QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

Newsletter

January 20, 2015

Dear Clients,

Quarter Ending December 31, 2014			
Year to Date Performance	**Last Full Quarter**	**YTD**	**Index Close**
Dow Jones Industrial Averages	5.2%	10.0%	17,823.07
NASDAQ Composite Price	5.4%	13.7%	4,736.05
Standard & Poor's Averages	4.9%	13.7%	2,058.90
EAFE-Global Markets	(3.5%)	(4.5%)	

The end of the 2014 calendar year brought with it some market induced pain! One sector of the market, energy, started to show real value opportunities by the third quarter and into the fourth quarter as a result of declining energy prices. Those value opportunities also brought to light the old investment adage, "don't try and catch a falling knife"! We have now entered the full blown panic phase of market cycles in the energy and energy services sector. This panic has also had a negative effect on our short term performance given our weighting in energy. However, value is best found during times like these, and for the patient investor it offers some great opportunities.

As always, the steps needed to correct today's imbalances will be taken by energy companies to protect their bottom lines. Already we have seen swift action to cut drilling, reduce overhead, and reprioritize cash flows. Technology today allows corporations to quickly adjust their spending plans. Over levered, marginal producers will go away and that will reduce supply and prices will once again rise. However, it will be a painful short term process, and the price of oil will likely not return to $100 per barrel anytime soon.

The energy crisis has also affected the currency markets. The Canadian dollar and Euro have both declined greater than ten percent from the start of the third quarter when energy prices started to crash. This currency effect magnifies the decline in share prices of non-U.S. companies. If the dramatic decline in oil and gas prices persists, there will be negative repercussions in the banking industry as well.

This is a good time to reflect on some other current market statistics as well. In previous quarterly letters I have made references to our markets beginning to mirror those of 1999. Back

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then, value managers were being fired for lagging performance vs. the capitalization weighted S&P 500. Today, we have index funds and many ETFs which appear on the surface to be better alternatives as opposed to value managers and their perceived higher fees. In time, I believe these passive, no research, no brainer, no value input metrics, will once again illustrate the ultimate consequences of my "greater fool theory". Too much money is being committed to too few corporations, creating an overpriced index. I've read that currently 30% of new money is being invested in just 4% of the 500 stocks in the S&P index. As a result, the S&P index does not accurately reflect the overall market's performance and the twenty stocks that move the index would not be considered great values. Last time this happened it literally took thirteen years before the S&P exceeded its 1999 levels. Performance anomalies can continue as long as the flow of capital enters the equity markets, and I believe this will continue for a few more quarters. When the tide eventually goes out, we want our ships to float again when the tide returns.

Value investing requires discipline and patience and we hope to provide both at Quantitative Asset Management LLC.

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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