LANIER
ASSET MANAGEMENT LLC

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

Monthly Update

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So What's In Store For 2018?

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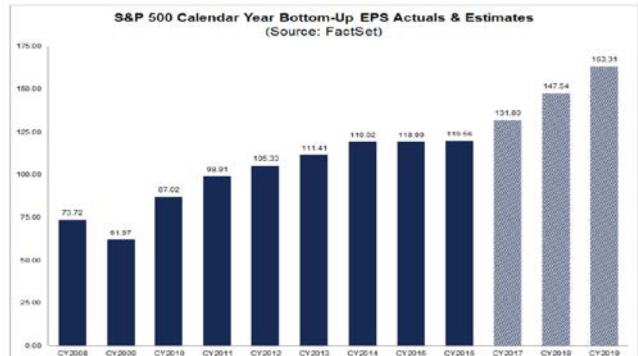
The incredible ascent of the S&P 500 was unquestionably the largest story of 2017, a year when very few pundits predicted such advances. It seems that President Trump's pro-growth agenda and rollback of regulations has invigorated the outlook for the economy and corporate earnings. What a ride it has been!

So what's in store for 2018? Let's look at the major reasons the bulls are partying as well as the primary reasons the bears – ones who currently look downright fossilesque – are preaching risk off.

THE BULLS

- The number one argument of the bulls is projected earnings growth – propelled by the animal spirits, lower tax rates, less regulation and repatriation. An object in motion stays in motion. After 3 flat years, earnings growth materialized in 2017 and projections for 2018 and 2019 are robust double digits – increases only possible with 3%+ GDP growth!
- A huge surge in consumer optimism.
- There seems to be no reason to be bearish.
- TINA – there is no alternative – as stocks are the only game in town. High valuations make sense in light of low interest rates.
- The synchronized global advance in GDP propelled by global monetary policies of epic proportions – will continue unimpeded.
- It seems we are not euphoric yet, as the last stage of a bull is always the largest and ignores traditional fundamental valuation metrics.



- Things everywhere are peachy keen! 2017 was the first year ever that the market had a positive return every month!
- Unemployment is ~4%. Connotes all is well and inflation is an attractive 1-2%.

THE BEARS

The bears emanate primarily from the hedge fund brainiacs – the ones that dominate the Forbes 100 wealthiest in the land. Amongst the items they cite:

- Valuation – Most all of the numerous valuation measures are the most important driver of long term returns. They are fully valued and most are in the top decile. Valuation levels are at eye-watering multiples of historic returns and are nearly two standard deviations above median values. All are horrific predictors short term, but most always are heralded in the long term.

- Quantitative Tightening – For ten years, the central banks of the world have unquestionably injected moral hazard into the market. Investors' appetite is leaning towards "risk on" because the Fed supports the downside risk. When markets are manipulated, bubbles typically occur and are always followed by a burst. It is a result of QE – a quantitative easing, which was the most dominant force in all markets as yields plummeted and asset prices soared. The importance of the direction of the central bank balance sheets cannot be overstated! Note the high level of correlation of the S&P 500 to the size of the Fed's balance sheet – and the recent divergence. And the Fed is also raising rates which typically leads to recessions and an associated 30%+ stock market correction.

- Demographics – Growth in the working-age population has been an excellent leading indicator of GDP growth for decades. The trend due to low fertility rates suggests 2% growth would be a yeoman task.
- Federal Debt – Levels are high and always coincide with lower economic growth rates. It doubled in the prior administration to $20 Trillion but interest costs have barely increased. Trump's new plan is adding to the mountain. What will happen to debt servicing costs when interest rates rise? Nothing positive.
- Bubble in Government Promises – Many of the mathematically impossible promises of federal and state governments have finally become transparent and started to burst. Unfunded liabilities have increased fourfold the last 10 years, and assumed rate of returns are still way too high relative to consensus estimated returns. They are super high when compared to returns prognosticated by the brightest we know. The tsunami is coming in government promises as there is no magic rainbow. Many pensions are crossing the threshold from a difficult side to the impossible-to-fix status. It's simply math. The public sector will join the private sector, where only 4% of companies have defined benefit plans versus 60% forty years ago. By the way, food stamp recipients still are ~45 million people despite the lowest unemployment rate in decades. 15% of America?
- Bubble in High Yield Corporate Bonds – Many high risk bonds, including the BB rated Eurobonds, yield about the same as US treasuries. Seriously?
- Sentiment – Investors are holding a record small cushion of cash which smells like yet another speculative frenzy.
- Numerous Parallels to 1999 – When one views the 7-8 years of the 1992-99 versus 2010-2017, the similarities are eerily parallel: 1) S&P 500 ascent; 2) Consumer confidence; 3) ISM Manufacturing Index; 4) Shape of the yield curve.
- Tech Parallels to 2000 – The average PE multiple of the FAANG stocks – Facebook, Amazon, Apple, Netflix and Google – have increased by 50% the last few years. It is a repeat of the Internet Bubble where the market cap of Microsoft, Dell, Cisco and Intel doubled before their stock prices collectively tumbled 75%! Emotional investing?
- Bear Market Signposts – There is no one single "holy grail" indicator of when the next bear market will arrive. We monitor 20 indicators and half are currently triggered, prompting caution. Negative indicators include large trailing S&P returns, the rule of 20 (Inflation + P/E) and interest rate increases.
- Bitcoin – Whether you classify betting in these so-called alternative currencies as investing or gambling, these are typical occurrences in the latter stage of a bull market.

SO WHAT'S AN INVESTOR TO DO?

We have a strong conviction that investors have a strategic long-term asset allocation driven by one's risk tolerance. All clients at Lanier have allocations that are well-diversified, and results have a much lower correlation to the market. We recommend your exposure to each asset class to be close to strategic norms, which includes caution regarding equities in the current rose-colored world.

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Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		December	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.1%	0.3%	1.1%	1.1%	0.6%	0.4%	0.3%	0.6%
Fixed Income									
Domestic (Barclays US Agg)		0.5%	0.4%	3.6%	3.6%	2.2%	2.0%	3.1%	3.9%
Vanguard Total Bond Market	VBMFX	0.4%	0.4%	3.5%	3.5%	2.0%	1.8%	2.8%	3.8%
RiverNorth Doubleline	RNDLX	0.6%	-0.3%	4.1%	4.1%	3.6%	3.8%	4.2%	4.9%
Eaton Vance Floating Rate	EIBLX	0.3%	1.1%	4.5%	4.5%	4.1%	3.8%	4.4%	4.1%
US Preferred Stock ETF	PFF	-0.5%	-0.2%	7.5%	7.5%	4.5%	5.3%	5.9%	5.6%
High Yield (Barclays US Corp HY)		-0.1%	-0.3%	6.0%	6.0%	4.2%	3.2%	3.6%	5.6%
Short Term High Yield	SJNK	-0.2%	-0.1%	5.4%	5.4%	3.7%	3.8%	5.3%	6.6%
Equities									
Domestic Large Cap (S&P 500 TR)		1.0%	6.1%	19.4%	19.4%	9.1%	13.4%	11.4%	6.2%
S&P Equal Weight	RSP	1.2%	6.2%	18.5%	18.5%	9.4%	15.6%	14.1%	9.3%
Domestic Mid Cap (S&P 400 TR)		0.2%	6.3%	16.3%	16.3%	10.9%	14.9%	12.7%	9.9%
Vanguard Mid-Cap ETF	VO	1.0%	5.7%	19.3%	19.3%	9.1%	15.3%	13.5%	8.8%
Domestic Small Cap (S&P 600 TR)		-0.5%	4.0%	13.2%	13.2%	11.8%	15.9%	13.7%	10.4%
Vanguard Small-Cap ETF	VB	0.5%	5.1%	16.3%	16.3%	10.2%	15.0%	13.5%	9.6%
Developed Intl. (MSCI EAFE)		1.5%	3.9%	24.3%	24.3%	7.5%	7.7%	5.9%	1.9%
MSCI EAFE	EFA	1.4%	3.8%	25.1%	25.1%	5.9%	8.1%	6.9%	1.5%
Emerging Intl. (MSCI EM)		3.4%	7.1%	36.6%	36.6%	8.9%	4.2%	2.5%	1.6%
Vanguard FTSE Emerging Markets ETF	VWO	3.7%	5.9%	31.5%	31.5%	4.5%	4.1%	2.5%	0.9%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		0.0%	2.5%	8.5%	8.5%	5.9%	9.3%	10.5%	7.4%
Mortgage Real Estate	REM	2.3%	-0.4%	18.6%	18.6%	7.6%	7.6%	8.1%	2.3%
REIT ETF	VNQ	-0.1%	1.4%	4.9%	4.9%	6.0%	10.1%	11.1%	7.1%
Commodities (Thomson Reuters/Jefferies CRB Index)		6.3%	13.0%	14.4%	14.4%	-4.8%	-7.6%	-7.1%	-5.7%
DBC	DBC	2.8%	7.9%	4.9%	4.9%	-6.2%	-11.3%	-8.1%	-6.9%
BlackRock	BCSAX	3.9%	5.7%	8.0%	8.0%	-2.8%	-5.6%	-4.1%	-4.1%
Gold	GLD	2.1%	1.7%	12.8%	12.8%	5.0%	-4.1%	-0.7%	4.8%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.9%	2.7%	9.2%	9.2%	4.4%	5.1%	3.7%	3.3%
INFINITY*	OCEAN	0.8%	1.1%	5.2%	5.2%	4.7%	7.0%	7.0%	6.3%
Boston Partners Long/Short Equity	BPLEX	2.8%	2.7%	2.6%	2.6%	6.5%	6.6%	8.0%	11.0%
QIM Tactical Aggressive*	QIM TA	-5.6%	4.7%	60.4%	60.4%	27.4%	20.6%	20.7%	22.1%
Citadel*	CITADEL	1.3%	3.4%	12.7%	12.7%	10.2%	13.4%	15.0%	10.3%
Millennium*	MILLENN	0.6%	1.4%	6.9%	6.9%	7.8%	9.2%	8.6%	8.3%
Verition*	VERITION	1.1%	4.3%	12.6%	12.6%	10.6%	13.7%	12.0%	13.6%
Renaissance*	RENAISS	-2.3%	4.3%	13.4%	13.4%	18.0%	16.2%	17.6%	20.9%
Third Point*	THIRD P	-0.1%	2.8%	16.7%	16.7%	5.4%	9.6%	9.8%	8.5%
Hedge Fund Plus*	HF+	-1.2%	3.1%	21.4%	21.4%	13.4%	13.4%	13.2%	13.9%
Boston Partners Global Long/Short	BGLSX	0.5%	3.3%	7.5%	7.5%	5.1%	5.9%	4.5%	3.6%
Managed Futures									
Barclays CTA Index		1.2%	2.8%	0.8%	0.8%	1.5%	2.0%	0.7%	2.5%
WINTON*	WINTON	3.4%	7.3%	2.5%	2.5%	-3.3%	0.3%	-0.6%	0.8%
QIM*	QIM	1.1%	1.4%	3.2%	3.2%	8.5%	1.3%	1.3%	1.7%
AQR Managed Futures Strategy	AQMNX	0.3%	4.7%	-1.2%	-1.2%	-2.0%	2.4%	1.3%	2.6%
Natixis ASG Managed Futures Strategy	ASFYX	0.1%	5.1%	6.5%	6.5%	0.7%	6.6%	3.5%	4.4%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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Chief Compliance Officer

Stephanie E. Milby
Investment Associate

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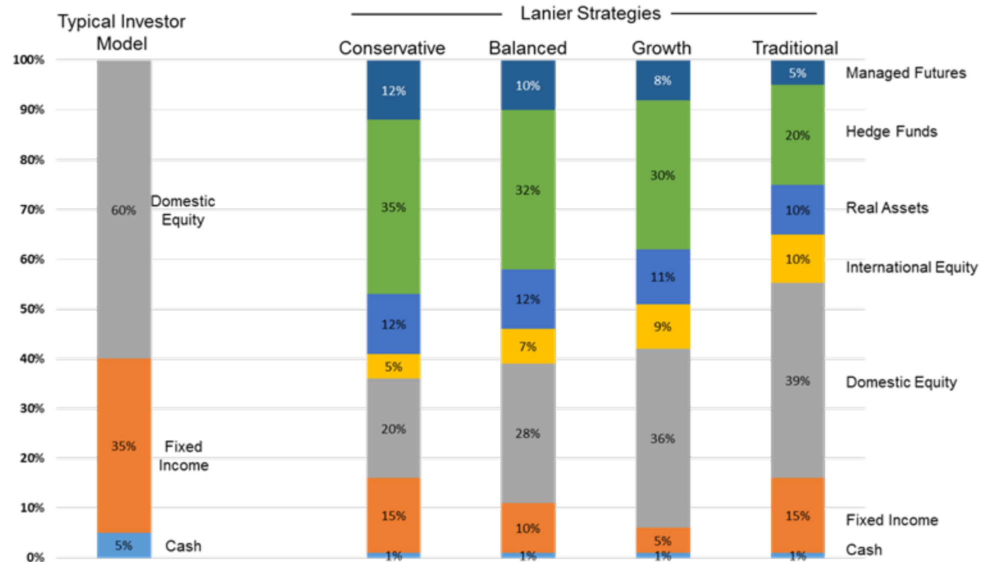
Our Approach

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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