KCM'S KOMMENTS—KURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

VOLUME 11 ISSUE 1

1ST QUARTER KOMMENTS

JANUARY 2016— KOMMENTS

1204 Baltimore Pike, Suite 305
Chadds Ford, PA 19317-7374
610 558 1159
jkelly@kcm-invest.com
www.kcm-invest.com

MARKETS AND ECONOMY:

January 2016 continued the trend set in 2015: volatility, instability and fear. Being professionals, with decades of investment experience, we at KCM were concerned but not panicked. We felt it was not yet time to "run to cash" in any meaningful amount. We remained fully invested throughout the month.

In January, every market asset class had a negative return, except for fixed income with shorter average maturities. Even real estate experienced a negative total return for January as evidenced by the Dow Jones Real Estate Index down 3.5%. Overall, there was little room in which investors could hide. The talking heads on the television did little to assuage concerns and may have even fostered some panic.

RESULTS:

***Our decisions panned out well. EVERY strategy we ran in January 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. Within domestic stocks, our large cap value strategy beat both the general market indexes and its specific large cap value benchmarks. Our all cap multi-style domestic equity strategy beat its benchmark too.

Our real estate strategy was a big winner, again. This is particularly impressive in that the Dow Jones Real Estate Index was down just over 3.5% whereas our real estate strategy was up 0.3%.

Our fixed income strategy continued to reflect a shorter average maturity than typical. 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 exceeded the US Treasury and Merrill Lynch Municipal bond indexes by as much as 55%.

So, on balance, real estate and bonds were the place to be to experience a positive net total return in January. The higher one's percentage exposure to stocks, the lower the return. Nevertheless, our results were better than the portfolio benchmarks would have suggested they should have been.

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. We do expect demand for oil, as we move towards year end, will generate higher oil prices and that will flow into world equity markets, driving them higher. At this time, we expect to remain fully invested.