

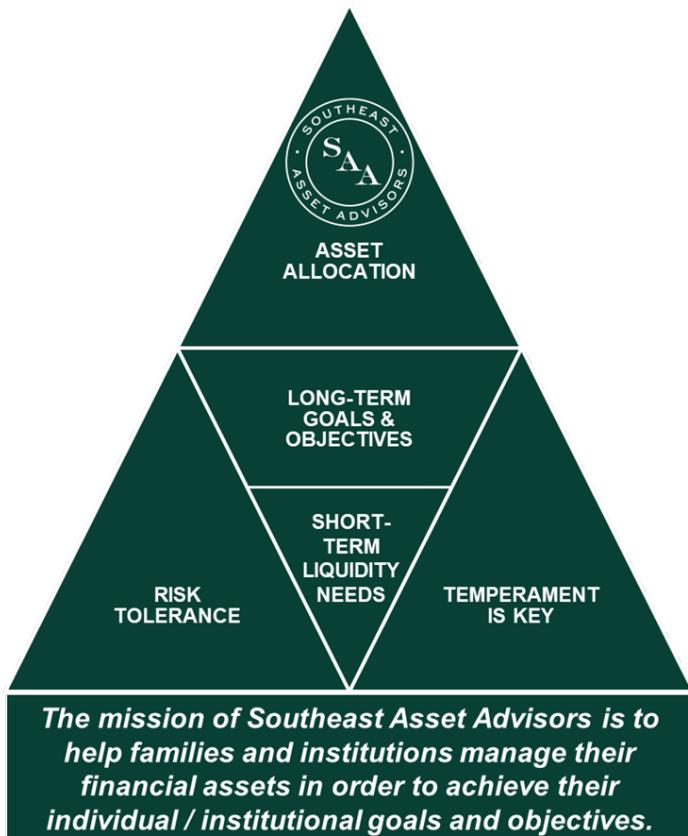


Member of
The Lanigan Group of Companies

Southeast Asset Advisors, LLC
Investment Management & Consulting
Thomasville – Atlanta – Tallahassee – Mobile – Charleston
www.assetadvisor.com

The Margin of Safety Quarterly ⁽¹⁾

January 2026



**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.

⁽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 2025 Commentary
DATE: January 2026

The S&P 500 continued its robust momentum, finishing the year with a total return of 17.9%, fueled largely by the continued dominance of AI and a second-half surge following a volatile spring. While large-cap tech remained a primary engine, we saw signs of life in other segments; Small-cap stocks, as measured by the Russell 2000 posted a respectable 12% return, while the S&P Midcap 400 rose 7.5%. The AI and 'Mag 7' concentrated S&P 500 index outperformed most active US managers especially managers that had a north star of "valuation".

Most notably, the "US-only" narrative was challenged as international equities staged an impressive comeback, with the MSCI EAFE Index surging 31.2%—nearly doubling the S&P 500's return—with returns assisted by a weakening dollar.

The S&P index's performance remained highly concentrated, with a small group of mega-cap technology firms exerting outsized influence.

- The narrow Influence: Just seven stocks—NVIDIA, Alphabet, Microsoft, Broadcom, JPMorgan Chase, Palantir, and Meta—accounted for ~52% of the S&P 500's total gains for the year. One of our favorites continues to be Alphabet; although, it may also now be priced as one of the market's favorites.
- NVIDIA's continued dominance was responsible for ~15.5% of the entire index's return in 2025.

Longer term, the equity markets from 2023 to 2025 represented one of the most powerful and concentrated three-year bull runs in modern history. The cumulative three-year return for the S&P 500 reached ~86% to ~88%.

For the full three-year period, the 'Mag 7' stocks contributed ~55% of the S&P 500's total return. Without this group, the index's annualized return would have dropped ~23% to ~11.6%

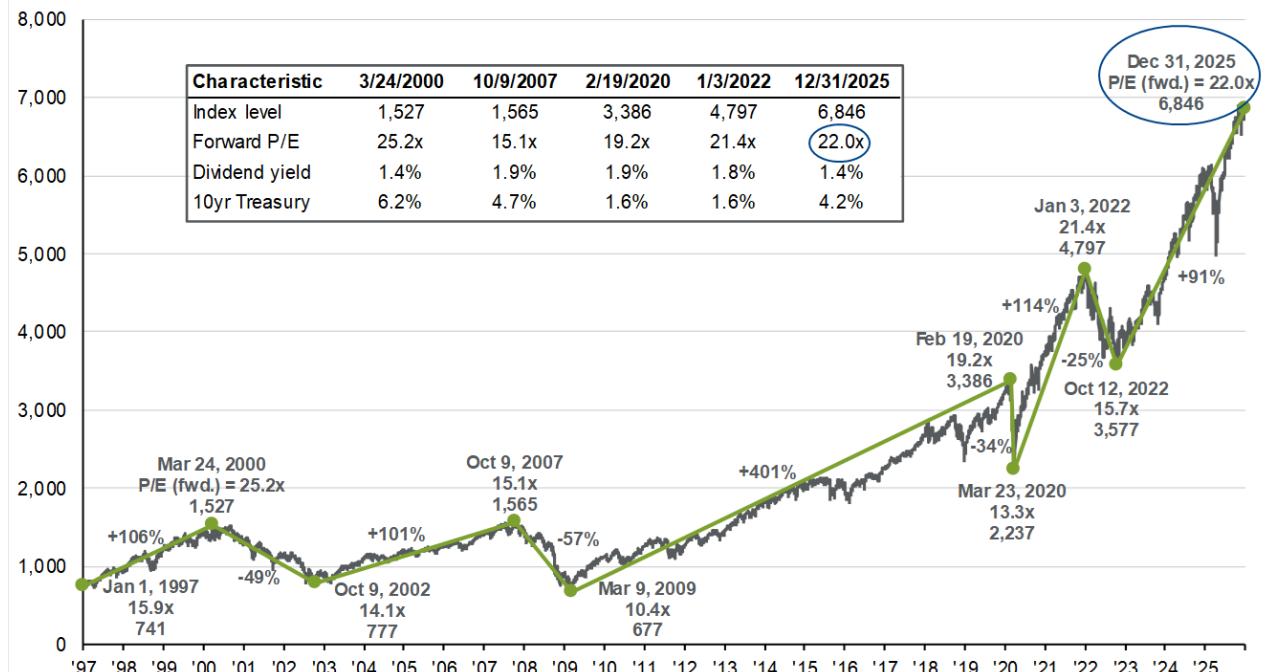




Several graphs tell the story of 2025 markets:

First, S&P index at various points vs. history.

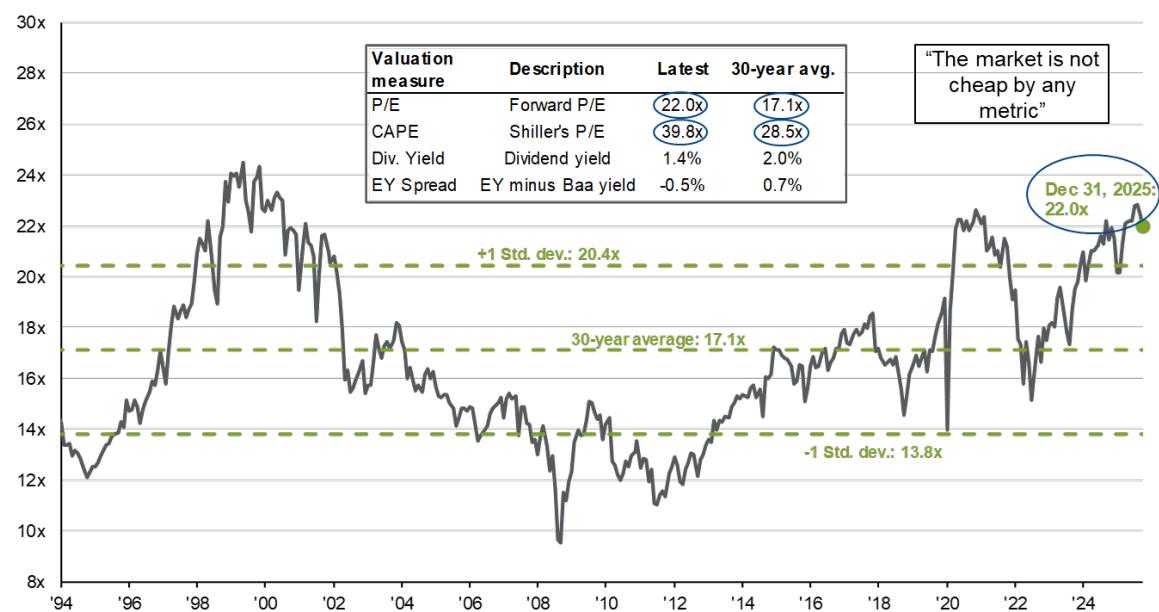
S&P 500 Price Index



Source J.P. Morgan

Next, S&P chart of valuation measures compared in 12/25 with history.

S&P 500 index: Forward P/E ratio

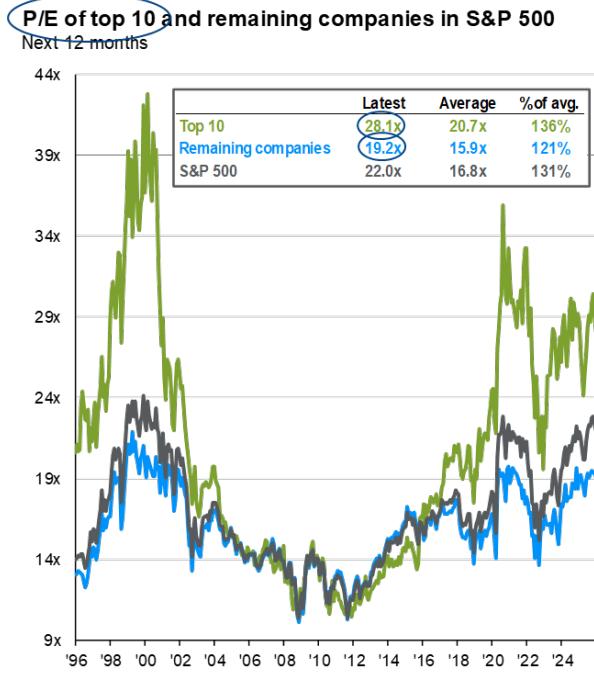


Source J.P. Morgan





Lastly, a few graphs illustrate S&P 500 index 2025 concentration and largest 10 stock PEs relative to the rest of S&P 500 stocks.



Source J.P. Morgan



Dec 31, 2025: 40.7%

32.5%



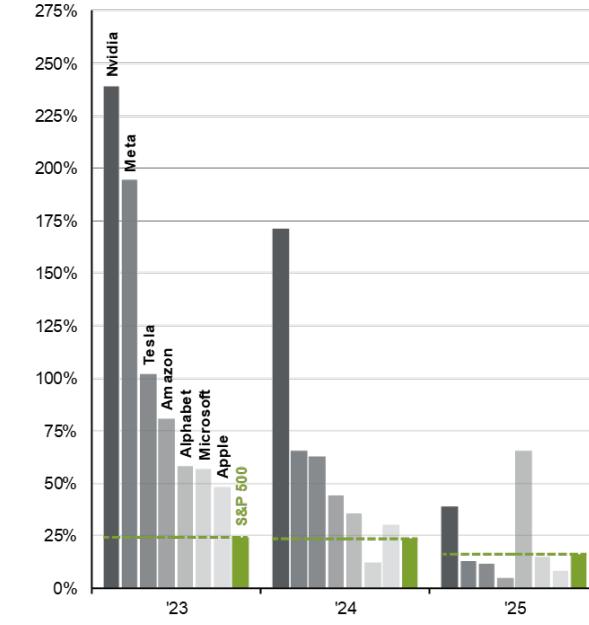
These graphs illustrate PE x and weighting, Etc.



Source J.P. Morgan



Price return





When we look at the above graphs of Mr. Market in 2025, 2024, and 2023 we think of the markets in the “roaring 20s.” The key themes of these recent periods are AI and related businesses such as data centers and semiconductors. We believe AI is truly a game changer and will eventually increase productivity; and the wealth effect (Mr. Market and high end RE) may keep the spending by top incomes humming; however, the lower-end consumer is reportedly continuing to struggle. The goals of lower prices in groceries, oil, and housing are tough to achieve, especially before the midterm elections. In addition, geopolitics is a wildcard. The recent success in Venezuela is huge but hard work ahead is required in much of the world.

Let's enjoy the uptick but realize that “trees do not grow to the sky.”

Geopolitical risks along with ‘Mag 7’ concentration, AI hype and high valuations in general make a world full of risks that demands many “what if” scenarios.

Our game plan remains the same (as noted in our prior newsletters):

We want enough short-term cash and treasury bills available to fund clients' near-term needs. Next, we want to have enough fixed income to be a portfolio anchor in volatile times so one's temperament can withstand any equity volatility. Lastly, we want equity holdings to be somewhat diversified: held in great businesses run by capable and honorable people. We want to buy companies at a reasonable price to value and hopefully hold for the long term with uninterrupted compounding. We would like our managers to have this same mandate.

The ability to ignore volatility (proper temperament) will be important at some point to allow portfolios to compound long term no matter what cycle the economy may go through.

Thank you for your trust and confidence. As Always, we strive to make “deserved trust” the most valuable asset we can earn. Thank goodness we live in the USA! Happy New Year!





Please call us if your goals or objectives have changed or if you would like to meet with us.

Your SAA Team

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“Start the new year by preparing a detailed personal financial statement for your assets as well as trusts and entities that may be outside of your estate. This is a key first step in planning and asset allocation.”

- SAA & L&A

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Our Favorite quote on Worldly Wisdom and Endurance

“The game of life isn’t about brilliance, it’s about avoiding stupidity. You don’t need to be a genius to win; you just need to not be dumb for too long. The first rule is inversion: figure out what would ruin you, and don’t do it. The second is patience: the world rewards those who wait without boredom. If you gather enough mental models from physics, psychology, economics you begin to see reality as it is, not as you wish it to be. The best investors aren’t gamblers; they’re collectors of wisdom.

Temperament beats IQ. Consistency beats enthusiasm. The ability to stay rational while others lose their heads that’s the ultimate edge. Success is just discipline, multiplied by decades.”

- Charlie Munger

1994 USC Commencement Speech

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A quote that is often true on learning from what others have figured out or experienced. For example, “trees do not grow to the sky” and “deficits must be funded, eventually.” Unfortunately, we mostly learn anew as Einstein says;

“The ordinary human being does not live long enough to draw substantial benefit from his own experience. And no one, it seems, can benefit by the experiences of others. Being both a father and teacher, I know we can teach our children nothing... Each must learn its lesson anew.”

- Albert Einstein





Key takeaways from a meeting years ago with an investing giant is a great reminder to us in this present macro uncertain time where “value investing” is considered a thing of the past by many investors follows:

- 1) Focus on buying quality businesses run by top notch management who understand capital allocation (on a per share value.) We find that CEO's and Boards either get prudent capital allocation or they do not.
- 2) The best investments are “quality businesses” that are bought at fair prices with a “margin of safety” and owned for a long time so to enjoy compounding and an IRS loan interest free in the tax on unrealized gain.
- 3) Two negative correlations in investing:
 - a. Activity and results
 - b. Group decision making and the results. It is best to have a few benevolent leaders. Group think usually does not work. Just make sure you have the right benevolent leaders.
- 4) All investing is value investing and a long-term focus.
- 5) Micro valuation is the game. Macro is what you must live with and cannot control. That is one reason we need a long-term mind set and margin of safety both in individual stock selection and your overall asset allocation.
- 6) Temperament is more important than IQ in investing. A key question we need to ask ourselves. “What amount of cash is necessary to help keep a rational temperament, and prepare for a cyclical period and economic cycles.”
- 7) Long-term compounding is a wonder of world and so important to understand.

“We must insist on a margin of safety (MOS) in a purchase price relative to the estimate of intrinsic value. MOS is the cornerstone of investment success and are the three most important words in investing.”

- Ben Graham





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“There are books on economic cycles, trading strategies, and sector bets. But the most powerful and important book should be called “Shut Up and Wait.” It’s just one page with a long-term chart of economic growth.”

- Morgan Housel, The Psychology of Money

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“Inflation is always and everywhere a monetary phenomenon, in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in the output.”

- Milton Friedman

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“The difference between successful people and really successful people is that they say no to almost everything and wait for a fat pitch.”

- Warren E. Buffett

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“If there is literally one thing, one trait that you want, it is the lack of fear of missing out (FOMO).”

- Morgan Housel

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“The truth is markets are made up of people, with their emotions, insecurities, their tendency to go to extremes, and their other foibles. Thus, they often make mistakes and swing to erroneous extremes.”

- Howard Marks

