LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

April 2015

Out on an Island: Preparing for the Fed Rate Hikes

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Since December of 2008, the Fed Funds Rate hasn't budged. And it hasn't budged off zero (actually, 0.00-0.25%). The last time the Fed raised rates was in June of 2006. Well it's finally coming. And whether it happens in June, this fall or early next year, it will kick off a long-awaited "return to normal" with respect to interest rates. When the first rate hike finally arrives, what is going to happen as a result? In the near term, our answer is "not a whole heck of a lot." Why do we say that?

In theory, when the Fed Funds Rate increases, interest rates on bonds follow suit. That, in turn, puts downward pressure on bond prices and bond holders lose value – particularly at the long end of the curve. In theory, when the Fed Funds Rate increases, the cost of borrowing – both for companies and for individuals – goes up. For companies, higher interest rates increase the cost of borrowing, reduce marginal investments and reduce profits. For individuals, higher interest rates mean higher mortgage payments (decreasing housing demand), higher car payments (decreasing auto demand) and higher credit card payments (decreasing overall demand). A recipe for disaster, right? Both bonds and equities fall.

Not so fast. While the overly-simplistic theory described above might be accurate in a vacuum, who lives in a vacuum? To be sure, every period in which the Fed has raised rates in the past has had its own unique circumstances. But have there ever been circumstances more unique than the ones we have today? A few highlights:

- While the yield on the US 10-year treasury is absurdly low (<2%), yields on global 10-year notes are lower. The yield on US Treasuries is actually quite rich! The 10-year German Bund will get you 0.19%. A 10-year Japanese bond will get you 0.36%. A 10-year French bond will get you 0.48%. A 10-YEAR ITALIAN BOND WILL GET YOU 1.30%!!!! Re-read that last sentence. These are not normal times. Are bond values vulnerable? Yes. But relative to previous rate-hike periods, yields at the long end of the curve are far less sensitive to movement in the Fed Funds rate than they are to global trends.
- The Fed Funds rate today and for the last 6+ years is zero. When was the last time that was the case? Keep looking! Didn't find it? That's because it has never been so. The cost of borrowing (if you can get approved) is so ridiculously low in absolute terms that a 0.25%, 0.50% or 1.00% increase will mean next to nothing in practice. Will you pass on buying a house because you can only get a 4.5% mortgage rather than 3.5%?

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- The US is on an island all by ourselves – OK, the UK is actually with us on this one. Around the world, "Global QE" is in full swing as geographies (not just countries) race to lower rates, inflate balance sheets, increase spending and deflate their ways out of their own macroeconomic conundrums. The Fed has us moving the other way. The impact on the US$ has been dramatic and far outweighs any move the Fed might make over the next several quarters. The US$ is on its fastest rise in 40 years. Less than a year ago, the Euro was worth $1.37. Today, it's worth $1.05. Why didn't I take my family to Italy this summer instead of last?

So what do we think all this means for traditional asset classes? For the foreseeable future, returns on bonds will be low. Given the global competitiveness of US Treasuries, the bottom probably won't fall out over the next few years, but short-term rates will increase modestly, the yield curve will flatten and the 7.5% total return that fixed income investors have experienced over the last 30 years (while rates fell) will be a thing of the past. US equities, which have historically bounced back after moderate selloffs following rate hikes, will face headwinds from the stronger dollar, as multinational company exports become more and more expensive. Conversely, international equities should see the strength of the US$ as a boon to their US exports and could see relative upside performance.

Having said all of that, we continue to see strong value in a well-diversified portfolio – one that includes real assets and diversifying strategies. Hedge funds, managed futures and commodities are far less correlated to the overall markets and perform well in higher volatility environments, which we have undoubtedly entered. If you haven't adequately addressed the need to diversify, now would be a great opportunity to do so.

Key Points From Our Investment Meeting – 4/8/15

Macro Viewpoint

- First Quarter volatility quite pronounced.
- Media has too much focus on timing of miniscule interest rate hikes.
- Global Quantitative Easing ex-US propelling market advances.

Asset Class Comments from our April 8th Investment Meeting

- Short Duration High Yield is at an attractive buy point.
- Mid and Small Cap are again extended.
- International Developed and Emerging Markets swiftly advancing.
- Real Estate – Attractive buy point.
- Expecting Hedge Fund indices to continue multiyear 4-5% annually. Access to superior managers adds 4-5% more.
- Futures market one year plus strong performance continuing.

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		MAR	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.4%	1.6%
Fixed Income									
Domestic (Barclays US Agg)		0.5%	1.6%	1.6%	5.7%	3.1%	4.4%	4.7%	4.9%
Eaton Vance Floating Rate	EIBLX	0.4%	1.9%	1.9%	2.0%	4.1%	4.5%	5.2%	4.1%
High Yield (Barclays US Corp HY)		-0.6%	2.5%	2.5%	1.7%	7.2%	8.4%	9.5%	8.1%
Short Term High Yield	SJNK	-0.7%	1.8%	1.8%	-0.8%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		-1.6%	1.0%	1.0%	12.7%	16.1%	14.5%	9.0%	8.0%
S&P Equal Weight	RSP	-1.0%	1.6%	1.6%	12.7%	17.9%	15.5%	11.3%	9.4%
Domestic Mid Cap (S&P 400 TR)		1.3%	5.3%	5.3%	12.2%	17.0%	15.7%	11.7%	10.3%
Vanguard Mid-Cap ETF	VO	3.4%	7.4%	7.4%	18.3%	19.1%	16.8%	11.6%	10.3%
Domestic Small Cap (S&P 600 TR)		1.6%	4.0%	4.0%	8.7%	17.3%	16.3%	11.6%	9.7%
Vanguard Small-Cap ETF	VB	1.5%	5.1%	5.1%	10.1%	17.7%	15.9%	12.0%	10.1%
Developed Intl. (MSCI EAFE)		-1.5%	4.9%	4.9%	-0.9%	9.0%	6.2%	1.6%	4.9%
MSCI EAFE	EFA	-1.4%	5.5%	5.5%	5.5%	8.8%	6.0%	1.5%	4.8%
Emerging Intl. (MSCI EM)		-1.4%	2.2%	2.2%	0.4%	0.3%	1.7%	0.6%	8.5%
Advisory Research Emer Mkts Opps	ADVMX	-1.8%	-0.1%	-0.1%	-3.5%	-	-	-	-
Real Assets									
Real Estate (FTSE NAREIT US REIT)		1.2%	4.0%	4.0%	21.8%	14.1%	15.4%	8.8%	8.8%
Mortgage Real Estate	REM	0.9%	2.4%	2.4%	7.9%	8.8%	7.5%	2.8%	-
REIT ETF	VNQ	1.7%	4.7%	4.7%	24.0%	14.1%	15.8%	9.1%	9.9%
Commodities (Thomson Reuters/Jefferies CRB Index)		-5.5%	-7.9%	-7.9%	-30.5%	-11.8%	-5.0%	-8.2%	-3.8%
AVENTIS*	AVENTIS	-0.2%	1.2%	1.2%	-1.2%	-4.2%	3.8%	-1.0%	-
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.5%	2.4%	2.4%	4.3%	5.4%	4.6%	3.7%	5.3%
INFINITY*	OCEAN	1.0%	3.1%	3.1%	9.1%	10.0%	8.3%	7.4%	9.1%
Robeco Long/Short Equity	BPLEX	-0.2%	-4.2%	-4.2%	-2.4%	4.6%	8.0%	13.2%	10.8%
Lanier All Asset Strategy**	AAS	-0.9%	0.6%	0.6%	7.2%	10.3%	7.1%	12.8%	13.9%
Managed Futures									
Barclays CTA Index		1.9%	4.0%	4.0%	12.7%	2.9%	2.5%	2.6%	4.1%
WINTON*	WINTON	1.6%	3.5%	3.5%	13.9%	2.4%	2.3%	1.7%	4.8%
AQR Managed Futures Strategy	AQMNX	4.4%	8.5%	8.5%	26.4%	10.3%	-	-	-
WisdomTree Managed Futures Strategy	WDTI	1.9%	1.6%	1.6%	7.8%	0.8%	-	-	-

= Benchmarks
= Lanier Selections

* For Accredited Investors Only
** Based upon since inception (Jan 2006). Prior data uses 60/40 Blend

Our Firm

Lanier Asset Management is an independent Registered Investment Advisory firm with a mission to build confidence and security in our clients' financial future. The firm uses 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 key elements:

1. **Our People**: we are an independent firm, providing objective advice from experienced investment professionals working in your best interests
2. **Our Investment Philosophy**: we seek to smooth investment returns, providing superior performance and lower correlation
   - Focus on projected returns rather than historic
   - "A Better Mouse Trap" – similar to the largest U.S. endowments
3. **Our Investment Process**: we combine active and passive management in traditional asset classes, and complement them with diversifying strategies/alternatives
4. **Our Conviction**: we believe in our approach – this is how we invest our own money

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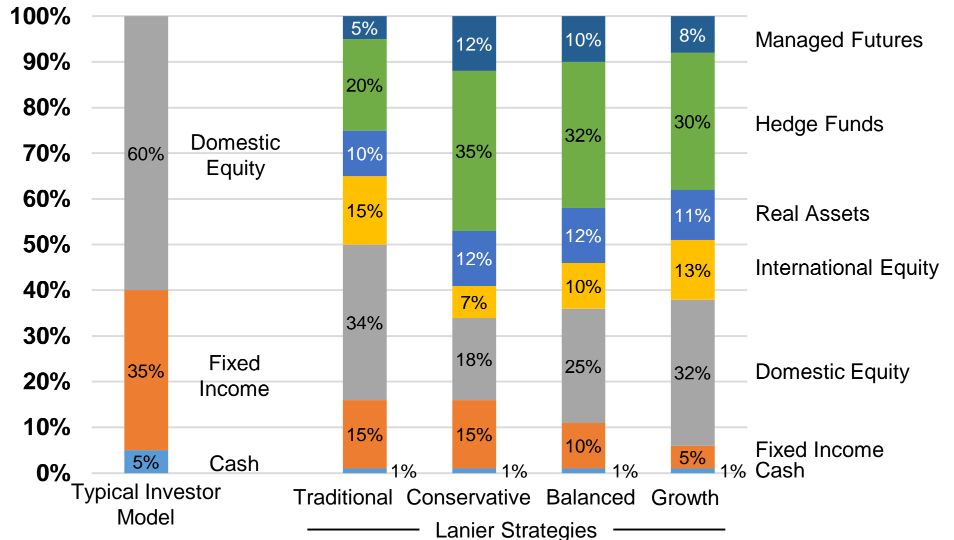
Building Confidence and Security in Your Financial Future

Proprietary and Confidential

Our Approach

The Lanier Approach complements typical equity and fixed income investments with non-correlated assets including hedge funds, real assets and managed futures. This investment process improves long-term performance while simultaneously reducing risk.



Our approach seeks to both A) limit losses in periods of market correction and B) participate in gains during periods of market appreciation. Across the last two economic cycles, our strategies have outperformed the typical investor model by 3%/year with 10-15% lower correlation to the overall market. The long-term result has been significant value creation versus the stock/bond/cash model.

Historic Performance: Economic Cycles

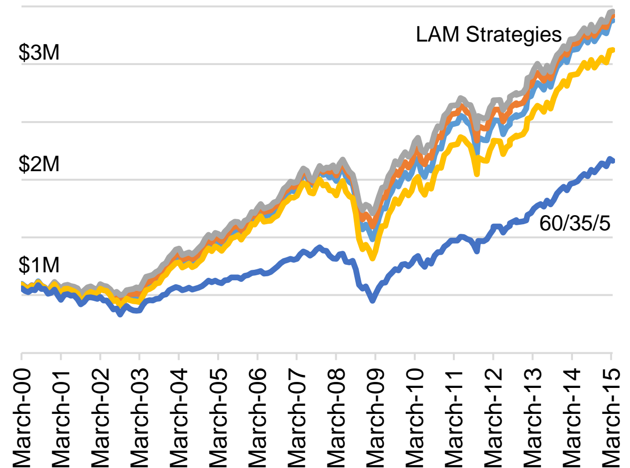
Annualized Period Return

Cycle 1: April 2000 – September 2007		Down Market 4/00-9/02	Up Market 10/02-9/07	Full Cycle 4/00-9/07	Correlation To S&P 500
	Lanier Balanced	-4.9%	+16.3%	+8.8%	.62
	60/35/5	-9.1%	+10.9%	+3.8%	.74
	Difference	+4.2%	+5.4%	+5.0%	

Cycle 2: October 2007 – March 2015		Down Market 10/07-2/09	Up Market 3/09-12/14	Full Cycle 10/07-12/14	Correlation To S&P 500
	Lanier Balanced	-16.1%	+13.4%	+6.9%	.66
	60/35/5	-23.6%	+14.9%	+6.1%	.71
	Difference	+7.5%	-1.4%	+0.8%	

Two full cycles: April 2000 – March 2015		Two Cycles 4/00-12/14	Correlation To S&P 500
	Lanier Balanced	+7.9%	.65
	60/35/5	+4.9%	.73
	Difference	+3.0%	

Value Added: $1M over two cycles/15 years



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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