LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

September 2020

Are We Out of the Woods?

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When the economy shut down in late March, there was widespread belief that a tidal wave of bankruptcies was on the way. Everything stopped. People sheltered in place – truly sheltered in place. No one went anywhere or did anything but walk the dog. Any business not named Amazon or Peloton was seemingly doomed. Yes, there were some big names – J. Crew, Neiman Marcus, Hertz, Virgin Atlantic – that went under fairly quickly, but the stampede to the bankruptcy courts hasn't materialized. A massive stimulus bill and forbearance on debt and rent appeared to stave off Armageddon.

I went looking for bankruptcy statistics. The American Bankruptcy Institute (yes, there is such an entity – check it out at abi.org) publishes US business filings every quarter. I expected to see a sharp increase in numbers, but what I found was remarkable. In the second quarter, the number of businesses filing for bankruptcy stood at 5,154. That might sound like a lot, but it is actually the lowest quarter on record since 4,858 filings in the second quarter of 2006.

States began to reopen in late April. Some restaurants and hair salons flung their doors open to welcome back the cabin fever-riddled public. I live in Georgia, so thankfully I could go get my annual Mother's Day tattoo. Did this signal that we were out of the woods? Unfortunately, I don't think so.

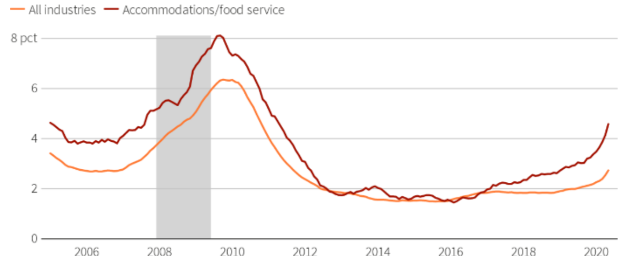
As the second wave of COVID-19 spread across the South, California and Arizona, we began to realize that this was going to take a little longer. But wait! There are 20 companies that have potential vaccines and lots of those are in or nearing Stage 3 trials. Surely that signals the end of the misery! But wait – even if those trials are successful, A) the vaccines won't be widely available until late 2021, B) even the most optimistic projections are that they will be only 60-70% effective and C) 20-30% of the population says they won't take it even when it is available.

So what does this all mean? It means that we are in for a long, slow fight. A fight that will be characterized by (hopefully) two steps forward and one step back. Where does that leave businesses in our country, particularly small businesses? In a long, slow fight for survival. If vaccines are only 60% effective and only 75% of the public will take them when they are available, we as a nation can't change our behavior. The vaccines will save lives, but unless you've already had COVID-19 (and having had it gives you some form of immunity), you can't safely go to a restaurant, see a movie, mill around an airport waiting for your flight, attend any large gathering, etc.

Almost all of the $600 billion Payroll Protection Program money is gone. Landlords can't forgive rents forever. Banks can't extend loans forever. There are serious cracks in the foundation that are starting to appear.

There are 700,000 restaurants in the US and another 60,000 bars. How many have you been to in the last 5 months? According to a National Federation of Independent Business survey in late July, 23% of the respondents expect to be out of business in 6 months unless economic conditions change. Yelp reported in early August that since March 1, there have been 155,000 business closures of which 91,000 are permanent.

Bank loans have allowed many small businesses to struggle on. But how much more can they borrow and how can they pay it back if there are no customers? PayNet tracks $4 trillion in loans to 30 million small businesses. Here is what their data shows on the percentage of loan and lease defaults.



Finally, we have indications from the largest banks. In their latest quarterly results, JP Morgan increased its bad debt reserves from $1.2 billion to $10.5 billion. Wells Fargo went from $1.6 billion to $10 billion. Citigroup went from $2.4 billion to $8 billion. Other banks show the same horrid trends.

There will be clear winners as this COVID-19 fight wars on. The stock market rally has been terrific. But we are not in the clear. Not by a long shot. Our advice? Hunker down. Stay diversified. Understand that the volatility isn't going away any time soon.

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 – 9/10/20

Macro Viewpoint

- COVID-19 continues to have a profound effect on people's lives, even as much of the country and businesses are reopening.
- The top five companies by market capitalization now represent 30% of the S&P 500. Is this sustainable?

Asset Class Comments

- Diversification is paramount at this time. Review your portfolio to make sure you are still in balance with your risk tolerance.
- While we have seen a sharp correction in technology stocks over the last several days, use caution when adding these names.
- With fixed income prices at historic highs, investors should use caution in this asset class.

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		August	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Federal Money Market Reserve		0.0%	0.0%	0.4%	1.0%	1.7%	1.3%	0.9%	0.7%
Fixed Income									
Domestic (Barclays US Agg)		-0.9%	0.5%	7.0%	6.6%	5.4%	4.5%	4.2%	3.7%
Vanguard Total Bond Market	VBMFX	-1.0%	0.5%	6.8%	6.2%	5.0%	4.2%	4.0%	3.5%
RiverNorth Doubleline	RNDLX	0.8%	2.7%	1.6%	3.4%	3.6%	4.7%	4.9%	4.1%
Eaton Vance Floating Rate	EIBLX	1.5%	2.9%	-1.8%	0.0%	2.5%	3.6%	3.1%	4.0%
US Preferred Stock ETF	PFF	1.9%	6.9%	1.0%	3.7%	3.6%	4.4%	5.5%	5.2%
High Yield (Barclays US Corp HY)		0.1%	5.5%	-0.2%	2.7%	3.6%	4.8%	4.3%	4.2%
Short Term High Yield	SJNK	0.4%	4.3%	0.0%	2.0%	3.1%	4.5%	3.3%	5.0%
Equities									
Domestic Large Cap (S&P 500 TR)		7.0%	12.9%	8.4%	19.6%	12.3%	12.2%	11.5%	12.8%
S&P Equal Weight	RSP	4.3%	9.5%	-2.3%	8.4%	8.2%	9.8%	10.4%	13.0%
Domestic Mid Cap (S&P 400 TR)		3.4%	8.0%	-5.9%	3.8%	5.2%	7.9%	8.8%	11.9%
Vanguard Mid-Cap ETF	VO	3.2%	9.7%	1.8%	11.1%	9.4%	9.9%	10.8%	13.3%
Domestic Small Cap (S&P 600 TR)		3.9%	8.0%	-11.4%	-0.9%	3.7%	7.3%	8.0%	12.2%
Vanguard Small-Cap ETF	VB	4.0%	8.7%	-3.8%	5.5%	8.6%	9.6%	9.7%	13.1%
Developed Intl. (MSCI EAFE)		4.9%	7.3%	-6.2%	3.7%	-0.4%	3.0%	3.2%	5.0%
MSCI EAFE	EFA	4.7%	6.8%	-5.1%	5.4%	1.7%	4.4%	4.2%	5.7%
Emerging Intl. (MSCI EM)		2.1%	10.7%	-1.2%	11.9%	0.4%	7.1%	3.8%	3.0%
Vanguard FTSE Emerging Markets ETF	VWO	2.7%	11.6%	0.0%	12.9%	2.3%	7.6%	4.9%	3.4%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		0.3%	4.1%	-9.2%	-6.8%	3.5%	6.7%	7.9%	9.4%
Mortgage Real Estate	REM	2.2%	7.0%	-36.2%	-26.6%	-8.7%	0.9%	2.6%	3.6%
REIT ETF	VNQ	0.4%	4.1%	-10.4%	-8.1%	3.2%	6.4%	7.8%	9.3%
Commodities (Thomson Reuters/Jefferies CRB Index)		4.1%	10.6%	-25.9%	-16.1%	0.0%	-1.2%	-7.6%	-4.4%
DBC	DBC	4.6%	10.0%	-15.1%	-7.2%	-2.6%	-2.3%	-9.2%	-5.9%
BlackRock	BCSAX	4.1%	10.4%	-3.3%	2.8%	2.5%	3.7%	-2.2%	-1.2%
Gold	GLD	-0.3%	10.4%	29.3%	28.6%	13.7%	11.2%	6.6%	4.6%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		2.7%	6.0%	11.6%	15.1%	6.6%	5.9%	5.3%	5.1%
INFINITY*	OCEAN	1.1%	2.5%	6.9%	8.0%	5.2%	4.5%	5.8%	6.7%
Boston Partners Long/Short Equity	BPLEX	0.8%	1.6%	-12.7%	-6.9%	-6.0%	-0.2%	0.5%	4.7%
Catalyst/Millburn Hedge Strategy	MBXIX								
Millennium*	MILLENN	1.1%	2.7%	12.5%	15.1%	9.5%	7.8%	9.3%	9.4%
Verition*	VERITION	1.0%	2.8%	18.8%	24.1%	13.2%	11.5%	12.0%	11.5%
Renaissance*	RENAISS	0.3%	2.7%	-13.1%	-8.7%	2.9%	10.2%	11.3%	13.7%
Third Point*	THIRD P	8.3%	12.3%	4.5%	5.5%	3.4%	4.8%	5.3%	8.4%
Lanier Hedge Fund*	LHF	1.5%	3.4%	4.3%	7.2%	5.8%	6.7%	7.8%	8.9%
Boston Partners Global Long/Short	BGLSX	-1.3%	0.4%	-11.5%	-9.3%	-4.3%	-1.1%	1.0%	2.0%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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Chief Compliance Officer

Stephanie E. Milby
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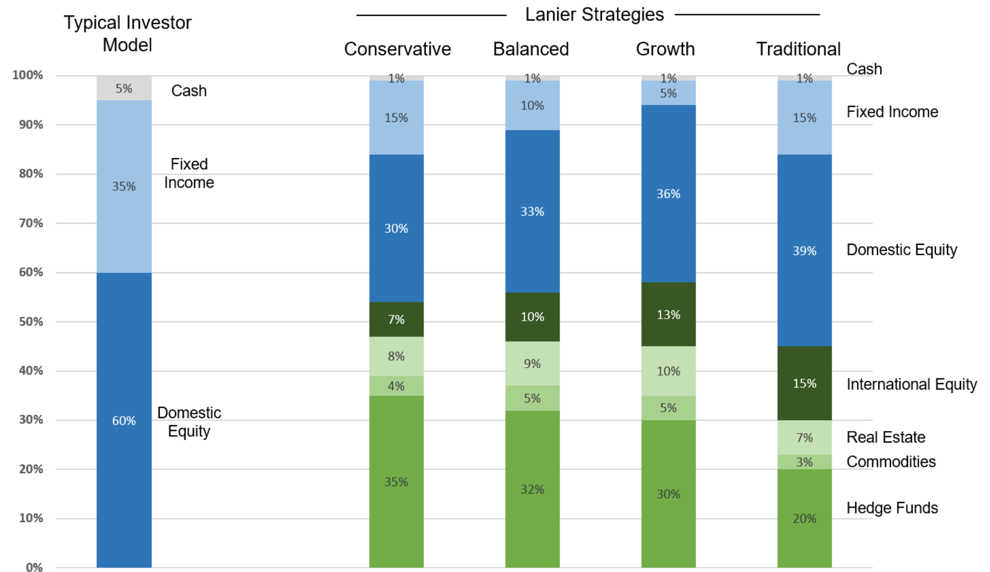
Our Approach

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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