KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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ECONOMIC & MARKET KOMPASS

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MARKETS, ECONOMY AND STRATEGY—

As Mr. Bernanke's picture above suggests, the FED needs to do a better job of communicating. The on again, off again suggestions coming from him, and other FED governors, concerning the slowdown, and eventual ending, of monetary policy stimulus (i.e. QE-infinity) is making worldwide markets jittery.

Jim Kelly just returned from Milan where he had the opportunity to meet with a number of professionals in the banking, government, and academic fields as well as some US FED presidents. One big take-away from these one-on-one conversations is the growing sensitivity of government officials to the global impact of how they say what they say. Expect more on Milan in future *Komments*.

It is delusional to assume stimulus programs will never end. Initially our FED told the markets what it needed to see in order to reduce, and then eliminate, our country's QE stimulus program. Nevertheless, the FED is still tossing out comments, long before the announced targets have been reached, warning of the coming end to the QE program. This has not been helpful. Just look at how the real estate, commodities, bond, and equity markets worldwide have tumbled since the end of April. Our opinion, expressed in prior newsletters is that market volatility will continue but the overall bias in equity markets will be up.

The current decline in Japanese, European, and US equity markets is a signal of what will come when stimulus programs end. However, they have not yet ended! Europe is doing a better job balancing growth and job creation with austerity. Japan is committed to growth, enhancing consumer spending, and broadening exportation of Japanese made goods via a weaker yen. The USA is still showing good corporate profits, some job creation (even though more folks have stopped looking for work), subdued inflation, and low interest rates. The formula for making money is no secret: *stay invested*. However, to do so will require your patience and your tolerance of periodic pull backs in markets.

For May, our three domestic equity strategies all had positive net total returns and also beat their respective benchmarks. Bonds/Notes remained a poor place to be this year with every maturity range reflecting a negative total return in May. Real estate had a negative adjustment to its strong, positive returns generated in the past two plus years. May saw the Dow Jones REIT Index down over 6% and our firm's strategy was down just over 5%, net. The Emerging Markets saw pull backs as concerns over (1) China's slowing growth rate, (2) Japan's ability to achieve its GDP growth goals, and (3) various countries wrestling with political unrest or slowdowns in exports and industrial production. Our strategy was not immune to the May sell-off but remains ahead of its benchmark year to date by over 1 percentage point, net. We shall remain vigilant and fully invested.