

KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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ECONOMIC & MARKET KOMPASS



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MARKETS, ECONOMY AND STRATEGY—

Fourth quarter was marked by a lot of drama, mostly in Washington. The equity markets muddled through a negative October, and anemic November and December, to finish in negative territory (S&P 500 Index – 0.4%). December offered some hope because Congress actually looked like it might make a deal by 12/31 but it didn't. If you stood outside the Capitol building, you would swear you heard cans getting kicked down the road by the lame ducks still prowling the halls of government. The mess will have to be cleaned up in 2013. We have been left hanging off the fiscal cliff by those who both created it and were supposed to save us from it. *Nevertheless, our investment strategies faired well in the quarter and each one was positive for the year, net of all costs.* We made some strategic changes during the year and quarter which lead to better results as the year moved forward. A summary of various strategies follows.

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 financials, home repair/building, and biotech as we see those areas being attractive. As a result of various moves, our All Cap Multi Style Strategy was up 0.8%, our Large Cap Core Strategy was flat, and our Large Cap Value Strategy was up 4.3% for the quarter, net of all costs. Given that the S&P 500 Index was down 0.4% and the S&P Value Index was up only 0.9% we did very well for the risks taken.

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 now reviewing which core ETF we will use, if any, going forward. We brought in the Poland ETF as a new holding. Our concentration on “country picking” paid off in that our Emerging Markets Strategy was up 10.2% for the quarter and just over 21% for the year, net of all costs. Our results look very good compared to the EEM security that mimics the MSCI Emerging Markets Index (up 7.3% for the quarter and 16.9% for the year).

Commodities — We added the 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 investment paying no current income. As a result, our Commodity Strategy was down only 1.6% for the quarter but up 0.12% for the year which looks very good compared to the Greenhaven Commodity Index which was –5.8% for the quarter and –5.0% for the year.

Real Estate — Our diverse strategy investing in institutional real estate has been a real (no pun...well maybe a little one) winner. It was up 3.3% for the quarter and 26.7% for the year compared to the Dow Jones Real Estate Index which was up 2.1% for the quarter and 15.5% for the year.

Balanced Accounts — Our combined stock/bond accounts were also strong, even with the generally negative performance of bonds in the fourth quarter. For the quarter our Balanced Strategy was up 1.0% and for the year up 9.1% net of all costs. *So, bottom line: we made money for our clients this year! Now on to 2013.*