

KFS Mid-Quarter Update

Since everyone received their monthly statements last week, we thought it would be a good idea to review the year to date numbers - and - provide our thoughts on what typically happens to the stock market after these types of severe dips. We want to reiterate to everyone that we are aware of the recent market volatility – and – we’re aware that this has people feeling anxious. This is perfectly natural. However, I believe this update will help alleviate some (if not all) of your concerns. **Here are a few facts I don’t believe most people are aware of.**

Three Weeks

At this point, we believe the worst is over. Although it seems like the stock market has been going down forever, almost all of the decrease was contained to a three week period between September 19th and October 10th. During that three week period, the stock market fell 12 of 15 days and on October 10th, the S&P500 hit a low of 840, off 42.7% for the year. The Russell 2000 hit a low of 468 and was down 38.9% for the year. (And for those of you who follow the Dow Jones Industrial Average, it hit 7800%.) As I write this, the S&P500 & DJIA have increased (yes, increased) from their low-point five weeks ago, while the Russell 2000 is off just a bit from its low. Let me repeat, these lows were set five weeks ago!! So, while the market remains volatile, we believe the worst is over. It does not mean there won’t be other down days, or further lows, but we believe the worst occurred during a three week period that is now five weeks behind us. **The Message: You have gotten through the worst days. Be Patient. We believe there are good days ahead of us.**

Volatility & Cash

One of the ironic themes of this whole liquidity mess is the fact that there is a huge amount of cash sitting on the sidelines. There is a plethora of wealthy investors and a ton of institutional investors who are holding record amounts of cash. Many of you are probably wondering, “when will they put this cash to work?” Institutional investors will sit on the sidelines until the average volatility levels come down. Over the past few weeks, volatility has started to come down. If current volatility trends continue lower, it won’t be long until the institutional money starts to pour in. And when this money starts rolling in...look out! **The Message: The worst days are behind us - and - there is plenty of ammunition sitting on the sidelines.**

Bounce-backs

Fear and Greed are powerful emotions. During periods like this, investors and the public (in general) tend to get very fearful. This fear, often leads them to make bad short term financial decisions. In fact, investors consistently (over time) sell at lows. Why? Because they've never gone back and examined the research to see what subsequently happens after the market experiences significant decreases like the one we've just experienced. Well, we have done the research...and the news is excellent. We have had five previous periods where the stock market has experienced dips like this: The Great Depression, WWII, the Oil Embargo in the 1970's, the 1987 Crash and the Tech Wreck of 2000. Had you remained patient and kept your portfolio invested in the S&P500, your portfolio would have increased (on average) 96% over the next five calendar years. In most cases, much of the return comes in the first few calendar years. **The Message: Dips are always followed by bounce-backs...and the best returns often happen within two years.** That's great, but the news gets better...and better.

We Diversify Correctly

As you know, we invest in the entire stock market, not just large cap stocks, which is exactly what the S&P500 represents. So, we went back and examined what would happen to a portfolio if it were invested equally in all six style indexes (large growth to small value) for five years after each of the previous large dips. If you invested in the six style indexes at the beginning of the following year, your money would have increased (on average) 140% over the next five years. And almost half of that return (69%) comes in the first two years. **The Message: The evidence clearly shows large dips are typically followed by significant bounce-backs. And, those bounce-backs have been enhanced through total diversification.**

Professional Managers: We've Seen this Movie Before

Remember, dips provide opportunities. Last January, the stock market decreased for three straight weeks. We noted during that time, that this provided an excellent buying opportunity. Especially since, every stock sector dropped without regard to their true "fundamental" value. This is when our managers earn their keep by purchasing great companies at discounted prices. As you know, by June, our stock portfolios were positive...and our managers were significantly ahead of their benchmarks. We expect this type of rebound again. Why? According to the American Funds research, almost 80% of all stocks have decreased by the same amount since the beginning of the year.

This implies there are a ton of companies that are priced significantly below their true “fundamental” value. **The Message: This is going to be a stock pickers market going forward. And, you only have to look back at the first half of this year to see why we’re so “jazzed” about our manager’s prospects.**

In Sum

Up to this point, I must say, our clients and friends have been extremely patient and well behaved. I know you are all worried and naturally concerned. After all, who wouldn’t be? This has been a very tough few months. That said, we believe the worst is over. Hang in there - you will eventually be rewarded for your patience. Let me reiterate our message:

1. We believe the worst is behind us. It occurred five weeks ago. Be patient.
2. There is plenty of cash on the sidelines. As the volatility levels decrease, cash will pour in.
3. Dips are followed by bounce-backs - most of which happen in the first two calendar years.
4. Diversification reduces risk...and in the past...has increased returns significantly.
5. We believe this is a stock pickers market...and we believe we have excellent money managers to do this for us.

As usual, if you have any questions about your portfolio, the stock market, the economy or our updates, you can contact me directly at 828-350-8681 or you can e-mail me (jkiely@kielyfinancial.com) anytime. Thank you for your continued confidence in our firm. We remain committed towards your financial well being.

- **Joe and the Gang at KFS**

KFS Thanksgiving 2008 Schedule

Wednesday, November 26th: Closed at 12pm – Half Day

Thursday, November 27th: Closed

Friday, November 28th: Closed

We will re-open at our normal business hours on December 1st.