Monthly Update

September 2018

A Decade of Assisted Recovery

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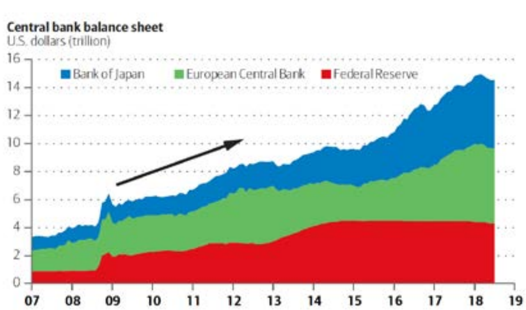
CEO, Principal

A decade ago this month, Lehman Brothers went bankrupt, the Fed bailed out AIG for $85 billion, US money market funds lost $144 billion, the Senate voted against the bank bailout bill, and the rout was on. The recovery from those (and other) events is ongoing, and while it has been impressive, it has come at a tremendous cost.

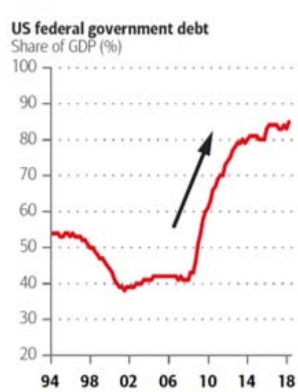
First, the rout. A boom in subprime lending, interest rate hikes and a steep drop in housing prices led to a tidal wave of defaults. Credit froze and a global recession was on. Unemployment soared and global equity values were halved.

Source: Bureau of Labor Statistics, Eurostat, Bloomberg. Data as of July 2018.

The policy response from central banks and national governments was unprecedented. To inject liquidity back into the system, the US, the ECB and the Bank of Japan slashed interest rates to new lows and began large-scale asset purchase programs. The result was an explosion in central bank balance sheets and government stimulus spending.

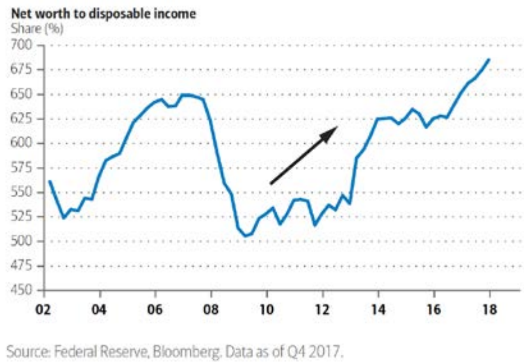


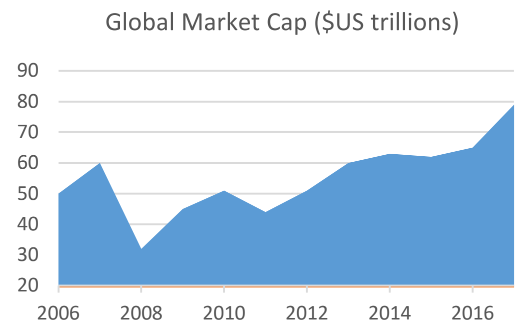
Source: Federal Reserve, European Central Bank, Bank of Japan, Bloomberg



In five years, the Fed's balance sheet quintupled to $4.5 trillion. [The EBC and the BoJ are still buying today.] US federal debt as a % of GDP rose from 40% to over 80% in the same period. Unprecedented.

March of 2009 marked the beginning of a long recovery. US household wealth, as measured by the ratio of net worth to disposable income (a key indicator for consumer confidence and spending) is back above pre-crisis highs. And global market capitalization has surpassed where we were in 2007.





In summary, the fall from grace was swift and severe. The recovery has lasted a decade. But at what price? By 2014, equity values and household net worth were back to pre-crisis levels, but the debt required to fuel the recovery remains. When the next crisis begins – and it will begin – will we have the same tools at our disposal? Unfortunately, we don't think so. Better to start preparing now, because solving the next crisis is going to require some new thinking.

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 – 9/14/18

Macro Viewpoint

- Global tariffs and currency risk continue to elevate volatility in the equity markets globally.
- We are now in the 10th year of the US recovery.
- US – China talks may resume after Trump considers adding an additional ~$200 billion in tariffs.

Asset Class Comments

- As the US dollar strengthens, it is putting more and more pressure on emerging equities and their denominated US debt.
- Fixed income spreads continue to stay tight domestically. The ten year treasury is now yielding ~3%. If the Fed continues on its path, does the yield curve invert?

Performance Update

		Total Return (%)							
						Annualized			
	Investment Vehicle	August	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.2%	0.4%	1.2%	1.7%	1.0%	0.6%	0.5%	0.5%
Fixed Income									
Domestic (Barclays US Agg)		0.7%	0.6%	-1.2%	-1.3%	1.7%	2.4%	2.1%	3.6%
Vanguard Total Bond Market	VBMFX	0.5%	0.6%	-1.1%	-1.3%	1.6%	2.3%	2.0%	3.5%
RiverNorth Doubleline	RNDLX	0.9%	1.2%	0.7%	0.3%	4.3%	4.7%	3.8%	4.8%
Eaton Vance Floating Rate	EIBLX	0.5%	1.3%	3.7%	5.3%	5.3%	3.9%	4.9%	4.7%
US Preferred Stock ETF	PFF	1.4%	1.6%	3.1%	2.7%	4.6%	6.1%	6.0%	6.8%
High Yield (Barclays US Corp HY)		0.6%	2.4%	1.2%	1.5%	4.9%	4.1%	3.5%	5.9%
Short Term High Yield	SJNK	0.5%	1.9%	3.1%	3.6%	5.6%	3.4%	5.2%	7.2%
Equities									
Domestic Large Cap (S&P 500 TR)		3.0%	6.7%	8.5%	17.4%	13.7%	12.2%	13.2%	8.5%
S&P Equal Weight	RSP	2.0%	5.1%	6.9%	16.8%	13.8%	12.9%	14.7%	11.3%
Domestic Mid Cap (S&P 400 TR)		3.2%	5.0%	8.7%	20.0%	14.6%	13.1%	14.5%	11.3%
Vanguard Mid-Cap ETF	VO	2.5%	5.1%	7.8%	16.6%	12.5%	12.8%	14.3%	10.9%
Domestic Small Cap (S&P 600 TR)		4.8%	8.1%	18.3%	32.5%	19.1%	15.3%	17.1%	12.4%
Vanguard Small-Cap ETF	VB	4.5%	6.4%	18.3%	29.9%	17.0%	14.2%	15.9%	12.0%
Developed Intl. (MSCI EAFE)		-2.2%	0.2%	-4.3%	1.6%	6.0%	5.1%	6.2%	3.4%
MSCI EAFE	EFA	-2.2%	0.5%	-2.2%	3.8%	7.0%	5.7%	6.5%	3.6%
Emerging Intl. (MSCI EM)		-2.9%	-1.3%	-8.8%	-2.9%	10.5%	4.5%	2.4%	3.2%
Vanguard FTSE Emerging Markets ETF	VWO	-4.2%	-0.4%	-7.7%	-2.7%	9.5%	4.9%	2.1%	3.0%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		2.3%	3.1%	4.1%	5.9%	9.7%	10.3%	10.4%	8.0%
Mortgage Real Estate	REM	0.4%	3.9%	4.6%	6.0%	13.3%	10.7%	9.4%	6.5%
REIT ETF	VNQ	2.6%	3.2%	3.2%	4.6%	9.1%	10.0%	10.0%	7.8%
Commodities (Thomson Reuters/Jefferies CRB Index)		2.9%	-1.5%	11.7%	32.0%	7.5%	-5.3%	-6.0%	-5.5%
DBC	DBC	0.8%	-1.7%	4.6%	15.1%	3.5%	-8.6%	-6.2%	-6.9%
BlackRock	BCSAX	-3.0%	-3.8%	3.8%	11.7%	7.6%	-2.4%	-4.8%	-4.7%
Gold	GLD	-2.1%	-4.3%	-8.2%	-9.8%	1.4%	-0.8%	-3.5%	3.8%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.7%	1.2%	2.0%	5.3%	5.1%	4.6%	4.3%	4.0%
INFINITY*	OCEAN	0.7%	1.0%	3.4%	5.2%	4.0%	6.0%	6.9%	6.5%
Boston Partners Long/Short Equity	BPLEX	-3.7%	-5.4%	-11.2%	-4.9%	4.4%	3.5%	5.6%	9.9%
QIM Tactical Aggressive*	QIM TA	-0.7%	-3.6%	-38.7%	-37.1%	7.2%	5.8%	8.0%	13.5%
Millennium*	MILLENN	1.4%	1.2%	7.0%	9.1%	6.6%	9.1%	8.8%	8.7%
Verition*	VERITION	1.2%	1.5%	3.4%	9.7%	9.2%	10.9%	11.3%	12.1%
Renaissance*	RENAISS	2.4%	6.6%	7.8%	11.0%	18.3%	16.6%	15.0%	12.0%
Third Point*	THIRD P	0.1%	-0.2%	0.3%	4.1%	6.0%	6.2%	8.4%	9.2%
Lanier Hedge Fund*	LHF	0.8%	1.5%	3.4%	6.8%	7.7%	8.8%	9.2%	9.1%
Boston Partners Global Long/Short	BGLSX	-0.2%	1.9%	-2.5%	1.6%	3.2%	4.4%	4.1%	3.9%
Managed Futures									
Barclays CTA Index		0.7%	0.2%	2.6%	3.9%	2.7%	3.1%	1.3%	2.1%
WINTON*	WINTON	0.5%	0.2%	-1.9%	2.4%	-1.0%	1.2%	-1.3%	0.3%
QIM*	QIM	1.1%	-2.3%	-6.6%	-3.0%	5.1%	1.6%	1.3%	0.3%
AQR Managed Futures Strategy	AQMNX	3.8%	3.0%	-2.9%	1.0%	-4.7%	0.5%	0.7%	1.5%
Natixis ASG Managed Futures Strategy	ASFYX	4.4%	4.1%	-2.6%	1.8%	-1.3%	5.4%	2.0%	3.2%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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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

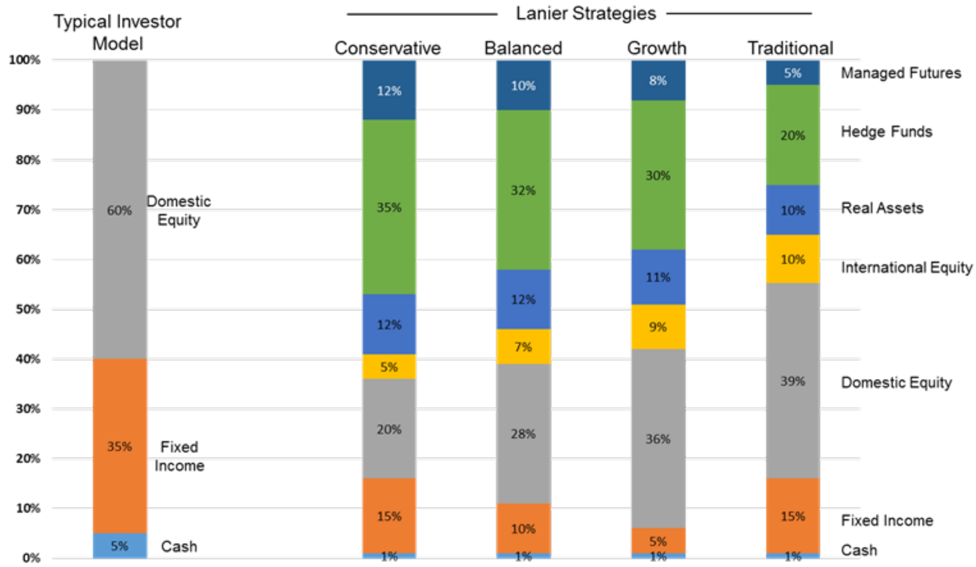
Deidre M. Durbin
Chief Compliance Officer

Stephanie E. Milby
Investment Associate

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