LANIER
ASSET MANAGEMENT LLC

Building Confidence
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Financial Future

Monthly Update **February 2020**

Is Diversification Dead?

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As I revisited my partner Carl's article from last month, it made me really think about the last decade. I have been in the business since 1992. Everything I was taught, learned and experienced over the course of my career has always led me to believe that diversification across various asset classes has meaningfully reduced risk as well as enhanced returns over the full market cycle.

As I pondered the last ten years, I started wondering if things have just changed. Was a new paradigm upon us? People certainly considered this in 2000 after experiencing two decades of superior returns from equities fueled by a steady reduction in inflation. They also said the same thing about home prices in 2006-2007 as real estate climbed over 90% since 2000, driven by lower interest rates and a crazy relaxation of loans for everyone. They only go up – we had never seen a period in history where housing had declined.

Now I sit here today and wonder the same thing. We just completed a ten-year period where US equities have outperformed every other asset class with very little volatility. Can this continue? What I thought might be valuable is to take a look back several decades and see if this run in US equities is just an anomaly or a trend.

	1980's	1990's	2000's	2010's
S&P 500 Earnings Growth Annual Rate	5%	7%	0.7%	8%
Annual Inflation Rate	5%	3%	2%	2%
Price Earnings Ratio (Beginning/Ending)	7-15x	15-28x	26-14x	14-19x
Stocks Annualized Return	17%	18%	-1%	13%
Investment Climate Grade	A	A+	D	A-

Source: Factset

The chart to the right shows how the S&P 500 has performed over a multi-decade basis and the drivers of return: earnings growth, inflation and earnings multiples. As you can see, in the 1980's, the earnings growth rate was 5% and inflation was also at 5%. The real factor was the Price/Earnings (PE) multiple. It started the decade at 7 and ended at 15x, thus the annualized return was 17%. The 1990's were more of the same, but even better! Growth was up to 7%, inflation declined to 3%. PE multiples expanded from 15 to 28x, thus leading to an 18% return. Let's keep in mind for a moment that the historical PE multiple (100 years) for the S&P 500 is ~15-16x.

The stock market then collapsed in 2000, as people began to realize trees don't grow to the sky and valuations matter. PE's went from 26 to 14x, and the overall rate of return was negative. Just to put that into context, the bond market outperformed the equity markets and provided ~6% a year. Finally, from 2010 through the end of last year, we saw fantastic earnings growth of 8%, low inflation of 2% and multiple expansion from 14 to 19x leading to annual returns of 13%+. The driver – you guessed it! Lower beginning multiples as we were all quite timid coming out of the Great Recession.

As I analyze this decade by decade, there are certainly times when owning US equities is the way to go. The grades above reflect that. Can the drivers of the 80's, 90's and 10's continue to provide the same level of boost going forward? History suggests, unfortunately, that equity returns will be more subdued.

We believe diversification at this point makes a ton a sense. Valuation levels are now well above historical PE norms. The fixed income markets aren't likely to provide much if any return as well as provide little buffer to drawdowns in the stock market going forward. We also believe that real estate will likely outperform, given our view that interest rates will not move significantly higher anytime soon. Hedge funds will also outperform in our view, given that they have much more latitude in terms of how they invest and a probable increase in volatility. They will provide downside protection and still participate on the upside given their risk profile.

In conclusion, we are still firm believers in diversification. There is no question that there are periods where US equities outperform by a fairly wide margin. History suggests the next decade will provide that opportunity. Please consider your overall allocation at this time. Unless you have been rebalancing on an ongoing basis, it is likely your equity position is much higher that you might think. How much risk are you willing to assume?

Junius V. (Trip) Beaver III, is a co-founder of Lanier Asset Management and serves as its Co-Chief Investment Officer. Trip has been a financial advisor delivering high-value investment solutions to affluent individuals since 1994. In addition to his work at Lanier, Trip donates his time and investment expertise to charitable organizations such as the Library Foundation and the Metro United Way.

Key Points From Our Investment Meeting – 2/14/20

Macro Viewpoint

- Coronavirus appears to be having an adverse effect on global growth as Apple preannounces earnings shortfall.
- Impeachment proceedings are over; the markets seem to believe that the President will win a second term.
- US equity markets continue to make all time highs in spite of potential global contraction.

Asset Class Comments

- Fixed income has always provided a buffer and income stream for investors. Those days seem to be over.
- Value stocks have underperformed growth stocks for the last ten years. Is it time to look to large cap value?
- As gold hits 52 week highs, should this be a red flag?

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		January	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Federal Money Market Reserve		0.1%	0.1%	0.1%	2.1%	1.8%	1.2%	0.9%	0.7%
Fixed Income									
Domestic (Barclays US Agg)		2.0%	2.0%	2.0%	10.6%	4.9%	3.1%	3.2%	3.8%
Vanguard Total Bond Market	VBMFX	2.1%	2.1%	2.1%	9.8%	4.6%	2.9%	3.0%	3.6%
RiverNorth Doubleline	RNDLX	1.5%	1.5%	1.5%	9.5%	4.7%	4.4%	4.3%	4.8%
Eaton Vance Floating Rate	EIBLX	0.5%	0.5%	0.5%	5.2%	4.0%	4.3%	3.8%	4.5%
US Preferred Stock ETF	PFF	1.5%	1.5%	1.5%	11.4%	5.6%	4.7%	5.1%	6.5%
High Yield (Barclays US Corp HY)		-0.5%	-0.5%	-0.5%	8.7%	5.0%	4.4%	3.9%	4.9%
Short Term High Yield	SJNK	-0.3%	-0.3%	-0.3%	5.1%	4.3%	4.1%	3.6%	5.7%
Equities									
Domestic Large Cap (S&P 500 TR)		-0.2%	-0.2%	-0.2%	19.3%	12.3%	10.1%	11.6%	11.6%
S&P Equal Weight	RSP	-1.9%	-1.9%	-1.9%	15.2%	10.6%	9.7%	12.2%	13.3%
Domestic Mid Cap (S&P 400 TR)		-2.6%	-2.6%	-2.6%	11.3%	7.7%	8.6%	10.7%	12.7%
Vanguard Mid-Cap ETF	VO	-0.3%	-0.2%	-0.2%	18.3%	11.2%	9.6%	12.2%	13.5%
Domestic Small Cap (S&P 600 TR)		-4.0%	-4.0%	-4.0%	6.6%	7.0%	9.3%	11.4%	13.2%
Vanguard Small-Cap ETF	VB	-2.0%	-2.0%	-2.0%	11.7%	10.8%	10.0%	11.9%	13.5%
Developed Intl. (MSCI EAFE)		-2.1%	-2.1%	-2.1%	8.9%	5.5%	3.8%	4.3%	5.1%
MSCI EAFE	EFA	-2.8%	-2.8%	-2.8%	10.3%	7.1%	4.8%	4.9%	5.6%
Emerging Intl. (MSCI EM)		-4.7%	-4.7%	-4.7%	1.2%	5.9%	3.3%	1.5%	3.2%
Vanguard FTSE Emerging Markets ETF	VWO	-5.5%	-5.5%	-5.5%	2.6%	6.0%	3.6%	1.8%	3.5%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		1.4%	1.4%	1.4%	15.4%	9.6%	6.5%	8.9%	12.6%
Mortgage Real Estate	REM	3.6%	3.6%	3.6%	15.1%	12.6%	10.0%	7.5%	9.0%
REIT ETF	VNQ	1.2%	1.2%	1.2%	16.7%	8.8%	6.0%	9.1%	12.7%
Commodities (Thomson Reuters/Jefferies CRB Index)		-10.8%	-10.8%	-10.8%	5.9%	5.1%	-1.6%	-5.7%	-2.7%
DBC	DBC	-8.6%	-8.6%	-8.6%	-4.5%	-1.6%	-2.9%	-8.9%	-5.0%
BlackRock	BCSAX	-5.9%	-5.9%	-5.9%	-2.3%	0.7%	0.0%	-3.9%	-1.5%
Gold	GLD	4.5%	4.5%	4.5%	19.7%	8.9%	3.9%	0.8%	4.0%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		-0.2%	-0.2%	-0.2%	6.5%	4.0%	3.5%	3.9%	4.1%
INFINITY*	OCEAN	0.7%	0.7%	0.7%	5.5%	3.9%	4.2%	5.7%	6.2%
Boston Partners Long/Short Equity	BPLEX	-4.9%	-4.9%	-4.9%	-1.3%	-4.9%	1.6%	1.9%	5.8%
Millennium*	MILLENN	0.2%	0.2%	0.2%	8.0%	6.8%	6.9%	8.4%	8.5%
Verition*	VERITION	0.7%	0.7%	0.7%	12.8%	8.9%	8.9%	10.7%	9.9%
Renaissance*	RENAISS	0.0%	0.0%	0.0%	9.7%	11.5%	13.6%	13.6%	15.8%
Third Point*	THIRD P	1.1%	1.1%	1.1%	13.5%	5.5%	4.6%	6.1%	9.0%
Lanier Hedge Fund*	LHF	0.1%	0.1%	0.1%	7.8%	5.9%	6.7%	8.0%	8.8%
Boston Partners Global Long/Short	BGLSX	-3.5%	-3.5%	-3.5%	-2.2%	-0.6%	1.6%	2.4%	3.1%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team


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Stephanie E. Milby
Investment Associate

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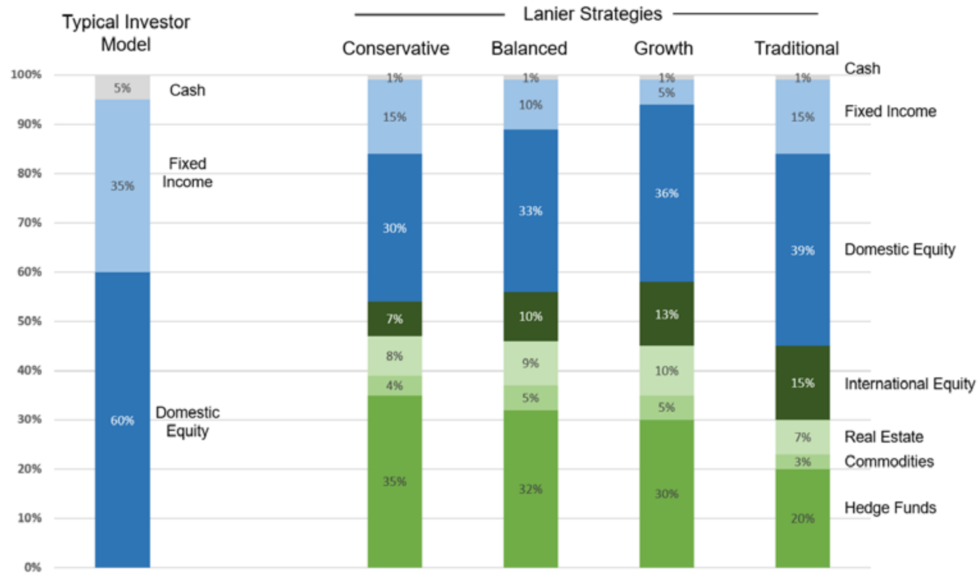
Our Approach

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

Building Confidence and Security in Your Financial Future