KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

VOLUME 6 ISSUE 6

SUMMER EDITION JUNE 2011

ECONOMIC & MARKET KOMPASS

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

MARKETS, ECONOMY AND STRATEGY—

The global economy continues to slowly improve. Nevertheless, the recovery is without meaningful job creation and many economists liken our true unemployment rate level to that of the Great Depression. As a result, market volatility has been high with one or two months up followed by one month or two down. We have seen solid corporate profits and high productivity but that is all without hiring back much of the previously laid-off work force. Corporate America is doing more with fewer workers. There is a high level of merger-and-acquisition activity, share buybacks, dividend increases, and other equity-friendly actions to provide some positive market support. However, recent reports on our slowing labor market growth, volatile commodity prices, and a continued drop in home prices across the nation portray much uncertainty. The economy is still in conflict both in the USA and abroad. Europe's debt crisis and China's attempt to slow its rapid growth will continue to affect the markets for a while longer but we don't see China hibernating or Europe evaporating. They will solve their problems and that will bolster markets worldwide.

We have bet right on "growth" versus "value" or "core" as growth stocks in large, mid, and small company capitalizations have out-performed for the quarter and year-to-date. From a size-only standpoint, large company stocks did better than mid or small company stocks for the quarter and our emphasis thereon was rewarded.

Our emerging markets strategy results have followed the rather anemic performance of the general emerging market index for the quarter and year to date. For the first time in years, investing in the USA versus emerging markets has generated a higher total return. Nevertheless, we expect that emerging market economies will continue to grow faster than the US market and that growth will be reflected in their stock prices. The biggest concern now is whether China can slow its indigenous inflation rate without derailing growth.

Our various fixed income strategies have faired well for the quarter and year to date. On balance, our clients have made money in fixed income even with interest rates being very low. Part of why we have done well is that we have reduced portfolio average maturity and emphasized quality.

Beyond equities and debt, our less traditional strategies of commodities and real estate also bear comment. Overall, commodities were a disappointment this past quarter. However, we out-performed the two major commodity indexes by almost 50%. Two bright spots in our approach have been gold and Treasury inflation protected debt ("TIPS"). Overall, we are still in the black for gold, copper, TIPS, and our core diversified holding. Our real estate strategy generated positive returns for both the quarter and year to date. For the year to date we are up over 10%.

ANNUAL FORM ADV OFFER —

As a Registered Investment Advisor we are obliged to make an annual offer to send you our federal filing called Form ADV Part II. Let us know if you are interested in a copy. It's long, boring and free….