

KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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ECONOMIC & MARKET KOMPASS



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MARKETS, ECONOMY AND STRATEGY—

July was characterized by political posturing and argument (rather than honest debate) about whether the United States should raise the debt limit or default on its obligations. The net impact to our clients' portfolios, and psyches, was negative. Whatever side you come down on, without policies in-place to foster (1) increased demand and resulting job creation and (2) worldwide confidence in our political leadership's ability to control spending, the US economy and world equity markets are in for more volatility. However, US corporate profitability and cash reserve levels are good so some dividend increases and modest net income increases may still occur this and next year.

In July, we stayed fully invested in all our strategies. We feel this is the best course of action. To try and time the unknown is a fruitless exercise which would impose trading costs and taxation on our clients and we would surely miss the bottom and get reinvested late. We prefer to remain within the specific, tailored investment policy established for each client. This process has controlled risk and generated attractive total returns over many decades regardless of which way the hot air from DC blows. We do not see the 2011-2012 period as the same risky, one-off environment we experienced in 2008-2009. We believe patience will pay off.

In the Commodity ("COM") strategy, we did take nice profits in copper and palladium. We put the proceeds in more gold and a highly diversified commodity ETF. Our COM strategy was up over 5.3% (net) for the month which is twice that of the broader commodity indices and over 2.6% (net) year-to-date.

Our domestic ETF-based equity strategies also did well. Both All Cap Multi Style ("ACMS") and Large Cap Core ("LCC") beat their index benchmarks even though the domestic equity market was down for the month. For the year-to-date net results were positive and about even with the S&P 500 for the LCC strategy and substantially ahead of the S&P 500 for the ACMS strategy.

Our domestic stock picking strategy, Large Cap Value ("LCV"), was, like its benchmark index, negative for the month. However, year to date LCV is up more than twice that of the S&P Large Cap Value benchmark index: 1.5% versus 0.6% respectively. Since our firm was established (10/31/04) to July 31, 2011, the LCV strategy has had a net, total return of 33% versus 12% for the S&P Large Cap Value benchmark index.

Our Emerging Markets ("EMI") strategy also finished substantially ahead of the US domestic equity, the developed world equity and the world x-USA equity indices for the month but remains in negative territory for the year-to-date.

Our Real Estate ("REAL") strategy was a modestly positive contributor for the month but for the year-to-date REAL is up over 12% net. REAL is our best performer year to date of all the strategies we offer.

Give us a call if you want to talk about your portfolio or learn more about our strategies. Also be sure to view our new website: www.kcm-invest.com.