LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

October 2018

Reflections From Over Four Decades

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As a student of the investment game for now over 40 years, I am frequently asked a few common questions. They are:

- What do you think about these markets?
- Are alternatives worth the hassle? Why not just go 60/40 and forget about it?
- How do you compare the investment world of personal high net worth (HNW) investors versus institutional investors?

I'll try to succinctly answer each below.

Markets

I like to answer question one in several fashions. First, markets love to party, and party hard indeed. Invest with them, but realize odds are high that markets – whether stocks, bonds, real estate, etc. – will overshoot on the high side and follow it up by overshooting the downside. Second, sound economic policies are essential for long term success. Valuation levels are important in the long run and worth little in the short run. Last, it truly is "different this time" as we have conducted a great experiment with the Fed quintupling its balance sheet. The unwinding and interest rate normalization will indeed provide some indigestion for all!

Alternatives or 60/40 Mix?

Through many years, traditional investors have had a simple portfolio of 60% stocks and 40% bonds. And it worked for many decades – until we experienced two 50% drops in the S&P 500. Another reason it worked is the fact that interest rates went from over 15% in 1981 to just under 1.5% a few years ago – quite a bull market in bonds!

Yet as rates rise and expected lower rates of returns for equities predicted by many materializes, the 60/40 mix won't provide investors the needed and expected returns.

Alternatives – particularly if you have access to better managers in the asset class as we do – clearly reduce risk in your portfolio and increase returns over the cycle.

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HNW vs. Institutional Investing

With nearly two decades of experience in both investment management worlds, there are some important similarities and noticeable differences. Similarities are the importance of designations – CFA's, MBA's, PhD's, Law Degrees, etc. – which provide more credibility with investors. Asset allocation drives returns and diversification reduces risk wherever you are investing.

In the institutional market, dollar amounts are typically much larger than HNW investors and have many formalities regarding reporting. Institutions utilize third party consultants to ensure the gatekeepers are fulfilling their fiduciary duty. In addition, regarding differences, much has been written about HNW "chasing returns" and typically buying high and selling low – a great recipe for super low returns and quite high levels of risk.

At Lanier, we are a group of experienced and educated investment professionals that love the markets, believe alternatives increase return and reduce risk, and bring the sophistication and experience of the institutional markets to our HNW investors. We look forward to serving our clients for decades to come.

Carl W. Hafele, CFA, CPA, is Co-Chief Investment Officer and Principal at Lanier Asset Management. He is also an instructor in Finance and Economics for the MBA program at Bellarmine University.

Key Points From Our Investment Meeting – 10/9/18

Macro Viewpoint

- Geopolitical events, whether here or abroad, continue to provide noise to the markets!
- 10-year treasuries move higher as the Federal Reserve raises rates and unemployment is at the lowest levels since 1969!
- Is inflation upon us and we just don't know it yet?

Asset Class Comments

- The Barclay's Aggregate is off ~3% YTD. Just a reminder, bonds can lose money, too.
- Keep in mind the S&P 500 Index is market cap weighted, meaning where technology goes is where the markets go. Sounds familiar…
- The US Dollar has appreciated by ~9% compared to the Yen. This has crushed the emerging markets along with the tariffs.

Performance Update

	Investment Vehicle	Total Return (%)				Annualized			
		September	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.0%	0.4%	1.2%	1.6%	1.0%	0.6%	0.5%	0.5%
Fixed Income									
Domestic (Barclays US Agg)		-0.6%	0.1%	-1.8%	-1.4%	1.2%	2.1%	1.9%	3.7%
Vanguard Total Bond Market	VBMFX	-0.5%	0.0%	-1.7%	-1.3%	1.2%	2.0%	1.8%	3.6%
RiverNorth Doubleline	RNDLX	-0.3%	0.9%	0.5%	0.2%	4.3%	4.4%	3.6%	4.9%
Eaton Vance Floating Rate	EIBLX	0.6%	1.9%	4.3%	5.4%	5.7%	4.0%	4.9%	5.4%
US Preferred Stock ETF	PFF	-1.7%	-0.1%	1.3%	1.1%	4.3%	5.6%	6.6%	9.7%
High Yield (Barclays US Corp HY)		0.6%	3.0%	1.8%	1.5%	6.3%	4.0%	4.0%	6.9%
Short Term High Yield	SJNK	0.6%	2.5%	3.7%	3.6%	6.7%	3.5%	5.8%	8.1%
Equities									
Domestic Large Cap (S&P 500 TR)		0.4%	7.2%	9.0%	15.7%	14.9%	11.6%	14.5%	9.6%
S&P Equal Weight	RSP	0.2%	5.3%	7.0%	13.7%	15.0%	12.1%	16.3%	12.6%
Domestic Mid Cap (S&P 400 TR)		-1.1%	3.9%	7.5%	14.2%	15.4%	11.8%	16.2%	12.4%
Vanguard Mid-Cap ETF	VO	-0.4%	4.6%	7.3%	13.5%	13.8%	11.7%	15.9%	12.4%
Domestic Small Cap (S&P 600 TR)		-3.2%	4.7%	14.6%	19.1%	19.2%	13.2%	18.4%	12.8%
Vanguard Small-Cap ETF	VB	-1.5%	4.9%	16.6%	22.6%	18.3%	12.6%	17.6%	12.9%
Developed Intl. (MSCI EAFE)		0.6%	0.8%	-3.8%	0.0%	8.1%	3.8%	7.8%	5.0%
MSCI EAFE	EFA	1.0%	1.5%	-1.3%	2.4%	9.0%	4.3%	8.4%	5.0%
Emerging Intl. (MSCI EM)		-0.8%	-2.0%	-9.5%	-3.1%	11.4%	3.1%	4.6%	5.1%
Vanguard FTSE Emerging Markets ETF	VWO	-1.4%	-1.7%	-8.9%	-3.6%	10.1%	3.1%	4.9%	4.6%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		-2.4%	0.6%	1.6%	4.2%	8.1%	9.0%	11.7%	7.7%
Mortgage Real Estate	REM	-1.2%	2.6%	3.3%	2.9%	13.9%	9.6%	10.2%	6.6%
REIT ETF	VNQ	-2.6%	0.5%	0.5%	1.9%	7.0%	8.7%	11.3%	7.5%
Commodities (Thomson Reuters/Jefferies CRB Index)		4.8%	3.3%	17.0%	32.3%	10.5%	-4.0%	-3.5%	-3.9%
DBC	DBC	3.4%	1.6%	8.2%	16.7%	5.9%	-8.0%	-6.8%	-3.8%
BlackRock	BCSAX	2.1%	-1.8%	6.0%	12.1%	10.2%	-1.9%	-2.6%	-3.3%
Gold	GLD	-0.7%	-5.0%	-8.8%	-7.3%	1.8%	-0.8%	-4.4%	5.6%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		-0.2%	1.0%	1.8%	4.4%	5.5%	4.2%	4.8%	4.6%
INFINITY*	OCEAN	0.4%	1.4%	3.8%	5.0%	4.4%	5.8%	7.1%	7.1%
Boston Partners Long/Short Equity	BPLEX	0.1%	-5.3%	-11.1%	-8.7%	4.0%	3.5%	5.9%	10.4%
QIM Tactical Aggressive*	QIM TA	-11.8%	-14.9%	-45.9%	-43.4%	2.5%	3.6%	4.5%	10.8%
Millennium*	MILLENN	1.1%	2.4%	8.3%	9.9%	6.9%	9.1%	9.0%	9.4%
Verition*	VERITION	0.1%	1.5%	3.5%	7.9%	9.6%	10.2%	11.6%	11.9%
Renaissance*	RENAISS	1.4%	8.1%	9.3%	13.4%	16.0%	16.5%	15.1%	12.8%
Third Point*	THIRD P	-0.1%	-0.3%	0.3%	3.0%	7.6%	5.7%	8.9%	10.5%
Lanier Hedge Fund*	LHF	0.6%	2.2%	4.1%	6.6%	7.7%	8.6%	9.5%	9.6%
Boston Partners Global Long/Short	BGLSX	0.9%	2.8%	-1.7%	1.6%	3.8%	4.2%	4.8%	4.6%
Managed Futures									
Barclays CTA Index		0.7%	0.9%	3.3%	6.1%	2.5%	3.4%	1.4%	2.2%
WINTON*	WINTON	-0.5%	-0.3%	-2.4%	4.1%	-2.1%	0.5%	-1.3%	0.2%
QIM*	QIM	-0.3%	-2.6%	-6.9%	-5.7%	3.5%	1.9%	0.7%	-0.1%
AQR Managed Futures Strategy	AQMNX	-0.3%	2.7%	-3.2%	1.4%	-5.6%	0.8%	0.8%	1.5%
Natixis ASG Managed Futures Strategy	ASFYX	-4.6%	-0.6%	-7.1%	-2.3%	-3.2%	4.0%	1.6%	2.8%

= 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

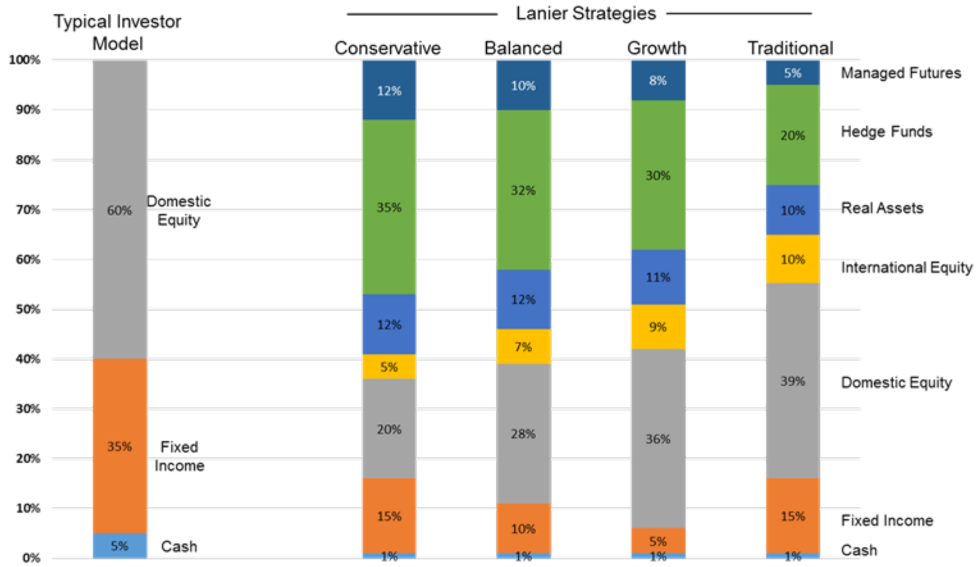
Deidre M. Durbin
Chief Compliance Officer

Stephanie E. Milby
Investment Associate

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