CORDA

TOGETHER WE'RE INVESTED

Be Like Prince

March 29, 2018

Opening day for baseball season is upon us with a slate of games scheduled this weekend and we couldn't help but notice the Texas Rangers' Prince Fielder is set to make $72mm over the next three seasons. What is unusual about this is that Mr. Fielder hasn't played in a game since the 2016 season and is officially retired from Major League Baseball. Yet, apparently due to a second neck injury, and the wear and tear of twelve seasons spent in Milwaukee, Detroit, and Texas, Prince retired after playing in 89 games in 2016 and walked away with a career low .212 batting average during that injury-riddled campaign. As far as we know, he may still have a great shot at a long, contented and happy/healthy life, and we wish no ill upon him!

That said, does any one of us deserve a $72mm guaranteed contract? Since the only one here at CORDA who can confess to hitting a 99-mph fast ball is our very own Terry Puhl - he would suggest that timing is everything in life, and if he had been born a decade or two later, the income from his playing days would have been vastly different to what he earned as a big leaguer. However, fortunately or unfortunately, most of us do not have that special timing or talent to fall back on and we must be very smart about our finances to make sure we are successful in our own right.

With so few things in life guaranteed other than death and taxes, we interact with the capital markets to raise the probability of winning outcomes and to negate the choices that might lead to something dreadful. (The total return of the S&P 500 was positive in over 95% of all rolling ten-year periods since its inception in 1926).
We at CORDA feel we have the right prescription when buying businesses at low prices relative to what we believe to be their long term intrinsic value, counting on the secure dividends that are as close to a sure thing as Prince Fielder's salary, and holding tightly to the shares when the market zig zags and corrects downward two or three times per year, like clockwork. If we are successful in that endeavor, the capital market is likely to deliver long term rewards that will allow us to have peace of mind and achieve the things we need to accomplish for ourselves and loved ones.

Stocks have risen strongly for the past nine years, but as you know, history tells us that market declines are an inevitable part of investing. The good news is that corrections and bear markets and other challenging periods don't or haven't lasted forever. The level of nervousness many investors are experiencing right now is not unusual in the sense that it's been a long time since the last correction. You can count over 24 months since we had a 10% drawdown tracing back to January and February of 2016. Heck, Prince Fielder probably was in the weight room at that time gearing up for another solid run at his customary position at 1st base. It's normal to have emotions. We are human.

Exhibit 1 depicts the average frequency and length of each 5, 10, 15, and 20% pullback experienced in the Dow Jones Industrial Average since 1900. According to the data, the market has typically declined at least 10% about once per year and by 20% or more every 3.75 years. While past results are not predictive of the future, each downturn has been followed by a recovery and a new market high.

Exhibit 1 (DJIA downturns since 1900):

Market Downturns Happen Frequently and They Don't Last Forever

Dow Jones Industrial Average 1900-2017

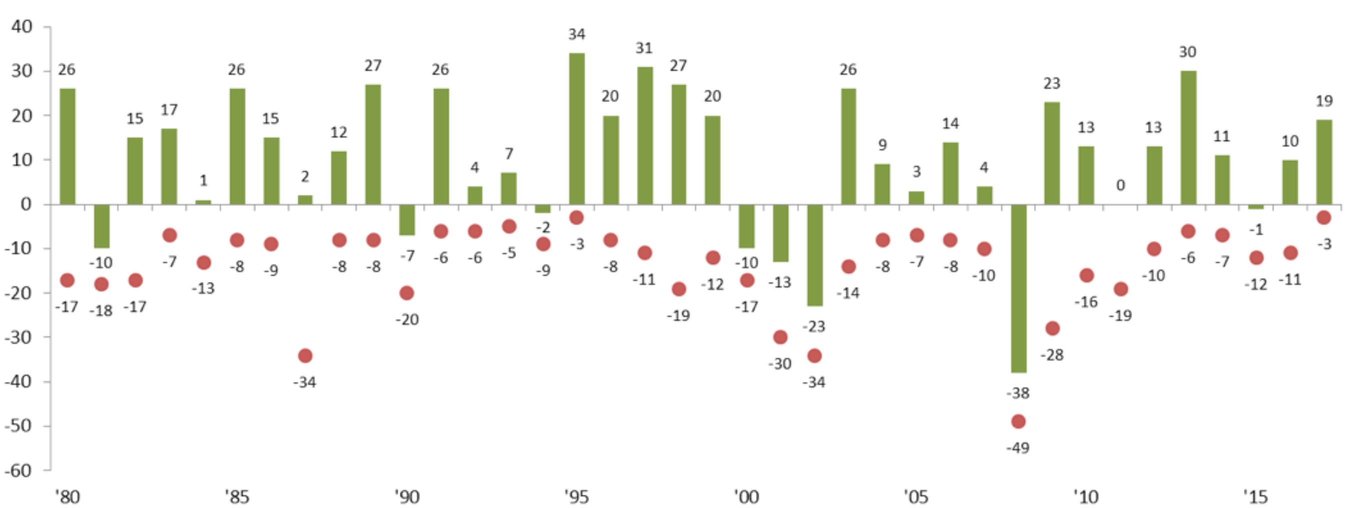
	-5% or more	-10% or more	-15% or more	-20% or more
Average Frequency[1]	About 3 times a year	About once a year	About once every 2 years	About once every 3.75 years
Average Length[2]	46 days	115 days	216 days	338 days

[1] Assumes 50% recovery of lost value
[2] Measures market high to market low
The Dow Jones Industrial Average is an unmanaged, price-weighted average of 30 actively traded industrial and service-oriented blue chip stocks.

You don't have to swing for the fence; sometimes a walk, bunt, or sacrifice fly helps the team more:

When examining historical market data, we see a trend of market recoveries following pullbacks. That means an investor who sells out or capitulates, just because a share price is down, may in fact be breaking the cardinal rule of "selling low." **Exhibit #2** shows the largest intra-year decline and the full calendar return every year since 1980. Despite an average intra-year drop of 13.8%, the market ended the year higher than it began 76% of the time.

Exhibit 2 (S&P 500 intra-year declines and calendar year returns since 1980):

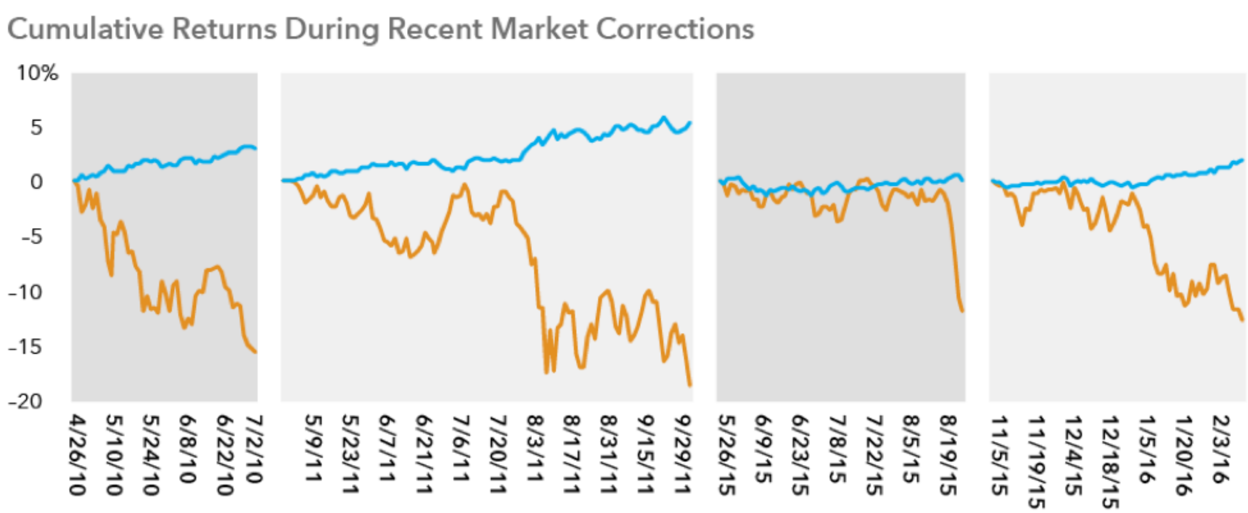


The takeaway is to ride the market gyrations and not to be shaken out at the bottom. Also, note the substantial decline in 1987 of -34% while the index closed +2% for the full year. That's quite a different narrative versus what you commonly hear about the stock market in 1987. Finally, if you remember one item from this entire letter, try to reflect on that average intra-year decline being 13.8% per year.

Frequent pullbacks and market volatility is unsettling, but wise investors can learn to embrace it and use it to their advantage. In the sudden downturn of equity prices, shares move from the weak to the strong hands. That's a Warren Buffett quote and one to recall when you get the itch to sell.

Stocks are important foundational blocks to a diversified portfolio, but sometimes a counter balancing asset can be bought to provide stability in times like these. Fixed income and other bond-like securities have provided historically low correlation to equities. **Exhibit #3** depicts what the bond index has done in periods when the stock market corrected during the past market cycle.

Exhibit 3 (Bond market returns over four recent corrections):



	Cumulative Total Return			
	Correction 4/23/10–7/2/10	Correction 4/29/11–10/3/11	Correction 5/21/15–8/25/15	Correction 11/3/15–2/11/16
S&P 500 Composite Index	-15.63%	-18.64%	-11.89%	-12.71%
Bloomberg Barclays U.S. Aggregate Index	3.00%	5.35%	0.04%	1.92%

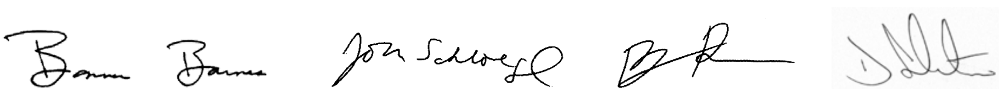
Sources: Bloomberg Index Services Ltd., RIMES, Standard & Poor's. Dates shown for market corrections are based on price declines of 10% or more (without dividends reinvested) in the unmanaged S&P 500 with 50% recovery between corrections.

Bonds may not match stocks' growth potential, but they have shown resiliency in past declines.

By embracing the bouts of pullbacks and the corrections that do occur frequently, and hanging on when fully invested, and other times using the low prices for buying opportunities, one can build a powerful portfolio that can stand the test of time. If a portfolio consisting of 100% high quality businesses is just too much to stomach or not necessary to reach your long-term goals, adding fixed-income securities can offset some of the large gyrations. We certainly know that future headlines may and will sound scary, but we are here to guide you and your portfolio for the day when things return to normal and the capital markets align with the long-term potential of the global economy.

Thank you for trusting us with your capital.

Sincerely,
The Portfolio Team



Bonner C. Barnes John Schloegel Brian Raupp Dustin Slater

Additional Source on above Exhibits: JP Morgan Asset Management Market Bulletin; using data from FactSet, Standard & Poor's, Bloomberg. Also, Wall Street Journal and Barron's. For illustrative purposes only. Returns are based on price index only and do not include dividends. Past performance is not indicative of future results.

A few sound bites to close out the quarter:

Did you know American oil producers have pumped over 10mm barrels of crude oil per day for the last few weeks? The last time we hit 10 million barrels per day was way back in 1970!

As of March 16, 2018, not a single U.S. bank has failed thus far year-to-date. This is the latest in any calendar year with no bank failures YTD since 2006, the last year in which no bank failures occurred during the entire year. Over the past five years, 63 banks have failed and required a bailout from the FDIC.

47 of 50 U.S. states prohibit text messaging while driving. (Missouri bans only drivers under age 22 and AZ and MT have no ban at all).

Finally, since pre-season baseball is finally over and we just began a new year with the reigning champion Houston Astros seeking to defend their title.... we find this pre-season stat quite interesting if you are feeling confident about your team's chances this year: The 2017 Cleveland Browns NFL football team went 4-0 in the preseason and then lost every game in a 0-16 regular season. The only other team with an 0-16 record, the 2008 Detroit Lions, went 4-0 in their preseason that year. I guess it means you shouldn't ever count any chickens until they are hatched.

From the Desk of Our Certified Financial Planners:

The Long-Term Care Insurance Quandary *By Randy Kratz, CFP®*

It's a subject that, statistically, will affect most of us, but most people don't want to talk about. At least 70% of people over 65 will need long-term care services and support at some point in their lives. (Source: 2015 Medicare & You, Centers for Medicare & Medicaid Services)

If you know someone who has needed some type of long-term care, you know the costs for help are very high. Hourly assistance in your home by a certified nurse's aide (CNA) can run about $25 per hour. Assisted living and nursing home care can cost between $5,000-$10,000 per month or higher.

What can you do? You have three main choices:

1. Self-insure: In other words, pay for everything out of pocket and hope the money lasts
2. Long-term care insurance: Insurance can typically provide about $3,000-$6,000 per month in tax-free payments, but premiums can be high, qualifying for benefits can be tedious and many people don't like the thought of paying years of premiums without the potential to get any money back
3. Hybrid LTC products: Relatively new products such as whole life, universal life and annuities with LTC riders can provide both potentially tax-free benefits, lower underwriting standards and the ability to get your money back if not needed for care.

Choosing the best way to protect yourself from long term care costs can be a daunting task. To look at your options and find out more details, contact Randy or Kim Deutsch at CORDA Management. We don't sell insurance, so we can provide objective opinions and suggestions on which path might be best for you.