QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

October 15, 2019

Quarter Ending September 30, 2019

Year-to-Date Performance	YTD	Index Close
Dow Jones Industrial Average	15.4%	26,916.83
NASDAQ Composite Price	19.7%	7,999.34
Standard & Poor's Averages	18.7%	2,976.74

"Those who cannot remember the past are condemned to repeat it"

Winston Churchill made this line famous in a 1948 speech to the House of Commons; however, the origins of the saying go back to the philosopher George Santayana in the early 1900s. In preparation for writing this letter, many of the themes we discussed touched on subjects we have covered in previous quarterly letters (these letters can be found on our website). For our 3rd quarter letter, we wanted to revisit some of those writings.

Exactly one year ago, the equity markets had a very strong start to 2018. The S&P 500 was up 9% through the first nine months of the year. As we started our 2018 Q3 letter, we referenced that markets had begun to weaken, and the S&P 500 was off 2.5% from the recent market highs. We did not anticipate such a violent correction, but by the end of 2018, the S&P would finish the year losing 6.2%. Today, the S&P 500 was up 18% through the first nine months of 2019. Much of the performance is due to an over correction of the 2018 selloff (reference 2019 Q2 letter, "Oh, the Places You'll Go!"), but the correction has returned markets to their previous highs. And, in similar fashion to 2018, the S&P 500 has sold off 2.8% in the first days of October.

This has lead investors to ask, are we due for another large correction? You will continue to hear some analysts and economists calling for an imminent recession. Many try to compare today's market and economy to those of 2000 and 2008. As an example, there have been two recent technology initial public offerings that have come under significant selling pressure (Uber -25% and Lyft -49% from IPO) and one outright failure (We-Work). We-Work's initial public offering was expected to confirm a valuation of 60 billion dollars for the company. Some investors actually took the time to study their balance sheet and realized the company was losing two dollars for every dollar they earned. In short, demand for shares of the company slowed, and We Work pulled their IPO and the estimated value a month later…10 billion dollars. Some analysts are comparing these IPO difficulties to similar market actions witnessed back in 2000. However, like the early 2000s, there are plenty of great undervalued investment opportunities for a valued oriented investor.

We do not feel the markets are due for an immediate long-term correction. However, much like the last couple of years, the market narrative and direction will be dictated by headline news events. We have touched on this thesis in many of our previous letters and we do not see this changing. News headlines of tariffs, trade wars, inverted yield curves, and elections will continue to drive market sentiment and add to volatility. Unfortunately for investors, these market movements are the new normal.

A shift toward more defensive positions, income producing equities, and hedging continues to be the thesis of our investment philosophy. And with the equity markets relatively flat over the last 12 months, in conjunction with significant volatility, this investment theory has started to add value to portfolios.

As a side note, and to demonstrate the volatility of today's markets, the S&P is up 2% from when we started preparing to write this letter….

As always, please reach out with any questions.

Sincerely,

Jeffrey L. Farni   John Farni