

KWAG December Update

I have always loved Thanksgiving. I assume I love the holiday for the exact same reasons as everyone else. First, Thanksgiving reminds me to give thanks for everything I have. I've been very fortunate in a number of ways, but I really give thanks for having such a great loving wife (Kellie). She is the best thing that has ever happened to me and I give thanks every day that she continues to be my best friend! Thanks Honey!

Second, Thanksgiving always reminds me to give back to those who need a helping hand. When we were growing up, my father impressed upon us how important it was to consistently give back to your community and those in need...without judgment. On every Thanksgiving, Christmas and Easter morning, he would take us down to the Salvation Army, where we would serve, comfort and help others with a kind word, a solid meal and/or a holiday gift. Those mornings continue to influence how I think about other people who are less fortunate and need a helping hand. Thanks Dad!

Third, I give thanks for having such great parents. Me, and my five siblings were extremely fortunate to have parents who were so well rounded and community oriented. My parents instilled honesty, integrity, transparency, giving, being open-minded, doing the right thing, and being positively engaged in your community. In addition, they instilled love, creativity, living for the moment, education, tolerance and loyalty. When I started this company, I did so with my parents in mind. I wanted everyone we came in contact with to be treated in the same way I would want my own parents to be treated. In addition, I wanted my parents to be proud of how we served people with open arms, transparency, education and decency. I give thanks to them for providing me with a moral compass. What a great gift to receive.

Fourth, it goes without saying that I give thanks (almost daily) for our caring team at KWAG, and our wonderful clients and close friends. Over the last two decades, Kellie, Scott, Brownie, Kristen and Katie have provided timely advice, loving support, quality service, and an educational, empowering approach to investing. Collectively, they have made me a much better person. Thanks! Who knew building an investment firm could be so much fun? Thanks Guys! I look forward to twenty more great years!!

Finally, over the last twenty years, I have received an incredible amount of excellent constructive feedback from our clients and friends, all of which has significantly shaped our broader message and our daily practices. I am incredibly thankful that people would go out of their way to help us improve our practice...and then refer our services to their friends and family. There is no better compliment than a client referral. Thank You! Today, most of our

growth comes through “word of mouth” referrals. This act of generosity only humbles me to work harder on your behalf.

For all of that I am Thankful...and blessed...

The Stock Market

For the month of November, the S&P500 (large company index) continued its upward climb by increasing another 2.4%. The large cap index is now up almost 5% for the fourth quarter, and more than 11% for the calendar year. That's a nice rate of return. Conversely, the Russell 2000 (small company index) finished the month of November slightly down, after experiencing last day sell-off on Friday, November 30th. The small cap index is now up more than 6% for the fourth quarter, and just below 1% for the calendar year. Clearly, there is still a significant diversion between large and small cap stocks, which represents a nice buying opportunity. This is precisely why we have been pro-actively rebalancing out of relatively “overpriced” large cap stock funds into relatively “underpriced” small cap stock funds over the last few months.

When you examine all nine stock market style indexes - or the entire stock market - it was up 1.5% (in aggregate) for the month of November. The entire stock market (as represented by the nine stock market style indexes) is now up 4.8% for the fourth quarter, and 6.5% for the calendar year. Clearly, small cap stocks have acted as a short-term drag on the overall stock market during 2014 calendar year. However, as educated long-term investors - who recognize the significant benefits of holding small cap stocks over time - we recognize this short-term deviation provides a nice opportunity to buy small caps on the cheap.

Many of you have probably noticed some minor adjustments in your stock portfolios over the last few months. We will continue to tweak all of our portfolios throughout December to make sure they are all properly positioned for the New Year. Please let us know if you have any questions about these changes.

The Economy & Bond Market

A number of significant global changes occurred in the fixed income area of the financial markets over the last month. Specifically, the central banks of China, Japan and the European Union all cut short-term interest rates and increased their money supply. Each country's central bank's cut their respective interest rates with the hopes of stimulating each of their respective waning economies and fighting off potential deflation. Taken as a whole, this has led us to re-evaluate our outlook and position on U.S. interest rates going forward.

Basically, we don't see U.S. interest rates rising significantly any time in the near or mid term future.

Many of you probably wonder why we feel this way? Simply put, by cutting short-term interest rates, the 10-year yield (or interest rate) in every single European country - and Japan - are now lower than our 10-year yield (or interest rate). Since our Treasury securities are considered the safest investment in the world, we believe large institutional investors who are looking for safety, higher yield, and liquidity will buy our treasury securities, versus those overseas. This increased demand for U.S. Treasury securities will not only limit any potential rise in U.S. interest rates going forward, it may even drive our interest rates lower.

Of course, the next logical question is what will the effects of the global slowdown be on our economy?

To us, the answer is fairly clear - America will not be hurt by the world's economic slowdown, and will probably benefit from it. The effect is two-pronged. First, America has a profoundly insular economy, and exports account for only 13% of total GDP. This means that a slowdown in demand, say from Europe, will affect the US economy only minutely. A recent study, which simulated what the effects of what a serious EU recession would be on the world, found that in such a scenario US GDP would only take a 0.08% hit. Second, the rest of the world's stagnation actually helps America by lowering interest rates, which stimulates growth, and decreasing commodities prices. The net result of lower rates and lower commodity prices means the American consumer will have more disposable income to spend which helps our countries bottom line.

In sum, the positive effects of the world's slowdown greatly outweigh the downside for America.

Have a Happy Holiday

As we enter December, we wish everyone a truly joyous holiday season. Our year-end office hours will be altered a little due to the Christmas and New Years holidays. On Wednesday, December 24th our office will close early at 1 PM (EST). On Thursday, December 25th and Friday, December 26th, our office(s) will be closed. On Wednesday, December 31st our office will again close early at 1 PM (EST). On Thursday, January 1st, 2014 our office(s) will be closed. However, on Friday, January 2nd, 2015 our office will be open for business. Of course, we will obviously be checking our phone lines and e-mails regularly, in case there is an emergency.

Travel safely, embrace your family and friends, and take a moment to appreciate all that we have...

Joe & the Gang at KWAG

PS: For those of you who read all of these updates thoroughly...here's what I'm really thankful for. Kellie is pregnant with twin girls who are due in March. Now that's something to be thankful for!!

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