LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update **January 2017**

Mountains of Debt - Does it Matter Anymore?

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The national debt, the Federal Reserve's balance sheet, student loans, corporate debt, car loans, home mortgages, etc. Does any of this matter anymore? I watch CNBC, Bloomberg and others and it's rarely mentioned. Just take debt out of the equation? The equity market doesn't seem to care – it keeps going up. We consumers keep spending – we all have our iPhones, our big screen TV's with plenty of bandwidth for Netflix, YouTube, and more.

Maybe it's out with the old and in with the new. We have president-elect Trump coming in to fix everything! That would be HUGE! He has certainly put forth a different agenda and is pro-growth like Reagan. We should be all set, right? GDP growth should return to 4% overnight. Tax cuts for corporations and individuals will take place the day he is sworn in and the next day we will repatriate the $2+ trillion back to the states.

But what is the cost of his pro-growth agenda? We all know that Trump has no fear of debt – he has said as much. So, where do we stand today? Over the last 8 years, the national debt has doubled to ~$20 trillion. We are currently over 100% Debt/GDP. The Fed has ~$4.5 trillion that we continue to roll rather than reduce. Student loans have skyrocketed to ~$1.3 trillion. Corporate debt is now ~$30 trillion, auto loans are ~$1 trillion and home mortgages are ~$14 trillion. I don't know about you but this seems like a lot!

So, what are the implications going forward? When you borrow money, you must pay interest (currently about 2.5% on the 10-year treasury) and eventually pay back the principal. It is a contract like when you buy your home. When rates are low like they have been for the last decade, the cost of that interest is about a third of what it has been historically. But what will happen when rates normalize? Let's use 5% and the national debt for this example. When we had $10 trillion at 5%, that was $500 billion per year in interest. The Fed then artificially lowered rates because of the Great Recession to ~2.5%. Since then, our national debt has doubled to $20 trillion. We are still fine, right? $20 trillion at 2.5% is the same $500 billion. But rates will eventually go up – they have already started their march – in the "normalization" process. $20 trillion at 5% is $1 trillion. The total government budget is ~$3 trillion. At 5%, we are paying a third of our entire budget to cover the interest on our national debt! What's frightening is that this is just the tip of the iceberg. Governments somehow find ways to delay paying the piper.

Corporations, college graduates, car owners and home owners find it a little more difficult.

So, do these mountains of debt matter anymore? Well, it certainly matters when bankruptcies start to accelerate – either at the corporate level or the personal level. So far, that's been avoided. But that's been in an ultra-low interest rate environment. When dominoes start to fall…

If your heart rate is higher now than it was two minutes ago, you may want to truly ponder the risk you may be taking in your investment portfolio as all of this will sometime come home to roost. At Lanier, our mission is To Build Confidence and Security in Your Financial Future. Entering a new wave of this economic cycle, confidence and security will only come by doing things differently.

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 – 1/10/17

Macro Viewpoint

- US equity markets pause after an 8% run-up on Trump's pro-growth agenda.
- Trump begins to push the pro-American manufacturing agenda in the U.S. automotive sector (protectionism).
- Europe begins to feel some of the real concerns surrounding what Brexit means and stressed European banks.

Asset Class Comments

- Equity valuations based on many matrices are at or near all time highs. What is the new normal?
- The significant move up in interest rates has illustrated the risk in bonds. Consider shortening duration and reducing credit risk.
- We are now near 8 years into this economic cycle without a bear market. Be careful and consider low to negatively correlated assets.

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		December	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.0%	0.1%	0.5%	0.5%	0.2%	0.2%	0.2%	0.9%
Fixed Income									
Domestic (Barclays US Agg)		0.3%	-3.2%	2.5%	2.5%	2.9%	2.1%	3.5%	4.3%
Vanguard Total Bond Market	VBMFX	0.3%	-3.2%	2.5%	2.5%	2.8%	2.0%	3.4%	4.2%
Eaton Vance Floating Rate	EIBLX	1.4%	2.5%	11.1%	11.1%	3.2%	4.5%	4.9%	3.8%
US Preferred Stock ETF	PFF	0.3%	-4.0%	1.3%	1.3%	6.4%	7.0%	6.6%	3.7%
High Yield (Barclays US Corp HY)		1.9%	1.3%	14.5%	14.5%	4.1%	2.8%	4.8%	5.1%
Short Term High Yield	SJNK	1.7%	2.0%	14.2%	14.2%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		2.0%	4.0%	12.0%	12.0%	8.8%	14.6%	12.8%	6.9%
S&P Equal Weight	RSP	1.1%	3.8%	14.5%	14.5%	8.3%	15.1%	13.5%	7.8%
Domestic Mid Cap (S&P 400 TR)		2.2%	7.4%	20.7%	20.7%	8.8%	15.2%	14.1%	9.1%
Vanguard Mid-Cap ETF	VO	0.7%	2.2%	11.3%	11.3%	7.7%	14.4%	13.4%	7.6%
Domestic Small Cap (S&P 600 TR)		3.4%	11.1%	25.7%	25.7%	9.3%	16.5%	15.5%	9.0%
Vanguard Small-Cap ETF	VB	1.9%	6.2%	18.5%	18.5%	7.1%	14.9%	13.9%	8.2%
Developed Intl. (MSCI EAFE)		3.4%	-0.7%	0.9%	0.9%	-1.7%	6.5%	3.8%	0.7%
MSCI EAFE	EFA	2.7%	-1.4%	1.4%	1.4%	-2.0%	6.3%	3.7%	0.6%
Emerging Intl. (MSCI EM)		0.2%	-4.2%	11.1%	11.1%	-2.6%	1.3%	0.5%	1.8%
Vanguard FTSE Emerging Markets ETF	VWO	-0.7%	-4.5%	12.2%	12.2%	-1.9%	1.4%	0.6%	1.8%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		4.2%	-3.4%	5.9%	5.9%	11.6%	11.5%	13.1%	4.5%
Mortgage Real Estate	REM	0.7%	2.1%	21.9%	21.9%	8.9%	8.9%	7.2%	-
REIT ETF	VNQ	4.8%	-2.9%	8.6%	8.6%	13.2%	11.8%	13.6%	5.2%
Commodities (Thomson Reuters/Jefferies CRB Index)		5.4%	5.7%	22.5%	22.5%	-14.7%	-10.7%	-6.8%	-5.5%
DBC	DBC	4.1%	5.5%	18.6%	18.6%	-15.6%	-11.7%	-5.8%	-4.2%
Gold	GLD	-1.9%	-12.8%	8.0%	8.0%	-0.3%	-6.8%	1.7%	6.3%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		1.1%	1.4%	5.8%	5.8%	2.5%	4.6%	3.9%	3.4%
INFINITY*	OCEAN	0.9%	2.3%	3.4%	3.4%	5.7%	7.9%	7.1%	7.2%
Boston Partners Long/Short Equity	BPLEX	1.7%	8.9%	22.2%	22.2%	8.0%	8.7%	10.6%	10.6%
QIM Tactical Aggressive*	QIM TA	-7.4%	-17.7%	28.4%	28.4%	7.6%	8.6%	13.6%	16.9%
Hedge Fund Plus*	HF+	-0.6%	-0.6%	12.3%	12.3%	7.1%	8.6%	9.6%	10.2%
Boston Partners Global Long/Short	BGLSX	1.2%	0.9%	2.4%	2.4%	4.0%	5.5%	4.5%	3.8%
Managed Futures									
Barclays CTA Index		0.0%	1.6%	2.1%	2.1%	3.6%	1.5%	1.6%	3.2%
WINTON*	WINTON	1.1%	-3.6%	-4.9%	-4.9%	-0.4%	-1.5%	0.3%	2.3%
QIM*	QIM	4.7%	5.1%	15.8%	15.8%	3.3%	1.5%	-0.1%	4.2%
AQR Managed Futures Strategy	AQMNX	-0.3%	-8.1%	-8.7%	-8.7%	0.5%	2.6%	1.8%	3.4%
Natixis ASG Managed Futures Strategy	ASFYX	0.8%	-4.3%	-5.5%	-5.5%	4.5%	2.8%	3.2%	4.4%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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Junius V. (Trip) Beaver, III
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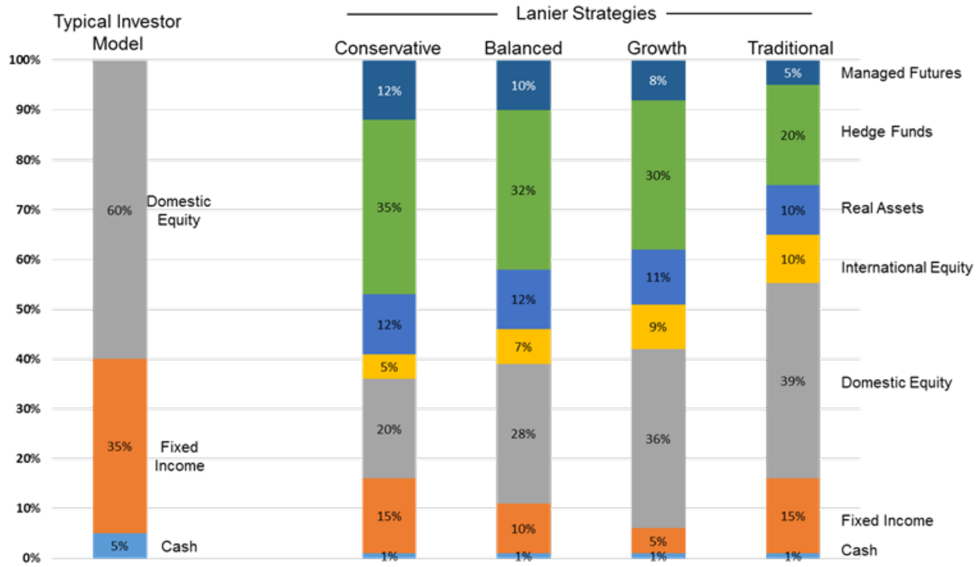
Chief Compliance Officer

Stephanie E. Milby
Investment Associate

Building Confidence and Security in Your Financial Future

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