LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update — October 2015

A Note from Our Dean of Business

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Two central themes of much of the academic and financial economics research since the 1960s have been the efficiency of the capital markets and the importance of diversification.

An efficient market means that asset prices fully and correctly reflect all available information at all times. Market efficiency, therefore, discusses the movement in prices with respect to information. Thus, at any point in time, the market price should be the correct price and the amount of competition in looking for information makes the market efficient. Under the efficient market hypothesis, no single investor is ever able to attain greater profitability than another with the same amount of invested funds: their equal possession of information means they can only achieve identical returns. However, we know this result does not always hold true. Some of the reasons are market efficiency anomalies, situations where each investor does not consider information in the same manner, and the value of professional investment knowledge – where professionals provide additional returns through their expertise in understanding and evaluating the impact of information.

Many studies in this area have documented anomalies to the hypothesis. These include:

- A reversal effect, poorly performing stocks in one period tend to become well performing stocks in the next period and vice-versa.
- The January effect, returns are higher in January than in any other month.
- The day of the week (weekend) effect, returns are low and gradually increase as the week progresses.
- The size effect, stocks with small market capitalization (value) generate higher returns than stocks with large market capitalization (value).
- The monthly effect, returns are higher during the early part of the month and are higher than returns during the latter part.
- Holiday effect, returns are unusually high prior to holidays.
- Overreaction effect, where investors react disproportionately to new information about a given security. This will cause the security's price to change dramatically so that the price will not fully reflect the security's true value immediately following the event. Typically, the price swing from overreaction is not long lasting, as the stock price will tend to return back to its true value over time.

Market timers, active managers and day traders attempt to take advantage of such anomalies with limited to no consistent success. Lanier does not engage in such activity. Lanier does, however, engage deeply in thoughtful asset allocation and diversification.

Investment professionals such as Lanier and managers of large endowment funds understand the benefits of investing in a portfolio of assets whose returns are not directly correlated. With effective use of diversification, Lanier combines securities to reduce relative risk. The key to this strategy is to develop a portfolio whose component returns do not move or vary together through consideration of the covariance of returns for each asset pair in the portfolio. As discussed in last month's newsletter, Lanier does this by diversifying beyond stocks, bonds and cash – blending in asset classes that can still perform in volatile or declining equity markets.

Covariance is a statistical measure of how one investment moves in relation to another. If two investments tend to be up or down during the same time periods, then they have positive covariance. If the highs and lows of one investment move in perfect coincidence to that of another investment, then the two investments have perfect positive covariance. If one investment tends to be up while the other is down, then they have negative covariance. If the high of one investment coincides with the low of the other, then the two investments have perfect negative covariance. The risk of a portfolio composed of these assets can be significantly reduced if there is a minimal pattern to the up and down cycles of one investment compared to another.

Lanier models its clients' portfolios by minimizing volatility (covariance) relative to returns through investments in both traditional (stocks and bonds) and nontraditional (hedge funds, managed futures, commodities) asset classes. Thus, Lanier brings to the individual investor access to the sophisticated investment techniques and methodologies utilized to manage major endowments. If you are interested in "getting under the hood" of our approach, we'd be happy to discuss the Lanier portfolio strategies with you.

Dr. Daniel L. Bauer is a Financial Consultant with Lanier Asset Management and a Professor of Finance at Bellarmine University where he previously served for 15 years as Dean of the Rubel School of Business.

Key Points From Our Investment Meeting – 10/14/2015

Macro Viewpoint

- Equity markets have rebounded sharply back to their 50 day moving average in spite of weakening economic data.
- Ten year treasuries hover near 2%.
- FED interest rate hike uncertainty has led to even greater volatility.
- Tensions in the Middle East have risen dramatically.
- Slowdown in China has become more apparent as data continues to be released.

Asset Class Comments

- We continue to believe this environment warrants the need for Diversifying Strategies.

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		September	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%	1.5%
Fixed Income									
Domestic (Barclays US Agg)		0.8%	1.3%	1.2%	3.0%	1.7%	3.1%	4.9%	4.6%
Eaton Vance Floating Rate	EIBLX	-1.0%	-3.1%	-0.9%	-1.2%	2.0%	3.7%	5.0%	3.6%
High Yield (Barclays US Corp HY)		-3.2%	-5.8%	-3.2%	-4.2%	3.0%	5.8%	9.8%	7.1%
Short Term High Yield	SJNK	-2.5%	-5.5%	-3.6%	-5.2%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		-2.5%	-6.5%	-5.3%	-0.6%	12.4%	13.3%	9.7%	6.8%
S&P Equal Weight	RSP	-3.0%	-6.5%	-6.0%	-0.3%	14.3%	13.6%	11.8%	7.8%
Domestic Mid Cap (S&P 400 TR)		-3.2%	-8.5%	-4.7%	1.4%	13.1%	12.9%	11.2%	8.3%
Vanguard Mid-Cap ETF	VO	-3.7%	-7.6%	-4.7%	1.7%	14.7%	13.6%	11.8%	7.8%
Domestic Small Cap (S&P 600 TR)		-3.5%	-9.3%	-5.5%	3.8%	13.0%	14.0%	10.2%	7.7%
Vanguard Small-Cap ETF	VB	-4.5%	-10.4%	-6.6%	-0.1%	12.5%	13.0%	10.6%	7.8%
Developed Intl. (MSCI EAFE)		-5.3%	-10.5%	-5.5%	-8.9%	5.5%	3.9%	3.7%	2.9%
MSCI EAFE	EFA	-4.4%	-9.7%	-4.2%	-4.2%	5.8%	4.0%	3.4%	2.9%
Emerging Intl. (MSCI EM)		-3.3%	-18.1%	-15.7%	-19.5%	-5.3%	-3.6%	2.5%	4.2%
Vanguard FTSE Emerging Markets ETF	VWO	-2.9%	-17.9%	-15.2%	-18.2%	-4.6%	-3.4%	2.3%	4.1%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		1.9%	0.7%	-4.5%	7.3%	8.6%	11.7%	7.6%	6.3%
Mortgage Real Estate	REM	-2.7%	-3.7%	-8.2%	-4.2%	-0.6%	4.8%	3.6%	-
REIT ETF	VNQ	3.1%	2.2%	-4.3%	9.4%	9.4%	11.9%	7.7%	7.0%
Commodities (Thomson Reuters/Jefferies CRB Index)		-3.4%	-20.8%	-25.0%	-38.1%	-17.7%	-9.7%	-9.4%	-6.4%
AVENTIS*	AVENTIS	-2.5%	-5.6%	-6.7%	-10.8%	-7.3%	-2.0%	-2.3%	-
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		-1.1%	-2.9%	-0.3%	-0.2%	4.4%	3.5%	4.5%	4.4%
INFINITY*	OCEAN	-0.6%	0.7%	5.0%	6.6%	9.8%	8.5%	8.2%	8.6%
Robeco Long/Short Equity	BPLEX	1.1%	1.1%	0.6%	-2.5%	0.0%	4.2%	8.1%	13.2%
Lanier All Asset Strategy**	AAS	2.0%	-4.0%	-6.7%	-2.3%	6.7%	5.7%	11.6%	12.6%
Managed Futures									
Barclays CTA Index		1.2%	1.2%	0.1%	3.1%	1.3%	1.0%	2.1%	3.5%
WINTON*	WINTON	3.1%	1.6%	-3.0%	4.6%	2.0%	0.5%	1.2%	4.0%
AQR Managed Futures Strategy	AQMNX	2.5%	2.5%	6.2%	5.6%	0.0%	-	-	-
WisdomTree Managed Futures Strategy	WDTI	0.8%	0.8%	-2.9%	-4.9%	0.0%	-	-	-

= Benchmarks
= Lanier Selections

* For Accredited Investors Only
** Based upon since inception (Jan 2006). Prior data uses 60/40 Blend

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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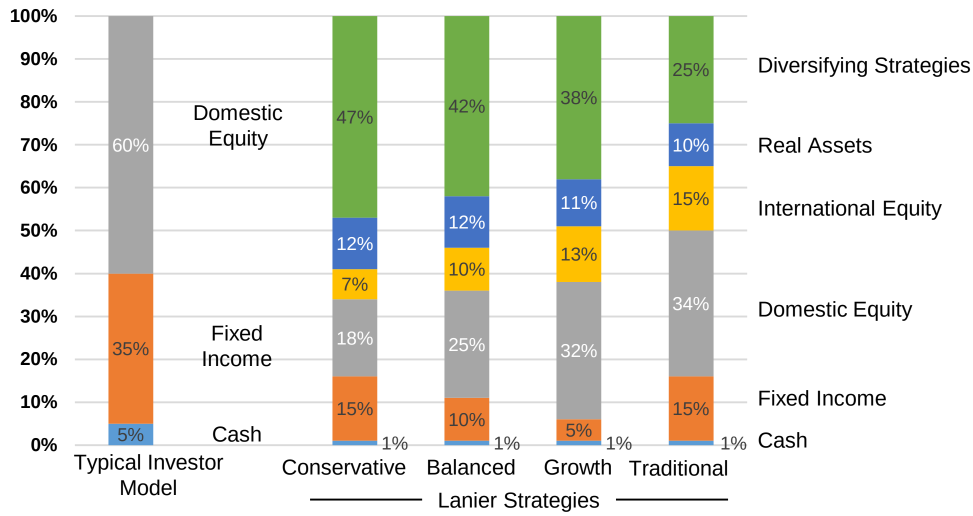
Our Approach

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 <u>projected</u> <u>returns</u> 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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