Quantitative Asset Management, LLC
Investment & Advisory Services

Newsletter

January 22, 2013

Dear Clients,

Happy New Year! May it be a prosperous and healthy one for you too. So far, the "healthy" isn't working for the Farni Family: since Christmas night and over the new year, we have been passing the flu around the family, leaving me a few weeks behind schedule. My timing is not well placed for the year's end and the start of a new one.

Quarter Ending December 31, 2012			
Year to Date Performance	**Last Full Quarter**	**YTD**	**Index Close**
Dow Jones Industrial Averages	(1.74)%	10.22%	13,104.14
NASDAQ Composite Price	(3.10)%	15.92%	3,019.51
Standard & Poor's Averages	(0.38)%	15.99%	1,426.19
Barclay's Capital Bond Index	0.37%	4.82%	
EAFE-Global Markets	6.61%	17.92%	

The fourth quarter saw the equity markets flounder – not unexpected given the elections and lack of direction out of Washington regarding the fiscal cliffs (plural, yes, as there are many not yet in focus to the media). So far, Washington has simply kicked the can down the road.

Despite the poor fourth quarter, the year finished with above average total returns in the equity markets. The EAFE bounced back even stronger due to a currency boost, as the world looked at our economic issues and voted in favor of the Euro.

The bond markets produced good returns, but will be significantly challenged to replicate this trend going forward. The positive performance in the bond markets is being driven by investors chasing yields, and this herd mentality will eventually lead to a major down cycle.

Looking back to the start of the market crash five years ago, the S&P 500 index produced an average return of roughly 1.66% per year. Over the previous ten years, the S&P has averaged around 4% per year, which leads me to believe that the equity markets have more upside potential. There will continue to be market corrections, but in reality, there is little competition outside of equities that will produce real returns. As I noted earlier, investors are chasing yields,

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and there is still too much cash on the sidelines. This should provide support for the equity markets during any market corrections.

Now that we have spent billions of dollars on political campaigns, and still have no real change in the balance of power, where are we headed? To quote John Adams:

In my years, I have come to the conclusion that one useless man is a shame, two is a law firm, and three or more is congress.

This new year will bring more heated political debates over how to manage our many economic issues. As a nation we need constructive changes to the current entitlement system, and to recognize just increasing taxes will not solve the huge future deficits we are faced with if we continue down our current economic path. As Thomas Jefferson said, “A government big enough to give you everything you want is strong enough to take everything you have.” Washington seems to think more government is the answer to economic issues, which I believe is a recipe for more problems down the road. The required government deleveraging will hold down economic growth. Economic growth must therefore come from the private sector which will provide real economic gains and higher employment. I hope our politicians don’t lose sight of this basic economic truth.

However, one will never create much success by using macroeconomics as a tool for managing your portfolio. There will always be investment opportunities, and our job is to find those investments at the right price to mitigate risk, and produce real returns over time.

Sincerely,

Jeffrey L. Farni Sr.

**As required by Advisors Act Rule 204-3 advisory disclosure documents (ADV Part 2A) are available upon request.*

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