



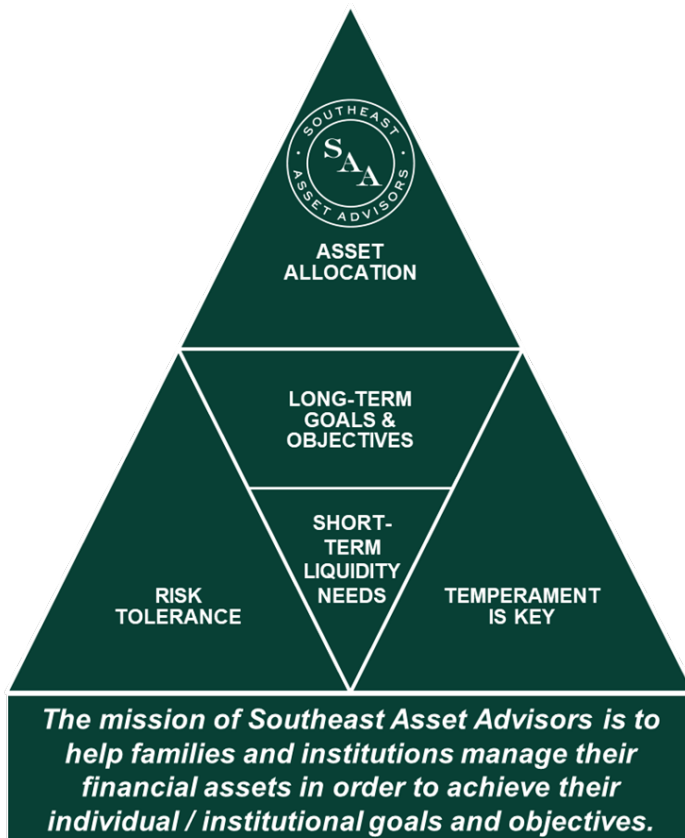
Member of
The Lanigan Group of Companies

Southeast Asset Advisors, LLC

Investment Management & Consulting
Thomasville – Atlanta – Tallahassee – Mobile – Charleston
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The Margin of Safety Quarterly ⁽¹⁾

April 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: 1st Quarter 2026 Commentary
DATE: April 2026

“Forecasting – Prediction is very difficult, especially if it’s about the future!”

- Niels Bohr

The first quarter of 2026 ended in volatility as markets grappled with an escalating conflict in Iran resulting in a spike in global energy prices. Equity markets struggled with the S&P 500 ending the quarter down approximately 4.3%, its worst quarterly performance since 2022. International stocks also faced significant headwinds, as the MSCI EAFE Index fell 1.1% due to many member nations' heavy reliance on oil imports from the Persian Gulf.

Markets Appear to Believe Naval Blockade Will Work

Since announcing a naval blockade of Iran’s oil, the markets have begun to recover. It appears the markets believe the blockage will work and the war is close to ending.

Prior to the Iran war (47 days ago) we were in a market that was focused on AI. The AI debates included: How could we build out enough data centers to meet our needs? How could we provide all the needed power to those data centers? Who would win the semiconductors war? Who would get a return on the data center investments and when? Lastly, the debate on what would happen to future employment, or should we say unemployment caused by AI efficiency? It seems that most people agree that AI will be a game changer and change may come more quickly than expected.

The Iran conflict has taken the front seat causing worry about not only increased fuel prices, but also increased prices of many products. It would be a relief to get back to addressing the US challenges of affordability.





In 2026, America is celebrating its 250th Anniversary. As Jamie Dimon recently said, *“This is the perfect time to rededicate ourselves to the values that made this great nation of ours — freedom, liberty and opportunity — and to recognize that we all stand on our country’s shoulders.”*

We are all so lucky to live and work in America!

SAA Investment Philosophy Summary – Top of the Mind

Our game plan at SAA is to continue to maintain an asset allocation that aligns with each client's risks and goals, as outlined in their investment policy. This includes maintaining adequate cash (and short-term fixed) to meet near-term needs. Ensuring sufficient liquidity is important to help clients maintain the proper temperament and remain focused on long-term objectives.

Equity allocations should reflect an appropriate investment approach. Because the future is always uncertain, prudent diversification is paramount - whether achieved through index funds, individual equity holdings, or through an external manager investing in individual equities.

Long-term compounding remains one of the great wonders of the world. Our long-term goal is to invest in high-quality businesses run by honorable and competent management teams. We seek to own companies with sustainable competitive advantages, purchased with a margin of safety - that is, a meaningful difference between price and intrinsic value.

We strive not to interrupt compounding unnecessarily. By maintaining a long-term investment horizon, we seek to defer income taxes and allow compounding to work over time.

Where appropriate, we may use index funds as part of an equity allocation. Index funds provide exposure at low cost.





Generally, we strive to perform an approximate look-through analysis to estimate the underlying holdings represented through fund ownership. We believe it is important to know what you own.

Finally, we believe it is essential to strive to manage temperament - both our own and that of our clients. We strive to guard against emotional decision-making, particularly the fear-driven influences often amplified by the media. Long-term investors and their advisors can often use market volatility to their advantage rather than reacting to it.

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

We have a few comments about intrinsic value in the attached Exhibit A. We sent these to our entire SAA team so it is always top of mind in this sometimes irrational world.

Your SAA Team

“Tough times never last, but tough people do.”

- Dr. Robert H. Schuller

“A good culture is hard to create and easy to lose so you have to fight for it every day — with a little bit of grit, courage and an open mind.”

- Jamie Dimon (2026 Letter)



Intrinsic Value Musing

Growth is value – it is just how you estimate the growth in free cash flow (FCF). The intrinsic value of any stock or asset, for that matter, is the future FCF it produces, discounted to present value at an appropriate rate. A margin of safety (MOS) is the discount between the intrinsic value and what you pay. The future FCF is critical in determining the intrinsic value and rarely a straight line.

“Forecasting – Prediction is very difficult, especially if it’s about the future!”

- Niels Bohr

A sustainable competitive advantage of a business or stock is so important in estimating the future FCF as is the management’s capital allocation and leadership. Our goal and advantage of buying a good business at a fair price and holding for long term value compounding is even more important than I once thought. We have been a value investor, always, and bought many successful investments that were actually “cigar butts” bought cheaply. It is tough to change but so important to understand the unique advantages of buying a good business at a fair price rather than a bad business bought at cheap prices. However, this indeed is our goal even though often tempted at one that is cheap but not a good business.

Warren Buffett (WEB) said it best many years ago in explaining intrinsic value. We have enclosed the 2003 letter sent to Lauren, Bernie’s English major daughter, to help her understand intrinsic value. It is still the best explanation saying it in layman’s terms for all of us.

Attachment: Intrinsic Value; 2003

INTRINSIC VALUE

“How do you determine the economic value of an asset or decide the attractiveness of all possible use of capital?” When this question was recently asked by my daughter, an English major, I turned to the master, Warren Buffet, who typically articulates the answer in a way even the lay person can understand. This was my response to her:

Dear Lauren,

Leaving aside tax factors, the formula we use for evaluating stocks and businesses is identical. Indeed, the formula for valuing all assets that are purchased for financial gain has been unchanged since it was first laid out by a very smart man in about 600 B.C. (though he wasn't smart enough to know it was 600 B.C.).

The oracle was Aesop and his enduring, though somewhat incomplete, investment insight was “a bird in the hand is worth two in the bush.” To expand this principle, you must answer only three questions:

- (1) How certain are you that there are indeed birds in the bush?
- (2) When will they emerge and how many will there be?
- (3) What is the risk-free interest rate (which we consider to be the yield on long-term U.S. bonds)?

If you can answer these three questions, you will know the maximum value of the bush—and the maximum number of the birds you now possess that should be offered for it. And, of course, don't literally think birds. Think dollars.

Aesop's investment axiom, thus expanded and converted into dollars, is immutable. It applies to outlays for farms, oil royalties, bonds, stocks, lottery tickets, and manufacturing plants. And neither the advent of the steam engine, the harnessing of electricity nor the creation of the automobile changed the formula one iota—nor will the Internet. Just insert the correct numbers, and you can rank the attractiveness of all possible uses of capital throughout the universe.

Common yardsticks such as dividend yield, the ratio of price to earnings or to book value, and even growth rates have *nothing* to do with valuation except to the extent they provide clues to the amount and timing of cash flows into and from the business. Indeed, growth can destroy value if it requires cash inputs in the early years of a project or enterprise that exceed the discounted value of the cash that those assets will generate in later years. Market commentators and investment managers who glibly refer to “growth” and “value” styles as contrasting approaches to investment are displaying their ignorance, not their sophistication. Growth is simply a component—usually a plus, sometimes a minus—in the value equation.

Alas, though Aesop's proposition and the third variable—that is, interest rates—are simple, plugging in numbers for the other two variables is a difficult task. Using precise numbers is, in fact, foolish; working with a range of possibilities is the better approach.

Usually, the range must be so wide that no useful conclusion can be reached. Occasionally, though, even very conservative estimates about the future emergence of birds reveal that the price quoted is startlingly low in relation to value. (Let's call this phenomenon the IBT—Inefficient Bush Theory.) To be sure, an investor needs some general understanding of business economics as well as the ability to think independently to reach a well-founded positive conclusion. But the investor does not need brilliance or blinding insights.

At the other extreme, there are many times when the *most* brilliant of investors can't muster a conviction about the birds to emerge, not even when a very broad range of estimates is employed. This kind of uncertainty frequently occurs when new businesses and rapidly changing industries are under examination. In cases of this sort, *any* capital commitment must be labeled speculative.

Let me try to explain Intrinsic Value a different way to further help explain the above. Intrinsic value is an all-important concept that offers the only logical approach to evaluating the relative attractiveness of investments and businesses. Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life. This is why I say constantly, "Growth is one of the components of value," or "Growth is value--they are joined at the hip." I suggest you always look at sustainable competitive advantage of the business and capital allocation skills of management. This will take a "detective" approach to really learn and understand the business model and to estimate the growth of the free cash flow or coupon of the business, or to see if management "walks the talk."

The calculation of intrinsic value, though, is not so simple. As our definition suggests, intrinsic value is an estimate rather than a precise figure; and it is additionally an estimate that must be changed if interest rates move or forecasts of future cash flows are revised. Two people looking at the same set of facts, furthermore, will almost inevitably come up with at least slightly different intrinsic value figures.

Additionally, since intrinsic value of a business is never precise and can change, it is important to always have a substantial "margin of safety" when buying and thus buy at a significant discount and sell when the gap narrows (i.e., 90% price to value).

Good luck in computing intrinsic value or estimating the "birds in the bush." By the way, always have a "margin of safety"!

Love,
Dad

January 31, 2003