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—

Once again our Washington "heroes" have kicked the can down the road. Mandatory spending cuts (i.e. "sequestration") have been initiated but no true progress on fixing our overspending has been accomplished. Our thoughts are that the issue won't really be put to bed until after the mid-term (2014) elections. Both parties are expected to continue partisan bickering and additional finger-pointing as any opportunity arises to blame the other party for that day's bad economic news. We believe both parties learned from the last government shut-down not to repeat that mistake so we expect continuing resolutions will be adopted when needed to keep the federal government working. We don't expect much actual reduction in the deficit. Budget outlays will be reduced by "only" $44 billion but that is just 1.25% of our $3.6 trillion budget. Would you run your household or business budget like that?

It may be a bit obscure but the sequester reduces *expected* expenditures *already approved* for 2013 (even if they are higher than 2012's expenditures) rather than really cutting expenditures. It does not cut entitlement spending (e.g. Medicare & Social Security) but may slow some payments.

Domestic Equities — February saw the US stock market, as evidenced by the S&P 500 Index, move up just over 1%. Our two domestic ETF-based strategies also moved up: All Cap Multi Style was up 1.2% {net} and Large Cap Core was up 0.5% {net}. Our Large Cap Value stock picking strategy was up 1.4% {net}. Value has been doing better than core or growth styles this year.

Emerging Markets Equities — The MSCI Emerging Markets Index was negative by 1.25% and the EEM iShares Emerging Markets ETF was down about 2.3% . Our strategy was down 1.2% {net}. We continue to emphasize country picking to generate "alpha" for our clients. We expect emerging markets to do better as the year moves on.

Real Estate — The Dow Jones Real Estate Index was up 1% for the month. Our strategy, for the first time since November 2012, was down net of fees 0.6%. We are still very far ahead of the index for the one year ended 2/28/13 at +26% {net} versus +15% for the index. We remain 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. Our bond strategy was relatively flat for the month and our balanced accounts (stocks + bonds) were slightly up. We continue to have a short average maturity and use predominantly closed-end funds and ETFs to implement our strategy. When rates are finally back to "normal" we will then go back to buying high quality, call protected debt and lock in the better interest rates then available.

We believe that for now, staying fully invested is the best approach. We intend to follow our own advice.