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

During the course of our client dinners in January, we were asked a number of great questions about our portfolios, our managers and the financial markets. It's one of our favorite parts of the dinners. However, there were two particular questions that Scott and I enjoyed the most. First, someone asked us "How much of our industry had changed since Scott and I started working together twenty years ago?" Interestingly, we both answered at the exact same time by saying "Not much". Then, someone followed up our response with "Over the past twenty years, what are the three most important determinants of long term stock market returns?" Scott and I smiled, because we have discussed these three issues thousands of times over the last twenty years…and they remain the same to this day.

A New Era

Scott and I were lucky enough to start our PhD's during a new era in finance and financial research. Instead of observing long-term stock market trends and tying them to other obscure economic variables, our field became more interested in the "behavioral" side of finance. In essence, researchers were wondering how human behavior affected stock prices over the long run. I can vividly remember those years. It was an exciting time to be a PhD student (and young professor) as researchers were questioning the validity of many long held beliefs. We were also fortunate in that we both went to prominent Universities that happened to have excellent researchers and phenomenal educators in the field of behavioral finance. (In my case, I got lucky with my choice of Texas A&M. Given Scott's background in research I believe his choice was more by design!)

I can remember the first day I met Scott on the East Carolina University campus. We hit it off immediately - on many fronts. We both loved sports. We both loved our families. We both grew up with good core values. And we both loved everything about the field of finance and investing. Numbers sung to both of us. As we got to know each other, it was apparent we would be lifelong friends. When it came to investing, we both believed there were a number of common "core" concepts that every investor needed to incorporate in their portfolios. Even now – some twenty plus years later - I can remember many of our finance conversations as we started the ECU Investments Club in 1993. Scott would start a sentence about money managers, and I would finish it with the importance of a long-term track record. Or, I would begin delving into the importance of diversification and Scott would note the research behind the small caps and value stocks in the current finance literature.

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LOOKOUT FOR OUR NEXT MAILING WHICH WILL INCLUDE OUR **2015 DISCLOSURE DOCUMENT** AND **PRIVACY POLICY!**

As a father of two new beautiful twin girls, I look back upon that period with great memories and admiration for Scott. In the fall of 1993, we had each found our "financial" twin brother. At the time, I don't think we had any idea where it would take us over the next twenty plus years. I have to admit I could not have found a better financial partner…

The 1990's

As freshly minted PhD's in finance, Scott and I couldn't wait to share our financial knowledge with our students and peers. On the second day of ECU orientation, our relationship was cemented when we both provided an impromptu educational session on the importance of asset allocation (diversification) and long-term stock market exposure. We were shocked when we found out new employees had to choose their investments (that day) without any prior financial education on how that one single decision would dictate their future - for better or worse. The process was so random. Given our understanding of behavioral finance, we knew our ECU peers would choose what they felt was a "conservative" portfolio. What many of our ECU peers didn't realize is they had just doomed their financial future, all in the name of being "conservative". Nobody had ever explained how the stock market behaved over time or the power of compounding. Here we were sitting in a room with highly educated newly minted PhD's and they were shooting themselves in the foot. It didn't take a rocket scientist to see how this probably played out all over the country when anyone started a new job.

From that day forward, Scott and I vowed to educate as many people as we could during our lifetimes! That education started with the first ECU School of Business Investments Club. In our minds, if newly minted PhD's didn't know how to invest correctly…clearly we would have our hands full with 18 and 19 year olds with little or no world experience. We had no idea what we were up against back then…or how those same exact issues plague investors to this day.

During the late 1980's and early 1990's, as the stock market continued to reach new highs each year, a new trend was developing in elementary schools, high schools and college campuses across the country. Administrators wanted their kids prepared for the real world, so they introduced the stock market to their students through a stock-picking program/contest that was sweeping the nation. The concept was simple. During the course of a semester, they would hold a stock-picking contest, where the student with the most money after three months won the contest. They would encourage them to pick (and invest in) well-known companies like Coca-Cola, Walmart and Nike. And, they would give them the ability to trade whenever they wanted to, which "in theory" would teach them about how the stock market works. What administrators and educators didn't know was they were creating a day trading phenomenon that continues to this day…

Core Concepts

As students of finance, Scott and I know there are three fundamental core concepts that drive almost all of an investors stock market returns over time. If you put those three core fundamental concepts on your side, you increase your probability of success significantly. However, if you ignore those three fundamental concepts, you are inadvertently stacking the odds against you, your portfolio...and your financial future. The amazing thing is, the concepts are fundamentally basic, well known, and incredibly powerful. And yet, even to this day these fundamental concepts are rarely followed by the general public.

Concept #1: Invest for the long term.

This seems like a no-brainer...right? If you want to be successful in the stock market, you have to embrace a **long-term investment horizon**. We define the long term as at least five years and preferably ten years. Of course, anyone who is under the age of fifty or sixty has a twenty to thirty year time horizon, which means "time" is on almost every investor's side. Simply put, by embracing a long-term investment time horizon, you eliminate the short-term volatility that derails many investors - and - you increase the probability of success significantly. In fact, there is a direct positive relationship between an investors returns and their investment time horizon. It's the whole reason we (at KWAG) embrace the long term - we know long term stock market returns are incredibly consistent, and they fall within a fairly narrow band of returns over time. We have no idea what will happen from year to year…but we do know the stock market will fall within a pretty accurate band of returns over time.

Unfortunately, a generation of young stock market investors has been brought up on a diet of stock picking programs that focuses entirely on the short term. The problem with the stock picking contests is they measure performance over a three-month time period that we all know is completely random. In essence, the stock picking contest conditions future investors to focus ONLY on the short run, at the expense of the long run. And, we're not talking about weeks or months. Each contest encourages future investors to examine their investments each and every day!! Arrrrghhh! That poor practice promotes impatience and active trading. Obviously, those types of actions fly in the face of every common sense investment rule we know, since study after academic study shows active trading and short-term time horizons doom investors

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over time. How does it doom them? Studies show investors tend to take the current cycle of news (typically bad) and they extrapolate it outward into the future by assuming the current trend will last forever.

These poor habits have been reinforced by the general media (and companies like CNBC), who are more interested in creating short-term drama than properly educating long-term investors. Keep in mind the medias job is to create significant drama where there is none. Of course, they do this to drive their ratings and potential ad revenue. Don't believe us? Think about the list of short-term (transitory) events that were supposed to derail the economy and the stock market over the last six (plus) years. At some point over the last six years, the media has hyperventilated about the threat of deflation; massive trade deficits; a weakening dollar; uncontrolled federal deficits; high unemployment rates; high tax rates; collapsing real estate prices; problems in China, Iran, and Israel; the Arab Spring; a double-dip recession; the debt ceiling; Europe's demise; the Asian bird flu; and several hurricanes. Need more? We've also heard the media wax un-poetically about tsunamis, high speed trading, cheating scandals, trading scandals, currency manipulation, Federal Reserve policy, QE1, QE2, QE3, the fiscal cliff, and the debt downgrade. According to the media, most of these issues were at one point or another poised to short-circuit the economic recovery and drive the global financial markets down into the abyss. Instead, we have experienced one of the greatest stock market rallies of all time.

Obviously, none of the above events had a thing to do with long-term stock market returns...yet most investors believe those short-term transitory events do affect market returns. Looking back twenty years, this was the first hurdle we had to overcome with our students when we started the ECU investments club. First, they wanted to day trade individual stocks, which they knew absolutely nothing about. We had to educate them that this was a bad idea. Then, after a normal sell-off during the summer of 1994, our students wanted to run for the hills, since the media had them convinced that another 1987 sell-off was just around the corner. Again, we had to educate them about how the stock market behaves over the long run. Incredibly, this type of investor behavior continues to this day...even though we all know it's counter-productive.

The Point: Anyone who has taken the time to study the stock market, knows its day-to-day fluctuations are completely random over the short term. And, any one who tells you differently is either fleecing you, or themselves. Today, over 70% of all daily stocks trades are performed by computers, which have no interest in any companies underlying cash flows or profits. They are more interesting in "arbitraging" price differences across different trading exchanges. So, unless you know how each of the different computers are programmed, you have no idea what will happen to the stock market from day to day, which means you can't explain daily stock market movements with any degree of certainty.

Here's what we know. If the market was up today, it was because there were more buyers than sellers. And, if the market was down, there were more sellers than buyers. Over the short term, this is all we know, which is why trading stocks based on any short-term information is virtually useless.

The unfortunate part about this little story is we haven't even covered the worst parts of the stock picking contests and/or poor investor behavior.

Concept #2: Diversify Correctly

Again, this seems like a no-brainer…right? If you want to be successful in the stock market over the long run, you have to build a well-diversified portfolio that embraces mid cap stocks and small cap stocks that are value oriented. Why? Because those areas of the stock market are exposed to less risk and they provide higher returns over time. At KWAG, we define a fully diversified portfolio, as a portfolio that embraces all nine stock market style indexes. Unfortunately, the vast majority of investors ignore 90% of the stock market when they invest and they cluster their investments in large cap stocks that are often growth oriented. By doing so, investors inadvertently take on too much risk and earn below average returns over time. This is the whole reason why we (at KWAG) embrace a fully diversified portfolio. We know it eliminates a number of potential risks and it enhances returns by investing in areas of the stock market that have better long-term returns. We have no idea what each area of the stock market will earn from year to year…but we do know small caps and value stocks will outperform the rest of the market over time.

Unfortunately, a generation of stock pickers has been brought up on a diet of stock picking programs that focuses entirely on picking stocks in "large cap" clusters instead of building well-diversified portfolios that embrace the entire stock market. These stock picking programs are later reinforced by companies like e-trade, who promote the relative ease of stock picking, which indirectly compromises a well-diversified portfolio and either breeds over-confidence or total stock market avoidance.

Think about how the student stock picking contests are set up. One lucky student is crowned at the end of the three

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months based on the size (or rate of return) of their portfolio. Students learn very quickly that a diversified portfolio can't win the contest, so they buy one stock instead of many stocks. If that stock starts to do poorly, they trade it in for another. And so on. Now think about what's being taught. Focus on the short run. Trade often. Don't diversify. Also, think about the long-term ramifications. Contest winners become overconfident (based on a lucky short term stock pick) and losers will tend to avoid the stock market forever since it seems too risky. Talk about an experiment gone wrong. Wow…

Of course, many stock investors understand diversification matters. Unfortunately, no one has provided a common sense roadmap that introduces each of those investors to the ENTIRE stock market, and all nine Morningstar stock market style indexes. Many of our students in the mid-1990s knew they needed to invest in mutual funds, they just didn't know how? Many of the investors and companies we have worked with over the last twenty years knew they needed to diversify, they just assumed their advisor was diversifying their portfolio correctly for them. They had no idea their portfolio was clustered mostly in large cap stocks.

To us, this has been the most surprising development in our careers. When we started helping our students, and potential investors, we just assumed they all knew about the nine stock market style indexes and their long-term trends. We thought it was common knowledge. After all, it was one of the first things we learned about when we earned our PhD's. As it turns out, this information was not well known by the public in the early 1990's. And even though the data is readily available and well documented by behavioral academics, most investors (and investment advisors) continue to use old out-of-date data to build portfolios. To us, this is absolutely unacceptable, particularly when you recognize how important the asset allocation decision is!

The Point: Academic studies show 90%-95% of a long-term investors return is driven by the asset allocation decision. The problem with the high school stock picking programs (and companies like e-trade) is they promote building clustered portfolios that focus on the large cap segment of the stock market. They DO NOT promote building well-diversified portfolios, which actually reduce an investors risk exposure and increase their returns. In addition, the data and evidence show individual stock pickers tend to earn only half of what the S&P500 earns over time. So, stock pickers not only invest in the worst areas of the stock market…they also underperform the worst areas of the market by more than half!! In essence, if large growth stocks average 10% over time, individual stock investors earn less than 5%! YIKES!

The good news is investors who embrace well-diversified portfolios (and mutual funds) tend to earn higher returns than individual stock pickers over time. However, the bad news is the vast majority of mutual fund stock portfolios we observe are over-weighted in large cap stocks that tend to be growth oriented. This occurs for two reasons. First, many investors have no idea the stock market can be segregated into nine stock market style indexes and thus they incorrectly assume large cap growth stocks are safer/better. Second, most investment advisors follow the flawed brokerage model portfolio, which overly embraces large cap stocks.

On the following page (Page 5), we provide a general snapshot of the long-term geometric returns of the stock market since 1970; the long term measures of risk (or Beta) since 1970; and the overall asset allocation of all investors who have asked us to evaluate their portfolio over the past twenty (plus) years. The long-term trends are obvious and extremely powerful over time. It's unfortunate that most investors don't follow them with the way they allocate their assets across the stock market.

Concept #3: Use Professional Stock Pickers

When I earned my PhD at Texas A&M, I was lucky enough to have a great mentor who instilled a number of core investment beliefs that remain to this day. I can still hear his voice as he discussed stock market investing. He would consistently remind me, "If you want to be successful in the stock market, you shouldn't be trying to find good stocks. Instead you should be spending your time trying to identify the absolute best stock pickers. Then let them invest your hard earned money for you." That message has always resonated with me.

When I met Scott at ECU in 1993, he believed the exact same thing. You see, Scott had worked for two brokerage firms in the late 1980's, so he had a front row seat and a direct opportunity to observe just how bad brokers (and brokerage firms) were at picking stocks. After a few short months, it had become obvious to him that there were only a handful of excellent stock pickers providing excellent long-term advice. When he became dismayed with the brokerage industry and their long list of "conflicts of interest", he decided to pursue his Ph.D. in search of a better way to help investors. Fortunately, he also had a mentor who understood the wisdom of identifying the best stock pickers.

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GEOMETRIC, RISK & ASSET ALLOCATION SINCE 1970

Geometric Returns

	Value	Blend	Growth
Large	11.22		8.45
Medium	13.08		11.90
Small	13.90		9.56

Risk (Beta)

	Value	Blend	Growth
Large	0.89		1.10
Medium	0.90		1.17
Small	0.83		1.18

Asset Allocation

	Value	Blend	Growth
Large	18%	20%	36%
Medium	4%	6%	9%
Small	1%	2%	4%

**These stock market style index tables were discussed and examined during our client appreciation dinners. They reinforce the long-term risk and return stock market profiles that we frequently discuss in our newsletters and updates. If you would like the YouTube link to our Client Appreciation Dinner, please let us know.*

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The truth is stock market investment professionals are no different than any other profession. Every profession has a very small group of incredibly talented people, a large group of somewhat talented people, and a ton of dead weight. Stock picking is no different. In America, there are roughly 35-45 individuals who have excellent long-term track records at picking stocks and beating benchmarks over time. They include well-known people like Warren Buffett and Peter Lynch. However, most of the great stock pickers are not well-known household names.

Unfortunately, the vast majority of investors do not have excellent stock pickers working for them, mostly because they have never thought about stock investing in this light. They assume all investment advisors and most mutual funds are interchangeable. They don't know the statistics that show 80% - 85% of all mutual funds fail to beat their benchmarks over time. They don't know that their advisor is not properly educated to pick individual stocks on their behalf. And, they've never been given a logical set of criteria to choose excellent money managers, which means no one has ever educated them about the importance of benchmarking.

The Point: There are only a small handful of individuals who have excellent track records of picking stocks and beating benchmarks over the long term. People like Warren Buffett and Peter Lynch. We (at KWAG) believe you can identify those select managers through a strict set of criteria and we believe they will continue to outperform for those investors who remain patient. In addition, we believe you can find excellent managers in all nine stock market style indexes, which allows you to diversify correctly.

The problem for many investors is two fold. First, there are hundreds of thousands of brokers, bankers, trust departments, mutual funds, registered investment advisors and newsletter writers who promote their ability to pick stocks and beat benchmarks. And yet there are only a handful of terrific people (or managers) who have long-term track records proving it. This implies most investors don't work with the top 35-45 managers.

The second problem goes back to those investors who become too focused on the short term. Many investors recognize the importance of hiring long-term managers with excellent track records. However, they often become impatient and leave those managers at the exact worst time. During our client dinners, I used a short-term dataset to show how anyone could conclude it was a good idea to fire Warren Buffet after 2013. And then, when we included one more year of data (in 2014) everyone wanted to rehire him. Once you have found the best money managers, you have to remain patient.

Two Decades Later

When Scott and I met and then started the investments club at ECU in the early 1990's, stock-picking programs presented the three of the biggest obstacles we had to overcome. The students want to trade stocks by themselves and they became hesitant about being in the stock market as the market sold off during the summer of 1994. We had to educate our students about the importance building well-diversified portfolios, which use excellent managers over the long term.

Today, we face the same types of hurdles with adult investors. Many adults pay too much attention to the media and their hyperbolic short-term message. If fact, over half of all Americans avoid investing in the stock market because they believe it's rigged or inconsistent. You can only draw that conclusion by focusing on the short run. In addition, even though the academic and behavioral data is readily available to all investors, most investors (and advisors) avoid the best areas of the stock market over time. This decision has dictated 90%-95% of all past returns, so its imperative that you diversify correctly!! Finally, most investors do not work with the best money managers on the planet…and many that do work with the best managers often become too impatient over the short run!

So, when investors ask us what's changed over the last twenty years, our answer is "not much". And, when they ask us about the three most critical issues when it comes to building a portfolio over time, we still provide the same answer we provided twenty years ago "You need to build a long-term stock portfolios that embraces the ENTIRE stock market by using the best money managers on the planet!" Then, we'd both add a comment about remaining "patient!"

The Stock Market

It's hard to believe, but the current bull market rally is now entering its seventy-third month. From the market lows experienced on March 9th, 2009, the stock market has increased over 250% in each and every one of the nine stock market style indexes. This has been an incredibly amazing run, which has obviously come with some significant large cap pullbacks in 2009, 2010 and 2011. Unfortunately, large cap stocks (as measured by the S&P500) have not experienced a normal 10% dip in over 1,250 days now, which has us a little bit concerned. On the other hand, small cap stocks (as

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measured by the Russell 2000) have experienced a 10% pullback each and every year since 2008, including two such pullbacks last year.

In previous updates, we have written about how large companies prospects are significantly driven by the global economy, while smaller companies prospects are primarily driven by our domestic economy. Over the last year, the global economy has significantly slowed down, while the US economy has accelerated. This gives small cap stocks quite an advantage over large caps. In addition, the Federal Reserve has stopped quantitative easing (QE), which has significantly strengthened the US Dollar. As the US Dollar gains strength, global companies have less of an exporting advantage versus their global peers. This adversely affects their bottom line. Again, this points to a small cap advantage. Of course, we know large caps have gone almost four years without any real volatility, which can't last. In fact, many analysts argue large caps (as a whole) are now a bit overpriced, and in some sectors into bubble territory. So, it should come as no surprise that we have been rebalancing into small cap stocks for quite a while, after last years large cap run-up.

The Numbers

Given the brief broad economic synopsis above, it should come as no surprise that large cap stocks (S&P500) are barely breaking even at 0.4% since the beginning of the 2015 calendar year, while small cap stocks (Russell 2000) are up almost 4.0%. In fact, as we noted in our recent monthly update, small cap stocks have been on a tear since their September pullback. When we examine each of the nine stock market style indexes, a similar pattern develops where small and mid caps have rallied much more than large caps. What's surprising is the rally has taken place on the growth side of the equation, with small cap growth leading the way by increasing a robust 6.63% in the first quarter.

Russell Index Performance
YTD through 03/31/2015

Value	Blend	Growth	
-0.72%	1.59%	3.84%	Large
2.42%	3.95%	5.38%	Mid
1.98%	4.32%	6.63%	Small

When you examine the previous year's returns, it validates our large cap concerns. As you can see, large cap growth has outperformed every other style index by a significant amount. The same type of return profile existed in 1999 and 2007 just before the "tech wreck" of 2000-02 and the "credit crisis" of 2008. We don't believe we are on the precipice of another sell-off like either of those periods, but we do believe you should NOT be overexposed to large growth stocks, which is why we have been pro-actively rebalancing away from large growth into small value.

1-Year Russell Index Performance
year ending 03/3012015

Value	Blend	Growth	
9.33%	12.73%	16.09%	Large
11.70%	13.68%	15.56%	Mid
4.43%	8.21%	12.06%	Small

When you examine the longer-term five year annualized returns, you can see the longer-term averages look much more balanced, particularly when you take out last years significant difference. Over the last few years, large caps and growth stocks have been leading the way. This is not typical and it is counter to the long term trends noted on Page 5. This is why we do not attempt to predict which area of the stock market will do well form year to year. Instead, we build a well diversified portfolio with equal amounts in each of the nine stock market style indexes, and then we let the markets natural ebbs and flows tell us how to rebalance. This strategy is much more productive and less stressful, since we don't have to predict which area of the market is going to do well from year to year.

5-Year Russell Index
Performance ending 03/31/2015

Value	Blend	Growth	
13.75%	14.73%	15.63%	Large
15.84%	16.16%	16.43%	Mid
12.54%	14.57%	16.58%	Small

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Since we've been discussing our strategies over the last two decades, we thought it would be fun to include the 15-year and 20-years annual returns. As you can see, the 15-year returns fall right in line with the longer-term averages, and the data clearly shows the benefit of embracing small value stocks over large cap growth stocks over the long term. Even when you examine the 20-year return (which includes most of the tech bubble of the last 1990's), the longer-term trends remain intact. Clearly, it makes sense to build well-diversified portfolios versus large cap ONLY portfolios over time.

15-Year. Russell Index
Performance ending 03/31/2015

Value	Blend	Growth	
6.53%	4.43%	1.99%	Large
10.87%	8.49%	4.02%	Mid
10.10%	7.19%	4.17%	Small

20-Year. Russell Index
Performance ending 03/31/2015

Value	Blend	Growth	
9.97%	9.63%	8.75%	Large
12.13%	11.67%	10.05%	Mid
10.86%	9.62%	7.89%	Small

Overall

Overall, we see very little on the horizon (from an economic perspective) that gets us worried about the future. Our economy is very stable. Corporate American remains lean and highly profitable. And the U.S. is growing at a very nice clip. In addition, jobs are being created at a high rate, and when you omit the energy field, almost every industry is expanding. As long-term investors, we remain optimistic, as long as you stay well-diversified, use excellent managers, and pro-actively rebalance your portfolio.

Issues Still Remain

Even though we remain optimistic over long term, there are still a number of short-term risks that remain. For example, the U.S. holds the current distinction of being the only major global economy whose growth rate is poised to outpace that of last year. Europe is currently experiencing a recession and will be struggling to recover for some time. China is slowing down over the short term, given their goal to be driven less by exports and more by their own consumers. We think this is an excellent strategy long term by China, but it could have a near-term negative impact on large cap U.S. companies who rely on exports.

Other short-term issues include Iran/Israel, Northern Africa, Terrorism, and the unyielding political gridlock. Of course, there is also the bond "conundrum" and the issue of rising interest rates. We don't believe any of these issues will have a lasting impact on stocks prices, but any of them could affect short term pricing. Obviously, we'll use any short-term deviations as an opportunity to rebalance.

Bond Portfolios

The performance of an equally-weighted portfolio of KWAG core bonds is displayed in a table on the following page. As you can see, this portfolio is made up of different types of bond funds, which span the entire fixed income spectrum. In addition, you will observe that a diversified portfolio – which utilizes a variety of bond funds – significantly outperforms the broader bond market averages over time. We use this table ONLY as an example of how a well-diversified fixed income portfolio should work. 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 portfolio shown below. It is also important to point out that our bond portfolios should be viewed in total, rather than individually. We know some parts of the portfolio will underperform from year to year, which is precisely why we build a diversified portfolio for our retirees.

Each advisor (at KWAG) uses the "core" portfolio as a starting point, and makes adjustments based on the specific needs of each individual client. Clients with a greater need for current income will hold more conservative bond portfolios, which will be expected to have lower long-run returns but expose their nest eggs to less downside risk.

Clients who are still working or are not currently taking distributions will tend to have more aggressive bond portfolios, which are expected to generate higher returns at the expense of higher downside risk exposure. All of our clients typically have a portion of their portfolio allocated to

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each type of bond fund. The weight of each piece is determined by your specific situation, taking into account your age, income needs, risk tolerance level 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, keep in mind that both of these more-aggressive funds come with higher downside risk, which is why we like to hold them within a well- diversified portfolio of stocks and bonds.

If the recent bout of interest rate volatility taught us anything about our bond portfolios, it's this: patience, diversification, and sound investing fundamentals matter. When you examine the big picture within the context of what has happened over the last few years, our biggest take away is that we have an excellent mix of bond funds and bond fund managers, and we believe they will be able 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 it's liquid, safe and provides a significantly higher rate of return. If you are holding significant cash, you can see why it makes sense to hold a well-diversified portfolio of bonds instead.

KWAG CORE BOND FUNDS

KWAG Core Bond Funds	2015 YTD	2014	2013	2012
Oppenheimer Floating Rate (**OOSYX)**	1.61%	0.79%	6.70%	8.75%
Allianz Convertible (**ANNPX)**	3.61%	6.68%	25.58%	11.96%
Loomis Sayles Strategic (**NEFZX)**	-0.64%	5.65%	10.87%	13.56%
Metropolitan West Total Return (**MWTIX)**	1.40%	5.99%	0.50%	11.54%
Doubleline **(DBLTX)**	1.62%	6.73%	0.02%	9.16%
Average Fixed Income Return	**1.52%**	**5.17%**	**8.73%**	**10.99%**
Barclays US Aggregate Bond Index	1.61%	5.97%	-2.02%	4.21%

Q&A WITH DR. JOE

Q1: Dr. Kiely, I have to admit, I'm slightly confused. I keep hearing about the dangers of potential inflation, yet inflation (by almost any measure) is lower than normal…right? Should I really be worried about inflation? G.M.

Dr. Joe: No, you should absolutely not be worried about inflation for a long time. In fact, you should be more worried about something worse…deflation, or the decrease of commodity and other asset prices. You may be wondering why we're more worried about deflation versus inflation? Well, since June 2014, the prices of 28 out of the top 29 commodities are down. Only cattle prices are up!! That's a bummer for you beef eaters!! This is why there is great disagreement within the Federal Reserve about when to start rising interest rates. Deflation (not inflation) looks to be our biggest hurdle.

Q2: Dr. Joe, Should we be worried about the Federal Reserve rising interest rates? Everyone says rising rates will be bad for the stock market. What do you think? E.R.

Dr. Joe: I think the Federal Reserve is run by a bunch of incredibly smart educated MBA's and Ph.D's, who will raise interest rates if they think it is necessary, and they believe our economy can handle it. In essence, they will be signaling our economy is MORE than healthy. Otherwise, I can't see why the Federal Reserve would raise interest rates, since there is no sign of inflation.

Q3: How do you think Chairwomen Yellen is handling her job as the new Chairman of the Federal Reserve? B.S.

Dr. Joe: I think Janet Yellen is doing a great job and I think

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it's clear she will not be bullied into doing anything she thinks will be bad for our economy. Frankly, I am impressed with her ability to deal with dumb questions from our politicians on both sides of the aisle. When she does get a good tough question, she backs up her answers with incredibly thorough data and the facts. I think we are lucky to have her as our Fed Chairwomen!

Q4: What do you think about all of the recent Merger & Acquisition activity? T.S

Dr. Joe: I think it tells us there are pockets of undervaluation out there, and it tells us companies have significant amounts of cash on hand. This is primarily why we're not worried about a significant market sell-off. Companies (in general) have extremely healthy balance sheets and income statements. And they are holding wads cash because they can borrow money from investors at such low interest rates. Overall, significant M&A activity signals the economy is healthy.

Q5: **As a follow-up, what do you think about all of the stock buybacks? R.M.**

Dr. Joe: This question is a bit trickier, since buybacks, executive compensation, and increased share prices are all interconnected. On one hand, the number one goal of upper management is to increase shareholder value. By purchasing their own shares, they decrease the number of shares outstanding - and - increase the demand for their stock. Studies show very clearly that this may be a "conflict of interest" and it MAY be an inefficient use of overall resources. In fact, before 1982, this practice was frowned upon.

On the other hand, if you're a shareholder of the company that engaged in the buyback, you want to see the price increase. I personally believe buybacks should be allowed, but limited in scope and size. Clearly, there is a potential "conflict of interest" that exists when upper management act in their own self interest. It's clear, too many companies are buying back their stock, particularly in the large cap space. This provides one more reason to worry about large cap stock prices, since it begs the question "Are increases in large cap stock prices driven by profits or buybacks?" The answer is both play a role, but it's hard to say how much buybacks affect long term pricing.

Q6: What is a backdoor IRA?

Dr. Joe: A backdoor IRA allows people who earn too much income a way to get $$$ into their Roth IRAs. Basically, the practice works like this. At the end of the year, people who earn too much can contribute "after tax" to a regular IRA. In January, they can convert the contribution into a Roth IRA and pay the taxes on the amount converted. Wealthier investors are "in essence" pushing the envelope by backing into a ROTH IRA.

Q7: This question is for Katie and her staff, who do such a great job for myself and a number of my friends who use your services. Could you provide a list of housekeeping items like hours of operation, how to write checks, etc? M.G.

Katie: We are more than happy to provide some back office information! Our hours of operation are Mon-Thur 9:00 to 5:00; Fri 9:00 to 2:00. We ask that all checks are made payable to T.D. Ameritrade and mailed to the following address: 4405 Stafford Glen Court, Oak Ridge, NC 27310. We also would prefer that you DO NOT send items directly to T.D. Ameritrade. We prefer all checks and applications run through our headquarters office so that we can enter them into our system and follow them internally. This way nothing gets lost and all items are accounted for. Our headquarters phone number is 252-439-1888 and our fax number is 252-439-1348. My assistant Kristen is always happy to help you with any questions as well. Lastly, if you are not receiving our monthly client updates, please email me at katie@thekielygroup.com to be added to our list. The updates usually go out between the 5th and 10th of each month. Feel free to email with any other concerns!

Q8: Dr. Joe: Can you please provide an update on your beautiful daughters? I love the fact that you include a little note on them in each update! It adds a nice personal touch to your services…

Dr. Joe: Of course I can provide an update! The girls turned two months on Friday, April 10^{th} 2015. As everyone knows, they were born just after their 32^{nd} week. They spent five and a half weeks in the NICU unit and we brought them home four weeks ago. On Friday, they both weighed over 7 pounds now and they have been gaining weight consistently. The doctor still wants us to limit their exposure until May 10^{th}… just to be sure. Apparently, the cold and flu season in Asheville this year has been very bad. They are developing the cutest little personalities and for the most part have been very easy to deal with. In fact, they already have me wrapped around their little fingers, as I find myself looking at their pictures hourly, watching videos, sharing pictures with complete strangers and holding them as often as I can!

Kellie and I feel incredibly blessed to have them and we appreciate the texts, email, notes, and love. We feel equally blessed to have such great clients and friends!

-Have a Happy Spring!

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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

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