

Monthly Update

August 2019



Volatility is back, but is it the end of the world?

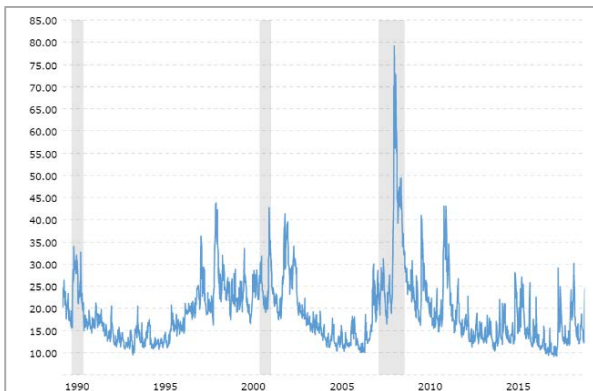
Mark R. Hoffman

CEO, Principal

Any investor in the US stock market has enjoyed a nice bull run over the past 10 years. Much has been made of the reasons why: highly dovish monetary policy, solid earnings growth, reversion to the mean following the 2008-09 correction, historically low volatility, etc. But these last few weeks have many investors nervous. Volatility in the US stock market is back. But does that signal the end of the world?

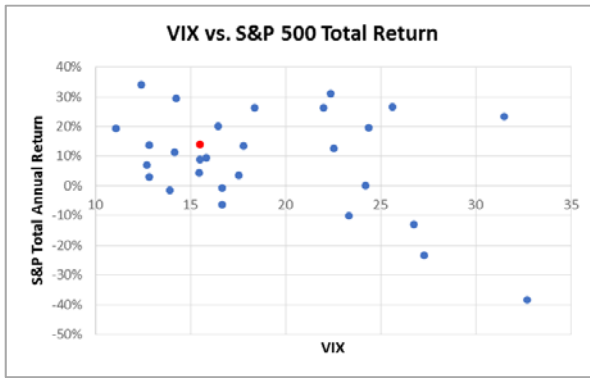
As I write this article, the CBOE Volatility Index (the “VIX⁽¹⁾”) has jumped from 14 at the beginning of August to the low 20’s. That’s a 40%+ jump in less than two weeks! Enough to make anyone worry. But just how worried should we be?

First, let’s put the current VIX reading in historic context. Here is a look at the daily VIX since the creation of the index in 1990⁽²⁾:



Since January 1, 1990, the average daily reading of the VIX has been 19.05. Is the current reading (I’m writing this on August 7 at 2:00 pm) of 20.1 higher than the average? Yup. But it has only been higher than this average for the last four days. Is it high for the year? Well, no. Most of us have forgotten that the year started out with pretty wild volatility and the VIX opened 2019 at 23.

Next, we ask the question, “Does a high VIX reading spell doom for stock market returns?” We looked at that, too. While we have given back some of the gains for the year, the S&P 500 total return (as of 8/7/19) stood at 13.9%. That’s a pretty healthy return and well above long-term averages skewed by the internet and dot-com era when the S&P returned 20%+. But that’s just one data point. What if you look at the entire sample (since 1990)? On the next page is a scatter chart of average daily VIX per year (horizontal axis) vs. the S&P 500 total return for the year (vertical axis)⁽³⁾. The red dot is where we are today in 2019.



I ask you to look at this chart and tell me whether or not there is a correlation between a high VIX level and low S&P return. If you look hard enough, you might say “yes,” but it would be a weak yes. [Truth be told, there is a very mild statistical significance of the correlation of these two.] But as we used to say in the consulting world, “A duck could not fly through this chart.”

So to sum up...Has volatility picked up? That depends on your time frame. Over the past month, yes. Since the beginning of the year, no. Versus long-term historic averages, we are very nearly on it. Does a high VIX reading mean lower stock market returns? Sometimes yes, sometimes no. But where we are right now – at this moment in time – does not tell us that everyone should panic. What everyone should do is adopt a solid, proven investment strategy and have the discipline to follow it. There will be ebbs and flows. But a knee-jerk reaction to a spike in volatility will more often hurt you than it will help you.

- (1) Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments.
- (2) Source: www.macrotrends.net/2603/vix-volatility-index-historical-chart
- (3) Source: www.macrotrends.net/2526/sp-500-historical-annual-returns, www.macrotrends.net/2603/vix-volatility-index-historical-chart

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 – 8/14/19

Macro Viewpoint

- The markets now believe Chairman Powell will lower rates by 50-75 bps by year end. Based on the 10-year treasury dropping by over 50 bps so far this year, we believe this is quite likely.
- Even with a short-term truce between the US and China, global tensions continue to be significant risks to global markets. Short- and long-term effects on US and global GDP remain a big question mark.
- China continues to show lower growth. This may affect trade and global contractions more than anticipated.

Asset Class Comments

- Equity valuations have been under significant pressure since the Fed's initial rate cut. How much of the Fed's potential rate cuts could actually move the needle? Is Dr. Lacy Hunt (famed economist who has been long the 30-year treasury for over 30 years) right that the 10-year goes sub 1%?
- Value stocks have underperformed growth stocks in multi-year periods. Is it time to look to large cap value?

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Performance Update

Investment Vehicle	Total Return (%)							
	July	QTD	YTD	1-Year	Annualized			
					3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS								
Cash								
Vanguard Reserve Prime Money Market	0.2%	0.2%	1.4%	2.4%	1.6%	1.0%	0.8%	0.6%
Fixed Income								
Domestic (Barclays US Agg)	0.9%	0.9%	7.1%	8.9%	2.3%	3.1%	2.5%	3.7%
Vanguard Total Bond Market	0.2%	0.2%	6.3%	8.0%	2.0%	2.9%	2.3%	3.6%
RiverNorth Doubleline	0.5%	0.5%	9.1%	7.6%	4.1%	4.0%	3.9%	4.8%
Eaton Vance Floating Rate	0.7%	0.7%	5.4%	3.0%	5.0%	3.8%	4.0%	5.3%
US Preferred Stock ETF	1.8%	1.8%	12.2%	5.3%	3.0%	4.6%	5.1%	6.8%
High Yield (Barclays US Corp HY)	0.1%	0.1%	10.9%	6.7%	5.8%	4.4%	3.4%	6.1%
Short Term High Yield	0.2%	0.2%	7.3%	4.3%	5.8%	3.4%	4.1%	7.1%
Equities								
Domestic Large Cap (S&P 500 TR)	1.3%	1.3%	18.9%	5.8%	11.1%	9.1%	11.6%	11.7%
S&P Equal Weight	0.8%	0.8%	20.0%	5.5%	10.9%	9.5%	13.7%	14.2%
Domestic Mid Cap (S&P 400 TR)	1.2%	1.2%	19.4%	0.8%	9.8%	9.1%	12.8%	13.7%
Vanguard Mid-Cap ETF	1.3%	1.3%	23.4%	6.5%	11.1%	9.7%	13.6%	14.4%
Domestic Small Cap (S&P 600 TR)	1.1%	1.1%	15.0%	-6.7%	10.5%	9.8%	13.2%	13.9%
Vanguard Small-Cap ETF	1.2%	1.2%	20.9%	1.6%	12.8%	10.2%	13.8%	14.4%
Developed Intl. (MSCI EAFE)	-1.3%	-1.3%	10.3%	-5.4%	5.0%	1.3%	6.1%	5.3%
MSCI EAFE	-2.0%	-2.0%	11.1%	-4.2%	6.4%	2.1%	6.7%	5.5%
Emerging Intl. (MSCI EM)	-1.7%	-1.7%	7.4%	-4.7%	6.8%	0.9%	3.0%	4.1%
Vanguard FTSE Emerging Markets ETF	-1.8%	-1.8%	9.1%	-3.5%	6.3%	1.4%	3.2%	4.1%
Real Assets								
Real Estate (FTSE NAREIT US REIT)	1.6%	1.6%	19.6%	11.2%	4.4%	8.1%	8.7%	14.1%
Mortgage Real Estate	2.3%	2.3%	12.6%	5.0%	10.4%	7.9%	7.0%	8.6%
REIT ETF	1.7%	1.7%	21.2%	13.2%	3.1%	8.0%	8.6%	14.5%
Commodities (Thomson Reuters/Jefferies CRB Index)	0.3%	0.3%	16.3%	-6.4%	10.3%	-7.3%	-5.5%	-2.4%
DBC	-1.1%	-1.1%	7.3%	-8.7%	3.3%	-9.9%	-9.0%	-3.9%
BlackRock	-1.5%	-1.5%	7.2%	-6.6%	3.1%	-4.1%	-3.5%	-1.0%
Gold	0.0%	0.0%	9.9%	14.9%	1.1%	3.2%	-1.8%	4.5%
DIVERSIFYING STRATEGIES								
Hedge Funds								
HFRI WCI	0.7%	0.7%	9.4%	3.0%	5.0%	3.5%	4.7%	4.7%
INFINITY*	0.5%	0.4%	4.6%	2.7%	4.9%	4.6%	6.6%	6.7%
Boston Partners Long/Short Equity	0.5%	0.5%	4.6%	-7.6%	-1.3%	-0.1%	3.1%	7.4%
Millennium*	0.8%	0.8%	5.1%	4.9%	7.1%	8.1%	8.6%	9.0%
Verition*	1.2%	1.2%	8.4%	6.6%	7.3%	7.4%	11.1%	11.1%
Renaissance*	1.8%	1.8%	6.7%	9.2%	10.1%	16.1%	13.2%	15.5%
Third Point*	2.3%	2.3%	14.8%	1.2%	6.0%	3.9%	8.4%	11.1%
Lanier Hedge Fund*	1.0%	1.0%	6.5%	3.7%	6.1%	7.0%	8.6%	9.5%
Boston Partners Global Long/Short	0.0%	0.0%	2.5%	-4.7%	0.6%	1.3%	3.5%	3.8%

= Benchmarks
 = Lanier Selections

* For Accredited Investors

Our Team



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Co-Chief Investment
Officer, Principal



Carl W. Hafele, CFA, CPA
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John A. Hamilton
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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



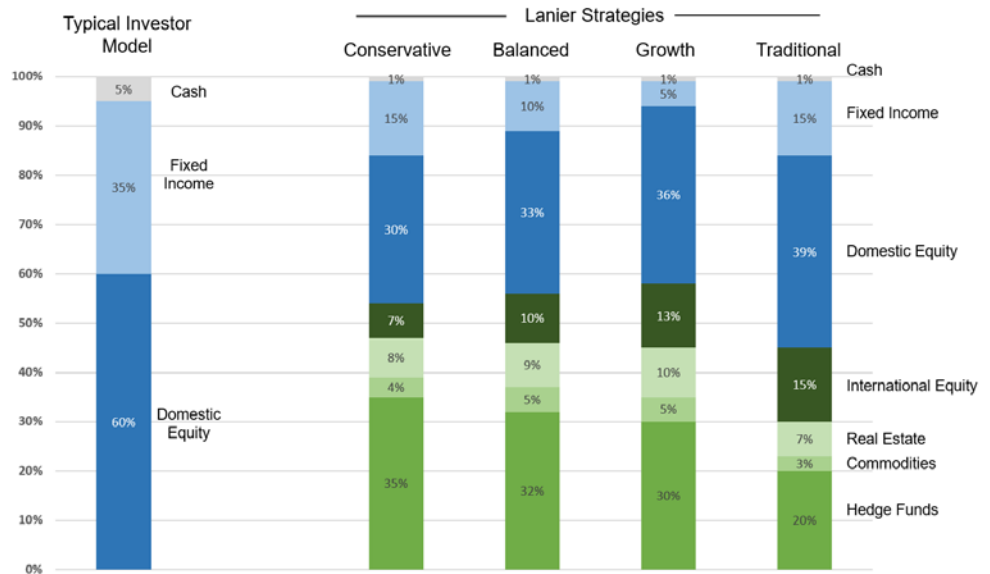
Stephanie E. Milby
Investment Associate

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.

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