

KWAG May Update

Some people hate routines...fortunately, I'm not one of those people. I love to start my days the exact same way, with a strong cup of coffee, and some serious number crunching. For some reason, both the coffee and the number crunching makes my brain "tingle" in a very nice way. I always look forward to that first cup of strong black coffee, and then surveying the various financial reports, articles, and interviews that fill my inbox each morning. One of the most productive aspects of the current generation of web content stems from the ability to aggregate financial reports, newsletters and breaking news from a variety of sources and then have these miraculously appear on your computer's doorstep each morning. It's the equivalent of receiving literally dozens of newspapers and financial publications each day, only you get to select the content you're interested in and the news isn't 24-hours old (or more) by the time you see it. So nice! For me, it's a productive and stimulating way to start the day. Then the day gets even better as I walk the dogs through our gardens and think about everything I've just read. I can't imagine starting the day any other way.

Content

If you were to ask me what articles and content I find most worthwhile, I would answer, "It's the managers, analysts, and economists who view the world from a long-term perspective." I try to avoid getting caught up in the day-to-day minutia and the silly emotion-evoking headlines. Our goal is to invest in high-quality global companies that will be successful over the long term. So focusing my efforts on information that will potentially impact the long run global economy just makes sense. It's not surprising that the managers, analysts, and economists with a long-term focus are also the ones who have enjoyed both success and longevity, whereas those who focus on the short-

term “crisis of the moment” tend to come and go with high frequency. This is because making long-term portfolio decisions based on today’s headlines has never made any sense, and those who attempt it soon discover the folly of making short-sighted investment decisions based on one emotional headline after another. (Think: Market timers) True investment professionals, on the other hand, recognize the value of studying the big picture—and of basing critical investment decisions on sound analytics rather than emotions. So it is these thought leaders whose opinions we most value, and who help shape our strategies over time.

Why do I bring this up?

I bring this up because in this “information age”, we are about to embark on the most widely covered presidential campaign in history. Since modern voters more frequently vote against a candidate rather than for a candidate, you can bet this election will be particularly negative and nasty, and filled with plenty of erroneous “facts” and half-truths designed to strike fear into the hearts of voters. We fully expect to see more hyperbole and negativity than we’ve seen in any election previously - from both sides. With the advent of technological innovations such as Twitter, Facebook and blogging, - and - with the now near unlimited funding provided by super-PACs, it’s quite clear that mud-slinging (and fact distorting) is being raised to a whole new level. And since voters don’t have the time to check the facts on everything they hear, we expect the cacophony of lies and twisted facts to be deafening. We’re agnostic with regard to the political impact of this brave new world of campaigning, but are quite concerned about the impact it will have on investment decisions.

Keep Your Perspective

As we move closer to November, try to remember that we own well-diversified portfolios of high-quality global companies and that these firms will do well over the long-run regardless who is running the government. Modern

corporations are built to adapt to an ever-changing world and the political environment is just one aspect of a long list of things they must continually monitor and adjust. Think about it...they already deal with different languages, different cultures, ever-changing barriers to entry, fluctuating exchange rates, unusual foreign customs, differing and ever-evolving tax structures, and unique country-specific consumer tastes and social norms. Corporations are used to change - not just domestically but across the globe - and they are going to continue to thrive regardless of what happens in November. In fact, the best companies will seek to use any changes to their advantage. A cursory look at record corporate profits and cash flows would imply they've adapted very well to the multitude of changes taking place globally. So try to keep this in mind as the election season heats up.

The Big Picture

Over the next six months, when things get ugly and/or you're feeling nervous or tense, we want you to remember that campaign ads are the worst possible source of economic information and are designed to elicit a strong emotional response. Whether you use any of this "information" to determine how you vote is of no concern to us. What is concerning, however, is whether you allow this information to divert your investing focus away from the big picture and the long run.

Most successful money managers, analysts, and economists recognize that the election will have little – if any – impact on the four macro-economic factors that have been driving the global economy for a number of years now. Regardless who is elected in November, we will continue to have 1) record low interest rates, 2) relatively cheap and plentiful global labor, 3) innovative technology that can help leverage these cheap inputs, and 4) a growing global middle class. These factors will be in place for the foreseeable future and as long as they are, the future for the companies we own is quite bright.

So, although the election is very important, we don't think it will have much of an impact on the companies we own over the long run. And since we are optimistic about our economic future, we will continue to use any of the inevitable future dips as opportunities to rebalance our portfolios in a positive way, just as we always have.

In Closing

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 the opportunity to work together!

- Joe and The Gang at KWAG

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