

KWAG March Update

Good afternoon. For some odd reason, all of my recent thoughts (and brilliant ideas) have all come in TWO's. Maybe it's a coincidence or maybe it has something to do with February 10th, 2015 - a day that will change my life forever. For example, when I think about the fate of different investors, I think about the TWO ways they make investment decisions. Many investors make investment decisions based on recent short-term market trends, while others look at the bigger picture...or the long-term. Academic studies have found that an investors "time frame" makes a huge difference in their performance over time. Basically, studies find the longer your time frame, the better your performance.

Another example of TWO different viewpoints occurs when I think about how investors view the overall universe of stock investments. Many investors believe the Dow Jones Industrial Average (30 stocks) and/or the S&P500 (500 stocks) define the overall stock market, while others investors look at the bigger picture (5,500 stocks), which includes small and mid-cap stocks. Again, academic studies have concluded that asset allocation, or the inclusion of small and mid-caps makes a huge difference in performance over time.

At this point, you're probably wondering about TWO items. First, you may be wondering why I'm reinforcing the concepts of being a long-term investor and the importance of asset allocation? The answer to the first question can be traced to a phone call I received yesterday from a long term client who has been with me for over 15 years. Second, you may be wondering what that message has to do with

February 10th, 2015? The answer to the second question is known by most of you, but can be found at the end of this update...

A Tale of TWO Investors

Last year, in mid-October I received TWO phone calls (on the same day) from TWO different investors with TWO very different viewpoints. As you will recall, the stock market had experienced a nice significant short-term dip...particularly in the small-cap space. The first call came from a long-term client who understood the wisdom of being diversified across the entire stock market, pro-active rebalancing, and making decisions based on long-term trends. He basically told me he had a bunch of “cash” on hand from a recent real estate transaction, and after the recent underperformance in small-caps and the subsequent dip, he felt like it would be a great idea to buy small-caps while they were relatively “on sale”. I obviously agreed.

The second call came from a client who had just started with our firm the previous January...or nine months earlier. He was referred to us by a relative who was very happy with our management over the previous ten years. The new client promoted his patience as a long-term investor and he wanted a diversified portfolio just like his relative owned. Well, after seeing large-caps outperform small-caps by 8% over the previous eight months, he decided that it was time to move all of his assets out of a well-diversified portfolio and into large cap stocks. As you might imagine, I tried to convince him to stay the course...and to look beyond a “random” short-term nine month time period. Unfortunately, he moved everything...and it has since cost him...

A Tale of TWO Outcomes

As everyone knows, we build our stock portfolio's based on longer term stock market trends. And, those long term trends are pretty evident. Over time, small and mid-cap stocks outperform large cap stocks by a significant margin. And, if you incorporate "value" stocks into the mix, they do so with much less risk. The data is irrefutable on these TWO points and it can be verified with very little work.

For example, you could go back to our year-end newsletter and examine the Russell Style index data going back to 1970. Clearly small and mid-caps have outperform large cap stocks over time, and if you examine the Beta's (or risk profiles) of each stock market style index, you'll see mid and small-cap value stocks have the least risk. As an alternative, you could go out to Morningstar.com right now. Simply enter NAESX into the "quote" box at the top and hit enter. NAESX is a Vanguard index fund which invests in an equal amount of small and mid-cap stocks. If you click on the "performance" tab, you can examine how NAESX has performed when compared to the S&P500 over various time periods.

What you'll find is NAESX (or small and mid-cap stocks) have beat the S&P500 (or large cap stocks) over the last three, five, ten and fifteen year time periods. And, they have done so by a significant amount. In fact, if you go back fifteen years, the difference in performance between NAESX (or small and mid-cap stocks) and the S&P500 (or large-cap stocks) is almost 90%! That's a significant difference!

At this point, I would imagine some of you are probably wondering how small caps have performed since those TWO fateful calls in October? Well, since October 12th, 2014, (or over the last five months) small cap stocks have outperformed large cap stocks by more than 5%. Over long-term time periods, we would expect this type of difference to persist. Over short-term time periods, any reversal to the long-term trend should be treated as an opportunity to rebalance.

A Tale of TWO Phone Calls

I was reminded of the TWO October calls yesterday when the longer term client (above) called me to ask where he should put some additional money. Of course, he already knew the answer. His stock portfolio had experienced a significant run over the past five months, so we agreed we should invest most of it in TWO fixed income funds, while they are "relatively" on sale. I never heard from the short term investor again, although his relative (and my long term client and friend) recently called me to let me know that his relative had become a day trader...Ugh!!

Of course, this leaves us with the February 10th, 2015 reference...which most of you already know was the day our TWO beautiful daughters (Piper Elizabeth Kiely and Kaitlyn Blake Kiely) were born. A gift we refer to as our TWO little angels and the reason why I have double vision and view everything in TWO's now.

A Tale of TWO Little Angels

Since February 10th, Kate and Piper have been staying in the neonatal ICU unit of Mission hospital. They were born in their 33rd week (or

almost six weeks early). Their progress has been steady and significant, and the care at Mission has been outstanding! On Friday, February 27th, they were moved into their own room, which is the last step before they come home. We are hopeful that will occur within TWO weeks. Kate now weighs over 4.5 lbs, while Piper now weighs more than 5.5 lbs. Kellie spends most of her days (and a majority of nights) with the girls - which is the benefit of having your own room - and I come in for breakfast, lunch and dinner feedings.

Yesterday, the girls turned three weeks old (on March 3rd) and we celebrated with a TWO little ice cream bars in the hospital cafeteria!! We truly feel blessed to have these TWO beautiful girls and we look forward to every day we have with them. Luckily, we live only five minutes away from the hospital...so going back and forth has been fairly easy for us.

The gifts, notes, texts, calls, occasional meals and e-mails of support have been overwhelming. Kellie and I both thank you for your generous notes, your wisdom, and overall concern. The girls are receiving great care at Mission and it's just a matter of time until they are big enough to come home. If you'd like a picture or TWO, please feel free to text me at 828-350-8681. I have 1000's of pictures on my iPhone and I'm happy to send one or TWO to anyone who wants them.

In Closing

As usual, if you have any questions about this update, our newsletter, your accounts or our managers, please feel free to call or e-mail us at any time. The recent referrals are much appreciated and we thank you for your continued confidence in our firm and our services. 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.

- Joe and The Gang at KWAG

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