



BEHIND THE SCENES

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OPENING THOUGHTS

Although the past six months have been challenging, we are finally beginning to see signs of improvement in the financial sector and throughout the economy. While we are quite confident about where the economy is headed in the longer term, many short term challenges remain. Thus, we are by no means out of the woods yet. These are clearly unprecedented economic times and it seems likely the road to economic recovery will be long and with a number of setbacks. As is the case with any patient recovering from a severe illness, the economy remains in an acutely weakened state and is more susceptible to a variety of potential afflictions than it would be ordinarily. On the positive side, fear and panic have finally begun to subside. However, many of the attractive investment opportunities they created still remain. As a result, our objective as we go forward is to position each individual portfolio to take advantage of the unique long-run investment opportunities that currently exist, while remaining cautiously cognizant of the potential for more short-term turmoil.

Fear Creates Opportunities

Going forward, we expect uncertainty and the resulting volatility will remain high for the foreseeable future and we believe a market retracement to the lows reached in early March is not out of the question. We don't believe it's likely, but it's not out of the question – short term. At the same time, we believe the long-term prospects for investors are as good now as they have been at any period in history. Out of chaos comes opportunity. Unfortunately, the unprecedented volatility experienced over the past six months will make it difficult for most investors to capitalize on the long run opportunities that have been created. Why? Because most investors tend to let fear, greed and their emotions overwhelm them, and they end up ignoring well thought out, sound, long-term investment strategies. Given the enormous number of changes taking place in our marketplace and the conflicting media comments regarding these changes, we believe this could turn out to be the most challenging investing environment investors will face in their lifetimes. The good news is, those investors who stay rational, allocate correctly and use good money managers, will easily meet these challenges.

Looking Back & Looking Forward

In previous writings we've used the metaphor of a heart attack to describe the severity and suddenness of what befell the financial system beginning last September, with the sale of Merrill Lynch to Bank of America and the collapse of Lehman Brothers. The cascading effects of these initial failures nearly led to a total collapse of the global financial system and brought the global economy to its knees. The financial system can be thought of as the vascular system of a larger global economy and cutting off the flow of capital through some of the major arteries of the financial system is about as serious as it gets when it comes to our economy. Fortunately, the financial system received the timely trauma care it needed to get capital flowing again. In our opinion, the quick response of the Federal Reserve and the U.S. Treasury to the crisis saved the global economy from almost certain collapse. Without the comprehensive actions of Ben Bernanke & Henry Paulson, we believe things would have gotten far worse very quickly. Think about someone who has a heart attack and does not



Dr. Joseph Kiely

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get adequate care quickly...the lack of flowing blood could result in death. The good news is, we have the best financial surgeons on this planet and their prompt innovative actions stabilized the patient - or in this case - the financial system and our economy. However, as with any recovery from a serious illness, the economy will see good days and bad days going forward. Things will probably not always progress as rapidly as we'd like them to, and there will undoubtedly be setbacks. Still, the long-term prognosis for the economy is excellent and the prospects for investors who remain patient are as good as they've ever been. Of course, we're not the first people to say this. We're just echoing the words and sound messages of legendary investors like Warren Buffett, Jack Welch and a number of our money managers.

MARKET RETURNS & VOLATILITY

During the first three weeks of 2009, the S&P 500 index (large company stocks) and the Russell 2000 index (small company stocks) each experienced a broad sell off and dropped as much as 10%. Over the following three weeks, the markets basically trended sideways, through mid-February. Then three noteworthy news items were reported. First, two of the largest banks in the country announced they would be profitable for the quarter. Second, Warren Buffett appeared for three hours on CNBC to preach short term patience and longer term confidence. Finally, the Obama administration passed a massive stimulus bill to help shore up the economy. Taken together, all three should have provided a positive jolt to the markets. Unfortunately, negativity reigned supreme and most of the media focused on 1) a controversial statement made by Buffett; 2) the drop in bank prices previous to the positive announcement; and 3) what was wrong (versus what was right) with the stimulus package. This led to a panic driven sell-off. And as the decline gained momentum, fear fanned the flames of additional panic and individual investors led a charge to the exits yet again. In the immortal words of Yogi Berra, it was, "Déjà vu all over again." We've seen this many times before, where fear begets panic...which begets still more fear and still more panic...which leads to a full-blown selling frenzy like the one we saw in February and early March.

Ugly "Short-Term" Numbers

The second half of February was painful, with the S&P 500 finishing the month down over 18% year-to-date and the Russell 2000 finishing down over 21%, but there was

more pain to come. By the time the indexes finally hit bottom on March 9, the S&P 500 was off more than 25% YTD and the Russell 2000 was down more than 31%. Throughout this collapse, we wrote repeatedly about the need for patience and explained the sell-off was being led largely by panic-driven fear. We noted how unrealistic the valuations were and encouraged investors to look beyond the short run news. We consistently reinforced our long term message...and we pointed out the numerous positive signs of an impending economic turn around. And as validation, the next month (from March 9 through April 9) saw the best four-week run in the stock market in 70 years, with the S&P 500 rising over 26% and the Russell 2000 increasing a staggering 36%! By quarter end, the S&P 500 was off 11.7% on the year and the Russell 2000 was still down 15.4%. A number of people will look at those quarter-end numbers and think "the sock market slide continues." However, we don't believe the first quarter numbers accurately portray the entire story of what's happened since that near fatal three week period in September and October of last year.

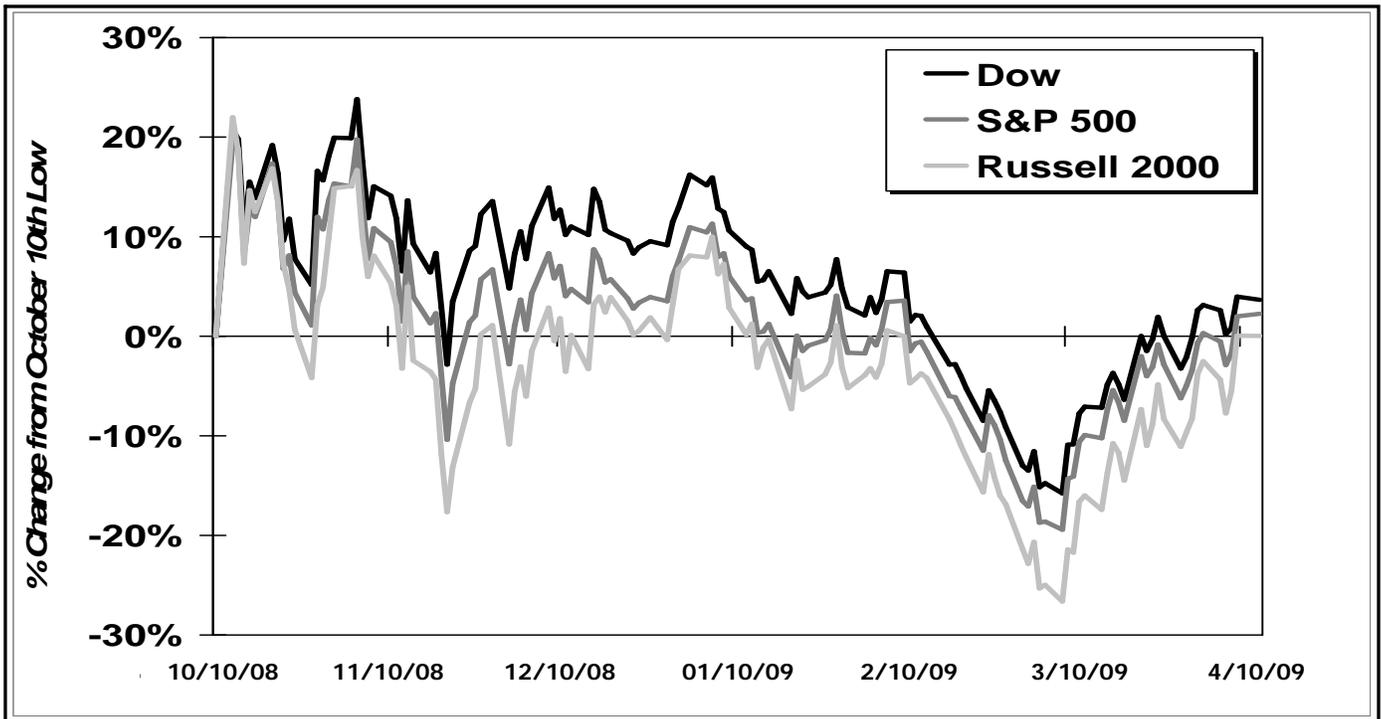
The Numbers Looking Back

Remember, after three weeks of intense selling during last year's financial melt down in September and October, the markets hit a low point during October 10, 2008. Near midday, the Dow Jones Industrial Average (DJIA) hit a low of **7773**, the S&P 500 reached **840**, and the Russell 2000 hit **468**. At this point, many of us believed we had averted a financial disaster and to us it was apparent the financial system was stabilized. However, there were still genuine questions and concerns about what our capital markets would look like as we peered out into the future. For example, how would various financial regulations change? How would we re-stimulate the economy? Who was going to lead our country? How were we going to deal with toxic assets on bank's balance sheets? And how were we going to regulate the Collateralized Debt Obligation's and Swap's that got us into this mess? Although many questions remained, at least we knew what the key issues and problems were. And we knew the Federal Reserve and U.S. Treasury stood ready to act swiftly and massively...if necessary. In essence, we knew the patient (our financial system) was stabilized and we knew we had averted the worst case scenario. We also knew the attending surgeons were qualified, on top of it, and ready to act when necessary. However, we also knew there would be some tough days and tough decisions ahead.

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STOCK MARKET RETURNS: OCTOBER 10, 2008 TO APRIL 10, 2009



Our Observations

When one examines the performance of the S&P 500 and the Russell 2000 over the past 6 months, a couple of observations clearly stand out. First, the volatility of the markets from day to day has been unprecedented over the last 6 months. As with any acutely ill patient, the initial treatment focused on stabilization. However, there was much more the Fed and Treasury needed to know about the illness before they could determine the best course of treatment. The short-term uncertainty about the correct course of action created enormous amounts of volatility. In fact, over the last 6 months, we have had more daily 5% market moves than we have had in the previous fifty years. And while the Fed and Treasury have learned plenty about the health of our financial system since the first signs of danger, we all knew there would be short term challenges and more volatility ahead.

Second, when you examine the last 6 months, you will observe that the stock market in the last half of October was up. In November, the market was down. In December, the market was up. In January, the market was down. And while February was down, March and the first part of April were up. In other words, we've basically had an equal number of up and down months since the financial heart attack in mid-October. This brings us to our third observation regarding the behavior of our stock market

since the lows reached on October 10, 2008. Simply put, the market indexes are basically unchanged and slightly up from the low point that day. We recognize it has been a bumpy ride with enough twists and turns to rival the biggest roller coasters in existence. However, the fact of the matter is that we're basically right back where we started nearly six months ago. As we finish our editing on April 17, 2009, the Dow is trading at **8131**; the S&P 500 is trading at **869**; and the Russell 2000 is trading at **479**. In the words of Macbeth, "it is a tale...full of sound and fury, signifying nothing." In essence, the economic uncertainty, the resulting increased volatility, the hyperbolic media and the complexities of the problems we face, have led people to believe our markets have continued to deteriorate...when in fact, they've trended sideways and slightly upward!! So the fact remains, most of the market decrease over the last few years is explained by the serious three week financial heart attack last October.

Looking Forward

The key for investors at this point, is to get control of the emotions stirred up by the turmoil of the recent past and focus on the future. Even the world's greatest investors (i.e. Warren Buffett, Jack Welsh, etc.) lose money from time to time. Even they have negative



returns looking back over the last one, three and five years, However, what they don't do is become fixated on short-term performance or let their emotions dictate their investment decisions going forward. Instead, they remain focused on the future and keep their emotions in check. At the end of 2008, we put together a market return table for our dinner seminars. The top part of the table examines the different market returns looking back from the end of 2008. We provided this table for three reasons. First, we know people tend to become fixated on the short run, which leads to poor long-run decisions. Second, we know people who make investment decisions using a rear-view mirror are bound to make the same mistakes made by individual investors over the years by avoiding the stock market going forward. Finally, we know those investors who do their research and are forward looking, will recognize the opportunities that fear and panic selling provide for patient long term investors. The bottom part of the table examines market returns after the five worst stock market dips going back to 1926. You will note, the best opportunities after large market dips, are typically found in stocks.

THE FED, THE TREASURY & OBAMA

In our view, the response of the Federal Reserve, the Treasury, and the Obama Administration, while not perfect, has been quite impressive. Since October, the government and the Federal Reserve have done a great deal to help the economy heal. These efforts have included new regulations, massive amounts of fiscal and monetary stimulus and plans to remove toxic assets from the financial system. To be honest, we're encouraged by the innovative approaches and the collaborative public/private programs being put in place. Still, the problems we face are complex and it is difficult even for those with extensive training in finance and economics to know whether an approach is good, bad, or indifferent. Add divergent political agendas and a media bent on sensationalism to the mix and we understand why people are confused. However, while we each may approach the various financial problems a little bit differently, taken as a whole, we think it's difficult to fault the rapid and comprehensive response to the problems on the part of everyone involved.

A Note of Caution

Please keep in mind that all financial decisions involve various tradeoffs. In many cases, many decisions must be made where there are simply no "good" options to choose from and we are forced to choose the "least bad" option, just as doctors can be faced with the decision to remove a limb in order to save someone's life. A myriad of factors are always considered before any decisions are made and the options are evaluated based on their merits and consequences. People not involved in the decision process may not like the option selected, but in most cases that option was selected because the alternatives would have been far worse.

For example, many are concerned about inflation as a result of the large increase we've seen in the money supply. And while inflation is a risk, investors should remember that a major factor responsible for turning the recession of 1929 into the Great Depression was the Federal Reserve policy that drove the money supply down by one-third. This slowed the economy even further at a time when the Fed should have been doing just the opposite. You can be certain that few people on earth know the relationship between money supply and inflation better than Ben Bernanke and the economists at the Federal Reserve. Remember, the Fed has the ability to rein in the money supply when the economy recovers by selling bonds and taking money out of the system. This is precisely what they

MARKET AVERAGES & BOUNCEBACKS

AVERAGES THROUGH 2008

	Total Market	S&P500	LT Bonds	T-Bills	Inflation
3 Year Avg.	-5.75%	-5.24%	12.00%	3.57%	2.80%
5 Year Avg.	1.02%	0.01%	10.23%	2.70%	3.09%
10 Year Avg.	3.52%	0.65%	9.02%	2.56%	2.60%
15 Year Avg.	8.70%	8.09%	9.24%	2.95%	2.46%
20 Year Avg.	10.59%	9.89%	10.42%	3.62%	2.82%

AFTER LARGE DIPS (1931, 1941, 1974, 1987, 2002)

	Total Market*	S&P500	LT Bonds	T-Bills	Inflation
1 Year Avg.	35.11%	18.93%	4.90%	2.71%	4.60%
3 Year Avg.	20.16%	16.91%	7.45%	2.97%	3.29%
5 Year Avg.	19.80%	17.92%	6.87%	3.27%	4.38%

**Total Market Returns are made up of the 6 stock market style boxes going back to 1970. In part two of the table, the total market returns only include return data after 1974, 1987, and 2002. Thus, the conclusions we draw from this data is not that robust.*

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did in 2003 when the economy recovered and, contrary to the dire forecasts of many, inflation remained very much in check.

The Programs: The Big Picture

Since October, there has been a steady stream of new strategies, rules & regulations, stimulus packages, asset purchases, and bailouts. In fact, keeping track of everything has virtually become a fulltime job. Plans and proposals have come from the Federal Reserve, the U.S. Treasury, Congress, the White House, the Securities and Exchange Commission (SEC), the Internal Revenue Service (IRS), the Federal Deposit Insurance Corporation (FDIC), Freddy Mac, Fannie Mae, the Federal Accounting Standards Board (FASB) and various other government agencies. The response has been impressive, both in terms of size and scope. The process hasn't been free of mistakes, nor has it been free from criticism, but we have been pleased with the overall comprehensive strategy and the broad response.

The Federal Reserve & The Treasury

Of all the participants in the process, we think the Federal Reserve and Treasury (from both administrations) deserve to be singled out for their efforts. Here are just a few of the actions they have taken to address the crisis on various fronts - in no particular order:

1. By committing over \$1 Trillion dollars to purchase of Treasury bills & mortgage-backed securities, the Fed drove down mortgage rates and made housing more affordable than at any time in history. The strategy was also designed to drive interest rates so low that investors would be forced out of Treasury securities and back into the stock, bond and/or mortgage markets.
2. The Fed's intervention in the commercial paper market made it possible for large companies to continue to manage their short-term cash flows when that market froze up following the collapse of Lehman Brothers.
3. The Fed started the Term Asset Backed Securities Lending Facility (TALF) where it offered private investors the ability to purchase asset-backed loans (auto, credit card, student and small business) through their facilities. Maintaining a secondary market is essential for capital to continue flowing throughout the economy.
4. The Fed and the Treasury issued a guarantee on all Money Market Mutual Funds and have since extended the program through next September. This helped prevent a contagion in MMMFs after

one prominent fund was forced to "break the buck" following the collapse of Lehman Brothers.

5. The Troubled Asset Relief Program (TARP) was established to provide direct capital infusions to financial institutions in return for preferred shares of stock. After the original TARP infusions to a few of the largest institutions, the past six months has seen the Treasury invest almost \$200 billion in 532 additional banks. If we were back in the Great Depression, many of those 532 banks would have failed and all of their depositors would have been wiped out. Today, depositors haven't lost a dime. In addition, a number of banks recently reported strong quarterly earnings and announced plans to repay the funds lent to it under TARP last October.
6. The Public-Private Investment Program (PPIP) which is an extension of TARP, leverages the Treasury's position by working with private investment funds to purchase \$500 billion to \$1 Trillion in troubled loans from banks. The goal of this program is to provide a pricing mechanism that accurately values the troubled/bad assets and allows investors to buy these bad assets at prices that are fair to all parties concerned. This is an essential step in the ultimate removal of toxic assets from bank balance sheets.

Transparency Equals Trust

The above programs have provided the kind of timely and direct responses that are necessary to help the economy to recover. It should be noted that they are not meant to create another lending bubble, but rather to promote sound lending to solvent borrowers by increasing the availability of capital and lowering its cost. Further, the Fed and Treasury hope to restart loan securitization, thereby allowing banks to free up additional lending capital by selling off securitized assets (i.e. loans) from their balance sheets. Taken as a whole, it's hard not to be impressed with the work that's been done thus far, which give us a great deal of confidence going forward.

The New Administration & The Regulators

At this point you have likely heard many varied opinions on the American Recovery & Reinvestment Act. Our own assessment of the bill is that, while overly bloated and far from perfect, it will provide a great deal of badly needed stimulus—particularly in the area of job creation. According to a recent USA Today analysis, most of the early spending is in fact flowing as planned into "shovel-ready" projects that address needs in areas like infrastructure, transportation, education and health care.



Since a primary goal of the act was to preserve or create new jobs quickly, we'll take this as a positive sign.

The Economy

So what happens next? In truth, no one knows for sure. What we do know is that we're beginning to see more and more evidence of the economic green shoots Ben Bernanke mentioned in a recent interview. This is a positive sign, certainly, but doesn't mean we're out of the woods yet. In our opinion, the economy will only be able to fully recover when the following five criteria are met. In no particular order, we will need a healthy banking system, a stable real estate market, unconstrained capital flows between borrowers and lenders, low inflation, and a confident consumer. Given that we're already blessed with the best technology in the world, strong innovative entrepreneurs, a highly productive workforce, and plenty of lean, well-run companies, we think it is only a matter of time before a full recovery is realized. The bigger question, to us, is how long it will take to get there?

In the short-run, there are still many challenges ahead. While we're encouraged by undeniable signs of improvement (in four of the five economic areas outlined above) and bolstered by the efforts of the Fed and the Treasury, there is still a significant amount of debt, both consumer and commercial, that needs to be unwound. Beyond the debt issues, we also have a weaker global economy which will hamper our efforts to sustain corporate profits for quite a while. Clearly, unemployment (a lagging indicator) will likely continue to grow at least through the remainder of the year. And given the weakened economy, we will undoubtedly see a number of companies and banks fail. So, there are still going to be some very tough days ahead. And when these days come, the market reaction to the economic news will continue to be emotionally charged and intense. Thus, we expect above normal volatility will continue to exist for some time to come.

In Summary

Overall, we believe we have moved beyond the worst case economic scenario in the short run and we are very confident things will eventually get better over the long term. There is no doubt the comprehensive efforts by our government are being felt and will be felt for some time. That said, there will be some nasty days ahead given the high level of emotions and perceived uncertainty that still exists. Thus, the economy is healing, but we want to prepare you for more volatility as we move forward.

OUR PRODUCTS AND SERVICES

The core stock and bond funds we utilize in our client portfolios are always being closely monitored by our investment committee. On a regular basis, we add a few new funds and fund managers and/or drop underperforming ones when they don't meet our demanding criteria. We focus a great deal of our fund research on our core **stock fund managers**—and for good reason. Our core stock funds provide the bulk of investor returns over time and the volatile nature of stock investing makes managing a diverse stock portfolio an effectively difficult task. However, we also continuously monitor our bond funds and non-core (specialty) fund managers and are always on the lookout for new opportunities that might benefit our clients. As such, this quarter we would like to do something different and focus our discussion on the fixed income and specialty areas. Specifically, we would like to take you through the financial analysis we use when we examine fixed income and specialty alternatives. Our primary focus will always remain on our core stock and bond managers. However, we felt a divergence into the fixed income, natural resource and gold fund alternatives was warranted.

Why Corporate Bonds?

Today, we currently use a nice mix of income-generating bond funds, which cover a wide array of fixed income asset classes. Specifically, we have managers who invest Ginny Mae's, Treasuries, Investment Grade Bonds, High Yield Bonds, and Convertible Bonds. Based on our analysis, we believe the best opportunities today exist in domestic investment-grade corporate bonds. The particular fund we like in this specific area is the Loomis Sayles Strategic Income Fund (NEFZX), which is a broad-based bond fund that invests primarily in domestic corporate bonds. Recently, we discussed investment grade bonds at our client dinners, in our year-end newsletter, and in our three-part email update sent out at the first of the year. Our main message was the following...forced selling on the part of financial services firms desperate for cash (i.e. commercial banks, investment banks, insurance companies and hedge funds) had driven corporate bonds prices down to levels we'd never seen before. Although we know the stock market will eventually bounce back, at this juncture we think it makes sense for a number of our clients to have at least some exposure to corporate bonds because their prices are so attractive. In addition, bonds help stabilize portfolios during volatile periods like we are

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experiencing now. Opportunities like this don't come around very often and we want to make sure our clients are positioned to take advantage of it. As a result, we have been proactively rebalancing many portfolios into Loomis Sayles Strategic Bond Fund (NEFZX).

For those of you who are retired and receive income from your portfolios, we use a simple rule to help guide asset allocation. For every 1% you take out of your portfolio annually, we like to keep 10% of your total holdings in bonds and cash equivalents. In other words, if you withdraw 4% of your portfolio value annually we would want to keep 40% of your total portfolio holdings in bonds and cash equivalents. Given the stability of bonds and cash and the interest streams they generate, this affords retirees a minimum buffer of ten years before they would need to tap into any of their stock holdings. Lately, we have been transitioning clients out of Treasury bonds and Treasury bond equivalents and into corporate bonds. Why? Because in the mad rush to buy highly liquid, low-risk investments, we (and many others) believe government bonds have become seriously overvalued. In fact, short-term Treasury bills recently sold at prices that yielded a NEGATIVE return to maturity. Talk about irrational! Warren Buffett probably summed up the situation in the Treasury bond market best in his recent letter to shareholders, writing:

"A few years ago, it would have seemed unthinkable that yields like today's could have been obtained on good-grade municipal or corporate bonds even while risk-free governments offered near-zero returns on short-term bonds and no better than a pittance on long-terms. When the financial history of this decade is written, it will surely speak of the Internet bubble of the late 1990s and the housing bubble of the early 2000s. But the U.S. Treasury bond bubble of late 2008 may be regarded as almost equally extraordinary. Clinging to cash equivalents or long-term government bonds at present yields is almost certainly a terrible policy if continued for long." –Warren Buffett, 2008 Berkshire Hathaway Annual Report

Why Convertible Bond Funds?

We believe another area of considerable opportunity is in convertible bonds. Our Investment Committee has been looking for a convertible bond fund that met our selection criteria for a long time. Unfortunately, the only fund we really liked has long been closed to new investors. That is... until now! Recently, Calamos Convertible Fund (CCVIX) reopened to new investors after having been closed since 2003. The fund reopened as a result of the same forced selling that drove corporate bonds to new lows and the fund likely will not remain open very long. For those not familiar with convertible bonds, they are a hybrid security

that offer much of the downside protection of bonds while also providing much of the upside potential of common stocks.

When convertible bonds are originally issued, they look and act much like ordinary corporate bonds in that they make regular interest payments at a fixed coupon rate. But the unique feature of convertible bonds is they can be converted into shares of common stock of the issuer at or above a pre-specified "conversion price" on the common stock. This means that convertible bondholders stand to benefit from the appreciation of a company's stock price much like the firm's regular stockholders. However, much of the risk of holding common stock is eliminated with convertible bonds because when stock prices are low, as they are now, convertibles tend to act like ordinary interest-paying corporate bonds. We believe this is a unique opportunity to get into a terrific mutual fund at a time when the prices of convertible bonds are extremely attractive.

Global Natural Resource & Gold Mining Funds?

We have historically used specialty funds very sparingly in our client portfolios, preferring instead to let our portfolio managers make decisions about which areas they feel are most attractive. But extraordinary times often result in extraordinary opportunities and we believe the recent stock market turmoil has created a few unique opportunities in gold and natural resource funds. On the natural resources side, the slowdown in global economic activity has driven down the prices of commodities like oil, copper, and coal, as well as the stocks of the companies who mine and process them. Once the economic recovery begins, there is little doubt that natural resources prices will rise and we believe the rise could be dramatic. In terms of gold, the situation is somewhat different. Gold itself has few industrial applications and most of the demand for gold comes from jewelry manufacturers and those who use it as a store of wealth. As a result, gold behaves very differently from other metals or natural resources and is often viewed as a sector unto itself. Perhaps not surprisingly, our rationale for considering gold as an investment is quite different from our rationale for investing in other natural resources, as you'll soon see.

Gold Mining Funds

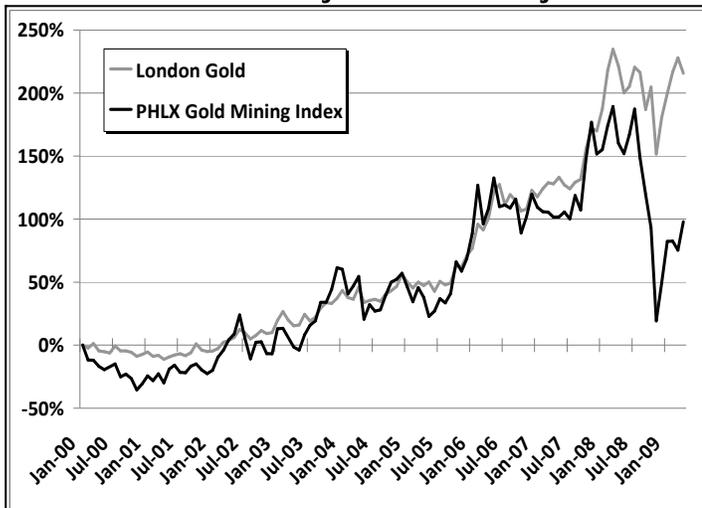
We don't believe gold bullion itself is particularly attractive at current price levels, but gold mining companies are another story. As the chart below illustrates, the value of gold mining companies has historically tracked the price of gold on the London

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Exchange quite closely...until sometime around September 2008. At that point gold mining stocks dropped dramatically, right along with most other stocks. The price of gold itself also fell for a time, but the drop wasn't nearly as far and the recovery to previous levels was relatively quick. However, the prices of gold mining stocks still stand roughly 75% below their previous highs and well below where they would need to be to keep pace with the price of Gold. In short, we believe this divergence creates an intriguing opportunity in mining companies. However, it is far from a slam dunk. If gold is currently overpriced (i.e. in a bubble) as some argue, then mining stocks may not be as big a bargain as they appear.

Gold Chart: January 2000 to January 2009



So where does that leave us? To be honest, we think caution is warranted and don't believe gold mining stocks are for everyone. In general, we believe specialty funds should be used sparingly and, as the name suggests, in special circumstances. We believe gold mining funds make sense if you think 1) gold is under-priced, 2) the stock market is overbought, 3) there is significant inflationary pressure or 4) you believe there will be a significant drop in the value of the major global currencies. We're not convinced any of these are a major threat at this point, although many economists and investors do.

The gold mining fund we like best is the USAA Precious Metals and Minerals Fund (USAGX). It is a top-ranked fund in its category and the lead manager has been with the fund since 1994. However, we want to stress that this fund is not for everyone. The prices of both gold and the companies that mine it are extremely volatile. Therefore, anyone investing in USAGX needs to be prepared for significant swings in value and must not be tempted to bail

out at the first sign of trouble. We also believe this fund is best used in small doses as a diversifier rather than a core holding. The price of gold itself is extremely volatile and unpredictable and we feel anything beyond a small holding in this fund would be too speculative and expose our clients to excessive risk.

Natural Resources Companies

As we mentioned above, natural resources such oil, coal and copper are very different from gold. Unlike gold, their demand is driven by industrial activity and economic development, making their prices highly cyclical. That said, the prices of many natural resources have fallen dramatically from highs reached a year ago and we believe the long-run prospects for natural resources companies are very strong. While we're convinced we will ultimately wean ourselves off of fossil fuels, we don't think it's likely to happen anytime soon. And in terms of other natural resources like iron, copper, and aluminum, the demand seems likely to rise for decades to come. To that end, we believe natural resources funds are a good long-term investment and could be an effective inflation hedge. But like gold funds, natural resources funds are not well-diversified portfolios and they can be quite volatile. As a result, investors need to be prepared for significant swings in value and committed to holding these funds for the long-run.

In terms of fund selection, we think it is important to use a natural resources fund that has a broad reach and the ability to move and react to shifting demand. In addition, we believe it is important to find a natural resources fund manager that has the freedom to invest in natural resources companies across the globe. The fund we feel that best combines these characteristics with stellar long-term performance is RS Global Natural Resources Fund (RSNRX). The fund's lead manager, Andy Pilara Jr., also manages RS Value Fund and RS Partners Fund, meaning we're very familiar with him, which is another plus.

At this juncture we're in no rush to invest in natural resources, as they are a play on the forthcoming economic recovery. Our intent is to begin transitioning some clients into this fund gradually, as part of our normal rebalancing cycle and we expect that over time a number of client portfolios will have at least some exposure to natural resources or RSNRX. We also want to point out that this is not a fund we are comfortable taking large positions in. Because the fund is concentrated in natural resources, overweighting it would be akin to making a sector bet and

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that's something we want to avoid. Instead, this fund should be viewed as diversification tool to be used in small doses, and as a way to potentially augment stock returns once the global economy begins to recover.

Corporate Stocks

We certainly don't want to give the impression that we've given up on diversified stocks funds or the stock market in general—we haven't. In fact, we're extremely pleased with the performance of our core stock fund managers. As we edit this newsletter on April 17, 2009, more than half of the core stock funds we use and follow were in the black (or positive) for 2009, while the DJIA, S&P 500 and Russell 2000 indexes were all still in negative territory. In other words, our core stock fund managers have been doing a good job of finding and capitalizing on undervalued assets, just as we hired them to do.

Still, however, many of our clients remain very nervous and concerned about the economy, and we're committed to finding ways to help limit their downside risk while still providing excellent upside potential when the market turns around. We believe we have been able to do that in the areas of corporate and convertible bonds. And we also believe natural resource stocks (in limited quantities) have the potential to provide another layer of downside protection in the event an overall stock market decline like we saw in February and early March.

Overall, we still believe the strategy of using a diversified stock portfolio will provide the best long run returns...particularly five years out...given the huge sell off. By adding corporate bonds and convertible bonds we can help mitigate the effects of increased volatility in the stock market in the short run. In addition, the opportunities in all of these asset classes provide excellent upside potential once the global economy begins to recover. And at the end of the day, that's precisely what we're trying to accomplish: Risk minimization with excellent upside potential.

10 QUESTIONS WITH DR. JOE

This has obviously been a very interesting six months for questions...but perhaps not in the way you might think. For the most part our clients and friends have remained calm and rational, which we appreciate. The questions we have received have been well thought out and most people are focused on becoming better educated in order to avoid doing something rash or shortsighted. As you will see, most of our clients are thankful for our calm advice, our

reassuring words, and our attentiveness to their needs over this most recent time period. I can also assure you we appreciate the positive feedback we have gotten. Enjoy....

1. Dear Dr. Joe: At the client dinners in January, you mentioned a name change (KWAG) and a new webpage design. What's the progress on these fronts? T.K.

Dear T.K. Our name change became official the day these reports went out. From here on, our official firm name will be Kiely Wealth Advisory Group. We made this change for two reasons. First, it seems "Kiely Financial Services" is too broad and leads to a number of calls each day from people looking for personal loans, auto loans, home refinancing or debt consolidation. Fielding these calls is annoying, time consuming, and can take valuable time away from our clients. Second, the new name describes what we do more accurately and it signals (accurately I might add) that our firm is now much more than just myself.

Regarding the webpage, we are almost to the point where we will be able to make it available to our clients for beta testing. At this point, we have most of the content ready and have a few videos that are ready to upload. We will send out a special update this quarter to all of our clients when it is up and running. Our goal is to make it user friendly so you can view our video's, download our updates, logon to your TDA (or other outside) accounts and find resources to help you further your financial education. Of course, we will expand/contract the webpage content based on your feedback and input.

2. Dear Dr. Joe: You and Scott seem to very rarely second guess any number of the actions taken by our government leaders...particularly the Federal Reserve. I have some strong reservations about the Federal Reserves course of action and the potential for inflation. Can you comment? E.T.

Dear E.T., To us, it only makes sense to second guess someone if you have some expertise in the field you are critiquing. So much effort goes into the tough decisions being made by the Fed and many of those decisions are based on the best research money can buy. Research, I might add, that is provided by a staff of economists that may have some of the brightest minds on the planet. Let me provide a few personal examples of where I do and don't like to second guess individuals.

Back when I was a full-time academic, Scott and I did a lot of research in the area of Real Estate Investment Trusts



(REITs). We published a number of articles - some in top tier Real Estate journals. From our own research and that of others, we knew REITs tended to be highly leveraged and were subject to severe mispricing problems. This made us reluctant to own them. In fact, we have never recommended REITs for our client portfolios and that led to a lot of second-guessing from both clients and competitors when REITs were hot earlier this decade. We were ultimately proven correct when real estate collapsed, but sticking to our guns probably cost us a few accounts. In contrast, we don't ever second guess stock purchases by one of our managers. Why? They spend far more time scrutinizing the companies they buy than we could ever hope to, they have vast amounts of knowledge gained from decades in the trenches, and their track records speak for themselves. They are the experts (that's why we hire them, after all) and we are in no position to second guess.

In the case of Ben Bernanke, he is one of the top macroeconomists in the world and the economists that work for him at the Fed are all exceptionally talented as well. Bernanke and his crew likely understand better than anyone how ALL the pieces of the global economic puzzle fit together. He is the pre-eminent expert on the Great Depression and while at Princeton assembled a research institute dedicated solely to the study of asset bubbles, which no one had ever done before. This was in 1995, way before the dot-com bubble, the real estate bubble, or the oil bubble. If anyone is ahead of the curve in terms of economic thought, we think it's probably Ben Bernanke. I'm not sure there are 10 people in the world who have his vision.

3. Dear Dr. Joe. I agree with you and feel the Fed has a good handle on things. However, like you, I like to look at the worst case scenario - just in case. If we do get a lot of inflation in the future, what type of investments do you recommend? D.P.

Dear D.P. At this point, we have more concerns with deflation than inflation. However, if things play out differently than we expect, we have a variety of tools in our tool chest to help combat it. In an inflationary environment it makes sense to own precious metals (like gold and silver), commodities (like oil, steel and lumber), non-dollar denominated debt (like that bonds issued in Asia and Europe) and TIP's (or Treasury Inflation-Protected Securities). We have the ability to access any and all of these areas for our clients if need be, but at the moment inflation is probably the least of our worries.

4. Dear Dr. Joe: Recently I have read a lot of literature on "protectionism" and buy America only. Isn't this a dangerous precedent to set? K.A.

Dear K.A. Yes it is. I have heard "protectionism" being described as the economic crack cocaine, where the short term high it provides quickly wears off after you've become addicted - an addiction that eventually kills you. The good news is most leaders and their countries understand this. In fact, one of the prevailing sentiments coming out of the G20 meetings (in Europe) was the recognition that we are more connected than ever and that we need keep international trade open for all of our benefits. If you want to see how protectionism hurts a country, look at Venezuela, Cuba & North Korea. Ask anyone in those countries how they like it?

Another comment I particularly liked regarding "protectionism" came from the new CEO at GM. When asked what he thought about the "buy American" campaign, he said "he didn't think it was a good idea at all and that people should buy GM cars because they are a better product, not because they're an American." I became an instant fan of his....

5. Dear Dr. Joe: I would like to thank Katie for her excellent work preparing the proper tax documents for me during tax season. The gains and losses packet along with your year-end report was a great idea. When I called Katie, she also helped me understand the 1099 forms and patiently answered all of the gains and losses questions I had. In addition, I transferred in a number of stocks which she helped me enter into the appropriate cost basis section. I can't tell you how much time she saved me during what I am certain was a very busy demanding time for her. J.M.

Dear J.M. Thank you for the positive feedback. This is not the first year I've gotten that comment. Obviously, Katie is very devoted to her job and our clients...which makes my life that much easier. Over the past few months I have had a number of positive e-mails and calls regarding Katie's help during tax season and beyond. (Frankly, I have had a number similar e-mails and calls about Brownie, Scott and Kristen. It's clear that they are all dedicated to our mission...which is quite a statement in this day and age.) Truthfully, it is amazing how different all of clients needs are. And every client places a different emphasis on what's important to them. (To me, that's been one of the more interesting things I've learned in this business over time... each person tends to place emphasis on different things.)



Anyway, we know we are not perfect, but we strive to be as helpful as we possibly can. Frankly, I am more surprised when I get negative feedback...as I know the effort is always going to be there from our team.

6. Dear Dr. Joe, What is your opinion regarding the bonuses paid to AIG? R.K.

Dear R.K. I don't really have an opinion on the subject. In a number of industries, bonuses are the main way employees are compensated...so it is valid form of compensation. In AIG's case, there were probably some folks who did deserve them and others who did not. However, we live in an imperfect world. In the grand scheme of things, the issue of bonuses is probably a non-event. Since I have no control over the outcome of potential bonuses and since it's not going to affect our clients in any way, I don't pay too much attention to it. I use the same approach in money management. I try to spend 100% of my time focusing my energies on issues I can control...like risk management, asset allocation, manager selection, and rebalancing. I DO NOT pay attention to daily, weekly or monthly moves in the stock market because I have absolutely no control over them.

7. Dear Dr. Kiely, Do you manage 401(k) plans? I have money invested in one "old" 401k plan and I have no idea what I'm doing in my "new" 401k. P.H.

Dear P.H. Yes, we do manage outside 401(k) plans...in a number of ways. First, we have a relationship set up with Schwab and the Newport Group (a third party administrator) that allows us the ability to manage an entire retirement plan for any sized firm. In fact, if the plan is large enough, we can get most of it paid for via "passed through" management fees.

Regarding your current situation, we can help you in two ways. First, we can rollover your "old" 401(k) to an IRA Rollover account and manage it the same way we do your other accounts at TDA. Second, we can manage your new 401k by getting your login ID and passwords. By having all of your investment information, we can build a diversified "global" portfolio that takes into account all of your investment holdings. For example, if you have a number of poor "small cap" choices in your 401(k) at work, we can avoid them there (in your 401k) and increase your "small cap" holdings with your TDA accounts with us. As I have always said, it makes sense to examine an individuals entire global position. This way you can be sure your entire portfolio is fully diversified.

8. Dear Dr. Joe, What do you think of the new Treasury Secretary Geitner? S.S.

Dear S.S. I like him and I like his resume...which is why he was picked. He has worked for the U.S. Treasury Department, the International Monetary Fund, the Federal Reserve Bank of New York, and has been the Vice Chairman of the Federal Open Market Committee. I don't know of anyone with better qualifications and it helps to have such a broad perspective of the entire global financial system.

9. Dear Dr. Joe, What do you think about moving a regular IRA into a converted Roth? J.M.

Dear J.M. I think it's a great idea if you 1) qualify and 2) you can afford to pay the taxes this year. Today you would probably be paying taxes on a much lower account value than 1 year ago, which is a big plus in converting to a Roth now. However, I do recommend talking to a CPA prior to making the move so you understand all of your taxable consequences.

10. Dear Dr. Joe, I read a very interesting "white" paper on the financial crisis by Carmen, Reinhart & Kenneth Rogoff. The authors basically went back and examined previous banking crises across the globe. Then they looked at the aftermath of each crisis. Have you seen the academic paper? R.N.

Dear R.N. I have. And the results are not pretty. For example, using a set of global financial data they found the average peak to trough real estate decline was 35% and lasted 6 years. Currently, the US real estate market has declined 28% and only lasted 2.5 years. The authors conclude that we could be in for a greater decline.

The paper also looked at stock market declines, unemployment losses, changes in real GDP and increases in government debt. The authors concluded one of two things about the current US crisis. Either the US has further declines going forward or our financial crisis is not as severe as the other previous global crisis. At this point, we believe our economy is much more robust, flexible and solvent than the other countries that have experience similar crisis. Many of the other nations in this study have limited resources to combat their problems. Thus, we believe such comparisons between weaker economy's and ours are not justified.



A FINAL NOTE

As usual, I want to thank each of you for your continued confidence in our services. Our overall philosophy, which combines the best managers with research-driven asset allocation strategies, has provided excellent returns to all of us over the long term. As we go forward, we remain committed to continuing to refine and improve these proactive strategies. 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 contact us. We are here to serve your financial needs, whatever they may be. Thank you for your kind comments, your considerate referrals and your feedback regarding this newsletter.

Enjoy this wonderful spring...

~ Joe and The Gang at KFS

COMPLIANCE NOTES

A Note From KFS' Chief Compliance Officer

It is that time again to offer our annual Disclosure Document. This document gives a brief overview of our firm, its employees and our practices and policies. If there is anyone who would like to receive a copy of this document, please email me at the address below or call our headquarters office at #877-366-5623. We will be happy to send one to you.

In addition to the newsletter and statements, we have also included in this mailing our most current Privacy Policy for you to read. As always, we want you to know how important your confidential information is to us and the policies we follow to ensure your privacy.

As always, we are committed to better understanding your investment objectives and goals and knowing how we can better serve you.

**Best Regards,
~Katie Burr
katie@kielyfinancial.com**



The KFS Gang (Left to Right): Brownie Cordell, Katie Burr, Joe Kiely, Kellie Kiely and Scott Below

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All performance results reflect the performance results reported by each respective mutual fund to Morningstar, and have not been independently verified by KFS. KFS also maintains all information supporting the reflected mutual fund performance results.

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



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