

KCM'S KOMMENTS—CURRENT NEWSLETTER

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ECONOMIC & MARKET KOMPASS



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MARKETS, ECONOMY AND STRATEGY—

The quarter just ended was positive for every benchmark index except commodities. For all of 2011, both the commodities index and emerging markets equity index were negative but the domestic equity and real estate indices were positive. For both the quarter and the year, bond, note, and bill indices were positive.

Unlike the market rocking revelations we endured in the last half of 2008 and first three quarters of 2009, we did not feel the problems we were facing worldwide in 2011 had any surprises associated with them. As a result, we remained fully invested during the quarter and year.

In our fixed income strategies we reduced average maturities substantially going into 2011. As a result, our fixed income composite results showed net, positive total returns for the quarter and year of +1.6% and +4.7% respectively.

In our commodities strategy we took profits in gold, moved out of the Euro, moved from industrial metals and sugar into corn, and kept our inflation protected debt position. Our net results versus a broad benchmark index were very impressive for both the year and quarter respectively: -2.6% versus -13.3% (Dow Jones Commodity Index) for the year, and +1.5% versus +0.3% (Dow Jones Commodity Index) for the quarter. Commodities took major hits because of the strengthening US dollar and concerns for economic growth worldwide, but our positions proved superior to a passive buy and hold approach.

Our emerging markets strategy followed the world trend downward for the year overall but meaningfully outperformed to the upside in 4q11. Our net results, compared to the MSCI Emerging Markets Index for the year and quarter respectively were: -20.4% versus -18.4% (MSCI Index) and +8.8% versus +4.4% (MSCI Index).

Our three domestic equity strategies did well for the year and quarter. Our All Cap Multi Style strategy generated net, total returns of +1.5% for the year and +11.2% for the quarter. Our more conservative Large Cap Core Strategy generated net, total returns of +1.1% for the year and +12% for the quarter. Our stock picking strategy, Large Cap Value Strategy, generated net, total returns of +1.3% for the year and +15.1% for the quarter. Clearly, stock picking was the best approach in 4th quarter. Yet for the year, all of our domestic strategies had net, positive total returns. Our Large Cap Value Strategy was a particular standout for the year in that it had a net, positive total return of 1.3% versus the S&P 500 Value Index's -2.5% (negative) total return.

Our Real Estate Strategy was a real winner for both the quarter and year. Its net, total return versus the Dow Jones Real Estate Index were: +13.2% versus +13.9% (DJ Real Estate Index) for the quarter and +12.7% versus +3.6% (DJ Real Estate Index) for the year. On balance, our bets on apartments and storage spaces were big contributors to our results.

TAX NOTE —

Remember that due to 2010 tax law changes, your broker's 2011 Form 1099/gain-loss statement will be your required source of tax information. We have moved to align our system to what your brokerage firm is using for cost basis and tax lot information but there is no guarantee that our gain/loss reports will match theirs. The law now requires you to rely on your broker's information. So, as we have advised for the past several months, keep your broker sourced confirmations of trades and monthly statements to match to your broker's 2011 Form 1099!