QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

5th Anniversary Letter (of the Market Crash bottom!)

March 12, 2014

Dear Clients,

The equity and bond markets have produced some stellar performance numbers since the Dow Index hit a low of 6547 on March 9, 2009. Some pundits have called this recovery a major bull market -- I think not. It's been a nice recovery, but has yet to become a real bull market. A Capital IQ study highlights that of the six bull markets since World War II, this recent one is second only to that which began in 1982. The S&P Index is up about 180% from its low of 666 in March 2009, but this needs to be looked at over a slightly longer period of time. Here is where the law of numbers takes over and puts this surge in perspective: When markets decline 50%, they will need to recover 100% to get back to even, and when one factors in the element of time, the numbers get diluted significantly. It took five and a half years for the markets to get back to even from the market highs in October of 2007. Over last twelve months the markets have appreciated another 20%. That means the S&P Index has averaged about 3% per year over this six-and-a-half-year time frame. Therefore, it is not yet a really good bull market. So where are we going from here?

There are a couple of valuation metrics that suggest the current markets are overvalued, including the Shiller PE Index and price to sales valuations that are close to all-time highs. However, these are historical indicators and do not anticipate future economic changes, and as such can remain in overvalued territory for years. History has shown that on average, the sixth year of a bull market run becomes a bit more challenging with a 60% statistical chance of positive returns. I suggest we will be on the positive side of this statistic given the current global economic and investment environments that I have discussed in previous quarterly letters.

This is a good time to review why our firm is called Quantitative Asset Management, LLC. Investors always need to consider two major risk factors they face when making investment decisions: The qualitative issue (AAA vs. junk), and the quantitative issue (return on investment after taxes and inflation adjustments). Of the two, I feel the qualitative issue is the least important because portfolio management and diversification will diminish these risks. The more significant long term risk is the quantitative risk, which is always a moving target given the constantly changing economic and tax environments. Good managers can add significant value while dealing with these issues. Wall Street's large institutions will always struggle with the goal of outperforming the "market indexes" given their structural inefficiencies. Most large institution performance numbers are doomed to mediocrity given the nature of the beast (I'd be happy to discuss this theory any time, just give me a call!). Our firm is not encumbered by these same constraints. We will continue to look for quality, at the right price, and use whatever investment tools necessary to meet your investment objectives. Remember, the markets will fluctuate, and if the tide goes out we'll strive to make sure our boats float when the tide comes back in! There will also come a time, to quote Will Rogers when "The quickest way to double your money is to fold it and put it back into your pocket." Just not yet!

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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