KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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ECONOMIC & MARKET KOMPASS

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MARKETS, ECONOMY AND STRATEGY—

It would appear that the US economy has not fallen off the dreaded cliff. Like the slowly moving snail pictured above, the economy is making its way back to level ground. The Senate passed a budget. Over the next 10 years, it would cut $850 billion in spending but raise $1 trillion in taxes. This is hardly a roadmap to unabated economic growth. The House will now debate a Ryan-like bill. Compromise is in the wind. On balance, the USA will not become Europe and our banking system will not see Cyprus-like confiscation of customers' money. We feel the stage is set for further market increases, eventual higher interest rates, and modest inflation. Yet we should also move toward a lower deficit and a balanced budget.

Our clients had a good quarter and are well ahead of where they were at year-end 2012. We made the right moves during the quarter. These moves allowed us to grow our clients' accounts. We believe that staying fully invested is the best approach for now.

Domestic Equities — This quarter saw the US stock market, as evidenced by the S&P 500 Index, move up about 10.5%. Our two domestic ETF-based strategies also moved up: All Cap Multi Style was up about 11% {net} and Large Cap Core was up 10.6% {net}. Our Large Cap Value stock picking strategy was also up almost 11% {net}. As a style bet in the large cap space, value continues to do better than core or growth this year.

Emerging Markets Equities — This quarter, the MSCI Emerging Markets Index was negative by 1.8% and the EEM iShares Emerging Markets ETF was down about 3.6%. Our strategy was down only 0.5% {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 7% for the quarter. Our strategy was up over 10% {net}. We are still very far ahead of the index for the one year ended 3/31/13 at +23% {net} versus +13% for the index. We remain quite happy with our diverse, good performing institutional real estate investments. They offer capital appreciation and good current income.

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 quarter and our balanced accounts (stocks + bonds) were up about 4.5% {net}. Again, stocks helped boost total return. 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.