# KCM'S KOMMENTS—CURRENT NEWSLETTER

## KELLY CAPITAL MANAGEMENT, LLC

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### ECONOMIC & MARKET KOMPASS

JUNE 2013—2nd QUARTER KOMMENTS

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**MARKETS, ECONOMY AND STRATEGY—**

**So far this year all markets acted like a roller coaster. For those with weak stomachs, the ride wasn't fun. No one we know liked the ride. This calendar year the domestic equity markets are up about as much as emerging market equities are down. With an evenly split portfolio, one would look like Gumby or Rubber Man...with your feet slowly stretching farther apart as time passes. And what about bonds? Lots of folks feel bonds are "safe". So far this year, and especially after the FED's two clumsy announcements, bond investors joined the downhill side of the roller coaster ride. Even real estate was pushed over a peak and joined the downhill ride. Running to cash (which we have not done) wasn't much fun given the near zero return money markets have offered. So, what did we do at KCM and what are we going to do?**

**Our three primary domestic equity strategies had a positive quarter and year to date. Our Large Cap Value stock picking strategy was best year to date, followed by All Cap Multi Style and then Large Cap Core. Each had net, double digit returns for the year and modest single digit returns for the quarter. Bottom line: net of everything we made money for our clients this quarter and year to date in domestic equities.**

**Emerging markets were challenging. Reactions to both our FED's and EU banking officials' announcements, coupled with slowdowns in China, some uncertainty about Japan, political unrest in many countries, weak European demand, and Brazil's internal issues, all led to a tough quarter and year to date. Overall, the Emerging Market benchmark security (EEM) is down 13% this year and 10% for the quarter. During the quarter KCM removed exposure to China and made some other shifts that led to quarterly results about even with the benchmark index (and EEM) and better than both for the year to date.**

**Institutional real estate took some knocks this quarter. The Dow Jones REIT Index {"DJR"} was down almost 3% for the quarter and up only about 4% for the year to date. We are happy to report our real estate strategy returned, net of everything, much better results than DJR for the quarter and a positive net return of about 8.5% for the year to date.**

**Anything with bonds got hurt as a result of the market's and traders' reactions to the FED's two comments about slowing "QE". The more yield oriented the portfolio, or the higher the percentage in bonds, the worse the results for the quarter and year to date. In fact, a pure bond strategy would have lost money for the quarter.**

**We shall stay fully invested but remain sensitive to quickly eliminating exposure to a security we feel is hurting the portfolio. Please fasten your seat belts…the ride ain't over yet.**