

Monthly Update

June 2019



Concerns of an Economic Slowdown?

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Numerous economic indicators have recently pointed toward an economic slowdown versus last year's 3% GDP growth rate – a rate that smilingly silenced the secular stagnation touters. Should we be concerned? Is the long overdue recession just around the corner?

Over twenty years ago, I wrote an article about the drivers of stock returns by each decade. We have updated my research and the numbers vividly illustrate that an economic slowdown or slowing earnings are not necessarily bad for stock returns.

	<u>1950's</u>	<u>1960's</u>	<u>1970's</u>	<u>1980's</u>	<u>1990's</u>	<u>2000's</u>	<u>Through March 2019</u>
S&P 500 Earnings Growth Annual Rate	4%	5%	10%	5%	7%	0.7%	8%
Annual Inflation Rate	2%	3%	7%	5%	3%	2%	2%
Price Earnings Ratio (Beginning/Ending)	7-18x	18-16x	16-7x	7-15x	15-28x	26-14x	14-16x
Stocks Annualized Return	18%	5%	5%	17%	18%	-1%	12%
Investment Climate Grade	A+	C	D	A	A+	D	A-

Source: Factset

The 1950's and 1980's were both super decades for stock investors and experienced a very "Goldilocks" moderate earnings growth. The keys – low / falling inflation and low beginning valuation levels. In contrast, the 1970's and 2000's were terrible decades – one influenced by increasing inflation and decreasing valuation, the latter simply from high beginning PE multiples. And oh those 1990's – our version of the Roaring 20's.



So where are we now as we are about to embark on a new decade? We emphatically believe in the importance of solid economic policies. Low tax rates produce more incentives, higher GDP and solid earnings growth. Valuation levels are quite normal in a low inflationary environment. The growth of big government and excessive regulations has been thwarted.

We believe earnings can continue to grow, albeit at a slower pace than the most recent years. Stocks should return a moderate 6-8% annually with volatility measures being hot and cold.

As always, our philosophy includes having exposure to the traditional asset classes of stocks and bonds augmented with owning alternative investments to materially decrease risk and lower correlation to the overall market.

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Key Points From Our Investment Meeting – 6/12/19

Macro Viewpoint

- Global trade tensions continue to be significant risks to global markets. Short- and long-term effects on US GDP remain a big question mark.
- The markets now believe Fed Chairman Powell will lower rates by 50-75 bps by year end. We believe the markets may be disappointed.

Asset Class Comments

- The 10-year treasury has dropped another 30 bps since last month. Is this signaling a recession or just further contraction globally?
- Value stocks have underperformed growth stocks over multi-year periods. Is it time to look to value?
- Use more caution until greater clarity is available.

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Performance Update

Investment Vehicle	Total Return (%)							
	May	QTD	YTD	1-Year	Annualized			
					3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS								
Cash								
Vanguard Reserve Prime Money Market	0.2%	0.4%	1.0%	2.4%	1.5%	1.0%	0.7%	0.5%
Fixed Income								
Domestic (Barclays US Agg)	1.8%	1.8%	4.8%	6.6%	2.4%	2.6%	2.3%	3.7%
Vanguard Total Bond Market	1.8%	1.9%	4.9%	6.6%	2.4%	2.6%	2.3%	3.6%
RiverNorth Doubleline	0.4%	1.3%	6.8%	5.4%	4.4%	3.5%	3.8%	4.8%
Eaton Vance Floating Rate	-0.3%	1.1%	4.6%	3.2%	5.1%	3.7%	4.2%	6.1%
US Preferred Stock ETF	0.3%	0.9%	8.8%	4.1%	2.8%	4.0%	5.2%	8.0%
High Yield (Barclays US Corp HY)	-2.0%	-0.7%	7.4%	5.2%	5.9%	3.7%	3.1%	6.7%
Short Term High Yield	-1.4%	-0.5%	5.2%	4.0%	6.0%	2.7%	4.3%	7.8%
Equities								
Domestic Large Cap (S&P 500 TR)	-6.6%	-2.9%	9.8%	1.7%	9.5%	7.4%	11.2%	11.6%
S&P Equal Weight	-6.9%	-3.6%	10.7%	1.3%	9.4%	7.8%	13.0%	14.1%
Domestic Mid Cap (S&P 400 TR)	-8.0%	-4.3%	9.6%	-5.5%	8.4%	7.2%	11.7%	13.8%
Vanguard Mid-Cap ETF	-6.1%	-2.6%	13.7%	1.6%	9.8%	8.0%	12.7%	14.4%
Domestic Small Cap (S&P 600 TR)	-8.7%	-5.2%	5.8%	-10.5%	9.5%	7.7%	12.4%	14.3%
Vanguard Small-Cap ETF	-7.2%	-3.8%	11.7%	-3.7%	11.8%	8.4%	13.1%	14.5%
Developed Intl. (MSCI EAFE)	-5.4%	-3.1%	5.7%	-8.5%	4.0%	0.2%	6.6%	5.7%
MSCI EAFE	-5.0%	-2.2%	7.0%	-6.6%	5.6%	1.0%	7.2%	6.0%
Emerging Intl. (MSCI EM)	-7.5%	-5.7%	3.3%	-11.0%	8.5%	1.0%	3.3%	4.6%
Vanguard FTSE Emerging Markets ETF	-6.4%	-4.4%	5.4%	-7.7%	8.6%	1.6%	3.5%	4.6%
Real Assets								
Real Estate (FTSE NAREIT US REIT)	-0.4%	-0.4%	16.4%	13.4%	6.7%	7.7%	9.5%	14.6%
Mortgage Real Estate	-6.6%	-4.9%	4.9%	2.8%	10.1%	6.2%	7.2%	9.2%
REIT ETF	0.1%	0.0%	17.4%	14.9%	5.8%	7.6%	9.3%	14.9%
Commodities (Thomson Reuters/Jefferies CRB Index)	-8.7%	-4.7%	11.1%	-14.2%	5.3%	-8.8%	-4.9%	-2.7%
DBC	-6.0%	-4.9%	4.4%	-15.0%	1.4%	-11.5%	-7.9%	-4.4%
BlackRock	-4.6%	-4.7%	3.5%	-12.8%	4.0%	-4.7%	-2.7%	-1.2%
Gold	1.8%	1.1%	1.7%	0.2%	2.0%	0.9%	-2.1%	3.9%
DIVERSIFYING STRATEGIES								
Hedge Funds								
HFRI WCI	-1.5%	0.0%	5.9%	-0.3%	4.7%	2.9%	4.3%	4.6%
INFINITY*	0.1%	1.2%	3.2%	1.9%	4.8%	4.7%	6.5%	6.8%
Boston Partners Long/Short Equity	-5.7%	-4.1%	-0.4%	-15.5%	-3.0%	-0.9%	2.7%	8.7%
QIM Tactical Aggressive*	-5.4%	-5.8%	-4.6%	-15.2%	-4.3%	4.0%	3.7%	8.3%
Millennium*	1.2%	1.6%	3.4%	3.1%	6.8%	7.8%	8.3%	8.9%
Verition*	0.0%	2.6%	5.7%	3.1%	6.9%	8.0%	10.6%	11.3%
Renaissance*	-2.9%	-1.0%	3.3%	11.4%	11.7%	14.5%	13.0%	16.0%
Third Point*	-1.9%	-0.1%	8.4%	-5.4%	5.2%	2.8%	7.8%	11.2%
Lanier Hedge Fund*	-0.8%	0.6%	3.8%	1.7%	6.0%	6.7%	8.3%	9.8%
Boston Partners Global Long/Short	-2.4%	-1.7%	0.2%	-5.6%	-0.1%	1.3%	3.4%	3.9%

■ = Benchmarks
 ■ = Lanier Selections

* For Accredited Investors

Our Team



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 Co-Chief Investment
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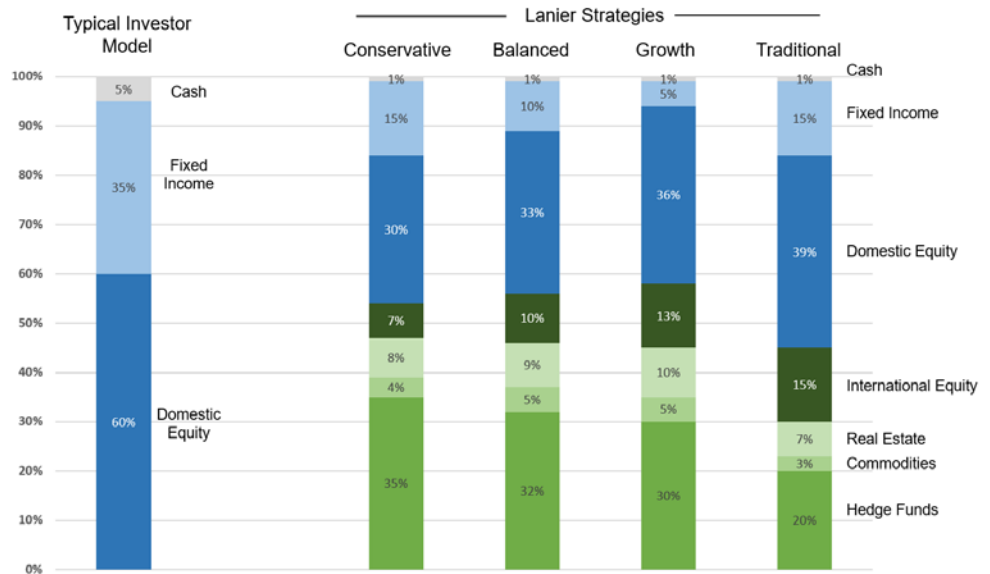
Stephanie E. Milby
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Building Confidence and Security in Your Financial Future



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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