

## Monthly Update

October 2016



### *Marrying Theory and Practice*

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*Financial Consultant*

When I was approached in the spring of 2015 to join Lanier Asset Management as a Financial Consultant, my big question was, "What can a Business School Dean and Finance Professor ending his Deanship add to Lanier?" After much thought and discussion, I was pleased at the answer.

My knowledge of Lanier Asset Management began in 2014 when Lanier Principal and fellow finance professor Carl Hafele asked me to look "under the hood" of Lanier's innovative approach to developing investment strategies for wealthy families. I critically reviewed the work and could not find any holes in the Lanier approach. The methodology was very sound from a fundamental and technical investment management perspective, and I importantly noted the strategies generated stronger returns while also providing diversification and reducing risk relative to typical investor strategies.

The Lanier investment strategies also clearly incorporated the two key investment fundamentals that I learned throughout my finance studies – a clear understanding of the relationship between risk and return and the importance of diversification. I made both of these conclusions through an in-depth review of Lanier's investment strategy composition and utilizing the industry standard for measuring the relationship between risk and return which is an investment's "Sharpe Ratio."

The Sharpe Ratio is a measure for calculating risk-adjusted return. The Sharpe ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk, isolating performance associated with risk taking activities. One intuition of this calculation is that a portfolio engaging in a "zero risk" investment, such as the purchase of U.S. Treasury Bills (for which the expected return is the risk-free rate), has a Sharpe ratio of exactly zero. The greater the value of the Sharpe ratio, the more attractive the risk-adjusted return. When reviewing the Lanier investment strategies I quickly noted that since 2000, the Lanier strategies have produced higher returns of approximately eight percent per year versus the typical investor's managed portfolio of 60 percent equities and 40 percent bonds that produced five percent per year. Lanier portfolios had attractive Sharpe Ratios of 0.7 compared to 0.4 for the typical investors' portfolio.

I was also very impressed with the Lanier team's unique combination of investment experience and education, which I found to be unparalleled for a firm in this region. This experience and education spread among the three principals and Chief Compliance Officer includes:

- Over 70 years of portfolio management and investment experience.
- MBA degrees from the Harvard Business School, Xavier University, and Bellarmine University.
- CFA, CPA, series 7, 31, 63 and 65 designations.
- Significant experience on national, regional and local boards.



Sara Thomas (my sister) and I were approached to join Lanier at the same time. Sara holds a law degree, is a CPA and has extensive skills and experience working with high wealth families in the areas of individual, partnership, trust and estate tax, investment, trust and estate planning. I realized Sara's skills along with my doctoral preparation in finance and years of experience chairing the investment committee of a state pension with over \$14 Billion in assets perfectly complemented and enhanced the Lanier team.

The final significant piece of the Lanier team is its commitment to educating clients on what, why and how investment decisions are made on their behalf. In addition to the above qualifications and skills, the Lanier team has over 30 years of experience teaching Investment Management and Portfolio Theory at the University level. I found the Lanier team has the heart of a teacher and takes time to ensure clients clearly and thoroughly understand all facets of each investment decision.

As you can tell, I am thoroughly convinced the Lanier approach to investing is a "better mousetrap" and the Lanier team has a skillset unrivaled in this region. We would love to have you meet our team and to spend time "getting under the hood" of our investment strategies with you.

*Dan 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.*

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## Key Points From Our Investment Meeting – 10/12/16

### Macro Viewpoint

- Many economists are starting to question the long term benefits of global QE as rates have gone negative in Europe and Japan.
- The Fed seems at odds with raising rates given a strengthening U. S. dollar and equity market stability (what is their mandate again?).
- The presidential election has turned into a sad moment in U.S. political history.

### Asset Class Comments

- The energy complex has gotten a short term boost amidst talks for a potential agreement on output from OPEC and others.
- Individuals should know the risk in their portfolios and decide if they are comfortable.
- We are now over 7½ years into this economic cycle without a bear market. Be careful and consider low to negatively correlated assets.

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# Performance Update

Investment Vehicle	Total Return (%)							
	September	QTD	YTD	1-Year	Annualized			
					3-Year	5-Year	7-Year	10-Year
<b>TRADITIONAL ASSETS</b>								
<b>Cash</b>								
Vanguard Reserve Prime Money Market	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	1.0%
<b>Fixed Income</b>								
Domestic (Barclays US Agg)	-0.1%	0.0%	5.5%	5.0%	4.0%	3.1%	4.1%	4.8%
Vanguard Total Bond Market	-0.5%	-0.2%	5.1%	4.4%	3.6%	2.7%	3.8%	4.6%
Eaton Vance Floating Rate	0.7%	2.0%	4.9%	2.1%	1.7%	3.9%	4.5%	3.4%
US Preferred Stock ETF	-1.5%	-0.6%	4.6%	7.4%	7.5%	8.2%	7.7%	4.0%
High Yield (Barclays US Corp HY)	0.5%	3.4%	11.8%	9.5%	3.7%	7.4%	8.1%	7.2%
Short Term High Yield	0.7%	3.1%	10.9%	7.8%	-	-	-	-
<b>Equities</b>								
Domestic Large Cap (S&P 500 TR)	-0.5%	3.3%	6.7%	13.7%	10.6%	16.0%	12.9%	7.1%
S&P Equal Weight	-0.3%	4.0%	9.3%	14.4%	10.0%	16.7%	13.8%	8.1%
Domestic Mid Cap (S&P 400 TR)	-0.6%	4.1%	12.4%	14.5%	9.1%	16.3%	13.8%	9.0%
Vanguard Mid-Cap ETF	0.0%	4.7%	8.2%	11.9%	9.7%	16.4%	14.0%	8.1%
Domestic Small Cap (S&P 600 TR)	0.6%	7.2%	13.1%	17.5%	8.8%	17.7%	14.6%	8.6%
Vanguard Small-Cap ETF	-0.1%	5.6%	10.7%	14.1%	7.6%	16.5%	13.5%	8.4%
Developed Intl. (MSCI EAFE)	1.2%	6.4%	1.6%	6.3%	0.4%	7.4%	4.2%	1.8%
MSCI EAFE	1.3%	5.9%	2.8%	6.2%	0.4%	7.6%	4.2%	1.7%
Emerging Intl. (MSCI EM)	1.3%	9.0%	15.9%	16.7%	-0.6%	3.0%	2.3%	3.9%
Vanguard FTSE Emerging Markets ETF	0.8%	6.8%	15.8%	15.0%	0.2%	3.8%	2.1%	3.8%
<b>Real Assets</b>								
Real Estate (FTSE NAREIT US REIT)	-0.9%	-1.5%	9.6%	18.7%	13.1%	15.3%	14.9%	5.8%
Mortgage Real Estate	0.6%	5.3%	19.4%	18.0%	8.2%	9.6%	6.9%	-
REIT ETF	-2.5%	-2.2%	9.8%	17.5%	13.3%	15.2%	15.2%	6.3%
Commodities (Thomson Reuters/Jefferies CRB Index)	5.4%	-0.4%	15.9%	-4.7%	-16.8%	-11.2%	-6.3%	-6.0%
DBC	4.3%	-2.2%	12.4%	-6.8%	-18.1%	-12.6%	-7.0%	-4.6%
Gold	0.7%	-4.7%	15.0%	12.5%	-1.3%	-6.0%	2.6%	7.4%
<b>DIVERSIFYING STRATEGIES</b>								
<b>Hedge Funds</b>								
HFRI WCI	0.6%	2.8%	4.4%	5.2%	3.2%	4.5%	4.1%	3.8%
INFINITY*	0.6%	2.6%	1.1%	1.7%	5.8%	7.6%	7.2%	7.8%
Boston Partners Long/Short Equity	-0.3%	2.9%	12.2%	13.4%	6.2%	8.5%	9.8%	10.4%
QIM Tactical Aggressive*	6.8%	8.8%	56.0%	50.8%	18.6%	13.8%	16.1%	19.8%
Hedge Fund Plus*	1.7%	3.9%	14.3%	13.0%	8.9%	9.4%	9.9%	10.8%
Boston Partners Global Long/Short	0.2%	1.6%	3.9%	2.5%	5.3%	5.7%	5.0%	4.4%
<b>Managed Futures</b>								
Barclays CTA Index	0.7%	-0.6%	0.5%	1.9%	3.7%	0.8%	1.4%	3.4%
WINTON*	-0.7%	-2.6%	-1.2%	-2.0%	2.4%	-1.0%	0.8%	3.2%
QIM*	2.4%	2.3%	11.1%	12.5%	3.7%	1.3%	-1.4%	3.9%
AQR Managed Futures Strategy	-0.3%	-2.7%	-0.7%	-4.4%	5.8%	3.8%	3.0%	4.6%
Natixis ASG Managed Futures Strategy	-4.0%	-6.4%	-1.3%	-4.4%	8.7%	3.4%	3.8%	5.1%

= 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



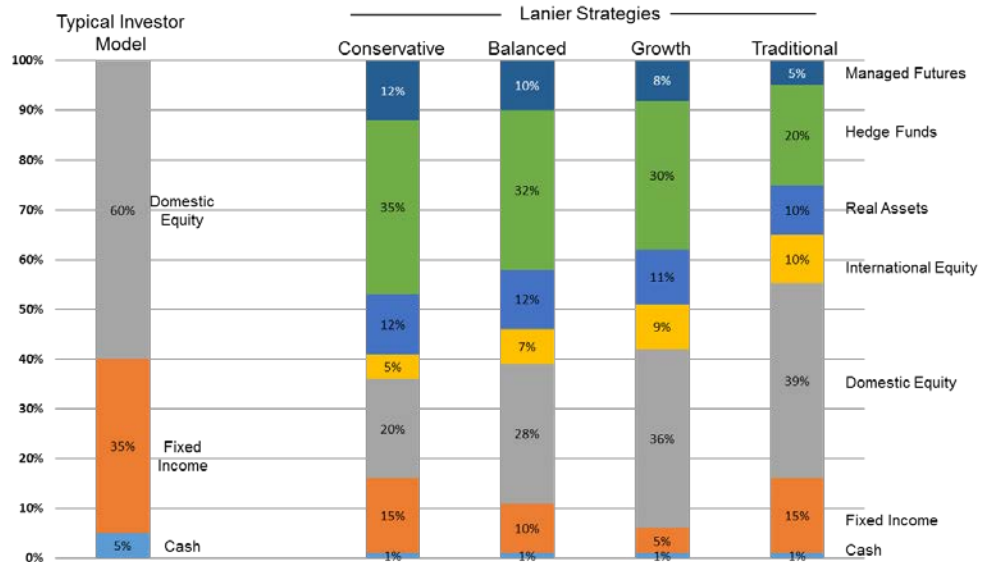
Stephanie E. Milby  
Investment Associate

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.

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