LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

July 2019

Is This the Year 2000 All Over Again?

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The run up to the “Dot Com Era” bubble that burst in March of 2000 showed an insatiable appetite for risk assets with technology being first on the list! Looking back nearly twenty years, it’s obvious (rearview mirror) that things were completely out of control. Billion dollar valuations were given to anything that said dot com. Profit didn’t matter, as it was all about gaining market share as fast as possible and hoping in the future they could use scale to generate earnings.

Truly a remarkable period in economic history. Our version of the Roaring 20’s. Excess optimism fueled by promises of the internet resulted in a 50% crash.

Almost 30 years into this “investment business” and in yet another new era – let’s call it the “Free Money Era” – new variables continue to make things more complex. As I thought about this market, in its current form, I thought I would compare it to that period using several metrics – GDP, inflation, the treasury market, valuations (PE) and the number of IPO’s coming to market. Are there any parallels between the two and does that mean anything?

	Dot Com Era	Free Money Era
Years	1996 - 2000	2014 - Present
GDP (Real)	4-5%	3%
Inflation	2-3%	1.6%
10-Year Treasury	6-7%	2%
Stock Market Valuation (Trailing PE)	19-32	18-20
Number of IPO's	2,290	900+
Fed Balance Sheet	$300 Billion	$4.5 Trillion
Unemployment	5%	3.7%

First, let’s take a look at GDP growth. During the mid to late 1990’s, we had GDP of ~4.5%! That is fantastic, right? I’d give that an A+. Inflation during that period was ~2.5%. Certainly below historical norms of ~4%. I would give that an A. The 10-year treasury was ~6% during that period. The good old days… You could get 7%+ on a high quality corporate bond! I would give this an A based on the fact that it provided another option to the equity markets and a sound buffer. The valuations (PE) of the market went from 19 to 32 in the last five years of the decade. Using any decade, that is massive multiple expansion! I’ll give that an F. Finally, IPO’s were flying off the counter like a coffee at Starbucks! There were 2,290 IPO’s that took place between 1996-2000! Just to put that into context, the following three years there were 208. I’ll just call this crazy time! That is an F in ink.

Now take a look at the current markets to see if there are any strong correlations to the “Dot Com” bust. Today we have GDP at ~3%. While certainly not the 4.5% we had in the late 1990’s, it is significantly better than the 2% we saw over the prior 10 years. I would give this a B. Inflation is

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currently around 1.6%. Given unemployment in the country is ~3.7%, this is somewhat troubling. There is no question the current administration has added millions of jobs, but that doesn't seem to be translating into inflation. I would give this a B+. The current 10-year treasury rate is ~2%. Our view is that this is quite concerning, given any slowdown in domestic GDP (which looks to be occurring) and will lead to rate cuts by the Federal Reserve.

We wonder how much cutting rates will have an impact on the economy at these levels. I would grade the 10-year treasury at a C. Valuations (PE) of the markets at this point are difficult to quantify but let's assume an 18-20. By no means are we close to the peak of 32 we saw back in 2000. You could argue that equities are somewhat overvalued but certainly not crazy. I would grade this as a B. Again, let's take a look at IPO's. There have been over 900 IPO's over the last five years. The number is not even half of what took place leading up to the year 2000. Let's add one caveat, Uber alone was 100 billion. While the numbers are not as large, the size of the deals is larger. The other thing to consider, Uber is a much more mature company than let's say Pets.com! While IPO's are trending higher, I don't believe things are too far out of range. I would give this a B.

So is this 2000 all over again? As crazy as a 2% 10-year treasury rate, 3.7% unemployment, a 3% GDP growth rate in 2018 (first 3% year since 2003), many IPO's and a Fed decreasing interest rates again, we do <u>not</u> have crazy 2+/3 standard deviation high stock market multiples! So it's not 2000 all over again.

But we do have all asset classes being supported by the colossal Fed balance sheet and now lowering rates again! Equally as crazy in our global world. Might as well face it – we're addicted to (Fed) cuts! So enjoy your summer and pray the Fed does live on forever.

Junius V. (Trip) Beaver III, is a co-founder of Lanier Asset Management and serves as its Co-Chief Investment Officer. Trip has been a financial advisor delivering high-value investment solutions to affluent individuals since 1994. In addition to his work at Lanier, Trip donates his time and investment expertise to charitable organizations such as the Library Foundation and the Metro United Way.

Key Points From Our Investment Meeting – 7/15/19

Macro Viewpoint

- The markets now believe Fed Chairman Powell will lower rates by 50-75 bps by year end. We believe the markets may be disappointed.
- 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 GDP remain a big question mark.
- China just reported the slowest growth in 27 years. How will this affect trade and global contraction going forward?

Asset Class Comments

- Since the beginning of June, the S&P 500 has moved from 2,750 to 3,000+ (9%). How much of the Fed's potential rate cuts are already factored in?
- The 10-year treasury seems to be in trading range. 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?

Performance Update

		Total Return (%)							
						Annualized			
	Investment Vehicle	June	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.2%	0.6%	1.2%	2.4%	1.6%	1.0%	0.7%	0.6%
Fixed Income									
Domestic (Barclays US Agg)		1.3%	3.1%	6.2%	8.0%	2.2%	2.9%	2.5%	3.8%
Vanguard Total Bond Market	VBMFX	1.2%	3.0%	6.1%	7.8%	2.1%	2.8%	2.4%	3.7%
RiverNorth Doubleline	RNDLX	1.7%	3.0%	8.6%	7.4%	4.5%	3.8%	4.0%	4.9%
Eaton Vance Floating Rate	EIBLX	0.0%	1.1%	4.6%	3.1%	5.2%	3.6%	4.1%	5.7%
US Preferred Stock ETF	PFF	1.3%	2.3%	10.2%	3.6%	2.9%	4.2%	5.1%	7.8%
High Yield (Barclays US Corp HY)		3.1%	2.4%	10.7%	8.4%	6.3%	4.3%	3.5%	6.7%
Short Term High Yield	SJNK	1.9%	1.4%	7.2%	5.6%	6.1%	3.0%	4.2%	7.7%
Equities									
Domestic Large Cap (S&P 500 TR)		6.9%	3.8%	17.3%	8.2%	11.9%	8.5%	11.6%	12.3%
S&P Equal Weight	RSP	7.6%	3.7%	19.0%	7.9%	12.1%	8.8%	13.5%	15.1%
Domestic Mid Cap (S&P 400 TR)		7.6%	3.0%	18.0%	1.3%	10.9%	7.9%	12.6%	14.6%
Vanguard Mid-Cap ETF	VO	7.1%	4.3%	21.8%	7.8%	12.3%	8.8%	13.4%	15.2%
Domestic Small Cap (S&P 600 TR)		7.5%	1.9%	13.7%	-4.9%	12.0%	8.3%	12.9%	14.9%
Vanguard Small-Cap ETF	VB	7.0%	2.8%	19.4%	2.3%	14.2%	8.8%	13.5%	15.4%
Developed Intl. (MSCI EAFE)		5.8%	2.5%	11.8%	-1.9%	7.2%	1.1%	6.5%	6.3%
MSCI EAFE	EFA	5.9%	3.5%	13.3%	0.5%	8.5%	2.0%	7.0%	6.7%
Emerging Intl. (MSCI EM)		5.7%	-0.3%	9.2%	-1.4%	9.1%	1.6%	3.5%	5.4%
Vanguard FTSE Emerging Markets ETF	VWO	5.4%	0.8%	11.1%	2.1%	8.7%	2.1%	3.5%	5.4%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		1.1%	0.7%	17.7%	10.3%	4.8%	7.7%	8.8%	15.1%
Mortgage Real Estate	REM	4.9%	-0.2%	10.1%	6.2%	10.9%	7.0%	7.2%	9.3%
REIT ETF	VNQ	1.5%	1.5%	19.2%	12.0%	4.0%	7.7%	8.7%	15.5%
Commodities (Thomson Reuters/Jefferies CRB Index)		4.4%	-0.5%	16.0%	-10.7%	6.8%	-8.2%	-4.8%	-2.1%
DBC	DBC	4.0%	-1.1%	8.6%	-9.9%	1.3%	-9.9%	-8.1%	-4.2%
BlackRock	BCSAX	5.2%	0.3%	8.9%	-6.0%	3.6%	-4.4%	-2.6%	-0.5%
Gold	GLD	8.0%	9.2%	9.9%	12.3%	1.7%	3.2%	-1.1%	4.5%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		2.6%	2.6%	8.7%	2.7%	5.4%	3.2%	4.7%	4.8%
INFINITY*	OCEAN	0.8%	2.0%	4.1%	2.5%	5.1%	4.7%	6.6%	6.7%
Boston Partners Long/Short Equity	BPLEX	4.4%	0.2%	4.1%	-9.6%	-0.9%	0.1%	3.2%	8.6%
Millennium*	MILLENN	0.6%	2.3%	4.1%	3.6%	7.1%	8.0%	8.5%	8.9%
Verition*	VERITION	1.1%	3.9%	7.0%	5.6%	7.5%	7.5%	11.0%	11.4%
Renaissance*	RENAISS	1.4%	0.4%	4.8%	11.7%	10.5%	15.7%	13.2%	15.7%
Third Point*	THIRD P	3.6%	3.4%	12.2%	-1.5%	6.1%	3.1%	8.3%	11.5%
Lanier Hedge Fund*	LHF	1.4%	2.1%	5.4%	3.3%	6.3%	7.0%	8.6%	9.7%
Boston Partners Global Long/Short	BGLSX	2.3%	0.6%	2.5%	-2.7%	0.8%	1.5%	3.6%	4.1%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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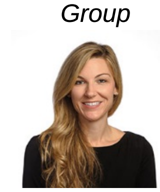
Chief Compliance Officer



Stephanie E. Milby
Investment Associate

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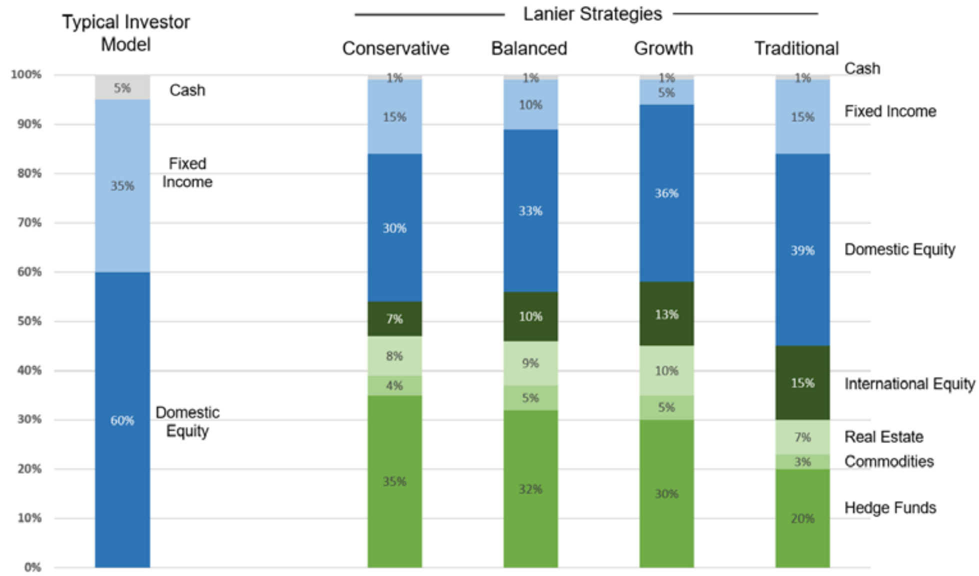
Our Approach

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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