

KFS May E-mail Update

Good afternoon. I hope this update finds everyone enjoying the beautiful spring weather. Rain seems to have finally found Western North Carolina again, which is good news after two years of drought. And the sun seems to be shining on the financial markets, which is good news after some markedly gloomy days in February and March.

The Numbers:

At this point, most of you probably know we are in the midst of the best market rally in 70 years. From the low reached on March 9, 2009 the S&P 500 has rallied over 30%, while the Russell 2000 is up more than 40%. During April alone, the S&P 500 rose more than 9%, while the Russell 2000 was up more than 15%. Although the broader indexes are still slightly negative for the year, most of our stock managers and all of our bond managers are positive for the year!

Patience:

This has been a terrific rally but it's important to note that we still have a long way to go and there is still much uncertainty to resolve. As a result, the market will likely remain volatile for some time to come. In addition to the feeling of relief it has brought to nervous investors, the recent rally also reinforces four core investing concepts we have long been communicating to our clients.

1. **It is impossible to time stock market movements.** No one could have predicted the speed and magnitude of this rally in early March. This is why it is critical to have a long-term time horizon when investing in stocks...and to avoid panic. Today, more than 40% of all individual investors' holdings are sitting in cash. They have just missed one of the biggest rallies in history! History suggests they will stay on the sidelines until the recovery is either complete or nearly so. In other words, they're following the age old adage "buy low, sell high" except in reverse...

2. **Large market dips are often followed by large bounce-backs.** People tend to invest using a rear-view mirror looking back. We have provided plenty of evidence that large dips are always followed by large bounce-backs. But when the market is dropping as far and fast as it was just a few months ago, many investors convince themselves they will never see their investments return to previous market highs. If they sell their stocks near the bottom and move into cash they're probably right, of course. But market recoveries typically occur more quickly than most people believe is possible and, historically, most individual investors are caught watching from the sidelines.
3. **Small caps tend to lead the way out of a recession.** History indicates that small companies have significantly higher market returns than large companies as the economy recovers. What we've seen in the recent recovery only serves to reinforce that trend.
4. **Using "active" managers pays off.** Research also indicates that the absolute best time to own "active" managers is after market panics and this time looks no different. Our managers have used the recent panic selling to aggressively snap up bargains, buying solid, well-managed companies at unheard of prices.

Diversification:

Over the past six months, we have also highlighted a few fixed-income funds (bond funds) we felt made particular sense in any investment portfolio. Last year when the economy was under intense economic pressure, investors sold off both stocks and bonds in droves. This selling pressure provided a unique opportunity to buy certain classes of bonds at steeply discounted prices. And this strategy has paid off as of May 1, Loomis Sayles Strategic Income Fund (NEFZX) is up 7.3% YTD (compared with -2.0% on the S&P 500), and Calamos Convertible Bond Fund (CCVIX) is up 10.4%. These investments have helped smooth our portfolio returns and continue to provide protection on the downside.

Future Volatility:

Although we believe today's economy is in much better shape than six months ago, when it suffered the equivalent of an economic heart attack, there will still be

plenty of tough days, weeks and months ahead. For example, this week the bank stress test results will be revealed. We know the vast majority of banks are solvent, but any sign of unexpected “trouble” in the results will likely lead to a temporary sell-off. In addition, the auto industry remains in serious trouble, real estate has yet to bottom (and commercial real estate likely has farther to go in this regard than residential), Eastern Europe is in a world of hurt, and consumers are not likely to return to previous levels of consumptions for years (due both to conscious decisions to consume less and a restricted availability of credit). Of course, there is also Swine Flu, North Korea, Pakistan, and any number of other “flashpoints” that can tip an already weakened economy downward. So, although we are pleased with how things have played out over the last six weeks, we are under no illusion that the economy is somehow magically cured. And until we see a number of these issues resolved, we think it’s prudent to plan on additional volatility going forward.

New Changes Within:

At this point, most everyone should know our official corporate name is now Kiely Wealth Advisory Group, Inc. This change will have absolutely no impact on you or your portfolio except that all future communications from us will bear the new name. Over the next month, you will see a few items reflective of this change... your TDA statements, our e-mail address and we will also be unveiling our new website to our clients and with hopes of your feedback.

We also continue our educational seminars in various locations across the state. I am currently finishing up a seminar series in Asheville, while Scott starts a new one in Greenville on May 12. If you are interested in attending any of these seminars, please call Kristen in the Greenville office (877) 366-5623 to reserve a spot. We will keep you in the loop as we develop and schedule our fall seminar series.

Please stay in touch:

As usual, if you have any questions about the updates, the newsletter, your accounts or our fund managers, please feel free to call or e-mail us at anytime. Enjoy the remaining days of spring and thank you for your continued confidence in our services.

The recent referrals are greatly appreciated and, as you know, we remain 100% committed toward your financial well being.

- Joe and the Gang at KFS