Quantitative Asset Management, LLC
Investment & Advisory Services

Newsletter

October 24, 2012

Dear Clients,

Quarter Ending September 30, 2012			
Year to Date Performance	**Last Full Quarter**	**YTD**	**Index Close**
Dow Jones Industrial Averages	5.01%	12.17%	13,437.13
NASDAQ Composite Price	6.18%	19.63%	3,116.23
Standard & Poor's Averages	6.34%	16.43%	1,440.67
Barclay's Capital Bond Index	1.73%	4.43%	
EAFE-Global Markets	6.99%	10.61%	

The equity markets continued their liquidity rally that began back in late 2009. This bull market leg is now getting a little long in the tooth. It does not mean however, that stocks are over- priced. Based on current P/E ratios and in relation to current interest rates, equities are still trading at levels below their historic averages. Where prices go from here will be determined by what ultimately happens in Washington. The U.S. political environment, our monetary policy, budget constraints, and the growing movement to tax our way out of our current predicament has resulted in greater uncertainty and more volatility going forward.

There is lots of chatter about fiscal cliffs, not only in the U.S. but also Europe and now it appears the S.E. Asia/China economies have caught an economic cold as well. The world is now going through the process of resetting the global economy. Most of the fiscal cliff issues being addressed are not immediate threats, so there is time to rectify many of these issues. The real structural issues will become apparent when the zero interest rate policy is likely to end somewhere around 2015. Europe has made good strides in dealing with their issues, and that should minimize the possibility of a catastrophic outcome. Asia has a number of options available to them to shore up their economies. I hope our politicians finally get to work after the election to address and resolve our own structural impediments to financial health. The media as always will over hype these issues aiding in creating much anxiety for investors.

These structural impediments are both short term and long term in nature. The issues are numerous: Medicare/Medicaid, Social Security, balancing the budget, pensions and the new major issue of student loan defaults. Expectation and entitlements will have to be lowered, and

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the overhaul of our tax code will be required to get us back on the right track of fiscal responsibility.

Corporations are just beginning to address their pension obligations which threaten their survival. More and more of them will offer employees the option of lump sum payments, which is not necessarily the best long term solution for employees. State and local governments will probably not have that choice and will continue to struggle with their huge future liabilities.

Corporate America has dealt with some of these economic issues by hoarding cash vs. investing for growth. Investors and consumers have done the same, which is only natural given the uncertain economic outlook. The U.S. economy has bounced back at least through the second quarter of this year, but the third and fourth quarters are likely to show a real slowdown in growth. This could continue into 2013 if we don't see real progress from Washington.

As I have mentioned in previous quarterly letters, the current Federal Reserve policy of zero interest rates might benefit the over leveraged, financially weak institutions in the short term, but it is at the expense of retirees, investors, insurance companies and money managers responsible for their client's financial health.

Now I would like to interject a brief lesson in economics! Real economic growth is created when companies and entrepreneurs take risks by putting their, and/or their investors' capital to work to create businesses and thus create real employment opportunities. Governments do not create real economic growth.

This economy needs to create real economic growth, to produce productive jobs, and therefore the focus of Government should be on facilitating that growth. The government has the ability to do just that. Our tax code is one way to facilitate growth, by incenting investors to fund the entrepreneurial endeavors. The long term capital gains tax does just that. It encourages corporations to pay dividends when they are taxed at the lower long term capital gains rate. History has shown that roughly 50% of the superior long term returns produced by stocks has come from dividends. Washington learned back in the early 80's, government cannot tax its way to financial health. If we revert back to the old ways we will have some serious economic issues going forward. *

Government spending needs to be reined in, our tax code needs to be overhauled and some tax rates may need to rise, but we are not going to step back from the fiscal cliff by taxing to death corporations, partnerships, LLC's and the wealthy. The new campaign catch phrase "the rich need to pay their fair share" makes for great political rhetoric, but over simplifies the economic reality. If there were no favorable tax rates on capital put at risk, and if there were no tax free muni-bond income (both are significant reasons the average taxes for the wealthy are lower), we would have fewer jobs and most state and local governments, school districts, and other agencies would have to file bankruptcy. Their cost to borrow would shoot up almost 50%, and to stay solvent everyone would have to pay more.

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In conclusion, the global equity markets, by default, have become a primary engine to help us resolve many of our financial issues. The bond markets are in for a generational bear market cycle, they offer little in the way of real returns going forward. Every investor, retiree, employee, pension fund manager and I hope our President, congressmen and senators realize we have few other options.

Keep in mind, this too shall pass, and the global economic engine has huge potential numbers on its' side to reverse our current course.

Just for fun, anyone who can answer the question "Who is John Galt?" will be rewarded with a free lunch, with me at their convenience.

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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