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Southeast Asset Advisors, LLC
Lanigan Wealth Management
Investment Management & Consulting
Thomasville – Atlanta – Tallahassee – Mobile – Charleston
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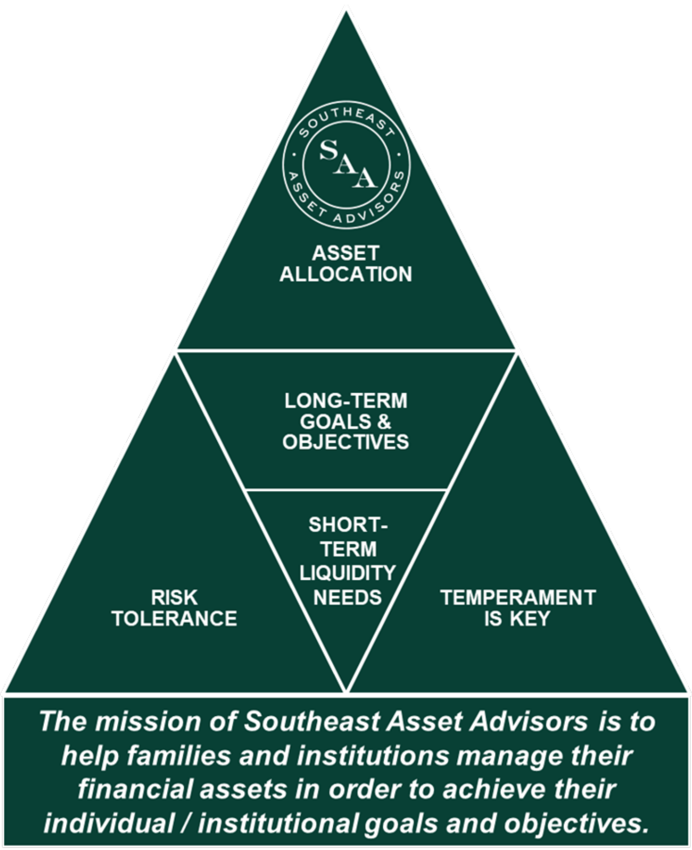
The Margin of Safety Quarterly [(1)]

4th Quarter 2023



SOUTHEAST
ASSET
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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 based on the client's profile of asset allocation ranges.

[(1)] Margin of Safety (MOS): Many investing greats have said these are the most important three words in investing. We agree and call our quarterly letter accordingly. MOS is key in determining anything with variables occurring in the future, i.e., price to future value, all future outcomes, etc. Its magic is that the higher your MOS, the smaller your edge needs to be to have a favorable outcome.

TO: Clients and Friends
FROM: SAA Managing Directors
RE: 4th Quarter 2023 Commentary
DATE: January 2024

4th Quarter and Year to Date

The S&P 500 returned 11.7% in the fourth quarter and 26.3% for the full year 2023, a nice comeback after the dismal returns of 2022. A small group of stocks (the "Mag 7" – Apple, Alphabet, Amazon, Microsoft, Meta, Nvidia and Tesla) drove the market performance returning 73.4% as a group YTD vs a return of 10.6% for the remaining 493 stocks in the Index. As of 12/31/23, these stocks make up ~28.0% of the S&P 500 and trade at a forward P/E multiple of ~35.0x vs a P/E multiple of ~15.5x for the other 493 stocks. Once again, growth outperformed value (~42.7% vs ~11.5%), large cap outperformed small cap (~26.3% vs ~16.9%), and US (S&P 500) outperformed International (AC World ex US) (~26.3% vs ~16.2%).

The 10-year treasury rates increased from 3.9% at the end of 2022 to an intra-year high of ~5% in October 2023 before coming back down to where they started at ~4%. We spent a significant amount of time rolling short-term treasury bonds to increase cash yields for many clients.

Where Do We Stand?

We do not believe anyone can forecast the future accurately, but we do believe we can determine where we stand and prepare for a range of future outcomes with prudent asset allocation.

As discussed in our third quarter letter, interest rates and how Chairman Powell manipulates those rates (based on the Fed's assessment of inflation and consumer behavior) is the key question.

The cost of capital and valuation of all assets depend on future interest rates. The Fed continues to maintain a goal of 2% inflation without triggering either a recession or higher unemployment. The Fed has election year pressure to not look political and to put the blame on the data, etc. Market participants' optimistic consensus is 6 rate cuts in 2024, while the Fed is signaling only 3 rate cuts. More easy money (low rates) is in most predictions, although degrees of rate reductions vary.

Interest rates remain low even in the present range despite being higher than the past 13-year period from the end of 2008, when the Fed cut the rate to zero to counter the effects of GFC. The Fed abandoned the idea that inflation was transitory at the end of 2021 and began what turned out to be a series of interest rate hikes. The big swing in market returns in 2022 and 2023 was largely driven by interest rate changes (or the anticipation of future changes).

Howard Marks' recent memo titled "Easy Money" is a great read. Please advise any of us if you do not have access to a copy of this memo and would like one. Marks estimates a normal interest rate of 2–4% over the next few years, which is somewhat higher than the 0–2% the Fed estimates. We continue to worry the increasing annual deficit along with the accumulated deficit will require increased interest rates in order to successfully market our US debt. Our base case includes higher taxes of all kinds that will raise the cost of capital as will any increased interest rates.

Goldilocks Environment, For Now

The consensus of macro-opinion seems to conclude that the economy is back to a Goldilocks period, and accordingly, most expect good equity returns and lower interest rates. We worry when there is a consensus opinion. We would not use the Fed's low interest rate projections to value assets, as they do not seem to provide an adequate margin of safety. "Goldilocks thinking" is a recipe for aggressive investment behavior that usually does not end well. We believe there will be higher volatility in the valuation of most assets going forward as the Fed tries to engineer a low interest rate, etc. Time will tell.

"Mag 7"

We also wonder if the market returns will broaden beyond concentration in the "Mag 7" to the other 493 stocks in the S&P 500. Valuation of the "Mag 7" makes up ~28% of S&P 500 market cap and ~62% of last year's return. These 7 stocks trade at multiples of ~21x to ~42x. Most are truly great businesses that generate huge annual free cash flow and have great balance sheets. They are expected to grow at ~20.8%

vs ~6.7% growth for the balance of the S&P stocks. AI (Artificial Intelligence) has only added to "Mag 7" prospects of outsized returns. We feel AI could be a long-term game changer to overall productivity, but it may take years to achieve the productivity gains many expect. We continue to hold some "Mag 7" stocks while monitoring their fundamentals and assessing their competitive advantages for sustainability. Antitrust risk is a concern for these as the government plays an increasing role in our lives in so many areas of capitalism.

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We have attached a special tribute to Charlie Munger. In the attachment we have a reference to a must-read book that we encourage you to share with your family in search of worldly wisdom. You can download it on a Kindle or order a hardcover version.

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Enjoy your family and friends. Our best wishes for a great 2024.

Your SAA Team

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"Success is not the key to happiness. Happiness is the key to success. If you love what you are doing, you will be successful."

Albert Schweitzer

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A great business at a fair price is superior to a fair business at a great price."

Warren Buffett credits Charlie Munger with conveying to him the wisdom of this approach

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"Use your sense of humor. Laugh at things, laugh at the absurdities of life, laugh at yourself."

Bishop M. Ramsey

A tribute to Charlie Munger, a great teacher to many of worldly wisdom; RIP Charlie!

Most of us have been blessed with great and patient teachers and mentors. They have come from special parents, family, business associates, as well as from friends. One common trait of these special teachers is they sometimes do not just give us the "answer" but help us "think." Thus, we get the true "understanding" and not just the recall of facts.

Recently, Bernie had the experience of a long Zoom call with Charlie Munger, thanks to a mutual friend, who knows of his long-term admiration and study of Charlie via his writings, as well as attending Warren and Charlie's Q and A at Berkshire meetings in Omaha for many years. The Zoom call was only one week before Charlie passed away at the age of 99 and one month before his 100th birthday. He was on top of his game on the call and his direct answers to questions were truly unforgettable.

Charlie talked and wrote often that you can learn from not only the living but the dead, as he did personally from studying Ben Franklin and his love of reading many biographies of the deceased.

We could go on forever about the teachings of Charlie. However, we will keep this tribute short and encourage you to continue to learn from Charlie as we all will do. He left his own obituary in his writings, quotes, etc. as a source for us all to continue to learn.

RIP Charlie! Thanks for your dedication to teaching and the many lessons you left behind for us to continue to learn and relearn.

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We suggest wherever you are in this study process to get and read (reread) the revised Peter Kaufman book, *Poor Charlie's Almanack* released 12/05/23 on Kindle or better a hard copy so you can share it with others who want to learn and relearn worldly wisdom.

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A close friend of Charlie said it best in a final tribute, "*Charlie sought worldly wisdom through life-long learning. He guided life with rationality devoid of mental deficiencies such as envy, resentment, and self-pity. He faced and preserved through countless adversities with stoicism and equanimity. As he gained in wealth and stature, he showed little appetite for the trappings of that success and instead spent his wealth on worthy causes and tirelessly spread his worldly wisdom to those who would listen, often with humor. He remained deeply engaged with family, friends, partners, and the broader world with loving assiduousness through his last days.*"

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"With all thy getting, get understanding."

Proverbs 4:7
(repeated often by Charlie Munger)

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To conclude, as Charlie would often say, *"I have nothing to add."*