CORDA

TOGETHER WE'RE INVESTED

A Value Buyer Searching for Dividend Growth

December 31, 2019

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.

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. Where investors fail, is 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 as we begin 2020 is to review our investment philosophy with you so we can ensure a level of success that you will have with your portfolio and with all your investments in general. 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 one as many growth companies shot up in price much more rapidly than the "old economy" businesses that chugged along. A few short years later, that strategy got creamed. That reminds us of a comment from legendary investor Jeremy Grantham, Chief Investment Strategist of Grantham Mayo van Othello; "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 darlings. Established and stable businesses with consistent dividend paying track records are more durable and reliable in nature. We have always known, especially coming out of the steep declines in 2000 and again in 2008, that dividend paying stalwarts, many of which we own, could possibly underperform a romping bull market. Yet we continue to favor them and will judiciously invest this way in the future. Why? Because of the attractive yields, soundness of their business plans, predictable revenues and earnings, and strong balance sheets.

Check out the Invesco QQQ ETF. Its symbol is QQQ – it's an exchange-traded fund that has been in existence since March of 1999. This fund tracks the largest nonfinancial stocks listed on the Nasdaq exchange. As you can imagine, technology makes up more than half of its components. What's more startling is 42% of the fund is comprised of just 5 companies: Apple, Microsoft, Amazon, Facebook, and Alphabet. With many of these businesses zooming higher in 2019, it has pushed the price of this ETF up dramatically. When you start to see price action like that, you soon realize there are signs of froth in the market. We don't need to chase price momentum like that, as our serious and committed capital finds comfort in sustainable businesses which typically throw off steady dividends and mostly increasing dividends year in and year out.

Many times, high quality companies aren't typically on sale, so we must be patient and let the markets' foibles and follies bring them down, allowing the risk averse investor attractive entry points. We seek to purchase them when the dividend yield is attractive and the valuation is below average. If we purchase at a low price point, our future gains can be substantial. We use the market to our advantage, and something to emphasize – we attempt to focus on the fundamentals of a business, not especially attempting to predict the overall pace or lack thereof of the economy. We position ourselves for both expansionary and recessionary periods. A business with a strong balance sheet and not overly leveraged with debt can withstand the occasional recession. That's important to us. 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. We are capitalist-minded, you can't stick your head in the sand and expect to get ahead, can you?!

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. That's important and often overlooked! 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 through dividends and share buybacks!

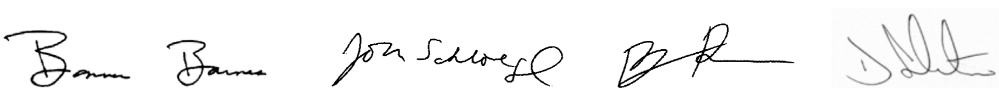
We are looking to own businesses that generate profits and create dependable cash flows without having to worry about timing the market or even the volatility that comes with it. Again, we cannot over emphasize the goal is to use the volatility to our advantage when we have additional capital to deploy. To enjoy the gains, we embrace the fluctuations and accept them as a cost of doing business. Long time investor 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 child, 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, when you increase the number of holdings and diversify across twenty or thirty entities 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 always, we appreciate the trust you have placed in us with your hard-earned capital. 2020 may offer up a surprise or two and there will be something out of nowhere that not a single person predicted. Uncertainty will always be a part of what we do and how we manage your savings – you can be assured we will be judicious with the allocation of your funds. Don't forget we are invested right alongside you and plan to reap the results in the years ahead! Happy New Year to you. Bring on the next decade!

Sincerely,
The CORDA Portfolio Team



Bonner C. Barnes   John Schloegel   Brian Raupp   Dustin Slater