LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

February 2018

Volatility

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Co-Chief Investment Officer, Principal

Since the early part of 2016, all investors have enjoyed what could be called a free ride. The markets saw an upward trend that was truly unabated. We haven't seen a five percent drop in the equity markets for nineteen months! Risk was a thing of the past. The financial crisis of 2008 had not only passed but was blacked out of everyone's minds. Put your money in the markets and you did well - I call that the "monkey toss." The monkey throws at the dart board, it lands on a stock (any stock), sometimes Amazon or Facebook or whatever and you were a genius. I love behavioral economics…

I read a lot. I mean a lot. Everything I read or watched on CNBC said the same thing. Fundamentals are fine because rates are so low as the Fed printed money and bought government bonds to suppress yields. Momentum is on your side. The FAANG stocks are growing at an astronomical rate so they deserve these multiples. Earning are growing at ten plus percent and are going to get even better this year! Tax cuts are a huge boost to corporations. Small businesses will grow as the animal spirits are back! Hiring will increase further even with unemployment at 4%. Consumers will have more money in their pockets to spend. All this may be true by the way. There is one problem in this love affair. It is called valuation.

I find it fascinating that no one talks about valuations anymore. Except for the Graham-Dodd value investors, you rarely hear or read about it. CNBC was cheerleading the whole time. Why, that is their job right? It's called ratings!

As we have outlined before, let's look at some of the valuations as of just a week or so ago. The S&P 500 was trading at ~20 times forward earnings. The Shiller PE was trading at ~34. The historical norm is ~16. We have Price/Book ratio at ~3.5 and the ever-present Buffet favorite Market Cap/GNP that is ~90% over its historical norm. Does any of this mean the market can't go higher? Of course not. Does it mean that things are not as rosy as they seem? A resounding yes! As they say, "Markets don't die of old age."

So, what has happened in the last week or so? We have had several factors at play. The ten-year treasury has gone up in yield by ~50 basis points since the first of the year due to fears that inflation may be coming back into the picture. We are getting dangerously close to breaking out of a 30+ year bull range in the bond market. I don't know how that could happen when governments around the world have pumped ~13 trillion US dollars into the system. Just a thought. The US dollar has gone up by ~40% since 2009. Just when everyone needs money, it is getting more expensive. National debt at ~20 trillion?

Whatever you want to believe, volatility has come back to the market place. The initial push was probably caused by the short the VIX (volatility index) and buy the market trade. Once a few individuals realized that the VIX had been hovering around the 9-12 range (20 is the average) for a year or so they thought they may want to cover. That was just enough to alert the computer trading models and volatility was off to the races. It is very interesting that historically the market goes down 5 times faster than it goes up. This takes me back to my thoughts at the beginning of the article. We believe the free ride is over. So, what is one to do? You can continue to go with the pundits and hope for the best or be proactive and start thinking about the amount of risk you are taking. No one can predict the markets. What you can do is be proactive rather than reactive.

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 – 2/12/18

Macro Viewpoint

- Getting higher treasury yields with more money needed (budget deficit) and $20 trillion in debt.
- The positive steroids of quantitative easing are over and slowly reversing. An unprecedented experiment!
- GOP tax plans appear positive for growth, but we feel much is still priced into the market.

Asset Class Comments

- As volatility comes back, investors took $29 billion out of the markets.
- The markets have experienced a 10% correction for the first time in years. Are the equity markets really cheap now?
- 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.

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		January	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.1%	0.1%	0.1%	1.2%	0.6%	0.4%	0.3%	0.5%
Fixed Income									
Domestic (Barclays US Agg)		-1.2%	-1.2%	-1.2%	2.1%	1.0%	1.9%	2.9%	3.6%
Vanguard Total Bond Market	VBMFX	-1.1%	-1.1%	-1.1%	2.0%	0.9%	1.8%	2.8%	3.5%
RiverNorth Doubleline	RNDLX	-0.4%	-0.4%	-0.4%	2.6%	3.4%	3.7%	4.4%	4.7%
Eaton Vance Floating Rate	EIBLX	0.9%	0.9%	0.9%	4.7%	4.7%	3.8%	4.1%	4.5%
US Preferred Stock ETF	PFF	-1.2%	-1.2%	-1.2%	3.8%	3.5%	4.6%	5.5%	4.8%
High Yield (Barclays US Corp HY)		-0.1%	0.0%	0.0%	4.6%	3.9%	3.4%	3.2%	5.7%
Short Term High Yield	SJNK	0.7%	0.6%	0.6%	5.0%	4.2%	3.5%	4.8%	6.8%
Equities									
Domestic Large Cap (S&P 500 TR)		5.6%	5.6%	5.6%	23.9%	12.3%	13.5%	11.9%	7.4%
S&P Equal Weight	RSP	4.4%	4.4%	4.4%	21.3%	12.4%	14.9%	13.5%	10.6%
Domestic Mid Cap (S&P 400 TR)		2.9%	2.9%	2.9%	17.7%	12.4%	13.9%	12.9%	10.9%
Vanguard Mid-Cap ETF	VO	4.3%	4.3%	4.3%	20.8%	11.7%	14.5%	12.9%	10.2%
Domestic Small Cap (S&P 600 TR)		2.5%	2.5%	2.5%	16.6%	14.1%	15.1%	14.1%	11.2%
Vanguard Small-Cap ETF	VB	2.7%	2.7%	2.7%	17.6%	11.6%	13.7%	12.7%	10.7%
Developed Intl. (MSCI EAFE)		5.0%	5.0%	5.0%	26.8%	9.1%	7.7%	6.3%	3.4%
MSCI EAFE	EFA	5.0%	5.0%	5.0%	27.2%	9.4%	7.7%	6.3%	3.2%
Emerging Intl. (MSCI EM)		8.3%	8.3%	8.3%	40.3%	11.6%	5.6%	4.1%	3.8%
Vanguard FTSE Emerging Markets ETF	VWO	8.6%	8.6%	8.6%	35.0%	10.6%	5.1%	3.7%	3.2%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		-3.2%	-3.2%	-3.2%	4.8%	2.9%	7.7%	9.4%	7.1%
Mortgage Real Estate	REM	-6.8%	-6.8%	-6.8%	9.0%	7.1%	4.8%	6.5%	0.6%
REIT ETF	VNQ	-4.3%	-4.3%	-4.3%	0.7%	1.5%	7.5%	9.1%	7.3%
Commodities (Thomson Reuters/Jefferies CRB Index)		2.5%	2.5%	2.5%	17.1%	-2.4%	-7.7%	-7.1%	-5.8%
DBC	DBC	3.0%	3.0%	3.0%	8.6%	-0.6%	-9.9%	-8.4%	-7.6%
BlackRock	BCSAX	2.3%	2.3%	2.3%	7.1%	1.6%	-4.5%	-5.0%	-4.3%
Gold	GLD	3.2%	3.2%	3.2%	10.5%	1.1%	-1.9%	0.1%	3.7%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		2.8%	2.8%	2.8%	11.0%	5.4%	5.1%	4.1%	3.9%
INFINITY*	OCEAN	1.2%	1.2%	1.2%	5.3%	4.9%	6.7%	6.9%	6.6%
Boston Partners Long/Short Equity	BPLEX	2.2%	2.2%	2.2%	4.1%	9.5%	6.7%	7.4%	11.7%
QIM Tactical Aggressive*	QIM TA	2.7%	2.7%	2.7%	51.0%	25.2%	19.0%	18.5%	22.0%
Millennium*	MILLENN	2.1%	2.1%	2.1%	7.9%	7.4%	9.3%	8.6%	8.5%
Verition*	VERITION	0.5%	0.5%	0.5%	12.1%	10.0%	12.1%	10.4%	13.0%
Renaissance*	RENAISS	2.0%	2.0%	2.0%	16.1%	16.5%	15.4%	17.4%	21.6%
Third Point*	THIRD P	3.7%	3.7%	3.7%	17.9%	7.9%	8.7%	8.8%	9.3%
Hedge Fund Plus*	HF+	1.9%	1.9%	1.9%	20.0%	12.9%	12.6%	12.4%	14.1%
Boston Partners Global Long/Short	BGLSX	2.0%	2.0%	2.0%	9.2%	6.4%	5.6%	4.4%	4.1%
Managed Futures									
Barclays CTA Index		-0.2%	-0.2%	-0.2%	1.9%	0.6%	1.7%	0.8%	2.3%
WINTON*	WINTON	4.9%	4.9%	4.9%	8.6%	-1.6%	1.2%	0.1%	1.2%
QIM*	QIM	-1.7%	-1.7%	-1.7%	-1.6%	10.1%	1.4%	1.0%	2.3%
AQR Managed Futures Strategy	AQMNX	3.9%	3.9%	3.9%	1.8%	-3.2%	1.9%	1.5%	2.7%
Natixis ASG Managed Futures Strategy	ASFYX	6.7%	6.7%	6.7%	13.5%	-0.5%	7.8%	3.7%	4.7%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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John E. Thompson
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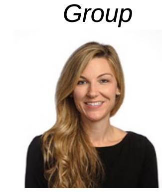
Deidre M. Durbin
Chief Compliance Officer



Stephanie E. Milby
Investment Associate

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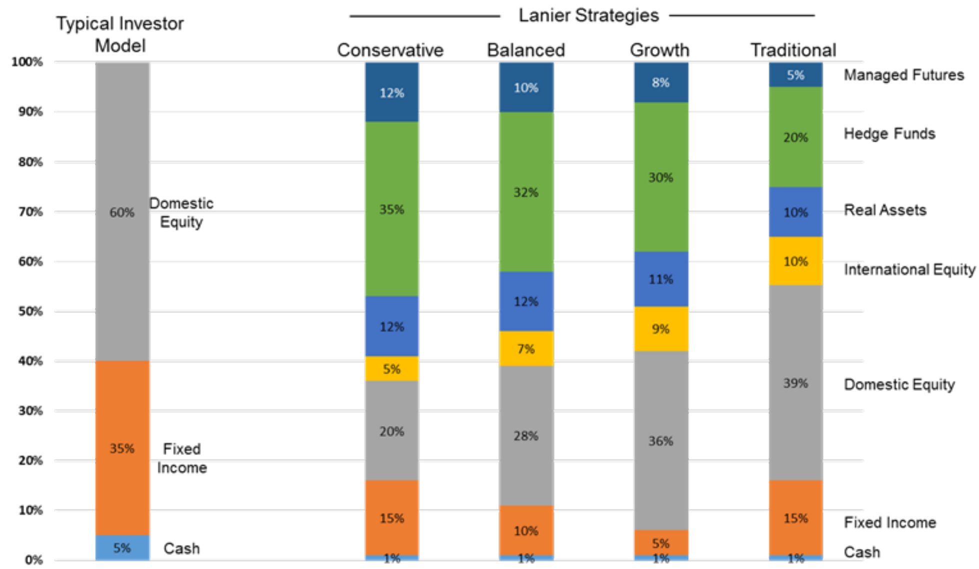
Our Approach

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 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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