KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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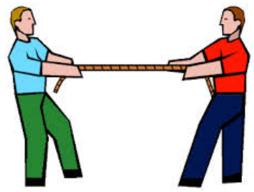
ECONOMIC & MARKET KOMPASS



MARCH 2014— KOMMENTS

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MARKETS, ECONOMY AND STRATEGY:

1st quarter 2014 was marked by domestic concerns over "Obamacare", continued wrangling between the left and right in Washington, rising tensions between Israel and Palestine, Russia's land grab in Crimea, France's rejection of socialist leadership in local elections, continued uncertainty as to whom the West should support among the Syrian opposition, and severe weather shifts across North America. Overall, it is pretty impressive that the US economy continued to grow (slowly) in spite of unemployment lingering at the 7% level and our new FED Chairwoman admitting further quantitative easing {"QE"} is necessary. On balance, our equity, bond and institutional real estate markets were positive in spite of the tug of war.

OUR STRATEGIES:

We remained fully invested during the quarter which allowed our clients to experience the impact of the quarter's upward move in US stocks, bonds and institutional real estate. However, the more conservative the equity strategy, the better the result from US stocks which may have been reflecting the fears over the tug of war discussed above. On the other side of the tug of war were emerging markets stocks. Emerging markets did not generate positive results for the quarter but our strategy managed to stay ahead of our benchmark. Bonds showed small upward returns and our bond strategy participated in those positive returns. In fact, our bond strategy composite showed net returns about 1.5 times those of even the S&P 500 Index and were ahead of all the bond index benchmarks we follow. Our institutional real estate strategy was a real winner coming in with a net return about 4 times that of the S&P 500 Index and in-line with its real estate benchmark.

Any portfolio holding large amounts of bonds, or was one of our "yield oriented" strategies, received the expected income but had less growth in market value than our more aggressively invested strategies. This was consistent with the "risk-on, risk-off" approach investors have adopted over the past few years and the resultant impact on market returns.

GOING FORWARD:

International events will be important but we don't think Russia will go to war with Ukraine; it has taken back what it gave away in 1954 and will seek other "soft targets" to pursue when it serves "Greater Russia's" intentions.

The bond market yield curve will remain steep so we shall keep average maturities shorter than otherwise. The US equity market will be marked by further volatility spikes but should drift upward. We don't see an equity market bubble right now as price-to-earnings multiples are reasonable. We shall remain fully invested and keep an open eye for appropriate changes in portfolio holdings.