Donaldson CAPITAL MANAGEMENT

SUMMER 2024

RISINGDIVIDEND REPORT

Highlights from the Investment Policy Committee

Good long-term investing is like long-distance running:

1. **Find Your Pace**
If the 100-meter dash represents 1 year, you will likely invest for 3,000 to 6,000+ "meters." The goal is to win over time, not every time; find a strategy with long-term results that fits the pace of your financial goals, and then stick with it.

2. **Ignore the Other Runners**
Don't let the other runners throw you off your pace. Focus on your own financial situation, not whether your portfolio is beating your friends'.

3. **Competitive Advantages Matter**
A runner with long legs has an advantage in a long-distance race; likewise, invest in companies with inherent competitive aspects.

4. **Buy Results, Not Stories**
The runner with the flashiest gear doesn't usually win the race; prioritize consistent companies over flashy stocks with the latest technologies, who are hyped on stories and more likely to be overvalued.

5. **Train Your Brain**
Running develops mental strength; a good investor develops mental toughness to endure market downturns, focusing on the long-term reward that stocks have brought over centuries.

Read the IPC Letter on page 3

Together We Thrive

In my three decades as a basketball coach, the most winning mindset is "we" rather than "me." When we work together toward a common goal, we leverage each other's strengths, skills, and perspectives to achieve more than we can on our own. In my experience, this leads to greater success – for the individuals and the team.

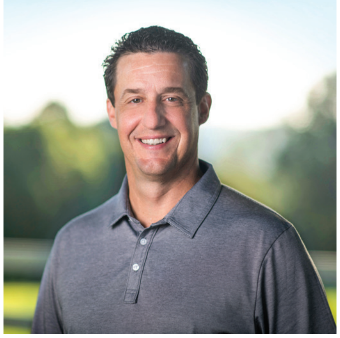
A few years ago, Donaldson transitioned to a collaborative team approach to serving clients. As a coach, you may expect this came naturally to me, but I was apprehensive. I have spent years cultivating trust with my client relationships; could I trust someone else to provide the same level of care and service? How can I ensure my clients know they remain my top priority?

During this period of growth, we discovered that a team can significantly enhance the service provided to clients through collaboration, focus, and leveraging collective experience. Furthermore, a team-based approach enables us to provide continuity of service to clients over time. Teamwork ensures that clients have access to timely and responsive service, regardless of individual advisor availability. And it is just more fun to work with a team that truly cares about the clients as much as I do. It allows me to share my experiences with the next generation of DCM advisors.

Great service experiences tend to stand out as society has come to expect subpar service. It begins with not only doing what you say you are going to do but also exceeding client expectations. At Donaldson, client service is a team effort that fosters trust and builds meaningful connections. Delighting you is our favorite part of the job.

Quality coaching requires team member input, including yours. Your input, comments, and suggestions for improvement will help drive the future quality of service. We promise to listen to you while we strive to exceed your expectations. We do not say it enough: thank you for allowing us to be on your team.

Ron Patberg



Ron Patberg, CFP®
Senior Investment Advisor &
Business Development Coach

Fixed Income Comeback

Strategies for a Changing Market

Joe Zabratanski
Chief Investment Officer (CIO) and Senior Investment Advisor

For much of the decade following the financial crisis, 10-year U.S. Treasury yields hovered between 3.0% and 1.5%, and at one point in 2020, the yield reached a low of 0.5%. During this time, we found better value in equities and decreased the fixed-income allocation within portfolios.

Since the pandemic, the economic recovery and Fed Funds rate hikes by the Federal Reserve have helped interest rates move to levels we haven't seen in over 15 years.

Numerous bonds are available, and each bond presents unique risks and opportunities. We take multiple areas into consideration when selecting bonds:

1. Risk Assessment: We begin by scrutinizing the creditworthiness of bond issuers. We delve into financial statements, credit ratings, and economic indicators to gauge the likelihood of default. Higher credit ratings signify lower default risk but often correspond to lower yields. Conversely, bonds from riskier issuers may offer higher yields to compensate for increased default risk.

2. Yield Analysis: Yield is a critical factor in bond evaluation. We compare yields across bonds with similar profiles to identify opportunities for maximizing returns. We consider current yield, yield to maturity, and yield spreads relative to benchmark rates. Yield spreads, in particular, reflect compensation for additional risks such as liquidity or credit quality.

3. Duration and Maturity Selection: We align bond durations and maturities with investment objectives and portfolio strategies. Duration measures a bond's sensitivity to interest rate changes, influencing price volatility. Maturity considerations depend on investment objectives, cash flow requirements, and interest rate outlooks.

4. Liquidity Analysis: When it comes to liquidity, the bond market is very different from the equity market. Liquidity, while always important, takes on increased significance in times of stress. We assess the liquidity of bonds based on trading volumes, bid-ask spreads, and market depth. Highly liquid bonds are preferred as they offer ease of trading and price discovery, reducing transaction costs and enhancing portfolio flexibility.

5. Market and Sector Analysis: We conduct thorough analyses of bond markets and sectors to identify trends, opportunities, and potential risks. We evaluate macroeconomic factors, geopolitical events, and industry-specific dynamics impacting bond performance.

6. Relative Value Analysis: We employ relative value analysis to compare the attractiveness of different bonds. To identify value, we assess spreads relative to benchmarks, historical averages, and peer bonds. By exploiting pricing inefficiencies, we seek to enhance portfolio returns while managing risk effectively.

With the above analysis, we have maintained our quality standards in buying bonds for DCM clients who invest in fixed income. Activity in portfolios may continue as we take advantage of good value in the bond markets, but rest assured our objectives of Security, Income, and Growth remain.

The Sprinter's Guide to Long-Distance Investing

by Nathan Winklepleck

"I can't tell you how to get rich quickly; I can only tell you how to get poor quickly: by trying to get rich quickly."- André Kostolany

If you've driven from Evansville to Indianapolis, you've passed North Daviess High School. On that track, I experienced an embarrassing athletic performance that shaped my view of investing.

I was a sprinter on the track team; the 100-meter and 200-meter dashes were my best races. One day, the track coach asked if I would run the 400-meter dash in our meet. Having the natural arrogance of a 15-year-old boy, I agreed.

The gun sounded, and I took off as fast as I could. By the first 200 meters, I was well ahead of everyone. At the 300-meter mark, however, my shoes seemed to have been replaced with concrete blocks.

Heading into the final 100 meters, my once-large lead had vanished. While the other runners finished strong, I barely finished at all. My last 200 meters were so poor that I finished dead last.

My coach never asked me to run the 400 again.

Sports are microcosms of real life; we can find lessons and analogies that shape how we understand the world. Running is a particularly useful analogy for investing.

Find Your Pace

If you're a sprinter like I was, there is no strategy; you run as fast as you can the whole time.

Longer races require more strategy. You can't sprint the entire race like I tried to do. Pacing matters; it is important to stay within your abilities and training.

That lesson also applies to investing. Someone who starts at age 30 will likely invest for 60 or more years. If a year represents a 100-meter sprint, your financial "race" is more like 6,000 meters.

If you try to run that 6,000-meter race like a 100-meter dash, you won't finish. In the same way, if you try to win every 100-meter leg of a 6,000-meter race, you'll take way too much risk and constantly switch to whatever strategy has been working lately.

Your investment strategy should be carefully chosen and constructed to maximize your probability of finishing the race; that's the first and most important thing. The secondary goal would be to run as fast as possible over *the entire 6,000 meters*.

Both of those goals require developing a strategy that's built for the long run. That strategy will not win over every 100 meters; you don't need to do that. You need to find your best possible pace, the one you can sustain the entire time, and stay within that.

Ignore the Other Runners

If the other runners in the 400-meter dash would've tried to keep up with me in the first 200 meters, they—like me—would've run out of steam.

They didn't do that; they stayed disciplined and ran their race. You are in your own financial race. You have different financial assets, income sources, expenses, risks, and obligations than your friends and family. You also have a different psychological tolerance for risk.

There will inevitably be strategies that perform better than yours in any given year. In 2024, growth stocks—particularly anything relating to AI—have been the stock market darling.

Chasing what stocks are doing best right now is the financial equivalent of trying to win every 100-meter split in a 6,000-meter race. The goal is to **win over time, not *every* time**.

Unfortunately, what *has* been working isn't always what *continues* working.

For example, the market strongly preferred value over growth in 2022. Value funds outperformed growth funds in 2021 (26.2% for value and 20.5% for growth) and 2022 (-5.9% for value and -29.9% for growth).

The market's preferences flipped in 2023. Growth was up 36.7% compared with just 11.6% for the average value fund. In 2024, at least so far, growth is again leading the way, up 16.9% compared with 6.9% for the average value fund.[1]

Will that preference for growth continue? Or will the market change its mind in the latter half of 2024 and 2025?

No one knows for sure; however, history shows that trying to jump back and forth between different investment strategies—value or growth—or timing the market have led to horrible underperformance.

From 2002 to 2021, a 60/40 portfolio of stocks and bonds generated a 7.4% annual return. The average investor earned just 3.6%.[2]

That means a $10,000 investment made into a balanced stock and bond portfolio back in 2002 would have grown to $41,695; the investors buying those very same funds, however, made enough mistakes that their portfolio ended up at $20,285—less than half of the returns had they made no changes at all.

You may be tempted to convert your entire portfolio into AI-related tech stocks; that has been working exceptionally well in 2023 and 2024. However, history offers us a warning for chasing performance.

During the 1990s dot-com bubble, internet stocks were clobbering more conservative value stocks—including dividend stocks. The S&P 500 index finished 1999 up nearly 30%; meanwhile, our Cornerstone dividend growth strategy was *down*. Imagine how tempting it would have been for our clients to abandon their strategy and move into the "new age" of internet stocks.

Many investors did that very thing. They got so caught up in how much faster others were moving that they switched strategies mid-race—from a conservative, value-oriented approach to an aggressive, growth-oriented one.

Eventually, however, the market turned. From 2000 to 2003, the technology-heavy Nasdaq fell more than 80% from top to bottom as the dot-com bubble finally collapsed.

Are we heading into a repeat of the technology bubble? At the moment, we don't think so. Today's technology stocks are profitable with a long runway for growth; however, no company is worth an infinite price. If you would like to participate more in growth, we have more aggressive portfolio options; however, we would caution against massive changes to your long-term strategy.

Don't change your pace just to try to keep up with the competition. Remember, this is a 6,000-meter race, not a 100-meter dash.

Competitive Advantages Matter

Certain physical traits can give runners a natural edge in track and field. Some people have fast-twitch muscles, which can contract quickly and powerfully; these runners will naturally excel at sprinting. Runners with long legs and lightweight frames will naturally have more efficient strides, making them faster long-distance runners.

Companies also have inherent strengths that give them advantages others cannot easily replicate. For example, a company might have proprietary technology, a strong brand, patents, access to critical resources, a reputation, or a culture difficult for others to match.

Investing in companies with these built-in advantages is like being an athlete with the ideal body type for your sport. No matter how hard the competition trains, they often can't match the natural edge these physical traits—or strategic business assets—provide. One of the markers we look at for assessing a company's potential competitive advantage is return on invested capital (ROIC), which tells us how much a business earns on money that it reinvests back into itself.

The MSCI World Quality Index consists of companies with high returns on capital, a key indicator of a business with a competitive advantage. From 1994 to May 2024, this quality-focused index returned 11.9%, while the MSCI World Index benchmark only returned 8.3%.[3] Over the last 25 years, **there has not been a single 10-year period when the quality index didn't outperform its benchmark**.

Another good indicator of company quality is a long history of dividend growth. Consider there are close to 4,000 public companies, and only 68 of them—less than 2%—have been able to increase their dividends for 25+ years.

Existing for 25 years is hard enough; the average S&P 500 company goes out of business in 18 years.[4] These rare companies have both made it that long and managed to pay and *increase* dividends yearly along the way.

When a company grows its dividends for decades on end, that results from a fantastic business model. A low-quality business is unlikely to grow its dividends for 25 consecutive years.

Buy Results, not Stories

Imagine a group of runners lined up for a marathon. At first glance, the runner in state-of-the-art performance wear seems poised to dominate the race. However, the flashy equipment doesn't make the runner; it's the training, endurance, and mental toughness that matter.

Flashy stocks in the most talked-about industries with cutting-edge technologies don't always yield the best returns. History is littered with examples of new technologies that revolutionized the world yet left investors of those companies with nothing to show.

[1] *Morningstar, Inc. 2024. As of April 9, 2024.*

[2] *Source: J.P.Morgan Asset Management. 60% S&P 500 index and 40% US fixed income.*

[3] *Source: MSCI Quality World Index Fact Sheet.*

[4] *"Why You Will Probably Live Longer than Most Big Companies." 2022. IMD Business School for Management and Leadership Courses. August 19, 2022.*

Consider one of the greatest technological achievements of all time: the airplane. Despite the breathtaking, society-altering technology that airplanes have become, guess what the cumulative profits of airlines have been?

Zero.

The airline industry is notoriously difficult and unprofitable despite being essential to modern life. It was a great technology of its time yet has been a poor investment.

There have been and will be other industries, products, and services that seem like they will change the world—and may do so—but end up being lousy investments for their investors.

In most years, the stock markets have a darling company or group of companies that steal the show. Artificial intelligence ("AI") may be the most compelling since the internet in the 1990s. Still, a long line of businesses and sectors have stolen the spotlight for years, captivating the hopes and dreams of investors as they promise to, and sometimes actually do, revolutionize the world. These are, in almost all cases, so-called "growth" companies.

Intuition tells us these high-flying companies should be the best performers. Recent history confirms this intuition. Over the last 100 meters, 200 meters, or even 400 meters, growth investing is the fastest way to reach your goals. Growth stocks have outpaced Value stocks year-to-date, last year, over the past three, five, and ten years.

Yet, longer-term history suggests that growth companies are the worst performers. A $10,000 investment made in 1972 would have grown to $2,586,324 in Value stocks compared with $2,088,732 in Growth stocks. Not only that, but Value has historically been less volatile (15%) compared with Growth (17.2%).[5]

Why?

Growth companies tend to come with a story, and people like stories. So they bid the price of these stocks up to the point where, even if the future is bright, it's not as bright as the stock prices implied, so they underperform.

Decades of data suggest that the more prudent way to invest is to focus on buying consistent, high-quality companies at reasonable prices. This is a solid formula for success.

Train Your Brain

"Over long periods, the returns on equities not only surpassed those on all other financial assets, but were far safer and more predictable than bond returns when inflation was taken into account." -Jeremy Siegel

Runners, especially long-distance ones, are tough—and not just physically. There's a mental toughness that running develops in you; your body is screaming at you to stop, and you keep going. There is a reward on the other side of the pain; runners are healthier than the general population, with lower rates of diseases and mortality.

This mental toughness is incredibly useful for investors. It is difficult to go through bear markets, especially those as painful as 2008–09 or as sharp and sudden as 2020. If you've invested through those times, you've developed mental toughness.

Like running, there is a reward on the other side of the pain.

We have more than 150 years of US stock market history, and the only long-term trend was up. With data going back to 1872, your odds of losing money in any particular year were 32 percent. Your odds of losing money over any 5 years dropped to 13 percent, and for any 10 years, the odds of losing money fell to only 2 percent. **There has never been a 15-year period when stocks lost money**.

It's easy to look at long-term stock market charts and put every dollar into the most aggressive portfolio you can find. Unfortunately, it's not easy to stick with. Stocks fell by 37% in 2008 alone and over 55% from top to bottom. That brutal stretch puts even the most mentally tough investors to the test.

High-quality companies can be an excellent way to invest in a higher percentage of equities while also managing downside risk.

Looking back at historical market declines, the stocks with a Safety rating of 1 declined by -13.7% on average compared with -23% for the S&P 500 index.[6]

By sticking with higher-quality companies, you can help yourself stay the course and maintain an aggressive-enough pace, while also minimizing your risk of crashing.

The slow-and-steady pace of investing in conservative, high-quality companies isn't as exciting as buying the high-flying stocks of the day, particularly when they are performing as well as they have over the last few years.

However, high-quality dividend growth companies, bought at reasonable prices, are a proven strategy for long-term success; we believe that will continue for many decades. It's easy to focus too much on how the last 100 meters went, but investing isn't a sprint; it's a marathon.

[5] *"Backtest Portfolio Asset Class Allocation." 2014. Portfoliovisualizer.com. 2014. https://www.portfoliovisualizer.com/backtest-asset-class-allocation#analysisResults.*
[6] *Source, ValueLine "Results of Safety Ranks in Major Market Declines*

Maximizing the Financial Impact of Charitable Giving

Charitable giving is a meaningful way to give back to the community and support causes close to the heart. While writing a check or making a cash donation is the simplest and most common giving method, there are strategies like Charitable Lead Trusts (CLTs) and Charitable Remainder Trusts (CRTs) that stand out for their ability to benefit both donors and charitable organizations.

Charitable Lead Trusts

Charitable Lead Trusts (CLTs) involve a donor making an irrevocable gift of assets to the trust. These donations are invested, providing yearly payouts to the charity of choice. The trust's payments to charity continue for a set amount of time. After that period ends, the balance is paid to a noncharitable beneficiary, like the donor or family members. CLTs offer a seamless way for donors to make a one-time gift, which results in an ongoing income stream for the charitable beneficiary.

Additionally, gifts to a CLT remove assets from the donor's taxable estate, potentially reducing transfer taxes, such as gift and estate taxes. They may also provide the donor with one large tax deduction at the trust's initial funding.

Charitable Remainder Trust

Charitable Remainder Trusts (CRTs) work in a similar way. Donors contribute assets to an irrevocable trust, which initially makes payments to noncharitable beneficiaries, including family members or even the donor, for a set period. After this time, any remaining assets are then distributed to the designated charity.

By setting up a CRT, donors become eligible for a partial tax deduction based on the value of the charity's share of the trust. CRTs also offer the benefit of removing assets from the donor's taxable estate.

While these strategies offer powerful ways to make a difference through giving, there's always more than one path to generosity. If you're curious about other ways to support causes that resonate with you, your advisor or financial planner can help. You can also follow DCM on LinkedIn for more inspiring insights and ideas. Together, we can make a world of difference.

Unlocking Retirement Potential

The Backdoor Roth IRA Strategy for High-Income Earners

What Is It?

The Backdoor Roth IRA is a financial strategy high-income earners use to bypass income limitations and indirectly contribute to a Roth IRA. Roth IRA contributions are restricted for individuals exceeding IRS income thresholds: $146K Modified Adjusted Gross Income (MAGI) for single filers and $230K for joint filers. The Backdoor Roth IRA allows you to make nondeductible contributions to a traditional IRA and convert those funds into a Roth IRA, thereby circumventing the income limits imposed on direct Roth IRA contributions.

Why Is It Beneficial?

For high-income earners, the Backdoor Roth IRA offers several benefits. First, it provides access to a Roth IRA's tax advantages, including tax-free retirement withdrawals. This is particularly advantageous for individuals anticipating to be in a higher tax bracket during retirement. Roth IRAs also have no required minimum distributions (RMDs) during the account holder's lifetime, providing flexibility in managing retirement income and potential tax implications. Additionally, the Backdoor Roth IRA enables diversification of retirement savings, complementing other tax-advantaged accounts such as 401(k)s and traditional IRAs.

How Do I Determine If It Is Right for Me?

When considering the Backdoor Roth IRA, it is essential it aligns with your overall financial plan and retirement objectives. Here's how your advisor can assist you:

- **Understand Your Income.** Take a close look at your current earnings and potential future income to see if Roth IRA income limits could impact you.
- **Assess Tax Benefits.** Delve into your tax circumstances and retirement objectives to determine if the tax advantages and flexibility of a Roth IRA match your financial goals.
- **Personalized Evaluation.** Your advisor will conduct a tailored assessment, considering your unique financial situation, investment timeline, and future plans.
- **Stay IRS Compliant.** Ensure compliance with IRS regulations and carefully weigh any potential tax implications, especially regarding gains in your Traditional IRA before conversion.

DCM Welcomes New Faces

We're excited to introduce our newest team members, who bring valuable experience and a shared commitment to helping you achieve your financial goals.

Meghan Axton,
Client Services Associate

"What I enjoy most about my job is that I love building relationships with people and helping others."

Priscilla Birt, CFP®,
Lead Financial Planner

"I hope I can help clients realize their goals are often more than obtainable with just a little bit of careful planning. Providing experienced advice to clients so they can truly live their best lives is the impact I hope to make."

Christopher Corcoran,
Investment Services Associate

"I strive to help people keep moving forward so that together, we all grow and achieve more. I do this by maintaining faith and perseverance, communicating passion and vision, building and maintaining relationships, and creating value and results. DCM's focus on caring for clients and people for generations provides the environment to be my best and make a meaningful impact."

Kyle Dodd,
Lead Investment Advisor

"At Donaldson, I have the opportunity to assist clients with holistic financial planning, aiding them in achieving their goals and working toward financial freedom. I value being an advisor who builds relationships, focusing on the planning process rather than selling products. This is why Donaldson acting as a fiduciary is so important—we are committed to putting client interests above our own."

Gray Long,
Wealth Solutions Associate

"The most fulfilling aspect of my job is witnessing the transformative power of informed financial decisions, as it reduces stress and allows people to focus on what truly matters in their lives. My role is not just about managing numbers; it's about helping clients achieve their goals, protect their loved ones, and live with confidence."

Jace Stieler,
Wealth Solutions Associate

"Growing up in an entrepreneurial family, I understand the importance of comprehensive planning and enjoy helping clients set and achieve their goals."

Bryce Turner,
Associate Investment Advisor

"From a young age, I have always had a burning curiosity about personal finance. Life experiences and education have taught me how impactful these decisions can have on one's life. These experiences have led me to DCM, where I can pursue my passion to help others find their financial peace. I find comfort in knowing DCM's clients are cared for, and they have designated professionals to turn to at a moment's notice."

Warren Ward, CFP®,
Senior Investment Advisor

"As I ease toward the end of my financial planning career, I wanted to be part of a firm where I could be supported while being confident that my family and clients (who are almost family) would be well cared for upon my retirement in a few years. Both goals were easily achieved at DCM."

Donaldson
CAPITAL MANAGEMENT

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