QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

Newsletter

July 3, 2015

Dear Clients,

Year to Date Performance	Last Full Quarter	Index Close
Quarter Ending June 30, 2015		
Dow Jones Industrial Averages	-0.3%	17,619.51
NASDAQ Composite Price	1.8%	4,986.87
Standard & Poor's Averages	0.3%	2,063.11
EAFE-Global Markets	1.2%	

As I started to write our second quarter newsletter, I realized that on August 1st, I will have completed forty-three years in the investment business. During this career I have witnessed many bull and bear markets and at times wild short-term market fluctuations. I have learned that certain investment styles can be out of favor during certain market cycles. Consequently, our style and our performance have lagged the markets over the last few quarters. However, if this certain investment style is based on strong fundamentals it will ultimately come back in favor.

As I analyze our results, there are a few themes that help explain this trend. Some of our companies that performed extraordinarily well up until last year (i.e. Micron, Alcoa) have been subject to profit taking and soft short term industry conditions. Some of our deep value plays in the energy sector and shipping sector have become even more attractive as panic selling has created even greater values. The Business Development Companies, our semi-bond like positions (i.e. Prospect Capital, Apollo Investments and American Capital) have sold off for a couple of reasons: One is due to concerns over the bond market, and the other a result of being recently and arbitrarily dropped from the market indexes. When a company is removed from an index, institutions will sell that position in order to rebalance the index, not as a result of any change in the company's fundamentals. I've previously referred to this indexing phenomenon as uninformed investing! These positions are on sale and should therefore provide greater rewards when their markets come back in vogue.

This would be a good time to review my philosophy on "risk," especially in today's investment environment. In order to produce real returns, i.e. after tax and inflation, risk must be managed - not avoided. This means capital has to be invested long term, and is thus subject to volatility. The alternative in today's market is to remain in cash and short term bonds that produce literally no

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cash flow. If one is going to try and live off of this cash flow it will be necessary to consume principal. This will lead to the erosion of one's net worth, with no hope of preserving it.

By the end of the second quarter, most of the positive market performance was produced by a handful of large cap stocks, i.e. Amazon, Google, whose performance was enhanced by the press and market timers riding the upward trend. The second quarter also brought us the Greek tragedy (overrated), the continuation of the energy crisis (self-correcting as we speak), and the concern over a slowing Chinese economy. All of these political and economic issues have created a risk averse investment environment. As a result, investors ramped up their cash holdings in July to the highest levels not seen since the global crisis in 2008, according to a Merrill Lynch poll. Global economic growth is still weak, which has created significant declines in commodity prices and stagnant real wage costs. In many countries deflation is more of a concern than inflation, and with weak economic growth prospects the Fed is going to be hard pressed to raise interest rates. This means equity investments still have little competition for the investment dollar.

Markets go through cycles and can be quite volatile, but if one is to achieve reasonable returns patience and risk management are required, something we will continue to try and achieve. As always, never hesitate to call if you wish to discuss.

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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