CORDA

TOGETHER WE'RE INVESTED

TIMING IS EVERYTHING and NOTHING

March 28, 2024

We are writing this letter on the opening weekend of the NCAA Men's and Women's Basketball tournament, affectionately and commonly known to most as March Madness. It seems like a wide swath of Americans take part in filling out a bracket with the goal to predict the winner of each game throughout the entire tournament, with the overall intent of having the final pick still standing at the end. On the Men's bracket, there are sixty-eight teams at the starting line and usually by the second day of the tournament, there is not a single entry out of the millions that were submitted that had predicted every game correctly. Every year, there is normally a big upset win by a lowly seeded team or many times a small or unknown school captures the attention of the sporting public as they make a magic run to the sweet sixteen. However, when the tournament runs its course and arrives at the semi-finals, typically those seeded 1 and 2 are usually the teams who make it to the final four. Usually there are big upsets and always a special team that captures the hearts and minds of the rooting public, but the Cinderella story isn't worth basing your entire bracket on. It's the favorites that typically win out.

Knowing what we know about March Madness brackets, maybe you are asking, "Is there a narrative here that we can apply to the capital markets?" Indeed! In the world of value investing, there are two different types of investors. Members of the "deep value" school are classical contrarians, investing at what they believe to be a wonderful price generally measured against a few financial metrics such as book value or price to earnings with the expectation that the multiple will revert to a long-term average. In contrast, there are other value managers who seek "high quality" businesses with less focus on the statistically inexpensive versions but more so seeking durably profitable and predictable ones trading at sensible prices and owning them for the long run. Warren Buffett and other investors focus on owning companies that are consistently profitable, with steady growth in earnings and a reasonably predictable long-term future. Both versions of value investing can perform admirably over lengthy periods of time. But we at CORDA fall more in the camp of owning the "high quality" businesses bought at reasonable prices.

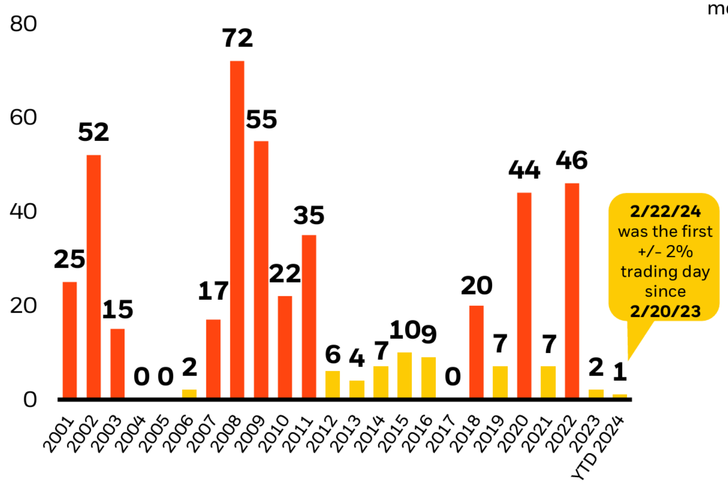
But why have these investors succeeded? As so often is the case with investing, it's all about the benefit of time. Time is the friend to the wonderful business and the enemy to the mediocre business. Identifying high quality companies, knowing when to buy them, and having the patience to hold them, is not easy, but also not impossible. Some companies operate predictable businesses with a competitive advantage and a long runway. If a business has had consistently high profitability, and has an identifiable competitive advantage, there is a good likelihood that this will continue. This allows the company to reinvest its profits to earn more profits. A history of steadily growing earnings increases the predictability of future growth. When looking at the NCAA Basketball tournament from this lens, you are typically rewarded by choosing the highest quality teams as opposed to trying to spot the long shot and putting your chips on Cinderella.

2024 is off to a good start. We haven't had much volatility in the first three months of the year, despite the potential economic, social, and political scenarios that are ever present. A study by Blackrock and released in their March **Student of the Market** edition, we find that low volatility years have far superior returns to high volatility years. See here:

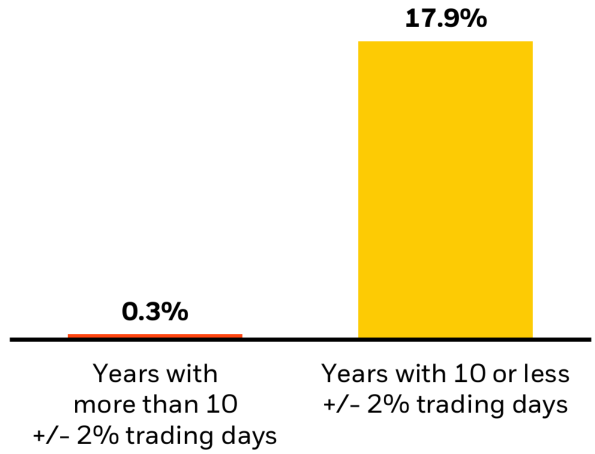
STOCK MARKET VOLATILITY

Stock volatility has remained low

Number of single day stock market returns of +/-2% or more
S&P 500, past 20+ years by calendar year (1/1/01 - 2/29/24)



Lower volatility has typically resulted in much stronger returns
Average returns for the year based on the number of +/-2% (or more) trading days since 2001, based on calendar years



Source: Morningstar as of 2/29/24. Stock market represented by the S&P 500 TR Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

Thus far we've had low volatility, but as seasoned investors, recall we are here to embrace corrections and pullbacks and use them to our advantage. How many times have you heard us say that?! The price of admission to obtain the long-term equity return of the stock market is knowing there will be down periods. For example, going all the way back to 1928, the average intra-year drawdown is -16.4%. We must expect and understand corrections are normal. And the next one could be around the corner. See next page:

Cost of Admission to the Equity Market Return: Average intra-year drawdown of -16.4% since 1928

S&P 500 Index: Max Intra-Year Drawdowns vs. End of Year Total Returns (1928-2023)

Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR
1928	-10.3%	43.8%	1948	-13.5%	5.7%	1968	-9.3%	10.8%	1988	-7.6%	16.6%	2008	-48.8%	-37.0%
1929	-44.6%	-8.3%	1949	-13.2%	18.3%	1969	-16.0%	-8.2%	1989	-7.6%	31.7%	2009	-27.6%	26.5%
1930	-44.3%	-25.1%	1950	-14.0%	30.8%	1970	-25.9%	3.6%	1990	-19.9%	-3.1%	2010	-16.0%	15.1%
1931	-57.5%	-43.8%	1951	-8.1%	23.7%	1971	-13.9%	14.2%	1991	-5.7%	30.5%	2011	-19.4%	2.1%
1932	-51.0%	-8.6%	1952	-6.8%	18.2%	1972	-5.1%	18.8%	1992	-6.2%	7.6%	2012	-9.9%	16.0%
1933	-29.4%	50.0%	1953	-14.8%	-1.2%	1973	-23.4%	-14.3%	1993	-5.0%	10.1%	2013	-5.8%	32.4%
1934	-29.3%	-1.2%	1954	-4.4%	52.6%	1974	-37.6%	-25.9%	1994	-8.9%	1.3%	2014	-7.4%	13.7%
1935	-15.9%	46.7%	1955	-10.6%	32.6%	1975	-14.1%	37.0%	1995	-2.5%	37.6%	2015	-12.4%	1.4%
1936	-12.8%	31.9%	1956	-10.8%	7.4%	1976	-8.4%	23.8%	1996	-7.6%	23.0%	2016	-10.5%	12.0%
1937	-45.5%	-35.3%	1957	-20.7%	-10.5%	1977	-15.6%	-7.0%	1997	-10.8%	33.4%	2017	-2.8%	21.8%
1938	-28.9%	29.3%	1958	-4.4%	43.7%	1978	-13.6%	6.5%	1998	-19.3%	28.6%	2018	-19.8%	-4.4%
1939	-21.2%	-1.1%	1959	-9.2%	12.1%	1979	-10.2%	18.5%	1999	-12.1%	21.0%	2019	-6.8%	31.5%
1940	-29.6%	-10.7%	1960	-13.4%	0.3%	1980	-17.1%	31.7%	2000	-17.2%	-9.1%	2020	-33.9%	18.4%
1941	-22.9%	-12.8%	1961	-4.4%	26.6%	1981	-18.4%	-4.7%	2001	-29.7%	-11.9%	2021	-5.2%	28.7%
1942	-17.8%	19.2%	1962	-26.9%	-8.8%	1982	-16.6%	20.4%	2002	-33.8%	-22.1%	2022	-25.4%	-18.1%
1943	-13.1%	25.1%	1963	-6.5%	22.6%	1983	-6.9%	22.3%	2003	-14.1%	28.7%	2023	-10.3%	26.3%
1944	-6.9%	19.0%	1964	-3.5%	16.4%	1984	-12.7%	6.1%	2004	-8.2%	10.9%			
1945	-6.9%	35.8%	1965	-9.6%	12.4%	1985	-7.7%	31.2%	2005	-7.2%	4.9%			
1946	-26.6%	-8.4%	1966	-22.2%	-10.0%	1986	-9.4%	18.5%	2006	-7.7%	15.8%			
1947	-14.7%	5.2%	1967	-6.6%	23.8%	1987	-33.5%	5.8%	2007	-10.1%	5.5%			

Note: Closing Prices for Drawdowns as of 12/31/23
(does not include intra-day or dividends.)

CORDA
TOGETHER WE'RE INVESTED

Why are we reminding you that the market doesn't go straight up in a linear fashion? Recall, many times in the past we have shared contrarian signals when the market was down, and investors were too pessimistic. We might be seeing the other side of that equation right now, with some overly bullish signals hitting the tape. For example, the Bank of America Fund manager survey out last week clearly reflected growing optimism as fund managers reported that their allocations to equities rose to a net 28% overweight, up from a net 21% overweight reported in February. This is the fifth straight month of managers reporting an overweight in equities after an 18-month period of underweight that ended in October. Here's the doozey: The March survey's broadest measurement of sentiment, which is based on cash levels, economic growth expectations and equity allocations, rose to 4.6 in March from 4.3 in February. It is the highest level of bullishness recorded by the survey since January 2022. Note the timing of that high bullish reading, right before the market had a substantial decline in 2022.

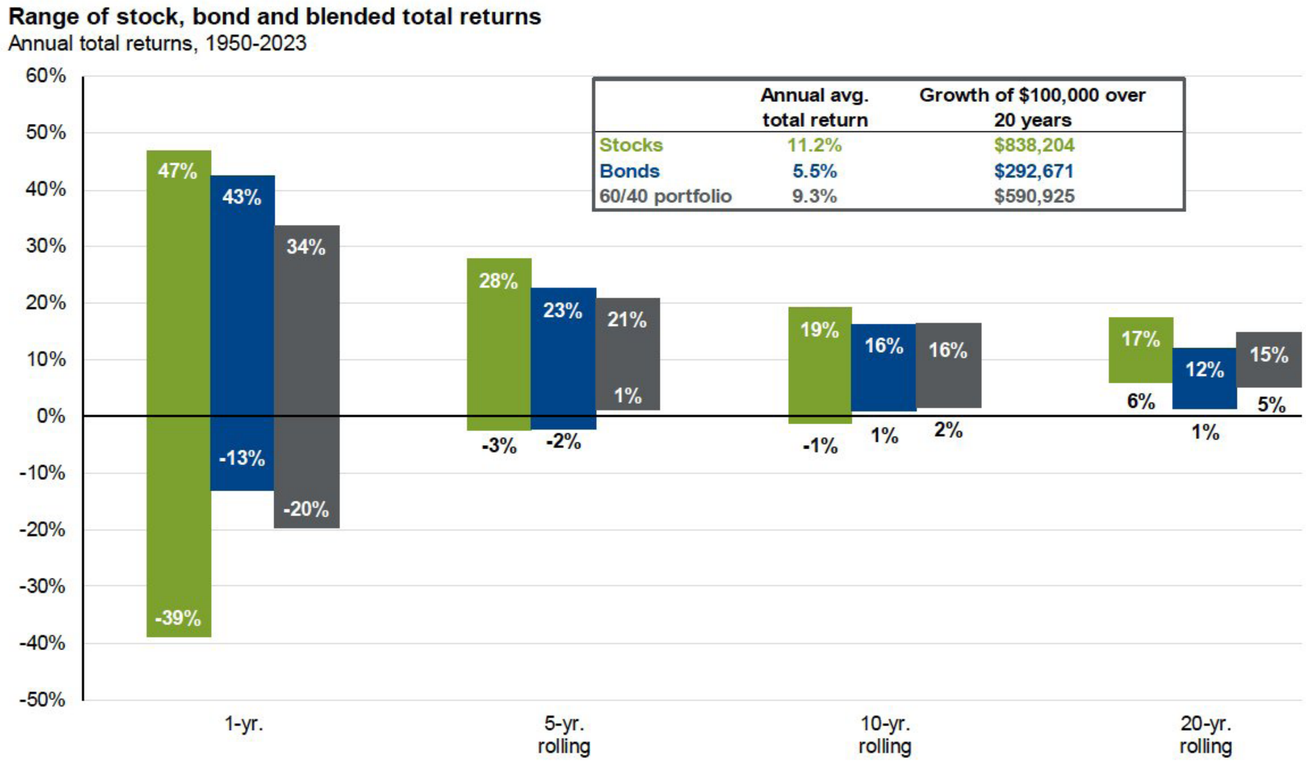
Another contrary indicator if one were looking for additional signs could be the early March 2024 **Economist** magazine cover story titled: "How High Can Markets Go?" Some would argue that an esteemed publication such as the Economist placing an overtly bullish cover story would be cause for concern. That said, we might suggest it would be more of a concern if it came from a non- financial magazine and something more broadly based such as People or Time magazine. (Do they still exist?)

Of course, a few cherry-picked examples from above do not make a strategy!

We are conditioning our muscle memory to expect and plan for difficult periods, but what about strategically investing today when the market is trading near all-time highs? We have good news for you.

Many long-time investors and pundits are comparing today's Artificial Intelligence (AI) frenzy to the dot com bubble era of 1999-2001. So, what if you had invested at the very peak in March of 2001, you'd be up a very respectable 553%, or 8.5% annualized, as compared to the investor with perfect timing buying at the bottom in October 2002 who would have achieved an 11.1% annual return. Not convinced, then fast forward to The Global Financial Crisis (GFC) and assume you had bough at the exact peak on October 9, 2007 – your return since then would have been 355% or 9.7% annualized, even though you would have suffered a 50% decline right out of the gate! Time is your friend.

Obviously, the longer you are invested, the better the odds of success. The reality is you must have the discipline to buy no matter what. If you wait for "just the right time to buy," you will likely never enter the market whatsoever. If you are uncomfortable investing a hefty sum today, you can dollar cost average or slowly wade into the market and focus exclusively on buying securities that are on sale and not chasing those which have hit near term highs. The best time to buy a business is when you have cash that you do not need for the next few years. No other factor, signal, astrological sign, second derivative, pundit, or indicator is necessary. Time is your friend - see here how you will likely achieve nice returns once your holding period goes from 5 to 10 to 20 years:



Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2023. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2023.
Guide to the Markets – U.S. Data are as of January 31, 2024.

J.P.Morgan
ASSET MANAGEMENT

The above chart shows the strong returns of holding equities but notice how the 60/40 portfolio is not one to sneeze at. We have been suggesting those with conservative and moderative objectives to take advantage of the good yields we are now seeing in parts of the bond market. We are firmly in the camp that the current stance by the Federal Reserve of "higher for longer" interest rates is appropriate, and we do not wish for rates to decline dramatically like some pundits are hoping for. A large decline in interest rates could signal a rather harsh economic environment. Investors have been waiting for a recession for over two years now, but when will they get one?

The biggest risk to a good plan is pursuing a perfect one. Have you heard that saying before? So, as we approach the remainder of the year, instead of trying to time the perfect sell or thinking you might have the crystal ball to invest at the bottom of the next correction, focus more on the norms and less on the exceptions. This is more likely to lead to a successful outcome. The market will ebb and flow, use it to your advantage. The Pareto Principle can be applied here to emphasize this point further. It states that 80% of an outcome comes from 20% of the work (also known as the "80/20" rule). Within this context, 80% of your return is often explained by just being invested. Mess around with this too much, and the bulk of your return could be at risk.

We'll continue to be good stewards with your hard-earned assets and will be invested right alongside of you as we navigate the years ahead.

Best wishes from the entire CORDA team.

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