LANIER ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

April 2018

How Much Longer Can Interest Rates Stay So Low?

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There are so many variables that go into the determination of interest rates, and predicting them is one of the most difficult exercises in the history of capital markets. The clear majority of the “smart money” thought rates were going to move higher three years ago. Since then we have moved higher but only due in large part because the Fed changed their posture to a more “hawkish” position and raised short term interest rates.

The major issue in determining interest rates is the fluidity of the variables. They include:

- The U.S. debt at ~$21 Trillion.
- The Fed’s balance sheet quintupled in the Great Recession to $4.5 Trillion (with a T!).
- The potential trade wars. It is unknown, but both the U.S. and China are talking about $50-100 billion trade tariffs.
- The potential for foreign nations or sovereign funds to dump U.S. treasuries. Once the dam breaks, what happens?
- Bond vigilantes pressuring yields higher given inflation expectations going forward.
- US interest rates relative to rates in other countries.
- Political uncertainty that causes selling globally simply to maintain one’s own currencies to promote trade.

We haven’t seen rates at this level in modern times. The reality is we have no idea what the outcome is going to be in this grand experiment of super low interest rates.

What we know is that the Fed is going to raise rates at least 2-3 more times this year. So, the Fed Funds rate will be sitting over 2% by the end of the year. The flattening of the yield curve will get even more severe as the year progresses if earnings are delivered as expected. Typically, we see revisions go down. The markets have discounted earnings growth at ~15% throughout this year given the tax cuts and global growth improvements. We are not sure how much of the tariffs will factor into the equation at this point in time, but the latest estimates reduce GDP by .25% to .50%.

Is 3% GDP growth rate a realistic target? Your guess is as good as mine. What I can say is that given the volatility in the markets, we better hope so. Permabull Professor Jeremy

Siegel recently claimed that the price earnings ratio is currently at 17.5x. He proclaims that is not expensive at all given growth expectations and current rates, etc. Conversely, his friend Robert Shiller believes the markets are way overvalued. The first several rate hikes typically are positive for the markets. We have seen that, but they are not stopping now. The Fed has signaled that they have done all they can for the markets with several quantitative easings (QE) commencing in 2009. We are now at the quantitative tightening (QT) segment of this cycle. As the Fed begins to reduce the balance sheet and someone else must buy our bonds to keep yields low, what happens? In the QE segment of this story, the Fed bought ~70% of all the bonds to keep interest rates low, but what happens when you reverse that? As more and more bonds mature, supply and demand will ultimately take over. We see bond yields moving higher, yet we are uncertain of the velocity. We could see rates rise very fast like they did from 2.3% to 2.9% in the last six months, or we could have earnings not accelerate as rapidly as expected, where interest rates will stagnate or decline. It is very difficult to have a strong opinion given what the Fed has signaled on one side and what governments around the world are discussing on an ongoing basis.

What I would say is be very careful in fixed income. A synchronized global expansion suggests higher rates, while demographics argue strongly the other way. We certainly would recommend shortening duration and increasing credit quality. Diversification across all asset classes is critical at this point in the economic cycle. If you are still just investing in stocks, bonds and cash, you may want to consider a different approach!

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 – 4/11/18

Macro Viewpoint

- Trade tariffs have now been put in place. Understand the long term implications.
- The positive steroids of quantitative easing are over and slowly reversing. First the US, and now the EU is considering the same move.
- Volatility continues in all equity markets as they continue to digest tax cuts, tariffs and earnings.

Asset Class Comments

- The markets have experienced a 10% correction for the first time in years. Are the equity markets really cheap now? Not according to JPMorgan and others.
- Please consider your risk at this stage in the cycle, as we are in the 9th year of an expansion versus an average of 6 years.
- Fixed income spreads continue to stay tight regardless of market movement. How long can this continue?

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		March	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.1%	0.4%	0.4%	1.3%	0.7%	0.4%	0.3%	0.5%
Fixed Income									
Domestic (Barclays US Agg)		0.7%	-1.6%	-1.6%	1.1%	1.1%	1.7%	2.8%	3.6%
Vanguard Total Bond Market	VBMFX	0.6%	-1.5%	-1.5%	1.0%	1.0%	1.6%	2.8%	3.5%
RiverNorth Doubleline	RNDLX	0.7%	-0.3%	-0.3%	2.2%	3.2%	3.5%	4.4%	4.7%
Eaton Vance Floating Rate	EIBLX	0.5%	1.6%	1.6%	4.6%	4.4%	3.7%	4.1%	4.9%
US Preferred Stock ETF	PFF	0.5%	-0.4%	-0.4%	2.0%	3.3%	4.4%	5.2%	5.5%
High Yield (Barclays US Corp HY)		-0.5%	-1.5%	-1.5%	2.1%	2.8%	2.9%	2.8%	5.7%
Short Term High Yield	SJNK	-0.1%	0.2%	0.2%	3.5%	3.6%	3.1%	4.5%	6.9%
Equities									
Domestic Large Cap (S&P 500 TR)		-2.7%	-1.2%	-1.2%	11.8%	8.5%	11.0%	10.3%	7.2%
S&P Equal Weight	RSP	-0.9%	-1.1%	-1.1%	11.3%	8.7%	12.5%	11.9%	10.5%
Domestic Mid Cap (S&P 400 TR)		0.9%	-0.8%	-0.8%	11.0%	8.7%	11.8%	11.2%	10.8%
Vanguard Mid-Cap ETF	VO	-0.1%	0.0%	0.0%	12.3%	6.8%	12.3%	11.3%	10.2%
Domestic Small Cap (S&P 600 TR)		2.0%	0.6%	0.6%	12.7%	10.6%	13.4%	12.6%	11.3%
Vanguard Small-Cap ETF	VB	1.1%	4.7%	4.7%	17.4%	9.7%	12.8%	11.7%	11.3%
Developed Intl. (MSCI EAFE)		-2.2%	-2.2%	-2.2%	13.4%	5.1%	6.2%	5.1%	2.6%
MSCI EAFE	EFA	-0.8%	-0.9%	-0.9%	14.9%	5.7%	6.4%	5.3%	2.7%
Emerging Intl. (MSCI EM)		-2.0%	1.1%	1.1%	23.9%	8.5%	4.8%	2.3%	2.9%
Vanguard FTSE Emerging Markets ETF	VWO	-0.2%	2.5%	2.5%	21.2%	7.6%	4.7%	2.1%	2.7%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		3.7%	-6.7%	-6.7%	-1.0%	2.1%	5.9%	8.4%	6.7%
Mortgage Real Estate	REM	6.5%	-3.9%	-3.9%	3.3%	7.2%	4.0%	6.9%	4.1%
REIT ETF	VNQ	3.9%	-8.2%	-8.2%	-4.4%	0.8%	5.8%	8.0%	6.5%
Commodities (Thomson Reuters/Jefferies CRB Index)		4.2%	2.5%	2.5%	21.8%	-1.3%	-7.2%	-7.8%	-6.2%
DBC	DBC	2.3%	2.2%	2.2%	11.6%	-0.2%	-9.4%	-9.4%	-8.1%
BlackRock	BCSAX	-0.8%	5.5%	5.5%	13.9%	3.6%	-3.0%	-5.3%	-4.4%
Gold	GLD	0.6%	1.7%	1.7%	6.0%	3.4%	-0.9%	-1.5%	4.7%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		-0.3%	0.7%	0.7%	7.4%	3.9%	4.5%	3.6%	3.7%
INFINITY*	OCEAN	0.1%	1.5%	1.5%	5.2%	4.2%	6.4%	6.7%	6.5%
Boston Partners Long/Short Equity	BPLEX	-2.0%	-5.2%	-5.2%	-2.4%	6.9%	4.4%	6.3%	11.3%
QIM Tactical Aggressive*	QIM TA	2.7%	-20.4%	-20.4%	1.8%	13.7%	12.9%	14.0%	19.0%
Millennium*	MILLENN	1.0%	4.3%	4.3%	9.3%	6.8%	9.5%	8.6%	8.6%
Verition*	VERITION	1.3%	0.6%	0.6%	9.3%	9.4%	11.6%	10.1%	12.6%
Renaissance*	RENAISS	2.5%	1.6%	1.6%	11.7%	16.4%	14.0%	16.2%	11.5%
Third Point*	THIRD P	-1.4%	-0.7%	-0.7%	9.5%	4.5%	7.0%	7.5%	8.8%
Hedge Fund Plus*	HF+	1.2%	-3.8%	-3.8%	8.0%	9.7%	10.8%	11.0%	12.3%
Boston Partners Global Long/Short	BGLSX	-2.0%	-2.1%	-2.1%	3.3%	4.4%	4.5%	3.6%	3.8%
Managed Futures									
Barclays CTA Index		1.1%	0.7%	0.7%	2.6%	0.4%	2.0%	0.9%	1.9%
WINTON*	WINTON	-0.3%	-3.2%	-3.2%	-1.2%	-4.5%	-0.6%	-1.2%	-0.2%
QIM*	QIM	0.9%	-8.1%	-8.1%	-9.2%	7.7%	0.9%	0.1%	0.7%
AQR Managed Futures Strategy	AQMNX	-1.0%	-3.2%	-3.2%	-3.4%	-6.5%	0.6%	0.6%	1.5%
Natixis ASG Managed Futures Strategy	ASFYX	-1.1%	-4.5%	-4.5%	1.2%	-5.3%	4.9%	2.0%	3.1%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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Stephanie E. Milby
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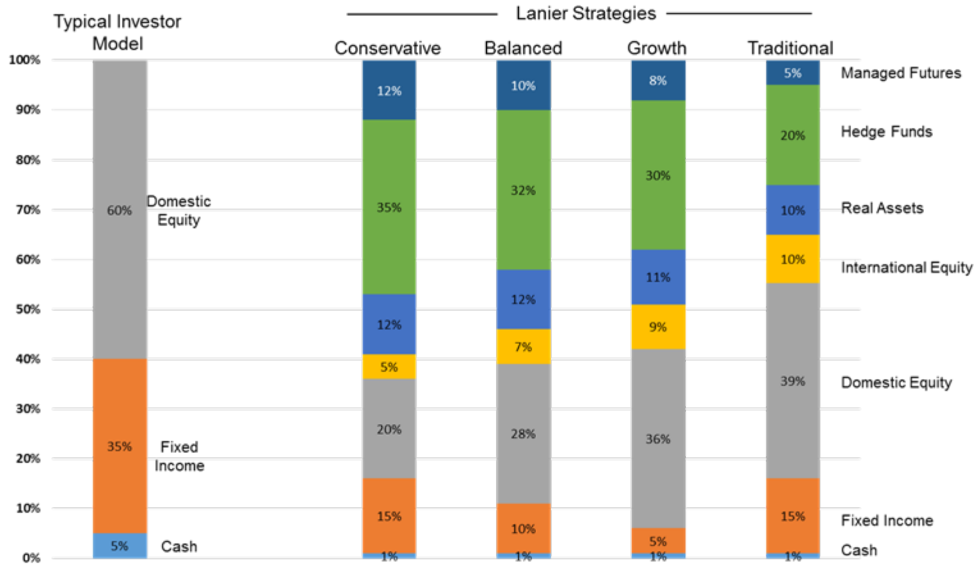
Building Confidence and Security in Your Financial Future

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.