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## Owning Businesses for the Long Run

June 30, 2025

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The secret to growing wealth was spelled out by Benjamin Graham over 90 years ago: “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, as we all know, is managing our emotions. It takes fortitude to avoid getting discouraged in the short term and to maintain ownership in businesses that might be temporarily out of favor price-wise. This is especially true today, in an environment driven by daily headlines that can send the market up or down 1% in a single session. Whether it’s Fed policy, economic numbers, or geopolitical events, we as investors stand to gain the most by not overreacting and staying calm despite the constant barrage of information.

As 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.” Investing is exactly like that! People who engage the market are often talented, smart, and well-educated. Where investors often fail is when they don’t follow through on a clear plan or strategy, or when their temperament gets the better of them, leading to irrational decisions, almost always at the wrong time. The more we understand our behavior and educate ourselves to become better investors, the more likely we are to achieve our financial goals.

### Our Investment Philosophy at CORDA

The purpose of our letter this quarter is to revisit our investment philosophy with you to help ensure your portfolio’s long-term success.

At CORDA, we aren’t in a horse race with the stock market. Our mindset is to buy well-managed businesses when they’re attractively priced. We focus on disciplined companies that exhibit strong shareholder characteristics, typically represented by a healthy dividend component of their profits. We also favor companies that time buybacks of their shares when their intrinsic value may be low.

We believe that value and growth are synonymous. Don’t let our appreciation for dividend payers suggest we aren’t seeking growing companies. The key for us is to own high-quality, predictable, stable businesses with strong balance sheets, run by extraordinary management teams, and purchased at the right price.

## Offensive vs. Defensive Investing: Learning from History

It's important to distinguish between being an offensive or defensive investor. In the late 1990s, the offensive investor often outpaced the defensive-minded one as many growth companies skyrocketed in price during the "internet bubble." For those involved in the markets back then, you may have made a fortune in 1998 and 1999. However, holding on for the subsequent few years could have meant losing it all, with a substantial downturn between late 2000 all the way through 2003. Many investors were "wrecked" during that time, and it took years to recover. If you had steered clear of those hot stocks, you would have fared significantly better. While the broad indices were down, many individual businesses thrived.

We saw a similar pattern more recently in 2021 and 2022 with what we called "meme stocks." Many experienced significant drawdowns and haven't recovered. 2022 overall was a steep bear market (Nasdaq down 32%, S&P 500 down 20%). Had you diversified into a value/growth portfolio with a dividend component, the decline would have been shallower.

We often find that high-quality companies trade at a premium. Consequently, we exercise patience, allowing market cycles to drive their prices into what we term our "buy zone." This typically happens during market downturns, when valuations fall below average. For companies offering dividend payouts, their yields simultaneously drift higher in such scenarios. Acquiring shares at a low price point can result in substantial future gains. We generally do not anticipate immediate profits, holding the conviction that the economic or capital market cycle necessitates a 3-5 year time horizon.

As a strategic measure, our initial investment amount is precisely calculated, usually representing approximately half of our intended long-term holding. This provides us with the flexibility to accumulate additional shares should the price continue to decline, provided the underlying fundamentals remain robust and we deem the situation temporary. Conversely, an immediate recovery in share price, while yielding a favorable short-term paper profit, can be a source of internal frustration, as it limits our ability to achieve our full desired ownership. This particular nuance is often overlooked.

It's the good old-fashioned sine wave - the ebb and flow. There will be expansions and recessions, good markets and bad, positive or negative economic, social, or political news along the way - all of which are very difficult to predict. But if we can identify a healthy, sound, and well managed business, we believe the management team can navigate whatever economic circumstances they find themselves in and properly execute a plan to be successful.

## Offense and Defense: Our Total Return Objective

This means taking the "macro" things out of the equation and simply standing on the side of companies navigating a course for future prosperity, no matter how often and how much the economic and political surroundings may change. Sometimes we describe ourselves with the sporting analogy: "Offense wins games, defense wins championships."

That's why we emphasize how our total return objective contains both a defensive and offensive mindset. Capturing those important dividends doesn't take second place to our goal of finding attractive opportunities where significant capital gains can also be achieved. Dividend growth investing is a long-term strategy that uses the power of compounding to outperform over the long term.

Most investors know that investing in equities is the best way to generate wealth – by investing, not trading. But many people can't deal with the volatility. The daily price swings can feel like a rollercoaster ride. When the stock market dropped 20% this past April, many investors fled. Some tried and true contrarian market indicators hit record highs as many sold or got liquidated. Those who moved to cash are now looking back and asking themselves if they did something wrong. Recall one of our favorite quotes from Morgan Housel: "All past declines look like opportunity and all future declines look like risk." If you've ever listened to or watched one of John's presentations, that quote is represented in virtually every single one!

Here's a piece from our friends at First Trust showing crises and events of significance since 1970 and the resulting temporary declines followed by the recoveries:

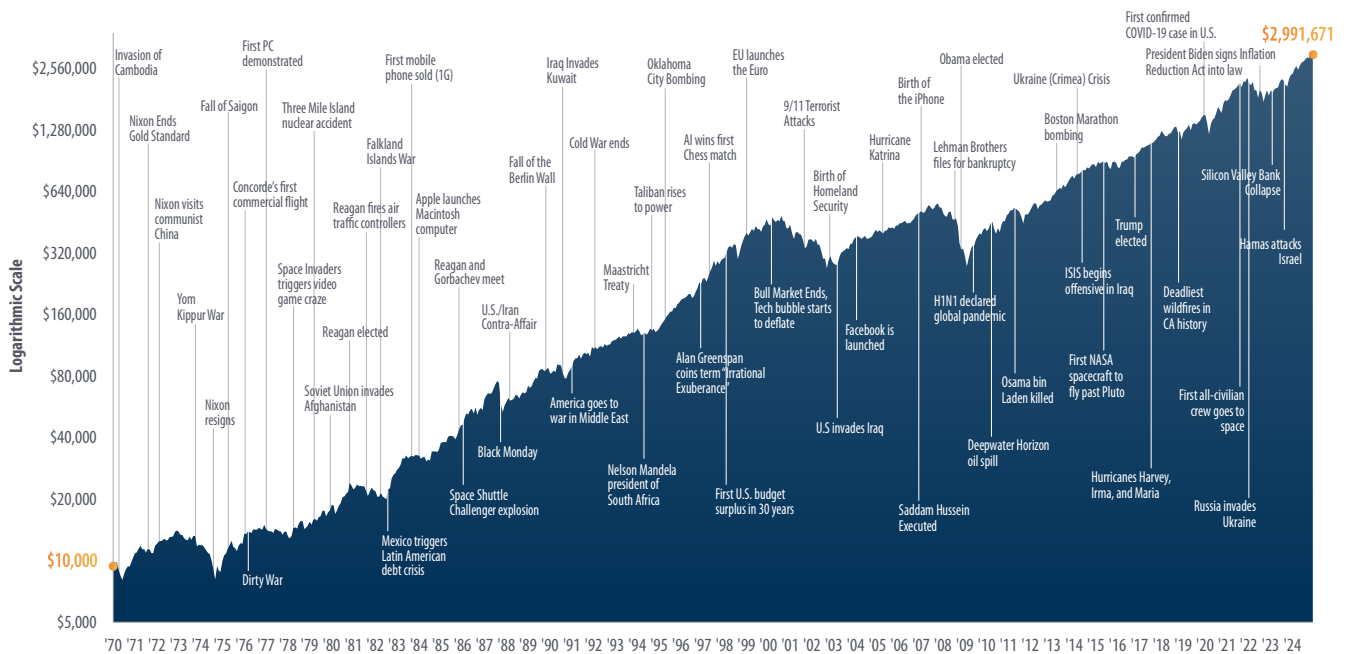
## Crises and Events



S&P 500 Index: Since 1970

This chart shows the growth of \$10,000 based on S&P 500 Index performance over the last several decades. We believe looking at the market's overall resiliency through major crises and events helps to gain a fresh perspective on the benefits of investing for the long-term.

**The average annual total return of the S&P 500 Index for the period shown below was 10.92%.**



Source: First Trust, Bloomberg. Data from 12/31/1969 - 12/31/2024. **Past performance is no guarantee of future results.** This chart is for illustrative purposes only and not indicative of any actual investment. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Stocks are not guaranteed and have been more volatile than the other asset classes. These returns were the result of certain market factors and events which may not be repeated in the future.

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## Understanding Risk: Shallow vs. Deep

In a nutshell, we're looking to own businesses that generate profits and create dependable cash flows without having to worry about what Congress or the head of the Federal Reserve might do or say. We accept that there are risks when investing with "known unknowns." But we will use 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.

Famous 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 businesses!

Speaking of risk: 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 a change in temperature, the mood swings of a teenager, or how quickly a golf game can go from good to bad. 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 lead to permanent loss. Selling a security when it’s down significantly or when the market is in decline will expose you to deep risk.

Ownership of high-quality businesses with wide economic moats and substantial balance sheets comes with a 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, as you increase the number of holdings and diversify across thirty or more entities, the chance of permanent loss via any one business is dramatically mitigated. This is central to our thinking: a value and growth investor should only be in high-quality businesses for the long term. The added bonus of those which pay a steady and potentially increasing dividend stream will enhance a portfolio of businesses, where the whole collection should lead to a successful end result.

## Looking Ahead

As always, we appreciate your patience and conviction thus far in 2025. It’s been a fairly noisy and bumpy year, and it’s hard to imagine the noise level subsiding any time soon. Be that as it may, the markets will reward us in due time, and don’t forget we are invested right alongside you and plan to reap those gains in the years ahead!

Have a great summer,

The CORDA Team

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