



LANIER

ASSET MANAGEMENT LLC

Building **Confidence**
and **Security** in Your
Financial Future

Monthly Update

November 2018



A False Sense of Security

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What is a “Capitalization-Weighted Index”?

A capitalization-weighted index is a type of market index with individual components that are weighted according to their total market capitalization. The larger components carry higher percentage weightings (Apple, Microsoft, etc.), while the smaller components in the index have lower weights. This type of index is also known as a market value-weighted index. Almost all US based indices are based on this methodology.

How does this affect you?

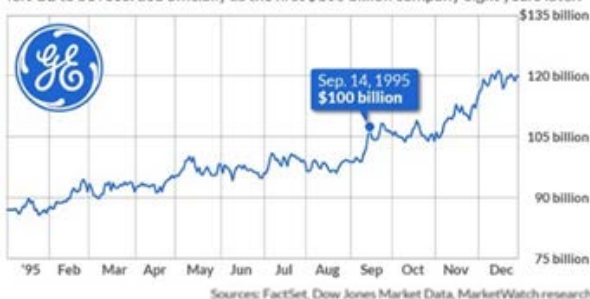
As individuals, institutions, etc. have poured trillions of dollars into the S&P 500, they have been buying a much larger share of the largest companies than the overall market. The top ten holdings (as of the end of the third quarter) of the S&P 500 represent 23% of the overall market! Apple, Microsoft, Amazon, Google, Berkshire Hathaway, Facebook, JPMorgan, Johnson & Johnson, Exxon Mobil and Bank of America represents 23% of the entire S&P 500.

Cap-Weighted indices can give you a false sense of security with what is really going on in the domestic economy. If you take out the top 4 companies through the 3rd quarter, the market is up ~1%. In the large-cap world, if just a few major companies start to have slowing growth (iPhone sales, for example) and earnings, then the overall market index can drop very quickly. You cut the top ten stocks by 20-40% and the overall market declines significantly. We don't believe this is a repeat of the dot-com bubble, but we also don't believe what we are seeing in the indices is sustainable.

A history of market cap milestones

FIRST U.S. COMPANY TO HIT A MARKET CAP OF \$100 BILLION

In 1995, stocks were enjoying a bull market and GE was among the most valuable companies in the world. According to FactSet, IBM briefly crossed a \$100 billion valuation in intraday trade in August of 1987, but didn't close at that level. Which left GE to be recorded officially as the first \$100 billion company eight years later.

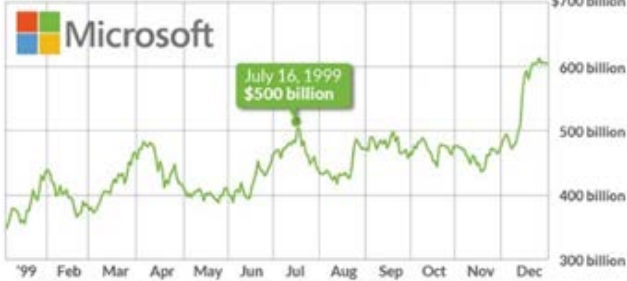


We have now entered the Mega-Cap world. Apple now has a market capitalization of over 1 trillion dollars. A number of companies are not far behind. This is great as long as their long term growth rates and free cash flows continue in the same fashion over the next ten years. Let's look at the first to reach \$100 billion. General Electric hit that mark in 1995. 23 years later they have a market capitalization of less than \$70 billion. Microsoft was the first company to reach \$500 billion in 1999. 20 years later Microsoft has a market capitalization of \$800 billion. That is about 3% a year if you owned it over that entire period. Finally, Apple hit a trillion-dollar market capitalization in August of this year!



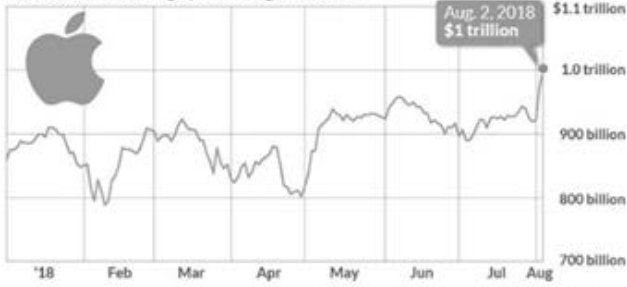
FIRST U.S. COMPANY TO HIT A MARKET CAP OF \$500 BILLION

Microsoft became the first U.S. company to reach a market cap of \$500 billion in 1999, amid the heyday of the dot-com boom and a string of records for the tech sector overall.



FIRST U.S. COMPANY TO HIT A MARKET CAP OF \$1 TRILLION

Apple became the first member of the \$1 trillion club amid a long-running bull market and on the heels of reporting stellar earnings. Shares were up 32% over the 12 months leading up to the big milestone.



Sources: FactSet, Dow Jones Market Data, MarketWatch research

Incredible, right? Apple hit the \$100 billion mark in 2007 and \$500 billion in 2012. In Apple's case, they went up by 5 times in five years and then another 6 years to double again. How do you see them performing over the next decade? Of course it's anyone's guess. I'll take the under...

In summary, don't be fooled by several mega-capitalization weighted companies that make up a quarter of the indices. We are firm believers in diversification. Diversification is not concentrating a portfolio in the top twenty or so companies in the S&P 500. Yes, it has worked in this latest bull run, but think logically about your chances of getting the same result over the next ten years. Look at your portfolio and consider whether you are really diversified. We take a holistic view. We consider diversification blending many different asset classes together to not only try to enhance returns over full market cycles but also reduce the risk to any one index or capitalization size. It is time to really take a hard look at where your portfolio stands today and what is the appropriate asset blend going forward.

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 – 11/14/18

Macro Viewpoint

- Geopolitical events, whether here or abroad, continue to provide noise to the markets!
- After a trying October, November is not looking much better due to a continued tech sell-off (Apple in bear market territory).
- The dollar's continued strength 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...
- High yield markets are beginning to show signs of weakness (GE to junk status would be 10% of that market).
- All markets look broken technically. Use caution when buying / selling at this point.

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Performance Update

Investment Vehicle	Total Return (%)							
	October	QTD	YTD	1-Year	Annualized			
					3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS								
Cash								
Vanguard Reserve Prime Money Market	0.2%	0.2%	1.6%	1.8%	1.1%	0.7%	0.5%	0.5%
Fixed Income								
Domestic (Barclays US Agg)	-0.9%	-0.9%	-2.6%	-2.2%	0.9%	1.7%	1.8%	3.8%
Vanguard Total Bond Market	-0.7%	-0.7%	-2.4%	-2.1%	0.9%	1.7%	1.7%	3.8%
RiverNorth Doubleline	-1.5%	-1.5%	-1.0%	-1.0%	3.3%	3.8%	3.4%	5.0%
Eaton Vance Floating Rate	0.1%	0.0%	4.3%	4.9%	5.7%	3.9%	4.5%	7.1%
US Preferred Stock ETF	-2.2%	-2.2%	-0.9%	-0.8%	2.8%	4.9%	5.4%	9.0%
High Yield (Barclays US Corp HY)	-2.0%	-2.0%	-0.2%	-0.7%	4.6%	3.4%	2.9%	8.5%
Short Term High Yield	-1.5%	-1.5%	2.2%	1.8%	5.5%	2.9%	4.7%	9.9%
Equities								
Domestic Large Cap (S&P 500 TR)	-6.9%	-6.9%	1.4%	5.3%	9.3%	9.1%	11.7%	10.8%
S&P Equal Weight	-7.3%	-7.3%	-0.7%	4.3%	9.6%	9.5%	13.0%	14.5%
Domestic Mid Cap (S&P 400 TR)	-9.6%	-9.6%	-2.8%	1.0%	9.6%	8.7%	12.5%	14.1%
Vanguard Mid-Cap ETF	-8.4%	-8.4%	-1.7%	2.5%	8.4%	9.0%	12.5%	14.3%
Domestic Small Cap (S&P 600 TR)	-10.5%	-10.5%	2.5%	5.6%	12.6%	9.9%	14.2%	14.1%
Vanguard Small-Cap ETF	-10.1%	-10.1%	4.8%	8.5%	12.1%	9.5%	13.5%	14.5%
Developed Intl. (MSCI EAFE)	-8.0%	-8.0%	-11.5%	-9.4%	2.5%	1.4%	5.1%	6.5%
MSCI EAFE	-8.1%	-8.1%	-9.3%	-7.5%	3.7%	1.9%	5.7%	6.6%
Emerging Intl. (MSCI EM)	-8.8%	-8.8%	-17.5%	-14.6%	5.6%	0.2%	1.5%	7.6%
Vanguard FTSE Emerging Markets ETF	-7.7%	-7.7%	-15.9%	-13.1%	5.4%	0.6%	1.6%	7.1%
Real Assets								
Real Estate (FTSE NAREIT US REIT)	-2.6%	-2.6%	-1.0%	1.6%	5.1%	7.6%	9.4%	11.4%
Mortgage Real Estate	-2.0%	-2.0%	1.2%	3.9%	13.1%	9.1%	9.0%	7.9%
REIT ETF	-2.9%	-2.9%	-2.5%	0.0%	4.0%	7.1%	8.8%	11.3%
Commodities (Thomson Reuters/Jefferies CRB Index)	-6.0%	-6.0%	10.0%	18.7%	7.9%	-4.7%	-5.3%	-2.0%
DBC	-5.6%	-5.6%	2.1%	5.9%	3.7%	-8.9%	-7.5%	-3.1%
BlackRock	-5.1%	-5.1%	0.6%	4.8%	6.8%	-3.1%	-4.3%	-1.3%
Gold	2.1%	2.1%	-6.9%	-4.6%	1.8%	0.7%	-4.3%	4.5%
DIVERSIFYING STRATEGIES								
Hedge Funds								
HFRI WCI	-3.0%	-3.0%	-1.2%	0.3%	3.8%	3.3%	4.0%	5.0%
INFINITY*	-1.0%	-1.0%	2.9%	3.3%	4.2%	5.4%	6.8%	7.3%
Boston Partners Long/Short Equity	-3.0%	-3.0%	-13.7%	-10.5%	1.3%	2.3%	4.8%	11.5%
QIM Tactical Aggressive*	7.8%	7.8%	-41.7%	-44.4%	6.7%	4.5%	6.0%	11.7%
Millennium*	-1.0%	-1.0%	7.2%	8.0%	6.7%	8.6%	8.7%	9.4%
Verition*	-1.0%	-1.0%	2.6%	5.3%	8.6%	9.9%	11.1%	11.5%
Renaissance*	-2.4%	-2.4%	6.6%	6.2%	13.4%	14.1%	14.0%	13.2%
Third Point*	-6.7%	-6.7%	-6.5%	-6.6%	3.9%	4.0%	7.7%	10.5%
Lanier Hedge Fund*	-2.0%	-2.0%	2.1%	2.9%	6.5%	7.7%	8.9%	9.8%
Boston Partners Global Long/Short	-2.8%	-2.8%	-4.4%	-2.5%	1.9%	3.4%	4.0%	5.1%
Managed Futures								
Barclays CTA Index	-0.5%	-0.5%	2.8%	4.0%	2.5%	3.1%	1.6%	1.8%
WINTON*	-2.6%	-2.6%	-4.9%	-2.0%	-2.4%	-0.5%	-1.3%	-0.5%
QIM*	-6.4%	-6.4%	-12.8%	-13.8%	1.3%	0.6%	-0.6%	-0.5%
AQR Managed Futures Strategy	-2.6%	-2.6%	-5.7%	-4.1%	-5.4%	0.1%	1.1%	0.9%
Natixis ASG Managed Futures Strategy	-6.1%	-6.1%	-12.8%	-12.1%	-4.8%	1.8%	1.3%	1.8%

■ = 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



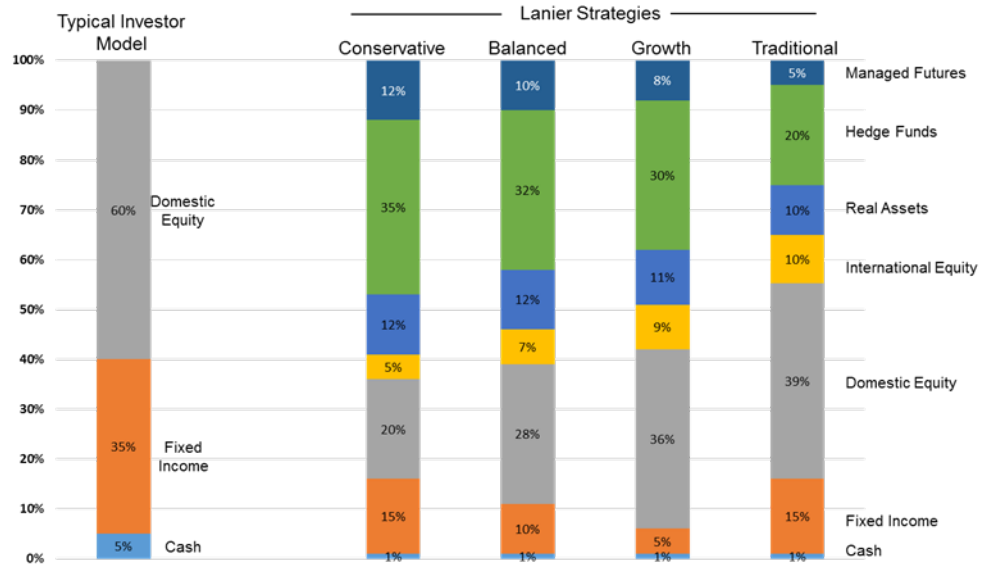
Stephanie E. Milby
Investment Associate

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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.

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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