CORDA

TOGETHER WE'RE INVESTED

Imagine the Possibilities

March 31, 2022

Imagine this: The 1980 version of yourself decided to put $10,000 into the S&P 500, and you were such a dedicated investor you left that lump sum alone for 40+ years. Today your original $10,000 investment would be worth a little over $1.3MM. Okay, that all sounds good on paper, but we know it's just not that simple!

Perhaps the vagaries of real life and emotion got in the way and maybe you would have sold once it hit $20K, thinking you doubled your money and that was good enough. Or, quite possibly, that amount declined to $8,000, and you couldn't stomach losing any more and liquidated the lump sum entirely and vowed never to buys stocks again. Either of those actions seems legitimate.

Let's imagine even further, your 1980 self decided that every time the market declined 8% or more in a single month, you would add $2,000 to the account. There were 16 individual months since 1980 where the market had an 8% or more decline in a single month, so this opportunistic you added $32K to your initial $10K investment over the years. That $42,000 invested is now worth a cool $2MM+.

We bet you know where we are going with this example. Let's take the opposite approach and see what happens with a nervous you, who withdrew $2,000 every time the market declined 8% in a single month. The initial $10K invested into the S&P 500 along with a grand total of $32,000 in withdrawals along the way still turned into $600K.

Buy and hold got you to $1.3MM. Being nervous and selling got you to less than half of that. While the opportunistic you who bought the dips topped out over $2MM. One might argue that the opportunistic you was taking on "more risk" buying when the market was selling off, but that's the wrong way to think about risk. We would point out that there is less risk when buying something 8% or less than a previous high. For example, if you were to fall from the top of a tall ladder, you may break a bone, but if you were to topple over from a stool or a mini step ladder, you might just look awkward and draw a laugh from anyone who witnessed it. It's similar to chasing the market and buying at 52-week highs versus being patient and buying when share prices are closer to 52-week lows. It's the investor putting money into the market at high water marks that faces more downside. Think of it this way, the Nasdaq was 22% off its recent high and the S&P 500 was down about 14% at its low a few weeks ago. Today, buying assets seems to be risky with inflation, war, interest rates, oil prices, and a host of other things in the headlines. The normal response is to be fearful and afraid, and that is understandable. However, things can and will change. Maybe with share prices discounted 14% to 22% those current economic and geo-political conditions are already displayed in the marketplace.

The nervous you in the above example was "waiting for things to cool down," planning to buy back in when the "economy recovered," or the "election was over," or when the "fiscal cliff" or "budget stand-off" was settled. We can always find dozens of reasons not to invest, right?

The opportunistic you had to be somewhat mechanical and stick to the strategy, despite the harrowing moments when the market was off 8%. Survival instincts would have certainly suggested deviating from the plan, as the tone would have been a "dangerous time" to buy into a correction or bear market, right?!

Can you imagine the opportunistic you, over time, gaining confidence in the strategy, being less emotional the 10th, 12th, or 14th time around, possibly even more emboldened later in life and after being proven right so often by going against the grain! We bet those incremental $2,000 add-ons could have been bigger as time went by!

Sure, many of you want to say this is all unrealistic. But is it? Professional investors make their living preying on the fear and panic of others. We have argued for years the market is not efficient and it bounces around day to day based on the decisions of millions of investors and what their collective belief is about a security's price. Take advantage of the downdrafts.

Because stocks go down in elevators and up in escalators, it's hard for many investors to be successful. The nervous investor cannot envision a time to buy back in, as recoveries are hard to see and predict. Markets tend to make two steps forward and one step back. It's precarious just being long sometimes. It could be three steps forward, four back, and then five ahead in a hop skip and a jump! For those who sell and plan to buy back "later at a lower price," they will become psychologically anchored to some lower price because they felt another leg down was imminent. Investing is not easy!

Oh, and how about this time, YES, *THIS TIME* must be different, right?! Inflation, war, a hawkish fed, higher gas and food costs - sounds like mayhem. Well, maybe it is. Doesn't mean owning businesses is not the right way to be invested though, does it? In hindsight, every single period of market uncertainty and decline looks like a buying opportunity. Conversely, every anticipated future decline looks like risk.

Distinguished investor Bill Miller just penned a market update that might just help us here. Taken from his most recent "Market Perspective" dated March 22, 2022, he states;

"Attention has turned from guessing how much lower stocks can go to guessing whether the rally can be sustained and by how much? The important point to keep in mind is both exercises are just guesses. No one has privileged access to the future, a future which involves what Keynes called irreducible uncertainty. No one knows how long the war in Ukraine will last nor what its outcome will be. No one knows how high inflation will go nor when it will begin to subside. No one knows if oil prices will stay over $100 or begin to decline or even double from here. No one knows how many times the Federal Reserve will raise rates nor what impact, if any, reducing its balance sheet will have on the economy. As investors assess the probabilities of different outcomes, they are confronting a regime change in the economy, in capital markets, and in geo-politics that most have not seen in their professional lifetimes. Headline inflation is the highest in 40 years, real interest rates are also the most negative they have been in decades underpinning strong and rising commodities prices, and the Fed has indicated they will do "whatever it takes" to bring inflation down. There is a war raging in Europe that few believed would occur and whose path so far has confounded those who thought Russia would secure a quick victory. Although it is in everyone's interest to end that conflict, that does not mean it may not escalate to levels that would dramatically lower stock prices. If a solution can be agreed on in the relatively near future, then sharply higher stock prices would likely ensue.

While the outcome is unknown, it appears the geo-political ramifications will play out over many years and not a few months. Where does all that leave us? Even after last week's move, stock prices remain down year-to-date, and I believe there are many good values in the market. I also believe that a strong US economy with low unemployment, plentiful jobs, rising wages, the strongest real growth in many years, and a Fed that has begun to raise rates makes it likely that a rotation to value stocks from the growth stocks that led the market for the past 10 years has begun."

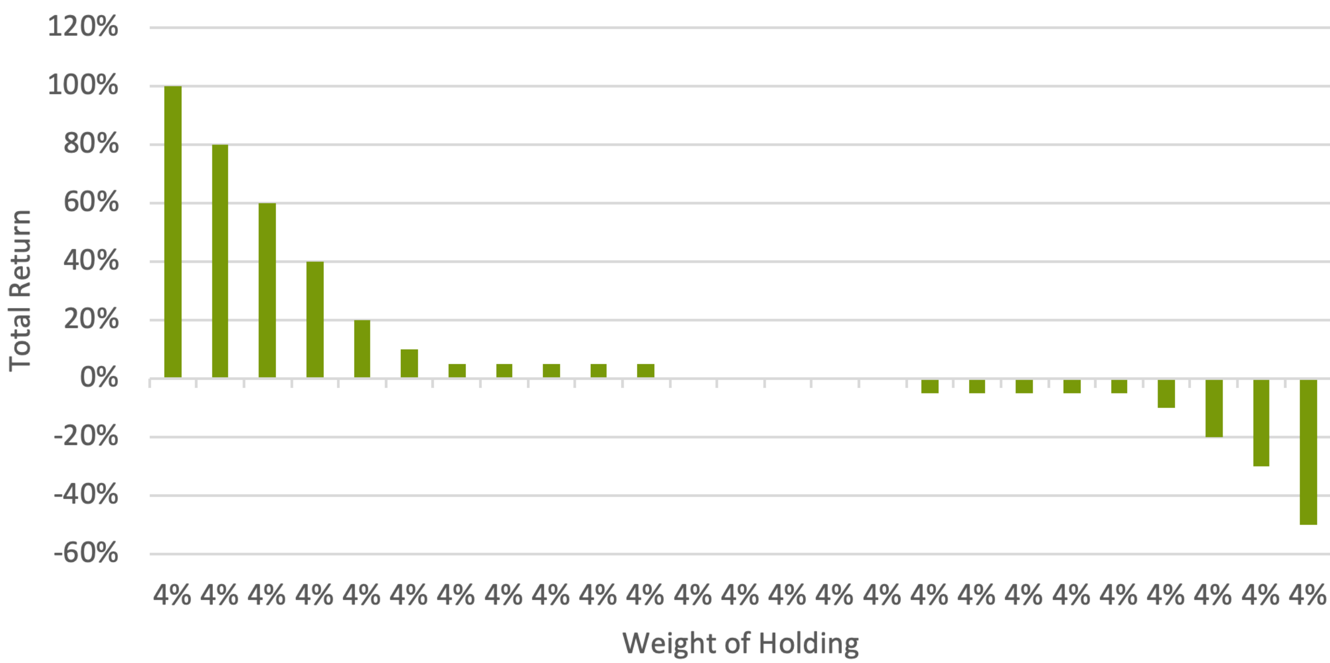
So, back to our example, if you are suggesting it's unrealistic, you could poll every single one of us here at CORDA and to a person, with our combined hundreds of years' experience in the financial sector, the far more likely situation is investors selling MORE than $2,000 or call it 20% of their portfolio when the market declined. We have discussed and shared with you the results of the Dalbar study (see our quarterly newsletter Sept 30, 2016; CORDAmanagement.com/insights/enewsletters). Empirically it shows how the average investor does not come close to the annual S&P 500 return over time precisely due to buying at the top and selling near the bottom. Here's a fitting example playing out in front of our eyes right now. The name of the fund family is Ark Invest. I bet some of you have noticed recently how the average investor in the Ark ETFs, the fund family run by the famous (or infamous) Cathie Wood, are now showing losses on their investments. Although her long-term track record is quite good, the majority of fund inflows came early last year *after* her funds had booked a torrid rate of return. Unfortunately, many investors were not there from the beginning to achieve those outsized returns. A contrarian-oriented investor could potentially stand to gain by now looking at some of her holdings! Wouldn't this be the time to face the heightened angst, the anxiety and fear if you will, and pounce on some of those beaten down businesses? What if she is not wrong about her current mindset and philosophy? Doesn't hurt to ask that question, does it? To support our thoughts on this subject, Bill Miller's recent market update, he closed with the following: *"Finally, looking at a basket of names down 50% or more from their 52-week highs will likely uncover some long-term bargains."* Maybe he's searching amongst the rubble in the Ark ETF holdings as well?!

Guess what, we are not immune to mistakes and losses ourselves. Shocking, right?! We can share a behind the scenes narrative from the trenches at CORDA about what we like to call our "problem children," these are the stocks with the most significant price declines from our entry points. Remember, we like to think of our stocks as businesses, as they are assets, not pieces of paper. They essentially come alive for us. These problem children are often discussion items with our clients. The ones that many focus on to the exclusion of all else. We rarely hear mention of the winners - it's a virtual slam dunk that any time we meet in person or via zoom or email, any of the businesses that are less than the purchase price are topic du jour. Does any of this sound familiar?!

Well, of course these problem children are the laggards, causing indigestion even to those here at CORDA too, so you are not alone. We dedicate substantial intellectual resources and firepower in trying to determine why these businesses are lagging, but one thing we have seen repeatedly, is that the laggards can sometimes turn into the big future winners. For those of you with children, there are many highs and lows along the parenting continuum, and we bet there was a time when you said to yourself, "he/she is not going to make it." There are challenging times raising kids, but those were also the moments to double down on them, because we bet months and years later, they have likely blossomed into "successful" adults! Again, problem children can later be high performers! So just be mindful to the fact that when share prices are down for some of the businesses we own, it doesn't mean it's going to be permanent.

The chart below shows how a portfolio with a collection of returns ranging from 100% increases to 50% decreases, with many hovering around the unchanged level, can achieve a nice 8% overall result.

The Total Return of this Hypothetical Portfolio is 8.0%



Over time, for the patient investor, the CORDA portfolio has proven that a diverse group of businesses can outperform even when you include a few substantial laggards. Having some problem children in the portfolio will continue to be expected when you are in the business of managing money. Nobody has a crystal ball, and we know of no one who can invest with complete certainty or perfection.

Before we wrap up and conclude our thoughts, we wanted to share with you some other fascinating charts and graphs that shed light on current market conditions:

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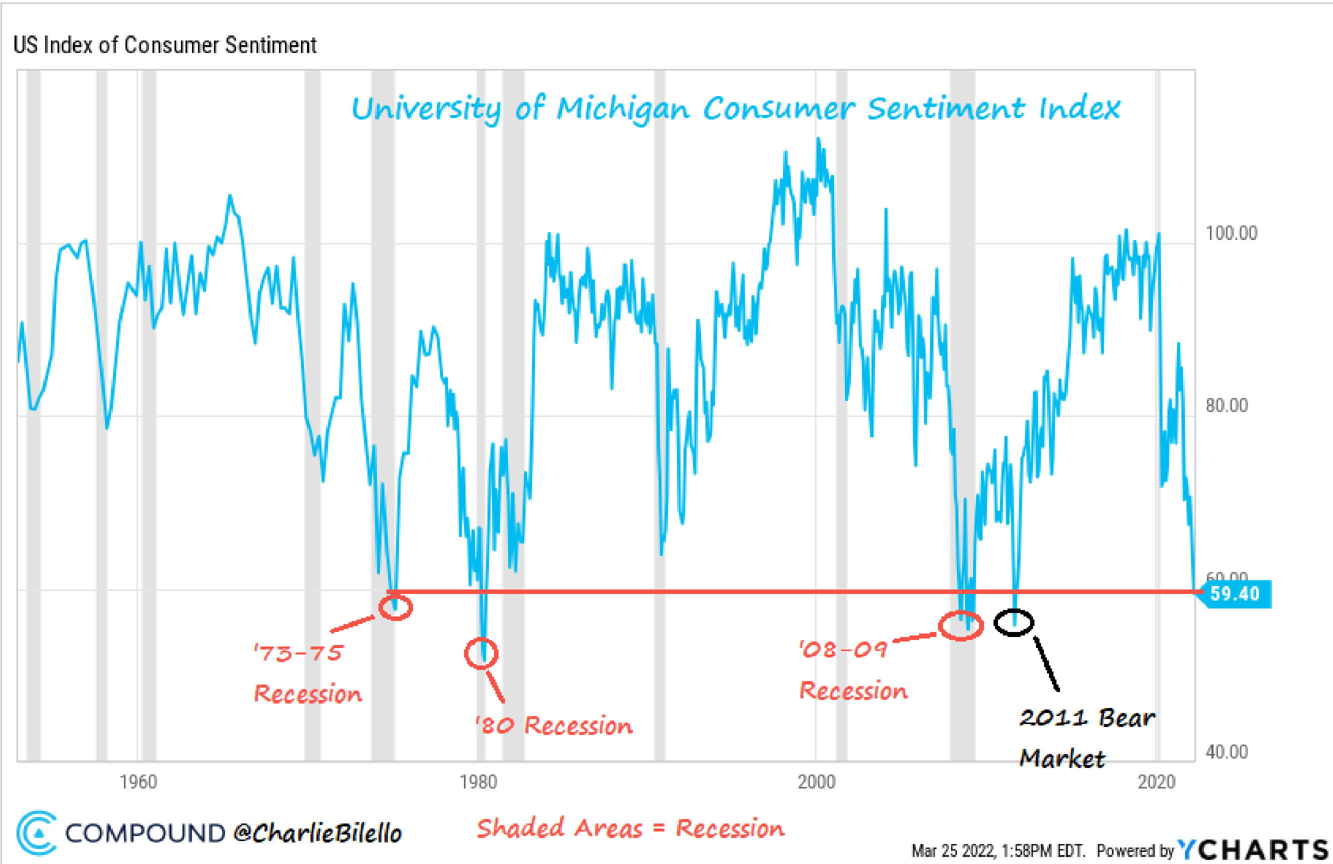
Consumer Sentiment is near all-time lows. The question: were past low readings a suitable time to invest? Remember, it's counter intuitive, by the time sentiment rebounds and positive feelings abound, it will be too late to buy. You have to be willing to enter when it seems painful.



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What about bonds, they're a safe haven, right? Check out the returns from the Barclays Aggregate bond index since 1977. 2022 is not off to a good start for fixed income holdings:

Bloomberg Barclays Aggregate, Total Return (1977 - 2022)					
Year	Return	Year	Return	Year	Return
1977	3.0%	1993	9.7%	2009	5.9%
1978	1.4%	1994	-2.9%	2010	6.5%
1979	1.9%	1995	18.5%	2011	7.8%
1980	2.7%	1996	3.6%	2012	4.2%
1981	6.2%	1997	9.7%	2013	-2.0%
1982	32.6%	1998	8.7%	2014	6.0%
1983	8.4%	1999	-0.8%	2015	0.6%
1984	15.1%	2000	11.6%	2016	2.7%
1985	22.1%	2001	8.4%	2017	3.5%
1986	15.3%	2002	10.3%	2018	0.0%
1987	2.8%	2003	4.1%	2019	8.7%
1988	7.9%	2004	4.3%	2020	7.5%
1989	14.5%	2005	2.4%	2021	-1.5%
1990	9.0%	2006	4.3%	2022 YTD	-6.9%
1991	16.0%	2007	7.0%		
1992	7.4%	2008	5.2%		
COMPOUND				@CharlieBilello	

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From the week ending March 18 according to LPL Research:

For only the 5th time ever, the S&P 500 gained at least 1% for 4 consecutive days. This rare occurrence is also quite bullish, as a year later it has been up more than 20% every single time with an average gain of 28.0%.

4 Strong Days Like We Just Saw Are Rare, But Quite Bullish

S&P 500 Index Returns After Four Consecutive 1% Gains

		S&P 500 Index Return			
Date	**4-Day Return**	**1 Month**	**3 Month**	**6 Month**	**12 Month**
6/1/1970	12.3%	-6.6%	5.2%	10.4%	28.0%
10/14/1974	12.2%	1.3%	-1.5%	18.6%	23.0%
10/11/1982	10.2%	6.4%	9.2%	15.4%	27.0%
11/5/2020	7.4%	5.2%	11.5%	18.7%	33.8%
3/18/2022	6.9%	?	?	?	?
	Average	1.6%	6.1%	15.8%	28.0%
	Median	3.2%	7.2%	17.0%	27.5%
	% Positive	75.0%	75.0%	100.0%	100.0%

Source: LPL Research, FactSet 03/18/2022 (1950 - Current)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

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Also, from mid-March, our friends at Bespoke presented this chart and quote: “at 115 days, the Nasdaq was 3 days away from being in its longest correction since the Financial Crisis. We bottomed right around this point during the 23.6% drop in Q4 2018.”

Nasdaq 10%+ Corrections*

Start	End	% Chg	Days
4/23/2010	7/2/2010	-17.3%	70
4/29/2011	8/19/2011	-18.5%	112
9/16/2011	10/3/2011	-10.9%	17
10/27/2011	11/25/2011	-10.8%	29
3/26/2012	6/1/2012	-12.0%	67
9/14/2012	11/15/2012	-10.9%	62
7/20/2015	8/25/2015	-13.6%	36
12/1/2015	2/11/2016	-17.3%	72
8/29/2018	12/24/2018	-23.6%	117
5/3/2019	6/3/2019	-10.2%	31
2/19/2020	3/23/2020	-30.1%	33
9/2/2020	9/23/2020	-11.8%	21
2/12/2021	3/8/2021	-10.5%	24
11/19/2021	*3/14/2022*	*-21.6%*	*115*
	Avg. Post-GFC	**-15.2%**	**53**
	Avg. All (Since 1970)	**-19.5%**	**75**
	Median Post-GFC	**-12.0%**	**36**
	Median All (Since 1970)	**-16.6%**	**60**

**Post-Global Financial Crisis (GFC)*

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Recall, the average yearly market drawdown since 1928 in the S&P 500 is about -13% (where have you heard this before?). Take advantage when presented with such an opportunity. This does not mean the market can't trade lower, but it does serve as a reminder to be on guard against getting too pessimistic at the wrong time. This snapshot was near the lows in mid-March!

S&P 500 Index: Max Intra-Year Drawdowns vs. End of Year Total Returns (1928 - 2022)

Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR
1928	-10.3%	43.8%	1947	-14.7%	5.2%	1966	-22.2%	-10.0%	1985	-7.7%	31.2%	2004	-8.2%	10.9%
1929	-44.6%	-8.3%	1948	-13.5%	5.7%	1967	-6.6%	23.8%	1986	-9.4%	18.5%	2005	-7.2%	4.9%
1930	-44.3%	-25.1%	1949	-13.2%	18.3%	1968	-9.3%	10.8%	1987	-33.5%	5.8%	2006	-7.7%	15.8%
1931	-57.5%	-43.8%	1950	-14.0%	30.8%	1969	-16.0%	-8.2%	1988	-7.6%	16.6%	2007	-10.1%	5.5%
1932	-51.0%	-8.6%	1951	-8.1%	23.7%	1970	-25.9%	3.6%	1989	-7.6%	31.7%	2008	-48.8%	-37.0%
1933	-29.4%	50.0%	1952	-6.8%	18.2%	1971	-13.9%	14.2%	1990	-19.9%	-3.1%	2009	-27.6%	26.5%
1934	-29.3%	-1.2%	1953	-14.8%	-1.2%	1972	-5.1%	18.8%	1991	-5.7%	30.5%	2010	-16.0%	15.1%
1935	-15.9%	46.7%	1954	-4.4%	52.6%	1973	-23.4%	-14.3%	1992	-6.2%	7.6%	2011	-19.4%	2.1%
1936	-12.8%	31.9%	1955	-10.6%	32.6%	1974	-37.6%	-25.9%	1993	-5.0%	10.1%	2012	-9.9%	16.0%
1937	-45.5%	-35.3%	1956	-10.8%	7.4%	1975	-14.1%	37.0%	1994	-8.9%	1.3%	2013	-5.8%	32.4%
1938	-28.9%	29.3%	1957	-20.7%	-10.5%	1976	-8.4%	23.8%	1995	-2.5%	37.6%	2014	-7.4%	13.7%
1939	-21.2%	-1.1%	1958	-4.4%	43.7%	1977	-15.6%	-7.0%	1996	-7.6%	23.0%	2015	-12.4%	1.4%
1940	-29.6%	-10.7%	1959	-9.2%	12.1%	1978	-13.6%	6.5%	1997	-10.8%	33.4%	2016	-10.5%	12.0%
1941	-22.9%	-12.8%	1960	-13.4%	0.3%	1979	-10.2%	18.5%	1998	-19.3%	28.6%	2017	-2.8%	21.8%
1942	-17.8%	19.2%	1961	-4.4%	26.6%	1980	-17.1%	31.7%	1999	-12.1%	21.0%	2018	-19.8%	-4.4%
1943	-13.1%	25.1%	1962	-26.9%	-8.8%	1981	-18.4%	-4.7%	2000	-17.2%	-9.1%	2019	-6.8%	31.5%
1944	-6.9%	19.0%	1963	-6.5%	22.6%	1982	-16.6%	20.4%	2001	-29.7%	-11.9%	2020	-33.9%	18.4%
1945	-6.9%	35.8%	1964	-3.5%	16.4%	1983	-6.9%	22.3%	2002	-33.8%	-22.1%	2021	-5.2%	28.7%
1946	-26.6%	-8.4%	1965	-9.6%	12.4%	1984	-12.7%	6.1%	2003	-14.1%	28.7%	2022	-13.0%	?

Note: Closing Prices (does not include intra-day or dividends) COMPOUND @CharlieBilello

In closing, it seems that it's always a treacherous time to invest, but recall the market is a discounting mechanism and it usually whipsaws violently down (the elevator) and then recovers over time (the escalator). We own many high-quality dividend paying entities that have long track-records of dividend payments and dividend increases. If we are in a range bound or sideways moving market, the dividend income will prove most beneficial.

We'll keep leaning into the dividend stream and watching for opportunities as the market does its thing for the rest of the year.

Cheers from all of us at CORDA.