LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update **September 2016**

Do You Have a Sharpe Portfolio?

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Co-Chief Investment Officer, Principal

In finance, the Sharpe ratio uses standard deviation to measure a fund's risk-adjusted returns. The higher a fund's Sharpe ratio, the better a fund's returns have been relative to the risk it has taken on. Because it uses standard deviation, the Sharpe ratio can be used to compare risk-adjusted returns across all fund categories (Morningstar).

What does this really mean? Why does this matter? Should one really care?

The Sharpe ratio was developed by no other than William Sharpe (a fairly sharp fellow who won the Nobel Prize). Here is a very simplistic example of how one determines the Sharpe ratio. There are three variables that make up the equation - the fund's return over a certain period, the standard deviation of the fund and the risk free rate (a proxy generally used is the 90-day Treasury bill). The formula is quite simple:

$$\textbf{Sharpe Ratio} = \frac{\textbf{Return of Fund - Risk Free Rate}}{\textbf{Standard Deviation}}$$

Why does this matter? At Lanier, risk management is paramount to building out portfolios for all the families that entrust us with their wealth. We anticipate that returns going forward will be significantly lower over the next 7-10 years. Given that as a backdrop, we believe it is critical that our clients are achieving results for the amount of risk they are taking in each asset class of their overall allocation. A good example would be large capitalization equities. Investing with actively managed funds in efficient asset classes is not what we consider prudent, as numerous studies have shown they have consistently lower Sharpe ratios versus low cost index funds. As we select investments for each asset class for our clients, we first determine which asset classes are efficient and which ones are not. In the inefficient classes, manager selection is critical and requires substantial research and due diligence. Once we have narrowed our search, the Sharpe ratio is an extremely important element of our decision making process. It is vital that we make sure that our clients are achieving results for the risk they are willing to assume!

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In almost all cases, active managers have to take on more risk in order to have a chance at beating their respective indexes. How do they do this? They have to make bets on what companies (stocks) or sectors they believe will do better than the index over the next 3, 6 or 9 months. Most managers are not successful in the efficient asset classes of beating their benchmarks.

At Lanier, we strive to optimize our clients' portfolios based on the risk they are willing to assume and their return requirements. This wasn't overly challenging a decade or two ago when fixed income was paying 4-6% with relatively little risk and stocks provided double digit returns. Today, it is a much more complex issue that requires significant education and feedback from our clients. It is our obligation to help our clients understand that hiring managers that take more risk and are not being compensated for it is a futile exercise. We strive to give our clients the best opportunity to succeed in reaching their specific goals, and constructing a "Sharpe portfolio" is part of our "better mousetrap."

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 – 9/12/16

Macro Viewpoint

- Markets in the US and around the globe continue to rise as central banks continue with easy money policy
- Corporate earnings are now in their fifth quarter of declines
- The Presidential election and Fed policy are causing increased volatility in the equity and fixed income markets

Asset Class Comments

- Fundamental analysis of US corporations seem to have diverged from current market levels. Be cautious!
- Given lower expected returns for the stock and bond market over the next 7-10 years, investors need to think critically about how they will reach their long term goals
- We continue to believe this environment warrants the need for Diversifying Strategies

Performance Update

	Investment Vehicle	Total Return (%)				Annualized			
		August	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%	0.1%	1.1%
Fixed Income									
Domestic (Barclays US Agg)		-0.5%	0.1%	5.5%	5.8%	4.3%	3.2%	4.3%	4.9%
Vanguard Total Bond Market	VBMFX	-0.6%	0.1%	5.4%	5.5%	4.0%	3.0%	4.0%	4.7%
Eaton Vance Floating Rate	EIBLX	0.3%	1.3%	4.1%	0.7%	1.5%	3.8%	4.8%	3.4%
US Preferred Stock ETF	PFF	-0.4%	1.0%	6.2%	8.3%	8.3%	7.3%	8.7%	4.2%
High Yield (Barclays US Corp HY)		1.3%	2.9%	11.3%	5.5%	3.9%	6.6%	8.8%	7.3%
Short Term High Yield	SJNK	1.4%	2.4%	10.1%	4.4%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		0.1%	3.8%	7.2%	11.4%	11.9%	14.5%	13.6%	7.4%
S&P Equal Weight	RSP	0.2%	4.3%	9.6%	11.3%	11.6%	14.6%	14.7%	8.4%
Domestic Mid Cap (S&P 400 TR)		0.5%	4.8%	13.1%	11.5%	11.2%	13.9%	14.9%	9.2%
Vanguard Mid-Cap ETF	VO	0.1%	4.7%	8.2%	7.8%	11.3%	14.0%	15.0%	8.3%
Domestic Small Cap (S&P 600 TR)		1.4%	6.5%	12.4%	12.6%	10.8%	15.0%	15.3%	8.7%
Vanguard Small-Cap ETF	VB	0.7%	5.7%	10.8%	9.1%	9.7%	13.9%	14.5%	8.5%
Developed Intl. (MSCI EAFE)		0.1%	5.1%	0.4%	-0.3%	2.4%	5.0%	4.6%	1.7%
MSCI EAFE	EFA	0.5%	4.5%	1.4%	0.2%	2.5%	4.9%	4.6%	1.6%
Emerging Intl. (MSCI EM)		2.5%	7.6%	14.5%	11.7%	1.1%	-0.4%	3.3%	3.9%
Vanguard FTSE Emerging Markets ETF	VWO	0.8%	6.0%	14.9%	10.8%	2.3%	-0.5%	3.4%	3.8%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		-3.3%	-0.6%	10.6%	22.0%	14.7%	13.0%	16.1%	6.1%
Mortgage Real Estate	REM	1.1%	4.7%	18.7%	14.2%	9.3%	8.0%	7.4%	-
REIT ETF	VNQ	-3.8%	0.3%	12.6%	24.2%	15.5%	13.2%	16.7%	6.7%
Commodities (Thomson Reuters/Jefferies CRB Index)		3.9%	-5.5%	10.0%	-12.6%	-18.8%	-14.6%	-6.7%	-7.2%
DBC	DBC	0.8%	-6.3%	7.7%	-10.4%	-19.2%	-12.0%	-6.7%	-4.9%
Gold	GLD	-3.3%	-5.3%	14.2%	14.3%	-1.6%	-5.0%	3.1%	7.5%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.4%	2.1%	3.8%	3.1%	3.6%	3.5%	4.4%	3.8%
INFINITY*	OCEAN	1.0%	2.0%	0.4%	0.4%	6.1%	7.3%	7.3%	7.7%
Boston Partners Long/Short Equity	BPLEX	1.3%	3.2%	12.5%	14.9%	6.3%	8.2%	10.5%	10.4%
QIM Tactical Aggressive*	QIM TA	2.2%	1.9%	46.1%	42.4%	15.3%	14.7%	15.8%	19.0%
Hedge Fund Plus*	HF+	1.3%	2.2%	11.9%	11.1%	8.4%	9.4%	10.1%	10.7%
Boston Partners Global Long/Short	BGLSX	0.7%	1.4%	3.7%	5.4%	5.8%	4.9%	5.4%	4.4%
Managed Futures									
Barclays CTA Index		0.0%	-1.3%	-0.1%	2.5%	3.3%	0.7%	1.4%	3.3%
WINTON*	WINTON	-2.2%	-1.8%	-0.4%	1.6%	3.6%	-0.9%	1.2%	3.1%
QIM*	QIM	0.6%	0.2%	8.8%	15.1%	2.4%	1.7%	-1.6%	3.6%
AQR Managed Futures Strategy	AQMNX	-2.7%	-2.4%	-0.4%	-1.7%	5.3%	3.6%	3.2%	4.6%
Natixis ASG Managed Futures Strategy	ASFYX	-4.0%	-2.5%	2.9%	1.0%	10.9%	3.8%	4.6%	5.5%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

Mark R. Hoffman
CEO, Principal

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

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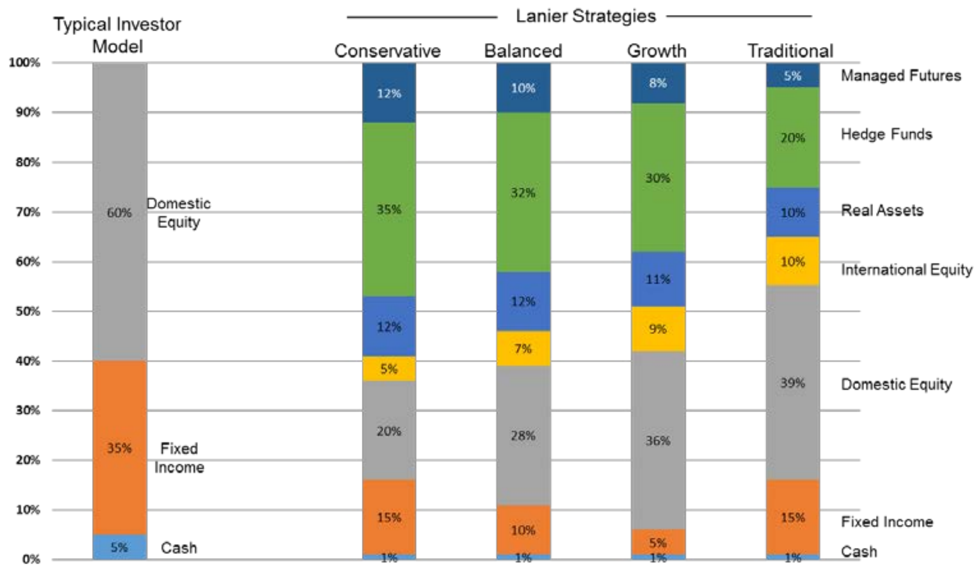
Our Approach

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 an SEC 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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