KCM'S KOMMENTS—KURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

VOLUME 13 ISSUE 4-6

JUNE 2018— KOMMENTS

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2nd QUARTER 2018 KOMMENTS

MARKETS & RESULTS:

The second quarter was a volatile ride starting from a general low at the end of March for every asset class. We endured peaks and troughs caused by market reaction to various political and economic events. An actual interest rate increase and trade related matters negatively affected markets. Yet economic strength supported markets and, with the exception of emerging markets, stocks, real estate and bonds ended up from their March 31 values.

The fixed income markets ("bonds") were hurt in April by an interest rate increase but overall had a slightly positive result for the quarter overcoming 9 peaks and troughs. Our 1st quarter addition of some floating rate debt helped increase portfolio income as interest rates rose and preserved market value in 2nd quarter.

Real estate reversed its prior quarter's trend and moved up in each of the quarter's months and was the best asset class for total return in 2nd quarter. Nevertheless it endured 8 peaks and troughs.

Emerging markets' stocks got creamed in 2nd quarter. They endured 7 peaks and troughs ending with a big sell-off after June 15th. Trade concerns and some political issues in certain countries caused a quarter-end negative result for the first time in several quarters.

Domestic stocks did well with help from tech and small company stocks. In general, value style stocks lagged core and growth styles in 2nd quarter but finished the quarter in positive territory. Domestic stocks also endured 6 peaks and troughs during the quarter.

Our income oriented portfolios continued to generate payouts as planned so clients kept getting the money they needed and expected.

GOING FORWARD:

We have been, and expect to remain, fully invested. We have little to no tactical cash cushion. We expect some more market ups and downs as the trade war concerns evolve and as interest rate increases occur. We think two more hikes will occur this year but inflation has to pick up a lot more before we think interest rates will get back to the typical level seen over the past 50 years. Remember, over the long run, remaining fully invested gets the best returns, especially in taxable accounts even when we are not happy with the short term downward moves. In these times, taking a long view, betting on America's strengths economically and that markets will be rational over the long term, preserves your chance of making money, especially in a taxable account.

BIRTHDAY NOTE:

June marked the 14th year of our firm's existence as Kelly Capital Management, LLC. To all our clients, thank you for the privilege of managing your accounts!