LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

October 2019

Given the current rate environment, how has the search for yield changed?

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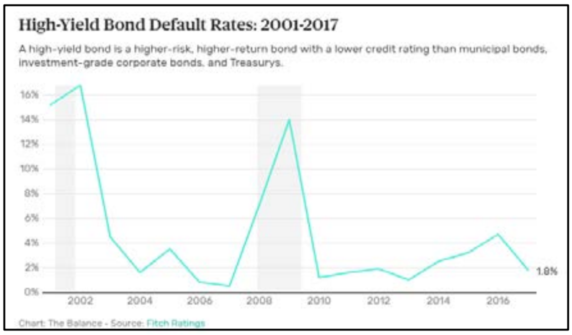
Remember the good old days back in the 90's? The market was roaring, AOL was the Internet and the Super Bowl ads were spectacular! We came to love that annoying beeping and screeching sound we heard as we logged onto the internet. "Friends" and "Seinfeld" were all the rage, and that song from the "Titanic" kept lingering in our heads! There was something else wonderful in the 90's – you could buy a high-quality bond with a coupon of 7 or 8%. When the market finally crashed in April of 2000 and the S&P 500 dropped by 50% and the Nasdaq dropped by 79%, your diversified portfolio worked like a charm. Bonds provided a buffer and continued to throw off plenty of income for accumulators and retirees alike. Let's fast forward twenty years and see how things look now. There is a positive – the boy bands are gone!!

Source: Fitch

As you can see in the chart, things have changed dramatically. The quest for yield is now a job and not a gift as it was back then. The ten-year treasury is now yielding 1.5% vs. 6.5%. High quality corporate bonds are yielding 3.5% vs. 8%, and high yield bonds are paying 5% vs. 10%. This is great if you are buying a home, but if you are looking for retirement income, or a buffer in the event this market cycle ever comes to an end, it's not great. So, where does an investor look now for a reasonable yield with a solid degree of safety? The short answer is it's hard. You can still invest in many high yield (junk) bond and get higher yields. The catch is the amount of risk you are taking. Significant!

Over the last twenty years the average default rate across all categories of corporate bonds has been 1.8%. On paper it doesn't seem that bad. The issue becomes a little scarier when you pull back the curtain. The defaults on AAA-A paper is 0%- 0.2%. over that period. If you move to B-rated paper, defaults rise to a little over 4%. Finally, CCC-C had a default rate of nearly 5%! The serious issue is when recessions do occur.

Over the last twenty years we have had two significant recessions. During those times we have seen high yield bond defaults spike to nearly 15%. We believe most people don't realize the risk they are taking in order to get historically low rates of return for these investments. Put differently, would you loan someone $100 for a year to get $5 dollars back if there was greater than 10% chance you weren't going to get paid



at all? I wouldn't. Yet retirees have been plowing money into these bonds for the last ten years with little to no understanding of the amount of risk they are taking! The moral of this story is twofold. Make sure the bond segment of your portfolio is well diversified. If you are heavily invested in high yield bonds, you need to ask yourself a question. Am I getting paid enough ($5 per $100), given where we are in the cycle (almost 11 years) for a 1 in 6 chance of not getting paid if a recession occurs?

Finally, let's take a look at REITs and high dividend yielding stocks. In the late 1990's REIT's were yielding ~8.5% vs. 3.4% today. Today's yield is certainly not bad given the current interest rate environment, plus you have the potential for growth going forward. As with everything, there is no free lunch. There is risk to REITs much the same way as equities. REITs have a very high correlation to the equity markets (about 80%) which means if the markets have a pullback, they will be affected in much the same way. High dividend yielding stocks are also a solid option. While the large capitalization value high dividend yielding index provides a yield of 2.5% (1% more than the ten year treasury), it does provide the opportunity for growth as well. The flipside is it can also go down in poor markets. Another benefit to large cap value stocks is they tend to go down less than the overall markets in a decline.

At Lanier, we try to think outside of the box for solutions to benefit our clients. There are ways to still generate income with solid rates of return. This is true in the public and private markets. The difference today is the amount of research and due diligence required in order to feel comfortable with what you are investing in for the long term.

Junius V. (Trip) Beaver III, is a co-founder of Lanier Asset Management and serves as its Co-Chief Investment Officer. Trip has been a financial advisor delivering high-value investment solutions to affluent individuals since 1994. In addition to his work at Lanier, Trip donates his time and investment expertise to charitable organizations such as the Library Foundation and the Metro United Way.

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

Macro Viewpoint

- US and China trade talks continue with both sides starting to feel the pain. Global tensions continue to be significant risks to global markets. Short- and long-term effects on US and global GDP remain a big question mark.
- ISM and manufacturing data suggest caution given anything the Fed does is purely window dressing.

Asset Class Comments

- Fixed income has always provided a buffer and income stream for investors. Those days seems to be over.
- Value stocks have underperformed growth stocks for the last ten years. Is it time to look to large cap value?
- Commodities continue to be out of favor as the dollar continues to rise and global GDP growth continues to slow.

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Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		September	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Federal Money Market Reserve		-0.1%	0.2%	1.5%	2.1%	1.6%	1.1%	0.8%	0.6%
Fixed Income									
Domestic (Barclays US Agg)		-0.6%	3.1%	9.4%	11.2%	3.1%	3.4%	2.7%	3.7%
Vanguard Total Bond Market	VBMFX	-0.6%	2.4%	8.6%	10.3%	2.8%	3.3%	2.6%	3.6%
RiverNorth Doubleline	RNDLX	0.3%	1.4%	10.1%	7.9%	4.1%	4.1%	4.0%	4.6%
Eaton Vance Floating Rate	EIBLX	0.3%	0.7%	5.4%	1.9%	4.4%	3.9%	3.8%	4.8%
US Preferred Stock ETF	PFF	0.8%	3.2%	13.8%	7.1%	3.9%	4.7%	5.0%	6.6%
High Yield (Barclays US Corp HY)		0.4%	1.2%	12.0%	6.5%	5.2%	4.5%	3.5%	5.4%
Short Term High Yield	SJNK	0.4%	0.6%	7.8%	3.6%	4.9%	3.6%	3.9%	6.3%
Equities									
Domestic Large Cap (S&P 500 TR)		1.7%	1.2%	18.7%	2.1%	11.1%	8.6%	10.9%	10.9%
S&P Equal Weight	RSP	3.3%	0.7%	19.9%	3.2%	10.8%	9.1%	12.8%	13.0%
Domestic Mid Cap (S&P 400 TR)		3.1%	-0.1%	17.9%	-2.5%	9.4%	8.7%	11.7%	12.5%
Vanguard Mid-Cap ETF	VO	2.1%	0.6%	22.5%	3.6%	10.7%	9.2%	12.7%	13.0%
Domestic Small Cap (S&P 600 TR)		3.3%	-0.2%	13.5%	-9.3%	9.3%	9.8%	12.0%	13.0%
Vanguard Small-Cap ETF	VB	1.4%	-1.5%	17.7%	-3.9%	11.4%	9.7%	12.4%	13.0%
Developed Intl. (MSCI EAFE)		2.5%	-1.7%	9.9%	-4.3%	4.4%	2.0%	5.2%	4.3%
MSCI EAFE	EFA	3.2%	-0.8%	12.4%	-1.8%	6.2%	3.1%	6.0%	4.8%
Emerging Intl. (MSCI EM)		1.7%	-5.1%	3.6%	-4.5%	4.2%	1.3%	1.7%	2.8%
Vanguard FTSE Emerging Markets ETF	VWO	0.9%	-4.1%	6.5%	-0.4%	4.5%	1.7%	2.1%	3.0%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		2.1%	7.1%	26.1%	17.4%	7.7%	9.8%	9.6%	12.7%
Mortgage Real Estate	REM	6.6%	2.1%	12.4%	5.7%	9.7%	8.4%	6.3%	7.8%
REIT ETF	VNQ	1.9%	7.6%	28.2%	19.8%	7.1%	9.9%	9.8%	12.9%
Commodities (Thomson Reuters/Jefferies CRB Index)		1.9%	1.4%	17.5%	-12.3%	7.4%	-6.0%	-5.8%	-2.4%
DBC	DBC	1.4%	-4.4%	3.8%	-15.2%	0.5%	-8.4%	-8.9%	-4.8%
BlackRock	BCSAX	0.6%	-3.5%	5.1%	-7.6%	2.4%	-2.9%	-4.2%	-1.3%
Gold	GLD	-3.4%	4.3%	14.5%	23.2%	3.4%	6.0%	-1.4%	3.9%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		-0.3%	-0.5%	6.7%	0.3%	3.8%	2.9%	4.0%	4.0%
INFINITY*	OCEAN	0.0%	0.9%	5.0%	2.0%	4.5%	4.3%	6.3%	6.4%
Boston Partners Long/Short Equity	BPLEX	2.6%	0.7%	4.8%	-3.9%	-1.5%	0.7%	2.9%	6.3%
Millennium*	MILLENN	-0.6%	1.6%	6.0%	2.9%	6.7%	7.6%	8.5%	8.8%
Verition*	VERITION	0.3%	2.5%	9.8%	6.5%	7.2%	7.6%	11.0%	10.1%
Renaissance*	RENAISS	2.4%	5.2%	10.2%	8.6%	12.4%	15.8%	13.7%	15.9%
Third Point*	THIRD P	-2.3%	-0.4%	11.8%	-1.6%	4.4%	3.1%	7.3%	9.6%
Lanier Hedge Fund*	LHF	0.3%	1.8%	7.3%	2.9%	6.1%	6.8%	8.4%	9.1%
Boston Partners Global Long/Short	BGLSX	1.6%	1.1%	3.6%	-4.3%	0.7%	1.8%	3.4%	3.5%

= 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 A. Hamilton
Financial Consultant

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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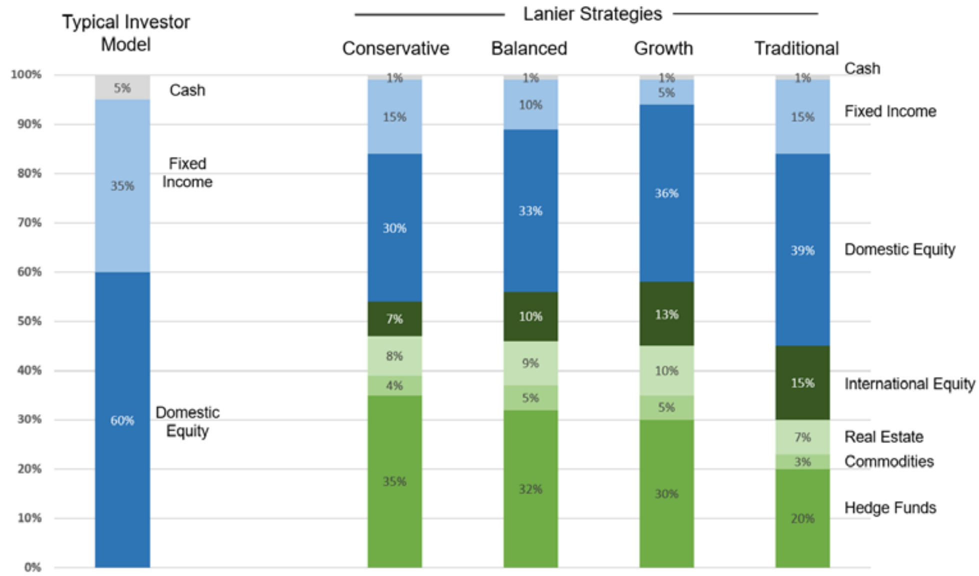
Our Approach

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 <u>projected</u> <u>returns</u> 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.

Lanier Asset Management, LLC ("Lanier") is an SEC registered investment adviser located in Louisville, Kentucky. The firm's CRD number is 150888. Certain Representatives of Lanier hold Series 7, 31, 63, and 65 Securities Licenses. Certain representatives of Lanier are also Registered Representatives offering securities through APW Capital, Inc., Member FINRA/SIPC. 100 Enterprise Drive, Suite 504, Rockaway, NJ 07866 (800) 637-3211.

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