

KWAG September E-mail Update

Good Afternoon. We hope this monthly update finds you out enjoying this crisp cool weather. It's a refreshing break after hot humid summer that seemed to last forever. Speaking of hot, as you know, September was a terrific month for the stock market. In fact, it was the best September in the last 70 years! For the month, both the S&P 500 and the Russell 2000 were up more than 10% and three days into October, small and mid-caps are both up double-digits for the year. Large caps have rallied nicely, but are still up a modest 3%. When you combine the stock market with the performance of the four primary bond funds we use (up 6%, 8%, 9% and 11% respectively), we've had a pretty good first nine months in 2010.

Our Consistent Message

One thing we mention over and over in our many writings, is that markets have a historical tendency to rebound strongly following large drops. Meaning the key for investors is to maintain a long term focus during tumultuous times. Unfortunately, this isn't always easy, particularly in today's information age, which has become extremely adept at tugging at investors emotions. When emotions get involved, they invariably push investors focus from the long term to the short term. This is particularly true during election seasons when emotions run strong. Thus, our goal, as usual, is to continue providing a less emotional and more thoughtful approach to economic analysis. This reasoned approach has served us well during past elections. At least to this point, it has served our clients well in 2010.

Recoveries: They consistently follow similar patterns

Recoveries are remarkable in their consistency over time. This is largely because, while the issues driving the decline and subsequent rebound are always different, our friends "fear and greed" remain the same. In market declines,

there is always an initial shock and period of panic (i.e. October 2008 and February and March 2009). Then, there is invariably a strong rally from the panic-driven lows (April 2009 to April 2010). At some point this is followed by a 10%-15% correction (May 2010). Consolidation follows, where investors, still spooked by the recent turmoil, cautiously seek validation on the market recovery and the growth of corporate earnings (June 2010 through August 2010). Then, the market starts moving forward again (September 2010) albeit with higher than normal volatility. The timing of these events is always uncertain but the progression from one to the next almost always plays out the same.

The Election Cycle is like a Motorcycle? Yes, both can be very NOISY.

You can say a lot of things about the current election cycle, but you certainly can't say it's been dull. It's like reality TV on steroids. We wake up every morning wondering what new attacks or "creative" use of statistics we'll see today. It's always interesting listening to a politician's take on the economy knowing that they: 1) have the clear agenda of making their opponent look as bad as possible and 2) have likely had no formal training in the fields of finance or economics. Note that we said interesting, not informative. So while the commercials, carefully selected sound bites, and heated debates are interesting and important in the selection of our future leaders, it's critical to recognize that in campaigning, everything tends to be a little (or a lot) over the top. So please take the economic "information" you get from this campaign season with a grain of salt and recognize that it's designed to sell you something (a candidate) and is definitely not something you want to base your investment decisions on.

The Newsletter

What you've read above will form the basis for the upcoming newsletter that we hope to mail out on the October 19. In addition to exploring some of the larger structural issues that affect our portfolios in the long run, we'll examine your questions on deflation, double-dips, TARP, the stimulus package and a

variety of other issues. We'll also examine our markets year-to-date returns and provide updated information on our upcoming client appreciation dinners. Our hope is to provide you with an unbiased look at where the economy and markets currently stand, and where we think they're going. Since we're not running for anything this November, we think you will appreciate our decidedly less-noisy and (hopefully) more thoughtful approach to economic analysis. Stay tuned.

In Closing

As usual, if you have any questions about this update, our newsletter, your accounts or our managers, please feel free to call or e-mail us at anytime. Enjoy the beautiful fall weather. The recent referrals are much appreciated and we thank you for your continued confidence in our firm and our services. As we go forward, we remain committed to continuing to refine and improve our proactive strategies and portfolios. As always, our goal is to provide each of our clients with the best possible mix of assets given their particular situation. If you need anything or your goals or time horizons have changed, please do not hesitate to call or drop an e-mail to set up an appointment. We are here to serve your financial needs, whatever they may be.

- Joe and The Gang at The Kiely Group

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