The Margin of Safety Quarterly

member of
the LANIGAN GROUP of companies

Southeast Asset Advisors, Inc.
Lanigan Wealth Management

Investment Management & Consulting
Thomasville – Atlanta – Tallahassee – Mobile – Charleston

TO: Clients and Friends
FROM: SEA Managing Directors
RE: 2nd Quarter 2017 Commentary
DATE: July 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 (i.e., temperament.)
(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.

Q2 2017 Market Review

The second quarter proved to be another very strong period for global stock markets. Larger-cap U.S. stocks gained 3.1%, developed international stocks rose 6.4%, and emerging-market stocks rose by 3.4%. Core bonds also delivered solid returns, rising 1.5% for the quarter. The yield curve "flattened" considerably, with the difference between the 10-year and 2-year Treasury yields ending the quarter at close to a post-2008 low. Some strange times indeed!

Economic and corporate fundamentals largely still look solid. From a big picture perspective, we think the odds favor a continuation of the ongoing mild global economic recovery that we have witnessed so far this year. But valuations of equities are stretched and appear to have priced in this continuing market expansion, and possibly even more. We believe that global stocks are more attractively priced than U.S. stocks on a relative basis. Thus, we are favoring global value managers with new equity allocations. However, we don't see any asset class that is a great value, and we expect lower returns universally and higher volatility from today's prices.

The past quarter and first half of the year were characterized by a combination of historically low stock market volatility and the good performance of both stocks *and* bonds. We remain alert and positioned to meet the high level of uncertainty in global financial markets and the geopolitical environment today.

Where do we now stand?

Not much has changed in our opinion since our last letter except that equity prices have generally increased. The key is whether interest rates can stay this low, which we conclude is highly unlikely. Time will tell. We think long bonds are still in a bubble, and an increase in rates will cause substantial losses. Increased interest rates will be headwinds for valuation and returns of all asset classes.

Conclusion

Our guru managers are having difficulty finding good long-term investments that qualify both quantitatively and qualitatively. Some value managers have as much as 30% cash (but have good returns even with this cash). We believe it is certainly a time to be long-term, prepare for increased volatility, and invest with managers who practice "bottom up" valuation analysis to determine a company's intrinsic value. A qualifying investment must include value growth as well as a long-term sustainable competitive advantage as so many business models are being challenged and disrupted. Sustainable value growth is a key component of our value mindset!

We are grateful for a patient group of clients and partners with long-term perspectives. Please contact us if you want to discuss any changes to your goals or objectives and/or your specific financial situations.

Thank you for your confidence and trust. We are working hard on your behalf.

Your SEA Investment Team

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"An equity bias is necessary to have real returns in excess of inflation over the long term. However, make sure a client has time and temperament to handle market volatility."

- SEA

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"The qualitative assessment of a business's future, its culture and management, significantly outweighs the price of its current earnings for the long-term investor. Of course, we want in our investments the right business, management and also, to buy at least at a fair or good price."

- Charlie Munger