LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

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What is the State of Your State?

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As the baby boomer generation continues to become receivers (i.e. retire), after many decades of being achievers, many contemplate relocation or second homes. Many have nice nest eggs which provide them with some monthly income for daily living expenses. Most couples also receive two social security checks. Other fortunate ones (although not many!) receive defined benefit pension payments.

Yet by definition, retirees are a frugal bunch driven by the more tumultuous era of the 60's and 70's in which they matured. Frankly, the more assets one has, the more aware one typically is of expenses. Most senior citizens are concerned about the tax burden in the states they are considering a "repot" to enjoy their silver and golden years.

Is there much of a difference? Oh Nellie! That should be rephrased as "How vast of a Red Sea is there between the states?" Much information has been written about the great tax migration – and it is not a myth! This is a reality and most forecast millions of people will continue to migrate from high tax states to low tax states.

A few good reads are the now 11th edition of our colleague Art Laffer's *Rich States, Poor States*, his *Nature and Causes of Wealth of States* and Google *How Money Walks* by Travis Brown. All, individually and collectively, vividly illustrate that incentives matter, people vote with their feet (and money), and monitoring the state of your state should be part of your long term financial planning.

There are two schools of thought – one that says raise tax rates and tax revenue will increase. The other, lower tax rates and people will come and tax revenue will increase. Oh – it's the old Laffer curve from the late 1970's that ushered in supply-side oriented Reaganomics and our over 25 year run of prosperity. The former school is dead wrong (and supported by data and facts), the latter works brilliantly.

Let's group some states into two buckets. First, the highest group has double digit state tax rates averaging ~12%. The other is the lowest group that has tax rates at ~6%. This includes income, property and sales taxes.

High Tax States	
New York	Illinois
Hawaii	New Jersey
Maine	California
Vermont	Ohio
Connecticut	Minnesota

Low Tax States	
Texas	Alaska
Tennessee	South Dakota
Nevada	Florida
New Hampshire	

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The data shows the high tax states are losing people, gross income and taxes by the minute. The low tax states are experiencing just the reverse.

The naysayers are typically university economists that are fully funded by government, and they are not required to make it in the free market to get paid. They often blame coincidence versus looking at the math. The “clouds to sunshine” argument is understandable, but then why is New Hampshire kicking Vermont’s you-know-what?! Why is Tennessee blowing by Kentucky?

Will the great tax migration slow down or increase? The CATO Institute studies show definitely the latter due to several items. First is the 2017 tax reform that limits state and local taxes (SALT) deductions to just $10k. Second, there are 10,000 baby boomers retiring daily and most all reevaluate their upcoming years. Third, most people don’t trust leadership at the Federal level, believing tax rates can only go up due to Washington’s insatiable appetite to spend and the demographically-driven trend of bigger government.

So what is the state of your state? Georgia’s income is pretty flat – gaining people from Ohio and Illinois but losing to Florida and Tennessee. Arizona is growing magnificently – gaining people from California, Illinois and New York. New York, New Jersey and Illinois are hemorrhaging tens of billions of dollars in income, mostly to Florida. Kentucky is very similar to Georgia in all fashions. I must admit it, I am concerned about Kentucky and its inability to deal with the pension problem. It will be a crisis – it’s just math! And if they raise tax rates of any kind, guess what will happen?

Tax rates matter. Incentives matter. The numbers don’t lie!

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Key Points From Our Investment Meeting – 9/12/19

Macro Viewpoint

- Even with a short-term truce between the US and China, global tensions continue to be significant risks to global markets. Short- and long-term effects on US and global GDP remain a big question mark.
- President Trump begging Chairman Powell to cut rates further continues. Does another 25-50 bps really matter as markets levitate toward all-time highs again?
- Do Brexit concerns remain as well as Germany’s significant GDP contraction (although the new Porsche Taycan looks lovely) signal even weaker times ahead for the EU?

Asset Class Comments

- Equity valuations have been under significant pressure since the Fed’s initial rate cut. How much of the Fed’s potential rate cuts could actually move the needle? Is Dr. Lacy Hunt (famed economist who has been long the 30-year treasury for over 30 years) right that the 10-year goes sub 1%?
- Value stocks have underperformed growth stocks in multi-year periods. Is it time to look to large cap value?

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		August	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Federal Money Market Reserve		0.2%	0.4%	1.6%	2.4%	1.7%	1.1%	0.8%	0.6%
Fixed Income									
Domestic (Barclays US Agg)		2.8%	3.7%	10.0%	11.2%	3.3%	3.4%	2.8%	3.9%
Vanguard Total Bond Market	VBMFX	2.8%	3.0%	9.3%	10.4%	3.0%	3.2%	2.7%	3.8%
RiverNorth Doubleline	RNDLX	0.6%	1.1%	9.8%	7.3%	4.1%	3.9%	4.0%	4.7%
Eaton Vance Floating Rate	EIBLX	-0.2%	0.5%	5.1%	2.2%	4.7%	3.7%	3.9%	5.1%
US Preferred Stock ETF	PFF	0.6%	2.4%	12.9%	4.4%	3.2%	4.4%	5.0%	7.1%
High Yield (Barclays US Corp HY)		0.7%	0.8%	11.6%	6.7%	5.4%	4.3%	3.4%	6.0%
Short Term High Yield	SJNK	0.0%	0.2%	7.4%	3.8%	5.2%	3.2%	4.0%	6.9%
Equities									
Domestic Large Cap (S&P 500 TR)		-1.8%	-0.5%	16.7%	0.8%	10.5%	7.9%	11.0%	11.1%
S&P Equal Weight	RSP	-3.3%	-2.5%	16.1%	0.1%	9.6%	7.9%	12.6%	13.2%
Domestic Mid Cap (S&P 400 TR)		-4.2%	-3.0%	14.4%	-6.4%	8.1%	7.1%	11.5%	12.8%
Vanguard Mid-Cap ETF	VO	-2.8%	-1.5%	20.0%	1.1%	10.1%	8.0%	12.6%	13.5%
Domestic Small Cap (S&P 600 TR)		-4.5%	-3.4%	9.8%	-15.1%	8.4%	7.8%	11.9%	13.2%
Vanguard Small-Cap ETF	VB	-4.0%	-2.8%	16.1%	-6.6%	11.0%	8.2%	12.6%	13.5%
Developed Intl. (MSCI EAFE)		-2.9%	-4.2%	7.1%	-6.1%	3.9%	0.7%	5.3%	4.4%
MSCI EAFE	EFA	-1.9%	-3.8%	8.9%	-3.9%	5.5%	1.7%	5.9%	4.8%
Emerging Intl. (MSCI EM)		-5.1%	-6.7%	1.9%	-6.8%	4.1%	-0.6%	2.3%	3.6%
Vanguard FTSE Emerging Markets ETF	VWO	-3.3%	-5.0%	5.5%	-2.6%	4.9%	0.0%	2.7%	3.8%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		3.3%	4.9%	23.5%	12.2%	6.7%	8.1%	9.1%	13.2%
Mortgage Real Estate	REM	-6.4%	-4.2%	5.5%	-2.1%	7.6%	5.6%	5.7%	7.5%
REIT ETF	VNQ	3.8%	5.5%	25.7%	14.5%	5.7%	8.2%	9.2%	13.4%
Commodities (Thomson Reuters/Jefferies CRB Index)		-0.8%	-0.5%	15.4%	-9.8%	8.7%	-7.3%	-6.0%	-2.3%
DBC	DBC	-4.6%	-5.7%	2.3%	-13.6%	1.4%	-9.4%	-9.6%	-4.3%
BlackRock	BCSAX	-2.5%	-4.0%	4.5%	-6.2%	3.2%	-4.5%	-4.3%	-1.1%
Gold	GLD	7.9%	7.9%	18.6%	26.6%	4.8%	6.1%	-1.4%	4.7%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.1%	0.8%	9.5%	2.7%	4.9%	3.2%	4.5%	4.5%
INFINITY*	OCEAN	0.5%	0.9%	5.1%	2.4%	4.7%	4.7%	6.5%	6.5%
Boston Partners Long/Short Equity	BPLEX	-2.3%	-1.8%	2.2%	-6.3%	-2.5%	-0.5%	2.7%	6.4%
Millennium*	MILLENN	1.2%	2.1%	6.5%	4.6%	7.2%	8.1%	8.6%	9.0%
Verition*	VERITION	0.6%	2.1%	9.4%	6.4%	7.3%	7.0%	11.2%	10.8%
Renaissance*	RENAISS	0.9%	2.7%	7.6%	7.5%	11.1%	16.0%	13.6%	15.8%
Third Point*	THIRD P	-0.2%	2.0%	14.5%	0.8%	5.6%	3.5%	8.1%	10.4%
Lanier Hedge Fund*	LHF	0.4%	1.5%	7.0%	3.3%	6.1%	7.0%	8.6%	9.4%
Boston Partners Global Long/Short	BGLSX	-0.5%	-0.5%	2.0%	-5.0%	0.2%	1.5%	3.3%	3.7%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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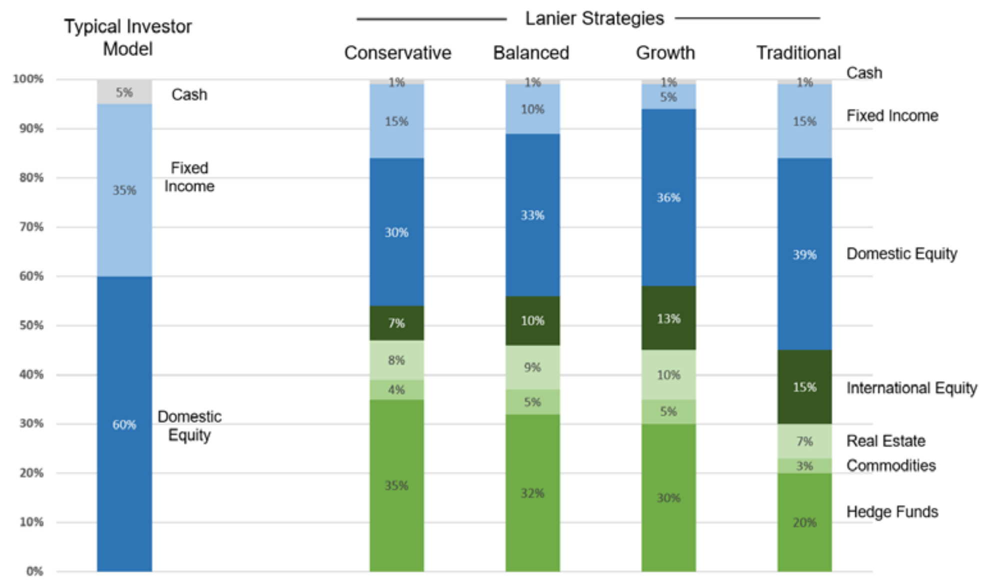
Our Approach

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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