CORDA

TOGETHER WE'RE INVESTED

Investing in a Topsy Turvy Market

June 30, 2022

As we embark on the back half of a peculiar year, we looked through the archives here at CORDA and sought to identify some of the best saving and investing tenets that we have accumulated over the years. In the pages that follow, we share many of the thoughts and ideas from some of the greatest investors of all time, along with thoughts curated from those of us here on the CORDA team. We collected these theories and observations from legendary investors so that we can refer to them on occasion, knowing full well there will be times, like now, when the market is weak, and the tendency for some investors will be to get shaken out and lose track of the principles that typically lead to successful outcomes. The following gems might cause you to step back and be more measured in your response to a topsy-turvy market.

Why Stocks

To make money in stocks, you should never be out of stocks.

If you're invested in a business that continues to grow and earn more money, it doesn't excuse you from pain. Lulls and pullbacks in stock prices are still going to happen. Focus on the business, not the stock price. If the business is there, the market will come back to it.

Most multi-baggers will have extended periods of stagnation as fundamentals backfill, old shareholders get bored, and new shareholders enter.

A great business at a fair price is superior to a fair business at a great price. The big money is not in the buying and selling, but in the waiting. (Charlie Munger)

Save and invest more. We can control only the amount that can be invested and not the return it would earn.

Big movements take time to develop. (Jesse Livermore)

Successful investing is about owning businesses and reaping the huge rewards provided by the dividends and earnings growth of our nation's – and for that matter, the world's corporations. (John Bogle)

Do you know the only thing that gives me pleasure? It's to see my dividends coming in. (John D Rockefeller)

The future for investors is bright. Our world today stands at the brink of the greatest burst of invention, discovery, and economic growth ever known. (Jeremy Siegel)

Focus on the Fundamentals

If your investing time horizon is less than 1 year – you are in the wrong place to start with. If your time horizon is less than 3 years, valuations are damn important. If your investing time horizon is 5 to 10 years or more, then the quality of the business is more important than valuation.

The market is a voting machine in the short term and a weighing machine in the long run. (Ben Graham)

A stock is not just a ticker symbol or an electronic blip; it is an ownership interest in an actual business with an underlying value that does not depend on its share price. (Ben Graham)

Whether you achieve outstanding results will depend on the effort and intellect you apply to your investments, as well as on the amplitudes of stock market folly that prevail during your investing career. The sillier the market's behavior, the greater the opportunity for the business-like investor. (Warren Buffett)

Michael Steinhardt from his book ***No Bull***: I defined variant perception as holding a well-founded view that was meaningfully different from market consensus. I often said that the only analytic tool that mattered was an intellectually advantaged disparate view. This included knowing more and perceiving the situation better than others did. It was also critical to have a keen understanding of what the market expectations truly were. Thus, the process by which a disparate perception, when correct, became consensus would almost inevitably lead to meaningful profit. Understanding market expectation was at least as important as, and often different from, fundamental knowledge.

Focus on value because most investors focus on outlooks and trends. (John Templeton)

I don't like hedging. To me, if something needs hedging, you shouldn't have a position in it. (Stanley Druckenmiller)

"Mr. Market" (an allegory created by investor Benjamin Graham to describe what he believed were the irrational or contradictory traits of the stock market) is well summarized by the quote on the wall in our portfolio room. "The market is a pricing mechanism and NOT a guiding instrument."

All we try to do is buy a dollar for forty cents. In our style of doing things, patience is patience is patience. (Peter Cundill)

The single greatest edge an investor can have is a long-term orientation. (Seth Klarman)

Investor Psychology

Whatever method you use to pick stocks or stocks mutual funds, your ultimate success or failure will depend on your ability to ignore worries long enough to allow your investments to succeed. It isn't the head but the stomach that determines the fate of the stock picker. The skittish investor, no matter how intelligent, is always susceptible to getting flushed out of the market by the brush beaters of doom." (Peter Lynch)

A long-term investor who watches their stock prices all day is like a dieter who weighs themselves every minute. It's a waste of time.

Investors spend too much time defending their positions to others in bad markets. In bad markets, stocks go down. Get over it. Stop acting like you are investing for tomorrow. You're investing for years. Anchor to the business, not the price.

You must be willing to look across the valley of temporary difficulty to a time when the shares will once again be pursued by an ardent market. (Para-phrasing Peter Lynch)

Investors are their own worst enemy. Human nature NEVER changes. We tend to get too high at the top of the market/economy, and too low at the bottom. Maintaining an even keel is the best approach for long term success.

Past provides an illusion of certainty. Every tomorrow has always been uncertain.

You need to balance arrogance and humility. When you buy anything it's an arrogant act. You're saying the markets are gyrating and somebody wants to sell this to me and I know more than everyone else so I'm going to stand here and buy it. That's arrogant. You need humility to say, "I might be wrong." (Seth Klarman)

Bloomberg invited me on the air Friday morning and the anchors mostly asked one version or another of: **"does the market's decline worry you?"** That prompted this memo in response: **The answer lies in a question: "What does the market know?"** Is the market smart, meaning you should take your lead from it? Or is it dumb, meaning you should ignore it?

Especially during downdrafts, many investors impute intelligence to the market and look to it to tell them what's going on and what to do about it. This is one of the biggest mistakes you can make. As Ben Graham pointed out, the day-to-day market isn't a fundamental analyst; it's a barometer of investor sentiment. You can't take it too seriously. Market participants have limited insight into what's really happening in terms of fundamentals, and any intelligence that could be behind their buys and sells is obscured by their emotional swings. It would be wrong to interpret the recent worldwide drop as meaning the market "knows" tough times lay ahead. (Howard Marks, Oaktree Capital, January 19, 2016)

Prefer Declining Prices

One last gem about investor psychology straight from Warren Buffett's **Berkshire Hathaway 1997 Letter** to Shareholders; section titled: **How We Think About Market Fluctuations**:

A short quiz: If you plan to eat hamburgers throughout your life and are not a cattle producer, should you wish for higher or lower prices for beef? Likewise, if you are going to buy a car from time to time but are not an auto manufacturer, should you prefer higher or lower car prices? These questions, of course, answer themselves.

But now for the final exam: If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the "hamburgers" they will soon be buying. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices.

For shareholders of Berkshire who do not expect to sell, the choice is even clearer. To begin with, our owners are automatically saving even if they spend every dime they personally earn: Berkshire "saves" for them by retaining all earnings, thereafter using these savings to purchase businesses and securities. Clearly, the more cheaply we make these buys, the more profitable our owners' indirect savings program will be.

Furthermore, through Berkshire you own major positions in companies that consistently repurchase their shares. The benefits that these programs supply us grow as prices fall: When stock prices are low, the funds that an investee spends on repurchases increase our ownership of that company by a greater amount than is the case when prices are higher. For example, the repurchases that Coca-Cola, The Washington Post and Wells Fargo made in past years at very low prices benefitted Berkshire far more than do today's repurchases, made at loftier prices.

At the end of every year, about 97% of Berkshire's shares are held by the same investors who owned them at the start of the year. That makes them savers. They should therefore rejoice when markets decline and allow both us and our investees to deploy funds more advantageously.

So, smile when you read a headline that says, "Investors lose as market falls." Edit it in your mind to "Disinvestors lose as market falls – but investors gain." Though writers often forget this truism, there is a buyer for every seller and what hurts one necessarily helps the other. (As they say in golf matches: "Every putt makes someone happy.")

We gained enormously from the low prices placed on many equities and businesses in the 1970s and 1980s. Markets that then were hostile to investment transients were friendly to those taking up permanent residence. In recent years, the actions we took in those decades have been validated, but we have found few new opportunities. In its role as a corporate "saver," Berkshire continually looks for ways to sensibly deploy capital, but it may be some time before we find opportunities that get us truly excited.

What's Important

What you are is more important than where you invest.

Yes, I'd like to publicly acknowledge the power of luck. Athletes get lucky, poets get lucky, businesses get lucky. Hard work is critical, a good team is essential, brains and determination are invaluable, but luck may decide the outcome. Some people might not call it luck. They might call it Tao, or Logos, or Jnana, or Dharma. Or Spirit. Or God. Put it this way, the harder you work the better your Tao. Have faith in yourself, but also have faith in faith. Not faith as others define it. Faith as you define it. Faith as faith defines itself in your heart. (Phil Knight, **Shoe Dog**)

Desperate sellers sell cheap; never borrow and invest.

The harder you work the luckier you get. (Gary Player)

Vulnerability is not weakness, and the uncertainty, risk, and exposure we face every day are not optional. Our only choice is a question of engagement. Our willingness to own and engage with our vulnerability determines the depth of our courage and the clarity of our purpose. Perfect and bulletproof are seductive, but they don't exist in the human experience. We must walk into the arena, whatever it may be, with courage and a willingness to engage. We must dare to show up and let ourselves be seen. (Brene Brown, **Daring Greatly**)

Earn as much as you can, save as much as you can, invest as much as you can, give as much as you can. (John Wesley)

Goodness is the only investment that never fails. (Henry David Thoreau)

We have only one rule here: Don't do anything that is detrimental to yourself. (Mike Krzyzewski)

Invest in yourself, no one else will.

Protect what you have. (Jesse Itzler's, Living with a SEAL)

Dream, work, believe. (Jim Valvano)

Winning is never accidental. (Lou Holtz)

It's something experience has taught me: there is no perfect justice, not in this world. You can't control what people say about you and what they think about you. You can't plan for bad luck. You can only work your hardest and do your best and tell the truth. In the end, it's the effort that matters. The rest is beyond your control. (Maria Sharapova)

Finally, a jewel direct from one of our colleagues here on the front line:

Money is important, but health and relationships are THE most important. Too many times I see people not taking care of themselves and stress about money only to be robbed of their health too early. Focus on what's really important and what you can control.

We hope this puts a lot of things into perspective for you. It's even helpful for us here at CORDA to refer to this list often. We are investing together! Have a peaceful and prosperous summer.

All the best,
The CORDA Team

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From the Portfolio Team

Recall how we have shared data in the past about the frequency of corrections and bear markets. So, let's assume the following chart is a playbook for what's ahead:

We Have Another Bear Market

S&P 500 Index Bear (And Near Bear) Markets (1950 - Current)

Start Date	End Date	S&P 500 Change	Months
8/2/1956	10/22/1957	(21.6%)	14.7
12/12/1961	6/26/1962	(28.0%)	6.4
2/9/1966	10/7/1966	(22.2%)	7.9
11/29/1968	5/26/1970	(36.1%)	17.9
1/11/1973	10/3/1974	(48.2%)	20.7
9/21/1976	3/6/1978	(19.4%)	17.5
11/28/1980	8/12/1982	(27.1%)	20.4
8/25/1987	12/4/1987	(33.5%)	3.3
7/16/1990	10/11/1990	(19.9%)	2.9
7/17/1998	8/31/1998	(19.3%)	1.5
3/24/2000	10/9/2002	(49.1%)	30.5
10/9/2007	3/9/2009	(56.8%)	17.0
4/29/2011	10/3/2011	(19.4%)	5.2
9/20/2018	12/24/2018	(19.8%)	3.1
2/19/2020	3/23/2020	(33.9%)	1.1
1/3/2022	6/13/2022*	(21.8%)	5.4
Average		(29.8%)	11.0
Median		(24.6%)	7.2

Source: LPL Research, FactSet 06/13/2022

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 stock index was first launched in 1957.

Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

Note the median and average declines are anywhere from (24.6%) and (29.8%). This year the major indexes are off about that magnitude as we speak. S&P 500 down about 24% at its worst levels and the Nasdaq off 33% from its high. Now, the typical length as denoted above is 7.2 to 11 months in duration. One might argue that although the S&P 500 peaked January 3rd, there are far more stocks down 50, 60, and 70% from their highs all the way back to early 2021. In fact, the tech heavy Nasdaq peaked last November. So, the good news is we might be closer to the end of the bear market than the beginning no matter how you slice it. Thus, you've made it this far, you can tough it out till the end for sure. Without a doubt, the near term seems highly uncertain, and the Federal Reserve is now hellbent on taming inflation, so the Fed Funds rate may have a long way to go to end inflation and possibly throw the economy into a recession. Again, that is not new news, the market has adjusted to an aggressive Fed and the possibility of a recession. That's exactly why the market is doing what it's doing, discounting things ahead of time. The possibility of the S&P 500 down thirty percent or more is one to consider and respect, especially if the economy hits recessionary speed.

Do remember, the market will recover long before the economy does and maybe, just maybe, about the time you hear the talking heads exclaim "recession is here," just might be when the market bottoms. The fact is, with prices down 20-30%, you are now in the zone where your forward real earnings potential is vastly more superior than what it was last year when the market was at all-time highs. The math is compelling, and equities are attractive at these levels.

Also, bad starts to a year at halftime don't always mean more trouble. From LPL Research:

Bad Starts To A Year At Halftime Don't Always Mean More Trouble

S&P 500 Index Down >15% At End Of June (1928 - Current)

Date	YTD Return	S&P 500 Index Returns Rest Of Year
6/30/1932	-45.4%	56.2%
6/30/1939	-17.4%	14.7%
6/28/1940	-19.9%	6.0%
6/29/1962	-23.5%	15.3%
6/30/1970	-21.0%	26.5%
6/21/2022*	-21.0%	?
Average		23.7%
Median		15.3%
Higher		5
Count		5
% Higher		100.0%

Source: LPL Research, FactSet 06/21/2022 * The current quarter isn't over yet
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

Another exercise could be one where you ask the question, **What if?**

For example, when Covid 19 hit in March 2020, nobody envisioned a way out, did they?

What if oil falls to $80 or $90 per barrel?

What if the economy does not go into a recession?

What if inflation falls off a cliff?

What if interest rates have peaked?

What if earnings continue to grow?

What if war in Ukraine comes to an end?

What if China ends its zero Covid policy?

What if the Fed engineers a soft rather than a hard landing?

Anything can happen, right?!

See below all the crises and fears we've had to endure since the March 2009 low. Every day the news cycle puts your stomach in knots, this is just the list with every correction of 5% or more since March 2009.

@CharlieBilello	S&P 500 Corrections >5% since March 2009 Low				
Correction Period	# Days	S&P High	S&P Low	% Decline	"Stocks Fall On..."
2022: Jan 4 - May 12	136	4819	3842	-20.3%	Inflation, Rising Rates/Fed Tighening, Russia/Ukraine War, Recession Fears
2021: Nov 22 - Dec 3	11	4744	4495	-5.2%	Covid Omicron Variant, Fed Taper Fears
2021: Sep 2 - Oct 4	32	4546	4279	-5.9%	China Contagion Fears, Fed Taper Fears, Covid Delta Variant
2021: Feb 16 - Mar 4	16	3950	3723	-5.7%	Inflation Fears, Rising Rates
2020: Sep 2 - Sep 24	22	3588	3209	-10.6%	Coronavirus, No New Stimulus Deal, Election Fears
2020: Feb 19 - Mar 23	33	3394	2192	-35.4%	Coronavirus, Global Depression Fears
2019: Jul 26 - Aug 5	10	3028	2822	-6.8%	Trade War, Tariffs, Yuan Devaluation, Recession Fears
2019: May 1 - Jun 3	33	2954	2729	-7.6%	Trade War, Tariffs, Inverted Yield Curve, Global Slowdown/Recession Fears
2018: Sep 21 - Dec 26	96	2941	2347	-20.2%	Rising Rates, China Slowdown, Trade War/Tariffs, Housing Slowdown
2018: Jan 26 - Feb 9	14	2873	2533	-11.8%	Inflation Fears, Rising Rates
2016: Aug 15 - Nov 4	81	2194	2084	-5.0%	Election Fears/Concerns/Jitters
2015/16: May 20 - Feb 11	267	2135	1810	-15.2%	Greece Default, China Stock Crash, EM Currencies, Falling Oil, North Korea
2014/15: Dec 29 - Feb 2	35	2094	1981	-5.4%	Falling Oil, Strong Dollar, Weak Earnings
2014: Dec 5 - Dec 16	11	2079	1973	-5.1%	Falling Oil, Strong Dollar
2014: Sep 19 - Oct 15	26	2019	1821	-9.8%	Ebola, Global Growth Fears, Falling Oil
2014: Jan 15 - Feb 5	21	1851	1738	-6.1%	Fed Taper, European Deflation Fears, EM Currency Turmoil
2013: May 22 - Jun 24	33	1687	1560	-7.5%	Fed Taper Fears
2012: Sep 14 - Nov 16	63	1475	1343	-8.9%	Fiscal Cliff Concerns, Obama's Re-Election
2012: Apr 2 - Jun 4	63	1422	1267	-10.9%	Europe's Debt Crisis
2011: May 2 - Oct 4	155	1371	1075	-21.6%	Europe's Debt Crisis, Double-Dip Recession Fears, US Debt Downgrade
2011: Feb 18 - Mar 16	26	1344	1249	-7.1%	Libyan Civil War, Japan Earthquake/Nuclear Disaster
2010: Apr 26 - Jul 1	66	1220	1011	-17.1%	Europe's Debt Crisis, Flash Crash, Growth Concerns
2010: Jan 19 - Feb 5	17	1150	1045	-9.2%	China's Lending Curbs, Obama Bank Regulation Plan
2009: Oct 21 - Nov 2	12	1101	1029	-6.5%	Worries About The Recovery
2009: Sep 23 - Oct 2	9	1080	1020	-5.6%	Worries About The Recovery
2009: Jun 11 - Jul 7	26	956	869	-9.1%	World Bank Neg Growth Forecast; Fears Market Is Ahead Of Recovery
2009: May 8 - 15	7	930	879	-5.5%	Worries That Market Has Gotten Ahead Of Itself
Median	**26**			**-7.6%**	COMPOUND

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If you think things can get bad like the 1970's, then consider this:

	Average Annual CPI Changes	Fed Funds Rate	S&P 500 Total Return	10YR Treasury Return	High Dividend Yielding Stocks	Value Stocks	Nasdaq	AMCAP Fund	Energy Index	Precious Metals Index
1973	6.2%	9.0%	(14.3%)	3.7%	(14.3%)	(9.7%)	(31.1%)	(33.4%)	42.7%	60.7%
1974	11.1%	8.0%	(25.9%)	2.0%	(16.6%)	(23.4%)	(35.1%)	(28.5%)	230.7%	67.7%
1975	9.1%	4.9%	37.0%	3.6%	45.6%	52.1%	29.8%	52.1%	0.3%	(1.3%)
1976	5.7%	5.9%	23.8%	16.0%	38.2%	49.9%	26.1%	30.4%	11.0%	(16.2%)
1977	6.5%	6.5%	(7.0%)	1.3%	2.7%	7.4%	7.3%	16.4%	10.3%	13.9%
1978	7.6%	10.0%	6.5%	(0.8%)	3.5%	9.1%	12.3%	22.4%	4.9%	27.3%
1979	11.3%	14.0%	18.5%	0.7%	18.5%	27.9%	28.1%	51.9%	114.2%	72.2%
1980	13.5%	18.0%	31.7%	(3.0%)	19.7%	18.5%	33.9%	27.9%	20.8%	93.3%
1981	10.3%	12.0%	(4.7%)	8.2%	10.2%	12.9%	(3.2%)	6.2%	(0.2%)	(32.8%)
CAGR	**9.0%**		**5.3%**	**3.4%**	**10.1%**	**13.6%**	**4.3%**	**12.0%**	**35.8%**	**24.6%**

Note the years 1979 thru 1981, when the Fed Funds rate hit 18%. I bet you would have assumed the stock market would have declined in those years, yes? What might be the best inflation protection you can have? Owning businesses, real assets! Look at the returns of dividend paying equities in that period.

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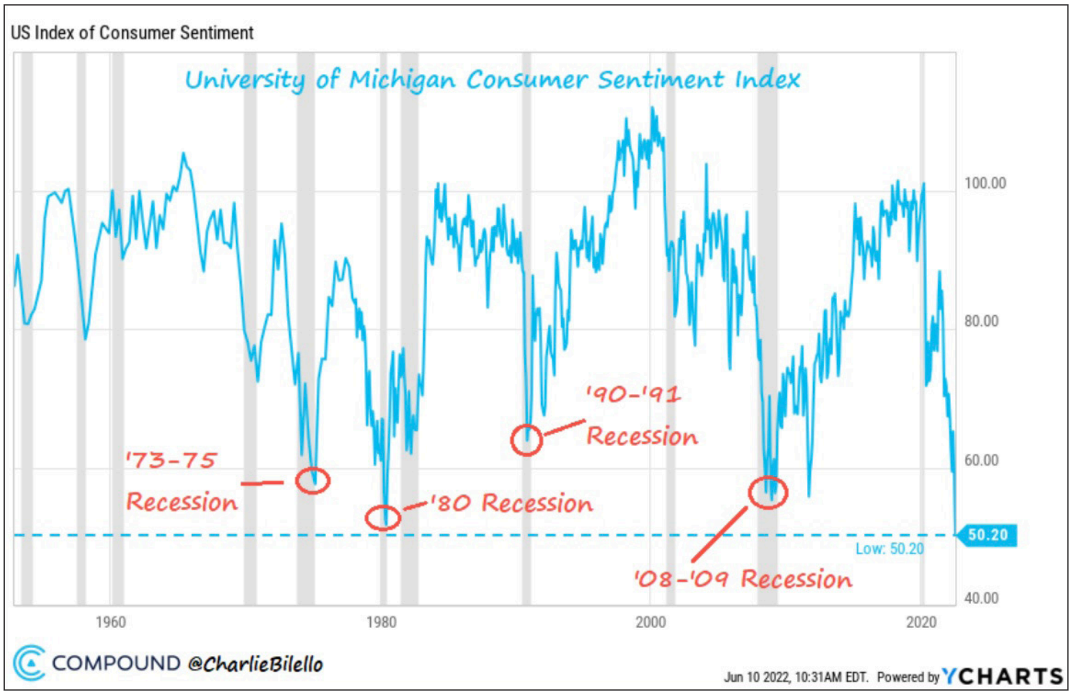
Another contrary indicator, straight from the it's so bad it can be good textbook! The University of Michigan Consumer Sentiment Index hitting its worst levels of ALL TIME. Of all the economic shocks, wars, recessions, terrorist attacks, and a pandemic, America seems to think right now is worse than all others. Isn't that strange?? The contrarian investor looks at it this way - if everyone is gloomy and feeling down and out (hard to believe with a robust job market), then they have likely sold their stocks and other "risk" assets because their expectations are so bleak. But once that perception changes, and it will, even if just on the margin, the investing public will once again buy and send share prices and other assets higher.



Volatility is NORMAL. Investing is complicated, as is life in general.

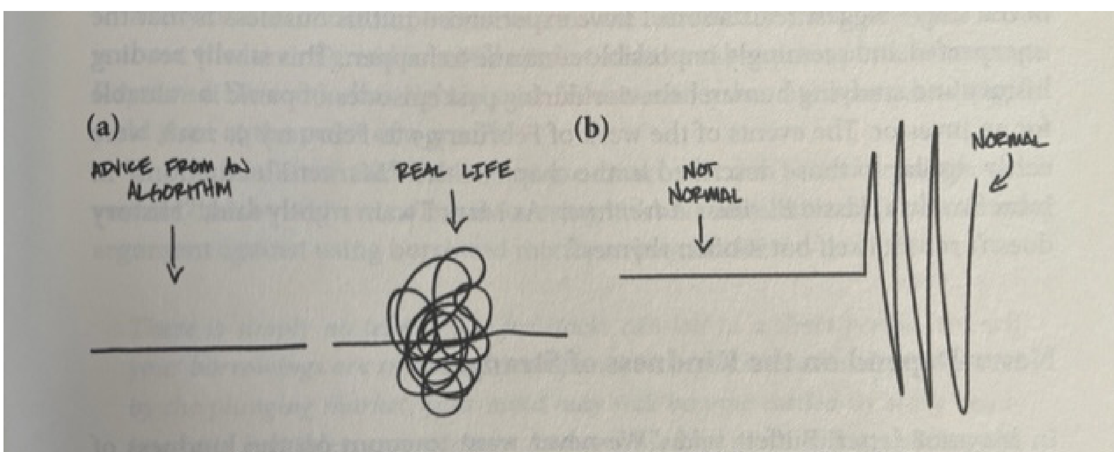
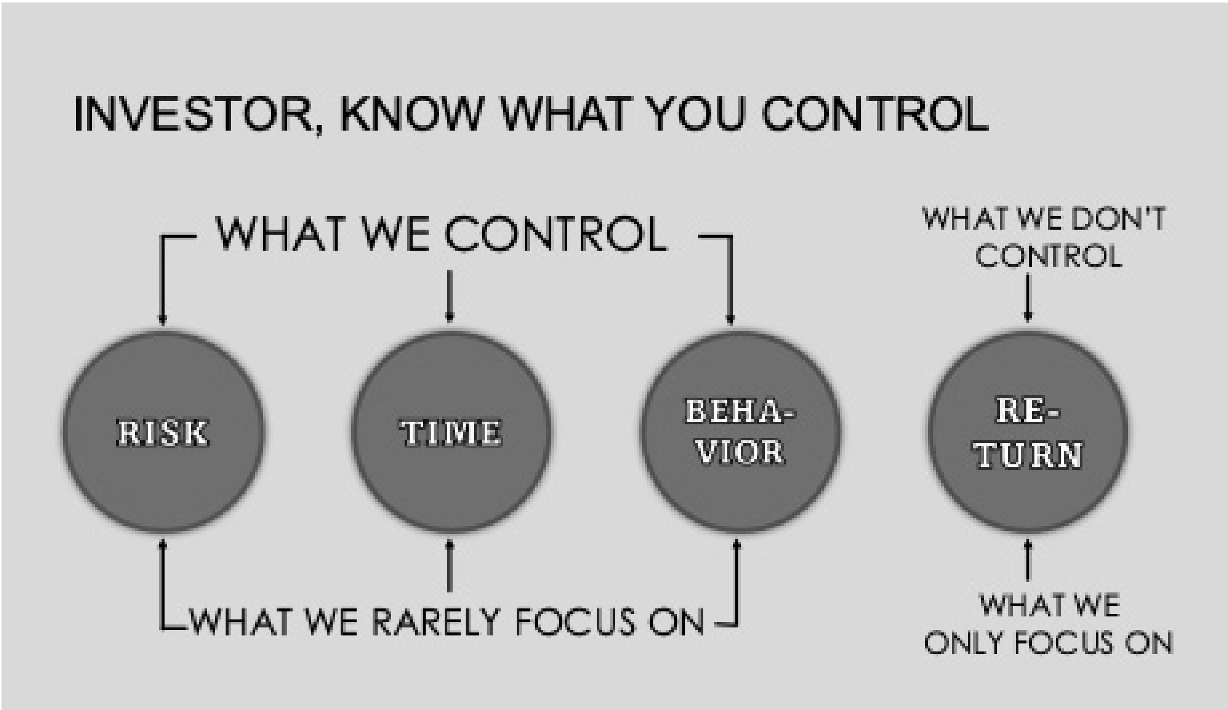


FIGURE 25.1 (a) Abrupt volatility is the norm in life and (b) financial markets.

Source: Behavior Gap.

Focus on what you can control: Risk, Time, Behavior.



What we don't control is the return, but this is what most people focus on!

As you know, we own a basket of quality businesses providing us an attractive and growing cash flow from their dividends. We also firmly believe these assets will continue to grow and prosper in the years ahead. CORDA is not a seller in these markets, we are comfortable with what we own and if cash is available, we will take advantage of lower prices and be a buyer.

From the Desk of Randy Kratz, *CORDA's Director of Financial Planning*:

Re-visiting your financial plan can help maintain your confidence that you're still on track to live the lifestyle you desire regardless of what the economy may throw at you. We can illustrate the potential effects of inflation, possible cuts in Social Security or pensions, recessions, potential long-term care costs and more. If you would like to update your plan, or initiate a plan, please contact your relationship manager.