LANIER ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

November 2020

Federal Tax Revenues and the Debt Bomb (Continued)

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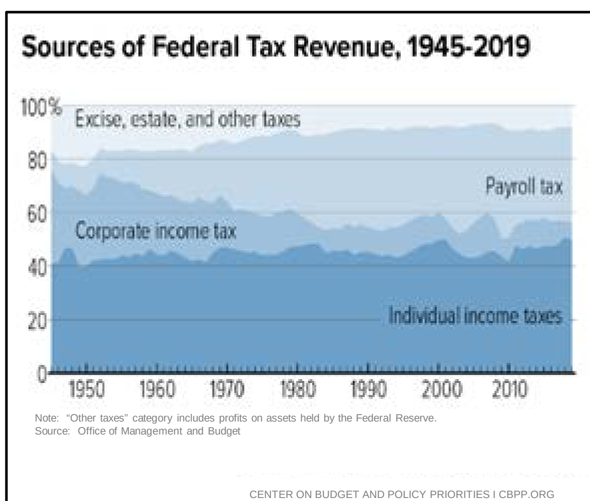
Over the last several years, we have written numerous newsletters regarding the fiscal position of our country. They are all available on our Lanier website. In August of 2018, we wrote of *The High Cost of Good Intentions* that vividly details that our problems are driven by both demographics and politics. In March of 2019, we wrote about the differences between Socialism and Capitalism, and encouraged readers to educate themselves on the beliefs and examples in history of each. In September of 2019, we wrote about how so many people are "voting with their feet," as people from high income tax states (NY, CA) are exiting in masses to states with low or no income taxes (FL, TN, NH).

Last month, my partner Carl wrote about the unsustainable path of the USA and our path to a $50 trillion debt bomb possibly in this decade. The figures do not lie that we have a severe addiction to overspending. And it looks to get worse driven by both politics and demographics. We promised to comment on the income side of the government debt bomb which is solely tax revenues and tax increases.

These are four sources of federal tax revenue:

Source	Percent of Federal Revenue
• Income tax	50%
• Payroll tax (Social Security and Medicare at 7.65% for employee and employer)	35%
• Corporate income tax	7%
• Other, including: Excise tax 3% Regulatory/Customs 4.5% Estate taxes 0.5%	8%



The graph above illustrates the 75 year history.

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The problem is spending versus income as measured as percent of GDP. For over 50 years, we had revenue at 18% and spending at 20% – which was okay as long as GDP grew 2%+. It is simply larger government in our lives. The spending percentages are now much higher and expected to increase. Thus, more revenue is needed.

The major sources of revenue are all scheduled to increase under a new administration if they can be approved by the Senate. The Biden/Sanders Unity Task Force presented their new tax plan, and highlights include:

Individual Income Tax Rates	10 Year Revenue Increase (Billions)
• Top rate increased to 39.6 from 37%	$ 150
• Eliminate capital gains rate above $1 millon	$ 500
• Cap itemized deductions at 28%	$ 300
• Payroll tax – apply 12.4% above $400k income	$1,000
Subtotal	**$1,950**
Corporate Tax Rates	
• Increase to 28% from 21%	$1,250
• Miscellaneous deduction phaseouts/foreign increases	$ 800
Subtotal	**$2,050**
Total Tax Increase	**$4,000**

The $4 trillion in tax increases are further adjusted down by tax decreases for renters and childcare and increased marginally by a humongously large upward revision to estate taxes. Federal revenue over the last five years pre-COVID averaged ~$3.3 trillion. Adding $400 billion each year ($4 trillion ÷ 10 years) in tax revenue is an approximate 12% raise. I wish it would pay down debt, but I'll bet you a buck it will not.

The war on the wealthy is official – when you are alive and when you are dead!

Each area could be a newsletter in itself. For example, if a couple sells their low cost basis investment (like the business they built over the last 20+ years) and each work and together they make $400k, it is very possible they could pay 65% of their hard-earned profits made over decades or even generations to their friends – the federal and state governments. And then pay steep estate taxes on what's left. So not a lot would be left. Sad.

The federal tax revenue increases Americans are facing are potential game changers to American behaviors. We love discussing the associated items of required rates of return of various investments pre-tax, the Laffer Curve and incentives, progressive tax rates, who pays the taxes, estate taxes and more. Please give any of us a call if we can help you in any fashion. Thanks for following us!

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.

Performance Update

		Total Return (%)							
						Annualized			
	Investment Vehicle	October	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Federal Money Market Reserve		0.0%	0.0%	0.4%	0.7%	1.6%	1.3%	0.9%	0.7%
Fixed Income									
Domestic (Barclays US Agg)		-0.6%	-0.6%	6.3%	6.1%	5.3%	4.2%	3.8%	3.5%
Vanguard Total Bond Market	VBMFX	-0.6%	-0.6%	6.3%	6.1%	5.0%	4.0%	3.6%	3.4%
RiverNorth Doubleline	RNDLX	-0.1%	0.0%	1.7%	3.1%	3.8%	4.5%	4.5%	4.1%
Eaton Vance Floating Rate	EIBLX	0.2%	0.2%	-1.1%	0.9%	2.4%	3.9%	3.1%	3.8%
US Preferred Stock ETF	PFF	-0.2%	-0.2%	0.5%	2.0%	3.6%	4.0%	5.2%	5.1%
High Yield (Barclays US Corp HY)		0.5%	0.5%	-0.7%	1.8%	3.2%	4.8%	3.9%	3.6%
Short Term High Yield	SJNK	0.6%	0.6%	0.3%	2.3%	3.0%	4.7%	3.1%	4.5%
Equities									
Domestic Large Cap (S&P 500 TR)		-2.8%	-2.8%	1.2%	7.7%	8.3%	9.5%	9.3%	10.7%
iShares S&P 100 ETF	OEF	-3.2%	-3.2%	5.1%	12.0%	9.9%	10.3%	9.8%	11.0%
S&P Equal Weight	RSP	-0.6%	-0.5%	-5.3%	0.6%	5.7%	8.3%	8.6%	11.2%
Domestic Mid Cap (S&P 400 TR)		2.1%	2.1%	-7.2%	-1.8%	2.7%	7.1%	7.2%	10.2%
Vanguard Mid-Cap ETF	VO	-0.1%	-0.1%	0.1%	5.8%	7.4%	9.1%	9.3%	11.5%
Domestic Small Cap (S&P 600 TR)		2.5%	2.5%	-13.6%	-8.3%	0.0%	6.2%	6.2%	10.3%
Vanguard Small-Cap ETF	VB	2.2%	2.2%	-4.3%	1.9%	6.3%	9.3%	8.3%	11.3%
Developed Intl. (MSCI EAFE)		-4.1%	-4.1%	-12.6%	-9.0%	-3.8%	1.1%	0.7%	2.9%
MSCI EAFE	EFA	-3.6%	-3.6%	-10.4%	-6.6%	-1.5%	2.8%	1.8%	3.7%
Emerging Intl. (MSCI EM)		2.0%	2.0%	-1.0%	5.9%	-0.5%	6.3%	2.2%	1.7%
Vanguard FTSE Emerging Markets ETF	VWO	1.3%	1.3%	0.1%	7.7%	1.6%	7.2%	3.2%	2.0%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		-3.2%	-3.2%	-14.4%	-14.9%	1.8%	3.8%	5.9%	7.8%
Mortgage Real Estate	REM	-0.4%	-0.3%	-37.2%	-34.0%	-8.7%	1.2%	1.8%	2.9%
REIT ETF	VNQ	-3.0%	-3.0%	-15.4%	-15.9%	1.7%	3.4%	5.7%	7.7%
Commodities (Thomson Reuters/Jefferies CRB Index)		-3.8%	-3.8%	-32.4%	-25.7%	-5.9%	-2.5%	-8.1%	-6.5%
DBC	DBC	-3.1%	-3.1%	-20.7%	-16.2%	-6.7%	-3.0%	-9.9%	-6.9%
BlackRock	BCSAX	-1.5%	-1.5%	-8.5%	-4.3%	-0.4%	2.8%	-3.1%	-3.0%
Gold	GLD	-0.5%	-0.5%	23.3%	23.7%	13.5%	10.0%	6.8%	3.5%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.4%	0.4%	0.9%	3.9%	2.5%	3.8%	3.4%	3.4%
INFINITY*	OCEAN	0.7%	0.7%	8.5%	9.7%	5.3%	5.1%	5.7%	6.6%
BlackRock Long/Short Equity	BGCIX	0.3%	0.3%	-1.1%	-3.3%	-2.1%	-1.1%	-1.3%	-0.3%
Gateway Fund	GTEYX	-1.2%	-1.2%	-1.2%	0.7%	1.2%	2.9%	2.6%	2.9%
Millennium*	MILLENN	0.9%	0.9%	14.9%	16.7%	9.8%	8.3%	9.2%	9.2%
Verition*	VERITION	1.4%	1.4%	21.6%	24.6%	12.8%	11.8%	11.8%	11.3%
Renaissance*	RENAISS	-3.8%	-3.8%	-20.3%	-19.7%	-1.1%	5.9%	8.4%	11.5%
Point72*	POINT72	1.2%	1.2%	11.7%	14.6%	9.8%	9.7%	11.3%	11.8%
Elliott*	ELLIOTT	0.2%	0.2%	8.2%	9.6%	6.4%	7.7%	7.4%	8.0%
Third Point*	THIRD P	-0.9%	-0.9%	3.1%	8.0%	1.6%	4.7%	4.6%	7.3%
Lanier Hedge Fund*	LHF	-0.1%	-0.1%	5.4%	7.0%	5.5%	6.5%	7.2%	8.2%

= Benchmarks
= Lanier Selections

* For Accredited Investors

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 A. Hamilton
Financial Consultant


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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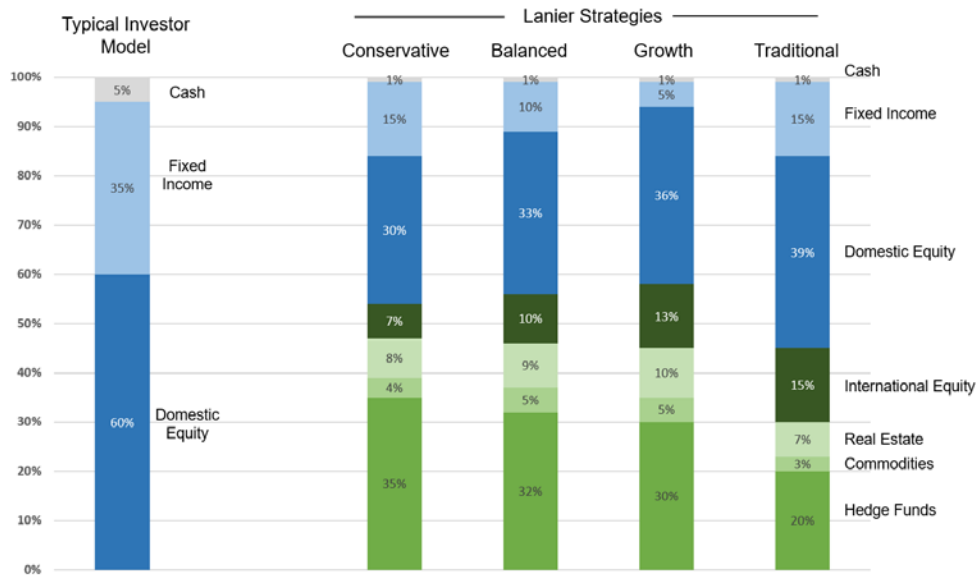
Our Approach

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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