

KCM'S KOMMENTS—KURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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2015 YEAR IN REVIEW & 4TH QUARTER KOMMENTS

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MARKETS AND ECONOMY:

2015 was a year of frequent market volatility. Political issues, fear of FED interest rate increases, repeated drops in oil prices, China's economic slowdown, European political and economic issues, Russia's aggression, and Middle East tensions all blended together to create uncertainty. Uncertainty is the enemy of market stability and therefore responsible for what we witnessed during the year. 2015 became a *bear market year*.

Many students of the market confirmed that we went through a difficult investment environment not witnessed in a decade. Some would even say longer. At KCM we made various decisions during the year. Some included a meaningful reduction in foreign investment exposure, increased real estate investment, reduction in domestic equity sector emphasis, and building of cash reserves. We also maintained our relatively conservative maturity structure in our bond strategies. We made no commodity investment. On balance we tried to be flexible and nimble enough to make tactical moves in order to limit downside and portfolio volatility. Overall what we chose to do worked well.

RESULTS:

The worst place to invest in 2015 was the Emerging Markets with their relevant indexes down 15% to 16% for the year. Domestic equities were, depending on how broad the index, from up just over 1% to down just over 1%. The broader the market index, the lower the return: so large cap stocks were dominant in 2015. The outlier to the domestic equity range was in socially responsible investing which, based upon the MSCI SRI Index, was down over 5.5%. The Dow Jones Realty Index was down just under 1%. Both well recognized large cap value stock indices were down 3% or more. Bonds, using the 1 to 3 year maturity range in both the Treasury and Municipal areas, were both up about 1/2 of 1%. Overall, it was not an easy year in which to invest!

Nevertheless, our strategies fared well relative to their benchmarks (the indexes in the preceding paragraph will give you a basis for comparison). Our returns shown in this paragraph are all net of expenses. Our emerging markets strategy was down 12.2%. Our domestic all cap multi style equity strategy was down 2.7%, our socially responsible equity strategy was down 0.5% and our large cap value stock picking strategy was up 0.1%. Our conservative bond strategy was up almost 1%. Our real estate strategy was up 13.3%. Needless to say, accounts with a mix of these strategies tended to do well relative to their individualized benchmarks. A review of your 4th quarter performance report will show your particular returns relative to your individualized benchmark.

We expect 2016 will continue to see volatility and even though election years tend to be positive, we are not confident 2016 will consistently follow the historical track.