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The Margin of Safety Quarterly
Southeast Asset Advisors, LLC
Lanigan Wealth Management

Investment Management & Consulting
Thomasville – Atlanta – Tallahassee – Mobile – Charleston
www.assetadvisor.com

TO: Clients and Friends
FROM: SAA Managing Directors
RE: 3rd Quarter 2019 Commentary
DATE: October 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.

3rd Quarter Key Takeaways

- The third quarter of 2019 was a choppy one for financial markets, as investors continued to weigh the overall health of the global economy against a host of uncertain political concerns and macro factors.

- On the economic front, the Federal Reserve followed its 25-basis-point interest rate cut in late July with additional 25-basis-point cut in mid-September. Most forecast an additional rate cut in November.

- Amidst this backdrop, equity markets rose in July, fell in August, and they rallied in September.
    - Large-cap U.S. stocks gained 1.7% for the quarter and have netted over 20% year to date. Smaller-cap U.S. stocks suffered more acutely during the market drops and ended the quarter down 2.4%. For the year to date, they are still up a healthy 14.2%.

   - These are strong 2019 results, but if one considers the trailing 12 months (which include Q4 2018), the S&P is up only 4.3%.

- Despite a rebound in September, foreign stocks posted negative returns for the quarter, but they appear to be a better valuation than the U.S. (i.e., 14 PE vs 18 PE for S&P)

- The "low yield fixed income world" continued with bond yields around the world moving lower in the third quarter as deflation concerns took hold. More than 25% of all global fixed income actually have "negative yields." UVA just issued 100-year bonds at ~3.3% (taxable) or ~1.8% (after tax). A strange world indeed!
   - The 10-year treasury yield ended the quarter at ~1.68% which was down from 2% yield at the end of the 2nd quarter.

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"There are two kinds of forecasters: those who don't know, and those who don't know they don't know."

- JK Galbraith

We are in uncertain times, which Mr. Market does not like. There are all kinds of forecasts such as political election outcomes, macro, tariff agreements, tax changes, and even debates by some politicians focused on the desirability of our capitalist system, etc. Month to month outcomes are driven by macro rather than fundamentals. As always, patience and one's temperament are key to long-term investment success.

Our best advice – Do not let the news affect your temperament and better yet, do not watch any news "talk." We are only forecasting stock prices to be volatile (as always.) We are indeed in a "low yield fixed income world" where long bonds may be the riskiest of all asset classes, as many investors search for higher yield.

Bottom line: Do not get whipped around by macro forecasters!

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Very low or negative interest rates (yields) throughout the world are causing many asset prices to inflate (rise.) However, as interest rates change or perception of future rates change prices can move quickly. Most "value managers" are testing clients' patience by not joining the "growth at any price crowd," where many growth "stories" and "dividend aristocrats" are trading at much higher PE multiples and inflate "Mr. Market" average multiple to ~18 PE. However, many sectors and stocks are priced very good and offer investors a very good price to value. Of course, price you pay is important, but a good business and good management are equally important.

Please reread our last quarterly letter (or call or e-mail us if you need another copy) for a more in-depth discussion on interest rates, growth, and valuation.

What to do now? We encourage you to discuss with us any changes to your goals, asset allocation, and investment policy. The key is to be "long-term investors" and therefore, view volatility of your equity allocation as the opportunity for higher albeit "bumpy" returns. Make sure you can handle volatility from a "temperament" as well as a "financial" standpoint!

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We are excited to have Chris Osborne join Ned Johnson in Charleston as an SAA Managing Director. Charlotte Glover also joins our Charleston office as an Executive Assistant and client relations. We also want to welcome the new clients of our expanded Charleston, S.C. office. We recently had a retreat with all six directors from all our offices. It is clear that our culture of striving to provide value to our clients and earn clients "deserved trust" differentiate us from the other wealth management firms. We certainly have unique expertise that our team effort can provide to our clients. We are excited to show our new SAA clients.

Thank you again for your continued confidence and trust. Please call us if you would like to discuss your asset allocation. Investing and providing client planning to reach one's financial goals is our passion. Please find a copy as Exhibit A of our "Pledge/Commitment to our Clients" that our team strives to achieve each day.

Have a great Fall!
Your SAA Investment Team

"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. Valuation with the right business and the right people will always be our North Stars."

- SAA Team

"The stock market is the story of cycles and human behavior that are responsible for overreactions in both directions."

- Seth Klarman

"For investors, one's "temperament" is more important than IQ."

- WEB

Enclosure: Exhibit A "Pledge/Commitment to our Clients"

Exhibit A

SOUTHEAST ASSET ADVISORS, LLC
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 clients' 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 as 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.