SUMMER 2020

Donaldson CAPITAL MANAGEMENT

RISINGDIVIDEND REPORT

QUARTERLY QUICK FACTS

1 Stocks have been disconnected from the underlying economic conditions and fundamentals this year. The market's returns don't tell the whole picture. There is a clear divide between the performance of two distinct groups: the "haves" and the "have nots."

2 The stay-at-home economy favors the "haves" (companies built on technology) and punishes the "have nots" (companies that need real-world interaction). The technology-heavy Nasdaq 100 Index has outperformed the real-world-heavy Dow Jones Industrial Average by an astounding 27% this year.

3 Conventional investment wisdom has flipped this year. High-risk growth stocks have been low risk in this environment. Historically low-risk stocks have been anything but low risk. Utilities declined 6% more top to bottom than the technology sector in the February 19-March 23 bear market.

4 The price you pay for an asset relative to its underlying value is what determines your future investment results. We find value in the "superior operators," which are industry leaders with stable cash flows and low capital needs. These companies will not only survive the pandemic but will likely thrive over the next decade. Their superior profitability and balance sheet strength gives them an advantage over weaker peers.

5 November's election is likely to have a more significant impact on specific sectors than the market as a whole. A Democratic sweep would benefit renewable energy companies, large-cap energy stocks, and companies with trade exposure to China and Europe. A Republican sweep would help banks, pharmaceuticals, and defense companies.

Financial Planning at DCM:

A Roadmap for Your Journey Ahead

Donaldson CAPITAL MANAGEMENT

25 YEARS

DEDICATED TO YOUR JOURNEY

ALMOST EVERYWHERE YOU TURN someone is offering financial guidance, whether it's from insurance agents, bankers, big brokerage firms, or even online bloggers. One of the top priorities of DCM's Financial Planning Department is to help you navigate through all the noise. Yes, our firm started out primarily as an investment advisor. But now we are helping our clients make financial decisions that align with your unique goals, regardless of what is happening in the stock market.

As the director of financial planning, I want to share a little bit about the importance of having a plan and what that looks like at DCM.

It's true; there are many aspects of a financial plan that mean putting pen to paper and crunching the numbers. The first step is to gather the necessary information we may not already know about you. That can range from Social Security statements and a household budget to your estate planning documents and more. But, most importantly, we want to learn about your goals and aspirations.

- Where do you see yourself in five, 10, or 20 years?
- What does the word "retirement" mean to you? Or as we like to say, how do you envision your "third act" of life?
- What legacy do you want to create, and someday, leave behind?

For example, you may be nearing retirement age and your main concern is whether or not you can maintain a similar lifestyle. Our goal would be to build a base plan that would show you the path to a strong financial condition. Once that is established, our hope is that you and your family can focus on the fun stuff. Like how could travel or philanthropic aspirations fit into the plan? Or how might you be able to contribute to the education of your kids or grandchildren?

Ultimately, financial planning at DCM means helping you connect your resources to the things that give you joy. If you've not begun this process with your advisor and would like to get started, please let us know.

We look forward to hearing from you.

Sarah Moore, CFP®

Sarah Moore

Director of Financial Planning and Investment Advisor

Coming Soon: DCM Atlanta

We are excited to announce DCM's newest office in Atlanta

6600 Peachtree Dunwoody Road
Embassy Row Building #400
Ste. 108
Atlanta, GA 30328

YOUR DCM ATLANTA TEAM

Your friendly Investment Advisors Jim Williamson, Jason Hall, and Matt Gladbach, along with the newest member of our team Diane Farren, are here to serve our long-time clients and expand DCM's presence in the southeast with our new office.

While the COVID-19 pandemic has pivoted the world toward Zoom, Microsoft Teams, webcasts, FaceTime, and e-mails, we know many of our clients still greatly value and appreciate a face-to-face session to discuss their financial goals and assets. Clients like to talk about money in person, and we are excited to unveil a beautiful new office to facilitate those conversations and relationships.

ABOUT THE LOCATION

Embassy Row is newly renovated and contains five office buildings in a lush park-like setting with 38 wooded acres. Located in the heart of the Central Perimeter Office Market of Atlanta, Embassy Row has direct access to GA-400 via Abernathy Road and excellent access to I-285. It also has direct, walkable access to the Sandy Springs Marta Station.

Lastly, and maybe most importantly, clients will enjoy free, convenient parking with an easily accessible office on the first floor. No elevator needed — a rare find in Atlanta.

STAY TUNED

DCM continues to monitor the status of the COVID-19 situation to open the office in a way that keeps clients' and DCM

employees' safety at the forefront. Because of this, we have not yet set our grand opening date. Your health and safety remain our highest priority. Stay tuned for the big announcement that our doors are open. After the opening, if you are in the area, don't hesitate to stop in.

WE CAN'T WAIT TO SEE YOU

This expansion and opportunity to better serve you is only possible because of you. We are grateful for your trust, confidence, and continued business with DCM. We've grown through referrals, and we hope that having a physical presence in the area will give our clients even more confidence to refer others to Donaldson Capital Management.

WELCOME DIANE FARREN

TO BETTER SUPPORT clients in the southeast region, we added a new member to our Atlanta DCM team who brings more than 11 years of expertise in the industry. Diane Farren joined DCM in December 2019 as first impressions manager and client services administrator.

Since December, Diane has already added tremendous value to our Atlanta team. In that time, she has been instrumental in establishing our Atlanta office and has also been committed to anticipating and meeting client needs. Diane will be the person to greet clients, calling or visiting our new Atlanta office when it opens in the coming months.

During her free time, Diane volunteers as a life coach, where she assists others in developing action plans to accomplish their goals and provide accountability. She's been able to fulfill her greatest joy — helping others and treating each individual uniquely through her career and volunteer work. She's excited to extend this passion to DCM clients, and we are delighted to have her as a member of our team.

A Tale of Three Markets

This Time Really Is Different

Nathan Winklepleck, *Author*
Kyle Markle, Joe Zabratanski, and Preston May, *Contributing Editors*

To say 2020 has been a bizarre year for investors would be a dramatic understatement. We had already experienced 26 days when the market either jumped or dropped by 3% or more. For reference, there were just 11 of these days in the prior seven years. In a market like this, we would expect investors to favor quality stocks with strong balance sheets and long histories of dividend growth. So far, that hasn't been the case. The markets this year seem wholly disconnected from traditional investing fundamentals. Let's take a look at a few examples:

NASDAQ BEATING THE DOW JONES

The Dow Jones Industrial Average ("the Dow") tracks 30 of America's most iconic companies. During difficult economic times, you might expect the Dow to outperform its fellow U.S. indices (S&P 500 and Nasdaq 100). In 2020, that has not been the case at all. This year, the Dow has lagged the S&P 500 by more than 5% and the tech-heavy Nasdaq by more than 25%.

QUALITY STOCKS UNDERPERFORMING

In these extreme periods, we would expect the quality companies to do better than low-quality companies. Warren Buffett's Berkshire Hathaway (BRK/A) has long been a proxy for high-quality stocks with tremendous free cash flow. Berkshire has historically been a safe harbor in times of trouble. Not so in 2020. Buffett's company is underperforming the S&P 500 by just less than 19%.

TECHNOLOGY BEATING UTILITIES

In bear markets, investors usually flock to the safety of utilities and flee more speculative growth companies. Utilities have monopolistic properties that seem to make them the safest option in times of economic stress. Not in 2020. From February 19 to March 23, utilities returned -36.5% compared to -33.1% for the S&P 500. Contrast that with the technology sector down by 30.7%.

NON-DIVIDEND PAYERS OUTPERFORMING DIVIDEND PAYERS

Dividend stocks have historically outperformed in down markets. We would expect dividend stocks with long dividend histories to have done well in a year like 2020, when the average stock in the S&P 500 dropped by 39% in 23 trading days. That hasn't been the case. Non-dividend payers have outperformed dividend payers by a whopping 20% so far in 2020.

Why has 2020 been such an unusual year for stocks? Why have the high-risk stocks done so much better than the "old and good" companies we would expect to do well in this environment?

The Great Bifurcation: The Haves and The Have Nots

The world as we knew it has changed; parts of that world will not be coming back. As a result, the market has split into two types of companies: the "haves" and the "have nots." One is thriving at the expense of the other, and the divide is growing.

The "Haves"

The pandemic has forced us all to adopt technology into our everyday lives. Zoom or Microsoft Teams meetings have replaced our business trips. Amazon boxes have replaced grocery bags. The latest movies now play on Netflix and Disney Plus rather than in the movie theater. And social gatherings are happening on FaceTime and Facebook rather than in person.

Some companies benefit from these trends. These are the "haves" in this new economy. A massive spike in demand has improved their near-term cash flows; that much is obvious. Less apparent is the long-term impact that COVID-19 will have on our habits for the next 50 years. Some of these habits will go back to "normal," but many will not. These companies have likely seen a permanent and lasting increase in their future cash flows. Despite such a terrible economy, they are worth more today than they were at the start of 2020.

These technology giants' returns are the driving force behind the S&P 500's surprising performance this year. Remember, the S&P 500 is market cap weighted, which means big companies receive a more significant weighting. The six largest companies in the S&P 500 now account for more than 22% of the index. Never in U.S. stock market history have six companies made up so much of the market. They are having an outsized impact on several of the indices. The table below shows how much each of these six

FANGAM Contribution As of 6/30

Ticker	Total Return	Weighting		
	YTD	Nasdaq	SPX	DJIA
FB	10.6%	5.4%	2.4%	0.0%
AMZN	49.3%	11.5%	5.0%	0.0%
NFLX	40.6%	1.7%	0.7%	0.0%
GOOGL	5.9%	8.1%	3.5%	0.0%
AAPL	24.9%	13.2%	5.8%	9.7%
MSFT	29.8%	12.9%	5.7%	5.4%
Total FANGAM Weighting		52.8%	23.1%	15.1%
Performance		**Nasdaq**	**SPX**	**DJIA**
Total Index Return YTD		16.9%	-3.1%	-8.4%
	Less			
FANGAM Return in Index		14.5%	6.4%	4.0%
Index Return without FANGAM		2.4%	-9.5%	-12.4%

Source: Morningstar

1. *Ned Davis Research, January 2020.*

companies has contributed to the S&P 500, the Dow Jones Industrial Average, and the Nasdaq 100.

The longer this pandemic lasts, the more the world must turn to technology and engrain using the technology these companies offer.

The "Have Nots"

This giant social experiment has accelerated the adoption of bytes over atoms. In other words, companies that thrive in the digital world are winning. Companies that are reliant on the physical world are suffering.

The most obvious source of pain is in the travel and leisure space. Airline travel has plummeted 90%. Airlines, hotels, resorts, cruise lines, and commercial airplane manufacturers have all suffered. When anyone in the world is a Zoom (ZOOM) or Microsoft (MSFT) Teams call away, that trip may not be as necessary as it once was.

Another clear loser is brick-and-mortar retailers. COVID-19 was the final blow for Pier 1, Neiman Marcus, and J. Crew; it will likely be the demise of many other retailers. As many as 30,000 retail locations could close in the U.S. because of the COVID-19 shutdown. Any retailer without a strong online presence or unique shopping experience is unlikely to survive.

Shouldn't We Buy the "Haves"?

With such a clear divergence between the "haves" and the "have nots," why not buy the haves and ride their bright futures? Unfortunately, it's not that simple.

The decision of whether to invest doesn't stop with one question. First, you must assess a company's competitive position and opportunities moving forward. Second, you must determine whether the stock's current price is attractively priced relative to the future you expect.

A great company with a promising future may be a terrible investment if the stock price is too high. To illustrate this point, let's look at Wall Street darling Netflix (NFLX) through a simple valuation measure. Netflix (NFLX) currently has a forward price-to-earnings (P/E) ratio of 59. In other words, investors are willing to pay $59 for a mere $1 in earnings from Netflix. That's almost three times the P/E ratio for the median S&P 500 stock (22).

To justify an investment at this price, Netflix will have to grow its earnings faster than twice the rate of the S&P 500 for the next 20 years. Is this possible? We are skeptical. Netflix faces competition from some of the best companies on the planet (Amazon, Apple, Disney, and more). The competition from Amazon, Apple, Disney, and others will likely erode Netflix's rosy picture. As a result, investors may regret paying such a premium. With such great enthusiasm for Netflix and other "have" stocks, it becomes more difficult for them to live up to their lofty expectations.

That's why the "haves" aren't as easy investments as they may appear on the surface. They may continue to thrive in this environment, but we need to be careful of becoming enamored with growth stories and the latest hot stocks. Pandemics do not suspend the laws of stock valuations; all stocks become overvalued at some point. We may be getting close to that for some of these technology companies.

That brings us to our third group.

Superior Operators

This basket of stocks does not have as good of a near-term future as the "haves." Even so, they may present the best opportunities for long-term investors. Who are these companies?

We define superior operators as "best in class" for their respective industry; the company that dominates market share for the particular products or services they provide. These are the stocks that will likely benefit investors the most for several reasons.

First, strong companies have ample cash flow relative to their capital needs. Without available cash, weaker competitors must borrow at high rates to survive. Assuming they make it to the other side at all, these weaker competitors will bear the debt burden that the strong companies will not. That will allow the better company to invest in ways that grow its market share, increase its margins, and separate even further from the pack.

Second, strong cash flows may allow these companies to buy weak companies at distressed prices during periods of economic weakness. The 2008-2009 financial crisis decimated the entire financial sector. Yet, there were still winners within the group. The banks with strong balance sheets, such as JPMorgan Chase (JPM) and Wells Fargo (WFC), were able to buy failing banks at discounted prices and gain market share.

Third, superior operators will gain market share as their weaker competitors go out of business. Take the restaurant industry, for example. At first glance, closing their doors has hurt every restaurant. Yet, this short-term hit to profits may turn into a long-term benefit for some. The most dominant companies in the sector (such as McDonald's) will benefit as competitors close their doors.

The companies that survive will have a tremendous opportunity to take market share and set themselves on a growth trajectory. These companies will benefit investors the most over the next decade.

What About the Presidential Election?

On top of everything else that's happened in 2020, we also have a presidential election in November. Election years always bring a bit of extra drama to the markets. Who are the "haves" and "have nots" coming out of the elections?

Before we start, we wanted to reiterate something. We take the side of your money, not your political ideology. Our take on politics has nothing to do with our voting preferences; it only has to do with your portfolio.

Election season is going to consume a far disproportionate number of headlines over the next few months. You're going to hear cries about how this candidate or this party is going to cause the stock market to fall. Not so fast. The U.S. has gone through a lot of political volatility over the years. Throughout it all, the long-term investor has historically been rewarded as U.S. stocks have proven to be a significant wealth compounding machine.

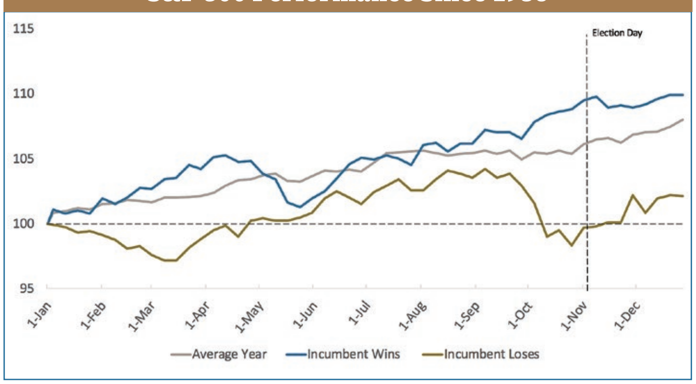
We're not dismissing politics as having any impact on stocks. They do. Yet, we must remember the market only cares about a few things: earnings, dividends, and interest rates. Everything else matters only to the extent that it influences those three things. That means the stock market views most everything the candidates talk about as meaningless.

One of the most critical items at stake in the 2020 election is the potential for an increase in the corporate tax rate. Presidential candidate Joe Biden is proposing a corporate tax rate hike from 21% to 28%. Tax reform is unlikely to occur unless the Democrats can control the Senate and House. It is our view that if the Democrats were able to push through higher taxes on corporations, the stock market would not like that.

Offsetting higher taxes from a Democratic sweep would be more relaxed trade policy. Candidate Biden would likely back off the Chinese and European trade wars. Whether one agrees with this or not, it would probably be viewed favorably by the market as it removes a level of uncertainty. Still, we would expect an increase in corporate taxes to be the more significant weight in investors' minds.

The stock market has generally preferred the incumbent party (regardless of which one) being re-elected. Historically, The S&P 500 has increased in the three months before an incumbent victory; it has declined in the three months before an opposing party wins. Following this simple rule, the market has predicted the winner of presidential elections with 87% accuracy since 1928. Stocks have also correctly predicted every election outcome since 1984.

S&P 500 Performance Since 1936



Source: Yahoo Finance S&P 500

Stocks continue to do better (incumbent) or worse (opposition) following an election. Since 1936, stocks have outperformed by approximately 3.5% over the next year when the incumbent party wins relative to the opponent.

Election 2020: "Haves" and "Have Nots"

While we would expect broader market implications to be more muted, some sectors have more at stake. **If the Democrats take the White House or sweep in November, the following industries would benefit more than others**:

INFRASTRUCTURE

A Democratic sweep increases the odds of a massive infrastructure deal getting passed. That would boost highway, rail, water, green energy, and broadband spending.

RENEWABLE ENERGY

Democrats also would likely drive the U.S. away from fossil fuels. They plan to impose stricter climate rules, freeze land fracking, and suspend offshore drilling. Renewable energy companies, such as NextEra (NEE), would likely benefit.

LARGE ENERGY STOCKS

You may think a Democratic sweep would be harmful to energy stocks. In most years, that would be true. Increased regulations could benefit larger companies at the expense of smaller ones. Furthermore, any restrictions on fracking could have an upward effect on oil prices. Both developments could help companies like Exxon Mobil and Chevron.

TRADE

Former Vice President Biden would be far less confrontational with both China and Europe. That would benefit companies with trade exposure to those countries.

If the Republicans were able to maintain control of the White House or sweep in November, the following sectors would likely do well:

FINANCIALS

They were the best performing sector following President Trump's victory in 2016. They would stand to benefit most from a surprise Republican sweep.

PHARMACEUTICAL COMPANIES

A Republican sweep prevents the Democrats from tackling drug prices in earnest.

AEROSPACE AND DEFENSE

Geopolitical pressures are on the rise. Regardless of which party wins, defense spending will be on the rise. Even so, Republicans are likely to give it a higher part of the U.S. budget.

Conclusion

Regardless of what happens in November, we don't expect to make any large-scale changes based on politics alone. The long-term value of our companies does not depend on which party happens to be in power for any two- to four-year stretch. We prefer to buy companies we believe are strong enough to thrive under any administration or economic condition. These best-in-class companies have outperformed by more than 5% per year, leading up to an election. These same companies are likely to be the real long-term "haves" coming out of both the election and this bizarre COVID-19 economy.

An Advisor's Perspective

WHEN THE MARKET TURNS SOUTH and then further south, differences in how each of us views the markets emerge. For instance:

When much of the world's economy shut down this year and the market fell, we had clients call to ask, "How long are you going to wait before we go to cash?" And some called to ask, "What are we buying? Where are the bargains?"

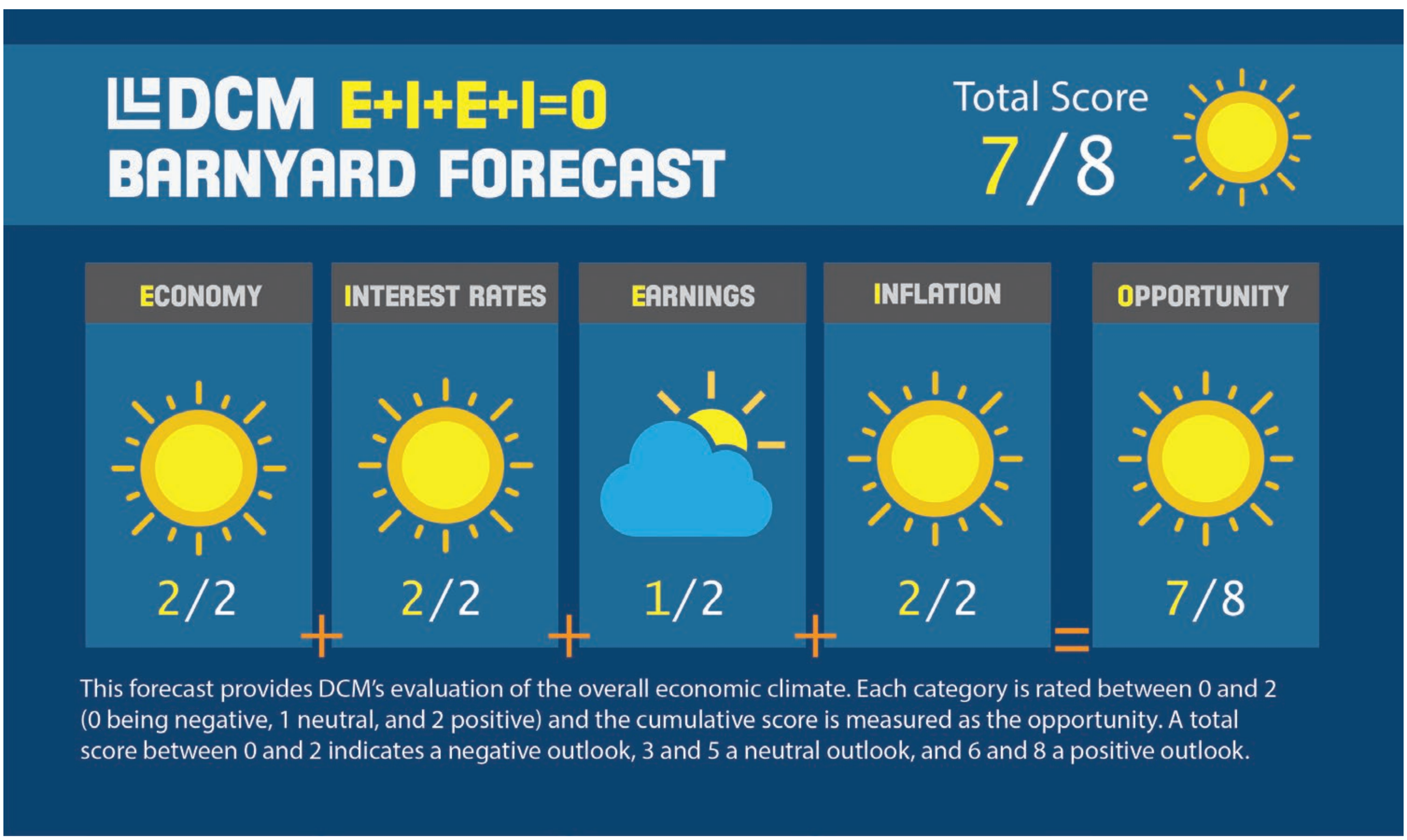
Some clients have expressed how glad they are that we are in the driver's seat at a time like this. Others have tried to grab the wheel.

Both the client who wants us to drive and the client who wants to take control during difficult times view the market similarly — they assume the market is like a casino game, stock prices move randomly, and the trick is to grab them at the right time then cash them in at the right time. Both fear a big crash from which there will be no recovery.

Each time our Investment Policy Committee reviews our decision-making process, we arrive at one inescapable conclusion: KNOW OUR COMPANIES. Stocks are not numbers on a roulette table or spots on a deck of cards. Yes, random dangers, like the coronavirus pandemic, can pop up. But we invest in real businesses, and not just any businesses. Most of our companies have historically succeeded through good times and bad. Because they sell products and services the world needs, because experienced professionals run them, and because they have access to vast amounts of capital, they typically find a way to weather threats to their existence. Most often, they emerge stronger. Does that mean every company in which we have ever invested has survived and thrived? No. Some dangers can be catastrophic. Our job is to keep an eye on the horizon for those threats and steer clear of real danger.

Sticking with companies who pay generous dividends, and raise them consistently, protects our portfolios. These companies continue to deliver cash dividends to our clients, even when stock prices fall. In fact, when a dividend-paying stock's price falls, its dividend yield rises. If we have confidence the dividend will continue and not be cut, that higher yield makes the stock more attractive in our eyes. Therefore, more investors buy it, and the price holds or begins to rise. If this sounds like an oversimplification, it is. A lot of digging and challenging is needed to ensure our clients' portfolios are invested in companies who behave the way we expect.

As advisors, we are trained to probe deeply to understand how each client views investing and what events might affect their financial journey. When we do, we find that, just like the companies in which we invest, clients vary greatly. In good markets and bad, advisors at DCM are required to advise and take actions that are in the best interest of each individual client — just as it should be.



DCM Keeps Client Info Secure During COVID-19

IN EARLY MARCH, ALL DCM TEAM MEMBERS began working remotely. With our Disaster Recovery Plan already in place, this move occurred quickly and seamlessly. Knowing we are working from our homes because of the COVID-19 threat might raise questions about the measures we are taking to protect clients' sensitive data.

The financial industry is often the target of security attacks and fraudulent attempts to obtain sensitive client information. DCM employs a number of security measures, including but not limited to the following:

CYBERSECURITY TRAINING

DCM's staff participate in ongoing cybersecurity training to stay up to date and on guard from fraud and phishing attempts.

MULTI-FACTOR AUTHENTICATION

All systems used by our firm that access client information use multi-factor authentication. This practice requires a password upon initial login and a second password sent through a text message or email as an additional layer of authorized identity verification.

DATA ENCRYPTION

When it comes to dealing with paperwork, DCM team members can securely send and receive encrypted files to protect all client information.

SECURE UPLOADS

Clients also have access to a secure, online portal to upload documents, preventing the risk of sending unprotected documents via email.

SECURE SIGNATURE

Digital signatures are executed via DocuSign. Client identity is verified for account set-up, changes, and requests with LexisNexis knowledge-based authentication.

PHONE SECURITY

Our Client Services team assists and supports clients every day over the phone and through email. If a client makes a request using email, the team will reach out via phone to verify the client's identity and to confirm the request. This practice prevents the possibility of fraudulent transactions requested by cybercriminals claiming to be DCM clients.

Our Client Services team also requires security questions to be answered by the client to protect any information that may be shared or discussed on the phone.

DCM continues to monitor, update, and upgrade systems and policies to increase security and stay on top of the latest fraud attempts. We also empower employees with the knowledge and skills to maintain cybersecurity at work and at home.

Company Highlight: Clorox (CLX)

FEW COMPANIES HAVE FOUND the pandemic to be favorable for business, but as a leading provider of cleaning and other household products, we believe Clorox is right in its wheelhouse. Investors and traders seeing an obvious relationship between a rush on disinfecting products and a higher stock price have jumped on the bandwagon and pushed Clorox to a new all-time high. Sales of the company's cleaning products rose 32% in the first quarter before the pandemic hit in force. We would expect second-quarter sales to be even stronger as the economy reopens and the world contends with a new normal, calling for lots of disinfectant. This surge in the fundamentals justifies the impressive gains in the stock price this year.

As long-term investors, however, we know the market is always looking ahead. We are more curious about how the pandemic will shape the company's long-term growth prospects.

For one, it appears that COVID-19 will be with us for some time and it has the potential to have a lasting impact on the consumer psyche. Demand for cleaning products is likely to remain elevated well into the future.

Clorox is also the dominant player in most of their product categories, because they spend significantly more than competitors on research, product development, and advertising. With the windfall from the pandemic, the company should be able to funnel even more cash into these ventures and further distinguish themselves from competitors. This is a case where the strong get stronger.

Lastly, we believe Clorox can use the pandemic as a springboard for new offerings. The company has already announced partnerships with a major airline and a national movie theater chain to supply product and branding as well as to advise on safety and cleanliness procedures. Should such preventative measures become the norm, Clorox is in an excellent position to leverage its brand name and industry know-how to create sticky relationships with big customers.

With a solid long-term growth outlook and a dividend growing at a double-digit rate, we continue to view Clorox as a key holding in our Cornerstone portfolio.

The mention of specific securities and sectors illustrates the application of our investment approach only and is not to be considered a recommendation. The specific securities identified and described herein do not represent all of the securities purchased or sold for the portfolio, and it should not be assumed that investment in these securities were or will be profitable. There is no assurance that the securities purchased remain in the portfolio or that securities sold have not been repurchased. For a complete list of holdings, please contact your portfolio advisor.

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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.