KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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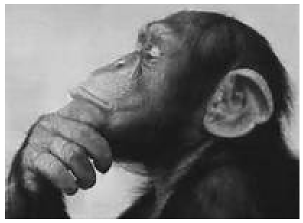
ECONOMIC & MARKET KOMPASS



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MARKETS, ECONOMY AND STRATEGY—

With all the monkey business we have suffered through during the past four months, we ponder what Washington will do next. Will they really deal with the overspending they have been undertaking for decades, or just continue the same monkey business? The economy remains vulnerable. Although the FED has pumped in lots of money, the velocity of *spending* that money is at the slowest rate since 1959. That is a bad thing because any further slowing in consumer or government spending may push us into a recession. However, a big increase in velocity would spark inflation. Current economic projections put earnings growth in the S&P 500 companies at 5.7% for 2013. That is a pretty good growth number. However we question if that growth rate can be sustained or have a positive impact on unemployment. Capital expenditures have slowed to 3.1% in the 4th quarter of 2012, which may forecast a slowing in those S&P 500 companies' profits may be coming. Also, many folks have given up looking for work so unemployment numbers are getting skewed toward looking better when in the real world, folks just can't get work. Those who are working are facing longer hours and taking home less money due to employment tax rate changes just enacted.

Domestic Equities — January saw the US stock market, as evidenced by the S&P 500 Index, move up just over 5%. Our two domestic ETF-based strategies also moved up: All Cap Multi Style was up 6% {net} and Large Cap Core was up 6.2% {net}. Our Large Cap Value stock picking strategy was up 5.2% {net}.

Emerging Markets Equities — The emerging markets continue to look to be more attractive than the developed markets in Europe or Japan. Nevertheless, the EEM iShares Emerging Markets ETF was down 0.3% while our strategy was up 0.4% {net}. We continue to eschew the broad index ETF and emphasize country picking to generate "alpha" for our clients.

Commodities — We continue to hold silver and gold ETFs along with an inflation protected dollar oriented ETF as opposed to a pure dollar investment paying no current income. Silver was up, gold was flat and inflation protected dollars were down. On balance, we came out pretty flat for the month, net of fees.

Real Estate — This sector continues to positively surprise us. The Dow Jones Real Estate Index was up 3.4% for the month. Our strategy was up, net of fees, 6.3%. We are quite happy with our diverse, good performing institutional real estate investments.

Bonds — We don't see much upside to bonds, especially those with longer maturities and high yields. The next move in interest rates must be up and that will spell the end of what many market observers have called the bond bubble. Given the FED's "zero interest rate policy" we don't see a government induced rate increase until after 2015 when the FED's current interest rate policy lapses.

Balanced Accounts — Our combined stock/bond accounts were also positive contributors in January. For the month our Balanced Strategy was up 2.75% net of all costs.

So, we expect it will continue to be a jungle of tangled Washington decisions for many more months. Our suggestion is buying green bananas wouldn't be a bad idea...there is plenty of time for them to ripen. Hang in there with us while we ape a fully invested strategy.