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

Over the last few years, we have frequently shared our perspectives on the surprising strength of the global economy. Our perspectives have been aided by a variety of factors, including low interest rates (or low capital costs), a better-educated yet relatively low-cost workforce, increasing productivity from technological advances (Moore's Law), the birth and expansion of new market-driven global economies, the free flow of capital across economic borders, and a growing global middle class. Together these various elements leave us feeling optimistic about the global economy over the next five and ten years. As long as these factors persist - and at present there's no reason to think they won't - we will continue to remain optimistic about the global economy and, in turn, the long-term prospects for investors and our well-diversified portfolios.

In contrast to the longer-term macro perspective, investors often tend to focus more on the randomness of short-term market movements and the crisis of the moment. Events like increased market volatility, Argentina's debt, Afghanistan's politics, continuing clashes in the Middle East and Ukraine, and drone strikes. Of course, just when it looks like things can't get worse, the Ebola epidemic starts to spiral out of control in West Africa, threatening to spill over into Europe and North America. While all of these events are important, it's critical to recognize they are mostly transient. In the vast majority of cases, will have very little impact on the long-term health of the US economy or on our well-diversified portfolios.

Some Much Needed Perspective

One year ago, as the broader markets were hitting all-time highs (almost daily), we wrote about how we spend most of our time thinking about the things we can control, which leaves short-term volatility, global politics, drone strikes, the Ebola virus and almost every other short-term nightly news story completely out of the equation. Instead of focusing our efforts on government deficits and/or partisan politics, we focus on things like strategic long-term asset allocation, maintaining proper diversification, manager selection, and proactive rebalancing strategies, which take advantage of expected normal stock market dips. Over the last few decades, we've learned that the things we can control - **like sticking to a disciplined long-term investment strategy** - have the biggest impact on our portfolios over time. Of course, we know financial markets could experience a pullback at any time and recognize that a sudden sell-off can be triggered by any number of events. However, since no one can predict if or when these events will actually occur, making portfolio adjustments

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PLEASE EMAIL KATIE WITH ANY QUESTIONS YOU MAY HAVE AT katie@thekielygroup.com prior to the event would be purely speculative and frequently detrimental. Just ask the "market timers" who have continued to hold onto wads of cash over the last few years, while waiting for a 10%-15% large cap market dip that has yet to occur. They've missed out on one heck of a stock market rally.

So, while we know we can't predict when short-term volatility will spike upward, we know that at some point it will happen, which is why we have a proactive plan in place to take advantage of it. Unfortunately, most individual investors react to each event as they occur, rather than planning for them in advance, making it very difficult to avoid getting swept up in the emotion of the moment. Since they are so focused on the here and now, they typically view short-term volatility as a bad thing, when in fact (if embraced correctly) it can actually be beneficial.

Mean Reversion: Volatility

Over the last few months, we've come across a number of articles in popular financial publications discussing the increased volatility of the S&P 500 this year. While volatility has spiked up recently, it's important to remember that what we're observing and experiencing now pales in comparison to what we saw just a few years ago. Between January 2009 and December 2011, the S&P 500 index of large cap stocks experienced 75 trading days where it either rose or fell by more than 3% in a single trading day. Now that's volatility! Since that time, that type of significant 3% daily volatility has not occurred once. Additionally, over the last nine months (through the end of September), we can only remember one or two trading days where the S&P 500 has moved by more 1% in either direction. As we've been saying for a couple of years now, the calm we've been experiencing in the broader financial markets has been extremely unusual. Clearly, a spike in volatility has been long overdue, and it appears we're finally seeing that expected spike occur.

As a reminder, for almost two years now, we've been warning that the lack of volatility was only temporary. This is precisely why the increase in small cap volatility and the ensuing 10% dip in small caps didn't surprise us. What surprised us, was how long it took to finally occur. The good news is, we've used the expected dip to rebalance portfolios from large-cap stocks to small-cap stocks and between value and growth. If large stocks end up experiencing a normal 10%-15% dip, we will gladly rebalance out of our fixed income portfolios into large cap stocks while they are on sale.

Our view has always been consistent, where we believe high short-run volatility provides significant opportunities for long-run investors. Over the long haul, we know financial markets trend upwards, with many short-term dips along the way. Therefore, dips should be viewed as buying opportunities, allowing investors to pick up healthy, well-run companies while they are on sale. Even though most people don't see it this way, rational, long-term investors should embrace normal short-term market dips with open arms. In fact, if you're regularly contributing to an IRA, 401 (k) or any other type of investment account, you should be happy to see regular short-term dips, since they allow you to pick up more shares with your monthly contributions at lower prices. Yet most investors treat short-term market dips (or buying opportunities) like they're the plague. That's unfortunate and short sighted, since normal dips provide the biggest and best opportunities!

In Sum

At KWAG, we've been looking forward to a typical stock market dip for a while now, and had grown a little weary of waiting for another excellent buying opportunity. If you feel sad or depressed when you see your portfolio values go down for a few months…try to remind yourself that your fund managers and we at KWAG use every dip as an opportunity to rebalance and to buy attractive stocks on the cheap. People love buying things like gas, groceries, clothes and alcohol on sale, yet for some reason they avoid buying stocks unless they're fully priced. Go figure…

It shows you how shortsighted, emotional, and irrational investors can be.

Mean Reversion: Stocks

Over the last few months, stock market volatility has returned to the small cap sector of the stock market and has provided a very attractive opportunity…just as we predicted. If you have been following the stock market closely, you know the Russell 2000 (small company) index experienced its second 10% peak-to-trough correction of the 2014 calendar year. This second correction has pushed the Russell 2000 index down to a -5% YTD return, which is almost 13% behind the S&P 500 (as of September 10, 2014). History and behavioral financial research tell us that many investors will avoid this small cap opportunity like it's the Ebola plague, but we won't make the same mistake. In fact, we (and our team of active managers) have been rotating out of large caps into smaller cap stocks for over a month now, as the gap between small and large caps has widened and small caps have become underweighted in many of our portfolios. In addition, a number of our managers have been increasing their cash positions throughout the year, citing a lack of things they were excited about buying. With valuations now much more attractive, they're beginning to put some of that cash to work. There are a plethora of common sense reasons why we have

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pro-actively rebalanced our portfolios into small-cap stocks, but for our purposes, two reasons stand out.

First, historical market data shows that over longer periods of time, small cap stocks outperform large cap stocks by a significant margin. For example, over the ten years prior to 2014, small cap stocks as measured by the Russell 2000 outperformed large cap stocks (S&P 500) by more than 3% annually. In addition, over longer periods of time, the difference between large growth stocks and small value stocks is closer to 6% annually. Finally, over the last fifteen years, every time small caps have underperformed large cap stocks over a single calendar year (i.e. 1999, 2002, 2007 and 2011), they have subsequently rallied and outperformed large caps by a substantial margin in the ensuing years. Each of these deviations from the longer term averages were short lived, so to capitalize on the inevitable "mean reversion" you need to act quickly.

Second, large cap stocks tend to be more dependent on the global economy, which currently appears to be slowing, while small caps tend to be more dependent on the domestic economy, which continues to gain steam. For example, over the last few years the European economy has essentially been at a standstill and most European countries, Germany included, expect to see negative GDP growth in the fourth quarter of this year. In contrast, the US economy has been growing steadily and GDP growth peaked at 4% in the second quarter of 2014. Although we believe that 4% number is probably an outlier due to pent up demand following the unusually harsh winter, it's still an impressive number and signals a strengthening of the broader domestic economy. In addition, in September the US economy added 200,000+ jobs to the economy for the sixth month in a row, driving unemployment down below 6% for the first time since the recession. This job growth has increased much faster than even the most optimistic economists expected. And it's had a profound impact on manufacturing, where 15 of the 18 reporting industries are showing growth or are in expansion mode. Finally, there is still no sign of any broad based inflation, which allows the Fed to keep interest rates low indefinitely. This data (along with a number of other positive economic indicators) collectively supports the idea that the domestic economy - and small caps by extension - should thrive over the next five to ten years. And, we haven't even factored in the energy renaissance that is occurring across this great country of ours.

This is why we (and our managers) have been embracing the recent bout of volatility by pro-actively rotating into small cap stocks. They represent a bright future for America and our conservative investors.

Mean Reversion: Interest Rates

Since 2009, the Federal Reserve has engaged in a number of strategies designed to keep both short-term and long-term interest rates well below normal levels. The goal behind these moves was to jump start the post-recession economy and provide individuals, corporate America, and the US government with an opportunity to refinance their current debt and issue new debt at very attractive interest rates. The good news is, these goals have been accomplished and the US economy is now on solid footing. In addition, public sector and private sector balance sheets are much stronger than they were five years ago. The bad news is, the last of the Fed's bond purchases from their revolutionary quantitative easing (QE) program - which was designed to keep intermediate and long-term interest rates low - finished up this past month. In other words, we're getting ever closer to seeing longer-term rates begin to rise and revert back to the "mean", or more normal historic levels. On the other hand, the Fed has expressed no intent to begin raising short-term rates anytime soon, believing the extra stimulus is still needed to keep economic growth on track, particularly in light of the slowdown we're currently seeing in Europe.

For several years now, we've been saying that the period we're currently in is as challenging as it's ever been for fixed income investors, but we've also stressed that this doesn't mean investors should abandon bonds and bond funds in their portfolios, since they play vital roles in reducing risk (i.e. volatility), generating safe short-term cash flows, and acting as reservoirs of capital to take advantage of normal 10%-15% stock market dips.

If you're a long-time reader of our newsletters you know that we began talking about the dangers of rising interest rates way back in 2011. However, until last year we had yet to see any meaningful upward momentum. **The key thing to recognize about interest rates is that everyone knows they will eventually go up - but no one knows when!** This uncertainty in timing creates difficulty for investors and bond fund managers alike, at least over the short-run and is precisely why building well-diversified, all-weather portfolios is so important. While we occasionally make incremental changes to our portfolios based our expectations for the future, we never deviate from the long-term fundamentals of diversification and strategic asset allocation.

Over the last few years, as interest rates have shown signs of stabilizing and beginning to inch back up we've stressed the importance of diversification across the ENTIRE fixed-income spectrum. Specifically, our conservative core bond strategy involves a number of pillars, each critical in

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achieving the kind of diversification benefits we're looking for. Holding a variety of dissimilar fixed-income securities is key, because each asset type reacts differently to specific economic events. For example, some fixed income securities are more sensitive to the stock market moves, while others are more sensitive to changes in interest rates. A well designed fixed-income portfolio is a single entity comprised of many interlocking parts, and care needs to be taken to avoid focusing on the performance of any single piece in the mix over a short period of time. Each fund (or fund manager) in a properly constructed portfolio fulfills a specific role within a specific market environment, making the whole greater than the sum of its parts.

In essence, proper fixed income diversification is paramount in today's world.

Unfortunately, the vast majority of fixed income investors have come to believe that their fixed income portfolios ARE well-diversified, since they have observed positive returns in their portfolio during the 2014 calendar year. They have all but forgotten the important lessons of 2013, when interest rates suddenly spiked upward. This false sense of security has been driven by a short-term downward trend in interest rates throughout most of 2014, which we know will NOT last. Eventually, interest rates will revert to the mean, moving back toward their long-run historical averages. And when this occurs, the effects on an undiversified "interest rate sensitive" fixed income portfolio can be devastating. Don't forget, all "interest rate sensitive" bonds lost money during 2013, and those bonds with longer maturities (or bond funds holding them) lost as much as 9%.

This is why we construct well-diversified portfolios of bonds, using the best money managers we can find in each area of the bond market. By emphasizing shorter maturities, greater diversification, and broad-based flexibility, our clients are exposed to far less potential volatility and greater upside return in their fixed income portfolios going forward.

Mean Reversion: Our Managers

Occasionally, we'll get a question about one of our managers (or mutual funds) who is experiencing an off quarter and/or an off year. We understand why the question gets asked, since everyone loves a winner who beats their benchmark every quarter or every year. Unfortunately, there is no such thing as a perfect manager or a perfect investment. Even the best managers (like Warren Buffet) and the best strategies (that embrace the entire stock market) will face periods where they underperform. These periods require both patience and conviction. After all, we've purchased these managers knowing that they will occasionally have an off quarter or year. We typically use those off periods as buying opportunities, while impatient investors do the exact opposite.

Some Perspective

Keep in mind it's the long-term (10-15 year) track record of the manager that allows us to separate the skilled managers from the merely lucky. Anyone can get lucky over a period of a few years, but over longer periods random luck eventually runs out…while skill lasts. That said, every manager experiences short-term periods of under-performance. During those times. good managers stick to their guns and continue to have conviction in their processes and strategies that have proven successful over the long run. Frankly, this is exactly why we hire them. We realize many investors frequently become myopic and dump a manager as soon as they underperform for a quarter or two. However, reams of academic research show that investors who do this are the ones who perform the worst over time. Had they stayed put with good managers instead of chasing what was hot they would have fared much better. In other words, investor impatience has indisputably been shown to come back to bite/haunt you.

This is particularly true at the end of significant stock market rallies, when market indexes (like the S&P500) look much more valuable than the sum of their respective parts. As you know, we prefer using active managers over passive indexing for a number of logical reasons. First, all of the most popular indexes are value-weighted, which means only a small number of larger companies drive the index's returns. Today, many of those larger companies - which have driven the broad market indexes to record highs in 2014 - appear to be overpriced. We would rather hold a well-diversified portfolio that protects our clients on the downside versus a passive index that holds a slew of overpriced stocks. Second, when bubbles develop in the financial markets, the more diversified your overall portfolio is, the better off you will be. Active managers today are able to better diversify than the well-known stock market indexes, making active managers a much more attractive (and safer) option in our eyes. Third, good managers don't chase recent performance. They recognize that last year's winning stock is often next year's loser. Indexes, on the other hand, don't have a choice in the matter. They have to hold last years overpriced stocks. In other words, indexes by construction, are forced to hold ever larger pieces of recent winners and by extension are forced to ride those winners back down when prices correct. Active managers can simply sell the winners. Finally, active managers don't like to take unnecessary risks.

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On the other hand, indexes by construction, are less diversified, can't rebalance, and are dominated by their largest holdings. All three can be recipes for disaster.

If you look over the course of history, passive indexes typically outperform active managers at the end of significant stock market runs. They do so because of their concentrated positions of a small number of stocks. Unfortunately, this is also when indexes like the S&P500 resemble and often behave like ticking time bombs when normal market dips occur.

Additional Perspective

Over the last 20 years, we have had three specific periods where the stock market has increased significantly (1995-1999, 2003-2007 and 2009-2013). Of course, we have also experienced two significant selloffs (2000-2002 and 2008). During the first significant selloff, from 2000-2002, the financial markets experienced what is often referred to as the "tech wreck". Well-diversified portfolio's that embraced the entire stock market and savvy active managers fared much better than the S&P 500, which was weighed down by overpriced "tech" stocks. In fact, because of the value-weighting scheme used by the indexes, by the end of 1999 the S&P 500 had become alarmingly over-weighted in tech stocks, which by then accounted for nearly 40% of the overall index. Even worse, virtually no one knew it. As a result of the tech overweighting, the index lost nearly 50% of its value between 2000-2002, riding those tech stocks all the way back down. On the other hand, a diversified portfolio that embraced all sizes and styles of stocks would have lost only lost half as much.

Then in 2008, the entire stock market experienced a three week selloff where stock indexes lost up to a third of their value, with some individual stocks losing significantly more. Because passive indexes can't actively rebalance, they were unable to take advantage of the large number of irrationally underpriced stocks, that the wave of indiscriminate selling had created. Active managers on the other hand, could capitalize and they scooped up hundreds of bargains at once-in-a-lifetime prices. This is why a number of active funds have trounced passive index funds over the last five and ten years. Today, we don't believe the stock market (as a whole) is in a bubble, but we do believe that many of the recent winners are significantly overpriced and are therefore overdue for a normal correction. This is why we believe a well-diversified portfolio of active fund managers gives us the best chance to weather any potential storm, and take advantage of underpriced companies after the inevitable storm takes place.

In Sum

Our long-term investment philosophy is driven by academic research, long-term market trends, and a disciplined investment style. We call this approach "Evidence Based Investing". However, even we recognize that there will be some time periods when active managers take one on the chin versus passive indexes. It's simply part of the long-term process. After all, even the great Warren Buffet has underperformed his benchmark from time to time. For example, in 1998 and 1999, Buffet avoided tech stocks (as he still does today) finding them too difficult to accurately value. So if you examined his returns over that period and compared them to the S&P 500, you might have easily concluded that Warren had lost his touch. In fact, many people believed the "new age of technology" had passed Warren by and his value-oriented style of investing was written off as obsolete by numerous financial gurus. However, between 2000-2002, as tech stocks were getting crushed, those same people wished they had followed the fundamental tenets of someone like Warren Buffet instead of buying into all the hype surrounding tech.

This is why we prefer pro-active managers with excellent long-term track records to passive indexing. They provide perspective during bubbles and protection during busts.

We don't profess to know what will happen to the financial markets over the next six months to a year. No one does. However, what we do know is that over the long -term stocks will go up, as they've always done. We also know small caps will go up more than large caps…interest rates will eventually rise… volatility will ebb and flow…and far too many investors will let their emotions get the best of them and wind up making some pretty terrible short-term investing decisions. We know these things because the evidence shows that over time, markets revert to the mean. There are precious few inviolable rules in investing, but reversion to the mean is one, and it's one we'll continue using to our advantage for as long as we're fortunate enough to be managing money. In the meantime, we'll use the inevitable short-term aberrations that cause so many investors to temporarily lose their heads as opportunities to rebalance our long-term portfolios - calmly and rationally.

As we have said many times "Investing is easy…it's behaving like an investor that's the difficult part."

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The Stock Market

At the risk of sounding like a broken record, the bull market rally (at least in the large cap space) is now entering its sixty-seventh consecutive month. From the market bottom on March 9, 2009, all segments of the stock market have exploded upward, led by mid-cap value, which is now up a more than 300% since that time. Even the worst-performing area of market, large cap growth, is up an impressive 231%. This has been amazing run but has not come without some significant (and healthy) pullbacks in 2009, 2010 and 2011. As of this writing, we have now gone more than 1,100 days (more than three years) without a normal 10% dip in large cap stocks - which has some investors (including us) a little concerned. On the other hand, we have already experienced a number of healthy 10% dips in the small cap space, including two so far this year.

At the beginning of this year, we made a case for why we were optimistic about the stock market over the long -run. However, we also provided a variety of valuation measures that mostly indicated the stock market was "fairly" priced, at least in the near-term. Then, we "boldly" predicted that the stock market could finish the year in either positive or negative territory, which would depend primarily on future earnings and cash flows. The first quarter of this year validated our noncommittal stance on stock direction, as stock prices vacillated back and forth across their 2013 year-end values, with every style box eventually finishing the quarter up modestly.

The first six weeks of the second quarter further reinforced our views as the Russell 2000 small cap index experienced its first 10% peak-to-trough dip in several years. Over the same period, the S&P 500 index (large cap stocks) managed to remain in positive territory - although just barely - reaching a point where it was up just 1% for the year. As of mid-May, the stock market appeared to lack conviction in either direction, until a slew of positive economic data came out, led by data indicating significant job creation. From that point, all segments of the stock market rallied through the end of the second quarter.

The third quarter has been a completely different story, with someone seemingly flipping a stock market "on" and "off" switch at the beginning of each month. In July, both of the broader indexes we follow trended downwards, but at different speeds. The S&P 500 (large companies) slowly dropped 1.5%, while the Russell 2000 (small companies) fell 6%. In August, the market switched back on and the S&P 500 rallied 3.7%, hitting a number of all-time highs in the process, with the Russell 2000 rallying 4.8%. In September it was the off switch again, as we saw a repeat of July, with the S&P 500 again dropping 1.5% and the Russell 2000 falling 6%.

For the entire quarter, the S&P 500 increased 0.6%, while the Russell 2000 dropped 7%. Frankly, we don't see this as a bad thing as it provided a nice rebalancing opportunity. For the quarter, large growth stocks led the way (yet again), while small cap value was the biggest laggard. In the table below, the divergence between large and small cap stocks in the third quarter is quite clear.

Morningstar Category Average
3rd Quarter 2014

Value	Blend	Growth	
-0.55%	-0.08%	0.68%	Large
-3.42%	-3.33%	-2.29%	Mid
-7.14%	-6.75%	-5.80%	Small

We regularly discuss the well-documented "value" and "size" premiums that have existed throughout the history of the stock market. In the third quarter, growth stocks outperformed value stocks, and large caps outperformed small caps by fairly wide margins. Both of these results run counter to the long-run trend, which we believe provides the sort of significant rebalancing opportunity that may occur only once a decade or so.

Morningstar Category Average
YTD through 09/30/2014

Value	Blend	Growth	
6.38%	6.33%	5.40%	Large
4.13%	3.00%	1.63%	Mid
-2.67%	-3.22%	-4.99%	Small

When you examine small-cap stock performance over the first three quarters of the year, it's clear they have underperformed both their large and mid-cap peers. Even though small stocks tend to outperform over longer periods, they can (and do) sometimes trail over shorter periods, providing proactive investors a good opportunity to rebalance. As we mentioned earlier, small cap stocks have experienced two healthy 10% dips this year. For those clients whose portfolios had become underweighted on the small cap side, we have used these recent moves as an opportunity to rebalance into small caps.

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Examining the one-year and three-year periods, there is no evidence of the well-known "size" or "value" premiums. As we've said before, this can happen occasionally and is why we prefer to equally weight our portfolios across the entire size and style spectrum rather than simply overweighting smaller stocks and/or value stocks. By equally weighting, we're not betting on which asset class will outperform in the near term, but are instead letting the market determine that for us. Then, when one sector has outperformed we rebalance, meaning we sell some of what's been hot recently (larger stocks and growth stocks at this point) and buy what's on sale (smaller stocks and value stocks).

1-Year Annualized Morningstar Category Avg. Performance ending 09/30/2014

Value	Blend	Growth	
16.35%	16.84%	16.24%	Large
13.56%	12.20%	10.05%	Mid
6.31%	5.66%	2.78%	Small

Market pundits like to cite periods where the longer-term size and value trends are reversed as evidence that such "premiums" no longer exist, but they clearly haven't done their research. Academic studies show very convincingly that over longer periods, small stocks beat larger stocks and value stocks beat growth stocks. In addition, this research shows this has occurred throughout the entire history of financial markets—and not just in this country, but in every country that's ever been studied. We believe this overwhelming evidence is worth repeating again. "**The research shows this phenomenon has occurred throughout the entire history of financial markets—and not just in this country, but in every country that's ever been studied!"**

In the first quarter newsletter we included a table examining stock market returns over the last four-plus decades, or since 1970. The evidence behind a "value" and "size" premium in that table is overwhelming. Over the last few months, we've started to observe a significant shift from growth back into value, which is why we believe it's just a matter of time before small caps also revert to the mean and once again begin outperforming large caps.

3-Year Annualized Morningstar Category Avg. Performance ending 09/30/2014

Value	Blend	Growth	
21.41%	21.59%	21.28%	Large
22.86%	21.86%	20.14%	Mid
20.98%	20.91%	20.06%	Small

Even when you factor in the recent small cap dip, the three- and five-year stock market style index returns are well above the long-term averages. In addition, they show how remarkably resilient the stock market and American companies are. In 2008, people were worried about facing the next Great Depression. Yet, the stock market reversed course – like it always does – and within just a few years was hitting new all-time highs. Today, as the markets are experiencing some short-term anomalies, it's been interesting to observe how quickly people's perspectives change. Over the last three years (through the third quarter of 2014), the stock market has averaged a remarkable 21.2% annually across all nine style boxes. Over the last five years, the average is a still remarkable 14.4% annually, which includes 2011, where the market indexes were either flat or down for the year. **The lesson**: Be patient, rebalance, and let time and the markets take their natural course.

5-Year Annualized Morningstar Category Avg. Performance ending 09/30/2014

Value	Blend	Growth	
13.69%	14.10%	14.60%	Large
15.01%	14.91%	14.82%	Mid
13.57%	14.18%	14.84%	Small

Going back even further in time, we can see that over the past decade, the combination of small and mid cap stocks have outperformed large cap stocks. Clearly, the recent divergence (which has now reached 13% between large and small caps) is driving the atypical 10-year numbers for small caps. Of course, that will always be the case when you look backwards after a normal market dip. The larger and more important question is what will this table look like three, five or ten years into the future? If history is a good guide, the table will look much like it did at the beginning of this year, with small and mid caps outperforming large caps by almost 2% annually.

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10-Year Annualized Morningstar Category Avg. Performance ending 09/30/2014

	Value	Blend	Growth
Large	7.19%	7.51%	8.26%
Mid	8.68%	8.64%	9.07%
Small	8.01%	8.10%	8.63%

Our Stock Market Outlook

Over the last few months, one of the most frequently asked questions from clients is whether we believe the stock market is "overvalued", particularly after the run-up we saw in 2013 and again over the last few weeks of the second quarter. The short answer is no. However, we don't think the market is necessarily undervalued either. Remember, the value of any investment is a function of the "cash flows" it generates over time. Thus, if stock prices increase without an increase in underlying corporate cash flows, we start to become concerned about overvaluation. Thus far, however, this has not been the case. There are a number of different metrics to assess the value a company, but the most common measures are ratios of a firm's stock price to its earnings or cash flows. During the first quarter, we included a valuation measurement table in our newsletter, which examined current valuations versus their longer-term 15-year averages. The numbers between the two periods were almost identical. Today, each of these measures remain very close to their long-run averages and are little changed from where they were a year ago. So overall, we believe the broader markets remain "fairly" priced.

When you divide the stock market into its large and small cap components, however, we have a slightly different view. When you examine the S&P 500 (large caps), a number of companies are presently trading at or near all-time highs, and only 6% of the 500 stocks are trading at bear market levels, which is 20% below their all-time high. In essence, we don't currently see a lot upside potential in large caps. Many people will point to current P/E ratios and argue they still have room to grow. In general, we don't disagree, but think many of these companies are currently "priced for perfection". While such perfection may well occur, we think something less than perfection is more likely, which is why we believe rebalancing out of large caps (and out of large growth in particular) makes sense right now.

In contrast, when we examine the Russell 2000 we see a greater opportunity or a number of reasons. First, the Russell 2000 has already experienced not one, but two typical 10%+ dips this year. Second, on a relative basis, we have not seen this type of a gap in performance between large and small caps since 1999 and we think this presents a nice relative buying opportunity. Third, over 40% of the companies that make up the Russell 2000 have fallen by 20% or more this year. Finally, the growth prospects for small caps seem to be in their favor given the relative health of the US economy. We think this all points to a nice opportunity in small caps, which is why we have been proactively rebalancing in that direction.

FIXED INCOME INVESTING

The performance of an equally-weighted portfolio of KWAG core bonds is displayed in a table on the following page. As you can see, this portfolio is made up of different types of bond funds, which span the entire fixed income spectrum. In addition, you will observe that a diversified portfolio – which utilizes a variety of bond funds – significantly outperforms the broader bond market averages over time. We use this table ONLY as an example of how a well-diversified fixed income portfolio should work. It's important to note that each client's fixed income portfolio is tailored to their specific needs and may differ from the composition of the portfolio shown below.

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 bond portfolios, which will be expected to have lower long-run returns but expose their nest eggs to less downside risk.

Clients who are still working or are not currently taking distributions will tend to have more aggressive bond portfolios, which are expected to generate higher returns at the expense of higher downside risk exposure. All of our clients typically have a portion of their portfolio allocated to each type of bond fund. The weight of each piece is determined by 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 of stocks and bonds.

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KWAG CORE BOND FUNDS

KWAG Core Bond Funds	2014 YTD	2013	2012
Oppenheimer Floating Rate (**OOSYX)**	1.60%	6.70%	8.75%
Allianz Convertible (**ANNPX)**	4.86%	25.58%	11.96%
Loomis Sayles Strategic (**NEFZX)**	4.81%	10.87%	13.56%
PIMCO Total Return (**PTTRX)**	3.33%	-1.92%	10.39%
Doubleline **(DBLTX)**	5.28%	0.02%	9.18%
Average Fixed Income Return	3.98%	**8.25%**	**10.77%**
Barclays US Aggregate Bond Index	4.10%	-2.02%	4.21%

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 take away 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 it's liquid, safe and provides a significantly higher rate of return. Of course, nothing remains constant and surprises happen from time to time. We had one such surprise this past quarter at PIMCO.

Bill Gross & PIMCO

As many of you know, Bill Gross and PIMCO parted ways a few weeks back, at the end of September. This split caught many investors off guard. To us this wasn't especially surprising because cracks in the façade had begun to appear several months earlier, with the abrupt departure of CEO Mohamed El-Erian. Since Gross' departure we've remained patient with PTTRX, since the fund holdings are largely comprised of safe, highly liquid Treasury securities and high-quality corporate bonds. That said, we will be moving out of the fund in the near future, since with the departure of its long-term manager it no longer meets the criteria for inclusion in our portfolios. Here is our general synopsis of the events leading up to and following the departure of Mr. Gross.

1. Mohamed El-Erian leaves PIMCO which signals internal strife. Red Flag.
2. Numerous stories of internal friction begin to emerge. Red flag.
3. The SEC launches an investigation into how some funds (not PTTRX) were priced. Red Flag.
4. A number of articles come out accusing Mr. Gross of erratic behavior. Red Flag.
5. Bill Gross leaves PIMCO for Janus, reportedly just ahead of being fired. Red Flag.
6. A small percentage of investors have since left PIMCO for other funds. Expected.

Ever since Mohamed El-Erian left PIMCO at the beginning of the year, we felt it would be prudent to look for an alternative fund to replace PIMCO Total return (or PTTRX and PTDRX), just in case we found it necessary to make a move. PIMCO Total Return is a unique fund in that it only holds investment-grade, high-quality bonds. In addition, it is positioned to have relatively little exposure to rising interest rates, so it's also an extremely low-risk portfolio. In fact, it is the lowest risk bond fund we currently own, and therefore is used most frequently for clients who may be taking regular withdrawals from their accounts. We don't want any of the near-term assets of these clients exposed to even moderate market fluctuations and PIMCO Total Return has served us well in this regard for over a decade.

However, since the new managers of the fund fail to meet our longevity criteria, we will be replacing PIMCO Total return in all our client portfolios with another high-quality, low volatility bond fund; Metropolitan West Total Return Bond (MWTIX). This is conservative fund in the same mold as PIMCO Total Return, with a similarly stellar track record

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and managers who have been with the fund for more than 15 years. The fund has earned an average of 7% annually over the last five years, beating its benchmark, the Barclays US Aggregate Bond Index, by more than 3% annually. Over the last ten years, the fund has averaged 6.8% annually, beating the benchmark index by an average of 2% annually. Performance like this relative to a benchmark is basically unheard of in the low-risk world of bond funds. In addition, the fund has earned a 5-star rating from Morningstar, a "gold" analyst rating from Morningstar, and has been ranked in the top 5% of funds in its category over the last 3, 5, and 10-years. We think it is a worthy successor to PIMCO Total Return.

In fact, if you have money in sitting in a checking, savings, or money market account, this is the type of conservative fund you might want to consider for a return above 0.1% or so you may be getting. The fund is liquid, safe, and provides up five times the return you're likely getting at your bank.

Q&A with the Dr.'s

Q1: In last quarter's newsletter you mentioned your educational trip to Spain and it got me thinking about the international diversification in our portfolios. Your typical commentary seems largely domestically focused (most of the time), so I'm wondering how our portfolios are exposed to the global economy? S.G.

Joe: Excellent question, that we have given a lot of thought to. In the past, we have written about international diversification, but it probably time we revisited this timely topic. There are three ways to achieve international diversification and global exposure. You can buy international stocks, purchase American Depository Receipts (ADR's) or capture the international component of the global economy through corporate Americas revenue stream. In general, we estimate that over 50% of large companies revenues come from global sources. Mid caps revenue exposure is around 40%, while small caps about 25%. So, if we just bought well-run American companies who have global operations, one could argue that 35% to 40% of our portfolios are already diversified globally…assuming we own equal amounts of small, medium and large cap stocks.

Scott: That's true. Many people forget that because of globalization, you get substantial international exposure by just buying a well-diversified portfolio of American companies. In addition, many people also forget that many of our managers are allowed to buy international stocks and ADR's, which are international companies that trade on our domestic exchanges. Finally, we do invest client money in some international and global funds, which include SGENX, DODFX, CWGFX, GPGOX, GPROX, and SCWFX to name a few. Typically, our foreign stock holdings range between 10%-15% of our total stock holdings.

Joe: Exactly. Overall, when you add ADR's, international funds, international stocks and global revenues together, we think our portfolio's global position (or exposure) lies somewhere between 50% and 60%. So, we do think about the global economy and we embrace it in our portfolios.

Q2: I'm curious to know what you and TD Ameritrade are doing to avoid the security breach that happened to JP Morgan? What can we do on our end to protect our information and our hard earned money? G.M.

Scott: That's a great question, which we have also addressed before…but is well worth covering again! First, in the JP Morgan breach, it looks like the compromised information was limited to their client names, addresses, phone numbers and e-mail addresses. These are the sorts of things that are already pretty widely available on the internet. JP Morgan does not believe any account numbers, userid's, or passwords were compromised. In addition, no money was taken. Second, we use TD Ameritrade for many reasons...but one of the primary reasons is their commitment to cyber security and our clients.

Joe: That's true. If your account was somehow breached, TDA would make it good or uphold the account in good standing. In essence, you are insured against any fraud. So, if "Igor from Russia" somehow logged in and stole all of your money, TDA would replace the money that was taken. (Actually so would any large financial firm...including JP Morgan.) Third, we are only allowed to send money to your specific bank or your own personal address. So, if a withdrawal to a different address or bank account was requested (without your prior approval and signature), the money would never leave your account at TD Ameritrade. As you might imagine...we have spent a lot of time thinking about this issue. We do a bunch of other little things to make sure our accounts are not jeopardized, which Katie Burr has mentioned in her compliance section on Page 14. In addition, the SEC has sent a clear signal to every independent advisory firm that this needs to be at the forefront of their compliance…

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Scott: In terms of what you can do on your end, you can hire (or employ) a company like LifeLock to continuously monitor your personal information. LifeLock and other similar firms like them provide identity theft protection, although Consumer Reports thinks you can do just as well monitoring things on your own. We believe the key is to check your credit card and bank accounts regularly and report any suspicious activity immediately. It is also a good idea to get a free annual copy of your credit report from and of the three major credit-reporting bureaus by going to annualcreditreport.com. If you stagger your requests you can check your credit report every four months, which should be more than sufficient. At the end of the day, everyone needs to be vigilant about protecting their personal information in this digital age.

Q3: On any number of occasions you have mentioned a growing global middle class in India & China. How big is the middle class of each country and how much growth do they represent to American companies and our portfolios? D.T.

Joe: The potential growth in India and China is hard to fatham if you have never visited either country. China and India have a combined 2.67 billion people, which represents 37% of the world's population. To provide some perspective, the US has 323 million people or just 4% of the world population. In general, the global growth rate has ranged between 3%-5% annually, where 3% is considered a good growth rate annually. Today, the US growth rate is somewhere between 2%-3% annually. In contrast, over the last 20 years, China has grown at a rate of almost 10% annually…and they have a stated goal of growing at least 7.5% annually. The World Bank reported a growth rate 7.4% so far this year, and they think that will fall to 7.2% next year. Either way, they have five times as many people as we do and they will grow 2 to 3 times faster than the US will. In addition, over the next few years, China's overall economy will become larger than ours.

Scott: I think it's hard for the average American to wrap their heads around just how large the populations in China and India are. In addition, many people have trouble seeing how the economic growth in those countries contributes to corporate America's bottom-line. India is actually coming out of a high inflation/low growth period (bad) into low inflation/high growth period (good). Currently India's growth rate is around 4.5%, but Citigroup estimates their growth will accelerate to 5.7% next year and 7% by 2017. India's growth presents a very significant opportunity for corporate America and they are aggressively pursuing ways to capitalize on it.

Joe: Think about it this way. Today, they have ten times as many people as we do…AND they are growing at a rate that's 2-3 times faster than ours. The thing to keep in mind is their middle class looks much different from our middle class, which I think throws people off. Either way, corporate America knows there is a huge growth opportunity in both countries for years to come. Why? Today 11.8% of China's and 32.7% of India's population live on less than $1.25 per day. That means there is still a significant portion of their populations that have yet to be touched by capital markets. And thus, it represents an enormous opportunity for American companies over the next few decades.

Q4: As I understand it, corporate buybacks, increased dividends, and mergers and acquisitions are good things for the economy and the stock market. What's driving all of these things and why is it good for the stock market? W.L.

Scott: Today, as we write this, corporate America's balance sheets are as healthy as they have ever been. Taken as a whole, Corporate America now holds $1.6 trillion in cash or cash-equivalents. (That number is hard to comprehend because there are 11 zeros following the 1.6.) Today, that cash provides a huge amount of safety for corporate America. Eventually, this abundant cash will be put to use.

Joe: That's correct. If you have a pristine balance sheet, you don't need to use your own cash, when you can borrow other people's money at such a low interest rate. Today, corporate debt is at an all time high and at last count it was somewhere in the $9.7 to $10 trillion range. This enormous cash build up will encourage stock buybacks, increased dividends, and plenty of mergers and acquisition activity for years to come. In general, greater demand for stocks (via buybacks and M&A activity) will drive the price up, while increased dividends provide more yearly cash flows, which make the stock (or stock market) more valuable.

Q5: Dear Joe & Scott; In recent years, you guys have recommended a few books that you thought were interesting and worth reading for those interested in finance and investing. What interesting books are on your reading list this year? K.D.

Joe: The two most fascinating books we have read recently are: "Abundance: The Future is Better Than You Think" by Peter H Diamandis and Steven Kotler, and "Who Owns the Future?" by Jason Lanier. Abundance

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makes the argument that we will soon be able to meet, and exceed, the basic needs of every man, woman and child on the planet…which is kind of amazing. Their view is backed up by some impressive exhaustive research, which challenges a number of misperceptions. In addition, the book has a boatload of thought provoking tables in the index, which are really fascinating. Basically, they argue that there are three powerful forces and exponentially growing technologies that conspire to better the lives of billions of people. As an optimist, I loved the book!!

Scott: As a realist, I loved the book as well! The second book we recommend reading is, "Who Owns the Future?" by Jaron Lanier. This book paints a darker picture on the effect of big data and technology on our economy over time. In the first part of the book, Lanier argues that the concentration of information is poisonous to the economy, and he believes this concentration can explain many of our economic maladies. In the second part, he charts a path toward a brighter future, where the information economy rewards ordinary people for what they inadvertently share on the web. He provides a unique look at big data and its implications for everyone.

Q6: Dr. Joe; Does your firm engage in (and embrace) social media? I have asked you to join LinkedIn - a number of times - and I cannot find your firm on Facebook? What gives? R.B.

Joe: Hey R.B. I love to e-mail! And I can attach various documents to those e-mails!! Isn't that enough? Just kidding. Actually, we have decided as a firm to avoid social media in the form of Twitter, LinkedIn, and Facebook…for now. At this point, there are very few concrete rules and regulations governing social media in our industry. And, as such, a number of firms have been significantly fined by the SEC. We'd like to avoid that issue. In addition, the SEC has signaled (loud and clear) that the protection of client information is foremost on their list of advisor priorities. For those reasons and a slew of others we do not use social media outside of e-mail. So, don't get too bummed if I turn down your friend request. I can easily be reached by e-mail and I almost always return phone calls!

Scott: We should note that we do embrace social media companies in our portfolios, particularly when our managers can buy those companies at a discount to their true value.

Q7: Dr. Joe: A few weeks ago, I saw you out in Asheville with a group of independent advisors from around the country. What was that all about? M.B.

Joe: For over a decade now, I have belonged to a small group of successful independent advisory firms, who share best practices, advocate for common sense investor reform, and act as a sounding board for other independent advisor CEO's who have similar issues. This group of independent advisors is made up of select advisors who have sat in the boards of Schwab, TD Ameritrade and Fidelity.

I joined this specific group of independent advisors because they are smart, forward thinking, and driven by doing the right things for our clients and the industry as a whole. They are an impressive group of people/leaders who have helped shape our financial practice in a positive way. We meet semi-annually and e-mail almost daily. Since we all come from different regions around the US, we can openly share our questions/answers with one another without reluctance.

The group came to Asheville a few weeks ago, because they wanted to see how my specific practice worked. As a former academic, I tend to view the world a little differently than my peers. In addition, I am not encumbered by a brokerage background, which tends to shape much of our industries broad thinking. And as such, our firm builds and diversifies portfolios differently than my peers, we communicate differently than our peers, and our portfolios perform much differently than our peers. In essence, they came to see how and why our firm works so well. Then, we spent another day sharing each of our organizations best practices and drinking some of Asheville's fine brews!

Overall, this impressive group of CEO's provides positive reinforcement for what we do well at KWAG, and they give me a number of excellent options for changing what we don't do well.

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A FINAL NOTE

As usual, if you have any questions about 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 Fall!

- Joe and The Gang at KWAG

2015 KIELY GROUP CLIENT APPRECIATION DINNER SCHEDULE

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

Greenville, NC | Tuesday, January 27th
Greenville Country Club | 6-8PM

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

To reserve your seat, please call our headquarters office at 877-366-5623 or your specific advisor. If you would like to register via email, please email Kristen at kbelow@thekielygroup.com.

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

COMPLIANCE NOTES

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

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 MorningStar**,** and have not been independently verified by KWAG. KWAG also maintains all information supporting the reflected mutual fund performance results.*

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