LANIER
ASSET MANAGEMENT LLC

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

Monthly Update **July 2020**

Random Musings in Our Random New World

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Whew! What a first half of 2020. The stock market plummeted nearly 35% early on, the Fed commenced buying bonds and we are all "masked up" from COVID. Rather unpredictable and some unprecedented events.

I decided to look at our thoughts and writings in our newsletters in the first six months, all available on our website at http://www.lanieram.com/newsletter. In summary, it's like looking back in prior times of crisis and the result is a simple "shake of the head."

- In January, I questioned if the 2020's would be roaring or boring, and suggested we will probably be in between due to a supportive Fed, okay valuations and a secular bull being tested by social programs' growth. Sure wasn't boring!
- In February, my partner Trip reviewed the prior four decades regarding earnings, inflation, PE's and stock returns. The conclusion was diversification – the numbers 1, 2 and 3 rules of investing – is not dead.
- In March, my partner Mark shouted out that all should call their mortgage broker and take advantage of the rates available in the COVID crisis. I also wrote two pieces in the midst of the meltdown. One was regarding perspectives on crises, concluding your long term asset allocation targets are <u>so</u> important and should be driven by your risk tolerance, and don't sell now! Another crisis period piece discussed S&P earnings and multiples – important to know in a super crazy period of investing.
- In April, I also discussed the history of bear markets. Currently, the 2020 bear thus far looks like a painful "big" bear, but not a 2000 and 2008 "polar" bear or The Great Depression.
- In May, Trip discussed the dual rescues of the Fed and our government and the resulting stock market rebound. The Fed has spent trillions of dollars supporting the financial system and the government has given us the CARES Act and PPP. Both are designated to keep us out of another Great Depression. As a long-time student and professor of economic history, I concur with most of the 2020 moves.
- In June, Mark clearly emphasized that the stock market upward trajectory versus corporate earnings downward trajectory is unsustainable. The market is effectively saying the worst of COVID is behind us, the economy is reopening quickly toward pre-COVID levels, unemployment will plummet and profitability restoration is just around the corner. His conclusion – this doesn't feel normal.

So where are we now? The bullish case above includes the intervention of the Fed and it potentially buying / supporting all assets – including equities! Is this the end to free market capitalism or just a temporary intervention? Perhaps until a COVID vaccine is available to all and then test if the markets can stabilize without intervention? The only truth we know is this is a brand new territory.

The bear case has many more elements. Profitability will be reduced for years including some industries like retail, hotels and travel fearing an existential threat. Some say it will be 2023 before we return to 2019 profit levels. Current price/earnings levels are high but not yet to levels seen at the 2000 peak. Social unrest is an additional huge economic drag on top of COVID. As the economy slowed, tax revenues have plummeted and expenditures have skyrocketed, making the deficit for fiscal 2020 undoubtedly our largest ever. And, oh, an election is just months away – one must choose now between capitalism and (near) socialism. Sad.

Nothing in history resembles this period in time. Deep recessions were common every five years when manufacturing and agriculture dominated the economy. Enter unemployment insurance, two-income families and a collapse of jobs in cyclical industries and farming. This reduced the length and depth of recessions – voilà! But now, over 85% of wage earners are in the service sector. COVID has killed confidence for spenders (particularly the richest ones), which is limiting the economic recovery compared to the most recent recessions. Thus, government gifts to most to boost consumption, which is 70% of our economy.

Our conclusion? There has never been a better time to have a diversified portfolio. This includes exposure to the traditional asset classes of stocks and bonds accompanied with diversifying strategies of real estate and hedge funds.

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Key Points From Our Investment Meeting – 7/13/20

Macro Viewpoint

- US equity markets are rebounding in a V-shaped fashion. Is it sustainable?
- COVID-19 continues to have a profound effect on people's lives, even as much of the country and businesses are reopening.

Asset Class Comments

- Large cap growth stocks are outperforming. Use caution when buying at this time.
- With fixed income at historic lows, investors should consider other options to buffer downside.
- Diversification is paramount at this time. Review your portfolio to make sure you are still in balance with your risk tolerance.

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		June	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Federal Money Market Reserve		0.0%	0.1%	0.4%	1.3%	1.7%	1.3%	0.9%	0.7%
Fixed Income									
Domestic (Barclays US Agg)		0.7%	4.1%	6.4%	9.9%	5.6%	4.5%	4.1%	3.9%
Vanguard Total Bond Market	VBMFX	0.9%	3.0%	6.3%	8.8%	5.2%	4.2%	3.8%	3.7%
RiverNorth Doubleline	RNDLX	1.7%	7.1%	-1.1%	1.8%	3.1%	4.0%	4.2%	4.1%
Eaton Vance Floating Rate	EIBLX	1.5%	8.4%	-4.6%	-2.3%	1.7%	2.8%	2.8%	3.9%
US Preferred Stock ETF	PFF	-1.0%	10.5%	-5.6%	-0.7%	1.5%	3.1%	4.1%	5.4%
High Yield (Barclays US Corp HY)		-0.4%	8.4%	-5.4%	-1.9%	2.1%	3.1%	3.4%	4.0%
Short Term High Yield	SJNK	0.8%	8.6%	-4.1%	-2.0%	2.0%	3.0%	3.0%	5.0%
Equities									
Domestic Large Cap (S&P 500 TR)		1.8%	20.0%	-4.0%	5.4%	8.5%	8.5%	9.8%	11.6%
S&P Equal Weight	RSP	1.5%	21.6%	-10.8%	-3.4%	5.2%	6.9%	9.3%	12.2%
Domestic Mid Cap (S&P 400 TR)		1.1%	23.9%	-12.9%	-6.8%	2.3%	5.0%	7.9%	11.2%
Vanguard Mid-Cap ETF	VO	2.0%	25.0%	-7.2%	-0.2%	6.5%	7.0%	9.8%	12.5%
Domestic Small Cap (S&P 600 TR)		3.6%	21.8%	-18.0%	-11.4%	0.5%	4.3%	7.5%	11.2%
Vanguard Small-Cap ETF	VB	2.6%	26.5%	-11.5%	-5.7%	5.7%	6.4%	8.9%	12.1%
Developed Intl. (MSCI EAFE)		3.2%	14.2%	-12.6%	-7.4%	-1.7%	0.5%	2.8%	4.9%
MSCI EAFE	EFA	3.5%	15.5%	-11.1%	-5.0%	0.4%	1.9%	3.7%	5.7%
Emerging Intl. (MSCI EM)		7.0%	17.3%	-10.7%	-5.7%	-0.3%	1.5%	2.3%	2.6%
Vanguard FTSE Emerging Markets ETF	VWO	6.5%	18.6%	-10.4%	-3.9%	1.3%	1.8%	2.8%	3.0%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		2.7%	14.0%	-12.8%	-6.1%	2.7%	5.6%	6.4%	9.8%
Mortgage Real Estate	REM	12.1%	36.0%	-40.4%	-34.3%	-10.3%	-0.6%	0.8%	3.0%
REIT ETF	VNQ	2.4%	13.5%	-13.9%	-6.9%	2.2%	5.4%	6.2%	9.7%
Commodities (Thomson Reuters/Jefferies CRB Index)		7.9%	19.3%	-33.0%	-24.5%	-0.7%	-7.0%	-8.2%	-5.2%
DBC	DBC	4.5%	9.4%	-22.8%	-20.5%	-4.3%	-6.8%	-10.5%	-6.3%
BlackRock	BCSAX	3.0%	16.4%	-12.4%	-10.6%	0.5%	-1.2%	-2.8%	-2.0%
Gold	GLD	2.7%	13.1%	17.1%	25.7%	12.4%	8.3%	5.2%	4.6%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		1.9%	9.5%	5.1%	8.2%	5.0%	4.1%	4.5%	4.6%
INFINITY*	OCEAN	1.5%	5.9%	4.2%	6.2%	5.0%	4.2%	5.5%	6.7%
Boston Partners Long/Short Equity	BPLEX	-0.8%	7.9%	-14.1%	-10.1%	-6.6%	-0.6%	0.0%	4.8%
Catalyst/Millburn Hedge Strategy	MBXIX								
Millennium*	MILLENN	2.9%	8.9%	9.4%	14.4%	9.4%	7.7%	9.1%	9.3%
Verition*	VERITION	4.2%	10.9%	15.5%	23.3%	12.7%	11.1%	11.9%	11.2%
Renaissance*	RENAISS	-4.9%	-0.9%	-15.4%	-8.7%	2.9%	11.0%	10.4%	13.4%
Third Point*	THIRD P	1.8%	10.7%	-7.1%	-4.5%	0.1%	1.4%	3.8%	7.4%
Lanier Hedge Fund*	LHF	1.1%	6.9%	0.8%	5.1%	5.2%	6.3%	7.4%	8.8%
Boston Partners Global Long/Short	BGLSX	0.8%	8.0%	-11.9%	-10.1%	-4.2%	-1.4%	1.0%	2.1%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team


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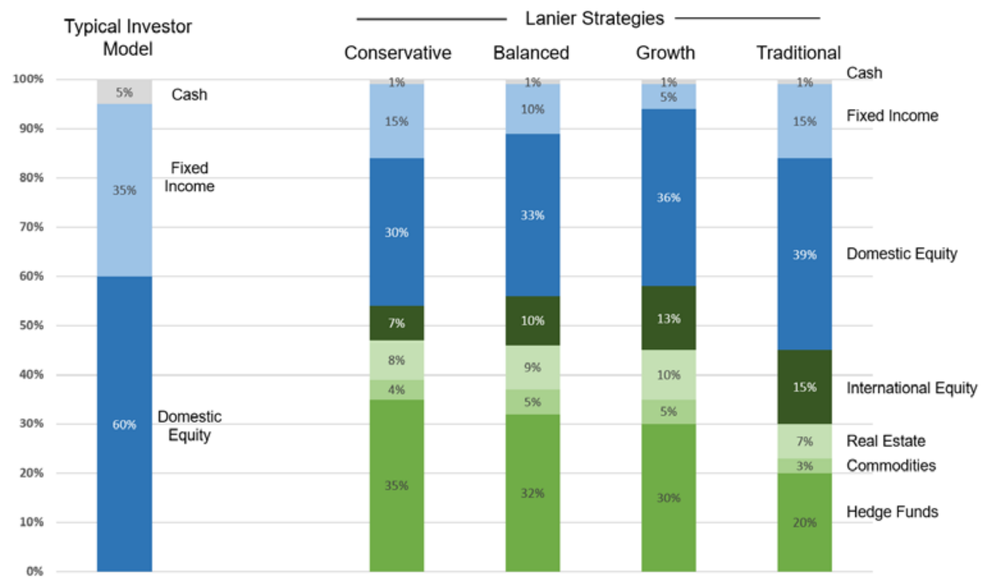
Chief Compliance Officer


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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