KWAG September Update

Good Afternoon! One of our main responsibilities as your investment advisor is help you keep recent market news in the proper perspective, particularly when the media is reporting on steep, global market declines, like the one we've observed over the last few weeks. Based on the recent, overwhelmingly positive feedback we've received from our clients, it appears that our consistent message (which we've been stressing for the last year or more - about the inevitable coming correction) has hit home with the vast majority of our clients. Over the past few weeks, we finally experienced the 10% - 15% correction we've been talking about, and for most of you it came as absolutely no surprise, which is exactly the kind of reaction we were had hoped for. We've obviously been talking about a normal correction and an increase in volatility for a long time now, so it's reassuring to find out that communications aren't falling on deaf ears. It's even more reassuring to know that normal market behavior - like the 10%+ dip we just experienced - hasn't phased the vast majority of our clients in the slightest. If this were a finance class, we'd be handing out a lot of A's! Thanks for keeping your long-term perspective!

Positive Feedback

This is just a small sampling of the many e-mails, texts and calls we have received.

- *Dr. J, You know that 10% correction you keep talking about? I think it's happening.*
- *Joe, it looks like we're getting the normal 10% correction you've been writing about.*
- *Joe, thanks for providing some much need perspective. We're getting our normal dip.*
- *I assume our managers are buying up some good companies while they're on sale?*

- *I think your timing was perfect when you rebalanced our accounts last month.*
- *Thanks for being proactive with your changes to our portfolio!*
- *Joe, now I never worry about normal market dips any more. Thanks.*
- *Thanks for providing a longer term perspective. I've learned to ignore the daily news.*
- *I noticed the pro-active changes in my account…thanks for following through.*
- *Hey Joe, I'm not calling about the current volatility…I know we're okay there…*

Based on these comments you can tell we had a relatively relaxed week with respect to client communications. Some clients did call for some reassurance and that's okay, since that's what we're here for. However, no one called in a panic. If you are okay with ignoring the sensationalized headlines you always get during times like this and going about your business, feel free to continue as you were. And, unless you would like to revisit your own risk tolerances or individual financial goals, none of our advice about how to manage your long-term personal portfolio has changed. We've been expecting a normal dip for quite some time, so it's been pretty much business as usual for us.

Some Perspective

On the other hand, if the recent volatility has left you a little nervous and wondering whether you should adjust your overall asset allocation to become more defensive, we would like to offer some insight on how recent volatility can actually translate into good news for you and your portfolio over the long run.

This is the time to remember those conversations we have had together about your willingness, ability and need to tolerate market risks in pursuit of your long-term goals. The last several weeks of market turmoil serve as an excellent "Exhibit A" on just what market risk feels like when it happens. For many investors it feels painful, is a little scary, and is certainly no fun. However, market corrections are normal and similar to a pressure release valve on a water heater. When water

inside a water heater overheats, the pressure inside reaches unsafe levels and the release valve trips, reducing the pressure quickly and avoiding catastrophe. Without the stock market occasionally tripping the pressure relief valve, we face the danger of an overheated market that can ultimately become a ticking time bomb, just like we saw with tech stocks in the late 1990s.

So in order for the markets to deliver long-term premium returns, these sharp short-term declines and spikes in volatility are merely a sign that the system is working well and the safety valve has functioned exactly as it should. In essence, these normal, sometimes disconcerting corrections are an integral part of a healthy market environment. Without them, markets can become seriously overheated and that's not good for anyone.

Below, we provide a table of the size of market dips, how frequently they tend to occur, and how long they typically last. As you can see, 10% dips occur roughly once a year on average. Given that the last time we saw a 10% dip was almost 4 years ago, we were more than overdue for a normal dip. This is why the market dip over the last few weeks shouldn't come as a surprise. As we have mentioned many times before, normal dips like this provide great buying and rebalancing opportunities for savvy long-term investors.

A History of Declines (1900 – 2014)

Size of Decline	Average Frequency	Average Length (1)	Last Occurrence	Past Occurrence
-5% or more	≈ 3x a year	46 Days	Dec 2014	Oct 2014
-10% or more	≈ once a year	115 Days	Oct 2011	Jul 2010
-15% or more	≈ once a year	216 Days	Oct 2011	Mar 2009
-20% or more	≈ every 3.5 years	368 Days	Mar 2009	Oct 2002

1. Measures market high to market low.

It might help to think of investing in the markets as a trip to the dentist. It's very unlikely that you enjoy getting your teeth cleaned, getting a filling, or undergoing a root canal procedure. However, this short-term unpleasantness is necessary to preserve (if not improve on) your winning smile. Just as your dentist offers pain relief when appropriate, you can think of proper diversification, excellent managers, and time as our prescribed painkilling medicines to help make the dips more tolerable.

Living with a market decline is never easy, but if you understand the following key facts you will be much better equipped to deal with them successfully:

- Market declines are a normal part of investing. (See above)
- No one can predict consistently when market declines will happen.
- No one can predict how long a decline will last.
- No one can consistently predict the right time to get into or out of the market.

Uncertainty in the short-run is the reason why we have constructed well-diversified portfolios using the best possible money managers. While diversification can never eliminate all the short-term pain, we believe it should comfort you to know we have meticulously planned for events just like these, and so have our managers. In fact, we go out of our way to find managers who have excellent track records in down markets and over volatile periods. All of them, have a proven history of using these short-term (and expected) market dips to shore up their portfolio holdings.

Market Drops = Opportunity

Many of you have probably heard the general discussions about the size (and scope) of last week's market dip. For example, we know the S&P 500 saw a normal 12.4% dip from the May 21 peak to last Tuesday's close. What you may

not have heard is how FAR a number of excellent individual companies (within the S&P 500) dropped last week. This is where excellent managers make their biggest impact because periods like this are where the best deals are found. At the end of close on Tuesday last week, 11 companies in the S&P 500 had dropped by 50% or more from their previous highs, 23 companies had dropped more than 30%, and 78 companies had dropped by over 20%. In total, 216 of the 500 companies in the index fell by 10% or more in just the last week. When situations like this arise, there are always great bargains and that's what our managers have been patiently waiting for. And since the S&P 500 index only accounts for roughly 15% of publicly traded stocks in the US, there are plenty of other opportunities in the small and mid-cap space as well. Frankly, we look forward to greater volatility and normal market dips since this is exactly where the foundation is set for the greatest long run returns.

Functionally, without normal market dips and the pricing inefficiencies they create, excellent managers would find it much more difficult to distinguish themselves and generate market-beating returns. However, since we know these dips are normal and they typically occur (on average) once a year, they provide recurring opportunities for proactive managers to scoop up well-run companies on the cheap. Normal volatility spikes also provide opportunities for our firm to rebalance our client portfolios, rotating out of overpriced areas of the market into underpriced ones.

The truth is volatility is your friend assuming you stay well diversified and keep your focus on the long run. Unfortunately, this is exactly where many small investors fall prey to the markets. First, they forget short-term dips are a normal part of the market and must therefore be factored into any successful longer-term investment strategy. (Note: We believe this is just the beginning of the current volatility, which we believe will create a number of excellent buying opportunities in the coming weeks). Second, they fail to diversify their portfolios

appropriately and don't have a common sense strategy (or simple trigger mechanism) for normal proactive rebalancing. Finally, they focus on the "now" and lose sight of the bigger picture, which is the longer-term (at least five years).

Over time, the stock market always bounces back, which is why these short-term dips should be expected and embraced. If you're working (and thus investing regularly in a retirement plan), these short dips should logically be celebrated. After all, who doesn't like a nice short-term sale? Think of this period as an extended Black Friday, where you, our managers, and us at KWAG (through our rebalancing strategies) get to buy all sorts of goodies (or stocks) while they're temporarily on sale.

In Closing

Big-picture strategy aside, we understand you may still have questions about the many unfolding news events grabbing current headlines: China's devalued currency, the Fed's plans on U.S. interest rates, declining oil prices, ongoing uncertainty in Greece, 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.

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