

KCM'S KOMMENTS—CURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

VOLUME 9 ISSUE 7

ECONOMIC & MARKET KOMPASS



JULY 2014— 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 WORLD ISSUES:

FIFA World Cup Soccer wasn't the only important event during July in which one could see tripping occur. The US equity markets also did a major trip on July 31. After having bounced up and down in a channel for 30 days, the 31st day saw the S&P 500 Index fall 2.5%. Given its annual dividend yield is about 2%, the one day drop wasn't earth shattering but it got a lot of press.

The Dow Jones Real Estate Index also flopped on July 31st, but the Emerging Markets and Frontier Markets Indices only suffered a small drop off after the 30th and ended the month with positive returns.

We have seen from prior market reversals that when a market runs up (or down) in a protracted manner, it often stops, breaks the trend, and takes a breather. It then tends to go back to its prior trend unless major economic events occur. Overall, we are not concerned about what happened July 31st. We are still fully invested and expect to remain so.

World events in the Middle East, the Ukraine, South America and here at home with the end of FED tapering all can cause anxiety but nobody makes money by running away from investing. We don't think "the house is on fire" so we aren't running away. You can expect us to make changes to the holdings in your portfolios as time passes and opportunities arise which we want to pursue but don't expect us to build cash as we did in 2008 & 2009. We don't believe there is justification to do so now.

As to our various strategies, all of our equity strategies are still well into the positive area for the year to date.

Of particular note is our Emerging Markets Equity strategy which was helped a great deal by the addition of the Frontier Markets Index security (FM) this year. It alone has been up, on a total return basis, 17.7% year to date. So, we have taken, and shall continue to take, advantage of securities that can help maintain growth in a choppy market.

Our real estate strategy is in double digit positive territory year to date. Another example of a good choice we made this year was selling Plum Creek Timber REIT (PCL) and replacing it with Alerian's Master Limited Partnership ETF (AMLPL). Year to date, PCL is down about 12% and AMLPL is up just over 3% making the spread a positive 15% in our clients' favor.

Even our fixed income strategies have generated positive returns year to date. We believe this is a result of our reducing average maturities in 2008-2009 and keeping them relatively short so far this year. As rates do rise, our clients' bond holdings will not suffer as those at other firms with long-term, high yield strategies might.