# KCM'S KOMMENTS—CURRENT NEWSLETTER

## KELLY CAPITAL MANAGEMENT, LLC

VOLUME 8 ISSUE 8

**ECONOMIC & MARKET KOMPASS**

SEPTEMBER 2013— KOMMENTS

*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—**

**This quarter saw continued market volatility resulting from domestic political wrangling, concern over potential FED tapering, the U.S. Government shutdown, and international events such as Syria. Nevertheless, domestic and foreign equity markets generated positive total returns. Institutional real estate and bonds were not great performers. The longer the maturity or higher the yield, the worse the return on the bond.**

**It appeared to us that equity investors were focused on earnings per share even though revenue growth was generally flat. Therefore, growth companies had higher total returns than value companies in all market cap groups. Also, given the low level of interest rates, the recent small uptick in yields negatively impacted bonds and higher yielding securities. Even institutional real estate was negatively impacted as "capitalization rates" (the percentage of Operating Income to Property Value) rose, meaning market values had to decline. The first two months of the quarter saw real estate returns drop but the last month reversed and was great.**

**OUR STRATEGIES:**

**Our three domestic equity strategies did very well and ended the quarter ahead of their benchmarks. Our Large Cap Core was up 7.3% (net), All Cap Multi Style was up 6.4% (net) and Large Cap Value was up 4.6% (net). Our Emerging Market strategy reversed its first half trend and moved strongly upward, ending the quarter up 7% (net). Our Real Estate strategy ended the quarter in the black and was about 4 percentage points (net) ahead of its benchmark. We see no material risk to the future dividends from the REITs we use. All of our Target Date and Controlled Risk strategies were solidly in the black for the quarter, net of fees.**

**GOING FORWARD:**

**We did not see an advantage to building much cash during the quarter. Even though the ride can be rougher, it's almost always best to stay fully invested according to one's asset mix strategy. This quarter was no exception: it was uncomfortable in the first two months but September saw a strong reversal to the upside that we would have missed had we "gone to cash." We expect some negative market fallout from a government shutdown. However, unless the government defaults on a debt payment, we see no long lasting, negative effects from the shutdown. Mid-Eastern political unrest and uncertainties arising therefrom will continue to plague the markets for some time to come. Unless some country goes to war with Iran or Syria, we see no short-term material risk to oil supplies or market returns.**