

## KWAG April E-mail Update

Good afternoon. We hope this monthly update finds everyone enjoying this fantastic spring weather. As the temperatures have heated up, so have our portfolios. The first quarter of 2011 was one of the best first quarters we've had in decades. At this point, we hope this positive result (that is now beyond two years old) comes as no surprise to our clients and friends. For over two years, we have discussed the structural changes that have taken place in the world economy – and – we have outlined how individual companies (that trade on our exchanges) have taken advantage of these changes. So, while many of the media headlines will have you believe we're headed for another catastrophic market correction, we'd like you know that everything is just fine.

### Past Newsletters

Over this past weekend, I went back and read a number of our quarterly newsletters. I was pleasantly surprised at how accurate we have been regarding the world economy and our recovery. Two years ago, we explained exactly how we felt this recovery would proceed...and we've been remarkably accurate...with one small omission. We thought the market recovery would take three to five years. We were wrong. It's taken just over two years!! Last week, while the media focused its efforts on the impending doom of a government shutdown, small and mid caps hit **"all time"** highs. Yes, ALL TIME HIGHS!! In addition, corporate earnings and cash flows are at all time highs. Exports are at all time highs. Productivity is at an all time high. And the world economy continues to grow at an extremely fast pace. These simple facts seem to be outweighed by the incessant din of an over-reactive media.

So, if you're concerned about our economy or your portfolio, please logon to our corporate webpage: [www.thekielygroup.com](http://www.thekielygroup.com) and click on the "Client Communication" tab. This will take you directly to our old newsletters and

updates. If you examine (and reread) the last three newsletters, you'll notice that they address the very issues you still see being dissected by the media today. Apparently, the media missed the memo that wise investors (and the companies that they own), have moved on. We're focused on a productive global economy that is being driven by America's best and brightest companies. The medias focused on "headline" news that drives fear – which frankly plays no role in the growth of a well diversified portfolio over time.

### **Upcoming Newsletter**

Overall, it's clear that the economic recovery is underway. What is debatable is the strength of the domestic expansion. Internationally, the world is growing at a very rapid pace. Domestically, we still have some issues to work through. In our upcoming newsletter, we will examine where we stand regarding the health of the overall economy and the financial markets. In general, we remain optimistic, but recognize there are some headwinds in front us. The good news is, now that the economy has turned in the appropriate direction, it starts to take a life of its own...regardless of what happens in Washington. Don't forget, our economy is larger than the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> largest economies...combined! In other words, the size and scope of our economy is hard to slow down once it gets started in a positive direction. Yet, people still remain pessimistic about our future.

We will expand on this pessimistic theme by examining some of the more common fears many investors still hold onto. There are still a number of people that believe our economy could experience another near melt-down like we experienced two years ago. If you have read our newsletters and/or attended any one of our client dinners, you understand why this scenario is extremely unlikely. However, if you have been getting most of your market data from one media source (that would love to see you keep tuning in for the latest update...), then you probably have a more pessimistic view of the world economy. A view that is not accurate today.

So, please reread our newsletters...they provide an unbiased (and balanced) look at the world economy as it exists today. In addition, our past newsletters will also get you up to speed for the upcoming newsletter which builds on previous themes.

### **Newsletter Content**

The actual first quarter 2011 newsletter and statements will go out on the 22<sup>nd</sup> of April. In it, we will re-examine role of fear. Fear can be a very powerful motivator. Unfortunately, when one acts upon a perceived fear, it usually leads to poor decision making - particularly when it comes to our finances. Today, much of the best academic research in finance revolves around the psychology of investing.

Unfortunately, the research is clear - investors who focus too much on the short run, tend to make poor decisions they often regret later on. Most of those decisions are driven by one of two emotions: fear and/or greed.

We will also spend a portion of the newsletter reinforcing our optimistic economic outlook that we outlined at our client dinners this past quarter. It's not really surprising that corporate cash flows are at all time highs when you examine some of the broader macro-economic data. When one closely examines global labor costs, global capital costs, technology trends and lower trade barriers, it's easy to see why corporate cash flows are at all time highs. All four items are pointed in the same direction, which means our markets are fundamentally set up to expand for some time.

Finally, we'll examine our economy and market returns over various time periods. As you might expect, small and mid-caps have led the most recent market rally. Of course, small and mid caps have driven most of the rallies over the past 40 years,

so this should come as no surprise. We'll finish the newsletter with our favorite section that examines your best questions this past quarter.

### **Please stay in touch**

As usual, if you have any questions about this update, our newsletters, your accounts or our managers, please feel free to call or e-mail us anytime. Enjoy the spring...and thank you for your continued confidence in our firm. The recent referrals are much appreciated and as you know, we remain 100% committed towards your financial well being at all times.

- **Joe and The Gang at KWAG**

### **KIELY GROUP ADVISORS & OFFICES**

#### **Asheville, NC**

**Joe Kiely, PhD**

[jkiely@thekielygroup.com](mailto:jkiely@thekielygroup.com)

**828-350-8681**

#### **Sunset Beach, NC**

**Brownie Cordell, RIS**

[bcordell@thekielygroup.com](mailto:bcordell@thekielygroup.com)

**910-579-8075**

#### **Greenville, NC**

**Scott Below, PhD**

[sbelow@thekielygroup.com](mailto:sbelow@thekielygroup.com)

**877-366-5623**

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