

KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

VOLUME 7 ISSUE 10

ECONOMIC & MARKET KOMPASS



SPECIAL EDITION POST-ELECTION 2012

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—

It is mid-November as we write this special edition. The big election is behind us and the “fiscal cliff” looms ahead. Overall the money, time and effort spent on the election just put us back to where we were pre-election: a divided federal government that can’t seem to work in a cooperative manner. One has to ask when will we stop sending career politicians back to Washington who never ran a business or had to balance a budget? They make bad decisions about our personal and collective financial futures. The kind of decisions that we as individuals, managing the resources of a household or small business, would never make because we don’t want to become bankrupt, insolvent or unable to sleep at night.

Like *Thelma & Louise* in the movie of the same name, our politicians have put themselves on the edge of a cliff. If they don’t act in cooperation to come up with a compromise before New Year’s Eve, then the country will do a “*Thelma & Louise*” and drive over the cliff. If they let that happen, then my vote next time will be to dump anyone in office now! So much for the political soap box. What about your portfolios?

Markets tend to fall when there is uncertainty. We have that environment now. If we believe the nation will survive this uncertainty, then we shouldn’t run for cash, buy guns, and hold up in a cave awaiting Armageddon. At this firm, we see opportunity in the disruption that now prevails. We have done some rebalancing in reflection of what we see, not in knee-jerk reaction to it.

Markets tend to rise when a decision about a big event gets made. This is so even when the decision is not a good one. The relief of knowing, rather than the uneasiness of not knowing, drives markets up because people then come back into the markets.

Knowing a decision must be forthcoming from Washington, we believe before December 31st, makes us act now to realign our strategies in your portfolios to benefit from the decision’s impact. Below are some of the major moves we have made and a little about them:

Domestic Equities — We removed or reduced exposure to the *utilities* sector as we don’t see yield or demand as a big driver therein. We removed or reduced exposure to the NASDAQ top 100 as we see slow-downs in many of the previously popular brands like Apple. We selectively added exposure to home repair/building as well as biotech as we see those areas being attractive.

Emerging Markets Equities — We removed or reduced exposure to “VWO”, the Vanguard emerging market ETF until the dust settles with their move to a new benchmark index (expected to take about 25 weeks). We are reviewing now which core ETF we will use going forward. We have brought in the Poland ETF as a new holding. It has sound fiscal policy and a good economy.

Commodities — We have added SLV (silver) ETF as a parallel holding with IAU (gold). We continue to hold an inflation protected dollar oriented ETF as opposed to a pure dollar play paying no current income.

We will stay fully invested and await the near year-end decision from Washington. Then we may re-assess what we do next. Happy Thanksgiving and for you Marines out there: Happy 237th Birthday!