KIELY WEALTH ADVISORY GROUP, INC.

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BEHIND THE SCENES

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OPENING THOUGHTS

On December 31, 2013 domestic stocks closed the books on their best year since 1997, which was literally a millennium ago! For the year, the S&P 500 (large caps) grew 30%, while the Russell 2000 (small caps) finished up 37%. It was an exceptional year for stocks and stock investors and it extended the market's winning streak to five years. It was also a good year for bond investors who avoided "interest rate risk" by diversifying their portfolios into alternative types of fixed income investments.

The significant run-up in the stock prices was driven by a number of factors, most notably record corporate cash flows and profitability. As we've mentioned many times, one of the few positives of the Great Recession was that it forced American companies to become lean, mean, and extremely efficient. Over the past five years, we have written regularly about how corporate America has taken advantage of the abundant well-educated global labor force, low capital costs, new global markets, innovative technologies, and the growing global middle class. However, over the past year, another major piece of the puzzle began to take an even more important role in corporate America's success – cheap and abundant energy.

Today, the United States is in the midst of an energy revolution that has taken even some of the most optimistic observers by surprise. Since the Arab oil embargo in the early 1970s, energy independence has been a primary but elusive American goal. In the last decade, however, technological advances have made possible the extraction of abundant oil and gas reserves trapped in shale beds and previously thought to be inaccessible. The implications for the U.S. economy are considerable, as are the opportunities for the domestic stock market. Here are just a few examples of what increased energy production, and the associated infrastructure build out could contribute to our economy over the next decade and beyond.

1. Significant job growth and a reduction in stubborn long-term unemployment.
2. An increase in the tax base, reducing the Federal budget and the deficit.
3. A significant increase in Gross Domestic Product (GDP).
4. Reduced dependence on foreign oil.
5. An increase in U.S. manufacturing.

INSIDE THIS ISSUE:

2013 TAX NOTE:

TAX DOCUMENTS WILL BE MAILED FROM THE KIELY GROUP BY FEBRUARY 14TH, 2014.

TD AMERITRADE TAX DOCUMENTS WILL BE MAILED BY FEBRUARY 20TH, 2014.

6. Increasing strength in the U.S. dollar.
7. Increased exports of energy and manufacturing.
8. Reduction in the trade deficit.
9. Greater investment in energy-efficient technology.
10. Greater cooperation between U.S. and Canada.
11. Long term opportunities in transportation.
12. As well as, infrastructure, shipping and energy.

Economists estimate that we could be energy independent within the next decade. In fact, over just the last two years we have gone from being a net importer of refined petroleum products to a net exporter and we are soon expected to become a net exporter of natural gas and natural gas liquids. Today, we are standing on the cusp of a paradigm shift driven by the domestic energy sector and the ramifications are far reaching, although still not well understood by many Americans.

When you combine the economic gains we're seeing from the energy sector with record-low interest rates, abundant and productive labor, dramatic changes in technology, and the rapid rise of developing economies around the globe, it is hard not to be optimistic about the long-term prospects for the global economy and our stock market. All of these factors converged in 2013 to help the overall stock market increase by more than 30%. While we know interest rates will eventually go up and labor will eventually increase in terms of scarcity and cost, the advances being made in domestic energy production could be a major game changer for decades to come.

Myths & Realities

There will always be those who question the strength and stability of our economy and prefer to remain on the sidelines, and this latest bull market run has been no exception. Last month, Wells Fargo and Gallup released the results of a poll which found that only 37% of Americans believe the stock market is an "excellent" or "good" way for American's to grow their assets, while 46% think it's "only fair", and 17% consider it "poor". Perhaps, this helps explain why flows into stocks from individual investors have remained so low by historical standards, in spite of the market indexes hitting one record-high after another throughout the last three years.

We live in a truly unique and exciting time, where a growing global middle class and innovative new technologies are creating wealth at a faster pace than ever before. All you have to do is look beyond our shores to see how new market-driven economies are flourishing across the globe. In addition, the domestic stock market has grown for five consecutive years now, dramatically brightening the prospects for retirees and those nearing retirement. Yet the majority of US investors (63%) still consider the stock market to be just fair or poor as a way to build wealth! We think this demonstrates the powerful grip emotions - and market pundits - have on investors following major market declines, like the one we saw in 2008. However, those days are well behind us and the factors that led to the creation of the real estate and credit bubbles have been addressed, as evidenced by the steady but gradual recovery we've seen since emerging from the worst recession of our generation. It was a scary time, we know, but many people remain worried about our economy and the stock market for no good reason…similar to those who lived through the Great Depression and were still burying cash in their backyard 50 years later.

For those who remain worried, let's examine some of the most pressing concerns we've seen put forth by the media and market pundits in recent months.

Myth: "The stock market is in a bubble."

Reality: We know a thing or two about bubbles, having predicted the bursting of the oil bubble, the housing bubble, the gold bubble, and the current bubble in Treasury bonds. While the stock market has advanced for five straight years - including significant gains in 2013 - we do NOT believe the stock market is in a bubble. It is difficult to argue stock valuations are currently cheap, but it's also difficult to argue that they're excessive. In fact, price-earnings ratios are still relatively low if you factor in the almost nonexistent level of inflation.

Remember, stock prices are determined by estimating the expected future cash flows generated by a company. Those cash flows are discounted back to the present day using an interest rate that reflects, among other things, the expected rate of inflation. With inflation currently running well under Federal Reserve target levels and expected to maintain this trend into the foreseeable future, we believe discount rates will remain low and therefore stock prices will be the major beneficiary. In other words, stock prices have risen because 1) cash flows and earnings are strong and expected to grow even stronger in the future, and 2) discount (or interest) rates remain low.

Another factor contributing to our lack of concern about a stock market bubble is the absence of activity in the merger and acquisitions market and the relatively small size

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of the takeover premiums. In 2013, the number of M&A deals was down 16% from 2012 and takeover premiums averaged just 19%, well below their 30% historical average. Stock market bubbles are generally characterized by frenzied activity in the M&A market with premiums running well above historical averages, which is the opposite of what we currently observe.

Finally, during bubbles the issuance of new shares of common stock tends to spike as companies seek to capitalize on their belief that their stock is trading above intrinsic value. Once again we see the opposite occurring, with companies announcing a record number of stock buybacks in 2013. No one should be in a better position to estimate the "true" value of a firm, than the firm itself. Thus, seeing companies invest in their own stock in record numbers, indicates the majority of stockholders believe prices are generally low…versus high. This bodes well for stock prices going forward.

Myth: "Everyone is bullish – we should be selling."

Reality: Bull markets generally peak after several years of Fed tightening to rein in a rapidly growing economy, high consumer confidence, and years of stock fund inflows. In reality, Federal Reserve policy continues to be stimulative, rather than restrictive, and they intend to keep short-term interest rates near zero for at least several more years. The economy—although growing—remains sluggish and consumer confidence remains below average. While over $250 billion flowed into in the equity market in 2013, we have seen more than $800 billion in net outflows from equities over the past six years (including 2013). In fact, 2013 was the first year of positive inflows for the equity market since 2006.

Furthermore, Wall Street strategists are still not overly bullish on stocks and are predicting lower gains for 2014 than they have historically. Overall, strategists are predicting a gain of just 6% for the S&P 500 in 2014, which is hardly bullish. It's important to point out that in nine of the past eleven years, actual growth was higher than strategists predicted.

Myth: "The end of Fed bond buying program in 2014 will lead to a market crash."

Reality: While we have seen a correlation between the size of the Fed's balance sheet and the level of stock indexes, we don't expect Fed tapering to put an end to the bull market. In fact, that's the last thing the Fed wants to see happen. The Fed announced it will begin to normalize interest rates over a period of several years. This is actually good news because it indicates they believe the economy is becoming strong enough to grow on its own.

On the other hand, markets have historically reacted negatively when the Fed first begins to tighten, and last May we saw the announcement of the Fed's intent to begin tapering drive stocks down by roughly 5%. In December, the Fed announced its intent to taper bond purchases by $10 billion in January (reducing the level of monthly bond purchases to $75 billion from $85 billion) and the stock market increased immediately by more than 1%. In this case, the market was looking beyond the tapering itself to the rationale behind it, which is that the economy is becoming more self-sufficient and therefore needs less Fed assistance. That's actually good news and the market reacted appropriately.

Looking back, the last time the Fed went through a protracted tightening cycle was from 2004 and 2007. Analysis of the stock indexes over that period, reveals stocks rose every year, in spite of Fed tightening. In general, there are two reasons the Fed raises interest rates. The first is to inhibit inflation, which is currently running well below the Fed target. The second is that they want to have arrows in their quiver to help deal with the next economic crisis. The Fed does not want to exit their current easy money policy too quickly because this could cause an economic slowdown. Thus, we believe Fed policy will remain measured and accommodative over the next several years, which is a plus for the stock market.

Myth: "Rising interest rates are harmful to the overall stock market."

Reality: While the Fed intends to keep short-term interest rates at or near zero for some time, intermediate and long-term rates appeared to have bottomed in mid-2013. Longer-term bonds sold off in 2013 as the 10-year Treasury yield went from 1.7% to 3.0% over the second half of the year. Alternatively, the stock market continued it's climb and added an additional 10% to it's value. During the last two Fed tightening cycles - including the decade of 1990's - the stock market continued to advance in spite of rising interest rates. The Fed is currently allowing longer-term rates to rise because they see an uptick in the economy. That's not bearish or harmful news, it's bullish.

Finally, most major bear markets (and recessions) have been preceded by an inverted yield curve. This occurs when short-term rates are higher than long-term rates. On average, an inverted yield curve precedes a recession by approximately 11 months, although the relationship is far from perfect. Still, with short-term interest rates at or near zero and longer-term rates rising, it is difficult to imagine a scenario where we could see an inverted yield curve

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anytime soon. In general, a positively sloped yield curve like the one we have now is a bullish signal.

Myth: "Rising rates are harmful to the overall bond market."

Reality: As we have noted in previous updates, the bond market is twice as big as the stock market and all bonds are NOT created equally. This presents an array of opportunities for those investors/advisors who can decipher the various segments of the bond market and separate the areas that are adversely affected by interest rates from those that aren't. Nearly three-quarters of all bonds have significant levels of "interest rate risk", meaning they will be negatively impacted by rising interest rates. On the other hand, this implies one-quarter of the bonds do NOT have significant interest rate risk and these are the types of bonds you want to hold in your portfolio at times like this.

REAL 2014 MARKET CONCERNS

While we expect both the economy and stock market to continue growing over the longer term, we recognize that short-term bumps and blips are part of the investing landscape and therefore something we need to anticipate and be prepared to react to. As such, we continue to proactively adjust our client portfolios to make sure they're positioned as well as a possibly can be. Beyond the myths that we're not concerned about (covered above) there are a few legitimate concerns we have for the coming year.

A Larger than Normal Correction: Perhaps our main concern going into 2014 is the risk of a larger than "normal" correction. We frequently remind everyone that, on average, the S&P 500 experiences a peak-to-trough correction in excess of 10% on an annual basis and that this sort of market behavior is simply business-as-usual. Every other year, on average, the magnitude of the decline reaches or exceeds 15%, meaning larger dips are fairly common as well. At this point, the S&P 500 has not seen a 10% peak-to-trough correction since 2011, although we did experience a correction of 9% in 2012.

Since dips themselves are impossible to predict, the best way to prepare for them is to remain well-diversified and proactively rebalance once they do occur. Because dips are transient, this approach not only minimizes the impact of the dips when they occur, but maximizes the long-term performance of your portfolio as a result of buying assets when they are on sale. We don't pretend to know when the next 10%-plus dip will occur, but the longer we go the higher the likelihood it will be larger than normal.

Rapidly Rising Rates: It is possible that interest rates will rise faster than expected over the coming year, thereby curbing the still recovering real estate market and slowing the pace of borrowing by corporations. A faster than expected rise in interest rates could therefore temper economic growth and negatively impact stocks, at least in the short run. However, we don't think interest rates rising more quickly than expected is likely unless the economy begins growing more than the Fed would like to see. This is a possibility, but given the nature of this recovery we view it as remote at best.

Better than Expected Employment: This is another case where good news for the economy may not be good news for the stock market, at least not in the short run. If unemployment drops faster and farther than expected this could create what is called "cost push" inflation, driving wages up and forcing manufacturers to raise prices. This would occur only if the economy began expanding far more rapidly than it is currently, exhausting the still ample supply of labor. As a result, we think this scenario is possible but highly unlikely to occur in the coming year.

European Banking Crisis: Although Europe has moved beyond its worst days, there are still a number of European countries experiencing significantly high unemployment (around 20%) with little or no growth in their economies. Their woes will continue to act as a drag on the European Union and put stress on the overall European banking system. This is problematic for Europe. However, unless something unexpected occurs to make the situation worse, we don't see an immediate threat to US investors.

Minor Bubbles: Even though we believe the overall financial markets are fairly priced, there are a number of specific sectors that are potentially overpriced. First, over the last two years, biotech stocks have skyrocketed to gains of nearly 100%. If you own any biotech you should probably have rebalanced by now. Second, the price of gold peaked in August 2011 at $1,900/ounce but slumped 28% last year. We believe at today's price of $1,200/ounce it remains overvalued and should be avoided as an asset class. Third, long-term bonds of any type should be avoided, since they have significantly higher levels of "interest rate risk" than intermediate or short-term bonds and we know long-term interest rates will eventually go up. We have taken great care to insure our clients are not exposed to long-term bonds and have moved into other types of fixed income securities with limited levels of interest rate risk.

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Finally, there are some emerging market economies that look risky, primarily due to political instability. Countries like Turkey and Brazil are good examples where investors should be cautious. On the other hand, emerging markets overall have not performed well in recent years and in many cases appear to be significantly undervalued. The key to investing in emerging markets is one of selectivity, and our managers who own emerging market stocks, are echoing this sentiment.

In the municipal bond market, a number of municipalities are either on the verge of bankruptcy or going through painful and protracted restructuring that will negatively impact their outstanding bonds. This is precisely why we believe in using proactive bond managers who can choose to avoid these types of investments and the potential risks municipal bonds carry.

THE STOCK MARKET

It seems hard to believe but the bull market is now entering its sixth year. From the market bottom (which occurred on March 9, 2009) through the end of 2013, every equity style box is now up more than 200%, with every small and mid-cap style box up more than 250%!

Post-Crash Recovery for Russell Style Indexes 03/09/2009 - 12/31/2013

Value	Blend	Growth	
212%	209%	207%	Large
275%	262%	250%	Mid
251%	262%	272%	Small

This has clearly been a remarkable run. However, it has not always been a smooth ride. We saw significant pullbacks in 2009, 2010 and 2011, and in 2012 we experienced two smaller magnitude declines (each less than 10%) during the summer and fall. In 2013 we saw relatively little volatility, making us somewhat more cautious going forward. No one knows when the next significant pullback will occur, but each day that passes increases the likelihood that it will be larger than normal when it finally does. We will continue to enjoy the ride until that day comes, remaining vigilant about rebalancing to make sure our portfolios don't become overextended in their allocations to equities or to any individual sector of the stock market.

The Style Index Numbers

We have often written about the "size" and "value" premiums that academic research has confirmed to exist in the stock market over the long term. Last year, the "size" premium remained in place, as small and midcap stocks once again outperformed their large cap brethren. On the other hand, the "value" premium was non-existent in 2013 as value stocks were outperformed by growth within each size category. Over the long run we know value stocks tend to outperform growth with lower volatility, but historically we've seen this trend reverse itself for periods of several years at a time. Since no one knows which style is going to lead in a given year, we choose to equally weight our portfolios and rebalance out of the styles that have had the biggest runs and thus become over-weighted. As a result, we are now proactively rebalancing out of growth stocks back into value stocks. In a market correction, the areas that have been the hottest recently tend to get hit the hardest, so rebalancing serves as a hedge against potential future market declines. As you can see in the 2013 performance chart, small growth stocks led the market over the past year, gaining an impressive 43.3%, while large value was the worst performing sector, although still growing by a very healthy 32.53%. (When the worst performing style box gains more than 30% you know you've had a really good year!)

1-Year Russell Style Index Performance Year End 12/31/2013

Value	Blend	Growth	
32.53%	33.11%	33.48%	Large
33.46%	34.76%	35.74%	Mid
34.52%	38.82%	43.30%	Small

Even though small and mid-cap stocks tend to beat larger stocks over time, there are always periods that buck this trend, as we saw in the fourth quarter of this past year. It was an odd quarter in general, with large cap growth stocks beating large cap value stocks. However, in the small

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and mid cap categories, value beat growth. Interestingly, small growth saw the smallest gains in the fourth quarter, even though it was the largest gaining style box for the year overall.

We have been using this growth spurt as an opportunity to sell what's been hot (growth) and rebalance back into relatively less expensive value stocks. This is the type of proactive strategy that has the potential to add 1% to 2% to your portfolio over time. Markets aren't immune to fads and there are always periods where certain sectors become popular and their prices get a little ahead of themselves. When this occurs, those sectors become over-weighted in your portfolio and it just makes sense to rebalance out of them before they correct. Proactive rebalancing allows us to use investors' well-known penchant for following fads to our advantage, selling out of what has become overvalued and buying into areas that are more reasonably valued or even on sale.

Russell Style Index Performance
4th Quarter 2013

Value	Blend	Growth	
10.01%	10.23%	10.44%	Large
8.56%	8.39%	8.23%	Mid
9.30%	8.27%	8.17%	Small

When we examine style-box performance going back three years, the size premium and value premium both disappear. This happens occasionally and because its occurrence is unpredictable, we equally-weight across all style boxes. Guessing what the market is going to do in the future is a losing proposition, so we let the market make those decisions for us and then react accordingly. Historically, both the size and value premiums can disappear for up to several years at a time. For example, in the late 1990s growth outperformed value for five consecutive years and tech stock investors began deriding world-famous value investor Warren Buffett as a "dinosaur" and "out of touch" for his refusal to load up on tech stocks. In January 2000, Buffett was famously quoted as saying, "I know what will happen. I just don't know when." A few months later, of course, the tech bubble burst and growth stocks trailed value for the next decade.

3-Year. Annualized Russell Style Index
Performance ending 12/31/2013

Value	Blend	Growth	
16.06%	16.30%	16.45%	Large
15.97%	15.88%	15.63%	Mid
14.49%	15.67%	16.82%	Small

Over time, we know value stocks beat growth stocks, and that smaller stocks will also beat larger stocks. However, we echo Warren Buffett's short term outlook by noting it's impossible to know which sectors will outperform other over shorter time periods. Myopic market pundits like to use short-term performance as evidence that such "premiums" do not exist, but they're wrong. This quarter, we have included a stock market returns table showing how the Russell Style Stock Market Indexes have behaved over the last four-plus decades, since 1970. (See page 11) We'll let you decide whether or not the "value" or "size" premiums exist by letting you examine the long-run data for yourself.

Over the past five years, the rebound we've seen in stock prices of all sizes and styles has been remarkable and is a testament to the innovative nature and resiliency of American corporations. When sizing up the five-year returns in the table below, the average return across all six small and mid-cap boxes is 21.19% annually, whereas the average across the three large cap boxes is 18.55%. Don't get us wrong, 18.55% is a phenomenal annual return for any stock sector over five years!! However, the additional 2.64% earned annually from small and mid-cap stocks makes a big difference, especially when compounded over five years. Again, this is why we recommend investing equal amounts into all style boxes.

5-Year. Annualized Russell Style Index
Performance ending 12/31/2013

Value	Blend	Growth	
16.67%	18.59%	20.39%	Large
21.16%	22.36%	23.37%	Mid
17.64%	20.08%	22.58%	Small

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Going back even farther in time, over the last decade, small and mid-cap stocks averaged a combined 9.56% annually, while large-cap stocks averaged just 7.73%. That's a difference of 1.83% annually, which on an initial $100,000 investment would have equated to an advantage of nearly $20,000 for small and mid-caps over the decade. Interestingly, we do not observe a significant "value" premium in the 10-year numbers. This is due in large part, to the stocks of banks and financial services firms, which comprise a significant portion of the value indices. Over the last decade, the financial services industry suffered outsized losses following the subprime mortgage market collapse.

10-Year. Annualized Russell Style Index Performance ending 03/31/2013

Value	Blend	Growth	
7.58%	7.78%	7.83%	**Large**
10.25%	10.22%	9.77%	**Mid**
8.61%	9.07%	9.41%	**Small**

Our Outlook for 2014

As we enter 2014, we continue to remain bullish on the stock market. We believe valuations look reasonable, given current expectations for corporate earnings growth. We obviously know we are long overdue for a normal market correction. However, we believe the broader positive macroeconomic variables, including the previously mentioned paradigm shift in the energy sector, will remain in place for some time. In essence, we believe the long-term prospects for stocks are excellent.

NOTE: On Page 11 of this newsletter, we have included the Annual Russell Style Index returns going back to 1970, along with a measure of their risk profiles. If you own a diversified portfolio - like all of our current clients - the appropriate measure for risk is the "Beta", where any number below one is less risky than the overall risk of the stock market, and any number above one is more risky than the overall risk of the stock market.
*At the bottom of the table, please note the significant differences in small value and large growth. Enjoy!

THE BOND MARKET

Given the seemingly preordained rise in interest rates we will be facing over the next few years, the allocation between stocks and "interest rate sensitive" bonds in a diversified portfolio will be one of the more difficult challenges facing investors. However, if you own a well-diversified portfolio that includes bonds with lower levels of interest rate sensitivity, the fixed income portion of your portfolio should still be able to generate decent income while providing a high degree of safety.

Last year interest rates rose and "interest rate sensitive" bonds suffered…particularly on the long end of the maturity spectrum. For example, Vanguard's Long Term Bond fund lost more than -9% in 2013, while the Barclays US Aggregate Bond Index was down more than -2%. For investors who held interest rate sensitive bonds, particularly those with the longest maturities, it was an ugly year. However, other types of fixed income securities fared much better. For example, convertible bonds were up more than 20% overall and one of our bond managers who invests heavily in high-yield bonds was up more than 10%. In addition, the floating rate bond fund we use was up 6.7% over the past year.

There is no free lunch, however, and to generate higher fixed-income returns in a rising interest rate environment you will need to accept higher volatility. For some clients the added risk may be acceptable. However, for other clients who need a relatively high degree of safety in at least a portion of their assets, the added risk may be unacceptable. As a result, we customize our portfolios for each client based on their personal situations and risk tolerances. By combining different kinds of fixed income investments into a single portfolio we can eliminate much of the volatility and still provide a positive return overall.

Diversification Works

Some investors obviously wonder why you would want to own a portfolio that includes interest rate sensitive bonds? To some extent, all bonds are interest rate sensitive -- some are just more sensitive than others. The key is to remember that the fixed income component of a portfolio is there to provide safety of principal in the event of a significant stock market decline. After all, if safety of principal wasn't a concern, no one would invest in bonds since we know stocks significantly outperform bonds over the long term. However, if you plan to tap into a portion of

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your portfolio over the next 5-10 years, safety of principal is an important consideration, at least for the portion of your assets you think you might need. Unfortunately, increased safety comes at a cost in terms of long-term growth potential, and the biggest challenge in our current interest rate environment is providing the necessary degree of safety to our clients fixed income portfolios while at the same time generating inflation-beating returns. We've chosen to approach this task by using a multi-pronged approach of bond funds, each with disparate levels of sensitivity to a variety of risk factors.

High Correlation

The reason we hesitate to abandon traditional interest rate sensitive bond funds (like PTTRX or DBLTX) in favor of less rate sensitive floating rate, high-yield, or convertible bond funds is that the latter are more highly correlated with the stock market and will thus provide limited downside protection in market corrections. Floating rate and high yield bonds primarily invest in lower-quality debt, meaning the chance of default in the bonds and bank loans held by these funds is elevated, particularly during economic downturns. This makes funds like OOSYX (a floating-rate bank loan fund) and NEFZX (a strategic fund with a wide mandate that tends to hold a high percentage of junk bonds) more sensitive to the economic cycle than they are to rising interest rates. This is because low-quality debt acts more like an equity stake in the company than a liability, as there are few if any assets collateralizing the debt should the company falter. As a result, investors price low quality debt more like they price a company's stock, since their risks are similar to those of stockholders (i.e. both stand to lose everything if the company folds). If investors get spooked and start dumping risky assets, lower quality debt is what they will look to dump first, right along with their stocks. This explains why diversification is just as important in a fixed income portfolio as it is in a stock portfolio.

If a prolonged stock market downturn occurs, we would expect OOSYX and NEFZX to suffer losses, as they did in 2008. We obviously don't want our client's "safe assets" to be invested entirely in bond funds that are likely to suffer losses in a downturn. While we don't anticipate anything approaching the magnitude of the downturn we saw in 2008, we could easily face some smaller magnitude downturns and therefore need some assets that will serve as a hedge.

Our Core Strategy

As a result, our conservative core bond strategy involves diversifying among different fixed income pillars, where some bonds have higher (although still limited) levels of sensitivity to the stock market, while other bonds have higher levels of sensitivity to rising interest rates. A fixed income portfolio is a single entity made up of various interlocking parts, and care should be taken to avoid focusing on the performance of any single fund in the mix over a short period of time. Each fund in the mix is part of a larger overall strategy and intended to fulfill a specific role within a specific market environment. In other words, a good fixed income portfolio is designed to be the sum of its parts and needs to be evaluated in its entirety (i.e. all four pillars together).

The performance of our conservative core bond portfolio in 2013 was pretty much as we intended. The table below contains the performance numbers for both the fourth quarter and the entire year, as reported by Morningstar. In 2013, an equally weighted core portfolio of bonds returned 3.84%, versus -2.02% for the benchmark index (the Barclays US Aggregate Bond Index). Over the fourth quarter of 2013, the combined portfolio gained 1.51% versus a -0.14% for the benchmark. Given the difficult interest rate environment we were faced with, we think these numbers are exceptional. Our core bond portfolio provided our investors with a high degree of safety while still generating returns well above the rate of inflation and nearly 6% better than the US bond market overall. We'll take that kind of result in any year.

2013 4th Quarter & Year-End Bond		
	4thQtr	**2013**
KWAG Conservative Core Bond Portfolio	1.51%	3.84%
Barclays US Aggregate Bond Index	-0.14%	-2.02%
+/- Benchmark Return	1.65%	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 template and then makes adjustments based on the specific needs of each individual client.

The Big Picture

Over longer periods of time, we know stocks will outperform bonds, which seemingly implies we should have most—if not all—of our investments in stocks. On the other hand, over shorter periods the financial markets can be volatile and almost anything is possible, which is why keeping

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money invested in lower volatility assets like bonds is a prudent approach. We know the stock market averages a 10-15% dip every year, for example, and sometimes the dip can be even larger. Allocating a portion of your assets to bonds, which are far less volatile than stocks, will help offset the fluctuations in your stock holdings and reduce the volatility of your overall portfolio.

Beyond simple risk reduction, however, holding bonds makes sense for another good reason. Since the stock market experiences significant dips on a relatively regular basis, money allocated to bonds can be used as "dry powder" to capitalize on the dips and buy stocks when they're on sale. Over the past two years ,we've seen a significant rally in stocks without the typical 10%-15% dip, increasing the likelihood that a dip will occur in the near future and making bonds even more attractive on a relative basis.

Finally, many investors have monthly cash flow needs and their allocation to bonds allow them to avoid selling stocks into a decline. Bond values are more stable and often even negatively correlated with stocks, making them invaluable for investors with monthly income needs. Bonds should be viewed as your portfolio's "safe assets" and as a way to preserve capital in order to meet your short and intermediate term needs. In contrast, stocks are a portfolio's "risky assets" and aren't a reliable option for meeting short or intermediate term cash. Instead, stocks are best used to provide significant inflation-beating growth of capital over longer periods of time. A good rule of thumb for money allocated to the stock market is to have an investment horizon of at least five years.

The bottom line is, bonds and bond funds continue to play an important role in ALL of our client portfolios - even those whose portfolios are positioned more aggressively.

PROGNOSTICATIONS

Every year at our annual client appreciation dinners, we provide a list of 15-20 economic and financial prognostications and predictions. These are provided to our clients mostly for entertainment purposes, since we know predicting short-term economic behavior is almost impossible. Below, we provide a list of the prognostications from our January 2013 dinners, which also appeared in the monthly email update following the dinners. **"Yes"** and **"No"** follow each of the prognostication so you can see how we lucky or unlucky we were with our prognostications.

- Double-digit Returns in the Equity Markets. **Yes**
- Small/Mid caps hit all time highs. **Yes**
- Above average stock market volatility in 2013. **No**
- A 10%-20% market dip at some point in 2013. **No.**
- All-time highs in S&P 500 profits & cash flows. **Yes.**
- 2%-2.5% growth in the U.S. GDP. **Yes.**
- 4%-4.5% growth in global GDP. **Yes.**
- Interest rates will remain lower than normal. **Yes**
- Interest rates will increase slightly. **Yes**
- Inflation will remain muted for all of 2013. **Yes.**
- Europe and the euro will NOT collapse. **Yes**
- Europe will improve because of the ECB. **Yes.**
- Real Estate will bottom in many more markets. **Yes**
- Real Estate will add to GDP grow. **Yes.**
- We will experience a few global surprises. **Yes.**
- Transparency in the markets will increase. **Yes.**
- More fraud cases brought against 2008 culprits. **Yes.**
- Surprised again at the resiliency of our markets. **Yes.**

Last year, was another great year for our financial markets. Of course, we also predicted that the bond market would have a challenging year and some of the "interest rate" sensitive sectors experienced significant downward challenges. Overall, our fixed income portfolios, had an excellent year because we diversified our bond portfolios correctly. In addition, we cautioned about getting too worried about the "Fiscal Cliff", which we thought was way overblown by the media. The only areas we totally missed on involved market volatility which was much lower than normal. However, most of us can live with lower than expected volatility any day!! We will reveal our newest market prognostications at our client dinners in January.

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2014 Kiely Group Client Appreciation Dinner Schedule

Client Appreciation Dinners

During the last week of January, we will be holding our annual client appreciation dinners. This is always a special time of year for us, 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 dinners, 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 main office in Greenville, NC (877-366-5623) or emailing Angelique at asmith@thekielygroup.com.

Ocean Isle, NC Monday, January 27rd Sea Trails Convention Center 6:00-8:00PM

Greenville, NC Tuesday, January 28th Brook Valley Country Club 6:00-8:00PM

Asheville, NC Thursday, January 30th Asheville 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.

The Gang at Kiely Wealth Advisory Group

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

Annual Russell Style Index and S&P 500 Returns

Year	SCG	SCV	MCG	MCV	LCG	LCV	S&P 500	Rf
1970	-10.90%	-0.10%	-4.20%	8.00%	-4.80%	14.30%	12.20%	6.53%
1971	32.40%	16.00%	20.80%	10.30%	20.10%	7.50%	14.30%	4.39%
1972	4.90%	8.70%	22.10%	8.70%	24.00%	18.90%	18.99%	3.84%
1973	-35.30%	-23.20%	-25.60%	-17.60%	-17.40%	-7.00%	-14.69%	6.93%
1974	-31.00%	-18.00%	-30.80%	-19.70%	-35.10%	-20.50%	-26.47%	8.00%
1975	58.70%	61.10%	43.90%	52.20%	31.50%	35.50%	37.23%	5.80%
1976	41.10%	52.20%	26.60%	43.40%	10.00%	30.80%	23.93%	5.08%
1977	22.90%	22.70%	0.20%	2.10%	-12.60%	-5.30%	-7.16%	5.12%
1978	19.80%	21.30%	8.80%	7.20%	7.00%	5.70%	6.57%	7.18%
1979	48.20%	39.00%	36.30%	28.20%	11.90%	19.90%	18.61%	10.38%
1980	53.50%	31.00%	43.20%	25.40%	20.80%	36.70%	32.50%	11.24%
1981	-8.10%	15.90%	-3.30%	8.20%	-9.60%	-2.60%	-4.92%	14.71%
1982	26.40%	36.00%	21.50%	30.80%	17.70%	19.80%	21.55%	10.54%
1983	26.20%	42.90%	19.80%	28.10%	17.60%	26.60%	22.56%	8.80%
1984	-14.00%	6.00%	-3.60%	7.20%	5.20%	11.30%	6.27%	9.85%
1985	29.30%	37.50%	30.30%	32.60%	34.80%	29.60%	31.73%	7.72%
1986	3.58%	7.41%	17.55%	17.87%	13.99%	21.44%	18.67%	6.16%
1987	-10.48%	-7.11%	2.76%	-2.19%	6.45%	2.20%	5.25%	5.47%
1988	20.37%	29.47%	12.92%	24.61%	10.88%	22.02%	16.61%	6.35%
1989	20.17%	12.43%	31.48%	22.70%	37.68%	26.66%	31.69%	8.37%
1990	-17.41%	-21.77%	-5.13%	-16.08%	1.37%	-3.67%	-3.11%	7.81%
1991	51.19%	41.70%	47.03%	37.92%	39.41%	18.16%	30.47%	5.60%
1992	7.77%	29.14%	8.71%	21.68%	3.89%	9.07%	7.62%	3.51%
1993	13.37%	23.77%	11.19%	15.62%	-0.07%	19.76%	10.08%	2.90%
1994	-2.43%	-1.54%	-2.16%	-2.13%	4.85%	-1.90%	1.32%	4.00%
1995	31.04%	25.75%	33.98%	34.93%	38.65%	40.03%	37.58%	4.50%
1996	11.26%	21.37%	17.48%	20.26%	25.57%	22.31%	22.96%	4.21%
1997	12.95%	31.78%	22.54%	34.37%	33.73%	35.48%	33.36%	3.08%
1998	1.23%	-6.45%	17.86%	5.08%	45.09%	21.24%	28.58%	2.92%
1999	43.09%	-1.49%	51.29%	-0.11%	29.68%	10.95%	21.04%	2.68%
2000	-22.43%	22.83%	-11.75%	19.18%	-24.53%	2.32%	-9.11%	3.52%
2001	-9.23%	14.02%	-20.15%	2.33%	-20.49%	-8.79%	-11.88%	3.54%
2002	-30.26%	-11.42%	-27.41%	-9.64%	-27.98%	-18.02%	-22.10%	1.51%
2003	48.54%	46.03%	42.71%	38.07%	26.63%	26.75%	28.68%	0.82%
2004	14.31%	22.25%	15.48%	23.70%	3.74%	13.34%	10.90%	1.38%
2005	4.15%	4.71%	12.10%	12.65%	2.88%	4.60%	4.90%	1.43%
2006	13.35%	23.48%	10.66%	20.22%	8.56%	22.99%	15.79%	4.74%
2007	7.05%	-9.78%	11.43%	-1.42%	12.15%	0.25%	5.49%	4.79%
2008	-38.54%	-28.92%	-44.32%	-38.44%	-36.06%	-36.09%	-37.00%	1.77%
2009	34.47%	20.58%	46.29%	34.21%	34.01%	14.59%	26.46%	0.16%
2010	29.09%	24.50%	26.38%	24.75%	13.21%	11.69%	15.06%	0.13%
2011	-2.91%	-5.50%	-1.65%	-1.38%	4.63%	1.12%	2.11%	0.07%
2012	14.59%	18.05%	15.81%	18.51%	15.06%	17.01%	16.00%	0.09%
2013	43.30%	34.52%	35.74%	33.46%	32.66%	32.14%	29.60%	0.05%
Average	**12.62%**	**16.11%**	**13.29%**	**14.68%**	**10.38%**	**12.47%**	**12.05%**	**4.95%**
Geo Mean	**9.65%**	**14.14%**	**10.88%**	**13.04%**	**8.34%**	**11.18%**	**10.54%**	**4.89%**
Std Dev	**25.19%**	**21.01%**	**22.30%**	**18.65%**	**20.40%**	**16.42%**	**17.52%**	**3.40%**
Beta	**1.18**	**0.83**	**1.17**	**0.90**	**1.10**	**0.90**	**1.00**	**0.00**

**IMPORTANT DISCLOSURE INFORMATION*

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

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<u>Please Note</u>*: 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.* ***<u>For example</u>:*** *a KWAG advisory fee of 1% compounded over a 10 year period would reduce a 10% return to an 8.9% annual return).*

<u>Please Remember</u>: *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 Morningstar**,** 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.*