LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update February 2017

The Prince of Darkness

Mark R. Hoffman

CEO, Principal

In November of 2014, my partner Carl Hafele conservatively urged our readers to be very careful with how we think about the investing environment going forward in his article *Lower Returns Ahead!* At the time, Carl wrote "for fixed income, we believe the long term downward trend in interest rates is in its final innings, and thus a 2-3% projected annual rate of return." He continued "for equities…a 6-8% total stock market return. So, the traditional 60/40 mix looks like a 5% rate of return going forward. Not pretty." Carl is generally an optimist, but he is also conservative.

So, how is this playing out? Let me preface what follows with this – a two year period does not constitute an economic cycle, so two years of data cannot prove any point. Having said that, according to Morningstar, in 2015 the S&P 500 delivered a total return of +1.4%. In 2016, it was up +12%. That's a +6.6%/year over two years. What about bonds? In 2015, the Barclays U.S. Aggregate Bond Index returned +0.55% and in 2016 the number was +2.65%. That's a +1.6%/year return over two years. Headlines about the Trump rally and the continuing bull run in the stock market would have you think differently, but the traditional 60/40 stock/bond investment strategy returned a paltry +4.6%/year. Not what investors have grown accustomed to over the last 30 years.

Has our opinion changed? Hardly. In the stock market, the January 2015 S&P 500 P/E ratio based on trailing earnings was 20x. On February 7, 2017 it stood at 26x. Currently, the widely followed Shiller P/E ratio was at 29x – which is over 70% higher than the historical mean of 16.7. Can the stock market rally continue? Perhaps, but actual company earnings had better deliver; expecting more out of expanding P/E's seems like wishful thinking.

In the bond market, +1.6%/year over the last two years barely covers inflation. And the normalization of interest rates has just begun! The Federal Reserve Bank's FOMC Summary of Economic Projections for the Fed Funds Rate is currently listed at 1.4% for 2017, 2.1% for 2018 and 2.9% for 2019. (For reference, the target Fed Funds Rate on February 7 stood at 0.75%). If anyone out there felt the pain of the -3% return for bonds in the 4Q 2016 (Barclays Aggregate

Bond Index), we feel for you – but you may need to get used to it. A 1% increase in interest rates equates to an 8%+ loss in value for a bond fund that carries an average maturity of 10 years.

Many of you may now be feeling like Danny DeVito in the 1985 classic The Jewel of the Nile and asking "Who are you? The Prince of Darkness? Don't you got any friends?" Well, if you stick with a traditional 60/40 mix, you may not. If instead you utilize other asset classes – diversifying strategies – in an alternative approach, you just might.

Mark is a co-founder of Lanier Asset Management and serves as its Chief Executive Officer. Prior to founding Lanier, he was a partner at The Boston Consulting Group. Mark is an honors graduate of The University of North Carolina at Chapel Hill with a BA in Economics, and holds an MBA from The Harvard Business School.

Key Points From Our Investment Meeting – 2/8/17

Macro Viewpoint

- The Trump equity honeymoon rally is stop and go. We all better hope he can deliver on his pro-growth agenda.
- Protectionism is front and center as the tweets keep coming!
- Fragmentation continues in the EU (Germany, Italy and Greece). Is this the year things fall apart?

Asset Class Comments

- We better hope corporate earnings growth accelerates significantly to justify the lofty valuations.
- The 10-year treasury yield has dropped by ~25 bps since the beginning of the year. Consider shortening duration and reducing credit risk.
- We are now near 8 years into this economic cycle without a bear market. Be careful and consider low to negatively correlated assets.

Performance Update

	Investment Vehicle	Total Return (%) January	QTD	YTD	1-Year	Annualized 3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.0%	0.0%	0.0%	0.5%	0.2%	0.2%	0.2%	0.9%
Fixed Income									
Domestic (Barclays US Agg)		0.2%	0.2%	0.2%	1.5%	2.5%	2.0%	3.3%	4.3%
Vanguard Total Bond Market	VBMFX	0.3%	0.3%	0.3%	1.4%	2.4%	1.9%	3.2%	4.2%
Eaton Vance Floating Rate	EIBLX	0.7%	0.7%	0.7%	12.7%	3.3%	4.3%	4.6%	3.8%
US Preferred Stock ETF	PFF	2.4%	2.4%	2.4%	4.7%	6.2%	6.1%	6.8%	4.0%
High Yield (Barclays US Corp HY)		1.3%	1.3%	1.3%	18.3%	4.0%	2.9%	4.8%	5.2%
Short Term High Yield	SJNK	1.0%	1.0%	1.0%	17.8%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		1.8%	1.8%	1.8%	20.0%	10.7%	14.0%	13.7%	6.9%
S&P Equal Weight	RSP	2.0%	2.0%	2.0%	23.7%	10.1%	14.3%	14.4%	7.8%
Domestic Mid Cap (S&P 400 TR)		1.7%	1.7%	1.7%	30.2%	10.2%	14.1%	14.9%	8.9%
Vanguard Mid-Cap ETF	VO	3.0%	3.0%	3.0%	24.0%	9.6%	13.6%	14.5%	7.6%
Domestic Small Cap (S&P 600 TR)		-0.4%	-0.4%	-0.4%	33.4%	10.6%	14.9%	16.0%	8.7%
Vanguard Small-Cap ETF	VB	1.5%	1.5%	1.5%	30.1%	8.4%	13.7%	14.7%	8.1%
Developed Intl. (MSCI EAFE)		2.9%	2.9%	2.9%	12.0%	0.7%	6.0%	4.9%	1.0%
MSCI EAFE	EFA	3.3%	3.3%	3.3%	10.8%	0.8%	5.9%	5.0%	0.8%
Emerging Intl. (MSCI EM)		5.5%	5.5%	5.5%	25.3%	1.4%	0.2%	2.1%	2.5%
Vanguard FTSE Emerging Markets ETF	VWO	5.8%	5.8%	5.8%	25.9%	3.0%	0.4%	2.4%	2.4%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		0.2%	0.2%	0.2%	12.4%	10.5%	10.2%	13.9%	3.7%
Mortgage Real Estate	REM	1.4%	1.4%	1.4%	30.4%	7.4%	7.7%	7.5%	-
REIT ETF	VNQ	-0.2%	-0.2%	-0.2%	12.3%	11.5%	10.4%	14.4%	4.3%
Commodities (Thomson Reuters/Jefferies CRB Index)		0.2%	0.2%	0.2%	30.0%	-15.0%	-11.0%	-5.9%	-5.3%
DBC	DBC	-0.6%	-0.6%	-0.6%	23.3%	-17.2%	-12.7%	-6.4%	-4.8%
Gold	GLD	5.4%	5.4%	5.4%	8.0%	-0.5%	-5.2%	2.0%	6.6%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		1.2%	1.2%	1.2%	10.0%	3.1%	4.3%	4.2%	3.4%
INFINITY*	OCEAN	1.1%	1.1%	1.1%	5.5%	5.7%	7.8%	7.1%	7.2%
Boston Partners Long/Short Equity	BPLEX	0.7%	0.7%	0.7%	20.0%	9.2%	8.3%	10.8%	10.5%
QIM Tactical Aggressive*	QIM TA	9.0%	9.0%	9.0%	31.0%	10.2%	10.0%	16.1%	17.7%
Hedge Fund Plus*	HF+	2.6%	2.6%	2.6%	13.7%	7.8%	8.8%	10.1%	10.3%
Boston Partners Global Long/Short	BGLSX	0.5%	0.4%	0.4%	4.7%	3.5%	5.0%	4.7%	3.8%
Managed Futures									
Barclays CTA Index		-1.2%	-1.2%	-1.2%	1.5%	3.6%	1.3%	1.7%	3.0%
WINTON*	WINTON	-1.5%	-1.5%	-1.5%	-9.2%	0.0%	-1.8%	0.5%	1.7%
QIM*	QIM	4.4%	4.4%	4.4%	15.3%	4.1%	3.1%	1.0%	4.3%
AQR Managed Futures Strategy	AQMNX	0.8%	0.8%	0.8%	-9.9%	1.8%	2.9%	2.2%	3.4%
Natixis ASG Managed Futures Strategy	ASFYX	0.1%	0.1%	0.1%	-10.6%	5.7%	2.9%	3.5%	4.3%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team


Mark R. Hoffman
CEO, Principal


Junius V. (Trip) Beaver, III
Co-Chief Investment Officer, Principal

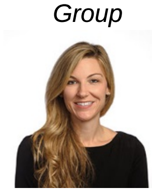

Carl W. Hafele, CFA, CPA
Co-Chief Investment Officer, Principal


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

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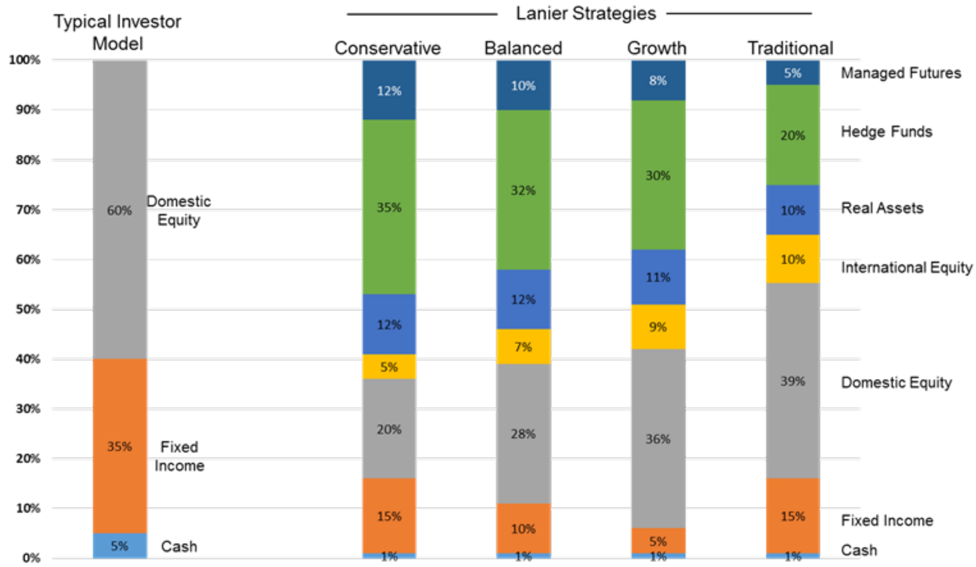
Our Approach

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.

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