Donaldson CAPITAL MANAGEMENT

WINTER 2024

RISINGDIVIDEND REPORT

Highlights from the **Investment Policy Committee**

1. Stock market losses over two-year periods are not unusual; since 1927, 16% of rolling two-year returns were flat or negative. However, dividend stocks have historically rebounded with a 19% average return in the year following such downturns.

2. Performance in 2023 was a complete turnaround from 2022. Growth stocks recovered from terrible losses in 2022. Meanwhile, value stocks, which often include companies with higher dividend payouts, didn't have much to recover from in 2023 after relatively strong performance in 2022.

3. Many economists predicted a recession in 2023, but it never materialized. Our focus remains on building quality into your portfolios instead of relying on uncertain economic forecasts.

4. Election years have had positive returns 85% of the time. However, research shows no significant correlation between the political party in power and the stock market's performance.

5. The U.S. national debt is not as alarming as it seems, especially when considering the country's economic output (GDP). Most of this debt is held by its own citizens. The U.S. controls its own currency, so it can always print more money to meet obligations. The real enemy of excessive money supply expansion is inflation (e.g.: 2020-2023).

Making an Impact

At DCM, we work hard to earn your trust and in return, we gain the opportunity to be a part of more than your financial life. Many of you share your dreams and goals with us, and charitable giving is often high among those lists.

Charitable giving serves as a window into your values, convictions, and passions. In our meetings with you, we see how deeply you care about making a positive impact in your communities and around the world by supporting the causes that matter to you. Knowing charitable giving is a priority for many clients, we were blown away when we took a closer look at the numbers.

This past year, DCM clients contributed more than $21 million to charity. And those were only the gifts DCM helped facilitate. Incredible, but that's not all. If DCM clients were a foundation, the combined size of their gifts would rank among the 10 largest foundations in Indiana. Through these donations, you support a wide range of organizations, including those that relieve poverty, advance education, support our veterans, aim to end disease, and improve mental health. This list barely scratches the surface of the causes you support. It is heartwarming, to say the least.

During a time when negative news dominates the headlines, you choose to make a positive impact. Charitable donations made up nearly 14% of all 2023 client withdrawals. Who wouldn't be proud to serve clients like you?

As you make plans for charitable giving in 2024, we are here to help. Writing checks to charities is an option; however, there are other avenues that may potentially be able to significantly lower your tax burden, freeing up more money to give. Stock gifts, Qualified Charitable Distributions, and Donor Advised Funds might be better options. We can evaluate these options for you and help you meet your charitable goals.

Thank you for allowing us to be a part of your generosity.

Kira Vaal, CRPC®, FPQP™
Lead Investment Advisor

Kira N. Vaal

How Roth Conversions May Save You Money on Taxes

Tax filing is typically a 'look in the rearview mirror' approach when documenting the prior year's taxable events. You record them on your tax return and pay your taxes accordingly. However, much like driving a car, when we refocus on the road ahead, we find there are many directions to take for optimal tax planning.

One such direction is performing Roth conversions.

What is a Roth conversion?

A Roth conversion is the process of moving assets from a pre-tax retirement account, such as a traditional Individual Retirement Account (IRA), to a Roth account and paying ordinary income tax on the amount converted.

Benefits of Roth conversions

Roth conversions can potentially help you lower your taxes in the long run by reducing your Required Minimum Distributions (RMDs). When you reach a certain age, the IRS requires you to withdraw annually from your traditional retirement account(s). This counts as income and thus, a tax bill to go with it. Your RMD is calculated based on your life expectancy and your prior year-end account balance.

Roth conversions may lower your RMDs by shrinking your pre-tax account balance. Roth IRAs are not subject to RMDs, allowing the converted assets in the account to grow tax-free. This can be an extremely favorable strategy, especially as taxes are likely to increase over the next few years. By utilizing Roth conversions, you are in control of when to pay taxes and on how much.

In addition, there is the benefit of having a tax-free bucket with the ability to pass assets tax-free to the next generation, who like you, do not have to pay tax on future earnings or distributions.

RULES FOR ROTH CONVERSIONS

Some Roth conversion rules to remember are:

- A Roth conversion is a taxable event. You must pay income taxes on the amount converted from your traditional account.
- If you plan to do Roth conversions, consider talking with your CPA or Investment Advisor regarding estimated tax payments.
- The money you convert must remain in the Roth account for five years. If you withdraw before then, you may be subject to income taxes and a 10% penalty.
- If you are eligible for an RMD, you must take any RMDs from pre-tax accounts before you convert funds to a Roth IRA.
- Unlike Roth IRA contributions, there are no limits to the amount you can convert to a Roth IRA.
- There are no age or income restrictions for Roth conversions.

Please keep in mind that Roth conversions are not for everyone and may not be suitable for your situation. If you are near retirement age and earn a high income, you may not benefit from a Roth conversion until you retire. However, younger, earners may benefit from the longer time horizon to retirement to allow their Roth accounts to grow and may outweigh the tax implications from converting in a larger tax bracket due to higher income. Roth conversions are more suitable for those with liquid assets, like cash or a taxable brokerage account, to pay the increased tax bill.

If you are curious about Roth conversions, reach out to your DCM advisor to determine if they are right for you.

Let Us Do the Work for You

Over the past few years, we have been getting to know the leadership of our new custodian, Charles Schwab. As our partnership grows, your client experience remains our top priority. We encourage you to reach out to us directly if you need anything, or if you have any questions or concerns about your account at Schwab.

charles SCHWAB | DCM

A Portfolio Review with Mrs. Q

As we wrap up 2023 and look ahead to 2024, Mrs. Q is returning for a Portfolio Review. She has plenty of hard-hitting questions that may also be on your mind.

My portfolio has gone sideways for two years now. Is this normal?

Since 1927, there have been 1,134 unique rolling 24-month periods. In 182 of those periods—about 16% —the stock market was flat or negative.[1] The past two years of dividend stocks' performance isn't abnormal or unexpected. And it might be a good sign, at least for 2024. In those 182 periods where dividend stocks were flat for two years, they returned an average of 19% over the next 12 months.[2]

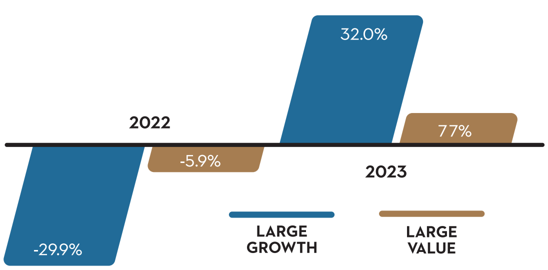
My growth portfolios had a great year in 2023, but my dividend portfolio lagged. Why?

Let's clarify what we mean by 'growth' and 'value' stocks. A growth stock is a company growing its sales and earnings faster than average; these companies tend to have higher price-to-earnings multiples to reflect that higher growth rate.

On the other hand, a value stock is a company with a lower price-to-earnings multiple and lower price-to-sales multiples, and, if they pay a dividend, typically have a higher dividend yield.

In practice, however, we consider far more than a one-time multiple when assessing value. A 'growth' company could be a value, whereas a 'value' stock could be overvalued. That topic could take an entire meeting, so let's save that one for another time.

We use these categories to illustrate how each has performed in 2022 and 2023. The simple explanation is that growth stocks, which are companies growing their sales and earnings faster than average, had a good year in 2023 because they had such a bad year in 2022. The chart below shows that Large Growth stocks were clobbered in 2022 but rebounded in 2023. Meanwhile, Large Value stocks held up quite well in 2022 but had a softer rebound in 2023.



[1]DCM's calculations. Data source: French's Dartmouth University data library. https:// mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html#BookEquity

[2]DCM's calculations. Data source: French's Dartmouth University data library. https:// mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html#BookEquity

[3]Huber, Thomas J. "A Growing Dividend Can Add Up." T. Rowe Price, September 2023.

Remember the math of compounding: a 30% decline requires a 43% return to get back to even, whereas a 5.9% decline requires a 6.2% return to get back to even.

Over the past two years, Large Growth has turned a $100 investment into $96, while Large Value turned every $100 into $105.

Does DCM think growth stocks will outperform again in 2024?

A lot of good news is priced into Large Growth, including huge expectations for the growth potential of artificial intelligence. Markets typically take things too far, so don't be surprised if we flip from Growth to Value again in 2024.

More important than Value vs. Growth, a tilt toward quality will be most important in 2024, especially if we face elevated recession risks. In down markets, high-quality Dividend Growers have fallen 9%,[3] on average, compared with -24.1% for non-dividend payers.

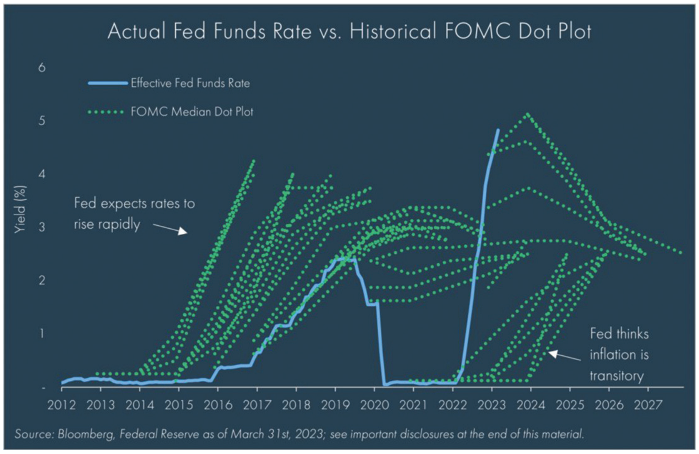
You mentioned the potential for a recession in 2024. Will we have one, and if so, when will it start?

Imagine you and I tried to forecast how many times you will play golf or pickleball in 2024.

Who would make the better prediction?

Of course, you should be the one to make the better prediction. Not only do you have better information than I do, but you decide whether to play. In the same way, the U.S. Federal Reserve (or "Fed") is responsible for setting the Federal Funds rate, which drives short-term interest rates. The Fed releases 'dot plots,' which are predictions from the Fed on what they will do in the future.

The chart below compares the Fed's predictions about the Fed Funds rate (green line) with what the Fed Funds rate (blue line) actually did.[4]



[4]Foster S. "Survey: Odds of a recession by September 2024 fall to 46%." Bankrate, October 2023. https://www.bankrate.com/banking/federal-reserve/economic-indicator-survey-recession-risks-october-2023/

The Fed predicted the Fed Funds rate would be higher than 4% in 2017. It ended up less than 0.5%. We'll give them a pass for 2020 but not for 2022. The Fed predicted it would continue sub-1% interest rates throughout 2023, yet the actual Fed Funds rate exceeded 5%.

This illustrates the difficulty of forecasting macroeconomics. If the smartest economists with access to the best data cannot predict the rate they control, how can we expect economists to accurately forecast the cumulative behaviors of 300 million people in the U.S. and the infinite other variables ranging from foreign policy changes to natural disasters to global pandemics?

Early last year, two-thirds of economists predicted a recession would happen in 2023. However, as the year went on, the recession they predicted moved to 2024. And now, entering 2024, most economists predict no recession will occur.

That is why most, if not all, great investors do not invest based on economic forecasts.

> *Economic predictions just don't enter into our decisions. Charlie Munger – my partner – and I in 54 years now never made a decision based on an economic prediction. We make business predictions about what individual businesses will do over time, and we compare that to what we had to pay for them. But we have never said yes to something because we thought the economy was going to do well in the next year or two years.*
>
> — Warren Buffett

There are too many variables—most we can't know today—to rely on predictions about future events. Neither we nor anyone else knows whether a recession will hit in 2024, let alone when one might start.

If recessions are virtually impossible to predict, how can we protect against them? Here's how:

- We seek to invest your portfolio to withstand a recession whenever it occurs.
- If a market correction or bear market drove stocks down by 30%, your portfolio should be able to generate enough income to pay your bills without selling any stocks.
- If you only spend the income generated by your portfolio and continue to do so in the future, then there is no need to be concerned with falling stock prices.
- If you need a little more money than the portfolio produces, we should set that aside in either short-term cash or high-quality bonds, which historically have been the best protection against recessions.[5]

[5]Benz, Christina. "What's the Best-Performing Asset Type During a Recession?" Morningstar, May 2023. https://www.morningstar.com/portfolios/whats-best-equity-ballast-during-recessions

2024 is also an election year. What does that mean for my portfolio?

If you polled which variables people think will impact the markets, politics is near the top. However, **the data shows no long-term relationship between politics and stock market returns.**

In most election years, stocks have increased by an average of 8.4% in the 12 months following an election and 9.4% in the 12 months after that. The standard deviation for stocks in an election year is 15%, less than the long-term average.[6]

There appears to be no meaningful difference between Republicans and Democrats. From 1853 to 2015, the average returns of stocks have been about the same under both Democrats and Republicans.[7]

Politics appear to have virtually no impact on the economy either. Research from Princeton University (2015) suggests that fiscal policy changes had zero influence on future economic growth rates.[8]

Don't let politics drive you to cash in election years. A $10,000 investment in the S&P 500 index in 1972 would have grown to $1.9 million. If you had gone to cash every election year, your portfolio would've grown to just $1.1 million.

The evidence is overwhelmingly clear that taking a cautious approach during election years is unwarranted. With the benefit of more than 100 years of data, the difference between parties and their impact on the economy is statistically insignificant.[9]

The U.S. national debt is on everyone's mind this election season. What's going on? Is our country going broke?

While we don't love the current debt level, the U.S. is not going broke.

To illustrate, let's say you and Mr. Q have $198,000 in mortgage debt, costing you 3% in interest per year. Your household earnings are $140,000 per year.

What I've just described is the United States' collective financial position. Suppose we divide the total debt ($33.9 trillion[10]) and economic output ($27.6 trillion[11]) by the total number of U.S. citizens (341 million). The national debt per person is about $99,400. The interest rate is under 3%. Our economic output per person—effectively, the total annual income of the U.S. economy—is $81,000.

[6]DCM's calculations. Data used from: Tretina, Kat. "How Do Elections Affect The Stock Market?" Forbes, October 2023. https://www.forbes.com/advisor/investing/how-do-elections-affect-the-stock-market/.

[7]Sources: Global Financial Data, 1853-1926; Morningstar, Inc. and Ibbotson Associates thereafter through 2015.

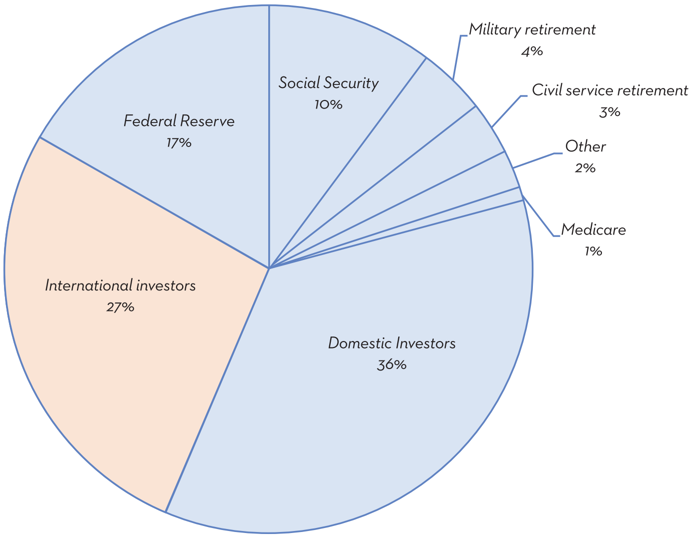
[8]Blinder, Alan S. and Mark W. Watson. "Presidents and the U.S. Economy: An Econometric Exploration." Princeton University, July 2015.

[9]Blinder, Alan S. and Mark W. Watson. "Presidents and the U.S. Economy: An Econometric Exploration." Princeton University, July 2015.

[10]Fiscal Data Explains the National Debt. US Treasury, December 2023. https://fiscaldata.treasury.gov/americas-finance-guide/national-debt/

[11]U.S. Bureau of Economic Analysis (BEA), November 2023. https://www.bea.gov/news/2023/gross-domestic-product-second-estimate-corporate-profits-preliminary-estimate-third

And if we look even closer, we find that 73% of our country's debt is owed to U.S. citizens directly or through financial intermediaries. The chart below shows a breakdown of the country's debt.[12]



Roughly 20% of our debt is future obligations to citizens via Social Security, retirement obligations, and Medicare. Domestic investors hold another 36%—either directly or via intermediaries and a mere 27% is held by international investors and countries.

Is it possible to push the debt and deficits too far?

The United States controls its currency. We can create as much new money as we like and satisfy any obligation. The government's ability to cover its debts is unlimited.

However, what's not unlimited is the value of that money. Imagine if the government provided each citizen with $1 million in monthly income. Sounds great, right?

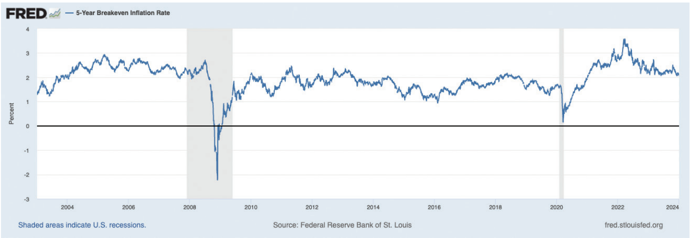
They could do it. Of course, they shouldn't do it. If they did, the value of those dollars would plummet, and hyperinflation would follow.

Inflation, not bankruptcy, is the biggest concern. The U.S. can meet any obligation it makes, no matter how extreme. But, the cost would be inflation. The government cannot print money to an infinite degree; it's just that no one knows where the line is.

[12]*Source: DCM's calculations. The 2023 data was applied to the percentage breakdown as of March 2022. Data source: "America's Fiscal Future - Federal Debt." GAO, March, 2022. https://www.gao.gov/americas-fiscal-future/federal-debt*

Inflation was a massive problem over the last few years but seems to be cooling off. Is the Fed done raising interest rates?

Inflation appears to be steadily marching toward the Fed's 2% target. The bond markets' expectations for inflation over the next five years are down to 2.06%—its lowest level since early 2021—and falling.



Given the path of inflation, restrictive monetary policy, and elevated recession risks, the Fed's next move is more likely to be to cut interest rates rather than increase them.

Interest rates are higher than they've been for 15 years. My money market is paying 5% per year. Why should I keep investing in dividend stocks that pay less than that?

Higher yields have made fixed income more attractive; there's no question about that. However, stocks continue to have the advantage over longer-term time horizons. Dividend income usually grows over time, while fixed income is, well, fixed.

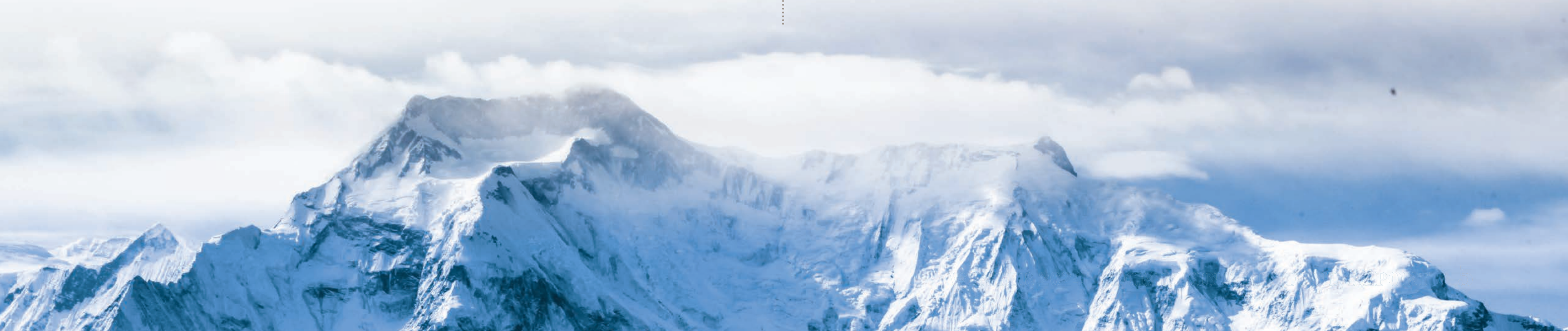
Fixed income makes the most sense if you need money within the next few years. It generates the most short-term income with the least risk.

But stocks remain the best option for expenses that won't happen for another decade or more. The growing income stream makes them more valuable over time. That's why stocks have historically outperformed bonds over almost all rolling 10-year periods, regardless of how high interest rates were at the start.

Many of our clients, you included, need current and future income, so we often recommend a Rising Dividend stock portfolio combined with an allocation to our Endowment portfolio of high-quality fixed income.

Thanks for meeting with me.

Of course, Mrs. Q. If you have any other questions, you can call or email anytime.



How Weight Loss Drugs Could Revolutionize Healthcare and the Economy

Glucagon-like peptide-1s (GLP-1s), commonly referred to by the media as "weight loss drugs," took markets by storm in 2023. Originally developed to improve blood sugar control in adult patients with type 2 diabetes, the indication has expanded to include chronic weight management in conjunction with a low-calorie diet and increased exercise. GLP-1s work by mimicking a hormone that causes the body to release more insulin into the bloodstream, lower glucose levels, slow digestion, and reduce appetite. Typically, these medications are self-administered once a week by injection.

Although GLP-1s have been around in some form for decades, Eli Lilly's 2022 launch of Mounjaro renewed media and public interest in this drug class. An unprecedented mix of real-life results, social media awareness, and traditional media attention highlighted Mounjaro's effectiveness not only in treating diabetes, but also weight loss. A June 2023 study found that people who took Mounjaro lost an average of 26% of their weight over an 88-week period that involved a 12-week lead-in period of intensive lifestyle intervention and a subsequent 72-week treatment regimen. With such dramatic results and roughly 41.9% of Americans categorized as obese, investors are understandably optimistic about companies developing this type of drug.

In August, Novo Nordisk released a follow-up study of its weight-loss-oriented GLP-1, Wegovy. The study found that people who took Wegovy regularly had a 20% lower risk of serious heart problems. These developments have pushed speculation into a frenzy. With demonstrable health benefits beyond purely cosmetics, investors now believe insurers will be more willing to cover the high costs of GLP-1s. In addition, a lower bar for access and affordability could lead to widespread adoption. As a result of this forecast, stock prices for Lilly and Novo have skyrocketed. From January through the end of November 2023, Lilly and Novo stock gained 61% and 50%, respectively.

Markets have also begun to consider how broad GLP-1 use will affect other industries. Investors are gauging how a lighter and healthier populace will impact industries such as pharmaceuticals, medical devices, packaged foods, restaurants, health insurance, clothing retailers, and airlines. Will sales of heart medications, pacemakers, candy, and burgers decline? Will insurers save on long-term health expenses? Will trendy retailers sell more of their clothes? Will airlines be able to save on fuel? These are all questions that the market will consider at the industry and company level.

At the macro level, economists have speculated that improvement in the overall well-being of the population could be a meaningful driver of productivity. Fewer sick days, greater agility and endurance, and a happier workforce could boost the national economic output. Alongside the anticipated benefits of artificial intelligence, a surge in productivity could lead to higher wages without the need for price increases. Considering the recent bout of inflation, this would be a welcome development.

However, some speculation has likely gone too far. Demand, access, affordability, adherence, and potential side effects will ultimately determine the success of these treatments. At DCM, we are closely monitoring and assessing the potential risks and opportunities of GLP-1 drugs for companies in our portfolio and on our bench. We will look to participate as it makes sense in the context of our strategies and plan to mitigate any threats we identify.

2023 Tax Season and 2024 Financial Planning Figures: What to Know

With the start of a new year and tax season approaching, here are some reminders on filing dates, deadlines, and retirement contribution limits to help you prepare:

- Unless you file an extension, your 2023 tax return is due on Monday, April 15.
- You can expect to receive a Form 1099 tax document for all taxable accounts by late February. This tax form reports earned dividends and interest income and is issued by your account custodian.
- If you had a retirement account distribution in 2023, you can expect to receive a Form 1099R from the account custodian by late January.
- Please note that if your account(s) changed custodians from TD Ameritrade to Schwab in 2023, then you should expect to receive separate 1099s from each custodian.
- Don't forget, you have until April 15 to make contributions to your IRA (deductible and non-deductible), Roth IRA, and HSA for the 2023 tax year.
- If you make quarterly estimated tax payments, mark your 2024 calendar with the following due dates: April 15, June 17, September 16, and January 15, 2025.
- The standard deduction for 2024 has increased to $14,600 for single filers; $29,200 for married, filing jointly; and $21,900 for head of household filers.
- Employers often institute compensation changes at the beginning of the year. Review and adjust your elective deferrals to take advantage of savings opportunities.
- Filers over 50 years old are eligible for additional catch-up deferrals. If you are unsure what deferral amounts are right for you, reach out to your investment advisor.
- 2024 Contribution Limits for Retirement Accounts:

401(k), 403(b), 457(b) elective deferrals:	**$23,000**
Catch-up Contributions Limit (age 50+):	**$7,500**
Traditional & Roth IRA Limits:	**$7,000**
Catch-up Contributions Limit (age 50+):	**$1,000**
SIMPLE IRA Employee Deferrals:	**$16,000**
Catch-up Contributions Limit (age 50+):	**$3,500**
Health Savings Account (Single):	**$4,150**
Health Savings Account (Family):	**$8,300**
Catch-up Contributions Limit (age 55+):	**$1,000**
Defined Benefit Plan, Benefit Limit:	**$275,000**
Defined Contribution Plan, Contribution Limit	**$69,000**
Annual Compensation Limit for Retirement Contributions:	**$345,000**
Highly Compensated Employee Threshold:	**$155,000**
Social Security Wage Base:	**$168,600**

Having a copy of your annual tax return allows us to spot issues, suggest planning opportunities, and most effectively manage your taxable investment portfolios. Consider sending your most recent tax return to your advisor or permitting us to reach out to your CPA or tax preparer to obtain a copy.

Four Discussions to Have with Grown Children

As your children grow older, keeping them informed of your health, estate, and financial plans can bring clarity and comfort. Having these discussions with your children helps to avoid confusion and stress in case of an emergency or change in your condition. Here are some topics you might consider discussing with your children:

1. A Living Will

A living will is a document that tells your doctors and caregivers what life-sustaining medical treatment you do or do not want. Provide copies of your living will to anyone who would be involved in your care and keep the originals in a safe, accessible location. This will help them to honor your preferences and avoid conflicts.

2. Healthcare Proxy

Similar to a living will, a healthcare proxy allows you to designate someone to make health care decisions if you are unable to yourself. Share a copy of this document with the designated person and provide clear instructions. This will help to ensure proper administration of your wishes

3. Health Insurance

If you are age 65 or older, consider talking to your children about your health insurance policies, as well as Medicare or Medigap coverage. This will help them to understand your coverage and benefits and how to handle any paperwork or claims in an emergency.

4. Introduce Your Team

You may have a team of professionals who help you with your finances, such as a financial planner, accountant, or estate attorney. Introduce your adult children to your team so they know who they are and how to reach them..

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