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

As we move closer to the presidential election, we will undoubtedly see an increase in the bombardment of political ads and their opinions stressing how the upcoming election will affect our lives, liberty, and happiness. These ads tend to take statements out of context, blow ideas out of proportion, and stretch the truth to the breaking point - and for good reason - since studies show there is little downside (or penalty) for exaggerating, or even outright lying. Additionally, financial news outlets are currently flush with "expert prognosticators" whose job it is to "educate" the masses about how the election outcome will affect the U.S. economy and the stock market, either positively or negatively. As you might imagine, the unrelenting din of politically motivated misinformation has led to a number of questions and concerns regarding the impact of the election outcome on our client portfolios.

In all honesty, we don't believe the election will have much of an impact on the overall economy or the financial markets over the long run - regardless of the result.

We realize there's been plenty of drama on the campaign trail, but on Wall Street the response has been little more than a collective shrug. Today, markets are driven by macroeconomic factors mostly unrelated to the political climate in the United States. In a global economy, it is these macroeconomic factors that largely drive long-term corporate cash flows. You might not believe this after listening to the campaign ads this election season. However, we know politicians tend to grossly overestimate their ability to positively impact the profitability of companies - and their opponent's proclivity to do the opposite. We're NOT saying the election isn't important, because it clearly IS IMPORTANT to our country. What we are saying (and what Wall Street is clearly echoing) is that the election will have relatively little impact over the long run on the companies we own.

Some Political Perspective

If you've been a long time reader of our newsletters and updates, you know our philosophy has always been to remain politically detached - and for good reason. Beyond the fact that you hire us to manage your money - and thus not engage in political commentary - we know investment decisions prejudiced by emotions are frequently poor ones. Our job is simply to act in your best interest with respect to whatever policy decisions come down

INSIDE THIS ISSUE:

RMD REMINDER

CURRENTLY, WE ARE WORKING ON GETTING RMD LETTERS & FORMS OUT TO CLIENTS THAT ARE REQUIRED TO TAKE THEM.

YOURS (IF REQUIRED) WILL BE IN THE MAIL WITHIN THE NEXT FEW WEEKS.

PLEASE EMAIL KATIE WITH ANY QUESTIONS YOU MAY HAVE AT katie@thekielygroup.com from Washington. This, in turn, requires that our investment decisions remain unencumbered by any personal, political, religious or emotional biases. From an investor's perspective, we believe political detachment is our only practical option as investment advisors. We know we can't control the things that happen in Washington, however, we can control how we prepare, and then react unemotionally to those outcomes.

If previous elections are an accurate guide, we believe our reaction and our fund manager's reaction will be nothing more than the normal pro-active portfolio rebalancing we both engage in on a regular, ongoing basis.

A Gentle Reminder

Over the last few decades, our message has been fairly consistent with regards to what propels corporate profitability over time. In today's global economy, the impact of domestic policy on the growth of corporate profits has been diminished significantly. Instead, we've identified a number of global macroeconomic factors as the main drivers of growth. Specifically, we believe the most important factors for sustainable economic growth are access to abundant, low -cost capital; the existence of a large untapped global labor pool; continued technological innovation to spur productivity gains; and global trade which is allowed to flow freely across borders on a level playing field. Each of these factors is currently in place and we believe America's companies will continue to prosper as a result. On the other hand, if one or more of these factors is disrupted or constrained, the global economy could suffer…along with corporate America.

Thus, the key issues that concern us are macroeconomic disruptions.

Some History: Disruptions

Any concerns we currently have about the health of the global economy are tied almost exclusively to the kinds of significant unforeseen issues that can crop up at any time. Issues currently being discussed in the media are less of a concern because the financial markets are already aware of them, which means asset prices already reflect all known information and their possible outcomes. What disrupts asset prices significantly are events that have yet to occur and are therefore impossible to predict. For example, the Lehman Brothers collapse in 2008 touched off a global liquidity crisis, which nearly led to the collapse of the global financial system. Those are the kinds of issues that keep us up at night.

So, we understand the natural concern over our deficit, the potential inflationary consequences of Federal Reserve policy, high frequency trading, the election outcome, and looming fiscal cliff. These are important issues that need to be addressed, but they are also risks that are known - meaning they are not the kinds of things that will cause a market collapse. There will always be plenty of economic issues for investors to worry about, which is where the term "Climbing the Wall of Worry" comes from. Ironically, the issues most people worry about from day to day aren't the issues that should cause them the most concern. It is unknown and unpredictable future events like wars, terror attacks, natural disasters and large macroeconomic disruptions that lead to significant market drops.

Our Optimism

This is why we remain so optimistic over the long run. Most of the bigger economic issues of the day are well known and well documented. In addition, since the last major disruption in 2008, it's clear that capital flows have been restored, new regulations have been put in place, and the domestic economy is growing again. More importantly, the global economy (and the global middle class) is growing steadily, which has resulted in many publicly traded companies reporting record cash flows and record profits. You may wonder just how profitable publicly traded firms are today? As of September 30, 2012, publicly traded companies have more cash on their balance sheets than ever before – and – they have record earnings. In fact, in 2012 corporate earnings for the S&P 500 are expected to be 37% above actual earnings of the S&P 500 companies reported in 2007 - the year before the credit crisis. This is precisely why the broader market averages experienced multi-year highs last month.

In Sum

We want to reiterate…we're NOT saying the election isn't important, because it clearly IS IMPORTANT, in any number of ways. What we are saying (and what Wall Street is clearly echoing) is that the election will have relatively little impact on the companies we own over the long run. Of course, given the strong run we've had in the first three quarters of this year, it would not be surprising to see the market take a breather at some point. Oscillations are normal market behavior, and pullbacks following periods of strong upward momentum like we've seen this year are common and actually healthy, as they help keep markets from becoming too overheated. They also provide opportunities for savvy investors to buy assets when they're on sale. We're not market timers, we're not clairvoyant, and we don't pretend to know whether a pullback is imminent. However, given the recent run-up it certainly wouldn't be surprising.

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THE STOCK MARKET

As we've mentioned in this month's e-mail update, it's amazing to see what a difference a year can make. In 2011, we began the third quarter newsletter looking for a few positive comments after a brutal few months. In 2011, the third quarter began innocently enough, with a mild rally in July. As time wore on, the specter of political dysfunction in Washington and a potential U.S. default dominated the airwaves, spiking market volatility and pushing stocks sharply lower. By the quarter's end, the S&P 500 was down 14% and the Russell 2000 was down a staggering 22%. Yikes!

As we noted at the time, dips of that magnitude are not uncommon and we stressed that there were no overt signs of panic on Wall Street, suggesting this was probably just a temporary overreaction to short-term events. In fact, corporate earnings were continuing to come in above expectations and most analysts were upbeat about the prospects for the remainder of the year. At the time, we figured we could largely mitigate the effects of increased short term volatility and even use it to our advantage if we; 1) remained patient, 2) stuck to our long term investment plans, 3) kept our emotions in check, and 4) looked to capitalize on the new opportunities panic selling inevitably creates.

Patience and the Rally

As we know now, the S&P 500 rallied throughout the fourth quarter of 2011, finishing the year essentially where it had begun. The rally continued into the first quarter of 2012 and through the end of April. In fact, the rally from the 2011 lows was so significant that we warned readers about the possibility of another normal pullback. As if on cue, we experienced a classic market decline of nearly 10% during May this year, with the selloff continuing into the first few days of June. Since that time, however, the market has been climbing virtually uninterrupted, with very little volatility. Once again, we think the rally is getting a little "long in the tooth" and wouldn't be surprised to see a pullback before the end of the year or in early 2013.

Third Quarter 2012

Last year at this time, we had come off one of the worst quarters since 2008 and the markets were experiencing a significant spike in volatility. This year, volatility has been cut in half from a year ago and the market recently hit multi-year highs. For the quarter ending September 30th, the S&P 500 rose by more than 6.4%, while the Russell 2000 increased 5%. When we examine the individual style box performance data presented in the table below, you'll see that value stocks outperformed their growth peers for every company size. While large caps outperformed both mid and small cap stocks. This result makes sense, since growth stocks have been outperforming value stocks for several years now.

Russell Style Index Performance
3rd Quarter, 2012

Value	Blend	Growth	
7.21%	7.08%	6.96%	Large
6.34%	6.15%	5.94%	Mid
5.95%	5.43%	4.91%	Small

When we examine year-to-date performance, the numbers are excellent, in spite of the normal 10% dip we experienced in May and early June. So far this year, the S&P 500 index is up 16.4%, while the Russell 2000 has gained more than 13.2%. When you look at the individual style boxes, they range between 14.1% and 17.7%, with large cap growth (dominated by technology companies) leading the way.

Russell Style Index Performance
Year-to-Date through 09/30/2012

Value	Blend	Growth	
16.52%	17.13%	17.73%	Large
14.61%	14.61%	14.52%	Mid
14.68%	14.43%	14.15%	Small

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These numbers, which were generated in just nine months, are well above the long-run annual averages. When you factor in the recession in Europe, the upcoming election, and the high level of pessimism regarding our economic recovery, the year-to-date results seem even more remarkable. By any measure, this has been an extremely good year in the financial markets and, at least thus far, has clearly exceeded expectations.

Mid Term Market Returns

If you go back and reread our first quarter's newsletter, you'll recall that the major theme of the newsletter was "Climbing the Wall of Worry". As we have discussed, over the past several years, our markets have jumped from one major worry to the next in relatively quick succession…yet stock values have continued to grow significantly. In fact, since the market lows reached in March 2009, we've seen one of the best three-year periods for stocks in history – in spite of all the worries!!!

In essence, we concluded that "The Wall of Worry" creates opportunities for investors who; 1) are long-term oriented, 2) expect normal market dips and volatility, and 3) react to them by rebalancing their portfolios into (as opposed to away from) the asset classes that are currently on sale. Over the last three years, the stock market has risen dramatically as is indicated in the table below, where the worst area of the market (small value) still returned an impressive 13.27% annually.

3-Year Annualized Russell Style Index Performance ending 09/30/2012

Value	Blend	Growth	
13.60%	15.47%	17.41%	Large
16.11%	16.65%	17.29%	Mid
13.27%	14.83%	16.33%	Small

It is also not surprising to see that the pattern of performance (above) follows the long-term general trend, with small and mid-cap stocks mostly outperforming their large caps counterparts. This trend is even more evident when we analyze longer periods. This is because over longer time periods, divergence in performance, (according to size and investment style) tends to be more definitive.

Long Term Market Returns

The table below examines the TOTAL return by style boxes over the last three and a half years (since the market lows reached on 3/9/2009). There are a few important observations to note, but perhaps the most important is that it never makes sense to sell into a market dip. It's also important for stock investors to have a long-term perspective, especially during major downturns. Markets tend to overreact in the short-run, driven by fear and panic, so downturns invariably create opportunities that patient, long-term oriented investors can capitalize on. In addition, it's important to be diversified in small and mid-cap stocks because over longer time periods they will tend to outperform large company stocks. In fact, not only does diversification across all asset classes tend to boost returns, it also reduces risk exposure.

Finally, the numbers below should drive home just how global our financial markets have become. Everyone knows that the U.S. has suffered through a severe recession and an anemic economic recovery over the last 3+ years. However, you certainly wouldn't know it by looking at the stock market's performance over that period. Since the market bottom reached in early 2009, every sector of the stock market has more than doubled, while the mid and small cap sectors have grown by more than half.

Post-Crash Recovery for Russell Style Indexes 03/09/2009 to 09/30/2012

Value	Blend	Growth	
133.72%	133.87%	121.66%	Large
171.63%	162.81%	155.20%	Mid
153.76%	156.60%	158.91%	Small

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When we look back over the past decade - which begins shortly after the tech wreck in 2002, comes on the heels of 9/11, and includes the credit crisis of 2008 and the recession of 2009 – the overall market exhibits strong positive annual returns. In fact, this table reiterates the importance of staying invested in stocks for the long haul. Over the last ten years, the worst area of the market (large value) averaged a pretty remarkable 12.07% annually, while the best area of the market (mid-cap blend) averaged a whopping 19.01% per year! This table hopefully drives home why we've always embraced small and mid-cap stocks in our portfolios.

10-Year. Annualized Russell Style Index Performance Ending 09/30/2012

Value	Blend	Growth	
12.07%	12.47%	12.60%	Large
18.44%	19.01%	18.83%	Mid
15.26%	16.39%	17.28%	Small

And yet, as good as the stock market has been recently, the news from the bond market might be even more remarkable.

THE BOND MARKET

Up to this point, it's obviously been a productive year for the stock market. However, the news gets even better when we examine the bond market. As most everyone knows, the Federal Reserve has engaged in a third round of quantitative easing, commonly called QE3. Unfortunately, relatively few people really understand how QE3 actually works, so there is plenty of misinformation and a fair number of conspiracy theories making the rounds - all wildly inaccurate. All one needs to know about QE3, however, is how the markets have reacted, and for bond investors it has clearly been a major positive.

Bond Returns

Our fixed income (i.e. bond) portfolios have continued to generate unexpectedly strong results over the first nine months of the year. Through the end of the quarter, our two largest fixed income holdings - Loomis Sayles Strategic Income (NEFZX) and PIMCO Total Return (PTTRX) - are up 10.3% and 9.1% respectively. In addition, one of our newest fixed income funds – Doubleline Total Return (DBLTX) - is up 8.3% year-to-date. These are terrific numbers in bond funds anytime. However, to experience performance like this in the midst of the lowest interest rate environment in history, is simply phenomenal. To be honest, the performance of our bond funds so far in 2012 have far exceeded even our "best case" expectations. In the case of all three funds mentioned above, the fund returns have more than doubled the performance of the Barclay's U.S. Aggregate Bond Index, which returned just under 4% through the end of the quarter. Of course, we also use other, less volatile bond funds - like the Vanguard GMNA fund (VFIIX) - which is restricted to investing in only the highest-quality AAA-rated government-backed mortgage securities. Because the fund's holdings are constrained, the upside for VFIIX is lower than other funds that enjoy the flexibility of casting a wider net. However, we don't use VFIIX for it's upside potential. Instead, we invest in VFIIX since it has little downside risk and has remained extremely stable across virtually every economic environment imaginable, making it the perfect diversification tool for our fixed-income arsenal.

Our Bond Strategies

Over the past year, we have discussed the challenges we face in the current low interest rate environment. Specifically, we've highlighted the difficulties inherent in generating acceptable, inflation-beating returns using traditional bond strategies when interest rates are hovering near zero. In addition, we've mentioned the potentially catastrophic risks of chasing yield by moving into longer-maturity bonds, whose values are guaranteed to fall sharply as interest rates invariably begin to rise. Our strategy to combat these issues has been to use a mix of innovative bond managers with unique skill sets that allow them to capture returns in less traditional areas, but without sacrificing too much in the way of safety.

For example, Loomis Sayles Strategic Fund's manager Dan Fuss focuses his efforts on finding underpriced bonds both domestically and internationally and can even invest a portion of the fund in high-yielding stocks if he feels prices warrant. During the March stock pullback, Fuss did just that, by adding a couple of European utility stocks with stable dividend yields of between 9% and 10% at bargain basement prices. He also now holds roughly 1/3 of the portfolio in non-dollar denominated assets, taking advantage

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of both the weaker U.S. dollar and the higher yields available outside the U.S.

Doubleline, on the other hand, has leveraged their unique expertise in mortgage-backed securities by buying large pieces of mortgage pools from banks like Bank of America, who are being forced to liquidate at fire-sale prices to meet capital requirements. Because fund manager Jeff Gundlach and his crew know mortgages better than the banks holding them, they have a valuable informational advantage. Combined with the fact that the banks are motivated sellers, Doubleline has been able to largely dictate terms and the banks have had little choice. This strategy has clearly paid off, as reflected in the fund's terrific YTD return.

In terms of diversification, we view the fixed income arena no differently than stocks. We believe it is critical to hold a well-diversified bond portfolio that can thrive in any economic environment. This is why we use a group of bond funds with a diverse range of investing strategies and managers with long, stellar track records. This strategy has certainly paid off, and while we wouldn't expect the overall performance of our bond funds to match the phenomenal numbers put up by the stock market recently, we're confident our managers will continue to outperform their benchmarks by decent margins.

10 Questions with the Doctors

Since the first nine months of 2012 have been nothing short of fantastic, it's only natural to speculate about what the fourth quarter has in store. At this point, there are a number of economic concerns on the horizon. Fortunately, all of them are things the financial markets have been aware of for months. That's not to say significant surprises can't arise, but given what we know right now, our biggest concern is that stocks have come so far so fast, that they may be due for a brief consolidation phase. This would actually be healthy in the long-run scheme of things, as without pullbacks markets tend to become overheated, increasing the risk of a more severe selloff in the future. The overriding theme as we go forward will be managing client **"expectations"** and how they (expectations) impact the way all of us should view the world, the economy, and our portfolios.

Our thoughts follow on a number of your questions and concerns.

Q1: ***Can you please explain what the "Fiscal Cliff" means…in plain English?***

Joe: Yes, we can. Basically, everyone (including our politicians) is concerned with our current deficit and debt levels. Most understand that we have to reduce the level of debt we take on each year. Thus, to provide some motivation for budgetary restraint, both parties in Congress agreed that if a suitable deal wasn't reached by December 31, the Bush-era tax cuts would expire (think increased government revenues) and severe mandatory budget cuts would be implemented (think decreased costs). Of course, no deal has been made to date, so the tax cuts are still slated to expire at the end of the year, and drastic cuts are scheduled for the defense budget and entitlement spending. This assumes there is no new budget compromise after the election.

Scott: Right. The automatic tax increase and budget cuts will occur if no deal is reached. This would almost certainly drive the economy back into a recession, and both parties know it. Thus, allowing this to occur would almost be like committing political suicide. Whether they reach a budget compromise or not, we will almost certainly not fall off the fiscal cliff. Politicians may procrastinate until we're uncomfortably close to the edge, but at the last minute they will come to some sort of compromise…as they did during the last debt ceiling debate. Hopefully the compromise comes in the form of a sound budget deal instead of simply kicking the can further down the road by pushing back the deadline.

Joe: What we clearly need is a tempered approach to the deficit and hopefully that's what we'll wind up with. At this point, we just need to get on a path which will reduce the annual deficit every year and move us in the direction of a balanced budget. The truth is, we can't get there all at once and it's something that will take time. After the election, we hope the bipartisan bickering will die down long enough for Congress to do what is best for the country, as opposed to what's best their respective parties.

Q2: ***I have heard a number of people criticize the Federal Reserve for keeping interest rates so low for so long. Lower interest rates seem like a good thing… right?***

Joe: For the most part, I agree. Individuals have been able to refinance their homes at lower rates and at the same time pay down their debt. Businesses have been able to borrow money at the lowest rate in history, which means they can continue to hold their cash for a rainy day and still grow at a nice clip. Finally, the government has been able to refinance its debt, which means its debt payments have gone down.

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Scott: All true. Low rates are clearly a stimulus for the economy because businesses can borrow money at very low cost. This encourages business expansion and boosts hiring, which are obviously both things we need right now. Low rates also make it cheaper for consumers to buy homes and cars, and make other major purchases, so it helps stimulate the economy that way as well.

Unfortunately, on the other hand, low interest rates make it tougher for retirees to fund their retirement, since the fixed income securities they've traditionally relied on provide very little return in the way of interest income. It seems unbelievable today, but when I was working at Merrill Lynch back in the 1980s, 30-year Treasury bonds were yielding 9% and funding retirement was relatively easy. Back then, if you had a large enough nest egg, you could simply buy 30-year Treasuries and guarantee yourself an annual income stream that would not only meet your needs, but likely outlive you as well. And since you would be living just off the interest, it would leave the entire principal amount to your heirs, your favorite charity, or some combination. Ahhh, those were the days…

Today, 30-year Treasuries are yielding just 2.8%, which probably isn't enough to keep pace with future inflation. As a result, funding retirement today is a lot more challenging and the risks are far greater. It's doable, of course, but I think it's more important to have professional help today than it was back in the 1980s. In today's environment, most retirees don't have the educational background or financial expertise to successfully navigate the global economic complexities we're faced with. Sadly, too many financial advisors are in the same boat…

Q3: Do you think the global slowdown will affect the stock market?

Scott: In a nutshell…yes. In fact, it already has. Earnings growth looks to be slowing, but it is important to note that earnings are still growing, just not as fast. Economic cycles are normal occurrences, so this isn't something we're overly concerned with. While it's true that Europe is in a recession, they are also beginning to show renewed signs of growth, leading many economists to predict a Eurozone recovery in 2013. China is also in a transition towards a more consumer-oriented (versus export oriented) society, which has slowed their growth rate. That said, it still remains high by any western standard. Thankfully, even with these headwinds, American corporations have continued to grow earnings. I think that's very encouraging.

Joe: This is one of those disconnects we have discussed before. The growth rate in China and India has clearly slowed down, but they're still going strong. In fact, China is probably going to grow at 7% this year and next. In addition, American goods are looked upon favorably there…versus Japanese or Korean goods. This all bodes well for corporate America. Think about the opportunity logically. If you are an American company and can borrow money at 3% annually, and then invest it in a business that's growing at 7% annually, that's a pretty good deal. If you are productive, use technology and labor correctly, and are increasing your market share, you can grow at a rate well above average. This is exactly what companies like Google, Intel, Microsoft and Apple are currently doing. There are hundreds of other companies doing the same thing in many different industries around the globe.

Q4: How long do you think our U.S. economy will be in a slow growth environment? Do you think the election will change anything?

Joe: We do not think the election will change much in our economy anytime soon. At this point, our economy is pointed in the right direction. However, it will take years to transition away from a debt driven construction based economy towards a service one. Clearly the jobs are there…we just don't have the skill-sets to fill them. It will take more time and a number of strategic business/ educational partnerships to bridge this gap.

Scott: That's true. It took us nearly 30 years to accumulate the mountain of personal debt that finally brought us down, and we're not going to pay it all back in just a few years. We said from the outset that financially-driven recoveries tended to last 7-10 years and it still looks like this one is going to be somewhere in that range. However, there are encouraging signs on the debt front. Today, the household debt-service ratio is approaching levels we haven't seen since the early 1980s, which was before the debt binge began. Still, the American consumer probably isn't going to return to spending at pre-2008 levels anytime soon. This is not necessarily a bad thing though, the last thing we want is to relive the debt-induced near death experience that we faced in 2008.

Joe: Agreed. Today, we have a structural unemployment problem versus a cyclical one. In this world there is a mis-match between those who want jobs and those who offer them. We still lead the globe in many areas like technology and even manufacturing. However, workers need specific skill sets to meet the demands of those jobs listed. In the old days, a worker installed the same bolt and screw, over and over again all day long. Today, robots can do those kinds of things faster and more efficiently. In addition, the

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robots never need a coffee break, never go on vacation, and can do it 24/7. What today's workers need is the ability to operate the robots from a computer console, and that takes time, education, and training. So, it's going to take some additional time for many Americans to overcome this structural mis-match.

Q5: It looks like Real Estate is showing signs of stabilizing and actually growing. This can help the recovery…right?

Scott: There is no question that a healthy real estate market helps the economy. In fact, one of the structural unemployment issues we didn't discuss earlier was the lack of employment mobility for many folks who are underwater in their homes. If you can't sell your home and pay off the mortgage, and don't want to default, you're pretty much stuck in place. This has kept millions of people from seeking better jobs elsewhere. So as housing recovers and home values rise, more and more homeowners will become mobile and that's good for employment and the economy.

Joe: I agree. This is another place where the Federal Reserve has helped. By reducing interest rates and promising to keep interest rates low for the foreseeable future, they are providing more certainty in the real estate market and giving the economy the time it needs to get back on its feet.

Q6: One of the issues that has me worried about investing in the stock market is all the high speed computer trading today. It seems like a lot could go wrong very quickly. What is your slant on this phenomenon?

Scott: The faster you do anything the quicker you can get into trouble, and high frequency trading is not much different. We've obviously seen problems with HFT and so-called fat finger trades causing events like the flash crash we saw a few years ago. However, for long-term investors these are actually non-events. High-frequency traders are dealing in milliseconds and they tend to trade on factors like momentum. In the long run, what they do doesn't really matter to long term stock investors. When anyone owns a share of stock, what they own is a pro-rata share of the cash flows that the company generates, and that's where your stock return comes from. If you are a high-frequency trader and only hold a stock for a few milliseconds, you obviously don't care about long term cash flows. All you're interested in is exploiting what you believe is a momentary mispricing by getting in and out quickly. To that extent, HFT can actually help make markets more efficient, by exploiting even the smallest level of mispricing in a stock and by providing a lot more liquidity to markets overall. Higher liquidity drives down bid-ask spreads, which reduces trading costs for everyone, including our mutual fund managers, so HFT can actually be beneficial to long-term investors.

Joe: Correct, academic studies have shown that HFT has decreased transaction costs, increased liquidity and increased market efficiency. These are all good things for investors. Of course, we'd like to point out that this is another reason why we are so well diversified. In the event that one company did experience any undue volatility due to an HFT error, it would have virtually no effect on our diversified portfolios. This is one of the ways we manage risk for our clients.

Q7: I was watching CNBC last week and one of the commentators said volatility (or risk) has decreased this year in the market. Can you explain how it has decreased?

Joe: The volatility CNBC is talking about is measured from day-to-day or week-to-week, which from our perspective is really short term and unproductive. If you invest for the long term - like we do - the short-term fluctuations tend to cancel themselves out and they wind up having almost no impact. For example, volatility was extremely high in late 2008 and early 2009. However, the only people it really affected were those who panicked and sold out during that period. If you maintained a long-term focus and hung on, your stocks are now way above where they were back then and all that volatility doesn't matter one bit. In other words, short-term volatility should be irrelevant to long-term investors…but it unfortunately doesn't always work that way. When stocks are tanking, it's tough to keep your emotions in check and resist that primal urge to head for the exits. Of course, as the short term panic spreads, more people sell out and prices fall even more and pretty soon you're in a full-blown panic-induced selling frenzy. Obviously, those periods are uncomfortable. That's why we preach focusing on the long run. We do keep track of short-term volatility since it's a pretty reliable measure of how much fear and panic there is out there.

Scott: As long-term investors the risk that matters most, is the risk of losing money over the long term. That's why we manage our portfolios the way we do, with a focus on the long-term. We don't like losing money in the short-term either, but since the money we invest in stocks is never intended for short-term needs, it really doesn't matter - except maybe emotionally. One of our most important jobs as investment advisors is to keep our emotions (and those of our clients) in check during

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periods of high volatility and to use all that fear and panic to our advantage. Like Warren Buffet said to our old MBA students regarding panic selloffs, "I like to shoot fish in a barrel, but I like to do it after the water has run out."

Joe: Heh-heh, Warren really knows how to distill things down to their basics. We all know and we all agree that investors should focus on the long run. However, we also know in the digital age of market news - which is omnipresent - most investors can't help but see what the market does on a day-to-day basis. In addition, we know (through a number of rigorous academic studies) that short-term volatility often influences investors long-term decision making.

At CNBC they were measuring the day-to-day change in the S&P 500's value. In 2011, the S&P 500 experienced 95 days where the index increased or decreased by more than 1%. This is nearly 40% of all the trading days for the year, which is a pretty high number. In 2012, the S&P 500 has experienced only 35 days where the S&P 500 has moved by more than 1%, which represents only 20% of the trading days so far this year. Clearly, that's a dramatic drop in short-term volatility and it reflects a reduced level of fear on the part of investors.

Q8: I recently noticed that you added a few NEW managers to my portfolio. Why did you add these specific managers and can you discuss your criteria?

Joe: Well, I hope you've also noticed that we add NEW managers every year. In fact, we are proactively looking for new managers all of the time.

Scott: That's true. One of my roles with the firm is to be constantly looking for new managers that we think will add value for our clients. In some cases a new manager might be added to replace an old one, where maybe the old manager either left or retired. In other cases, we might add a new fund because we think it's an upgrade to the funds we currently use in that category. In still other cases, we will add a fund (or manager) when we think we've found something that is a good fit from a diversification perspective. Obviously, Joe and Brownie are always on the lookout for new managers too, and they often suggest we take a closer look at something that they've come across.

Once a new manager or fund is proposed, I gather all the data and we look at how the manager has performed relative to the managers we currently use in that category and versus its overall benchmark. We also dig into the portfolio characteristics and the strategies used by the manager, because we want to know everything there is to know about what makes the fund tick. All this information then gets turned over to the investment committee, which convenes regularly to evaluate current managers and discuss potential additions. We look at every metric you can imagine, but the most important factors are consistent outperformance over a long time period under the same manager, low annual fees, limited style drift, tax efficiency, diversification, the ability to outperform in both up and down markets, and transparency.

Joe: In addition, we also pay very close attention to how a fund fits in with our other managers. If we are going to manage risk correctly, we have to be aware of each manager's underlying holdings since that plays a significantly large role in managing downside risk.

Q9: Occasionally, I have noticed that some of the funds we own charge a transaction fee. Why do some funds change a transaction fee, while others don't?

Scott: In general, traditional mutual funds can be split into two groups, NTFs, which stand for "no transaction fee" and non-NTFs, which have a transaction fee. I recognize the double negative in "non-NTF" is annoying, but that's Wall Street acronyms for you. In general, most of the actively managed mutual funds out there are no transaction fee funds, or NTFs. These funds actually pay TD Ameritrade to be on their platform and to take care of all the record keeping, performance reporting, and other back-office stuff that TDA does for them. As a result, it's not necessary for TDA to charge an additional transaction fee to their customers on NTFs, because the fund pays TDA directly. In the case of non-NTFs, they generally have lower management fees and don't want to pay TDA because it would force them to raise their fees. So in this case, TDA charges a nominal transaction fee to cover their administrative costs. If they didn't do this they would be losing money on every non-NTF trade they placed on our behalf, so it only makes sense.

Joe: Since we like pro-active managers, the good news is the vast majority of funds are NTF.

Scott: Furthermore, what we try to do is first identify the funds and managers we like. Then we go about finding the most cost efficient way to purchase them. Some funds have multiple share classes, allowing us to choose either the NTF class or non-NTF class. For larger transactions, it actually makes sense to go with the non-NTF, even though there's a fee involved on the transaction. This is because the annual management fee of the non-NTF class of shares is usually low enough that over time it more than offsets the small transaction fee paid up-front. For smaller transactions, though, we like to use NTFs wherever possible because if

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you're buying in smaller amounts, the transaction fee will represent a larger percentage of the overall investment. I once had a client tell me that he felt like it was a penalty to use transaction fee funds, but when I showed him how much he saved in annual fees over time he changed his mind. NTF or non-NTF, we always do what we think is in the best interest of the client.

Joe: That's true. At the end of the day, we want the best managers at the lowest cost…and I can assure you we do everything we can to make that happen. Keep in mind, the better our client's do…the better we do. So, we really have all sorts of incentive to find the best managers at the lowest possible cost. If we thought the fee was not worth it, you can be sure we would avoid that manager and their fees like the plague.

Q10: I always look forward to the annual client appreciation dinners. Can you please provide the dates and times so I can make plans to attend more than one of the dinners?

Joe: We look forward to seeing everyone each year for our "state of the union address" and catching up. For those of you who are out of state, we are trying to set up the ability to broadcast one of the dinners. We will provide more information as time gets closer. Please mark your calendars and make your reservations! (Please see the details on the next column)

2013 Kiely Group Client Appreciation Dinner Schedule

Ocean Isle, NC Monday, January 28rd
Sea Trails Convention Center
6:00-8:30PM

Greenville, NC Tuesday, January 29th
Brook Valley Country Club
6:00-8:30PM

Asheville, NC Thursday, January 31st
Asheville Country Club
6:00-8:30PM

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 Below at kbelow@thekielygroup.com

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

****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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