KIELY WEALTH ADVISORY GROUP, INC.

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BEHIND THE SCENES

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OPENING THOUGHTS

During the first part of January we're always busy prepping our year-end client dinners. All of us at KWAG really enjoy these events because they give us an opportunity to express our sincere appreciation to our clients and friends. In addition, the dinners give us an opportunity to share our thoughts on the previous year and we get to prognosticate on the one that has just begun.

In general, we remain very optimistic when we look out into the future. There are a plethora of positive developments that we think will continue to benefit the global and domestic economies over the long-run, not the least of which is the continuing cycle of innovation. We believe innovation on the part of American and foreign companies will continue to significantly benefit all of us over the next few decades, and in turn significantly transform our portfolios and the way we live our lives. Medical advances will continue to improve the quality of life and increase longevity. Advances in wireless technology will allow us to monitor our health at home and interact easily (and inexpensively) with our healthcare providers. Advances in energy will make power consumption cleaner and energy more abundant. In 50 years, fossil fuels will likely be obsolete, or very close to it. Transportation will continue to become safer and cheaper, and driverless cars will probably be sharing the roads with us. Over the next few decades, technology will transform the face of virtually every industry in ways we can't even begin to imagine. It's difficult to consider the future and not be excited about the tremendous prospects going forward.

Of course, this doesn't mean the financial markets accurately "value" these prospects in the short run. As everyone knows, markets often behave like ocean tides, with ebbs and flows. When the tide is out, the economy looks bleaker and asset prices tend to be depressed. When the tide begins to come back in, the economy appears brighter and prices recover, sometimes to levels that are above where they should be. Right now the tide is coming in, and we believe there are portions of the stock market that have become overvalued. As a result, even though we think long-term prospects remain bright, now is probably not the time to be greedy. Instead, we prefer to exercise care and caution in the near-term, believing the downside risks outweigh the potential upside at this point.

INSIDE THIS ISSUE:

IMPORTANT REMINDER!

OUR CLIENT APPECIATION DINNERS ARE QUICKLY APPROACHING!

PLEASE BE SURE TO RSVP WITH OUR OFFICE AS SOON AS POSSIBLE!

SEE PAGE 15 OF THE NEWSLETTER TO FIND THE DINNER NEAREST YOU!

TO RSVP:
CALL KRISTEN AT
252-439-1888
OR EMAIL
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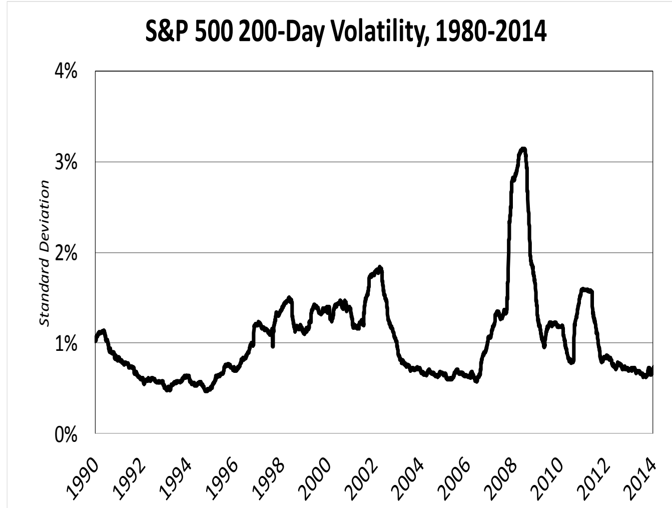
Looking Back

If you go back and re-examine our year-end newsletters over the last few years, you'll notice a general trend in our message...at least up until last year. Between 2009 through 2013, we stressed how "undervalued" the stock market appeared to be and how optimistic we were about the intermediate and long-term prospects. Even though no one can accurately predict what the stock market will do from year-to-year, it was pretty obvious that the stock market - by virtually any measure - was undervalued. Much of this valuation was a result of the panic selloff we saw in late 2008 and early 2009. At the end of 2013, however, the tenor of our newsletters message changed and we began to stress caution and a greater focus on asset preservation. Frankly, after 200% (plus) increases across every equity style box coming off the lows in March of 2009, caution seemed to make sense. Beyond that, however, there were a number of signs that began to signal that risky assets were becoming fully valued, and in a few industries overvalued.

We mentioned these valuation concerns in our January 2013 newsletter and at our client dinners. Many of these same concerns were also being echoed by some of our fund managers, as well as a number of economists, including Fed Chairman Janet Yellen. In addition, we mentioned the surprising absence of market volatility in 2013, which indicated a general lack of "fear" or concern on the part of investors. One thing we've learned over the past three (plus) decades of studying financial markets is that investors should be concerned, when it appears no one else is. Specifically, we pointed out that the S&P 500 had not experienced a normal 10%-15% peak-to-trough decline in almost three years, when it typically averages a 10%-15% decline almost annually. Through the end of 2014, and now into 2015, that decline still hasn't occurred…

Financial market volatility essentially acts as a "fear" gauge, so it's informative to track volatility over time. The following chart displays the 200-day volatility levels for the S&P 500 from 1990 through the end of 2014. As you'll see, volatility peaked in early 2009 when fear was rampant. However, since the end of 2012 volatility has been near historic lows. It's important to note that volatility can remain at low levels (below 1%) over protracted periods, as it was from early 1990 through 1998 and again from 2003 through 2007. What stands out today is that volatility has been unusually low and it has continued to decline over the past couple of years. Given the historical record, we should probably expect a spike in volatility at some point in the not too distant future. Whether this will happen in 2015, no one knows, but it <u>will</u> eventually happen.



The overriding concerns we have about a lack of fear on the part of market participants led us to make some shifts in our overall portfolio strategy throughout 2014 that were less focused on "offense" and more focused on "defense". As long-term investors, we will always believe the stock market is a prudent investment and that, over long periods of time, there is no better place for individuals to invest. However, there will always be times when it is prudent to focus more on wealth preservation than on wealth creation, and these times have historically been when investors are displaying relatively little fear or concern. As Warren Buffett famously put it, **"Be fearful when others are greedy, and greedy when others are fearful."**

Rose Colored Glasses?

Given the significant rise in the stock indexes between the beginning of 2009 and the end of 2013 - and the corresponding decline in volatility - we believed there was an equal chance that the stock market (in 2014) would finish the year up or down, and we said as much last year in our year-end newsletter and at our January 2014 client dinners. In addition, we also believed there was a significant chance of witnessing a long overdue 10-15% correction at in 2014, which obviously never occurred. However, the likelihood of a significant correction influenced our investing decisions throughout 2014, and it will continue to do so until a normal large-cap correction finally occurs.

Obviously no one knows when the next correction will occur, but we do know it will be driven by the same things that drive every market decline - overly optimistic asset pricing, in combination with low levels of risk aversion on the part of investors (i.e. too much optimism,

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greed and hubris). It's hard to predict what will trigger the next correction and we honestly don't waste time obsessing about things like that. Instead, we concern ourselves with trying to make sense of the seemingly endless number of possible scenarios for the financial markets going forward and whether our investment strategies remain "prudent" given the balance of the possible outcomes. Over time, this approach has worked well for our clients and allowed us to capture most of the market's upside returns while providing a reasonable level of protection against inevitable market declines.

During the later stages of bull market rallies, many investors become so obsessed with staying up with overpriced stock market indexes in the short term, that they inadvertently allow "greed" to drive their short-term decision-making. As a result, they become less concerned about risk and begin ramping up the risk exposure of their portfolios. This is essentially the flip-side of the investment behavior we see in the late stages of bear markets, where investors allow "fear" to guide their decision making and look to avoid any and all risk. Interestingly, in both cases emotions push investors to do the exact opposite of what they should be doing in that environment, and the consequences on their portfolios can be devastating.

Currently, we are in the midst of one of the longest and largest stock market rallies in history. Given the significant increase in prices and the relative lack of volatility, we believe it's more important to "protect" portfolios on the downside than to chase returns on the upside. Everyone who has been with us since the market bottom in 2009 has done extremely well because we resisted the temptation to sell after the market collapse and instead took advantage of the bargains that were seemingly everywhere at that point. Today, however, the bargains are far less abundant and many assets look to be overvalued, so we believe a greater level of caution is warranted. We've grown our client portfolios significantly over the last six years and at this point, we feel PRUDENCE should be the guiding principal. In other words, rather than swinging for the fences, we think it's time to focus on waiting for good pitches and swinging to make consistent contact. At some point a more aggressive investing stance will again make sense, but right now we think the risks of being overly aggressive outweigh the potential rewards.

If you look back at the stock market in 1999 and again in 2007, many investors let their greed and hubris drive their short-term decision-making and tried to squeeze blood out of a stone by chasing returns. They got caught up in the hot market psychology and they paid dearly for it. Unfortunately, we see signs of similar behavior starting to occur again.

Let us be clear. We love the stock market as a long-term investment and believe every investor who has a time horizon of at least five years should have a significant portion of their investible assets in stocks at all times. We also believe stock portfolios should be balanced across small, medium and large cap stocks, with a moderate percentage allocated to international stocks. That said, those same long-term investors need to be cognizant of current corporate cash flows, stock valuations, and the probabilities associated with any number of different - and sometimes very negative - potential outcomes. It is clear that the probabilities today are increasingly pointing to an inevitable dip in large cap stocks. This comes from an optimist (Joe) who is frequently accused of looking at the world through rose-colored glasses!

THE NUMBERS

The stock market behaved about as we thought it would during 2014, with two exceptions - and those two exceptions have us somewhat concerned. Small cap stocks (as measured by the Russell 2000 price index) increased 3.83%. The NYSE composite, which measures the performance of ALL common stocks trading on the New York Stock Exchange, increased 4.22%. The world stock index increased only 2.76%, and if you take out U.S. stocks it was negative for the year. In fact, the EAFE (Europe, Asia and Far East) Index was down –7.35%. When you examine the six stock market style indexes that make up small and mid-cap stocks, they were up 5.64% in aggregate. Through the middle of October 2014, most of these broader market benchmarks were in negative territory and almost all of them experienced significant healthy normal pull-backs during 2014. Thankfully, a nice year-end rally pushed these indexes into positive territory, with small caps stocks leading the way with an impressive gain of 9.35% in the fourth quarter.

The two exceptions we alluded to above were the S&P 500, which finished 2014 up 11.39%, and the Nasdaq composite index, which finished the year up 13.40%. Both of these indexes made daily headlines as the S&P 500 continued hitting all-time highs throughout 2014. As a result, both will probably also be responsible for some unfortunate short-term decision making going forward...since many investors believe the S&P 500 to be the bellwether of the overall stock market, in spite of the

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fact that it excludes 90% of the publicly trades stocks in the U.S. It is no coincidence that the S&P 500 and Nasdaq (which is heavily weighted in tech stocks) rallied together. In fact, if you take a close look at the sectors that drove the Nasdaq and the S&P 500 higher this year, you'll see technology increased 19%. Digging a little deeper you'll find that 46 stocks in the S&P 500 increased by more than 40% (in 2014) and that the majority of these were tech and pharmaceutical companies. When you eliminate those 46 companies from the mix, the S&P 500 was basically flat for the 2014 calendar year.

Keep in mind the following...

Every major decline over the history of the U.S. stock market has been driven by one of two items – overoptimistically priced stocks and investor hubris (think overconfidence and chasing returns in the late stages of rallies). Our role in advising clients is NOT as predictors of future events within specific timeframes, as financial markets are simply too unpredictable in the short-run. Perhaps not surprisingly, much of this unpredictability is the result of emotions like "fear" and "greed", which can often lead to irrational short-term valuations. Instead, our role as advisors is one of evaluating the probabilities of various outcomes based on the most recent data, and assessing these possibilities rationally, intelligently, and without emotion.

Historically, the Nasdaq index outperforming the NYSE composite index by such a significant margin within a given year has been a warning sign of trouble ahead. Exactly when a correction might occur or how large it might be remains anyone's guess. However, when most of the world's developed financial markets earn an annual return within a range of –7% to 5% during a calendar year...while a small group of very large companies clustered in just a few industries are up more than 40%...something is clearly amiss.

It's unfortunate, but history is littered with portfolios that were devastated by investors who became overly aggressive when they should have been more cautious. We understand that the vast majority of stocks didn't do as well as the S&P 500 in 2014, but we know this type of aberration tends to occur near the end of multi-year rallies and in periods of very little volatility. In the long run, a well-diversified portfolio (which incorporates the entire stock market) will significantly outperform the S&P 500. However, there will always be years like 2014 where the roles are reversed. We've now gone over 1,200 calendar days without a 10% drop in the S&P 500 and this represents the fourth longest stretch in the last 50 years. Neither aberration will last, which is why we'll continue to follow a cautious, reasoned approach to our client portfolios that remains focused on a diversified portfolio and the long-run.

Our 2015 Forecast

Ordinarily, we like to provide our readers with a laundry list of our prognostications for the year ahead. This year we thought we'd let you (the reader) help us out with our predictions. We always stress that these prognostications are just for fun, so this year we thought you might like to join us in this illuminating process. Just indicate whether you think each of the statements below is True of False by circling the appropriate letter in the right column. Note that the final two questions are fill in the blank. Please take your time, choose wisely, and good luck!

1. Interest rates (as measured by the 10-year Treasury bond) will rise in 2015. T or F
2. Oil prices (currently at $46/barrel) will finish 2015 above $80/barrel. T or F
3. The dollar (at a 9-year high versus the euro) will finish above its current value. T or F
4. Inflation, as measured by the CPI, will be greater than 2% in 2015. T or F
5. Domestic GDP will exceed a 3% growth rate in 2015. T or F
6. Global GDP will exceed a 5% growth rate 2015. T or F
7. Europe and the ECB will engage in US-like quantitative easing (QE) in 2015. T or F
8. A global economic slowdown will result in a negative return for the S&P 500. T or F
9. There will be a major cyber-terrorism event that will interrupt markets in 2015. T or F
10. There will be a major terrorist event that will impact financial markets in 2015. T or F
11. There will be a black swan event that will cause a major disruption to markets. T or F
12. The European Union will break up, which will cause a major disruption in 2015. T or F
13. Stock market volatility will be higher in 2015 compared to 2014. T or F
14. Large stocks will outperform small stocks in 2015. T or F
15. Value stocks will beat growth stocks in 2015. T or F
16. International stocks (EAFE) will outperform US stocks (S&P 500) in 2015. T or F

(Continued on Page 5)

17. Large stocks (S&P 500) will finally have a normal 10%+ correction in 2015. T or F
18. Large stocks (S&P 500) will finally have a normal 15%+ correction in 2015. T or F
19. Stock returns (overall) will beat (aggregate) bond returns in 2015. T or F
20. Most of our active managers will beat their benchmarks in 2015. T or F
21. Please provide a list of which managers will beat their benchmark in 2015. ____________________
22. Please provide a list of which managers will lose to their benchmark in 2015.____________________

There is obviously a point to this exercise. The point is to illustrate how difficult it is to provide any accurate, informed answers to the above questions, since no one knows with any degree of certainty what will happen in the coming year. Obviously, it wouldn't make any sense to base any of your longer-term investment decisions on the answers above, even if the person providing the answers is a so-called expert. Need proof? Last year every single chief economist on Wall Street said interest rates would rise in 2014. Every single one of them was also wrong. Last year, as oil prices dropped below $80 barrel, every oil industry expert - including T-Boone Pickens - said oil prices would not go much below $75/barrel in 2014. Oil now trades at $46/barrel. Last year, every single chief economist on Wall Street said inflation 2014 would be higher than in 2013. They were all wrong. Last year, the consensus opinion of market experts was that market volatility would increase in 2014. The consensus was wrong. In fact, volatility remains well below average. Last year, the consensus opinion of market experts was for above-average stock market returns. Most were wrong, except when it came to the S&P 500...better known as the S&P 46 in 2014.

This is precisely why we think it's pointless to make outright predictions about what will or won't happen over the short-run. It's simply impossible to predict these things with any degree of accuracy because markets are influenced by unknowable events that have yet to occur. Good investing decisions are often the result of knowing what you don't know, and thus not placing any emphasis on how those unknowable events will unfold or affect on your portfolio over time.

The same can be said for our team of money managers. It's impossible to know which of our seasoned managers will do well (or poorly) over the upcoming quarter or year. But then, we're not hiring them for just a quarter or a year…we're hiring them for the long-run because they have demonstrated the ability to outperform their benchmarks over long periods of time. As you know, we have a thoughtful, meticulous approach to selecting managers for our portfolios, with the most important factor being excellent long-term track records versus their specific benchmarks. That said, no manager will beat their benchmark every quarter or every year, which means, all managers are prone to periods of underperformance in the short-run. We accept this as part of the investment process.

Another factor that is important in our management selection process is the degree of downside risk protection the manager provides in periods of declining markets. Clearly, we want them to demonstrate the ability to beat their benchmarks on the upside over long periods. However, we also have to be convinced that <u>they will protect our portfolios on the downside</u>. Past performance is no guarantee of the future, of course, but it's the best indicator we've got in trying to select only the best of the best managers to build our portfolios.

LESSONS LEARNED OVER THE YEARS

When it comes to short-term forecasts and predictions, there are five core lessons we've learned over the last three decades. All five provide a strong foundation for everything we do at KWAG so we wanted to share them with you.

First, it's astonishing how wrong conventional wisdom can be. We've often discussed the folly of attempting to predict short-run market movements and how the academic literature has found this to be virtually impossible. That's why we make our investing decisions based on long-term trends, which are far more reliable. From one year to the next, no one knows what will happen in the financial markets. Over longer periods, however, many aspects of market performance are relatively easy to predict. This is why our asset allocations are based on long-term trends rather than repositioning portfolios based on short-term guesses.

Second, from an investor psychology perspective it's always concerning to see how much weight individual people give to short-term projections, and the degree to which their decisions are driven by random, short-term events. Overwhelmingly, investors tend to extrapolate recent trends out into the future...and they frequently regret it after the fact. For example, when an asset class or a proven fund manager has an off year, it's usually an indication that there's a nice sale going on and it's time to

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buy. Most investors, however, extrapolate the recent poor performance into the future and do the opposite. Conversely, when an asset class or fund manager has a terrific year, it's usually an indication that it's time to take some profit via rebalancing. Most investors, however, can't resist the temptation to chase performance and buy what's hot, so instead of rebalancing out of hot funds they buy more. There are literally hundreds of academic studies looking at investors who chase short-term performance and they all reach the same conclusion - it's a great way to <u>significantly underperform</u> the market over the long-run.

Third, we've learned to expect the unexpected. When we build portfolios for our clients, we assume surprises are going to occur, and they always do. We understand that predicting the short-run is impossible, so we build portfolios designed to weather the unknown. We know there are going to be positive and negative economic events that can't be predicted ahead of time. We also know certain assets classes will shine while others won't, but no one knows which these will be. As a result, we're always looking at ways to protect client assets from major surprises by focusing as much on downside risk as we do the upside in constructing portfolios.

Fourth, the occurrence of "black swan" events (i.e. significant, unpredictable negative events), are growing in frequency. Think about the events we've seen transpire over just the last 15 years. First, there was the "tech wreck" which wiped out 80% of Nasdaq index's value (and 15 years later the index still hasn't gained back everything it lost). Next, there was a real estate bust, with homes in some areas losing 50% or more of their value. The real estate bust precluded the credit crisis, which wiped out 33% of the world's asset value…in just three weeks! And now, over the last six months, oil prices have dropped by more than 50%. If you're NOT thinking about the possibility of future "black swan" events and how to protect your portfolio on the downside, you either have a short memory or haven't been paying attention to how our markets can behave.

Finally, if your portfolio is well-diversified to begin with, you don't have to make major changes when the inevitable storms occur, even if the storm is a doozy! All you have to do is make a few logical adjustments to rebalance back to your original target allocations. The key is developing a long-term strategy that makes sense for you and then adjusting accordingly to those short-term deviations in the market. The key is remaining unemotional during the good times and the bad and keeping your focus on the longer-term trends. If you're smart, you'll recognize the importance of having a balanced portfolio, which benefits from stock market rallies on the upside, but also provides a prudent degree of protection on the downside. Unfortunately, most individual investors fail to follow any of these steps.

Eight Ways to Protect on the Downside

One of the first topics every college professor covers in introductory finance classes is "Risk Management". This is a critical concept in investing because investors have complete control over their risk exposure, which in turn is the largest determinant of a portfolios return over time. Yet, most investors instead choose to build portfolios based on things they have absolutely no control over, like short-term, transitory economic events. Therefore, as professors, we want to be sure students understand this critical concept in hopes of helping them avoid life-altering financial blunders in the future. Think about it, we have absolutely no control over what happens daily, weekly, or monthly in the financial markets, yet that's exactly what investors pay the most attention to when allocating their assets. What most people don't realize is that proper risk management will actually lead to the higher long-run returns they desire. In essence, the two issues (downside protection and higher long-run returns) are highly correlated and you can easily achieve both, which is analogous to creating a high scoring offense and a suffocating defense in basketball or football. However, this sort of thing doesn't occur without methodical planning and careful attention to detail.

Step #1: Eliminating Company-Specific Risk

One of the most basic forms of risk exposure is company specific risk, where you're concerned with how the actions of any one company (or individual within the company) might adversely affect your portfolio. Company specific risk is easily eliminated through diversification, and a general rule of thumb is that you need to own at least 50 different companies, across a wide variety of industries. When you own at least 50 different companies, the actions of any one single company or CEO on your overall portfolio will be minimal. In essence, you could own Enron or Lehman Brothers – both of which suddenly went out of business – and it would not have any material impact on your overall portfolio.

Of course, mutual fund managers understand the importance of eliminating company specific risk, which is why they typically own hundreds of stocks in their portfolios. It's one of the primary reasons why the mutual fund industry has grown so quickly over the last twenty years. Individual

(Continued on Page 7)

investors find it very difficult to keep track of more than 15 or 20 stocks at a time, and they tend to concentrate the bulk of their holdings in just a few companies. Using stock mutual funds, on the other hand, allows investors to easily diversify across hundreds of different companies and thereby avoid overconcentration in any specific company, industry or sector.

This is why we recommend that investors use mutual funds and diversified exchange traded funds (ETFs) in their portfolios. With a single purchase, you can virtually eliminate company specific risk, which in turn helps protect your portfolio on the downside!

Step #2: Understanding the concept of Beta

Once you have eliminated company specific risk by owning a well-diversified portfolio of at least 50 stocks, you are now only exposed to "market" risk. In a nutshell, well-diversified portfolios are ONLY affected by macroeconomic events impacting the entire stock market. Financial economists measure market risk with a metric called "beta", which indicates how much an individual stock or stock portfolio moves in relation to the overall market. Basically, a beta measurement tells you how much - or how little - macroeconomic events can be expected to affect your overall portfolio.

By definition, the overall stock market has a beta of 1.0. Therefore, any individual stock or group of stocks that have a beta less than 1.0 is considered less risky than the overall stock market. Conversely, any individual stock or group of stocks that has a beta above 1.0 is considered more risky than the overall stock market. Beta is a simple and elegant concept that is easy to apply, and yet it is generally ignored by individual investors—often to their detriment over time.

As an example, let's say you own a portfolio of stocks (or mutual funds) with an overall beta of 0.8. In addition, let's assume there is global economic event that triggers a decline in the overall stock market of 10%. It would obviously be nice to know how your portfolio might behave under this scenario and beta makes it relatively easy to determine. In general, a portfolio with a beta of 0.8 would be expected to move 0.8 times (or 80%) of what the overall market does. Therefore, if the market declines by 10%, a portfolio with a beta of 0.8 should only go down by 8%. In other words, a portfolio with a beta less than 1.0 should provide significant protection to investors on the downside. Conversely, a portfolio of stocks with a beta greater than 1.0, would be expected to fall by more than the overall market.

Step #3: Proper Asset Allocation

As our clients know, we allocate our portfolios across the entire stock market. We do this for a variety of reasons, but chief among them are the well-documented "small cap" premium (meaning small stocks outperform large stocks on a risk-adjusted basis over long periods of time) and "value" premium (meaning value stocks outperform growth stocks over long period, in spite of having less risk). Most investor portfolios and broadly defined stock market indexes (including the S&P 500) have almost NO exposure to small stocks and only limited exposure to value stocks. Once you are educated about these premiums, it makes no sense to avoid them. In fact, research shows that roughly 95% of all long-run portfolio returns are determined by "asset allocation", with only 5% being determined by security selection. This implies that portfolio construction is the single most important variable in determining your portfolio returns and is why we are adamant about including small cap stocks and value stocks in all our portfolios. What many people don't realize is that these stocks also tend to have lower betas, which means not only should they provide higher returns over time, but they will also help protect your portfolio on the downside.

At the end of the newsletter we have included a table of the risk and return profiles of the six stock market style indexes going back to 1970. If you examine the average returns for each of the six style indexes, you'll notice that over time, value stocks outperform growth stocks, and small and mid-cap stocks outperform large cap stocks. In addition, every area of the stock market (except large growth) has outpaced the S&P 500 over the last 45 years! If you look at the deviations in the annual returns of each style index over time, it's obvious that predicting which sector (or style) will outperform in a given year is an impossible task, which is why we don't even attempt it! Instead, we build well-diversified portfolios that are designed to take advantage of long-term recurring trends, like the aforementioned small cap and value premiums.

Key Observations

At the bottom of the Russell Style Index table, you'll also notice that we have calculated the betas for each of the six stock market style indices. There are four important observations regarding these betas. First, value stocks have lower betas than growth stocks...across all sizes. Second, small value stocks have the lowest beta of all and are therefore the least exposed to the kinds of macroeconomic risks that drive the overall market. Third, large growth stocks (which incidentally is where most individual investors have parked most of their money) have above average betas and below average returns. Finally, it's pretty clear that

(Continued on Page 8)

investors can reduce their overall risk exposure and earn a higher return over time if they embrace both smaller stocks and value stocks. This is precisely why we allocate our portfolios across the entire stock market. Portfolios constructed in this fashion not only eliminate company specific risk, but they also have below-average market risk. So in addition to providing higher total returns over time, our portfolios also provide significant protection on the downside.

Step #4: Proactive Rebalancing

Another benefit of allocating across the entire stock market is that it lends itself to a proactive rebalancing strategy, which in turn provides additional downside protection. When we originally build an individual stock portfolio, we try to diversify equally across all nine stock market style indices, by investing roughly 11% in each of the nine style boxes. When an individual style box outperforms the other areas of the market, its weight relative to the other areas grows and the portfolio is no longer balanced. At this point, we rotate a certain percentage out of that style box and reallocate so that we return to an equally-weighted portfolio. In effect, rebalancing in this way forces the investor to sell high (selling what's been hot and is therefore likely overvalued) and buy low (reallocating assets to what hasn't been hot and is therefore likely underpriced).

This proactive rebalancing strategy constantly pares back on the overpriced areas and buys into underpriced areas of the stock market. There is some debate about how often you should rebalance a diversified portfolio, but there is NO debate over the fact that rebalancing reduces your overall risk exposure and protects your portfolio on the downside.

Step #5: Excellent Portfolio Managers

In building well-diversified portfolios we prefer to use the best professional money managers we can find. We do this because the best managers have a number of distinct advantages over the average investor. First, as large investors they have access to the CEO's and members of the board of directors of the companies they are interested in invested in. Second, they have teams of Ivy League educated MBA's and CPA's who pour over the financial statements of each company and even visit the companies personally in order to better assess their strengths and weaknesses. Finally, they have an unemotional process for both purchasing and purging stocks that is based on their assessment of the intrinsic value of the firm versus the current market price of the common stock. For the best managers, it's usually their disciplined investment process that sets them apart and distinguishes them from their peers.

Each of our money managers also have the following broader characteristics. First, they all have at least 10 years - and preferably 15 years - of professional experience managing a portfolio. This length of performance history is important because it allows us to see how a manager performs during both good times and bad. Second, our managers all have a specific expertise in one area of the stock market. This is also critical because the world is simply too complex for someone to be an expert in all areas. In addition, it allows us to identify the best of breed in each area and hold them accountable to specific benchmarks. Third, none of the funds we use charge an up-front or back-end sales fees. If they do ordinarily charge a sales fee, we make them waive it. Basically, we want the ability to trade and rebalance across our managers without restrictions or incurring needless fees. Finally, they must have a track record of consistently beating their stated benchmarks over time, with particular attention paid to their performance during market corrections, which again helps protect our portfolios on the downside.

Step #6: Adding Bonds

The purpose of holding a well-diversified fixed income (i.e. bond) portfolio is to reduce the volatility of the overall portfolio and to also reduce downside risk. Many investors are under the impression that you only need to hold bonds during retirement, when you are in need of income and safety. However, we believe that virtually all investors should hold a portion of their assets in bonds, for a number of reasons. First, bonds reduce overall volatility, which means that during downturns you will keep more of what you previously earned. Second, a number of bonds can actually provide returns that are competitive with stock returns in a number of different economic scenarios. Finally, bonds provide an important mechanism for rebalancing and serve as a repository of ready cash for buying stocks during the 10-15% declines which occur almost every year, on average.

As everyone knows, the prices of most bonds are inversely related to interest rates. With interest rates currently hovering around all-time lows, it's clearly important to protect against rising interest rates going forward. The problem is, nobody knows exactly when interest rates will begin to rise or the magnitude of the increase once they do. This is why a bond portfolio needs to be constructed on a broad foundation, utilizing different asset types that behave differently in specific market environments. Some bonds in such a portfolio will have higher (although still limited) levels of sensitivity to the stock market, while others will have higher levels of sensitivity to rising interest rates. Similarly,

(Continued on Page 9)

some will be largely immune to rising interest rates, while others are more closely tied to foreign markets. Keep in mind that a fixed income portfolio needs to be viewed as a single entity that is comprised of a number of interlocking parts, with special care taken to avoid focusing on the performance of any individual piece of the puzzle over a short period of time. Each fund (or manager) fulfills a specific role within a specific market environment, meaning the whole of the portfolio is greater than the sum of the parts. Constructed properly, a fixed income portfolio should provide a nice stable stream of income, while also protecting the overall portfolio on the downside.

An Example

The performance of an equally-weighted portfolio of KWAG core bonds is displayed in the table below. We use this table ONLY as a broad example of how a well-diversified fixed income portfolio should work. Basically, it should provide a stable steam of income and downside protection. 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 below. Each advisor tailors fixed income portfolios to the specific needs of the individual client. Clients with greater income needs will hold more conservative bond portfolios, which will have lower returns, but will also provide better stability of income and greater protection on the downside. Clients who are still working will tend to have a more aggressive mix of bonds, which will generate higher returns over time, but provide somewhat less downside protection. The weight of each piece is determined by specific needs, risk tolerance and investing goals. Regardless, if you own the right bonds in your portfolio, you will have greater portfolio protection on the downside.

KWAG CORE BOND FUND PERFORMANCE

Fund Name	2014	2013	2012	3-Year Average Annual Return
Oppenheimer Floating Rate (**OOSYX**)	0.79%	6.70%	8.75%	5.41%
Allianz Convertible (**ANNPX**)	6.68%	25.58%	11.96%	14.74%
Loomis Sayles Strategic (**NEFZX**)	5.65%	10.87%	13.56%	10.03%
Metropolitan Total Return (**MWTIX**)	5.99%	0.50%	11.54%	6.01%
Doubleline (**DBLTX**)	6.73%	0.02%	9.16%	5.30%
Average Return on the Portfolio	5.17%	**8.73%**	**10.99%**	8.30%
Barclays US Aggregate Bond Index	5.97%	-2.02%	4.21%	2.72%

Step #7: Proactive Rebalancing

Another benefit to owning bonds in a portfolio is that they provide a mechanism for proactively rebalancing between stocks and bonds. Let's assume you start with a portfolio that is equally invested between stocks and bonds (50% allocated to each). As the stock portion of the portfolio grows, investors will want to rebalance out of stocks and into bonds, restoring the original 50/50 allocation. This forces you to take money off the table when the stock market is doing well and it also serves to limit your downside risk exposure. Conversely, if the stock market takes a normal dip, you will want to sell some of your bond portfolio and purchase stocks while they are on sale. This proactive strategy consistently pares back on the overpriced areas while buying into underpriced areas and serves to help protect your portfolio on the downside.

(Continued on Page 10)

Step #8: Time is Your Friend

This may seem like an inconsequential point for many, but "time" is clearly on your side as an investor. Conversely, impatience or trying to "time the market" is a well-known portfolio killer that has doomed emotional investors for decades. Time is important to an investor because no one can predict yearly returns with any degree of accuracy. However, as you look out over five, ten, or fifteen years, the good and bad years tend to offset and the average return of your portfolio moves toward the long-run average return for the overall market. This is called "reversion to the mean" and it implies that, even though forecasting the return on a portfolio in any single year is nearly impossible, forecasting long-run returns in well-diversified stock portfolios is relatively easy. If you remain focused on the long run (at least five years) as an investor and always hold a well-diversified portfolio, it's almost impossible to lose money.

For example, annual returns on S&P 500 index going back to 1950 range from -37% on the downside to +51% on the upside, indicating that stock portfolios can fluctuate a great deal from one year to the next (and incite a great deal of fear in those who lose their focus on the long-run). However, if you extend your time horizon to five years and examine each five-year holding period over the last 50 years, the range of average annual returns narrows considerably, to -2% on the downside and +29% on the upside. Even better, for holding periods of 15 years or more, the range continues to narrow (from +4% to +19%) and the chance of loss disappears entirely! Clearly "time" reduces your risk exposure and it <u>protects you on the downside</u>.

Of course, if you allocate a portion of your portfolio to bonds, the ranges above would narrow even further and the chance of loss would be greatly reduced. In fact, over the last 50 years there has never been a 5-holding period where a 50/50 portfolio of stocks and bonds lost money. This is why we constantly reinforce maintaining a focus on the long-run and on holding a well-diversified portfolio of stocks…and bonds!

In Sum

Investing does not have to be risky and it does not have to be difficult. The truth is, proper risk management will lead you to the higher long-run returns that every investor desires. In essence, the two issues (downside protection and higher long-run returns) are highly correlated because avoiding major negative returns is critical to generating high long-run returns. You can achieve both lower risk exposure and above average returns if you have a sound strategy and stick to it. As we said before, you can have both a high scoring offense and a suffocating defense if you construct your portfolio properly and proactively rebalance. The keys to doing so include:

1. Eliminating company specific risk by holding a well-diversified portfolio of stocks.
2. Mitigating market risk by using the concept of beta and allocating assets strategically.
3. Allocating equally across all style boxes to mitigate both market risk and enhance returns.
4. Proactively rebalancing within stocks, which further mitigates risk and enhances returns.
5. Using excellent managers that have a proven track record of managing on the downside.
6. Adding a diversified bond portfolio to your stock portfolio in order to reduce volatility.
7. Proactively rebalancing between stocks and bonds to maintain target percentages.
8. Embracing time as your ally and remaining patient and focused on the long-run.

Q & A with the Dr.'s

Normally, we try to answer an array of questions across any number of financial topics. This quarter our Q&A section will continue to build upon the concepts of portfolio construction and risk mitigation. Our hope is to provide some additional insight into how we seek to proactively manage risk and maximize potential returns in our portfolios. Enjoy…

Q1: Recently, I went to one of your educational workshops. Thank you, it was very enlightening. When I examine the style index table, I have to wonder why everyone wouldn't put ALL of their money in small value stocks, since they provide the best returns with the least amount of risk over time? S.T.

Joe: That's a great question. In general, we have found investors become incredibly impatient after about a year of relative underperformance. Take a look back at 1998 and 1999. During that time period, I received 100's of phone calls about why we used small caps in our portfolio. Relative to the rest of the market, they clearly underperformed. In 2000 and 2001, I received 100's of phone calls thanking me for keeping clients well balanced after large caps lost -33% of their value. Even today, with all of the education we provide, I continue to get similar questions about why we build well-

(Continued on Page 11)

diversified portfolios. We know the S&P 500 had a better year than small and mid cap stocks in 2014. However, we're more interested in building portfolio's that provide highest returns over the long-term. Small and mid-caps beat large-caps over time so we'll remain well diversified, and we'll do so with less risk.

Scott: That's correct, there will be periods where every style underperforms and sometimes those periods can extend over several years. It would be very difficult for even the most patient of investors to stay the course in an underperforming sector when everything else is going up. So even in our personal portfolios we allocate the same exact way we do with our clients, equally weighting among all nine style boxes and proactively rebalancing. Second, even though we know small value was the best place to be over the last 45 years, there is no guarantee it will be the best over the next 45 years. We think it probably will be, but that's not good enough to go all in on a single style box. We're much more comfortable equally weighting across all nine style indexes and then letting the market determine how we will rebalance.

Q2: How do your diversified portfolios manage (and protect) against industry and sector risk? For example, what would happen if we experienced another "tech wreck"? J.C.

Joe: Another great question! One of the main criteria we use when we choose a manager is that they build well-diversified portfolios that embrace all industries and all sectors within their specialty. So, even though a manager may focus on small cap value stocks, we still want them to be well diversified across all industries and all sectors within that space. In essence, one of our management selection criteria is proper diversification.

Scott: Exactly. We like the managers we choose to have a history of staying well-diversified by not placing large bets on any one company or industry. In fact, the few times we've pushed the envelope a little by using a manager who was overweight in an industry, it has come back to haunt us. It's not worth the aggravation. It's also why we don't like most exchange-traded funds (or ETF's). Many of them focus on very narrow slices of a sector or industry. Since it's impossible to predict which industries will thrive from one year to the next, we view sector funds as speculative. We're not in the business of speculating with our clients' hard earned money.

Joe: Of course, don't lose sight of the fact that we just experienced a 50% drop in oil prices, which will undoubtedly have a number of unintended consequences as we go forward. Even though oil has dropped in a dramatic manner, our portfolios have held up fine throughout. In fact, when you go back and examine how our well-diversified portfolio of managers behaves over any five-year period - many of which include major stock market drops - they always hold up well. In essence, one of our management selection criteria is based on how you perform during market drops.

Q3: Dr. Kiely, You always preach long term, yet every quarter you provide short-term market measurements in your analysis of the stock market? Why? To me, you should just report three, five and ten-year numbers since those are the only one that really matter to long-term investors. M.S.

Joe: Hey M.S. You are absolutely correct. The short-term is extremely variable and we don't particularly enjoy discussing any short-term results. In fact, most of our conversations in-house (at KWAG) and with our professional money managers are almost always about the long-term trends. We do discuss current economic events, but they rarely influence how we build portfolios over the long term. Of course, we live in a 24/7 news cycle, which has a huge influence on our readers. Therefore, it's important to cover various economic topics as they crop up and provide short-term measurements, even if they are random.

Morningstar Index Performance
4th Quarter, 2014

Value	Blend	Growth	
3.59%	4.19%	4.42%	Large
4.88%	4.76%	5.15%	Mid
6.35%	7.20%	8.00%	Small

Scott: That's true, although I will say, it's still nice to see small cap stocks bounce-back strongly in the fourth quarter. This isn't surprising given the fact that they lagged by a considerable amount throughout the rest of 2014. In fact, the discrepancy in returns between large caps and small caps over the first three quarters of 2014 was the largest we've seen going back to 1999. When you examine the annual returns for 2014 (on the next page) you'll see what I mean. Even with a strong fourth quarter, small stocks still finished the year well behind their larger counterparts.

(Continued on Page 12)

Morningstar Index Performance
YTD through 12/31/14

Value	Blend	Growth	
10.21%	10.96%	10.00%	Large
9.31%	7.80%	7.00%	Mid
3.34%	3.79%	2.44%	Small

Joe: True. However, even when you factor in the recent small cap underperformance in 2014, the three-year and five-year stock market style index returns are ALL above the longer-term averages. In fact, small caps - and small cap growth stocks in particular - have the highest five-year average return. That says a lot about their relative strength.

Scott: That's true and it shows why it's important to maintain exposure to all nine stock market style boxes and then let the market determine how to rebalance appropriately. In 2014, portfolios that were dominated by large cap stocks beat our well-diversified portfolios. That's going to happen from time to time, because there will be years when large caps lead the way. However, we're more interested in how our portfolios perform over the long term. If our clients own well-diversified portfolios, not only are they better-protected on the downside, but they are also going beat large cap dominated portfolios over time. We just need to remain patient, continue to rebalance, and let time and the financial markets take their natural course.

3-Yr Morningstar Index Performance
year ending 12/31/14

Value	Blend	Growth	
18.33%	19.00%	19.41%	Large
19.93%	18.99%	18.21%	Mid
17.72%	17.85%	18.07%	Small

5-Yr Russell Style Index Performance
year ending 12/31/14

Value	Blend	Growth	
13.45%	13.88%	14.09%	Large
15.05%	14.77%	14.76%	Mid
13.97%	14.61%	15.53%	Small

Joe: All good lessons. And, all are worth repeating when you examine the ten-year average returns, which include 2005, 2007, 2008 and 2011…all of which were "below average" years in terms of returns. However, even with four sub-par years over the last decade, a well-diversified portfolio, which embraced the entire stock market, still doubled over that time period and they did so because of their small and mid cap exposure.

10Yr Morningstar Index Performance
year ending 12/31/14

Value	Blend	Growth	
6.65%	7.02%	7.68%	Large
8.09%	7.88%	8.29%	Mid
7.40%	7.55%	8.05%	Small

Q4: In a recent year-end meeting with Brownie, he pointed out that I owned a number of funds and fund managers that were closed to the public. I didn't realize you guys had that type of access? B.T.

Joe: One of the nice things about our company's size (in terms of what we manage) is we are on the radar screen of all the top money management firms. Basically, the best managers in our industry have learned that it's more important to work with unemotional large advisors, who remain calm and stay invested over the long term, versus working with a boatload of small investors who are very fickle and tend to run when things look dicey. One of the main benefits for our clients is "soft closes" - where we continue to get access to our managers when other investors don't. Another benefit is getting access to institutional rates on fees instead of the higher retail rates. Finally, we get

(Continued on Page 13)

access to a lot of excellent unpublished economic data, which helps us manage our client's expectations. Data like…only 46 companies driving most of the performance of the S&P 500.

Scott: Those are benefits we don't regularly discuss, but maybe we should. Beyond access to closed funds, a number of the funds we use have institutional share classes that require a minimum investment of as much as $3 million. That's obviously out of reach for most investors, but not for us at KWAG, given the amount of assets we manage. If there is an institutional class available we definitely want to use it because it can save our clients as much as 0.75% in fees annually versus the retail class shares of the same fund. It's hard to put a price tag on access to the best managers, and access to institutional share classes with the lowest fees, but it's clearly significant over the long-run. Here are two lists of the funds we currently use, one listing the funds that have institutional share classes (and their minimum required investment) and the other listing the funds we use that are currently closed.

INSTITUTIONAL CLASS SHARE FUNDS

Fund	Ticker	Minimum Investment
Metropolitan West Total Return Bond I	MWTIX	$3,000,000
AllianzGI Convertible Institutional	ANNPX	$1,000,000
PIMCO All Asset All Authority Inst	PAUIX	$1,000,000
PIMCO StocksPLUS Absolute Return Instl	PSPTX	$1,000,000
AllianzGI NFJ Small-Cap Value Admin	PVADX	$1,000,000
DoubleLine Total Return Bond I	DBLTX	$100,000
Walthausen Select Value Institutional	WSVIX	$100,000

CLOSED FUNDS

Fund	Ticker	Closed to Investors
AllianzGI NFJ Small-Cap Value Admin	PVADX	HARD CLOSE
Grandeur Peak Global Opportunities Inv	GPGOX	HARD CLOSE
Grandeur Peak Global Reach Inv	GPROX	HARD CLOSE
AllianzGI Convertible Institutional	ANNPX	SOFT CLOSE
AMG Yacktman Service	YACKX	SOFT CLOSE
Artisan Mid Cap Value Investor	ARTQX	SOFT CLOSE
Champlain Small Company Adv	CIPSX	SOFT CLOSE
Fidelity® Small Cap Discovery	FSCRX	SOFT CLOSE
RS Partners A	RSPFX	SOFT CLOSE

Q5: I read a good interesting article in Money magazine that said "active" managers tend to do better in volatile environments, while indexes do better at the end of rising stock market cycles. I'd like to hear your comments on the article. M.B.

Joe: That's another good question. As academics, Scott and I are trained (maybe brainwashed) into believing that, on average, indexing is the best course of action over time. Basically, you have two choices when it comes to stock market investing. Your either believe you can consistently beat the stock market averages by finding excellent long term managers (active management). Or, you don't believe you can consistently beat the stock markets averages, so you attempt to match the benchmarks, through "Indexing". Over time, indexing (as a strategy) beats approximately 80% of all professional managers. Indexers believe it's impossible to find and identify the 20% of managers who consistently beat benchmarks. We disagree.

Scott: That's correct. We believe you can find the managers who will beat the indexes and have proven it over time. However, we also know that it's a fairly small group of managers who have that skill set. Even then, they will occasionally have an off year or two. In general, active managers do much better during periods of higher volatility because markets become less efficient and there are more bargains available. Managers who know what they're doing can swoop in and pick up things that have suddenly gone on sale. Indexes, on the other hand, have to hold ALL the stocks in the index…even the overpriced ones…and that's why indexes tend to drop more during market corrections.

Joe: Exactly. That's why we love using active managers. We know they'll protect us on the downside, since they don't have to hold every single stock in the stock market index. When the indexes become overvalued and near market peaks, managers will often look pedestrian because they refuse to buy into over leveraged companies. However, if you believe in the concept of "buying low and selling high", it makes sense to buy into a manager after an "off" year.

Q6: One of the things I really like about your approach to long term money management is you never mention politics, the deficit, the fiscal cliff or any of the other world-wide events when discussing the performance of your managers and their portfolios. Obviously, you don't believe those issues play a large role in portfolio construction over time?

Joe: I plead guilty. Global companies are used to dealing with different Governments, different regulations, different economies, different exchange rates, different tax structures, different laws, different languages, different cultures, civil wars, shipping difficulties, cyber-terrorists, etc. Our political system or the size of our debt should never affect a well-run organization. Corporate CEO's are incredibly well educated and very smart. They know how to effectively negotiate through any type of market environment. And, they know exactly which markets are worth pursuing and which ones aren't. In a global economy, the world is their oyster and no one economy should affect their growth over time.

Scott: As money managers we are politic agnostics. Our job isn't to comment on public policy, but react to it in the best interest of our clients. That said, there are not many things on the public policy front that greatly impact our portfolios. Federal Reserve actions with respect to interest rates and economic stimulus obviously have a significant impact, but more for how they influence our long-run economic outlook than for how they might impact specific pieces of our portfolios over the short-run. In terms of fiscal policy, we obviously pay attention to it, but it doesn't have the economic impact that monetary policy does, regardless what our politicians would have us believe.

Q7: One of my favorite nights each year, is your year-end dinner. I always enjoy seeing the KWAG team and I always look forward to Joe's "state of the markets" address. Thank you for everything you do for me and my family. It's nice to know you all genuinely care. M.B.

Joe: Thanks! Over the next month or so, we'll be holding four large client dinners and a number of small intimate lunches for people in our various markets. For those of you who are out of state, we'll be taping the first dinner at Sunset Beach. Last year, we posted the dinner video on youtube.com. We'll do the same this year, within a week of the Sunset Beach presentation. Also, you can find the four dinners listed on page 15 of our newsletter. We have included the dates, times and locations for you. If you haven't already RSVP'd to one of the dinners - please do so as soon as possible!

(Continued on Page 15)

2015 KIELY GROUP CLIENT APPRECIATION DINNER SCHEDULE

Ocean Isle, NC | Monday, January 26th
Sea Trails Convention Center | 6-8:30PM

Greenville, NC | Tuesday, January 27th
Greenville Hilton | 6-8:30PM

Asheville, NC | Thursday, January 29th
Asheville Country Club | 6-8:30PM

Ithaca, NY | Tuesday, February 10th
Hilton Garden Inn | 6-8:30PM

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 Kristen at kbelow@thekielygroup.com.

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

A FINAL NOTE

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 look forward to seeing you at our client appreciation dinners!

~ Joe and The Gang at KWAG

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%	32.39%	0.02%
2014	5.60%	4.22%	11.90%	14.75%	13.57%	12.94%	11.39%	0.02%
Average	**12.46%**	**15.84%**	**13.26%**	**14.68%**	**10.45%**	**12.48%**	**12.15%**	**4.84%**
Geo Mean	**9.56%**	**13.90%**	**10.90%**	**13.08%**	**8.45%**	**11.22%**	**10.67%**	**4.78%**
Std Dev	**24.93%**	**20.85%**	**22.05%**	**18.44%**	**20.17%**	**16.24%**	**17.39%**	**3.44%**
Beta	**1.18**	**0.83**	**1.17**	**0.90**	**1.10**	**0.89**	**1.00**	**0.00**

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The Gang at Kiely Wealth Advisory Group

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

**IMPORTANT DISCLOSURE INFORMATION*

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

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

***<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 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.*