

## KWAG Japan E-mail Update

We thought it might be appropriate to send out a quick update for those of you who are wondering how the events in Japan will affect your portfolio. Overall, we believe the long term affect will be negligible. In the short run, we believe there are a few opportunities that will help us all given the way traders and speculators behave when short run events take place. Unfortunately, this is the nature of our markets. Here is how we approach these types of short run events.

1. We are patient long term investors, who are focused on long run outcomes. We recognize that there are short term events that can drive up volatility in our markets. As long term investors, these short run events often provide opportunities. We don't believe this case will be any different.
2. For months now, we have been saying the stock market has had a great run. We believe that run will continue for some time given the structural changes that have taken place. However, we have cautioned all investors to be prepared for a normal pull-back in our markets.
3. We have cautioned that predicting such events is virtually impossible. Thus, for every individual investor we have built a personalized portfolio that is appropriately balanced across both bonds and stocks. These portfolios factor in market "surprises" and "unknown" future events.
4. We have said the normal pull-back will most likely be driven by an "unknown" event.
5. We have written that when this event occurs, there will be unilateral panic driven selling without regard to the underlying value of stocks. In essence, many companies (that have absolutely nothing to do with the event) will get sold off. This provides an opportunity for long run investors.

6. Our managers (who are used to this type of short term market shock) will use the market pull-back to rebalance their individual portfolio's and to purchase undervalued stocks that have nothing to do the actual event.
7. In addition, we at KWAG will rebalance portfolio's to take advantage of the market dip. In essence, we will rebalance each individual portfolio back to pre-determined long run portfolio balances...if needed.
8. So, while our hearts go out to the people in Japan who were affected by the earthquake and Tsunami, we do not believe this event will play a major role in our portfolio's...except to possibly provide some rebalancing opportunities. In essence, we don't view this event as a threat. We actually view it as an opportunity. (Note: We took advantage of the same sort of short term selling last month when the crisis in Egypt started, before the market hit multi-year highs.)
9. In addition, you should know we have a plan in place for every type of market contingency. In essence, if we see a structural change in the way our world works, we will make structural changes to our portfolio. Conversely, if we see a short term event increase the volatility of our markets, we will use those events to rebalance our portfolio's.
10. Overall, we still believe our economic recovery is still intact. And we believe the stock market will provide the best return for investors over the next five and ten years. So, while we worry about how to position our portfolios after this tragic event, we would to encourage you to focus your efforts on providing assistance to those in need.

Have a great day. We hope we get to see many of you at our client dinner in Asheville on April 6<sup>th</sup>, 2011. For some of you, this dinner may provide a nice

refresher course in how we build portfolio's for all types of long run (and short run) contingencies.

- **Joe & The Gang at KWAG**

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