



The CORDA Portfolio Versus Facebook

What could you buy with \$330 billion if you had it? Consider recreating a mini CORDA portfolio of businesses, and at its inception purchase as many companies as possible with the capital. A flurry of deals would take place, and at the end of the month, the collection of businesses would look like this:

BHP Billiton Plc, at a price of \$112 billion, generates \$13.8 billion in after-tax profits and \$6.4 billion in cash dividends every year.

Deere & Company, at a price of \$30 billion, generates \$3.1 billion in after-tax profits and \$828 million in dividends every year.

Kellogg Company, at a price of \$23 billion, generates \$1.7 billion in after-tax profits and \$695 million in dividends every year.

McDonald's Corp, at a price of \$90 billion, generates \$5 billion in after-tax profits and \$3.3 billion in dividends every year.

Teva Pharmaceutical, at a price of \$57 billion, generates \$2.7 billion in after-tax profits and \$930 million in dividends every year.

Whole Foods Market, at a price of \$18 billion, generates \$2.7 billion in after-tax profits and \$186 million in dividends every year.

This solid assortment of varied businesses should survive any recession and quite possibly the deepest depression. The concentrated portfolio would have a market capitalization of \$330 billion and generate \$29 billion in after-tax profits with businesses spread across the globe and in different industries, which include hard commodities, machinery, food, snacks, restaurants, pharmaceuticals, generic drugs, and retail. It would be diversified by geography, lifestyle, price point, currency, and a whole host of different ways. It returns over \$12 billion in cash flow straight to the bottom line every year, with the prospect of that cash flow stream increasing year over year over year. If all after-tax profits were returned to the parent company and not reinvested, we would have gotten all of our money back in 11 years and would effectively own the firms for free. That's one heck of a portfolio of businesses. The general manager of the organization could virtually kick back and tabulate the farm machinery sold, the number of sandwiches and snacks distributed, the amount of iron ore, copper, and oil produced, and prescription drugs and organic food consumed. That would be quite the life.

Again, to emphasize one key point: if all after-tax profits were allocated straight back to the parent company, the break even marker is 11 years away. The end result; we would own factories, stores, employees, hard assets, intellectual capital, all the profits and dividends would be gravy... can you project out into the future - envision this collection of businesses operating for twenty, thirty, and forty years into the future!


Now, let's ask another question. What if you wanted something spicier in your life? You consider yourself not the tortoise, but the hare! You could take that same \$330 billion and plow it into four businesses - they are Facebook Inc (\$217 billion), Twitter Inc (\$25 billion), LinkedIn Corp (\$28 billion), and The Priceline Group (\$60 billion). Diversification is not all that important to you, only share prices that have shown to increase on a trailing six or twelve month basis is your criteria.

You would collect \$2.7 billion in after-tax profits from Facebook, \$2.3 billion from Priceline, zero from LinkedIn and \$900 million in losses from Twitter. There isn't any additional cash flow or dividends to speak of. Your investment is primarily based on three social media/single platform type internet entities, and one travel company that operates over the internet as well. The breakeven here, if all profits flowed directly to the parent company, would be 80 years versus the 11 for the CORDA mini portfolio. Is it possible these four businesses will increase their after-tax profits over the next decade? Would you be willing to bet that they will produce far more profits in the long run than the previous collection of businesses?

The point is, even when share prices seem to zig and zag and sometimes go out of favor, if the underlying fundamentals of the companies are solid and one can project a reasonable semblance of future revenues, earnings, and cash flow, it is just a matter of time until the value of those assets increases. It is important to understand that it's **not** how you generate each dollar of return, but **what** sort of risk you take to generate that return.

As we turn our eyes toward 2015, my entire team at CORDA sends you best wishes for a healthy and prosperous year. The past year was an exciting one, and we feel especially proud about our clients who withstood the negative barrage in the media and did not loosen their grip on the wonderful businesses that they own. We strive to make money for you in four ways... through dividends, capital appreciation, rising dividends, and most importantly, by keeping you in the market when appropriate. Thank you for being part of our 15th year in the investment management business!

Last year, the market had three significant swings, one in January, another in the September - October period, and later towards the end of the year with the price of oil declining. When many other investors were selling, we were urging you to stay invested and to take advantage of making new investments at the depressed prices. Our team takes great pride in communicating with you and navigating through those rough spots. This year will be no different. We enjoy the impact we are making for our clients and the personal satisfaction we get from making a difference in your lives. As the new year rolls in, please let us know if anything has changed in your personal life or if other matters have come up that need our attention. We thank all of you who have trusted CORDA or have referred relatives and friends to us. Have a terrific year.



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