Quantitative Asset Management, LLC
Investment & Advisory Services

January 15, 2020

Quarter Ending December 31, 2019

Year-to-Date Performance	YTD	Index Close
Dow Jones Industrial Average	22.34%	28,534.91
NASDAQ Composite Price	35.23%	8,972.66
Standard & Poor's Averages	28.88%	3,230.56

"Perspective"

The theme of our 2019 year-end letter is dramatically different than what was written exactly 12 months ago. The 2018 market meltdown, which officially ended on December 26th, was followed by a significant market rally that continued through 2019. What was described as one of the worst investment years on record was replaced by one of the best. There is no doubt that the 2019 markets left clients feeling better about their investment portfolios; however, we felt it was very important to put the last 12 months into context.

At face value, 2019 was a stellar year for the equity markets. The Dow Jones, NASDAQ and S&P 500 were up 22%, 35%, and 29%, respectively. As we've said before, performance numbers over short periods of time can be a bit misleading. Depending on the timeframe, performance numbers can look quite good or quite poor. For example, if one were to extend their performance number history back to October 1st, 2018 (the start of Q4), the numbers would paint a different picture from 2019's performance. Investors would realize that the equity markets of 2019 spent the first nine months recovering the losses from the last quarter of 2018. It took three months for the markets to fall apart in 2018 and another nine months in 2019 just to get back to previous levels. Now, it is very important to point out that after recouping the 2018 losses, equity markets did rally an additional 10% into year-end. A 10% rally is nothing to criticize; however, it does start to change the perspective on 2019's equity market performance.

Performance numbers are always going to be used to help define whether an investment year is good or bad. Investment performance is important to track, but it is also critical to understand what metrics were used and what data drove the performance. Perhaps most importantly, previous performance does not do a good job of predicting future returns. In 2019, broad-based indices continued to hit new highs; however, if one looks a little deeper, only 10% of the stocks in the S&P 500 were hitting new highs at the same time as the indices. This would indicate that only a handful of companies are driving the overall performance of the major equity indexes. To support that claim, according to data from S&P Dow Jones Indices, "Just four stocks – Apple, Microsoft, Facebook and Amazon – generated more that 20% of the S&P 500's total return." We have touched on this theme in previous letters, but we still believe that the current equity markets are being influenced by a handful of stocks. More importantly, it is the investment tools (index, exchange traded, and non-managed funds) used by most investors that are driving some company valuations (and indices) to extremes. Investors are chasing performance and not paying any attention to company valuations or fundamentals.

When it comes to today's markets, we feel the "high flying/must own" names of today will have a difficult time replicating past performance. In many cases, today's markets are very reminiscent of the late 1990s and early 2000s. Investors (and investment managers) were chasing performance of a handful of stocks and driving valuations to extreme levels. As an example, look at the technology company, Cisco. In March of 2000, Cisco was the most valuable company in the world with a 500-billion-dollar market capitalization. Was Cisco a bad company? No. Was the valuation, in comparison to earnings and future growth over extended? Absolutely. Without taking into consideration any dividends paid, people who invested in Cisco in March of 2000 are still down about 40% after close to 20 years.

The high multiples people are paying for some investments is unsustainable and, at some point, the markets will correct. Long-term success will come back to investing in companies with reasonable valuations, earnings, and cash flow. No one can say when this will happen, but at some point, it will.

We hope you have a healthy and prosperous New Year!

Sincerely,

Jeffrey L. Farni

John Farni