

Monthly Update

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Providing "Alpha," the Holy Grail of Investing

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Alpha is a measure of the excess return on an investment and the performance of that investment - both compared to a suitable market index. In modern financial markets, where index funds are widely available for purchase, alpha is a commonly used measure to judge the performance of actively traded mutual funds.

Mutual funds have gained enormous popularity - there are now nearly 10,000 different mutual funds available to investors. These mutual funds are available in many different categories, such as growth, growth and income, international, emerging markets, fixed income and real estate. Most large fund managers add alpha strategies to their portfolios as additional return drivers.

In sum, Alpha measures how much an investment – usually an actively-managed strategy or alternatively-weighted index – beats the chosen benchmark. The bad news is the percentage of active managers who do beat the market is usually small – fewer than eight percent over the last 15 years.⁽¹⁾ Even worse news is that these managers typically do not sustain that performance in the future.

A further refinement of Alpha is Jensen's Alpha. Jensen's measure is one of the ways to determine if a portfolio is earning the proper return for its level of risk. If the value is positive, then the portfolio is earning excess returns. In other words, a positive value for Jensen's alpha means a fund manager has "beat the market" with their investing skills including the appropriate amount of risk.

Using the Jensen approach, the adequacy of a portfolio manager's performance can be judged against the investment's risk adjusted expected return. For example, if an investment is expected to provide a six percent return and returns eight percent, it has generated a positive alpha of two percent. Clearly a positive alpha indicates a superior performance while a negative alpha leads to the opposite conclusion. A key question for portfolio managers is can they consistently perform at positive levels? A study of Fidelity mutual funds by Hubert



Roosma quantified the use of Jensen's alphas and concluded investment portfolios with an alpha greater than 0.80 percent are high performing investments and ones with an alpha below zero percent are low performing investments.

At Lanier we closely analyze investment markets and model our portfolios to maximize returns and minimize risk, to generate positive Jensen's alpha relative to the expected return for the typical "60-40" stock-bond mix. This includes an in-depth consideration of expected future returns and associated risks of all asset classes, utilizing expectations of the leading global financial experts. It is noteworthy that these returns are not historical past returns. The Lanier approach brings to the individual investor access to the sophisticated investment techniques and methodologies utilized to manage major endowments. These strategies minimize volatility through diversifying investments in both traditional stocks and bonds, and nontraditional hedge funds and real estate asset classes. If you are interested in "getting under the hood" of our approach we would be happy to discuss our more sophisticated way of investing in the public markets with you.

(1) Source: American Enterprise Institute

Dr. Daniel L. Bauer is a Financial Consultant with Lanier Asset Management and a Professor of Finance at Bellarmine University where he previously served for 15 years as Dean of the Rubel School of Business.

Key Points From Our Investment Meeting – 12/13/19

Macro Viewpoint

- Impeachment proceedings have begun, although the markets seem to believe that the likelihood of it actually happening are remote.
- US and China trade talks continue with some success, although volatility has been subdued in the markets.

Asset Class Comments

- Value stocks have underperformed growth stocks for the last ten years. Is it time to look to large cap value?
- Fixed income has always provided a buffer and income stream for investors. Those days seem to be over.
- Commodities continue to be out of favor as the dollar continues to rise and global GDP growth continues to slow.

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Performance Update

Investment Vehicle	Total Return (%)							
	November	QTD	YTD	1-Year	Annualized			
					3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS								
Cash								
Vanguard Federal Money Market Reserve	0.1%	0.3%	2.0%	2.3%	1.7%	1.2%	0.8%	0.6%
Fixed Income								
Domestic (Barclays US Agg)	0.0%	0.3%	9.7%	11.8%	4.4%	3.2%	2.7%	3.6%
Vanguard Total Bond Market	-0.1%	0.1%	8.8%	10.7%	4.1%	3.0%	2.5%	3.4%
RiverNorth Doubleline	0.2%	0.3%	10.5%	10.0%	4.5%	4.0%	4.0%	4.5%
Eaton Vance Floating Rate	0.5%	0.0%	5.4%	2.9%	4.0%	3.8%	3.7%	4.7%
US Preferred Stock ETF	-0.4%	0.0%	13.7%	12.0%	5.4%	4.2%	4.9%	6.8%
High Yield (Barclays US Corp HY)	0.6%	0.5%	12.6%	10.0%	5.6%	4.3%	3.5%	5.2%
Short Term High Yield	0.1%	-0.3%	7.5%	5.4%	4.7%	3.6%	3.7%	6.0%
Equities								
Domestic Large Cap (S&P 500 TR)	3.4%	5.5%	25.3%	13.8%	12.6%	8.7%	12.1%	11.1%
S&P Equal Weight	3.4%	4.7%	25.5%	13.5%	11.5%	8.9%	13.4%	13.3%
Domestic Mid Cap (S&P 400 TR)	3.0%	4.1%	22.8%	8.9%	9.1%	8.5%	12.1%	13.0%
Vanguard Mid-Cap ETF	3.2%	4.4%	27.9%	15.3%	11.7%	8.8%	13.3%	13.5%
Domestic Small Cap (S&P 600 TR)	3.1%	5.1%	19.2%	4.8%	8.5%	9.4%	13.0%	13.9%
Vanguard Small-Cap ETF	4.2%	5.9%	24.6%	10.8%	12.0%	9.8%	13.3%	14.0%
Developed Intl. (MSCI EAFE)	1.0%	4.5%	14.8%	9.1%	7.4%	2.9%	5.4%	4.6%
MSCI EAFE	1.1%	4.6%	17.5%	11.2%	9.2%	4.1%	6.1%	5.1%
Emerging Intl. (MSCI EM)	-0.2%	3.9%	7.7%	4.5%	7.1%	2.0%	2.1%	2.8%
Vanguard FTSE Emerging Markets ETF	0.5%	4.5%	11.3%	7.5%	7.4%	2.4%	2.6%	2.9%
Real Assets								
Real Estate (FTSE NAREIT US REIT)	-1.4%	-0.2%	25.8%	16.1%	10.4%	7.4%	9.7%	12.5%
Mortgage Real Estate	1.5%	4.2%	17.2%	10.1%	10.7%	7.7%	7.7%	8.4%
REIT ETF	-1.3%	-0.2%	27.9%	17.7%	9.8%	7.4%	9.9%	12.7%
Commodities (Thomson Reuters/Jefferies CRB Index)	1.7%	2.8%	20.9%	13.4%	8.4%	-3.8%	-4.9%	-2.8%
DBC	-0.1%	1.8%	5.7%	1.5%	0.7%	-4.5%	-8.8%	-5.1%
BlackRock	-0.7%	0.4%	5.6%	-0.3%	2.6%	-1.3%	-3.7%	-1.9%
Gold	-3.2%	-0.7%	13.7%	19.3%	7.3%	5.7%	-1.1%	3.4%
DIVERSIFYING STRATEGIES								
Hedge Funds								
HFRI WCI	1.2%	1.6%	8.5%	5.7%	4.3%	3.1%	4.2%	4.0%
INFINITY*	0.1%	0.1%	5.2%	5.5%	4.1%	4.2%	6.0%	6.2%
Boston Partners Long/Short Equity	0.4%	1.3%	6.1%	0.0%	-3.4%	1.4%	2.9%	6.4%
Millennium*	1.2%	1.3%	7.4%	8.2%	7.0%	7.5%	8.5%	8.7%
Verition*	1.0%	2.6%	12.7%	13.5%	8.2%	8.5%	11.0%	10.3%
Renaissance*	-1.1%	0.8%	11.0%	8.6%	12.3%	13.8%	13.7%	15.8%
Third Point*	2.7%	1.4%	13.3%	5.9%	5.4%	3.2%	6.7%	9.5%
Lanier Hedge Fund*	0.3%	1.0%	8.4%	7.2%	6.1%	6.6%	8.3%	9.0%
Boston Partners Global Long/Short	-0.6%	-0.6%	3.0%	-1.0%	0.6%	1.7%	3.3%	3.3%

= 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
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John A. Hamilton
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Deidre M. Durbin
Chief Compliance Officer



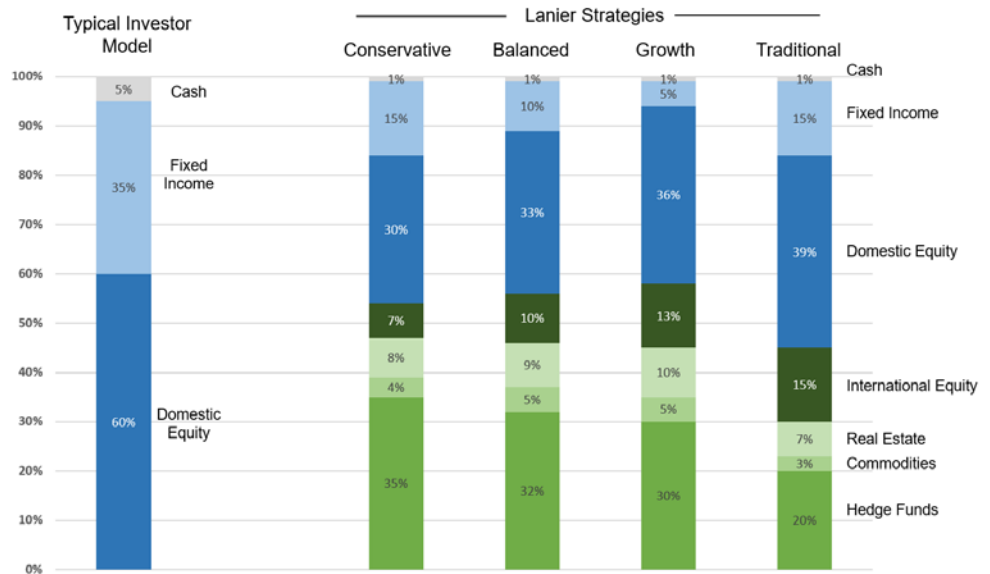
Stephanie E. Milby
Investment Associate

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. Certain representatives of Lanier are also Registered Representatives offering securities through APW Capital, Inc., Member FINRA/SIPC. 100 Enterprise Drive, Suite 504, Rockaway, NJ 07866 (800) 637-3211.

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