KCM'S KOMMENTS—KURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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3RD QUARTER 2015 REVIEW

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MARKETS AND ECONOMY:

Third quarter 2015 proved a difficult time, with increased volatility, weakness in China, and our FED's inclination to raise interest rates. Economic news at home wasn't great. Employment remains stagnant, the labor force participation rate is down, manufacturing has slowed, and industrials, materials, consumer discretionary, and technology sectors all went down. Overall, there seems little justification for the FED to start raising rates as inflation pressures are not present. This is especially true given that the labor force participation rate is the lowest it's been in 38 years. We continue to believe that oil prices have little need to rise for what may be several more years.

We continue to believe that the US economy and US markets should be the strongest of all the world's this year. In last quarter's newsletter we stated we must remain nimble and flexible in what we do. This was true and reflected in our building of a cash cushion, reduction (and in some accounts complete removal) of exposure to emerging markets' stocks, and maintenance of our shorter duration/average maturity in our bond portfolios during 3rd quarter. We shall keep our broad but selective approach to institutional real estate intact even though the fear of interest rate increases, and low oil prices, have depressed some real estate values. It is important to note that our direct contact with each institutional real estate provider confirms their dividend payment levels are secure and remain reliable.

RESULTS:

Contrary to last quarter, real estate was the top performing asset class and foreign and domestic equities fell to the bottom. Emerging market equities trailed domestic stocks by a big margin. Any bond exposure helped returns. Our large cap value stock picking strategy and our domestic all cap multi-style strategies beat their benchmarks as did our emerging markets strategy. Overall, the cash cushion helped our stock strategies. Our real estate strategy creamed the benchmark!

Our yield oriented strategies continued to provide reliable, steady income to clients regardless of market value volatility. Controlled risk strategies provided returns consistent with their broad asset class exposures and the volatility associated with such exposures. However, we did reduce or eliminate foreign stock asset class exposure in our controlled risk and target date strategies this quarter.

We created a cash cushion this quarter. Something we haven't done since the 2008-2009 market. For now, we expect to continue to keep it until negative market volatility wains.