QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

Newsletter

January 21, 2014

Dear Clients,

Quarter Ending December 31, 2013		
Year to Date Performance	**Last Full Quarter**	**Index Close**
Dow Jones Industrial Averages	10.22%	16,576.66
NASDAQ Composite Price	10.74%	4,176.59
Standard & Poor's Averages	10.52%	1,848.36
Barclay's Capital Bond Index	(0.03%)	
EAFE-Global Markets	5.74%	

Happy New Year - and wow what an old year it was, with the equity markets producing returns of 30% or more! From the depths of the financial crisis and the ensuing meltdown of '08-'09, the equity markets have recovered fully and now sit at all-time highs. The Federal Reserve policy of zero interest rates has allowed our financial markets to heal, albeit at the expense of bond investors. The process of deleveraging and refinancing at lower rates has put our financial institutions and home owners on more stable footing. A housing recovery and tremendous returns provided by equity markets bode well for new economic growth. This wealth effect has only just begun to show up in consumer and corporate spending habits. All of this will set the stage for improved global growth over the next few years.

Having been involved in the financial markets for almost forty-two years (which is impossible, because I'm still forty!), I'm beginning to see some parallels from late sixties and mid-1990's. The equity markets have been on a multi-year bull market run and this has begun to change market sentiments. The byproduct of this has been an increase in speculative behavior of investors who are chasing fewer attractive investment opportunities and trying to put their cash to work more productively. This behavior is a potential warning sign of the demise of our bull market.

The equity markets are still the best investment alternative, but going forward they will not be able to replicate the returns we have witnessed over the last few years. We will likely see a return to the mean of roughly ten percent per annum over the next couple of years. As I have mentioned in my previous quarterly letters, there is still little competition to pull investment dollars, Euros,

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etc. away from the equity markets. However, we will need to be more selective and mindful of our asset allocation in order to continue producing superior returns in your portfolio.

This bull market will begin to reverse course when we see several trends. First, when too many Wall Street analysts begin to announce p/e multiple expansions to justify their equity price targets for the great corporations they recommend. Second, when trading firms highlight their favorite equities with positive momentum for those chartists and momentum speculators without regard for realistic valuations. Finally, when interest rates begin to rise further, this bull market will experience real competition for the investment dollar. I think we are a couple of years away from these trends but market valuations will ultimately be the determining factor.

As always, we will continue to be selective and prudent in our approach to managing your portfolio. Thank you for your continued loyalty, and we at Quantitative Asset Management, LLC wish you and your family a very Happy, Healthy and Prosperous New Year!!

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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