LANIER
ASSET MANAGEMENT LLC

Building **Confidence** and **Security** in Your **Financial Future**

Monthly Update   August 2018

The Entitlements Train Wreck – Possible Solutions?

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Virtually all publications and venues that feed us "the news" occasionally show the dismal state of the financial affairs of the United States of America. High and growing debt as percent of GDP, the contributions to the ticking time bomb of Social Security, Medicare and Medicaid and more all threaten the future of our great country and capitalism itself. Fifty-five percent of households are receiving government benefits.

In the short run, economic growth and investor returns are minimally impacted. Creative monetary policy, investment-friendly tax rate reductions and decreasing regulation drive markets – all propel them up and provide returns consistent with long-term norms. Yet in the long run, entitlements will unquestionably matter! It is just math!

How did entitlements get us in this mess? When our programs were created over 80 years ago, life expectancy was dramatically less, the extended family provided care, hospital treatments were not available and "getting old" was normal. Now aging demographics have accelerated our fiscal problems – and done so on steroids!

In an excellent new book by Stanford professor John Cogan The High Cost of Good Intentions, the author lays out how politics has played a key role in our problem, not just demographics. The relaxation of eligibility requirements for all our entitlement programs through the years has virtually bankrupted us. The politicians have always promised more – hundreds of billions monthly – as they will be six feet under when the bill comes due. Benefit reductions historically have been impossible. Not even Ronald Reagan could reduce the entitlement train – yet he did slow it.

How can the upcoming well-documented, simple math, non-political entitlement train wreck be resolved? Only through benefit reductions! Raising income tax rates as high as 80% would be another option that would be needed to fund the expense. (By the way, if that occurs, my posterior is on the beach versus keeping 20% of my earnings.)

But benefit reduction is virtually impossible, as most baby boomers forgot to save and their mantra is that they deserve their benefits as they paid into the system. And gross political polarization also favors no entitlement reductions. So what may happen?

William Jefferson Clinton suggested a net worth tax – say 2.5% annually. As the top 15% own 90% of household wealth – now $90 trillion – there would be a quick $2 trillion plus in tax revenue. The rich are too few to override the rising tide of the average Americans. Oh, by the way, why shouldn't the states jump on the bandwagon and solve the enormous pension crisis with yet another 1-2%? Wealth tax wisdom! Oh my!

A wealth tax would alter the investment landscape. Perhaps some jewelry and fine art would be not-so-visible in the secret room at home. Or even a few thousand Benjys in that hideaway safe. All that equals a shrinking economy when "taking from the rich" becomes part of routine discussions.

Isn't there another solution? Yes there is. First, Social Security is easily fixable by raising the retirement age and means testing wealthier citizens. Next, healthcare – Americans' number one source of stress – should decrease from 18% of GDP to the developed nations' 10% average. To do so, we need to triple the number of medical school graduates and increase the number of nurse aids/physician assistants by tenfold. Combined, the largest parts of government expenditures are grossly reduced and Armageddon is avoided. If not changed, the train will derail as it's only a matter of time.

From an investment perspective, the entitlement train wreck is hugely important in the long run. History is clear that a broadly diversified portfolio using traditional assets augmented by some alternatives provides excellent risk-adjusted returns, particularly in train wreck environments.

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Key Points From Our Investment Meeting – 8/10/18

Macro Viewpoint

- Global tariffs and currency risk continue to elevate volatility in the equity markets globally.
- The one year anniversary of the white supremacist rally in Virginia seems to have ignited further polarization in our country.
- We are now in the 10th year of the US recovery.

Asset Class Comments

- As the US dollar strengthens, it is putting more and more pressure on emerging equities and their denominated US debt.
- 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

		Total Return (%)							
						Annualized			
	Investment Vehicle	July	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.2%	0.2%	1.1%	1.6%	0.9%	0.6%	0.4%	0.5%
Fixed Income									
Domestic (Barclays US Agg)		0.0%	0.0%	-1.9%	-1.1%	1.4%	2.1%	2.2%	3.6%
Vanguard Total Bond Market	VBMFX	0.0%	0.0%	-1.6%	-1.0%	1.3%	2.1%	2.2%	3.6%
RiverNorth Doubleline	RNDLX	0.3%	0.3%	-0.2%	-0.1%	3.6%	4.3%	3.8%	4.8%
Eaton Vance Floating Rate	EIBLX	0.8%	0.8%	3.1%	4.6%	4.8%	3.8%	4.3%	4.7%
US Preferred Stock ETF	PFF	0.2%	0.2%	1.7%	1.2%	3.9%	5.3%	5.5%	6.7%
High Yield (Barclays US Corp HY)		1.8%	1.8%	0.6%	0.9%	4.0%	3.8%	2.8%	5.9%
Short Term High Yield	SJNK	1.4%	1.4%	2.6%	3.2%	4.7%	3.4%	4.5%	7.2%
Equities									
Domestic Large Cap (S&P 500 TR)		3.6%	3.6%	5.3%	14.0%	10.2%	10.8%	11.8%	8.3%
S&P Equal Weight	RSP	3.1%	3.1%	4.8%	13.5%	10.9%	11.8%	13.3%	11.4%
Domestic Mid Cap (S&P 400 TR)		1.8%	1.8%	5.3%	14.6%	11.2%	11.6%	12.8%	11.1%
Vanguard Mid-Cap ETF	VO	2.5%	2.5%	5.1%	13.0%	9.7%	11.6%	12.7%	10.8%
Domestic Small Cap (S&P 600 TR)		3.2%	3.2%	12.9%	23.1%	15.1%	13.7%	15.0%	12.3%
Vanguard Small-Cap ETF	VB	1.8%	1.8%	13.2%	23.1%	13.0%	12.4%	13.8%	11.8%
Developed Intl. (MSCI EAFE)		2.4%	2.4%	-2.2%	3.9%	4.1%	5.3%	5.1%	3.2%
MSCI EAFE	EFA	2.9%	2.9%	0.0%	6.2%	5.1%	5.7%	5.5%	3.4%
Emerging Intl. (MSCI EM)		1.7%	1.7%	-6.1%	2.2%	8.2%	4.8%	1.5%	2.7%
Vanguard FTSE Emerging Markets ETF	VWO	4.0%	4.0%	-3.6%	4.5%	7.3%	5.0%	1.4%	2.6%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		0.8%	0.8%	1.8%	4.2%	6.8%	8.4%	9.2%	7.9%
Mortgage Real Estate	REM	3.5%	3.5%	4.2%	6.9%	11.9%	9.8%	9.2%	6.2%
REIT ETF	VNQ	0.6%	0.6%	0.6%	1.7%	5.8%	7.9%	8.6%	7.7%
Commodities (Thomson Reuters/Jefferies CRB Index)		-4.3%	-4.3%	8.5%	30.3%	5.0%	-5.4%	-6.4%	-6.4%
DBC	DBC	-2.4%	-2.4%	3.9%	14.7%	3.1%	-9.4%	-8.4%	-7.9%
BlackRock	BCSAX	-0.9%	-0.9%	7.0%	15.5%	7.3%	-1.3%	-4.4%	-5.0%
Gold	GLD	-2.2%	-2.2%	-6.2%	-3.9%	3.4%	-1.3%	-4.8%	4.4%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.6%	0.6%	2.2%	6.3%	4.5%	4.6%	3.9%	3.9%
INFINITY*	OCEAN	0.3%	0.3%	2.7%	5.7%	3.9%	5.9%	6.6%	6.3%
Boston Partners Long/Short Equity	BPLEX	-1.7%	-1.7%	-7.8%	-3.3%	6.7%	3.7%	5.6%	10.8%
QIM Tactical Aggressive*	QIM TA	-2.9%	-2.9%	-38.3%	-27.8%	5.5%	6.1%	10.7%	13.9%
Millennium*	MILLENN	-0.3%	-0.3%	5.5%	9.1%	6.1%	8.9%	8.5%	8.6%
Verition*	VERITION	-0.1%	0.0%	1.9%	7.6%	8.8%	10.5%	10.3%	11.9%
Renaissance*	RENAISS	4.2%	4.2%	5.3%	10.3%	17.3%	14.9%	15.4%	11.6%
Third Point*	THIRD P	-0.3%	-0.3%	0.3%	5.2%	4.1%	6.0%	8.0%	9.1%
Hedge Fund Plus*	HF+	-0.3%	-0.3%	-8.4%	-1.6%	7.5%	8.7%	10.2%	10.8%
Boston Partners Global Long/Short	BGLSX	2.1%	2.1%	-2.4%	1.8%	2.5%	4.3%	3.7%	3.7%
Managed Futures									
Barclays CTA Index		-0.5%	-0.5%	1.8%	3.6%	2.2%	2.8%	1.1%	2.0%
WINTON*	WINTON	-0.3%	-0.3%	-2.4%	4.0%	-2.7%	0.4%	-1.2%	-0.1%
QIM*	QIM	-3.4%	-3.4%	-7.6%	-7.4%	5.6%	1.6%	1.2%	0.5%
AQR Managed Futures Strategy	AQMNX	-0.7%	-0.7%	-6.4%	-2.1%	-5.5%	-0.3%	0.2%	1.1%
Natixis ASG Managed Futures Strategy	ASFYX	-0.2%	-0.2%	-6.7%	-0.9%	-3.3%	4.0%	1.3%	2.8%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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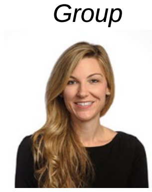

Stephanie E. Milby
Investment Associate

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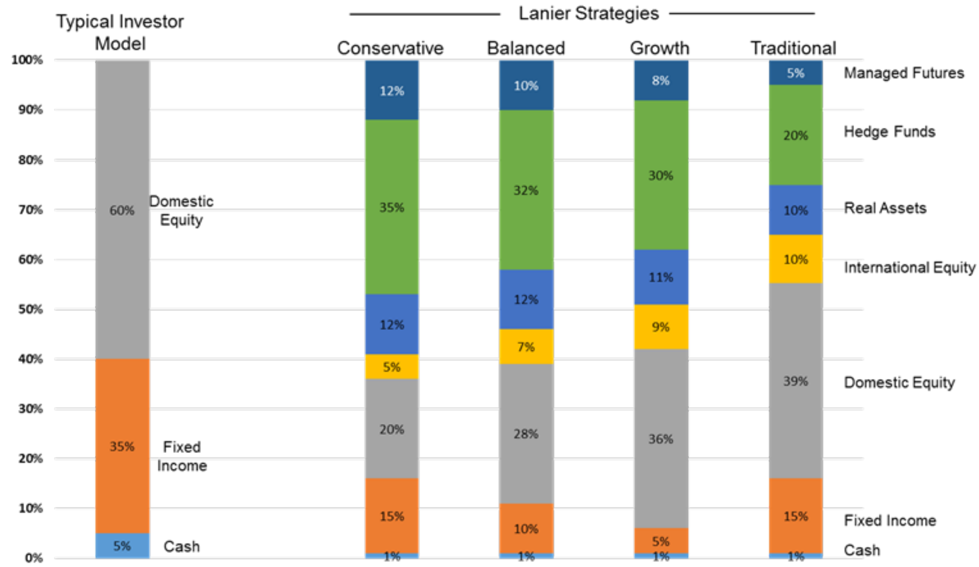
Our Approach

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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