

KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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ECONOMIC & MARKET KOMPASS

MARKETS, ECONOMY AND STRATEGY—

Across all asset classes January witnessed a good market recovery worldwide. On the domestic front unemployment numbers shrank. Although non-farm payroll gains beat estimates (237,000 vs 200,000 consensus), the number of workers who have dropped out of the labor force increased by 1.1 million. Of these, roughly 300,000 are considered "marginally attached" to the labor force, while an additional 100,000 are classified as having permanently "dropped out" of the workforce. This may be the cause of the drop in the unemployment rate (8.3 vs 8.5). For those who are working, average weekly hours ticked up by 0.1 to 33.8, and average hourly earnings increased by 2 cents, to \$19.62. It would appear that our anemic economic recovery reflects longer hours worked by those who do have jobs and continued profitability for large companies. Small business is still looking for demand increases that will justify hiring more workers. Job creation will have to come from demand increases and not from Federal governmental stimulus packages.

Some have voiced concern that China holds too much US debt. Did you know that China's holdings are only about 1/6th that of our own governments holdings of US debt? In short, we the people own most of our debt and it will be we the people who will suffer from continued debt growth without concurrent economic growth. This election year will end up pitting professional politicians up against professional business people. No matter what, election years tend to be good for the stock market. Let's hope 2012 follows the historical pattern.

All of our strategies did well in January. Our Emerging Markets Strategy was up 9%, our Real Estate Strategy was up 6.5%. Domestic Equity was up—(1) All Cap Multi Style 4.1%, (2) Large Cap Core 3.7%, (3) Large Cap Value 3%. Commodities were up 4%. Fixed income was up just over 1% which, given our short duration/maturity structure, still beat the 5-10 year governments/corporate index and was even with the 1-10 year muni index. All our returns are net of all costs. We expect to remain fully invested in 2012.

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!