LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update **June 2018**

The Impact of Corporate Tax Reform

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CEO, Principal

The 2017 Tax Cuts and Jobs Act was sold as a boon for the American workforce. But while tax breaks were installed for much of the working class, the real winners appear to be US corporations and their shareholders. It has been roughly six months since the tax cuts took effect, and it is becoming more clear who is benefitting most and how they are spending the cash.

Trump's plan, which took effect on January 1, promised to cut overall taxes by $1.5 trillion over 10 years. The $150 billion/year would be split roughly 50/50 between individual tax payers and corporations. Under the plan, the corporate tax rate decreased from 35% to 21%. Yes, effective tax rates are lower than the 35% and the 21%, but just how much does the reduction mean for companies?

Company	Tax Savings (millions)	Effective Tax Rate Change
Alphabet	$1,012	-10%
Bank of America	$801	-10%
AT&T	$678	-11%
Wells Fargo	$662	-9%
Verizon	$515	-9%
JP Morgan	$470	-4%
Citigroup	$456	-7%
Boeing	$387	-14%
Morgan Stanley	$279	-8%
American Express	$218	-10%
Caterpillar	$193	-42%
Abbott Labs	$183	-9%
Lockheed	$120	-9%
Charles Schwab	$113	-11%
Amgen	$106	-4%
Total	$6,192	

First quarter 2018 figures have now been finalized and these 15 companies alone reduced their effective tax rates by $6.2 billion vs. the first quarter 2017!

So, what are they doing with the money? Trump's announced intent was A) to stimulate investment and B) to have it trickle down to higher wages for workers. By analyzing company announcements after the passage of the law, we can get directional estimates of where it's going. While final numbers will change, it is estimated that 23% of the tax savings are going to business investments (CAPEX, R&D, etc.) and 15% of the savings are going to employees through increased wages, benefits and bonuses. 39% of the savings are going to stock buybacks or increased dividends. 3% is going to charity. 21% is going to "other," which includes retaining the cash at the corporate level. Many will argue that that is not enough flowing through to employees and business investment. That's an argument that can't be "won" by either side. We'd prefer to think that everyone is winning something here. Business investment and increased wages help grow GDP. Distribution of cash to shareholders improves investment returns.

Speaking of investment returns, consider this for a moment. It is well publicized that 9 years into a bull market, P/E multiples are high. Some would say very high, and a correction is due. We can assure you that at some point, markets will correct. They always do. At the end of 2017, forward P/E multiples stood at 18.4x – well above historic averages. But tax law changes are having a significant effect on multiples by increasing the denominator (earnings). After-tax earnings in the S&P 500 companies are estimated to increase 12-16% as a direct result of tax changes, which in turn will decrease the P/E multiples by 10-15%. While this by itself doesn't bring the multiple down to historic averages, it does give investors hope that there may be more room for a continued upward trend in equity returns.

Notice that we didn't mention the $2 trillion that the tax law changes will add to the US deficit. That's a topic for another article. Alas, it can't all be positive news.

Mark is a co-founder of Lanier Asset Management and serves as its Chief Executive Officer. Prior to founding Lanier, he was a partner at The Boston Consulting Group. Mark is an honors graduate of The University of North Carolina at Chapel Hill with a BA in Economics, and holds an MBA from The Harvard Business School.

Key Points From Our Investment Meeting – 6/12/18

Macro Viewpoint

- Geopolitical risk continues as Trump blows off the G7 and meets with North Korea about denuclearization.
- We should get a better sense of Europe's intentions of stopping QE in the coming days. How will this impact bond yields and equities moving forward?
- The US dollar has rallied ~5% since the first of the year. What are the implications in the future?

Asset Class Comments

- The S&P 500 has now retraced half of its 10% pullback. We would be cautious during the summer.
- Please consider your risk at this stage in the cycle, as we are in the 9th year of an expansion versus an average of 6 years.
- Fixed income spreads continue to stay tight even with ten year treasuries hitting 3%. Be cautious. Equities now have a little competition.

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		0.2%	0.3%	0.7%	1.4%	0.8%	0.5%	0.4%	0.5%
Fixed Income									
Domestic (Barclays US Agg)		0.7%	-0.2%	-1.8%	-0.6%	1.3%	1.9%	2.4%	3.6%
Vanguard Total Bond Market	VBMFX	0.6%	-0.2%	-1.7%	-0.6%	1.2%	1.8%	2.3%	3.5%
RiverNorth Doubleline	RNDLX	0.2%	0.0%	-0.3%	0.5%	3.1%	3.6%	4.0%	4.8%
Eaton Vance Floating Rate	EIBLX	0.1%	0.6%	2.2%	4.3%	4.3%	3.7%	4.1%	4.5%
US Preferred Stock ETF	PFF	0.8%	0.1%	-0.3%	0.7%	3.3%	4.3%	4.9%	4.9%
High Yield (Barclays US Corp HY)		-0.2%	0.2%	-1.2%	0.2%	2.4%	3.2%	2.5%	5.3%
Short Term High Yield	SJNK	0.2%	0.7%	0.9%	2.1%	3.4%	3.1%	4.3%	6.5%
Equities									
Domestic Large Cap (S&P 500 TR)		2.2%	2.4%	1.2%	12.2%	8.7%	10.7%	10.5%	6.8%
S&P Equal Weight	RSP	1.5%	1.8%	0.7%	12.0%	9.0%	11.9%	11.8%	9.8%
Domestic Mid Cap (S&P 400 TR)		4.1%	3.9%	3.1%	14.9%	10.0%	12.0%	11.6%	9.9%
Vanguard Mid-Cap ETF	VO	1.8%	1.6%	1.6%	11.8%	8.2%	11.8%	11.2%	9.1%
Domestic Small Cap (S&P 600 TR)		6.5%	7.6%	8.2%	22.7%	13.6%	14.2%	13.5%	11.2%
Vanguard Small-Cap ETF	VB	5.1%	5.5%	10.4%	24.1%	11.7%	13.1%	12.4%	10.8%
Developed Intl. (MSCI EAFE)		-2.8%	-1.0%	-3.1%	5.6%	3.5%	5.4%	4.5%	1.9%
MSCI EAFE	EFA	-1.8%	-0.3%	-1.2%	8.0%	4.2%	6.0%	4.7%	2.0%
Emerging Intl. (MSCI EM)		-3.8%	-4.3%	-3.2%	12.7%	5.7%	4.3%	1.6%	1.5%
Vanguard FTSE Emerging Markets ETF	VWO	-2.3%	-5.0%	-2.7%	12.2%	4.5%	4.2%	1.3%	1.1%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		3.5%	4.1%	-2.8%	2.7%	5.2%	7.0%	8.1%	6.5%
Mortgage Real Estate	REM	2.9%	3.2%	-0.9%	4.4%	8.4%	7.5%	7.2%	3.3%
REIT ETF	VNQ	3.7%	4.5%	-4.0%	0.4%	4.5%	6.6%	7.6%	6.4%
Commodities (Thomson Reuters/Jefferies CRB Index)		3.8%	10.2%	13.0%	41.4%	0.2%	-4.4%	-6.1%	-6.1%
DBC	DBC	2.7%	6.2%	8.6%	23.6%	0.6%	-7.5%	-7.3%	-9.1%
BlackRock	BCSAX	1.7%	4.8%	10.6%	23.5%	4.0%	-1.2%	-4.3%	-4.8%
Gold	GLD	-1.2%	-2.1%	-0.5%	2.0%	2.6%	2.4%	-1.2%	3.9%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		1.0%	1.4%	2.1%	7.8%	3.9%	4.5%	3.7%	3.5%
INFINITY*	OCEAN	0.7%	0.7%	2.1%	5.4%	4.0%	6.1%	6.6%	6.4%
Boston Partners Long/Short Equity	BPLEX	-0.6%	1.3%	-4.0%	5.3%	6.4%	4.6%	6.3%	10.9%
QIM Tactical Aggressive*	QIM TA	-11.6%	-18.2%	-34.9%	-32.6%	7.1%	8.4%	13.1%	15.9%
Millennium*	MILLENN	1.2%	1.3%	5.6%	9.9%	7.2%	9.4%	8.7%	8.6%
Verition*	VERITION	1.8%	2.5%	3.1%	12.6%	9.4%	11.5%	10.2%	12.7%
Renaissance*	RENAISS	-0.6%	-1.6%	0.0%	3.1%	17.1%	14.0%	14.6%	11.0%
Third Point*	THIRD P	1.1%	1.7%	1.0%	7.6%	4.3%	6.3%	7.6%	8.4%
Hedge Fund Plus*	HF+	-2.2%	-4.0%	-7.6%	-3.0%	8.2%	9.5%	10.7%	11.3%
Boston Partners Global Long/Short	BGLSX	-1.4%	-1.6%	-3.6%	0.8%	2.1%	4.0%	3.3%	3.2%
Managed Futures									
Barclays CTA Index		-0.2%	0.2%	0.8%	0.3%	0.8%	2.2%	0.9%	1.8%
WINTON*	WINTON	-1.3%	0.0%	-3.6%	-0.2%	-3.3%	-0.7%	-1.3%	-0.4%
QIM*	QIM	3.2%	3.7%	-4.7%	-4.9%	7.2%	2.0%	1.5%	0.4%
AQR Managed Futures Strategy	AQMNX	-2.5%	-3.3%	-6.4%	-4.2%	-6.4%	-0.5%	-0.1%	1.0%
Natixis ASG Managed Futures Strategy	ASFYX	-1.6%	-2.6%	-6.9%	-0.8%	-4.4%	3.8%	1.2%	2.7%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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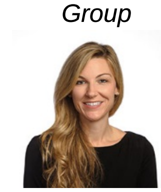
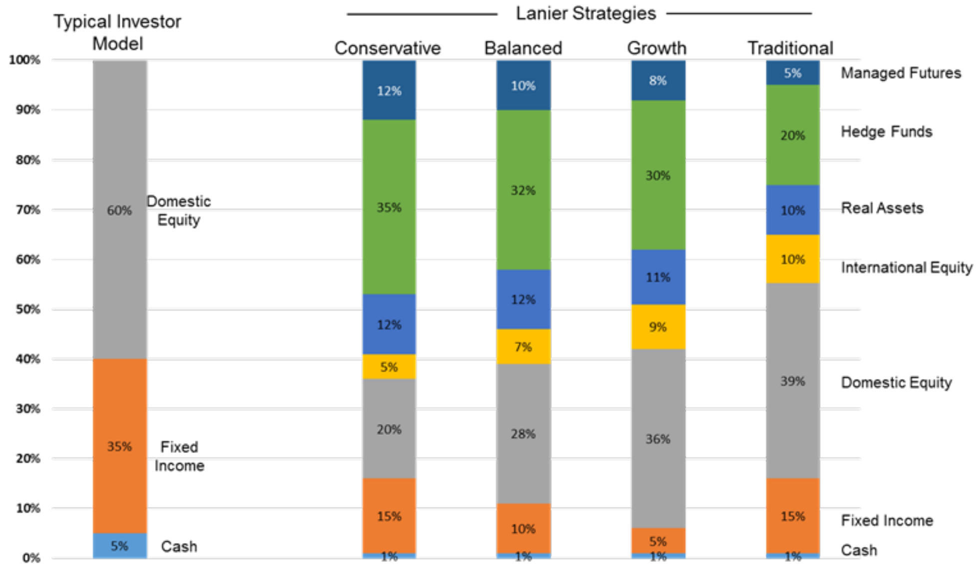


Stephanie E. Milby
Investment Associate

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