LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

June 2017

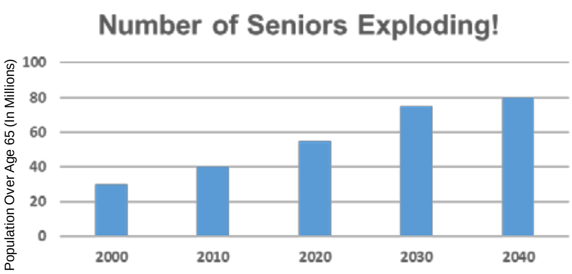
Quality of Life Influencers

Carl W. Hafele, CFA, CPA

Co-Chief Investment Officer, Principal

We have recently written in our Monthly Updates about Trumponomics, Stock Market Valuation and Repatriation. One of our rather astute clients (aren't they all?) challenged me to create a short list of the major influencers to one's quality of life as we know it, and briefly describe my reasoning.

We came up with five – demographics, sound economic policies, debt levels, healthcare advancements, and automation/technology. Let's look at the first three this month.



I. Demographics

There are numerous ways to measure demographic trends, but they all scream the same thing – the graying of America is for real! As the chart shows, the number of million people 65 years old has gone from 30 in 2000 to 55 in 2020, and projections for 2040 are 80 million. That's approximately 25% of the population! Imagine what Florida's senior citizen population will be!

Why is this so influential? Demographics – particularly growth in the working-age population – is the best predictor of nominal GDP growth rates. And the GDP growth rate is the single best measure of the improvement in our quality of life.

The future looks sobering. With the growth in the segment of the population that works growing smaller – primarily from the 10,000 baby boomers that turn 65 daily – there is a forever stubborn headwind challenging any and all economic expansions.

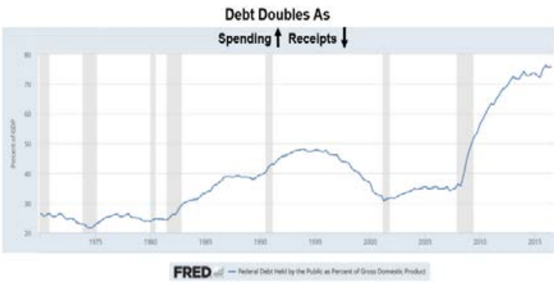
Policies	Prior Administration	Current Administration Promises	
Legal Environment	✓	✓	
Competitive Markets	✓	✓	?
Stable Currency	✓	✓	
Avoid High Marginal Tax Rates	×	✓	
Minimal Regulation	×	✓	
Open Trade	✓	✓	??

II. Sound Pro-Growth Economic Policies

Economic policies that promote growth are essential for GDP to grow faster than a 1-2% rate. The chart here lists the key policies necessary to foster economic growth and compares the prior administration to the promises of our new president. Economists of most all persuasions agree you can get by with one red "x," but if you have two or more, you are guaranteed slow growth. We lived with two including high marginal tax rates and regulations on steroids with the prior administration. The new administration promises to undo those two, but incredibly is toying with messing with competitive markets and open trade. Ugh!

III. Debt

For 230 years, the US kept debt as a percentage of GDP around 35% +/− 10%. The only exception was in the 1940's when we borrowed to defeat Hitler and thereby save capitalism. The chart illustrates the debt held by the public is now nearly 80% -- a doubling in the last 10 years.



Why is this so important? Borrowing costs will take more and more of the federal budget – particularly if interest rates normalize to a higher level. The US cannot default on its debt or the world as we know it would be history. We could reform our ways (i.e. cut entitlements) or inflate our way out. Both are more palatable, but both seem unlikely in the disgustingly polar political climate.

Annual budget deficit projections are not pretty, either. Raising marginal tax rates will not increase tax revenues as we are already over the 40% level – the level deemed as the highest rate where incentives come into play. We will need a Value Added Tax (VAT) or Lord forbid a wealth tax à la Bernie Sanders' socialistic views. Not pretty. Just math!

Summary

So if the demographics are just statistics that can't lie, we are looking at slow growth. But if we get some pro-growth policies, things could be better! Yet the debt is a persistent headwind.

These major quality of life influencers all strongly support the necessity of having more asset classes in your portfolio other than just stocks and bonds that the typical investor owns.

The savior may well be in technological advancements and new discoveries in healthcare. We'll present our thoughts on those next month. Enjoy the summer!

Carl W. Hafele, CFA, CPA, is Co-Chief Investment Officer and Principal at Lanier Asset Management.

Key Points From Our Investment Meeting – 6/12/17

Macro Viewpoint

- S&P 500 earnings growth rises (13%) as multinationals and technology take the lead.
- Questions surround Trump's pro-growth strategies given Russian interference and Comey's dismissal.
- 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; do historical models work anymore?
- The 10-year treasury yield has now dropped by over 40 bps since the highs of last year. Consider shortening duration and reducing credit risk.
- Developed foreign and emerging equity markets seem to have found their footing as some investors look outside the US for gains.

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		May	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.0%	0.0%	0.1%	0.5%	0.3%	0.2%	0.2%	0.8%
Fixed Income									
Domestic (Barclays US Agg)		0.7%	1.5%	2.3%	1.5%	2.5%	2.1%	3.3%	4.4%
Vanguard Total Bond Market	VBMFX	0.7%	1.4%	2.3%	1.4%	2.4%	2.0%	3.2%	4.3%
Eaton Vance Floating Rate	EIBLX	0.4%	0.9%	2.4%	8.0%	3.7%	4.3%	4.7%	3.8%
US Preferred Stock ETF	PFF	0.6%	1.3%	6.4%	3.8%	5.1%	6.4%	7.3%	4.3%
High Yield (Barclays US Corp HY)		1.1%	2.2%	4.5%	12.7%	4.4%	3.3%	5.0%	5.1%
Short Term High Yield	SJNK	0.8%	2.1%	4.2%	12.3%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		1.4%	2.4%	8.5%	17.5%	10.0%	15.3%	14.4%	6.9%
S&P Equal Weight	RSP	0.6%	1.2%	6.5%	15.4%	8.7%	15.7%	14.1%	7.4%
Domestic Mid Cap (S&P 400 TR)		-0.5%	0.3%	4.3%	17.2%	9.2%	14.8%	13.9%	8.1%
Vanguard Mid-Cap ETF	VO	0.9%	2.1%	8.4%	16.4%	8.9%	15.2%	14.0%	7.2%
Domestic Small Cap (S&P 600 TR)		-2.1%	-1.2%	-0.2%	19.6%	9.7%	15.6%	14.4%	7.9%
Vanguard Small-Cap ETF	VB	-1.1%	-0.3%	3.4%	16.9%	7.7%	14.7%	13.4%	7.4%
Developed Intl. (MSCI EAFE)		3.7%	6.3%	14.0%	16.4%	1.5%	10.2%	7.8%	1.0%
MSCI EAFE	EFA	3.5%	6.0%	14.4%	16.7%	1.4%	10.0%	7.8%	0.9%
Emerging Intl. (MSCI EM)		3.0%	5.2%	17.2%	27.4%	1.6%	4.5%	3.6%	2.3%
Vanguard FTSE Emerging Markets ETF	VWO	1.0%	2.6%	14.1%	23.7%	1.6%	4.2%	3.5%	1.9%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		-0.2%	0.4%	2.7%	4.3%	7.6%	10.2%	11.9%	4.5%
Mortgage Real Estate	REM	-1.5%	2.1%	12.6%	24.5%	8.0%	8.6%	8.5%	-
REIT ETF	VNQ	-0.7%	-0.5%	0.3%	2.7%	7.7%	10.0%	11.9%	5.0%
Commodities (Thomson Reuters/Jefferies CRB Index)		-2.1%	-5.0%	-8.6%	-3.7%	-19.6%	-10.3%	-6.5%	-6.5%
DBC	DBC	-1.4%	-4.1%	-7.9%	-0.8%	-19.7%	-11.8%	-6.2%	-5.7%
Gold	GLD	-0.1%	1.6%	10.0%	3.9%	0.8%	-3.3%	1.1%	7.4%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.5%	1.1%	3.4%	8.2%	2.9%	4.9%	4.3%	3.0%
INFINITY*	OCEAN	0.3%	0.4%	1.9%	7.0%	5.3%	7.6%	7.3%	6.2%
Boston Partners Long/Short Equity	BPLEX	-3.6%	-6.1%	-6.5%	2.5%	2.4%	6.2%	8.5%	9.4%
QIM Tactical Aggressive*	QIM TA	13.2%	23.6%	51.8%	50.0%	27.7%	17.2%	18.2%	21.1%
Hedge Fund Plus*	HF+	2.1%	3.5%	8.8%	14.2%	9.5%	9.7%	10.1%	10.4%
Boston Partners Global Long/Short	BGLSX	0.9%	0.9%	2.8%	4.7%	3.9%	5.8%	4.9%	3.5%
Managed Futures									
Barclays CTA Index		0.7%	2.4%	1.3%	3.6%	4.1%	1.4%	2.0%	3.3%
WINTON*	WINTON	-0.2%	-1.4%	-1.4%	-3.3%	-1.3%	-1.2%	-0.4%	1.8%
QIM*	QIM	-0.4%	-0.9%	3.4%	9.0%	7.0%	0.1%	1.5%	3.7%
AQR Managed Futures Strategy	AQMNX	-0.6%	-2.5%	-3.5%	-8.9%	1.5%	1.0%	1.5%	3.0%
Natixis ASG Managed Futures Strategy	ASFYX	0.1%	-0.6%	-0.1%	-6.7%	3.3%	4.2%	3.4%	4.3%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

Mark R. Hoffman
CEO, Principal

Junius V. (Trip) Beaver, III
Co-Chief Investment Officer, Principal

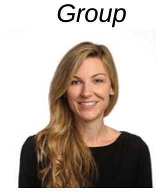
Carl W. Hafele, CFA, CPA
Co-Chief Investment Officer, Principal

John 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

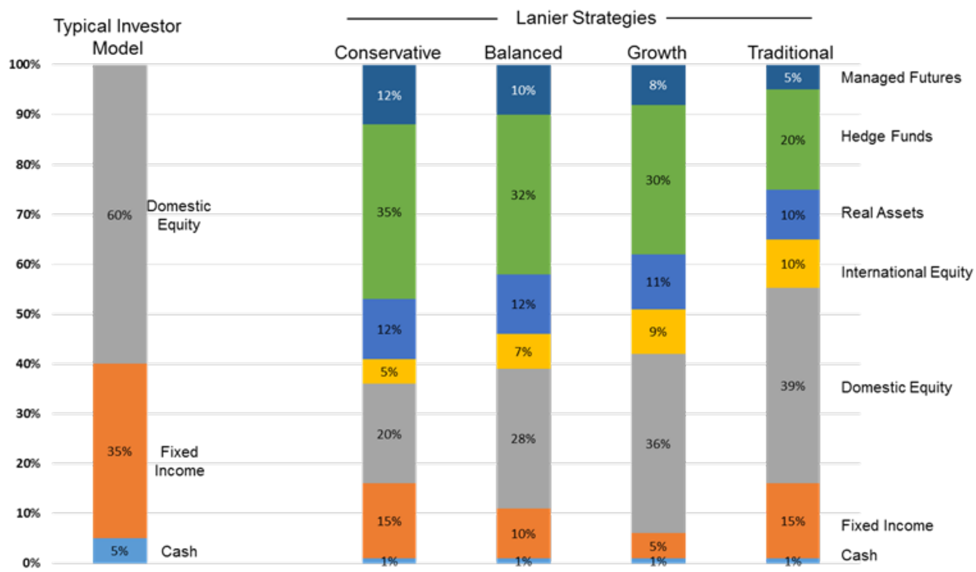


Stephanie E. Milby
Investment Associate

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