LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

July 2016

"Die Younger" is Not a Strategy

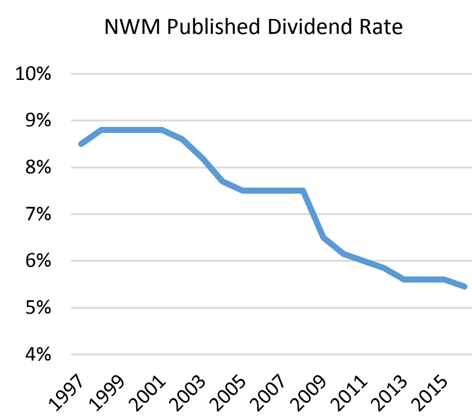
Mark R. Hoffman

CEO, Principal

As a young consultant in 1999 with a wife and two children ages 3 and 1 (my third was not yet born), I did the responsible thing and purchased some whole life insurance from Northwestern Mutual. Sure, it was expensive, but NWM is a solid company with a history (and an implied promise) of paying high dividends that, over time, would either build the cash value or reduce the annual policy premium. At the time, the dividends were 8.8%/year.

This week, I received a letter from NWM stating "This year, the amount of your…billed premium is expected to increase from $1,231 to $1,487. This could be the result of...changes in the dividend scale." There is some math in the background – the total premium on the policy does not increase but the annual reduction in premium due to dividends decreased as NWM lowered the dividend scale. Net net, my cash out of pocket increased 21% in one year due to this change.

I asked NWM for the data. Here is what they sent. Since I bought the policy, the dividend rate has gone down 10 times and now sits at 5.45%. That's 3.35% lower than when I bought it less than 20 years ago. It has never gone up. Not once. And now I am paying $256/year more. [By the way, to my knowledge this is the first letter I have ever received from NWM on this topic!] Why am I telling you this? Because **our individual financial models are changing**. Sometimes the changes are obvious. Sometimes they aren't. But obvious or not, the changes are affecting our current and expected cash flows and if not addressed, can change the quality of our lives – particularly in retirement.



<u>Some simple retirement math</u>: For the last 30 years, a 60/40 stock/bond portfolio has returned 9% (11% from stocks and 6% from bonds). If this held and you had $1 million saved for retirement, you would generate $90k/year. Two years ago, we argued that projected returns would come way down for both – 6% for stocks, 2% for bonds. (For what it's worth, other "experts" are now agreeing with us.) If this holds, that same $1 million you saved would generate only $43k/year. That's less than ½! If you think you're going to beat the system by holding high dividend stocks, wait until you read Carl's analysis of this strategy in next month's newsletter. Bad idea.

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So what do you do? Good financial planning will tell you that you have 3 options: cut expenses, work longer or invest differently. (There is a 4th option, but it doesn't exactly warm my heart for me to tell you that the only way to make your plan work is to "Die Younger.") Most don't want to cut expenses. Many are finding that they will have to work longer. **All can choose to invest differently**. At Lanier, we help our clients plan realistically and invest in new ways, using asset classes that go far beyond the broken 60/40 investment model. The old models won't work. Let us show you one that will.

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 – 7/6/16

Macro Viewpoint

- England votes to leave the European Union… The markets stress over the consequences
- Geopolitical tensions intensify around the world
- The 10 year treasury test historic lows of 1.31%. Negative interest rates in the EU, German bund went negative, and Japan giving many economists pause over short and medium term global growth prospects

Asset Class Comments

- From a technical perspective, after a breakdown due to "Brexit" risk, the markets have recovered sharply leaving many to wonder if this will bring the breakout for domestic equities
- 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 critically about how they will reach their long term goals

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		June	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	1.1%
Fixed Income									
Domestic (Barclays US Agg)		2.0%	2.4%	5.5%	6.3%	4.2%	3.8%	4.6%	5.2%
Eaton Vance Floating Rate	EIBLX	-0.5%	2.0%	2.8%	-1.4%	1.4%	2.8%	5.5%	3.4%
US Preferred Stock ETF	PFF	1.2%	3.7%	5.2%	8.0%	7.0%	6.3%	10.0%	4.1%
High Yield (Barclays US Corp HY)		1.8%	5.8%	8.1%	-0.4%	3.3%	5.3%	9.6%	7.3%
Short Term High Yield	SJNK	1.5%	6.0%	7.5%	-1.2%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		0.4%	2.5%	3.3%	3.0%	11.3%	11.9%	14.8%	7.3%
S&P Equal Weight	RSP	-0.1%	2.6%	5.1%	1.8%	11.0%	11.3%	16.3%	8.1%
Domestic Mid Cap (S&P 400 TR)		0.4%	4.0%	7.9%	0.6%	10.3%	10.4%	16.2%	8.5%
Vanguard Mid-Cap ETF	VO	0.0%	2.4%	3.3%	-1.2%	10.7%	10.5%	16.4%	7.8%
Domestic Small Cap (S&P 600 TR)		0.6%	2.8%	5.5%	-0.6%	10.0%	11.1%	16.2%	7.8%
Vanguard Small-Cap ETF	VB	0.3%	4.0%	4.8%	-3.1%	8.9%	9.9%	15.8%	7.8%
Developed Intl. (MSCI EAFE)		-3.4%	-1.5%	-4.5%	-10.3%	2.0%	1.6%	5.9%	1.6%
MSCI EAFE	EFA	-2.4%	-0.3%	-3.0%	-9.5%	2.1%	1.6%	6.0%	1.5%
Emerging Intl. (MSCI EM)		4.0%	0.7%	6.3%	-12.1%	-1.6%	-3.8%	3.8%	3.5%
Vanguard FTSE Emerging Markets ETF	VWO	4.9%	2.5%	8.4%	-11.6%	-0.6%	-3.6%	4.0%	3.5%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		6.7%	7.4%	11.2%	21.4%	12.7%	12.1%	19.8%	6.9%
Mortgage Real Estate	REM	2.9%	9.0%	13.4%	8.1%	5.6%	5.5%	8.6%	-
REIT ETF	VNQ	6.9%	6.8%	12.2%	22.7%	13.0%	12.2%	20.6%	7.5%
Commodities (Thomson Reuters/Jefferies CRB Index)		0.1%	14.8%	16.4%	-24.2%	-15.7%	-13.4%	-5.7%	-7.1%
DBC	DBC	4.4%	15.5%	14.9%	-7.9%	-17.6%	-13.7%	-6.4%	-5.0%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.8%	2.2%	1.6%	-2.0%	3.0%	2.5%	4.6%	3.6%
INFINITY*	OCEAN	-0.2%	1.4%	-1.6%	-0.5%	5.7%	6.7%	7.4%	7.7%
Robeco Long/Short Equity	BPLEX	-2.2%	0.7%	9.0%	10.8%	4.5%	6.9%	13.0%	10.9%
Boston Partners Global Long/Short	BGLSX	-0.7%	1.6%	2.3%	0.8%	-	-	-	-
Managed Futures									
Barclays CTA Index		1.4%	1.8%	1.2%	3.8%	3.2%	1.1%	1.6%	3.2%
WINTON*	WINTON	4.8%	0.5%	1.5%	2.1%	2.5%	0.5%	1.2%	3.7%
QIM*	QIM	0.8%	2.2%	9.0%	16.0%	2.8%	1.9%	-1.3%	3.8%
AQR Managed Futures Strategy	AQMNX	5.5%	1.7%	2.1%	4.3%	6.3%	4.3%	3.6%	4.6%
Natixis ASG Managed Futures Strategy	ASFYX	4.2%	-0.8%	5.5%	4.3%	11.4%	5.1%	5.0%	5.6%

= Benchmarks
= Lanier Selections

* For Accredited Investors Only

Our Team

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Co-Chief Investment Officer, Principal

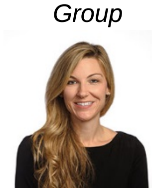
Carl W. Hafele, CFA, CPA
Co-Chief Investment Officer, Principal

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

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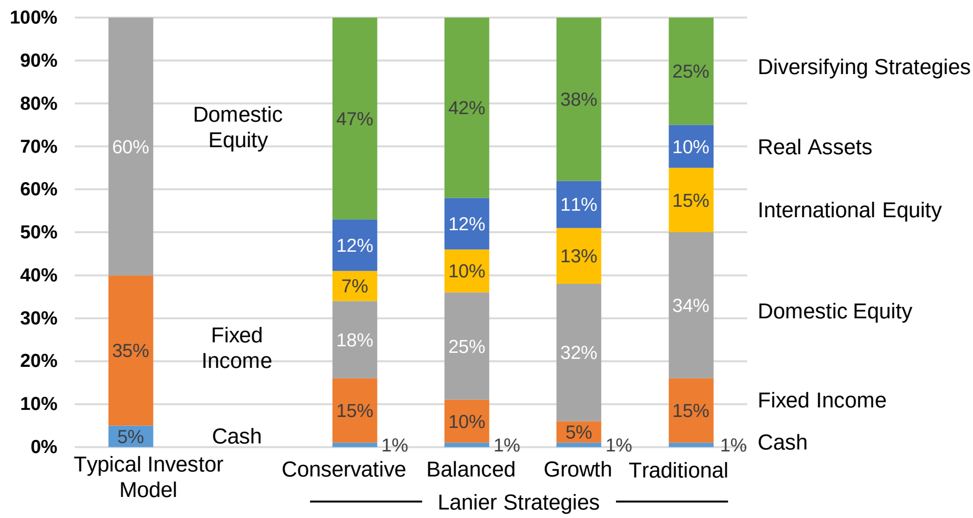
Our Approach

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 <u>projected</u> <u>returns</u> 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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