

## Monthly Update

June 2016



*Blame Tina*

John E. Thompson

*Director, Private Client Group*

And the markets trudge on. Deep into a bull market run, the S&P 500 is desperately trying to claw back towards its May 2015 highs. This is the second attempt to break through (the first attempt failed in November 2015). Our bet is that it won't.

It's been said that the willingness to accept risk and the ability to face the consequences of assuming risk are two different issues. Most of us are much better at the former than the latter. By definition, risk is the chance that an investment's actual return will be different than expected. Risk includes the possibility of losing some or all of the original investment. So where are we on the continuum of risk?

In just the first half of 2016, we've encountered soaring valuations, the Fed's desire to raise interest rates, mounting tension in China, North Korea and Europe, the plummet and resurgence in oil prices, widening credit spreads, bankruptcies and defaults. Not to mention Hillary and The Donald. As the great sportscaster Dick Enberg might say, "Oh my!"

Globally, the growth trajectory has slowed to a relative crawl. At home, the post-recession economy has grown at a tepid 1.5-2%. More importantly, American companies are in the midst of an "earnings recession" which began in the 3<sup>rd</sup> quarter of 2015. Does that sound like an environment where stocks should thrive?

Blame Tina.

There Is No Alternative. Or is there? Many of the pundits are claiming that the US equity market is the only place you can invest. We respectfully disagree.

In the face of declining equity and bond returns over the next 5-7 years, we believe that there is value – significant value – in real assets (real estate and commodities) and diversifying strategies (hedge funds and managed futures). We believe that portfolios constructed with proper allocations to these asset classes will not only out-return traditional



investment strategies, they will do so with a fraction of the risk (volatility, correlation to the S&P 500). Traditional investment strategies look great during bull markets and when interest rates are falling. They fail when the opposite is true.

At Lanier, our mission is *To Build Confidence and Security in Your Financial Future*. As we enter a new wave of this economic cycle, confidence and security will only come by doing things differently.

*John E. Thompson is Director of the Private Client Group at Lanier Asset Management. He has spent over 30 years inspiring clients and advisors in the financial services industry.*

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## Key Points From Our Investment Meeting – 6/15/16

### Macro Viewpoint

- Federal Reserve's interest rate hikes and the "Brexit" vote have lead to continued volatility in the equity and currency markets
- It has come down to Clinton or Trump...
- Negative interest rates in the EU, German bund went negative, and Japan giving many economists pause over short to medium term interest rate policy

### Asset Class Comments

- From a technical perspective, another failed test to breakout on the upside reinforces our view that the equity market is in a long topping formation
- We continue to believe this environment warrants the need for Diversifying Strategies
- Given lower expected returns for the stock and bond market over the next 7-10 years, investors need to think creatively about how they can reach their long term goals
- Ten year treasury yields continue to fall...



# Performance Update

Investment Vehicle	Total Return (%)								
	May	QTD	YTD	1-Year	Annualized				
					3-Year	5-Year	7-Year	10-Year	
<b>TRADITIONAL ASSETS</b>									
<b>Cash</b>									
Vanguard Reserve Prime Money Market	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	1.2%	
<b>Fixed Income</b>									
Domestic (Barclays US Agg)	0.0%	0.4%	3.4%	3.1%	2.9%	3.4%	4.4%	5.0%	
Eaton Vance Floating Rate	EIBLX	0.5%	2.5%	3.3%	-1.4%	1.4%	2.9%	6.2%	3.4%
US Preferred Stock ETF	PFF	1.6%	2.4%	3.9%	5.6%	5.8%	5.9%	10.3%	4.0%
High Yield (Barclays US Corp HY)		0.3%	3.9%	6.2%	-4.2%	1.8%	4.7%	9.8%	7.1%
Short Term High Yield	SJNK	0.9%	4.4%	5.9%	-3.5%	-	-	-	-
<b>Equities</b>									
Domestic Large Cap (S&P 500 TR)		1.7%	2.1%	2.9%	0.7%	10.7%	11.4%	14.7%	7.3%
S&P Equal Weight	RSP	1.4%	2.6%	5.2%	-0.4%	10.5%	10.9%	16.1%	8.0%
Domestic Mid Cap (S&P 400 TR)		2.3%	3.6%	7.5%	-1.1%	9.4%	9.8%	16.2%	8.4%
Vanguard Mid-Cap ETF	VO	1.8%	2.4%	3.3%	-2.9%	10.3%	10.0%	16.4%	7.7%
Domestic Small Cap (S&P 600 TR)		1.7%	2.2%	4.9%	-0.2%	9.7%	10.5%	16.4%	7.7%
Vanguard Small-Cap ETF	VB	1.9%	3.7%	4.5%	-4.3%	8.4%	9.3%	15.7%	7.7%
Developed Intl. (MSCI EAFE)		-0.9%	2.0%	-1.2%	-9.8%	1.9%	2.1%	6.4%	1.9%
MSCI EAFE	EFA	-0.1%	2.1%	-0.6%	-10.1%	2.0%	1.9%	6.1%	1.8%
Emerging Intl. (MSCI EM)		-3.7%	-3.2%	2.2%	-17.7%	-5.0%	-4.8%	3.0%	3.1%
Vanguard FTSE Emerging Markets ETF	VVO	-3.2%	-2.3%	3.3%	-17.8%	-4.0%	-4.7%	2.9%	3.0%
<b>Real Assets</b>									
Real Estate (FTSE NAREIT US REIT)		1.6%	0.6%	4.3%	8.8%	9.5%	10.0%	18.2%	6.7%
Mortgage Real Estate	REM	4.2%	5.9%	10.2%	-2.0%	3.3%	4.6%	8.8%	-
REIT ETF	VNQ	2.3%	-0.2%	4.9%	9.4%	9.8%	9.9%	18.9%	7.3%
Commodities (Thomson Reuters/Jefferies CRB Index)		1.9%	14.7%	16.3%	-26.1%	-16.4%	-14.0%	-5.9%	-7.1%
DBC	DBC	0.9%	10.7%	10.1%	-22.9%	-17.9%	-13.7%	-6.7%	-5.2%
<b>DIVERSIFYING STRATEGIES</b>									
<b>Hedge Funds</b>									
HFRI WCI		0.4%	1.4%	0.7%	-4.0%	2.2%	2.0%	4.6%	3.5%
INFINITY*	OCEAN	0.2%	1.6%	-1.5%	-0.2%	6.0%	6.8%	7.7%	7.9%
Robeco Long/Short Equity	BPLEX	0.3%	3.0%	11.4%	11.7%	5.1%	7.3%	14.1%	11.4%
Boston Partners Global Long/Short	BGLSX	1.7%	2.3%	2.9%	2.5%	-	-	-	-
<b>Managed Futures</b>									
Barclays CTA Index		0.3%	0.5%	-0.2%	-1.4%	2.3%	0.5%	1.3%	2.9%
WINTON*	WINTON	-2.0%	-3.9%	-3.0%	-6.0%	0.0%	-1.0%	0.3%	3.1%
QIM*	QIM	1.9%	1.6%	8.3%	19.3%	2.2%	1.5%	-1.5%	3.5%
AQR Managed Futures Strategy	AQMNX	-2.7%	-3.7%	-3.3%	-6.1%	3.8%	2.6%	-	-
Natixis ASG Managed Futures Strategy	ASFYX	-2.2%	-4.8%	1.2%	-5.4%	9.2%	3.3%	-	-

= Benchmarks  
 = Lanier Selections

\* For Accredited Investors Only

## 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



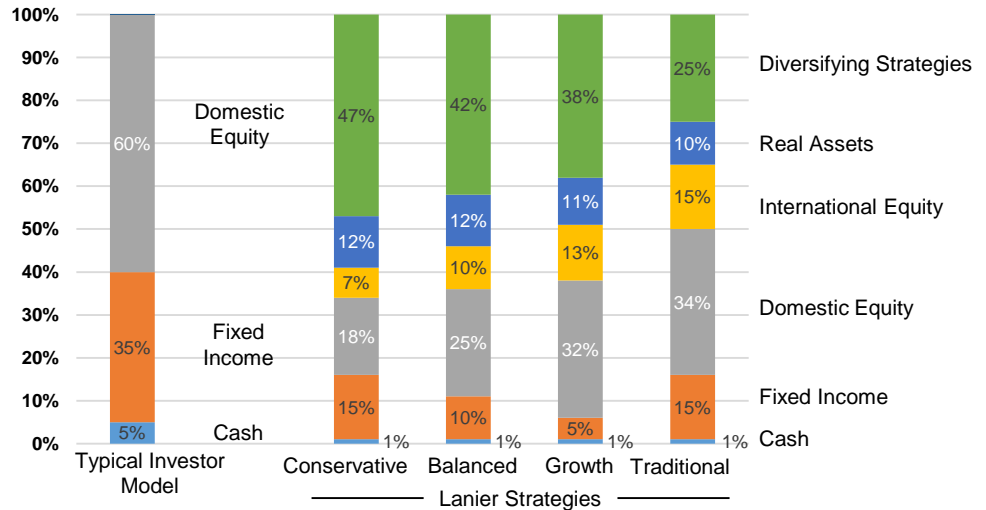
Stephanie E. Milby  
Investment Associate

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

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.

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