CORDA

TOGETHER WE'RE INVESTED

Lessons from the Past 12 Months

March 31, 2016

Lately, the market has been more volatile than ever, it seems. Last August, and most recently in January, the stock market suffered some fairly substantial drawdowns. What did you learn from those two experiences? We are seeking to answer that question and share with you the research that will better prepare you for a future decline or market correction and equip you with an action plan to take advantage of lower prices. Unfortunately, most investors behave contradictorily to what is a wise strategic plan by selling when things are depressed and adding money when things are buoyant. We are going to turn that on its head and get your pocketbook prepared for the next decline and have you ready to act if and when necessary.

First and foremost, let's review what we at CORDA are trying to accomplish for you. Our philosophy, through most market conditions is to rely on large, reliable, and growing dividends paid out from healthy, sound, and competitively advantaged businesses. This is the surest way to long term success via total returns from dividends and appreciation. We believe our principles are timeless. It doesn't mean we will have a perfect batting average and every recommendation or investment will have a positive outcome; but if the majority of our businesses perform well over the long haul, we believe the bottom line results of the portfolio will be successful.

We focus on businesses perceived to have strong dividend track records, sound balance sheets, predictable revenues and earnings, and a penchant for rewarding shareholders through dividend hikes and/or share buybacks. We will maintain our preference for the value approach, despite temporary unfavorable moments (see 2015 Q4 Quarterly Review); and the persistence will serve our needs well as global economies, interest rates, and political forces cause market fluctuations.

With the value, income, and stable approach that we adhere to at the forefront of the CORDA strategy, another crucial element to harnessing success is managing your psychology vis-à-vis the market. If you have the building blocks in place, the last thing you want to do is rip out those foundational elements when the going gets tough. This is the No. 1 mistake that investors make over and over again. Recall, countless studies have shown that investors do not obtain the equity market return over time because they buy at high levels and sell when low. We have witnessed this error in judgment all too often during the past few years and especially during the lows of 2008 and 2009. If you get too emotional, you are prone to overtrade and hurt yourself.

Another valuable lesson is to know the limits of your knowledge and to stay away from unfamiliar investments. If you spot aggressive accounting, huge asset growth, over promises and under delivering, stay away! It is easy to get carried away when there are so many opportunities and special situations to consider. Sometimes you have to reign in your appetite for businesses and keep your focus on a tight manageable basket of companies. Choosing businesses with high barriers to entry, longevity, wide moats, resiliency and durability are the surest way to long term profits.

Finally, not overpaying is critical. We cannot overemphasize this point. Individuals haggle over paying an extra eighth or fourth of a point on their mortgage, but never consider how much of a difference a few dollars of a stock price can impact dividend income.

For example, less than three months ago, Coca-Cola (KO) could have been purchased for ~$41.00. At that price, the dividend yield of Coke would have been 3.4%. Today, with Coke shares quoted near ~$46.50, the current yield is 3.0%. That 0.4% difference can add up to a significant amount of money during the next 10 years. Consider a $25,000 investment in Coca-Cola three months ago versus a similar purchase at today's prices; it would have been $1,000 of income difference between the two during a 10-year period. As an investor in early January, you were able to purchase more shares than you are able to now, although the dividend rate hasn't changed. Now expand that decision of what price to pay for every business in your portfolio, and assume a $1mm starting point. The per-year cash flow difference is now $4,000 per year or $40,000 during the course of a 10-year span. That's the difference between what price an asset is today versus what is was a mere 90 days ago! When we get the next market correction, consider it a gift as it will allow you to add to businesses with a higher starting yield. That additional dividend yield will pay off in spades down the road.

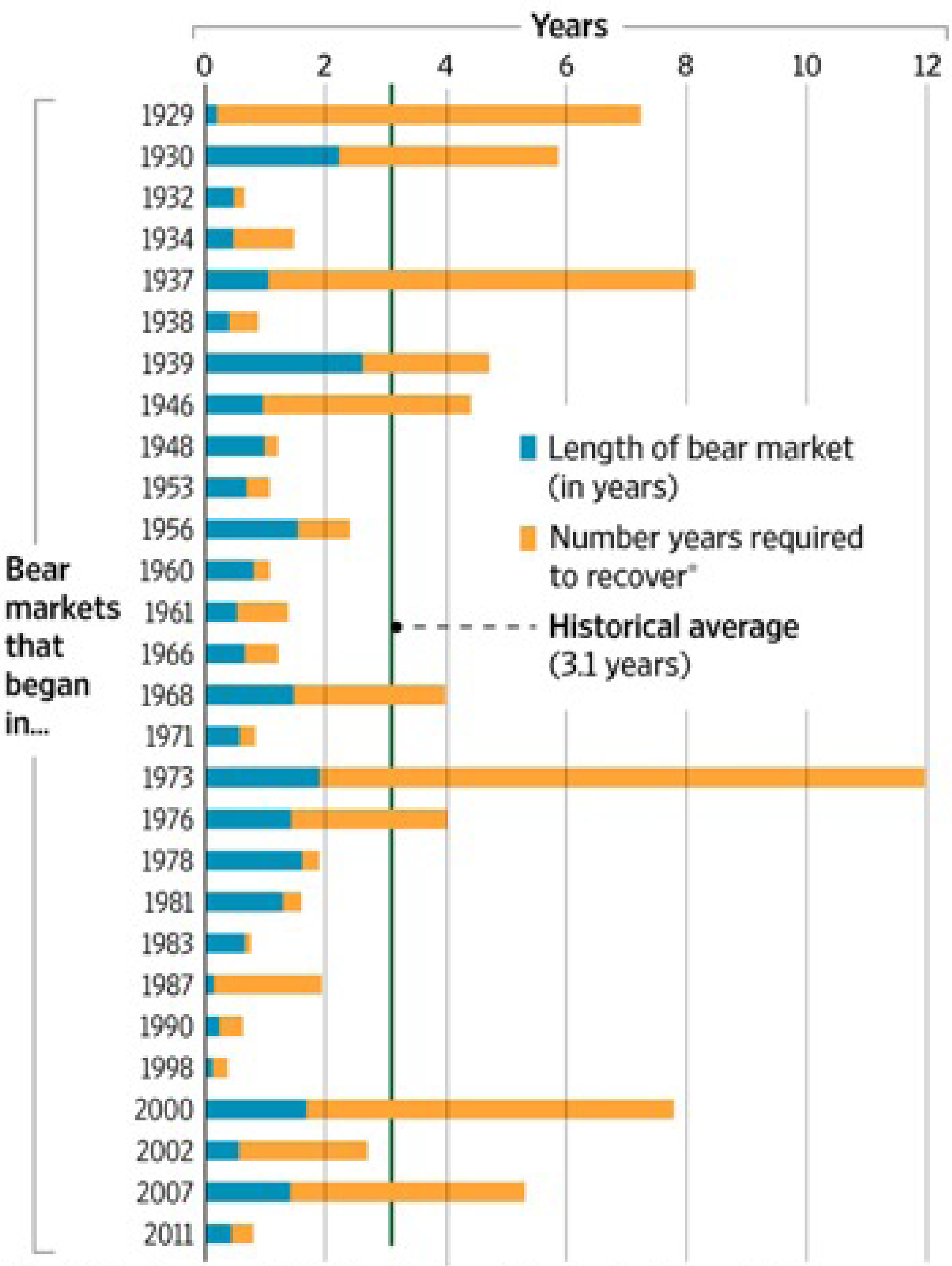
Another way of saying this is that investors see short-term volatility as the enemy. Downside volatility causes investors to move money out of the market and 'sit on the sidelines' until things 'calm down.' Although this approach seems to solve a problem, it creates many more.

1) When do you get back in? You must be both correct about selling and then when to buy back.
2) By going to the 'sidelines,' you will be missing an immediate rebound. This is not historically unprecedented.
3) By going to the 'sidelines,' not only will you miss the rebound, but all of the potential dividend income will be lost, as well as the potential growth going forward.

The chart below, compiled by Hulbert Financial Digest, CRSP, Morningstar, and Ned Davis Research, show that 3.1 years is the average time for recovering from a bear market. This should provide you with sound evidence to carefully consider an attempt to sell and buy back at a later date. We hear how investors don't want to experience another 2008 or 2009; but the reality is that if you had owned quality businesses that paid dividends, you would have collected the income through the downturn and would have experienced the share price recovery over the resulting years. Temporary paper losses are only made permanent by selling.

Remarkably Short

Length of all bear markets since the mid-1920s, along with length of the recoveries from those declines



*Years it takes for the market to return to where it stood before bear market began

Sources: Hulbert Financial Digest, CRSP, Morningstar, Ned Davis Research

THE WALL STREET JOURNAL.

Finally, volatility is not a recent phenomenon. Each year, one can expect the market to experience a significant correction, which over the last three decades has averaged approximately 14% per year. The chart on the last page shows the intra-year decline relative to the calendar year return. It is helpful to know that the average intra-year decline since 1980 has been 14% even though most years finish positive! Past performance is no guarantee of future results, but history has shown those who choose to stay with their businesses have been rewarded for their patience more often than not.

In closing, we are reminded of a quote from Benjamin Graham, the father of value investing.

> *Basically, price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other times he will do better if he forgets about the stock market and pays attention to his dividend returns and to the operating results of his companies.*

We are well positioned as we carry forward into 2016. The ebb and flow of our economy, central bank decisions, political policy changes – these are ever constant. There will always be something to fret about and to cause the market to fluctuate. Protecting and growing your wealth over time is what we will stay unilaterally focused on.

On a final note, don't forget to check out the Insights page on our website at www.cordamanagement.com. We are constantly updating this part of the site and my entire team has contributed some valuable writings to the blog. Sometimes these nuggets make it to our social media pages at Twitter and Facebook, so be sure to find us there too!

Thank you for allowing us to be stewards of your capital,

Bonner Barnes

Bonner C. Barnes and the CORDA team

Volatility has always been associated with the market. However, investors continue to let short-term volatility dictate their long-term investment strategy. In any given year, equity investors can expect market drawdowns of varying degrees. In fact, over the past 36 years, the average intra-year drawdown has been 14%. However, the market has finished in positive territory nearly 80% of the time over that same period. What does this mean for investors?

Although past performance is not a guarantee of future results, those who stay the course are rewarded for their discipline more often than not. Staying calm during market downturns is not easy. But, abandoning the markets may create future turbulence for your long-term financial goals. Keep in mind that selling when the market is down means you lose money on your investments. By letting emotions shape investment decisions, investors may miss out as markets quickly recover.

Example below: In 1987, the S&P 500 had an intra-year decline of 34% although for the full calendar year, it finished +2%.