KWAG November Update

Good Afternoon! As we have mentioned before, one of our main responsibilities as investment advisors is to help our clients keep recent market news in the proper perspective. In September and October, you may recall that we wrote about the much anticipated (and overdue) 10%-15% correction in the stock market and how it was healthy for a number of reasons over the long term. Specifically, we said normal market dips create excellent buying opportunities, proactive rebalancing opportunities (both for individual stocks and style indexes), and they also eventually usher in new market highs.

The Numbers

During October, large cap stocks (as measured by the S&P 500 index) increased 8.4%, while small cap stocks (as measured by the Russell 2000 index) increased 5.6%. The S&P 500's return was the third best October performance in the last 26 years (or since 1990). October's market return may have come as a surprise to many investors, but it shouldn't have. As we have written many times, significant market dips are often followed by quick and significant market rebounds. <u>This is why it's incredibly important for those still saving for retirement to invest in regular intervals (monthly, biweekly, etc.) and maintain focus on the long run.</u> By investing regularly, you automatically take advantage of normal market dips, buying more shares when prices are low than when they're high. And, by focusing on the long run, you avoid getting caught up in all the short-term news commotion that invariably accompanies stock market dips. (Keep in mind that we have historically seen a 10-15% dip nearly every year. They are the norm, not the exception!!)

October's Bad Reputation

October clearly has a bad reputation when it comes to the stock market. That's mostly due to a few really bad Octobers, most notably in 1929, 1987, and 2008.

However, if you eliminate those three years, the month of October is generally positive. In fact, since 1962, October has seen gains in the S&P 500 index 34 times, compared with just 20 losses. And eliminating the years 1987 and 2008, the average gain in the month of October has been 1.89%. So, if you had recently put your faith in bad math, bad market rumors, or some of the really bad books (religious and otherwise) that predicted a crash this past October, you missed one of the best months we've had in four years!

So, let's put October's bad reputation to rest once and for all. Okay? There is no reason to avoid investing in the stock market during October and if you understand the importance of normal market dips, you should embrace every October whether it's a good month or bad one. (Note: I've broken three bones in my lifetime and they've all happened on Thursdays. Should I treat Thursdays any differently than any other day? Or can we all agree it's just a coincidence?)

Logical Actions

Over longer periods of time, there is no debate. The stock market outperforms any type of bond or fixed income investment. However, the price you pay for higher longer run returns comes in the form of increased short-term volatility. The beauty of this for long term investors, is that short-term volatility doesn't hurt your portfolio in the long run. If you react to it correctly, it can even help. For example, over the last few months, I have been pleasantly surprised at the number of checks and other contributions we have received from many of our clients. That collective wisdom has paid off handsomely for many of you already. Nice work! In addition, over the past few months we have made a number of pro-active changes to our portfolios, rotating out of overpriced areas of the market into underpriced areas. There are still significant imbalances that exist between underpriced "value" stocks and relatively overpriced "growth" stocks. The size and scope of this imbalance has rarely been this great, which implies to us that there is a real opportunity in the small cap and value areas going forward.

What Opportunity?

If you examine all of the rolling 10-year periods since 1927, you'll find value stocks beat growth stocks 930 out of 951 times, or 98% of the time! That's a pretty incredible number and explains why there is so much academic research focused on value stocks. Right now, we're in the midst of one of those rare (2%) 10-year periods where growth has outperformed value. To us, this implies were due for a significant expansion in "value" stocks going forward.

No one can be certain when "value" stocks will take off, but the numbers seem to suggest it will probably be sooner rather than later. Remember, the numbers don't lie. Stocks beat bonds. Value beats growth. Patience beats speculation. Time "in" the market beats "timing the market". And patient long-term investors who stick to a well-thought-out long-term investment plan (which embraces excellent managers with proven records) are always amply rewarded.

Investment Secrets

The objective of these monthly updates is to provide a big-picture view of our investment strategies and focus on the keys to successful long term investing. Many investors believe there is some sort of "magic potion" associated with good investing, but the magic actually lies in understanding how markets behave over the long run and using that knowledge to your advantage. Unfortunately, many investors change course during "off" periods or attempt to "time the market" by selling when things look challenging in the short-run. That obviously would have been a mistake in October.

Of course, we understand some of you may still have questions about the many unfolding news events grabbing current headlines, like the upcoming election, the Fed's plans on U.S. interest rates, declining oil prices, ongoing uncertainty in the far east, and so on. If we can share our insights on any of these topics with you or

answer any other questions you may have about what makes the markets act the way they do, we are happy to hold those conversations with you at any time. However, please remember, very few of these current events - which none of us have any control over - will have any material impact on your portfolio over time.

The most important factor affecting your portfolio return over time is not how the market behaves but how YOU behave when the market takes a normal dip or when a certain portfolio strategy falls out of favor over the short term. If you embrace the inevitable dips and temporary setbacks as reoccurring normal opportunities, you and your portfolio will thrive over time. If, on the other hand, you panic or second-guess yourself and change course based on a short term event or correction, you'll be destined to perform like the "average" stock investor who, for all their efforts, earn roughly one-half of the stock market's total return over time.

The good news is none of our clients have panicked and all have behaved quite rationally over the last few months. Thanks! This has allowed us to focus most of our efforts on finding the best managers, rebalancing portfolios when appropriate, and addressing day-to-day client needs as they occur.

In Closing

As always, please be in touch whenever we can be of service to you and your family. If you have any questions about this update, our views, your accounts, or our managers, please feel free to call or e-mail 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 & The Gang at KWAG**

KIELY GROUP ADVISORS & OFFICES

Asheville, NC
Joe Kiely, PhD
jkiely@thekielygroup.com
828-350-8681

Sunset Beach, NC
Brownie Cordell, RIS
bcordell@thekielygroup.com
910-579-8075

Greenville, NC
Scott Below, PhD
sbelow@thekielygroup.com
877-366-5623

Fayetteville, NY
Dick Cauchon
dick@thekielygroup.com
315-374-8183

Katie Burr
Kiely Wealth Advisory Group, Inc.
Operations & Client Services Director
Chief Compliance Officer
P.O. Box 756
Oak Ridge, NC 27310
877-366-5623