



**Monthly Update**

**January 2019**



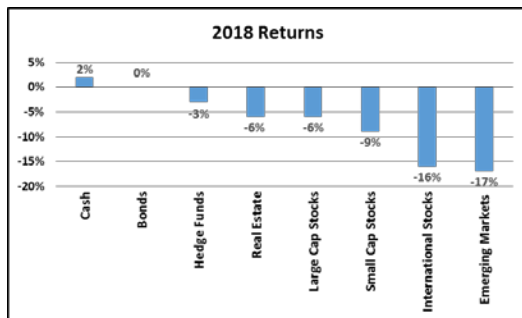
*A Look Back and a Look Ahead*

Carl W. Hafele, CFA, CPA

*Co-Chief Investment Officer, Principal*

**2018 – Ugh!**

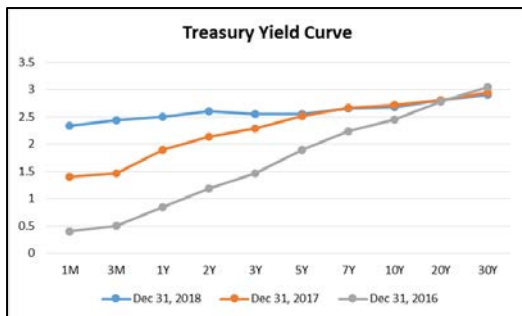
After a rather rosy 2017 that included very little volatility and strong equity markets, investors’ memories were gently awakened in 2018 of the risks associated here and abroad. The 4<sup>th</sup> quarter was as brutal as it gets, and brought all risk-on asset classes to negative returns for 2018. We are glad to usher in the new year with big smiles despite a rather rocky start!



Volatility, tariffs and Fed tightening were the most influential items in the markets in 2018. The first three rules of investing – diversify, diversify and diversify – simply did not work, as virtually all asset classes experienced negative returns that were highly correlated. This has happened only a few times over our lifetimes – in 1974 and 2008 – which means odds are extremely high it won’t happen again in 2019.

**2019 – So What’s In Store?**

Two very influential items for the markets are interest rates and S&P 500 earnings.



As you can see, Fed chairman Powell has ratcheted up short term rates materially in the “normalization” process, cautiously undoing the central bank moves associated with the Great Recession. The Fed controls the short end of the yield curve, but investors’ inflation expectations strongly influence the long end. Longer rates have changed but by far less, suggesting low rates may be with us longer than most believe!

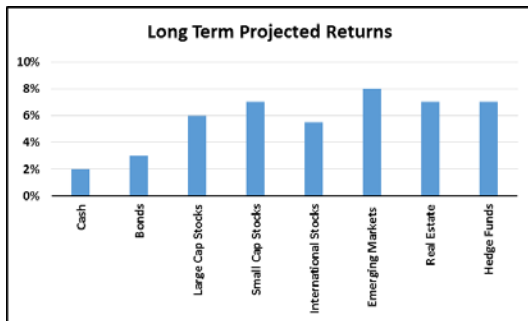


S&P Earnings					
Year	Earnings	%	S&P 500 PE Ratio	5 Yr Avg	10 Yr Avg
2018	\$156	20%	16	16	15
2019	\$170	8%	14	16	15

S&P earnings growth rate of ~20% in 2018 was indeed remarkable with most of the advance being attributable to the tax law changes. This brought valuation levels back in line relative to historic norms, as markets decreased and earnings increased. Over longer term periods, valuation means everything while in shorter periods, it means little.

At Lanier, we believe interest rates will not increase much if at all, as slower global growth and effects of the tariffs will cause the Fed to hit the pause button. We are also a tad skeptical of the S&P 500 achieving the 5-10% earnings growth rate most predict. Volatility is back for a while!

### Long Range Rates of Return



We believe that investing should include looking at projected returns from the asset classes, not historic rearview mirror returns. Our 7-10 year projected annual rates of return are a conglomeration of our country's largest financial institutions, endowment funds and consulting firms.

As always, we have a strong conviction that investors utilize both the traditional asset classes of bonds and stocks as well as alternative assets including hedge funds and real assets. The result is a similar or better return while taking significantly lower levels of risk with a lower correlation to the market over a market cycle.

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## Key Points From Our Investment Meeting – 1/10/19

### Macro Viewpoint

- Trade discussions with China have provided some comfort for equity markets in the near term.
- The Federal Reserve changes course (takes immediate rate hikes off the table) to stabilize markets.
- After Q4 selloff in US equity markets, valuations have become much more reasonable at 14-15 times earnings.

### Asset Class Comments

- Brexit and structural issues in Europe still give pause to developed overseas investments.
- A massive amount of US debt must be rolled over in 2019-2020. Be aware that current spreads may widen.

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# Performance Update

Investment Vehicle	Total Return (%)							
	December	QTD	YTD	1-Year	Annualized			
					3-Year	5-Year	7-Year	10-Year
<b>TRADITIONAL ASSETS</b>								
<b>Cash</b>								
Vanguard Reserve Prime Money Market	0.2%	0.6%	2.0%	2.0%	1.2%	0.8%	0.6%	0.5%
<b>Fixed Income</b>								
Domestic (Barclays US Agg)	1.9%	1.6%	-0.1%	-0.1%	2.0%	2.4%	2.0%	3.4%
Vanguard Total Bond Market	1.8%	1.6%	-0.1%	-0.1%	1.9%	2.4%	1.9%	3.3%
RiverNorth Doubleline	-0.4%	-2.0%	-1.5%	-1.5%	3.4%	3.6%	3.1%	4.2%
Eaton Vance Floating Rate	-2.4%	-3.3%	0.8%	0.8%	5.4%	3.0%	4.0%	8.0%
US Preferred Stock ETF	-1.5%	-5.9%	-4.6%	-4.6%	1.3%	4.3%	5.3%	8.3%
High Yield (Barclays US Corp HY)	-2.3%	-5.0%	-3.3%	-3.3%	5.5%	3.0%	2.4%	8.5%
Short Term High Yield	0.0%	-3.9%	-0.3%	-0.3%	6.3%	2.1%	4.2%	9.8%
<b>Equities</b>								
Domestic Large Cap (S&P 500 TR)	-9.2%	-14.0%	-6.2%	-6.2%	7.0%	6.3%	10.4%	10.7%
S&P Equal Weight	-9.5%	-13.9%	-7.8%	-7.8%	7.7%	6.8%	12.0%	14.4%
Domestic Mid Cap (S&P 400 TR)	-11.3%	-17.3%	-11.1%	-11.1%	7.7%	5.9%	11.1%	13.6%
Vanguard Mid-Cap ETF	-9.8%	-15.4%	-9.2%	-9.2%	6.4%	6.2%	11.3%	13.9%
Domestic Small Cap (S&P 600 TR)	-12.1%	-20.1%	-8.5%	-8.5%	9.2%	6.2%	12.1%	13.5%
Vanguard Small-Cap ETF	-11.1%	-18.3%	-4.8%	-4.8%	9.4%	6.3%	12.0%	14.2%
Developed Intl. (MSCI EAFE)	-5.0%	-12.9%	-16.1%	-16.1%	1.7%	-0.2%	5.2%	5.9%
MSCI EAFE	-5.4%	-12.6%	-13.7%	-13.7%	3.0%	0.3%	5.6%	5.9%
Emerging Intl. (MSCI EM)	-2.9%	-7.8%	-16.6%	-16.6%	8.2%	1.0%	2.8%	7.7%
Vanguard FTSE Emerging Markets ETF	-3.3%	-6.4%	-14.8%	-14.8%	7.9%	1.2%	2.6%	7.5%
<b>Real Assets</b>								
Real Estate (FTSE NAREIT US REIT)	-7.7%	-6.9%	-5.4%	-5.4%	2.8%	7.4%	8.5%	11.9%
Mortgage Real Estate	-6.0%	-6.0%	-2.9%	-2.9%	12.0%	8.3%	8.5%	7.6%
REIT ETF	-8.0%	-6.5%	-6.0%	-6.0%	2.3%	7.4%	8.1%	12.1%
Commodities (Thomson Reuters/Jefferies CRB Index)	-6.2%	-25.4%	-12.7%	-12.7%	6.9%	-9.1%	-7.8%	-2.8%
DBC	-4.0%	-18.3%	-11.6%	-11.6%	3.2%	-11.1%	-9.5%	-3.7%
BlackRock	-5.6%	-12.1%	-6.9%	-6.9%	7.4%	-4.5%	-4.7%	-0.5%
Gold	4.9%	7.5%	-1.9%	-1.9%	6.1%	1.9%	-3.5%	3.7%
<b>DIVERSIFYING STRATEGIES</b>								
<b>Hedge Funds</b>								
HFRI WCI	-2.0%	-5.0%	-3.3%	-3.3%	3.4%	2.4%	3.9%	5.1%
INFINITY*	0.4%	-2.9%	0.8%	0.8%	3.1%	4.6%	6.5%	7.3%
Boston Partners Long/Short Equity	-5.8%	-8.3%	-18.5%	-18.5%	0.7%	1.0%	3.5%	11.9%
QIM Tactical Aggressive*	-2.4%	7.1%	-42.1%	-42.1%	6.1%	3.0%	5.0%	11.3%
Millennium*	0.6%	-3.2%	4.9%	4.9%	5.0%	7.7%	8.1%	9.3%
Verition*	0.3%	-3.5%	0.1%	0.1%	5.4%	7.8%	10.7%	10.9%
Renaissance*	-2.1%	-1.4%	7.7%	7.7%	13.5%	14.1%	13.7%	13.5%
Third Point*	-6.2%	-11.7%	-11.4%	-11.4%	2.7%	1.9%	7.0%	10.8%
Lanier Hedge Fund*	-1.2%	-4.2%	-0.2%	-0.2%	5.2%	6.6%	8.4%	9.8%
Boston Partners Global Long/Short	-3.9%	-7.7%	-9.2%	-9.2%	0.0%	1.9%	3.5%	4.8%
<b>Managed Futures</b>								
Barclays CTA Index	0.0%	1.0%	4.3%	4.3%	2.4%	3.2%	1.8%	1.6%
WINTON*	-3.7%	-4.2%	-6.5%	-6.5%	-3.2%	-1.2%	-1.8%	-1.3%
QIM*	2.3%	-5.2%	-11.8%	-11.8%	1.2%	-0.2%	-0.5%	-0.6%
AQR Managed Futures Strategy	0.1%	-6.1%	-9.1%	-9.1%	-6.4%	-1.8%	0.3%	0.2%
Natixis ASG Managed Futures Strategy	2.7%	-5.7%	-12.4%	-12.4%	-4.1%	1.3%	1.0%	1.5%

■ = Benchmarks  
 ■ = Lanier Selections

\* For Accredited Investors

## Our Team



Mark R. Hoffman  
 CEO, Principal



Junius V. (Trip) Beaver, III  
 Co-Chief Investment  
 Officer, Principal



Carl W. Hafele, CFA, CPA  
 Co-Chief Investment  
 Officer, Principal



John E. Thompson  
 Director, Private Client  
 Group



Dr. Daniel L. Bauer  
 Financial Consultant



Sara B. Thomas, JD, CPA  
 Financial Consultant



Deidre M. Durbin  
 Chief Compliance Officer



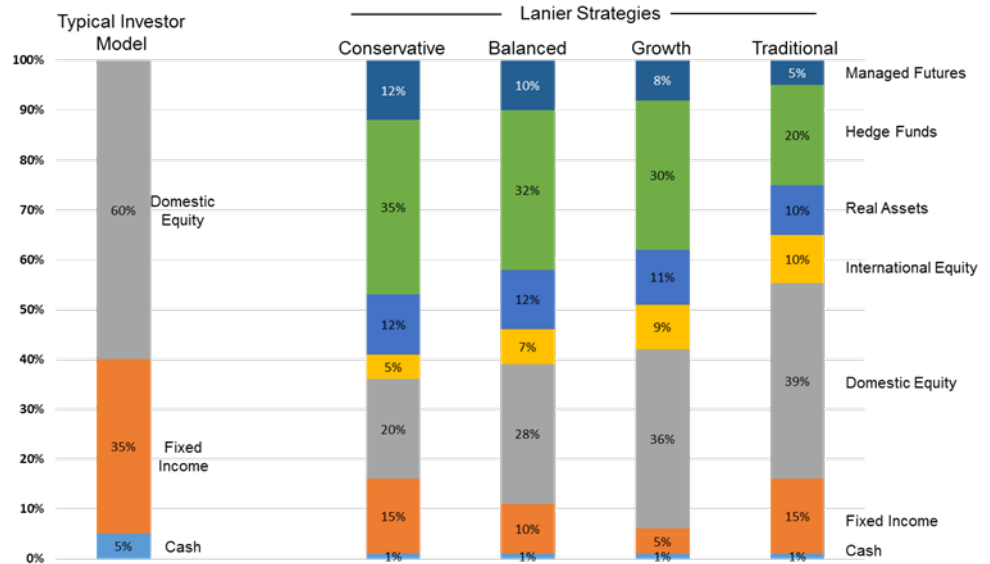
Stephanie E. Milby  
 Investment Associate

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## Our Approach

At Lanier, we believe that portfolios designed to deliver superior performance and lower correlation with the overall markets must decrease reliance on stocks and bonds and be complemented with a set of diversifying strategies and alternatives



Each of our clients has a unique set of needs (based on age, risk tolerance, income need, etc.) and an asset allocation model designed specifically to meet those needs. Consequently, actual client investment models can and do vary from the allocation percentages listed above.

Lanier Asset Management is an independent Registered Investment Advisory firm. Our mission: **To Build Confidence and Security in our Clients' Financial Future.** We use an open architecture investment structure to combine the best of proprietary and independent investment strategies. At Lanier, we deliver superior service and performance to our clients as a result of four distinguishing elements:

- **People:** we are an independent firm, providing objective advice from experienced investment professionals working in your best interests
- **Investment Philosophy:** we seek to smooth investment returns, providing superior investment performance and a significantly lower correlation to the overall market
  - Focus on projected returns rather than historic for all asset classes
  - Similar to the largest U.S. endowments
- **Investment Process:** combine active and passive management in traditional asset classes; complement with diversifying strategies/ alternatives
- **Conviction:** we believe in our approach – this is how we invest our own money

*Past performance is no guarantee of future results. Investing entails risk, including possible loss of some or all principal. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges. It should not be assumed that your account holdings correspond directly to any comparative indices.*

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