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

With the first half of 2015 now in the books, it is clear there has been a changing of the guard in the global markets. After several years of double-digit gains in domestic stocks, the S&P 500 is lagging most global equity markets, as the effect of lower oil prices and a stronger U.S. dollar have muted the impact of an improving domestic economy. Through the first six months of the year, the S&P 500 index is essentially where it began the year. On the other hand, smaller-company stocks (as measured by the Russell 2000) have benefitted from being less dependent on international customers and gained more than 4% through June. Both large and small stock indexes were up an additional 3% (above quarter-end levels) on June 23rd, 2015. However, Greece put a scare into the global equity markets over the final week of the quarter and essentially wiped out all second quarter gains in just three days. This broad selloff resulted in a negative second quarter for stocks.

Overall, the U.S. economy appears to be hitting its stride, with second-quarter GDP growth estimated at 3.5% and analysts estimating 3.0%+ growth for the remainder of the year. Jobs are being created at a rapid pace across all industries - including energy. Construction has seen a significant uptick, consumer confidence is up, and manufacturing continues to improve, in spite of the strong dollar. Wages are finally beginning to show signs of growth, which is something the Fed has been hoping to see for several years now. We believe a robust U.S. economy will continue to benefit smaller companies going forward, since smaller firms tend do the majority of their business domestically. Larger companies tend to have significant multinational exposure, which makes them more reliant on the global economies fortunes. The end result is a stronger dollar, lower oil prices, and less than robust global economy will act as a headwind and thus negatively impact larger companies versus their smaller brethren.

By any conventional measure, most analysts believe stocks are either fully valued or overvalued. If you examine any of the various price metrics, it is clear stock prices are at the upper end of the historical range. Whether you compare stock prices to current or expected earnings, or to current or expected cash flows, stocks appear richly valued. Of course, periods of over/under valuation can last for many years. Between 2009 and 2013, it was clear the stock market was significantly undervalued. Now, the pendulum appears to have swung the other way. In part, low interest rates and massive injections of capital by central banks have pushed many bond-oriented investors into stocks, driving up valuations. Until global interest rates move up significantly and central banks begin to tighten—something no one suspects will occur anytime soon—we suspect stocks will remain richly valued.

INSIDE THIS ISSUE:

IMPORTANT

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Overvaluation aside, corporate America remains in excellent shape. Corporate balance sheets and income statements are strong and healthy. Labor productivity is high and technology is being leveraged to produce even greater productivity gains. In addition, corporations continue to hold record amounts of cash and have access to incredibly low-cost capital. As a result, when a significant pullback does occur in the stock market, we believe it will be relatively quick and a healthy experience for the market overall. In fact, in an aging bull market, a nice healthy dip is often a prerequisite to ushering in a new round of all-time highs.

The Stock Market Conundrum

At this juncture one could make a good case for a 20% increase in the stock over the next few years. On the other hand, there is an equal probability of seeing a sharp but relatively short-lived 20% pullback. This is what makes investing challenging and market-timing impossible. It's impossible to predict what the market will do in the short-run! No one knows what the stock market or interest rates will do over the next one, three or six months. In fact, nobody knows what they will do over the next year. This is why we stress the importance of making all of our asset allocation decisions based on a person's time horizon, cash flow needs, age, account size…**and the long run**. Long run trends are much more consistent and they tend to have a much narrower band of possible outcomes. This makes long-term portfolio performance much easier to predict and reduces uncertainty tremendously. This is why we always construct portfolios with longer-term outcomes in mind.

Over the long run we know two things are going to happen with near 100% certainty. First, we know the stock market will trend upwards over time, just as it always has. But while a growing stock market is a given over the long-term, the circuitous route it will take to get there is anyone's guess. The second near-certainty is somewhat more immediate, in that we know the Federal Reserve will begin to raise interests rates at some point over the next few years, perhaps even as early as September. Unfortunately, we don't know when these rate increases will begin nor do we know how long it will take before interest rates return to more normal levels. The quicker we see resolutions to the Greek debt situation and Chinese stock market turmoil, the quicker the Fed will likely act. But the Fed is justifiably cautious about raising rates too soon and harming an economic recovery that finally appears to be gaining steam.

Fortunately, we don't have to know the short-term paths of either stocks or interest rates to be successful investors over the long run. If we build well-diversified portfolios allocated across both the stock and bond markets, use excellent proven managers, and pro-actively rebalance, we know we will be able to systematically deal with any short-term deviations the stock and bond markets throw our way. In truth, we don't need to know the precise route the markets will take—all we need is a general compass heading and the willingness to use any unexpected short-term deviations to our advantage through appropriate rebalancing.

Unfortunately for most investors, this is easier said than done. When the financial markets deviate from the expected norm, many investors behave counter-intuitively, becoming too focused on the short run and losing site of the ultimate destination. They often cast extreme recent events (both positive and negative) out into the future, convinced the recent past will persist into the distant future. But that's not how it works. Extreme market moves NEVER persist over the long run. Behaving as if they will, investors wind up shooting themselves in the foot. For example, there are still trillions of dollars in 401(k) plans sitting in money market funds as a result of what happened in late 2008 and early 2009. Many investors extrapolated the big losses in their 401(k) plans into the future and liquidated everything. Since the bottom, however, all nine stock market style indexes are up roughly more than 250%. At the same time, money market funds have returned less than 0.25% annually. Ouch…

Short Term Focus = Long Term Pain

Over time, research shows that your asset allocation decisions (or how you allocate your money across different types of investments) will dictate roughly 95% of your portfolio returns. Thus, it's imperative that investors remain patient when things move against the norm over the short run and resist the temptation to deviate from a sound asset allocation strategy. For example, last year, small caps lagged large caps for the first time in quite a while. For investors who become too focused on the short run, this caused them consternation and many altered their allocation strategy in favor of what had been doing best (i.e. large caps). At KWAG we simply stuck with our long-run target allocations, which forced us to rebalance by selling large caps in favor of small and midcaps. We knew it was only a matter of time until small caps led the way again, although we didn't know it would be as soon as the first half of this year (see the 2015 style index results presented later in this newsletter). We actually saw last year's small cap decline as an opportunity, giving our fund managers a chance to do some bargain hunting.

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The long-run performance data is irrefutable on the following point: year-to-year, smaller stocks beat larger stocks more often than not and they dominate them over the longer term. Knowing this, why would you suddenly shift your portfolio to larger stocks following a period in which they've outperformed? Yet that's exactly what millions of investors did—and this year small and mid caps are leading the way. Oops…

Research also shows very clearly that chasing recent performance is a bad idea. Last year's hot investment rarely repeats itself and more frequently winds up underperforming by a significant margin. That's why systematically rebalancing to target allocations makes so much sense. It forces you to sell what was hot (and is likely overvalued) and buy what wasn't (and is likely now undervalued). In other words, when short-term deviations occur, investors should embrace them through thoughtful rebalancing. Regrettably, this rarely happens.

Performance chasing behavior also occurs between "active" versus "passive" portfolio management. Last year, active managers had a tough year versus the passive indexes, causing consternation among investors who don't understand this type of deviation is typical during periods of relative calm markets and near the end of multi-year market rallies. At the end of multi-year rallies, a small number of overpriced stocks tend to drive the passive indexes higher, even though the vast majority of the market might be down. This gives the illusion that investing in passive indexes is a better option than using strong active managers over the long run. During periods of higher volatility, this simply isn't true. Strong active managers tend to avoid overpriced stocks during periods where they see relatively few bargains, as is generally the case near the end of multi-year bull markets. Instead, the best managers prefer to increase cash holdings rather than buy overpriced shares. This is the reassuring pattern we observed with many of our active managers in 2014 and 2015. This protective approach may result in some short-term underperformance, but we're okay with being protective at the end of multi-year rallies. You may be wondering why?

If you go back and examine the periods leading up to the tech wreck of 2000-2002 and the credit crisis of 2008, two clear trends stand out. First, a number of excellent managers significantly underperformed their benchmarks prior to the significant pullbacks. Why? They refused to buy overpriced stocks, which at that point were driving the broader market indexes even higher. Investors like Warren Buffett were routinely berated as being "out of touch". Of course, Buffett (and others like him) looked like a genius - in each case - very shortly after the pullbacks.

The point is, passive indexes (and the index funds that track them) have to stay fully invested, forcing them to hold overpriced stocks during periods of market irrationality. In fact, since most indexes are cap-weighted, the more overpriced a company becomes, the bigger its weight (and thus influence) in the index. That's why the S&P 500 had a roughly 40% weight in tech stocks by early 2000. Unfortunately, what has gone up the fastest also tends to fall the fastest once the correction comes, and passive index investors get to ride those overpriced stocks all the way back down. Active managers, on the other hand, have the option of becoming more conservative in periods when valuations aren't to their liking. This may cause them to underperform in the short-run, but when the day of reckoning finally occurs not only will they outperform, but they'll have plenty of dry powder to use on the many companies whose prices invariably get driven down to unreasonably low valuations.

Both active and passive management styles have their place—depending on the specific time period in question and the individual needs of the client—but today we generally prefer "active" managers, particularly since stocks look quite pricey and market volatility appears to be gaining steam. And after nearly six months of near dead-calm markets, the last three weeks have only reinforced this preference.

THE BENEFITS OF BEING PROACTIVE

With all the talk of rich valuations for stocks, many of you may be wondering what the heck we've been doing to make sure our portfolios are protected from downside risk exposure? And the answer would be that we're doing pretty much the exact same things we've done over the last 20+ years. First, we continuously examine our clients' accounts to be sure they are well balanced across the entire stock market and properly balanced between stocks and bonds. Specifically, we use a Morningstar snapshot to make sure each and every client has the appropriate exposures to each area of the stock market and appropriate exposure to bonds. When necessary, we sell off funds in areas that have become overpriced and use the proceeds to buy funds in areas that have more attractive valuations. What this has generally entailed in recent months is rebalancing out of growth (large growth in particular) and into small and mid-cap managers who focus on value. This has effectively reduced the betas (or risk) of our portfolios overall because value stocks inherently have lower betas (or risk) than growth stocks.

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Second, we've gone out of our way to make sure ALL of our active managers have a consistent track record of protecting portfolios on the downside during a significant market dip (i.e. low downside capture ratios) and/or have a proven track record of rebounding quickly after significant declines. Specifically, we want to see that they have a track record of rebalancing (in a timely fashion) into underpriced stocks or sectors of the market by putting the extra cash accumulated during periods of market excess to work. Right now, we feel really good about our managers and our portfolios looking forward. However, we never become complacent, which means we're always looking for better managers and better mousetraps in an ever-changing global economy.

Of course, proactive management goes well beyond portfolio analysis. A few months ago, we reached out to all of our clients to get their updated client profiles and risk preferences. We purposely mailed out paper questionnaires, because people take more time when they fill them out versus using electronic forms. Goals and objectives also become more tangible when they are written down. Basically, we want to be proactive on every front and be certain nothing has changed in terms of our clients' individual goals and investment objectives.

Over the long term, we know greater stock exposure will trump less stock exposure. However, over the short term we also know volatility is likely to increase. When it does, we want help our clients behave rationally, by rotating more money into stocks rather than away from them. Clients tend remain more composed during market dips when they know they own a well-balanced portfolio of funds with excellent managers that is being proactively managed. And our job as wealth managers is to not only manage our clients' portfolios, but to also manage their emotions during periods of volatility, and keep them from making critical mistakes.

In sum, we recognize that we often sound like a broken record when it comes to our investment process. If you find yourself thinking that, we'll take it as a compliment, because it implies you're reading our updates regularly and they're sinking in. That kind of a comment (which we have heard a lot lately) is music to our ears. Thanks for making our day!!

The Global Economy

A lot of investors like to spend a lot of time examining the economy and economic data, because they believe microeconomic indicators can provide valuable clues as to how the market and the Federal Reserve will behave over the short run. In our view investors should only spend a little bit of time debating these short-term issues. It's not that we deem these issues as being unimportant. They are very important. However, they need to be viewed within the context of larger more important **macroeconomic variables over the longer term**. Why do we focus more on macroeconomic factors? Well, if the proper macroeconomic conditions are in place, we know we have the necessary conditions for our markets to not only grow, but to also thrive. And so long as those factors stay in place, the long-run prospects for both the domestic and global economies (and by extension the stock and bond markets) remain excellent.

As a reminder, the following macroeconomic indicators are those we feel are the most important indicators of future conditions. We'll look at a few of the more recent economic stories making the news within the context of these variables.

Cheap, Abundant Capital

First, one of the most important macroeconomic conditions, which consistently leads to increased economic activity, is the availability of **cheap, abundant capital**. Over the last seven years, the Federal Reserve has engaged in a number of quantitative easing (QE) strategies that have dramatically increased the money supply while also significantly decreasing the cost of borrowing that money (i.e. interest rates). This has helped corporate America improve profitability and it's also benefitted everyone who owns any type of appreciating asset, such as stocks, bonds and/or real estate.

Today, China, Japan, Europe, Australia and a number of other countries are engaging in similar QE strategies. On one hand, this has helped stimulate their economies by reducing their monthly carrying cost burden and by encouraging higher levels of consumption. However, we believe this global QE in creating asset price bubbles in various pockets of the globe. For example, in November 2014 a new law went into effect that allowed capital from Hong Kong to flow unimpeded into China. The result was a 150% increase in the Chinese stock market in just the last nine months. That bubble now appears to have burst and the market is off 30% from its reached in June. Not surprisingly, this has created significant short-term volatility in the Asian markets and has the potential to negatively impact the Chinese economy. To combat this volatility, China has banned "short selling" and prohibited corporate insiders from selling stocks over the next six months. While this sort of government intervention might help stabilize things in the short-run, to establish successful

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capital markets for the long-term China will need to adopt more free-market principals, similar to what Hong Kong has had in place for decades. The bubble…and the inappropriate actions by the Chinese government have us somewhat concerned. Of course, we don't own any Chinese stocks, so we are not directly exposed to their markets.

On the opposite end of the spectrum, we don't believe Greek debt drama will have a lasting meaningful impact on the global economy, regardless of the associated volatility we've seen in the global markets recently. First, Greece is a tiny piece of the overall European economy, with a GDP lower than that of more than half of the states in the U.S. Second, a default was widely expected and largely priced into the market. No respectable economist could look at the Greek financial situation and believe they could extract themselves from the mountains of debt they've accumulated without either a massive default or massive debt restructuring and forgiveness (which is fundamentally the same thing as default). Third, the International Monetary Fund (IMF) and European Central Bank (ECB) have more than enough QE tools to offset a Greek default, so there is little risk of contagion. Finally, in a similar situation, Argentina defaulted on their debt 2001 and the macro effects were minimal. In fact, most of you probably forgot (or even knew) that it ever happened. While the Greek financial crisis will result in greater short-term volatility in the global markets, it will also provide potentially lower "entry points" to invest in Europe and beyond. In this case, QE has helped calm the markets.

In general, a lower cost of capital is good for everyone…in small doses. However, it can easily be overdone and we believe inexpensive capital worldwide is acting to create bubbles in a number of foreign asset markets, particularly China. As a result, we remain somewhat more cautious than normal in terms of our overall asset allocation strategies.

Abundant Labor

The second important macroeconomic variable for any company is an **abundant well-educated workforce**. Today, with the exception of a few very specialized high-tech fields, there is no shortage of highly educated labor. And there are plenty of signs that the U.S. and the global economy are putting this labor to work.

Not a lot of people know this, but there are five economic indicators that DO NOT get revised each month by our government, which is unlike many other economic variables. This means they are more reliable for gauging future economic growth and direction. All five (Initial Jobless Claims, Tax Receipts, ISM Manufacturing Data, Lending, and Vehicle Purchases) are improving and pointing in the right direction and all are related to the labor market in one way or another. Given their continued improvement, we believe the economy is on the right path and this sentiment was echoed recently by Fed Chair Janet Yellen who said "a pickup in the pace of wage gains may indicate that the objective of full employment is coming into closer view". That's good news.

Unfortunately, a highly educated labor force is not translating into greater growth in a number of developed countries around the world, as many European countries remain stuck in the quicksand of high unemployment and low wage growth. A large part of this malaise is driven by demographics, previously promised pensions, and skyrocketing health care costs, which have overwhelmed potential growth. These legacy costs are akin to the problems faced by Detroit, only on a much larger scale. Greece is the country making headlines because they're in the worst shape, but other European economies like Spain, Italy, and Portugal are likely years away from any positive real growth in their domestic economies. Of course, a number of underdeveloped countries are riding a new wave of growth, primarily because they are not saddled with the massive amounts of legacy debt burdening some of the developed European economies. Specifically, they are using inexpensive capital and an educated labor force to consistently grow their economy by raising the standard of living for their people. Many examples of this can be seen in a number of African, Asian and South America countries.

Technology

The third important macroeconomic variable is **Technological Innovation**. Technology has been a double-edged sword for every economy on the planet. On one hand, it is changing every industry by reducing costs and making processes more efficient and productive. In fact, one of the primary reasons we're currently seeing growth with almost no inflation is because technology continues to reduce production costs for virtually everything we consume. Unfortunately, greater efficiency also comes at the cost of jobs, particularly unskilled labor. Today, nearly every job has come under pressure, as computers answer our phones, drive our cars (which were largely built by robots) and process our orders. For example, with new twins (in the Kiely household), we have very little time to go downtown and shop. Enter Amazon, Etsy, Diapers.com,

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and Blue-ridge-to-go. With a few mouse clicks things we need magically show up at our doorstep. So, on one hand jobs are being eliminated from brick and mortar stores. On the other hand, more drivers are needed and jobs are being created at companies like UPS and Fed Ex…at least until drones become the norm.

The only constant in the face of technological innovation is "change"…and if you think about he last twenty years, we've seen remarkable change in every single industry. Twenty years ago, I was a professor at ECU. We used to use computers to write papers and conduct some basic research. Search engines and robotics existed, but they were relatively unknown. Today, only twenty years later, computers and robotics drive every industry in some way. In past updates we've discussed Moore's Law, which states: "processing speeds or technological power will double every two years, while costs approximately half". Moore himself has blessed this term and he believes his law will continue to be valid for at least two more decades! Two more decades!! As we look out into the future, we know technology will have a significant impact on every industry, and we know there will be huge winners and many losers. This is precisely why we believe in using active managers, who have the ability to figure out the winners and losers before the broader markets and broader markets participants do.

The Flow of Capital across Markets

The fourth important macroeconomic variable is **the flow of capital across markets**. We're surprised when we hear people warn that we're in danger of becoming a "socialistic economy" or that the global economy is headed in the wrong direction. The truth is, the size and momentum of the global capitalistic economy is well beyond the point of ever going back. Capitalism is global and citizens around the globe now know the benefits of living in a market-driven economy—which means they're not about to go back to a life under socialist rule. This isn't to say that the world is a perfect place or that the transition to capitalism has been easy. It's not; and it never is. Like anything there will be growing pains, but barriers to capitalism are continually being eliminated and more and more people are learning what it is like to live in an open-market economy with no limits on what can be achieve with a little hard work and ingenuity. Today, the Internet, Micro-financing, global demand, and companies like PayPal have basically eliminated borders and the barriers they used to represent. With the free flow of capital (and information) anyone can join the worlds market driven economy. That's much more powerful than many people realize.

On the corporate level, the free flow of abundant capital has resulted in more merger and acquisition (M&A) activity than ever before. The biggest mergers make the headlines, but it's the smaller ones behind the scenes that materially impact our portfolios. Companies like Apple, Google, Sony, Microsoft, Facebook and others are buying up smaller private companies that have incubated unique technologies and efficiencies that they can better-utilized by larger firms, taking advantage of their massive economies of scale. This M&A activity is all possible because of the unimpeded flow of capital across financial markets.

Global Growth

The final important macroeconomic variable is the **global growth rate**. As long as the world economy grows at a rate above 3%, corporate America will be not only do fine, but it will thrive. Recently, the International Monetary Fund (IMF) reduced its estimate for global growth to 3.3%, which caused some jitters in the financial markets. The reduced estimate was primarily driven by the slowdown in China. Over the last few years, China has made a concerted effort to be more consumption oriented and less dependent on exports. We believe this calculated move is smart over the long term. However, nobody should think this transition will not be without some normal bumps in the road.

Overall

Over the last few months, Greece and monetary policy have made most of the headlines. We believe the issues associated with Greece are largely overblown and already priced into the global financial markets. In general, the vast majority of the financial community agrees. However, there tends to be less agreement over Federal Reserve Policy, which we find a little surprising. The Federal Reserve is run by some of the best and brightest economists on the planet and due to the unique structure of the Fed, they are able to act in the best interests of the country and the economy. In addition, given their independence, they are free from political influence in Washington, which is known for its gridlocked and dysfunction.

Since Fed governors are not driven by political or personal agenda, they will vote to raise interest rates when they think the economy can handle higher rates…and not a moment sooner. So, when they do eventually begin to raise short term rates, they'll do so because they think it's in our best long term interest. For those of you who remain skeptical about the Fed, please look at your portfolio return over the last seven years be thankful for the Fed and their independence from the political process. They prevented a complete collapse of the global financial system and saved the domestic economy while gridlock and infighting rendered our politicians helpless to do either.

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In total, we're not overly worried about the health of the economy or corporate America. We are somewhat concerned with the current level of asset prices, especially domestically. We believe a healthy dip would be just what the doctor ordered and we believe it would usher in a round of new all-time highs as corporate earnings and cash flows catch up to share prices. Why do we believe the financial markets will hit all time highs again? There are five (really six) reasons They are: Cheap abundant capital; A highly educated and mobile labor force; Moore's Law; The free flow of capital: And, global growth. As long as those remain in place, our markets and the world economy will be just fine long term. Of course, it helps to have an independent group of highly educated people running the Federal Reserve. And it really helps when the leader of the Federal Reserve is Janet Yellen.

THE STOCK MARKET

It's hard to believe, but the current bull market rally is now 76 months old. From the market lows experienced on March 9, 2009, all nine of the stock market style indexes have increased more than 250% from their lows. To say this has been an incredible run is something of an understatement, but it has not come without some significant pullbacks—in 2009, 2010 and 2011. Unfortunately, large caps stocks (as measured by the S&P 500) have not experienced a normal 10% dip in over 1,350 days now, which also has us a little concerned. On the other hand, small cap stocks (as measured by the Russell 2000) have experienced a 10% pullback each and every year since 2008, including two such pullbacks last year.

In previous updates, we have written about how large company prospects are driven more by the global economy, while smaller companies are driven more by the domestic economy. Over the last year, the global economy has slowed significantly, while the US economic has accelerated, giving small cap stocks an advantage in the current environment. In addition, the Federal Reserve has stopped the bond buying associated with quantitative easing (QE), while foreign economies have instituted their own QE strategies. Combined, this has served to significantly strengthen the U.S. dollar. As the dollar gains strength, domestic companies who export goods and services see the cost of their product to overseas customers rise, making them less competitive globally and forcing them to slash prices and sacrifice profit margins. Again, since smaller firms are less likely to be involved in the global export market, this creates a relative small cap advantage. Of course, we also know that large caps have gone nearly four years without any real volatility, and this can't last. So, it should be comforting to know we have been rebalancing into small cap stocks for over a year now, following last year's large cap run-up.

The Numbers

Given the broad economic synopsis above, it should come as no surprise that large cap stocks (S&P 500) have barely moved since the beginning of the 2015, up just 0.2% on the calendar year, while small cap stocks (Russell 2000) have gained more than 4.0%. When we examine each of the nine stock market style indexes a similar pattern develops where small and mid caps have rallied much more than large caps. What's surprising is the rally has taken place on the growth side of the equation, with small cap growth leading the way by increasing a robust 8.74% through mid year.

Russell Index Performance
YTD through 06/30/2015

Value	Blend	Growth	
-0.61%	1.71%	3.96%	Large
0.41%	2.35%	4.18%	Mid
0.76%	4.75%	8.74%	Small

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

1-Year Russell Index Performance
year ending 06/30/2015

Value	Blend	Growth	
4.13%	7.37%	10.56%	Large
3.67%	6.63%	9.45%	Mid
0.78%	6.49%	12.34%	Small

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When you examine the longer-term five year annualized returns, you can see the long-term averages look much more balanced, particularly if you deduct last year's significant difference. Over the last few years, larger growth oriented stocks have been leading the way. This is why we do not attempt to predict which area of the stock market will do well form year to year. Instead, we let the markets natural ebbs and flows tell us how to rebalance. This strategy is much more productive and less risky, since we don't have to predict which area of the market is going to do well from year to year.

5-Year Russell Index
Performance ending 06/30/2015

Value	Blend	Growth	
16.50%	17.58%	18.59%	Large
17.73%	18.23%	18.69%	Mid
14.81%	17.08%	19.33%	Small

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

15-Year. Russell Index
Performance ending 06/30/2015

Value	Blend	Growth	
6.88%	4.68%	2.19%	Large
10.84%	8.71%	4.47%	Mid
9.87%	7.50%	4.84%	Small

20-Year. Russell Index
Performance ending 06/30/2015

Value	Blend	Growth	
9.51%	9.14%	8.25%	Large
11.55%	11.13%	9.56%	Mid
10.33%	9.15%	7.48%	Small

Overall

Overall, we see very little on the horizon (from an economic perspective) that concerns us about the future. Our economy is stable, corporate American remains lean and highly profitable, and the U.S. is growing faster now than it has since the recession. In addition, the employment picture continues to improve, energy is cheap, the cost of borrowing is low, and inflation remains below the Fed's target inflation rate. As long-term investors, we remain optimistic and believe that as long as you stay well-diversified, use top-notch managers, proactively rebalance, and control your emotions, the investment future is bright.

BOND PORTFOLIOS

The performance of an equally-weighted portfolio of KWAG core bonds is displayed in a table on the following page. As we've discussed in the past, this portfolio is purposely constructed with different types of bond funds, spanning a broad swath of the fixed income spectrum. This diversified approach is designed to perform well in a variety of bond market environments, with safety of principal as the prime concern. As shown in the table, this diversified approach has significantly outperformed the broader bond market indexes over time.

Please note that we use this table ONLY as an example of how a well-diversified fixed income portfolio should work. It's important to stress that each client's fixed income portfolio is tailored to their specific needs and may differ from the composition of the portfolio shown below. It is also important to point out that our bond portfolios should be viewed in total, rather than as individual funds. We know some parts of the portfolio will underperform in certain environments while others will outperform, and this is the impetus behind building a diversified fixed income portfolio for our retirees.

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Each advisor at KWAG uses the "core" portfolio as a starting point, and makes adjustments based on the specific needs of each individual client. Clients with a greater need for current income will hold more conservative fixed-income portfolios, which will have lower volatility (downside risk) at the expense of somewhat lower long-run returns.

Clients who are still working or are not currently taking distributions will tend to have more aggressive fixed-income portfolios, which are designed to generate higher returns at the expense of greater exposure to downside risk. All of our clients typically have a portion of their portfolio allocated to multiple bond funds. The weights of each piece are adjusted according to your specific situation, taking into account your age, income needs, risk tolerance level and any other relevant factors. Clearly, more aggressive holdings like NEFZX and ANNPX have had higher returns over the past three and five years, which is why many investors naturally gravitate towards them. However, keep in mind that both of these more-aggressive funds come with higher downside risk, which is why we like to hold them within a well-diversified portfolio to help offset their higher degree of volatility.

KWAG CORE BOND FUNDS

KWAG Core Bond Funds	2015 YTD	2014	2013	2012
Oppenheimer Floating Rate (**OOSYX**)	1.98%	0.79%	6.70%	8.75%
Allianz Convertible (**ANNPX**)	4.94%	6.68%	25.58%	11.96%
Loomis Sayles Strategic (**NEFZX**)	-1.90%	5.65%	10.87%	13.56%
Metropolitan West Total Return (**MWTIX**)	0.04%	5.99%	0.50%	11.54%
Doubleline (**DBLTX**)	1.10%	6.73%	0.02%	9.16%
Average Fixed Income Return	**1.23%**	**5.17%**	**8.73%**	**10.99%**
Barclays US Aggregate Bond Index	-0.10%	5.97%	-2.02%	4.21%

***Note**…we swapped out PTTRX for MWTIX at the end of the third quarter, 2014.

If the recent bout of interest rate volatility taught us anything about our bond portfolios, it's this: patience, diversification, and sound investing fundamentals matter. When you examine the big picture within the context of what has happened over the last few years, our biggest takeaway is that we have an excellent mix of bond funds and bond fund managers, and we believe they will be able to weather any type of future interest rate environment. In addition, a diversified portfolio of bond funds provides an attractive alternative to holding cash, CD's and/or a money market account, since they're liquid, safe and provide a significantly higher rate of return than other low-risk alternatives. If you are holding significant amounts of cash due to concerns over safety, you can see why it would make sense to hold a well-diversified portfolio of high-quality bond funds instead.

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Compliance Note: Identiity Theft

Usually, at the end of each newsletter, we take some time to answer a few of our client's questions. This quarter, most of the questions revolved around China, Greece and the recent market volatility, which we have thoroughly addressed above. One of the questions we did not address was the issue of cyber-security hacking and identity theft. With each passing day these threats become more challenging.

At KWAG, we take every precaution to protect your accounts and keep you updated on this ever changing part of our world. Last year, we sent out a special CyberSecurity mailing in our newsletter and wanted to take time to touch upon some of those items again. Basically, we wanted to provide a brief update on some common sense measures that WE are taking and some of the common sense measures YOU should take to make sure your personal information is kept safe and secure. As you know, there are plenty of underhanded people out there who want your personal information.

Safeguarding Against Identity Theft

Protecting yourself from identity theft starts with making sure that your personal and financial information is not shared. Data such as your name, address, social security number and account information is valuable and should not be made accessible to others. Below are several tips that we have put together (along with TD Ameritrade) to help safeguard your private information from the worlds fastest growing cybercrime - identity theft.

- Do not share or write down online account information, including your log-in details such as websites, user names and passwords.
- Avoid accessing your account from public computers, networks, and smartphones. This includes accessing them from internet cafes, libraries, hotels, and more.
- Always log off and close your browser after accessing your account online.
- Always make sure emails are from trusted sources. So, do not click on emails you do not know the sender or emails with embedded links.
- Keep up-to-date with your antivirus and computer security software. The internet security landscape is constantly evolving. Make sure you are up-to-date!
- Create a strong password to protect your wireless network, emails and online accounts.
- Remember your smart-phone is also an avenue for identity theft hackers!

Your account is always protected at The Kiely Group and TD Ameritrade. We have strong protocols in place to ensure the safety of your accounts daily. We have made it virtually impossible for your accounts to be taken advantage of by hackers. We do ask that you keep up-to-date on the issue and that you notify us immediately of suspicious activity on your account.

For more information on privacy and safeguarding your account, please request a copy of our privacy flyer and safeguarding tips. Again, if you ever have suspicious account activity or concerns, please contact me or your advisor immediately! Our team is dedicated to the privacy and safety of your accounts always. Thank you for your continued confidence in our firm!

-Katie Burr
Email: katie@thekielygroup.com
Phone: 252-439-1888

A Final Note

As usual, 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.

Enjoy the remainder of the 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.*

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.*

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).*

Please Remember: *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.*