KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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MARKETS, ECONOMY AND STRATEGY—

Much has been written by us and others about market volatility. It is interesting to note that for the first seven months of 2013 the S&P 500 Index's monthly standard deviation (volatility) has dropped about 50% from what it has been since October 2004 (when we established KCM) to December 31, 2012. As volatile a ride as it has been this year at least the domestic equity market has found relatively smoother road while still delivering a nice return. In fact, the S&P 500 Index is up just over 19.5% through July 31. Also, its average monthly return is five times that of the October 2004 to December 2012 period.

Our three primary domestic equity strategies had a positive July and year to date. Each had net returns in excess of 20% year to date and solid single digit returns for July. Bottom line: net of everything we made money for our clients this month and year to date in domestic equities.

Emerging markets were challenging. Reactions to potential changes in both our country's and the EU's stimulus programs, coupled with more slowdowns in China, remaining uncertainty about Japan, political unrest in many countries, weak European demand, and Brazil's internal issues, all continued to disrupt foreign markets. Overall, the Emerging Market benchmark security (EEM) is down over 12% year to date. We continued to hold some defensive cash in our foreign equity strategy. In controlled risk and target date strategies we maintained our cash in lieu of emerging markets exposure.

Institutional real estate took some knocks this year. The Dow Jones REIT Index {"DJR"} was up only 6/10% for July. We are happy to report our real estate strategy returned, net of everything, about 3.5 times the benchmark's return for July. For the year to date, our strategy is up net 10.8% versus 4.5% for the DJR benchmark.

This year bond exposure has hurt returns. The longer the maturity, the worse the impact. We continue the current shorter average maturity structure in our fixed income portfolios. We also continue to favor funds and bond EFTs over locking in current low yields in individual bonds/notes. As interest rates eventually rise to more normal levels, we shall then institute our historical pattern of buying high quality, intermediate debt in the form of individual bonds/notes.

Except for our current foreign equity tactical cash position we expect to stay fully invested in all our strategies. Nevertheless, we will remain sensitive to quickly eliminating exposure to a security we feel is hurting the portfolio. The road may be a bit smoother but potholes can appear. We will do our best to steer a path towards good returns versus the risk we take.