LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

February 2016

Winners and Losers of the Oil Battle

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CEO, Principal

For the last 6 months – maybe longer – it has become impossible to turn on CNBC and <u>not</u> hear about the price of oil. It’s as if we have never seen oil prices this low (we have) or this volatile (we have). What we don’t hear so much about is whether a low oil price is a good thing or a bad thing. Well…that depends on where you sit. There are clear winners and losers with $30 oil. Let’s start with the winners:

- <u>Major oil importers</u>: Countries like China, Japan, India and the US are major winners. Example: India imports over 4 million barrels per day so a $50 price decline yields $200 million of aggregate savings <u>every day</u>. Believe it or not, the US is a big winner, as we are one of the largest net importers in the world. Try telling that to your friends in Texas and Oklahoma!
- <u>Consumers</u>: With lower energy prices across the board, the average US family will save $700-1,000/year. This can only end up in higher consumer spending (read: GDP growth) or higher savings (read: lower debt). To date, it’s been more of the latter than the former.
- <u>Large oil and gas using industries</u>: Airlines, SUV manufacturers, etc.

What about the major losers?

- <u>Oil exporters</u>: Saudi Arabia, Russia, Iraq, Iran, Nigeria, etc. – all getting killed. These countries are currently running fiscal deficits and need $70-140/barrel (varies by country) to break even. They have a choice: reduce spending, increase debt or draw down foreign reserves. The Saudis can draw down reserves for years. Others are not as fortunate. Periods of prolonged economic difficulty lead to social and political unrest. Why do we care about that? Re-read the list of countries at the start of this paragraph.
- <u>Oil companies and their employees</u>: For the companies themselves, losses are mounting and bankruptcies are appearing. Some estimate that $1 trillion in exploration investment has been cancelled. There are 500,000 Americans employed in the oil and gas industry. There won’t be that many in 6-12 months.
- <u>Debt holders</u>: Since 2010, global oil and gas companies have issued $2 trillion in bonds. Artificially low interest rates are a big driver. How many of those bonds are unserviceable with an oil price of $30?

Will oil prices rebound? Absolutely – when production decreases or/and consumption increases – Economics 101. When the price of anything is lower than the cost to produce it, high cost production eventually exits and prices rise. But that doesn't happen immediately. Once a well is drilled, it produces for several years and ongoing operating costs are very low. Stopping and restarting a well is not a high value economic activity. And project debt/interest must still be repaid. Increasing global oil consumption could also fix the problem, but once again that's unlikely to happen quickly. Does anyone out there believe that China will return to their supposed 8-10%/year growth, gobbling up all new production of virtually every commodity on the planet? What would cause the US economy to suddenly start growing faster than the 1-2% we've experienced over the past decade? History shows that can't happen with high marginal tax rates and excessive regulation.

The global economy cannot function for long without an adequate supply of oil and only the Saudis and Iran/Iraq can get it out of the ground at $30. Low prices will eventually spur decreased production to accompany increased consumption. For now, enjoy the lower cost at the pump. Treat yourself to a Slurpee. It won't last forever, but it won't change tomorrow either.

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 – 2/11/16

Macro Viewpoint

- Japan cuts rates to negative territory
- Equity market volatility continues due to concerns over falling oil prices and China's growth
- Currency wars seem to be taking hold
- Uncertainty about the upcoming Presidential election given the polarity of the populous

Asset Class Comments

- Nothing looks attractive across all traditional asset classes
- We continue to believe this environment warrants the need for Diversifying Strategies
- Futures markets forecasting more downside yet to come
- Individuals' true risk tolerances and profiles are being questioned

Performance Update

	Investment Vehicle	January	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
		Total Return (%)							
						Annualized			
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	1.3%
Fixed Income									
Domestic (Barclays US Agg)		1.2%	1.2%	1.2%	-0.2%	2.1%	3.5%	4.4%	4.7%
Eaton Vance Floating Rate	EIBLX	-1.2%	-1.2%	-1.2%	-2.0%	0.4%	2.2%	7.8%	3.2%
High Yield (Barclays US Corp HY)		-2.1%	-2.1%	-2.1%	-7.8%	0.0%	3.8%	11.3%	6.4%
Short Term High Yield	SJNK	-2.1%	-2.1%	-2.1%	-6.3%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		-5.0%	-5.0%	-5.0%	-1.1%	11.1%	10.8%	15.4%	6.4%
S&P Equal Weight	RSP	-5.6%	-5.6%	-5.6%	-2.7%	10.1%	10.1%	17.9%	6.9%
Domestic Mid Cap (S&P 400 TR)		-5.7%	-5.7%	-5.7%	-7.4%	7.8%	8.8%	16.5%	6.9%
Vanguard Mid-Cap ETF	VO	-7.6%	-7.6%	-7.6%	-1.4%	9.5%	9.3%	17.1%	6.5%
Domestic Small Cap (S&P 600 TR)		-6.2%	-6.2%	-6.2%	-4.6%	9.2%	10.1%	16.6%	6.5%
Vanguard Small-Cap ETF	VB	-7.6%	-7.6%	-7.6%	-3.7%	7.4%	8.5%	16.6%	6.3%
Developed Intl. (MSCI EAFE)		-7.3%	-7.3%	-7.3%	-8.6%	0.6%	1.6%	8.2%	1.6%
MSCI EAFE	EFA	-5.5%	-5.5%	-5.5%	-1.0%	0.9%	1.7%	8.5%	1.6%
Emerging Intl. (MSCI EM)		-6.5%	-6.5%	-6.5%	-20.9%	-9.2%	-5.6%	7.5%	1.8%
Vanguard FTSE Emerging Markets ETF	VWO	-5.8%	-5.8%	-5.8%	-15.7%	-9.0%	-5.4%	7.8%	1.5%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		-5.6%	-5.6%	-5.6%	-7.5%	7.1%	9.8%	18.2%	5.7%
Mortgage Real Estate	REM	-5.2%	-5.2%	-5.2%	-9.2%	-3.8%	1.8%	6.0%	-
REIT ETF	VNQ	-3.4%	-3.4%	-3.4%	2.4%	8.3%	10.3%	19.2%	6.4%
Commodities (Thomson Reuters/Jefferies CRB Index)		-5.7%	-5.7%	-5.7%	-38.9%	-23.9%	-17.1%	-6.9%	-9.1%
DBC	DBC	-4.3%	-4.3%	-4.3%	-27.5%	-23.7%	-16.5%	-6.4%	-5.8%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		-1.7%	-1.7%	-1.7%	-0.8%	2.9%	2.3%	5.8%	3.7%
INFINITY*	OCEAN	-0.9%	-0.9%	-0.9%	5.6%	7.5%	7.5%	8.6%	8.4%
Robeco Long/Short Equity	BPLEX	2.5%	2.5%	2.5%	5.1%	3.4%	5.7%	17.6%	10.7%
Boston Partners Global Long/Short	BGLSX	-1.8%	-1.8%	-1.8%	1.8%	-	-	-	-
Managed Futures									
Barclays CTA Index		-0.6%	-0.6%	-0.6%	-1.4%	1.7%	0.4%	1.2%	3.2%
WINTON*	WINTON	3.4%	3.4%	3.4%	-4.0%	2.5%	0.4%	0.0%	4.0%
QIM*	QIM	3.4%	3.4%	3.4%	14.9%	-1.3%	-0.8%	-1.7%	3.6%
AQR Managed Futures Strategy	AQMNX	2.1%	2.1%	2.1%	-1.0%	6.2%	-	-	-
WisdomTree Managed Futures Strategy	WDTI	-1.1%	-1.1%	-1.1%	-6.5%	0.3%	-	-	-

= Benchmarks
= Lanier Selections

* For Accredited Investors Only

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

Emily A. Spendlove
Investment Associate

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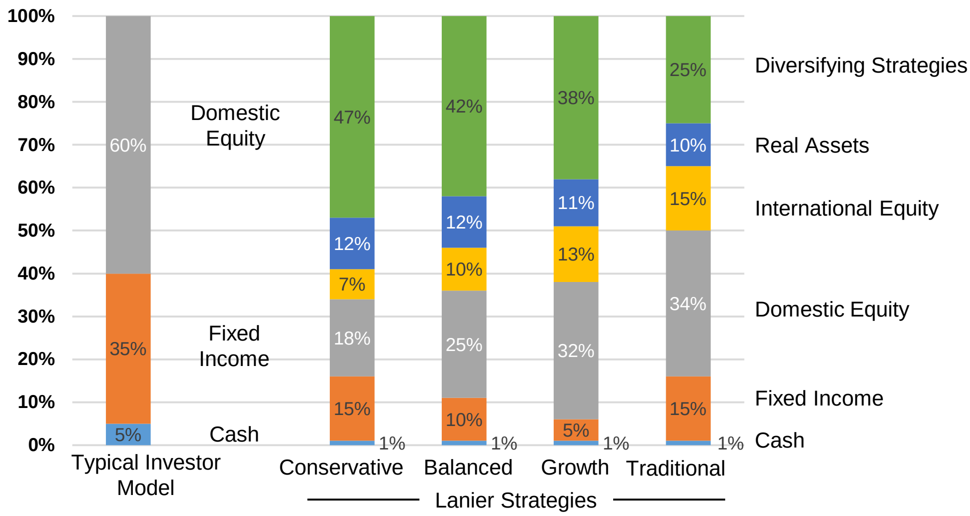
Our Approach

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

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