CORDA

TOGETHER WE'RE INVESTED

What Have We Learned

December 29, 2023

As we embark on another year, we were reminded by one of our clients that their favorite letter from us was back in 2018 when we asked the entire CORDA team to reflect on their own personal failures and successes as investors, and more specifically, to find out what they had learned over the years as investors that helped them be more confident and capable with their money. In the pages that follow, we will share many of their thoughts and in many cases, direct quotes from others we recognize then and now as legendary investors. For example, Charlie Munger (Warren Buffett's trusted colleague) recently passed away, but some of his financial acumen and pearls of wisdom will be presented below as we expand on what we wrote in 2018. Our goal was to collect these various ideas and thoughts and write them down so that we could all refer to them on occasion, knowing full well there will be a time and place when the market is choppy, the news headlines scary, and the tendency will be to change your strategy at a less than opportune time. The following gems and nuggets might cause you to step back and be more measured in your response to a landscape that is constantly changing.

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.

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

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)

The price of admission to earning those long-term equity returns is having to accept that corrections and bear markets are inevitable. (Morgan Housel)

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)

If it looks like a bubble, smells like a bubble, it is a bubble. (meme stocks, alt coins, cannabis stocks)

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 expectations 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)

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)

Every time you hear EBITDA, just substitute it with bulls--. (Charlie Munger)

If you are shopping for common stocks, choose them the way you would buy groceries, not the way you would buy perfume. (Ben Graham)

All intelligent investing is value investing — acquiring more than you are paying for. You must value the business in order to value the stock. (Charlie Munger)

Mr. 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."

Investor Psychology

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.

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

Things that have never happened before happen all the time. (Morgan Housel)

Conservative investors sleep well. (Phil Fisher)

In investing, what is comfortable is rarely profitable. (Robert Arnott)

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)

Whatever method you use to pick stocks or stock 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)

If I can be optimistic when I'm nearly dead, surely the rest of you can handle a little inflation. (Charlie Munger)

Bloomberg invited me on the air Friday morning and the anchors mostly asked one version or another of: "does the market 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? Here's what I write in "It's Not Easy" in September and included in "On the Couch":

Especially during downdrafts, many investors impute intelligence to the markets 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)

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)

Debt is slavery, financial independence is freedom.

Desperate sellers sell cheap, never borrow and invest.

The most valuable currency is a good reputation. (Ian Cassel)

Controlling your time is the highest dividend money pays. (Morgan Housel)

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 Bown, 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)

The best armor of old age is a well spent life preceding it. (Charlie Munger)

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 gem 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 you have enjoyed these quotes and pearls of wisdom. Please refer to them often! Have a peaceful and prosperous 2024 and we'll talk to you soon!

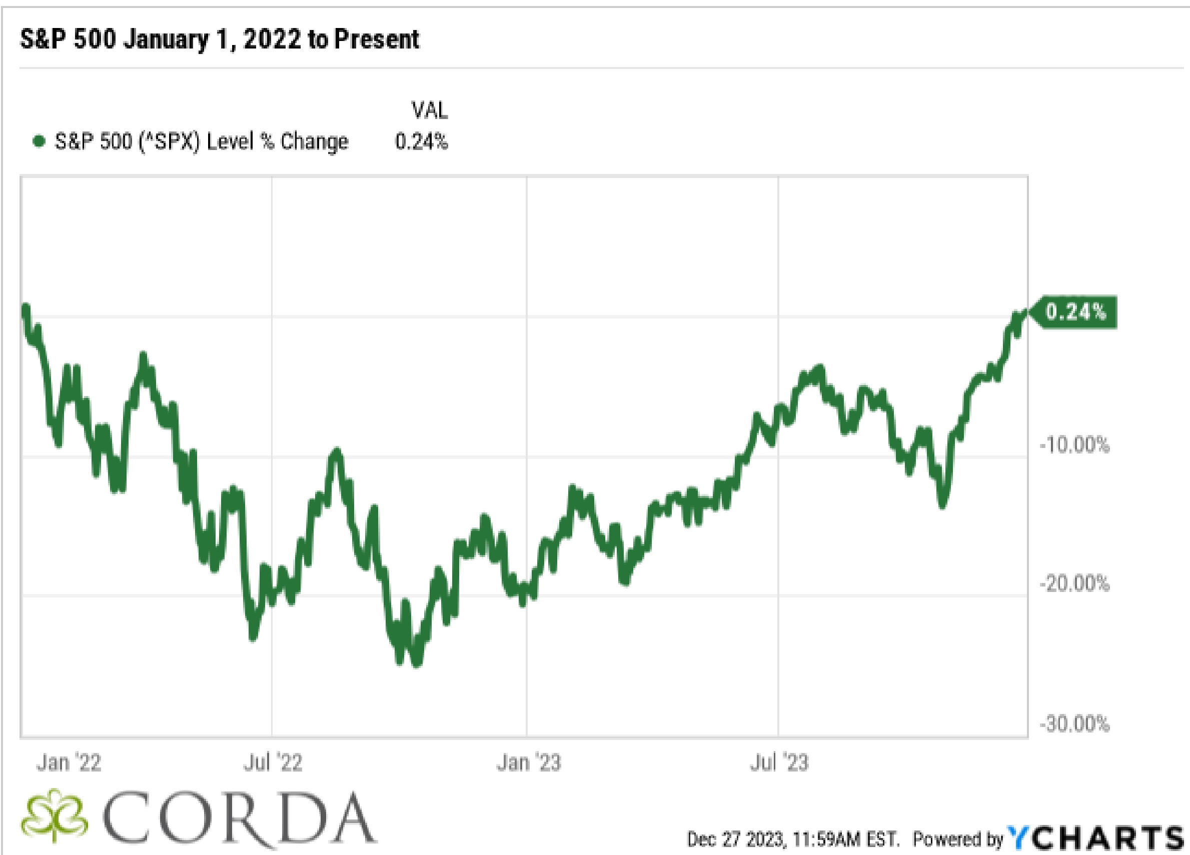
All the best,

The CORDA Team

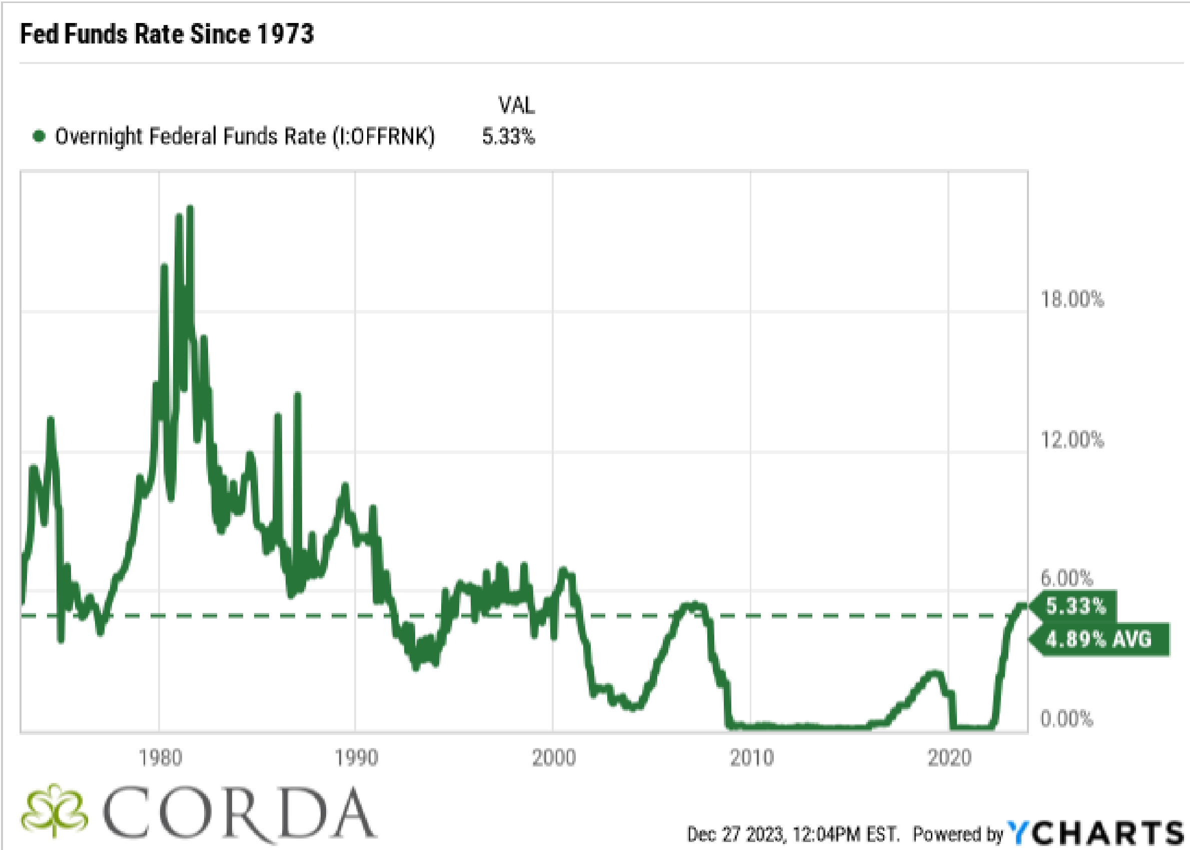
Notes From the Portfolio Team:

A sideways market:

With so much focus on the past year, many have forgotten how difficult it was in 2022, when we had an old-fashioned bear market, with the S&P 500 down over 20% and the Nasdaq down over 30%. When you string both years together, it's been a virtual dead heat over the past 24 months.



The uncertainty around interest rates was the dominant story for the capital markets in 2023. Perhaps not since the 1970's when inflation and high interest rates were the crisis du jour – has monetary policy affected investment outcomes in such a pronounced way. Yet, perception sometimes is reality. Even though we've been arguing that 5% interest rates are normal, market sentiment was dour, and many investors were nervous as they have seen fed funds move up from near zero to over 5%. That said, the overnight federal funds rate has averaged 4.89% for the past fifty years:



Interestingly enough, company and individual balance sheets are mostly healthy, unemployment remains low, and the prevailing negativity about the economic environment may be misplaced. As we move into 2024, the headwinds from a hawkish Fed may be lessening. Jay Powell & friends have been declaring some recent victories in their effort to bring down inflation, so the likelihood of any further interest rate hikes has diminished. The next change may be lower. That said, this time last year, if you recall, the expectation of the imminent recession was on everybody's minds, and most, if not all, Wall Street strategists were forecasting a tough year for 2023. We wrote about this in our Dec 30th letter in 2022. Isn't it always fascinating to see the consensus proven wrong? It seems like the 2024 stock market forecasters are bunched up around a modest gain of somewhere between 5 and 10%. So, typical of what usually happens, maybe we should be looking for a result outside of those bands!

Remember, the odds favor the long-term investor as about 75% of years the market moves higher. Since 1926, the S&P 500

- Up 56% of the time on a daily basis.
- Up 63% of the time on a monthly basis.
- Up 75% of the time on a yearly basis.
- Up 88% of the time on a five-year basis.
- Up 95% of the time on a ten-year basis.
- Up 100% of the time on a 20-year basis.

The takeaway from these statistics could be: if I don't need the money for another ten years, why worry?!

The broad market weakness that we have been discussing in 2023 outside of the Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) was also a dominant feature to this year's narrative. With seven businesses making up about one-third of the S&P 500, we remind ourselves how we have seen this before over long market cycles. The winner takes all can dominate in the short run, but it is not a winning bet in the long run. At some point the narrow market supremacy may end to the benefit of many overlooked securities.

What is startling, we'll say it another way, is that the total market cap of the Magnificent Seven is now three times the size of every single stock in the Russell 2000 index combined – making just seven stocks the equivalent of 6,000 small-cap names. On average, forty-seven analysts follow the typical Magnificent Seven stock versus just five for a small cap name. Nine percent of small caps have no followers at all. Less coverage means more inefficiencies and thus, more opportunity. Stocks ultimately trade on fundamentals and once those fundamentals shine through, share prices will rise.

You might ask, how will CORDA manage as we face down the 2024 uncertainties? Effectively, we will stick to our discipline of assessing value and buying/owning when we perceive mispricing. Rather than call tops or bottoms, we will buy or add to businesses when they are in our buy zone based on our qualitative and quantitative modeling. We will lean into where we have the highest conviction with companies that we deem to have the sturdiest competitive advantages and durable products and services. We like to go against the grain of the markets myopia and acquire businesses when they are out of favor or when short-term over reactions provide attractive entry points.

As you can guess, we don't believe anyone has the answers to the various macro questions. We will stay well informed of the analyses and forecasts of smart and experienced experts on these issues, but the range of plausible projections and outcomes is so wide that you could drive a truck through them. We will continue to be disciplined and focus on what is evident, revenues, earnings, and dividends. The fundamentals will win out at the end of the day.

As we mention above, don't bet against America. The market has become more optimistic as the year has wound down. We still see plenty of value beneath the surface. There are concerns that we will face in 2024; two terrible wars, congressional dysfunction and a Presidential election year, a border emergency, and continued worries about the economy and that annoying recession that hasn't materialized. As Warren Buffett says, "Of course the immediate future is unknown; America has faced unknowns since 1776, periodic setbacks will occur, but investors and managers are in a game heavily stacked in their favor." We will meet these and other concerns that arise head on! One crucial point, the obvious concerns and noise is unlikely to be what drives returns in 2024. The election or what the Fed does will matter, but it will be the surprise, the unknown of unknowns, which will likely have more influence. Our plan will be to make sure we own strong businesses built for every economic condition and to have a high degree of certainty the dividends they pay are secure, and even more importantly, these dividends have the likelihood of increases as the year ahead unfolds. Bottom line, increasing cash flows will drive value in the long run.

Thank you for the trust you have placed in CORDA over the years, and remember, we are invested together. As 2023 comes to a close, we wish you a happy, healthy, and prosperous new year!

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