LANIER
ASSET MANAGEMENT LLC

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

Monthly Update

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The Forever Growing Debt Bomb

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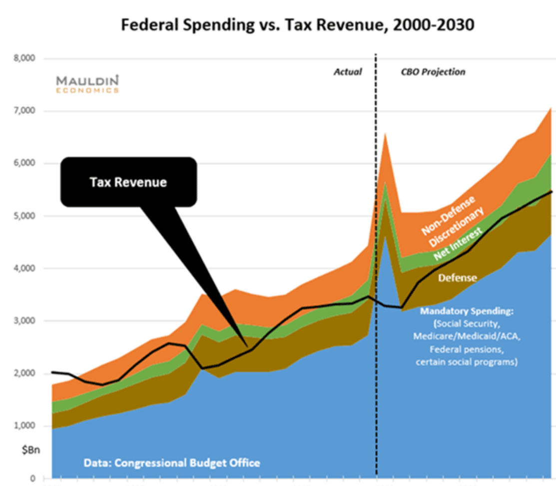
The unsustainable path for the US to have $50 trillion in debt will not arrive without circumstances. As I wrote in my 2014 book *The Inevitable Great American Reset*, the forever rising federal outlays whether it be in the absolute, inflation-adjusted or as a percentage of GDP, all have one common characteristic – they are getting much larger faster! The irresistible attraction to overspending is on steroids!

I was oh-so-fortunate to have the front and middle portion of my career fall into an incredible economic period in the history of the United States. Thank you Lord! Reaganomics worked for ~25 years, and people from all constituencies benefited. We spent an inordinate amount of time analyzing federal tax revenue, expenditures, GDP growth and the deficit/surplus relationship that emanated from those variables. From the early Reaganomics days in 1983 where the deficit was ~6% of GDP to the Clinton years of surpluses in the late 1990's, debt was a very important economic variable. Until the Great Recession, debt levels as a percentage of GDP remained in an attractive range. But as we continue our march through the 21st century, the annual deficits and debt projections paint a very gray sky.

The Congressional Budget Office (CBO) – forever known for its rose-colored glasses projections – recently updated its longer term forecast. As you can see in the graph on your right, the tax revenue black line dips in 2020 due to COVID-19, while the blue-shaded area represents a spike in expenses associated with social programs. They obviously forecast a V-shaped recovery including no second wave of the coronavirus.



Source: Mauldin Economics

But their assumptions and what they include in the projections are very selective, and they do <u>not</u> tell the whole story on the expense side. Economist John Mauldin strongly opines that the expenses need to include off-budget items such as social security and military pensions to have the debt figures be total Federal Government public debt, not debt held by the public. And the debt is now ~$26 trillion growing to ~$38 trillion by 2029.

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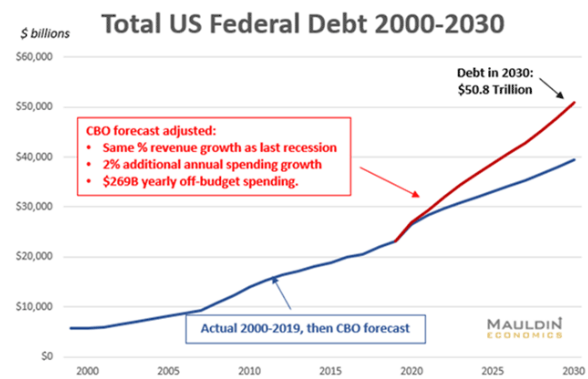
Federal Spending			
Year	$ Trillion	Five Year % Change vs. Prior Period	Ten Year % Change vs. Prior Period
2000	1.8	-	
2005	2.1	11%	
2010	3.5	66%	94%
2015	3.9	11%	
2020	6.6	69%	88%
2025	5.5 E	-17%	
2030	7.1 E	29%	7%

Source: US Bureau of Economic Analysis

The truth of the matter is the US has a severe spending issue – and it's a huge one. The table on the left shows we increased spending over 90% in 2000-2010, and 88% in 2011-2020. Both equate to very high annual growth rates of spending in a very low inflationary environment. Going forward, we retain a $5 trillion spending addiction annually forever.

To make an even more realistic picture of the debt bomb, one needs to adjust the incredibly rosy CBO forecasts using historic percentages that occurred in the Great Recession for the following several items (most associated with COVID-19):

- Add a recession in next 10 years
- Adjust down 2020 payroll tax (CBO has it up 5% over 2019)
- Adjust 2021 income taxes (Won't be 90%+ of 2019 levels)
- Adjust 2022's 15% tax revenue increase over 2021
- Adjust spending up 2% (Conservative increase versus prior CBO estimate)



Source: Mauldin Economics

Voilà! We get $1 trillion deficits annually forever and now we have 2020 at $27 trillion growing to $48 trillion by 2029. This gets us to <u>50 trillion dollars in debt</u> by 2030!

All of these figures are <u>without</u> another ~$2 trillion 2020 Phase IV relief package being tossed around in Congress.

The most obvious solution to solve the problem is to raise taxes. Yet the math simply does not work. If you double the rates on the top 25% who currently pay 75% of the taxes, the gap would close. But only if one wrongly assumed smart people do not change their behavior. In addition, corporate tax rate increases would again make the US rates very high among developed nations and thus corporations uncompetitive.

So the debt bomb forever grows. We will discuss the reality of the income side – tax increases – in our newsletter next month.

Carl W. Hafele, CFA, CPA, is Co-Chief Investment Officer and Principal at Lanier Asset Management. He is also an instructor in Finance and Economics for the MBA program at Bellarmine University.

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		September	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%	0.9%	1.7%	1.3%	0.9%	0.7%
Fixed Income									
Domestic (Barclays US Agg)		-0.1%	0.4%	6.9%	7.1%	5.5%	4.3%	4.0%	3.6%
Vanguard Total Bond Market	VBMFX	0.1%	0.6%	6.9%	6.9%	5.2%	4.1%	3.8%	3.5%
RiverNorth Doubleline	RNDLX	0.2%	2.9%	1.8%	3.2%	3.7%	4.8%	4.7%	4.2%
Eaton Vance Floating Rate	EIBLX	0.5%	3.5%	-1.3%	0.3%	2.5%	3.9%	3.2%	3.9%
US Preferred Stock ETF	PFF	-0.3%	6.7%	0.7%	2.6%	3.6%	4.5%	5.4%	5.1%
High Yield (Barclays US Corp HY)		-1.0%	4.5%	-1.2%	1.3%	3.1%	5.3%	4.0%	3.8%
Short Term High Yield	SJNK	-0.2%	4.1%	-0.2%	1.4%	2.9%	5.0%	3.2%	4.7%
Equities									
Domestic Large Cap (S&P 500 TR)		-3.9%	8.5%	4.1%	13.0%	10.1%	11.9%	10.4%	11.4%
iShares S&P 100 ETF	OEF	-4.6%	9.8%	8.5%	18.9%	12.0%	13.0%	11.1%	11.7%
S&P Equal Weight	RSP	-2.5%	6.7%	-4.8%	2.4%	6.3%	9.9%	9.3%	11.6%
Domestic Mid Cap (S&P 400 TR)		-3.4%	4.4%	-9.1%	-2.7%	2.7%	7.8%	7.5%	10.4%
Vanguard Mid-Cap ETF	VO	-1.6%	7.9%	0.2%	7.1%	8.0%	10.3%	9.8%	12.0%
Domestic Small Cap (S&P 600 TR)		-4.8%	2.8%	-15.7%	-8.7%	-0.5%	7.0%	6.3%	10.5%
Vanguard Small-Cap ETF	VB	-2.6%	5.9%	-6.3%	1.4%	6.1%	10.0%	8.4%	11.5%
Developed Intl. (MSCI EAFE)		-2.9%	4.2%	-8.9%	-1.8%	-2.0%	3.5%	1.8%	3.7%
MSCI EAFE	EFA	-2.1%	4.6%	-7.1%	0.1%	0.2%	4.9%	2.8%	4.5%
Emerging Intl. (MSCI EM)		-1.8%	8.7%	-2.9%	8.1%	0.0%	7.4%	2.7%	1.8%
Vanguard FTSE Emerging Markets ETF	VWO	-1.2%	10.2%	-1.2%	10.5%	2.0%	8.0%	3.6%	2.1%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		-2.6%	1.5%	-11.6%	-11.1%	2.8%	5.7%	7.0%	8.7%
Mortgage Real Estate	REM	-1.1%	5.8%	-36.9%	-31.9%	-9.5%	1.2%	1.9%	3.0%
REIT ETF	VNQ	-2.7%	1.3%	-12.8%	-12.3%	2.3%	5.2%	6.9%	8.5%
Commodities (Thomson Reuters/Jefferies CRB Index)		-5.2%	4.8%	-29.7%	-21.9%	-3.3%	-1.6%	-8.0%	-5.7%
DBC	DBC	-3.6%	6.1%	-18.1%	-11.8%	-4.4%	-2.4%	-9.6%	-6.6%
BlackRock	BCSAX	-3.9%	6.0%	-7.1%	-1.8%	0.6%	4.0%	-2.7%	-2.4%
Gold	GLD	-4.2%	5.8%	24.0%	27.6%	13.4%	10.6%	6.0%	3.8%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		-1.2%	4.7%	10.2%	14.0%	5.9%	6.0%	4.9%	4.6%
INFINITY*	OCEAN	0.8%	3.4%	7.8%	8.9%	5.3%	4.8%	5.7%	6.6%
BlackRock Long/Short Equity	BGCIX	-0.4%	1.6%	-1.4%	-3.5%	-2.0%	-1.0%	-1.2%	-0.1%
Gateway Fund	GTEYX	-1.8%	3.2%	0.0%	3.3%	1.8%	3.7%	3.0%	3.2%
Millennium*	MILLENN	1.0%	3.9%	13.8%	17.0%	9.8%	8.0%	9.3%	9.2%
Verition*	VERITION	0.7%	3.7%	19.9%	24.8%	12.8%	11.9%	11.7%	11.4%
Renaissance*	RENAISS	-4.4%	-1.8%	-16.9%	-14.7%	1.6%	7.7%	10.3%	12.3%
Point72*	POINT72	1.1%	6.2%	10.5%	14.7%	10.4%	9.7%	11.2%	11.8%
Elliott*	ELLIOTT	0.8%	3.0%	8.0%	9.3%	6.4%	7.7%	7.5%	8.0%
Third Point*	THIRD P	0.6%	13.1%	5.2%	8.7%	3.3%	5.9%	5.0%	8.0%
Lanier Hedge Fund*	LHF	-0.2%	3.6%	5.6%	8.0%	6.1%	6.8%	7.6%	8.4%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

Mark R. Hoffman
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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 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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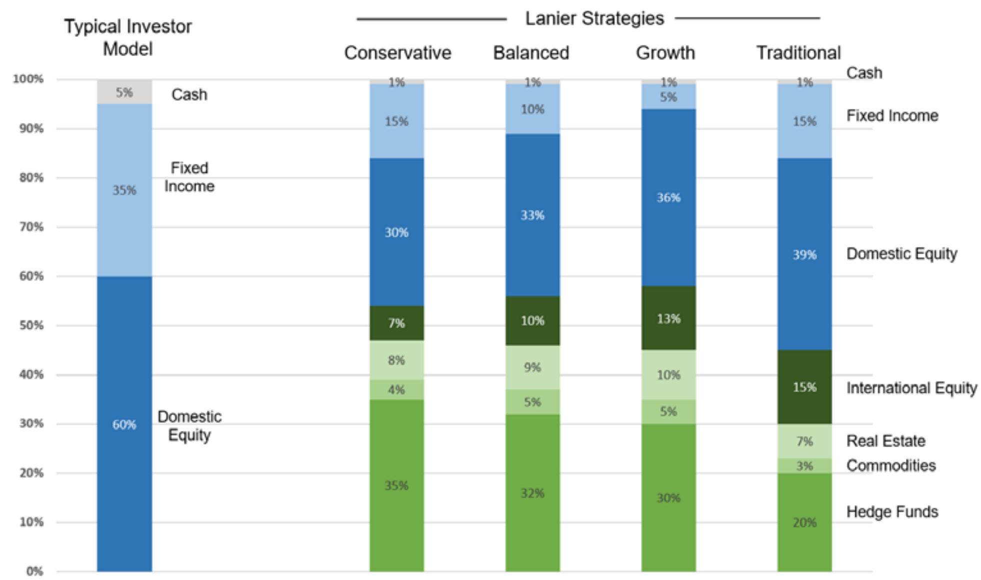
Our Approach

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

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