LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update **January 2016**

Diversification Improves Returns and Lowers Risk

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Developed in the early 1950's, Modern Portfolio Theory (MPT) stressed the importance of diversification in the portfolio management process. This proven concept allows investors to obtain the maximum rate of return while minimizing one's chosen level of risk. Does Modern Portfolio Theory still apply now some sixty years later? Did diversification help in 2015?

One word answer – yes! Particularly when you look at both returns and levels of risk.

First, let's look at returns. In 2015, stocks returned just over 1% and bonds just under 1%. A pretty blasé year indeed. Bigger was better for stocks as was domestic versus international. Credit risk in bonds hurt virtually all domestic sectors. Real estate beat stocks by a nose. Diversifying strategies were a mixed bag overall yet some of our managers had a stellar year.

But returns are just half the story of MPT. Diversification unquestionably decreased risk in 2015 when one views the standard deviation of returns as well as return per unit of risk. All of Lanier portfolio strategies have a 2-3% higher projected rate of return and a 25%-40% lower standard deviation compared to a typical investor's 60% stock / 40% bond mix. The Sharpe Ratios - return per unit of risk - are also over twice as high. In addition, our correlation versus the overall market is also much lower thereby less risky. Modern Portfolio Theory lives!

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For 2016, concerns about falling earnings, not-cheap valuations, rising interest rates, geopolitical tensions, China, Korea, Europe, the plummet in oil prices, widening credit spreads, bankruptcies & defaults and more will all be on investors' minds. We continue to advocate a healthy, meaningful allocation to diversifying strategies, and 2016's start is again rewarding such a posture. I'll take all bets that are contrary to our thinking – maybe a nice dinner wager? Happy New Year!

Carl W. Hafele, CFA, CPA, is Co-Chief Investment Officer and Principal at Lanier Asset Management. He is also an active member of Bellarmine University's Faculty.

Key Points From Our Investment Meeting – 1/4/16

Macro Viewpoint

- Equity market volatility has picked up dramatically as oil prices continue to fall
- FED raised rates by 25 basis points (expect more over the course of 2016)
- The dollar's strength continues to wreak havoc with emerging market currencies
- China's equity markets and currency are causing turmoil globally

Asset Class Comments

- Nothing looks attractive across all traditional asset classes
- We continue to believe this environment warrants the need for Diversifying Strategies

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		0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	1.4%
Fixed Income									
Domestic (Barclays US Agg)		-0.2%	-0.4%	0.7%	0.7%	1.5%	3.3%	4.1%	4.5%
Eaton Vance Floating Rate	EIBLX	-1.4%	-2.6%	-2.0%	-2.0%	1.1%	2.8%	9.1%	3.4%
High Yield (Barclays US Corp HY)		-3.0%	-2.1%	-5.3%	-5.3%	1.2%	4.7%	12.6%	6.8%
Short Term High Yield	SJNK	-2.3%	-2.8%	-6.3%	-6.3%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		-1.7%	6.6%	1.0%	1.0%	15.0%	12.5%	14.7%	7.3%
S&P Equal Weight	RSP	-2.5%	4.6%	-2.7%	-2.7%	14.6%	11.9%	17.4%	7.9%
Domestic Mid Cap (S&P 400 TR)		-4.2%	1.9%	-2.9%	-2.9%	12.5%	10.5%	16.2%	8.1%
Vanguard Mid-Cap ETF	VO	-2.7%	3.5%	-1.4%	-1.4%	14.9%	11.5%	17.2%	7.9%
Domestic Small Cap (S&P 600 TR)		-4.8%	3.8%	-1.9%	-1.9%	13.6%	11.5%	15.4%	8.0%
Vanguard Small-Cap ETF	VB	-4.2%	3.1%	-3.7%	-3.7%	12.6%	10.4%	16.3%	8.0%
Developed Intl. (MSCI EAFE)		-1.4%	4.6%	-0.9%	-0.9%	5.0%	3.6%	7.8%	3.0%
MSCI EAFE	EFA	-2.3%	3.3%	-1.0%	-1.0%	4.1%	3.3%	7.1%	2.8%
Emerging Intl. (MSCI EM)		-2.2%	0.7%	-14.9%	-14.9%	-6.8%	-4.8%	7.5%	3.6%
Vanguard FTSE Emerging Markets ETF	VWO	-3.4%	-0.6%	-15.7%	-15.7%	-7.1%	-5.0%	7.3%	3.3%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		2.0%	8.3%	3.4%	3.4%	10.7%	11.8%	16.1%	7.0%
Mortgage Real Estate	REM	-1.9%	-1.2%	-9.2%	-9.2%	1.1%	2.7%	5.8%	-
REIT ETF	VNQ	1.8%	7.0%	2.4%	2.4%	11.0%	11.8%	16.5%	7.6%
Commodities (Thomson Reuters/Jefferies CRB Index)		-12.7%	-17.8%	-38.3%	-38.3%	-21.7%	-15.7%	-6.6%	-8.1%
DBC	DBC	-5.9%	-17.1%	-27.5%	-27.5%	-23.8%	-15.1%	-6.5%	-5.3%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		-0.9%	1.3%	1.0%	1.0%	4.3%	2.7%	6.1%	4.3%
INFINITY*	OCEAN	0.6%	0.6%	5.5%	5.5%	8.5%	7.9%	9.1%	8.5%
Robeco Long/Short Equity	BPLEX	-2.2%	1.1%	-1.5%	-1.5%	3.5%	5.6%	17.0%	10.1%
Boston Partners Global Long/Short	BGLSX	0.0%	0.2%	7.0%	7.0%	-	-	-	-
Managed Futures									
Barclays CTA Index		0.6%	1.4%	1.5%	1.5%	2.4%	0.5%	1.3%	3.4%
WINTON*	WINTON	-1.9%	-0.7%	-3.8%	-3.8%	2.1%	-0.2%	-0.5%	4.1%
QIM*	QIM	-2.8%	1.5%	15.3%	15.3%	-3.3%	-1.4%	-1.3%	3.3%
AQR Managed Futures Strategy	AQMNX	-2.0%	-3.7%	1.7%	1.7%	6.6%	-	-	-
WisdomTree Managed Futures Strategy	WDTI	-0.9%	0.8%	-4.1%	-4.1%	1.2%	-	-	-

= Benchmarks
= Lanier Selections

* For Accredited Investors Only

Our Team

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Junius V. (Trip) Beaver, III
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Chief Compliance Officer

Emily A. Spendlove
Investment Associate

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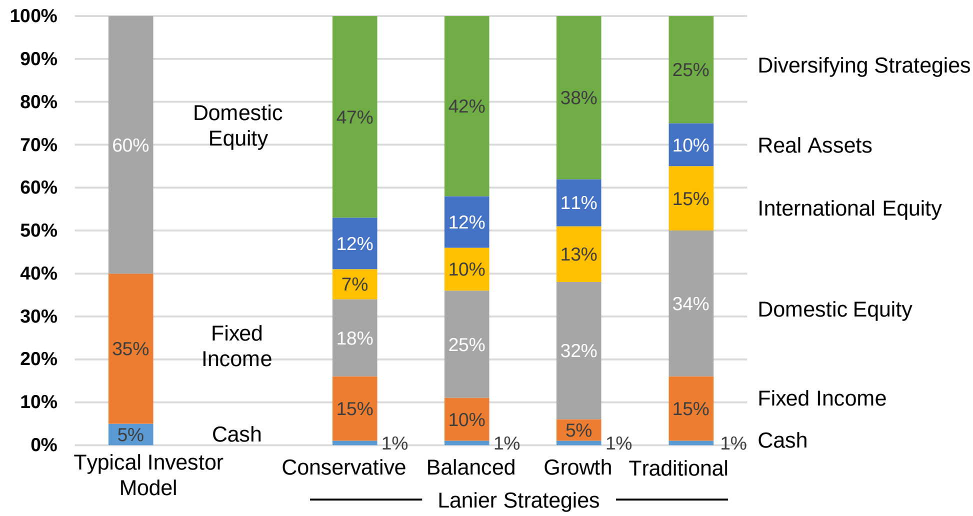
Our Approach

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.

Lanier Asset Management, LLC ("Lanier") is a state registered investment adviser located in Louisville, Kentucky. The firm's CRD number is 150888. Certain Representatives of Lanier hold Series 7, 31, 63, and 65 Securities Licenses. Securities offered through Comprehensive Asset Management and Servicing, Inc., Member FINRA/SIPC/MSRB. 2001 Route 46, Ste. 506, Parsippany, NJ 07054.

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