LANIER
ASSET MANAGEMENT LLC

Building **Confidence** and **Security** in Your **Financial Future**

Monthly Update

May 2018

Kentucky Derby Talk – Bulls vs. Bears

Carl W. Hafele, CFA, CPA

Co-Chief Investment Officer, Principal

As many of us enjoy this most beautiful time of the season in Derby City, several of my long-term money manager friends broke bread together over the weekend at our famous Churchill Downs. The creativity and banter centered around horses Free Drop Billy, My Boy Jack, Flameaway, and more were classic. And yes, we all shared some Kentucky bourbon – my favorite is Rabbit Hole.

To no one's surprise, we once again digressed to conversations regarding interest rates, equity markets, real estate, private investments and alternatives. In brief, what were some of the tenets of the bulls and the bears?

The BULLS opined loudly as if they had this year's Secretariat:

- Strong economic growth of ~3%.
- Earnings growth for 2018 of 15%+ to $155, followed by 5-10% in 2019.
- No worry of earnings disappointments as a normal ~80% of companies are beating their estimates by a predictable 5-10%.
- Valuation levels of 17-18x earnings are attractive in this low ~2% inflation environment.
- Regulations are plummeting and corporations are finally investing again!
- This economic expansion that is nine years old will continue and surpass the longest ten year one that commenced in 1991.
- Enjoy another mint julep! As my mother always preached, "Enjoy yourself – it's later than you think!"

The BEARS were a tad more sheepish. After all, they have not been "in the money" in the last several year's races. Their posturing included:

- Economic growth is projected to gradually slow to ~1.5% by 2021.
- The vast majority of earnings growth has been driven by the tax law change and shareholder buybacks. Virtually all of the impact of tax changes are now incorporated in the earnings estimate increases.
- Growth rates in earnings have historically been ~7% in 3% GDP environments – where will these increased earning projections come from?
- The FED is embarking on Quantitative Tightening AND scheduled to raise rates 3-4x in 2018 – quite an experiment. And the recession and volatility predicting yield curve is getting perilously close to inversion, which forecasts a recession.

- The odds of a political misstep – take your pick of a plethora of options– seem as high as the Truman era.
- In the long run, valuations are excellent predictors of longer term future returns. If correct, history suggests stock returns will be far less – ~5-7% including dividends – than the last 100 years' 10-11%. And, as a result, 60% stock / 40% bond portfolios will return ~4-5% annual returns. Not very exciting.
- As professed for many years, all investments are worth nothing more than the present value of cash flows. Rising rates = lower valuations.
- And oh – the mound of federal debt keeps getting higher – when will it matter? Our poor children.
- Bring on the bourbon – perhaps our best investment!

The divergence of opinions and posturing are forever predictable – that's what makes markets! At Lanier, we strongly believe in the Yale model of investing that delivers higher returns with lower risks and correlation over the cycle. Having access to some of the very best in the hedge fund arena and committing a material portion of your investable assets to alternative investments assists us in achieving superior risk-adjusted returns.

Congrats to Justify, whose odds were 5-2 at post time last Saturday. And regrettably, my exacta bet with Justify failed, as My Boy Jack finished a disappointing fifth.

Carl W. Hafele, CFA, CPA, is Co-Chief Investment Officer and Principal at Lanier Asset Management. He is also an instructor in Finance and Economics for the MBA program at Bellarmine University.

Key Points From Our Investment Meeting – 5/10/18

Macro Viewpoint

- New sanctions have been placed against Iran. After pulling out of the Iran nuclear deal, what will the implications be?
- The positive steroids of quantitative easing are over and slowly reversing. First the US, and now the EU is considering the same move.
- Volatility continues in all equity markets as they continue to digest tax cuts, tariffs and earnings.

Asset Class Comments

- S&P 500 companies just reported 20%+ earnings growth for the quarter. The question now is have we reached peak earnings?
- Please consider your risk at this stage in the cycle, as we are in the 9th year of an expansion versus an average of 6 years.
- Fixed income spreads continue to stay tight even with ten year treasuries hitting 3%. Be cautious. Equities now have a little competition.

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		April	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.2%	0.2%	0.5%	1.3%	0.8%	0.5%	0.4%	0.5%
Fixed Income									
Domestic (Barclays US Agg)		-0.9%	-0.9%	-2.5%	-0.6%	0.9%	1.3%	2.5%	3.5%
Vanguard Total Bond Market	VBMFX	-0.8%	-0.8%	-2.3%	-0.6%	0.9%	1.3%	2.4%	3.4%
RiverNorth Doubleline	RNDLX	-0.2%	-0.2%	-0.5%	1.0%	3.0%	3.2%	4.2%	4.7%
Eaton Vance Floating Rate	EIBLX	0.5%	0.4%	2.0%	4.6%	4.3%	3.7%	4.1%	4.6%
US Preferred Stock ETF	PFF	-0.7%	-0.7%	-1.1%	0.5%	3.1%	4.0%	4.8%	4.8%
High Yield (Barclays US Corp HY)		0.5%	0.5%	-1.0%	1.6%	2.6%	2.8%	2.6%	5.3%
Short Term High Yield	SJNK	0.6%	0.6%	0.8%	2.8%	3.4%	2.9%	4.3%	6.5%
Equities									
Domestic Large Cap (S&P 500 TR)		0.3%	0.3%	-1.0%	11.1%	8.3%	10.6%	9.9%	6.7%
S&P Equal Weight	RSP	0.4%	0.4%	-0.8%	11.0%	8.7%	12.2%	11.4%	9.9%
Domestic Mid Cap (S&P 400 TR)		-0.3%	-0.3%	-1.0%	9.8%	9.2%	11.6%	10.7%	10.0%
Vanguard Mid-Cap ETF	VO	-0.2%	-0.2%	-0.2%	10.8%	8.0%	11.8%	10.8%	9.4%
Domestic Small Cap (S&P 600 TR)		1.0%	1.0%	1.6%	12.8%	11.8%	13.7%	12.3%	11.0%
Vanguard Small-Cap ETF	VB	0.4%	0.4%	5.1%	16.8%	10.6%	12.8%	11.3%	10.7%
Developed Intl. (MSCI EAFE)		1.9%	1.9%	-0.3%	12.7%	4.3%	5.5%	4.5%	2.2%
MSCI EAFE	EFA	1.5%	1.5%	0.6%	13.9%	4.9%	5.7%	4.7%	2.3%
Emerging Intl. (MSCI EM)		-0.6%	-0.5%	0.5%	20.6%	5.7%	4.5%	1.8%	2.1%
Vanguard FTSE Emerging Markets ETF	VWO	-2.8%	-2.8%	-0.3%	16.0%	4.1%	3.7%	1.2%	1.6%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		0.6%	0.6%	-6.2%	-1.0%	4.0%	4.9%	7.7%	6.2%
Mortgage Real Estate	REM	0.3%	0.3%	-3.6%	0.0%	7.5%	4.0%	6.7%	3.2%
REIT ETF	VNQ	0.8%	0.8%	-7.4%	-3.9%	3.1%	4.6%	7.3%	5.9%
Commodities (Thomson Reuters/Jefferies CRB Index)		6.2%	6.2%	8.9%	33.5%	-1.9%	-5.6%	-7.4%	-6.2%
DBC	DBC	3.4%	3.4%	5.7%	18.7%	-1.3%	-8.5%	-8.2%	-8.4%
BlackRock	BCSAX	3.1%	3.1%	8.8%	19.4%	2.4%	-1.8%	-5.3%	-4.7%
Gold	GLD	-1.0%	-0.9%	0.8%	3.2%	3.2%	0.2%	-1.4%	4.5%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.4%	0.4%	1.1%	7.2%	3.7%	4.4%	3.4%	3.6%
INFINITY*	OCEAN	0.0%	0.0%	1.4%	5.0%	4.1%	6.2%	6.6%	6.5%
Boston Partners Long/Short Equity	BPLEX	1.9%	1.9%	-3.4%	2.1%	6.3%	4.9%	6.5%	11.2%
QIM Tactical Aggressive*	QIM TA	-7.4%	-7.4%	-26.3%	-13.7%	11.7%	12.4%	14.7%	17.9%
Millennium*	MILLENN	0.0%	0.0%	4.3%	9.0%	7.2%	9.4%	8.5%	8.6%
Verition*	VERITION	0.7%	0.7%	1.3%	10.1%	9.2%	11.7%	10.0%	12.7%
Renaissance*	RENAISS	-1.0%	-1.0%	0.6%	8.0%	16.5%	13.4%	15.2%	11.3%
Third Point*	THIRD P	0.7%	0.6%	0.0%	8.7%	4.6%	6.8%	7.4%	8.8%
Hedge Fund Plus*	HF+	-1.8%	-1.8%	-5.5%	3.2%	9.3%	10.5%	11.0%	11.9%
Boston Partners Global Long/Short	BGLSX	-0.2%	-0.2%	-2.3%	3.1%	3.2%	4.4%	3.4%	3.6%
Managed Futures									
Barclays CTA Index		0.4%	0.4%	1.0%	1.2%	0.8%	1.9%	0.6%	2.0%
WINTON*	WINTON	1.1%	1.1%	-2.6%	0.6%	-3.1%	-1.0%	-1.5%	-0.1%
QIM*	QIM	0.6%	0.6%	-7.6%	-8.2%	6.2%	1.3%	0.5%	0.6%
AQR Managed Futures Strategy	AQMNX	-0.8%	-0.8%	-3.9%	-2.2%	-5.7%	-0.4%	-0.1%	1.4%
Natixis ASG Managed Futures Strategy	ASFYX	-0.9%	-0.9%	-5.4%	0.9%	-4.4%	3.3%	0.9%	3.0%

= 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

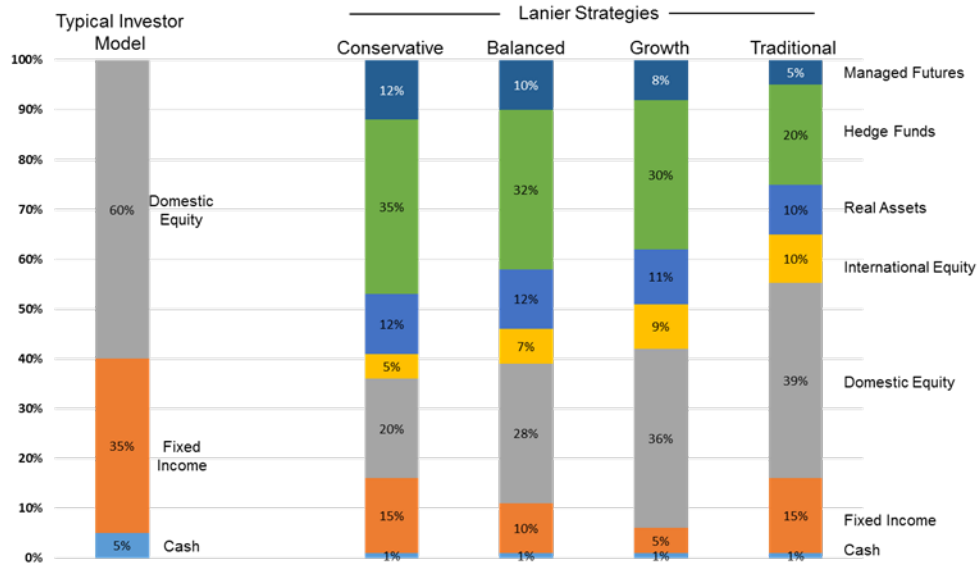
Deidre M. Durbin
Chief Compliance Officer

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. 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.

Building Confidence and Security in Your Financial Future