QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

Newsletter

October 23, 2011

Dear Clients,

Year to Date Performance	Last Full Quarter	YTD	Index Close
Quarter Ending September 30, 2011			
Dow Jones Industrial Averages	-11.5%	-3.9%	10,892.27
NASDAQ Composite Price	-12.9%	-9.0%	2,415.07
Standard & Poor's Averages	-13.9%	-8.7%	1,131.42
Barclay's Capital Bond Index	3.8%	6.5%	
EAFE-Global Markets	-19.0%	-14.6%	

The equity markets finished the third quarter of 2011 with the worst performance since the end of the 2008 meltdown. Global equity returns were even worse when adjusted for U.S. dollar equivalents. The Russell 2000 (small cap stocks), technology, financials and makers of raw materials were the worst performing sectors of the markets. These brutal performance numbers are certainly not surprising given the myriad of economic issues that the markets had to digest during the quarter: Washington's ineffectiveness, European sovereign debt issues, slowing Chinese growth rates, recessionary fears, and S&P's down grade of U.S. Government debt to name a few.

Surprisingly, perhaps the best investment over the quarter was U.S. Government bonds. Treasury prices (which move inversely to treasury yields) soared despite S&P's downgrade, pushing ten year Treasury yields to historic lows of 1.71% by the end of September.

The pricing of U.S. Treasuries is driven by several economic forces. The first is that there is no better tool for meeting global liquidity needs than U.S. Government debt. The second demand driver is the investor exodus from the equity markets and the reinvestment in money markets and bonds. The third driver is our own Federal Reserve and "Operation Twist" the Fed's new attempt at trying to keep long term yields and corresponding borrowing rates low by buying long term bonds.

Current thinking has made investing quite difficult vs. historical theories of asset allocation. Essentially, we have zero real returns on bonds, which negatively affect investors and savers, while benefiting those who are over leveraged – like our government.

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While lamenting the fact that conventional conservative asset allocations no longer work as well in this environment, it dawned on me that investors are essentially being indirectly taxed in order to fix the problems of our government and financial institutions.

The Federal Reserve realizes they must keep the cost of money low for long enough to allow our government, municipalities, cities and states to refinance their huge debts at significantly lower rates. This will bring down expenses and help balance budgets and perhaps reduce the risk of defaults. This process has now gone on for three or four years already and will probably last another two or three. This is a plus for governments, but not necessarily for investors.

These policies carry some systemic long term issues that will ultimately need to be addressed. Investors, pension funds, retirement accounts of all kinds, and corporate sponsors will share in the cost of these policies. Very low interest rates will play havoc with every pension fund manager's ability to earn enough to fund the cash flow needs of their plan. That can mean increased costs for corporations and or reduced pension payments to retirees if the plan does not meet its investment assumptions.

The catalyst for real economic growth needs to come from corporations, not government. I truly hope Washington, and those who participate in "Occupy Wall Street" eventually understand this fact. Wall Street needs some fixing but corporate America is the only long term solution to our financial issues.

Going forward, we are likely to experience shorter and sharper economic cycles given the need to balance budgets and reduce our current debt levels. Our markets will continue to provide for opportunistic investing. Equities will continue to be the long term solution to achieving real returns.

As always, please feel free to call anytime!

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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