

# South Atlantic Capital Management Group, Inc.

## Investment Management

### HOW WE DO IN DOWN MARKETS AND IMMEDIATELY AFTER

Dec. 26, 2018

Reviewing our performance during and immediately after past downturns hopefully will give some perspective and lower your anxiety from the market's recent performance. **In nervous times like these investors feeling like you might because stock prices for many companies to completely detach from an accurate assessment of true value making selling a costly mistake.**

We've seen two significant downturns previously. Nobody knows exactly what will happen in the short term but, **we feel this downturn will not be as severe as 2000-2002 or 2008-2009.** The market was much more overvalued in 1999 at 27 times earnings due to the dot-com boom which led to the downturn as investors completely lost confidence in highly unrealistic valuations and appraisals for dot-com stocks. In 2008-2009, clearly the financial system had significant problems causing lost access to capital, which slowed the economy, bankrupted many companies and put many more at risk.

The current downturn started as short-term interest rates increased making cash and short-term bonds more of an investment alternative to stocks at the same time as the following concerns over stocks were rising ----a somewhat elevated market valuation of about 17.5 times expected 2019 earnings, tariffs, a possible trade war, and potential economic weakness. This led to the anxiety and downturn in the market but, in our view, the market isn't as overvalued as it was in 2000 and the economy seems to be in much better shape than it was in 2008 notwithstanding the trade concerns. The speed and magnitude of this decline probably is being exacerbated by as much as 85% of today's trading being driven by model driven trading, machines, and passive investing which are all momentum based.

#### Performance During Down Markets Cumulative Net Returns

	2000-2002	2008-2009	Since Sept. 30, 2018
SAC	Gain of 13.2%	Gain of 6.1%	Loss of 14.44%
S&P 500	Loss of 37.6%	Loss of 19.7%	Loss of 18.93%

We basically avoided the 2000-2002 market downturn since we avoided owning the overvalued dot-com stocks which didn't fit our investment philosophy which is value oriented and defensive. That means we try to avoid owning overvalued companies or companies whose access to capital is threatened during

times of stress. In our experience, these are the types of companies that fare the worst during downturns.

This approach led to a smaller 26.7% downturn for us in 2008 compared to the 37.0% market downturn. In this severe downturn, account values were 6.4% above pre-crisis December 31, 2017 values by December 31, 2009 and were back even with pre-crisis levels by October 31, 2009. Although down a painful amount, our defensive approach has again resulted in accounts being down much less than the market in the current downturn which began around September 30, 2018.

This downturn is a painful but we think unavoidable part of the process of long term investing and it definitely may not be over but **hopefully this gives you some perspective on when portfolio values might return to September 30, 2018 values.**

For retired clients making monthly distributions, it certainly doesn't prevent you from making annual distributions of around 6% of September 30, 2018 account values while still investing for the long term. Recent dividend increases along with the price declines has increased the portfolios current dividend yield to approximately 3.2% which along with minimal money market fund balances can fund distributions of around 6% leaving the stocks to be held patiently for the long term.

The second important question is what might happen once the downturn is over. **Our verified returns which are attached indicate that, in our view, selling in downturns is a mistake since you are getting less than the true value of the company due to nervous selling and foregoing attractive future potential returns especially for companies that can deploy capital and add value during times like these.** It's still unknown when it will end and how steep it will be but if this downturn is less steep than previous declines, we would expect post downturn returns to be good but not as good as after prior, steeper downturns.

#### Net returns post the Dot-Com Bust

2003---	33.93%	}	Cumulative Gain of 59.5%
2004---	19.25%		
2005---	(.16%)		

#### Net returns post the credit crisis

2009---	44.76%	}	Cumulative Gain of 76.7%
2010---	19.00%		
2011---	2.59%		

Two primary reasons we outperformed the market during and immediately after these downturns is avoiding overvalued stocks and focusing on owning companies that are conservatively managed so that, through their balance sheet and cash flow, they maintain the ability to add to long term value by deploying capital during periods when prices are getting cheaper and weaker competitors have less access to capital

*Past results are not indicative of future investment results. An investor should further understand that future results may result in losses for account holders.*

*This information is provided as a supplement to the GIPS compliant presentation.*

**SOUTH ATLANTIC CAPITAL MANAGEMENT GROUP, INC.**  
**CORE EQUITY COMPOSITE**  
**ANNUAL DISCLOSURE PRESENTATION**

Year End	Total Firm Assets (millions)	Composite Assets (USD) (millions)	Number of Accounts in Composite	Annual Performance Results Composite		S&P 500	Composite Dispersion	Three Year Annualized Ex-Post Standard Deviation	
				Gross	Net			Core Equity	S&P 500
6/30/2018		39.2	77	5.98%	5.46%	2.65%			
2017	41.6	37.6	77	23.79%	22.57%	21.83%	1.20%	13.43%	9.92%
2016	35.6	29.7	71	10.66%	9.56%	11.96%	1.63%	12.81%	10.59%
2015	42.0	23.4	70	(4.41%)	(5.36%)	1.38%	1.11%	11.57%	10.47%
2014	40.7	26.8	67	8.19%	7.16%	13.69%	0.98%	7.99%	8.97%
2013	37.2	23.1	55	26.97%	25.77%	32.39%	2.15%	9.88%	11.94%
2012	28.6	17.3	46	13.02%	11.94%	16.00%	1.69%	11.19%	15.09%
2011	25.3	15.2	42	3.63%	2.59%	2.11%	2.48%	15.55%	18.71%
2010	22.0	14.4	40	20.19%	19.00%	15.06%	3.42%	17.94%	21.85%
2009	18.6	13.0	36	46.20%	44.76%	26.46%	5.32%	17.26%	19.63%
2008	12.4	8.4	38	(25.98%)	(26.68%)	(37.00%)	2.30%	12.59%	15.08%
2007	17.4	11.9	37	(1.90%)	(2.82%)	5.49%	3.03%	9.31%	7.68%
2006	22.4	12.6	36	12.11%	11.12%	15.80%	2.52%	8.75%	6.82%
2005	12.4	10.8	33	0.78%	(0.16%)	4.91%	3.12%	11.08%	9.04%
2004	12.3	11.1	30	20.38%	19.25%	10.88%	3.37%	12.60%	14.86%
2003	9.2	8.5	23	35.31%	33.93%	28.68%	4.38%	13.67%	18.07%
2002	6.9	6.4	21	(3.21%)	(4.22%)	(22.10%)	6.43%	14.21%	18.55%
2001	7.6	6.7	17	5.18%	4.14%	(11.89%)	2.36%	14.06%	16.71%
2000	7.1	5.9	14	13.89%	12.86%	(9.10%)	3.77%	13.65%	17.42%
1999	6.4	5.4	13	8.94%	7.89%	21.04%	10.61%	12.67%	16.52%
1998	6.5	5.4	13	6.11%	4.93%	28.58%	5.60%	12.07%	16.01%
1997	5.1	4.7	11	41.04%	39.60%	33.36%	5.15%	11.12%	11.14%
1996	3.6	3.3	8	23.65%	22.40%	22.96%	3.34%	11.76%	9.58%
1995	2.9	2.7	6	48.47%	47.05%	37.58%	3.31%	10.46%	8.22%
1994	2.0	1.9	5	7.76%	6.69%	1.32%	8.02%	11.05%	7.95%
1993	1.8	1.7	4	23.26%	22.05%	10.08%	3.33%		
1992	1.3	1.2	3	13.88%	12.87%	7.62%	0.00%		

*\*Three Year Annualized Ex-Post Standard Deviation, Total Firm Assets and Composite Dispersion provided for full year-end periods only.*