KIELY WEALTH ADVISORY GROUP, INC.

From Left To Right: Joe Kiely, Scott Below, Katie Burr, Brownie Cordell, and Kellie Kiely

BEHIND THE SCENES

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OPENING THOUGHTS

Many of our clients are familiar with the term "Climbing the Wall of Worry." Over the past three-plus years, the financial markets have been all over this wall, jumping from one worry to the next in quick succession. Even so, stock values have managed to grow dramatically throughout, resulting in one of the best three-year periods in our history. In spite of all the fears, the irrefutable fact is that the economic recovery is both real and ongoing. From an academic standpoint, it's been fascinating to watch the resiliency of the U.S. economy over arguably one of the most difficult periods in our history. From a practitioner's perspective, it's been even more fun seeing how American corporations have embraced the new global economy, and at the same time managed to turn sour lemons into some pretty good-tasting lemonade! To gauge just how much fun this has been from an investor's perspective (psychological stresses notwithstanding) consider that since the market low reached on March 9, 2009, the S&P 500 has increased over 110%, while the Russell 2000 has increased more than 140%! If we'd known climbing the wall of worry was going to be this much fun we would have invested heavily in ropes, ice axes, and climbing boots a long time ago!

Progress is Abundant

Looking back over the past three years, the progress made by the U.S. economy has been nothing short of remarkable. Major banks are no longer on life support systems and, in fact, have passed numerous stress tests; paid back all of their Federal loans (with interest); and are even starting to reinstate stock dividends. In addition, American car companies have come back from the brink of failure and are as profitable as they have EVER been. Not to be outdone, the private sector is no longer hemorrhaging jobs, and instead ADDED 1.2 million jobs over the last six months, driven heavily by a resurgent manufacturing industry that many had written off for dead. In fact, the average weekly and overtime hours worked in the manufacturing sector recently hit an all-time record high! Given the magnitude of the cliff we nearly fell off of back in 2008, this is remarkable progress. But the news gets even better…

INSIDE THIS ISSUE:

CLIENT PACKETS

AT THE END OF LAST YEAR, WE MAILED OUT A NEW MANAGEMENT AGREEMENT AND CLIENT PROFILE

PLEASE TAKE THE TIME TO FILL THESE OUT AND RETURN THEM AS SOON AS POSSIBLE!

PLEASE EMAIL KATIE IF YOU HAVE MISPLACED THEM…

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More Progress?

Since the beginning of 2009, U.S. households have steadily reduced their debt load, a process which is now entering its 40th straight month. In addition, credit conditions are easing and interest rates remain near record lows. This has benefitted both consumers and corporations by acting as an ongoing stimulus. And, with little sign of "core" inflation becoming a problem, interest rates are likely to remain low for quite some time. Additionally, U.S. companies are sitting on $2 trillion in cash and are as profitable as they have ever been—which is exactly what long term stock investors love to hear.

No Walls– Just Worries

In spite of all the good news, plenty of people remain unconvinced. In fact, we're amazed at how many investors (and financial advisors) have remained on the sidelines in cash or treasury bills, waiting for the next "Black Swan" event to occur - an event many are convinced is always lurking just around the next corner. So far, all they've missed out on is one of the largest stock market rallies in our history. Of course, this is in spite of the fact that as each day passes and the economy continues to strengthen, the likelihood of a double dip recession becomes ever more remote. If they're like those who came before them, they will wait until the economy is fully recovered and the strongest market rally in their lifetime is effectively over, before dipping their toes back in. When they finally do step back in, it might be time to start thinking about taking some profits. The behavioral finance literature indicates (quite clearly) that the best times to invest in stocks is when the public is the most worried! As Warren Buffet says, "Be greedy when others are fearful and fearful when others are greedy."

We Understand the Risks

We are fully aware of the constant "din" of bad news about Europe, the federal budget deficit, possible inflation, and a slowing Chinese economy. Each of these risks is real and potentially damaging. However, each of these risks is also very well-known and therefore already factored in to current stock prices. This is one reason we remain so optimistic. When the risks are known, it's much easier to manage a long term portfolio. It's the things we don't know about that concern us, because it's these unknown risks that create the bone jarring market drops.

Either way, these are the walls that our markets must climb - and climb they will, because for stock investors worry is the very essence of opportunity. When investors and advisors stop worrying about "economic and fiscal" walls, the opportunities are diminished. This is because with few worries to fret over, it's likely that asset prices reflect a best-case scenario and investor caution has been largely thrown to the wind. The end result is usually a return of our old friends greed and euphoria, which drive asset prices to levels exceeding even the most optimistic estimates of intrinsic value, and a bubble is born. In just the past fifteen years we've seen this occur at least three times—with tech stocks in 1999, real estate in 2007, and oil in 2008.

As a result, we recommend embracing the "known" concerns for what they are, because it's these concerns that keep asset prices at attractive levels, and create nice opportunities for our fund managers. Frankly, when there are no economic worries is when we begin to get concerned - as counterintuitive as that might sound. Speaking of known concerns, let's take a closer look at some of the issues that have been getting the most attention lately.

Our Fiscal Deficit

We're surprised to continually hear all the naïve comparisons between the budget issues in the U.S. and those of European countries. The U.S. is unique in that we have our own global currency; are home to the most productive and efficient workforce on the planet; have a flexible, adaptive, and hyper-competitive corporate culture; are blessed with record low interest rates; record corporate profitability; and a Federal Reserve that is dedicated to keeping all these factors in place. Every day we hear people compare the U.S. economy to that of Greece, Portugal and Spain, but these comparisons are baseless and totally invalid.

The struggling European economies have some of the most inefficient workforces on the planet, which is an artifact of their socialistic governments and corporate cultures. In addition, they have absolutely no control over their own currency (they don't have one) and their central bank (the ECB) is necessarily more concerned with keeping the more healthy euro zone member economies robust than with solving the fiscal problems of the euro zone's problem children. In other words, these countries have dug themselves a very deep hole and have few tools with which to dig their way back out, aside from the draconian spending cuts that are only making things worse. So how do these comparisons with the U.S. make sense then? The truth is, they don't. It's like comparing apples and orangutans.

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We Understand the Fiscal Issues

We're the first to admit the U.S needs to reduce our fiscal deficits. However, draconian spending cuts and/or massive tax hikes instituted at a time when the economy is still recovering from one of the worst recessions in history make absolutely no sense. There will be a time for deep spending cuts and fiscal austerity, but pulling too hard on the reins at this point would risk undoing all the progress we've made over the last three years.

What we need now is a moderate balance between stimulus and fiscal responsibility, with the continued goal of keeping the economy moving forward while we continue to gradually reduce the size of the deficit. Fed Chairman Ben Bernanke has warned as much, but it seems unlikely much will be accomplished in Washington during an election year. After the election, however, it's likely we'll see progress made on a budget deal that includes both tax and spending cuts, in reasonable amounts. Keep in mind, even with all of their dysfunction, Congress and the president managed to extend the Bush-era tax cuts at the end of 2010 and agreed to a payroll tax holiday in early 2012. Post-election, we think we'll see more of the same, regardless of the November outcome.

EUROPEAN SOVEREIGN DEBIT

Let's be blunt. Greece is in a recession, Portugal's economy is struggling, and Spain is clearly unable to meet its fiscal targets. And, unfortunately, these countries will continue to suffer because they have deep-rooted structural problems that will take years, if not decades, to address. So yes, these countries have some severe problems, but the global financial markets have known about these problems for more than two years now. In other words, we're talking about history—not breaking news.

Yet in spite of these problems, the Euro currency still trades at a 30% premium to the dollar and there are hundreds of competitive companies in each of those troubled countries that will survive and thrive in the coming years. So at this point it's probably a good idea to remind everyone that we invest in companies—not in governments or domestic economies—and that these companies can (and do) thrive, even if their governments and domestic economies are struggling.

It's becoming increasingly clear that moving to a common currency was ill-conceived, at least in the form adopted, and it's even clearer that there is no easy fix. However, we also believe the Euro will be with us for years to come because going back now seems far more problematic than going forward. There may eventually be changes to the composition of the euro zone and one or more countries may drop out (with Greece being the most likely) but this isn't exactly news either. The fact is, most of the "fall-out" from the problems in Europe is already known and therefore already "priced" into market. This won't stop fearful traders from creating short-lived panic selloffs, like the one we saw during last year's third quarter. However the good news is, rationality eventually returns and the markets recover, with the selloff having accomplished little except providing a brief opportunity for savvy investors to do a little bargain hunting.

THE CHINA SLOWDOWN

The news surrounding the Chinese situation is one of those things that boggle our minds. The Chinese economy is expected to grow at a rate 7.5% this year. Yet somehow this is a problem? Yes, 7.5% is less than the 12% growth rate seen in the first quarter of 2011, but the Chinese have known growth rates of that magnitude are unsustainable and will create significant problems if action isn't taken to slow things down. In fact, the slower growth rate represents a concerted effort on the part of the Chinese government to transition the economy from one that is "export-driven" and therefore dependent on having the world's lowest-cost unskilled labor force, to one which is "consumer-driven". Low-cost unskilled labor can take an economy only so far before wage pressures begin to drive jobs to other less-developed parts of the world. Thus, the move toward a consumer-driven economy is absolutely vital if China wants their economy to continue to develop and mature.

As long term investors, we applaud this move. Incidentally, if you are interested in a few examples to see how a country can transition from an "export based" economy to a "consumer based" economy, you don't have to look any further than South Korea and Taiwan…two of their close neighbors.

INFLATION?

At this point, we're fairly convinced of the existence of a subversive element that seeks to reinsert inflation into the discussion every time gas prices rise! (This is merely an attempt at humor. We DO NOT aspire to become

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conspiracy theorists.) Still, the point remains that inflation is in the news…again. Many people (and politicians) are under the illusion that inflation will occur any time the Fed increases the money supply. However, if that were the case, where has inflation been over the last 30 years? After all, the Fed has been increasing and decreasing the money supply on a regular basis over the last three decades, yet inflation hasn't once become an issue.

In actual fact, the Fed's number one goal is controlling inflation, and they will do whatever it takes to keep core inflation from becoming a problem for the economy. It can be helpful to think of the Fed's actions in terms of driving a car. When the Fed wants to increase the speed (i.e. growth rate) of the economy they step on the gas pedal, increasing the flow of fuel (i.e. money) into the economic engine, causing it to speed up. When the Fed wants the economy to slow down, they take their foot off of the gas pedal, thereby reducing the flow of fuel to the economic engine and slowing the growth rate down. And this is precisely what they have been doing for 30 years!! (Quite successfully we might add…)

What Drives Inflation?

Four primary components drive inflation, with each providing significant clues as to whether inflation is on (or near) the doorstep. The good news is that none of these components exist to any serious degree today, but some people apparently didn't get that memo…

First, the Fed can increase the money supply by decreasing the reserve requirement, which is the money banks must keep on deposit with the Fed. Since reserves earn no interest, banks generally don't want to keep more on reserve than they have to. As a result, reducing the reserve requirement encourages banks to take that money and use it to make loans, which effectively increases the money supply. If banks do a LOT of lending, the money gets disbursed into the economy, and the economy expands. If the economy expands too quickly, however, it can be inflationary. If banks don't do a lot of lending, however, the money supply doesn't expand very much and the effect is muted. Today, banks are not lending nearly as much as the Fed would like to see – although the data is improving—and this means lowered reserve requirements aren't doing much to help stimulate the economy. Therefore, we are a LONG way from expensive monetary policy becoming inflationary.

Consumers also play a major role in inflation, by influencing a factor called the "velocity of money" which is a measure of how often money changes hands in the economy. In other words, increased consumer spending escalates the rate at which money changes hands, thereby increasing the "velocity of money" in the economy. However, during recessions—(and long, slow recoveries like the one we're in now) —consumers are cautious with their spending and tend to either save more money or pay down debt. This keeps the velocity of money low and means increases in spending are far less likely to become inflationary. It also means any moves to increase the money supply - in order to stimulate the economy - will need to be much larger than in "normal" periods when the velocity of money is greater.

Corporations can also play a role in driving up inflation, and one way they do this is by aggressively hiring workers, which can create something called "wage push" inflation. When the economy is strong and unemployment is low, it's harder for companies to find and keep good workers, and the competition in the labor market intensifies. Firms are then forced to increase wages, both to attract new workers and to keep existing employees from leaving for greener pastures. This "wage push" increases a company's costs and therefore decreases their profitability. Eventually, the higher costs get passed on to consumers in the form of higher prices (i.e. inflation). However, since unemployment remains relatively high, wages are stable and there is no sign of any "wage push" inflation.

Two other items driving inflation are food and energy prices, which are influenced by factors not connected with domestic economy and are therefore beyond the Fed's control. This is why they are broken out of the "core" inflationary measures used to set monetary policy. Extraneous factors like wars, droughts, tsunamis, the Arab spring, and global demand are the primary drivers of food and energy prices and are beyond the control of any central bank or government. As a result, food and energy prices are volatile and tend to act as something of an economic wildcard. There's clearly nothing we can do to end a Brazilian drought or keep developing economies from growing…which means factors like these will always be wildcards. That said, there is no question that global growth will place enormous pressure on commodity prices and eventually on inflation. However, we have very little control over this element.

Net-Net

When we examine the current global "worries" we see nothing that is insurmountable, leading us to believe the equity markets will continue to climb the proverbial wall of worry, albeit with the occasional normal setback. In sum…

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- The federal deficit needs to be reduced responsibly—not eliminated—and we think this will happen after the election (or, if you believe in miracles, maybe before). We do not see it affecting global corporation bottom lines in any real way.
- Things are bleak in some parts of Europe. However, this information and the expected effects of the euro zone mess going forward are already factored into asset prices. In addition, most American corporations have been largely unaffected by Europe's problems and those that have been, made plans to deal with these problems long ago.
- China is slowing down—but that's a GOOD thing. Their long term strategy of moving towards a more consumption-based economy is spot on. This strategy will benefit the global economy as billions of Chinese consumers will spur demand for goods and services across the globe and take China from a net exporter to a net importer. Sound implausible? Think again. China reported a $31.5 billion trade deficit in February.
- Finally, "core" inflation remains low, meaning the Fed can keep interest rates low for the foreseeable future, which is a big plus for our domestic economy. When we begin to see greater loan activity, significant consumer spending, and/or lower unemployment rates, we can start to sound the "inflation" horn. Until then, ignore the dire warnings…

Obviously, we would all love to either fix or eliminate the above risks. Fortunately, most rational people understand that we live in an imperfect world with many economic trade-offs. Thus, when one worrisome issue is resolved, there will be another one to take its place. Economics, by its very nature is the study of tradeoffs, where nothing is perfect. In fact, greater benefits always come with at least "some" cost. The good news is, while talking heads argue about these pressing issues...corporate America dealt with them long ago and has moved on, which is just one of the major reasons we remain optimistic about the prospects for investors over the long term.

In essence, we believe a "wall of worry" is healthy and necessary for long-term investors to thrive. So when you see investors or talking heads debate over "known" problems, embrace this dialogue as it helps your portfolio thrive over the long-run.

STOCK MARKET RETURNS

If you read our recent March monthly update, we discussed why we were anxiously looking forward to the three year anniversary of the current market rally. Simply put, we knew it would provide a perfect opportunity to illustrate both the surprising predictability of irrational investor behavior over the short run, and the not-so-surprising resiliency of corporate America over the longer term.

The Last Three Years

If you've followed the stock market over the last three-plus years it should be fairly obvious that short-run market swings are impossible to time. When the market is falling, as it was from late 2008 through early 2009, no one knows how far it will fall or when the bottom will be reached. What we do know, however, is that once panic sets in and the herd begins selling en masse, irrationality ALWAYS sets in and the selling is ALWAYS overdone. We also know that the bigger the panic, the more irrational and oversold markets become—and anyone who went through it knows that from late 2008 through early 2009 the panic reached epic proportions.

Think about all the investors who panicked and sold out of the stock market at or near the March 2009 market lows and have been waiting for the fear to subside before getting back in. There is still plenty of fear out there, as we've discussed, which means most of them are still waiting. By selling when they did, these poor folks not only locked in the lowest prices in over a decade but they've now missed what will almost certainly be the biggest 3-year market rally of their lifetime. Unfortunately, mistakes like these tend to haunt investors for the rest of their lives because their portfolios will never be able to recover the returns they've missed out on.

On the next page, you will observe the average annual return for each of the nine Russell style index boxes over the three-plus years since the market lows were reached on March 9, 2009. We assure you, these numbers are NOT typographical errors, and they provide a valuable perspective on market behavior, from how irrational investors can collectively become when become fearful, to how quickly the irrationality tends to self-correct.

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Annualized Russell Style Index Return
3/9/2009 - 3/31/12

	Value	Blend	Growth
Large	29.86%	30.34%	28.88%
Mid	37.23%	36.36%	35.71%
Small	34.26%	35.18%	36.01%

The Past Six Months

To make matters worse, investors are notoriously slow learners and tend to make the same mistakes over and over again. We saw a similar—but thankfully much smaller magnitude—situation occur last summer, when many investors overreacted to the debt-ceiling debate and the subsequent S&P downgrade of U.S. debt. Even though we've pointed out that, on average, the stock market experiences a 10% to 15% dip each year, many investors can't help but panic every time one occurs. Over the last six months, from September 30, 2011 through the end of the first quarter, the S&P 500 is up more than 25%, reaching multi-year highs along the way, while the Russell 2000 is up nearly 30%.

Six-Month Recovery for Russell Style Indexes
09/30/2011 - 03/31/2012

	Value	Blend	Growth
Large	25.68%	26.27%	26.85%
Mid	26.30%	26.84%	27.39%
Small	29.41%	29.83%	30.26%

In the introduction above, we discussed a number of the potential economic risks that exist today. It's a near certainty that at some point over the summer one or more of these will come to the forefront of public consciousness and become headline news. As a result, we may see a rise in fear, an increase in market volatility, and then a NORMAL double-digit market dip. If and when this occurs, we will view it for what it is - a natural occurrence - and use the opportunity to rebalance our portfolios, just like we always have.

The First Quarter

For years, we have written about both the "small-cap premium" and the "value premium" that exist in stocks over the long term. Unfortunately, most investors never capitalize on these, even though they're very well documented. In the case of individual investors it may be because they (or their advisor) aren't familiar with the academic literature. Over the last quarter, however, the long term trend has reversed, as evidenced in the chart below. Larger stocks and growth-oriented stocks have led the most recent rally, largely boosted by tech stocks and the fantastic quarter turned in by Apple.

Over the short run market leadership is impossible to predict, which is precisely why we allocate our stock portfolios across the ENTIRE stock market. So when one sector of the market leads the others, and it becomes slightly over-weighted in our portfolios…we use the opportunity to rebalance by take profits in what has been hot, and reallocating that money into the areas that are on sale. In essence, we like to "buy low" and "sell high" through pro-active rebalancing, which assumes regular market dips are going to occur periodically.

Russell Style Index Performance
12/31/2011 - 3/31/12

	Value	Blend	Growth
Large	11.12%	12.90%	14.69%
Mid	11.41%	12.94%	14.52%
Small	11.59%	12.44%	13.28%

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FIXED INCOME PERSPECTIVES

In our January newsletter we warned, "*…the flight to the safety of Treasury bonds in 2011 managed to make the already sizable Treasury bubble we've been warning about even larger.*" As if on cue, in the first quarter of 2012 we began to see first significant signs that the bubble has begun to deflate, at least on the long end of the yield curve. The average yield on long-term Treasury bonds (i.e. > 25 years in maturity) rose by 0.33% in the first quarter of 2012, from 2.67% at the beginning of the year to 3.00% by the end of March. This doesn't sound like much, but in the world of bond valuation it is a pretty substantial move, especially if you're talking about long-term bonds. That's because long-term bond prices are quite sensitive to even small increases in interest rates. In fact, the seemingly modest 0.33% increase in rates in the first quarter was enough to send long-term Treasury prices down a whopping 5.8%!

Some Perspective on Bond Pricing

It's difficult for many investors to understand why such small increases in interest rates result in such sizable declines in bond prices. However, as we've covered in previous newsletters, the bonds that are the most sensitive to interest rates are those with the longest maturities and the lowest coupon interest rates. Hmmm…don't look now, but yields on long-term Treasuries today are about as low as they've been in more than 50 years, which means most investors have never seen a period where long-term bonds are as sensitive to rate fluctuations as they are today. What we saw happen to long term Treasuries in the first quarter only serves to emphasize this fact.

To get a better understanding of the extent to which rising rates can impact bonds, let's look at what happens to the price of a $1,000 face value, 30-year maturity Treasury bond as interest rates rise. We'll assume the stated (or coupon) interest rate on this bond is 3.0% which is approximately where yields on 30-year bonds are as of this writing. The table below displays the decidedly gory details:

Price volatility on a 30-year, $1000 Treasury Bond with a 3.0% coupon interest rate

Increase in Interest Rate	New Bond Price	% Change in Bond Price
1%	$826.20	-17.38%
2%	$690.91	-30.91%

The table shows, that if rates on long-term Treasuries were to suddenly rise by 1% from current levels (i.e. from 3% to 4%) the price of a 30-year T-bond would fall by more than 17%, and if rates rose by 2%, the bond would lose more than 30% of its value! Perhaps even more concerning is that rate increases of this magnitude are quite possible. In fact, if the last three quarters of 2012 mirrored the first, the interest rate on long-term bonds would go up 1.33% on the year, resulting in a drop of 22.2% in the price of 30-year bonds! Ouch...

All Bonds are NOT Created Equal

Those numbers are frightening, to be sure, but it's important to note bonds are unique investments in that we know, with great certainty, what the price of a bond will be at a specific point in time given a certain interest rate. This, in turn, allows us to gauge how much a specific bond stands to gain or lose over time if rates fluctuate. It also allows bond fund managers to insulate their portfolios from rising interest rates by choosing bonds that are less sensitive to changes in interest rates. So in deference to the U.S. Constitution, all bonds are not created equal. Unfortunately, as we saw in the first quarter, neither are all bond investors…

In 2011, we saw many investors flock to long-term Treasuries, seeking a safe haven from the panic du jour (i.e. the Euro-zone mess, Arab spring, Washington gridlock, etc.) and seeking yields above those available on shorter maturity instruments. The problem was that rising interest rates in the first quarter of this year drove long-term Treasury prices down sharply, hence turning what many thought were safe haven investments into anything but. Perhaps even worse, there are strategies bond investors can use to get protection from both global political risks AND rising interest rates—it's just that buying long-term Treasuries isn't one of them.

Diversification Matters!

Our approach to protecting fixed-income investments against both political risk and interest rate risk is actually pretty straightforward. We use a diversified group of bond funds managed by whom we believe are the best and brightest bond portfolio managers on the planet. We often stress the importance of diversification in stock investing, but in periods of higher than normal uncertainty over interest rates, like the one we face today, it's equally important to hold a well-diversified bond portfolio. This was demonstrated pretty clearly in the first quarter this year, when our four core bond funds all posted quarterly gains in spite of rising interest rates. For the quarter,

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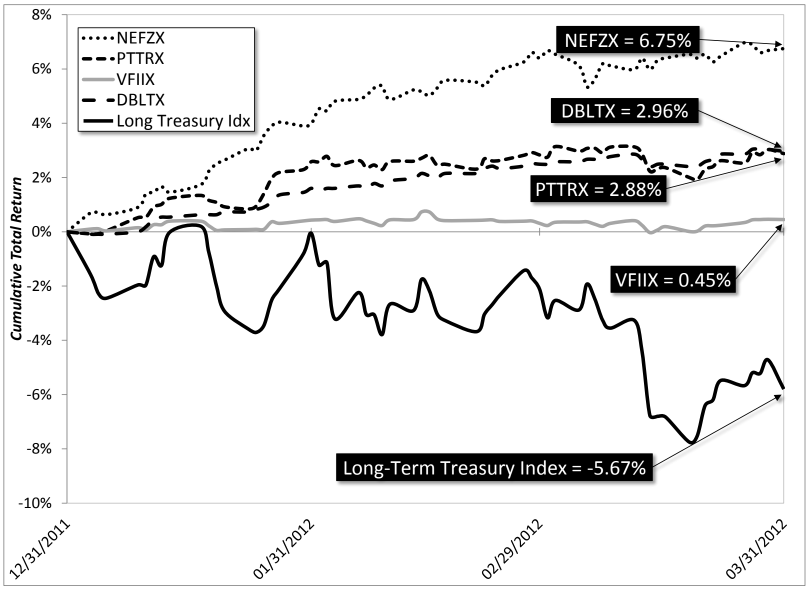
Total Return Performance of KWAG Core Bond Funds and Long-Term Treasuries
12/31/2011- 03/31/2012



Loomis-Sayles Strategic Income Fund (NEFZX) was up 6.75%, PIMCO Total Return (PTTRX) was up 2.88%, Vanguard GNMA Fund (VFIIX) gained 0.45%, and DoubleLine Total Return Bond (DBLTX) was up 2.96%. Not too bad, especially for a quarter where long-term Treasuries lost nearly 6% of their value! The chart below shows how the quarter played out for both the funds and long-term Treasuries, with total return depicted on the left-hand axis.

Two Important Lessons

Two things in the Bond Performance chart above stand out. First, as interest rates rose and the prices of long-term Treasuries declined over the quarter, the value of our core bond funds steadily increased. This is due, at least in part, to long-term bonds being more sensitive to rising rates than the short-to-intermediate term bonds being held by the managers of our core bond portfolio.

Second, it's clear that long-term Treasuries were also far more volatile over the quarter than the core bond funds. This is partly due to the high interest rate sensitivity of long-term bonds, but another factor is the "term structure of interest rates" which refers to the how interest rates vary according to the maturity of the bonds in question. As discussed earlier, the Federal Reserve has a variety of tools that allow them to exert great influence over the money supply and these same tools also give them near total control of short-term interest rates. However, the Fed's toolbox is far less effective when it comes to controlling long -term rates, which are driven predominantly by market forces.

Over the past several quarters we've heard the Federal Reserve frequently reiterate their intent to keep short-term rates at or near zero for the foreseeable future, in order to provide continuing stimulus to the economy—and they're more than capable of making good on their promise. On the other hand, long-term rates are far more difficult for the Fed to control, as we've seen. The Fed has tried some unique approaches in an attempt to drive long-term rates lower (QE1 and QE2 are both examples) and it appears they've had at least some success (although academics will quibble over how much for years to come). On the other hand, it's also clear that long-term rates continue to be largely market-driven and more heavily influenced by fear-inducing events like the euro zone crisis than by Fed actions. So as the economy continues to gain strength in the recovery, it is a certainty that long-term rates will rise, thereby turning long-term bonds into very unattractive investments. Fortunately, our bond fund managers are well-versed in the dynamics of interest rates and bond pricing and, as a result, were able to successfully avoid the pitfalls of rising interest rates in the first quarter of the year.

Quality Managers Matter

There are any number of strategies bond managers can employ to help mitigate political risks and the impact of rising interest rates. For our managers, these strategies vary according to the investment constraints of the funds they manage. One commonality, however, is that each

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manager has gradually shortened the average maturities of their portfolios over the last several quarters, in anticipation of rising rates. To the extent possible, they have also been diversifying their portfolios into areas they believe will be less sensitive to political risks and fluctuations in domestic interest rates. This might mean diversifying into high-yield corporate bonds, or purchasing bonds denominated in foreign currencies, or investing in higher-yielding emerging market bonds, or buying bonds that are deeply discounted in price. Regardless of the strategy, each of the managers we use has successfully dealt with rising rates and a variety of political risks over the course of their long careers, and in each case their track records are exceptional.

In addition to finding bright and talented bond fund managers, however, we also think it's critical to construct a bond portfolio that is broadly diversified. Strangely, this is a relatively simple and quite intuitive strategy that many investors nevertheless neglect to employ.

Wealth Preservation

The fact is, diversifying a bond portfolio is every bit as important in terms of risk reduction as it is in stock a stock portfolio. This means it's important to seek out bond funds that are as different in composition as possible, while still maintaining the safety and security of principal that is the overriding goal of investing in bonds in the first place. And that's what we've done with the four core bond funds we use. Each one is quite different in terms of composition and investment constraints, yet each has stellar long-term performance. So by combining them in our core bond portfolio it allows their individual idiosyncrasies to essentially cancel each other out, providing the kind of wealth preservation benefits we're looking for in our fixed income investments with lower overall fluctuations than we would get by holding any of the funds in isolation.

A FINAL NOTE

As usual, if you have any questions about our updates, this 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.

Wishing you all a very Happy Spring and start to a wonderful summer!

~ Joe and The Gang at KWAG

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THE GANG AT KIELY WEALTH ADVISORY GROUP

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

**IMPORTANT DISCLOSURE INFORMATION*

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

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Please Note*: the individual depicted mutual fund results* ***do not*** *reflect the results of any specific KWAG client portfolio or any KWAG composite.* ***For reasons including*** *variances in portfolio account holdings, market fluctuation, and any account contributions or withdrawals, the performance of a specific client's account may have varied substantially from the indicated reported mutual fund results. In addition, the above results only reflect the results as reported by each respective mutual fund company. Portfolios managed by KWAG would also incur a KWAG advisory fee, the deduction of which would result in decreasing the reported performance results.* ***For example:*** *a KWAG advisory fee of 1% compounded over a 10 year period would reduce a 10% return to an 8.9% annual return).*

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