QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

Newsletter - A Year in Review

January 17, 2012

Dear Clients,

Quarter Ending December 31, 2011			
Year to Date Performance	**Last Full Quarter**	**YTD**	**Index Close**
Dow Jones Industrial Averages	12.76%	8.36%	12,217.56
NASDAQ Composite Price	7.85%	-1.81%	2,605.15
Standard & Poor's Averages	11.82%	2.12%	1,257.60
Barclay's Capital Bond Index	1.18%	8.72%	
EAFE-Global Markets	3.37%	-11.74%	

2011 was a year in which great political, economic and social turmoil ushered in an abundance of fear, volatility and uncertainty that our world has not experienced in over a half a century.

Politically, the global landscape changed with the overthrowing of old-line dictators and their supporters. Some revolutions are still being fought as we enter the new year. Individuals across the world are seeking greater freedoms and better economic opportunities for their families. As these events unfold, economic uncertainty and social struggles will continue to create new headlines.

Economically, we saw the U.S. Dollar downgraded and many governments being forced to deal with runaway deficit spending and entitlements. These issues are significant and far from being resolved. Significant cuts in government spending will impact the global economy and limit growth, perhaps pushing some economies into a recession (I and many of my fellow economists have predicted at least eleven of the last three recessions – never fear economists!).

Socially, we are struggling with the issue of "the haves and have-nots". Economic disparity is a global issue that will only get resolved by generating employment opportunities via real economic growth. We have a huge ideological battle to fight over entitlements and the future of our welfare state.

All of this turmoil has created record-setting levels of volatility in our investment markets. Volatility is a by-product of the uncertainty and fear surrounding our future, and it is compressed

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into shorter cycles by the new information age we live in. However, it does not change the fundamentals of how you succeed in investing.

After the market collapse in '08-'09, 2010 brought in a relief rally that continued into the first half of 2011. By the end of the third quarter, the markets once again collapsed and gave back most of those gains. During the fourth quarter, we saw a spotty recovery in some markets. Certain sectors like technology and finance produced below average results but overall the U.S. did well. On a dollar denominated basis, the rest of the world suffered. The United Kingdom's markets finished down 4%, Germany and France were down 18% and Australia and India were down about 34% and 40% respectively. Any prudent investment allocation model's performance would reflect these results.

In addition, the Euro is celebrating its tenth anniversary this month, and given the economic issues Europe now faces, I'm not sure every country in the European Union is celebrating this event!

Just like Europe, we in the U.S. face similar tough economic choices in order to right our own ship. 2012 is an election year and my fear is that many of these tough decisions will get pushed out until after the elections. It will become a year filled with political bantering, positioning and endless negative campaign ads - none of which will improve the productivity of our political system.

So where does all this take our markets in 2012? The global economic growth rate will slow due to less government spending. The European economy will fare relatively poorly. The U.S. markets are showing some signs of improving but will remain relatively weak until corporations start to reinvest in their businesses. China's growth will decline from much higher levels, but still may grow at roughly 8%. Given that almost 40% of the earnings of the S&P 500 companies come from abroad, corporate earnings may flat line for a period of time.

Interest rates will remain low for the next few years, to allow the banking industry and governments to mend their balance sheets and income statements. For all you municipal bond holders, get ready for those call provisions to be exercised starting in February. In the next two years watch your yields drop from 4 & 5% to 1 & 2%. Good for governments, bad for investors.

In the 3rd quarter letter I also pointed out that more pension funds will be facing significant problems meeting their financial obligations due to low interest rates. It will be almost impossible to achieve their actuarial investment assumptions in order to meet their payment obligations. This systemic issue will become more apparent over the next few years requiring some painful solutions.

On the bright side, there is a lot of liquidity sitting on the side lines, and lots more to come from the fixed income sector, that currently produces very little return on investment.

Real estate will continue to flounder but most of the damage has been done already.

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Corporate earnings have been good enough to warrant raising their dividends. According to JPMorgan Asset Management current dividend payout ratios are about half of where they were in 2002 and corporate cash as a percentage of current assets is nearly 30% vs. roughly 15% in 1999.

Equity market valuations are very reasonable given today's bond market yields. The forward price to earnings ratio for the S&P is generally expected to be 12 times next year's earnings estimates, closer to historic lows than highs.

Our banking industry still has issues, but much like the real estate industry their balance sheets and income statements are getting better.

The world will eventually resolve many of these issues outlined here. Corporations will continue to invest in their businesses creating growth and job opportunities. We have a world full of people elevating their standard of living and thereby providing the engine for future growth. Technology will continue to innovate, and governments will be forced to get their houses in order. As always, we will continue to look for opportunities to create real growth and positive returns on our clients' capital.

Here's wishing you all 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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