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Who You Calling Dwarf? *continued from page 1*

because many sport dividend yields well above quality bond yields. Many investors probably have taken on more risk than they realize.

Corporations, on the other hand, have taken advantage of the ultra-low yields in the bond market to repurchase their stock, thus supporting their stock prices. In 2014 they repurchased $677 billion. They are on pace to buyback over $1.2 trillion in 2015. Some analysts worry that this financial engineering has come at the expense of productive capital investment in plants and equipment.

In addition loose monetary conditions have sparked a surge in initial public offerings (IPOs). Disturbingly, 78% of this year's IPOs have been companies with negative earnings. That surpassed the 65% seen near the peak in 2007 and even the 76% at the height of the dot-com bubble in 2000. None of that means the stock market is in imminent risk of collapse, but we do see some yellow flags waving.

The days when a portfolio of good quality stocks and bonds could provide a balanced, low risk way to grow wealth are gone, at least until the central banks "normalize" interest rates. Investors confront the daunting challenge of constructing portfolios which can deliver reasonable returns without assuming excessive risk. We are diligently researching "alternative investments" such as managed futures mutual funds, private equity, and similar investments which are not tightly correlated with stock or bond returns. We can envision reducing allocations to traditional stocks and bonds and raising allocations to alternative investments over coming quarters. With the current central bank leadership, all disciples of Keynes, we think many years might elapse before financial markets return to normalcy. Perhaps demoting Keynesian economic theory to "dwarf" status would be a good start.

-Bill Miller, CFA

Private Equity Basics *continued from page 3*

In-house Private Equity Fund Investment Program

Private equity investments are not accessible to all investors. The SEC has established various income and asset thresholds that prospective investors need to meet in order to be "qualified". Nonetheless, investment vehicles now exist that have lowered the absolute size of the total dollar commitment to a private equity allocation, thereby creating the opportunity for participation in a diversified allocation, an objective primarily accomplished traditionally by large institutional portfolios, at lower asset minimums.

Investors in a "fund" generally expect to gain broader exposure through a portfolio built during the commitment period by investment professionals who specialize in discovering, analyzing, investing, managing and exiting from private company investments. Being diversified amongst a number of different investments helps ensure that the risk of total loss of capital in the fund is relatively low compared to investing directly in unquoted companies.

The investment team at PAM is continuing to develop its expertise in the PE space and extend its diligence efforts in order to bring the benefits of a PE allocation, to the extent permissible, to our clients. Stay tuned for additional detail in the coming months.

• This article draws extensively on articles and resources from the websites of Bain Capital, Cambridge Associates, and Venture Choice.

-Keith A. Jaworski, CFA

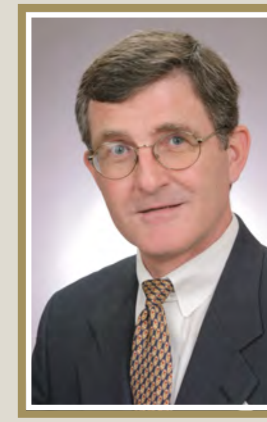
PATTON ALBERTSON & MILLER LLC

INSIGHT AND OUTLOOK

Summer 2015

A QUARTERLY MARKET COMMENTARY & NEWSLETTER PUBLISHED BY PATTON ALBERTSON & MILLER

Who You Calling Dwarf?



Bill Miller, CFA
Patton Albertson & Miller, LLC

On July 14th NASA's New Horizon spacecraft flew by Pluto gathering the first high resolution photos of that body and its largest moon, Charon. When NASA launched the interplanetary probe back in January 2006, science classified Pluto as the ninth and most distant planet at 3.7 billion miles from Earth. Later that same year, however, the International Astronomical Union demoted Pluto from planetary status and reclassified it as a "dwarf planet" along with the asteroid Ceres, and three trans-Neptune objects, Haumea, Makemake, and Eris. Over the span of New Horizons' nine and a half year voyage scientists continued to accumulate new knowledge about Pluto. For example, astronomers discovered two new moons bringing the total to five. And the flyby this month should greatly enhance our understanding of Pluto and its system of moons. That is the power of scientific exploration - knowledge accretes and provides an ever larger foundation for even further advances.

We wish the same held true about economic knowledge but for some reason even "experts" seem prone to backsliding into error. Controversies once thought settled resurface every few decades so progress in economic thinking is often "two steps forward, one step back". Or worse. In the 1930's, the same decade as Pluto's discovery, economists wrestled with the causes of the global calamity called The Great Depression. They also struggled to find solutions to the low growth and persistent unemployment.

On one side was John Maynard Keynes and his unorthodox diagnosis and remedies. He blamed a lack of "animal spirits" in the business community as the primary cause of the economic collapse. He offered no reasons why such a thing would happen but asserted that it demonstrated the intrinsic instability of capitalism. As business cut back, unemployment increased, leading to further declines in "aggregate spending", which caused business to cut back even more in a vicious downward cycle. His remedy was massive government deficit spending to prop up consumption and get the economy moving again. Politicians welcomed his recommendations which gave academic credibility to many of the interventionist actions they had already taken. (And in the case of Hoover and Roosevelt had probably made the economy weaker not stronger).

The other camp was championed by Friedrich von Hayek, later a Nobel Prize winner in economics and one of the most prominent leaders of the Austrian School of economics. His economic thinking was an extension of the classical, orthodox tradition which had demolished the fallacious arguments of mercantilists, inflationists, and socialists over the previous 50 years. (Keynes revived many of their errors in his deeply muddled General Theory of Employment, Interest and Money which swept the economic establishment in 1936). Hayek argued that the worldwide depression resulted from the serious policy errors committed by central banks, the Federal Reserve and the Bank of England in particular. Their actions in the 1920's had unleashed an unsustainable boom in the United States characterized by malinvestment on Main Street and wild speculation on Wall Street. The proper solution, as it was in the 1920-21 depression, was the liquidation of bad debts and the redeployment of labor and capital, not more government intervention.

Keynes represented the "we must do something" faction of the economic and political community while Hayek represented the traditional "laissez faire" faction. Given the tenor of the times, Keynes's call to action resonated with the political class and the younger generation of economists. Within a decade Keynesian economics dominated the thinking of academia, government, Wall Street, and Main Street. It was a stunning revolution. We view it as a disastrous retrograde movement in the development of economic thought.

Rocketing forward to today we can see some of the predictable wreckage from Keynesian ideology. As with the Great Depression, Keynesians misdiagnosed the causes of the Great Recession and that led to incorrect policy. In the U.S. they focused on a symptom, the great housing bubble, rather than the source of the bubble - the Federal Reserve's ultra-easy monetary policy from 2002-2006. That is what provided the fuel for the excesses in mortgage lending. The Keynesian solution to this debt problem was more debt. That strikes us as self-evidently absurd, yet the econometric models beloved by the central bankers and economic think tanks said otherwise. One of the consequences has been record low interest rates, and recently negative interest rates, in many developed countries. That has crushed the relatively safe income retirees used to count on.

Government debt is at record levels in most developed countries. In the United States debt exceeds 100% of gross domestic product. In Greece it exceeds 177%. Japan's is well over 230%. Chicago and Puerto Rico face debt crises as well. Not all the debt was due to the Great Recession. Excessive spending on government employee pensions has been a typical problem. Obviously spending comes easily to politicians at all levels of government - local, state, and national especially when it is sanctioned by the prevailing economic orthodoxy.

All this impacts the investment environment, of course. Quality bonds no longer provide adequate income to savers and retirees, so many of them reluctantly have taken on more risk in order to prop up their returns. Junk bonds have been one beneficiary. Another has been stocks

...Dwarf continues on Page 4

Welcome Justin Porter!

In April we welcomed Justin Porter as the newest member of our client services team. Justin is a Wealth Advisor in our Chattanooga office and he holds a Certified Financial Planner® designation. Although Justin may be new to Patton Albertson & Miller he comes to us with deep knowledge and experience. After graduating from Georgia Tech with a Bachelor of Science, Management degree, Justin worked with the certified public accounting firm of Frazier & Deeter, LLC in Atlanta on tax compliance matters for individuals and businesses. While at Frazier & Deeter he enrolled in Law School and earned a J.D. from Georgia State University. During law school Justin became a Certified Public Accountant and worked for the estate planning law firm of deAnrade Mangieri in Atlanta. Justin comes to us from Wells Fargo Private Bank having worked on their Financial Planning and Wealth Transfer Strategies team in Atlanta. His experience in law and accounting provides our clients with the expertise they need to plan and manage their financial life.

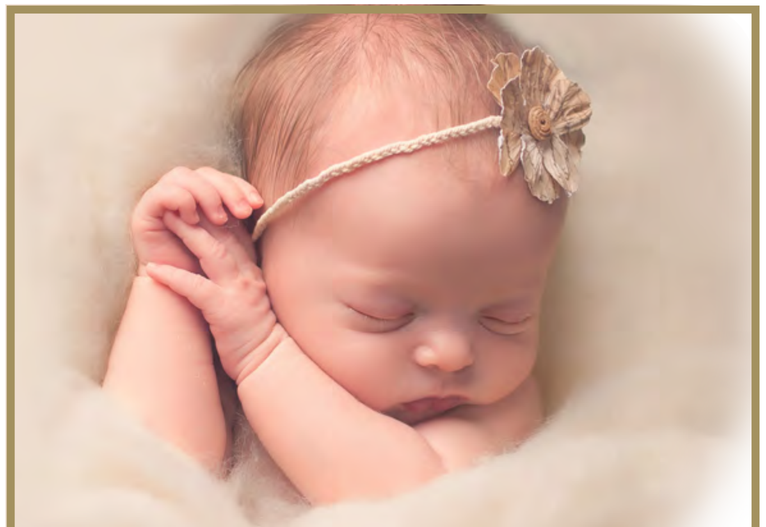
Justin grew up in Marshall, Virginia which is about 55 miles west of Washington, D.C. After spending the last few years in Atlanta, he and his two rescue dogs now call Chattanooga home.

We welcome Justin to Patton Albertson & Miller!

TIPS FOR PROTECTING YOUR DATA

1) Take an inventory of your online accounts and prioritize them based on the sensitivity of the data. Make sure that you have contact information for each account for the "if" and "when" your information gets stolen.
2) 99 % of devices are vulnerable due to exploit kits that take advantage of out-of-date software. Make sure that you update your computers, phones, and tablets regularly to prevent unauthorized access.
3) Think before you click. Never click on attachments or links in emails that you weren't expecting. Regardless of whether you know the person sending you the message or not, their account might have been compromised. All it takes is 1 click and it's over. The average hacker has a median of 170 days inside your device before detection. What could you learn about someone in half of a year?
4) Passwords, passwords, passwords! Don't use the same password for all or some of your online accounts. Use phrases instead or substitute symbols for letters like @ for A or $ for S. There are many tools available on the web to evaluate the strength of your password. An increasingly popular tool has become a secure password manager which will generate strong passwords for you.
5) Avoid telephone scams. Neither the IRS nor Microsoft is ever going to call you and immediately demand payment over the phone. They may send you a letter but they're not going to call.
6) Shop only on secure websites. Look for the "https" and the lock in the address bar of the web browser. If you don't see both of those you don't have a secure connection. Any information you enter may fall into the wrong hands.
7) Credit Monitoring. Make sure you have some sort of credit monitoring that will notify you of changes to your credit file. A monitoring service will notify you of a change of address or if a new account has been opened in your name. If you were a victim of one of the recent breaches at Target, Home Depot, or Anthem make sure you sign up for the free credit monitoring they offered.
8) Skip free or public Wi-Fi when shopping. Public Wi-Fi networks aren't private and anyone connected to the same network as you could potentially see what data is being transmitted. This also goes for financial transactions like logging into your bank account while at Starbucks.
9) Stay current. Keep an eye out for news on the latest scams going on the internet or elsewhere.
10) Enable two factor authentication. Many companies now have the ability to send a text message or e-mail to you before allowing you to login. They can also do this before allowing you or someone pretending to be you to login from a new device.

-Tim Hipps
Director of Technology



NEW ARRIVAL!

We are delighted to announce the arrival of a new Patton Albertson & Miller associate. "Audrey" Kerrigan Ayres made a grand entry on June 10, 2015 at 4:27 pm, weighing 7lbs. 12.5 oz. and 19.5 inches long. Both baby and mother are doing great.

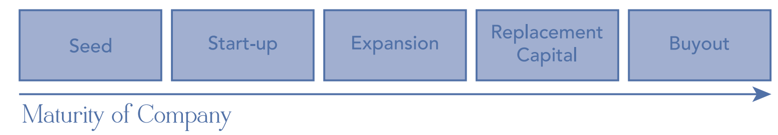
Congratulations to Rachel and Kerry Ayres!

Private Equity Basics

Definition of Private Equity

According to Venture Choice, a Silicon Valley venture capital firm, private equity investing may broadly be defined as "investing in securities through a negotiated process". The majority of private equity investments are in unquoted companies (i.e. not traded on public stock exchanges). Private equity investment is typically a transformational, value-added, active investment strategy. It calls for a specialized skill set for evaluating potential returns and risks of contemplated portfolio companies.

Private equity investing is often divided into the stages described below. Each has its own dynamics.



- **Seed Stage:** Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.
- **Start-up Stage:** Financing for product development and initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but have not sold their products commercially and are not yet generating a profit.
- **Expansion Stage:** Financing for growth and expansion of a company which is breaking even or trading profitably. Capital may be used to finance increased production capacity, market or product development, and/or to provide additional working capital. This stage includes bridge financing and rescue or turnaround investments.
- **Replacement Capital Stage:** Purchase of shares from another investor or to reduce leverage via the refinancing of debt.
- **Buyout Stage:** A buyout fund typically targets the acquisition of a significant portion or majority control of businesses which normally entails a change of ownership. Buyout funds usually invest in more mature companies with established business plans to finance expansions, consolidations, turnarounds and sales, or spinouts of divisions or subsidiaries. Financing expansion through multiple acquisitions is often referred to as a "buy and build" strategy. Investment styles can vary widely, ranging from growth to value and early to late stage. Furthermore, buyout funds may take either an active or a passive management role.
- **Special Situation:** Special situation investing ranges more broadly, including distressed debt, equity-linked debt, project finance, one-time opportunities resulting from changing industry trends or government regulations, and leasing. This category includes investment in subordinated debt, sometimes referred to as mezzanine debt financing, where the debt-holder seeks equity appreciation via such conversion features as rights, warrants, or options.

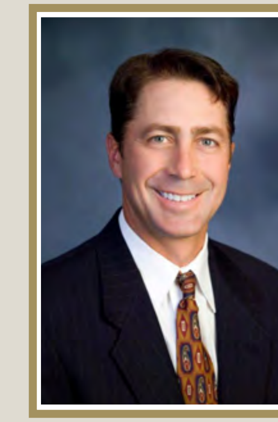
Why Invest in Private Equity?

The fundamental reason for investing in private equity is to improve the risk and reward characteristics of an investment portfolio. Investing in private equity offers an investor the opportunity to generate higher absolute returns while improving portfolio diversification.

Portfolio Diversification Improves Risk and Volatility Characteristics

Within a balanced portfolio, the introduction of private equity can improve diversification. Although lower correlation of returns between private equity and public market classes is widely debated and needs further investigation, the data indicates a lower correlation.

Access to Legitimate Inside Information

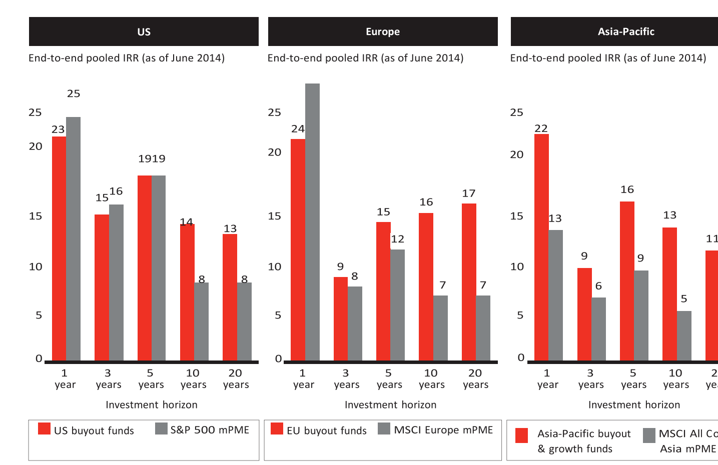


Keith A. Jaworski, CFA
Patton Albertson & Miller, LLC

A much greater depth of information on proposed company investments is available to private equity managers. This helps managers more accurately assess the viability of a company's proposed business plan and to project the post-investment strategy to be pursued and expected future performance. This greater level of disclosure contributes significantly to reducing risk in private equity investment. Equivalent information in the public markets would be considered "inside information". By definition, investors in public markets will know less about the companies in which they invest.

Long-Term Historical Out-Performance

The long-term returns of private equity represent a premium to the performance of public equities. This has been the case in the US for over 20 years and also in Europe. The tradeoff for investors, however, is less liquidity than exchange traded companies. It is not uncommon for private equity investments to require 5-10 year holding periods.



Notes: Europe includes developed economies only; Cambridge Associates' mPME is a proprietary private-to-public comparison methodology that evaluates what performance would have been had the dollars invested in PE been invested in public markets instead; the public index's shares are purchased and sold according to the PE fund cash-flow schedule Source: Cambridge Associates

...Basics continues on Page 4

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