The Margin of Safety Quarterly
Southeast Asset Advisors, Inc.
Lanigan Wealth Management
Investment Management & Consulting
Thomasville – Atlanta – Tallahassee – Mobile – Charleston
www.assetadvisor.com

Member of
The Lanigan Group of Companies

TO: Clients and Friends
FROM: SAA Managing Directors
RE: 1st Quarter 2019 Commentary
DATE: April 2019

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 holdings/managers when appropriate to take advantage of underpriced and to avoid overpriced assets.

1st Quarter Market Recap

Tale of Two Extremes – Back to Back Quarters

On the heels of their worst December since 1931, U.S. stocks opened 2019 by scoring their best quarter since the financial crisis. Larger-cap U.S. stocks gained 13.6%, placing the S&P 500 Index's performance in the top decile of quarterly market returns since 1950. Not to be left behind, foreign equities, which were by far the most battered coming out of 2018, generated double-digit returns: emerging-market stocks rose 11.8%, while developed international stocks gained 10.6% and European equities gained 10.9%. Fixed-income markets were also positive as the 10-year Treasury yield fell to 2.39% during March, its lowest level since December 2017, after peaking at 3.24% late last year.

The first quarter equity numbers would make for very good annual returns so we are very doubtful this pace will continue. But it is nice to have something positive to focus on amidst all the negative political talk.

The market rebound was predominately due to a U-turn in Fed monetary policy. After hiking interest rates four times in 2018, including at their mid-December meeting, and indicating further tightening would occur in 2019, Fed officials suddenly reversed course (see interest rate slides 6 & 7 attached). They emphasized they would be "patient" and pause any further rate increases. And — presto! — stocks are back at their highs of late last summer.

Other positive market developments during the quarter included: The federal government shutdown, which had started to weigh on sentiment, ended in late January; signals from the U.S.-China trade talks turned more positive; and the likelihood of a "hard Brexit" also seemed to wane.

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We have attached, hereto, a few of our favorite slides from our quarterly slide deck with some notes thereon for your review. Any questions on this or anything please call us, or better, come in for a visit, or we can come to you!

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Comments on Predictions – Macroeconomic & Political

We are often asked our opinion on political, macroeconomic, and "Mr. Market" forecasts? Our short answer to this kind of question is, "We have no reliable answers and do not think anybody else does either."

There are many things we cannot predict that are nonetheless important. We do not have any special edge on short-term forecasts, or even spend much time trying to predict. However, we can prepare for the future by considering "what if" scenarios, thinking about roughly "where we are in the cycle" and watching areas that may be at extremes, i.e. sectors, market, international – both expensive (bubble like) or inexpensive.

However, our most important preparation for the unknown is to make sure our clients (and we) are prepared for volatility. This means having the proper asset allocation and taking advantage of "time arbitrage" by being a long-term investor. The key to long term success is knowing the value of what is owned and being positioned to use any volatility as an opportunity to rebalance, etc. within the individual goals and objectives.

We look to rebalance portfolio equity allocations back to target where appropriate when dire forecast or predictions create fear or irrational exuberance (greed) which cause portfolio allocations to get out of balance. For example, the 4th quarter 2018 selloff of nearly 20% was just such a time, as short-term predictions did not match with relatively good fundamentals that we saw in the economy and at most companies. We did not predict the almost immediate market rebound in the 1st quarter of 2019, but we felt the selloff set up for subsequent good returns.

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Mr. Buffet very clearly stated his view on forecast and predictions as follows: "*We will continue to ignore political and economic forecasts, (and market predictions) which are an expensive distraction for many investors and businessmen (and ourselves for that matter). Indeed, we (as well as companies we invest in) have usually made our best purchases when apprehensions about some macro event were at a peak. <u>Fear is the foe of the faddist, but the friend of the fundamentalist.</u>*"

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As always, we generally believe clients should have as high an allocation to equities as possible but certainly within their individual goals and risk profiles. In a normal market environment, owning equities is the only way to earn a long-term return over inflation (i.e., real return).

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We continue to be very pleased with the progress in our new locations: Mobile, AL and Charleston, SC. Mikell Leland (Mobile) and Ned Johnson (Charleston) have done a terrific job for us in these areas and are adding in many ways to our team. As you know, we only grow through referrals, and we hope that you will think of us if you have friends in these markets (or anywhere for that matter) who would benefit from our services. The key is we only want a few likeminded clients who we can help. Our team is strong and passionate. We have a great diversity of skills and ages, etc., and we continue to use a "team approach" to serve all our clients.

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Thank you again for your continued confidence and trust. Please call us if you would like to discuss your asset allocation or schedule a time to come into our office, or we can visit you at your place, etc. We are working hard on your behalf. Remember, thinking is hard work, but investing and helping our clients is our passion. Deserved trust will always be the most important thing we will ever earn.

Your SAA Investment Team

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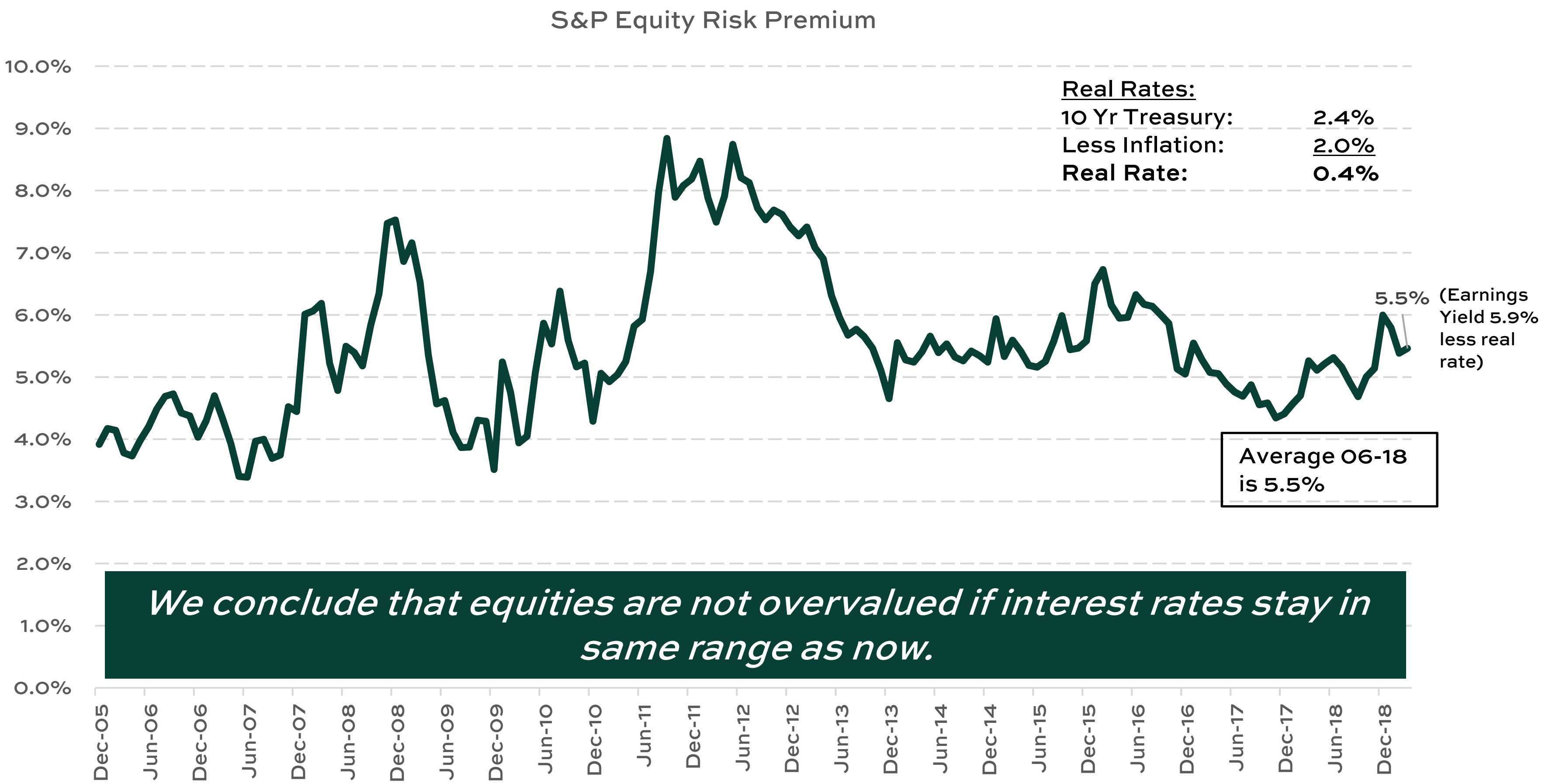
"Asset allocation and time horizons are the key to an investor's success. The biggest barrier is one's personal psychology or how they react to the daily noise and clutter."

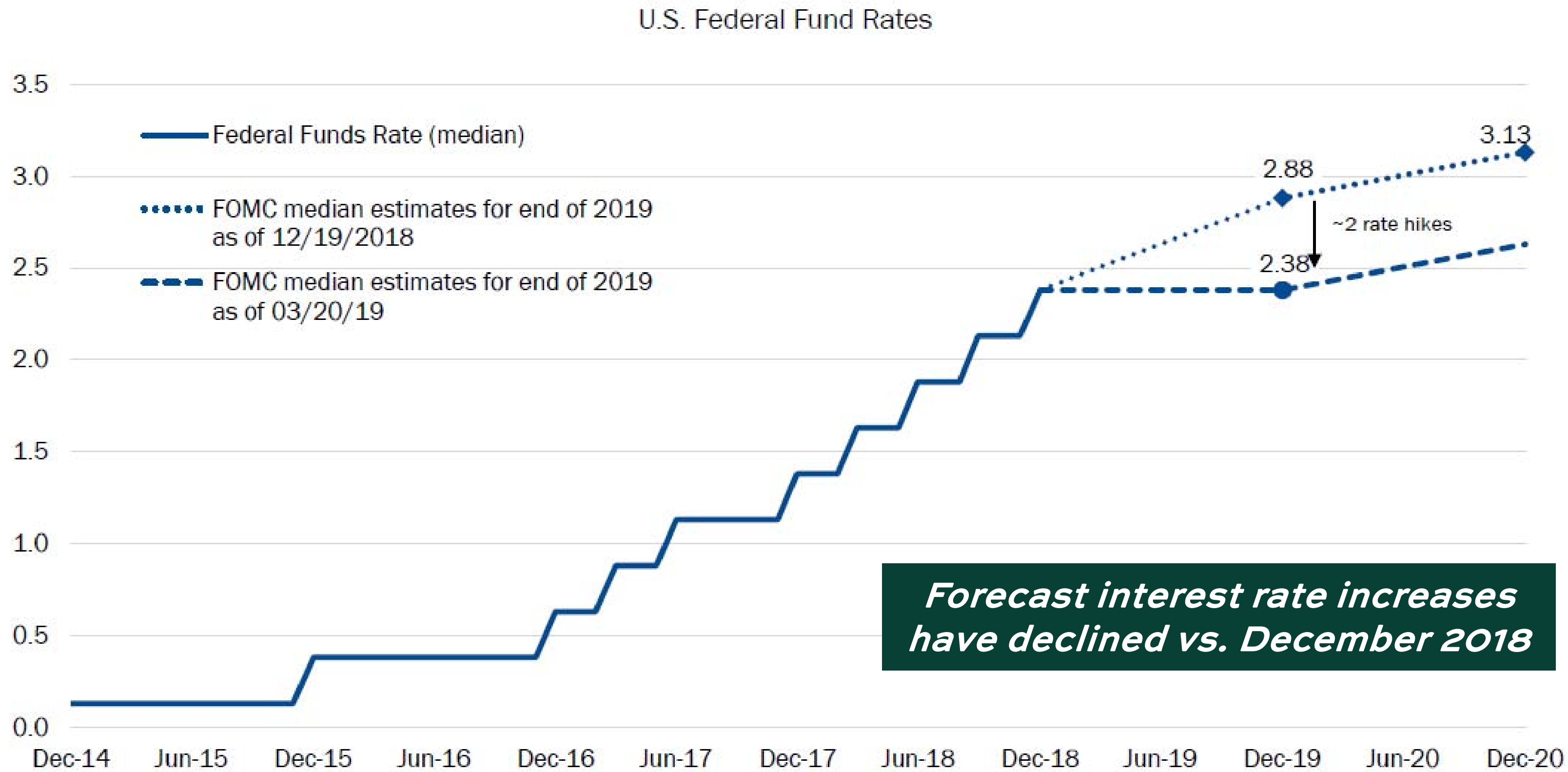
- SAA Team

Enclosure: Slides

Real Earnings Yield (Forward Earnings Yield less Real Rates)

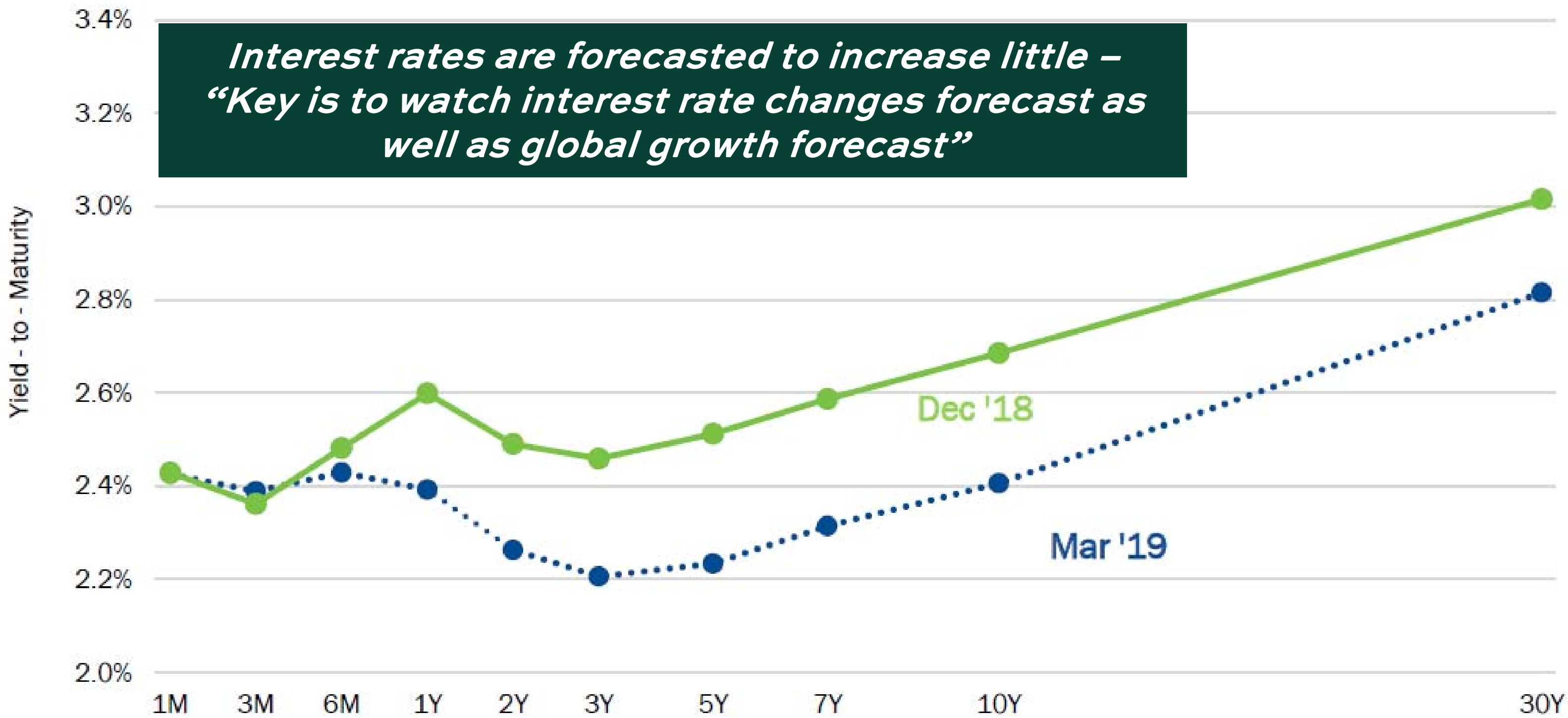


Source: Bloomberg. Data from 12/31/2005 – 03/31/2019. Equity Risk Premium (ERP) is the forward earnings yield less real rates. Forward earnings estimates are time-weighted Bloomberg consensus estimates. Real Yield is the 10-Year Treasury yield less the core CPI inflation rate. Totals may not foot due to rounding.



Forecast interest rate increases have declined vs. December 2018

Source: Bloomberg



Source: Bloomberg

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