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Southeast Asset Advisors, Inc.
Lanigan Wealth Management
Investment Management & Consulting
Thomasville – Atlanta – Tallahassee – Mobile

TO: Clients and Friends
FROM: SEA Managing Directors
RE: 4th Quarter 2016 Commentary
DATE: January 2017

Our Long-term Goal:
WE STRIVE TO PROTECT AND GROW OUR CLIENTS' CAPITAL OVER THE LONG TERM BY:

(1) Focusing on individual client goals and objectives.
(2) Having the proper asset allocation to reflect each client's tolerance for volatility.
(3) Stress testing short-term liquidity needs.
(4) Investing with a value orientation and utilizing managers who understand the intrinsic value of a business and margin of safety along with passive strategies as appropriate.
(5) Rebalancing portfolio holding/managers when appropriate to take advantage of underpriced and avoid overpriced assets.

Q4 2016 Market Commentary

The year 2016 proved to be a solid year for the market in general. However, it began with a steep double-digit plunge in stock markets and ended with a six-week equity rally. Fears of rising interest rates, news flows surrounding oil prices and production cuts, and the political upsets, Brexit, and Donald Trump's victory spilled over into financial markets. Equities experienced intermittent dives but ended exuberantly. The year also saw reversals in a number of long-running market trends. Amid the tumult, global stocks overall performed well. U.S. stocks again took the lead, with larger-cap U.S. stocks gaining 11.8% and smaller-cap U.S. stocks surging 21.6%. Developed international stocks returned just 2.7% in U.S.-dollar terms. European stocks in particular continued to face headwinds, falling 0.4% on the year. In both cases, the strength of the U.S. dollar weighed on returns.

The overall U.S. bond market gained 2.5% for the year, but that hid a 3.2% tumble during the fourth quarter, as rising interest rates resulted in the worst quarterly performance for bonds in 35 years. Expectations of rising inflation, along with the Federal Reserve's December decision to raise interest rates for the first time since August 2015, further contributed to falling bond prices. In our 3rd quarter letter, we warned on yield chasing in general and probable losses in any bonds that are not short duration. There will be more on this later in this letter but please reread our prior letter (3rd Quarter 2017), on the yield bubble.

Putting the markets' performance in perspective, we were pleased to see our convictions in several of our managers and individual holdings rewarded. Our U.S. stock large cap managers, in aggregate, outpaced the market index in 2016, continuing a trend that started earlier in the year as we began seeing active managers performance finally displacing momentum investing. We expect this to continue as present market valuations seem bifurcated – with many overvalued, and some undervalued that also meet qualifiers of good people and good business.

Where do we go from here?

"Doubt is not a pleasant condition, but certainty is absurd."
-Volatire

As always, our answer is, "In the short term, the market is a voting machine, but in the long term, it is a weighing machine" (B. Graham). Thus, we must make it clear that we have no reliable predictions about the short-term movement of the market (nor does anyone). For example, we have had two big surprises in the last 60 days – a Trump win and Clemson's defeat of Alabama. Both of these were surprises for us and many, further illustrating that predicting the future is hard, if not impossible, especially in the short run.

The financial/market consequences of a Trump Presidency are debatable. We are cautiously optimistic for the potentially accelerating economic growth as a result of the proposed lower tax rates, the repatriation of offshore funds, and less regulations. Lower corporate rates increase corporate earnings substantially. However, the bigger question is: Will accelerating economic growth (to ~3.5%) if achieved offset potential higher interest rates that will surely result? We worry about the consequences of continued deficit spending and our debt. We hope and pray that all our elected officials will make the right decisions for all Americans and multi generations.

Since the election, consumer confidence and the market has had positive moves on hopes for higher growth and lower taxes (perhaps a sugar high?) We are cautiously optimistic but are also realistic recognizing headwinds such as productivity increases and an aging population in the U.S.A. The next four years will be interesting, and we would expect that increasing market volatility will test the patience and fortitude of investors. Our managers and SEA will use volatility as an opportunity to exploit our edges (i.e., that of time arbitrage and our valuation expertise.)

We are encouraged by signs that long-term fundamental bottom up investing is finally overtaking momentum speculation. As discussed in prior letters, momentum speculation and yield chasing are dangerous endeavors that never end well and are not a game that we play as it requires perfect (lucky) timing. What not to do in this investing environment is very clear – do not chase yield and momentum, do not overpay for longer duration bonds, and do not purchase stocks strictly on yield that is not justified by underlying quality of the free cash flow and earning power of the business (stock).

<u>Our wish for 2017 and our continued commitment to you!</u>

We wish you a healthy and prosperous New Year!

Thank you for your confidence and trust. We are working hard on your behalf to control the risk and produce satisfactory risk adjusted returns within your individual goals and objectives in a very uncertain environment.

We have enclosed our Pledge/Commitment to our clients which we first sent out in 1997 of which we remain committed. It says a lot and is the "north star" of our commitment to clients each and every day.

Please contact us if you would like to discuss any changes to your goals or objectives and/or your specific financial situations.

Your SEA Investment Team

"The only Function of economic forecasting is to make astrology look respectable."
-J.K. Galbraith

Enclosure: "Our Pledge/Commitment to our Clients"

SOUTHEAST ASSET ADVISORS, INC.
LANIGAN WEALTH MANAGEMENT
REGISTERED INVESTMENT ADVISORS

PLEDGE/COMMITMENT TO OUR CLIENTS

- We are fee only advisors and represent only our clients! The only fee we charge our clients is based on percentage of assets under management. We will not impair our independence by accepting any other form of compensation such as commissions, soft dollar deals, etc. We will strive to be the lowest cost while being the highest quality financial *quarterback* for our clients.

- We will strive to help design and update as necessary an asset allocation plan to meet a client's established goals that will become a part of each client's investment policy based on a thorough understanding of each client's:
    - Goals & Objectives
    - Time Horizons
    - Income Needs
    - Risk Tolerance
    - Total Net Worth and Asset Pool under Management

- We will choose managers who have demonstrated superior risk adjusted returns compared to style peers and have traits and characteristics that we believe are important to compound capital over a long period of time. In addition, we will monitor these managers to ascertain whether they continue to be worthy of our confidence.

- We will invest our capital in the same investments that we invest our client's money and treat your investment as if it were our own.

- We will diversify our client's portfolio by style and manager, but not over-diversify.

- We will constantly monitor managers for changes in investment style, performance relative to peers, cost, etc. We will seek to avoid funds/managers who charge loads, exit fees, or 12b-1 charges. Using our leverage, we will negotiate fees with managers to the extent possible in order to make sure our client is receiving the best deal possible.

- We will do our best to communicate and educate our clients on the benefits of asset allocation and modern portfolio theory as well as "intrinsic value" investing, to produce superior risk adjusted returns as well as the benefits of sticking with an investment plan. Also, we will attempt to add additional value to our clients by functioning as a personal CFO during quarterly meetings.
    - We will be as tax efficient possible in a taxable account, striving to maximize risk adjusted after tax returns. However, we will not let taxes interfere with prudent investment considerations.

- We will provide performance reporting quarterly, which will be comprehensive and benchmark against criteria established with our clients.

- We will choose individual stock investments based on their discount from our appraisal of intrinsic value, their competitive position and management, and our assessment of their free cash flow potential.

- We will buy individual bonds using a ladder approach as to maturities and duration considering the client's goals and objectives and asset allocation plan as well as risk and reward of yields and credit of issuer.

- We will be flexible and commit ourselves to superior service to our clients.