LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

April 2017

Time to Invest in International Equities? Let's Take a Look…

Junius V. Beaver III

Co-Chief Investment Officer, Principal

My partner Carl did an excellent job last month laying out his argument that domestic equities were **quite expensive** based on several methodologies used for valuing equities. We thought this month we would look at the international equity markets.

Historically, developed international and emerging markets equities trade at a discount or premium to domestic markets based on their relative GDP growth rates. As a rule of thumb, developed foreign markets (Europe) typically trade at a discount of ~5-10%, while emerging markets trade at a premium of ~20%. Today, the US is growing at ~2%, Europe at ~1.5% and the emerging markets at ~6%. Given those relative growth rates, you would expect the historic discounts/premiums to hold. Have they?

Let's look at the valuations and find out. We will compare the P/E's of the US to Europe and the emerging markets. As of the end of 2016, the US equity markets had a P/E of 19.7 and forward earnings of 17.6. In comparison Europe had a 16.1 and 14.3 respectively. Even more alarming, the emerging markets had P/E of 13.3 and forward earnings of 11.8! This means that currently the US markets are trading at a premium of 18% to Europe and 35% to the emerging markets! Since the market bottom in 2009, the US markets (S&P 500) are up ~7.5%/year while Europe is up just 1%/year! The emerging markets have been up ~2.5%/year over that same period. Things seem just a little out of whack…

As a US investor, we also have to think about currency movement, not just relative valuations. The US dollar is trading at or near an all-time high, the euro is trading at ~106 (down from the mid 140's). While the emerging markets currencies have fallen due to the rise in the dollar, there are many other variables at play here. The US will benefit if you are looking to take a vacation in Europe but exports from our multinationals will be hurt due to headwinds from the dollar, while Europe is exporting their goods and services at a significant discount (tailwind).

The strength of the dollar is a little more complicated when it comes to emerging markets. Emerging markets have financed ~$4 trillion in dollar denominated debt since the market crash of 2008-09. Rising US interest rates and a strong dollar will make paying their debts more challenging for three reasons. First, a better economic outlook and higher yields in the US have been typically followed by stronger growth, rising risk appetites, and capital inflows in emerging economies. Second, a strong dollar is not the cause of emerging market struggles. Quite the contrary: a strong dollar is the result of an adjustment process that, historically, has fed their economic recovery. Finally, emerging markets are a heterogeneous group of countries that over the years have built significantly larger reserves and larger domestic debt markets. Hence, the likelihood of observing widespread currency and banking crises has decreased.

What does this all mean for your portfolio? As Carl outlined last month, we believe the US equites are very, very expensive (small caps in particular). We believe that European and emerging markets equities are far cheaper on both real and absolute bases. Does that mean that we think international equities are poised to go on a tear? Not necessarily. If US markets correct in any significant way, international markets are highly likely to follow suit. But if US markets hold their current values or continue to grow, this is an argument that “reversion to the mean” would bring international equity multiples closer to their historic norms—which means that there is more potential value there than in the US. We would encourage investors to look to see how much they own in domestic equities relative to international equities. Diversification is critical to overall returns and risk reduction.

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 – 4/12/17

Macro Viewpoint

- Trump’s pro-growth agenda in question after appeal of Obamacare fails.
- Geopolitical tensions continue to rise after strike on Syria.
- The stock and bond markets tell vastly different stories about the US economic growth.

Asset Class Comments

- How long can the music keep playing with 2% growth?
- The 10-year treasury yield has dropped by ~25 bps since the beginning of the year. Consider shortening duration and reducing credit risk.
- We are entering the 9th year in this economic cycle without a bear market. Be careful and consider low to negatively correlated assets.

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		0.0%	0.1%	0.1%	0.6%	0.3%	0.2%	0.2%	0.8%
Fixed Income									
Domestic (Barclays US Agg)		0.0%	0.8%	0.8%	0.4%	2.6%	2.2%	3.4%	4.2%
Vanguard Total Bond Market	VBMFX	-0.1%	0.9%	0.9%	0.3%	2.5%	2.2%	3.3%	4.1%
Eaton Vance Floating Rate	EIBLX	0.3%	1.5%	1.5%	10.6%	3.5%	4.2%	4.4%	3.8%
US Preferred Stock ETF	PFF	0.5%	5.1%	5.1%	4.9%	5.7%	5.9%	6.4%	4.2%
High Yield (Barclays US Corp HY)		-0.3%	2.3%	2.3%	14.6%	4.3%	3.2%	4.5%	5.1%
Short Term High Yield	SJNK	-0.2%	2.0%	2.0%	14.8%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		0.1%	6.0%	6.0%	17.1%	10.3%	13.2%	12.9%	7.5%
S&P Equal Weight	RSP	0.0%	5.2%	5.2%	17.0%	9.2%	13.6%	13.1%	8.1%
Domestic Mid Cap (S&P 400 TR)		-0.4%	3.9%	3.9%	20.9%	9.1%	13.2%	13.3%	8.9%
Vanguard Mid-Cap ETF	VO	0.0%	6.1%	6.1%	16.7%	8.7%	12.9%	13.0%	7.8%
Domestic Small Cap (S&P 600 TR)		-0.1%	1.1%	1.1%	23.8%	9.2%	14.1%	14.3%	8.7%
Vanguard Small-Cap ETF	VB	-0.2%	3.7%	3.7%	21.6%	7.4%	12.9%	13.0%	8.2%
Developed Intl. (MSCI EAFE)		2.8%	7.2%	7.2%	11.7%	0.4%	5.8%	4.7%	1.0%
MSCI EAFE	EFA	3.2%	7.9%	7.9%	12.4%	0.5%	5.7%	4.6%	0.9%
Emerging Intl. (MSCI EM)		2.5%	11.4%	11.4%	17.2%	1.2%	0.8%	1.7%	2.7%
Vanguard FTSE Emerging Markets ETF	VWO	2.8%	11.2%	11.2%	17.8%	2.0%	0.9%	1.7%	2.7%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		-2.0%	2.3%	2.3%	4.6%	9.5%	9.9%	12.0%	4.5%
Mortgage Real Estate	REM	2.9%	10.3%	10.3%	29.2%	8.7%	9.0%	8.0%	-
REIT ETF	VNQ	-2.4%	0.8%	0.8%	3.0%	9.9%	9.7%	12.2%	4.9%
Commodities (Thomson Reuters/Jefferies CRB Index)		-4.6%	-3.7%	-3.7%	16.3%	-18.1%	-11.5%	-6.8%	-6.2%
DBC	DBC	-3.2%	-4.0%	-4.0%	14.5%	-18.4%	-12.8%	-7.3%	-5.2%
Gold	GLD	-0.4%	8.3%	8.3%	0.9%	1.3%	-4.4%	1.6%	6.8%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.2%	2.3%	2.3%	8.6%	2.8%	4.0%	3.8%	3.3%
INFINITY*	OCEAN	0.5%	1.4%	1.4%	8.2%	5.5%	7.4%	7.0%	6.6%
Boston Partners Long/Short Equity	BPLEX	-2.0%	-0.4%	-0.4%	12.4%	6.9%	7.5%	9.1%	10.4%
QIM Tactical Aggressive*	QIM TA	11.7%	24.3%	24.3%	33.2%	18.5%	13.0%	16.4%	19.1%
Hedge Fund Plus*	HF+	2.2%	5.4%	5.4%	14.3%	8.8%	9.0%	9.7%	10.5%
Boston Partners Global Long/Short	BGLSX	-0.1%	1.9%	1.9%	5.7%	4.1%	4.9%	4.5%	3.8%
Managed Futures									
Barclays CTA Index		-0.3%	-1.1%	-1.1%	1.6%	3.6%	1.4%	1.5%	3.3%
WINTON*	WINTON	-0.2%	0.0%	0.0%	-5.9%	0.1%	-1.1%	-0.2%	3.0%
QIM*	QIM	1.0%	4.7%	4.7%	12.0%	5.2%	3.4%	1.4%	3.6%
AQR Managed Futures Strategy	AQMNX	-2.8%	-1.0%	-1.0%	-9.9%	2.3%	2.6%	1.7%	3.5%
Natixis ASG Managed Futures Strategy	ASFYX	-1.8%	0.5%	0.5%	-10.7%	5.5%	3.7%	3.4%	4.6%

= 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

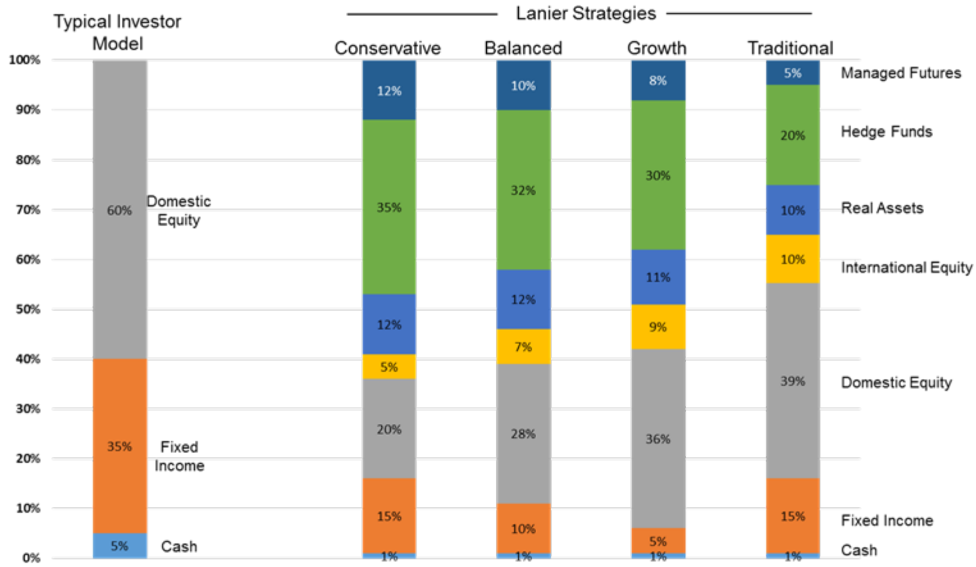
Deidre M. Durbin
Chief Compliance Officer

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

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. Securities offered through Comprehensive Asset Management and Servicing, Inc., Member FINRA/SIPC/MSRB. 2001 Route 46, Ste. 506, Parsippany, NJ 07054.