KCM'S KOMMENTS—KURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

VOLUME 11 ISSUE 2-3

1ST QUARTER KOMMENTS

MARCH 2016— KOMMENTS

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MARKETS AND ECONOMY:

The first quarter of 2016 continued the trend set in 2015: volatility, instability and uncertainty. We at KCM were concerned but not panicked. We felt it wasn't time to "run to cash" so we remained fully invested throughout the quarter, except where clients directed otherwise. Both January and February saw "V bottom" markets characterized by sharp drops with almost immediate sharp reversals to the upside. March was basically an up market month which helped the quarter's returns to be positive overall.

For the quarter, every asset class index benchmark had a positive return. Real estate returned to the lead for the quarter, followed by emerging market equities, domestic equities and finally fixed income ("bonds").

RESULTS:

***Our investment decisions panned out well. EVERY strategy we ran for the quarter BEAT its relevant benchmark, net after all expenses*.**

For the first time in a long while, emerging market stocks generated a higher total return than domestic stocks. Our emerging market stock strategy was up over 5% whereas its benchmark was up only 2%. Within domestic stocks, our large cap value strategy (up about 3%) beat both the general market index (S&P 500 up 1.3%) and its specific large cap value index benchmark (S&P Value Index down 0.5%.) Our all cap multi-style domestic equity strategy (up over 2%) beat its S&P 500 Index benchmark too.

Our real estate strategy was again a big winner. It is particularly impressive in that the Dow Jones Real Estate Index was up just over 5% whereas our real estate strategy was up over 8%.

Our fixed income strategy continued to reflect a shorter average maturity (just over 4 years.) As a result it hasn't been hurt like longer term strategies. On a comparative total return basis, our fixed income strategy's net total return of about 2% exceeded that of the US Treasury and Merrill Lynch Municipal Bond Indexes. So, on balance, real estate and stocks were the places to be to experience the best net total return for the quarter.

We expect 2016 will continue to see volatility. Historically, election years tend to be positive. We are not confident 2016 will consistently follow the historical track. We do expect demand for oil will increase and generate higher oil prices that will positively affect world equity markets. The conflict in Nagorno-Karabakh may also drive up oil prices if Russia becomes an aggressor in support of Armenia and invades Azerbaijan.