FALL 2018 ISSUE

Donaldson CAPITAL MANAGEMENT

RISING DIVIDEND REPORT

Security ▪ Income ▪ Growth ▪ Service

QUARTERLY QUICK FACTS

Don't have time to read the investment letter from the IPC? Here are your 5 Quick Facts:

1 Dating back to the early 1900s, the seven most undervalued markets at the beginning of a president's term, regardless of political affiliation (four Republican, three Democrat), all produced above average returns.

2 On average, first-term presidents have lost nearly 29 seats in the first midterm elections.

3 Dating back to 1994, during midterm election years, the S&P 500 has declined in value from January to October by roughly 3% on average.

4 Since 1962, stocks have increased by 15%, on average, during the 12 months following midterm elections.

5 The first Fed increase in the current tightening cycle was nearly 3 years ago. It began in December of 2015 and the Fed has now increased the Fed Funds Rate .25% on eight different occasions. We continue to closely monitor for future moves.

A New Milestone

DCM now manages $1.5 billion

THIS PAST MONTH, DCM reached an important milestone. Wrongly or rightly, in the investment industry, firms like ours are measured by the assets they have under management – AUM. DCM began 23 years ago, managing $80 million for about 80 clients. Over time, you have referred so many people you care about that today we manage more than $1.5 billion for 1,100 clients.

Not long ago, one of our younger employees asked whether I found DCM's growth exciting. I had to answer truthfully, "No. It scares me to death." Please don't let that alarm you. We are fully up to the task. My comment simply is a reflection of the wonderful responsibility we carry. We get it. This $1.5 billion is ***your*** money. Your family's future is tied closely to how well everyone at DCM makes wise decisions, puts your interests ahead of our own, and helps you navigate your financial landscape.

So, yes, a new milestone. In the whole scheme of the investment industry, however, DCM remains small. Growing the way we have has allowed us to add bright, caring people to our staff. More importantly, it has enhanced our ability to serve you. We love the numbers, but only because they allow us to improve our services and add capabilities. Some you see and some you don't.

We would love to keep on growing. It tells us we are on the right path with you. We've never made cold calls. We only go where our clients refer us. If you're happy, we're happy. And if that means we keep growing, that's just icing on the cake.

MIKE HULL
PRESIDENT & SENIOR PORTFOLIO MANAGER

HSA – Triple Tax Advantage

FOR MANY AMERICANS, health care is likely to be among their largest expenses in retirement. A 2018 Fidelity report estimates that a 65-year-old couple is estimated to need $280,000 to cover medical expenses throughout retirement.[1] Planning for retirement should be a top priority, and investing in a tax advantaged HSA for current or future qualified medical expenses may help you reach your retirement goals.

A Health Savings Account (HSA) combines high deductible health insurance with a tax favored savings account. An HSA allows account owners to pay for eligible and qualified healthcare expenses and save for these future expenses.

What are the benefits of an HSA?

Tax-deductible contributions. Contributions reduce income that would otherwise be subject to federal income tax. In most states, contributions are not subject to state income taxes either.

Funds roll over. They are not subject to the "use it or lose it" rule. Funds remain in your account from year to year, and any unused funds may be used to pay for future qualified medical expenses.

Tax-free withdrawals. Withdrawals are not subject to income taxes if they are used for qualified medical expenses.

Earnings are tax-free. Any earnings in the account are tax-free. Invest your contributions for the long term.

Named beneficiary. If you should pass away, the account can be passed to a named beneficiary and they would receive the same tax benefits.

Convenient. You can pay for medical expenses immediately with a debit card.

The IRS maximum annual contribution for 2018 is $3,450 for those individuals electing single coverage, and $6,900 for those electing family coverage. Individuals (each spouse) age 55 and older may contribute an additional $1,000 to their HSA in the calendar year.

According to the Employee Benefit Research Institute, 96% of HSA owners keep their accounts in cash. Although it can provide security in a volatile market, cash may be undercutting your HSA's growth potential. A better use of an HSA is as a long-term savings vehicle with investments like those found in other retirement accounts, while still retaining just enough cash for short-term expenses.

Your portfolio manager can help you determine the right HSA strategy for you.

1. www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs

POINTS VS. PERCENTAGES *DCM explains market changes*

IN LAST QUARTER'S LETTER, we explained the difference between the Dow, the S&P, and the NASDAQ. Now, let's discuss changes within these stock market indices. Often you'll hear, "the Dow was up **500 points**," or "the S&P was down **2%**." What's the difference and which one is best to pay attention to?

When you're talking about an index, a "point" is a weighted measurement. The weighting depends on which index you're talking about. The Dow Jones is weighted based on the share price of each company. As a result, the companies with a higher share price will have a larger impact on the overall movement. The problem with that is a higher share price does not necessarily correlate with the growth or success of a company when it's compared to the overall market. This can result in pricing of the Dow Jones that is misleading if you think it is representative of the overall market.

The S&P 500 and the NASDAQ are weighted by the actual size of each company, or "market cap." So, the larger the company, the more impact they have on the overall movement of the index.

When you hear how much an index moves each day, it's better to pay attention to the percentage change rather than how many points the index changed. As each index grows, any nominal change in points has less of an impact. If the S&P 500 gained 10 points 15 years ago, that would have been a 1.0% move. That same 10-point move today would be a 0.3% move. Or, if the Dow drops 500 points today, that's a much smaller percentage today than it was 50 years ago. As these indices grow, "points" mean less and less all the time.

We can't go without reminding you that day-to-day changes in the market are normal and to be expected. While it's great to be informed on investment lingo, our focus will always be on the market's long-term health and helping you reach your financial goals.

Politics & Your Portfolio

Politics can quickly become an emotionally charged topic. For the next few minutes, we ask you to join us in looking past our political leanings and simply examine what the data has to say about the impact politics have on the investment environment. If something within this message goes against your views, know that it may go against ours, as well. For now, let's put those aside to interpret the information. Lastly, if you find yourself disagreeing, please read through to the end. Our conclusion may surprise you.

Control, Valuation, and Uncertainty

Depending on which paper, cable channel, or website you view, you're likely to come away with differing opinions as to which political party is better for stock market returns. Like other political questions, this answer is complicated. For starters, better returns will mean something different to everyone. Does better mean highest? Best in terms of average? Highest with the least amount of volatility? As we sift through the information, keep three points in mind:

POLITICAL CONTROL. Importantly, there are several iterations of political control. Each comes with a different level of influence on the markets. For instance, the most control a party can hold happens when one party controls the White House, Senate, and the House of Representatives. This combination has greater control to implement their favored policies than a political party that controls the White House and just one chamber of Congress. A political party that has the White House, but doesn't control either the House or the Senate, has even less power to influence policies.

STARTING VALUATION. Second, each president or party entering office inherits an equity market that could be considered under or overvalued. Valuation plays a huge role in future returns.

UNCERTAINTY. Lastly, any political election brings some level of uncertainty. With uncertainty comes volatility. Markets will almost always react negatively when the level of uncertainty rises. Investors prefer knowing what to expect in the future so they can make educated choices with their investment dollars.

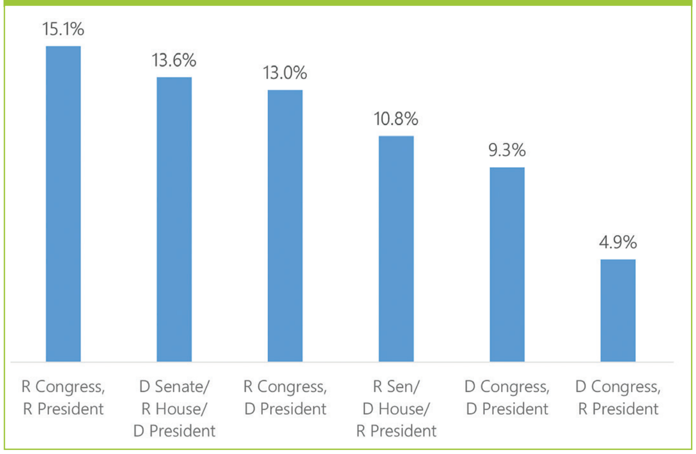
Stock Returns Under Differing Political Control

By design, our constitution purposely limits the powers of the president. And while we've seen a lot of data regarding equity returns under a particular president, we believe a better vantage point might be how the markets have performed under different combinations of House, Senate, and Presidential control.

The chart above, right illustrates the average annual return of the S&P 500 index under the six possible combinations of leadership.

UNIFIED CONTROL: From 1933 through 2016, the market has an average annual return of 15.1% under a unified Republican government. This compares to 9.3% on average under a unified Democratic government.

Partisan Control, Avg. Annual S&P Performance



Source: Strategas Research Partners, August 2018. Dates from 1933 to 2016, excludes 2001-02.

SPLIT CONGRESS: Democratic presidents with control of either the House or Senate have averaged 13.6% in annual returns. This compares to Republican presidents with a split Congress averaging just 10.8%.

PRESIDENT WITH OPPOSING CONGRESS: In the scenario where a political party has the least amount of control, we find that a Democratic president with a Republican Congress returned 13.0% versus a 4.9% for a Republican president and a Democratic Congress.

Looking at annual returns, one might conclude that it's best to have an all Republican government. And when government is divided, it's better to have Democratic leadership in the White House. Fairly simple right? Not so much. To understand more, we also have to consider the valuation of an equity market at the beginning of a president's term.

Presidential Terms and Equity Valuations

When it comes to valuing equities, there are many different opinions on how best to determine value. For our illustration to follow, we'll use Yale Professor and Economist Robert Shiller's Cyclically Adjusted Price-to-Earnings (CAPE) ratio as an approximation for value. Similar to the commonly used Price-to-Earnings (P/E) ratio, the CAPE ratio averages earnings per share over an entire business cycle (10 years) to give a longer-term view of market valuation. We don't rely upon this metric often, but we find it useful here when comparing presidential cycles going back to the early 1900s.

S&P 500 Return for Each President

President	R/D	Start	End	S&P Cumulative	S&P Annualized	Start CAPE	End CAPE	Multiple Growth
Bush II	R	Jan-01	Jan-09	-31%	-4%	37.0	15.2	-59%
Hoover	R	Mar-29	Mar-33	-67%	-24%	27.1	7.8	-71%
T Roosevelt	R	Sep-01	Mar-09	53%	6%	22.6	14.2	-37%
Nixon	R	Jan-69	Aug-74	-4%	-1%	21.2	10.4	-51%
Johnson	D	Nov-63	Jan-69	73%	11%	20.7	21.2	2%
Clinton	D	Jan-93	Jan-01	263%	17%	20.3	37.0	82%
JFK	D	Jan-61	Nov-63	27%	9%	18.5	20.7	12%
Obama	D	Jan-09	Jul-16	216%	17%	15.2	27.1	79%
Bush I	R	Jan-89	Jan-93	72%	15%	15.1	20.3	35%
Taft	R	Mar-09	Mar-13	24%	5%	14.2	12.7	-10%
Eisenhower	R	Jan-53	Jan-61	218%	16%	13.0	18.5	42%
Wilson	D	Mar-13	Mar-21	31%	3%	12.7	5.3	-58%
Truman	D	Apr-45	Jan-53	210%	16%	12.3	13.0	6%
Carter	D	Jan-77	Jan-81	57%	12%	11.4	9.3	-19%
Ford	R	Aug-74	Jan-77	41%	15%	10.4	11.4	10%
Reagan	R	Jan-81	Jan-89	208%	15%	9.3	15.1	63%
FDR	D	Mar-33	Apr-45	301%	12%	7.8	12.3	57%
Coolidge	R	Aug-23	Mar-29	310%	29%	7.3	27.1	269%
Harding	R	Mar-21	Aug-23	33%	12%	5.3	7.3	39%
				Averages	***9.5%***	***15.9***	***16.1***	***21%***

Source: "Presidents, CAPE Ratios, and Stock Market Returns", Pension Partners, LLC, August 2016

The table above shows the S&P 500 return for each president along with starting and ending CAPE ratios.

A simple analysis looking at average market returns shows us that Democratic presidents outperformed their Republican counterparts. But, as we consider equity valuations at the beginning of the president's term, we also see that Democratic presidents inherited stock markets that were trading at significantly lower valuations than Republicans.

What the chart above demonstrates to us is that beginning valuations may be a better predictor of future S&P returns than a president's party affiliation.

The seven most undervalued markets at the beginning of a president's term, regardless of affiliation (four Republican, three Democrat), produced above average returns. Indeed, of the seven most expensive markets at the beginning of a president's term (again, four Republican, three Democrat), five resulted in lower than average returns.

Midterm Elections

Who wins in November is anyone's guess. We do know that on average, first-term presidents have lost nearly 29 seats in the first midterm elections. The most likely outcome of the midterm elections is for the Democrats to take control of the House while Republicans retain control of the Senate. While polling data shows that is likely again this year, we also note that polling data also predicted Britain to remain part of the Eurozone and Hilary Clinton to win our presidential election. Oops.

Each election brings some level of uncertainty and with that uncertainty often comes volatility. We've witnessed it in the past and wouldn't be surprised to see it over the next couple of months.

The real question is what impact might the November midterm elections have on your portfolio over the next 12 or so months?

Historically, returns have not been very good in the months leading up to midterm elections. The chart below shows average returns during the 1994, 1998, 2002, 2006, 2010, and 2014 midterm election years.

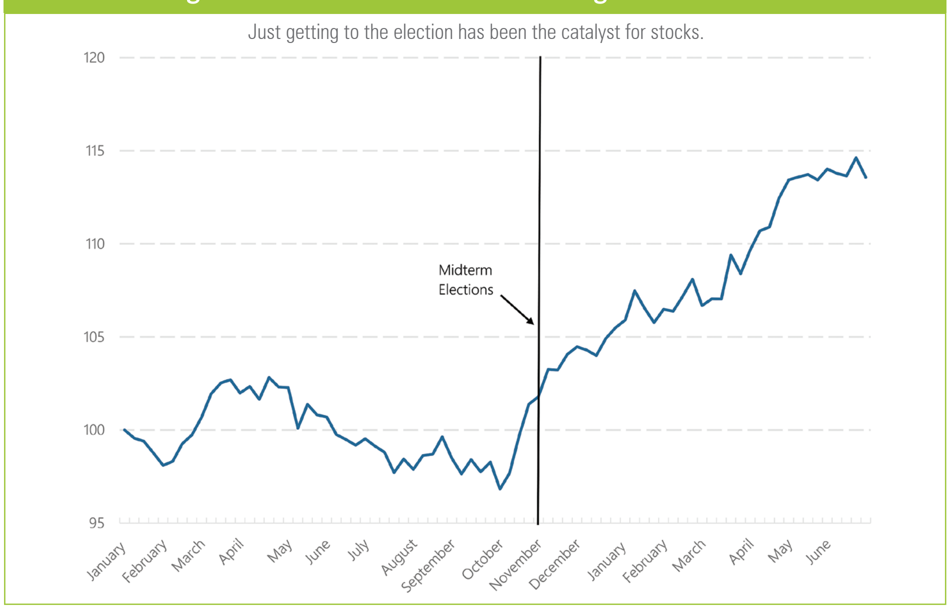
Leading into the election, stocks have historically struggled. On average during midterm election years, the S&P 500 has declined in value from January to October by roughly 3%. By the time the actual election occurs, the market traditionally begins a rally that results in 15% average market gains over the next 12 months. The stock market does not like uncertainty, and regardless of what party ultimately wins, simply getting to the midterm elections and bringing clarity to what the next two years looks like has been enough to push the markets higher.

2018 may not play out like history. Returns have been strong so far this year, so we may not see the same sharp increase we've seen in the past. Stocks have increased in the year following midterm elections every year since 1962. If that pattern holds, we should expect to see stocks higher in the 12 months following Nov. 6.

Looking Past 2018

Looking past the midterm elections, we find other factors more important for the current bull market to continue. We'd con-

Average S&P 500 Performance Following Midterm Elections



Source: S&P 500 average price returns for 1994, 1998, 2002, 2006, 2010, 2014. Data source: Bloomberg.

sider the trade skirmishes and the Federal Reserve increasing the Federal Funds rate as risks that will have a larger impact on the market going forward.

TRADE

There is no shortage of headlines about protectionism, trade, and tariffs these days. The strong economy and growing earnings from companies have allowed the current president to declare a worldwide campaign looking for "free, fair, and reciprocal" trading agreements. This has him negotiating with allies and "frenemies" alike, some successfully, some not so much. The most threatening to the U.S. at this point seems to be the back and forth with China on the newly implemented tariffs. While we don't anticipate these tariffs derailing our economy, the headlines have the potential to introduce volatility to the stock and bond markets.

In the face of these tariff talks, corporate earnings and the economy remain strong. Even so, investors will discount stock prices until some resolution to the trade skirmish emerges.

THE FEDERAL RESERVE AND RISING INTEREST RATES

The Federal Reserve uses the Federal Funds Rate to either stimulate or slow the U.S. economy. By raising the Fed Funds rate, the Fed is simply attempting to head off future growth and the inflation that comes with it.

Bull markets don't die of old age. Rather, they are often killed by a recession or Fed policy mistake. Our new Fed Chairman Jerome Powell has a blend of business and academic experience and is aware of the harm caused by raising interest rates too quickly. Therefore, we expect he will tread cautiously. We're watching the Fed closely, looking and monitoring for clues that they've gone too far.

Bottom Line

While politicians often take credit or pass blame for stock market or economic performance, the data indicates they have much less of an effect on long-term investment results than they would have you believe.

For a moment, consider all the political crises we've been through over the past decade. We've weathered the budget sequestration, fiscal cliff, multiple debt ceilings, and the credit rating of the U.S. downgraded. Through this time we've had both Democrats and Republicans in power. We've had unified governments and split governments.

Despite the politicians, not because of them, the markets have continued to grind higher along with business fundamentals. In the end, the growth of your investments won't be determined by what Washington looks like over the next two, four, or 10 years. It will be determined far more by the length of time your money remains invested in quality companies with rising profits and dividends.

We expect the stock market to be more volatile heading into what is likely to be a vicious political cycle. We've seen that in every midterm election over the last 25 years. That, too, will pass. History shows that stocks have increased by 15%, on average, in the 12 months following midterm elections going back to 1962.

Policies may impact specific companies and sectors more than others. We will act accordingly. Don't expect us, however, to make sweeping changes. Your portfolio has some of the best companies in the world. Take comfort knowing they've survived and thrived in all kinds of political environments. They'll do it again.

DCM E+I+E+I=O BARNYARD FORECAST

Total Score 5/8

ECONOMY		INTEREST RATES		EARNINGS		INFLATION		OPPORTUNITY
1/2	+	1/2	+	2/2	+	1/2	=	5/8

This forecast provides DCM's evaluation of the overall economic climate. It is subjective in nature and represents the Firm's outlook and interpretation of the market as of the date of this publication. Each category is rated between 0 and 2 (0 being negative, 1 neutral, and 2 positive) and the cumulative score is measured as the opportunity. A total score between 0 and 2 indicates a negative outlook, 3 and 5 a neutral outlook, and 6 and 8 a positive outlook.

The Next Generation

Our Succession Plan for taking DCM into the future

WE'VE TALKED A LOT *about DCM's growth and the steps we've taken to prepare for the future. As we've said before, the only reason DCM exists is because of you. Our top priority is to continually improve the quality of service you receive. For that to happen, we've made necessary improvements so we are equipped in this ever-changing industry of wealth management. Here are a few:*

Technology. We've made big investments in software and technology to 1) protect the sensitive information we hold about each client; 2) give our people the tools to stay in better contact with you; and 3) make everyone on our staff more efficient and effective.

Financial Planning. Four years ago, no one at DCM held a financial planning designation. Nor did we own any financial planning software. Today, we now have six CFPs and tools to support them. Should you have any needs or questions about tax planning, estate planning, charitable giving strategies, retirement planning, or college savings strategies (the list goes on), we now have the resources to assist.

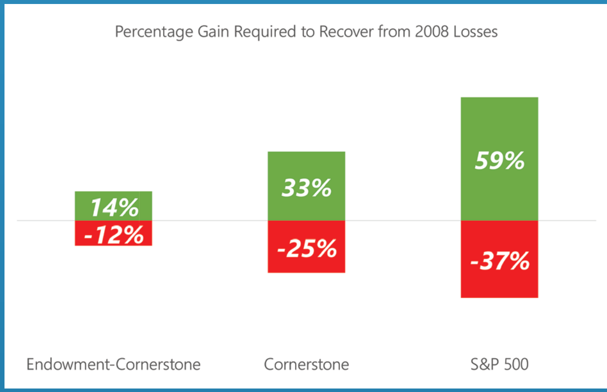
Internal Support Roles. DCM's evolution has allowed us to develop more specialized roles instead of the old days of each person wearing 10 different hats. Two of these new roles are our VP of Client Experience and our Employee Experience Manager.

Ciavon Hartman, our VP of Client Experience, has been tasked to ensure all divisions of the company remain focused on our main goal — delivering a top-notch client experience. But more than that, Ciavon also will be acting as an advocate for you. We think it's important that DCM supports each client outside of just the relationship with you and your Portfolio Manager and Client Services Manager. Ciavon will be continually seeking your feedback, and we encourage you to contact her if you have any concerns or comments you may not want to discuss with your direct contacts at DCM. She's all ears!

With people at the center of what we do, we recognize the need to ensure that the experience as a DCM employee also continues to improve. To tackle this, part of **Jennifer Decker's** role is our Employee Experience Manager. We believe if our employees have a superior work experience, it will translate to a better client experience for you.

SECURITY REMAINS TOP PRIORITY

We are conservative, long-term investors, not aggressive speculators. Building a portfolio that can last longer than you do is accomplished in part by investing in strong companies that have survived and thrived through both bad and good economies. Therefore, our companies often don't have to accomplish heroic feats to deliver good long-term returns. Since quality companies generally hold value better than average during falling markets, they also don't have to grow as much afterward to recover from any losses. **The graph below uses the 2008 stock market fall to illustrate the point.**



Cornerstone, our most popular Rising Dividend strategy, is 100% stocks. Endowment Cornerstone mixes Cornerstone stocks with fixed income.

You can see that during the 2008 bear market, the S&P 500 stock index fell 37%. However, Cornerstone only fell 25%, and Endowment just 12%. Since recovering lost value means growing from a smaller base, the percentage increase to break even always is larger than the percentage fall. You can see that Cornerstone only had to grow 33% to break even, and Endowment 14%. The S&P 500, however, had to grow nearly 60% to recover its lost value, more than 2x Cornerstone and more than 4x Endowment Cornerstone.

As with the tortoise and the hare, our portfolios can lag behind the market, especially when it's growing rapidly. However, by falling less during market drops, Rising Dividend companies have an easier time recouping and then continuing upward from there.

The Endowment-Cornerstone and Cornerstone strategies seek return through investing in dividend paying stocks while the S&P 500 index tracks stock of large companies regardless of whether these companies pay dividends. All performance shown is net of fees and reflects the reinvestment of dividends and other account earnings which may have a material impact on overall returns. These returns are NOT verified or GIPS compliant. All supporting performance data available upon request.

EMPLOYEE HIGHLIGHT

Beth Dietsch, A Servant's Heart

BETH DIETSCH has been an integral part of DCM since she joined the team back in 2001, back when there were only six employees. Beth hit the ground running, serving clients as one of DCM's first Client Services Managers. Over the years, she has teamed up with many different Portfolio Managers and has likely served more clients than anyone else in DCM history.

Her longest tenure has been working with Portfolio Manager Rick Roop. Beth and Rick have been a dynamic duo through the years, always aiming to deliver top-notch client service. Beth would agree she has grown to know many of her clients like her own family.

As DCM President Mike Hull says, "Beth really set the foundation for what DCM service was going to look like for years to come. One of our mantras we encourage everyone to emulate is 'a servant's heart.' And when I'm referring to a 'servant's heart,' I'm really referring to Beth."

Beth served for 15 years as a Client Services Manager. In 2014, she earned her Financial Planner Qualified Professional (FPQP™) designation and then her Series 65 license in 2015. It was during this time that she became more involved with the investment and financial planning side of her client's lives, learning alongside Rick and others.

We are thrilled to announce that Beth now is the Portfolio Manager for many of the clients she has worked with for more than a decade. Beth's knowledge and experience helping hundreds of families grow and secure their nest egg for retirement is something all of us strive for.

She and her husband Mike live in Newburgh with daughter Megan and son Seth. She enjoys golf, outdoor activities, and spending time with her family. She attends Lutheran Church of our Redeemer.

Your Year-End Checklist

THE END OF THE YEAR brings cold weather, the holiday season, and of course, financial deadlines. With 2019 quickly approaching, we want to make sure you have your financial ducks in a row and that you don't miss any deadlines for contributions and distributions.

☑ Max out contributions to employer sponsored retirement plans.

- 401(k)'s annual limit is **$18,500** ($6,000 additional catch-up for those age 50 by the end of the year).
- **Employee deferrals** must be made through payroll withholding in the calendar year. Owner deferrals, matches, and profit sharing contributions can be made as late as the extended due date of the tax return.

☑ Contribute to charities

- **Cash gifts** must be deposited by the receiving charity before the end of the year.
- **Stock gifts** must allow extra time for processing. Requests typically are due to the brokerage firm around December 18. The stock must be registered in the charities name before December 31.

☑ Max out 529 plan contributions by December 31.

- **$15,000** per individual to qualify for the annual gift exclusion.
- Indiana residents receive a **20% tax credit!**
- Contributions made late on December 31 online have been known to clear on the next business date and therefore not qualify for a 2018 credit. **Be sure to allow extra time** to ensure processing before the end of the year.

☑ Satisfy all Required Minimum Distributions from IRAs or other qualified accounts by December 31.

- If you are at least 70 ½ in 2018 with an IRA, you are required to take a distribution calculated based on your age and last year's ending market value of your account(s).
- Your Portfolio Manager and Client Services Manager will ensure that RMDs from accounts we manage are satisfied.

Contributions to IRAs, ROTH IRAs, and HSAs have an extended deadline: April 15, 2019.

- IRA's maximum annual contribution is **$5,500** ($1,000 additional catch-up for those age 50 by the end of the year).
- ROTH IRA's maximum annual contribution is **$5,500** ($1,000 additional catch-up for those age 50 by the end of the year).
- Health Savings Accounts; **$6,900** for qualifying family medical plans and **$3,450** for qualifying single plans (additional $1,000 for each spouse age 55 or older by the end of the year).

Donaldson
CAPITAL MANAGEMENT

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INDEX DEFINITIONS S&P 500: Standard & Poor's (S&P) 500 Index. The S&P 500 Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries.