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# Southeast Asset Advisors, LLC

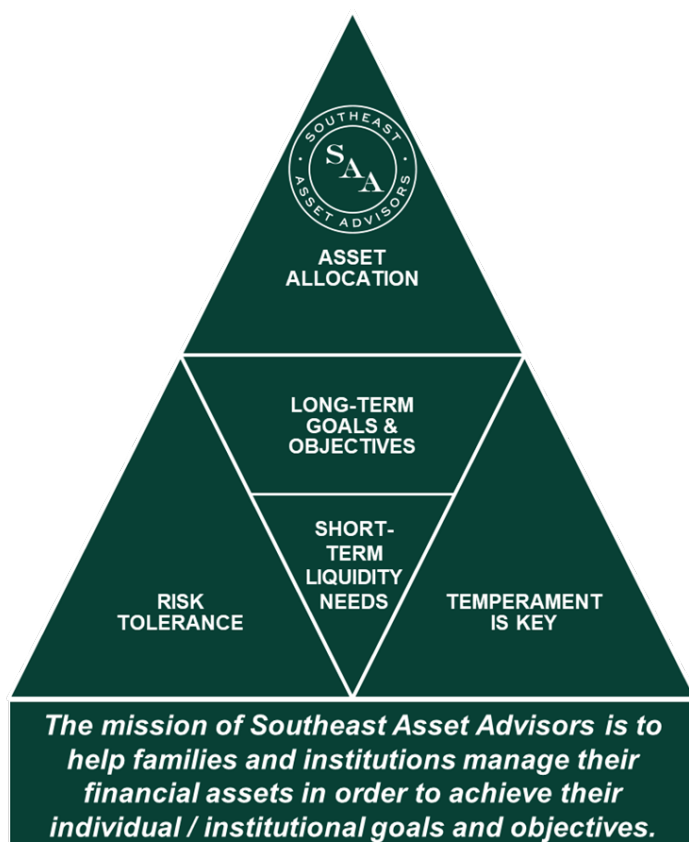
Investment Management & Consulting

Thomasville – Atlanta – Tallahassee – Mobile – Charleston

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

## The Margin of Safety Quarterly <sup>(1)</sup>

*1st Quarter 2025*



**SOUTHEAST  
ASSET  
ADVISORS**

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.

<sup>(1)</sup> 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: 1st Quarter 2025 Commentary  
DATE: April 2025

### A Volatile Start to 2025

After the first 50 days of 2025, the S&P was up 4.6% year-to-date to a new all-time high. This was generally credited to enthusiasm following the election of the new President. However, twenty short days later, the S&P was down 10% from the peak. For the first quarter, the S&P 500 was down ~4.3% with the Russell 2000 faring worse, declining ~9.5%. The seesaw declines and increases were caused by the on-and-off reported tariff proposals. We predicted in our last letter that “uncertainty” and “volatility” were the themes for 2025. This has been an understatement for the first quarter and the beginning of the second quarter 2025.

Fixed Income returned 2.8% for the quarter (as measured by the Bloomberg Aggregate Bond index) but has declined in subsequent weeks by 0.8% through April 17, 2025, as interest rates have risen, and inflation sentiment has become the worry as a result of the tariffs.

Through April 17<sup>th</sup> (as this letter goes to press), the S&P has declined another ~5.8% bringing the year-to-date downdrafts to ~9.8% as tariff news is on and off.

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### As the Tariff Threat Evolves...

In our last letter, we wrote about elevated expectations after the elections for the immediate success of Trump 2.0 and danger of unlocking a wave of “animal spirits.” That was an understatement. Then came the tariff uncertainty, which created volatility in the market environment second to none before and after “Liberation Day,” April 2.

Of course, predicting or forecasting the future macro, or in this case “tariff war,” is impossible (especially in a President Trump led world). We do see a lot of positive in





the Trump 2.0 goals, e.g., “Made in USA,” fair tariffs, and balanced trade. However, our advice to President Trump is, “Slow down, and listen carefully to your Secretary of the Treasury, Scott Bessent and others for wise counsel, and avoid actions on the fly.” We worry about alienating the world at a time when having allies to team up with us against China is critical. China has been accessing our vast consumer market with lower labor cost manufacturing. In addition, China and the US are in an AI and semiconductor race. China has advantages and disadvantages compared to the US. In a trade war, both countries will be losers. We must work out how to get along, as both countries are leading superpowers, each with unique strengths and weaknesses.

A tariff war with China or others will probably be inflationary to the US and slow our growth. Indeed, spending changes could even push the US into a recession. Federal Reserve Chair Powell continues to differ with President Trump on lowering rates, and the President calls for his dismissal. Tariff repercussions are generally perceived as a consumption tax, but they can have varied results and be transitory, cause more lasting inflation, or result in consumers altering their spending habits due to higher tariff prices.

Many tariff consequences are not fully known or tested. It will be interesting to see who “blinks” first – China or US. We are hopeful that rationality will win and that the trade war will be short-lived.

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Enough of our macro talk. We continue to forecast more volatility in the equity markets and in fixed income. So, “buckle up.” Any short-term trading is an especially dangerous game. We also intend to stay diversified and keep our fixed income in appropriately short durations until we see the results of tariff, inflation, etc.

Our consistent advice of being a long-term investor, and also to take all news with a healthy dose of skepticism, has never been more on point.





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### Musing Reference to the Cover Page of this SAA Letter...

Please turn to our letter's cover page and read what is written in the triangle diagram – Asset Allocation, Long-term Goals and Objectives, Short-term Liquidity Needs, Temperament is Key, and Risk Tolerance. These words say it all and are worthy of reading again and again, as our SAA team tries each day to walk-the-talk.

Also, on the cover page, we state our goals for you; *"We strive to protect and grow our clients' capital over the long term."* We further list in items 1-5 how we hope to accomplish these simple goals.

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We have attached as Exhibit A to this letter, notes from a recent call with two investment greats. During this volatile and uncertain time, Exhibit A is worthy of a close read and reread.

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### In Closing

Our responsibility to clients is to protect and grow capital and build wealth in a prudent, responsible, and sustainable manner, in order to achieve their individual goals and objectives. Our success is directly tied to delivering on these objectives. In our pursuit of these goals, we try to stay rational and unemotional, and to help our clients do the same, particularly in times of stress, volatility, and uncertainty.

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Thank you for your trust and confidence. We strive to make "deserved trust" the most valuable asset we can earn.





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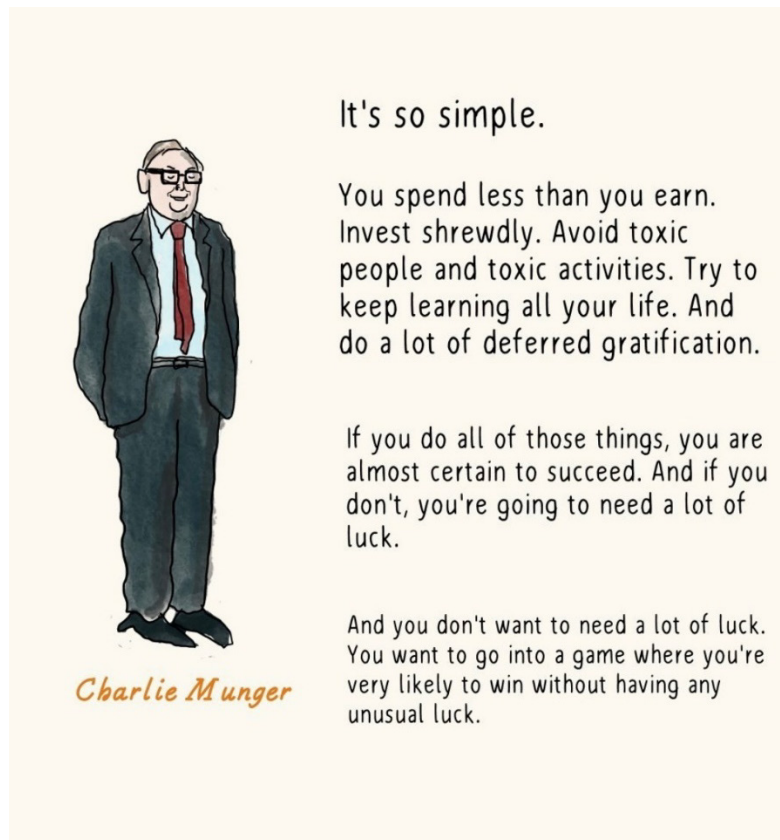
We are dedicated to our SAA guiding principles as outlined on the cover of this letter and further in Exhibit A attached, with your help and guidance as always.

Have a wonderful Spring and make sure you “buckle up.” This too shall pass!

Please call us if your goals or objectives have changed.

Your SAA Team

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Attached: Exhibit A



## EXHIBIT A

*We listened to a call yesterday by two investor greats who echoed what we believe and is on the cover of every SAA letter:*

### How to manage through volatility

- Be long-term.
- Courage – know what you own and why you own it. Have the courage to add when prices are depressed, if a business has sustainable competitive advantage.
- Know Market History – be a student of market history
  - o A cycle of boom and bust – market declines 20% about every 2 years, for one reason or another.
  - o But the market goes up 75% of the time.
  - o Volatility is the admission ticket to higher returns if you have the right temperament.
  - o In the short run, the market is a voting machine.

### Geopolitical, tariffs, and Macro

- Uncertainty now is as high as / higher than in the pandemic.
- The market always overreacts to negativity.
- Businesses will adapt; some better / more than others.
- Forecasts are useless, a waste of time.
- Look at what great businesses are doing to adjust and look to great management.
- Do not try to forecast the future but pay attention to trends.

### Good Business

- Has a large addressable market.
- Has the ability to adapt to different market/economic environments.
- Has the ability to survive through disorder / disfunction / tough times.
- Has great managers.
  - o Capital allocation is key.
  - o Read “The Outsiders” by Will Thorndike.

## EXHIBIT A

### Valuation of Business

- Free cash flow yield is the starting point.
- From there look at growth.
  - o Reasonable growth (per share).
  - o Is it consistent?
  - o How predictable is it?
  - o Good business, people, and fair price per share.

### Value of Outside Advisors to investors

- Highest value is keeping clients on the right path – not letting them make emotional mistakes.
- Keeping investors emotionally steady.
- Reminding them of the value of long-term investing and that markets are volatile.
- When you have high uncertainty / low markets, that is the time to invest more money.

### AI Hype vs Reality

- Open AI and other high market cap companies have massive valuations.
- However, truly open-source models (such as Meta and others) will probably be the winners.
  - o Which means that the other companies with high valuations are overvalued.
- Be willing to change your mind and adapt.
- There are no “sure winners” at this time.
- Suspect that models will not be the winners (see above), but how the models are used will create winners.

## EXHIBIT A

Finally – Cash is NOT the king but key in helping with one's temperament and short-term cash needs.

- The only sure thing is that cash loses value every day. A sure loser 100% of the time over time.
- People do not think about it right, but over C. Davis's lifetime, he suspects cash has lost 80% of its value (purchasing power).
- So, do not sit on cash for long – unless you have near term spending needs.
- Of course, you need cash to keep the right temperament so you can be a long-term investor.
- Live below your means.