Happy New Year
From Everyone at Kiely Financial Services

As we write this years - beginning message, we are acutely aware of the impact the difficult markets and economy have had on nearly every investor's portfolio. In 2008, the equity markets around the world experienced historic declines and volatility, and many segments of the global bond market simply stopped functioning for periods of time. It was a year in which only one segment of the financial markets made money – Treasury bills – and many believe these assets are now so overpriced as to constitute a bubble, ready to pop. In 2008, we saw a number of money market mutual funds fail; a few municipal bonds become worthless; corporate bonds lose as much as stocks; and investors with Bernie Madoff lose untold billions. In addition, almost every commodity lost money - led by oil which was down over 70% from its highest price just a few months ago! To say it was a difficult year for investors would clearly be an understatement, as would saying we're glad to see 2008 come to an end.

The Numbers

On the year, the S&P 500 (large company stocks) lost 38.5%, while the Russell 2000 (small company stocks) lost 34.7%. Notably, most of these losses were contained in a three week period between the opening bell on September 20th and mid-day on October 10th. Over just those 15 trading days, the S&P 500 lost 28.2% and the Russell 2000 lost 37.3%. Since the mid-day lows we reached on October 20th, the S&P 500 has risen 10.8% and the Russell 2000 has increased 7.9% (through Friday 01/02/09). So since October 20th, the stock market has continued to see high levels of volatility but has actually trended upward. To many this may come as a surprise, particularly in the face of the continuing poor economic news.

The Numbers Dissected

In the forthcoming year-end newsletter we will review 2008 in depth and discuss the many short-term challenges that lie ahead in 2009. But with challenges comes opportunity and we remain cautiously optimistic for both stocks and certain sectors of the bond market going forward. There will certainly be more bad news on the economic front in the coming months. However, with numerous stocks trading for less than cash on hand and many more trading well below liquidation value, there are some incredible bargains out there in both stocks and bonds. We believe we have the right managers in place to find and capitalize on these opportunities. In fact, if you go back and examine their track records following dips it is difficult not to be optimistic about the future.

Moving Ahead Thoughtfully

Over the past three months, we have spent a great deal of time reviewing our funds and managers and thinking about the best way to position our client portfolios going forward. We've also gone through several rounds of tax-loss harvesting in our clients' taxable accounts. We believe we have very strong core portfolios that are well-positioned for the years ahead, but we never stop looking for even better managers and funds to become available. If there is one major advantage to such a devastating year in the stock market, it has been that many funds that were previously closed to new investors have now seen their asset bases shrink so severely that they have re-opened. This gives us an opportunity to get into funds we've admired for years and but have heretofore been unable to access for you.

Going Forward

For most of our clients, the best advice continues to be to simply follow the same proven investment strategies we've been using for two decades. We have exhaustively studied how markets behave after dips and the evidence is compelling and irrefutable. Economies do eventually recover after slowdowns and markets bounce back, often dramatically. But it's important to remember that these recoveries can take a while to transpire and that the short run is unpredictable. As we've stated before, we believe the best way we can help our clients is to keep them focused on the long run by helping them avoid the emotional stampede of buy-high, sell-low market timers. There are penalties for holding cash in markets like this and they are potentially huge. We'll go into the reasons for this in-depth in the year-end newsletter. For now, suffice it to say that we believe investors who maintain a long-term focus and avoid giving in to their emotions in this market will be handsomely rewarded.

Our Educational Efforts

On the Educational front, we are currently in the process of revamping our entire website and building a virtual university that will be focused on the fundamental concepts of investing. During the upcoming client dinners in January we will unveil this work-in-progress for you to review and comment on. Since this website is being designed for your benefit we want this to be a collaborative effort and we need and value your feedback on the project.

In addition, we will start writing a regular blog dealing with a variety of topics related to finance, investing, and the economy. A number of clients can't get enough of our regular e-mail updates, while others think we write too much. As a result, we believe a regularly updated blog will provide a good solution for both groups. We will send fewer e-mail updates but will frequently post our thoughts, comments, and answers to client questions on the blog. We have even more website-related news, but we'll save that for the newsletter and client dinners.

On yet another note, we will once again begin doing regular five & six week educational seminars. During trying times like this we believe it is particularly important to provide investors with access to sound, evidence-based financial advice. We plan to hold seminars in Asheville, Sunset Beach, Greenville and Hendersonville. If you have a conference or group that you'd like us to speak at, please let us know.

Finally, Scott and I are in the early stages of writing a book on investing. This has been in the planning stages for some time but this year it will finally become a reality. We'll share bits and pieces of the book as we go along and as always, we look forward to your feedback and value your input.

In Sum

We're proud to say our clients/friends have behaved extremely well over the past quarter. With just a couple of exceptions, everyone has acted like investors should, by keeping their focus on the long run and not panicking. It's important to note that there is a big difference between concern and panic. It's okay to be concerned and we're just as concerned about things as you are. But with concern comes thought and thought leads to rational, outcome-based investment decisions. In contrast, panic causes people to act out of fear without thinking and leads to irrational, often devastating investment decisions. The bottom line is that we're extremely proud of the way our clients have conducted themselves during this very trying time. We've long felt we had the best group of clients on the face of the earth and this most recent period has merely confirmed this belief.

The KFS Team

Regarding our team at KFS, I couldn't be happier with their efforts over the past few months. When you own a firm, you typically find out more about your employees during bad times versus good. At KFS, no one panicked and everyone went above and beyond the call of duty. I couldn't be happier with their efforts. We are by no means perfect at what we do and we do make mistakes. However, it is clear to me that we all love what we do and that each and every employee of the firm values our clients above all else. Going forward, I strongly believe the lessons learned in this market and economy will make us all better people and better investors.

As usual, if you have any questions about your portfolio, the stock market, the economy or our updates, you can contact us directly at the numbers and/or e-mail addresses below. Thank you for allowing us to manage your investments. We remain, as always, steadfastly committed to your financial wellbeing.

Wishing you a happy and prosperous New Year!

- Joe and the Gang at KFS

P.S. Please do not forget our client dinners coming up in January. Invites will go out in the next few days.

Thursday, January 22nd	Asheville, NC	Asheville Country Club	6 to 8:30
Friday, January 23rd	Charlotte, NC	TBA	6:30 to 8:30
Monday, January 26th	Sunset Beach, NC	Sea Trails Convention Center	6 to 8:30
Tuesday, January 27th	Greenville, NC	Brook Valley Country Club	6:30 to 9:00

You can RSVP for any of these dinners at our main office in Greenville, NC (887-366-5623) or email Katie at katie@kielyfinancial.com