Quantitative Asset Management, LLC
Investment & Advisory Services

Newsletter

January 26, 2009

Dear Clients,

The 2008 fourth quarter capped off one of the worst years in the financial markets since the 1930's. Too much leverage, poor judgment, greed and lack of regulation resulted in a huge sea change within our industry. Some of the best known financial institutions blew up or are forever changed, significantly altering the future financial landscape. Perhaps most surprising was the swiftness of this collapse.

Quarter Ending December 31, 2008		
Year to Date Performance	**YTD**	**Last Full Quarter**
Dow Jones Industrial Averages	(31.93%)	(18.39%)
NASDAQ Composite Price	(41.15%)	(24.61%)
Standard & Poor's Averages	(36.99%)	(21.95%)
Barclay's Capital Bond Index	(2.49%)	+0.75%
EAFE-Global Markets	(43.06%)	(19.90%)

The performance numbers are staggering and there was no place to hide.

- S&P down 36.99%
- Lehman corporate high yield bonds down over 26%
- Investment grade corporate bonds down 4.5 %
- EAFE Global market index down 43.06%
- Global real estate experienced the worst year ever, down 47.6% in dollar terms
- Gold even declined in the fourth quarter

Note too, closed end funds, which I have used as an investment tool for more than 35 years, experienced even greater volatility due to investor panic. The discounts to net asset values expanded from roughly a negative 10% to in many cases 20-25% discounts. That is a change in value strictly due to structural issues and not the funds' performance.

Now the good news, investment yield opportunities are up significantly. The dividend yield on the S&P 500 now exceeds the yield on ten year treasuries for the first time in fifty years.

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The amount of money held in cash and equivalents by investors is approaching the market value of all U.S. stocks, and history has shown the S&P has rallied on average about 24% in the six months following this weighting. Short term riskless yields are currently at a fraction of 1%, so cash and equivalents may provide some short term comfort but they will not provide real investment returns. Eventually the money will flow back into the bond and stock markets.

Unlike the previous recessions I have lived through since the late 1960's, stocks today have very little competition for investment dollars. In each of the previous market declines investors shifted to bonds when yields reached historic equity returns, roughly +10%. Inflation was out of control, so investors also flocked to leveraged real estate, gold, silver and even collectables, hence stocks declined. The current investment and economic landscape is totally different.

The Federal Reserve has and will continue to support our economy in many different ways. Today interest rates are back to the very low levels experienced from 2001-2004, that eventually led to the over leveraging and the speculation that created today's problems. As interest rates were pushed significantly higher from 2004-2007, the higher cost to carry led to the collapse of the housing market. This year you will probably see thirty-year mortgage rates drop below 5%, and that will eventually lead to the stabilization of the housing markets. Also, as liquidity comes back into the financial system, along with lower interest rates corporations will eventually benefit through greater profitability.

Today, every major government is working on stimulating their economies. New stimulus packages will be put in place to help mitigate some of the issues we face.

Oil prices have declined significantly, I believe only temporarily, which will provide consumers with a huge dividend, roughly $400 billion annually, to spend on other goods and services.

In this age of technology and information, instant feedback allows businesses to make the necessary cutbacks quickly to protect profits, accelerating the short term pain. We are living in the age of "just in time (delivery) management."! As I have stated in previous reports, the lack of positive comparable quarterly earnings will put downward pressure on equity prices. Once the economy levels out, we'll see better comps which should impact investor and consumer sentiments positively. Businesses will then hire and invest more quickly as well.

I feel we still have a few more ugly quarters of economic reporting. Keep in mind however, the equity markets start to rally about six months before the dust has settled and better economic news is evident.

As always we will try and find the best investment opportunities and minimize the pitfalls every investor deals with in these markets. Thank you for your patience and I look forward to a reversal of all this ugly news!

Sincerely,

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**As required by Advisors Act Rule 204-3 advisory disclosure documents (ADV Part 2A) are available upon request.*

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