LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

July 2015

Another Greek Tragedy?

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In 2014, my partner Carl published *The Inevitable GREAT AMERICAN RESET: Riding the Economic Rollercoaster of Capitalism*. This terrific book is a fact-based study of the drivers of The Great Recession that began in 2007 and a dire warning of the consequences of improper economic policies. He opined loudly about the unsustainable fiscal path in Greece and predicted a crisis was indeed near. If you haven't read Carl's book, I highly recommend it (www.carlhafele.com). But enough free advertising for Carl. Let's go to Greece!

There has been no shortage of news surrounding the current financial crisis in Greece. Rather than rehash the entirety of the situation, we thought it would be useful to discuss three key questions:

1. How bad is it for Greece?
2. What are the realistic potential outcomes?
3. What does this all mean for you?

How bad is it for Greece?

It's pretty bad. Strike that – it's really bad. Here are some of the key data:

- The current debt to GDP ratio is 177% - nowhere near the IMF's "sustainable target" of 110%.
- The Greeks need an additional €60+ billion to cover financing needs between now and 2018.
- If Greece was to grow its economy 4%/year for the next five years, their debt level would drop to 124%. Reality check: Greece's economy has contracted 25% since 2008. Greece also currently sports an unemployment rate of 25.6%.
- To get to the 124% debt level referenced above, the Greeks would also need to generate €15 billion from privatizations. Reality check: in 2011, Greece promised €50+ billion in privatizations; to date, it has generated €3.2 billion.
- The IMF claims that Greece requires €8 billion in bank deposits for a healthy financial system. Reality check: in May, total deposits were below €1 billion. Since May, there have been mass cash withdrawals and the ATMs are now closed.

Yikes! How did it get this bad? In short, a systemic deficit caused by unrealistically generous social spending, uncollected tax receipts and chronic unemployment that is higher than the U.S. during the Great Depression. In my humble opinion, the odds of Greece finding a way out of this box are indistinguishable from zero. They failed to make a €1.5 billion payment to the IMF in early July and they will fail to make the €3.5 billion payment due on July 20.

What are the realistic potential outcomes?

Realistically, there are only two options: 1) Greece could strike a last-minute deal with the European Central Bank to give them the money they need in hopes that they will pay it back later, or 2) Greece leaves the Euro, brings back the drachma and prints its way out. Either way, Greece is done – it's just a matter of now or later. The first option is professional can-kicking – it doesn't solve the problem, just delays it. The second will lead to a massive devaluation of the new drachma, soaring inflation and years of full-scale economic depression. Only then could Greece be left with a cheaper currency, more competitive exports/tourism and a chance at growth. For what it's worth, Vegas now has a Grexit as the odds-on winner.

What does this all mean for you?

In short, the problem may actually be reasonably contained. Since the Greek debt crisis began in earnest in 2010, most of the significant international banks have reduced or eliminated Greek bonds from their portfolios. Germany's current exposure? €2 billion. The U.S.? €2 billion. Drops in the bucket. You might ask "who in the world owns it?" Well, I wouldn't want to be long Turkey (€32 bn), Romania (€15 bn), Cyprus (€10 bn) or Bulgaria (€10 bn). Believe it or not, Liberia's exposure (€3 bn) is higher than the U.S.'s. Additionally, since 2010, other European problem spots – Portugal, Spain, Ireland – have taken significant steps to overhaul their economies and are much less vulnerable.

So what will happen? 1) European countries will lose real money – through two newly-created facilities, they stand to lose a significant portion of the €195 billion they have loaned to Greece. 2) The Euro could fall further, making European exports more attractive. 3) Borrowing costs in the peripheral European countries (Italy, Spain, Portugal) could creep higher, but the ECB's QE program should mitigate much of that risk. 4) The U.S. and everyone else (except the Turks!) should get away relatively unscathed.

In the end, a well-diversified portfolio – like those that we manage for our clients at Lanier Asset Management – should weather the storm well with only minor Greece-driven volatility. A default in Greece, whose GDP is roughly the size of Dallas's, is not enough to cripple the world. The noise is almost deafening, but unless you live in Greece, it's just that – noise.

Key Points From Our Investment Meeting – 7/8/2015

Macro Viewpoint

- Greece default probability is material/base case. Spillover to other markets of increasing probability and concern.
- China bear market worsening - a classic bubble popping possessing the key elements – market/economy disconnect, high valuations, retail investors and debt. Market illiquidity from shutdowns by the government is predictable.
- US market volatility increasing driven by global macro concerns. Gains year-to-date very flat.

Asset Class Comments

- Equity bull market intact despite seven month pause.
- International equities experienced a negative June continuing in July erasing most of 2015 gains.
- Hedge funds continuing to fulfill their non-correlating role. Infinity up 4.5% YTD.
- Commodities and Futures continue to lag – underweight.

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		JUNE	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%	0.0%	0.1%	0.3%	1.5%
Fixed Income									
Domestic (Barclays US Agg)		-1.1%	-1.7%	-0.1%	1.8%	1.8%	3.4%	4.6%	4.4%
Eaton Vance Floating Rate	EIBLX	-0.8%	0.0%	1.9%	1.2%	3.8%	4.8%	4.4%	4.1%
High Yield (Barclays US Corp HY)		-2.1%	0.3%	2.8%	-0.4%	6.6%	8.5%	9.3%	7.8%
Short Term High Yield	SJNK	-0.9%	0.3%	2.1%	-1.8%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		-1.9%	0.3%	1.2%	7.4%	17.3%	17.3%	9.4%	7.9%
S&P Equal Weight	RSP	-2.3%	-1.2%	0.5%	5.6%	19.1%	17.9%	11.4%	9.0%
Domestic Mid Cap (S&P 400 TR)		-1.3%	-1.1%	4.2%	6.4%	18.6%	17.8%	10.7%	9.7%
Vanguard Mid-Cap ETF	VO	-1.7%	-4.0%	3.2%	8.8%	19.7%	18.3%	10.5%	9.4%
Domestic Small Cap (S&P 600 TR)		1.0%	0.2%	4.2%	6.7%	18.8%	18.4%	11.6%	9.3%
Vanguard Small-Cap ETF	VB	-0.8%	-0.9%	4.2%	5.3%	18.7%	18.2%	11.6%	9.5%
Developed Intl. (MSCI EAFE)		-2.8%	0.6%	5.5%	-4.2%	12.0%	9.5%	2.0%	5.1%
MSCI EAFE	EFA	-3.1%	0.6%	6.1%	6.1%	11.6%	9.8%	2.0%	5.0%
Emerging Intl. (MSCI EM)		-2.6%	0.7%	3.0%	-5.1%	3.7%	3.7%	0.9%	8.1%
Vanguard FTSE Emerging Markets ETF	VWO	-2.5%	1.0%	3.4%	-2.7%	3.9%	4.2%	0.9%	7.9%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		-4.3%	-8.9%	-5.2%	3.7%	9.0%	14.1%	8.1%	6.4%
Mortgage Real Estate	REM	-6.8%	-7.1%	-4.9%	-5.0%	3.4%	6.8%	2.9%	-
REIT ETF	VNQ	-4.7%	-10.5%	-6.3%	3.7%	8.6%	14.2%	8.2%	7.2%
Commodities (Thomson Reuters/Jefferies CRB Index)		-2.4%	2.8%	-5.3%	-29.3%	-8.5%	-3.4%	-10.2%	-3.1%
AVENTIS*	AVENTIS	-1.8%	-2.0%	-1.0%	-2.9%	-4.8%	1.1%	-3.1%	-
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		-1.3%	0.2%	2.7%	2.5%	6.5%	5.2%	3.4%	5.2%
INFINITY*	OCEAN	0.2%	1.3%	4.4%	8.9%	10.6%	9.2%	7.2%	9.0%
Robeco Long/Short Equity	BPLEX	-1.4%	-1.4%	1.2%	-3.1%	0.0%	4.9%	10.6%	13.5%
Lanier All Asset Strategy**	AAS	-2.3%	-3.4%	-2.9%	-0.2%	10.0%	7.9%	11.4%	13.3%
Managed Futures									
Barclays CTA Index		-3.8%	-4.9%	-1.1%	5.6%	1.1%	1.5%	1.4%	3.4%
WINTON*	WINTON	-3.6%	-8.5%	-5.4%	1.4%	0.9%	0.3%	-0.4%	3.5%
AQR Managed Futures Strategy	AQMNX	-5.1%	-5.1%	-8.4%	-0.6%	0.0%	-	-	-
WisdomTree Managed Futures Strategy	WDTI	-2.9%	-2.9%	-3.6%	-2.0%	0.0%	-	-	-

(shaded) = Benchmarks
(unshaded) = 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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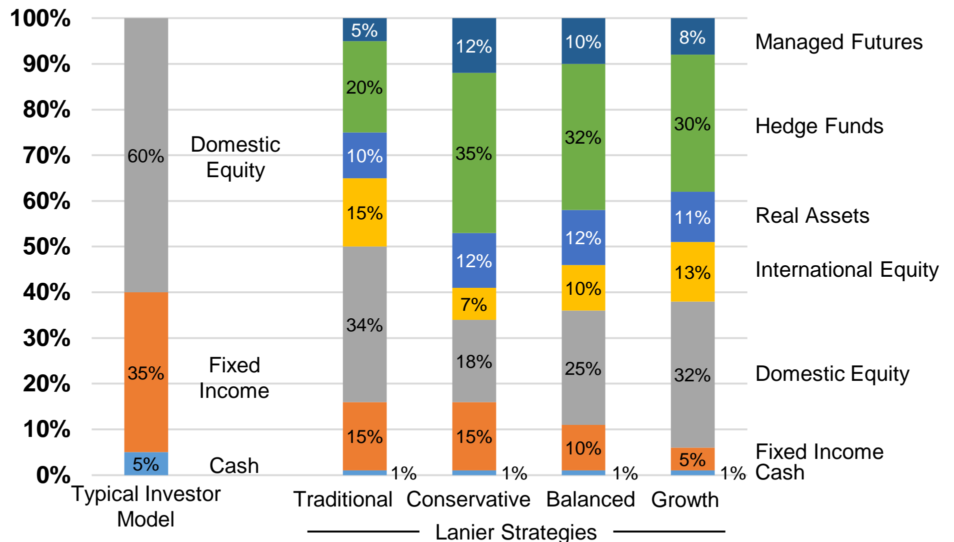
Our Approach

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.

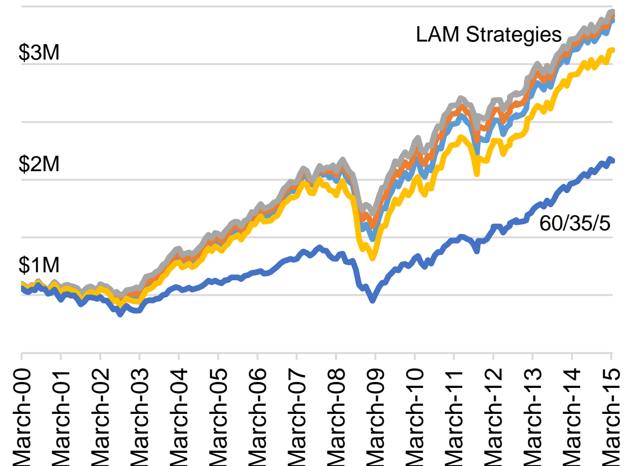


Our approach seeks to both A) limit losses in periods of market correction and B) participate in gains during periods of market appreciation. Across the last two economic cycles, our strategies have outperformed the typical investor model by 3%/year with 10-15% lower correlation to the overall market. 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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