CORDA

TOGETHER WE'RE INVESTED

A House of Steel

March 31, 2017

Last quarter's letter focused on the unpredictability of the political process and a Federal Reserve in a gradual tightening mode and how the seasoned investor could set herself/himself up to win against unusual forces of volatility in the coming years. The culprits of the expected volatility include political and monetary forces, terrorism, economic growth or stagnancy, changes to the environment, and a host of other events that can move the markets on any given day.

Our view has and will likely remain constant as we contend with a complicated world. We believe in the power of capitalism, and the surest path to preserving and growing your wealth through the ownership of sound businesses bought at compelling valuations with the potential to capture ever increasing dividends and cash flow along the way. Another way of thinking about the Corda philosophy is that by investing with a long term time horizon, through a diversified portfolio, with the goal to avoid permanent loss of capital via ownership of profitable companies that share those profits through the form of dividends over time – that is how we will succeed.

The vagaries of the market will create periods of complacency when one should stand aside, while other times, when fear is more palpable, one should be a buyer. We experienced both of those scenarios during the past 15 months or so when some investors sold out while the market declined in January 2016 as well as right before the election in November. On the other hand, recent investors have only just begun to invest with the S&P 500 up 9% since November 8th, chasing new highs. As we know, there is a middle ground between those two extremes where we like to choose our battles. The "buy low" and "sell high" strategy sounds simple, but few do it successfully over time. The Dalbar study, which we highlighted last September (please ask us for a copy if you do not have it), provided empirical evidence that many investors do the exact opposite. This behavior is on display each and every year and we want to show you how dramatic the data really is. Successful investors will use the manic depressive state of the markets to their advantage.

Continued on page 2

First, a quick primer on Corda's disciplined strategy:

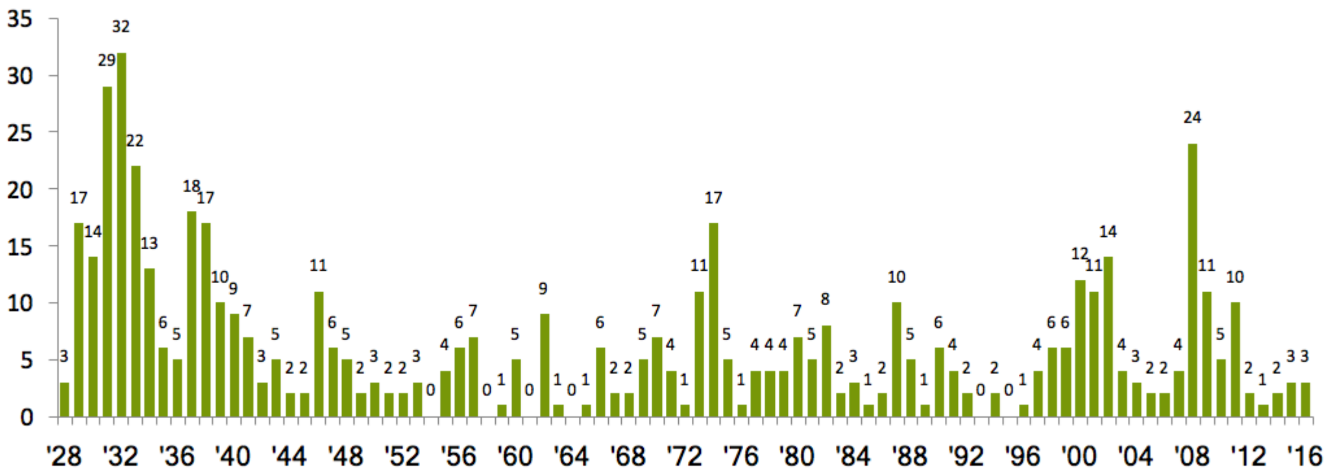
1. Price is the most important factor when assessing value.
2. Try to determine what a company is worth.
3. Book value is an important feature. Attempting to forecast earnings is more difficult.
4. Remember you do not own slips of paper, but shares of a business.
5. Have patience, the odds of picking the low point in any period are a million to one.
6. Have the courage of your conviction; the crowd, public and media will try to shake your faith.
7. Fully accept there is no certainty and you can be wrong, but look for blind spots.
8. Have a philosophy and stick to it. The above is one way we have found successful.
9. Try to buy closer to lows than highs.
10. Don't be in a hurry to sell; just because it has gone up 50% doesn't mean it should be sold.
11. Keep in mind overall market PE, interest rates, optimism/pessimism, overall market levels.
12. Assets change slowly. Earnings can change rapidly at any time...so buy assets at a discount.
13. Watch and learn from other successful investors.
14. Fear and greed are the worst emotions....try to stay grounded. It's never as good as it appears and never as bad either.
15. Be careful of leverage, in your own portfolio or that of the businesses you own.

How often have you used the phrase; "less is more?" You can apply it to many life situations. We think it is a good prescription for dealing with stock market volatility. Your diversified portfolio was built to be a steady one. Volatility is normal, and feeling nervous and sometimes shaken during the down periods is normal too. We are human. ***Exhibit 1** depicts the number of 5% pullbacks experienced every year in the S&P 500 and even in calendar years of outstanding results there can be undulating periods of decline. Riding the rollercoaster in real time can churn your stomach, but the experienced investor can plan and expect the turbulence ahead of time and brace oneself for its occurrence. When we examine the raw data, what we have found is; 5% pullbacks typically happen quarterly, 10% corrections about once per year, and 20% declines once per market cycle. Less is more. Stay disciplined and patient and let your businesses do the hard work for you and not try to buy and sell to avoid every blip. If you happen to forget about those customary 5% corrections, we'll be here to remind you often!

Continued on page 3

**Exhibit 1 See page 3*

Exhibit 1 (Number of 5% pullbacks experienced in the S&P 500, per year):

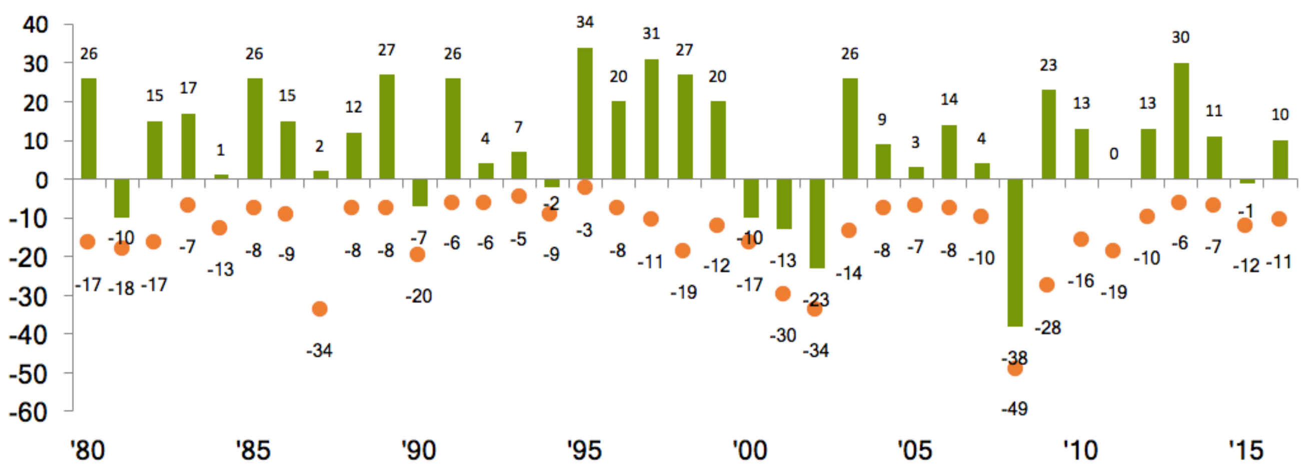


Selling at the Bottom:

If you've ever run a marathon, you understand through the many months of drawn out training that the focus must be about the journey and not getting trapped in short term thinking. Catching a cold, tweaking a muscle, a bad night of sleep...those little things that certainly impact a single day of training have little if anything to do with the long term success of completing a marathon. The same is exactly true of success in the stock market.

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 14.2%, 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):



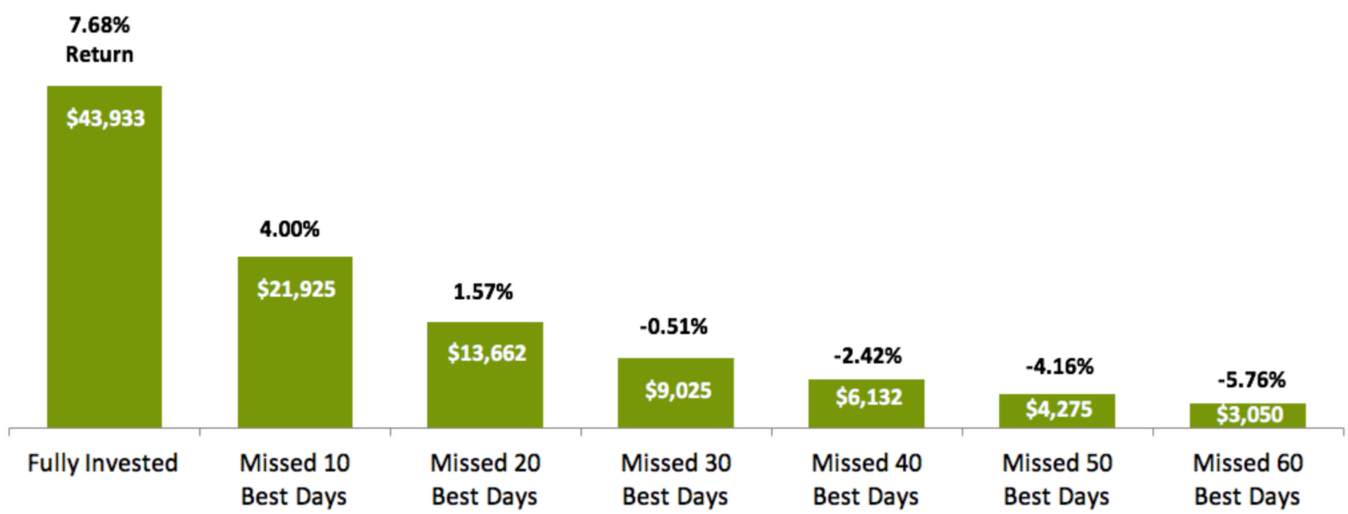
Continued on page 4

The takeaway is to ride the market gyrations and not to be shaken out at the bottom. Also note the substantial decline in 1987 (-34%) when the index closed up 2% for the full year. That's quite a different narrative versus what you commonly hear about for the stock market in 1987. Finally, if you remember one item from this entire letter, try to reflect on the average intra-year decline being ~ 14% per year. That's why you can be patient when seeking to enter the market when you have cash on the sidelines.

Frequent pullbacks and market volatility is unsettling, but we embrace it and use it to our advantage. Therefore, for some of you, your cash balances can be used to take advantage of the opportunities as they come along fairly often. That said, why does a fully invested posture seem to be so successful? Simply stated, the best days in the market tend to be clustered around the worst days. If you were lucky enough to miss the worst days in the stock market, you were also likely to have missed the best days. **Exhibit #3** (performance of a $10,000 investment between Jan 1, 1997 and Dec 30, 2016) shows that missing the best days of stock market returns has a significant impact on your performance. This is not trivial. If you had missed just the ten best days of the S&P 500 over the past twenty years, your total return would have been almost 50% less than had you stayed fully invested. Another way of saying it, by missing a measly ten days of stock market returns, you missed out on nearly doubling your net worth.

The data is so scary, had you missed only the 30 best days over that twenty year period, your average annual return would be negative! If that's not testimony to why you should stay invested, then you are missing something.

Exhibit 3 (Performance of a $10,000 investment between Jan 1, 1997 and Dec 30, 2016):



Continued on page 5

Our instant news and immediate gratification world will not change soon. There is no going back to an age where we weren't plugged in 24/7. We will be forcibly fed more and more hype layered on top of event driven headlines and twitter drivel, so either you can embrace it and come to accept it, or be prone to making snap decisions that may end up hurting you in the long run.

Although we have a positive view on equities right now (both at home and abroad), we can and will invest where we see value. Fixed income securities, REITs, and other asset classes may sometimes be mixed into the Corda strategy as we pave way for success in the long run.

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.

We thank you for being part of our journey, and we will continue to steward your capital in a judicious fashion.

Sincerely,
The Portfolio Team

Bonner C. Barnes   John Schloegel   Brian Raupp   Dustin Slater

Source on above Exhibits: JP Morgan Asset Management Market Bulletin January 27, 2017; using data from FactSet, Standard & Poor's, Bloomberg. For illustrative purposes only. Returns are based on price index only and do not include dividends. Data as of December 31, 2016. Returns are based on the S&P 500 Index, an un managed, capitalization-weighted index that measures the performance of 500 large cap domestic stocks representing all major industries. Past performance is not indicative of future results.