LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

December 2018

The Inverted Yield Curve – In Layman's Terms

Mark R. Hoffman

CEO, Principal

As the talking heads continue to search for the specific causes of increased equity market volatility this quarter, one thing we are hearing a lot is "The Inverted Yield Curve." But what exactly is it? How does it happen? And how much should you care?

In normal markets, longer duration bonds (e.g., 10-year U.S. Treasuries) have higher interest rates than shorter ones (2-year Treasuries). Completely logical, as tying up money for longer periods of time demands compensation for lost liquidity. But at times, the relationship flips, and shorter duration bonds have higher yields than longer ones. That is called an Inverted Yield Curve. How does that happen?

When investors fear that other investment alternatives – like the U.S. stock market – are due for a decline, many will increase investments in longer-term Treasuries. They would rather lock in a nominally positive rate of return than put their money in riskier assets. As demand for these long-term Treasuries increases, the price goes up. Economics 101. As those prices go up, the yields fall. At the same time, fewer investors tend to buy short-term Treasuries, so those rates rise. Voila – an inverted yield curve.

Why does this matter? Because an inverted yield curve is generally a signal that a recession is coming. In fact, every recession since World War II was preceded by higher yields on the 2-year Treasury than the 10-year Treasury. Every one. So, should we all panic? Slow down there, cowboy.

First, this recovering economy and bull market has raged on for a decade. There are few things that we know with 100% certainty, but one of them is that there will be another recession at some point. I don't need an inverted yield curve to tell me that. Second, even though the 2-year and the 5-year Treasuries have actually inverted, the 2's and 10's haven't. Third, even if you are sure something is coming, investing (or uninvesting) early, can be just as damaging as doing nothing. Have a look at the chart on the next page:

Two things jump out at me. 1) Yes, historically, an inverted curve has preceded a recession. But the recession is far from an immediate reaction. In fact, recessions have begun, on average, 19 months following inversion. 2) While recessions haven't been good for equities (to say the least), average returns for the S&P 500 following inversion have been ~21% before the recession set in. Staggering data.

In summary, no one likes a recession, and inverted yield curves have preceded each of the last seven. But the 2- and 10-year Treasuries haven't inverted yet, and hitting the "sell all" button when it does has typically been a mistake. Our advice is to adopt a proven investment discipline, and follow that discipline until something breaks. That discipline includes prudent diversification in non-correlated assets.

Inversion Date	S&P 500 Peak	S&P 500 % Change	# of Months
12/17/65	11/29/68	17.7%	35
3/30/73	1/11/73	-	-2
8/17/78	1/30/80	9.6%	17
9/11/80	11/28/80	11.8%	2
12/14/88	7/16/90	34.0%	19
5/26/98	3/24/00	39.6%	22
12/27/05	10/9/07	24.7%	22
	Median	**21.1%**	**19**

Mark is a co-founder of Lanier Asset Management and serves as its Chief Executive Officer. Prior to founding Lanier, he was a partner at The Boston Consulting Group. Mark is an honors graduate of The University of North Carolina at Chapel Hill with a BA in Economics, and holds an MBA from The Harvard Business School.

Key Points From Our Investment Meeting – 12/10/18

Macro Viewpoint

- Geopolitical events, whether here or abroad (Brexit), continue to provide noise to the markets!
- Since the high in September, the S&P 500 has continued to show signs of weakness.
- The dollar's continued strength (now up over 8% YTD) provides a dangerous backdrop for emerging markets.

Asset Class Comments

- Keep in mind the S&P 500 index is market cap weighted, meaning where technology goes is where the markets go. Sounds familiar. Look at Apple, Facebook, etc.
- High yield markets are beginning to show signs of weakness. Look at the junk bond market, floaters, preferreds, etc.
- All markets look broken technically. Use caution when buying / selling at this point. Volatility will remain high given the Fed's posturing and the 90-day US / China trade negotiations.

Building Confidence and Security in Your Financial Future

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		November	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.2%	0.4%	1.8%	1.9%	1.2%	0.7%	0.5%	0.5%
Fixed Income									
Domestic (Barclays US Agg)		0.0%	-0.2%	-2.0%	-1.5%	1.3%	1.9%	1.9%	3.6%
Vanguard Total Bond Market	VBMFX	0.0%	-0.2%	-1.9%	-1.4%	1.2%	1.9%	1.8%	3.5%
RiverNorth Doubleline	RNDLX	0.0%	-1.5%	-1.1%	-0.5%	3.5%	3.9%	3.4%	4.7%
Eaton Vance Floating Rate	EIBLX	0.0%	-0.9%	3.3%	3.6%	5.9%	3.6%	4.5%	7.8%
US Preferred Stock ETF	PFF	0.0%	-4.4%	-3.2%	-3.7%	1.8%	4.4%	5.6%	9.6%
High Yield (Barclays US Corp HY)		0.0%	-2.7%	-1.0%	-1.1%	5.2%	3.3%	3.1%	9.5%
Short Term High Yield	SJNK	0.0%	-1.9%	1.7%	1.6%	6.2%	2.6%	4.9%	10.9%
Equities									
Domestic Large Cap (S&P 500 TR)		1.8%	-5.3%	3.2%	4.3%	9.9%	8.9%	12.0%	11.9%
S&P Equal Weight	RSP	2.6%	-4.8%	1.9%	3.1%	10.5%	9.6%	13.6%	15.9%
Domestic Mid Cap (S&P 400 TR)		3.1%	-6.7%	0.2%	0.5%	10.5%	9.1%	13.0%	15.5%
Vanguard Mid-Cap ETF	VO	2.3%	-6.2%	0.6%	1.7%	9.1%	9.1%	12.9%	15.6%
Domestic Small Cap (S&P 600 TR)		1.5%	-9.1%	4.1%	3.5%	12.2%	9.3%	14.4%	15.7%
Vanguard Small-Cap ETF	VB	2.2%	-8.2%	7.1%	7.6%	12.2%	9.4%	13.9%	16.1%
Developed Intl. (MSCI EAFE)		-0.3%	-8.3%	-11.8%	-10.4%	2.9%	1.1%	5.8%	7.1%
MSCI EAFE	EFA	0.5%	-7.7%	-8.9%	-7.6%	4.1%	1.9%	6.1%	7.3%
Emerging Intl. (MSCI EM)		4.1%	-5.1%	-14.1%	-11.2%	8.4%	1.3%	3.1%	8.8%
Vanguard FTSE Emerging Markets ETF	VWO	4.8%	-3.2%	-11.8%	-8.6%	7.9%	1.8%	2.5%	8.6%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		3.6%	0.9%	2.5%	2.5%	6.3%	9.3%	10.5%	14.5%
Mortgage Real Estate	REM	2.1%	0.0%	3.3%	5.7%	13.6%	10.3%	9.7%	8.9%
REIT ETF	VNQ	4.7%	1.6%	2.1%	2.0%	5.8%	9.2%	10.1%	14.8%
Commodities (Thomson Reuters/Jefferies CRB Index)		-15.4%	-20.5%	-6.9%	-1.1%	4.4%	-7.6%	-7.3%	-2.7%
DBC	DBC	-9.9%	-14.9%	-7.9%	-5.4%	2.5%	-10.9%	-8.5%	-3.8%
BlackRock	BCSAX	-1.9%	-6.9%	-1.3%	2.6%	7.9%	-3.1%	-4.3%	-0.5%
Gold	GLD	0.3%	2.5%	-6.6%	-4.6%	4.3%	1.6%	-2.7%	3.8%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		-0.2%	-3.1%	-1.4%	-0.3%	3.7%	3.1%	4.1%	5.3%
INFINITY*	OCEAN	-2.2%	-3.2%	0.6%	1.4%	3.3%	4.8%	6.5%	7.2%
Boston Partners Long/Short Equity	BPLEX	0.2%	-2.7%	-13.5%	-11.1%	2.0%	2.2%	4.7%	13.1%
QIM Tactical Aggressive*	QIM TA	1.7%	9.7%	-40.7%	-44.0%	7.6%	4.5%	5.2%	11.7%
Millennium*	MILLENN	-2.8%	-3.8%	4.3%	5.0%	5.3%	7.8%	8.1%	9.1%
Verition*	VERITION	0.0%	-0.5%	3.1%	4.3%	8.6%	9.7%	11.1%	11.4%
Renaissance*	RENAISS	3.2%	0.8%	10.1%	6.9%	14.8%	14.6%	14.3%	13.8%
Third Point*	THIRD P	1.2%	-5.7%	-5.5%	-5.6%	4.4%	3.7%	8.0%	11.0%
Lanier Hedge Fund*	LHF	-0.7%	-2.6%	1.5%	1.7%	6.2%	7.3%	8.7%	9.9%
Boston Partners Global Long/Short	BGLSX	-1.2%	-3.9%	-5.5%	-5.0%	1.3%	2.9%	4.1%	5.2%
Managed Futures									
Barclays CTA Index		1.5%	1.0%	4.3%	5.5%	2.6%	3.3%	1.8%	1.8%
WINTON*	WINTON	2.0%	-0.5%	-2.9%	-0.2%	-2.7%	-0.5%	-1.1%	-0.8%
QIM*	QIM	-1.1%	-7.4%	-13.8%	-13.0%	-0.6%	0.1%	-1.4%	-0.8%
AQR Managed Futures Strategy	AQMNX	-3.7%	-6.2%	-9.2%	-8.9%	-7.1%	-1.3%	0.4%	0.3%
Natixis ASG Managed Futures Strategy	ASFYX	-2.2%	-8.2%	-14.7%	-14.6%	-6.3%	1.1%	0.8%	1.4%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

Mark R. Hoffman
CEO, Principal

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

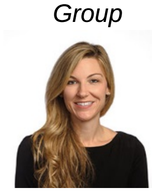
Carl W. Hafele, CFA, CPA
Co-Chief Investment Officer, Principal

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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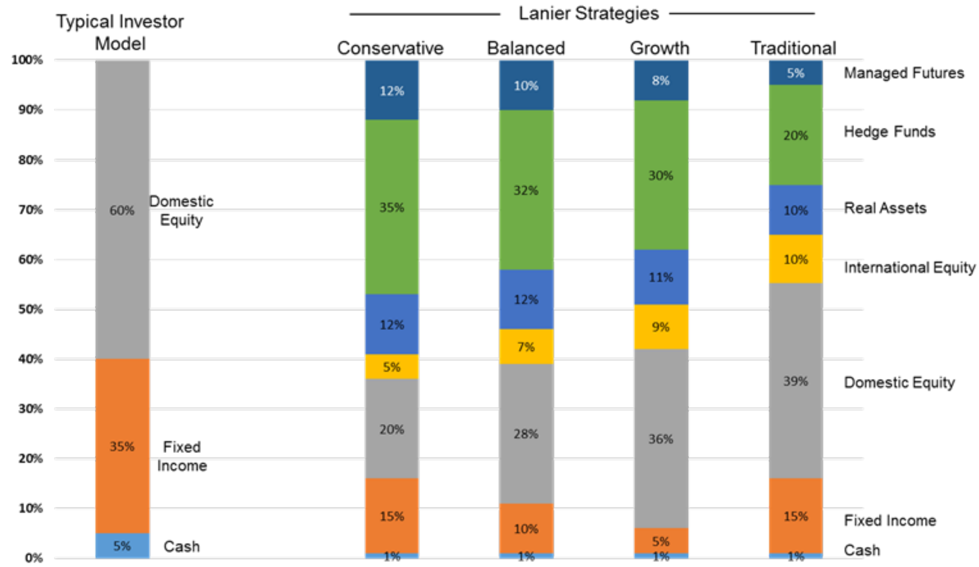
Our Approach

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