CORDA

TOGETHER WE'RE INVESTED

Lessons from Omaha and Other Musings

June 30, 2018

In early May, Berkshire Hathaway Inc. held their annual shareholder meeting in Omaha. While some of you may agree or disagree with Berkshire Chairman and CEO Warren Buffett on certain matters, we believe his investment philosophy is world class. We have attended the shareholder meeting on multiple occasions in the past, but for the third year in a row via a partnership with Yahoo Finance (incidentally owned by Verizon), Berkshire has streamed the meeting live via the internet. We've been able to enjoy all the festivities from the comfort of our own homes. What is not unique however, is that the message and mindset from both Buffett and Charlie Munger (who shares the stage with him) are the same year after year after year. There is very little variance from the underlying viewpoints and overall investment philosophy delivered each year, and we seem to be at that stage of life where we can anticipate the answers to the many questions flung at Charlie and Warren ahead of time. Bottom line, we are simultaneously energized and encouraged each year after being witness to the event who many call the "Woodstock of Capitalism." In the paragraphs below, we'd like to share with you some of the key takeaways that we heard this year.

What is special about the Buffett strategy is the staunch adherence to owning businesses and not "stocks." This is crucial to understanding his philosophy and why he has been extremely successful. We at Corda think in those same exact terms and when you communicate with us, you will hear the corresponding vernacular. It is a slip up when we call businesses "stocks" or "names." The next time you watch CNBC, pay attention to how often the commentators and special guests use the term "name" when discussing different businesses. Short-Term-itis is alive and well on both Wall Street and Main Street; to be truly different and to stand out, you must have the long view.

One significant perspective from Buffett we have heard often is never bet against America. Buffett said, "All you had to do was figure that America was going to do well over time." He started this year's meeting by posing a hypothetical; If you had invested $10,000 in the S&P 500 on the same day he made his first trade – March 11, 1942 – how much would that $10,000 be worth today? You could see the audience fidget as Buffett held up a copy of the New York Times printed on that day, filled with bad news about America fighting a war on two fronts. Compounding $10k over such a long period is tough math for anyone without a calculator, and Buffett quickly revealed the answer… $51 million. The hypothetical patient investor wouldn't have had to lift a finger from that inception point and could have let the gears of capitalism work their magic.

The question we pose today: How well do you think America will do over the next ten, twenty, or thirty years? Are you willing to bet against the U.S.?

Another gem from the meeting was when Charlie Munger characterized Buffett's lifestyle in semi-retirement mode. Perhaps this was about him leaving the board of Kraft Heinz, but Munger said, "He sits around reading most of the time, and every once in a while, he talks on the phone. I can't see any difference, Warren is very good at doing nothing." Wouldn't it be neat to take that hypothetical $10k and "do nothing" for the next 76 years in the same way as Buffett did since his first trade in 1942?! Okay parents, quick question - how hard is it to be patient with your children? Babies, toddlers, teenagers, or grown adults – there's a constant level of shenanigans with them that keeps you up at night! It's the same as an investor… it is extraordinarily difficult. We live in a day and age where social media and the overall "news" flow is 24/7 and the amount of noise, fake news, and other is overwhelming. No wonder it is hard to execute the buy and hold philosophy! Sometimes doing nothing is the best option. In retrospect, those are wise words in parenting situations too. So remember, less is more.

There were some juicy comments about moats and how Elon Musk had recently claimed, "Moats are lame. If your only defense against invading armies is a moat, you will not last long. What matters is pace of innovation." Buffett conceded that innovation is an advantage in today's business but didn't mean moats are obsolete. "Certainly, you should be working at improving your own moat, defending your moat, all of the time. Elon may turn things upside down in some areas, but I don't think he'd want to take us on in candy." One of Berkshire Hathaway's businesses is See's Candy, and he mentioned GEICO's low-cost provider model as an advantageous moat.

There was much talk about how divided America is today and Buffett looked to squelch that notion. Not only had America survived a Civil War, but in Buffett's lifetime he has heard the claim "more divided than ever" on multiple occasions. In his 87 years, there have been 14 Presidents; 7 Democrat and 7 Republican. During this period, we've had wars, assassinations, expansions, recessions, terrorist acts, banking and housing crises, other scandals and defaults, death, destruction and a host of dreadful things, yet per capita GDP has grown over 600% since his birth. Munger chimed in, "There is a tendency to think our present politicians are worse than people we have had in the past. We forget how terrible the politicians of the past were." Again, refer to the original Buffett philosophy – never bet against America!

Laced throughout the 6-hour meeting is a common thread: Buy what you know, avoid trendy themes, and ignore economic forecasts. He has proffered this advice many times over the years. It is illuminating to see him put it into action. "No one really knows what path the economy will take" Buffett said, "so it doesn't make sense to base investment decisions on forecasts. Charlie and I have worked together for many years and I can't think of a time when we made a decision on a company that was influenced by a broader view of the economy. If investors try to time their purchases according to economic forecasts and trade when those forecasts change, they will make a lot of money for their brokers, but not much for themselves." There's a genuine déjà vu feeling when we hear these words and it reminds us to stick to our core competency. What we mean by this is seek a high level of certainty about the value of a business we are investing in, avoid getting swept up in group think and paying too much when there are high expectations for a company built in, and invest when expectations are low and the business is on sale, thereby increasing the likelihood your results will be good.

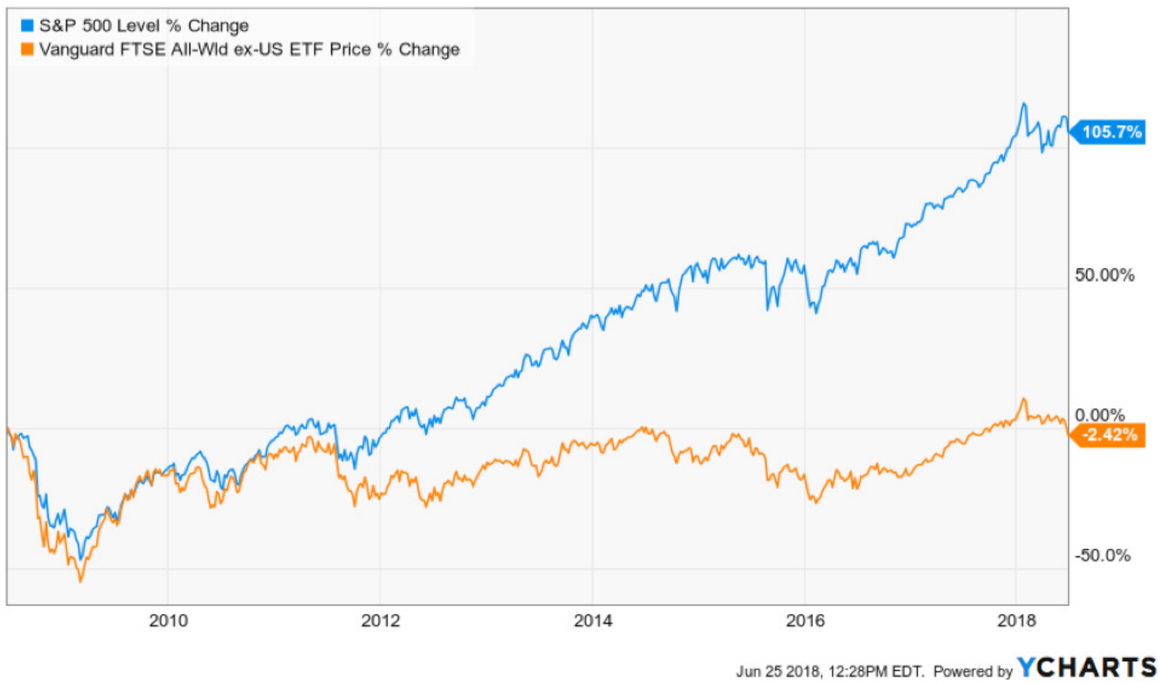
Buffett also stressed the importance of not losing money. You have heard him say; Rule #1 is don't lose money and Rule #2 is to refer to Rule #1. Building a circle of competence, knowing what you don't know, and avoiding traps and trends are critical for success. Also, investing with a suitably long-time horizon will negate the consequences of selling when the market is temporarily down. The political and economic noise that permeates the airwaves causes investors to trade too often. Don't! Be patient. Sit on your hands and do nothing! Be like Warren! We at Corda will continue to act with conviction, we'll seek to identify stable and strong businesses, we'll focus on those with good dividends and with the propensity to raise dividends, and seek to buy them at a low value. We'll look for businesses with sustainable returns on capital, ethical management, and strong moats. Then we'll exercise patience.

Speaking of patience, we've included in this letter a handy reference guide to the many of the consumer staple businesses that we own. Feel free to print and perhaps attach to your refrigerator door. Many in the media and other outlets have been calling for the imminent demise of consumer food and products companies. We beg to differ. These businesses are ingrained into our society. Certainly, we live in a competitive environment and per Elon Musk, innovation and change is constant! However, we own businesses that we believe can innovate, adapt to changing preferences, and execute on their business plans. Further, we believe their current valuations are compelling and we want to continue to be owners at this time. These are stable companies with outstanding distribution channels and typically global footprints and they pay solid dividends and have long histories of successful results in a competitive landscape. We are more than likely in an environment where an uptick in interest rates has caused these shares to flatline – but we believe this is a prototypical moment when the ownership of the businesses transitions from the weak to the strong hands!

Finally, the U.S. stock market continues to power well ahead of the foreign benchmarks. We advise all investors to take note of this. We are on an unprecedented run with the U.S. stock market far outpacing the foreign markets and it truly is a lost decade for those investing in overseas securities. Recall, back in 2010, the U.S. stock market had a similar ten-year annual return of ZERO when calculated from 12/31/99 thru 12/31/2009. It was commonly referred to as the "lost decade." However, look at the resulting 8 years since then! Is it possible the overseas markets can revert to something similar?! We think so.

5 Year Comparison U.S. Stock Market relative to International Markets:

10 Year Comparison of U.S. Stock Market relative to International Markets:

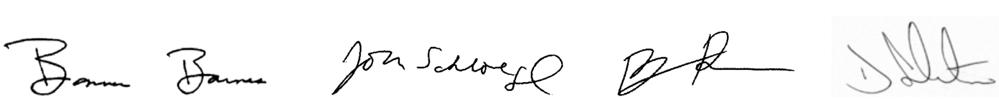


It's quite glaring to see how an investment made in a foreign index could result in a flat return over ten years versus a doubling of your money had you been invested in the S&P 500. Due note, these are price returns only and dividends have not been considered. Bottom line, we continue to suggest value can be found at home and abroad.

All in all, we are excited to have guided you half way through 2018. There will be more challenges and opportunities in the months ahead and we will continue to be vigilant and judicious with your hard-earned capital.

Wishing you a pleasant summer!

The CORDA Team,



Bonner C. Barnes John Schloegel Brian Raupp Dustin Slater

From the Desk of Our Certified Financial Planners:

The Medicare Surprise

If you are on Medicare, Part A (Hospital) is paid by the government, but you pay for Part B (doctors) coverage. The standard monthly premium for Part B is $134 per month and goes up once you exceed a certain income amounts listed below. You might think this won't be an issue since your Social Security and other recurring sources don't exceed the limits, but you need to remember the amounts below are based on your *modified adjusted gross Income (MAGI)*, which can be different from your adjusted gross income. Modified adjusted gross income adds back in certain income items that are excluded from your adjusted gross income such as tax-free income and gains that may be excluded from capital gains tax.

For example, if you file a joint return you sell your home for a substantial profit, you may be exempt from capital gains tax if your profit was under $500,000, but the profit is still counted toward your MAGI to calculate your Part B premium. This can come as a complete surprise because there is a two-year lag between the income year and the year your Part B premium increases. Your MAGI will be recalculated the next year, and your Part B premium may go back down, but you could end up paying an extra $3,500 for Medicare for the affected year.

Income	**Part B monthly premium amount**
Individuals with income between $85,000 to $107,000 or married couples with income between $170,000 to $214,000	Standard premium + $53.50 = $187.50
Individuals with income between $107,000 to $133,500 or married couples with income between $214,000 to $267,000	Standard premium + $133.90 = $267.90
Individuals with income between $133,500 to $160,000 or married couples with income between $267,000 to $320,000	Standard premium + $214.30 = $348.30
Individuals with income above $160,000 or married couples with income above $320,000	Standard premium + $294.60 = $428.60

If you have questions about Medicare, Social Security or other financial planning topics, give CORDA a call. We'll be glad to help.