew if they could trust the intermediaries who made most large financial transactions possible on a day-to-day basis.

Enter The Fed

Over the course of 2008 and 2009, the Federal Reserve engaged in two highly successful policies. First, they lobbied (and begged) the Federal Government to provide them with capital and specific powers to fix and manage the credit and debt markets which fell into disarray when Lehman Brothers failed. Over the course of a few short weeks, the Federal Reserve put stents into the arteries of the debt and credit markets and got them back up and running. Basically, the Fed acted like a heart surgeon, providing lifeblood to economy by getting the financial markets running again. At this point, we knew the major problems facing our economy and the financial markets had been fixed, but we also knew the pain was far from over.

The second policy the Federal Reserve engaged in was much more familiar. They began immediately and dramatically lowering short-term interest rates. Shortly thereafter, however, they also began using a completely new type of monetary policy called "quantitative easing" in an attempt to bring <u>long-term</u> interest rates down. Essentially, quantitative easing involves buying large quantities of longer-term government bonds, which in turn drives their prices up and their yields (or interest rates) down. As a result of quantitative easing, interest rates on the 30-year Treasury bond fell to just 2.5%, the lowest level in history - just as they intended.

How Has The Fed Performed?

Since the market low reached on March 9, 2009, every one of the nine equity style boxes (from large growth to small value) has increased more than 200%. In addition, American corporations have NEVER been more profitable or productive. The funny thing is…we continue to hear many of market pundits and members of the media pounding the drums of "fear" and "failure". We look at it differently, wondering what our economy would have looked like if the Federal Reserve had not been there to bail out the global financial system in its darkest hour?

The truth is, the Federal Reserve has helped everyone (Corporate America, Individuals and the Government) by aggressively keeping interest rates low. Corporate America is incredibly healthy and individuals are gradually lowering their debt loads and improving their personal balance sheets. Government spending has also been reduced at all levels of government and the federal deficit in 2014 is projected to be just 3% of GDP, which is roughly equivalent to the average over the last 40 years and seven percentage points lower than the level reached in 2009. These are all very good things.

Some Much Needed Perspective

The Federal Reserve's policies over the last 30 years have been proven effective over and over again. In large part, this is because the Fed was designed to be free from political influence and conflict of interest. Members of the Board of Governors are appointed for staggered 14-year terms and the Chairman of the Fed is appointed for a four-year term. Elected officials and members of the Administration are not allowed to serve on the Board. The Federal Reserve also does not receive funding through the congressional budgetary process, with their income coming primarily from interest on government securities it holds. The Fed also generates income from interest on foreign currency investments; fees received for services provided to depository institutions, such as check clearing, funds transfers, and automated clearinghouse operations; and interest on loans to depository institutions. The Fed is a non-profit entity, so after paying its expenses it turns any excess earnings over to the U.S. Treasury.

We'll be the first to tell you that a few of the strategies the Fed has used in recent years have pushed the envelope. However, we trust the Federal Reserve more than any other governmental entity largely because they are NOT political and because the Board of Governors is made up of some of the brightest economic minds on the planet. Now, we are also fortunate enough to have one of the sharpest minds currently leading the Fed. We would be surprised if Janet Yellen didn't exceed all of our expectations as we look out over the next five and ten years.

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THE STOCK MARKET

It is interesting to compare this year's first quarter with the first quarters of 2012 and 2013. At the beginning of both 2012 and 2013, we provided a laundry list of economic indicators that mostly showed how underpriced the overall stock market was. In both years, the stock market increased more than 10% over the first quarter. This year, we made a case for why we were optimistic about the stock market over the long run, but also discussed a variety of measures that mostly indicated the stock market was fairly priced, at least in the short-term, which meant the market could easily finish either up or down for this calendar year.

The first quarter validated these observations, as stocks vacillated back and forth across their 2013 year-end values, with most eventually finishing the quarter up modestly. In January, stocks sold off immediately and stayed there the rest of the month, with the broad market indexes finishing down more than 5%. In February, stocks recovered their January losses and then some. Finally, in March, stocks bounced around without clear direction and we eventually finished the quarter in positive territory. At the end of the first quarter, the S&P 500 (large caps) was up 1.29% YTD, while the Russell 2000 (small caps) increased 0.80%. Examining each of the nine style box indexes, each was in positive territory, led by mid-cap value stocks, which finished the quarter up 5.22%. Small cap growth stocks were the worst performing sector, increasing just 0.48%.

Russell Style Index Performance
1st Quarter 2014

Value	Blend	Growth	
3.02%	2.05%	1.12%	Large
5.22%	3.53%	2.04%	Mid
1.78%	1.12%	0.48%	Small

We regularly discuss (and present evidence) of the well - known "value" and "size" premiums that exist in the stock market over the long run. In the first quarter, value stocks outperformed growth stocks by a fairly wide margin. This is not surprising, especially given the recent surge in growth stocks over the last year or so. This rotation away from growth and into value has worked out well for our clients, since we have been regularly rebalancing into value stocks since the beginning of the calendar year.

1-Year Russell Style Index Performance
Ending 03/31/2014

Value	Blend	Growth	
21.57%	22.41%	23.22%	Large
22.95%	23.51%	24.22%	Mid
22.65%	24.90%	27.19%	Small

For almost a year now, we have been discussing the fact that both the "size" and "value" premiums have been largely absent. This happens occasionally, which is why we prefer to equally weight across the size and style spectrum. By equal weighting and then rebalancing as needed, we're afforded the opportunity to sell what's been hot (larger stocks and growth stocks) and buy what's on sale (smaller stocks and value stocks). Market pundits like to cite periods where longer-term trends are reversed as evidence that such "premiums" do not exist on a wide scale, but they clearly haven't done their research. Academic studies show very convincingly that over longer periods, small stocks beat larger stocks and value stocks beat growth stocks—and this has occurred over the entire history of financial market and in every country ever studied. Last quarter, we included a table in our newsletter examining stock market returns over the last four decades, or since 1970. The evidence behind a "value" and "size" premium in that table was overwhelming. So even though growth beat value fairly convincingly over the last 12 months, the table below shows that over the previous three years value actually did fairly well, with the exception of small cap value, which lagged it's growth counterpart by nearly 1% annually over the period. We'll let you guess what area of the market we've been buying lately as your portfolios have been rebalanced. You are correct if you thought…small value.

3-Year. Annualized Russell Style Index
Performance ending 03/31/2014

Value	Blend	Growth	
14.80%	14.75%	14.62%	Large
15.17%	14.39%	13.52%	Mid
12.74%	13.18%	13.61%	Small

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Since the beginning of 2009, the rebound we've seen in stocks of all sizes and styles has been nothing short of remarkable and a testament to the innovative nature and resiliency of American corporations. On March 9, 2014 we celebrated the five-year anniversary of the market lows following the financial crisis. If you average the returns across the six boxes corresponding to small and mid cap stocks in the five-year return table you'll arrive at an average annual return of 24.92%. If you do the same across the three boxes corresponding to the large cap stocks, you'll get an average of 21.72%. Don't get us wrong, 21.72% is phenomenal for any class of stocks over a five-year period. However, the additional **3.20% annually** makes a BIG difference in a portfolio over time, particularly when it's compounded. This is why we recommend investing equal dollar amounts into each of the style boxes and then rebalancing over time.

5-Year. Annualized Russell Style Index Performance ending 03/31/2014

Value	Blend	Growth	
21.75%	21.73%	21.68%	Large
26.35%	25.55%	24.73%	Mid
23.33%	24.31%	25.24%	Small

To better illustrate how powerful the power of compounding can be over time, the table on the next column shows the cumulative total returns for each style box over the five years since hitting the market low on March 9th, 2009. As you can see, there is a large difference between large cap boxes and their small and mid cap counterparts. In addition, you can clearly observe why it makes sense to incorporate value stocks into your portfolio. Frankly, everyone should be able to see why it makes sense to build a well-diversified portfolio, particularly when you learn that "value" stocks have the lowest volatility by a large margin.

Post-Crash Recovery for Russell Style Indexes 03/09/2009 - 03/31/2014

Value	Blend	Growth	
222%	216%	210%	Large
294%	275%	257%	Mid
258%	266%	274%	Small

Going back further in time, we can see that over the past decade small and midcap stocks have once again outperformed large cap stocks. Interestingly, we do not observe a significant "value" premium when you examine the style index over the last decade. This is driven mostly by the severe beating that tech stocks took following the dot-com collapse. As in most panic selloffs, the market overreacted on the downside and tech stocks were beaten down to valuations that made little sense. Just as they were finally starting to recover, we hit the financial crisis in 2008 and they sold off once again (only this time everything else sold off with them). Since tech stocks are heavily growth oriented, the tech recovery has provided a boost to growth stocks over the last decade. But if the first quarter of 2014 is any indication, it looks like growth has fully recovered and value is once again starting to lead.

10-Year. Annualized Russell Style Index Performance ending 03/31/2014

Value	Blend	Growth	
7.58%	7.80%	7.86%	Large
10.24%	10.05%	9.47%	Mid
8.07%	8.53%	8.87%	Small

Our Outlook

Over the last few months, one of the more frequent questions we've received from our clients is whether or not we believe the stock market is "overvalued", especially after the remarkable run-up we saw in 2013. The short answer is, we don't think it's overvalued…but we don't think it's

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especially undervalued either. The data in the table below supports us. Remember, the value of any investment is a function of the "cash flows" it provides to the owner over time. Thus, if stock prices had increased without any increase in the underlying corporate cash flows, then we'd be worried. Thankfully, this is not the case. There are a number of different ways to assess the value a company. However, the most common valuation measures examine the stock price of a company compared to its earnings, book value, cash flows (our favorite), sales and/or growth. In the table below (Valuation Measures of the S&P 500), we examine these measures for the S&P 500 today and compare the measures to their 15-year averages and to where they were one year ago.

As you can see, the valuation measures for the S&P 500 are in line with the 15-year averages, leading us to conclude stock values are about where they should be. It's also why it's extremely difficult to say what direction the stock market will move in over the short run. If earnings and cash flows continue to grow - as expected - then stock prices should continue to grow as well. However, when the market is fairly valued investors tend to feel they have less margin for error, which tends to make stock prices be more sensitive to short-term news events. Therefore, depending on the forthcoming news events, the remainder of the year could prove to be either very volatile or docile.

We decided to also include last year's valuation measures so you could see why we believed the stock market was still undervalued at this point last year. For example, the price-to-earnings ratio was 14% below it's 15-year average, while the price-to-cash flow one year ago was 11% below its normal long-term 15-year average. Today, they're both just about right.

As we look out over the long run we think corporate earnings, cash flows and sales will all continue to increase at reasonable rates, which should sustain a continued bull market run. We also believe earnings and cash flows will continue to increase at reasonable rates, as long as current macro-economic variables remain relatively unchanged. As long-term investors, it is those macro variables that matter most, because they have the biggest influence on the financial markets over time.

Let's Be Conservative

In the meantime, we continue to prepare for a normal market correction of 10% to 15%. The S&P 500 has now gone 31 months without a 10% correction, which on average occurs about once every 12-18 months. Common sense tells us we're due for a dip, but no one knows for sure when it will occur. Regardless, if stocks are correctly priced before the dip occurs, you can rest assured they'll be underpriced afterward, providing a nice opportunity to buy while everything is on sale. We obviously love market sales. However, in the meantime, we'll be patient and continue to shore up our bond portfolios.

VALUATION MEASURES OF THE S&P 500

Measure	Description	Today	1 Year Ago	15 Year Average
P/E	Price to Earnings	15.2X	13.7X	16.0X
P/B	Price to Book	2.8	2.3	2.9
P/CF	Price to Cash Flow	10.6	9.4	10.7
P/S	Price to Sales	1.6	1.4	1.5
PEG	Price/Earnings Growth	1.7	1.5	1.6

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The Bond Market

The first quarter of 2014 was a good quarter for bond investors. In fact, the greater your allocation to bonds, the better your overall portfolio performed. During the first quarter, the bond market was led by what we call "alternative" bonds or fixed income securities with less exposure to rising interest rates than traditional bonds. Specifically, convertible bonds led the way in the first quarter, followed by high yield bonds, international bonds, and floating rate bonds.

Our Core Strategy

Over the last few years, as interest rates have begun to inch up and as the stock market has approached fair value, we've devoted significant time in our newsletters to discussing the value of diversification across the entire fixed-income spectrum. Specifically, our conservative core bond strategy involves FOUR pillars, and all four are critical to achieve the kind of diversification were looking for. This is because some bonds have higher (although still limited) levels of sensitivity to the stock market, while others have higher levels of sensitivity to rising interest rates. A fixed income portfolio is a single entity made up of interlocking parts, and care should be taken to avoid focusing on the performance of any single piece in the mix over a short period of time. Each fund is intended to fulfill a specific role within a specific market environment, meaning the whole is greater than the sum of the parts. As a result, a well-designed fixed income portfolio needs to be evaluated in its entirety by examining all four pillars together.

The performance of our conservative core bond portfolio is displayed in the table below for the first quarter of 2014, the trailing 12 months (first quarter 2013 through first quarter 2014) and for the 2013 calendar year. Over the last 12 months, the equally-weighted KWAG core portfolio of bonds returned 3.93% versus -0.10% for the benchmark US bond index (Barclays US Aggregate Bond Index). Over the first quarter of 2014 the combined portfolio gained 1.98% versus 1.84% for the benchmark. And in calendar year 2013, the KWAG conservative core portfolio gained 3.84% compared with a -2.02% return on the benchmark index. Given the difficult interest rate environment we are currently faced with, we think these numbers are exceptional.

2014 1st Quarter & Year-End Bond

	Q1, 14	12 Mo.	2013
KWAG Conservative Core Bond Portfolio	1.98%	3.93%	3.84%
Barclays US Aggregate Bond Index	1.84%	-0.10%	-2.02%
+/- Benchmark Return	0.14%	4.03%	5.86%

It's important to note that each client's fixed income portfolio is tailored to their specific needs and may differ from the composition of the core bond portfolio above. Each advisor uses the conservative core portfolio as a starting point, and makes adjustments based on the specific needs of the individual client. If you owned a greater percentage in convertible or discounted bonds, your fixed income portfolio performed even better.

The Big Picture

Over longer periods of time, we know stocks will outperform bonds, which seems to suggest we should have most—or all—of our investments in stocks. However, it's important to remember that over short periods of time the stock market can be extremely volatile and almost anything is possible (look no further than 2008-09 for a recent example). This is precisely why keeping money invested in lower volatility assets like bonds is a prudent approach. For example, we know the stock market averages a 10-15% dip every year, and these dips can sometimes be even larger. Investing in bonds, which are far less volatile than stocks, helps offset the fluctuations of your stock holdings, thereby making your overall portfolio less volatile. But beyond simple risk reduction, there's another reason why holding bonds makes sense for nearly all investors. Since we know the stock market experiences significant dips on a frequently recurring basis, money allocated to bonds can be used as "dry powder" to take advantage of the dips and buy when things are on sale. Over the past several years we have seen a sustained rally in stocks without the typical 10%-15% dip. This only serves to increase the likelihood that a dip will occur in the near-term, making money allocated to bonds much more attractive than the modest gains we expect them to provide.

In addition to risk reduction and buying on dips, some investors also have monthly cash flow needs and require an allocation to bonds in order to avoid being forced into selling their stock holdings in a down market. Bond values are more stable and often even negatively correlated with stocks, making them invaluable for investors who need to generate monthly cash flows from their portfolios. Bonds should be

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viewed as your portfolio's "safe assets" and a way to preserve capital in order to meet your short and intermediate-term cash needs. Stocks, on the other hand, are your portfolio's "risky assets" and best used to provide growth of capital over the longer term. Because stocks are more volatile, they aren't as reliable for meeting short or intermediate-term cash needs. A good rule of thumb for stocks is to always have at least a five-year window before any of the money invested will be needed.

The bottom line is, bonds and bond funds continue to play an important role in EVERY client's portfolio - even those who are positioned more aggressively.

8 QUESTIONS WITH THE DOCTORS

Q1: Dr. Kiely, In the past, you have written about the concept of Animal Spirits and Investor Sentiment and their effect on the financial markets. Are Animal Spirits alive? E.D.

Joe: Hey E.D., those are great questions! The term "Animal Spirits" was first used by John Maynard Keynes to describe the general mood of the public. He basically argued that the public's general optimism or pessimism could have profound effects on the economy. Clearly, the more optimistic people were, the better the outlook for the economy. In the past, we have discussed Bank Lending, and the Velocity of Money as important measures when we're examining the vibrancy of the economy and potential inflation. Both measures also provide a look at the public's optimism and/or pessimism. Over the past 15 weeks, there has been a sharp acceleration in bank lending, which is now growing at 8.6% annually. This may suggest animal spirits are reviving. In addition, the velocity of money - or how often money changes hands - is also picking up. Both are a good signs that the public is more optimistic than they have been. Of course, we still believe we are in the fourth or fifth inning of a long drawn out recovery.

Scott: Investor sentiment is an entirely different animal. Animal spirits is interested in the public's perception, while Investor Sentiment looks at actual investors. Economists gauge investor sentiment to see if the financial markets are over or underpriced. They look at things like the Put-Call ratios, the Ferrell Individual Investment Sentiment measure, and other market indicators like insider buying and short sales to get a sense of how actual investors feel about market prices. When we take everything into consideration, market participants are still generally pessimistic, but not as outrageously pessimistic as they were three or four years ago. I view investor pessimism as a positive and don't get overly concerned about stock market prices until investors become wildly optimistic.

Q2: Dr. Kiely: Could you remind me how you and your team make "sell" decisions for my monthly withdrawals? I know you have covered this before, but a refresher would help. C. T.

Joe: Good question...we have covered the topic of "sales" and income, but it has been a while and we usually include it when we discuss "rebalancing". Of course, I don't expect you to remember every single topic we write on. There are two ways we raise cash for your monthly distributions. First, many of our stock and bond funds provide regular cash distributions...so we use the cash from those distributions for your monthly income. If there is no cash in your account, we use your upcoming monthly distributions as a way to pro -actively rebalance your portfolio.

When it comes to withdrawals, if the stock market has gone up...we use that piece of your portfolio for income. Basically, we look at the allocation of your stocks across the nine style indexes and sell the area of your portfolio that has gone up the most (selling high). Note...for those people sending us monthly deposits, we do the exact opposite by purchasing the part of the portfolio that has gone down the most - or - risen the least (buying low).

If the stock market has gone down, we just ignore the stock market and use your bonds for income. Again, we look at your bond holdings and try to make sure we sell a piece of your portfolio that keeps you well diversified. Usually, that means we're selling one of your bond funds that has gone up the most (Selling high).

Scott: Basically, we're always trying to buy low and sell high...and we try to use a good dose of common sense. There are times, when we're rebalancing from one manager to another and we'll use that as an opportunity to raise some cash for our retired clients. Of course, it also depends what kind of account money is coming out of. If it's a taxable account, then we going to look at selling anything you might have tax losses in, because those realized losses can be used to offset capital gains at the end of the year. If the money is coming out of a retirement account, then we are most likely going to sell whatever has been the hottest recently.

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Q3: Dear KWAG: I recently read an interesting article that provided a number of good reasons for getting out of the stock market after this recent run-up. However, after being with your firm for a number of years, I know "timing the market" is a terrible idea. Can you tell me how the markets have typically done after a large run-up like last year? B.M.

Scott: We sure can. In fact, I just wrote an article on the topic. Since 1926 there have been 32 calendar years where the overall stock market gained more than 20%. In the years immediately following these advances, stocks averaged 11.5%, which is not statistically different from the 11.8% annual average return for stocks across all years since 1926. In other words, there is no evidence that an outsized return in one year has any predictive value when it comes to next year's return. That's why we think making portfolio modifications based on a prior year's performance is a bad idea.

Investors need to recognize that NO ONE has a crystal ball and NO ONE can reliably forecast what stocks will do over the short-run. Those making claims to the contrary are either fooling themselves or they're trying to sell you something—take your pick. When it comes to making predictions, I think famed Harvard Economist John Kenneth Galbraith summed it up best. He said, "There are two kinds of forecasters: those who don't know, and those who don't know they don't know."

Joe: Exactly! In contrast to their short-run instability and unpredictability, it's important to recognize that stock returns over longer periods are actually quite stable and thus fairly predictable. From one year to the next no one knows what stocks will do, but over the longer term all the short-term ups and downs tend to offset so that the long-run average return over one period is quite similar to the long-term average from any other period. For investors, that's incredibly important and powerful information.

The biggest downside to short-run stock volatility is that it tends to capture the attention of investors like nothing else, bringing emotion into the picture and causing them to lose their long-term focus. We see millions of investors panic and sell whenever stocks experience a sharp downturn, and ultimately realize their mistake only after it's too late to correct. Millions more investors harbor such fear of market downturns that they own almost no stock in their portfolios, even when they've got decades before they'll need to touch their investments.

Q4: Dear Dr. Kiely: Based on my own research and reading, I would agree with your message at the client dinners that the financial markets are fairly priced. However, I read an article on the size and scope of the corporate debt being held by American companies. The article implied corporate leverage (or debt) was off the charts. G.M.

Joe: Hmm. I'm not sure we agree with that assessment. We actually spend a great deal of time looking at the ratio of debt to equity, and we see an entirely different picture. First, corporate debt has increased their debt…that part is true. However, the equity component has increased at a much more rapid pace, thus driving down the debt to equity level. In 2008, the ratio of debt to total equity was over 200%. Over the last five years, it has been cut in half to 104%, which is the lowest level we've seen over the last 25 years.

Scott: It's all a matter of perspective. First, debt is not necessarily a bad thing. In fact, one of the first things you learn in a college level finance course is that all else equal, debt increases return on equity (ROE), which is the ratio shareholders care most about. Following the financial crisis we went through a massive deleveraging in this country, with corporations eliminating debt from their balance sheets at a pace we'd never seen before. However, as the economy began to recover and interest rates remained ridiculously low, corporations started adding debt back to their balance sheets. Companies with AAA bond ratings were able to issue long-term bonds over the last few years with interest rates of less than 4%, which is the lowest we've seen since the 1950s! It could easily be 50 years before we see rates that low again and companies have scrambled to take advantage of the opportunity. And remember, the interest rates on corporate bonds are fixed, meaning these record-low rates are locked in for the life of these bonds. That bodes well for ROE for the next several decades!

Q5: Dear KWAG, Is there a way to follow the tickers and symbols of the 9 style indexes? Can I follow them on the internet or web? P.B.

Joe: Morningstar.com provides a broad market update every day. If you want to see all of the market indexes, you can log onto our firms webpage at www.thekielygroup.com. If you click on the "Use our Wealth Management" tab, it will take you to a page that discusses our services. On the right hand side of that page, you will see "**Market Barometer**". When you click on that tab, it will take you to the Morningstar page that has all of the indexes and their returns. You can save that page to your favorites...and you'll now see how the "entire" stock market does each day...versus the narrower Dow.

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Scott: The style box returns we use in the newsletter are based on the Russell style indexes, which have been around the longest. There are also style indexes from S&P, Morgan Stanley, Dow Jones, and a number of other firms. They all perform basically the same over time, but slight differences in their composition means there are some deviations over shorter periods. We stick with the same index provider in our newsletters to provide consistency from quarter to quarter.

Q6: Dear KWAG: You guys say you spend most of your time reading and very little time listening to the boob-tube. I agree with that strategy. Can you tell me what you guys read? B.L.

Joe: Gladly. Obviously, we both read the WSJ daily and we get daily market updates online from Morningstar. Both outlets provide invaluable information on the global and domestic markets and timely updates on our managers. In addition, there are a number of on-line newsletters that aggregate a number of economic and market commentaries. For example, I get two updates or 10-15 articles daily from Advisor Perspectives, which has a lot of great independent research and thought. In addition, I get weekly updates from U.S. global, MFS, Ironhorse, BWFA, Market Insights and PIMCO. Of course, a number of our clients and friends within the industry forward other articles each day. The bulk of my day is spent reading, communicating with clients and examining portfolios…probably split equally into thirds.

Scott: I also read a variety of publications, starting with the Wall Street Journal first thing every morning. I also subscribe to periodicals like The Economist, Business Week, and Barron's, which are all excellent. We also get a continuous flow of market reviews and white papers via email from our fund managers and a variety of other sources. I also read a number of academic journals, including Journal of Investing, Financial Analyst's Journal, and Journal of Portfolio Management. Those three are my favorites because the articles cover topics of interest to both the academic and practitioner worlds, and I (literally) live somewhere between the two.

Q7: Are we going to have another dinner in Greenville, NC since the first dinner was cancelled due to the ice storm? S.R.

Joe: Yes. Of course, we're going to have another dinner!! For those of you in the Greenville, NC area, we will be hosting up our "make-up" Client Appreciation Dinner on Tuesday, April 29th at 6pm at the Brook Valley Country Club. Of course, any of our KWAG clients are welcome to attend any of our client appreciation dinners. So if you find yourself in the Greenville area on the 29th, please drop in. For those of you who live in the Greenville area, please RSVP to Kristen Below at kbelow@thekielygroup.com or call 252-439-1888.

Q8: Thank You KWAG. I really enjoyed the recent monthly e-mail update. I watched the 60 minutes piece, so I was quite pleased to get your "rational" take on that issue. There is a saying that when you have a really good teacher, you will hear their voice in your head. I want you to know that when it comes to financial matters, your voice is always in my head. Before your update, when the Ukraine situation began, I heard your voice loud and clear "unknown event." It was the same with the recent plane crash/disappearance. Neither event caused me any financial worry. Recently, when the market moved downward and the media made a big hoopla about it, same thing. I heard loud and clear, more people "sold today" than "bought today" and I knew it was also time for a normal correction. Thank you for everything you do. M.M.

A FINAL NOTE

Notes like those above make our day and make us want to work even harder on your behalf. We are not perfect, but we try as hard as we can every day. As usual, we… Thank You

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

We wish you and your family a happy and healthy Spring!

~ Joe and The Gang at KWAG

2014 Kiely Group Greenville Client Appreciation Dinner

Greenville Client Appreciation Dinner

During the last week of April, we will be holding our rescheduled annual client appreciation dinner in Greenville. This is always a special dinner, as we get to thank everyone for their continued confidence in our services. As usual, we will provide a nice meal, then deliver a brief "state of the union" address examining last year's key events. Then we'll look ahead to the opportunities and challenges we see in 2014 and beyond. If you have any questions or specific topics you would like us to address at the dinner, please e-mail or call them in so we can make sure to get them on the agenda. In the meantime, please don't forget to RSVP for any (or all) of the dinners below…and feel free to bring a friend or couple who might be looking for a change in their advisor. Please mark your calendar and make your reservations as soon as possible by calling our office in Greenville, NC (877-366-5623) or emailing Angelique at asmith@thekielygroup.com.

Greenville, NC Tuesday, April 29th Brook Valley Country Club 6:00-8:00PM

To reserve your seat, please call our headquarters office at 877-366-5623 or your specific advisor. If you would like to register via email, please email Angelique at asmith@thekielygroup.com

We encourage you to bring a friend and/or someone who would like to hear our educational message.

Change in Headquarter's Location

Over the last 10 years, as our client base has grown across the state of North Carolina, we have found ourselves meeting more often in the middle of the state at Katie's office. We have often thought about changing our HQ location, but have had no real impetus to do so.

Last month, a generous offer was made on our building in Greenville, NC…and we accepted it. We will continue to have an office in Eastern North Carolina as that market continues to grow. In the interim, our office space will be at 901 Forest Hill Circle, which should bring back fond memories to our longest standing clients in Greenville. Scott and Kristen Below will continue to run this office just as efficiently as they always have.

From an organizational stand point, nothing changes within our firm. However, this change should make us much more efficient given the centralized location. All future checks and correspondence should go to:

The Kiely Group | 4405 Stafford Glen Court | Oak Ridge, NC 27310

Phone: 877-366-5623 | 252-439-1888

COMPLIANCE NOTES

A Note From KWAG's Chief Compliance Officer

It is time again to offer our annual Disclosure Document. We want to take the time to offer this document to you and encourage you to take the time to read it. ***Our KWAG FIRM BROCHURE can be found on our website at www.thekielygroup.com, under KIELY FORMS.*** If there is anyone who would like to receive a paper 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.

Thank you for your continued confidence in our firm. As always, we are committed to better understanding your investment objectives, goals and knowing how we can better serve you.

- 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

**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.*

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

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