LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

July 2018

Is Wage Growth In This Country Improving Over Time?

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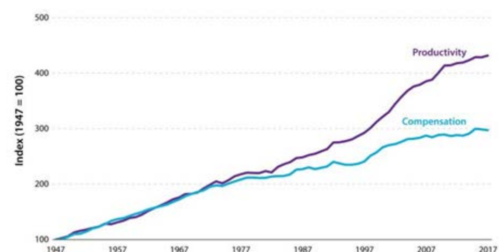
The expectation of rising living standards, with each generation doing better than the one before, has long been a given. More recently, that expectation has diminished and with good reason. One of the best measures economists use to determine Americans' economic advancement is whether wages are rising, broadly and consistently. After adjusting for inflation, wages are only 10 percent higher in 2017 than they were in 1973, with annual real wage growth just below 0.2 percent. The U.S. economy has experienced long-term real wage stagnation and persistent lack of economic progress for many workers.

There are many factors that are necessary for broadly shared wage growth, factors that present problems for many workers which have only been exasperated by the experience of the Great Recession and its recovery. Wages depend on how productive workers are and how much they share in the value of their economic output. Worker productivity is based on human and capital used in the production process and how efficiently they are utilized. For wages to grow long term and be sustainable, workers productivity must increase over time. This increase must provide a bargaining chip with their employer that their productivity is adequate to demand an increase in wages to justify their "worth" to their employer. Otherwise, the increase in productivity will just continue to flow to the top.

As you can see in the chart on the right, productivity growth and wage growth were highly correlated until the early 1980's. Many things have come in to play since that time. Worker mobility, both across jobs and states has been in decline for decades. Competition within and across industry groups (globalization) has had a negative effect on wages. The progress in technological advances has also had a negative impact on the bottom half of employees (displacing many manual labor jobs). Finally, changes in the education needed to join the workforce has changed dramatically over the last 20 years. The rate of change has been astounding.



If this is where we are today, where are we heading in the future? The short answer is that the situation is unlikely to improve for the labor workforce overall. Permanently lower wages and further income inequality are far more likely. Two-thirds of gross domestic product (GDP) is the consumer. If the number of individuals in this country with wage growth is getting more and more skewed to the top end, the number of people with discretionary income is going down. As a friend of mine once said, "How many boats do you need?" Wages have risen for those in the top of the distribution but stagnated for those in the middle and bottom. Wages in the top quintile of the workforce have grown from $38 per hour in 1979 to $48 per hour in 2016, a 27%

increase. Wages in the upper-middle quintile increased by 12%, from $24 per hour to $27 per hour. In the bottom fifth, real wages have fallen over the same period! The true income inequality is coming from the country's largest company's not small businesses. Most economists attribute much of this to globalization and technological progress. Inequality has not always been present in this country. Overall compensation was tilted toward the low end of the spectrum from 1946-1980. Incomes over that period grew faster than the top end. Since 1980, that has clearly reversed.

There are several factors that have led to this reversal. Some I view as positive, other negative and some just are… Globalization and technology would fall into the positive camp. The efficiencies gained from these two factors has improved the quality of lives for billions of people across the globe. Wages for women have also seen significant improvement – certainly a positive! On the negative side, the education premium has risen sharply over the last several decades (he who has the money to pay for higher education gets a higher paying job). Declines in low paying jobs have only gotten worse. Finally, under the "just are" categories, business formation in the country and closings have declined . I feel this has a lot to do with demographics and animal spirits when our country wasn't so rich (on the surface).

It may be obvious that broad-based wage growth is a very positive thing. Who doesn't want to earn more? It's great for the individual. It's great for overall US GDP growth (if you make more, you can spend more). Consequently, it's great for investments as GDP growth is a key component of investment returns. But wage growth has definitely stagnated and income inequality has risen. We certainly hope that things reverse back to the way they were prior to 1980. We just don't see how.

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 – 7/12/18

Macro Viewpoint

- Geopolitical risk continues to elevate volatility in the equity markets globally.
- As tariffs begin to kick in around the world, economists and analysts begin to hypothesize what the outlook may be.
- The US dollar has rallied ~5% since the first of the year. If this continues, what impact will it cause the emerging markets?

Asset Class Comments

- The S&P 500 is sitting near the 2800 level. Are we ready for a breakout or will earnings stall the positive momentum?
- Fixed income spreads continue to stay tight. The two year treasury is yielding ~2.5%. If the Fed continues on its path, does the yield curve invert?

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		June	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.2%	0.5%	0.9%	1.5%	0.9%	0.5%	0.4%	0.5%
Fixed Income									
Domestic (Barclays US Agg)		0.0%	-0.2%	-1.8%	-0.7%	1.7%	2.2%	2.4%	3.6%
Vanguard Total Bond Market	VBMFX	0.0%	-0.2%	-1.7%	-0.6%	1.6%	2.1%	2.4%	3.6%
RiverNorth Doubleline	RNDLX	-0.1%	-0.1%	-0.4%	0.4%	3.6%	4.1%	4.0%	4.8%
Eaton Vance Floating Rate	EIBLX	0.1%	0.7%	2.3%	4.3%	4.5%	3.9%	4.2%	4.5%
US Preferred Stock ETF	PFF	1.8%	1.9%	1.5%	1.7%	4.3%	5.2%	5.2%	6.1%
High Yield (Barclays US Corp HY)		0.1%	0.3%	-1.2%	0.2%	3.1%	3.5%	2.7%	5.6%
Short Term High Yield	SJNK	0.3%	1.0%	1.2%	2.5%	3.8%	3.5%	4.5%	6.9%
Equities									
Domestic Large Cap (S&P 500 TR)		0.5%	2.9%	1.7%	12.2%	9.6%	11.1%	10.9%	7.8%
S&P Equal Weight	RSP	1.0%	2.8%	1.7%	11.8%	10.1%	12.4%	12.2%	11.0%
Domestic Mid Cap (S&P 400 TR)		0.4%	4.3%	3.5%	13.6%	10.6%	12.5%	12.0%	10.7%
Vanguard Mid-Cap ETF	VO	1.0%	2.6%	2.5%	12.2%	9.2%	12.3%	11.7%	10.1%
Domestic Small Cap (S&P 600 TR)		1.1%	8.8%	9.4%	20.5%	13.6%	14.5%	14.0%	12.2%
Vanguard Small-Cap ETF	VB	0.7%	6.2%	11.2%	22.3%	12.3%	13.5%	12.9%	11.8%
Developed Intl. (MSCI EAFE)		-1.4%	-2.3%	-4.5%	4.3%	4.0%	5.9%	4.5%	2.6%
MSCI EAFE	EFA	-1.6%	-1.9%	-2.8%	6.0%	4.8%	6.2%	4.7%	2.8%
Emerging Intl. (MSCI EM)		-4.6%	-8.7%	-7.7%	6.5%	5.0%	4.7%	1.2%	2.1%
Vanguard FTSE Emerging Markets ETF	VWO	-4.8%	-9.6%	-7.3%	5.9%	3.7%	4.4%	0.7%	1.7%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		3.9%	8.2%	1.0%	4.6%	8.2%	8.4%	9.2%	8.1%
Mortgage Real Estate	REM	1.5%	4.8%	0.7%	3.6%	11.5%	8.6%	7.7%	5.4%
REIT ETF	VNQ	4.2%	8.9%	0.0%	2.3%	7.6%	7.9%	8.8%	8.0%
Commodities (Thomson Reuters/Jefferies CRB Index)		0.3%	10.5%	13.3%	45.0%	1.1%	-4.0%	-5.6%	-6.9%
DBC	DBC	-1.9%	4.1%	6.5%	22.4%	-0.6%	-8.4%	-8.2%	-8.3%
BlackRock	BCSAX	-2.4%	2.4%	7.9%	20.9%	3.9%	-0.5%	-4.1%	-5.9%
Gold	GLD	-3.6%	-5.7%	-4.0%	0.5%	1.8%	0.2%	-2.9%	3.7%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		-0.5%	0.9%	1.6%	6.9%	4.1%	4.7%	3.8%	3.6%
INFINITY*	OCEAN	0.2%	0.9%	2.3%	6.2%	4.1%	6.0%	6.6%	6.2%
Boston Partners Long/Short Equity	BPLEX	-2.3%	-1.0%	-6.2%	0.3%	6.1%	4.2%	6.0%	11.2%
QIM Tactical Aggressive*	QIM TA	-2.4%	-20.1%	-36.4%	-31.2%	5.6%	7.1%	12.2%	15.1%
Millennium*	MILLENN	0.0%	1.3%	5.7%	10.5%	6.8%	9.2%	8.5%	8.5%
Verition*	VERITION	-1.2%	1.3%	1.8%	9.6%	9.0%	11.0%	10.2%	12.5%
Renaissance*	RENAISS	1.2%	-0.5%	1.1%	7.0%	18.3%	14.4%	14.5%	11.7%
Third Point*	THIRD P	-0.6%	1.2%	0.6%	6.4%	4.4%	6.6%	8.0%	8.2%
Hedge Fund Plus*	HF+	-0.7%	-4.6%	-8.2%	-2.4%	7.9%	9.1%	10.5%	11.1%
Boston Partners Global Long/Short	BGLSX	-0.8%	-2.3%	-4.4%	0.5%	2.2%	4.1%	3.4%	3.3%
Managed Futures									
Barclays CTA Index		1.5%	1.7%	2.4%	2.6%	2.6%	2.7%	1.4%	1.8%
WINTON*	WINTON	1.5%	1.6%	-2.2%	3.7%	-1.6%	0.1%	-0.6%	-0.6%
QIM*	QIM	0.4%	4.1%	-4.4%	-4.4%	6.1%	2.3%	1.8%	0.6%
AQR Managed Futures Strategy	AQMNX	0.7%	-2.6%	-5.7%	-1.3%	-4.6%	0.0%	0.4%	0.9%
Natixis ASG Managed Futures Strategy	ASFYX	0.5%	-2.1%	-6.5%	2.2%	-2.4%	4.3%	2.0%	2.5%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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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

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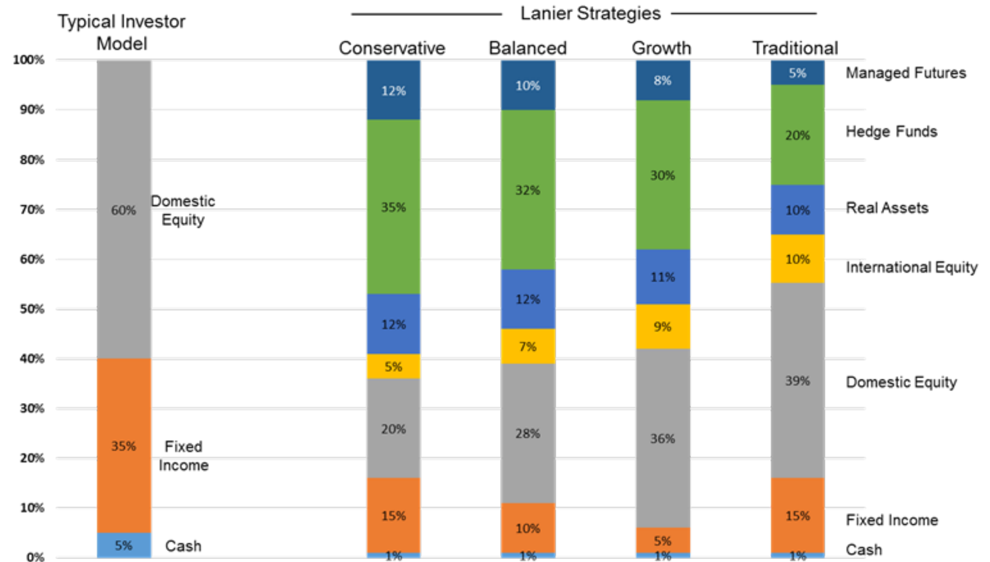
Our Approach

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.

Lanier Asset Management, LLC ("Lanier") is an SEC registered investment adviser located in Louisville, Kentucky. The firm's CRD number is 150888. Certain Representatives of Lanier hold Series 7, 31, 63, and 65 Securities Licenses. Certain representatives of Lanier are also Registered Representatives offering securities through APW Capital, Inc., Member FINRA/SIPC. 100 Enterprise Drive, Suite 504, Rockaway, NJ 07866 (800) 637-3211.

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