LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

May 2016

Would You Rather: Tax Cut or Tax Increase?

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Many of us would have an easy time answering this question, including the likely Presidential Candidates, Hillary Clinton and Donald Trump. Both candidates have introduced tax policy that clearly answers this direct question and, not surprisingly, their answers are not the same. Nor is the long term impact on the economy.

Hillary Clinton would rather have a tax increase to raise government revenues for expanded government services. Clinton has introduced tax policy that increases taxes primarily on the highest income taxpayers. Some of her proposals include a 4% surcharge on taxable income in excess of $5 million, a 30% minimum tax on income in excess of $1 million, an increase in the capital gains tax rate, and an increase in the estate tax rate to 45% with a reduced exemption of $3.5 million. Most taxpayers would not see a change in their after-tax income if her proposals were enacted.

Donald Trump, however, would rather have a tax cut for all taxpayers to spur economic activity at the cost of higher debt. Under his proposal, the tax rates for both individuals and business would be sharply reduced. Trump's proposed modifications to the tax code (which he has since described as a floor for negotiations with Congress) would include a top marginal tax rate for individuals of 25% with an expanded 0% bracket, a reduction in the corporate tax rate from 35% to 15% and the elimination of the estate tax. With this plan, all taxpayers would benefit from an increase in after-tax income.

Although that may be enough information for you to make a choice based on your current circumstances, as an investor, you should consider the long term impact of tax policy. An altruistic citizen may accept a tax increase as a means for the government to collect more revenue to offer more services or reduce the national debt. Economists generally agree, however, that a tax increase brings with it slower economic growth and challenges for jobs and wages. Alternatively, a reduction in income tax rates is expected to promote investment in the economy and accelerate economic growth. As an investor, the latter is generally more preferable even though this growth may come at the cost of higher national debt and interest costs. With either plan, the future economic cost is difficult to quantify, but economic measures such as GDP, job growth and wages are more likely to benefit from a tax cut.

So, while it remains uncertain if our future holds a tax cut or an increase, it is certain that any change in tax legislation will impact investor returns.

At Lanier, we will consider changes in tax policy as we model our portfolios to maximize returns and minimize risk. This includes an in-depth consideration of expected future returns and associated risks of all asset classes, utilizing expectations of the best and brightest. It is noteworthy that these returns are not historical past returns. The Lanier approach brings to the individual investor access to the sophisticated investment techniques and methodologies utilized to manage major endowments. This includes minimizing volatility through diversifying investments in both traditional stocks and bonds and nontraditional (hedge funds and managed futures) asset classes.

Sara is a Financial Consultant with an extensive background in estate and tax planning. She graduated from the University of Kentucky College of Law in 1995. Sara obtained her Certified Public Accountant designation in 1997.

Key Points From Our Investment Meeting – 5/12/16

Macro Viewpoint

- Federal Reserve's trajectory and further extension of interest rate hikes has lead to continued volatility
- Corporate America continues to post quarterly earning declines
- Given the volatility, the markets have gone nowhere year to date
- Negative interest rates in the EU and Japan giving many economists pause

Asset Class Comments

- Lower projected returns in both equities and fixed income have caused investors to reevaluate their risk tolerance and profiles
- We continue to believe this environment warrants the need for Diversifying Strategies
- Significant recovery in energy prices has provided stability to high yield bonds and financials
- Ten year treasury yields have fallen near multiyear lows

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		April	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%	0.1%	1.2%
Fixed Income									
Domestic (Barclays US Agg)		0.4%	0.4%	3.4%	2.8%	2.3%	3.6%	4.5%	5.0%
Eaton Vance Floating Rate	EIBLX	2.0%	2.0%	2.8%	-1.9%	1.2%	2.8%	7.0%	3.4%
High Yield (Barclays US Corp HY)		3.6%	3.6%	5.8%	-3.3%	1.5%	4.8%	10.7%	7.0%
Short Term High Yield	SJNK	3.5%	3.5%	5.0%	-4.2%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		0.4%	0.4%	1.2%	0.3%	10.9%	10.8%	15.4%	6.8%
S&P Equal Weight	RSP	1.3%	1.3%	3.7%	-1.1%	11.0%	10.5%	17.0%	7.6%
Domestic Mid Cap (S&P 400 TR)		1.2%	1.2%	5.1%	-1.6%	9.4%	9.0%	16.3%	7.7%
Vanguard Mid-Cap ETF	VO	0.5%	0.5%	1.5%	-3.6%	10.3%	9.5%	16.8%	7.1%
Domestic Small Cap (S&P 600 TR)		0.5%	0.5%	3.2%	-0.3%	10.7%	10.0%	16.4%	7.1%
Vanguard Small-Cap ETF	VB	1.8%	1.8%	2.5%	-4.1%	9.0%	8.5%	16.3%	7.0%
Developed Intl. (MSCI EAFE)		2.9%	2.9%	-0.3%	-9.5%	1.4%	1.7%	8.2%	1.6%
MSCI EAFE	EFA	2.2%	2.2%	-0.5%	-9.9%	1.0%	1.4%	8.1%	1.4%
Emerging Intl. (MSCI EM)		0.5%	0.5%	6.2%	-17.9%	-4.6%	-4.6%	5.9%	2.4%
Vanguard FTSE Emerging Markets ETF	VWO	1.0%	1.0%	6.8%	-18.1%	-4.6%	-4.7%	5.8%	2.1%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		-0.9%	-0.9%	2.7%	7.0%	6.5%	9.9%	18.3%	6.2%
Mortgage Real Estate	REM	1.7%	1.7%	5.8%	-5.7%	-2.7%	3.6%	8.3%	-
REIT ETF	VNQ	-2.4%	-2.4%	2.6%	6.6%	6.7%	9.8%	19.0%	6.8%
Commodities (Thomson Reuters/Jefferies CRB Index)		12.5%	12.5%	14.1%	-29.5%	-17.5%	-15.3%	-4.4%	-7.4%
DBC	DBC	9.7%	9.7%	9.1%	-22.3%	-19.0%	-14.6%	-7.2%	-5.4%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.0%	0.0%	-0.2%	-4.4%	0.7%	0.8%	4.6%	2.8%
INFINITY*	OCEAN	1.3%	1.3%	-1.8%	0.4%	6.4%	6.8%	8.1%	7.9%
Robeco Long/Short Equity	BPLEX	2.7%	2.7%	11.1%	10.2%	5.2%	7.4%	15.5%	11.9%
Boston Partners Global Long/Short	BGLSX	0.2%	0.2%	-1.1%	-1.0%	-	-	-	-
Managed Futures									
Barclays CTA Index		0.2%	0.2%	-0.5%	-1.8%	1.7%	-0.1%	1.6%	2.8%
WINTON*	WINTON	-1.8%	-1.8%	-0.9%	-4.4%	0.0%	-1.1%	0.3%	3.0%
QIM*	QIM	-0.2%	-0.2%	6.4%	17.5%	1.5%	0.3%	-1.4%	3.8%
AQR Managed Futures Strategy	AQMNX	-1.0%	-1.0%	-0.6%	-3.8%	4.0%	-	-	-
WisdomTree Managed Futures Strategy	WDTI	2.6%	2.6%	2.8%	-1.6%	1.2%	-	-	-

= Benchmarks
= Lanier Selections

* For Accredited Investors Only

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
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Sara B. Thomas, JD, CPA
Financial Consultant

Deidre M. Durbin
Chief Compliance Officer

Emily A. Spendlove
Investment Associate

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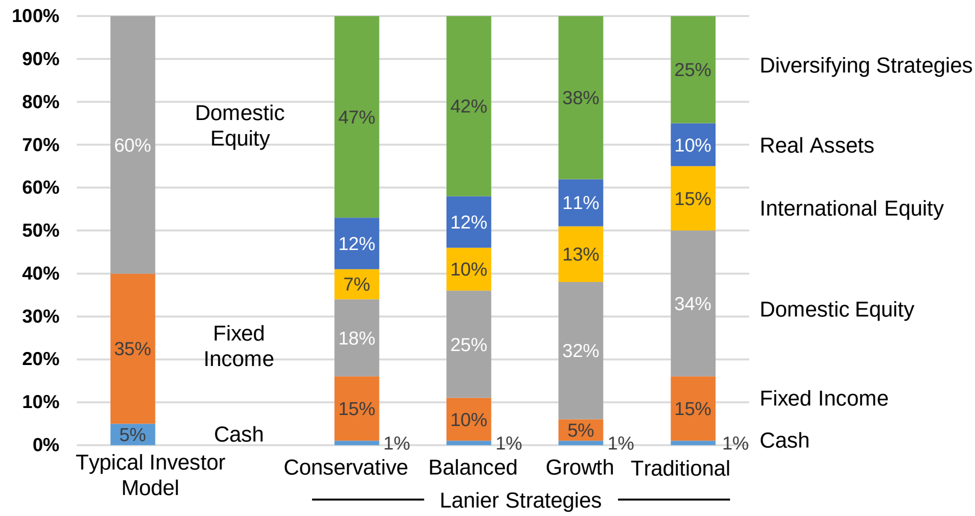
Our Approach

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 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

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