KCM'S KOMMENTS—CURRENT NEWSLETTER

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ECONOMIC & MARKET KOMPASS

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—

For the quarter all asset classes in which we offer strategies experienced positive net returns. All of our domestic equity market strategies, contrasted with the S&P 500 Index (+12.6%), were positive: All Cap Multi Style + 10.5%, Large Cap Core + 9.8%, and Large Cap Value + 7.9%. Our results reflected lower risk taken than the markets in general. Nevertheless we produced sound results, net of all costs, for the quarter.

On the Emerging Markets front this quarter, the MSCI Emerging Markets Index was +14.1% while the European markets weighed down the EAFE Index. Yet it still produced a +10.7% return. The MSCI World ex-USA Index was also positive at +11.3%. Compared to the S&P 500 Index (+12.6%), only the Emerging Markets offered a better return than keeping all the stock money invested at home. Our Emerging Markets strategy generated a net +11.7% return for the quarter. Again, our returns reflected lower risk taken versus the broader index benchmarks. Yet we still generated a double digit, net return for our clients.

Real Estate was again a real winner this past quarter. The Dow Jones REIT Index was +9.6% and our Real Estate strategy was up, net, +13% for the quarter. Commodities were also, finally, in the black. The big surge in oil prices help push the oil-heavy S&P/Goldman Sachs Index up almost 6% while the less oil-heavy Dow Jones/UBS Index was up only 0.9%. Our very conservative approach to commodities generated a net +1.5% return for the quarter.

Balanced Account strategies (any combination of the above discussed strategies plus bonds) tended to do well. Given that interest rates moved up a bit this quarter, our approach to shorter maturities has helped insulate our bond holding accounts from deterioration associated with increased interest rates. The closer the account strategy was to a pure equity approach, the higher the net return.

We expect that the problems in Europe will persist for at least another year. Then, with severe austerity measures finally in-place, the social unrest we are now seeing in Greece and Spain (and elsewhere yet to come) will begin to subside. What is needed in Europe is the international willingness to have put in place a trans-border fiscal policy which can integrate with trans-border monetary policies. Here in the USA we need the partisan bickering to stop, the coordination of FED (monetary policy) and Washington (fiscal policy) to improve, and the election to get behind us. Until November, we will continue to see uncertainty which markets will not like. Yet we don't see an overriding reason to "run to cash" and wait for some magic re-entry point to appear. We will stay fully invested, but cautious.