KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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ECONOMIC & MARKET KOMPASS

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MARKETS, ECONOMY AND STRATEGY—

In first quarter 2011 markets worldwide experienced mixed results. However, US markets continued to advance based upon FED stimulus, improved corporate profits, low interest rates, and a relatively weak dollar. The world outside the USA continued to react to European central bank attempts to help Portugal, Italy, Ireland, Greece, and Spain. Then in January the Middle East/North Africa {"MENA"} problems hit followed in February by JAPAN.

Our two domestic equity ETF-based strategies, All Cap Multi Style {"ACMS"} and Large Cap Core {"LCC"}, had identical, excellent net total returns of 6.5% each for the quarter. This compares favorably to their S&P 500 index benchmark gross total return of 5.9%. Our Large Cap Value stock picking strategy {"LCV"} generated a net total return for the quarter of 7.5% versus its Russell Value and S&P 500 Value index benchmarks' gross total returns of 6.5% and 6.4% respectively. Overall our domestic equity strategies out performed our Emerging Markets strategy {"EMI"} for the quarter.

Our EMI strategy faced two big challenges this past quarter: MENA and JAPAN. In January EMI showed a negative return of about 6.1%. We rebalanced EMI in mid-February which helped the strategy to earn a small positive return for that month, followed by a March return of about 5.5%. Overall EMI was down about 9/10 of 1% for the quarter. Our exposure to several Far East countries was reduced in the February rebalancing with the exception of Malaysia and Taiwan. We also added Mexico and Israel in February which had positive price changes of 5.7% and 5% respectively for the period they were in EMI.

We were very conservative in how we invested our fixed income, real estate, and commodities strategies in this past quarter. As a result, we generated positive net total returns across all three strategies for the quarter. Of particular note was our Real Estate strategy composite net total return of 11.4% which was almost twice that of its index benchmark. In our Commodity strategy {"COM"} we were able to realize a net 20.6% gain on the sale of our cotton position in just 30 days. In COM we also maintained our exposure to gold, added lithium and added palladium to the mix, and began buying sugar. We also shortened the average maturity of our bond portfolios in expectation of rising interest rates.

2011 Outlook — We expect that the emerging markets will outpace the developed markets and that the USA will do better than Europe. Until Japan settles down, it remains to be seen if the emerging markets will regain the lead horse position in the race to 12/31/11. We see the potential for inflationary pressures to build worldwide which could bode well for commodity prices. The US dollar may strengthen against the Euro even as we debase the dollar with more national debt and print more dollars. We feel our domestic economy's slow but steady growth will be more attractive to investors worldwide so money will flow into our stock market. We see bonds falling in price as the bond markets lead the central bankers toward higher interest rates in the second half of 2011. We see municipal debt becoming more risky and yields rising in that market segment. We see commercial real estate continuing to slowly improve. We think domestic and emerging markets stocks will outperform bonds, commodities, and real estate.

Sad Note — March 31st , Don Swartz, a client since February 2004, passed away after a brief illness. His wit and Cheshire cat-like smile will be missed. Our condolences go out to his family.