CORDA

TOGETHER WE'RE INVESTED

Value and Dividend Investing, Forever

The secret to growing wealth was spelled out by Benjamin Graham over seventy five years ago when he wrote, "The real money in investing will have to be made – as most of it has been in the past – not out of buying and selling, but out of owning and holding securities, receiving dividends and interest, and benefiting from their long-term increase in value." The challenge in this endeavor, as we all know, is managing our emotions and making sure we have the fortitude to not get discouraged in the short run and to maintain our ownership in businesses that may be temporarily out of favor price wise. This is especially true today in the energy market as well as other commodity related businesses. We will address that in a moment, but first…

Calvin Coolidge once said, "Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful people with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan 'press on' has solved and always will solve the problems of the human race." Investing is exactly like that! People who engage the market in a myriad of ways are most likely talented, smart, and well educated. Investors fail when they do not follow through on a clear plan or strategy, or let their temperament get the better of them and make irrational decisions, almost always at the wrong time.

The purpose of our letter this quarter is to review our investment philosophy with you so we can ensure a level of success that you will have with your portfolio. We at CORDA are not in some sort of horse race with the stock market. Dividend growth investing and being a value buyer is not synonymous with buying an index. It's important to distinguish between being an offensive or defensive investor. In the late 1990's, the offensive investor out-performed the defensive-minded investor as many growth companies shot up in price faster than the "old economy" businesses that chugged along. A few short years later, that strategy got creamed. That reminds me of a quote I heard last week at an investment conference in Chicago. Jeremy Grantham, Chief Investment Strategist of Grantham Mayo van Otterloo, said, "Facebook is not the steam engine," referencing the dramatic difference with businesses that were created in the industrial revolution versus those today that are defined as social media stocks. Most value oriented stocks and dividend paying companies are defensive in nature. We have always known, especially coming out of 2009, that dividend paying blue chip multinationals, many of which we own, could possibly underperform a bull market. But we bought them then and still buy them today. Why? Because of the attractive yields, soundness of their business plans, predictable revenues and earnings, and strong balance sheets.

Many times, high quality companies sell at a premium, so we buy them any time the dividend is attractive and the valuation is below average. If we purchase at a low price point, our future gains can be substantial. We were neither then, nor today, positioning ourselves for any immediate economic rise, but for future recessions and recoveries. On a side note, although one might compare our philosophy to the sporting analogy, "offense wins games, defense wins championships," we want to emphasize our total return objective contains both an offensive and defensive mindset. Capturing those important dividends does not take second seat to our goal to find attractive opportunities where significant capital gains can be achieved as well.

Dividend growth investing is a long term strategy that uses the power of compounding to outperform over the long term. The longer the time period, the more high-quality companies rise above the index. Most investors know that investing in equities is the best way to generate wealth, by investing that is, not trading. But many people cannot deal with the volatility. The daily price swings feel like a rollercoaster ride. When the stock market dropped over 50% during the Great Recession, many investors got out of the market when their capital gains disappeared or their money was almost gone. At that precise moment, they were not in a position to take advantage of the price recovery. The key difference to CORDA's view of the investing battle – is that it is not about investing in the stock market - it is about investing in high quality businesses that earn a profit and share them with us!

We are looking to own businesses that generate profits and create dependable cash flows without having to worry about income, timing the market, or even the volatility that comes with it. In fact, we use the volatility to our advantage when we have additional capital to deploy. To enjoy the gains, we embrace the fluctuations and accept them as a cost of doing business. Seth Klarman once said, "Risk is not inherent in an investment; it is always relative to the price paid. Uncertainty is not the same as risk. Indeed, when great uncertainty – such as in the fall of 2008 – drives securities' prices to especially low levels, they often become less risky investments." Any meaningful goal we set often requires us to pay a price. Enduring the fluctuations of stock prices is the price we must pay to achieve the compounding effects of owning high-quality dividend paying businesses!

William J. Bernstein, a financial theorist and author, explains risk in two ways, "Shallow Risk" and "Deep Risk." Shallow risk is defined as a temporary drop in an asset's price. Shallow risk is as inevitable as the change in the temperature, the mood swings in your teenage daughter, or how quickly your golf game can go from good to bad in a single round. You can't invest in anything other than cash without being exposed to shallow risk.

Deep risk is where you can suffer a loss of your capital and never recover. The four cases of deep risk are inflation, deflation, confiscation, and devastation. These forces can make you lose and you may never recover. Sell a security when it's down significantly or when the market is in decline and you will suffer from deep risk. Ownership of high-quality dividend paying businesses with wide moats and substantial balance sheets comes with low risk of permanent impairment of capital. Price weakness in these companies should be viewed as shallow risk - temporary price declines that won't last forever. Certainly, you increase the number of holdings and diversify across twenty or thirty entities and the chance of permanent loss via any one business is dramatically mitigated. This is central to our thinking. A dividend growth investor should only be in high quality businesses for the long term. Safety and growth of dividends over time will lead to a successful end result.

As for the energy markets, the case now is to not be fooled into suffering permanent losses by selling a beaten down sector. Be mindful of the quality of the business you own! Those with strong balance sheets, access to capital, and shareholder friendly management teams will be the ones who thrive. The capital market will not be so kind to leveraged firms and those unable to withstand a long period of low prices. Oil and natural gas prices will continue to gyrate in the short term, and only those companies with staying power will be victorious in the end. We own what we believe to be strong businesses that can sustain during this depressed time period, but will emerge after the trough with business plans intact, leading to higher share prices that will follow. The timing is always uncertain, but we feel there is great opportunity amongst these businesses at the present time.

As always, we appreciate your patience thus far in 2015. The markets will reward us in due time, and we are invested right alongside you and plan to reap those gains in the years ahead!

Bonner C. Barnes