QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

Newsletter

July 15, 2009

Dear Clients,

Quarter Ending June 30, 2009		
Year to Date Performance	**YTD**	**Last Full Quarter**
Dow Jones Industrial Averages	(2.00%)	11.96%
NASDAQ Composite Price	16.37%	20.05%
Standard & Poor's Averages	3.17%	15.92%
Barclay's Capital Bond Index	0.55%	1.86%
EAFE-Global Markets	8.40%	25.85%

The second quarter provided some positive investment results, during one of the worst bear markets in generations. Most all indexes closed the quarter in positive territory, and brought the year-to-date returns back into positive territory as well, with the exception of the Dow index. I would look at this as a relief rally, as additional time will be needed to fix many of our continuing economic problems which will set the stage for a sustainable bull market.

Financial institutions are still faced with weak fundamentals in the mortgage markets. Subprime mortgages and now even prime mortgages continue to put pressure on their balance sheets. Additionally, credit card and commercial real estate issues mean it will take many more quarters before these institutions earn their way out of this mess. In the interim many have already added to their capital base, some will need additional capital, and some will disappear.

The deleveraging of America will continue to affect our economic environment negatively. Retail spending will suffer, and the rising unemployment rate will exacerbate this trend. However, durable goods orders recently have shown some positive signs as corporate investments, that have been deferred, get back to a more normal trend over the coming quarters. Also, global spending will eventually help pull us out of this recession.

The second half of 2009 and 2010 should show improvements in the economic environment, and inflation for now will remain subdued. I feel the economic recovery will take much longer than normal. However, the recovery in the investment markets may not coincide with the economic recovery.

Investors have anticipated and perhaps over reacted to all the gloom and doom our media and press have pumped out over the last few years. Up until just recently, the mass exodus from risk

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investments has created an imbalance in the asset allocation models. Short term investments have been at record high levels. The dollar strengthened significantly, as global investors moved their liquidity to US denominated short term investments. These actions have created some unique statistics and perhaps opportunities.

According to a Leuthold Group's special study, "The total return of the S&P 500 (as of the end of Q1-2009) has lagged the total return of Ten-Year Treasury notes over the last one, three, five, ten, fifteen, twenty and twenty-five year periods." One conclusion of the study is that "historically, periods when bonds have outperformed stocks over very long timeframes have proven to be very opportune times to shift out of fixed income assets and into equities."

It is also especially interesting to note that short term riskless yields are essentially at zero, and over the last twenty-five years they have been in the double digits. Looking out from here, bond yields are at historic lows and not producing the cash flows investors have enjoyed up until now. The Fed has created a very accommodating interest rate environment to help us overcome the cost of overleveraging, which created the mess we are currently trying to fix. A case in point, my son just got his adjustable rate mortgage renewal notice and his new rate is 3-¼%, down from 5-¼% last year. Affordability and added discretionary saving and or spending will help alleviate some of our current issues.

This short term investment environment will drive home the fact that short term "riskless" investments really do have major risks. Investors should realize risk needs to be managed and can't be avoided. The flow of money out of these short term alternatives is what drove the positive results in the second quarter, and this will continue to provide support for the equity markets going forward.

Conclusions: The road to recovery will still be bumpy. The next year will position us for economic and stock market recoveries. Look far enough out and there are some amazing things that will continue to influence the flow of funds out of short term assets and into long term assets. Corporations have and will continue to pass along the increase in our cost of living. Earnings, thus dividends, will also grow again along with an expansion in PE ratios. The focus on American issues should not distract investors from the bigger picture globally. A while ago, I received a report that perhaps puts things in perspective: If you are one in a million in America, there are a million of you in China, and a million of you in India. And perhaps most telling, there are more students in AP (advanced placement) classes in both China and India, than the United States of America has in school presently.

One can conclude that Chinese and Indian students will expect a much higher standard of living than their parents, and we will benefit globally from their consumerism!

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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