LANIER
ASSET MANAGEMENT LLC

Building Confidence
and Security in Your
Financial Future

Monthly Update

July 2017

Quality of Life Influencers (cont.)

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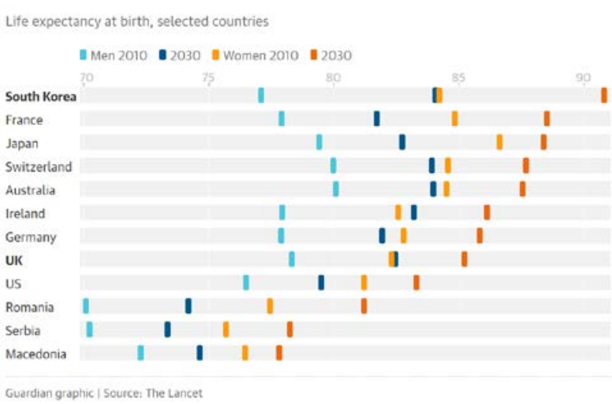
Last month, my partner Carl identified a short list of the five major influencers to one's quality of life as we know it and described in detail the first three: I. Demographics, II. Sound pro-growth economic policies and III. Debt Levels. The picture was not encouraging and warned us all to be prepared for slow economic growth. Today, we complete the exercise by discussing the last two: IV. Healthcare Advancements and V. Automation/Technology. As Carl foreshadowed, these two do provide some reason for optimism.

IV. Healthcare Advancements

The macro data is irrefutable. People born today have a longer life expectancy than those born a few short decades ago. This is true across the globe. According to the CDC, in 1900 the primary causes of death were pneumonia, tuberculosis, diarrhea, enteritis and diphtheria. Scientific discoveries of bacteria and viruses, the development of antibiotics and the provision of clean water were the primary drivers of increased life expectancy in the 20th century. The chart below illustrates the shift to longer life expectancies for virtually all people on this planet while most people get another 10+ years!



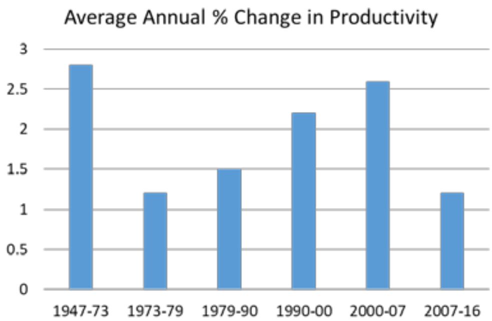
Where are we today? Here is a list of some of the top expected healthcare advancements over just the next 2-3 years: personalized treatment plans based on individual genetic information; new cancer vaccines; wearable sensors for diseases like diabetes, heart disease and asthma; better cancer screening. The list goes on and on. One thing is for sure – the pace of change has accelerated exponentially and that trend will not change. Literally life changing advancements by the boatload!

It remains to be seen whether healthcare advancements will prove to be a positive or a negative with respect to US GDP growth. In many instances, US companies are the driving force behind the technology advancements and will profit handsomely as they are realized. As people live longer, they are working longer (or at least have the ability to). But on the other side of the coin, healthcare costs already account for 18% of US GDP versus 10-12% for most other countries. As the population ages and lives longer, who is going to pay for those increased costs?

In summary, healthcare advancements are great! Yet the current structure of both social security and Medicare (free healthcare) benefits are simply unsustainable in their current very antiquated state.

V. Automation/Technology

Unfortunately, productivity in the US has stalled and in fact declined. Unless this trend reverses, strong GDP growth cannot happen. If history is our guide, there is also no question that automation and technology has improved the quality of our lives and will continue long into the future. If we think back to the Industrial Revolution, Henry Ford invented the assembly line which provided automobiles to the masses. Heavy manufacturing brought about a greater volume and variety of factory-produced goods and raised the standard of living for people of all economic classes. As this revolution continued, our country became more urban population, shifting from rural areas to find higher paying jobs, enhancing the lives of their families. The chart below illustrates our stalled productivity advancements.



We have now entered a new wave of industrialization. Where Henry Ford famously said that "car-buyers could have any color they liked, as long as it was black," going forward manufacturing is going digital! Think of some of the latest technology advancements of the last ten years. The personal computer we use every day to make phone calls, emails, texts, etc. Artificial intelligence technology can predict the food that you want and order it for you to show up on your doorstep. Driverless automobiles that are (presumably) safer and allow the passenger to concentrate on something other than driving. New clever software that allows us to tap an application and do almost everything. Robotics in a whole range of industries has allowed goods and services to be done for less and with greater efficacy. Think of the possibilities within just 3-D printing. New materials that are lighter, stronger and more malleable can be made to any shape and size.

The research of the Boston Consulting Group concludes that in areas such as transport, computers, fabricated metals and machinery, 10-30% of the goods that America now imports from China could be made at home by 2020, boosting American output by $20-55 billion a year. The ideas and applications are endless! In 10 years, there will be mainstream technology that we have not even thought of today! There will be applications for existing technologies that we have not even imagined. Will there be job loss with technology advancements and automation? Of course. But there will be new, more efficient jobs that are created. Creative destruction is always good for GDP growth.

Summary

The major influencers of our lives in the future are exciting yet scary. The facts are simple – our country is aging. We have had solid economic policies but recently destroyed incentives with higher tax rates and boatloads of regulation. Debt levels have grown to levels that eventually will destroy life as we know it. So let's hope the healthcare and technological advancements discussed here are so pronounced that our children and grandchildren will prosper and enjoy life to the fullest!

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 – 7/12/17

Macro Viewpoint

- As Congress remains in a stalemate over healthcare and tax cuts, the bulls continue regardless of valuation.
- Fed raises rates again and considers a more gradual approach. Going forward, they are also considering reducing the balance sheet ($4.5 Trillion) by $50 Billion per month as securities mature.
- We are entering the 9th year in this economic cycle without a bear market. Be careful and consider low to negatively correlated assets.

Asset Class Comments

- Momentum continues to push the US equity markets higher; I guess the Shiller, Buffet, Singer, etc. models are all wrong.
- The 10-year treasury yield is back to 2.3%. Consider shortening duration and reducing credit risk.
- Developed foreign and emerging equity markets have found their footing as investors look outside the US for gains.

Performance Update

	Investment Vehicle	Total Return (%) June	QTD	YTD	1-Year	Annualized 3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.0%	0.0%	0.1%	0.5%	0.3%	0.2%	0.2%	0.7%
Fixed Income									
Domestic (Barclays US Agg)		0.1%	1.6%	2.4%	-0.5%	2.4%	2.1%	3.1%	4.4%
Vanguard Total Bond Market	VBMFX	0.0%	1.4%	2.3%	-0.5%	2.3%	2.0%	3.0%	4.3%
Eaton Vance Floating Rate	EIBLX	0.1%	1.0%	2.5%	8.3%	3.6%	4.2%	4.8%	3.7%
US Preferred Stock ETF	PFF	0.8%	2.1%	7.3%	3.4%	5.2%	6.1%	7.1%	4.4%
High Yield (Barclays US Corp HY)		0.1%	2.2%	4.6%	10.7%	4.4%	3.3%	4.8%	5.3%
Short Term High Yield	SJNK	-0.1%	2.0%	4.0%	10.5%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		0.6%	3.1%	9.2%	17.8%	9.5%	14.5%	15.3%	7.1%
S&P Equal Weight	RSP	1.2%	2.4%	7.7%	16.8%	8.1%	15.1%	15.4%	7.8%
Domestic Mid Cap (S&P 400 TR)		1.6%	2.0%	6.0%	18.6%	8.3%	14.8%	15.3%	8.5%
Vanguard Mid-Cap ETF	VO	0.6%	2.7%	9.0%	17.1%	8.0%	14.8%	15.2%	7.5%
Domestic Small Cap (S&P 600 TR)		3.0%	1.7%	2.8%	22.4%	9.1%	15.3%	16.1%	8.4%
Vanguard Small-Cap ETF	VB	2.2%	1.9%	5.7%	19.0%	6.8%	14.1%	15.0%	7.8%
Developed Intl. (MSCI EAFE)		-0.2%	6.1%	13.8%	20.3%	1.1%	8.7%	7.9%	1.0%
MSCI EAFE	EFA	0.3%	6.4%	14.8%	19.9%	1.2%	8.6%	8.1%	1.0%
Emerging Intl. (MSCI EM)		1.0%	6.3%	18.4%	23.8%	1.1%	3.9%	3.9%	1.9%
Vanguard FTSE Emerging Markets ETF	VWO	0.9%	3.4%	15.0%	18.8%	0.8%	3.3%	3.7%	1.6%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		2.0%	2.4%	4.8%	-0.2%	7.9%	9.4%	12.9%	5.7%
Mortgage Real Estate	REM	2.4%	4.5%	15.2%	23.8%	8.4%	8.2%	9.3%	-
REIT ETF	VNQ	2.2%	1.7%	2.6%	-1.8%	8.1%	9.3%	13.1%	6.2%
Commodities (Thomson Reuters/Jefferies CRB Index)		-2.2%	-7.1%	-10.6%	-5.9%	-20.4%	-11.4%	-7.0%	-6.8%
DBC	DBC	-1.0%	-5.0%	-8.8%	-5.9%	-18.6%	-12.9%	-7.1%	-5.9%
Gold	GLD	-2.2%	-0.6%	7.7%	-6.7%	1.3%	-3.9%	1.5%	6.9%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.4%	1.4%	3.8%	8.2%	2.6%	4.9%	4.5%	3.0%
INFINITY*	OCEAN	-0.7%	-0.2%	1.2%	6.3%	4.9%	7.5%	7.3%	6.1%
Boston Partners Long/Short Equity	BPLEX	2.6%	-3.7%	-4.1%	7.5%	3.6%	6.6%	10.2%	10.0%
QIM Tactical Aggressive*	QIM TA	-4.4%	18.2%	45.1%	29.9%	25.2%	15.1%	17.2%	20.4%
Citadel*	CITADEL	-0.9%	1.8%	4.4%	14.4%	10.7%	14.3%	15.3%	10.5%
Millennium*	MILLENN	-0.5%	0.2%	2.3%	6.7%	8.4%	8.9%	9.3%	8.1%
Verition*	VERITION	1.5%	1.1%	4.2%	8.0%	8.6%	13.5%	11.6%	13.0%
Hedge Fund Plus*	HF+	-0.8%	2.8%	8.0%	11.6%	9.1%	9.3%	10.3%	10.2%
Boston Partners Global Long/Short	BGLSX	-0.5%	0.4%	2.3%	4.8%	3.3%	5.6%	4.9%	3.3%
Managed Futures									
Barclays CTA Index		-0.7%	1.7%	0.6%	1.5%	3.6%	1.7%	1.8%	3.0%
WINTON*	WINTON	-2.2%	-3.7%	-3.7%	-9.8%	-2.0%	-0.9%	-0.9%	1.4%
QIM*	QIM	-0.2%	-1.1%	3.1%	8.3%	7.1%	-0.2%	1.4%	3.6%
AQR Managed Futures Strategy	AQMNX	-2.3%	-4.7%	-5.6%	-15.6%	0.4%	1.5%	1.1%	2.6%
Natixis ASG Managed Futures Strategy	ASFYX	-2.4%	-3.0%	-2.5%	-12.7%	2.0%	4.4%	3.0%	3.9%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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Co-Chief Investment Officer, Principal

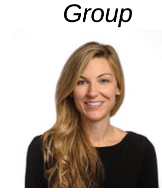
Carl W. Hafele, CFA, CPA
Co-Chief Investment Officer, Principal

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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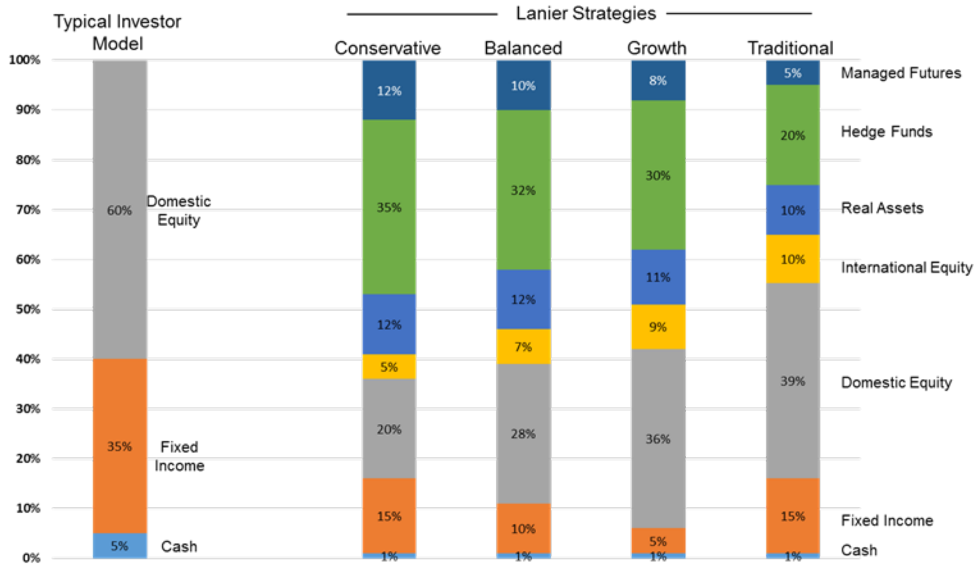
Our Approach

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.

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