KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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ECONOMIC & MARKET KOMPASS

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MARKETS, ECONOMY AND STRATEGY—

In 2010 the investment markets worldwide recovered well from their drubbing in 2008-2009. Not surprisingly, the Emerging Markets outpaced the US equity market by over 3 percentage points. Even the US real estate market rebounded with a 22% plus return for the Dow Jones REIT Index. As the year progressed and it became clearer that the US economy is improving, the commodities markets moved up and bond markets weakened. The S&P/Goldman Sachs Commodity Index generated just over 9% for the year and the US Government 5-10 Year Note Index returned 8.6%. The growing awareness of pending financial problems at the state and local level held back municipal bond returns and limited the 1 to 10 Year Muni Note Index to just over 3% return for the year.

Our strategies' results mirrored the worldwide markets' direction, and in most cases, generated net total returns ahead of respective benchmarks. Our more aggressive US equity strategy (All Cap Multi Style) generated a net total return of almost 16% while our more conservative strategy (Large Cap Core) generated a net total return of almost 14%. Our Large Cap Value Strategy came in at 15.5% net for the year. The S&P 500 Index benchmark returned 15% so we were happy with bracketing the benchmark given the risk differentials in our domestic equity strategies.

Our Emerging Markets Strategy soundly beat its MSCI Emerging Markets Index benchmark by almost 2 percentage points: 20.7% net versus 18.9% for the benchmark. Our net total return is even more attractive when viewed against the World x-USA at 11.6% and EAFE (Europe, Australia & Far East) Index benchmark at 8.2%.

We were very conservative in our fixed income and real estate strategies. As a result, we generated positive net total returns but lagged the more aggressively invested index benchmarks. Nevertheless, we generated a net total return of almost 6% in our General Taxable Bond Strategy ("FIX-TE") and just over 17% for our Real Estate Strategy. In commodities, we generated a net total return of 11% versus 9% for the S&P Goldman Sachs Commodity Index benchmark.

2011 Outlook — We expect that the Emerging Markets will outpace the Developed Markets and that the USA will do better than Europe. We see the potential for inflationary pressures to build worldwide which could bode well for commodities. We see the dollar strengthening against the Euro even as we debase the dollar with more and more national debt and printing more dollars. We see bonds falling in price as the bond markets lead the central bankers toward higher interest rates in the second half of 2011. We see municipal debt becoming more risky and yields rising in that market segment. We see commercial real estate continuing to slowly improve. We think stocks will outperform bonds and real estate.

Tax law changes — Effective 1/1/2011 there is a change to the information your broker/custodian will be reporting to the IRS on next year's 1099 Form. Specifically, cost basis information will be added and this will define your realized gains & losses. Give us a call if you would like to discuss this matter further.