# KCM'S KOMMENTS—CURRENT NEWSLETTER

## KELLY CAPITAL MANAGEMENT, LLC

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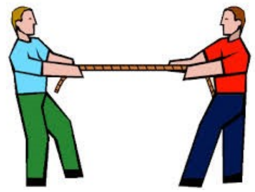
**ECONOMIC & MARKET KOMPASS**



JUNE 2014— KOMMENTS

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**MARKETS, ECONOMY AND WORLD ISSUES:**

**2nd quarter 2014 saw continued wrangling between the left and right in Washington, rising tensions in the Middle East, Russia's continued Ukrainian involvement, oil prices jump, China dealing with its banking sector issues, and shrinkage in 1st quarter GDP due to severe weather. Overall, it is pretty impressive that the US economy continued to grow (slowly) in 2nd quarter in spite of these issues. Happily, FED Chairwoman Yellen reconfirmed that continued quantitative easing ("QE") is necessary, but at a slower pace. On balance, our US equity, bond and institutional real estate markets were positive in spite of the issues.**

**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. Our stock picking strategy, large cap value, led the return parade with our all cap coming in 2nd and large cap core 3rd. Emerging markets did not generate positive results for the quarter which reflects the international unrest that exists. Our institutional real estate strategy was a real winner again coming in ahead of all equity and fixed income strategies we offer. Overall, its ability to generate yield and market value increase was a delightful combination.**

**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. However, it is interesting that our balanced account composite's quarterly return was almost identical to our core equity return.**

**GOING FORWARD:**

**International events will be important but we don't think Russia will go to war over Ukraine. However, Putin will take advantage of any perceived weakness on Europe's and America's part. For now, ISIS is the big threat with Islamic radicalism growing and Iraq facing partition.**

**The bond market yield curve will remain steep so we shall keep average maturities shorter than otherwise as we see interest rates remaining abnormally low for a while longer. The US equity markets will be marked by further volatility spikes but should drift upward. We see equity index numbers remaining high on a nominal basis but acceptable on an earnings per share basis. We are watching capital expenditures as they seem low now. We think the financial sector has above average earnings risk so we shall remain cautious there. For now, we shall remain fully invested and keep an open eye for appropriate strategy changes.**