

KWAG 2012 Year-End Market Update

A significant two-day rally was the perfect way to end 2012 and ring in 2013! Even better, our politicians finally reached a deal to avoid the dreaded “fiscal cliff” although they didn’t technically meet the December 31 deadline. Frankly, we were kind of hoping they wouldn’t reach a deal for several days after the deadline so that all of America could see how the fear and panic being spread in the media had been blown way out of proportion. In effect, the so-called “fiscal cliff” was really more of a “fiscal nuisance” and posed little long-term threat to either the economy or the stock market. Yet since the November election, a number of well-known financial news outlets began ominously tracking the days, hours and minutes until we drove off the cliff (think Thelma and Louise)...as if it was only a matter of time until our country would face economic Armageddon. Here is what we wrote last month about this shameful practice of hyping doom and gloom and inciting panic...

“It’s frankly sad to see...it will NOT happen...and yet people actually believe this nonsense.”

Last month, we stressed how the media has over-hyped every single potentially adverse financial and economic event over the past three years. Specifically, we’ve been warned of the grave dangers resulting from inflation, deflation, the trade deficit, the dollar, the budget deficit, unemployment rates, tax rates, real estate, China, Iran, Israel, an economic slowdown, elections, dysfunctional governments, the Arab spring, hurricanes, Europe’s demise and Asian flu. Need more? We’ve also dealt with Tsunami’s, financial fraud, trading scandals, currency manipulation, printing money, debt ceiling debates, the Federal Reserve, and debt downgrades. Each of these things was supposed to short circuit the economic recovery and/or our financial markets...yet here we are, with both the recovery and markets still intact. Hmm...

So what happened?

The truth is, none of the above were anywhere near as serious as they were held out to be, and in many cases the things being touted as negatives were just the opposite! Meanwhile, the media virtually ignored the fact that global companies have continued to thrive by taking advantage of cheaper labor, low cost of capital, new markets for their products and services, and continued technological innovation. In the process of focusing on the things they could control over the last few years, corporate America has continued to report record cash flows and firms have grown their profitability to all-time records as well. These are the things (corporate cash flows and profits) that drive stock prices over time – as opposed to the irrational panic and hysteria being spread in the news. Unfortunately, many people place way too much emphasis/value on what the media is feeding them. In our view, financial news has largely deteriorated into a daytime soap-opera, far removed from the credible information

outlet it should be. The problem, as we've discussed numerous times before, is that the media is more interested in generating ad revenue than in accurate reporting, and good news apparently doesn't sell. That's why we'll see the "fiscal cliff" will go down with Y2K as one of the biggest media hoaxes in history. Remember how planes were supposed to fall out of the sky? Same deal with the fiscal cliff, only this time the economy was supposed to fall out of the sky...

The Numbers

At this point, most of you have probably noticed that the market saw a strong rally on the last day of the calendar year – even though there was no budget deal at that point. Then, after putting together a package that provided additional revenue (in the form of taxes) the market rallied again. At this point we're not sure that the current deal changes much, as it will have little impact on the overall deficit and spending going forward. There is still a lot of work (and fighting and political posturing) to do, and the media is already gearing up for the next big financial crisis—the next debt ceiling debate. However, none of this matters to long term investors because, thankfully, corporate profits are driven by global growth, not political bickering inside the beltline. As proof, note that for the year (ended December 31, 2012) the S&P 500 (large cap stocks) finished up 13.40%, while the Russell 2000 (small cap stocks) increased 14.63%. This nicely extended the four-year rally that began back in March, 2009, and it's a rally we think could continue for some time. As predicted, the fiscal cliff was just another overhyped non-event. As with each previous crisis, the media has quickly forgotten how wrong they were and quickly shifted focus to the next financial doomsday scenario on their radar.

Our Newsletter

On the 18th of January, 2013 we will be mailing out our year-end newsletter and account statements. When you get your package, please take the time to read it, so you know where we stand on the economy, global issues, our managers, and our portfolios. Specifically, we will 1) examine last years prognostications (where we hit 13 out of 14 items), 2) discuss what we expect to see in the markets over the coming year and, 3) answer questions regarding our financial markets going out over the next three, five and ten years.

Client Appreciation Dinners

During the last week of January, we will also be holding our annual client appreciation dinners. This is always a special time of year, as we get to thank everyone for their continued confidence in our services. As usual, at the dinners, we will deliver a brief "state of the union" address examining the year's key events, and then we'll look ahead to the opportunities and challenges we see in 2013 and beyond. If you have any questions or specific topics you would like us to address at the dinners, please e-mail or call them in so we can make sure to get them on the

agenda. In the meantime, please don't forget to RSVP for any (or all) of the dinners below. Please mark your calendar and make your reservations as soon as possible by calling our main office in Greenville, NC (877-366-5623) or emailing Kristen at kbelow@thekielygroup.com:

Sunset Beach, NC Monday, January 28th | Sea Trails Convention Center | 6-8PM

Greenville, NC Tuesday, January 29th | Brook Valley Country Club | 6-8PM

Asheville, NC Thursday, January 30th | Asheville Country Club | 6-8PM

Thank You

As usual, if you have any questions or concerns regarding our updates, your portfolio or any of our investment strategies, please feel free to contact us immediately. We always look forward to hearing from you and thank you for your continued confidence in our firm. The recent referrals are much appreciated. As you know, we remain 100% committed towards your financial well-being at all times. 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. Again, we thank you for your continued confidence in our firm and look forward to working together in 2013!

HAPPY NEW YEAR!

- *Joe and The Gang at KWAG*

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