Quantitative Asset Management, LLC
Investment & Advisory Services

July 15, 2019

Quarter Ending June 30, 2019

Year-to-Date Performance	YTD	Index Close
Dow Jones Industrial Average	14.0%	26,599.96
NASDAQ Composite Price	20.7%	8,006.24
Standard & Poor's Averages	17.4%	2,941.76

Oh, the Places You'll Go!

From time to time, we have titled our quarterly letters. Considering the time of year (graduation season) and the theme of our quarterly letter, we felt it appropriate to borrow our title from Dr. Seuss' famous book, *Oh, the Places You'll Go!* While we will spend some time on where we think equity markets are going, we would like to start on where the equity markets have been over the last year.

Investment performance is a funny thing. Depending on the timeframe and data points chosen, performance numbers and comparables can be skewed and give the illusion of performance that might not actually reflect long-term reality. This is especially true during short-term rallies in the equity markets. The first six months of 2019 provides a great example of this phenomena. The S&P 500 was up a whopping 17.4% in the first half of 2019! Are these performance number accurate? Yes. Do these numbers temporarily inflate some other longer dated performance numbers? Absolutely. Do they reflect the true reality of what has been going on? Maybe not. If one were to shift their timeframe back approximately 3 months, the data would paint a significantly different picture. In 2018, from September 21st to December 26th, equity markets went through what is defined as a bear market by falling 20%. From December 26th to May 1st, the markets rallied a stunning 26%. During this timeframe of a little over 8 months, the S&P was up **only 1.52%**. Just by shifting some data points, equity market performance can paint a very different picture. From our view, things were not as dire as the markets reflected on December 26th and not as upbeat as reflected by a 17.4% rally.

Now the big question is where do we go from here? The broad markets have been through some significant volatility over the last nine months. Equity markets have been pushed to extreme levels by electronic trading and algorithms, which has caused investor sentiment to sway drastically. To add some context to the recent volatility, we wanted to share the titles of two news articles from the last few months, “S&P 500, Best June Since 1955” and “S&P 500, Worst December Since Great Depression”.

In broad terms, the current market environment is starting to remind us of the late 1990’s and early 2000’s. Investors are chasing performance and paying little attention to company and market fundamentals. As a recent example, two of the more celebrated events of 2019 have been the initial public offerings of ride share companies UBER and Lyft. Before going public, Lyft posted revenues of $1.8 billion and total **losses** of $1.9 billion. Their CEO famously said, “our valuation and size today are much more based on our energy and spirituality than it is on a multiple of revenue.” He expanded on this point by saying, “We have a history of net losses and we may not be able to achieve or maintain profitability in the future.” No one can argue that these ride sharing companies have been transcendent; however, as we have said before, good companies do not always make good investments.

Due to this paradigm shift, we have started to take a more defensive approach to our investment philosophy. We feel these volatile markets are here to stay and investors will be rewarded by being patient and defensive. Money market rates have risen significantly over the last 12 months (close to 2%) and many dividend paying stocks provide great income, which should help reduce the overall volatility in our portfolios.

We would like to conclude with two quotes.

From famed investor Howard Marks: “Understandably, the stocks of companies with bright futures are likely to be outperformers in time of economic growth and optimism, when investors are happy to pay up for potential. But stocks of companies with tangible value in the here-and-now are likely to hold up better in less positive times because (a) they’ve previously been disrespected and valued lower (b) the rationale underlying their prices is less a matter of conjecture and faith.” Thus, a swing in favor of value may have to await a period in which the “champions” lose some of their luster, perhaps in a market correction (see Q4 2018).

And from Dr. Seuss’ aforementioned book: “So be sure when you step. Step with care and great tact and remember that Life's a Great Balancing Act.”

As always, please reach out with any questions. Have a great summer!

Sincerely,

Jeffrey L. Farni John Farni