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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](http://www.assetadvisor.com)

TO: Clients and Friends  
FROM: SAA Managing Directors  
RE: 4th Quarter 2020 Commentary  
DATE: February 2021

- 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.**

## A Defining Year for our Generation?

We open this 4<sup>th</sup> quarter letter with a recent quote from Bill Gates' letter that says it all:

*“Just as WWII was the defining event for our parents' generation, the coronavirus pandemic we are living through right now will define ours. And just as World War II led to greater cooperation between countries to protect the peace and prioritize the common good, we think that the world has an important opportunity to turn the hard-won lessons of this pandemic into a healthier, more equal future for all.”*



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## **Cautiously Optimistic**

We are cautiously optimistic about America’s near-term economy. Hopefully, the amazing new vaccine and distribution thereof can quickly get us back to the normal personal and business lives that we took for granted before the pandemic. It will be interesting to see what the “new normal” will look like and whether the “disrupters” and “stay at home” business models will continue to prosper and grow at the same pandemic rate.

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**We hope and pray that our new President and elected officials can unite our divided nation as One Nation Under God.**

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## **Regulations, Higher Taxes, and Inflation are a concern...**

We continue to worry about our growing debt/deficit level, as we are fiscally conservative by nature. We ask ourselves whether artificial low interest rates (held low by our T-Fed) will continue indefinitely.

We worry about the effect of more regulations, higher taxes, and inflation on the economy and, of course, valuations.

We spend a lot of time looking for opportunities to protect our clients’ portfolios from these uncertainties, especially in times when all assets are inflated by very low interest rates. TINA (There Is No Alternative to equities) is truly the thought of the day. What not to do is perhaps more important than what to do... (i.e., do not load up on momentum driven “story stocks” or deal with managers who are “momentum driven” and lack a “north star” of fundamental valuation.) Now is the time to avoid expensive growth in fads or theme stocks and high valuations using “value inflating” inputs of low interest rates and very high growth rates to determine the intrinsic value of equities.

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**Momentum, Speculators, Social Media, Story Stocks.....**

As we write, we see many signs of speculation, the latest is “momentum speculators” using social media to manipulate individual stocks – think GameStop and AMC Entertainment. First, they caused a short squeeze and huge volatility in certain smaller “story stocks” that they promoted on social media – Reddit, Discord, etc. Apparently, some “momentum speculators” use these directives to go against professionals using fundamentals. This activity appears “cult like” and we believe will end poorly for those holding the bag when fundamentals become important again.

But for now, in these “story stocks,” fundamental valuation does not seem to matter to retail traders (or to many “growth at any price” investors either), and this frenzy has created volatility both up and down.

As we know, this “momentum crowd” based on fear and greed psychology, etc., increases short-term volatility, but it also creates opportunity for the long-term investor who has a value/fundamental approach as a “north star.” We, and our proven managers, patiently wait to find qualifying investments that are a good business, have a sustainable competitive advantage, are run by capable management, and lastly, can be bought at a price-to-value that provides a margin of safety.

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Our team is hard at work for our clients. We are trying to stay “rational,” especially when we see much speculation driven by fear of missing out (FOMO). The more we see signs of irrational behavior, the more rational and careful we must be.

We are attaching a list of important traits of a successful investor and guiding investing principals in Exhibit A. These are especially important today.

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Thank you for your confidence and trust. Please call us if we need to discuss any changes to your asset allocation, etc.

Your SAA Team





Quotes of the Quarter

*“The one reality that you can never change is that a higher-priced asset will produce a lower return than a lower-priced asset. You can’t have your cake and eat it. You can enjoy it now, or you can enjoy it steadily in the distant future, but not both – and the price we pay for having this market go higher and higher is a lower 10-year return from the peak.”*

- Jeremy Grantham, January 5, 2021

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*“Good, better, best. Never let it rest. ‘Til your good is better and your better is best.”*

- St. Jerome

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*“As we have discussed during many times with our forum – no matter how much money and stuff you have, all you really have is your reputation and deserved trust.”*

- Fred Stimpson

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**Exhibit A Enclosed:**

- “Key Successful Long-Term Investor Traits”
- “A few basic principles to guide us in doing the right thing”



## Exhibit A to 2/21 SAA MOS Letter

FROM: SAA Team

RE: Key Successful Long-Term Investor Traits (by WEB, etc.)

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*To be a successful investor over the long term, you must have qualities that include:*

- A. “A genetically programmed person that can recognize and avoid serious risks, including those never before encountered.”
- B. “Right Temperament”
- C. “Independent Thinking”
- D. Emotional Stability” and a
- E. Keen understanding of both human & institutional behavior

“Never forgetting a big, single mistake can wipe out a long string of successes.”

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*A few basic principles to guide us in doing the right thing:*

1. Try to treat our investors in such a way that if our positions were switched, We would be delighted to take other side.
2. Treat stock position as a piece of the business involved.
3. Try to buy stocks only at a price that affords a margin of safety.
4. We use market volatility as a useful tool, not as an instructor!
5. We patiently build up a core expertise that allows us to evaluate the long-term prospects of the business we are interested in and sustainable competitive advantage.
6. We focus on the “rare long-term compounders.”
7. We wait patiently for stock prices to fall into our comfort zone (with MOS), then buy aggressively & hold for long term.
8. You can do this in any market, but it is more profitable in markets in which you have an enduring edge and fewer wide competitors or when fear/psychology creates “fat pitches” for the prepared long term investors.

*“It won’t work well if we stop learning as the game gets harder to play. If we can, we must compound our knowledge & competence as fast as our assets grow.”*

**Exhibit A**